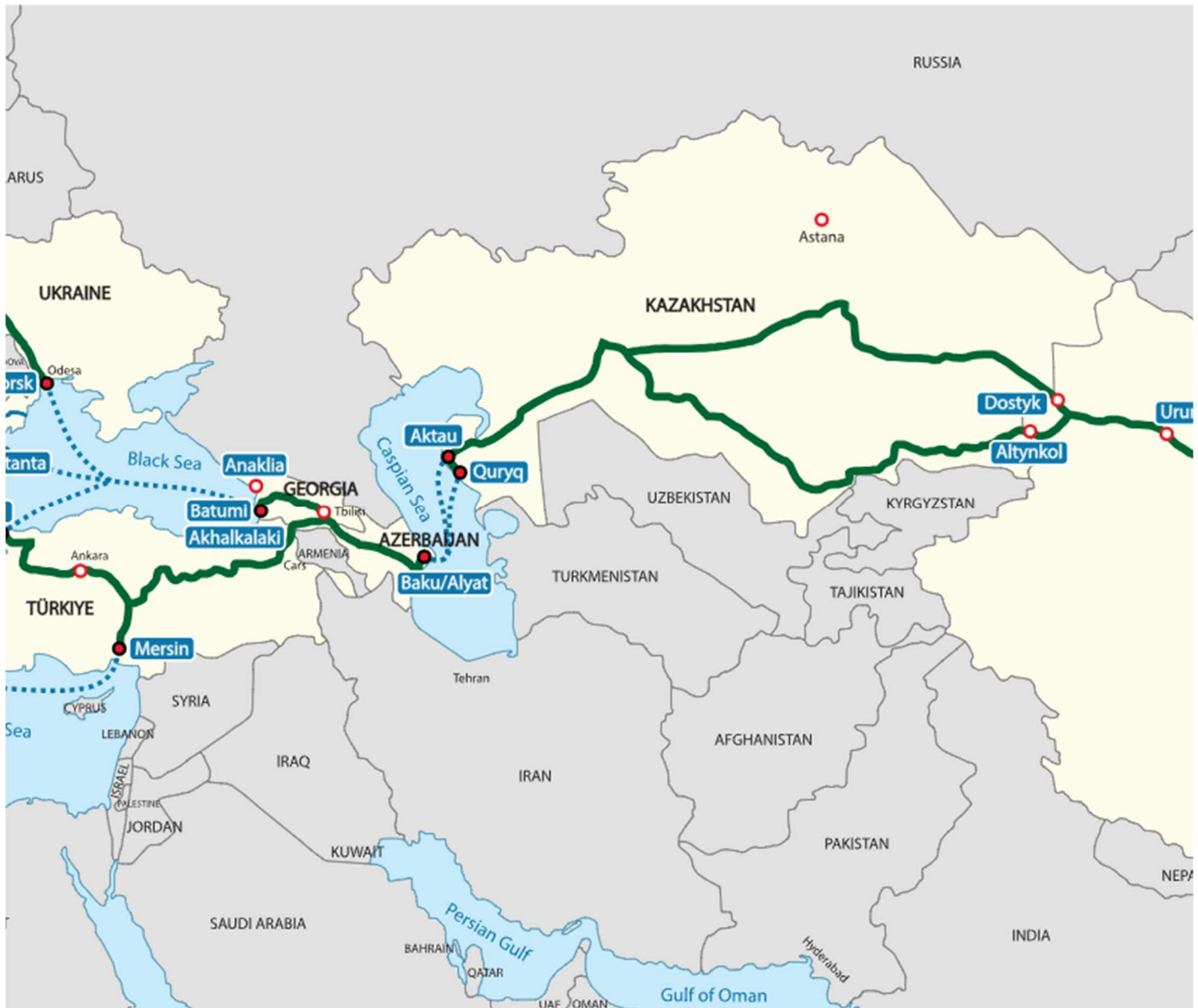


The Trans-Caspian Middle Corridor Is Thriving

Will the new U.S. administration know to pay attention?

Dr. Eric Rudenshiold



Map of the Trans-Caspian International Transport Route

By Tanvir Anjum Adib - Own work based on official route map, CC BY-SA 4.0, <https://commons.wikimedia.org/w/index.php?curid=146882372>/Cropped from original https://commons.wikimedia.org/wiki/File:Middle_Corridor_Route.svg

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Russia spawned a major land war in Europe and the sleeping giant that is the Caspian region awakened. In efforts to keep their economies growing and taking advantage of Moscow's preoccupation, the Central Asian and Caucasus countries are finding common ground through increased trade cooperation, a nascent regional identity, and discovering strength in unity. In a reversal of prior practice, economic and political cooperation are becoming everyday initiatives that now span the Caspian Sea and contributing to the creation of a new Middle Corridor for economic partnership that spans from China to Europe and south to India.

Change is so rapid in this developing region that many ideas unimaginable a short time ago are already a reality. From strengthening partnerships between the countries of Central Asia and the Caucasus to collaboration across multiple development sectors, the Caspian region exudes an evident and growing commitment to intra-regional engagement as well as to international outreach. Before the war in Ukraine, this broader region was seen as dependent on legacy infrastructure (pipelines, rail lines, even economic relationships) largely dominated by Russia.

While the last Trump administration was no stranger to Central Asia, having hosted two Presidents at the White House and adopting a far-reaching, long-term strategy for U.S. engagement with the region, much has changed in the interim. Then, the countries of the region had little cooperative experience and almost no experience working across the Caspian. Russia's invasion of Ukraine upended Central Asia's traditional import-export relationships and threatened the region's economies, with international sanctions providing a legitimate rationale for the region to trade with other partners.

Three to five years ago the Middle Corridor was not a stable conduit for trade or transit westward. Not so now. Freight that took 42 days to transit from China to the Black Sea now takes 14, and this time is continuing to decrease with hard and soft infrastructure investments. What took over 5hrs in 2017 to clear customs now takes 30 minutes.

Faster transit times makes this burgeoning freight passageway increasingly competitive and cost effective, especially when compared with Russia's sanctions-laden Northern Corridor and the significant disruptions to southern routes that rely on Red Sea and Suez Canal passages. When the last Trump administration looked at Central Asia for strategic mineral partnerships, the lack of access along an unstable trading corridor resulted in the determination that the juice was not worth the squeeze.

Much of this change in the Trans-Caspian region is being driven by the war in Ukraine and Russia's single-minded engagement there. That conflict brought massive disruptions to export routes for Caspian countries, unable or disincentivized from using Russian roads and its rail corridor—the heretofore dominant export route for the region's goods. The war also brought sanctions on Russia and the threat of secondary sanctions to those seen supporting Moscow's economy.

Such trade deterrents imposed by the United States and the European Union proved a two-edged sword that significantly disrupted the Caspian region's financial associations, complicated traditional trade arrangements, halted ruble transactions, and upended currency exchanges. But sanctions also provided a legitimate opportunity for Central Asian and Caucasus countries to thwart Moscow's domineering economic sway by needing to look elsewhere for non-sanctionable partners and business prospects.

Thanks to sanctions, new banking and financial arrangements emerged that Moscow no longer has significant influence over. Regional banks divested themselves of Russian interests and partners, and a range of other global investors took note of this increasingly connected region, enabling Caspian countries a greater measure of economic sovereignty through diversification than they have enjoyed since independence 33 years ago. This is an indication of how Russia's traditionally out-sized role across this region is tapering.

China's role and investments across the Caspian region continue, but are also being streamlined, as Beijing faces its own fiscal constraints. A massive real estate bubble, widespread labor issues, offshoring of international businesses, and rising debts from large Belt and Road Investments (BRI) have prompted belt tightening by China's development banks. In reaction to this measure of fiscal breathing space afforded by their large neighbors, there is a shift among Caucasus and Central Asian

countries from trying to defensively counterbalance the influences of Moscow and Beijing to offensively developing alternatives and new trade partners.

These change forces are bringing countries of the trans-Caspian region together in a shared interest to develop their economies. The five Central Asian countries have discovered along the way that they are stronger as five cooperating partners. Azerbaijan has reached eastward across the Caspian to Central Asia for better cargo and energy cooperation and westward to serve as a bridge to Türkiye, the Middle East, and Europe.

There is an active peace process between Armenia and Azerbaijan that portends both a potential trade and transit breakthrough for the region and significantly increased connectivity with Europe. Massive improvements in connectivity have also improved shipping connectivity across the Caspian and in rail infrastructure between Azerbaijan and Georgia to the Black Sea.

In what was generally deemed untenable three years ago, now the Middle Corridor is being fashioned as an alternative to Moscow's Northern Corridor, sparking trade within the region and to destinations beyond. In 2017, trade turnover between Kazakhstan and Uzbekistan was \$2b. A 2024 summer summit between the two countries produced signed agreements for \$4.4b in projects, \$2.6b in trade contracts, and pronounced a goal of \$10b for annual trade. Uzbekistan's trade turnover with Central Asian states alone has increased threefold since 2016.

The new single-window cargo registry between Kazakhstan, Azerbaijan, and Georgia has enabled a 14-times increase this year in container shipments from China across the region. Port traffic in the Caspian has exploded in growth, prompting construction of a new shipyard in Kazakhstan and major investments for facility improvements. Rail lines are crowded in the region. Kazakhstan recently closed border crossings with China, due to overloaded rails and a backup of trains, in order to construct another crossing point.

Similarly, connectivity to the south and east is driving cooperation within the region. Proposed China-Kyrgyzstan-Uzbekistan, Uzbekistan-Afghanistan-Pakistan, Kazakhstan-Turkmenistan-Afghanistan rail projects are in varying stages of discussion. Each requires complicated agreements as well as comfortable relations between countries. The initiative for each rail endeavor is being driven by the Central Asians themselves, as their common needs and interests are breeding needed familiarity.

Unlike many efforts by international partners over the last 30 years, the Middle Corridor's remarkable evolution is fueled by growing, organic development from within the region— driven by internal demand, not external ideas. Extended rail, road, and ship connectivity to the south expands the Middle Corridor's existing multi-modal, network of transit lines that stretch east, west and north. This developing interconnectedness increases flexibility and opportunity for this routing to cost-effectively serve larger markets.

German Chancellor Olaf Scholtz's recent visit to Central Asia highlighted 2023 trade growth of 35% between Kazakhstan and Germany, while Central Asia's regional trade with Germany increased by 27% last year. Cargo is crossing the Caspian in ever greater amounts, crossing Azerbaijan and Georgia on its way to Europe. Hopefully, soon a resolution to the conflict between Yerevan and Baku will see Armenia benefit as a crossroad of peace, with a reconstituted Soviet-era rail line that could facilitate a more than doubling of freight capacity along the Middle Corridor.

For the United States, greater connectivity across the Caspian means cost-efficient access to Central Asia's vast strategic mineral and rare earth reserves. Dependent now on imports from China for these materials critical to the U.S. defense and technology sectors, the United States under the new administration will likely be both looking to reshore strategic mineral production but will also need to form partnerships with potential likeminded suppliers. As Central Asia seeks to diversify its own dependence from Moscow and Beijing's economies, there is an intersection of interests for Washington with the region along the Middle Corridor.