



Russia's invasion of Ukraine: The geopolitical significance of the war's impact on regional supply chains

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It is often said, by those closely following the war in Ukraine, that Russia is losing primarily because it is losing the war on logistics.¹ That is possibly right in terms of what is happening on the battlefield. Russia has not been able to maintain its army regularly due to bad planning as well as the effective targeting by Ukraine of its supply lines. Eyebrows were certainly raised at a recent Chatham House event focused on Russia's invasion of Ukraine when the audience heard that trains in Ukraine run on time, despite the war, in contrast to lived experience in the UK.

However, this anecdote is indicative of a broader challenge Western policymakers' face when it comes to freight and transport diplomacy. Due to sanctions, Russia is losing revenue as corporates formally divest from the Russian market. The West, by contrast, is founded on an open market economy that is not resilient to war and conflict. Despite disruptions, Russia is able to plug into the porous global logistical frameworks and even retain its position as a transit hub for freight bound for Europe, maintaining access to crucial technology and manufacturing inputs from Europe. The Russian economy continues to operate and, at times, fosters conditions of economic efficiency that is impossible for economies dominated by publicly owned companies. True, the Kremlin is no longer able to assert imperial authority over the post-Soviet space and needs to buy its way into political influence, but it is still able to command a resilient war economy that is winning the economic war on logistics.

Specifically, when it comes to Sino-European logistical routes, Russia's connectivity vision has assimilated European and Chinese aspirations to offer the best value for money: a single physical infrastructure and regulatory regime that could be incrementally optimised.² This remains the case and, to date, there is no alternative. To accommodate sustained access to European markets, Russia has had to explore alternative routes via Turkey, Iran, and the Caucasus, paying a dearer price to secure the cooperation of its neighbouring states. Similarly, Russia has carved out a North-South transport corridor to secure access to new markets. Sanctions catalysed the rapid enlargement of Russian regulatory outreach to encompass the UAE, Iran, and India. In sum, Russia is losing money but gaining connectivity in a war that poses systemic challenges on global economic governance.

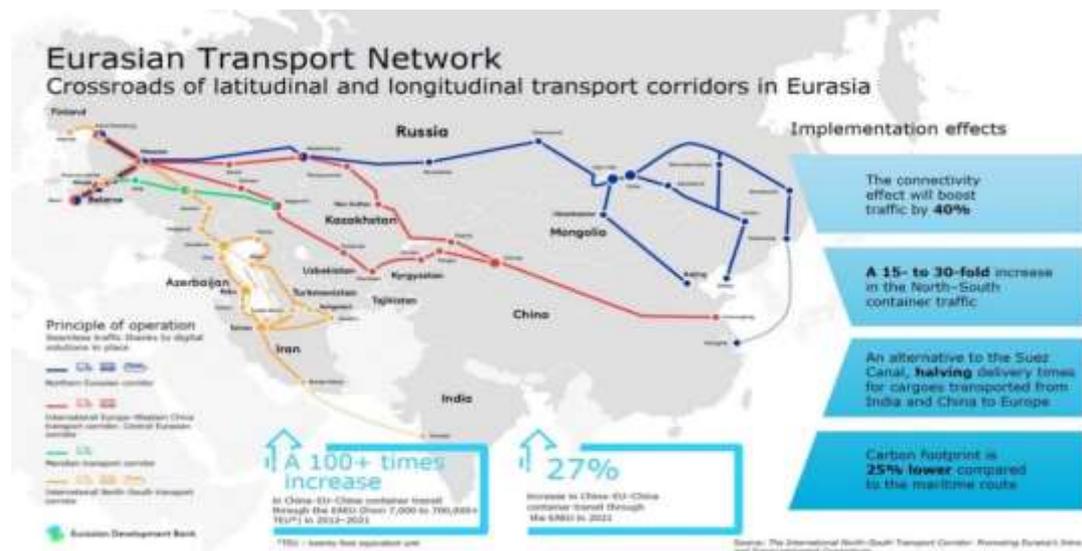
¹ Bradley Martin, Will logistics be Russia's undoing in Ukraine?, Rand Foundation, February 2023, <https://www.rand.org/blog/2023/02/will-logistics-be-russias-undoing-in-ukraine.html>

² Eurasian Development Bank, Eurasian Transport Network, <https://eabr.org/en/mega-projects/evraziyskiy-transportnyy-karkas/>

The Northern Corridor: The Sino-European Land Bridge & Ukraine

Prior to the invasion, the Russian transport vision assimilated a range of geopolitical and geo-economic expectations: Chinese, Russian, and European. Founded in 2011, the Northern Corridor was the flagship project of the Chinese Belt and Road Initiative (BRI), bridging China and Germany via Kazakhstan, Russia, Belarus, and Poland. The overland rail connection often referred to as 'The Land Bridge' fills a niche for high-value or time-sensitive goods, such as Chinese-made computers or German auto manufacturing parts. European freight making its way to China often makes part of manufacturing 'value chains:' the inputs that go into the creation of a finished product, from its initial design to its arrival at a customer's door. For the production of industrial goods, this production process requires the delivery of raw materials and components from different parts of the world at the time required to keep production at pace. Increasingly, logistics networks strive for just-in-time delivery to avoid the cost and complexity of storage. Despite filling an existing need in industrial logistics, this route would not be viable without Chinese subsidies, largely because the value and volume of the westbound freight from the 'factory of the world' to Europe is inherently asymmetrical. Europe is bound to import more from China than vice versa.

BRI's flagship project is the Northern Corridor, a logistical network created and sustained by state-owned companies: the German (Deutsche Bahn), the Kazakh (Temi Scholy), the Chinese (China Railway Corporation), and the Russian (Russian Railways). All these companies were ready to coordinate in the alignment of regulatory and physical infrastructure, insurance and freight services, and bill China for the lack of an ultimately unprofitable service until enough 'value chains' were created to support the viability of the overall vision. In this sense, cooperation in the logistics sector is always geopolitically significant, echoing Lasswell's classical definition of politics as "Who gets what, when, how."³ Indeed, the emergence of logistical routes and value chains reflects relations between countries, custom regimes, and military power that protects key resources and infrastructure. China subsidised eastbound freight transport – from Europe to China – with the objective of building a new relationship to Europe and developing its underdeveloped heartland. On the eve of the Russian invasion of Ukraine, there was speculation that Chinese freight subsidies from Europe to China would end as they were less needed. The war in Ukraine derailed that prospect.⁴



³ Lasswell D. Harold. 1936. Politics: Who Gets What, When, How. New York: Whittlesey House, <https://www.cambridge.org/core/journals/american-political-science-review/article/abs/politics-who-gets-what-when-how-by-harold-d-lasswell-new-york-whittlesey-house-1936-pp-ix-264/90C407BEDE6963B3D2C84FF79C695E1E>

⁴ Ganyi Zhang, The success of China-Europe rail freight raises the question of its subsidy policy. In 2022, an adjustment seems more likely than an outright end to subsidies, Market Insights, January 2022, <https://market-insights.upply.com/en/what-is-the-situation-for-china-europe-rail-freight-subsidies-in-2022>

By the end of 2021, the Northern route accounted for 5.5% of the annual trade turnover between China and Europe. The leading partners in this logistical route, Germany and China, placed a political premium on their interconnection. The two economies are similar in that they are export-oriented with a strong manufacturing base and less reliant on services. For seven consecutive years, China has been Germany's biggest trade partner.⁵ Germany is in fact one of the few countries in the world with a trade surplus vis-à-vis China.⁶ China is a controversially strategic investor across the German economy, including the logistics sector.⁷ When China committed to developing Duisburg as a gateway to China, Germany saw in the BRI brand an instrument for the modernisation of its 'rust belt' that would at once achieve regional economic convergence and support the national export-driven economic policy. President Xi Jinping visited Duisburg in 2014, heralding a new era for the city as a multi-modal logistics gateway to Asia.

For Beijing, the 'The Land Bridge' to Central Eastern Europe was not merely about international trade but the culmination of a 20-year commitment to rebalancing economic growth from Eastern China to the Western heartland. The major bottleneck for attracting manufacturing capital to this part of China – the so-called 'Go West' policy – was lack of infrastructure.⁸ High tech manufacturers heeded China's call to invest in the interior, with subsidies for transport and the promise of more affordable labour.⁹ The policy has since born results, rebalancing productive capacity and income inequality within China.¹⁰

The invasion of Ukraine was disruptive in many respects but trains never quite stopped running.¹¹ Sanctions undermined the soft infrastructure facilitating the viability of the land bridge in two respects:¹²

- i. First, the war hurts the bottom line of freight carriers that need to deal with the surging cost of diesel and electricity, thereby eroding profit margins across the rail sector and favouring seaborne logistics;¹³ and insurance premiums for freight soared and continue to soar.¹⁴ Sources in Poland confirm that this remains the case even on westbound traffic from Europe to China.

⁵ Destatis, The People's Republic of China is again Germany's main trading partner, <https://www.destatis.de/EN/Themes/Economy/Foreign-Trade/trading-partners.html>

⁶ Henning Hoff, Scholz Goes it Alone in China, *Internationale Politik quarterly*, October 2022, <https://ip-quarterly.com/en/scholz-goes-it-alone-china>

⁷ Simon Hage, Martin Hesse, Alexander Jung, Peter Muller, Gerald Trautner, and Bernhard Zand, Chinese Expansion has Germany on the Defensive, *Der Spiegel International*, May 2018,

<https://www.spiegel.de/international/business/chinese-economic-expansion-has-germany-worried-a-1209325.html>; Henning Hoff, Scholz Goes it Alone in China, *Internationale Politik quarterly*, October 2022, <https://ip-quarterly.com/en/scholz-goes-it-alone-china>

⁸ Pilar Dieter, "Go West" into China... carefully, *Supply Chain Quarterly*, September 2010, <https://www.supplychainquarterly.com/articles/409-go-west-into-china-carefully>

⁹ Meng Jing, High-tech companies go west, *China Daily*, June 2010, https://www.chinadaily.com.cn/bizchina/2010-11/06/content_11511214.htm

¹⁰ Françoise Lemoine, Gregoire Mayo, Sandra Poncet, and Deniz Unal, The Geographic Pattern of China's Growth and Convergence within industry, CEP II Working Paper, February 2014, http://www.cepii.fr/pdf_pub/wp/2014/wp2014-04.pdf

¹¹ The Load Star, Russian railways face financial sanctions, but trains keep running, February 2022, <https://theloadstar.com/russian-railways-faces-financial-sanctions-but-trains-keep-running/>

¹² Andrew Tunnicliffe, How sanctions are impacting Russia's railways, *Railway Technology*, September 2022, <https://www.railway-technology.com/features/how-sanctions-are-impacting-russias-railways/>

¹³ Rail Staff, Rising electricity prices force freight back to diesel, October 2021, <https://www.railstaff.co.uk/2021/10/18/rising-electricity-prices-force-freight-back-to-diesel/>; Blair Robbins, The Impact of Rising Fuel Costs on Logistics, *Eisner Amber*, April 2022, <https://www.eisneramper.com/insights/manufacturing-distribution/rising-fuel-costs-logistics-0422/>

¹⁴ Mia Wallace, Insurance rates jump for Ukraine war – exposed business – report, *Insurance News*, May 2022, <https://www.insurancebusinessmag.com/us/news/breaking-news/insurance-rates-jump-for-ukraine-warexposed-business-report-407908.aspx>; Jonathan Saul, Business costs soar as Russia sanctions bite – survey, *Reuters*, March 2023, <https://www.reuters.com/business/autos-transportation/business-costs-soar-russia-sanctions-bite-survey-2023-03-21/>

- ii. Secondly, the introduction of sanctions limits Russian direct access to global markets and disrupts its formal engagement in industrial value chains. Significantly, Russian banks were ousted from the SWIFT global payments system and insurance companies were invited to take risk for freight transiting through “enemy territory.”¹⁵ For individual corporates, there were also reputational issues to consider when dealing with Russia.

Both factors had an immediate effect on the Northern Corridor. Reports of the Russian Railways losing EU customers were becoming more frequent as passenger rail links between Helsinki and St. Petersburg ceased their operations as early as March 2022,¹⁶ this was followed by a complete halt on coal imports.¹⁷ By April 2022, freight and passenger connections with the whole Baltic region collapsed, although there was eventually some accommodation for Russia’s exclave of Kaliningrad.¹⁸ Media coverage then focused on the construction of the Lithuanian-Polish line, which continues at pace, introducing incompatible gauge standards, and presumably decoupling the Baltic region from Russian logistics networks irreversibly.¹⁹ As gauge standard diverse on both the Chinese and the European ends of the Russian system, costs increase and efficiency is reduced.

By spring of 2022, the Russian Railways successive bond defaults were regarded as evidence that Western sanctions work.²⁰ The Russian Railways have since claimed that defaults were technical, due to Russia’s disengagement from SWIFT, rather than related to the fundamental solvency of the company.²¹ In any event, sanctions did disrupt operations and the loss of clients led to reports of inactive wagons creating chaos on the network.²² Over the summer, there were challenges with maintenance, as the disruption of specific imports apparently undermined the ability of the Russian Railways to service carriages, forcing the company to cannibalise some of its fleet for spare parts.²³ The same storyline was echoed in the coverage of Russia’s massive passenger jetliners fleet.²⁴ A

¹⁵ Huw Jones and Karin Strohecker, SWIFT waits to disconnect Russian banks as securities platforms cut Moscow ties, Reuters, March 2022, <https://www.reuters.com/business/swift-waits-to-disconnect-russian-banks-as-securities-platforms-cut-moscow-ties>, March 2022, <https://www.reuters.com/business/swift-waits-to-disconnect-russian-banks-as-securities-platforms-cut-moscow-ties>

¹⁶ Alex Whiteman, Russian rail companies struggle with volume collapse as sanctions bite, The Load Star, January 2023, <https://theloadstar.com/russian-rail-companies-struggle-with-volume-collapse-as-sanctions-bite/>; David Mac Dougal, End of the line in Finland for the last direct EU-Russia train link, Euronews, March 2022, <https://www.euronews.com/2022/03/25/finland-to-stop-eu-s-last-direct-train-link-with-russia>

¹⁷ Helsinki Times, Finland’s VR halting freight traffic to Russia by end of 2022, May 2022, <https://www.helsinkitimes.fi/finland/finland-news/domestic/21480-finland-s-vr-halting-freight-traffic-to-russia-by-end-of-2022.html>

¹⁸ LETA, Railway freight volumes going to Baltic States will continue going down, Estonian millionaire predicts, BNN, February 2023, <https://bnn-news.com/railway-freight-volumes-going-to-baltic-states-will-continue-going-down-estonian-millionaire-predicts-243438/>; Andrius Sytas and John O’Donnell, Exclusive: EU nears compromise deal to defuse standoff with Russia over Kaliningrad, Reuters, June 2022, <https://www.reuters.com/world/europe/exclusive-kaliningrad-row-eu-nears-compromise-deal-defuse-standoff-with-russia-2022-06-29/>

¹⁹ Callum Tennant, The high-speed railway that’s uncoupling the Baltic states from Russia and their Soviet past, Euronews, October 2022, <https://www.euronews.com/next/2022/09/24/the-high-speed-railway-thats-uncoupling-the-baltic-states-from-russia-and-their-soviet-pas>

²⁰ James Warrington and Giulia Bottaro, Russian Railways crashes into default as sanctions hammer Moscow, The Telegraph, April 2022, <https://www.telegraph.co.uk/business/2022/04/11/ftse-100-markets-live-news-stop-oil-russia-sanctions/>; Irene Garcia Perez, Russian Railways Rejects Default, Says It Paid Debt on Time, Bloomberg, April 2022, <https://www.bloomberg.com/news/articles/2022-04-12/russian-railways-claims-it-s-not-in-default-as-debt-paid-on-time#xj4y7vzkg>

²¹ Bloomberg, Russian Railways rejects default claim, says it paid debt on time, Alarabiya, April 2022, <https://english.alarabiya.net/business/economy/2022/04/12/Russian-railways-rejects-default-claim-says-it-paid-debt-on-time>

²² Rail Freight, 150,000 inactive wagons create chaos on Russian railways, April 2022, <https://www.railfreight.com/railfreight/2022/04/14/150000-inactive-wagons-create-chaos-in-russian-railway-network/>

²³ Eurasian Rail Alliance Index, Promotion of Export Rail Transportation in China: Results and Prospects, May 2022, <https://index1520.com/upload/medialibrary/c0c/wtiafw48xwr3513gnbfjtczgyy6fkk4v/ERAI-Subsidies-EN.pdf>; UATV English, Western sanctions have stopped Russian railway industry: Kremlin is panicking, YouTube, September 2022, <https://www.youtube.com/watch?v=oSKYCzaTwsq>; Railway Supply, Russian railway is on the verge of collapse, September 2022, <https://www.railway.supply/en/russian-railway-is-on-the-verge-of-collapse/>

²⁴ Josephine Mason, Matt Scuffham and Jane Merriman, Exclusive: Russia starts stripping jetliners for parts as sanctions bite, Reuters, August 2022, <https://www.reuters.com/business/aerospace-defense/exclusive-russia-starts-stripping-jetliners-parts-sanctions-bite-2022-08-08/>

source with understanding of Russian logistics suggests this continues to be the case. Given the size of Russia and the centrality of logistics in the war effort, this line of reporting boosted morale with some analysts deviating towards misplaced triumphalism.²⁵

It has been frequently reported that the Eurasian land bridge is effectively closed or “inoperable.”²⁶ In an interview conducted by author with the former senior advisor of Iran’s Khodro Industrial Group in the summer of 2022, Amir Chanaki, it was noted that the Northern Corridor remains in operation.²⁷ At the time, this testimony contradicted most published material in Europe. The Russian Railways were indeed shedding customers, including German auto manufacturers, who have the ideal customer profile for an overland logistics service.²⁸ The initial loss of eastbound traffic surpassed 50%;²⁹ however, it appears that some EU companies opted for turn-key Chinese package deals, switching customer service handlers rather than transit route.³⁰ Market sources suggest Russia remains a transit hub for westbound traffic from China to Europe, and overall freight volumes have recovered and continue to surge.³¹ For Europe this route remains indispensable; for instance, Russian rail transit facilitates access for the German defence industry to Chinese rare earth supplies and, therefore, is able to manufacture arms for the Ukrainian front.³² While Russian transit freight continues, Chinese logistic companies have a competitive advantage as they can broker access to Russian territory and airspace.³³

Ukraine and the objective of circumnavigating Russia

Clearly, diverting freight was the initial intention of many EU firms.³⁴ This storyline has been signalled by reports on the explosive surge in freight volumes handled by the Trans-Caspian Transport Route (TITR), increasing in frequency since the summer of 2022.³⁵ The route is evidently attracting key EU logistics customers including Austria’s Cargo Group, Finland’s Nurminen Logistics,

²⁵ Andrea Brinza, Putin’s War Has Killed China’s Eurasian Railway Dreams, Foreign Policy, March 2022, <https://foreignpolicy.com/2022/03/01/belt-road-initiative-new-urasian-land-bridge-china-russia-poland/>

²⁶ Katja Kalkschmied, China’s Infrastructure Investment in the South Caucasus before and after Russia’s Invasion of Ukraine, Caucasus Analytica Digest, No. 132, March 2023, <https://css.ethz.ch/content/dam/ethz/special-interest/gess/cis/center-for-securities-studies/pdfs/CAD132.pdf#page=3>

²⁷ Interview conducted with Amir Chahaki (Berlin, Germany), former senior advisor at Iran Khodro Industrial Group, and Meysham Behravesh, former intelligence Analyst (Malmo, Sweden), April 29 2022.

²⁸ Hussein Askary, The China-EU Express Railway Roaring on: Putin did not kill China’s Eurasian Dream!, BRIX Sweden, July 2022, <https://www.brixsweden.org/the-china-eu-express-railway-roaring-on-putin-did-not-kill-chinas-urasian-dream/>

²⁹ Rail Freight, UTLC ERA sees further drop of volumes on New Silk Road via Russia, May 2023, <https://www.railfreight.com/railfreight/2023/05/24/utlc-era-sees-further-drop-of-volumes-on-new-silk-road-via-russia/>

³⁰ Jens Kastener, BMW and Audi suspend shipments by train to China, Nikkei Asia, April 2022, <https://asia.nikkei.com/Politics/Ukraine-war/BMW-and-Audi-suspend-shipments-by-train-to-China>

³¹ DHL, Rail Freight Market Overview, June 2023, <https://www.dhl.com/content/dam/dhl/global/dhl-global-forwarding/documents/pdf/glo-dgf-rail-market-overview.pdf>; European Commission, Implementation of sanctions: Commission provides additional guidance on the transit of goods from Russia, July 2022, https://ec.europa.eu/commission/presscorner/detail/en/IP_22_4507

³² Jonathan Tirone and Alberto Nardelli, How Europe needs freight trains to cross Russia from China, Bloomberg Special, January 2023, <https://www.tbsnews.net/bloomberg-special/how-europe-needs-freight-trains-cross-russia-china-572266>

³³ Ian Petchenik, Russian roundabout: how flights are avoiding Russian airspace, flightradar24, March 2022, <https://www.flightradar24.com/blog/russian-roundabout-how-flights-are-avoiding-russian-airspace/>

³⁴ Nini Gabritchidze, Georgia, Azerbaijan see surge in transit demand amid Russia’s isolation, Eurasianet, June 2023, <https://eurasianet.org/georgia-azerbaijan-see-surge-in-transit-demand-amid-russias-isolation>

³⁵ Saniya Sakenova, Cargo Transportation Along the Middle Corridor Increases to 1.5 Million Tons in 2022, The Astana Times, May 2023, <https://astanatimes.com/2023/05/cargo-transportation-along-middle-corridor-increases-to-1-5-million-tons-in-2022/>; Hanne Cokelaere and Sarah Anne Aarup, Ukraine war shakes up China-Europe railway express, Politico, July 2022, <https://www.politico.eu/article/ukraine-china-silk-road-railway/>

Denmark's Maersk, and the Netherlands' Dutch Bridge Cargo.³⁶ However, there are two significant caveats in this narrative of "diversion" from the North to the Middle Corridor:³⁷

- i. First, the Middle Corridor's capacity is less than 10% of the freight volume handled by the Northern Corridor.³⁸
- ii. Secondly, the time and cost of transit to China means the Middle Corridor cannot support the industrial value chains that relied on the Northern Corridor.

A more likely scenario is that the Middle Corridor supports new demands, which emerged as a result of the war in Ukraine but do not originate in China. The main customers of the Middle Corridor are likely to be the Central Asian Republics, Russia, and companies that migrated from Russia to the region.

The historical challenge of the Middle Corridor has been high costs and slow transit times, with the Black and Caspian Seas being the main bottlenecks.³⁹ Ferry services connecting the two shores of the Black Sea have run since 1978 through Varna (Bulgaria), Chornomorsk (Ukraine), Poti/Batumi (Georgia), and Samsun (Turkey). Given the differences in railway gauge systems on the two sides of the Black Sea, container shipping rather than roll-on-roll-off (Ro-Ro) ferry services prevail. The war makes matters worse, as Ukrainian ports only service regulated cargoes and regular import-export activity have been diverted to Costanta (Romania). Reports of free-floating mines suggest shipping conditions are not conducive to a diversion of trade through the Black Sea.⁴⁰ Indeed, even as traffic through the ports of Romania and Georgia increases, overall container traffic in the Black Sea is subdued; this maritime route is not a viable diversion from the Northern Corridor.⁴¹



³⁶ Nigar Jafarova, The rise of the Middle Corridor, *Frontier View*, May 2023, <https://frontierview.com/insights/the-rise-of-the-middle-corridor/>

³⁷ Hanne Cokelaere and Sarah Anne Aarup, Ukraine war shakes up China-Europe railway express, *Politico*, July 2022, <https://www.politico.eu/article/ukraine-china-silk-road-railway/>

³⁸ *Ibid.*

³⁹ Tristand Kenderdine and Peter Bucsky, Middle Corridor Policy – Development and Trade Potential of the Trans-Caspian International Transport Route, Asian Development Bank Institute, May 2021, <https://www.adb.org/sites/default/files/publication/705226/adbi-wp1268.pdf>

⁴⁰ North Standard, Russia-Ukraine War: Impact on Shipping, May 2023, <https://www.nepia.com/industry-news/russia-ukraine-military-action-impact-on-shipping/>

⁴¹ Alexander Khromov, Invasion of Ukraine caused steep dive in Container Ship Traffic, *The Maritime Executive*, April 2023, <https://maritime-executive.com/editorials/invasion-of-ukraine-caused-steep-drop-in-black-sea-container-traffic>

The overland transit route from Europe via Turkey to the South Caucasus also faces historical bottlenecks: the 13.5 km long undersea Marmaray railway tunnel in Istanbul is constricted by the absence of intermodal terminals and cannot handle freight trains; meanwhile, the railway link between Istanbul and Ankara is still reliant on a single conventional track. While there has been substantial investment in rail connectivity across the Caucasus, the Ro-Ro vessel fleet servicing the Caspian Sea cannot meet throughput railway capacity on either side.⁴²

More broadly, there is a strategic impediment to the development of the Middle Corridor as a rail freight diversion to the Northern Corridor. The Middle Corridor's does not support transcontinental value chains but relies on intermediate journeys to be commercially viable: Istanbul to Aktau via Baku; Aktau to Khorgos; and Khorgos to Lianyungang.⁴³ With talk of a trade war with China on auto manufacturing, the Middle Corridor may have precisely the structure required to be resilient.⁴⁴ In an interview with the author, the former CEO of a port development consortium in Georgia, stated that big projects are less viable as the new industrial trend is reshoring and shorter rather than global supply chains. Therefore, the quest to substitute the Northern Corridor may, in the long-run, be futile.

Overland trans-continental Sino-European value chains can only develop over time on the basis of solid industrial partnerships. At present, the Middle Corridor cannot support value chains such as Sino-European auto manufacturing; in the future, it is not a given that these value chains will continue to exist.⁴⁵ Focusing on quick wins, the Middle Corridor can achieve significant time efficiencies that will improve its value proposition. However, substituting the Northern Corridor is an unrealistic prospect.⁴⁶

Russian demand for Western goods is a more convincing account on what drives the surge in eastbound traffic for two reasons:

- i. First, sanctions have not entirely dismantled industrial value chains linking Russia to Europe. A study by the Kyiv School of Economics published in May 2023 suggests that of the 3,157 foreign firms operating in Russia prior to the invasion of Ukraine, only 213 have divested.⁴⁷ To date, most Western companies continue to be present, American and European.
- ii. Secondly, Western companies trading in the Russian market continue to send their products towards Russia, even if not directly to Russia. In 2022, Turkish exports to Russia increased by 60% and the country is a transshipment hub for restricted goods from Europe.⁴⁸ There are reasons to believe that states in the South Caucasus pursue policies similar to Turkey's.

⁴² Tristan Kenderdine and Peter Bucsky, *The Middle Corridor: Policy Development and Trade Potential of the Trans-Caspian International Transport Route*, in *Unlocking Transport Connectivity in the Trans-Caspian Corridor*. Dina Azhgaliyeva and Yelena Kalyuzhnova (eds), Asia Development Bank Institute, October 2021, <https://www.carecinstitute.org/wp-content/uploads/2021/10/unlocking-transport-connectivity-web.pdf>

⁴³ Oeter Bucsky and Tristan Kenderdine, *Without China's geoeconomics policy push, there is still little economic rationale behind the development of the Middle Corridor*, *The Diplomat*, December 2020, <https://thediplomat.com/2020/12/middle-corridor-struggles-to-find-its-way-across-eurasia/>

⁴⁴ Barbara Moens et al, *France presses EU to threaten trade war against China*, *Politico*, June 2023, <https://www.politico.eu/article/french-urge-eu-declare-trade-war-against-china/>

⁴⁵ Emil Avdaliani, *China Still Ambivalent About the Middle Corridor*, *China Observers*, January 2023, <https://chinaobservers.eu/china-still-ambivalent-about-the-middle-corridor/>

⁴⁶ Olga Tongkonog, *Middle Corridor becomes more attractive for China*, *Kursiv.media*, March 2022, <https://kz.kursiv.media/en/2023-03-03/middle-corridor-becomes-more-attractive-for-china/>; Felix K. Chang, *The Middle Corridor through Central Asia: trade and Influence ambitions*, *Foreign Policy Research Institute*, February 2023, <https://www.fpri.org/article/2023/02/the-middle-corridor-through-central-asia-trade-and-influence-ambitions/>

⁴⁷ BNE Intellinews, *Russia: Country Report*, *Business New Europe*, May 2023, <http://pro.intellinews.com/reports>

⁴⁸ Adam Michalski and Iwona Wiśniewska, *Turkey: the transit of goods subject to Western sanctions face restrictions*, *OSW*, March 2023, <https://www.osw.waw.pl/en/publikacje/analyses/2023-03-15/turkey-transit-goods-subject-to-western-sanctions-face->

According to an Asia Development Bank April 2023 report, post-Soviet economies – Armenia, Georgia, Azerbaijan, and Kazakhstan – saw significant GDP growth throughout 2022: 12.6% in Armenia, 10.2% in Georgia, 4.6% in Azerbaijan, and 3.2% in Kazakhstan.⁴⁹ The report identifies three main “Ukrainian drivers” of economic growth for Armenia, Georgia and Kazakhstan: first, the exodus of Russian citizens evading conscription; secondly, the relocation of companies and capital from Russia; thirdly, the surge of exports to the tune of 63% year-on-year, of which 49% is attributed to re-exporting goods originating from the EU and China to Russia. A number of governments and NGOs are becoming more vocal about specific products that make their way from Germany to Russia, such as mid-sized diesel trucks via Armenia or polyamides used in body armour manufacturing via Kazakhstan.⁵⁰ This freight is necessarily channelled through the Middle Corridor, as the tightening of sanctions in February 2023 means that dual-use goods cannot transit through Russia to a third country.⁵¹ This economic reality does not tally with the geopolitical significance attributed to the Middle Corridor as a triumph of a transcontinental route circumnavigating both Russia and Iran.⁵²

The EU has a long-term approach to the region, which is glacially accommodating to changing circumstances. Extending the Trans-European Transport Networks (TEN-T) policy to encompass Central Asia is a policy pursued by Brussels since the early 1990s in one form or another.⁵³ The most recent incarnation of this vision invests in local ownership of transport networks and specifically the Middle Corridor, with a view to securing EU market access and building viable value chains in the Caucasus and Central Asia, bypassing Russia and counterbalancing China.⁵⁴ This strategic objective suggests there is little intention to compete with the Sino-European value chains established through the Northern Corridor and, therefore, ‘divert traffic.’ Instead, the focus is enabling the post-Soviet space to exist without a dependence on Russia. The war in Ukraine has not changed planning.

Filling the Russian vacuum and containing Chinese influence is also Washington’s main preoccupation.⁵⁵ Following NATO’s rapid withdrawal from Central Asia, the United States has little if any at all direct stake in Central Asia’s trade routes. The US is not a Eurasian economy and cannot have a significant bearing in shaping value chains in the region, unless one talks of energy pipelines.

restrictions; Jared Malsin, Sanctioned Russian cargo ships made more than 100 stops at Turkish ports, Wall Street Journal, June 2023, <https://www.wsj.com/articles/sanctioned-russian-cargo-ships-made-more-than-100-stops-at-turkish-ports-e6b723c3>

⁴⁹ ADB, The Economic Impact of the Russian Invasion of Ukraine on the Caucasus and Central Asia: Short-Term Benefits and Long-Term Challenges, April 2023, <https://www.adb.org/sites/default/files/publication/863591/ado-april-2023-special-topic.pdf>

⁵⁰ Berit Lindeman and Ivar Dale, Sanctions on Russia may not be working, we now know why, Al Jazeera, June 2023, <https://www.aljazeera.com/opinions/2023/6/5/sanctions-on-russia-may-not-be-working-we-now-know-why>

⁵¹ Chengfan Zhao, New package of EU sanctions on Russia: what is the impact, Rail Freight, February 2023, <https://www.railfreight.com/policy/2023/03/04/new-package-of-eu-sanctions-on-russia-what-is-the-impact>

⁵² Sevim Geraibeyli, Middle Corridor – a sign of Global Rebalancing, Modern Diplomacy, April 2023, <https://moderndiplomacy.eu/2023/04/19/middle-corridor-a-sign-of-global-rebalancing/>

⁵³ ARIC, Transport Corridor Europe Caucasus Asia (TRACEA), <https://aric.adb.org/initiative/transport-corridor-europe-caucasus-asia>

⁵⁴ Majorie van Leijen, New Ten-T maps for Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine, Rail Freight, November 2018, <https://www.railfreight.com/specials/2018/11/13/new-ten-t-maps-for-armenia-azerbaijan-belarus-georgia-moldova-and-ukraine/>

⁵⁵ Amaia Sanchez Cacicedo, Unlocking Afghanistan’s Connectivity Potential, European Union Institute for Security Studies, 2022, https://www.iss.europa.eu/sites/default/files/EUISSFiles/Brief_15_Afghanistan.pdf; Khurshid Sultonov, Lapis Lazuli Corridor and Its Future, *Oriental Renaissance*, Vol. 2, Issue 2, Tashkent, February 2022, https://www.oriens.uz/media/journalarticles/103_Khurshid_Sultonov_752-758.pdf; Frederick Starr and Svante Cornell, A New Strategy for Central Asia, *The Hill*, February 2020, <https://thehill.com/opinion/international/483511-a-new-strategy-for-central-asia/>; Shoab Ahmad Rahim, Lapis Lazuli Corridor: Meeting of the Economic Aspirations of Afghanistan and Member Countries, *Kardan Journal of Economics and Management*, 2019, <https://kardan.edu.af/data/public/files/KJEMS-2.3-2019-05-edited.pdf>; Neelapu Shanti, Lapis Lazuli Project to create vibrant transit route for Afghanistan, *The Economic Times*, December 2018, <https://economictimes.indiatimes.com/blogs/et-commentary/lapis-lazuli-project-to-create-vibrant-transit-route-for-afghanistan/>; Chris Devonshire-Ellis, China Funded Lapis-Lazuli Transport Corridor United Caucasus and Central Asia, *Silk Road Briefing*, December 2017, <https://www.silkroadbriefing.com/news/2017/12/05/china-funded-lapis-lazuli-transport-corridor-united-caucasus-central-asia/>

At the same time, Washington tends to be sceptical about the glacial development of the EU's Single Market Ten-T transport policy framework, which is not explicitly designed to contain Chinese and Russian influence. Because Washington is not a direct stakeholder in Eurasian transport and can only act as a 'policy investor'" several US agencies and think tanks tend to favour the plurinational framing of cooperation between the Organisation of Turkish States (OTS).

Within Europe, Washington puts its weight behind Poland's Three Seas Initiative (3SI), also referred to as Trimarium (Tromorze) rather than Ten-T.⁵⁶ Trimarium is the reanimation of Josef Pilsudski's *Intermarium* idea of uniting nations threatened by Soviet rule through an entente of nation-states between the Baltic, the Mediterranean, and the Black Seas. This connectivity vision seeks to bridge the economic gap between Eastern and Western Europe and regiment opposition to Russian imperial aspirations.⁵⁷ The policy framework now includes Ukraine and there is speculation it may acquire a Caspian dimension.⁵⁸

For local actors this investment in the Middle Corridor has its own significance. For Turkey, the Middle Corridor is an opportunity to consolidate its own sphere of influence through the OTS, filling the Russian geopolitical vacuum without necessarily antagonising the Kremlin.⁵⁹ For Central Asian states, particularly Kazakhstan, the Middle Corridor is a piece in the puzzle in its broader 'Bright Path' multi-vector policy, which seeks to counterbalance the overwhelming economic and political influence of Russia and China by creating an anchor to the West, via a Turkic union.⁶⁰ For Azerbaijan, the Middle Corridor is both as an economic opportunity and a foreign policy framework, which enables Baku to rally Western support behind national interests. For instance, Turkey and Azerbaijan have been advocating for the creation of the 'Zangezur corridor,' linking Western Azerbaijan and the Nakhichevan exclave via Armenian territory, thereby creating a new route along the Middle Corridor.⁶¹ These prospects are conditionally endorsed in Europe and echoed in Washington as policymakers seek a sustainable post-Russian vision for the region.⁶²

⁵⁶ Anthony B. Kim, 3 Seas Initiative should be America's Transatlantic Partnership for Economic Freedom, Not Woke Agenda, The Heritage Foundation, September 2022, <https://www.heritage.org/global-politics/commentary/3-seas-initiative-should-be-americas-transatlantic-partnership-economic>

⁵⁷ Rafal Zgorzelski, Three Seas Initiative: towards common security and economy, The Warsaw Institute Review, September 2022, <https://warsawinstitute.review/news-en/three-seas-initiative-towards-common-security-and-economy/>; The Three Seas Initiative: Priority Interconnection Projects, Bucharest 3SI Summit, September 2018, <http://three-seas.eu/wp-content/uploads/2018/09/3SI-short-list-of-priority-interconnection-projects.pdf>

⁵⁸ Ukraine Invest, Ukraine became a participating partner of the European Three Seas Initiative, June 2022, [https://ukraineinvest.gov.ua/news/23-06-22-2/#:~:text=The%20Three%20Seas%20Initiative's%20\(3SI,efforts%20to%20join%20the%20EU;](https://ukraineinvest.gov.ua/news/23-06-22-2/#:~:text=The%20Three%20Seas%20Initiative's%20(3SI,efforts%20to%20join%20the%20EU;) Aleksandra Krzysztozek, Ukraine becomes 'participating partner' of Three Seas Initiative, Euractiv, June 2022, https://www.euractiv.com/section/politics/short_news/ukraine-becomes-participating-partner-of-three-seas-initiative/

⁵⁹ Sevim Geraibeyli, Middle Corridor – a sign of Global Rebalancing, Modern Diplomacy, April 2023, <https://moderndiplomacy.eu/2023/04/19/middle-corridor-a-sign-of-global-rebalancing/>

⁶⁰ Tony Louthan, A 'Bright Path' foreword or a grim dead end? The political Impact of the BRI in Kazakhstan, Foreign Policy Research Institute, January 2022, <https://www.fpri.org/wp-content/uploads/2022/01/louthan-1.pdf>

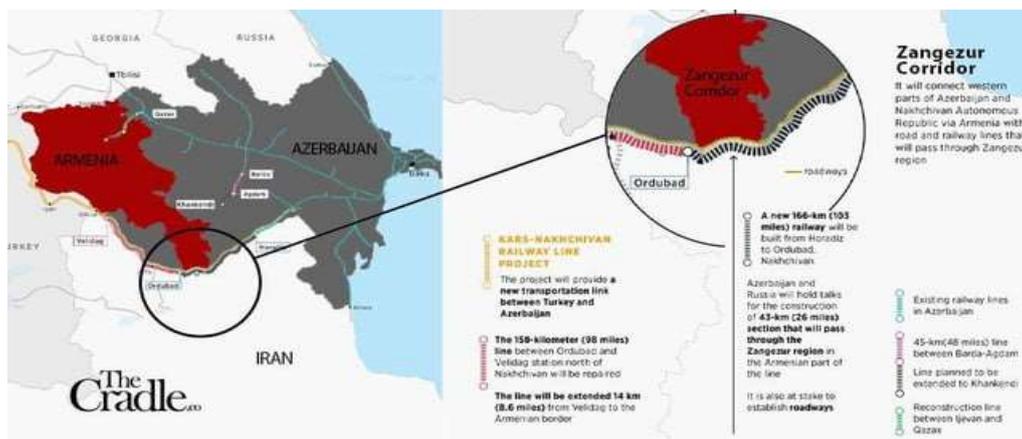
⁶¹ The area Azerbaijan refers to as the 'Zangezur Corridor' is envisaged in the November 2020 ceasefire agreement as 'an unobstructed' transport route connecting mainland Azerbaijan to its Nakhichevan exclave. The word 'corridor' is an implicit reference to extra-territoriality and Baku has argued there is an equivalence between the Lachin Corridor, linking Armenia and Nagorno-Karabakh, and its own claim to the transport route transiting via the Syunik region. Azerbaijan has been emphasising the term 'unobstructed' to frame a corridor-for-corridor equivalence. It is an equivalence that Yerevan does not accept. Baku is willing to enforce this equivalence in terms of placing or removing checkpoints, introducing customs checks, and allowing for the deployment of peacekeeping forces.

TRT World, Türkiye supports 'immediate' opening of strategic Zangezur corridor, 2022, <https://www.trtworld.com/turkey/t%C3%BCrkiye-supports-immediate-opening-of-strategic-zangezur-corridor-58340>

⁶² Thomas de Waal, In the South Caucasus, can new trade routes help overcome a geography of conflict, Carnegie Europe, November 2021, https://carnegieendowment.org/files/de_Waal_South_Caucasus_Connectivity.pdf; Stephen Blank, Armenia must build the Zangezur Corridor, The National Interest, September 2022, <https://nationalinterest.org/blog/buzz/armenia-must-build-zangezur-corridor-204894>

In the present tense, the question of the Zangezur corridor brings to the fore the impact of Russia's engagement in Ukraine. Prioritising short-term pressure, Russian diplomacy is ready to entertain the Azerbaijani vision for a transport corridor through Armenia, to the extent this affirms Moscow's role as a diplomatic broker.⁶³ In effect, the Kremlin's ability to shape the communications map in the South Caucasus and determine "who gets what, when, and where" is diminished.⁶⁴ With Azerbaijani troops positioned both in the Armenia South and along the Lachin Corridor, Yerevan is forced to weigh the significance of the autonomous territory against control over its sovereign territory. In this context, Yerevan has been pressured to concede control over the Lachin corridor.⁶⁵ Affirming control over the territory, Azerbaijan has set a checkpoint along this critical communication route and disrupts the flow of people and goods while Russian peacekeepers stand aside.⁶⁶ Baku has the initiative in a crushingly asymmetrical negotiation with Yerevan that takes place against the background of a six-month blockade of Nagorno-Karabakh.⁶⁷

In effect, if not in principle, Russia forgoes the role of the 'security provider' not least because it depends on Baku as a logistical hub. Moscow's new position mounts pressure on Armenia to reach a peace agreement by year's end and for Prime Minister Pashinyan's government to restore with transit routes through Armenia, endorsing the narrative of regionalisation.⁶⁸ It appears the two parties are now closer to reaching an agreement on railway transit through Armenia with the potential of bolstering the Middle Corridor.⁶⁹



⁶³ Armen Mirzoyal, Zangezur Corridor is feasible, Says Russian Ambassador to Azerbaijan, hetq, February 2023, <https://hetq.am/en/article/153012>; JAM News, Azerbaijan is negotiating with Russia on the Zangezur corridor.' Comment from Baku, November 2022, <https://jam-news.net/azerbaijan-is-negotiating-with-russia-on-the-zangezur-corridor-comment-from-baku/>

⁶⁴ TLDR News EU, Armenia & Azerbaijan's New Border Dispute Explained (The Zangezur Corridor), YouTube, June 2023, https://www.youtube.com/watch?v=9jYV1xWa-c&ab_channel=TLDRNewsEU

⁶⁵ Gabriel Gavin, Azerbaijan installs checkpoint on road to Nagorno-Karabakh amid fatal clashes, Politico, April 2023, <https://www.politico.eu/article/azerbaijan-installs-checkpoint-on-road-to-nagorno-karabakh-amid-fatal-clashes/>

⁶⁶ Ibid.

⁶⁷ Trend News Agency, Azerbaijan, Armenia reach agreement on Zangezur corridor project's route, Russia says, June 2023, <https://en.trend.az/azerbaijan/politics/3757024.html>; JAM News, "Azerbaijan is negotiating with Russia on the Zangezur corridor." Comment from Baku, November 2022, <https://jam-news.net/azerbaijan-is-negotiating-with-russia-on-the-zangezur-corridor-comment-from-baku/>; Ilya Roubanis, The blockage in Nagorno Karabakh and the two Armenian Foreign Policies, Observatory on Contemporary Crises, May 2023, <https://crisesobservatory.es/the-blockade-in-nagorno-karabakh-and-the-two-armenian-foreign-policies/>

⁶⁸ Reuters, Russia's Putin sees prospects of settlement between Azerbaijan, Armenia, May 2023, <https://www.reuters.com/world/asia-pacific/azerbajians-aliyev-says-there-is-real-chance-peace-deal-with-armenia-2023-05-25/>; Reuters, Armenia says peace deal with Azerbaijan possible by year end, TASS reports, June 2023, <https://www.reuters.com/world/asia-pacific/armenia-says-peace-deal-with-azerbaijan-possible-by-year-end-tass-2023-06-04/>; Armenpress, 'Armenian Crossroad' – PM presents details from North-South, East-West road project, February 2022, <https://armenpress.am/eng/news/1075783.html>

⁶⁹ APA, General agreement was reached on the restoration of the Arazdeyan-Julfa-Mehri-Horadiz railway, June 2023, <https://apa.az/en/foreign-policy/general-agreement-was-reached-on-the-restoration-of-the-arazdeyan-julfa-mehri-horadiz-railway-404884>

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Iran's role in this bilateral negotiation leans towards supporting Armenia. Baku and Tehran signed a MoU in March 2022 for the construction of a transport corridor, which would run in parallel to the Armenian border through Iran. This agreement envisaged the development of a parallel route available to Azerbaijani citizens since the early 1990s, in the immediate aftermath of the First Karabakh War. Through Iran, Azerbaijan retains a safe overland route to its exclave, and is more resilient vis-a-vis rising levels of tension with Armenia.⁷⁰ Reverting to a Zangezur Corridor via Armenia would deprive Tehran from a diplomatic lever vis-à-vis Baku, cut Iran off from an emerging regionalisation process and, potentially, decrease transit revenue for trucks from Turkey.⁷¹ Iran is therefore motivated to be a spoiler of the Zangezur project, not least because Tehran is sceptical of Azerbaijan's ties to its minority in Northern Iran, not to mention Israel.⁷² Increasingly, Yerevan counts on Tehran as a strong ally in the region, particularly in Syunik (the southernmost province of Armenia), although Tehran has not yet assumed the role of a security guarantor to fill the vacuum left by Russia.⁷³ There are steps towards a Yerevan-New Delhi-Tehran alliance to mirror the Baku-Ankara-Islamabad partnership, but this is a trend rather than a crystallised reality.⁷⁴

When it comes to freight and logistics, the war in Ukraine creates a fragile balance between Azerbaijan and Iran. Theoretically, Tehran can apply pressure in Syunik, undermining Baku's ability to consolidate the gains of the Second Karabakh war in 2020. Baku can, in turn, disrupt Tehran's emerging partnership with Russia. The latter partnership is becoming increasingly significant as Iran teaches Russia how to live under sanctions. Since December 2022, Russia can only export crude oil to EU and G7 countries under a \$60/bl price cap. This has tilted the balance of Russian exports from short to long-haul, as tankers need to reach India, China, and Africa rather than the UK or the EU.⁷⁵ In this context, Iranian experience is valuable as the country has developed a so-called ghost-fleet of tankers as well as financial networks that are designed to effectively bypass sanctions.⁷⁶

For Iran, the benefits are tangible. Trade with the Eurasian Economic Union (EEU) Area has been surging and by September 2023 Iran will accede to a fully-fledged Free Trade Agreement, reducing tariffs to zero for 90% of traded goods.⁷⁷ In this broader economic context, there is scope for Tehran

⁷⁰ JAM News, Azerbaijan to build road to Nakhichevan bypassing Armenia, March 2022, <https://jam-news.net/azerbaijan-to-build-road-to-nakhichevan-bypassing-armenia/>

⁷¹ Umud Shakri, Why Iran Opposes Azerbaijan Zangezur Corridor Project, Gulf International Forum, June 2023, <https://gulrif.org/why-iran-opposes-azerbaijans-zangezur-corridor-project/>

⁷² Middle East Eye, Why Iranians are calling for war with Azerbaijan, April 2023, <https://www.middleeasteye.net/news/iran-azerbaijan-war-are-calling-why>

⁷³ Rovshan Mammadli, Iran's growing influence in the South Caucasus, International Politics and Society (IPS), January 2023, <https://www.ips-journal.eu/topics/democracy-and-society/irans-growing-geopolitical-position-in-the-south-caucasus-6459/>

⁷⁴ Diplomacy and Beyond, India, Armenia, and Iran form the first-ever Trilateral Group and hold talks to improve relations and collaboration, April 2023, <https://diplomacybeyond.com/india-armenia-and-iran-form-the-first-ever-trilateral-group-and-hold-talks-to-improve-relations-and-collaboration/>; Ilya Roubanis, Old enemies make new friends: Caucasus and India-Pakistan rivalry, The Foreign Policy Centre, February 2023, <https://fpc.org.uk/old-enemies-make-new-friends-caucasus-and-india-pakistan-rivalry/>

⁷⁵ Mathew Mitchell, Weight of Freight: a year of change, Argus, March 2023, <https://www.argusmedia.com/en/blog/2023/march/7/weight-of-freight-a-year-of-change>

⁷⁶ Claire Jungman and Daniel Roth, The Switch List: Shift From Carrying Iranian Oil to Russian Oil, United Against Nuclear Iran, May 2023, <https://www.unitedagainstnucleariran.com/blog/switch-list-tankers-shift-from-carrying-iranian-oil-to-russian-oil/>; Chris Cook and David Sheppard, Iran's ghost fleet' switches into Russian oil, Financial Times, February 2023, <https://www.ft.com/content/955389bf-d01b-4acb-bd15-b764425a8a18>; Matthew Karnitsching, Iran teaches Russia its tricks on beating oil sanctions, Politico, November 2022, <https://www.politico.eu/article/iran-russia-cooperation-dodging-oil-sanctions/>

⁷⁷ Silvia Boltuc, Iran and the Eurasian Economic Union Signed an Agreement on a Free Trade Zone, January 2023, <https://www.specialeurasia.com/2023/01/20/iran-eaeu-free-trade-zone/>; Tehran Times, Iran-EAEU FTA to go operational by late September, January 2023, <https://www.tehrantimes.com/news/481027/Iran-EAEU-FTA-to-go-operational-by-late-September/>; Amat Adarov and Mahdi Ghodsi, The impact of the EAEU-Iran Preferential Trade Agreement, The Vienna Institute for International Economic Studies, Working Paper 179, May 2020, <https://wiiw.ac.at/the-impact-of-the-eaeu-iran-preferential-trade-agreement-dlp-5335.pdf>

to go beyond short-term opportunities and attract Russian investment in transport infrastructure, in line with Iranian President Ebrahim Raisi's Look East policy vision.⁷⁸

Thus far, Baku has stood by, rather than in the way of this, emerging partnership. Tehran is not reliant on Azerbaijan and is instead invested in revitalising Trans-Caspian trade. Freight volumes in the north-south axis of the Caspian Sea have more than doubled. This rising trend precedes the invasion of Ukraine, but a turning point was reached in May 2022 with the introduction of Ro-Ro cargo vessels, and joint ventures in Trans-Caspian shipping are gaining traction.⁷⁹ Iran is investing in the Makhachkala port, in Dagestan, creating a ring of influence around Azerbaijan that increases tension.⁸⁰ Overall, the war in Ukraine is imbuing Tehran's partnership with Moscow with a new sense of symmetry: Iran is reportedly assisting Russia to dredge the Volga River, and vessels of the Islamic Republic gained the exclusive privilege of access to the Volga-Don Canal system connecting the Caspian to the Black Sea.⁸¹ Complementing Iran's ambition, Russia is investing in overland routes via Iran to India. That makes part of a broader narrative for the reanimation of the International North-South Transport Corridor (INSTC), beginning with the Dagestan-Baku-Astara route.

It is in this context Iran needs to work with Azerbaijan as the stakes are growing increasingly higher. Vali Kaleji, an expert with the Middle East Institute, reports that a truck crosses the overland border at Astara every seven minutes as the war in Ukraine raises the demand for transit via the Caucasus.⁸² Russia clearly sees room for incremental investment in railway, transiting from intermediate to trans-continental routes that accelerate its market reorientation. A Russian train with 39 containers reached Iran in July 2022, piloting a new connection between St. Petersburg in Russia to Nhava Sheva in India, via Azerbaijan and Iran.⁸³ That was not the first freight delivery of its kind from Russia to India, but hype was created around its significance by Iranian Vice President Mohammad Mokhber, as well as the ministers for technology and agriculture, waiting at the station to wave at the train in transit. This level of political attention resonated with the Iranian Government's 'Look East' foreign policy narrative and Russian promises of creating a parallel monetary and market system that will undermine Western dominance. According to two independent sources with a firm grip on Baku's foreign policy narrative, Azerbaijan will not stand in the way as long as its own expectations for the Zangezur corridor are respected.

For Iran, the stakes are nevertheless high. In the context of Washington's persistent maximum pressure policy vis-à-vis Tehran, Russian led initiatives cannot, on their own, address chronic underinvestment, unemployment, and galloping inflation in Iran.⁸⁴ However, Russia is delivering on

⁷⁸ Emil Avdaliani, Russia-Iran ties are transactional and warming fast, *Moscow Times*, June 2023, <https://www.themoscowtimes.com/2023/06/09/russia-iran-ties-are-transactional-and-warming-fast-a81414>; Erwin Van Veen and Hamidreza Azizi, East of Eden: will Tehran find Salvation in 'Looking Eastwards' *Clingendael*, April 2023, <https://www.clingendael.org/publication/east-eden-will-tehran-find-salvation-looking-eastwards>

⁷⁹ *Tehran Times*, Iran to launch 6 shipping lines in Caspian Sea to Russia, Kazakhstan, October 2021, <https://www.tehrantimes.com/news/466019/Iran-to-launch-6-shipping-lines-in-Caspian-Sea-to-Russia-Kazakhstan>; Vali Kaleji, Expanding maritime trade between Iran and Russia in the Caspian Sea: capacities and challenges, *Valdai Discussion Group*, February 2022, <https://valdaiclub.com/a/highlights/expanding-maritime-trade-between-iran-and-russia/>

⁸⁰ *Special Eurasia*, Makhachkala Port Plays a decisive role in the Iran-Dagestan grain trade, November 2022, <https://www.specialeurasia.com/2022/11/07/makhachkala-iran-dagestan/>; Silvia Boltue, Iran seeks cooperation with the Dagestani port of Makhachkala, *Special Eurasia*, April 2022, <https://www.specialeurasia.com/2022/04/13/iran-dagestan-makhachkala/>

⁸¹ Lauren Kent and Salma Abdelaziz, Iran has a direct route to send Russia weapons and Western powers can do little to stop the shipments, *CNN*, May 2023, <https://edition.cnn.com/2023/05/26/europe/iran-russia-shipments-caspian-sea-intl-cmd/index.html>

⁸² Vali Kaleji, The complex web of interdependence and threat balancing that prevents war between Iran and Azerbaijan, *The Middle East Institute*, April 2023, <https://www.mei.edu/publications/complex-web-interdependence-and-threat-balancing-prevents-war-between-iran-and>

⁸³ *Mint*, India-bound Russian cargo enters Iran as corridor opens up, July 2022, <https://www.livemint.com/news/world/indiabound-russian-cargo-enters-iran-as-corridor-opens-up-11657735258553.html>

⁸⁴ Stephanie Segal and Dylan Gerstel, The Economic Impact of Iran Sanctions, *Center for Strategic and International Studies*, November 2018, <https://www.csis.org/analysis/economic-impact-iran-sanctions>; Mahdi Ghodsi, Dark comedy or tragedy? The dire

its commitments and emerged in 2022 as Iran's foremost foreign investor surpassing the UAE and China.⁸⁵ A Eurasian Development Bank report, published in October 2022, envisions investment across the INSTC to the tune of \$38bn by 2030, of which \$10.7bn is designated as 'Priority 1' projects.⁸⁶ Critically, the completion of the Rasht-Astara (Iran – Azerbaijan) railway section is designated as a 'Priority 1' project, creating an uninterrupted train link between the Russian and Iranian rail networks. In May 2023, Moscow committed \$1,3bn to this project, assuming the entire cost of developing the 350km of new track required to address the route's biggest bottleneck. In the short run, there are further bilateral commitments for infrastructural investment to the tune of \$3,5bn.⁸⁷

While the Rasht-Astara project was initially to be funded by Azerbaijani loans, Baku withdrew the offer in the context of renewed international sanctions in 2018. Russia is filling the gap, but both Tehran and Moscow need to entertain Baku's foreign policy agenda. During the first INSTC trilateral meeting between Iran, Russia, and Azerbaijan in September 2022, Baku committed to the vision of the Caspian Sea as a transport hub handling 30 million tons of freight per year by 2030. Addressing the question of who would be selling what, to whom,' the Chief Economist of the Eurasian Development Bank, Evgeny Vinokov, has stated that he sees INSTC as a conduit for grain, wood, bulk oil, ferrous metals, mineral fertilisers from Belarus and Russia to Iran and India.⁸⁸ The economic benefit for Azerbaijan and regional trade dynamics is evident.



straits of Iran's economy, Clingendael, May 2023, <https://www.clingendael.org/publication/dark-comedy-or-tragedy-dire-straits-irans-economy>

⁸⁵ Emil Avdaliani, China's 2023 Trade and Investment with Iran: development trends, Silk Road Briefing, February 2023, <https://www.silkroadbriefing.com/news/2023/02/08/chinas-2023-trade-and-investment-with-iran-development-trends/>

⁸⁶ Eurasian Development Bank, EDB report: The International North-South Transport Corridor's importance is growing rapidly, October 2022, <https://eabr.org/en/press/news/edb-report-the-international-north-south-transport-corridor-s-importance-is-growing-rapidly/>

⁸⁷ Ibid.; Nikita Smagin, A North-South Corridor on Putin's dime: why Russia is bankrolling Iran's infrastructure, Carnegie Endowment for International Peace, June 2023, <https://carnegieendowment.org/politika/89973>

⁸⁸ Evgeny Vinokurov, Russia and Middle East Need International North-South Transport Corridor, Valdai Discussion Club, February 2022, <https://valdaiclub.com/a/highlights/russia-and-middle-east-need-international/>

The Russian INSTC master plan unfolds in the context of an explosion in Indian-Russian trade directly fuelled by the sanctions against Russia. Over the course of 2022, Indian exports to Russia have soared with pharmaceuticals, car parts, textiles, and food products leading the trend;⁸⁹ India has emerged as a major market for discounted Russian oil and energy-intensive fertilisers, surging year-on-year trade volumes from \$7.71bn to \$37.21bn. Reversing historical north-south trade dynamics, India is able to reap added value from its Russian imports, producing food at competitive prices and refining crude oil to re-export diesel and jet fuel to Europe.⁹⁰ Similar trends have been observed in fisheries and the diamond industry.⁹¹ According to Ameya Pratrapp Singh, CEO of the Yogayatan Group, India has been able to sell to Russia products that were not regarded internationally competitive. Although this surge in bilateral trade has not been entirely shielded from international sanctions, India and Russia have been effective in circumnavigating financial and other restrictions.⁹²

Russia is now seeking to consolidate a Free Trade regime that will include India, the Middle East, and the Central Asian members of EEU.⁹³ The United Arab Emirates (UAE) and India are already signing free trade agreements with the EEU, and Iran is about to join this single economic space by September 2023.⁹⁴ In the context of this regulatory consolidation, Russia, and to a lesser extent India, are investing in Iranian transport infrastructure that can credibly advance trans-regional trade between Central Asia, the Persian Gulf, and the Indian subcontinent.⁹⁵ Taking a bird's eye view of the INSTC, the geopolitical significance of a logistics corridor connecting the European and Pacific economies is hard to contest. That became clear in March 2021, when a container ship ran aground at the Suez Canal blocking traffic between the Red Sea and the Mediterranean, creating a \$60bn logistical bottleneck of global consequence.⁹⁶ However, Russia's full scale invasion of Ukraine was a catalyst in reframing India's engagement in Eurasian logistics.

⁸⁹ Kiran Sharma, India's Russian imports soar 400% as U.S. offers little resistance, NIKKEI Asia, February 2023, <https://asia.nikkei.com/Economy/Trade/India-s-Russian-imports-soar-400-as-U.S.-offers-little-resistance>

⁹⁰ Mohl Narayan and Nidhi Verma, Fuels from Russian oil gets backdoor entry into Europe via India, Reuters, April 2023, <https://www.reuters.com/business/energy/fuels-russian-oil-gets-backdoor-entry-into-europe-via-india-2023-04-05/>; Nidhi Verma, India's Russian oil imports surge to a record in January trade, Zawya, February 2023, <https://www.zawya.com/en/world/indian-sub-continent/indias-russian-oil-imports-surge-to-a-record-in-january-trade-tl8mabgt>; Rajendra Jadhav, Discounts lift Russia's fertiliser exports, becomes top supplier to India-sources, Reuters, November 2022, <https://www.reuters.com/markets/asia/discounts-lift-russias-fertilizer-exports-becomes-top-supplier-india-sources-2022-11-21/mm>

⁹¹ Hannah Towey, A 'major loophole' is allowing Russian seafood and diamonds to bypass US sanctions, causing retailers to enforce their own bans, Insider, May 2022, <https://www.businessinsider.com/russian-seafood-diamond-sanctions-prompt-supply-chain-traceability-ethics-2022-4?r=US&IR=T>

⁹² Fashion Network, Losing Sparkle: Russia sanctions loom over India's diamond hub, March 2023, <https://www.fashionnetwork.com/news/Losing-sparkle-russia-sanctions-loom-over-india-s-diamond-hub,1518068.html>; Shivangi Acharya, India using Swift global payment to settle Russia dollar trade, Reuters, March 2023, <https://www.reuters.com/world/india/india-using-swift-global-payment-system-settle-dollar-trade-with-russia-source-2023-03-15/>

⁹³ The Hindu Bureau, Russian Consul General sees scope for phenomenal surge in bilateral trade, The Hindu, May 2023, <https://www.thehindu.com/news/cities/Coimbatore/russian-consul-general-sees-scope-for-phenomenal-surge-in-bilateral-trade/article66901426.ece>

⁹⁴ MOEC, UAE-India Comprehensive Economic Partnership Agreement, May 2023, https://www.moec.gov.ae/en/cepa_india; Middle East Briefing, UAE begins fast track talks over Eurasian Economic Union Free Trade Agreement, December 2022, <https://www.middleeastbriefing.com/news/uae-begins-fast-track-talks-over-eurasian-economic-union-free-trade-agreement/>; The Hindu Bureau, Russian Consul general sees scope for phenomenal surge in bilateral trade, The Hindu, May 2023, <https://www.thehindu.com/news/cities/Coimbatore/russian-consul-general-sees-scope-for-phenomenal-surge-in-bilateral-trade/article66901426.ece>

⁹⁵ New Central Asia, Countries of the North-South Corridor are taking steps to overcome logistical barriers along the route, April 2023, <https://www.newscentralasia.net/2023/04/24/countries-of-the-north-south-corridor-are-taking-steps-to-overcome-logistical-barriers-along-the-route/>; The Astana Times, Kazakhstan is ready to enhance transit potential of International North-South Transport Corridor, says Kazakh Minister in Tehran, October 2022, <https://astanatimes.com/2022/10/kazakhstan-is-ready-to-enhance-transit-potential-of-international-north-south-transport-corridor-says-kazakh-minister-in-tehran/>

⁹⁶ Alex Christian, The untold story of the big boat that broke the world, Wired, June 2021, <https://www.wired.co.uk/article/ever-given-global-supply-chain>

India's main infrastructural investment along the INSTC route is the Chabahar port in the Gulf of Oman, an Iranian asset acquired in 2016 in coordination with the United States with a view to creating a route that would reduce Pakistani-Chinese leverage over the landlocked nation. That is why the Trump Administration exempted the port from the 'maximum pressure' sanctions regime reintroduced in 2018. Following NATO's rapid retreat from Afghanistan in 2021 India has remained committed to the port. However, the development of a 700km rail network connection to Afghanistan is stuck on its last 200 km section, not least due to the ties of the contractor with the Iranian Revolutionary Guards.⁹⁷ India has been striking a balancing act between Washington and Tehran, limiting oil imports from the Islamic Republic and joining a US-led initiative that aspires to develop a multimodal transport infrastructure that will circumvent Iran and counter China BRI.⁹⁸ However, the American initiative is reliant on UAE and Saudi financial backing and Indian commitment is thus far theoretical. New Delhi is actually reviewing the geopolitical significance of Chabahar as an anchor to Iran and Central Asia. In an interview the former regional cooperation advisor of the Indian Government on Afghanistan, Gulshan Sachdeva, stated that as Islamabad and the Taliban regime come closer, Indian cooperation with Iran may be important to maintain regional balance.⁹⁹ Given deepening Emirati ties to Russia, and the Chinese-mediated peace treaty between Riyadh and Tehran, loyalties are split and the US proposition has not, thus far, been convincing.¹⁰⁰

Is the West losing the war on logistics?

While focusing on Russia's capability to accommodate the fallout of international sanctions, the elephant in the room is China. For more than a decade the focus was on the BRI and its flagship project – the Northern Corridor. BRI projects have been broadly framed as promoting 'connectivity' and are bankrolled through commercial banks and state-owned corporates, with several strings attached.¹⁰¹ Following Russia's full scale invasion into Ukraine, China appears to be taking a back seat, although there is evidence to suggest there is tacit support for Russian diplomatic initiatives, particularly when it comes to the INSTC.¹⁰² The BRI brand may still be relevant if China finds projects that directly resonate with its own strategic objectives and without assuming the risk of a direct clash with the West. At the moment, it is Russian diplomatic initiative that sets the agenda on freight transport in Eurasia.

Russian policy effectively addresses the interests of its trading partners, extending a plethora of economic and political concessions to Turkey, Iran, Azerbaijan, India, and the UAE. In doing so, Russia has kept its military and industrial complex operational. The new logistical routes developed

⁹⁷ Drishtias, India dropped from Chabajar Rail Project, July 2020, <https://www.drishtias.com/daily-news-analysis/india-dropped-from-chabahar-rail-project>

⁹⁸ Umud Shokri, Iran and the Shanghai Cooperation Organisation, Carnegies Endowment for International Peace, November 2022, <https://carnegieendowment.org/sada/88427>; Lazar Berman, Senior US official in Saudi Arabia to discuss massive rail project with UAE, India, Times of Israel, May 2023, <https://www.timesofisrael.com/senior-us-official-in-saudi-arabia-to-discuss-massive-rail-project-with-uae-india/>

David Rogers, US 'meets with Gulf States and India' to discuss rail and sea network, Global Construction Review, May 2023, <https://www.globalconstructionreview.com/us-meets-with-gulf-states-and-india-to-discuss-rail-and-sea-network/>

⁹⁹ Michael Kurgelman, What the China-brokered Saudi-Iran deal means for South Asia, Foreign Policy, March 2023, <https://foreignpolicy.com/2023/03/16/china-saudi-iran-deal-south-asia-pakistan-india-oscars-rrr/>; Hamad Karmani, Ukraine war clouds future of North-South Transport Corridor, Amwaj, April 2022, <https://amwaj.media/article/ukraine-war-clouds-future-of-north-south-transport-corridor/>; Deepika Saraswat, Iran's Look to the East Policy 2.0: reconciling foreign policy independence and economic integration, Indian Council of World Affairs, October 2018, https://www.icwa.in/show_content.php?lang=1&level=3&ls_id=4823&lid=2826

¹⁰⁰ Chris Devonshire, Saudi Arabia and Iran rebuild ties after Beijing brokers a deal, Middle East Briefing, March 2023, <https://www.middleeastbriefing.com/news/saudi-arabia-and-iran-rebuild-ties-after-beijing-brokers-a-deal/>

¹⁰¹ Katjia Kalkschied, Chinese lending specifics and projects in the Caucasus region: A look into project-level data, Discourses in Social Market Economy (OPO), 2022, <http://ordnungspolitisches-portal.com/wp-content/uploads/2022/11/2022-11-Kalkschied.pdf>

¹⁰² Tim Yeping, China-Central Asia to facilitate new railway road facilities expansion and upgrade, a boost to regional trade, prosperity, Global Times, May 2023, <https://www.globaltimes.cn/page/202305/1290980.shtml>

in Eurasia have a cumulative diplomatic effect that the West has been unable to either compete with or disrupt. One of the reasons why is the inability of Europe and the United States to create and implement master plans that require the alignment of corporate policy across several sectors: freight handling, banking, insurance, and infrastructure development. Outside the context of a war effort, building macro-policies that develop on several levels only happens at glacial pace by the EU. The West is able to erode Russian revenue in the short run but unable to carve an alternative political vision for the future of economic cooperation in the Caucasus and Central Asia.

Disclaimer: The views expressed in this piece are those of the individual author and do not reflect the views of The Foreign Policy Centre.

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