THE TRANS-CASPIAN INTERNATIONAL TRANSPORT ROUTE THROUGH THE CASPIAN REGION*

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Abstract: The Trans-Caspian International Transport Route is one of the branches of the Belt & Road Initiative. Its importance is growing for political reasons: the war in Ukraine and the pressure from the US, including on EU allies, to limit Chinese business activity in Europe. If trade links between China and the EU are nevertheless maintained, a TITR with a fulcrum in Azerbaijan could absorb much of the now bottleneck traffic on the northern section of the BRI. Bulgaria will be able to take advantage of this through its infrastructure assets if the EU clarifies its strategy on the BRI and revives the TRACECA programme.

Keywords: Trans-Caspian International Transport Route; political factors; infrastructure

Introduction

In the decade since the Belt and Road Initiative was announced, its strategic focus has become clear. The initiative was included in the 13th Five-Year Plan in 2015 and enshrined in the CPC Charter in 2017. With the gradual abandonment of the cheap labor-based development model, exports remain key to China's economic and political success. The BRI represents a strategic effort to create new external markets and preserve old ones. As a countermeasure, it was announced in 2018 that under the BRI, China is willing to open its domestic markets more widely to foreign goods in exchange for greater access for its own goods to foreign markets. In this regard, the overall trade duty falls from 10.5 % to 7.8 %. (Danilova 2019, pass.) This gradual change in foreign economic policy

* *This publication is part of the "China's One Belt One Road Initiative in the Black Sea Region: analysis of opportunities and risks for Bulgaria" project, funded by The Bulgarian National Science Fund (BNSF), contract KP-06-N55/15*

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has highlighted the main areas of transport flows and the problems that require specific solutions. One of the BRI's branches runs through Central Asia, with diversions also planned through the Caspian Sea region. Having several options is a choice and insurance against force majeure. The insurance is justified – since February 2022 there has been war[2] in Ukraine and the conflict between Armenia and Azerbaijan continues with low intensity, including sporadic armed clashes.

As a result of the war in Ukraine, the Russia-Western Europe trade route is already being restricted, including the supply of energy carriers, bulk cargo, etc. The other group of risks is related to the open hostility of the US towards China, provocations over the Taiwan island issue and economic war, with the possible involvement of the EU in it. The complete exclusion of the alliance from the BRI would require major adjustments to its initial design, and one of the main tasks of Chinese diplomacy is to thwart this option.

In recent years, Chinese investment in North America and Europe, as well as China's foreign exchange reserves, including in US government securities, have shown large fluctuations – with peaks between 2014 and 2016 and relative declines thereafter.[3]

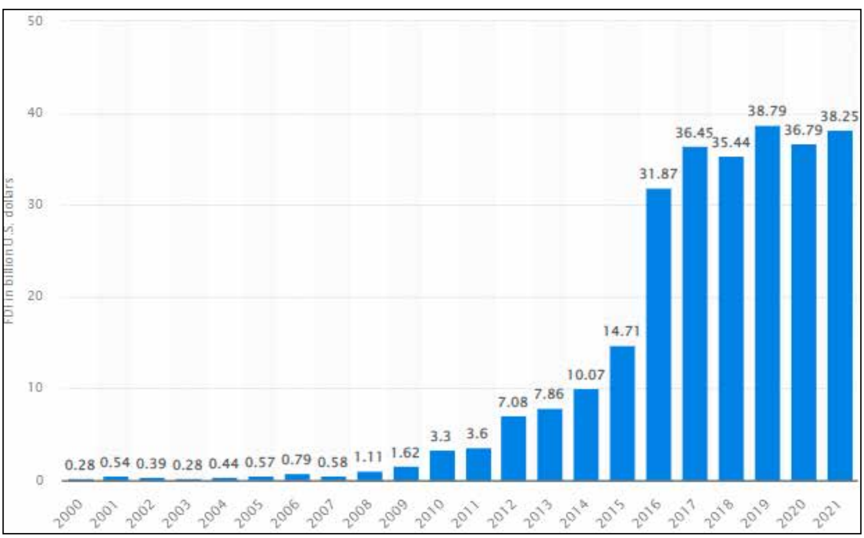

Fig. 1: Chinese investment in the US
Source: China Global Investment Tracker,
https://chinapower.csis.org/china-foreign-direct-investment/

[2] The term "war" is used in a realpolitik sense – an armed clash with more than 1,000 casualties.

[3] Does China Dominate Global Investment?, China Global Investment Tracker, Available at: https://chinapower.csis.org/china-foreign-direct-investment/ [Accessed 25 August 2019]

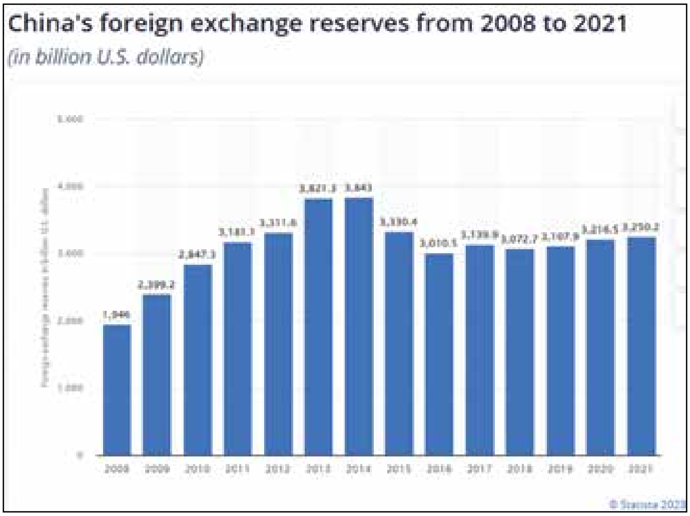

Fig. 2: China forex reserves
Source: China: foreign ex https://www.statista.com/statistics/278206/foreign-exchange-reserves-of-china/

China's foreign exchange reserves rose to 3.1277 trillion U.S. dollars at the end of December 2022. In July 2021, China held US$ 1,068.3 billion of US government debt, 14% of the total foreign holdings of US government debt. Next year the amount dropped to US $972 billion in U.S. Treasuries. China is still the number-two investor among foreign governments after Japan. (In 2013 China has been the largest foreign holder of U.S. Treasury securities, accounting for about 22 % of all U.S. Treasuries held by non-Americans. The Chinese reserves in 2014 totaled $ 3 840 billion.[4])

The main, although not the only, reason is the aforementioned economic war, which the US has been waging since the time of President Trump's administration and which took on a special character during the COVID-19 pandemic. Under external pressure, there is suspicion and even hostility towards Chinese investment, including in Germany, China's main European partner among EU countries. The total volume of USD 47 billion invested there between 2005 and 2019 is very small for the capabilities of Chinese investors, who do not even enter the top ten. The overall negative attitude in the European Union towards Chinese investments and loans, including for infrastructure projects, is officially explained by the fact that Chinese loans do not have preferential

[4] English.gov.cn, The State Council, The People's Republic Of China, Available at: https://english.www.gov.cn/archive/statistics/202301/07/content_WS63b909a5c6d0a757729e53c0.html [Accessed 25 August 2019]

interest rates and the number of Chinese workers in the projects must be at least 50 %. Chinese labour and environmental standards are also significantly lower than European ones. To prevent China from buying European strategic assets, the EU operates the Committee on Foreign Investment in the EU (CFIEU), a mechanism to control third-country investment in European strategic industries.

The BRI's biggest success in Europe so far in May is from 2019, when Italy joined. The country is in dire need of infrastructure renewal – roads, bridges, airports and telecommunications networks. However, the economy is in recession and the debt-to-GDP ratio in 2022 is already 147 %, extremely high. With the inability to maintain a large budget deficit, it is important that the Asian Infrastructure Investment Bank will finance the 'Chinese' projects in the ports of Genoa, Trieste and Palermo. Initial investments of around EUR 3 billion and project financing totaling EUR 20 – 30 billion are planned. Elsewhere, Chinese entry into infrastructure is more cautious: e.g. the construction of a container port in Portugal and a $17 billion rail tunnel project from Helsinki to Tallinn. (Danilova 2019, pass.)

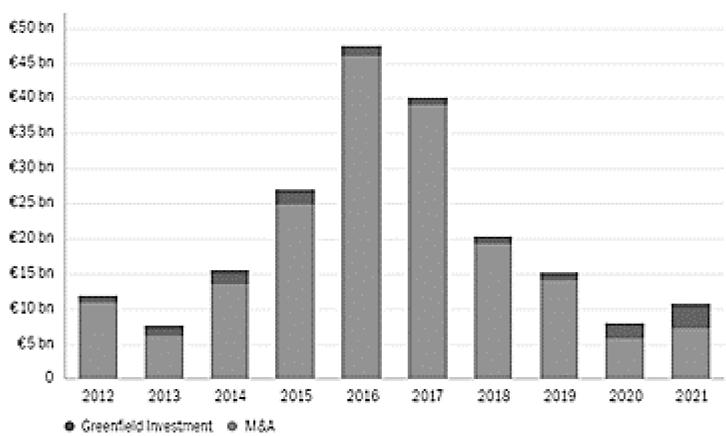

Fig. 3: China investment in the EU and UK
Source: Rhodium group

In Central and Eastern Europe, BRI cooperation is taking place in a "16+1" format (11 CEE countries, 5 Balkan countries and China), with Latvia and Estonia leaving the group in the meantime. So far, concrete actions are few and the initial set of proposed projects is limited. Negotiations with Romania to build nuclear reactors for the Cerna Voda NPP have been ongoing since 2013, but implementation is behind schedule. The high-speed rail line between Budapest and Belgrade has been under construction since 2013 and so far the deadline is set for 2025. The delay casts doubt on the Chinese company COSCO's major investment in the port since 2016, especially after the Greek authorities attempted to prevent the facility's expansion on environmental and "aesthetic" reasons in 2019. (The obstacle has been overcome, but Germany is studying the example; there, resistance is growing to a similar COSCO incursion into the port of Hamburg.)

Some of the obstacles are again of a purely political nature: the United States has used various tools to block Chinese business activity in the Balkans, including NATO expansion in the region, targeted propaganda (Stojkovski et al., 2021, pass.), and pressure on EU institutions to impose restrictive administrative measures. (Although the prospects for EU membership remain unclear for the Western Balkan countries, they have already assumed a number of the Union's rules as a precondition.)

In contrast to investment, trade in goods between China and the EU, which is more flexible, is growing steadily and doubling between 2011 and 2021.

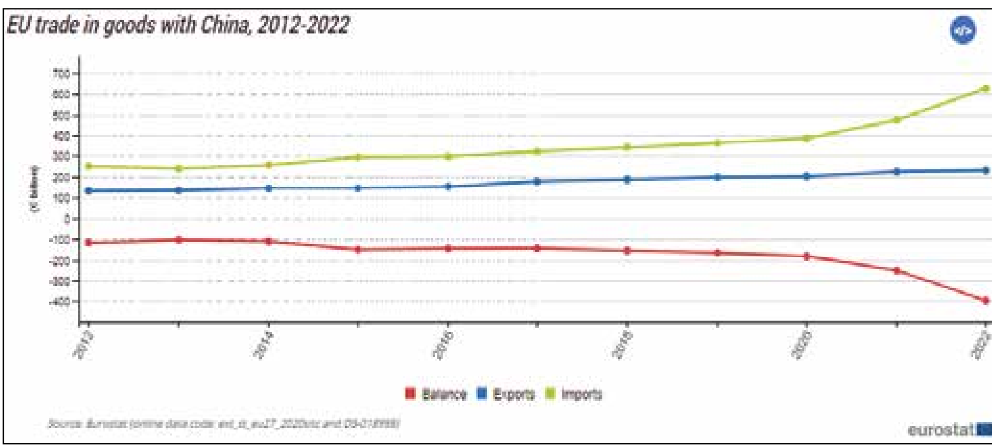

Fig. 4: EU-China trade dynamics
Source: https://ec.europa.eu/eurostat/statistics-explained/index.php?title= China-EU_-_international_trade_in_goods_statistics

In 2017, around 40 overland freight routes connected China with Europe. Today, the number has almost doubled to 78 lines reaching 180 cities in 23 European countries. (Wilson 2022, pass.) Despite conjunctural fluctuations during the pandemic, the value of goods transported by these freight trains is growing, from $ 8 billion in 2016 to $ 74.9 billion in 2021, more than 10 % of total exchanges. Importantly, rail shipments are also on their way to profitability – in the early years of operation, they were supported by Chinese government subsidies that reached a ceiling of $ 5,000 per container (40 ft). (Yin 2021, pass.)

For 2022, the subsidy is $ 1,000 per container, and for 2023, it is being considered for elimination. (By comparison, at the height of the pandemic, freight per container according to the World Container Index was over $10,000, falling to $4,000 by the end of September 2022.[5]

Unlike investment, however, commodity trade is more susceptible to sudden conjunctural swings, including for political reasons. Under pessimistic scenarios, Chinese investment in countries such as Italy, Greece, Serbia and Hungary may be limited to infrastructure projects serving commodity trade, which may also suffer a sharp decline in the coming years.

1. Impact of political factors

The war in Ukraine is already sharply limiting the exchange of goods along the Russia-Western Europe route (including supplies of energy, bulk goods, consumer goods, etc.) The restrictions imposed by the EU also affect the transit of Chinese goods through Russia via the New Eurasian Land Bridge, in addition to the contextual logistical difficulties resulting from the pandemic – container shortages, unresolved supply chain issues, etc. Poland, for example, is already moving away from the possibility of becoming a link between China and Europe, part of the best developed section of the BRI. Even after the recent end of the war, it is not clear how improved relations with Russia can proceed given Polish support for Ukraine, and separately the future behaviour of Germany, a major recipient of Chinese cargo via Poland, is also unclear.

Added to this are the effects of the energy crisis in the EU, which began as early as the spring of 2021 as a result of the EU's misguided energy policy and was exacerbated by the war. High energy prices looming in the coming years are leading to a loss of competitiveness and solvency, so that it is fully expected that imports of both industrial and consumer goods will fall. This may even out the EU's trade balance in bilateral trade, but not in a healthy way for the Union.

If high tensions persist in China's relations with the US, including in the South China Sea, which will affect the cost and security of shipping, then there could be a general slowdown in the whole BRI project and a revision of some of its long-term objectives. Plans related to transit through Russian and especially Ukrainian territory will not be possible for some time. The obstacles to transit in the Balkans further complicate the situation.

Moreover, even without the war in Ukraine there is competition between the Russian (EAIS) and Chinese integration projects in the Eurasian space.

[5] Available at: https://www.drewry.co.uk/supply-chain-advisors/supply-chain-expertise/world-container-index-assessed-by-drewry [Accessed 25 August 2019]

The common economic and political interests and responsibility for the fate of Eurasia presupposes the agreement of the leaders of the two countries and the "coordination" of the two Eurasian integration initiatives. The decision to unite the two initiatives requires the inclusion of a large part of East Eurasia in the common economic and infrastructural space of the continent. Building Greater Eurasia in this way contributes to the restructuring of global value chains to the benefit of both Russia and China. The partnership allows China to diversify its energy supplies and transport corridors, and the Chinese province of Inner Mongolia, located in the China-Mongolia-Russia economic corridor, has benefited most from this so far. This convergence of interests also extends to security: China and Russia "*will have Central Asia and Mongolia at their disposal, eliminating the possibility of infiltration of external forces into the heart of Eurasia*" (Diesen 2018, pass.).

However, there are countries that are betting on the possibility that China, as a difficult partner, will try to take advantage of the difficulties in Russia's relations with the West. (The long negotiations on the under-construction Power of Siberia gas pipeline, a joint project between Gazprom and China's CNPC, are given as an example.) For now, China's Belt and Road project is more attractive to the countries of the region, as it offers significant investment and attractive prospects, while Russia is preoccupied with solving security problems on its western border.

This opens up opportunities for countries willing to serve as intermediaries in EU-China exchanges. The presumption is that a complete break in ties between these partners seems unlikely. It must then be assumed that the BRI logistics chain will operate at reduced capacity in the medium term and that the main burden on the land section will shift to the Trans-Caspian International Transport Route (TITR) – the rail freight and ferry system via Kazakhstan, the Caspian Sea, Azerbaijan, Georgia and Turkey to southern and central Europe. It is the shortest (6,500 km) route between Western China and Europe – with a delivery time of two weeks instead of 60 days by sea. Its potential is estimated at 10 million metric tons or 200,000 containers per year. (Cutler 2022, pass.) (By comparison, the New Eurasian Continental Bridge across Kazakhstan and Russia has a capacity of 400,000 containers per year.) (Babones 2017, pass.)

(By comparison, the New Eurasian Continental Bridge across Kazakhstan and Russia has a capacity of 400,000 containers per year.) The Caspian region is being given the opportunity to establish itself as a major logistics hub along a stretch that also opens up opportunities for Bulgaria as a transit link in the chain leading to Central Europe. If the above volume is equivalent to only two or three working days at the port of Shanghai, it could give the small countries along the route a strong impetus for development, and an intensification of the confrontation between the US and China will only make maritime transport more expensive and increase the competitiveness of this land section.

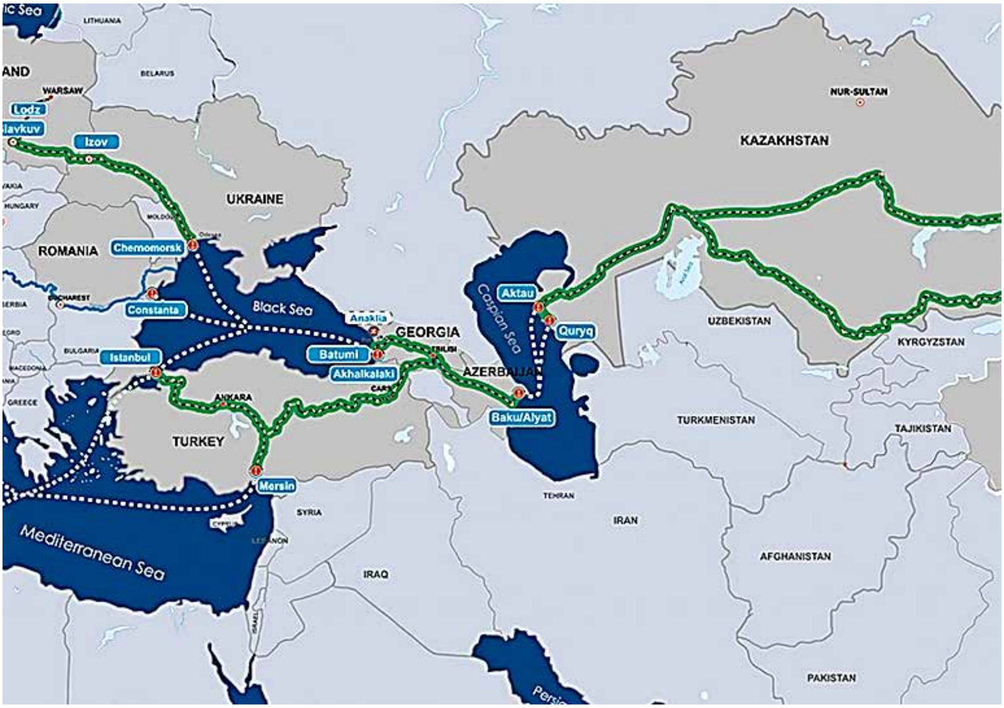

Fig. 5: Map of TITR
Source: https://www.railfreight.com/beltandroad/2022/04/07/middle-corridor-utlc-to-be-established-in-2023/

The pessimistic scenario assumes a break in trade ties between the EU and China, but even then the TITR could remain busy – a branch of it could head to Egypt and then south to connect via Sudan to the logistics infrastructure China is building with West African countries. Along with this, the North-South transport corridor, which links Russia with India and along which the volume of shipments is yet to grow, passes through the Caspian region.

In both scenarios, the role of Iran, Azerbaijan and Turkey as intermediaries, markets and suppliers along this route will grow.

2. Geographical and infrastructural features

The historic Silk Road also had several routes along the Asian continent in a westerly direction. One of these runs along the northern foot of the Kopet Dag and enters Azerbaijan via the southern Caspian Sea. The second arm bypasses the Taklamakan desert from the north, continues to Derbent, Shamakhi-Ganja, Batumi-Stamboul and heads towards the centre of Europe via the Balkan Peninsula. Many of the caravans passing through Central Asia used the route through Azerbaijan. In addition to silk, industrial products, spices, pearls, gold, silver and other metals have been transported along the route. Central Asian cities such as Samarkand, Bukhara, Derbent, Tabriz, etc. flourished. The role of the Great Silk Road in the life of its countries was crucial and gave a powerful impetus to the development of their relations. But the development of shipping and the discovery of America in 1492 gradually reduced the importance of this route and turned Central Asia into an "economic black hole". Only the advances in overland transport and the accumulation of large financial reserves in China enabled the Great Silk Road to regain its historical importance and, in the same way as 1 000 years ago, to become a bridge between the different cultures and civilisations of Asia and Europe. Azerbaijan, in particular, sees an opportunity through its geographical position to once again become a major trade and transport hub. The country is a strong supporter of the Silk Road in its new edition.

And to it is added the new road that is yet to develop its potential – the North-South transport corridor. Azerbaijan, with its location at the crossroads, is already working on various large-scale logistics projects. In autumn 2017, the 849-kilometre Baku-Tbilisi-Kars rail link was completed. It enables unimodal freight transport from Central Asia and Russia to Europe, with a line capacity of approximately 5 million tonnes of goods (Ismayilov 2020, pass.), which can be increased in the medium term.

In parallel, with financial assistance from Azerbaijan, a rail link with Iran is being built and/or upgraded, which should connect Russia directly by land to the Gulf ports and the Indian rail network. In addition to the above rail projects, maritime transport infrastructure is also developing rapidly. Ships of the state-owned Azerbaijan Caspian Shipping Company (ASCO) connect the ports of Aktau, Kurik (both in Kazakhstan) and Turkmenbashi (Turkmenistan). And with partners from Romania and Georgia, shipments have been trialled between the ports of Constanta (Romania) and Batumi/Poti (Georgia). Plans for the near future envisage the expansion of the new port of Alat, 65 km south of Baku, from 15 million tonnes of cargo, including 100,000 standard container (TEU) capacity at present, to 25 million tonnes, including 500,000 TEU. (Ismayilov 2020, pass.)

Another section of the BRI – the section running entirely through Iranian territory, where accelerated road and rail upgrades are underway – could connect through Azerbaijan. The trade volume between China and Iran in 2021 stands at

$14.9 billion, but this is only the beginning of the 25-year strategic cooperation agreement signed in March of that year. The road built from Azerbaijan to Iran will greatly ease the Chinese side's task and allow it to use modern infrastructure and a safe way to deliver its goods.

It connects to the Kars-Nakhichevan rail project between Turkey and Azerbaijan, which opens up another option for Chinese cargo to Turkey and on to Europe. The governments of Iran and Azerbaijan signed a Memorandum of Understanding – with the aim of establishing new communication links between Azerbaijan's Eastern Zangezur Economic Region and the Nakhichevan Autonomous Republic via Iranian territory, which should seriously facilitate regional exchanges. The Memorandum foresees a new railway line, highway and accompanying energy infrastructure. From here, cargo destined for export, import or sent in transit through the two countries will follow.

The link between the western regions of Azerbaijan and Nakhichevan passes through Iran. An even shorter route from China to Europe could happen in the event of the opening of the Zangezur corridor, crossing the territory of Armenia, but this project (only 160 km in total) has not yet been implemented for political reasons: the legacy conflict between Azerbaijan and Armenia has not been resolved. The 44-day war in 2020 ended without lasting peace, as the recent clashes of September 2022 testify. The corridor is among the contentious issues between the two countries. Diverting a large part of the cargo to the Caucasus section of the BRI could bring the neighbours' positions closer, especially if the North-South cargo flow increases as expected. Economic benefits could help to resolve (or permanently freeze) this conflict with the efforts of interested neighbours.

A transport corridor between Baku and Nakhichevan could benefit not only Azerbaijan but also Armenia, if, as compensation, it improves the country's communications with Iran and Russia, which provide it with political and economic support. If constructed, the railway would follow the old Soviet standard, and if the railway is extended from Nakhichevan to Turkey, a bogie change station would be built at the border – a technical solution that has already been applied on many occasions. If agreed, Armenia could be given an alternative railway line to Russia via Azerbaijan – the Ijevan-Gazakh road inherited from the USSR era, which requires minimal investment to restore. (Mamedov 2021, pass.) Opening up all the above-mentioned routes would facilitate shipments from Central Asia to Georgian ports and Turkey via Kars and could raise the issue of capacity absorption.

3. Opportunities for Bulgaria

For Bulgaria, the development described above provides an opportunity to set in motion initiatives already described in the TRACECA programme, which also aims to establish a transport corridor from Europe to the countries of Central Asia via the Black Sea, the Caucasus and the Caspian Sea. If there is coordination between the EU and China, the obstacles to the introduction of a single transport tariff and the long delays for vehicles at border crossings can be overcome. This programme was adopted by the Council of Europe in 1993, with the agreement of the newly independent states of the South Caucasus and Central Asia. So far, the only result remains the merger in 1996 of the Iran and Central Asia railway lines at Sarehsk. The revival of the TRACECA programme can contribute to the restoration of the ancient Silk Road with certain benefits for our country.

It could start with the construction of a large logistics centre on the Bulgarian Black Sea coast: trade, warehousing and logistics services facilitating trade, transport and re-export through the available airports, sea and river ports and roads.

The concept can rely on the following assets:

1. The Varna port complex with two terminals "East" and "West", with a total of 45 ship berths each and a working capacity of 10 million tonnes of cargo. An additional advantage can be the ferry complex in the town of Beloslav, which is the only transport facility of its kind in the European Union, allowing the transport of Russian (and other post-Soviet) wagons without transhipment, by changing in the terminal the tracks from the European gauge of 1435 mm to the Russian (post-Soviet) gauge of 1520 mm. The terminal can serve the short routes between Europe and Asia with services to Poti/Batumi (Georgia). The other advantage of Varna is the direct railway line to the port with suitable conditions for combined transport along the Danube Corridor No. 7.

2. Port of Burgas with 19 shipping berths and a total volume of handled cargo up to 4 million tons. Burgas also maintains a ferry connection with Poti and Novorossiysk. Burgas Airport has the highest number of sunny days in Europe and has the 3rd longest runway (3200 m) on the Balkan Peninsula. Like Varna airport, it has a large unused capacity during the autumn and winter months. The shipyard, which repairs and produces ships of up to 25,000 t, can also be used to assist logistics. If the existing railway Svilengrad – Nova Zagora – Yambol – Karnobat (with a branch to Varna) – Burgas is properly repaired, the port area could become the first point of arrival for Chinese cargo via the Marmaray tunnel and vice versa: the last point of departure for cargo leaving the EU towards China and Central Asia. For the time being, all the

above infrastructure is operating at partial capacity. From a technical point of view, even the relatively small capacity of the Bulgarian logistics infrastructure exceeds the capacity of the TMTM. The as yet unfilled capacity of ports, airports and industrial enterprises allows to save start-up costs and not to rely entirely on external funding from the EU and China, but the third factor – political will – is missing.

Conclusion

A realignment of the infrastructure of the global economy is currently underway. The BRI project is capable of accelerating this realignment and is in turn dependent on political clashes and considerations. The EU is losing its ability to participate actively in the construction of the New world order and, in particular, continues to lack a clear strategy towards the Chinese large-scale project, is unable to overcome its contentious issues with Russia, and cannot yet propose a project of its own to stabilise the Black Sea region. In this situation, the Chinese side is pursuing a strategy of cautious progress and is betting on several alternative directions. The optimistic scenario relies on maintaining cooperation between the EU and China and increasing the flow of cargo, including through Bulgarian territory. The pessimistic scenario assumes a reduction of this cooperation and blocking of BRI westwards of Azerbaijan. Without the inclusion of Bulgaria in one of the trade link options to China and other emerging economies in Asia, our country consolidates its peripheral position in the EU and its overall lag behind the more developed member states.

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