

# INTERNATIONAL ECONOMIC RELATIONS AND GOVERNANCE BY NATIONAL ECONOMY

DOI: 10.46340/eujem.2023.9.1.1

**Victor Kipiani, Doctor of Philosophy**

ORCID ID: <https://orcid.org/0009-0004-6741-4694>

*Washington International University LLM (University of Exeter, UK)*

## **SIGNIFICANCE OF THE MIDDLE CORRIDOR: UNDERESTIMATION IS UNACCEPTABLE AND OVERESTIMATION IS IMPOSSIBLE**

The article revises the Georgian geopolitical place starting from the collapse of the Soviet Union, after which the country found itself in a geopolitical vacuum and had to prove the state's capacity in the international arena, to the becoming an integral part of the "Great Silk Road" and acting as an initiator or co-initiator in different projects. The cornerstone of the function of Georgia and other countries in the region in the global political ecosystem remains transportation arteries, energy supplies, and cross-border communication networks. The author notes that in this regard, the Middle Corridor megaproject is taking its unique place.

The Middle Corridor is one of the initiatives that aim to connect the West and the East in a better, more efficient, and reliable way. The result of its effective work will benefit to China, Central Asia, South Caucasus (Azerbaijan and Georgia), Turkey and Europe due to developing an interconnected transport space to ensure safe and commercially profitable freight traffic. It is precisely such targeted projects that enable the self-sustaining functioning of a major economic hub that has emerged against the background of the trend toward a so-called regional networking, as well as interaction and interconnection with other major hubs.

The paper considers the Middle Corridor implementation challenges, which despite their abundance, have been classified by the author according to general characteristics into three main groups: (1) directly related to the technical operation, (2) related to the competitive environment, or (3) caused by a complex security situation. Each group is studied and explained in detail.

It is concluded that the implementation of the Middle Corridor project demonstrates that the processes in the geographical area of its coverage have approached a new stage, which is especially noticeable in the Black Sea region and Georgia has to make sure its best interests are granted.

**Keywords:** Georgia, Middle Corridor, South Caucasus, Black Sea and Caspian Sea region, geo-economics.

### **Geographical Trump Card**

As a result of the collapse of the Soviet Union and the restoration of independence, the new subjects of international relations – the former "Union republics" – immediately found themselves in a geopolitical vacuum. In addition to their legal status in the world system, most of them had to prove their state capacity almost from scratch. This process was quite long and very painful – especially for Georgia and its immediate neighbors. Moreover, the heavy Soviet legacy, inexperience in modern governance, and ignorance of the basics of political processes caused serious upheavals in a number of countries. And the "triangle" of the South Caucasus has become a center of constant instability, continuing internal turmoil and fomenting external threats. Thus, it cannot be explained by coincidence that in the first years of our independence, planners of big-league politics turned away from the geopolitical or geo-economic dividends of our region because of the toxicity. This attitude, in turn, increased the destabilization of domestic processes and reduced the competitiveness of the Black Sea and Caspian Sea region. The urgent task was to find ways to take

the countries of the region from the periphery of global processes and turn them into a living, meaningful political geography.

Marking out such roads and taking the region out of the post-Soviet "swamp" at the time referred to very noisy applications for transport links, transit corridors and communication networks. In fact, geography became one of the effective factors in emerging from ultimate oblivion, and the processes derived from this factor actually got a boost of fast action. Over time, transport and communications became a regional calling card, which provided the country participating in this or that project, although with some mistakes, somewhere not completely, and somewhere with some lag, a possibility of national positioning and profitable capitalization.

Obviously, the Georgian national-state space also became an integral part of the overall process – the "Traceca" or the "Great Silk Road": in some projects Tbilisi acted as an initiator, in some – co-initiator. In almost each of them, the Georgian link became a necessary component of the overall chain, without which the theoretical results of any project passing through the region could not be transformed into practical results. Accordingly, official Tbilisi was also faced with a new reality: with proper cooperation and coordination in the region, a healthy Georgian "self-interest" could be properly and fully obtained. Achieving the necessary balance between *regional* and its *own interests* was the task of Georgia's practical policy then, is today and will be in the future.

With the difficulty of predicting future decades, compared to the megaprojects of the last century, the present day has become even more loaded with the specificity of the communications linking Asia and Europe. The necessary balancing has turned from a political craft to the art of policy-making, and the post-pandemic impact on the global supply-delivery network and the ongoing war in the heart of Europe have left Georgian and regional politics without a ready-made "guide" to meet the new challenges. However, despite qualitatively new challenges and unknown paradigms, the cornerstone of the function of Georgia and other countries in the region in the global political ecosystem remains transportation arteries, energy supplies and cross-border communication networks.

#### **From evolution to re-evolution**

A few decades is not much in the light of historical upheavals. And if we take into account the multilayered specificity of the region in which Georgia is located, it is not a few. Against the background of regional mega-changes, it is difficult not to proceed to naming various processes, but this time, based on the purpose of the article, we will continue to focus only on the transport and communication themes.

Together with a number of key actions of political and economic nature that have had a cardinal impact on the positioning of the Georgian case, cross-border projects passing through the Georgian space have organically connected our country with the regional and foreign economic space. Much has been written about the main oil and gas pipeline projects and there is nothing new to say here, except for one thing: these projects have changed the external position of our country for the better and they will influence the reshaping of internal relations as well. Efforts made in the 1990s and major projects launched since then (railway-land, etc.) have added necessary functional and practical advantages to Georgia's participation in the eyes of others.

As a result, we went from user to contributor: somewhere completely and somewhere relatively moderately. But importantly, and most importantly, not only did we retain the function, but the country got its voice in the foreign arena and was able to project its interests in terms of security and economic benefit, which is an even greater result of this functional co-participation. And at this stage the projection of the national interests of the Georgian state developed with relative success and is still developing, although this is already a subject of a separate discussion.

The fact is that the regional specificity noted above has allowed in a relatively short time to transform into a concrete result of this or that pleasing to the ear undertaking or initiative. This is especially evident in the spheres of transport and communication. In this regard, the Middle Corridor megaproject is no exception, quite objectively taking its unique place.

#### **Middle Corridor: What We Know**

This project is considered one of the initiatives that aim to connect the West and the East in a better, more efficient and reliable way. Discussions around the Middle Corridor have already progressed to the stage of practical solutions, the tangible result of which will be to link China, Central Asia, South Caucasus (Azerbaijan and Georgia), Turkey and Europe with an interconnected transport space to ensure safe and commercially profitable freight traffic.

It is noteworthy that one source contrasts the Middle Corridor project with the so-called "One Road and One Belt" initiative. In fact, however, the Middle Corridor and the Belt are in some ways complementary. Here, perhaps, one should look for the so-called contradiction elsewhere. In particular, there are several variants of the land-based version of the One Road and One Belt initiative (there is also known to be a maritime version). Although these options are not necessarily mutually exclusive, and connecting Asia to Europe via the Middle Corridor is "one of" the options.

It is clear that all options for a "belt" connecting two geographies of this scale are considered by different geopolitical or geoeconomic actors from their own perspectives. Moreover, from the point of view of Georgian interests, the Middle Corridor bears a completely unique and special load. That is why we specifically said "in some ways complementary" and "one of" for Georgian readers, because in the context of our country's medium- and long-term interests, the Middle Corridor is actually neither "complementary" nor "one of". For Georgia's sustainable and competitive development, the Middle Corridor project is unconditionally the only one and has no alternative.

There are several factors that contribute to this framing of an issue, which we will discuss in the chapter on Middle Corridor Challenges. It may seem strange, but the importance of a project is best seen against the backdrop of related problems and controversies. Thus, we will discuss the role of the Middle Corridor based on this approach.

The tasks of the project are multilayered and multifaceted. Despite their abundance, we believe that they can still be classified according to general characteristics. And, since we intend to make a classification, we will divide the Middle Corridor implementation challenges into three main groups, each of which is either (1) directly related to technical operation, (2) related to the competitive environment, or (3) caused by a complex security situation.

#### **Operational and Technical Challenges**

Bringing a geography of this scale and area into a unified transport belt depends not only on a declaration of political will. It is clear that the success of the project as a business requires the streamlining of many operational aspects and technical nuances.

The main challenge, from this point of view, is to create an interoperable and synchronized business ecosystem across the corridor. And it involves monumental work, if we remember that the corridor stretches across several large, medium or small, politically-culturally and socio-economically different countries. According to the current version of the Middle Corridor, the project covers the land borders of five states, at least one and at most two seas, which requires harmonization of relevant procedures, norms and standards.

In addition to harmonization of standards for uninterrupted transportation, it is no less challenging to maintain appropriate infrastructure. In this regard, the countries of the Black Sea and Caspian Sea have an additional opportunity to integrate more closely into global economic structures by creating a favorable business environment in the region. It is also indicative that the result of such integration will be the improvement of internal economic relations in this or that country, including Georgia, increasing the competitiveness of the national economy and improving the quality of life of the average citizen.

In order to ensure that all this does not remain an insurmountable challenge, it is also critical to ensure proper transparency of the Middle Corridor project. For this purpose, quite concrete measures are the development of preferential tariffs for the entire route and their unification, the establishment of regulatory framework standards for different carriers, appropriate coordination to establish optimal transportation times, etc.

Here we should also add that to ensure a unified business ecosystem of the Middle Corridor, the countries participating in the project are required to join efforts at the supranational level to attract more cargo flows from China. As cargoes of Chinese origin equal to the vitality of any artery of the Belt, by transferring the flow to the Middle Corridor as much as possible, this project will acquire much greater operational capacity.

To ensure the carrying capacity of the Middle Corridor, the timely and full implementation of one of its key components – the Baku-Tbilisi-Kars railroad – should also be emphasized. The importance of this rail line in the overall context of the megaproject explains the recent announcement of official Baku to invest additional 100 million U.S. dollars, which will probably invalidate the excuses about lack of funds. Such demonstration of Azerbaijan's readiness should be sufficient motivation for the Georgian side to fulfill its obligations. In short, the Baku-Tbilisi-Kars direction for the Middle Corridor is so unique that shifting the blame between the parties here is, to put it mildly, inappropriate.

### **Competitive Environment**

Just a few years ago, speaking of the competitiveness of the Middle Corridor, we would have said that this route was significantly inferior to the so-called northern route (from China through Russia and, therefore, bypassing the South Caucasus) and was still probably in competition with the southern route (from China through Iran and Afghanistan and here too – bypassing the South Caucasus).

Today, the situation has changed dramatically, to such an extent that the competition factor has sort of lost its relevance. However, the pulse of global processes will keep supporters of the Middle Corridor, including the Georgian side, in constant readiness for possible changes for many years to come. This is not surprising if we remember the high instability and unpredictability of geo-processes.

One way or another, it is a fact that in early 2023, the Middle Corridor "beat" its competitors due to a number of circumstances.

One is the attempt to rearrange the global delivery and supply network in the post-pandemic economic structure. The fact is that the sudden effect of the pandemic created the need to diversify this network, which was to reduce the West's dependence on unpredictable or, in Western terms, unfriendly countries. The United States and Europe, in some places because of legislative and in others because of financial measures, were determined to "move away" from risky geographies and to keep the production base as close as possible. This was especially true for such commodity nomenclature, which conditioned the resilience of this or that country in a crisis economy. As a result, it became necessary to identify routes along which the delivery of goods would be free from "blackmail" or "ideological" overtones.

The growth of the Middle Corridor perspective was also particularly facilitated by the withdrawal from the global economic structure of the key player in its most competitive northern route, Russia, which was sanctioned because of the re-invasion of Ukraine. However, the northern route was already well-proven and the shortest route for transporting Asian goods; And, despite considerable congestion during the pandemic, it offered the market optimal services both in terms of price and time. Added to this was the fact that against the background of aggression in Ukraine, any Russian "business offer" was actually tied to Russian foreign-military tasks, which made doing business as usual virtually impossible for a certain category of cargo carriers.

The so-called southern route was practically doomed to the negative effect caused by the sanctions, from which it could be saved only by the renewal of the agreement on Iran's nuclear program (hypothetically). Moreover, the southern route, blocked by the Iranian factor, was additionally burdened by the challenge posed by Taliban Afghanistan. And this created an insurmountable obstacle to the movement of a large flow to Europe through the southern route, and an additional advantage to the Middle Corridor.

The geopolitical advantages that emerged have obviously made it more urgent to mobilize political and financial capital to implement the Middle Corridor, as well as to solve the operational problems mentioned in this article. The window of opportunity opened by the war and pandemic has forced Georgian politics to act more proactively to reactivate a solid (and in the foreseeable future, irreversible) role for our country's renewed historical functionality. At one time seen as an apparently profound theory, the Middle Corridor project and Georgia's participation in it became a tangible reality.

#### **Security: When not Everyone Is Happy**

Generally, the implementation of a major project is not connected only with the purely economic dimension, and security considerations are its natural parallel phenomenon.

In this sense, the Middle Corridor initiative – given the very complex geographical area of the route and the countries along it – will not only be no exception, but will be full of complex and contradictory layers of security. It is also clear that the corridor will divide countries into two large groups: one will benefit from the Project while the other will only lose from its implementation.

The security challenge has become particularly urgent against the backdrop of the war in the heart of Europe, as well as developments in the Middle East. Here we do not specifically address one of the most critical issues of the Middle Corridor – the status of the Caspian Sea. Although significant steps have been taken in recent years regarding its status, some legal aspects are still unclear. In any case, the regime of the Caspian Sea requires a separate qualified consideration, and in this article we only summarize the security challenges of the Middle Corridor.

The specifics of the project lie not only in the narrow transport but also in its energy component. Thus, the relevant infrastructure includes various offshore or onshore installations, connecting facilities and communication arteries. In short, it is a huge geo-economic space that needs careful protection. And in the context of such a large project, some may find it almost impossible to provide absolute protection.

In the section on the competitiveness of the Middle Corridor, we have already mentioned that in this respect it has a different correlation to the Northern and Southern directions. At first glance, even this circumstance largely determines the difference between supporters and opponents of the project.

Despite the obvious forms of aggression in our time and the return of conventional wars between the great powers, we believe that the Middle Corridor project is more threatened by quasi-state actors than by formal state structures. This is with the caveat that the line between "state" and "quasi" has now been erased, and the "state" uses "quasi" to achieve the same public policy goals. One of the best examples of this is the Wagner Group, operating outside Russia, and the Islamic Revolutionary Guard Corps, operating outside Iran. All the more so as this "disguised" form has recently been promoted by official structures, and the trend will increase, both within state financed terrorism and in other latent formats. It is not the task of this article to assess the practical ability of these military units or, if you will, the likelihood of their attacking transport communications. Here we only want to note that when considering the threats associated with the Middle Corridor, the protection component of the relevant infrastructure should be scrupulously considered. Of course, a number of cross-border projects have accumulated enough knowledge for us. The experience of Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum are also very valuable. However, it is also a fact that technology is changing rapidly, and with it the methods of terrorism, diversion, and sabotage, and the methodology of their implementation is very different from the once familiar orthodox "operational culture". That is why the corresponding countermeasures require a much broader institutional and strategic understanding on the part of the beneficiaries of the Middle Corridor project.

#### **Further Promoting the Middle Corridor**

Above, we have mentioned the challenges that need to be addressed in order to launch and successfully operate the Middle Corridor Project. We also mentioned and briefly described the challenge of a separate major category.

It is a fact that the working process in this regard is moving forward, and at this point the status is very encouraging. For example, the signing of a so-called "road map" by the foreign and economic ministers of Georgia, Azerbaijan, Turkey and Kazakhstan was devoted to solving a number of key aspects in the long term. In parallel with highway issues, the mentioned document is aimed at eliminating so-called bottlenecks for transit and improving coordination on streamlining transport infrastructure in the Caspian Sea and Black Sea region.

Along with the specific contributing factors, it is necessary to note the general attitude supporting the project. This background, expressed through direct or indirect actions or statements, is no less important than the issuance of a political and legal act. For example, the Cooperation Council of Turkic-speaking States has assigned a special role to improving the transport potential of the Middle Corridor and its competitiveness. The Kazakhstani authorities' unequivocal call last July for Kazakhstani companies to seek alternatives to the Russian route is of great importance.

The viability of the Middle Corridor is also strengthened by the agreement between the EU and Azerbaijan to double the supply of natural gas to the European market. Although the above-mentioned deliveries are carried out through separate communications, the Trans-Anatolian and Trans-Adriatic pipelines, their combined effect will again serve to strengthen the Middle Corridor, which runs through the region.

Speaking of the circumstances contributing to the project, the plan to diversify it with digital content is particularly noteworthy. The introduction of new technological innovations aimed at digitalizing the Middle Corridor will take the project to a completely different dimension, giving it long-term competitiveness and high quality commercialization. Equipping the Middle Corridor with digital technologies is the goal of the roadmap, which, as we mentioned, has already been signed, and involves improving technological standards along the Middle Corridor route, implementing appropriate algorithms, and developing infrastructure and operational capabilities.

Recent processes require a renewed approach on the part of the West as well. There are many examples of a turn toward the region (e.g., the EU's two-billion-euro program to deepen transport cooperation in the Eastern Partnership format (together with Azerbaijan)), but such a turn requires more consistent policies and greater investment. Targeted programs to integrate the Black Sea and Caspian Sea markets and unify the rules of the game for cross-border projects would also be highly desirable in the prism of this stage of cooperation.

And another opinion, this time related to a more objective reality: neither China nor Turkey – the two key participants in the Middle Corridor project – should have much desire to depend on Russia in terms of

cargo flow. This is largely due to the fact that China is against the strengthening of Russia's position in Central Asia, while for Turkey, cooperation with Russia is dictated only by a tactical motive, the so-called "marriage for convenience."

### **New Content, New Dimension**

We mentioned in the article that our region is characterized by developments and changes in a rapid, compressed time frame. Without going too far, it is enough to mention the relatively short period of time between the idea of writing this article and its publication. In that time alone, two such fundamental projects have been announced that will have a direct and lasting impact both on filling the Middle Corridor with new content and on our region's transition to a new geopolitical and economic dimension.

One of them – the deep-sea port of Anaklia – is a project of Georgian "origin" from beginning to end, the construction and operation of which heralds a high degree of integration of Georgia into the broader economic picture. The credibility of the announced initiative is based on the readiness of the state to participate in the construction of the Anaklia Port. This is the signal of conviction and firm intention not only to its own but also to the international audience, which should dispel any hesitation or doubts. Obviously, the rest will show in the near future, as the realization of the Anaklia project will have to overcome a number of objective and other possible obstacles.

Another initiative that is now being implemented and which will have a profound effect on processes in the region is the Black Sea underwater power line project. Much has been said about its multidimensional strategic importance. However, given the regional impact of the mentioned project, it is never superfluous to return to this topic and highlight it. We also want to focus on some critical aspects in this article. Some of them have already been mentioned more than once, and others we will formulate with new emphases. In particular, the Black Sea underwater power transmission line project: (1) will lead to the transition to clean energy; (2) will contribute to the decarbonization of the economy; (3) will be a communication line connecting the two extreme shores of the Black Sea and the Caspian Sea; (4) will create the basis for Georgia to become an electricity hub and integrate the country into the EU electricity market; (5) will encourage new investments in the Georgian energy sector and at the same time support improving the social background; (6) with increased production and supply of electricity, will help our country better position itself in the region not only as a transit connector, but also as a contributor; (7) together with new economic opportunities creates the basis for greater security for Georgia; (8) by activating an additional powerful belt of interconnection and interdependence will create new motivation for stability and prevention of complications in the region.

Practically, participation in the Black Sea underwater power line project helps Georgia update the main identifying mark of its economic and national security – the functional need and practical usefulness of the country. After all, the real function is the main principle of protecting Georgia's state interests, which we have talked about many times. Thus, after the high-profile projects of the last century (Baku-Supsa, Baku-Tbilisi-Ceyhan, Baku-Tbilisi-Erzurum), the underwater power line and Anaklia projects are indicators of the next order of geopolitically and geoeconomic optimal positioning of the country. Accordingly, after demonstrating the appropriate will, it is now a question of our national willingness and proper fulfillment of specific obligations: to turn these projects (as well as other relevant initiatives) into real, practical benefits.

### **More than a Project**

We believe that through the opinions and assessments presented in this article, we have once again reminded readers of the multilayered and multifaceted purpose of the Middle Corridor project. Almost all along the corridor line, it is planned not only to arrange the infrastructure logistics necessary for transportation and transit, but also to develop a qualitatively different format of coordination between the countries participating in the project, adapted to modern requirements. In a new world in which there is a great lack of predictability and clarity of events, targeted cooperation initiatives can make up for this deficit by playing a kind of compensatory role. Along with other means, we believe that it is precisely such targeted projects that enable the self-sustaining functioning of a major economic hub that has emerged against the background of the trend toward a so-called regional networking (hub-and-spoke), as well as interaction and interconnection with other major hubs.

The connection through the Middle Corridor project is actually a kind of a hub. Its operation, together with various micro-tasks, serves two main purposes: (1) to improve the socio-economic background through the operationalization of the corridor, to create a welfare-enhancing belt, and (2) to attempt a kind of reincarnation of the concept of "Angellism" (according to its author, Norman Angell) in the large

geographical space of the corridor, where free trade and greater interdependence between countries should apparently drastically reduce the possibility of wars and conflicts.

This approach to achieving "peace through economics" is as interesting as it is relevant and controversial. And the Middle Corridor project is likely to fall within this broad range. "Running through" projections for years to come would not be a serious undertaking at this point. However, there are already several variables that will affect the implementation of the Middle Corridor project. In order not to engage in the listing of such variables in the overall picture, and specifically with regard to the large Black Sea region, these are: (a) the dynamics of relations between Azerbaijan and Russia; (b) Turkey's renewed role in the region; (c) the likelihood of a peace agreement between Azerbaijan and Armenia and (d) the prospects for normalization of relations between Turkey and Armenia.

The fact is that the Middle Corridor Project additionally demonstrates that the processes in the geographical area of its coverage have approached a new stage. This is especially noticeable in one of the most dynamic and complex regions of the project – the Black Sea region. Here we can talk not only about a stage, but also about a kind of historical crossroads. It is understandable that we all want events to have a proper development that is acceptable to Georgia's interests. And this requires both lucky objective factors and our individual intervention. What is undeniable and characteristic of this time is the rapid pace of change, without undue delay. Thus, it is possible that by the end of this year, a number of assumptions mentioned in the article will virtually materialize, and one or another caveat will become a concrete circumstance.