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South Caucasus as an infrastructural bridge between Asia and Europe: domestic drivers, external interests, and competing projects

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Abstract

After the dissolution of the Soviet Union, the South Caucasus became more accessible to various external actors. The land bridge the South Caucasus represents between the Caspian and Black Seas, connecting Asia with Europe, it has become a coveted participant in several infrastructure projects proposed by the EU, China, and Russia. These external players entered the stage of the South Caucasus and defined their relations new to this region.

To analyze the different impacts of these routes on Armenia, Azerbaijan, and Georgia, this thesis compares the foreign policy agendas of the states and their economic conditions, as well as the instruments of good governance, financial assistance, and regional organizations, used by the major powers to shape and influence the region.

Given the geopolitical situation of the South Caucasus, which is surrounded by these three great powers, this thesis uses the concept of strategic hedging. Taking into account the goals of Baku, Yerevan, and Tbilisi to diversify their economies and attract foreign investment, their reasons to participate in the EU-led TRACECA, the China-led BRI, and the INSTC with Russia will be clarified.

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Abbreviation

AIIB - Asian Infrastructure Investment Bank

ADB - Asian Development Bank

BRI - Belt and Road Initiative

BTK - Baku-Tbilisi-Kars railway

CAREC - Central Asia Regional Economic Cooperation Program

CEPA - Comprehensive and Enhanced Partnership Agreement

CIS – Commonwealth of Independent States

CJSC - Caspian Shipping Company

CSTO - Collective Security Treaty Organization

EAEU - Eurasian Economic Union

EaP - Eastern Partnership

EIB – European Investment Bank

EU - European Union

GDP - Gross Domestic Product

INSTC – International North-South Transport Corridor

KTZ – Kazakhstan Temir Zholy

NATO - North Atlantic Treaty Organization

NDB – National Development Bank

OBOR - One Belt One Road

SCO - Shanghai Cooperation Organization

SOFAR – State Oil Fund of Azerbaijan

TACIS – Technical Assistance to the Commonwealth of Independent States

TANAP – Trans Anatolian Natural Gas Pipeline

TAP – Trans Adriatic Pipeline

TCTC – Trans Caspian Transport Corridor

TRACECA – Transport Corridor Europe Caucasus Asia

UN - United Nations

Introduction

Thanks to its geographical location on the Caspian Sea and at the crossroads between Asia and Europe, the South Caucasian countries, Armenia, Azerbaijan, and Georgia are desired participants in many international infrastructure projects. They play a crucial role in several initiatives aimed at deeper integration and connectivity of the Eurasian region. For Armenia, Azerbaijan, and Georgia, the China-led Belt and Road Initiative (BRI), the European Union (EU)-led Transport Corridor Europe Caucasus Asia (TRACECA), and the International North-South Transport Corridor (INSTC) are tools to improve and diversify their economic structures. These projects can also be seen as results of the global trend towards regional integration since the end of the 20th century. This thesis argues that international infrastructure projects are important for the development of the South Caucasus. They are the response to the desire for further regional integration in the Eurasian region. However, the projects led by major powers such as the EU, China, and Russia, follow their respective interests in the region.

Armenia, Azerbaijan, and Georgia pursue very different foreign policies toward these great powers. Each of these countries has chosen a different path after independence. Given their role in connecting Europe and Asia, this paper identifies the role of BRI, TRACECA, and the INSTC in the region. This work will start after the dissolution of the Soviet Union, including recent developments.

The object of my work is the role of international infrastructure projects and the various interests behind them in the development of the South Caucasus region. **The subject** matter is the deliberations and responses of these three countries to the implementation of various projects in line with TRACECA, BRI, and NSTC.

The research question for this study is as follows: "Why are international infrastructure projects important for the development of the South Caucasus region?"

This work also considers what steps the driving forces behind BRI, TRACECA, and NSTC have taken in the past and how they have been received in the South Caucasus. Consisting of pipelines and transport routes that have been realized so far and which are under discussion. It is important to emphasize the direction of pipelines and routes. So far, the main direction is toward European countries. But China became more important as a destination country within the framework of the BRI. Having this in mind and given the fact that the EU presents the major

trade partner in the region, and Russia's zone of interest, attention will also be paid to the increasing competition of the great powers.

To answer the research question minor steps need to be followed: this thesis will firstly, give an understanding of the views of Armenia, Azerbaijan, and Georgia on the three infrastructure projects as well as a political and economic overview of the small-sized countries. Secondly, it will clarify which major powers are involved and how they interact in Eurasia with regards to their different approaches like good governance, investments, and historical ties as well as regional organizations. Their policies towards this region will be of great importance. It will be found out whether the major projects are contradicting or complementary. Third, this study can complement existing studies on how competition among great powers in the region affects the foreign policies of post-Soviet countries as they seek to balance each other and pursue strategic hedging in their agendas. Finally, the core argument is that infrastructure and transport of goods and natural resources are tools to deepen regional connectivity.

To answer the Research Question it is necessary to take into consideration the main goals of the governments in the South Caucasus:

- Enhancing economic cooperation,
- Improving security,
- Strengthening sovereignty.

Theoretical Framework

For the examination of the presented minor tasks and to finally answer the research question it is highlighted that the mentioned projects focus more on the economic outcomes of participating states of infrastructure projects than on creating a new regional political bloc. That is why countries can join international infrastructure projects, the Chinese-led Belt and Road Initiative, and the EU-led TRACECA or contribute to the NSTC. Nevertheless, their impact on the foreign policy strategies of the three South Caucasian states is remarkable. To this extent it will be analyzed how the participation in these infrastructure projects is aligned with the different goals of the governments, which were mentioned in the introductory part, aiming at sustainable development of the economy in the region. Concerning the impact on the region

and the possibilities for cooperation, this work aims at placing infrastructure in the strategic hedging concept to analyze the possible outcome for Armenia, Azerbaijan, and Georgia.

Given the complexity and dynamics of the South Caucasus region surrounded by the three great powers traditional concepts like hedging and wedging or balancing seem not sufficient. The former means allying against the source of the threat, the latter means allying with it.[1] But this is a far too easy approach to divide such a complex region as the South Caucasus. Many experts see strategic hedging as the most promising tool for the governments of the South Caucasus to successfully participate in different infrastructural projects and prevent being locked in a difficult geopolitical situation. But first, it should be clarified what are the main stakes of strategic hedging. This conceptual approach tries to explain the behavior of small states in engaging with great powers, and trying to seek a 'middle ground'.[2] Strategic hedging could be described as a choice for a government in pursuing their foreign policy agenda without making a clear choice in alliances, as insurance. It is therefore hardly directed against one power, but rather about being prepared against various risks.[3] Overall, it is not a profit-based concept but is focused on security. Geography is one of the key factors in finding opportunities to pursue a successful hedging strategy.[4]

As the work of Ferreira-Pereira, Vieira, and Tran[5] illustrates in the case of strategic hedging of Vietnam vis-à-vis China, in order to reduce smaller countries' dependency on just one partner. This is in line with one of the main goals of all South Caucasian governments to strengthen their independence. However, this inclusion of third parties is determined by the degree of their interests in the region. The interests of those external players in the South Caucasus are mainly in the economic and the security field, especially for Russia and the EU.

Strategic hedging as a conceptual approach is still undertheorized. Although it explains, according to Ayman El-Dessouki, and Ola Rafik Mansour[6] the most appropriate strategy for small states. The case of the United Arabic Emirates illustrates that in their policy towards Iran.

[1] Valiyev, Anar & Mamishova, Narmina (2019): Azerbaijan's foreign policy towards Russia since independence: compromise achieved, Southeast European and Black SeaStudies.
[2] Sherwod, Leah (2016). Small States' Strategic Hedging for Security and Influence. https://trendsresearch.org/insight/small-states-strategic-hedging-for-security-and-influence/. Accessed: 10.03.2022.
[3] Sherwod (2016). Small States' Strategic Hedging for Security and Influence.
[4] Interview C.
[5] Tran, Ferreira-Pereira, and Vieira (2013) „Vietnam's strategic hedging vis-à-vis China: the roles of the European Union and Russia". Revista Brasileira de Política Internacional, Bd. 56, Nr. 1, S. 163–82.
[6] El-Dessouki, Ayman, and Ola Rafik Mansour (2020). „Small states and strategic hedging: the United Arab Emirates' policy towards Iran". Review of Economics and Political Science, Bd. ahead-of-print, Nr. ahead-of-print, Emerald Insight.

Allowing the UAE to benefit from the political and economical returns from the cooperation with Iran while integrating deeper security ties with surrounding powers like Saudi-Arabia or the USA. This behavior is reflected also in Armenia's, Azerbaijan's, and Georgia's foreign policy. Because all three states pursue, although to a different extent, relations in various fields like security, economic, and investments with the EU, Russia, and China.

However, this concept does not include only major powers as a hedge for small countries; regional powers are also of great importance. Turkey and Iran fell definitely in this category given the fact that they are also included in these transportation corridors and have economic footholds in the South Caucasus region.

To analyze the role of infrastructure for small and middle ranged countries in Eurasia, it is analytical productive to use the theory of comparative regionalism, as it was put forward by Börzel and Riss.[7] It is important to understand that the subsystem of Small Eurasia is not isolated from other subsystems and that subsystems all over the world are influencing each other, that is why Börzel and Riss describe comparative regionalism as very dynamic. That means taking also into account features of other subsystems which allow then further to understand transregional cooperation and interdependences among the subsystems. The work of Voskressenski and Koller[8] illustrates that regionalism is no longer European-centered and the interdependencies have led to deep cooperation among Eurasian states and to transregionalism.

As put forward by Amitav Acharya[9], this theory is highly fragmented. He highlights the domestic and transnational factors which need to be included to understand the emergence and purpose of regionalism. This is also reflected in the motivation for regional cooperation in the South Caucasus. However, he also underlines the importance of regional cooperation and regional integration. The latter is linked to a loss of sovereignty, which, in the case of the South Caucasian countries is not desired. But still be seen, as analyzed by Ann-Sophie Gast[10] in regional organizations. But only Armenia is included in all organizations created in the Post-

[7] Börzel, Tanja A., and Thomas Risse (2019) „Grand Theories of Integration and the Challenges of Comparative Regionalism". Journal of European Public Policy, Bd. 26, Nr. 8, S. 1231–52.
[8] Voskressenski, Alexei D. & Koller, Boglarka (eds.) (2019) The Regional World Order. Transregionalism, Regional Integration, and Regional Projects across Europe and Asia. Lanham, Boulder, New York, London: Rowman & Littlefield / Lexington Books.
[9] Acharya, Amitav (2012). „Comparative Regionalism: A Field Whose Time Has Come?" The International Spectator, Bd. 47, Nr. 1, S. 3–15.
[10] Gast, A.-S. (2017). Regionalism in Eurasia: Explaining Authority Transfers to Regional Organizations. (KFG Working Paper Series, 82). Berlin: Freie Universität Berlin, FB Politik- und Sozialwissenschaften, Otto-Suhr-Institut für Politikwissenschaft Kolleg-Forschergruppe "The Transformative Power of Europe".

Soviet space, like the Eurasian Economic Union (EAEU), Commonwealth of Independent States (CIS), and Collective Security Treaty Organization (CSTO).

Literature Review

A number of academic publications have been reviewed as the foundation to answer the above-mentioned research tasks. The reviewed literature gives first a political and economic overview of the South Caucasus, and Armenian's, Azerbaijan's, and Georgian's view of TRACECA, BRI, and the INSTC.

There are two definitions of Eurasia considered in this work. Small Eurasia, as Professor Shakleina[11] of the MGIMO university describes it, consists only of post-Soviet countries with Russia as the core country. Laruelle[12], director of the Institute for European, Russian and Eurasian studies, puts in her work a more geographical definition forward. Describing countries which are located on the Euro-Asia tectonic plate without the Post-Soviet context. Both concepts illustrate the complexity of the South Caucasus, being surrounded by great powers trying to strengthen their influence.

Starting with a description of the situation and challenges the newly independent states found themselves, they each developed a different foreign policy agenda. All three South Caucasian states faced relatively weak economies. The destination of export goods and main investors[13] play a significant role here. According to Burakovsky[14], Professor of Economics at the National University "Kyiv-Mohyla Academy", there are three groups that chose different policies and partners as well as export destinations. This analysis made clear to what extent Armenia, Azerbaijan, and Georgia differ from each other, in the amount of Foreign Direct Investments (FDIs) from Russia, 46%, 7%, and 4%[15] respectively, as well as trade to the European Union.

[11] Shakleina T.A. (2013). New Trends in Subsystem Formation in the 21st Century // Comparative Politics Russia. Vol. 4, № 13. P. 33–43.
[12] Laruelle M. (2015). Eurasia, Eurasianism, Eurasian Union: Terminological Gaps and Overlaps // Ponars Euarasia - Policy Memos.
[13] World Bank (2020); Facts and Figures about EU-Armenian relations, EU-Azerbaijan, EU-Georgia.
[14] Burakovsky, Igor (2004). Regional economic integration as an element of economic security. https://www.unece.org/fileadmin/DAM/trade/workshop/OSCE_0304/presentations/Burakovski.doc last accessed: 04.12.2020.
[15] Russell, Martin (2018). Russia in the southern Caucasus. European Parliamentary Research Service.https://www.europarl.europa.eu/RegData/etudes/ATAG/2018/614666/EPRS_ATA(2018)614666_EN.pdf- Last accessed: 23.05.2021.

These figures illustrate the extent to which Russia has a foothold in Armenia compared to the other two states.

The overall outcome of these comparisons in exports and FDIs is to show the rivalry, competition, or cooperation among the Post-Soviet states in Eurasia and will result in how a future economic integration can look like, knowing that the economies of these states are not necessarily complementary. Regarding the economy of Azerbaijan and its foreign policy, it will be pointed out, that Azerbaijan can use such projects to achieve its main goals, a balanced foreign policy, and a diversified economy.[16] It will be highlighted that Azerbaijan compared to Armenia and Georgia is less dependent on foreign assistance for its security[17]. But on the other hand, Azerbaijan has a lot of projects, which are in high need of investments.[18] The relations the three states have with each other are influencing the region and its projects. This is obvious in Azerbaijan's policy of bypassing Armenia for its pipelines and railways.

The definition of Hossein Mahdavy[19], an Iranian economist and political scientist and the first to introduce the term rentier state, puts forward the description of Azerbaijan as a Post-Soviet rentier state due to its natural resources. These natural resources helped to enhance its economy and served as a basis for the establishment of diversified economic relations with other powers.[20] Despite this multi-vector foreign policy, Baku has a difficult relationship with the West.[21] First, it did not experience any assistance during the war in 2020 over Nagorno-Karabakh, and second, it is constantly criticized over its human rights issues.[22] However, Baku enjoys good relations with Tbilisi.[23] These relations are mainly focused on economic cooperation in the transportation field.[24] Tbilisi is also on good terms with the EU its main trade partner.[25] The EU plays also a major part in trade and investment for Armenia. However, Russia is the main trade partner. Armenia is also the only member state, except for Russia, which

[16] Valiyev, A. and Bilalova, S. (2021). A battle for transportation routes in the Russian neighborhood: Is there a place for small states?. Int Polit 58, 483–499.
[17] Oskanian, Kevork (2013). "Fear, Weakness and Power in the Post-Soviet South Caucasus: A Theoretical and Empirical Analysis." 1st edition, Palgrave Macmillan.
[18] Valiyev&Bilalova (2020).
[19] Franke, Anja ,Gawrich, Andrea& Alakbarov, Gurban (2009)"Kazakhstan and Azerbaijan as Post-Soviet Rentier States: Resource Incomes and Autocracy as a Double 'Curse'in Post-Soviet Regimes", Europe-Asia Studies, p.109-140.
[20] Oskanian, Kevork (2013).
[21] Oskanian, Kevork (2013).
[22] Oskanian, Kevork (2013).
[23] Charaia, Vakhtang, Chochia, Archil & Lashkhi, Mariam (2018). „The Caucasus 3 Plus the Baltic 3 and Economic Cooperation with China". Baltic Journal of European Studies, Vol. 8, Nr. 2, p. 44–64.
[24] Charaia, Vakhtang, Chochia, Archil & Lashkhi, Mariam (2018).
[25] Facts and Figures about the EU- Georgian Relations.. https://www.consilium.europa.eu/media/44400/685-annex-5-d-georgia-factsheet.pdf Last Accessed: 01.04.2022.

benefits from its membership of the EAEU.[26] Armenia, Georgia, and Azerbaijan are seen as small-ranged countries.

In order to create a link between the three presented international infrastructure projects and the South Caucasus, it is important to take the major powers, the EU, Russia, and China, and their interests in the region into consideration. There is a high number of already existing literature that explain the interests of China, the EU, and Russia in this region, which differs in many areas. For Russia, this region is part of its zone of interest, as this term was first used by Ex-President Dmitri Medvedev.[27] This term is widely recited by other authors in this field like-Dmitri Trenin,[28] the former director of the Carnegie Moscow Center, it is a much more pragmatic mindset that originated in the mid-2000s. Russia pursues its interest by using regional organizations such as the EAEU[29], CSTO, and CIS. The work edited by Andre Tsygankov[30], a professor at the San Francisco State University, illustrates the changes in the foreign policy Russia pursues since the early 2000s.

When looking at the EU on the other hand and its neighborhood policy and good governance[31] we can see a competition between the EU and Russia. The South Caucasus presents a shared neighborhood with opportunities but also disagreement.[32] The reviewed literature about the EU Eastern Partnership gives a better insight into the relations between the EU and Russia and explains that the EU although concurrent, is a valuable partner for Russia. The EU can also be seen as a component for Russia to stabilize this region. But the relationship between Russia and the EU is not in all respects complementary, since the policy of the EU is connected to supporting EU values and therefore opposes Russia's approach.

China is a more distant power and has a lesser interest in the region compared to the EU and Russia. But is described as a Russian partner for counterbalancing western influence. There are analyzes, which are pointing out the good relations between China and Russia[33]. While China,

[26] Bhutia, Sam (2019). Russia dominates Eurasian Union trade. Here are the numbers. Trade between members of the EAEU was higher before the free-trade bloc was formed.
[27] President of Russia. Interview given by Dmitry Medvedev to Television Channels Channel One, Rossia, NTV. http://en.kremlin.ru/events/president/transcripts/48301. Last Accessed: 15.05.2022.
[28] Trenin, Dmitiri (2009). Russia's sphere of Interest, not Influence. The Washington Quarterly. Pp. 3-22.
[29] Bhutia, Sam (2019).
[30] Tsygankov, Andrej P., Herausgeber. Routledge Handbook of Russian Foreign Policy. First issued in paperback, Routledge, Taylor & Francis Group, 2020.
[31] Delcour, Laure and Wolczuk, Kataryna (2020): Mind the gap: role expectations and perceived performance of the EU in the South Caucasus, Eurasian Geography and Economics.
[32] Delcour, L. & Wolczuk, K. (2020).
[33] Valiyev&Bilalova (2020).

Russia, and the EU are the major drivers of international infrastructure projects[34] they have different strategies concerning this region. Russia pursues good relations with Armenia and has deployed troops in Georgia's two breakaway regions. The EU mainly uses TRACECA, the Eastern Partnership, and financial assistance as well as an economic tool to strengthen its ties with the South Caucasian countries. China will keep its influence through good economic and trade relations. These ties do not rank top but are growing.

Another important aspect is the relations among Eurasian countries. These relations can be used as a stake to explain alliances and the relations with the great powers. The literature review has shown that some Central Asian countries share in regards to China common security worries and for Central Asia and Eurasia, one of the main priorities is to secure their economic independence, especially from Russia. Trade relations between the South Caucasus and Central Asia are not well developed due to the fact of high differences in their economic strategies[35]. It will be reviewed that China, although high promises have been made, is neither the main investor nor main trade partner. According to the fact sheets provided by the EU Commission, this role is theirs. Armenia, Azerbaijan, and Georgia are all part of the Eastern partnership and therefore destinations of several investments by Brussels as well as possible benefices of the new global gateway.

The book of Dekmejian, Professor Emeritus of Political Science at the University of South California, and Simonian[36], a scholar, and editor of the Hemshin gives a full-fledged insight into the dynamic relations between the states of Eurasia, especially around the Caspian Sea and with the great powers. The Caspian Sea is also an initial point for pipelines and transport ways. It presents, on the one hand, an obstacle to update the cargo volume of the Middle Corridor to increase its competitiveness but on the other hand, it represents routes for Russia and China to expand to further markets.

To see the effects of the three projects on the South Caucasus further literature about the different views of Armenia, Azerbaijan, and Georgia and their foreign policy were reviewed.

[34] Men, Jing (2020). „China-Europe Railway Connectivity: Opportunities and Challenges". The "Roads" and "Belts" of Eurasia, edited by Alexander Lukin, Springer Singapore, S. 129–46.
[35] Fanny M. Cheung &Ying-yi Hong (2019).
[36] Dekmejian, R.Hrair & Simonian, Hovann H. (2003) Troubled Waters The geopolitics of the Caspian region, London: I.B.Tauris.

Strategic hedging is a concept that describes the balancing act of small countries against major powers. As this term was used by Leah Sherwod,[37] a Ph.D. and currently an analyst in the Middle East and Africa division at the Privy Council Office in Ottawa, and Tran, Ferreira-Pereira, and Vieira[38] working at the University of Minho in the department of International Relations uses this term to describe the behavior of small states in engaging with great powers. As a concept of trying to seek a 'middle ground'.[39] Sherwod further describes hedging as a choice for a government in pursuing their foreign policy agenda without making a clear choice in alliances.[40] The overall logic behind this concept is to avoid an asymmetric bilateral relation without any alternatives.

To gain a better insight into strategic hedging, neighboring powers, such as Iran, India, and Turkey, are also considered. It is important to highlight that sustainable development can only be achieved across borders. A good example, therefore, is the Astara-Astara railway bridge connecting Iran and Azerbaijan and new links between Armenia and Iran.[41] Both can be included in the North-South Transport Corridor despite political differences. Turkey plays for many experts an important part to shape the future of the Eurasian region.[42] It should be noted that Turkey thanks to its geographical location is included in the chain of transport routes that connect Azerbaijan with the West, as we can see on the BTK railway and the BTC pipeline. Azerbaijan also represents a gate to the Central Asian countries for the EU as well as for Turkey.

But to support these infrastructural projects the countries in Central Asian as well as in the South Caucasus mainly need financial assistance. Here the EU and their financial institutions are seen as an alternative way to loan money for infrastructure purposes instead of borrowing from China. There is the possibility to borrow direct from member states or banks like the European Bank for Reconstruction and Development or the European Investment Bank.[43]

[37] Sherwod, Leah (2016). Small States' Strategic Hedging for Security and Influence. https://trendsresearch.org/insight/small-states-strategic-hedging-for-security-and-influence/. Accessed: 10.03.2022.
[38] Tran, Ferreira-Pereira, and Vieira (2013) „Vietnam's strategic hedging vis-à-vis China: the roles of the European Union and Russia". Revista Brasileira de Política Internacional, Bd. 56, Nr. 1, S. 163–82.
[39] Sherwod, Leah (2016).
[40] Sherwod, Leah (2016).
[41] KDY Logistics. (2019). Opening of the Astara-Astara railway bridge. https://www.kdylogistics.com/en/opening-of-the-astara-astara-railway-bridge/. Last Accessed: 17.03.2022.
[42] Dekmejian, R.Hrair & Simonian, Hovann H. (2003).
[43] World Bank (2020).

The huge amount of literature[44] and reports about the BRI gives a deep insight into the possible risks and benefits, which Central Asian and Caucasian countries can expect from participating. China is called the main investor in the Central Asian region by Cheung and Hong,[45] this, however, is not in line with other sources, although China plays a more important role in Central Asia than in the South Caucasus given its demand for energy and the natural resources and existing pipelines of Kazakhstan and Turkmenistan.

Most countries fear an invasion of Chinese workers and the debt trap.[46] The work of Jochec, Associate Professor of Finance, expresses mainly the concerns of Kazakhstan and Tajikistan but interestingly the elites in these countries showed fewer concerns regarding China.[47] In this aspect shall be explained which interests the countries have to join such a project led by an external power. It is stated that the diversification of the economy and strengthening ties with the EU and China as a counterbalance to Moscow are essential for some of the Post-Soviet states.

However, there is a wide range of critics over the debt of China. Eurasian countries can borrow from China but are linked to certain conditions, like reinvesting in China[48] or payback.[49] Some countries are in a more vulnerable position than others.[50] Some countries, like Azerbaijan, do not borrow from the Chinese government but from international institutions, like the Asian Infrastructure Investment Bank (AIIB) or National Development Bank (NDB).[51] Georgia even borrowed from Baku the money it needed to finish the Baku-Tbilisi-Kars railway (BTK). To analyze here the role of China in Banks from where the loans come from is crucial[52] it should also be analyzed how the Chinese governments influence the decision on who will get loans.

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[44] Jochec M. (2018) China's BRI Investments, Risks, and Opportunities in Kazakhstan and Kyrgyzstan. In: Laruelle, Marlene eds. (2018) China's BRI and its impact on Central Asia. Central Asia Program, The George Washington University;
Leandro, Francisco José B. S., and Paulo Duarte (edt). (2020). The Belt and Road Initiative: An Old Archetype of a New Development Model. Palgrave Macmillan. Cht 6 The Financing of the Belt and Road Initiative: Blessings and Curses.
Rana, P. B., and Xianbai J. (2020). „BRI and Central Asia". China's Belt and Road Initiative, Springer Singapore, S. 135–57.;
Vakulchuk, Roman and Overland, Indra (2019). Chapter 5 China's Belt and Road Initiative through the lens of Central Asia Cheung, in Fanny M., und Ying-yi Hong (eds.). Regional Connection under the Belt and Road Initiative: The Prospects for Economic and Financial Cooperation. Routledge.

[45] Cheung & Hong (2019).

[46] Cheung & Hong (2019); Jochec M. (2018).

[47] Jochec M. (2018)

[48] Pieper, Moritz (2020). The linchpin of Eurasia: Kazakhstan and the Eurasian economic union between Russia's defensive regionalism and China's new Silk Roads. Int Polit.

[49] Jochec M. (2018).

[50] Rana, P. B., and Xianbai J. (2020).

[51] World Bank (2020).

[52] Lo, Bobo (2016) The Illusion of Convergence—Russia, China, and the BRICS. Paris: IFRI.

Another negative impact on the relations between China and Eurasia despite some similar security challenges is inherited from the Soviet Union. The anti-China propaganda from the Soviet time is to some extent still in the mind of the population of the Eurasian countries.[53]

The World Bank theorizes that the success of BRI and TRACECA is connected to the implementation of necessary reforms to create a sustainable integration.[54] One argues that reform should look like a single free trade agreement supported by the Eurasian Economic Community[55] or the removal of obstacles in the are of modern logistic infrastructure to facilitate trade across borders, as well as a common regulation for goods and customs and to huge extent policy reforms, are necessary.[56]

In this light, we have seen the different options and opportunities but also challenges and risks for the South Caucasian countries. It will be hard to find an overall solution and a way, how they can all benefit and outweigh the risks of international infrastructure projects. The case study of the World Bank on Armenia[57] and Azerbaijan[58] gives us a deep insight into what the future path could look like. Finally, these projects are seen as a driver for sustainable economic development, domestic as well as international.

Methodology

The Methodology used during this work, in order to answer the research question, is summarised as follows:

[53] Rana, P. B., and Xianbai J. (2020).
[54] World Bank (2019).
[55] Burakovsky, Prof. Igor (2004).
[56] World Bank (2019).
[57] World Bank (2020). South Caucasus and Central Asia: Belt and Road Initiative
Armenia Country Case Study. Macroeconomics, Trade and Investment South Caucasus and Central Asia. Equitable Growth, Finance and Institutions (EFI). World Bank Group.
https://openknowledge.worldbank.org/bitstream/handle/10986/34120/South-Caucasus-and-Central-Asia-The-Belt-and-Road-Initiative-Armenia-Country-Case-Study.pdf?sequence=4&isAllowed=y.
[58] World Bank (2020). South Caucasus and Central Asia: Belt and Road Initiative
Azerbaijan Country Case Study. Macroeconomics, Trade and Investment South Caucasus and Central Asia. Equitable Growth, Finance and Institutions (EFI). World Bank Group.

Based on data collection, I evaluated my core argument using official documents published by TRACECA[59], factsheets of the EU Commission[60], Factsheets of the BRI[61], foreign policies of the Russian Federation,[62] and official statements of China[63] in the last years. As well as National Security Strategies of Armenia[64], Azerbaijan,[65] and Georgia[66].

Quantitive data collected from the World Bank, the EU Commission, and the OECD were also used to understand the economic development, trade volume between the South Caucasian countries and the EU, Russia, and China, and the direction of FDIs.
Interviews with Irina Kobrinskaya from IMEMO, Andreea Brinza from the Roman Institute of the Asia-Pacific, and Andre Sapir from the Bruegel think tank present another part of the sources.

In order to understand the collected data I analyzed them following these patterns: first, I used the method of comparative analysis to identify common and divergent points between the interests and policies of the great powers, China, the EU, and Russia. It was also used for comparing Armenia, Azerbaijan, or Georgia with other small and middle ranged countries in Eurasia, like Kazakhstan, under parameters like the benefits of their geographical location,

[59] Transport Infrastructure Projects in countries. TRACECA ORG. http://www.traceca-org.org/en/countries/georgia/transport-infrastructure-projects-in-georgia/. Last Accessed: 27.03.2022.
[60] FACTS AND FIGURES ABOUT THE EU-ARMENIAN RELATIONS. https://www.consilium.europa.eu/media/44397/685-annex-5-a-armenia-factsheet.pdf: Last Accessed: 01.04.2022.
FACTS AND FIGURES ABOUT EU-AZERBAIJAN RELATIONS. https://www.consilium.europa.eu/media/44398/685-annex-5-b-azerbaijan-factsheet.pdf Last accessed: 03.03.2022.
FACTS AND FIGURES ABOUT EU-GEORGIA RELATIONS. https://www.consilium.europa.eu/media/44400/685-annex-5-d-georgia-factsheet.pdf Last Accessed: 01.04.2022.
[61] BRI. Factsheets. https://www.beltroad-initiative.com/factsheets/ Last Accessed: 12.05.2022.
[62] Kremlin. The President of Russia. THE FOREIGN POLICY CONCEPT OF THE RUSSIAN FEDERATION. http://en.kremlin.ru/supplement/4116. Last Accessed: 12.05.2022.
[63] Ministry of Foreign Affairs of the People's Republic of China: China And Armenia; https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/dozys_664276/gjlb_664280/3130_664282/ Last Accessed: 30.03.2022.
Ministry of Foreign Affairs of the People's Republic of China; China and Azerbaijan; https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/dozys_664276/gjlb_664280/3135_664292/ Last Accessed: 30.03.2022.
Ministry of Foreign Affairs of the People's Republic of China; China and Georgia; https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/dozys_664276/gjlb_664280/3170_664312/ Last Accessed: 30.03.2022.
[64] National Security Strategy of 2020. https://drive.google.com/file/d/1J-IsxkqsWOJ8YhmKTnizWtu6-vKadGXe/view. Last Accessed: 13.05.2022.
[65] National Security Concept of the Republic of Azerbaijan 2007. https://www.files.ethz.ch/isn/154917/Azerbaijan2007.pdf Last accessed: 13.05.2022.
[66] Government of Georgia: Program for 2021 – 2024: Towards Building a European State. February 2021. https://www.gov.ge/files/41_79014_435561_govprogram.PDF. Last Accessed: 13.05.2022.

economic and political ties with the great powers and through Eurasia to predict possible outcomes for the smaller states.
Throughout the entire work, other countries will be mentioned according to the degree of their involvement in the South Caucasus. Therefore they are divided into four categories:

1st group: South Caucasus and the international infrastructure projects, TRACECA, BRI, and INSTC
2nd group: Great Powers: China, the EU, and Russia
3rd group: other Post-Soviet Countries, Iran, and Turkey
4th group: regional organizations (EAEU, CIS), and India

The systemic approach was used to make an overall connection of the current situation of Eurasia between the great powers and its participation in international infrastructure projects with the desire to improve economic development and security.
Case studies published by the World Bank and the EU were used to analyze investments and trade in the South Caucasus region combined with the general situation of Armenia, Azerbaijan, and Georgia.

Thesis structure

The thesis is divided into three chapters. In the first, an in-depth analysis of the three South Caucasian countries was made. It was analyzed which obstacles the countries had to overcome after their independence and which different paths they chose to take. In addition, possible cooperation between these countries was examined against the background of their geographical location and historical ties. Furthermore, it is shown how the geographical location and the occurrence of natural resources influence the structure of the economy and its vulnerability.

The second chapter focuses on the external players, namely Russia, the EU, and China. Their interests are addressed in this chapter as well as their instruments to enforce these. It shall be found out if the interests of these three major powers as well as the three projects are complementary and to what extent it is possible to participate in both projects in the context of the historical ties of the region.

The last chapter consists of a deep analysis of the link between the three international infrastructure projects and potential projects in the South Caucasus region. It gives an insight into the potential benefits and risks of these projects as well as the limits in this region regarding enhancing further economic stability.

Finally, the reaction of the three South Caucasian governments towards the projects was examined. It was highlighted to what extent these projects are aligned with the goals of each of the South Caucasian governments. In the end, my conclusion answers the research question and gives final remarks.

Chapter 1. The Caucasian region after the dissolution of the Soviet Union

1.1 Geostrategic features of the Caucasian region

After the dissolution of the Soviet Union, more and more external actors expressed their interest the South Caucasus. It now found itself surrounded by growing powers, the (then) European Economic Union, Russia, and China. The relations with these external players are a major stake in the foreign policies of Armenia, Azerbaijan, and Georgia.

After decades within the Soviet Union, the three states in the South Caucasus became independent again. Armenia, Azerbaijan, and Georgia faced new geopolitical challenges as fully sovereign states. Since the 1990s, numerous actors showed interest in this region and recognized its geo-economic and geopolitical importance. Moreover, the shift of attention in international relations from a transatlantic liberal world order to a trans-Eurasian/trans-Pacific system affects the South Caucasus.[67] This change will have a significant impact on the relations of the various actors in this region. In the South Caucasus, this change can be used as an advantage for landlocked countries.[68] With Georgia as the only littoral state, but with Azerbaijan bordering the Caspian Sea, a closed sea, these two countries form a bridge between two bodies of water. This revitalized connectivity is important for the region because, as part of Eurasia, it links two major economic centers of the 21st century, the EU, and China.

The EU, China, and Russia are trying to deepen their influence in this region. Especially since 2008, when the EU and the U.S. were hit by the financial crisis, Russia concerned over the situation in Georgia and China tried to find new markets and make up for short-term losses in trade.[69] China's gaze, therefore, turned to developing countries in Central Asia and the South Caucasus. This trend continued but grew slowly. The Eurasian countries, including the South Caucasus, saw this trend as an opportunity to diversify their economy, to reduce their dependency on just one section. In the case of Azerbaijan, this meant focusing on other revenues than oil and gas. This is of great importance to all three states to support their foreign policy goals. These are, first, to strengthen their sovereignty and independence and, second, better protection of their economies from external shocks. However, better connectivity between

[67] Pepe, Jacopo Maria (2020).
[68] Bekiarova, Natalia (2019). "South Caucasus as a Region of Strategic Importance." IJASOS- International E Journal of Advances in Social Sciences, Vol. V, Issue 14, August 2019.
[69] Pepe, Jacopo Maria (2020).

countries can only be the result of increasing integration of the region. This integration process is still limited in the South Caucasus. Integration is brought through negotiations between states, based on the preferences and power of each state.[70] A good example , therefore, is the Ceyhan pipeline or the Baku-Tbilisi-Kars railway. Armenia's exclusion due to the military conflict over Nagorno-Karabakh with Azerbaijan underlines the political calculation.

But there are also other drivers of regionalism, for example, regional organizations, which are offering a greater diversification of agreements and institutions in this region.

The South Caucasian states have now, thanks to the favorable geostrategic location, the opportunity to choose. A broader range in their choice of partners has come up to promote further regional development. Overall, the South Caucasus is eager to attract more foreign direct investment and also to implement infrastructure projects, such as the TAP, completed in 2020, or the TANAP, completed in 2018. These pipelines are the result of close cooperation between Azerbaijan, Georgia, and Turkey presenting a land bridge between the Black Sea and the Caspian Sea. The latter was a great dispute point after the break-up of the Soviet Union since then the Caspian Sea has been surrounded by five sovereign countries. Its richness in natural resources is estimated at around 50 billion barrels of oil and around 8.4 trillion cubic meters of natural gas and is still not fully explored by now.[71] The Convention on the Legal Status of the Caspian Sea was signed on the 12th of August 2018 by all of the five bordering states, Russia, Kazakhstan, Turkmenistan, Iran, and Azerbaijan, and settled most of the disputes. This treaty was a milestone in the settlement process. Now the Caspian Sea is neither defined as a lake, as Iran put forward nor as a sea as said by its name.[72] This convention is the result of the negotiations of all five states and is not based on the United Nations Law of the Sea. Especially for Azerbaijan, the Caspian Sea plays a major role in its economy. The Azeri-Chirag-Deepwater Gunashli oilfield and Shah Deniz gas field allow Azerbaijan to sell huge amounts of its resources to Europe. They are transported through Georgia, Turkey through the Baku-Tbilisi-Ceyhan oil pipeline or the Baku-Tbilisi-Erzurum gas pipeline, and then via TANAP, TAP to Europe. Recently, it has been published that the oil field produced the 4 billionth barrel of oil,

[70] Obydenkova, Anastassia (2011). "Comparative Regionalism: Eurasian Cooperation and European Integration. the Case for Neofunctionalism?" Volume: 2 issue: 2, page(s): 87-102.
[71] „Caspian Sea: Five Countries Sign Deal to End Dispute". BBC News, 12. August 2018.
[72] „Caspian Sea: Five Countries Sign Deal to End Dispute". BBC News, 12. August 2018.

which was seen as a major success.[73] The Shah Deniz gas field produces daily more than 58 million standard cubic meters of gas.[74]

Georgia plays a crucial role in this transportation route starting in Azerbaijan. Only Armenia due to political tensions is left out. In the end, the three states can not only play a significant role in connecting Asia with Europe but also link Russia with Iran, and further to India, in the so-called North-South Transport Corridor. But the INSTC is not to the same extent a project or initiative as the BRI or TRACECA. There is no central body or budget from which projects can be financed. In addition, the governments themselves provide the impetus for implementing new routes.

In the South Caucasus, several interests of multiple players clash. Firstly, the EU which wants to fully minimize its dependence on energy supplies from Russia. Given the natural resources of the South Caucasus, it could be seen as complementary but not as a total alternative. Secondly, Russia whose goal is to keep external influence away and support its interests via regional organizations such as the Commonwealth of Independent States (CIS), and EAEU, and lastly, China which searches for new markets and new sources to satisfy its energy needs. But also regional players have a certain interest in this region. Iran sees there a possibility to balance the western sanctions. Turkey, which is seen as the big brother of Azerbaijan, due to close cultural ties, is already included in the transportation route for gas and oil from Azerbaijan, and Georgia to Europe.

Finally, the geostrategic location of the South Caucasus may favor the economic development of the states, but so far most of the infrastructure projects have been implemented without external assistance and only with regional partners, mainly Georgia, Azerbaijan, and Turkey. The fact is that political considerations are key to further projects and their success. This is true for both regional and major powers surrounding the South Caucasus.

1.2 Challenges for newly independent states

[73] ACG celebrates 4 billion barrels production milestone (2021). https://www.bp.com/en_az/azerbaijan/home/news/press-releases/ACG-celebrates-4-billion-barrels-production-milestone.html.

[74] Shah Deniz https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/shaheniz.html. Last accessed: 30.11.2021.

The geopolitical shift after the dissolution of the Soviet Union is marked by the Western orientation of most of the Central and Eastern European countries. Followed by Eurocentrism and Euro-Atlantic integration, which explains the expansion of the North Atlantic Treaty Organization (NATO), especially in the post-Soviet space.[75] Nevertheless, none of the three South Caucasian states is a member of this military alliance, either by choice or due to the deployment of foreign troops. Already in history, many different regional powers influenced the Caucasus, which continued especially since the states became independent again. First Georgia declared its independence on the 9th of April 1991, followed by Armenia on the 21st of September 1991, and then Azerbaijan on October 12, 1991.

Although major distinctions have to be made in the different ways of the state building in Armenia, Azerbaijan, and Georgia, one can see some parallels. The most obvious one is that all three countries are relatively small states, which are bordering regional powers, Iran, Russia, and Turkey. Territorial integrity is one of the major priorities for the governments since all of them faced secessionist conflicts in the 1990s. There was no national currency in any of the states and no strong political institutions which were not Moscow-centered.[76] Moreover, the national security and military were still subordinated to Moscow and trained there.[77] Only Armenia had the central authority over its military forces and which made it more stable than Azerbaijan or Georgia.[78] Most of the key elements for securing the new sovereignty were thus still in Moscow's hands or insufficiently developed. Also, the newly independent states, not only in the South Caucasus, had no diplomatic experience in modern times. Their politicians were mostly educated by Soviet institutions in Moscow and were now in charge of state-building and developing an independent foreign policy, which meant choosing their path in this new world order. To summarise the major challenges after independence were; to enter the international state community as a sovereign country, to proof being an equal state and partner to attract highly needed foreign direct investments (FDI), and to pursue a foreign policy matching the needs of a new independent state in a new world order.[79] From these challenges, each of the newly independent states evolved its own foreign policy goals. These can be summarised as strengthening sovereignty, enhancing economic cooperation, and improving security.

[75] Habibbeyli, Arastu(2017). „Reconsidering Azerbaijan's Foreign Policy on the 25th Anniversary of Restored Independence". Perceptions: Journal of International Affairs, Vol. 22, Nr. 1, p. 29–48.

[76] Shaffer, Brenda (2010). Foreign Policies of the States of the Caucasus: Evolution in the Post-Soviet Period. Uluslararası İlişkiler / International Relations, 7(26), 51–65.

[77] Shaffer, Brenda (2010).

[78] Shaffer, Brenda (2010).

[79] Habibbeyli, Arastu(2017).

Armenia, Azerbaijan, and Georgia have taken different paths in achieving these goals. This is expressed in their foreign policy orientations. In what follows, I will show how the orientations of the three South Caucasian governments changed in terms of strengthening their independence. The peculiarity of the post-Soviet space is the legacy of the USSR. After independence, most states found themselves in a weak position, which made foreign policy orientation decisions even more important, but also more difficult. Armenia as well as Azerbaijan, and Georgia faced an unstable domestic situation that threatened overall regional security. First, the economic downfall experienced throughout the former Soviet Republics. In general, one can say that the economy shrank half from the pre-independence-level, in Azerbaijan from $ 22.7 billion in 1990 to $ 9.5 billion in 1995. Armenia faced a decrease from $ 6.4 billion to $ 2.9 billion in 1993, in Georgia the GDP fall from $ 7.8 billion in 1990 to $ 2.5 billion in 1994.[80]

The foreign policies of the South Caucasian states were based either on the principle of balance or bandwagoning. The former means allying against the source of the threat, the latter means allying with it and be trapped.[81] But this is a far too easy approach to divide such a complex region as the South Caucasus. Many experts believe that it is more appropriate to speak of hedging and wedging.[82] In the following section, I want to stress the importance of hedging strategy for the governments of the South Caucasus to successfully participate in different infrastructural projects and prevent being locked in a geopolitical situation. But first, it should be clarified what are the main stakes of hedging.

Hedging is a concept that tries to explain the behavior of small states in engaging with great powers, and trying to seek a 'middle ground'. [83] Hedging could be described as a choice for a government in pursuing their foreign policy agenda without making a clear choice in alliances. So it is hardly directed against one power but more to be prepared in the best possible way

[80] OECD ilibrary, https://www.oecd ilibrary.org/sites/0d3170faen/index.html?itemId=/content/component/0d3170fa-en , https://www.oecd-ilibrary.org/sites/50079b68-en/index.html?itemId=/content/component/50079b68-en, https://www.oecd-ilibrary.org/sites/86850faa-en/index.html?itemId=/content/component/86850faa-en#:~:text=Azerbaijan's%20planned%20and%20current%20transport,)%20(see%20Figure%202.8). Accessed: 16.02.2022.

[81] Valiyev, Anar & Mamishova, Narmina (2019): Azerbaijan's foreign policy towards Russia since independence: compromise achieved, Southeast European and Black Sea Studies.

[82] Ebert, Hannes, & Daniel Flemes (2018).

[83] Sherwod, Leah (2016). Small States' Strategic Hedging for Security and Influence. https://trendsresearch.org/insight/small-states-strategic-hedging-for-security-and-influence/. Accessed: 10.03.2022.

against several risks.[84] Overall, it is not a profit-based concept but is focused on security. Geography is one of the key factors.[85] The overall logic behind this concept is to avoid an asymmetric relation with great powers. This is a worst-case scenario for smaller countries.[86]

In the case of Azerbaijan, one can see that the government is pursuing strategic hedging.[87] This is possible because of Azerbaijan's multi-vector foreign policy, which means avoiding any binding memberships of organizations that could reduce Baku's sovereignty. It did not join any geopolitical bloc after independence and did not show any desire to do so. Since 1991, Azerbaijan's main goal has been to protect its self-determination, especially against Russia, and to drive a wedge between regional and global actors.[88] Thus, Azerbaijan wants to benefit from Russia, but given its limited economic power, it must also look in other directions, and deepen its relations with other powers to advance its economic development. Azerbaijan's first two presidents, Ayaz Mutalibov and Abulfaz Elchibey, pursued neutral policies toward Russia.[89] This led to strong opposition and the resignation of the first president.[90]

Mainly two events led in 1992 president Elchibey toward a strategic partnership with Turkey, besides the close cultural and linguistic ties. First, the clashes between Soviet militaries in Baku on January 20, 1990, in Baku, which is referred to as the Black January in Azerbaijani history. Second, the Khojaly massacre in February 1992.

During Elchibey's tenure, Baku began to look westward to diversify its foreign policy, and especially to increase oil exports.[91]

In 1993, newly elected President Heydar Aliyev searched for a pragmatic way to attract foreign direct investment and energy deals with the West.[92] But also the relations with Turkey grew in its importance. In 1994, two Agreements were signed, First, on the Development of Friendship and Comprehensive Cooperation and second, on Cooperation and Mutual Assistance. The result of this search was a multi-vector policy which was continued by his successor Ilham Aliyev, after taking office in 2003.

[84] Sherwod (2016). Small States' Strategic Hedging for Security and Influence.
[85] Sherwod (2016). Small States' Strategic Hedging for Security and Influence.
[86] Interview C
[87] Ebert, Hannes, & Daniel Flemes (2018).
[88] Ebert, Hannes, & Daniel Flemes (2018).
[89] Anar Valiyev & Narmina Mamishova (2019).
[90] Anar Valiyev & Narmina Mamishova (2019).
[91] Anar Valiyev & Narmina Mamishova (2019).
[92] Anar Valiyev & Narmina Mamishova (2019).

Compared to Armenia and Georgia, Azerbaijan successfully pursued a more independent foreign policy. The great wealth of natural resources was undoubtedly a great advantage for Baku. In their hedging strategy, Baku can be compared to Muscat. Both pursue a neutral foreign policy but are open to surrounding powers. For Azerbaijan that meant a visit of the President to Moscow on February 22, 2022, to sign a Declaration on allied cooperation, and on the other hand, a visit from the EU Energy Commissioner Kadri Simson on February 4, 2022, to Baku. However, Baku has difficult relations with the West. This became obvious in its 2019 speech at the University of Baku.[93] First, Ilham Aliyev pointed out that Baku was not given loans from the West when needed, but now the economic interest in the country grew and finally, it is possible to receive loans. The president continues, that he prefers to pay for projects "ourselves". He further speaks about the danger of Western society as a threat to traditional values and the role of men and women. Against this trend, Baku has to protect itself.[94] This speech illustrates the gap between the hopes of Aliyev and what the West delivered in his eyes. In 2019, during his speech at the 5th Congress of World Azerbaijanis in Shusha he declared that the West failed in preventing the war in 2020. Since they did not stop Armenia from occupying regions which are considered by Baku as territory of Azerbaijan.[95] He further points out that he has no trust in the Minks Group. However, the EU is now very active in normalizing the relations between Armenia and Azerbaijan.[96] The mistrust in the Minsk Group, an platform initiated by the OSCE to find a peaceful solution to the Nagorno-Karabakh Conflict, is also expressed in the fact that Baku removed the point of the inclusion of the Minsk Group in the aftermath process from the settlement agreement. Armenia supported the role of the Minsk Group and wanted this aspect to be included.

Armenia, which is land-locked, closed borders to Azerbaijan, and possesses no significant natural resources, opted for a more Russian-oriented foreign policy after independence. The first non-Communist government was formed in 1990, one year before the August coup.[97] The impetus for independence came from the conflict in Nagorno-Karabakh, where the national

[93] Samadov, Bahruz (2019). „Opinion | Ilham Aliyev's Anti-Europe Speech Foreshadows Big Changes in Azerbaijan". OC Media, https://oc-media.org/opinions/opinion-ilham-aliyev-s-anti-europe-speech-foreshadows-big-changes-in-azerbaijan/. Last Accessed: 15.04.2022.
[94] Samadov, Bahruz (2019).
[95] Shusha Declaration on Allied Relations between the Republic of Azerbaijan and the Republic of Turkey. https://azertag.az/en/xeber/Shusha_Declaration_on_Allied_Relations_between_the_Republic_of_Azerbaijan_and_the_Republic_of_Turkey-1809375. Last Accessed: 18.05.2022.
[96] Shusha Declaration on Allied Relations between the Republic of Azerbaijan and the Republic of Turkey.
[97] Iskandaryan, Aleksandr (2012). Armenia Between Autocracy and Polyarchy, Russian Politics & Law, 50:4, pp. 23-36.

movement had its origin.[98] The domestic political situation in Armenia was chaotic until at least 1993, with weak political institutions and also no coordinated political parties. The country was no better prepared for independence than its neighbors. Since relations with Turkey and Azerbaijan were poorly developed, attention turned to Russia and Iran. Given the territorial discontinuity with Russia, the alternative was developing transport links with Iran. As for transport routes to Russia, the country depends on Georgia, with which it has good relations, but the war in 2008 thwarted all possible plans. The main goals of Armenia's foreign policy agenda in the 1990s were to settle the Nagorno-Karabakh conflict, normalize relations with its neighbors, achieve global recognition of the Armenian genocide, and strengthen its role in international cooperation platforms to attract foreign direct investment.[99] Both Armenia and Azerbaijan now seek to pursue a multi-layered foreign policy, including through their memberships in the CIS, the Council of Europe, the Eastern Partnership, and TRACECA. But even if we can see closer ties to Russia, especially in the energy and military supplies, Armenia as well engages with other powers around. The normalization process with Turkey just started after the war in 2020. One step to break its isolation.

The starting signal for the independence movement in Georgia was the clashes in Tbilisi on April 9, 1989, between anti-Soviet demonstrators and the army. Nowadays this day is remembered and celebrated as the Day of National Unity. April 9, 1989, was the peak of demonstrations in Tbilisi, especially in front of the government buildings. The main reason for the protests was the unclear status of Abkhazia.

The revolution in Georgia was more personalized than in the other two South Caucasian states the person of Zviad Gamsakhurdia played an important role in building the first government of the newly independent Georgia but was later forced out of office.[100] The movement also did not have a single coordinated political party; by 1990, they numbered 150.[101] Since independence, three phases can be distinguished: 1) in 1991-1992, Georgia had democratic tendencies, but was challenged by a very unstable domestic situation 2) from 1992 to 2003, it was ruled by an autocratic regime 3) since 2003, it can be considered a state in transition and has stabilized

[98] Iskandaryan, Aleksandr (2012).
[99] Ter-Matevosyan, Vahram & Drnoian, Anna (2021) Problems of foreign service and diplomacy in the post-Soviet context: the case of Armenia, Third World Quarterly, 42:4,755-774.
[100] Fuller, Elisabeth (1993). Georgia since Independence: Plus Ça Change... Current History, 92(576), 342–346.
[101] Fuller, Elisabeth (1993).

compared to 1992.[102] Although Georgia has stated in its foreign policy that it would support democracy and freedom in its neighborhood[103], it has not taken steps to actively support transit regimes, especially in Baku, as their cooperation in transportation is essential for the Georgian economy.[104] Georgia has chosen its strategic partners (Ukraine, Turkey, Azerbaijan, and Kazakhstan) to move closer to NATO.[105] The aspiration of the country to join NATO and the EU is also expressed in its National Security Concept of 2007.[106]

Russia is referred to as the major threat to Georgian territorial integrity.[107] This is because Georgia has already had to deal with two secessionist conflicts on its territory - Abkhazia and South Ossetia. In both, Russia played an important role and stationed its soldiers within Georgia's internationally recognized borders. This fact severely limits Georgia's foreign policy choices about joining a military alliance such as NATO.[108] Since the Rose Revolution in 2003, a Western-oriented government has been sitting in Tbilisi. Also in the case of Georgia, the foreign policy agenda shows features of strategic hedging since it is involved with several powers, having signed Free Trade Agreements with the EU and with China. Even with Russia, one can see some economic ties as well as cooperation in other fields.

Taking the entire region into consideration it becomes noticeable that Turkey plays a remarkable role in hedging against Russia. Ankara enjoys good relations with Baku, has a strong economic foothold in Georgia, and even with Yerevan, the normalization process started again after the break of diplomatic relations during the war in 2020.

After analyzing the political motivations and circumstances in Azerbaijan, Armenia, and Georgia from the perspective of the Soviet legacy, the severance of existing relations with Moscow in the 1990s played an important role for the newly independent states to create their economic opportunities. This applies not only to the political sphere but also to the economic sphere.

For the smaller states in the South Caucasus, it was and is important to improve economic cooperation with the surrounding powers. The announced infrastructure projects are good tools

[102] Shaffer, Brenda (2010).
[103] National Security Concept of Georgia. 2007. https://gfsis.org.ge/media/download/GSAC/resources/National_Security_Concept_Georgia.pdf. Last Accessed: 14.05.2022.
[104] Shaffer, Brenda (2010).
[105] Shaffer, Brenda (2010).
[106] National Security Concept of Georgia. 2007.
[107] Government of Georgia: Program for 2021 – 2024.
[108] National Security Concept of Georgia. 2007.

to achieve this. However, in order to diversify transportation directions and be included in different projects, the countries had to invest and create other connections away from the Moscow-centered infrastructure inherited from the Soviet Union.

The legacy of the Soviet times was obvious in different spheres including pipelines, transportation, and infrastructure. These patterns of legacy gave Russia the ability to influence the markets of the newly independent states as well as their connections to the world markets. Azerbaijan and Kazakhstan represent here special cases. First, thanks to their high amount of natural resources they could attract easier FDIs, and second, the high prices for oil and gas played a significant role in supporting the diversification of their former Moscow-centered pipeline infrastructure.[109] Baku faced, as so many other Post-Soviet states the problem that their pipelines run through Russian territory, which meant that Russia could set up transit fees.[110] Then the government of Azerbaijan chose Georgia as a transit country since it is the only country in the South Caucasus that has access to the Black Sea and could therefore transport oil and gas to the world markets. This made relations with Georgia a major objective of Baku's foreign policy[111]. Thus, it is not surprising that Baku offered Tbilisi its oil and gas at more favorable prices in order to support the Georgian economy and thus ensure the country's stability.[112] Since its independence, Azerbaijan uses its transportation agreements as a foreign policy tool. Baku chose for its new railway route, not Armenia but Turkey and Georgia as its partners. In 2002, the foundation for the Baku-Tbilisi-Ceyhan pipeline was set. But the milestone for the newly independent Azerbaijan was the so-called contract of the century to enhance a diversified infrastructure as well as pursue a multi-vectored foreign policy. This Agreement on the Joint Development and Production Sharing for the Azeri and Chirag Fields and the Gunashli Field in the Azerbaijani Sector of the Caspian Sea was signed in 1994. The $7.4 billion agreement involved 11 international oil companies and was a major deal for Baku.[113] This contract made the way for 26 other contracts to unlock the Caspian Sea and transport gas and oil to the world markets.[114] From the point of view of today, one can state that

[109] Ebert, Hannes, & Daniel Flemes (2018).
[110] Mammadov, Rauf (2019). „Azerbaijani Gas Is Now Ready to Flow All the Way to Europe". Middle East Institute, https://www.mei.edu/publications/azerbaijani-gas-now-ready-flow-all-way-europe. Accessed: 09.02.2022.
[111] Shaffer, Brenda (2010).
[112] Shaffer, Brenda (2010).
[113] Oil and Gas Projects » AZERBAIJAN » Official Web-Site of President of Azerbaijan Republic. https://president.az/en/pages/view/azerbaijan/contract#:~:text=The%20Contract%20of%20the%20Century%20was%20ratified%20on%20December%2012,by%20the%20parliament%20of%20Azerbaijan.&text=The%20Contract%20of%20the%20Century%20paved%20the%20way%20for%20the,been%20developed%20in%20three%20phases. Accessed: 05.02.2022.
[114] Oil and Gas Projects "Azerbaijan" Official Web-Site of President of Azerbaijan Republic.

Baku succeeded in diversifying its pipeline infrastructure and integrated well into the world markets.

For Georgia and Armenia, it looked different since they have no considerable natural resources. Their industries were also tailored to Soviet needs. Georgia has all the necessary features to become a transit country. Which it is eager to establish thanks to good relations with Azerbaijan and the complementary of the two economies of possessing natural resources and transporting them to the world markets. Georgia is connected with Azerbaijan and Turkey through the BTC oil, the Baku-Tbilisi-Erzurum gas pipeline as well as the railway Baku-Tbilisi- Kars. Transit-country is the best way to describe Georgia's position in the South Caucasus. But only connecting from east to west due to bad relations with Russia.

Armenia has regarding transport routes only the possibility of a North-South connection due to poor relations with two of its neighbors, Turkey and Azerbaijan. However, the North-South Transport Corridor does not involve Armenia but Azerbaijan. Armenia's options for transportation routes are therefore rather limited. During Soviet times its economy was mainly concentrated on the production of electrical engineering like calculating machines and computers which were crucial for the Soviet air defense.[115] Armenia was heavily dependent on external energy supplies which became even more obvious after the collapse of the Soviet Union when it lost not only its major export market but also its energy supply.[116] Yerevan was in the same need to diversify its economy and attract FDIs to stabilize its economy. Nowadays Armenia's economy consists of supplying machine tools, textiles, and other manufactured goods but is still heavily dependent on the Russian energy supply.[117] This is also highlighted by the fact, that Gazprom Armenia is the only energy supplier in the country.

Armenia, as a member of the EAEU, shares the same characteristics of the railway as the other members. Which are a similar gauge width of 1520 mm, a common railway law, gradual tariff harmonization, and other reforms. However, given its neighborhood, where no one is a member of the EAEU, this is little promising. Azerbaijan would need to be included for Armenia to be beneficial.[118] Even if this, although highly unlikely will happen, relations between Yerevan and Baku remain poor. Especially after the newly erupted Nagorno-Karabakh war in 2020.

[115] Armenia - ERIH. https://www.erih.net/how-it-started/industrial-history-of-european-countries/armenia. Accessed: 13.02.2022.
[116] Armenia - ERIH. https://www.erih.net/how-it-started/industrial-history-of-european-countries/armenia.
[117] Armenia - ERIH. https://www.erih.net/how-it-started/industrial-history-of-european-countries/armenia.
[118] Pepe, Jacopo Maria (2020).

The reconstruction of the former soviet railway, which connected Baku with Yerevan, was one of its outcomes. In paragraph 9 of the ceasefire, it is written that all transport and economic corridors shall be "unblocked".[119] The Russian-negotiated ceasefire set the basis to rebuild this connection which provides access for Azerbaijan to its exclave Nakhchivan. There are two routes from the Soviet times. First, the northern route, which is preferred by the Republic of Armenia, from Yerevan via Ijevan with Gazakhi crossing the Azerbaijani border to reach Baku. This is still operating beside the route between Ijevan-Gazakhi. Its building cost is estimated at around $ 450 million. The Southern route, preferred by Azerbaijan, is a more direct link and costs around $ 250 million. However, Yerevan would have less income from transit fees.[120]

Since their independence, each of the three South Caucasian states had its way to bypass Moscow for its infrastructure. Either in cooperating with its neighbor, or thanks to a high amount of natural resources. One can also state that the countries show different degrees of success in doing that which can be twined to the foreign policy decision of their governments. Azerbaijan can thanks to its good relations with Turkey, its close cooperation with Georgia, and its victory over Armenia give impetus for new links and routes which reflect the wishes of Baku.

1.3 Foreign policy strategy of the three newly independent countries in the South Caucasus: between needs and struggles

Armenia, Azerbaijan, and Georgia have all taken different paths to achieve the above goals. Nevertheless, all of them pursue strategic hedging in their foreign policy agenda, mentioning several external actors. Strategic hedging is also reflected in economic cooperation between regional and major powers. Economically, there are two paths chosen by the post-Soviet states. The first is the "Baltic way": these countries try to avoid any dependence or close ties with the former Soviet Union and rather join already existing organizations, mainly Western organizations such as NATO or the EU.[121] The second path is a kind of hybrid, combining

[119] President of Russia. Statement by President of the Republic of Azerbaijan, Prime Minister of the Republic of Armenia and President of the Russian Federation. 2020. http://en.kremlin.ru/events/president/news/page/94. Last Accessed: 17.05.2022.

[120] Mejlumyan, Ani (2022). Armenia begins work to restore railroad ties with Azerbaijan. https://eurasianet.org/armenia-begins-work-to-restore-railroad-ties-with-azerbaijan. Last Accessed: 23.04.2022.

[121] Burakovsky, Igor: Regional economic integration as an element of economic security. URL: https://www.unece.org/fileadmin/DAM/trade/workshop/OSCE_0304/presentations/Burakovski.doc last accessed: 04.12.2020.

membership in already existing political and economic organizations with a search for new institutional opportunities to promote further economic development.[122] Further differentiation is offered by a look at the preferred destination countries. There are countries whose final destinations for their goods are found mainly within the CIS or outside.[123] Azerbaijan and Georgia have chosen the second option due to foreign policy considerations and the need to strengthen an independent economy away from Russia's leadership role. Armenia, on the other hand, has closer relations with Russia. It also was the only country to join the Eurasian Economic Union, which was founded in 2015.

For each South Caucasian state, the need to protect their economies from outside shocks became visible after the financial crisis of 1997.[124] Especially for the resource-rich Azerbaijan, this meant developing a more diversified economic structure.

But not only had the newly independent countries face economic struggles but also got challenged by political and security issues. In Georgia, the conflicts with Abkhazia and South Ossetia raised again since these regions wanted to become independent in the 1990s as well. Between Azerbaijan and Armenia, the tension erupted in a new war over Nagorno-Karabakh in 2020. Russia played in all the disputes a significant role. It deployed soldiers in South Ossetia after the break-away region got attacked by Georgia in 2008 and it was the mediator for the 2020 ceasefire in the Nagorno-Karabakh war. For Georgia, this deployment in its internationally recognized borders is one of the reasons to choose a path away from Russia.

Enhancing economic cooperation, improving security, and overcoming historical dependencies are the main goals of each of the South Caucasian governments. But to a different extent. In the end, each government chose its own path to develop a new and sovereign foreign policy strategy.

1.3.1 Armenia: closer ties to Russia

[122] Burakovsky, Igor.
[123] Burakovsky, Igor.
[124] Dekmejian, R.Hrair & Simonian, Hovann H. (2003) Troubled Waters The geopolitics of the Caspian region, London: I.B.Tauris.

Since Armenia gained its independence in 1991 there has been a change in its foreign policy decision-making. Traditionally it is a close ally to Russia which also is underlined by its membership in the EAEU. Armenia is the only of the three South Caucasian states which is a member of this organization. First Armenia turned away from negotiations with the EU, however, in 2021 the EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) entered into force which was already signed in 2017.[125] The EU is an important partner for Armenia since it invests heavily in Armenian's energy, telecommunication, and metallurgy.[126] More recently, the EU decided to assist and invest in Armenia's economy with around 2.6 billion euros.[127] Another important part of the FDI of Armenia plays its diaspora, which is as twice as big as the population within its borders.[128] Despite these developments towards the EU and an ongoing integration process towards the political West, Russia is still seen as the traditional partner. There lies the main difference compared with Georgia and Azerbaijan.

Armenia is to a high degree dependent on Russia for military supplies, as well as in the security and energy field.[129] Especially after the war with Azerbaijan in 2020 foreign investments are declining due to the unstable situation.[130]

It is difficult for the government to diversify its economy because of two reasons: first, the leverage Russia has on Armenia regarding its membership in the EAEU and its dependence on Russian energy and military supplies[131], and second, its isolation in the region regarding the military conflict with Azerbaijan and also poor relations with Turkey.

Armenia's position within the EAEU can be described as follows: it is the only member to see the share of its trade with EAEU nations rise over the past two decades.[132] In 2000, trade with the countries that would become the EAEU accounted for 15.6 percent of Armenia's total foreign trade turnover; this rose to about 27 percent by 2018.[133] But one thing one can see in

[125] Nuriyev, Elkhan (2015). Russia, the EU and the South Caucasus: Forging an Efficient Over-Arching Cooperative Regional Security Scheme. Connections, 14(2), 51–64.

[126] Charaia, Vakhtang, Chochia, Archil & Lashkhi, Mariam (2018) „The Caucasus 3 Plus the Baltic 3 and Economic Cooperation with China". Baltic Journal of European Studies, Vol. 8, Nr. 2, p. 44–64.

[127] Hayrapetian, Satenik. „EU Plans Large-Scale Aid, Investments For Armenia". «Ազատ Եվրոպա/Ազատություն» ռադիոկայան, 9. July 2021. www.azatutyun.am.

[128] Charaia, Vakhtang, Chochia, Archil & Lashkhi, Mariam (2018).

[129] Oskanian, Kevork (2013). "Fear, Weakness and Power in the Post-Soviet South Caucasus: A Theoretical and Empirical Analysis." 1st edition, Palgrave Macmillan.

[130] Stronski, Paul (2021) „The Shifting Geography of the South Caucasus". Carnegie Endowment for International Peace, https://carnegieendowment.org/2021/06/23/shifting-geography-of-south-caucasus-pub-84814. Last accessed: 25.11.2021.

[131] Stronski (2021).

[132] Bhutia, Sam (2019). Russia dominates Eurasian Union trade. Here are the numbers. Trade between members of the EAEU was higher before the free-trade bloc was formed.

[133] Bhutia, Sam (2019).

each of the trade relations within the Union is the fact that Russia dominates.[134] Armenia shared a $2 billion trade with the EAEU in 2018, Russia was here the main partner.[135] By contrast, Armenia's trade with Kyrgyzstan is far less: on average, over the past decade turnover between the two countries has remained below a million dollars.

The impact of the membership on Armenia will give good insights into the Armenian-Russian trade relations. It was expected to have a positive impact so that the benefits outweigh the downsides. But this is not the case due to deficiencies in the internal market and also due to a much higher level of import tariffs. Especially when it comes to imports of modern technology which are mostly from the EU and became more expensive.[136] Also, Russia has a say in the trade relations of the members with other third countries. In the case of Armenia, it did not fully negotiate DCFTA with the EU by itself. [137]

On the other hand, one can see the free movement of labor, which is one of the objectives of the Union, is a true benefit to Armenia. There are a lot of people working and living in Russia, who are from Armenia and sending every year billions of dollars home to their families.[138] This would be without the EAEU much more difficult.

The share of Russia in trade with Armenia accounts for around 27% from 2016 until 2017. When the share of the EU was around 20%.[139] Russia accounts for around 46% of direct investment in Armenia, which is around $ 1921 million.[140] The EU accounts for 25% in the same year. One can see that Russia is the economic weight for Armenia. The great share of Russia in trade and direct investment can be explained by analyzing the energy sector. Armenia imports 83 % of its gas and 69 % of its oil from Russia, which it gets comparable cheaper than most other countries.[141]

Overall, Armenia can not be seen as an alternative route for Caspian hydrocarbons due to the bad relations with its two neighbors, Azerbaijan and Turkey.[142] This has a bad impact on the economy of Armenia and also limits its possibilities to diversify its economic structure. However, in terms of relations with its other neighbors, Iran and Georgia, there is an opportunity

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[134] Bhutia, Sam (2019).
[135] Bhutia, Sam (2019).
[136] Giucci, R., Mdinaradze, A. (2017) The Eurasian Economic Union. Analysis from a trade policy perspective. https://berlin- economics.com/wp-content/uploads/Eurasian-Economic-Union-trade-policy-perspective.pdf.
[137] Giucci, R., Mdinaradze, A. (2017).
[138] Giucci, R., Mdinaradze, A. (2017).
[139] Russell, Martin (2018). Russia in the southern Caucasus. European Parliamentary Research Service. https://www.europarl.europa.eu/RegData/etudes/ATAG/2018/614666/EPRS_ATA(2018)614666_EN.pdf Access: 23.05.2021.
[140] Russell, Martin (2018).
[141] Russell, Martin (2018).
[142] Oskanian (2013).

to break the isolation. The "Persian Gulf – Black Sea" multimodal transport corridor, which could connect Iran with Europe via Armenia and Georgia, presents a step to break Yerevan's isolation. The negotiations have already started back in 2016 and the last meeting of experts of these countries was held in April 2021.[143] There is an ongoing discourse about the establishment of the corridor but it seems that the governments especially Armenia see the potential of this transport route.[144]

The current isolated situation was already stated as a threat in the National Security Strategy of 2007. The same paper describes TRACECA's role as a tool to break this isolation.[145] Energy dependence on external sources was another issue listed. Russia hereby presents the major energy supplier.[146]

In the political sphere, Russia is described as "close allied" which is "marked by frequent bilateral visits at the high and the highest levels."[147] The Declaration on the Allied Partnership signed already in 2000 between the two countries can be seen as the basis of their relations. Also the current ruling party of prime minister, Nikol Pashinyan, Civil Contract set in their electoral program of 2018 the importance of the relations with Russia in their foreign policy section.[148]

Russia is also a member of the CSTO, which enjoys a high position in Armenia's National Security Strategy of 2020. Armenia's commitments to this organization will also be fulfilled in the future.[149] Besides the CSTO, the Armenia-NATO cooperation shows to be an element of national security.[150] But with participating in the CSTO Armenia can not join another union in this regard nor transfer weapons, or knowledge to third countries.[151]

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[143] Babajanyan, Mane contributed (2021). https://zbib.org/#:~:text=New%20item%E2%80%A6-,Toward%20the%20implementation%20of%20%E2%80%9CPersian%20Gulf%2DBlack%20Sea%E2%80%9D%20International%20Corridor%3A%20Opportunities%20and%20Obstacles.%20https%3A//caucasuswatch.de/news/4468.html.,-Zugegriffen%2012.%20Dezember. Last accessed: 05.12.2021.

[144] Babajanyan, contributed (2021).

[145] National Security Strategy of 2007. Republic of Armenia. https://www.mfa.am/filemanager/Statics/Doctrineeng.pdf. Last Accessed: 13.05.2022.

[146] National Security Strategy of 2007.

[147] Ministry of Foreign Affairs of the Republic of Armenia. Russia - Bilateral Relations. https://www.mfa.am/en/bilateral-relations/ru. Last Accessed: 13.05.2022.

[148] Electoral Program Civil Contract 2018. https://www.civilcontract.am/files/2021/06/5283803.pdf Last Accessed: 13.05.2022.

[149] National Security Strategy of 2020. https://drive.google.com/file/d/1J-IsxkqsWOJ8YhmKTnizWtu6-vKadGXe/view. Last Accessed: 13.05.2022.

[150] National Security Strategy of 2020.

[151] Agreement on Cooperation of the Member States of the Collective Security Treaty Organization in the field of development, production, operation, repair, modernization, extension of the service life and disposal of military products. Article 7. https://mkves.odkb-csto.org/en/news/regulations/soglashenie_o_sotrudnichestve_gosudarstv-chlenov_5/#loaded

However, Russia signed on February 22, 2022 with Azerbaijan a bilateral declaration on "allied interaction".[152] As Vahan Hunanyan, spokesman of the Armenian Foreign Ministry stated, the Allied Partnership Declaration will not be affected by relations with third countries unless they develop to the detriment of the Armenian-Russian alliance.[153]

Also, Russia is one of the Co-Chairs of the Minsk Group on Nagorno-Karabakh. Since the tension after the 2020 war has risen again, between Armenia and Azerbaijan, meetings are held frequently with Russia to stabilize the situation. Russia has currently around 2,000 peacekeepers in the conflicted area. This was agreed upon in the ceasefire of 2020.

Naming Russia, the EU, and the US as well as several international or regional organization as the CSTO, OSCE, and CIS in both National Security Strategies in the fields of economy, security, and military assistance leads to the assumption of Yerevan pursuing strategic hedging. However, it can not be denied the special relations with Russia, which is called an important strategic partner throughout the National Security Strategy.

Although Armenia pursues good relations with Russia and the EU, which also shows in its membership in several organizations led by these powers, it is the most isolated country in the South Caucasus. Neither the EU nor Russia nor China, as external powers, can remove the political tensions in the region. For Armenia, in particular, it is crucial to break its regional isolationism to benefit from regional connectivity. Either to attract foreign direct investment or to benefit from transit fees as a landlocked country.

1.3.2 Georgia: looking West

Georgia is the only country in the South Caucasus to have chosen a clearly pro-Western foreign policy. This became clear at the latest during the so-called Rose Revolution in 2003 when people met at the freedom square (Photo B). Since then, the EU has been an important partner for Georgia. This is also reflected in the trade partnership agreement between the two parties, which has simplified market access and thus deepened economic relations. Georgia's desire to join the EU is well known, as evidenced by its efforts to reform and align with EU standards.[154]

[152] President of the Republic of Azerbaijan. Documents. https://president.az/en/articles/view/55498 Last Accessed: 27.05.2022.

[153] Ghazanchyan, Siranush (2022). Allied cooperation between Armenia and Russia not conditioned by relations with third countries – MFA. https://en.armradio.am/2022/02/23/allied-cooperation-between-armenia-and-russia-not-conditioned-by-relations-with-third-countries-mfa/ Last Accessed: 13.05.2022.

[154] Ebert, Hannes, & Daniel Flemes (2018) „Regional Powers and Contested Leadership." 1st vol. 2018, Springer International Publishing : Imprint: Palgrave Macmillan, p. 275-326.

Therefore it is no surprise that the officials opened an information center about NATO and EU across the freedom square. (Photo A).

The desire of Georgia to join the EU is also expressed in its governmental program 2021-2024 published in February 2021 and is called "Towards Building a European State".[155] It is highlighted the importance of the European community for Tbilisi to strengthen its sovereignty and territorial integrity. Throughout the entire program, the government expressed its support of "Western values" like the rule of law, human rights, and democracy. These values are also reflected in the National Security Concept. This concept states further that Georgia sees itself as part of the European and Euro-Atlantic space.[156] It would like to become part of these structures, as the eastward expansion of NATO and the EU are essential for Georgian security. This would help Tbilisi, first, to finally become a real member and, second, to increase its security. Russia is, according to the National Security Concept, the greatest threat.[157]

On a regional level, Azerbaijan is seen as an important strategic partner, together with Turkey. The trilateral format "Trabzon Declaration" is the result of deep cooperation especially seen in infrastructure projects like the BTK, also called Baku-Tbilisi-Achalkalaki-Kars, and the BTC. The countries enjoy good relations. It should be noted that Georgia has also not recognized the Armenian genocide committed by the Ottoman Empire in 1915. Turkey, as the official successor of this empire, denies the genocide, as does Azerbaijan.

Relations with Azerbaijan are of great importance for Georgia, especially in economic terms, to stabilize its economy independently of external influences on transport routes.[158] Azerbaijan pursues a multi-vector and balanced foreign policy. It is obvious that cooperation between Georgia and Azerbaijan can have a great impact on infrastructural developments in the region. It is also not difficult for Georgia to attract foreign investment, as it is considered one of the freest economies in the world, and foreign investors benefit from friendly tax and legislative policies.[159] Foreign investment is mainly concentrated in the transport, telecommunication, financial, construction and energy sectors.[160] Moreover, in addition to the free trade agreement with the EU, Georgia also maintains a free trade regime with China. China could therefore use Georgia to increase its trade with the EU if certain Chinese goods and companies face the EU's

[155] Government of Georgia: Program for 2021 – 2024: Towards Building a European State. February 2021. https://www.gov.ge/files/41_79014_435561_govprogram.PDF. Last Accessed: 13.05.2022.
[156] Ministry of Foreign Affairs of Georgia. National Security Concept of Georgia. https://mfa.gov.ge/MainNav/ForeignPolicy/NationalSecurityConcept.aspx. Last Accessed: 13.05.2022.
[157] Ministry of Foreign Affairs of Georgia. National Security Concept of Georgia.
[158] Ebert&Daniel (2018).
[159] Charaia, Chochia& Lashkhi(2018).
[160] Charaia, Chochia& Lashkhi(2018).

Generalized Scheme of Preferences (GSP).[161] Georgia also attracted further Chinese interest when it rejected a deal with the Anaklia Development Consortium, a type of Georgian-American company.[162] That deal involved the construction of a deep-sea port on the Black Sea coast. But as can be seen in several other countries, Chinese commitments to infrastructure can easily end up being merely rhetorical.[163]

In this case, Georgia is also on good terms with other regional players, namely Iran and Armenia. A project is under discussion to connect the port of Anaklia in Georgia to Tehran via Yerevan. However, these plans require further investments and most probably will not be materialized due to the unstable situation in the South Caucasus.[164]

Although relations with Russia are modest, Georgia has good conditions to keep its status as a transit country. Relations with Azerbaijan are key for its economy and transport routes.

1.3.3 Azerbaijan: oil and gas for diversification

Azerbaijan is the only South Caucasian state which truly pursues a multi-vector foreign policy, which is underlined by the fact that it did not join any political bloc or signed any free trade agreements neither with China nor with the EU and also did not join any regional organization which is led by Russia. Since its independence, it has been a clear goal to diversify its pipeline infrastructure to strengthen its sovereignty. Baku realized the importance of a diversified economy after the economy got hit by external shocks in 1997. A suitable way was the development of transport routes and better connections with neighboring countries with which it has good relations, namely Georgia and Turkey. In this regard the Baku-Tbilisi-Ceyhan pipeline, the Baku-Tbilisi-Kars railway and the Baku-Tbilisi-Erzurum Pipeline were implemented. Looking at Azerbaijan's foreign policy decisions it cannot be noticed any aspirations to join either the NATO or the EU, or the CSTO or the EAEU. Azerbaijan did not join the EAEU, although it was invited by Russia. It also did not sign any agreement with the EU. In 2017, Putin announced the North-South Transport Corridor connecting Russia and Iran

[161] Charaia, Chochia& Lashkhi(2018).
[162] Charaia, Chochia& Lashkhi(2018).
[163] Charaia, Chochia& Lashkhi(2018).
[164] Stronski (2021).

via Azerbaijan.[165] This project is far from being realized but got new attention in 2022 after the start of the military conflict in Ukraine. Russia accounts for just 11% of Azerbaijan's trade, and the EU for 63% from 2016 until 2017. The EU is the main trade partner for Azerbaijan. Also, Russia's share of direct investment is small, around 7% accounting for US$1497 million, the EU accounts for 36% in the same year. There we can see a huge difference to Armenia, where Russia is clearly the main trade partner.[166]

In 2019, we can see that bilateral trade between Azerbaijan and Russia grew by 23 %.[167] Compared to 2018 it increased by 13.8%.[168] Russian exports to Azerbaijan account for about 2/3 of the total trade volume. The exported goods are: agricultural and food items, machinery, equipment, transport vehicles, metals, timber, pulp, and paper products, in addition to chemical products and rubber.[169] Russia is also still the major partner in the trade of military equipment.[170] This could soon change after the signing of the Shusha Declaration with Turkey in 2021, where close military and defense cooperation was the main stake.[171] Another important document is the Declaration on Allied Interaction between Baku and Moscow signed in February 2022.[172] Besides political, economic, and cultural cooperation the unblocking of transportation links in the South Caucasus was one of the main stakes. Both countries want to restore the full volume of freight and passenger traffic among the old routes. This will aim at a deeper integration through all of Eurasia.[173]

On the regional level, there is a low-level competition between Armenia and Azerbaijan. Both desire to enhance a transportation route from the north, from Russia to the south to tap broader Gulf markets.[174] Whoever manages to be part of this route has an advantage over the other state in diversifying its transportation routes and promoting its economy. Regarding other infrastructure projects, it is important to know that Azerbaijan is, as well as Georgia, a member of the AIIB. It has also no problem attracting foreign direct investments, which maintains the highest in the region.[175] They are mainly directed toward the energy sector.[176]

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[165] Russell, Martin (2018).
[166] Russell, Martin (2018).
[167] Devonshire-Ellis, Chris (2019). Russia-Azerbaijan 2019 Bilateral Trade Up 23%. Russia Briefing. https://www.russia-briefing.com/news/russia-azerbaijan-2019-bilateral-trade-23.html/ Access: 30.05.2021.
[168] Devonshire-Ellis, Chris (2019).
[169] Devonshire-Ellis, Chris (2019).
[170] Ebert&Daniel(2018).
[171] Shusha Declaration on Allied Relations between the Republic of Azerbaijan and the Republic of Turkey.
[172] "Statements for the Press Following Russian-Azerbaijani Talks". President of Russia, 22.02.2022. http://en.kremlin.ru/events/president/news/67837.
[173] "Statements for the Press Following Russian-Azerbaijani Talks". President of Russia, 22.02.2022.
[174] Stronski (2021).
[175] Charaia, Chochia& Lashkhi(2018).
[176] Charaia, Chochia& Lashkhi(2018).

Regarding its relations with the West, it can be stated that Azerbaijan does not have many interdependencies, but it is aware of its special economic potential. However, it is open to other economic partners in the same way. In 1994, Azerbaijan joined NATO's PfP program and has itself developed into a strategic partner for the West.[177] But it is a complicated relationship that Azerbaijan maintains with the West, on one hand, Azerbaijan is frustrated over the role of the Minsk Group in the war with Armenia and, on the other hand, the West criticizes Azerbaijan over human rights issues.[178] Nevertheless, its geographical location next to the Caspian Sea makes it a competitor for Russian resources. As the already implemented TANAP and TAP show, Azerbaijan is an important part of the EU energy supply.

Overall, Azerbaijan defines its relations with Russia.[179] Baku points out that relations with the EU are constantly growing. It is stated that Baku is also interested in developing relations with the EU in the framework of the EaP. A Partnership and Cooperation Agreement has been signed in 1996 which serves as a legal basis for further cooperation in several fields, excluding military cooperation.[180]

Other signed documents are directed toward the energy field, such as the Joint Declaration on the Southern Gas Corridor signed in 2011, and the Memorandum of Understanding on the Strategic Energy Partnership in 2006.[181]

Turkey is its main partner in the region, it is seen as its big brother due to close cultural and linguistic ties. They see each other as one population but in two different states. Turkey also supported Azerbaijan during the Nagorno-Karabakh conflict and broke ties with Armenia, with which it just started the normalization process. The special relations between Turkey and Azerbaijan became once more evident when signing the Shusha Declaration in 2021.[182] This declaration testifies to the close cooperation between the two countries in the political, and economic spheres and moreover, as in the military and defense sectors. Based on solidarity and inviolability of internationally recognized borders the military assistance between the Republics will grow. With guidance from Ankara, the Armed Forces of Azerbaijan will be upgraded and modernized. Also in the case of an attack the two countries, regardless of who is under attack,

[177] Ebert&Daniel(2018).
[178] Simão, Licínia (2018) „Azerbaijan: Strategic Partnership Instead of Europeanisation". The EU's Neighbourhood Policy towards the South Caucasus, Springer International Publishing, p.185–213.
[179] Ministry of Foreign Affairs. Republic of Azerbaijan. Bilateral Relations. Russia https://www.mfa.gov.az/en/category/avropa/the-russian-federation Last Accessed: 13.05.2022.
[180] Ministry of Foreign Affairs. Republic of Azerbaijan. Multilateral Relations. The European Union. https://www.mfa.gov.az/en/category/regional-organisations/relations-between-azerbaijan-and-european-union. Last Accessed: 13.05.2022.
[181] Ministry of Foreign Affairs. Republic of Azerbaijan. Multilateral Relations. The European Union.
[182] Shusha Declaration on Allied Relations between the Republic of Azerbaijan and the Republic of Turkey.

will answer jointly. Both countries point out the importance of a stable and secure the Caucasus to strengthen economic cooperation and restore economic and transportation links. In this regard, it was referred to as the Zangazur corridor which would not only connect Azerbaijan to its exclave Nakhichevan but also further to Kars, Turkey. Turkey also invited Armenia to join the six-partite regional cooperation format, which would include Georgia, Turkey, Azerbaijan, Iran, and Russia.[183]

Another important player in Azerbaijan's foreign policy is Israel. The main trade between these two countries is that Israel imports oil and Azerbaijan is the second-largest buyer of military equipment.[184]

The relations with Turkmenistan, across the Caspian Sea, can have a huge impact on the energy policy of Azerbaijan. A possible pipeline connecting these two energy-rich countries could match the EU's energy requirements and also the principles of the European-Green Deal, which would make both countries more valuable to the EU.[185] In 2020, a Memorandum of Understanding was signed between Azerbaijan and Turkmenistan setting the first step for the Trans-Caspian-Gas-Pipeline. But this project is as well as the NSTC far from being materialized. Since the MoU does not provide information on how the project will be realized. In the meantime, Azerbaijan has still a lot of domestic issues, similar seen in other Post-Soviet countries, mainly in the resource-rich Kazakhstan.[186] Major obstacles to further development, especially in the infrastructure sector are widespread corruption, delays in reforms as well as an imbalance in regional economic and transport developments.[187]

But given its established pipelines and links to Turkey and Georgia, it has the best features in becoming the transport hub of the South Caucasus. As the EU is interested in the country's natural resources, relations may change in Baku's favor, regardless of human rights issues. The figure beneath shall underline the direction of the foreign policy decisions of each of the three states based on their membership of various regional organisations led by either the EU or Russia.

[183] Shusha Declaration on Allied Relations between the Republic of Azerbaijan and the Republic of Turkey.
[184] Stronski (2021).
[185] Cutler, Robert (2021). Azerbaijan and Turkmenistan Agree on the Caspian. https://www.cacianalyst.org/publications/analytical-articles/item/13664-azerbaijan-and-turkmenistan-agree-on-the-caspian.html. Last accessed: 30.11.2021.
[186] Franke, Anja ,Gawrich, Andrea& Alakbarov, Gurban (2009)"Kazakhstan and Azerbaijan as Post-Soviet Rentier States: Resource Incomes and Autocracy as a Double 'Curse'in Post-Soviet Regimes", Europe-Asia Studies, pp.109-140.
[187] Franke, Gawrich&Alakbarov(2009).

1. Figure:
Membership of Armenia, Azerbaijan, and Georgia in European and Eurasian Organisations

1.4 Types of economies: landlocked vs. littoral states

20% of the countries in the world do not have access to the open sea.[188] 40% percent of them are considered low-income economies and less than 10% are of high-income.[189] However, all the South Caucasian states, landlocked and littoral, are seen as upper-middle-income countries. But there are indeed many disadvantages with which landlocked economies have to deal. First and foremost, the transit fees which they have to pay usually to their littoral neighbors.[190] These fees increase the trade costs for the landlocked economies. Secondly, quite often these economies have to pay a higher price on income and part of export revenues as rents to their neighbors.[191] All this makes them less competitive. Many landlocked countries try therefore to turn themselves into so-called transit corridors, like Armenia and Azerbaijan. Georgia, on the other hand, as the only littoral state in the South Caucasus has a significant advantage over its neighbors to become a transit venue.

But the true economic potential lies in cooperation between landlocked and littoral states. Expressed in joint infrastructure projects of Azerbaijan and Georgia, which resemble a land bridge between the Black Sea and the Caspian Sea. Armenia is usually excluded from this cooperation due to its two closed borders.

[188] Lahiri, B., & Masjidi, F. K. (2012). Landlocked Countries: A Way to Integrate with Coastal Economies. Journal of Economic Integration, 27(4), 505–519.
[189] Lahiri & Masjidi (2012).
[190] Lahiri & Masjidi (2012).
[191] Lahiri & Masjidi (2012).

1.4.1 Resources-rich but landlocked: cooperation to reach world markets

Unlike Armenia, Azerbaijan delivers natural resources to the European Union. This makes it a part of finding alternatives for Russian oil and gas. To reach the European market, Tbilisi and Baku constructed a land bridge connecting their territories with the Caspian and the Black Seas. The EU became the main trade partner for both countries after the opening of the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline. The cooperation between Georgia and Azerbaijan in the field of infrastructure is an overall good example of diversification of their economies away from Moscow. The complementary structure of their economies supports this partnership.

But this cooperation is not only focused on energy but also on cargo transportation, namely the Baku-Tbilisi-Kars railway. This railway was launched in 2017 and construction was estimated at around $ 1 billion.[192] When arriving in Baku most of the containers loaded are shipped then further to Kazakhstan, Turkmenistan, or Uzbekistan. The full potential of the 826-kilometer long route is yet to be discovered since it has the capacity to at least handle 6 million tonnes of freight. But in 2019, only 109,000 tonnes of freight were transported.[193] Nevertheless, this project meant a great deal for cooperation between Baku and Tbilisi and is also part of the Trans-Caspian International Transport Route (TITR) to connect China to Europe and bypass Russia. The actual political means especially for Europe might outweigh the still poorly developed use of this transport route.

According to the OECD report on Azerbaijan, its oil and gas reserves might be exhausted in 30 years, therefore it tries to become a regional transport hub.[194] This is not unpromising since it is part of the Central Asia Regional Economic Cooperation Program (CAREC) Corridor 2, the Middle Corridor Trans-Caspian International Transport Route, and the South-West Transport Corridor.

Azerbaijan's government invested heavily in infrastructure projects along the TCTC. The investment projects, both completed and ongoing, include the new Baku port in Alat; construction, repair, electrification, and upgrading of the Baku-Tbilisi-Kars railway; rehabilitation of the E-60 road between Baku and Ganja and onward to the Georgian border.

[192] Zasiadko, Mykola „Longest Freight Train on Baku-Tbilisi-Kars Railway". RailFreight.Com, 2020 https://www.railfreight.com/intermodal/2020/04/23/longest-freight-train-on-baku-tbilisi-kars-railway/?gdpr=deny Accessed: 20.02.2022.

[193] Zasiadko, Mykola „Longest Freight Train on Baku-Tbilisi-Kars Railway". RailFreight.Com,2020.

[194] OECD. Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus: Hotspot Analysis and Needs Assessment. OECD, 2019. Chapter 2. Investment in sustainable infrastructure in Azerbaijan.

Most of the projects are financed by the Government of Azerbaijan (including through Azerbaijan's State Oil Fund, a sovereign wealth fund) and international financial institutions, such as the World Bank Group, the European Bank for Reconstruction and Development, the Asian Infrastructure Investment Bank, and the European Investment Bank.

The government in Baku has also focused on road infrastructure. In the previous years, the $ 7,5 billion investments primarily went into the road sector and then into the railway sector.[195] But cross-border connection presents the majority of all investments.[196] All these projects aim at better connectivity with its neighbors. Like the planned Afghanistan-Turkmenistan-Azerbaijan-Georgia-Turkey transport corridor, which would make Afghanistan a gate to India and is worth $ 2 billion. Other remarkable projects enhancing Azerbaijan's role in regional connectivity are the International North-South Transportation Corridor Initiative which is 7 200 km long and starts in India via Iran, Azerbaijan, and Russia, or the Astara-Astara railway with Iran, also under construction.[197] Besides these land connections, the port in the Alat district plays also a crucial part in linking with Central Asian countries and strengthening Baku's position as a regional transport hub.

Since Armenia and Azerbaijan are both landlocked countries, cooperation with Georgia is crucial for accessing world markets. In this regard, Baku has clear advantages, as it enjoys good relations with Turkey. Turkey and Azerbaijan are connected by land through Georgia, in the face of political tensions and wars with Armenia. In order to not provoke Baku, Tbilisi has abstained from implementing major projects with Yerevan.

1.4.2 Venue for transportation and its dependence on the neighbors

The resource-poor Armenia faces different challenges in order to overcome its landlockedness. It relies mostly on manufacturing and mining for its exports. It accounts for 11,8% of its GDP.[198] The service branch plays a significant role in the Armenian economy (54,2% of GDP) as well as in the Georgian economy (60,5% of GDP).[199] Looking at the two closed borders and its

[195] OECD. 2019. Chapter 2. Investment in sustainable infrastructure in Azerbaijan.
[196] OECD. 2019. Chapter 2. Investment in sustainable infrastructure in Azerbaijan.
[197] OECD. 2019. Chapter 2. Investment in sustainable infrastructure in Azerbaijan.
[198] OECD. Sustainable Infrastructure for Low-Carbon Development in the EU Eastern Partnership: Hotspot Analysis and Needs Assessment. OECD, 2021. 1. Investment in sustainable infrastructure in Armenia
[199] OECD. Sustainable Infrastructure for Low-Carbon Development in the EU Eastern Partnership: Hotspot Analysis and Needs Assessment. OECD, 2021. 4. Sustainable infrastructure investment in Georgia

poorly developed infrastructure it is even harder for Armenia to establish itself as a transit hub. The sanctions on Iran and its main trading partner Russia make the situation even more unpromising. According to the World Bank Armenia needs to invest $ 450-600 million per year in its infrastructure.[200] The Armenian government targets to at least invest 1,4% - 1,5% of its GDP in its infrastructure as written in the Strategic Programme of Prospective Development for 2014-2025.[201] But not every year this amount of investment is spent. Domestic and international connectivity are the main objectives of the policy agenda in Yerevan. The M6 Interstate Road is a clear example of the willingness of the government to enhance better connectivity. This project aims to rehabilitate and reconstruct of the Vanadzor-Alaverdi-Georgia road which is 90 km long.[202] It is jointly financed by the European Investment Bank and the Asian Development Bank.[203] In regard to reach Russia it needs to pass Georgia, this makes Armenia vulnerable and dependent on relations between Georgia and Russia. As consequence, Armenia also has no direct link to its main trade partner Russia. Instead, the Black Sea ports of Batumi and Poti are being used to reach Novorossiysk.[204]

To make matters worse the transportation routes are in poor condition. Less than half of the railway tracks are in working conditions.[205] The entire South of the country is not connected to the capital. After the collapse of the Soviet Union and the war with Azerbaijan over Nagorno-Karabakh the existing railway connecting Mehgri with Yerevan, which passed through the Autonomous Republic of Nakhichevan was shut down.[206] In 2021, the presidents of Armenia and Azerbaijan stated in the ceasefire paragraph 9, to unlock the region. In the end, this would connect Armenia with Russia and Iran. It still has to be agreed upon the budget and exact route of this idea.

But looking at the poorly developed domestic infrastructure in Armenia this will be a further challenge but also a reminder for the government to invest at least as much as written in their Strategic Programme for Perspective Development.

Since Georgia is the only littoral state of the South Caucus it enjoys some natural advantages to become a transport hub. Tbilisi invested from 2006 until 2018 $ 103 per capita per year in

[200] World Bank (2017), Policy Note: Infrastructure Finance in Armenia, World Bank Group, Washington, D.C.
[201] OECD. 2021. 1. Investment in sustainable infrastructure in Armenia.
[202] „M6 Vanadzor-Alaverdi-Georgia border Interstate Road Rehabilitation and Improvement Project“.https://armroad.am/en/projects/m6-vanadzor-alaverdi-georgian-border-interstate-road-rehabilitation-and-improvement-project. Accessed: 16.02.2022.
[203] „M6 Vanadzor-Alaverdi-Georgia border Interstate Road Rehabilitation and Improvement Project“.
[204] OECD. 2021. 1. Investment in sustainable infrastructure in Armenia.
[205] OECD. 2021. 1. Investment in sustainable infrastructure in Armenia.
[206] OECD. 2021. 1. Investment in sustainable infrastructure in Armenia.

overland transportation infrastructure.[207] The government clearly set a long-term goal to tackle its shortcomings in infrastructure. These investments are, as in Azerbaijan, focused on the road sector. There is a shift ongoing towards roads when it comes to inland transport modal split for freight.[208] Although Georgia has many Black Sea ports it ranks very low on the scale (1 to 100) of the Liver Shipping Connectivity Index. In 2020, it only reached 6, in comparison, Russia reached 36.[209] The planned infrastructure projects amount to around $ 10,1 billion investments are primarily set in the road sector (65,8%) and port sector (24,7%).[210] One of the most important projects to strengthen Georgia's position is the Deep Sea Port Anaklia.

In the end, the distribution of investments in infrastructure varies according to the regional situation. That we can see that Armenia invests less in connectivity because first, its closed borders to Azerbaijan, and second, it is less attractive to become a part of cross-border arrangements when the impetus is coming from neighboring countries. Only the EU, through the EIB, gives considerable incentives in connecting Armenia with Georgia, via the M6 highway, and modernizing the cross-border stations.[211]

Closing the comparison of shortcomings and potentials of the landlocked and littoral states in the South Caucasus, a similar conclusion emerges for all three states. In order to develop a long-term sustainable economy, time and money must be invested into national as well as international infrastructure projects. While Georgia and Azerbaijan already got a competitive head start and promising cooperative prospects, Armenia still lacks behind in the quality of transportation and opportunities. Improving cooperation with its neighbors will accompany Armenia's bet for economic growth. Nevertheless, infrastructure plays a significant role in each of the three hedging-based foreign policy agendas.

[207] OECD. 2021. 4. Sustainable infrastructure investment in Georgia.
[208] OECD. 2021. 4. Sustainable infrastructure investment in Georgia.
[209] OECD. 2021. 4. Sustainable infrastructure investment in Georgia.
[210] OECD. 2021. 4. Sustainable infrastructure investment in Georgia.
[211] The European Investment Bank in Armenia.
https://www.eib.org/attachments/country/the_eib_in_armenia_en.pdf. Last Accessed. 01.04.2022.

Chapter 2. External players: Influences on the region

For centuries, the South Caucasus has witnessed the rise and fall of various kingdoms in the region, including, the Ottoman Empire, the Roman Empire, and the Russian Empire. The entire region has been influenced by different religions and civilizations, and for the past two hundred years, it can be noted that the most notable rule over the South Caucasus has come from Russia. Nevertheless, there are more and more external actors who are trying to deepen their impact in the region. Primarily, these are the surrounding regional actors such as Iran and Turkey. But also the EU, and, to a lesser extent, China are also moving closer to the region. The motivation of these sometimes opposing powers differs deeply, which will be shown in the following based on regional organizations or infrastructural projects backed by Russia, the EU, and China.

2.1 Russia – historical ties

Russia's presence in the South Caucasus dates back centuries. In 1559, Tsar Ivan IV ordered the construction of the Taki fortress on the Caspian Sea.[212] In the 18th century, Peter the Great established a firm foothold in the region for the first time. In 1722 - after defeating the Persian Empire - he occupied Baku and Derbent.[213] Since Peter the Great, the Russian Empire expanded in this region. Under Catherine the Great, the entire North Caucasus was placed under Russian control.[214] In the following century, Georgia was also included in the empire. Thanks to victories over the Turks, Russia gained more and more territory in the Caucasus region. The Muslim tribes in Dagestan tried unsuccessfully to resist until 1855.[215] The region, Transcaucasia, its Russo-centric name, was since this time shaped by Russian institutions, currency, and railway. It was part of the Russian Empire but not Russian.

[212] Nation, R. Craig (2015) “Russia and the Caucasus.” Connections, vol. 14, no. 2, Partnership for Peace Consortium of Defense Academies and Security Studies Institutes, 2015, pp. 1–12.
[213] Brice, William Charles and Suny, Ronald Grigor (1998) "history of Transcaucasia". Encyclopedia Britannica, https://www.britannica.com/topic/history-of-Transcaucasia. Accessed 17 February 2022.
[214] Brice and Suny (1998). "history of Transcaucasia". https://www.britannica.com/topic/history-of-Transcaucasia
[215] Brice and Suny (1998). "history of Transcaucasia". https://www.britannica.com/topic/history-of-Transcaucasia

After the Russo-Turkish War of 1877/78, Russia was able to add the territory of today's Batumi, Kars and Ardahan regions to its empire.[216] With the collapse of the Tsarist Empire some 40 years later, Armenia, Azerbaijan, and Georgia declared themselves independent. This lasted only a month until the Red Army established the Soviet Union, which included the South Caucasus. All three South Caucasian republics were part of the USSR until its collapse in 1991 and regained full independence in 1991. There is a long and deep history between Russia and the South Caucasus.

This very brief summary of the historical relationship between the Russian Empire and the Soviet Union in the South Caucasus should serve as a basis for explaining why Russia considers the South Caucasus its traditional sphere of interest and opposes the West's increasing involvement in the region. Especially Russia tried to restructure the Caspian Sea region, which in security terms has been achieved.[217] In economic terms, the success seems rather limited due to the different interests. Russia prefers a North-South connection while other regional and external powers prefer East-West.[218] But Russia does not have the capacity to prevent Armenia, Azerbaijan, or Georgia from joining any infrastructural project, nor is that of vital interest to Russia.

2.1.1 Zone of interest

Since the collapse of the Soviet Union, Russia has pursued an inconsistent foreign policy agenda toward the South Caucasus.[219] Nevertheless, stability in the region was a priority due to the Russian fear of a possible spill-over to the Northern Caucasus.

In the 1990s, Russian policy was guided by Moscow's desire to establish itself as a controller over the Post-Soviet Space. It played the role of the negotiator in almost every conflict and therefore could shape the outcome[220] so that no winner could emerge and potentially shape the region in its favor and ignore Moscow. Russia saw the new security vacuum in the region as a threat to its territory. The Chechnya wars, the overall unstable situation in the North Caucasus,

[216] Brice and Suny (1998). "history of Transcaucasia". https://www.britannica.com/topic/history-of-Transcaucasia

[217] Interview A

[218] Interview A

[219] Manucharyan, A. (2007). Russia's Policy in the Southern Caucasus. Konrad Adenauer Stiftung. http://www.jstor.org/stable/resrep10013

[220] Manucharyan, A. (2007). Russia's Policy in the Southern Caucasus.

and the rise of other external actors, namely Iran, the West, and Turkey, made it necessary to give the region more attention.

In the early 2000s, Russia began to focus more on its close neighborhood. After Vladimir Putin took office, Moscow followed a specific line toward the South Caucasus. In the 2000 foreign policy document, Russia declared to prioritize the CIS space and try to settle the conflicts in CIS member states.[221]

It supplied both sides, Armenia and Azerbaijan, with weapons and military equipment during their fight over Nagorno-Karabakh and supports Abkhazia and South Ossetia, which could not survive without Russian help. To strengthen its status and protect Russia's national interests in the region, Russia has deepened its strategic relations in the post-Soviet space. The number of organizations and agreements focused on this sphere underscores its importance to Moscow. There were three main priorities for Moscow: first, preserving territorial integrity; second, maintaining great power status, and third, strengthening the domestic economy.[222] Further, it was pointed out the traditional priority of the relations with European states.[223]

Although Russia has deployed troops abroad, it faces several challenges in persuading the former Soviet republics to maintain their close ties with Moscow. Sanctions against Russia, lack of funding, and a relatively unfree and uncompetitive market make Russia less attractive to some Post-Soviet countries.[224] However, it was stated that the Russian economy can maintain its performance regardless of sanctions and the unstable world economy.[225]

In summary, Russia does not accept any outside influence, either in the economic or political sphere, that would be contrary to its vital interests in the region.[226] This also means that Russia wants to retain its status as the main energy supplier for Europe. Therefore, it was a great success when Moscow stalled the Trans-Caspian pipeline and convinced Turkey to implement the Blue Stream pipeline. This project, implemented in 2005, supplies Turkey with natural gas directly from Russia. According to Russia, this is even cheaper, as it bypasses a pipeline through

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[221] The Foreign Policy Concept of the Russian Federation. 2000. p.9.

[222] Dekmejian& Simonian(2003) Troubled Waters The geopolitics of the Caspian region.

[223] The Foreign Policy Concept of the Russian Federation. 2000.

[224] Valiyev, A. and Bilalova, S. (2021) A battle for transportation routes in the Russian neighborhood: Is there a place for small states?. Int Polit 58, 483–499.

[225] Russian-National-Security-Strategy. 2015. P.3. https://www.ieee.es/Galerias/fichero/OtrasPublicaciones/Internacional/2016/Russian-National-Security-Strategy-31Dec2015.pdf. Last Accessed: 15.05.2022.

[226] Markedonov, S. (2017) "Russian Policy toward the South Caucasus: Security, Unity, and Diversity." In The New Geopolitics of the South Caucasus: Prospects for Regional Cooperation and Conflict Resolution, edited by S. T. Hunter, 127–153. Lanham: Lexington Books.

Ukraine, Moldova, Romania, and Bulgaria, and thus mainly Moldova and Ukraine, which allegedly tapped it illegally.[227]

In this context, it is interesting that Russia sees Turkey as a rival, but not Iran.[228] Iran would play an important role in the North-South Transport Corridor, but not Turkey. This could be due to the common interest of Moscow and Teheran in keeping the U.S. presence in the region very limited. Also, the close ties between Baku and Ankara are of concern in Moscow. Turkey also has a strong foothold in Georgia. Mayor investments reach all different kinds of areas in Georgia from Turkey. Several Turkish companies are based in Georgia, and Ankara supports Georgia's territorial integrity and therefore opposes recognition of Abkhazia or South Ossetia.[229] In addition, Russia has recognized the Armenian Genocide committed by the Ottoman Empire in 1915. Turkey played also a notable role in the Nagorno-Karabakh War of 2020. Nevertheless, Moscow and Ankara cooperate on some issues.

Turkey's influence is expected to increase and this will affect relations with Moscow. So far both powers have managed to find a compromise instead of openly fighting each other in the region.

Moscow pursues overall good relations with Yerevan, as well as with Baku, regardless of the Nagorno-Karabakh War in 2020. Neither of the two governments wants to contradict Russian interests in the region since Russia is the mediator of the ceasefire and has its peacekeeping forces in Nagorno-Karabakh. Tbilisi keeps its distance from any projects which include Moscow. But it has not the capacity to limit Moscow’s presence in the region.

2.1.2 Regional Organizations as a foreign policy shaping instrument

After the collapse of the Soviet Union, all newly independent countries were left relatively alone with the new challenges of being a sovereign state. Moscow attempted to fill this security, political, and economic vacuum through regional organizations, all of which focused on the post-Soviet space. The first organization established in 1991 was the Commonwealth of Independent States. It is generally referred to as an instrument for a civilized divorce of the

[227] The Blue Stream Pipeline Project, Europe - Hydrocarbons Technology. https://www.hydrocarbons-technology.com/projects/bluestream-pipeline/. Last Accessed: 04.04.2022.

[228] Abushov, Kavus (2009) Policing the near abroad: Russian foreign policy in the South Caucasus, Australian Journal of International Affairs, 63:2, 187-212.

[229] Abushov (2009) Policing the near abroad: Russian foreign policy in the South Caucasus.

former Soviet republics. Today it consists of nine members (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Uzbekistan). Turkmenistan is an associated state. This means that it has not signed the Charter. Ukraine and Georgia have withdrawn from the organization, 2018 (withdrawal of envoys from CIS bodies) and 2008 respectively. The Baltic States have never signed the agreement. The main objectives of the Charter include cooperation in various fields, as well as ensuring human rights, international peace, security, and implementing mutual legal assistance and cooperation in areas of legal transactions.[230] The CIS represents an area where Russia has expressed its red lines as rules for members: None of them may become a member of NATO, the establishment of foreign military bases is not accepted, and the deployment of armed forces is allowed only with Moscow's permission.[231] However, these red lines were lifted after September 11, 2001, and U.S. military bases in Kyrgyzstan and Uzbekistan were permitted. A challenge for the CIS member states is the difference in understanding how the CIS works. Since there is no central body or decision-making protocol.[232] This is also reflected in the high number of signed treaties but just a few were ratified and even fewer were implemented.[233]

Nevertheless, the Commonwealth of Independent States has become one of the top priorities in the foreign policy concept in 2000.[234]

In addition to the CIS, another important area of integration in the post-Soviet space was security. In response to the new security issues in the region, the Collective Security Treaty Organization was established in 1992. Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan are its founding members. Its primary goals are to strengthen peace, international and regional security, stability, and to protect the independence, territorial integrity, and sovereignty of its member states on a collective basis. The very purpose of the CSTO was to create a new political and military alliance. The CSTO Peacekeeping Agreement was signed in 2007 and entered into force two years later. In the following years, the first large-scale exercise on collective rapid reaction forces took place in the Chelyabinsk region. In 2014, member states jointly decided to create a collective air force, and in 2016, they decided to establish a CSTO Crisis Response Center and a collective security strategy for the CSTO for the period until

[230] Official Website of CIS. http://www.cisstat.com/eng/cis.htm. Last Accessed: 17.03.2022.
[231] Trenin, Dmitri(2012). Russia and CIS Countries: The Relations Getting Mature. https://russiancouncil.ru/en/analytics-and-comments/analytics/russia-and-cis-countries-the-relations-getting-mature/. Last Accessed: 12.03.2022.
[232] Hansen, Flemming Splidsboel (2013). „Integration in the Post-Soviet Space“. International Area Studies Review, Vol. 16, Nr. 2, p. 142–59.
[233] Hansen, Flemming Splidsboel (2013).
[234] Russian Foreign Policy Concept 2000. https://nuke.fas.org/guide/russia/doctrine/econcept.htm Last Accessed: 24.03.2022.

2025.[235] A more recent example of the operational capability of the CSTO took place in 2022 in Kazakhstan. Following an outbreak of public protests over local grievances, Kazakhstan President Tokayev requested intervention by CSTO peacekeepers, who arrived in early January and left on January 19, having completed their mission.

It was the first time that the CSTO had been deployed in connection with protests in Kazakhstan. Many critics expressed the view that, first, the crisis in Kazakhstan was not over and, second, the leadership deployed military forces out of fear over the instability of its authority.[236] This operation showed how Russia uses the CSTO to keep its neighboring country stable. Kazakhstan requested the intervention of the CSTO, where Russia provides most of the soldiers. Nevertheless, the CSTO is seen by some analysts as a power projection rather than a real solution to security issues.[237] On the other hand, one can see frequent trainings of the CSTO Collective Forces and interactions for peacekeeping. It presents a component of the security system of the member states.[238]

Another important regional organization is the Eurasian Economic Union. This is not a military union but rather about deepening economic ties and enabling member states to promote their development, act together on the international stage to defend the region's common interests, and improve global competitiveness.

The EAEU was established by the Astana Treaty in 2014 and entered into force in 2015. At that time, Moscow faced the Ukraine crisis and the referendum on the Crimean Peninsula was held. This organization can be seen as the Russian response to finding alternatives after the West announced sanctions against Moscow, and as a competitor to the Eastern Partnership.[239] This organization is intended to economically tie its member states closely to Moscow. The impact of this organization on member states is either limited, as in the case of Armenia (see Chapter 1), or even negative, as in the case of Kazakhstan and Kyrgyzstan. Looking at the May 2015 statement, it is clear that Russia wants to retain its influence and calls a free trade agreement with China a "distant goal." China, with its economic power, is a clear competitor for Moscow's

[235] CSTO official website https://en.odkb-csto.org/session/2016/session2016/?sphrase_id=71749#loaded. Last Accessed: 17.03.2022.

[236]Gleason, Gregory and Dunay, Pal (2022).CSTO Deployment in Kazakhstan: Strategic Shift or Political Consolidation? https://thediplomat.com/2022/02/csto-deployment-in-kazakhstan-strategic-shift-or-political-consolidation/. Last Accessed: 15.03.2022.

[237] Katz, Mark N.(2007). Russia's Security Challenges In: Akihiro, Iwashita Eager Eyes fixed on Eurasia: Russia and its neighbors in crisis Vol.1, Hokkaido.

[238] Collective Security Treaty Organization. Republic of Armenia. https://www.mfa.am/en/international-organisations/1.Last Accessed: 15.05.2022.

[239] Charaia, Chochia and Lashkhi (2018).

status in the region.[240] But membership also has its advantages, as is evident right now with restrictions on exports of barley, rye, wheat, corn, etc. due to the Ukraine crisis, which does not apply to exports to EAEU member states.[241]

In summary, Russia is fundamental in the funding and operations of each of the presented organizations. Moscow aims to prevent external influences which could contradict its interests in the Post-Soviet Space. That is highlighted in several Foreign Policy Concepts, for example in 2016 where it is written that "strengthen competitiveness, security, and financial and economic stability, to reinforce the Eurasian integration process, to expand the Eurasian Economic Union and develop multilateral cooperation with the member states of the Commonwealth of Independent States are priority foreign policy goals for Russia".[242]

It is interesting to notice that none of the western-orientated states are members of one of the Moscow-led institutions, neither Georgia nor the Baltic States. Only Armenia is a member of all of the three presented organizations.

After the evolution of these organizations, it can be stated that Russia filled out the security vacuum after the dissolution of the Soviet Union not only in the South Caucasus but also in Central Asia. However, only to a certain extent since not all Post-Soviet Republics are members. The recent actions of the CSTO and the current EAEU project to create a common gas market play an important role in the integration of the two regions.

2.2 EU – good governance

The European Union is well known for its values. The rule of law, good governance, democracy, and Fundamental Rights enjoy a high status in the union. But besides the perception of the EU as a 'normative power'[243], as out forward by Delcour and Wolczuk, it is also seen as

[240] Pieper, Moritz (2020) The linchpin of Eurasia: Kazakhstan and the Eurasian economic union between Russia's defensive regionalism and China's new Silk Roads. Int Polit.

[241] Welle (www.dw.com), Deutsche. „Russia's Invasion of Ukraine Drives Global Food Insecurity | DW | 14.03.2022". DW.COM, https://www.dw.com/en/russias-invasion-of-ukraine-drives-global-food-insecurity/a-61124764. Last Accessed: 15.03.2022.

[242] THE FOREIGN POLICY CONCEPT OF THE RUSSIAN FEDERATION 2016. https://www.rusemb.org.uk/rp_insight/ Last Accessed: 23.03.2022.

[243] Delcour, Laure and Wolczuk, Kataryna (2020): Mind the gap: role expectations and perceived performance of the EU in the South Caucasus, Eurasian Geography and Economics.

an 'engine for economic modernization'.[244] This relation between these two very different and sometimes antagonizing perceptions applies especially in the South Caucasus.

In 2010 Štefan Füle, European Commissioner for Enlargement and Neighbourhood Policy underscored the role of the EU in supporting its values, especially in the South Caucasus. He pointed out that the actual responsibility for internal reforms lies within the governments of Armenia, Azerbaijan, and Georgia. But that the Commission is ready to provide technical, as well as financial assistance.[245] This speech is in line with the image of the EU as a normative power since there are no indicators for hard power and the overall goal is to support their norms. This becomes even more obvious and important since all three states are participating in the Eastern European Partnership (EaP), a tool from Brussels to enlarge and expand its values and influence. The EaP was founded in 2009 and is the successor of the European Neighbourhood Policy. The importance of the South Caucasus to this policy was first highlighted in the EU security strategy in 2003.[246] Next to the three South Caucasian states, this policy was also directed toward Moldova, Ukraine, and Belarus.[247] The rule of law, good governance, democracy, human rights, economic convergence with EU legislation, energy security, and people-to-people contacts are the main stakes in the EU-Enlargement process. At this point, it is important to note that the participation in the EaP does not result in membership in the EU but in Deep Comprehensive Free Trade Areas[248] which is favored by some members of the EaP over a membership (Azerbaijan). Other countries had false expectations in this program. The EaP shared with Russia some interests regarding the region, like stabilizing it.[249] Nevertheless, the context of the creation leaves little doubt about the goal of this initiative, to antagonize Russian influence.[250] Anyway, the South Caucasus can not be considered a stable region, however, external actors benefit from this status quo differently.

Overall the two main stakes of the EU policy towards the South Caucasus are the EaP and the EU's energy interests, regarding the natural resources of the Caspian Sea.

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[244] Delcour and Wolczuk (2020).

[245] "Press Corner". European Commission - European Commission, Štefan Füle European Commissioner for Enlargement and Neighbourhood Policy Exchange of views on South Caucasus and Ukraine Committee on Foreign Affairs (AFET), European Parliament Brussels. 2010. https://ec.europa.eu/commission/presscorner/home/en. Last Accessed: 15.05.2022.

[246] CROMBOIS, J. F. (2017). CONFLICTING NARRATIVES?: GEOPOLITICAL AND NORMATIVE POWER NARRATIVES IN THE EU EASTERN PARTNERSHIP. Politeja, 49, 109–126.

[247] CROMBOIS, J. F. (2017).

[248] CROMBOIS, J. F. (2017).

[249] Koldunova E. The Impact of the Arab Spring on Central Asia: Regional and Macro-regional Implications/ E.Koldunova // Security in Shared Neighbourhoods: Foreign Policy of Russia, Turkey and the EU. Ed. by R. Piet, L.Simao. Basingstoke: Palgrave, 2016. P.145-169.

[250] Interview A

2.2.1 Eastern Enlargement and neighbourhood policy

The origins of the Eastern European Partnership can be found in the Partnership and Cooperation Agreements signed with Armenia, Azerbaijan, and Georgia in 1999.[251] The European Union saw itself as a guide or promoter for the democratic transitions happening in this region. This is especially true for the six post-Soviet states that are participating in the EaP. The EU supports the transition towards democratic values. But there were other interests in the South Caucasus. First, it is a transit zone for goods from Asia, and second, the energy resources in the Caspian Sea.[252] Nevertheless, the EU pursues honorable goals in this region, such as economic development, confidence building, and support for infrastructure projects. The implementation of programs such as Technical Assistance to the Commonwealth of Independent States (TACIS) and the Eastern Partnership underscores these goals.

The challenge for these programs lies in the diversity of their beneficiaries. The South Caucasian societies are in a very different situation from the Europeans when they took steps toward democratization. Each of the countries has its own history and environment to deal with, as well as security concerns.

But how is the EU perceived in the region where it has been unable to gain a foothold for so long?

The perception of the EU is twofold and somewhat ambivalent. First and foremost, as a normative power.[253] Soft power is one of the basic tools for reaching out to countries, establishing a presence, and keeping channels of communication open with civil society. This may be one reason why Russia does not see the EU as a competitor to the same extent as NATO. Military interests are not part of the partnership. Nevertheless, Russia does not have the resources to keep the EU completely out of the South Caucasus.

Second, as a driver of economic modernization and an importer of expertise.[254] The governments in Baku and Yerevan view the EU as a complementary actor to their relations with

[251] Charaia, V., Chochia, A. & Lashkhi, M. (2018).
[252] Bekiarova, N. (2019).
[253] Delcour, L. & Wolczuk, K. (2020).
[254] Delcour, L. & Wolczuk, K. (2020).

Russia, especially in economic terms. This is actually the correct view of the EU since its geopolitical weight is rather limited, but its geo-economic power is not.[255]

These two roles of the EU are welcomed differently by Armenia, Azerbaijan, and Georgia. All three states have a significant proportion of conservatives in their societies. These are sometimes at odds with EU values, especially regarding LGBT-rights.

In the case of Armenia, the EU's image changed after the 2018 Velvet Revolution. Before, the focus was on security and economy. But after that, the promotion of values such as democracy, rule of law, freedom of speech, and anti-corruption became more important. These values became intensely linked to the desire for modernization. Armenia has higher expectations for modernizing its economy with EU support than with the EAEU. This explains the Comprehensive and Enhanced Partnership Agreement (CEPA) between the EU and Armenia signed in 2017. This underlines the EU's role as assistance for economic development and a driver for internal reforms. Since 2018, the EU has increased its financial support to €65 million.[256] Armenia also benefits from financing, training, and export assistance offered by the EU. Another important step under the Eastern Partnership is the EU4Region, which supports regional and local businesses to become more competitive.[257] It is precisely these features that confirm the EU's status as an economic engine.

The EU is trying to show its presence in Armenia, not only through meetings and trainings but also through infrastructure projects. For example, 7000 households received energy renovations and the capital was able to expand its metro system.[258] (Photo C)

Above all, economic relations between the EU and Baku are of great importance for cooperation. The cooperation is mainly focused on energy, energy security, and transportation. However, no other treaty has been signed between the two parties since the Partnership and Cooperation Agreement in 1999. One reason for this could be that Baku does not want to make major commitments, as a comprehensive and expanded partnership agreement would reflect.[259] Tailored to Azerbaijan's needs, the EU supports businesses with funding and training through the EU4Business program.

[255] Interview C

[256] FACTS AND FIGURES ABOUT THE EU-ARMENIAN RELATIONS. https://www.consilium.europa.eu/media/44397/685-annex-5-a-armenia-factsheet.pdf: Last Accessed: 01.04.2022.

[257] Delcour, L. & Wolczuk, K. (2020).

[258] FACTS AND FIGURES ABOUT THE EU-ARMENIAN RELATIONS.

[259] Delcour, L. & Wolczuk, K. (2020).

But it is a complicated relationship that Azerbaijan has with the West. On the one hand, Azerbaijan is frustrated with the Minsk Group's role in the war with Armenia; on the other hand, the West criticizes Azerbaijan on human rights issues. Azerbaijan's role in securing the South Caucasus is getting increasingly important, facing the poor relations between Moscow and Brussels.

Nevertheless, Baku faces constant criticism over human rights violations and freedom of speech and press. Reforms to strengthen democracy, human rights, or even civil society are not welcomed by Baku. Baku sees them as interference in its domestic politics. As a result, the EU's performance as a promoter of democratic values in Azerbaijan is poor compared to Armenia or Georgia.[260] This is one reason why many experts assess relations between Baku and Brussels as extremely ambivalent. When it comes to the important interests of the EU, it can overlook its image as a normative power.

Both perceptions of the EU are strongly integrated in Georgia. Among the South Caucasian states, only Tbilisi has signed the AA-DCFTA. As presented in the first chapter, Georgia is considered a Western-oriented country with high respect for EU values. Especially after the war in 2008, the EU has become increasingly important. Both in political and economic terms. Raising Georgian products to European standards would make them more competitive.[261] The general desire to modernize is always linked to EU support. Already a lot has been achieved since the beginning of this partnership. Brussels supports the modernization of the agricultural industry and local Georgian businesses.[262] It is one of the main investors in many infrastructure projects that improve connectivity in the region.

The EU itself enjoys a good reputation in the South Caucasus. It is associated with high investments and exporter of expertise. In Baku, the EU is welcomed for economic modernization, but not as an engine for internal reform. Although the Eastern Partnership still exists, it seems to be at a standstill.

2.2.2 Alternatives in gas and oil supply

[260] Delcour, L. & Wolczuk, K. (2020).
[261] Delcour, L. & Wolczuk, K. (2020).
[262] FACTS AND FIGURES ABOUT EU-GEORGIA RELATIONS. https://www.consilium.europa.eu/media/44400/685-annex-5-d-georgia-factsheet.pdf Last Accessed: 01.04.2022.

The interest of the EU in the South Caucasus especially in the energy field increased at least since the energy crisis in 2006 and 2009. Although the EU wants to get closer to renewable energy, gas is essential for this transition.

As the already realized TANAP and TAP, which were co-funded by the European Investment Bank (EIB), show, Azerbaijan is an important component of the EU energy supply. However, one of the major concerns of policymakers and investors in Europe is the unstable situation in the South Caucasus, especially the conflict with Armenia over Nagorno-Karabakh. Pipeline routes must be safe and reliable to deliver oil and gas. The South Caucasus is not considered one of the safest regions in the world, which has a negative impact on further cooperation, which we can already see from the fact that the pipeline connecting the Baku fields via Georgia and Turkey is relatively small compared to the pipeline connecting Russia to the EU. Azerbaijan also can enhance its role to make the region safer. Energy security is therefore closely linked to Baku's foreign policy agenda. Another major problem is the fact that the already existing gas pipeline covers only 2% of the EU's annual demand,[263] far from reaching the original target of 10-20%. This makes it hardly a real alternative to Russia. The EU remains highly dependent on Russian resources, which supply 55.2% of its gas needs.[264] In 2018, Azerbaijan's oil exports to the EU accounted for only 4.9%[265], compared to the 113 million tons that Russia exported in 2020, the amount is relatively small.[266] This definitely leaves room for future developments.

Nevertheless, the importance of Azerbaijan in enhancing energy security in Europe was again underlined by the recent visit of EU Energy Commissioner Kadri Simson on February 4, 2022. The meeting focused on expanding existing gas supplies to Europe to 10 billion cubic meters. It is important to understand that relations between Brussels and Baku are at a turning point when it comes to energy security. However, the cooperation between the EU and Azerbaijan was not always promising. When Azerbaijan chose the TAP project over the Nabucco project to supply the European market with natural resources, it thwarted the EU's most important interests. Because now Gazprom was in the position to keep its monopoly over the high

[263] Barseghyan, Anna (2021) https://evnreport.com/politics/southern-gas-corridor-brings-azerbaijani-gas-to-the-eu/ Last accessed: 01.03.2022.

[264] Welle (www.dw.com), Deutsche. „Deutschlands riskante Abhängigkeit von Putins Gas | DW | 27.01.2022". DW.COM, https://www.dw.com/de/deutschlands-riskante-abh%C3%A4ngigkeit-von-putins-gas/a-60553019. Last accessed: 01.03.2022.

[265] FACTS AND FIGURES ABOUT EU-AZERBAIJAN RELATIONS. https://www.consilium.europa.eu/media/44398/685-annex-5-b-azerbaijan-factsheet.pdf Last accessed: 03.03.2022.

[266] Furkan Abay, Emre (2022): Russian gas flow to Europe on rise despite war. https://www.aa.com.tr/en/economy/russiangas-flow-to-europe-on-rise despitewar/2521212#:~:text=Main%20oil%20supplier%20of%20Europe,imports%20of%20440%20million%20tonnes Last accessed: 04.02.2022.

consumer countries like Austria and Bulgaria. The TAP transports Caspian gas via Greece and Albania, across the Adriatic Sea to southern Italy. It does not cross Austria or Bulgaria as the Nabucco Pipeline would have. The route of Nabucco would have been a direct competitor to the Gazprom's South Stream pipeline.

In the meantime, Azerbaijan faces domestic issues. Major obstacles to further development, especially in the infrastructure sector are widespread corruption, delays in reforms as well as an imbalance in regional economic and transport developments.

The combination of the energy interests in the Caspian Sea and Baku's poor performance in adopting EU values, give this relationship an ambivalent character. The process of developing relations seems to be more of a balancing act of the EU between its pragmatic interests and its desire to expand its values.

This balancing act can be also seen on the relations with Tbilisi in 2008. It is not the purpose to analyse how the geopolitical backgrounds of this conflict. Moreover, the fact that Russia's military supported the breakaway region of South Ossetia, and a war started with Russian troops close to Tbilisi. Georgia by this time was a close partner of the EU and NATO. Nevertheless, it did not experience support in any way during this short conflict. During this war, the EU was in its phase of "expansion fatigue".[267] But more importantly, the dependency on Russian gas and oil weighed more than the assistance of a potential partner to expand its values. Georgia was relatively left alone and the disappointment in the West was visible.

In summary, the confidence in the relations with the EU differs among the South Caucasian states. Nevertheless, since the EU got more actively involved in the region and financially assisted the development, one can see remarkable growth in the countries. Armenia benefitted from EUR 379 Million lending from the European Investment Bank. With this aid, 180 kilometers of roads have been built. A major project was the M6 Interstate, a transit route connecting Central Armenia with Georgia. The EIB supported this with a loan of EUR 51 million. Another project which got granted a loan of EUR 60 million from the EIB was the North-South Road Corridor project. It will improve 556 kilometers of a much-used transport route in Armenia, which runs from Bavra at the border with Georgia, to Meghri at the border with Iran, through the cities of Gyumri, Ashtarak, Yerevan, Goris, and Kapan. Next to the expansion of roads many cross-border stations have been established between Armenia and Georgia. Which connects the countries even closer. The EIB also gave Georgia loans of over

[267] Kakachia, K. (2010) "Between Russian Assertiveness and Insecurity: Georgia's Political Challenges and Prospect after the Conflict", Uluslararası İlişkiler, Volume 7, No 26, p. 87-104.

EUR 1 billion for infrastructure.[268] It seems that this field is the main investment field of the EU and the EIB in the South Caucasus.

Given the strategic hedging pursued by Armenia, Azerbaijan, and Georgia the EU plays a remarkable role in their foreign policy agenda. Mainly the EU tries to assist the countries in their transition process towards democracy under the umbrella of the EaP. But not all countries agree with the role of the EU as a normative power. This, however, does not result in lesser financial or technical assistance. As can be seen in the development of its relations with Azerbaijan for energy purposes. Regardless its comparable poor performance in the Freedom in the World report.[269]

2.3 China – paymaster

China's economic growth and its positive forecasts have been associated with huge investments and immense financial resources at the latest since the announcement of the BRI. China plays on several occasions the role of the banker. As in the New Development Bank (NDB) under the BRICS countries (Brazil, Russia, India, China, South Africa) and the Asian Infrastructure Investment Bank (AIIB).[270] Many countries appreciate China's loans others are more scared of the so-called debt trap. Some countries more likely to fall into such traps, other countries prefer, if needed, to get loans from financial institutions. However, China has an important voice in the decision-making of almost all of the newer established financial institutions in Asia and even beyond.

China has a very ambivalent perception around the world. It is associated with financial bottlenecks as well as a promoter of economic modernization and technical superiority.

But knowing the failed platforms for Chinese investment such as the 16+1 initiative[271], and many others where not much has happened, the question arises, 'How does China perform in the South Caucasus?'

[268]Team Europe: EIB provides €106.7 million to Georgia for major upgrades of its East-West highway (2021). https://www.eeas.europa.eu/delegations/georgia/team-europe-eib-provides-%E2%82%AC1067-million-georgia-major-upgrades-its-east-west_en#:~:text=The%20EIB%20in%20Georgia%3A&text=To%20date%2C%20the%20EIB%20has%20invested%20in%20key%20sectors%20of,projects%20(%E2%82%AC23.5%20million). Last Accessed: 01.04.2022.

[269] Freedom House Report. 2022. https://freedomhouse.org/country/azerbaijan/freedom-world/2022 Last Accessed: 15.05.2022.

[270] Guliyev, M. and Huseynova, K. (2021).

[271] The 16+1 Initiative is a platform initiated by the Chinese Ministry of Foreign Affairs to promote business ties

Thanks to China's role in the BRICS and financial institutions like the NDB it is considered to be a paymaster. Countries in need expect some funding also through the AIIB, NDB, and the Silk Road Fund.[272] So far China could not be considered a banker in the South Caucasus considering its investments.

2.3.1 Geopolitical interests in the South Caucasus

Although part of the ancient Silk Road the South Caucasus plays a minor role in China's large-scale strategy connecting Asia with Europe and Africa aiming at a deeper regional integration and economic growth, the Belt and Road initiative. The bilateral relations between China and each of the three states are comparably modest. The South Caucasus is in the eyes of Beijing a matter of the department of European-Central Asian affairs. Officially the relations are described as friendly and cooperative[273] Also soft power plays a remarkable role, the amount of Confucius institutes grew over more than a decade, and the countries support the people-to-people exchange with China. Beijing tailored its initiatives and projects to the specifics of each state. For example, in Georgia, one can see a concentration of interest in the infrastructure sector.

In the case of Armenia, one can see some cooperation in the military and public health sectors. Several donations have been addressed to these fields. The trade increased over a decade and making China the second-biggest trading partner. [274] In 2020, Armenia exported $323 Million worth of goods to China and imported $550 Million. Beijing has a digital footprint in Armenia through its projects such as the development of 'Smart Cities'.

China attracts especially Azerbaijan with its non-interference policy.[275] It uses more Soft Power to boost its influence and image.

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between China and 16 Eastern European countries.

[272] Lo, Bobo (2016) The Illusion of Convergence—Russia, China, and the BRICS. Paris: IFRI.

[273] Ministry of Foreign Affairs of the People's Republic of China: China And Armenia; https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/dozys_664276/gjlb_664280/3130_664282/ China and Azerbaijan; https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/dozys_664276/gjlb_664280/3135_664292/ China and Georgia; https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/dozys_664276/gjlb_664280/3170_664312/ Last Accessed: 30.03.2022.

[274] Popkhadze, Miro (2021). China's Growing Influence in the South Caucasus - Foreign Policy Research Institute. https://www.fpri.org/article/2021/11/chinas-growing-influence-in-the-south-caucasus/. Last Accessed: 04.04.2022.

[275] Valiyev, A. and Bilalova, S. (2021).

In 2020, it exported goods worth around $936 Million and imported $436 Million.[276] Chinese Assistance can also be found outside the oil and gas sector, mainly for projects enhancing better regional connectivity. The Digital Silk Road, a component under the umbrella of the BRI to improve digital connectivity among the belt, from Mumbai to Frankfurt am Main via Azerbaijan, and expansions of the port of Baku are examples of assistance outside the energy sector.[277] But of course, the oil sector remains the most attractive section for investments. The Chinese-led Asian Infrastructure Investment Bank gave a US$ 600 million loan to Azerbaijan for the construction of the TANAP gas pipeline.[278]

'Seeds for the future' program shows the digital aspiration of China toward a new generation of Azerbaijanis who will study electronic engineering and IT in China.[279] Several steps have been taken toward close cooperation in the digital sphere. Toward the establishment of smart cities and public WI-FI in Azerbaijan. Similar to projects in Armenia.[280]

The technical assistance of China to Georgia underlines its status as transit country. This is interesting because Georgia cannot be called a crossroad when it comes to reaching China. Since the 2000s investments have been directed to ground transportation networks, railroads, seaports, and Free Trade Zones.[281] Officially the infrastructure projects advance smoothly.[282] China invested in the railroad connecting Azerbaijan with Georgia and Turkey. It follows the goal of strengthening regional connectivity.

Georgia is the first and only country in the South Caucasus that signed a Free Trade Agreement with Beijing in 2017. In 2020, the share of Georgian goods for export headed to China was worth $974 Million, and Georgia imported $499 Million of goods the same year.[283] Which makes China the third-largest trade partner.[284] As in the neighboring countries, Soft Power has its part in the bilateral relations. Confucius Institutes and people-to-people exchange are supported by both governments. Georgia by far attracts the most investments.

The relations the countries have with China are not the most important, neither for them nor for Beijing. China has stayed out of all political and military conflicts in the region. The overall interests in the region are rather limited as shown in investments compared to other regions.

[276] Popkhadze, M. (2021).
[277] Popkhadze, M. (2021).
[278] Poghosyan, B. (2018). China's OBOR Initiative: Opportunities for the South Caucasus. IndraStra Global, 4(7), 1-5.
[279] Popkhadze, M. (2021).
[280] Popkhadze, M. (2021).
[281] Popkhadze, M. (2021).
[282] Ministry of Foreign Affairs of the People's Republic of China: China and Georgia; Last Accessed: 30.03.2022.
[283] Popkhadze, M. (2021).
[284] Popkhadze, M. (2021).

There might be several reasons for this: First, the South Caucasus is not been mentioned as a corridor in the new Belt and Road Initiative[285], second, due to newly erupting conflicts the region is not stable and therefore does not tap the full potential of possible investments.[286] Another important reason might be that there are already great powers involved, namely Russia and the EU. China just does not see the benefits to antagonize their interests, since the South Caucasus is not vital to Beijing. But regarding Chinese investments in regional connectivity and development, it follows the goal of driving away from a Russian or US- centered trade and energy sphere.[287] Highlighted by China's participation in the Trans-Caspian International Transport Route, bypassing Russia in reaching the EU. Which has the potential to become an actual part of the Belt and Road Initiative. The South Caucasus could be complementary to achieve this but is not essential. Especially regarding already existing pipelines connecting China with Turkmenistan and Kazakhstan, Central Asia-China Gas Pipeline, and the Atasu-Alashankou oil pipeline. China expanded its influence at the expense of Russia due to its growing energy demand.[288]

But there might be more political reasons involved than economic ones. China's President Xi broke with the policy of its predecessor, Hu Jintao, to show expansive global ambitions and promote a stronger Chinese position in Eurasia.[289]

The role of China in the South Caucasus is highly discussed. The opinions are divided between 'reality check'[290] vs 'China just got started'[291]. There are some indicators that China's role will increase in the coming years. Due to a growth in trade and cooperation. Also one can not deny that China has already a foothold in the region. But relations can be better described as rather modest.

[285] The State Council Information Office. The People's Republic of China. What are six economic corridors under Belt and Road Initiative? | english.scio.gov.cn. http://english.scio.gov.cn/beltandroad/2020-08/04/content_76345602.htm. Last Accessed: 15.05.2022.

[286] Avdaliani, Emil (2020). „The Limits of China's Involvement in South Caucasus". Chinaobservers, https://chinaobservers.eu/the-limits-of-chinas-involvement-in-south-caucasus/. Last Accessed: 27.03.2022.

[287] Avdaliani, E. (2020).

[288] Tibold, Andrej and Cillessen, Vincent (2006).

[289] Markey, Daniel S. (2020). China's Western Horizon: Beijing and the New Geopolitics of Eurasia. 1. Vol., Oxford University Press. P.3-4.

[290] Avdaliani, E. (2020).

[291] Yau, Niva (2021). „In the Caspian Region, China Is Just Getting Started". Carnegie Moscow Center, https://carnegiemoscow.org/commentary/83950. Last Accessed: 02.04.2022.

2.3.2 Investments and debts

The general trend in the South Caucasus and Central Asia shows an increase in foreign investments, especially towards Energy projects (53% or $ 289 billion), followed by manufacturing projects (22% or $ 117.9 billion), and transport (17% or $ 94.2 billion).[292] Investments from China are mostly directed at transportation, in Azerbaijan ($ 1 billion) and in Georgia ($ 0,25 billion).[293]

The habit of taking loans is relatively small in the South Caucasus. Azerbaijan and Georgia mainly receive loans from financial institutions like the AIIB as will be further set out in 3.2.3.[294]

The Chinese practice of issuing "concessionary loans," where funds are transferred on the condition that they are reinvested in Chinese companies.[295]

First, debt risk is usually the main concern of smaller countries in particular. The private debt has increased in recent years. In December 2017, it reached $36 trillion, almost three times of China's GDP.[296] Furthermore due to its intransparency on the performance of domestic non-performing loans (NPLs) the credibility of the Chinese financial system suffers. While the official state of NPLs did not experience any ups and downs but remained at around 1.7% of total loans in recent years.[297]

In 2017, Moody's downgraded China's credit rating, because of systemic risks of rising debts and slower economic growth.[298]

Beijing has different interests in investment and credit for the three South Caucasian states.

Armenia attracts the least investment, because of its underdeveloped connectivity. However, a rail project linking Armenia to Iran is under discussion. The costs are immense, so it is a long

[292] Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus 2019 : Hotspot Analysis and Needs Assessment. https://www.oecd-ilibrary.org/sites/26b109ae-en/index.html?itemId=/content/component/26b109ae-en. Last Accessed: 15.05.2022.

[293] Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus 2019 : Hotspot Analysis and Needs Assessment.

[294] World Bank (2020). Case Study Azerbaijan.

[295] Pieper, M. (2020).

[296] Leandro, Francisco José B. S., and Paulo Duarte (edt). (2020). The Belt and Road Initiative: An Old Archetype of a New Development Model. Palgrave Macmillan. Cht 6 The Financing of the Belt and Road Initiative: Blessings and CursesEnrique Martínez-Galán.

[297] Leandro, F.J.B. S., and Duarte P. (edt). (2020).

[298] Leandro, F.J.B. S., and Duarte P. (edt). (2020).

way from being realized. Razia FZE, a company based in the United Arab Emirates, and China have shown interest in this project.[299]

Investments in Azerbaijan are mainly focused on natural resources, infrastructure, and transit. Three major Chinese projects have been implemented in the last seven years. The industrial park in the port of Alyat, an integrated steel plant, and a tire factory.[300] However, Baku seems reluctant to really engage in closer economic cooperation with Beijing. As a result, Chinese commercial banks are less willing to lend to Azerbaijani projects.[301]

Azerbaijan does not borrow from the Chinese government, but mainly from international institutions such as the AIIB or the NDB.[302] It is important to see China's leading role in these financial institutions. Perhaps that is why the debt burden in Azerbaijan, Kazakhstan, and Uzbekistan is around 20%.[303]

AIIB investments in the past were for TANAP constructions worth $600 million.[304] Projects, that make the route from Baku to China via the Kazakh port of Aktau a competitor to the port of Turkmenbashi in Baku are under consideration for further loans.[305] Azerbaijan could strengthen its role as a central country in the China-Central Asia-West Asia Economic Corridor (CCAWEC) and become a transport hub.[306] However, this is really optimistic and completely ignores the interests of Russia and the EU.

Georgia, like Azerbaijan, is a member of the AIIB. Investment in this state is broad-based, with a slight emphasis on hydropower. At the beginning of this century, Beijing financed the construction of the Khadori hydropower plant.[307] Chinese workers included.[308] A $100 million loan was made through the AIIB for Covid assistance.[309] An investment of $100 million for the Nenskra hydropower plant is also under discussion.[310]

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[299] Shapiro, Daniel (2020). US Should Keep an Eye on Rising Chinese Investment in the South Caucasus | Russia Matters. https://www.russiamatters.org/analysis/us-should-keep-eye-rising-chinese-investment-south-caucasus. Last Accessed: 27.03.2022.

[300] Yau, N. (2021).

[301] Yau, N. (2021).

[302] World Bank (2020). South Caucasus and Central Asia: Belt and Road Initiative Azerbaijan Country Case Study. Macroeconomics, Trade and Investment South Caucasus and Central Asia. Equitable Growth, Finance and Institutions (EFI). World Bank Group.

[303] Rana, P. B., and Xianbai J. (2020). „BRI and Central Asia“. China's Belt and Road Initiative, Springer Singapore, S. 135–57.

[304] Shapiro, D. (2020).

[305] Shapiro, D. (2020).

[306] Shapiro, D. (2020).

[307] Shapiro, D. (2020).

[308] Shapiro, D. (2020).

[309] Shapiro, D. (2020).

[310] Shapiro, D. (2020).

Regarding all these diverse projects and Chinese support for infrastructure, many experts stress that China is trying to repeat its success story in Central Asia.

But are Chinese investments and projects really that successful? One can hardly speak of a complete victory.

The reason therefore might be that many Central Asian countries, for example, Turkmenistan, have intensified their search for alternatives.[311] In order to not be too dependent on China.

In the end, it is a rather limited and modest relationship, which connects Beijing with the South Caucasus. Although some geopolitical interests do exist. Nevertheless, Transcaucasia presents a possible transit venue for goods from China to Europe. So to a certain extent, a rise in investment and trade is foreseeable. But it is not at all unique in its position. It lies in the perception of China if the benefits outweigh the costs. Improvements in the management of border crossings and bureaucratic reforms are needed to make traffic through the South Caucasus more attractive.

[311] Yau, N. (2021).

Chapter 3. Crossroad South Caucasus: Meeting point of international infrastructure projects

After the analysis of the three main external actors having different kinds of interest in the South Caucasus, I will now explain the logic behind the EU-led TRACECA and Chinese-led Belt and Road Initiative with the possible benefits for the South Caucasus as well as their inclusion in the North-South Transport Corridor.

Since the South Caucasus presents an alternative route to diversify the transport corridors, it plays a complementary part in all infrastructure projects. For Russia, stability in the region is vital due to the close neighborhood. Nevertheless, given the geography, the region has the potential to turn into a small but valuable element in the chain.

None of the three states are economic powers; hence, they depend on external financial aid to support the areas of transport, trade, and infrastructure. As presented in chapter 2, the EU and China assist the region in these areas, with the vision of implementing a transport corridor connecting Asia with Europe. Some of the discussed projects aim at bypassing Russia.

Thanks to the participation in TRACECA or BRI, even with just selective projects, investments can be simplified under their umbrella and are more likely to be attracted since they follow the logic of the initiatives.

But the question remains whether it will be beneficial for the engines behind these projects to commit to long-term financial support to enhance further development in the South Caucasus. If it turns out that the benefits are in decline, the region can be bypassed.

In fact, for all South Caucasian governments, participation in BRI and TRACECA means a great deal. But they are differently involved.

In any case, infrastructure for them is a tool through which they can attract further investments, and diversify their economy away from just one sector, thereby enhancing their domestic economy. Better connectivity plays a significant role in this process. Governments chose based on their foreign policy agenda—which countries are more beneficial and less risky to build these links with. In the map below gives an oversight of the already and planned connection routes of the South Caucasus. It becomes obvious that Armenia is excluded from not only projects initiated by Azerbaijan.

Figure 2: Existing links in the South Caucasus

Source: https://upload.wikimedia.org/wikipedia/commons/3/31/Caucasus_regions_map2.svg

3.1 EU-led TRACECA and the new Global Gateway: becoming a hub for transportation?

The EU has long been in a phase of fatigue. This now appears to have ended with the newly announced Global Gateway. Released in December 2021, this program highlights geopolitical competition with China's Belt and Road Initiative. The overall logic is to promote global development in conjunction with the EU values. The goal is to achieve the same standards and promote democratic values and rules.

The expansion of these values is also key to the EaP. The Eastern Partnership also aims to strengthen democracy in the transition countries, the six member states of this initiative, while supporting their economies.

So both ideas are meant to show what strong democracies can do. It is also said that the EU does not stand alone but could be supported by its allies.[312]

[312] Ricart, Raquel Jorge and Iglesias, Miguel Otero (2022). „The Global Gateway: It's Not the Money, It's the Strategy". Real Instituto Elcano, https://www.realinstitutoelcano.org/en/commentaries/the-global-gateway-its-not-the-money-its-the-strategy/. Last Accessed: 12.04.2022.

It is already known that the EU and its member states are the biggest donors, but there was still room for budget unification. The result is the NDICI (Neighborhood, Development and International Cooperation Instrument). It brings together $79.5 billion from the EU, its member states, the EIB, and the European Bank for Reconstruction and Development. The fund is divided between geographic programs (60.38 billion euros), thematic programs (6.358 billion euros), a crisis response program (3.182 billion euros), and a cushion of unallocated funds.[313]
The announcement states that the EU has a budget of more than 300 billion euros for this goal. This is necessary to support the goals of the EU's 2021 Foresight Report.[314] This basically highlights the need to respond to global megatrends and lead effective multilateral cooperation while protecting citizens and economies.[315] The report also highlights competition with China. China is the only power that has announced a similar infrastructure initiative around the world, has the necessary financial resources –(as officially claimed), and is not an ally of the EU.
The overall line of the Global Gateway does not seem to be well coordinated. Therefore, it can only be a starting point for the Union. There is a lack of accompanying documents nor a clear strategy on which region and areas to invest in.[316] The geopolitical goals are not clear except for competition with China. However, this does not seem sufficient to spend this amount. On the other hand, this is a smaller budget than the BRI's, which is $100 billion per year.
It is too early to speak of a successful program or implementation, but it is a remarkable step with immense financial resources to improve connections around the world in connection with EU values and rules. Overall, it underscores the EU's status as a geo-economic power.
It can also serve as an indicator to smaller countries that the EU's interest in investing in infrastructure and other areas does not seem to be waning. This is especially true for the South Caucasus, which as part of TRACECA, could attract more investments.
But even if the South Caucasus receives some of the funds from this initiative, they will not be evenly distributed. The three states have all benefited differently due to their geographic circumstances. So far, it remains to be seen how and where these investments will be used.

[313] Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI – Global Europe). https://ec.europa.eu/neighbourhood-enlargement/funding-and-technical-assistance/neighbourhood-development-and-international-cooperation-instrument-global-europe-ndici-global-europe_de. Last Accessed: 12.04.2022.
[314] Ricart, R. J. and Iglesias, M. O. (2022). Last Accessed: 12.04.2022.
[315] „2021 Strategic Foresight Report". European Commission - European Commission, https://ec.europa.eu/info/strategy/strategic-planning/strategic-foresight/2021-strategic-foresight-report_en. Last Accessed: 12.04.2022.
[316] Interview C

3.1.1 Milestone of the Baku-Tbilisi-Kars Railway and its part of the supply chain

Since its commissioning on October 30, 2017, the Baku-Tbilisi-Kars railroad has played a crucial role in various supply chains. It can be used for several transport routes ending or starting in Europe or China. Mainly funded by the Azerbaijani government, the railroad line has been rehabilitated and built over a length of 189 km and consists of two parts.[317] First, the Marabda-Akhalkalaki section, with a length of 153 km, and second, the Akhalkalaki-Kartsakhi section, with a length of 27 km.

The countries involved in this railroad line - Turkey, Georgia, and Azerbaijan - make it an attractive part of the international routes. It can benefit from the competition of several transport routes across the Black Sea, as Georgia and Turkey are riparian countries. Once goods reach Turkey, access to the European market is easy. Once in Baku, they can be transported by ferry across the Caspian Sea to Turkmenistan, Kazakhstan, and Central Asia. But is there a demand for this?

There are some success stories. Like the shipment of metals from Uzbekistan, a landlocked country twice over, via Turkmenistan, crossing the Caspian Sea by ferry and arriving at Baku's Alyat port in March 2020.[318] From there, the goods are transported further by rail.

Even the Russian Magnitogorsk giant used the railroad to transport its steel to Turkey twice as fast as by sea.[319] Thanks to BTK, it took only 15 days instead of 25-30.

The first 50 containers from Uzbekistan to reach Azerbaijan arrived in early 2022.[320] This route has already proved its worth during the same transfer in 2020 before the Corona outbreak.

However, the link between Azerbaijan, Georgia, and Turkey is not in constant use. Its current capacity is not fully utilized. 6 million tons can be handled by the route per year. In 2019, it handled only 109,000 tons. [321]

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[317] Transport Infrastructure Projects in Georgia. TRACECA ORG. http://www.traceca-org.org/en/countries/georgia/transport-infrastructure-projects-in-georgia/. Last Accessed: 27.03.2022.

[318] Zasiadko, Mykola (2020). „Caucasian States a Transit Hub for Freight from Central Asia“. RailFreight.Com, https://www.railfreight.com/intermodal/2020/04/07/caucasian-states-a-transit-hub-for-freight-from-central-asia/. Last Accessed: 07.04.2022.

[319] Zasiadko, Mykola (2018). „Russian Metallurgical Giant Delivers Steel via Baku-Tbilisi-Kars Railway“. RailFreight.Com, https://www.railfreight.com/beltandroad/2018/08/29/russian-metallurgical-giant-delivers-steel-via-baku-tbilisi-kars-railway/. Last Accessed: 07.04.2022.

[320] Mehdiyev, Mushvig (2018). Caspian Region Reaps More Benefit from Baku-Tbilisi-Kars Railway. https://caspiannews.com/news-detail/caspian-region-reaps-more-benefit-from-baku-tbilisi-kars-railway-2018-7-25-34/. Last Accessed: 04.04.2022.

[321] Zasiadko, Mykola (2020).

But is it also beneficial for other markets? It is indeed an increasingly important option for all landlocked Central Asian countries to reach other markets outside their region. Trade exchange between Europe and Central Asia is rather modest. Therefore, the significance of this supply chain for the South Caucasus as a transport hub is limited. In 2020, the EU imported goods worth €13,210 million, a decrease of -30.9%.[322] In 2021, they increased by 41.8% and reached a value of €18,730 million. In the same two years, it exported goods worth €9.061 million, a decrease of -4.3%.[323] In 2021, it recovered slightly and reached €9.106 million.[324] Given this low trade volume and modest growth expectations, the use of railroads in becoming a transport hub is rather limited.

As of 2007, only 2% of goods traded between the two markets are transported by rail.[325] Therefore, the railroad lines across Eurasia are not essential for trade between China and Europe.

Governments are holding on to the idea of expanding their role at the crossroads through a joint venture of Azerbaijan, Turkey, Georgia, and Kazakhstan. They underlined the importance of this railway link for the Trans-Caspian-Transport Corridor on March 31, 2022. The overall goals are to make the railway more competitive and strengthen cooperation and transit potential.[326]

3.1.2 Port of Alyat, Aktau, and Turkmenbashi: Boosting the Middle Corridor

The port of Alyat, sometimes also called the Port of Baku, is located at the crossroads of several international routes. It benefits from its crucial geographical position to connect Europe with China, bypasses Russia, or even establish north-south connections. Besides Russian ports, the port of Baku is the only way for Central Asian countries to reach the European market. Through

[322] European Commission (2022). European Union, Trade in goods with Central Asia 5. https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_central-asia-5_en.pdf Last Accessed: 09.04.2022.
[323] European Commission (2022).
[324] European Commission (2022).
[325] Russell, Martin (2019). EPRS | European Parliamentary Research Service. Members' Research Service. PE 637.891: Connectivity in Central Asia. https://www.europarl.europa.eu/RegData/etudes/BRIE/2019/637891/EPRS_BRI(2019)637891_EN.pdf Last Accessed: 13.04.2022.
[326] Papatolios, Nikos (2022). „Middle Corridor Joint Venture to Be Established in 2023". RailFreight.Com, https://www.railfreight.com/beltandroad/2022/04/07/middle-corridor-utlc-to-be-established-in-2023/. Last Accessed: 17.04.2022.

TRACECA, the port is directly connected to the east-west highway between Baku, Tbilisi, and Batumi and by train to the BTK railroad. It is even connected with the north-south highway from Russia to Iran via Baku or with the railroad from Russia to Iran via Baku, Lenkaran, and over the newly built Astara-Astara Bridge[327] (Azerbaijan-Iran).

Therefore, it was essential to move the former Baku port to its current location in Alyat in 2014.[328] It was opened there in 2018. This drew more attention to TRACECA and improved conditions for Caspian Sea ferries. In line with TRACECA's overall goals, other measures were taken to secure the weekly schedule, simplify the border crossing procedure and improve coordination.[329]

Baku International Sea Trade Port has a capacity of 18 million tons per year and 100,000 containers.[330] Which is expected to increase in the next few years.

In addition to cargo and containers, it mainly handles oil and mineral products. By comparison, the ports of Aktau, Kazakhstan, and Turkmenbashi, Turkmenistan, can handle 12 and 15 million tons, respectively.[331] However, neither port is fully utilizing its capacity.

This could soon change, as companies look for alternatives to the northern route through Russia.[332] Sanctions imposed on Russia by the EU and USA after February 24, 2022, play a significant role in the search for alternatives.

As a result, the Middle Corridor is becoming increasingly important. This is because all routes circumvent Russia. Under the current circumstances, the question is whether the Middle Corridor is ready to take over the Northern Route.

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[327] The ILC of the New International Sea Trade Port at Alyat. TRACECA ORG. http://www.traceca-org.org/en/investments/investment-projects/detail/?tx_tracecainvprojectstable_pi3%5Buid%5D=26&cHash=df173520e08bebef3fb1eea82ea0350d. Last Accessed: 17.04.2022.

[328] Ziyadov, Taleh (2010). Baku International Sea Port. OSCE-UNECE Inter-regional workshop on Developing Euro-Asian Transport Links. https://unece.org/fileadmin/DAM/trans/doc/2010/wp5/ECE-TRANS-WP5-GE2-workshop2_IR-pres_19e.pdf Last Accessed: 16.04.2022.

[329] Logistics Processes and Motorways of the Sea II. (2013). LOGMOS Master Plan – Annex 9.2. Project Fact Sheets. AZERBAIJAN. ENPI 2011 / 264 459. https://collaboration.worldbank.org/content/usergenerated/asi/cloud/attachments/sites/collaboration-for-development/en/groups/eastern-partnership-transport-panel/documents/jcr:content/content/primary/blog/2013_-_azerbaijani-mURc/2013%20-%20Azerbaijan,%20International%20Sea%20Trade%20Port%20at%20Alyat,%20Project%20Fact%20Sheet%20(LOGMOS).pdf Last Accessed: 18.04.2022.

[330] Your guide to the Caspian Sea's major ports | ITE Transport & Logistics. (2017). https://www.transport-exhibitions.com/Market-Insights/Turkey-and-Eurasia/Your-guide-to-the-Caspian-Seas-major-ports. Last Accessed: 18.04.2022.

[331] Your guide to the Caspian Sea's major ports | ITE Transport & Logistics. (2017).

[332] Papatolios, Nikos (2022). „First China-Russia Fresh Produce Train on Its Way". RailFreight.Com, https://www.railfreight.com/railfreight/2022/04/11/first-china-russia-fresh-produce-train-on-its-way/. Last Accessed: 18.04.2022.

The answer is short and clear: No. The capacity of the Northern Route far exceeds that of the Middle Corridor. Therefore, the ships connecting Baku with Aktau and Turkmenbashi have now increased. By the end of 2022, six and two ships per week, respectively, will be reached.[333] It is considered the best alternative to the New Silk Road, regardless of the volume issue. The volume of the northern route is estimated at 1.46 million TEUs, which corresponds to a weekly output of 27.5 thousand per week.[334] The middle corridor, on the other hand, reaches only 3,000 per week.[335] It has become obvious that the volume must be divided, as this route alone is not able to handle it, even with more ferries crossing the Caspian Sea. As recently announced, in the first three quarters of 2021, a total of 30,4 million tons were transported through Azerbaijan as part of the TRACECA. This meant a 1,8% increase in transported goods in 2021,[336] only 11,3% of the goods were carried out by sea.[337]

In 2022, Azerbaijan Caspian Shipping Company (CJSC) and Kazakhstan Railways – Kazakhstan Temir Zholy (KTZ) established a joint venture for freight transportation along the Middle Corridor.[338] Intending to deepen cooperation and benefit from existing links such as the BTK railroad, which is in line with the trend toward better connectivity between Central Asia and the South Caucasus.

3.1.3 Trans-Caspian gas pipeline and its political impact on the region

When it comes to energy security in Europe in connection with the Caspian Sea, Azerbaijan plays an important role. It has increased its gas production by 36% from 2017 to 2019.[339] The expansion of this capacity is expected to increase further as Sha Deniz Phase 2 development began in 2019. It will reach 350 billion cubic meters of gas as early as the first half of 2021.[340]

[333] Shi, Huilin (2022). „Middle Corridor Room for 60-80 Weekly Trains This Fall, Is This Enough?“ RailFreight.Com, https://www.railfreight.com/corridors/2022/04/12/middle-corridor-room-for-60-80-weekly-trains-this-fall-is-this-enough/. Last Accessed: 18.04.2022.
[334] Shi, H. (2022).
[335] Shi, H. (2022).
[336] Lmahamad, Ayya (2021). „National Cargo Transportation via TRACECA Hits 30.4m Tons“. AzerNews.Az, 5. November 2021, https://www.azernews.az/business/185242.html. Last Accessed: 17.04.2022.
[337] Lmahamad, A. (2021).
[338] Kazakhstan & Azerbaijan To Build Up Transportation and Logistics Route - „NMSC“ Kazmortransflot. https://kmtf.kz Last Accessed: 15.04.2022.
[339] Peterson, Kimberly and Barden, Justine (2021). Azerbaijan Has Increased Natural Gas Production and Added a Connection to Europe. https://www.eia.gov/todayinenergy/detail.php?id=49916. Last Accessed: 19.04.2022.
[340] Peterson, K. and Barden, J. (2021).

Azerbaijan could play a remarkable role in improving energy security in Europe, not only due to its natural resources but also thanks to its geostrategic location between Asia and Europe. The importance of Azerbaijan in enhancing energy security in Europe was reiterated by the recent visit of EU Energy Commissioner Kadri Simson on February 4, 2022. The meeting focused on expanding existing gas supplies to Europe to 10 billion cubic meters.[341] It is important to understand that relations between Brussels and Baku are at a turning point. The expansion of the Southern Gas Corridor is in line with the EU's desire for more diversified energy supplies away from Russia. It should be noted that gas imports from Russia to the EU have increased since 2017.[342] The volume reaching the EU through the Southern Gas Corridor is expected to increase by 2025. However, it is not expected to replace the 185 bcm of gas imports from Russia.[343] Therefore, this corridor is considered only a small part of the search for an alternative.

Azerbaijan could become an even more valuable link for supplying Europe with natural resources from Central Asian countries, especially Turkmenistan. Currently, Azerbaijan pipes 10 bcm of gas to Europe. This volume can be increased by a Trans-Caspian gas pipeline connecting Turkmenistan and Azerbaijan. The groundwork for this has already been laid. In 2020, a memorandum of understanding was signed between Azerbaijan and Turkmenistan, which is the first step for the trans-Caspian gas pipeline.[344] But, a memorandum of understanding does not usually specify exactly how the projects will be implemented, nor does it agree on investment or financial support. In any case, once the terms are agreed upon, it will play an important role, especially as it will bypass Russia. Moreover, the TCGP project's business plan is already supported by the European Commission's INEA.[345] Another plus is that Turkmenistan is the only source of natural gas and blue hydrogen that does not come from

[341] Directorate-General for Neighborhood and Enlargement Negotiations. Commissioners Simson and Várhelyi at the 8th Ministerial Meeting of the Southern Gas Corridor Advisory Council in Azerbaijan. https://ec.europa.eu/neighbourhood-enlargement/news/commissioners-simson-and-varhelyi-8th-ministerial-meeting-southern-gas-corridor-advisory-council-2022-02-03_en. Last Accessed: 13.04.2022.

[342] Karagianni, Marika (2022).„The Second Phase of the EU Southern Gas Corridor: Which Role for Azerbaijan? – ΕΛΙΑΜΕΠ, https://www.eliamep.gr/en/publication/%ce%b7-%ce%b4%ce%b5%cf%8d%cf%84%ce%b5%cf%81%ce%b7-%cf%86%ce%ac%cf%83%ce%b7-%cf%84%ce%bf%cf%85-%ce%bd%ce%bf%cf%84%ce%af%ce%bf%cf%85-%ce%b4%ce%b9%ce%b1%ce%b4%cf%81%cf%8c%ce%bc%ce%bf%cf%85-%cf%86%cf%85/. Last Accessed: 19.04.2022.

[343] Roberts, John and Bowden Julian (2022). „Removing Russia from the European Gas Balance: A Major Role for Caspian Gas“. Atlantic Council, https://www.atlanticcouncil.org/blogs/energysource/a-major-role-for-caspian-gas/. Last Accessed: 19.04.2022.

[344] Cutler, Robert (2021).

[345] Cutler, Robert (2021).

Russia. And since it is such a closed country, its currency is not tied to world prices and is therefore much cheaper. [346]

This can have huge implications for Azerbaijan's and the EU's energy policies. A potential pipeline connecting these two energy-rich countries could meet the EU's energy needs and also fulfill the principles of the European Green Deal, making both countries even more valuable to the EU.[347] The Trans Caspian Resources Company estimated that the pipeline would cost about $ 400 and take four months to build.[348] The volume varies between 10 and 30 billion cubic meters per year. This is equivalent to one of the North Streams 2 pipelines.[349] Once gas reached Azerbaijan, it is easy to transport it further through already existing pipelines through Georgia and Turkey.

Another important player is China. It is the main export destination for hydrogen, petroleum gas, refined petroleum, and crude petroleum, making those the main products for exports from Turkmenistan.

China is the largest market for Turkmenistan's hydrogen exports, reaching a value of $5.32 billion.[350] Given the growing market, energy demand will most likely increase in the coming years. Ashgabat is also planning to build more pipelines. However, Turkmenistan can not afford to antagonize Chinese interests. It was already blacklisted for arms when Turkmenistan began talks with Russia on gas exports in 2019. Turkmenistan already supplies a variety of markets for example India, Iran, and Turkey.

In November 2021, Azerbaijan, Iran, and Turkmenistan signed an agreement on the exchange of gas.[351] This states that Ashgabat will supply 5-6 million cubic meters of gas per day to Azerbaijan via Iran.[352]

It remains to be seen whether Turkmenistan's reserves will be sufficient to meet the demand of its customers. The country's gas reserves are estimated at 50 trillion cubic meters,[353] especially in light of announcements from Brussels that it wants to become gas-free by 2025.[354] But no

[346] Cutler, Robert (2021).
[347] Cutler, Robert (2021).
[348] Devonshire-Ellis, Chris (2022). „Turkmenistan Becomes New Hunting Ground For EU Gas Supplies“. Silk Road Briefing, https://www.silkroadbriefing.com/news/2022/03/31/turkmenistan-becomes-new-hunting-ground-for-eu-gas-supplies/. Last Accessed: 19.04.2022.
[349] Devonshire-Ellis, Chris (2022).
[350] „Turkmenistan (TKM) Exports, Imports, and Trade Partners | OEC“. OEC - The Observatory of Economic Complexity, https://oec.world/en/profile/country/tkm. Last Accessed: 19.04.2022.
[351] Reuters. (2021) „Iran, Turkmenistan and Azerbaijan Sign Gas Swap Deal“. www.reuters.com, https://www.reuters.com/markets/commodities/iran-turkmenistan-azerbaijan-sign-gas-swap-deal-2021-11-28/. Last Accessed: 14.04.2022.
[352] Reuters (2021).
[353] Devonshire-Ellis, Chris (2022).
[354] Devonshire-Ellis, Chris (2022).

one should underestimate the importance of gas in the transition to a more environmentally friendly energy country. If the desire for alternatives remains, one option for the EU is to improve relations with Iran and Turkey.

3.2 Chinese Belt and Road Initiative

When the new global infrastructure development strategy, known as the Belt and Road Initiative, was announced in 2013, it was met with high hopes by especially Central Asian and South Caucasian countries. Formerly known as the One Belt One Road Initiative, this agenda has the necessary features to strengthen connectivity between Central Asia and the South Caucasus and facilitate trade among its participants. Although it is a global idea, my work focuses on the regions connecting the European market with the Chinese market. The BRI can be used as a tool or platform to improve connectivity and promote infrastructure. However, other attempts by the Chinese government to improve connectivity, such as the 16+1 group in Eastern Europe, have not produced the expected results, like further investments from China or improving routes in the region.[355] The risk of failure is also possible with the BRI. This is especially true in the South Caucasus, where China is neither the main trading partner nor the main investor. It is both an advantage and a disadvantage for the South Caucasus not to border China. It is a disadvantage that Beijing invests less, but also because there are no border disputes similar to those between China and Kazakhstan.

The BRI faces several obstacles; the lack of container-focused, multimodal infrastructure, and unclear border management.[356] The lack of modern infrastructure and logistics is evident in many regions of the world.[357] The obstacles to movement vary widely. While connectivity between regions increases, the lack of harmonization of border procedures makes it more expensive to move containers. It costs around $6,000-$7,000 per container.[358]

Given the high hopes for this initiative, the question is whether or not they are justified, especially in a region that wants to attract more foreign direct investment. A definition of the BRI is needed to answer this question. A Chinese diplomat once equated the BRI agenda to a domestic policy with geostrategic consequences rather than foreign policy.[359] Indeed, it can be

[355] Interview B
[356] World Bank (2020). Case Study Azerbaijan.
[357] World Bank (2020).
[358] Pepe, Jacopo Maria (2020).
[359] Leandro, Francisco José B. S., and Paulo Duarte (edt). (2020).

seen as a response to China's economic waves. It can also be regarded as an extension of the 2004 Western Development Strategy, which referred to China's western regions that were not as developed as the coastal regions.[360] Indeed, experts refer to the BRI as a domestic strategy to make their central and western regions more accessible.[361]

To reach other markets and countries and improve overland transportation, many routes need to start from China's western regions. Therefore, these require more investment and expansion of production supported by the government.[362]

Officially, none of the three South Caucasian states are part of the official BRI map. But, this does not mean that Beijing is not investing in this region, as was shown in Chapter 2.

There are six officially routes considered as part of the BRI: the China- Mongolian- Russian economic corridor, the new Eurasian Continental Bridge, the China – Central Asia – West Asia, China- Indochina peninsula, China-Pakistan, and the BCIM economic corridor. Each of them with several routes. The New Eurasian Continental Bridge consists of two routes: first, China (Urumqi, Alashankou) – Kazakhstan (Dostyk, Mointy, Nur-Sultan, Petropavl) – Russia (Yekaterinburg, Moscow) – Belarus (Brest) – Poland (Małaszewicze) – Germany (Duisburg).

Route 2: China (Urumqi, Khorgas) – Kazakhstan (Altynkol, Almaty, Shu, Zharyk, Zhezqazghan, Saksaulskaya, Shalkar, Beyneu, Aktau) – Azerbaijan (Baku/Alyat, Ganja, Beyuk Kesik) – Georgia (Gardabani, Tbilisi, Akhalkalaki) – Turkey (Kars, Istanbul) and further by rail/road to the European market.

The official land link between China and Europe passes through the South Caucasus through Iran and Turkey. Given the connections already made between Turkey, Georgia, and Azerbaijan, it has a great chance of becoming an alternative route.[363]

Even Yerevan could become an alternative. But this is highly unlikely. The idea is to connect Tehran with Yerevan and then with the port of Anaklia in Georgia. However, this has not yet been realized and requires investments of $3 billion.[364] Logically, Baku is more suitable, since it is already the destination for goods from Aktau or Turkmenbashi. They can then be transported further via the BTK railroad. This is a more likely scenario than Tehran and Yerevan attracting so much foreign direct investment for a completely new route.

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[360] Lai, H. H. (2002). China's Western Development Program: Its Rationale, Implementation, and Prospects. Modern China, 28(4), 432–466.

[361] Zongyi, Liu (2016). Criticism of CPEC is proof of progress. Commentary. Shanghai Institute for International Studies. http://www.siis.org.cn/Commentary/2255.jhtml. Last Accessed: 28.05.2022.

[362] Lai, H. H. (2002).

[363] Poghosyan, B. (2018).

[364] Ghazanchyan, Siranush (2021).„Armenian, Iranian FMs Discuss Creation of Persian Gulf-Black Sea Corridor". Public Radio of Armenia, https://en.armradio.am/2021/11/24/armenian-iranian-fms-discuss-creation-of-persian-gulf-black-sea-corridor/. Last Accessed: 21.04.2021.

In addition to the port of Baku and the BTK railroad, there is another project that could be included in the BRI. The transport corridor connecting the Persian Gulf with the Black Sea. The connection between Iran and Europe via Armenia and Georgia, was proposed by Iran in 2016.[365] To reach the European market also via Greece and Bulgaria. So far, this project is far from being implemented, but it is obvious that Armenia would play a greater role in connecting Iran with Georgia.[366] Usually, Azerbaijan holds this position. But so far, it is about the potential of projects, not about their implementation and financing. But it is already foreseeable that Iran will play a role in transportation within the framework of the BRI.

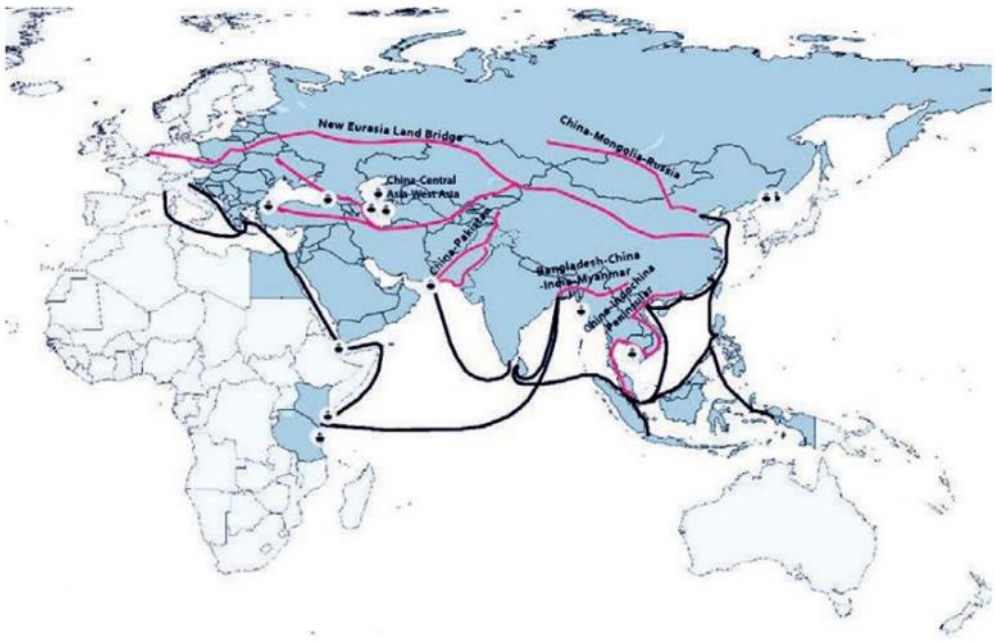
Although the South Caucasus is not officially on the BRI's maps, it is more than eager to become active. The regional conference (Belt&Road Forum) initiated by the Georgian Government in Tbilisi in 2017 proved this. Georgian Prime Minister Giorgi Kvirikashvili highlighted the competitiveness of the route, which includes Central Asia and the South Caucasus.[367] Georgia enjoys a special status thanks to its good business climate and free trade agreements with the EU and China.[368] Azerbaijan and Georgia, on the other hand, benefit from BTK and poor relations between Russia and the EU, which are accompanied by sanctions. It would have been better if the deep seaport of Anaklia had already been completed to strengthen this position, but this project has stalled.

The motivation of the three South Caucasian states lies in the desire to stabilize their economies. In economic terms, this means that diversification is necessary. This, in turn, comes at a cost for both sides. It remains to be seen whether China is willing to invest so much in a region that is neither vital nor an immediate neighbor and is considered unstable.

Overall, one gets the impression that the initiative is on hold rather than actively working to improve infrastructure around the globe. The following map illustrates the belt of the initiative.

Figure 3: Corridors of the Belt and Road Initiative

[365] Ghazanchyan, Siranush (2021).„
[366] Poghosyan, B. (2018).
[367] Tbilisi Belt & Road Forum 2017 on Euronews. http://www.economy.ge/?page=news&nw=446&lang=en. Last Accessed: 21.04.2022.
[368] Tbilisi Belt & Road Forum 2017 on Euronews.



Source: World Bank, 2019.

3.2.1 Impacts on trade within Eurasia

The Belt and Road Initiative was not only a step to strengthen economic relations between China and the participating countries. It could also be used between transport corridor countries to promote trade between them.

But when it comes to the South Caucasus and Central Asia, it faces some serious challenges. One of them is the historically poor trade relations resulting from their non-complementary economic structures. The second obstacle is due to political instability and, finally, the Soviet legacy of infrastructure, as described in Section 1.3.2, which focused on north-south rather than east-west traffic.

All Central Asian countries are part of at least one route of a BRI corridor.

None of the South Caucasian countries is a major trading partner for a Central Asian country and vice versa. However, connectivity has been improved.

As for transportation across the Caspian Sea by ferry, one could assume that trade relations with the modernized ports of Alat, Turkmenbashi, and Aktau, have increased significantly. There are ups and downs in the volume of trade between Azerbaijan and Kazakhstan, and other Central Asian countries. Overall, there has been growth, but there is no significant evidence that the BRI has been the driver, considering Beijing's investment and the still underdeveloped

infrastructure. Azerbaijan has the highest trade turnover with Kazakhstan of all Central Asian countries.[369] Still, it lags far behind other countries such as the EU and Russia. For Georgia, it is Turkmenistan, but also at the bottom of the list for import/export.[370] Uzbekistan has the largest trade with Armenia of all Central Asian countries.[371]

Another obstacle is border crossing procedures. Central Asian countries do not score well on the index for facilitating cross-border trade. Kyrgyzstan ranks 84th, Kazakhstan 123rd, Tajikistan 149th, and Uzbekistan 168th out of 189.[372] This problem increases the cost of trade in Central Asia.

China is a more important player for Central Asia than for the South Caucasus due to geographic distance. Nevertheless, Central Asia and Kazakhstan in particular play a role in China's energy supply. Beijing has been diversifying its importers to meet its gas and oil needs since 2003, long before the BRI. This was underscored by the opening of the Atasu-Alashankou oil pipeline in 2005. It started operating in May 2006. 15% of China's crude oil demand gets covered by this pipeline.[373] To date, the main exports from Kazakhstan reaching China are refined copper, petroleum gas, and crude gasoline.

The total trade volume between China and Central Asian countries varies depending on the source. Between 1991 and 2016, it increased 60-fold, from $500,000 million to $30 billion.[374] Some sources indicate that China is the largest trading partner of Kyrgyzstan and Uzbekistan in 2019.[375] Others cite the United Kingdom ($1.8 billion), Russia ($254 million), and Kazakhstan ($254 million) as Kyrgyzstan's main partners.[376] The United Kingdom ($ 6.06 billion), Russia ($ 1.74 billion), and then China ($ 1.29 billion) have the highest trade turnover with Uzbekistan.[377] However, China is at the top of the list for Kazakhstan. It ranked first in

[369] „Azerbaijan (AZE) Exports, Imports, and Trade Partners | OEC". OEC - The Observatory of Economic Complexity, https://oec.world/en/profile/country/aze. Last Accessed: 23.04.2022.
[370] „Georgia (GEO) Exports, Imports, and Trade Partners | OEC". OEC - The Observatory of Economic Complexity, https://oec.world/en/profile/country/geo. Last Accessed: 23.4.2022.
[371] „Armenia (ARM) Exports, Imports, and Trade Partners | OEC". OEC - The Observatory of Economic Complexity, https://oec.world/en/profile/country/arm. Last Accessed: 23.04.2022.
[372]Vakulchuk, Roman and Overland, Indra (2019). Chapter 5 China's Belt and Road Initiative through the lens of Central Asia Cheung, in Fanny M., und Ying-yi Hong (eds.). Regional Connection under the Belt and Road Initiative: The Prospects for Economic and Financial Cooperation. Routledge.
[373] Tibold, Andrej and Cillessen, Vincent (2006).
[374] Vakulchuk, Roman and Overland, Indra (2019).
[375] Briefing, China. „China and Central Asia: Bilateral Trade Relationships and Future Outlook". China Briefing News, 20. Mai 2021, https://www.china-briefing.com/news/china-and-central-asia-bilateral-trade-relationships-and-future-outlook/. Last Accessed: 23.04.2022.
[376] „Kyrgyzstan (KGZ) Exports, Imports, and Trade Partners | OEC". OEC - The Observatory of Economic Complexity, https://oec.world/en/profile/country/kgz. Last Accessed: 23.04.2022.
[377] „Uzbekistan (UZB) Exports, Imports, and Trade Partners | OEC". OEC - The Observatory of Economic Complexity, https://oec.world/en/profile/country/uzb. Last Accessed: 23.04.2022.

2020 and second in 2019 due to the ongoing pipelines between China and Kazakhstan.[378] This deepening of relations comes with concerns from Central Asian states. They fear a disproportionate influx of Chinese migrant workers and the resulting competition for jobs.[379] Certain direct neighbors of China fear that Beijing's economic influence will put it in a better position to reopen "old" border disputes.[380] The elites are more pro-China and see the economic potential of the growing relationship.[381]

The first fear also applies to the South Caucasus, but to a much lesser extent. Total trade turnover between China and each of the South Caucasus countries increased from 2014 to 2020.[382] According to the World Bank, trade volume with Baku, Yerevan, and Tbilisi has increased by 2,070 percent, 380 percent, and 885 percent, respectively.[383]

Overall, trade volumes have increased over the years. While they announced the BRI in 2013 and officially formalized it in 2015, neither of them resulted in a higher trade volume. Moreover, there were no signs that this was the start of more intensive trade. The growing trade is more likely to be related to the general growth in demand in markets that can be observed worldwide.

3.2.2 Trans-Caspian-International-Transport-Route vs. New Eurasian Land bridge vs. Trans-Siberian railway

Transport routes under the umbrella of BRI or TRACECA are sometimes either in competition with each other or can complement each other.

All are aligned in an east-west direction to connect the European market with the Chinese market. Containers generally travel to Europe fully loaded and return half empty. This underlines the asymmetry of trade between the two markets. The trend in transporting goods by rail is explained by the fact that it is cheaper than air freight and faster than by sea.

Three different routes connecting different countries and their political implications are presented below.

[378] Briefing, China. „China and Central Asia: Bilateral Trade Relationships and Future Outlook“.
[379] Jochec M. (2018). China’s BRI Investments, Risks, and Opportunities in Kazakhstan and Kyrgyzstan. In: Laruelle, Marlene eds. (2018) China's BRI and its impact on Central Asia. Central Asia Program, The George Washington University.
[380] Jochec M. (2018).
[381] Jochec M. (2018).
[382] Yau, Niva (2021).
[383] Popkhadze, Miro (2021).

The oldest route is the Trans-Siberian Railway. It is also the longest railroad line in the world. It was built in 1916 and has now been in operation for over 100 years.[384] This railroad was and still is essential for transportation to and from China. Compared to the other two lines, it is also the longest in operation to promote trade between China and Russia, which means that it is the most developed, and therefore its volume can hardly be bypassed.
The new Eurasian land bridge route 1 which runs from China to Russia via Kazakhstan without crossing Siberia, and then on to Belarus and finally, to the European market. As a result, the focus for Moscow has shifted to improving good transport integration with Kazakhstan.[385]

The second route is the so-called Trans-Caspian International Route (TITR), whose agreement to improve connectivity for containerized cargo was signed by Azerbaijan, Kazakhstan, and Georgia in 2017.[386] It is also known as the "Middle Corridor." It starts in China, passes through Kazakhstan, crosses the Caspian Sea to Azerbaijan, and from there continues to Georgia and then Turkey via the Trans-Caspian Transport Corridor (TCTC). In Georgia, it splits into two smaller routes, the first of which ends at the port of Batumi or Poti, while the second continues and ends at Kars in Turkey. The volume of the TCTC reached 500 TEU in 2018.[387] The TITR has gained more attention due to the current Ukraine crisis but is generally more expensive than the sea route. There are already plans to increase the volume, focusing on the Caspian Sea ferries to carry more containers.
As mentioned in Section 3.1.2, the Trans-Caspian International Transport Route (TITR) cannot be considered a complete alternative to the Trans-Siberian Railway. While it is projected to grow, it will not reach the volume of the Northern Route.
Several obstacles must be tackled to truly realize the full potential of this route. Most notably, the lack of container-oriented infrastructure, the long and complicated border crossing management, the lack of an independent regulatory authority, and the dismantling of state monopoly power.[388]

[384] Uchida, Seina (2016). „Socio-economic impact of Trans-Siberian railway after the collapse of Soviet Union by integrated spatial data analysis“. IOP Conference Series: Earth and Environmental Science, Bd. 37, S. 012057. DOI.org (Crossref).
[385] Pepe, Jacopo Maria (2020).
[386] Men, Jing (2020). „China-Europe Railway Connectivity: Opportunities and Challenges“. The “Roads” and “Belts” of Eurasia, editor von Alexander Lukin, Springer Singapore, S. 129–46.
[387] World Bank (2020). South Caucasus and Central Asia: Belt and Road Initiative Azerbaijan Country Case Study.
[388] World Bank (2020). South Caucasus and Central Asia: Belt and Road Initiative Azerbaijan Country Case Study.

The last route is the "New Eurasian Continental Bridge Economic Corridor," which was announced as part of the BRI. It was expected to increase the number of rail links between China and Europe to 5000 per year by 2020. They would then be responsible for 80% of the total international intermodal transport of container railroads.[389] However, due to the Covid-19 crisis, this has not yet been achieved. In 2018, the total volume was about 400 thousand TEUs.[390] This is more than the TCTC, but still far less than the 10 million TEUs transported by sea.[391] The new Eurasian land bridge consists of two routes. Both include existing networks. The first starts in China, and Kazakhstan, then passes through Russia to Belarus and Poland and ends in Duisburg, Germany. The second route starts in China and goes through Kazakhstan, Azerbaijan, Georgia, and Turkey. It thus includes the TCTC.

Considering the even higher share of containers transported by sea, one cannot really speak of competition in the economic sense. This is because the volume of the Trans-Siberian Railway far exceeds the other two. But with the right and high investments, other routes can be combined to provide a more serious alternative for the northern route, Especially given the political considerations behind finding other options.

3.2.3 Role of Asian Infrastructure Investment Bank and other financial institutions in financing the initiative

The BRI is not only a platform for promoting connectivity and people-to-people contacts but is also intended to provide financial support for infrastructure projects among the belts. Not all loans and financing are provided by the Chinese government. Various actors play an important role in this process. Here, the focus is on the multilateral Asian Infrastructure Investment Bank (AIIB) and the Asian Development Bank (ADB).

To provide a better overview, this section is divided into two subsections. First, financing for specific projects is presented. The second section provides an overview of loans extended to countries.

[389] Wang Jinbo (2019). 37. Chapter. The New Eurasian Continental Bridge Economic Corridor. In : Cai, Fang, and Peter Nolan, Editors. Routledge Handbook of the Belt and Road. Routledge, Taylor & Francis Group.
[390] World Bank (2020). South Caucasus and Central Asia: Belt and Road Initiative Azerbaijan Country Case Study.
[391] World Bank (2020). South Caucasus and Central Asia: Belt and Road Initiative Azerbaijan Country Case Study.

The BTK railroad is one of the most important and already implemented projects in the South Caucasus. It was mainly financed by the governments of the three countries involved, Azerbaijan, Georgia, and Turkey. For the Georgian section, the government in Tbilisi was granted a loan of about $775 million from Azerbaijan's SOFAR state oil fund.[392] Only $79.44 million was provided by the Georgian Ministry of Economic Development.[393] The other two sections were funded by the Turkish and Azerbaijani governments, respectively.

Another important note is the relatively new port of Alyat. EUR 210 million was provided through TRACECA.[394] Other investments were made by the World Bank, ADB, and EDRB. The government in Baku underwrote the $750 million for the first phase of the port.[395]

In 2017, Georgia signed a $114 million loan with the AIIB to finance the Batumi bypass on the Black Sea coast.[396] This project involved the construction of a 14.3 km modern highway.

Another important project was partially financed by the AIIB. As mentioned in earlier chapters, the AIIB provided a $500 million loan for the construction of the TANAP. The 1,811 km pipelines consist of 2 compressor stations, 4 metering stations, 11 pigging stations, 49 block stations, and 3 gas sampling stations.[397]

Other loans were made directly to countries to support infrastructure.

For example, ADB extended loans to the Armenian government totaling $1.58 billion, as of 2021, covering 71 projects, $635.99 of which was invested in the transport sector.[398] $ 206.2 million was allocated to the energy sector.[399] The Bank allocated $500 million to the North-

[392] (N.n., 2012). „Baku-Tbilisi-Kars (BTK) Rail Line, Azerbaijan, Georgia, Turkey". Railway Technology, https://www.railway-technology.com/projects/baku-tbilisi-kars/. Last Accessed: 26.04.2022.
[393] (N.n., 2012). „Baku-Tbilisi-Kars (BTK) Rail Line, Azerbaijan, Georgia, Turkey". Railway Technology.
[394] The ILC of the New International Sea Trade Port at Alyat. TRACECA ORG. http://www.traceca-org.org/en/investments/investment-projects/detail/?tx_tracecainvprojectstable_pi3%5Buid%5D=26&cHash=df173520e08bebef3fb1eea82ea0350d. Last Accessed: 23.04.2022.
[395] Mooney, Turloch (2015). Caspian Sea Port of Baku builds for China-Europe overland links | JOC.com. https://www.joc.com/port-news/asian-ports/caspian-sea-port-baku-builds-opportunities-china-europe-overland-links_20151126.html. Last Accessed: 26.04.2022.
[396] AIIB, Georgia Sign Loan Agreement for Batumi Bypass Road Project - News - AIIB. https://www.aiib.org/en/news-events/news/2017/AIIB-Georgia-Sign-Loan-Agreement-for-Batumi-Bypass-Road-Project.html. Last Accessed: 23.04.2022.
[397] TANAP. https://www.tanap.com/en/. Last Accessed: 24.04.2022.
[398] „ADB's Work in Armenia". Asian Development Bank, 19. May 2021, https://www.adb.org/countries/armenia/overview. Last Accessed: 25.04.2022.
[399] „ADB's Work in Armenia". Asian Development Bank.

South Road Corridor Investment Program and $400 million to the Sustainable Urban Development Investment Program.[400]

Another $50 million was allocated for the Armenia-Georgia Regional Road Improvement Project (M6).[401] This road aims to improve international connectivity, particularly supporting the status of northern Armenia. The Asian Development Bank stated that Asia needs $26 trillion in infrastructure funding just to sustain its growth.[402]

Recently, the AIIB signed a $108 million loan to the government of Uzbekistan for railroad modernization. This includes the electrification of 465 km of railroad lines and the establishment of high-speed service.[403]

Although none of these loans were explicitly made under the BRI umbrella, one can make some connections. One is the role that China plays in many of these newer financial institutions, and the other is the goal of the projects to further improve connectivity between the belts.

The AIIB distances itself from the BRI and emphasizes that it is a truly multilateral institution with sound multilateral governance.[404] One can see some common goals between the AIIB and the BRI, such as improving connectivity and economic development. This could be due to the poor image that the Chinese government has in lending and lack of transparency. The AIIB, on the other hand, claims to have safeguards in place, as well as transparency and anti-corruption measures.[405]

Another important financial institution is the New Development Bank (NDB) but its shareholders are much smaller. They are only the BRICS countries. Russia, India, and China are the most important members, which approved about 85% of the total funding.[406]

The total funding for the BRI comes mainly from two sources. The main financing of $900 billion and, secondly the Silk Road Fund (SRF) of about $40 billion.[407]

[400] „ADB's Work in Armenia". Asian Development Bank.
[401] „ADB's Work in Armenia". Asian Development Bank.
[402] Leandro, Francisco José B. S., and Paulo Duarte (edt). (2020).
[403] AIIB, (2022). Uzbekistan Sign USD108-M Loan to Improve Rail Transport Connectivity - News - AIIB. https://www.aiib.org/en/news-events/news/2022/AIIB-Uzbekistan-Sign-USD108-M-Loan-to-Improve-Rail-Transport-Connectivity.html. Last Accessed: 24.04.2022.
[404] Leandro, Francisco José B. S., and Paulo Duarte (edt). (2020).
[405] Leandro, Francisco José B. S., and Paulo Duarte (edt). (2020).
[406] Leandro, Francisco José B. S., and Paulo Duarte (edt). (2020).
[407] Leandro, Francisco José B. S., and Paulo Duarte (edt). (2020).

Only six banks covered 97% of the BRI's funding.[408] The China Development Bank, which received $32 billion, the Export-Import Bank of China, which received $30 billion, and the Agricultural Bank of China, to which was transferred $20 billion, all from the Bank of China. The other two banks are China Construction Bank and Industrial and Commercial Bank of China. Together with the Bank of China, these two were responsible for over 51% of the BRI in 2016.[409]

SRF accounted for 1% of the remaining 3%.[410] China's role in lending is noteworthy. However, there are few links to loans directed to the South Caucasus and its infrastructure projects.

3.3 Russia and the North South Transport Corridor

Next to the EU-led TRACECA and the Chinese-led BRI, there is one more transport corridor worth mentioning. The International North South Transport Corridor connects Finland with India via Russia, the South Caucasus, and Iran using rail and sea routes. It was initiated already in 2000, long before the BRI. And just recently, on June 21, 2021, the first train departed from Helsinki, Finland, and took 50% less time than the alternative route through the Suez Canal.[411] It is entirely de-centralised and has not been proposed by just one country. It is more of a cooperation among possible routes to support connectivity to an extent set by the participants.

There are three different routes included in the INSTC. The differences lie in the way around the Caspian Sea. The Western route from Russia to Iran via Azerbaijan on land. The Caspian Route is crossing the sea by ferries from or to all ports (Alyat, Aktau, Turkmenbashi, Anzali, Amirabad, Nowshahr, Astrakhan, Olya, Makhachkala). The eastern route bypasses the sea route via Kazakhstan continuing to Uzbekistan or Turkmenistan.

This route would give Russia access to the Persian Gulf and the Indian Ocean.

[408] Leandro, Francisco José B. S., and Paulo Duarte (edt). (2020).
[409] Leandro, Francisco José B. S., and Paulo Duarte (edt). (2020).
[410] Leandro, Francisco José B. S., and Paulo Duarte (edt). (2020).
[411] Chalikyan, Nvard and Tashjian, Yeghia (2021). „Geopolitics of the North-South Transport Corridor“. South Asian Voices, https://southasianvoices.org/geopolitics-of-the-north-south-transport-corridor/. Last Accessed: 26.04.2022.

It is quite interesting given the geopolitical obstacle it faces: the U.S. sanctions against Iran as well as the Western sanctions against Russia. Armenia, Kazakhstan, Belarus, Tajikistan, Kyrgyzstan, Oman, Syria, Turkey, and Ukraine are members, and Bulgaria is an observer.[412] Given the domestic situation in the majority of the members, the route seems more on hold. But it could have the potential to enhance connectivity and improve bilateral relations and trade.

In this chapter, the focus will be set on the potential link from Russia via the South Caucasus, Iran, and India, commonly referred to as the North-South-Transport-Corridor (NSTC) as well as on the impacts of the Trans Siberian railway.

3.3.1 Perception of transport corridors in Russia

In addition to the NSTC, Russia plays an important role in international freight transport.

The Trans-Siberian Railway is outstanding for the transportation of goods from China to Europe. Investment in infrastructure is associated with economic development and modernization not only in Russia but around the world. Russia already has a network of railroads, roads, and ports for container transportation. The vast territory represents the main transport route from the Chinese market but is also connected to other markets. It is connected to Europe in the west and to China, Japan, and even Hanoi in Vietnam in the east. There are operational routes through Kazakhstan and Mongolia to reach other markets.

The government's investment in road and rail expansion and other infrastructure projects underscores the importance of connectivity within the country. In 2016, 7.1 billion tons of freight were transported through Russia, to domestic or international destinations.[413] Road is the most used mode in this regard, with 67.6% of freight transported by road, followed by rail (16.7%).[414]

[412] Chalikyan, Nvard and Tashjian, Yeghia (2021).
[413] TransRussia (2018). Transport & Logistics in Russia: Returning to Growth A Market Insights report from TransRussia/ TransLogistica. http://www.transport-exhibitions.com/TransportShows/media/TransportLibrary/Downloadable%20files/Transport-Logistics-in-Russia-Returning-to-Growth.pdf Last Accessed: 24.04.2022.
[414] TransRussia (2018).

The Russian government is allocating 6.3 trillion rubles to modernize all modes of transport in the country by 2030.[415] This plan extends the already existing modernization plan from 2019 to 2024. Another project is to improve the safety and quality of roads, which will be supported with 4.8 trillion rubles.[416] Both initiatives aim at improving connectivity and enhancing the transport corridor between Europe and Western China and the North Sea route.

In the railroad sector, the Russian Railways (RZD) plays an important role. It is building 20,000 km of new lines to be completed by 2030. The cost is estimated at around $61 billion. Particular attention is being paid to the 11,000 km link between Moscow, St. Petersburg, Samara, Krasnodar, and Novosibirsk.[417]

Further investments are expected since the road is the main transport mode by land. As announced in March 2022, 163 billion rubles are earmarked for the construction of 1049 km of roads between Naryan-Mar and Usinsk in the Yamal-Nenets Autonomous Okrug and the port of Vladivostok-Nakhodka-Vostochny in Primorye Oblast, as well as for the construction of a Kemerovo bypass and the rehabilitation of the Volga Bridge in Rybinsk.[418]

The 2,000-km Meridian highway, which starts at the Kazakh border and crosses Russia to the Belarusian border, can attract more freight traffic through Russian territory. This highway falls under the BRI. It mainly carries containers from China to Europe and vice versa.[419]

Regarding the South Caucasus, as mentioned in the first chapter, Russia is not the main investor in infrastructure. New initiatives are under discussion to establish better links to Azerbaijan within the framework of the NSTC. This will be closely analysed in section 3.3.3.

Since Russia does not have its own infrastructure project comparable to the BRI or TRACECA, investments in infrastructure abroad are modest. In Central Asia, one can see a concentration of investment in the energy field, especially regarding the wide pipeline network. (The Atyrau–Samara oil pipeline, the Makhachkala–Tikhoretsk–Novorossiysk oil pipeline, the Tengiz–Novorossiysk Caspian Pipeline Consortium, the Central Asia–Center gas pipeline, and the

[415] The Moscow Times. „Russia's Massive Infrastructure Overhaul, in 5 Examples". The Moscow Times, 3. April 2019, https://www.themoscowtimes.com/2019/04/03/russias-infrastructure-overhaul-explained-a64839. Last Accessed: 27.04.2022.
[416] International Trade Administration (2020). 1. Russia - Construction and Infrastructure. https://www.trade.gov/country-commercial-guides/russia-construction-and-infrastructure. Last Accessed: 27.04.2022.
[417] International Trade Administration (2020).
[418] Правительство направит более 163 млрд рублей на реконструкцию и строительство дорог. http://government.ru/news/44785/. Last Accessed: 27.04.2022.
[419] International Trade Administration (2020).

Bukhara–Ural gas pipeline.) Russian energy companies play a significant role in these investments.[420] In 2019, Lukoil invested $7 billion in Kazakhstan, and Gazprom invested more than $1 billion in Kazakhstan. Furthermore, Lukoil invested $8 billion in Uzbekistan, and Gazprom invested more than $400 million in Uzbekistan.[421]

Overall, it can be stated that infrastructure plays an important role in Russia. Its investments in this sector are mainly concentrated within Russia. Nevertheless, Moscow has realized the potential behind better connectivity even abroad, especially regarding more complementary transportation routes of the EAEU members.

3.3.2 NSTC and its limits

Although the line is not yet fully operational, it has the potential to significantly reduce transportation costs. Transport costs between Russia and India could be reduced by 30%.[422] The freight potential of INSTC varies from 14.6 to 24.7 million tons by 2030 and can be connected with other routes such as the Trans-Siberian Railway, the Europe-West China International Transport Corridor, and the Central Asia Regional Economic Cooperation Transport Corridor.[423]

In addition to cost reduction, there are several interests of Russia, Iran, and India. As mentioned earlier, Russia could be connected to the Gulf region through the INSTC. It is also an alternative to other corridors in Eurasia, some of which are part of the BRI. As analyzed in section 2.1.2, the EAEU plays an important role in strengthening Russia's status in Eurasia. Linking the organization with the NSTC can improve the current low level of trade between member states and third countries.[424] It would also raise awareness of Russia's Caspian Sea ports of Astrakhan, Makhachkala, and Olya.

[420] Kazantsev, Andrei (2021). „Between Russia and China: Central Asia in Greater Eurasia“. Journal of Eurasian Studies, Bd. 12, Nr. 1, Januar 2021, S. 57–71. DOI.org (Crossref).
[421] Kazantsev, Andrei (2021).
[422] Chalikyan, Nvard and Tashjian, Yeghia (2021).
[423] Vinokurov, Evgeny. (2022). Russia and the Middle East need International North-South Transport Corridor. „Analytics“. Valdai Club, https://valdaiclub.com/a/highlights/russia-and-middle-east-need-international/. Last Accessed: 25.04.2022.
[424] Vinokurov, Evgeny. (2022).

For India, the interests are twofold. First, the route bypasses Pakistan; second, it would bring the resource-rich Central Asian region closer to India, providing an alternative for Indian goods and diversifying its energy supplies.[425]

Iran, as well as Russia and India, want to push back Chinese influence in the region. To that end, India has invested about $635 million to modernize Iran's deep-water port of Chabahar.[426] From this port, cargo can reach the ports of Mumbai and Kandla. This will increase competitiveness with Pakistan's Gwadar port and Chinese investments directed there.[427]

As for the connection with the South Caucasus, the port of Alyat plays an important role in connecting with Turkmenistan and Kazakhstan. On the land route, Azerbaijan will play its role, supported by the Astara-Astara bridge, which was opened in 2019, connecting Iran with Azerbaijan. This link is crucial for Baku, which has granted a $500 million loan to Iran for the construction of the Resht-Astara Bridge.[428] This will help Azerbaijan become a transportation hub in the region.

Tehran is in the process of strengthening its ties with Armenia, not Azerbaijan. A possible rail link between Armenia and Iran would make BTK less competitive. Meanwhile, there is an alternative route that can be included in the NSTC. In February 2021, President Aliyev announced that there is a possibility of a rail link between Iran and Armenia, but only through Azerbaijan.[429] This is related to the outcome of the Nagorno-Karabakh War in 2020, which envisages the revival of a Soviet route. As discussed in Section 1.3.2, initial steps have already been taken to restore the route between Iran and Armenia via the Nakhichevan exclave. This would also strengthen Russia's role in the project while undermining Georgia's status at the interface between East and West. Tbilisi would prefer the inclusion of BTK to the realization of new routes, especially to keep its distance from Russia.[430]

Iran supports the idea of a connection with Armenia as a counterweight to the good relations between Azerbaijan and Turkey. The two countries, on the other hand, prefer a rail link between Turkey and Azerbaijan directly through Armenia's Syunik province.[431] Turkey could then take

[425] Chalikyan, Nvard and Tashjian, Yeghia (2021).
[426] Chalikyan, Nvard and Tashjian, Yeghia (2021).
[427] Chalikyan, Nvard and Tashjian, Yeghia (2021).
[428] Rahimov, Rahim (2021). „Iran Seeks to Reroute North-South Transport Corridor to Armenia, Away From Azerbaijan". Jamestown, https://jamestown.org/program/iran-seeks-to-reroute-north-south-transport-corridor-to-armenia-away-from-azerbaijan/. Last Accessed: 23.04.2022.
[429] Rahimov, Rahim (2021).
[430] Stronski, Paul (2021).
[431] Chalikyan, Nvard and Tashjian, Yeghia (2021).

advantage of Azerbaijan's geographic location on the Caspian Sea to improve its status in Central Asia. This is in neither Armenia's nor Iran's interest.

In addition to Iran, the EU has provided more than $700 million for the implementation of the North-South Highway Corridor in Armenia.[432]

Given all these geopolitical implications, there are other obstacles to overcome. First and foremost, these are technical and bureaucratic obstacles. Not all countries have the same features in railroads or follow the same border crossing procedures. The corridor also lacks an efficient body for standardization procedures and operational issues.[433] It is not a centralized plan, and responsibilities rest with governments.[434]

3.3.3 The impact of the Trans Siberian railway and other transport routes

The Trans-Siberian Railway played a key role in international trade during Soviet times. After the collapse of the Soviet Union, it lost access to other markets and connecting routes. Since then, this railroad has played an increasingly important role in overland transportation, both for passengers and freight. Today, it accounts for about 45% of domestic rail traffic. 95% of the goods are transported from east to west and only 5% in the opposite direction.[435] This is a major imbalance with a negative impact on railroad traffic.

New connections are being added to this route. Recently, the first section of the Russian part of the Tongjiang-Nizhneleninskoye bridge was completed. Two cities in Russia and China with the same name are now connected across the Amur River.[436]

A new impetus for the construction was triggered by the new wave of Western sanctions. The bridge is expected to improve the accessibility of the region and make it more competitive in production and logistics. It also opens a new export route as it can be connected to the Trans-Siberian Railway. This link was built under the BRI to promote trade in Eurasia.[437]

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[432] Chalikyan, Nvard and Tashjian, Yeghia (2021).
[433] Valiyev, A. and Bilalova, S. (2021).
[434] Chalikyan, Nvard and Tashjian, Yeghia (2021).
[435] UNESCAP. (n.n.) Connectivity along the Eurasian Northern Corridor. https://www.unescap.org/sites/default/files/Ch%201%20Connectivity%20along%20the%20Eurasian%20Northern%20Corridor.pdf Last Accessed: 28.04.2022.
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[437] The Moscow Times (2022).

Although the Trans-Siberian Railway is connected to numerous markets through several routes, there are some obstacles to tackle. The first is the technical barriers, i.e., differences in the fleets and lengths of trains, as well as in the railroad's track gauges and electrical infrastructure.[438] For example, the track gauge on the Mongolian section of the Trans-Siberian Railway is 1,520 mm, but on the Chinese section of the same line, it is 1,435 mm. Another problem is the lack of punctuality and the slow speed of the trains.[439]

The Trans-Siberian Railway is the backbone of container freight transport by land in Russia. But there is another possible route that is worth mentioning. Given the current sanctions situation, the rail link between Russia and Azerbaijan, whose inclusion in the NSTC has already been discussed, has received even more attention. This route would give Russia better access to the main Caspian Seaport, Alyat, and to its trading partner, EAEU member Armenia.[440] In addition, a more stable connection to Azerbaijan would take Iran further south to India, as well as to Turkey via the BTK railroad. Kazakhstan and China can be easily reached via the port of Alyat.

The recently signed Declaration on Allied Cooperation between Russia and Azerbaijan, dated February 22, 2022, could be a starting point to revive the NSTC. This would mean improving transportation options in more and more directions.[441]

The new routes currently under discussion would give the NSTC more attention, which it needs to attract investments. The Trans-Siberian railway is likely to keep its status. Given the East-West connectivity of the Trans-Siberian railway and the North-South link through the INSTC Russia itself is an important part of international transport routes.

[438] UNESCAP. (n.n.).
[439] UNESCAP. (n.n.).
[440] Russia Briefing. (2022). „Unblocking Caucasus Transport Corridors Between Russia & Azerbaijan". Russia Briefing News, 14. März 2022, https://www.russia-briefing.com/news/unblocking-caucasus-transport-corridors-between-russia-azerbaijan.html/. Last Accessed: 28.04.2022.
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4. Conclusion

The motivation of Armenia, Azerbaijani, and Georgia to participate in TRACECA, BRI, and the INSCT is in line with their overall goals in their foreign policy agendas. Namely, enhancing economic cooperation, improving security, and strengthening sovereignty. Both economically and politically, diversification can contribute to stability. Simultaneous participation in these projects means that the smaller states are less likely to be trapped in an asymmetrical relationship which presents a form of strategic hedging.

Since independence, each of the three South Caucasian states had its way of achieving these goals. Either in cooperating with its neighbor, or thanks to a high amount of natural resources. One can also state that the countries show different degrees of success in doing that, which can be twined to the foreign policy decisions of their governments. Azerbaijan can, thanks to its good relations with Turkey, its close cooperation with Georgia, and its victory over Armenia give impetus for new links and routes.

Although Armenia pursues good relations with Russia and the EU, which shows in its membership in several organizations led by these powers, it is the most isolated country in the South Caucasus. Neither the EU, Russia, nor China, as external powers, can remove the political tensions in the region.

Georgia’s relations with Russia are modest over the situation of the two break-away regions. Georgia has good conditions to keep its status as a transit country. Relations with Azerbaijan are key for its economy and transport routes.

Azerbaijan has, given its established pipelines and links to Turkey and Georgia, the best features to become the transport hub of the South Caucasus. As the EU is interested in the country's natural resources, relations may change in Baku's favor, regardless of human rights issues.

But the true economic potential lies in cooperation between landlocked and littoral states. Expressed in joint infrastructure projects of Azerbaijan and Georgia, which resemble a land bridge between the two seas. Armenia is usually excluded from this cooperation due to its two closed borders.

Since Armenia and Azerbaijan are both landlocked countries, cooperation with Georgia is crucial for access to world markets. In this regard, Baku has clear advantages, as it enjoys good

relations with Turkey. Turkey and Azerbaijan are connected by land through Georgia. In order not to provoke Baku, Tbilisi has abstained from implementing major projects with Yerevan.

In the South Caucasus TRACECA, BRI, and the NSTC can give new impetus for establishing routes. Both types of economies, landlocked and littoral, can benefit from infrastructure projects. To develop a long-term sustainable economy, time, and money must be invested into national as well as international infrastructure projects. While Georgia and Azerbaijan already got a competitive head start and promising cooperative prospects, Armenia still lacks behind in the quality of transportation and opportunities. Improving cooperation with its neighbors will accompany Armenia's bet for economic growth. Nevertheless, infrastructure plays a significant role in each of the three hedging-based foreign policy agendas.

The interests of the external players also shaped the region since the beginning of the independence of Armenia, Azerbaijan, and Georgia.

Russia supports the ideas of a North-South connection, expressed in the INSTC. Although other regional and external powers prefer an East-West link. But Russia does not have the capacity to prevent Armenia, Azerbaijan, or Georgia from joining any infrastructural project nor is that of vital interest to Russia. Especially for Armenia, it represents an opportunity to break its isolation. INSTC and good relations with Iran are a counterbalance to its exclusion from East-West connections and the BTK railroad.

Moscow pursues overall good relations with Yerevan, as well as with Baku, regardless of the Nagorno-Karabakh War in 2020. Neither of the two governments wants to contradict Russian interests in the region since it was also the mediator of the ceasefire and has its peacekeeping forces in Nagorno-Karabakh. Tbilisi keeps its distance from any projects which include Moscow. But it has not the capacity to limit Moscow's presence in the region.

One of the main stakes of Russia's policy towards the South Caucasus is the EAEU, CSTO, and CIS. Through them, Russia filled out the vacuum after the dissolution of the Soviet Union. But only to a certain extent since not all Post-Soviet Republics are members.

The EU enjoys a relatively good reputation in the South Caucasus. It is associated with high investments and is an exporter of expertise. In Baku, the EU is welcomed for economic modernization, but not as an engine for internal reforms. Although the Eastern Partnership still exists, it seems to be at a standstill.

Given the strategic hedging pursued by Armenia, Azerbaijan, and Georgia the EU plays a remarkable role in their foreign policy agenda. Mainly the EU tries to assist the countries in their transition process towards democracy under the umbrella of the EaP. But not all countries agree with the role of the EU as a normative power. This, however, does not result in lesser financial or technical assistance. As can be seen in the development of its relations with Azerbaijan for energy purposes.

The role of China in the South Caucasus is highly discussed. The opinions are divided between 'reality check'[442] vs 'China just got started'[443]. The first describes the too high exception and hopes for investment from Beijing, whether the latter means that China already has a foothold in many regions and is most likely to deepen its presence. There are some indicators that China's role will increase in the coming years. Due to a growth in trade and cooperation. Also one can not deny that China has already a foothold in the region.

In the end, it is a rather limited and modest relationship that connects Beijing with the South Caucasus. Although some geopolitical interests do exist. Nevertheless, Transcaucasia presents a possible transit venue for goods from China to Europe. To a certain extent, a rise in investment and trade is foreseeable. But it is not at all unique in its position. It lies in the perception of China if the benefits outweigh the costs. Improvements in the management of border crossings and bureaucratic reforms are needed to make traffic through the South Caucasus more attractive.

For Armenia, Azerbaijan, and Georgia these international infrastructure projects are tools to achieve their policy goals. Foreign investments play a significant role here. Since the presented projects are all led by different powers the three states can create their strategy to ensure that they optimize their benefits.

But even if the South Caucasus receives some of the funds from these initiatives, they will not be evenly distributed. The three states have all benefited differently due to their geographic circumstances. So far, it remains to be seen how and where these investments will be used.

Nevertheless, governments are holding on to the idea of expanding their role at the crossroads through a joint venture of Azerbaijan, Turkey, Georgia, and Kazakhstan. Regardless of the higher share of cargo traffic by sea. They underlined the importance of this railway link for the

[442] Avdaliani, E. (2020).
[443] Yau, Niva (2021).

Trans-Caspian-Transport Corridor on March 31, 2022. The overall goals are to make the railway more competitive and strengthen cooperation and transit potential.

The EU, Russia, and China each have their view on the projects under discussion. And therefore will fund and support them or not. There are joint considerations among the transit countries of the Middle Corridor to make it more competitive. Through improving freight volume by land and sea. Other projects are directed to improve energy security as well as increase supplies to the European market. Namely through the Trans Caspian Pipeline. It remains to be seen whether Turkmenistan's reserves will be sufficient to meet the demand of its customers. The country's gas reserves are estimated at 50 trillion cubic meters, especially in light of announcements from Brussels that it wants to become gas-free by 2025. But no one should underestimate the importance of gas in the transition to a more environmentally friendly energy country. If the desire for alternatives remains, one option for the EU is to improve relations with Iran and Turkey.

For the east-west cargo traffic, the Trans-Siberian railway is most likely to remain the most important and biggest transportation option. However, the new routes currently under discussion would give the north-south link, namely the NSTC more attention. The Trans-Siberian railway is likely to keep its status.

Given all these geopolitical implications, there are other obstacles to overcome. First and foremost, these are technical and bureaucratic obstacles. Not all countries have the same features in railroads or follow the same border crossing procedures. It is up to the governments to what extent they will introduce these necessary reforms to improve connectivity and make transportation easier and easier, and thus more attractive.

5. Appendix

Interviews

Interview A – Irina Kobrinskaya (EMIMO) 21.09.2021, online

Interview B – Andreea Brinza (Roman Institute of the Asia-Pacific) 18.11.2021, online

Interview C – André Sapir (Bruegel Think Tank), 07.12.2021, online

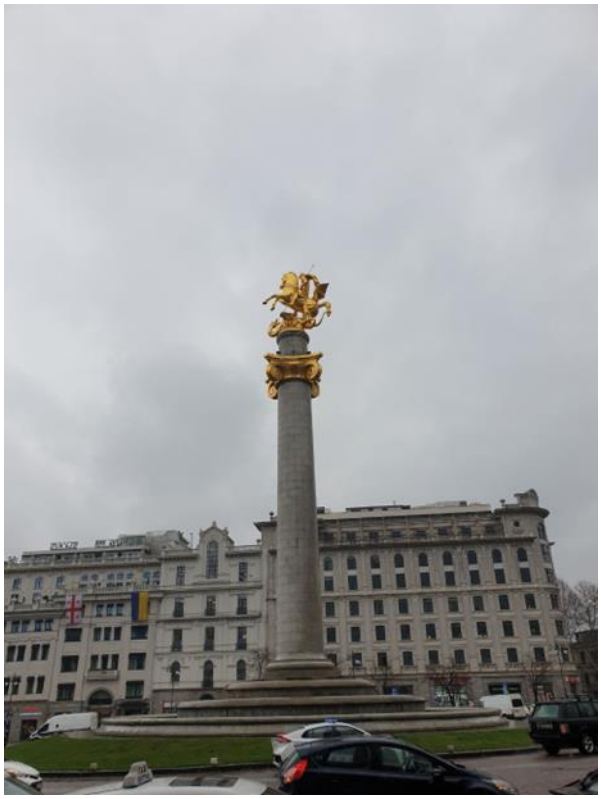
Photos

A- 07.04.2022 by Katharina Hartmann

Tbilisi, Georgia

Across the Freedom Square, where people protested in 2003 during the so-called Rose-Revolution

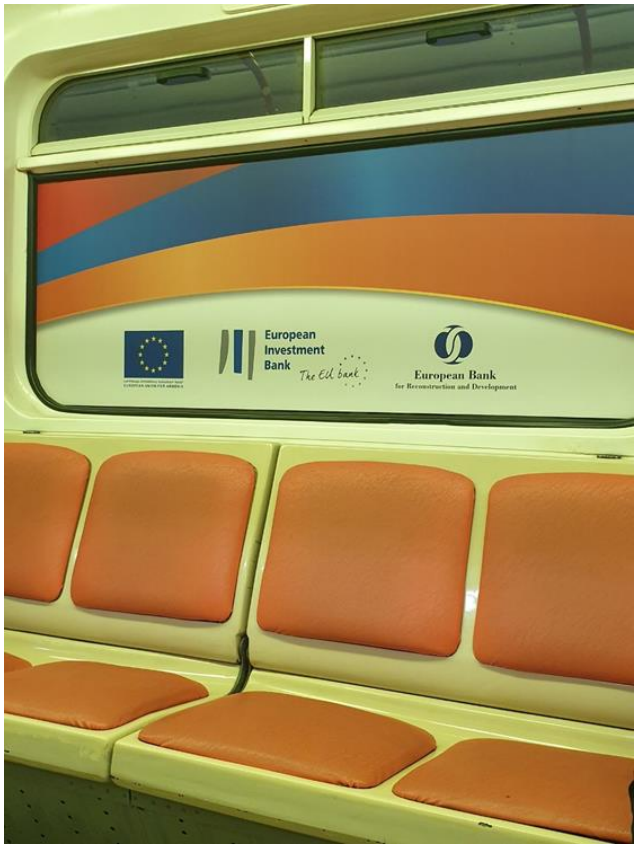
B- 08.04.2022 by Katharina Hartmann



Tbilisi, Georgia

Monument of St. George, also called the Freedom Monument, at the Freedom Square

C- 06.03.2022 by Katharina Hartmann



Yerevan, Armenia

Only Metro line in Yerevan

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7. Summary

After the dissolution of the Soviet Union, the South Caucasus became more accessible to various external actors. The land bridge the South Caucasus represents between the Caspian and Black Seas, connecting Asia with Europe, has become a coveted participant in several infrastructure projects proposed by the EU, China, and Russia. These external players entered the stage of the South Caucasus and defined their relations new to this region.

To analyze the different impacts of these routes on Armenia, Azerbaijan, and Georgia, this thesis compares the foreign policy agendas of the states and their economic conditions, as well as the instruments of good governance, financial assistance, and regional organizations, used by the major powers to shape and influence the region.

Given the geopolitical situation of the South Caucasus, which is surrounded by these three great powers, this thesis uses the concept of strategic hedging. Taking into account the goals of Baku, Yerevan, and Tbilisi to diversify their economies and attract foreign investment, their reasons to participate in the EU-led Transport Corridor Europe Caucasus Asia (TRACECA), the China-led Belt and Road Initiative (BRI), and the International North-South Transport Corridor (INSTC) with Russia will be clarified.

Thanks to its geographical location on the Caspian Sea and at the crossroads between Asia and Europe, the South Caucasian countries, Armenia, Azerbaijan, and Georgia are desired participants in many international infrastructure projects. They play a crucial role in several initiatives aimed at deeper integration and connectivity of the Eurasian region. For Armenia, Azerbaijan, and Georgia, the China-led BRI, the European Union-led TRACECA, and the INSTC are tools to improve and diversify their economic structures. These projects can also be seen as results of the global trend towards regional integration since the end of the 20th century. This thesis argues that international infrastructure projects are important for the development of the South Caucasus. They are the response to the desire for further regional integration in the Eurasian region. However, the projects led by major powers such as the EU, China, and Russia, follow their respective interests in the region.

Armenia, Azerbaijan, and Georgia pursue very different foreign policies toward these great powers. Each of these countries has chosen a different path after independence. Given their role in connecting

Europe and Asia, this paper identifies the role of BRI, TRACECA, and the INSTC in the region. This work will start after the dissolution of the Soviet Union, including recent developments.

The object of my work is the role of international infrastructure projects and the various interests behind them in the development of the South Caucasus region. The subject matter is the deliberations and responses of these three countries to the implementation of various projects in line with TRACECA, BRI, and NSTC.

The research question for this study is as follows: "Why are international infrastructure projects important for the development of the South Caucasus region?"

This work also considers what steps the driving forces behind BRI, TRACECA, and NSTC have taken in the past and how they have been received in the South Caucasus. Consisting of pipelines and transport routes that have been realized so far and which are under discussion. It is important to emphasize the direction of pipelines and routes. So far, the main direction is toward European countries. But China became more important as a destination country within the framework of the BRI. Having this in mind and given the fact that the EU presents the major trade partner in the region, and Russia's zone of interest, attention will also be paid to the increasing competition of the great powers.

To answer the research question minor steps need to be followed: this thesis will firstly, give an understanding of the views of Armenia, Azerbaijan, and Georgia on the three infrastructure projects as well as a political and economic overview of the small-sized countries. Secondly, it will clarify which major powers are involved and how they interact in Eurasia with regards to their different approaches like good governance, investments, and historical ties as well as regional organizations. Their policies towards this region will be of great importance. It will be found out whether the major projects are contradicting or complementary. Third, this study can complement existing studies on how competition among great powers in the region affects the foreign policies of post-Soviet countries as they seek to balance each other and pursue strategic hedging in their agendas. Finally, the core argument is that infrastructure and transport of goods and natural resources are tools to deepen regional connectivity.

To answer the Research Question it is necessary to take into consideration the main goals of the governments in the South Caucasus. These goals serve as the basis in the analysis of the foreign policy

decisions of Armenia, Azerbaijan, and Georgia. Namely they can be summarised as enhancing economic cooperation, improving security, and strengthening sovereignty.

In order to answer the research question the following structure has been implemented. First, an in-depth analysis of the three South Caucasian countries was made. It was analyzed which obstacles the countries had to overcome after their independence and which different paths they chose to take. In addition, possible cooperation between these countries was examined against the background of their geographical location and historical ties. Furthermore, it is shown how the geographical location and the occurrence of natural resources influence the structure of the economy and its vulnerability.

The second chapter focuses on the external players, namely Russia, the EU, and China. Their interests are addressed in this chapter as well as their instruments to enforce these. It shall be found out if the interests of these three major powers as well as the three projects are complementary and to what extent it is possible to participate in both projects in the context of the historical ties of the region.

The last chapter consists of a deep analysis of the link between the three international infrastructure projects and potential projects in the South Caucasus region. It gives an insight into the potential benefits and risks of these projects as well as the limits in this region regarding enhancing further economic stability.

Finally, the reaction of the three South Caucasian governments towards the projects was examined. It was highlighted to what extent these projects are aligned with the goals of each of the South Caucasian governments. In the end, my conclusion answers the research question and gives final remarks.

After the dissolution of the Soviet Union, more and more external actors expressed their interest the South Caucasus. It now found itself surrounded by growing powers, the (then) European Economic Union, Russia, and China. The relations with these external players are a major stake in the foreign policies of Armenia, Azerbaijan, and Georgia.

After decades within the Soviet Union, the three states in the South Caucasus became independent again. Armenia, Azerbaijan, and Georgia faced new geopolitical challenges as fully sovereign states. First Georgia declared its independence on the 9th of April 1991, followed by Armenia on the 21st of September 1991, and then Azerbaijan on October 12, 1991.

Since the 1990s, numerous actors showed interest in this region and recognized its geo-economic and geopolitical importance. Moreover, the shift of attention in international relations from a transatlantic liberal world order to a trans-Eurasian/trans-Pacific system affects the South Caucasus. This change will have a significant impact on the relations of the various actors in this region. In the South Caucasus, this change can be used as an advantage for landlocked countries. With Georgia as the only littoral state, but with Azerbaijan bordering the Caspian Sea, a closed sea, these two countries form a bridge between two bodies of water. This revitalized connectivity is important for the region because, as part of Eurasia, it links two major economic centers of the 21st century, the EU, and China.

The EU, China, and Russia are trying to deepen their influence in this region. Especially since 2008, when the EU and the U.S. were hit by the financial crisis, Russia concerned over the situation in Georgia and China tried to find new markets and make up for short-term losses in trade. China's gaze, therefore, turned to developing countries in Central Asia and the South Caucasus. This trend continued but grew slowly. The Eurasian countries, including the South Caucasus, saw this trend as an opportunity to diversify their economy, to reduce their dependency on just one section. In the case of Azerbaijan, this meant focusing on other revenues than oil and gas. This is of great importance to all three states to support their foreign policy goals. These are, first, to strengthen their sovereignty and independence and, second, better protection of their economies from external shocks. However, better connectivity between countries can only be the result of increasing integration of the region. This integration process is still limited in the South Caucasus. Integration is brought through negotiations between states, based on the preferences and power of each state. A good example , therefore, is the Ceyhan pipeline or the Baku-Tbilisi-Kars railway. Armenia's exclusion due to the military conflict over Nagorno-Karabakh with Azerbaijan underlines the political calculation.

But there are also other drivers of regionalism, for example, regional organizations, which are offering a greater diversification of agreements and institutions in this region.

The South Caucasian states have now, thanks to the favorable geostrategic location, the opportunity to choose. A broader range in their choice of partners has come up to promote further regional development. Overall, the South Caucasus is eager to attract more foreign direct investment and also to implement infrastructure projects, such as the TAP, completed in 2020, or the TANAP, completed in

2018. These pipelines are the result of close cooperation between Azerbaijan, Georgia, and Turkey presenting a land bridge between the Black Sea and the Caspian Sea. The latter was a great dispute point after the break-up of the Soviet Union since then the Caspian Sea has been surrounded by five sovereign countries. Its richness in natural resources is estimated at around 50 billion barrels of oil and around 8.4 trillion cubic meters of natural gas and is still not fully explored by now. The Convention on the Legal Status of the Caspian Sea was signed on the 12th of August 2018 by all of the five bordering states, Russia, Kazakhstan, Turkmenistan, Iran, and Azerbaijan, and settled most of the disputes. This treaty was a milestone in the settlement process. Now the Caspian Sea is neither defined as a lake, as Iran put forward nor as a sea as said by its name. This convention is the result of the negotiations of all five states and is not based on the United Nations Law of the Sea. Especially for Azerbaijan, the Caspian Sea plays a major role in its economy. The Azeri-Chirag-Deepwater Gunashli oilfield and Shah Deniz gas field allow Azerbaijan to sell huge amounts of its resources to Europe. They are transported through Georgia, Turkey through the Baku-Tbilisi-Ceyhan oil pipeline or the Baku-Tbilisi-Erzurum gas pipeline, and then via TANAP, TAP to Europe. Recently, it has been published that the oil field produced the 4 billionth barrel of oil, which was seen as a major success. The Shah Deniz gas field produces daily more than 58 million standard cubic meters of gas.

Georgia plays a crucial role in this transportation route starting in Azerbaijan. (Compare to figure 2) Only Armenia due to political tensions is left out. In the end, the three states can not only play a significant role in connecting Asia with Europe but also link Russia with Iran, and further to India, in the so-called North-South Transport Corridor. But the INSTC is not to the same extent a project or initiative as the BRI or TRACECA. There is no central body or budget from which projects can be financed. In addition, the governments themselves provide the impetus for implementing new routes.

In the South Caucasus, several interests of multiple players clash. Firstly, the EU which wants to fully minimize its dependence on energy supplies from Russia. Given the natural resources of the South Caucasus, it could be seen as complementary but not as a total alternative. Secondly, Russia whose goal is to keep external influence away and support its interests via regional organizations such as the Commonwealth of Independent States (CIS), and EAEU, and lastly, China which searches for new markets and new sources to satisfy its energy needs. But also regional players have a certain interest in

this region. Iran sees there a possibility to balance the western sanctions. Turkey, which is seen as the big brother of Azerbaijan, due to close cultural ties, is already included in the transportation route for gas and oil from Azerbaijan, and Georgia to Europe.

Finally, the geostrategic location of the South Caucasus may favor the economic development of the states, but so far most of the infrastructure projects have been implemented without external assistance and only with regional partners, mainly Georgia, Azerbaijan, and Turkey. The fact is that political considerations are key to further projects and their success. This is true for both regional and major powers surrounding the South Caucasus.

For centuries, the South Caucasus has witnessed the rise and fall of various kingdoms in the region, including, the Ottoman Empire, the Roman Empire, and the Russian Empire. The entire region has been influenced by different religions and civilizations, and for the past two hundred years, it can be noted that the most notable rule over the South Caucasus has come from Russia. Nevertheless, there are more and more external actors who are trying to deepen their impact in the region. Primarily, these are the surrounding regional actors such as Iran and Turkey. But also the EU, and, to a lesser extent, China are also moving closer to the region. The motivation of these sometimes opposing powers differs deeply, which will be shown in the following based on regional organizations or infrastructural projects backed by Russia, the EU, and China.

Since the South Caucasus presents an alternative route to diversify the transport corridors, it plays a complementary part in all infrastructure projects. For Russia, stability in the region is vital due to the close neighborhood. Nevertheless, given the geography, the region has the potential to turn into a small but valuable element in the chain.

None of the three states are economic powers; hence, they depend on external financial aid to support the areas of transport, trade, and infrastructure. As presented in chapter 2, the EU and China assist the region in these areas, with the vision of implementing a transport corridor connecting Asia with Europe. Some of the discussed projects aim at bypassing Russia.

Thanks to the participation in TRACECA or BRI, even with just selective projects, investments can be simplified under their umbrella and are more likely to be attracted since they follow the logic of the initiatives.

But the question remains whether it will be beneficial for the engines behind these projects to commit to long-term financial support to enhance further development in the South Caucasus. If it turns out that the benefits are in decline, the region can be bypassed.

In fact, for all South Caucasian governments, participation in BRI and TRACECA means a great deal. But they are differently involved.

In any case, infrastructure for them is a tool through which they can attract further investments, and diversify their economy away from just one sector, thereby enhancing their domestic economy. Better connectivity plays a significant role in this process. Governments chose based on their foreign policy agenda—which countries are more beneficial and less risky to build these links with.

The motivation of Armenia, Azerbaijani, and Georgia to participate in TRACECA, BRI, and the INSCT is in line with their overall goals in their foreign policy agendas. Namely, enhancing economic cooperation, improving security, and strengthening sovereignty. Both economically and politically, diversification can contribute to stability. Simultaneous participation in these projects means that the smaller states are less likely to be trapped in an asymmetrical relationship which presents a form of strategic hedging.

Since independence, each of the three South Caucasian states had its way of achieving these goals. Either in cooperating with its neighbor, or thanks to a high amount of natural resources. One can also state that the countries show different degrees of success in doing that, which can be twined to the foreign policy decision of their governments. Azerbaijan can, thanks to its good relations with Turkey, its close cooperation with Georgia, and its victory over Armenia give impetus for new links and routes.

Although Armenia pursues good relations with Russia and the EU, which shows in its membership in several organizations led by these powers, it is the most isolated country in the South Caucasus. Neither the EU, Russia, nor China, as external powers, can remove the political tensions in the region.

Georgia’s relations with Russia are modest over the situation of the two break-away regions. Georgia has good conditions to keep its status as a transit country. Relations with Azerbaijan are key for its economy and transport routes.

Azerbaijan has, given its established pipelines and links to Turkey and Georgia, the best features to become the transport hub of the South Caucasus. As the EU is interested in the country's natural resources, relations may change in Baku's favor, regardless of human rights issues.

But the true economic potential lies in cooperation between landlocked and littoral states. Expressed in joint infrastructure projects of Azerbaijan and Georgia, which resemble a landbridge between the two seas. Armenia is usually excluded from this cooperation due to its two closed borders.

Since Armenia and Azerbaijan are both landlocked countries, cooperation with Georgia is crucial for access to world markets. In this regard, Baku has clear advantages, as it enjoys good relations with Turkey. Turkey and Azerbaijan are connected by land through Georgia. In order not to provoke Baku, Tbilisi has abstained from implementing major projects with Yerevan.

In the South Caucasus TRACECA, BRI, and the NSTC can give new impetus for establishing routes. Both types of economies, landlocked and littoral, can benefit from infrastructure projects. To develop a long-term sustainable economy, time, and money must be invested into national as well as international infrastructure projects. While Georgia and Azerbaijan already got a competitive head start and promising cooperative prospects, Armenia still lacks behind in the quality of transportation and opportunities. Improving cooperation with its neighbors will accompany Armenia’s bet for economic growth. Nevertheless, infrastructure plays a significant role in each of the three hedging-based foreign policy agendas.

The interests of the external players also shaped the region since the beginning of the independence of Armenia, Azerbaijan, and Georgia.

Russia supports the ideas of a Nort-South connection, expressed in the INSTC. Although other regional and external powers prefer an East-West link. But Russia does not have the capacity to prevent Armenia, Azerbaijan, or Georgia from joining any infrastructural project nor is that of vital interest to Russia. Especially for Armenia, it represents an opportunity to break its isolation. INSTC and good relations with Iran are a counterbalance to its exclusion from East-West connections and the BTK railroad.

Moscow pursues overall good relations with Yerevan, as well as with Baku, regardless of the Nagorno-Karabakh War in 2020. Neither of the two governments wants to contradict Russian interests in the region since it was also the mediator of the ceasefire and has its peacekeeping forces in Nagorno-

Karabakh. Tbilisi keeps its distance from any projects which include Moscow. But it has not the capacity to limit Moscow's presence in the region.

One of the main stakes of Russia's policy towards the South Caucasus is the EAEU, CSTO, and CIS. Through them, Russia filled out the vacuum after the dissolution of the Soviet Union. But only to a certain extent since not all Post-Soviet Republics are members.

The EU enjoys a relatively good reputation in the South Caucasus. It is associated with high investments and is an exporter of expertise. In Baku, the EU is welcomed for economic modernization, but not as an engine for internal reforms. Although the Eastern Partnership still exists, it seems to be at a standstill.

Given the strategic hedging pursued by Armenia, Azerbaijan, and Georgia the EU plays a remarkable role in their foreign policy agenda. Mainly the EU tries to assist the countries in their transition process towards democracy under the umbrella of the EaP. But not all countries agree with the role of the EU as a normative power. This, however, does not result in lesser financial or technical assistance. As can be seen in the development of its relations with Azerbaijan for energy purposes.

The role of China in the South Caucasus is highly discussed. The opinions are divided between China has no serious foothold in the regions versus it already is about to gain more influence. There are some indicators that China's role will increase in the coming years. Due to a growth in trade and cooperation. In the end, it is a rather limited and modest relationship that connects Beijing with the South Caucasus. Although some geopolitical interests do exist. Nevertheless, Transcaucasia presents a possible transit venue for goods from China to Europe. To a certain extent, a rise in investment and trade is foreseeable. But it is not at all unique in its position. It lies in the perception of China if the benefits outweigh the costs. Improvements in the management of border crossings and bureaucratic reforms are needed to make traffic through the South Caucasus more attractive.

For Armenia, Azerbaijan, and Georgia these international infrastructure projects are tools to achieve their policy goals. Foreign investments play a significant role here.

But even if the South Caucasus receives some of the funds from these initiatives, they will not be evenly distributed. The three states have all benefited differently due to their geographic circumstances. So far, it remains to be seen how and where these investments will be used.

Nevertheless, governments are holding on to the idea of expanding their role at the crossroads through a joint venture of Azerbaijan, Turkey, Georgia, and Kazakhstan. Regardless of the higher share of cargo traffic by sea. They underlined the importance of this railway link for the Trans-Caspian-Transport Corridor on March 31, 2022. The overall goals are to make the railway more competitive and strengthen cooperation and transit potential.

The EU, Russia, and China each have their view on the projects under discussion. And therefore will fund and support them or not. There are joint considerations among the transit countries of the Middle Corridor to make it more competitive. Through improving freight volume by land and sea. Other projects are directed to improve energy security as well as increase supplies to the European market. Namely through the Trans Caspian Pipeline. It remains to be seen whether Turkmenistan's reserves will be sufficient to meet the demand of its customers. The country's gas reserves are estimated at 50 trillion cubic meters, especially in light of announcements from Brussels that it wants to become gas-free by 2025. But no one should underestimate the importance of gas in the transition to a more environmentally friendly energy country. If the desire for alternatives remains, one option for the EU is to improve relations with Iran and Turkey.

For the east-west cargo traffic, the Trans-Siberian railway is most likely to remain the most important and biggest transportation option. However, the new routes currently under discussion would give the north-south link, namely the NSTC more attention. The Trans-Siberian railway is likely to keep its status.

Given all these geopolitical implications, there are other obstacles to overcome. First and foremost, these are technical and bureaucratic obstacles. Not all countries have the same features in railroads or follow the same border crossing procedures. It is up to the governments to what extent they will introduce these necessary reforms to improve connectivity and make transportation easier and easier, and thus more attractive.