



საქართველოს სტრატეგიისა და საერთაშორისო ურთიერთობების კვლევის ფონდი  
GEORGIAN FOUNDATION FOR STRATEGIC AND INTERNATIONAL STUDIES

# IMPROVING JAPAN-EU CONNECTIVITY: EXPLORING THE SOUTH CAUCASUS LAND TRANSPORT CORRIDOR

**KAKHA GOGOLASHVILI**

**TBILISI, 2022**



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Tbilisi, 2022

ISBN 978-9941-8-4252-8

## Japan and the EU Consider Improving Connectivity

On September 27, 2019, President J.K. Juncker and Prime Minister Abe Shinzo **signed a commitment** on partnership, sustainable connectivity and quality infrastructure between the **EU and Japan**. The soft agreement stipulates intensive cooperation between the parties on all bilateral and multilateral dimensions of connectivity, including digital trade, transport, energy and people-to-people exchanges. The EU and Japan agreed to work on synergies and complementarity between their respective cooperation on connectivity and quality infrastructure with partner third countries and coordinate action, notably in the regions of the Western Balkans, Eastern Europe, Central Asia, the Indo-Pacific and Africa. The EU and Japan envisage working together to promote free, open, rules-based, fair, non-discriminatory and predictable regional and international trade and investment, transparent procurement practices, the ensuring of debt sustainability and the high standards of economic, fiscal, financial, social and environmental sustainability as well as quality infrastructure investment (the policy endorsed at the last G20 summit). As a most important endeavor, the cooperation initiative intends to achieve sustainable transport connectivity via the convergence of regulatory frameworks, the interconnection of transport corridors and the enhancement of safety and the security of transport.

## Intensification of Trade Relations

In 2019, the volume of the trade in goods reached EUR 135 billion and the trade in services amounted to approximately EUR 55 billion. This made Japan among the EU's six main trade partners. Indeed, China's trade with the EU overruns EU-Japan figures more than three times. The US remained as the biggest of the EU's trade partners while US trade with the EU fell from 25% to 17% in the last 15 years and China-EU trade has shown an upward trend, growing from 6% to 15% in the same period. In 2000, Japan was the second biggest trade partner for the EU comprising 7.5% in the total of the EU's external trade volume. In 2018, EU exports to Japan constituted 3% of its total exports while Japan sold the EU 7% of its goods traded abroad. The trend shows that there was a considerable diversion of trade between the EU and Japan correlated with China's growth as a trade power. Indeed, the relative fall of Japanese trade with the EU cannot only be attributed to this factor. For example, Switzerland was able to conserve its third place and still occupies 7% in the EU's total trade. Switzerland has a free trade arrangement and a higher functional integration with the EU while Japan and the EU have been maintaining mutual trade barriers at substantial levels for years.

The signature and entering into force (February 2019) of the **EU-Japan Economic Partnership Agreement** has opened new perspectives for the revitalization of trade between them by the gradual elimination of around 97% of all tariff barriers and the substantial lightening of the technical barriers. According to European Commission,<sup>1</sup> EU exports to Japan increases by 6.6% in the first ten months following the implementation of the EPA. This outperforms the growth in the past three years which averaged 4.7% (Eurostat data). Japanese exports to the EU grew by 6.3%. Such a considerable rise in Japanese exports to the EU is even more noticeable when there was a clear downward (negative) trend in Japan's total export growth for the previous years.<sup>2</sup> The EU produced two impact analyses (in 2016 and 2018) vis-à-vis the EU-Japan trade agreement prior of its signing. The modelling showed that once the EU-Japan EPA is fully implemented, the trade between the parties can increase by EUR 36 billion in the midterm perspective. Indeed, there was significant drop in the trade due to COVID-19 restrictions in 2020 and 2021. Seemingly, the war in Ukraine, in which the EU and practically the whole world appeared to be involved indirectly, would apparently not allow an optimistic forecast in 2022.

## How to Get There?

The majority of products exported to Japan from the EU are manufactured goods, chemicals, machinery and food products. Practically, Japan sells the same groups of products to the EU with one difference – the EU also sells an important quantity of food products to Japan (around 10%).<sup>3</sup> It is exactly this category of exports from the EU that has benefited in particular after the EPA entered into force. All of the above mentioned products are mainly transported by four means of transport: sea, rail, road and air. In the nearest past, rail was considered the least rapid option but the development of new capacities along the route **linking China with Europe means that it takes now around eight days** for goods to arrive from Urumchi (east China) to a Central European city (ex., Prague). The study (2018) by the Center for Strategic and International Studies<sup>4</sup> has emphasized the growing potential of rail transport in East Asia-Europe and, in particular, the role of the Southern Corridor (as the study calls it while it is known as the Middle

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<sup>1</sup> <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2107>

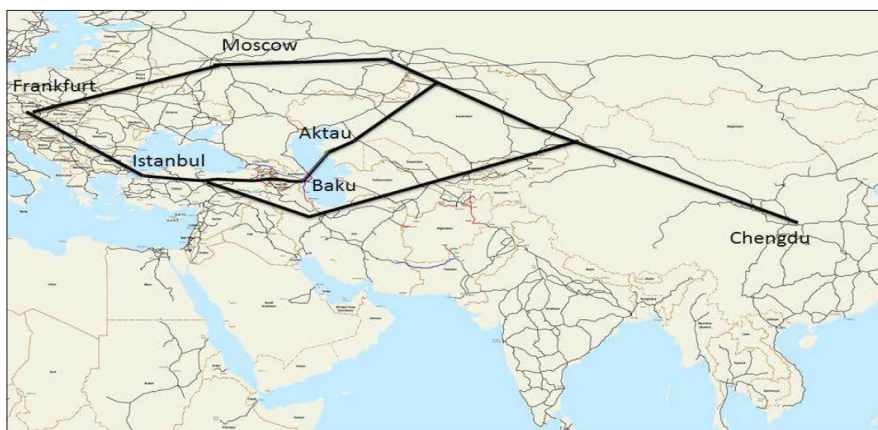
<sup>2</sup> <https://tradingeconomics.com/japan/exports-to-european-union>

<sup>3</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php/Japan-EU\\_%E2%80%93\\_in\\_international\\_trade\\_in\\_goods\\_statistics#EU\\_and\\_Japan\\_in\\_world\\_trade\\_in\\_goods](https://ec.europa.eu/eurostat/statistics-explained/index.php/Japan-EU_%E2%80%93_in_international_trade_in_goods_statistics#EU_and_Japan_in_world_trade_in_goods)

<sup>4</sup> <https://www.csis.org/analysis/rise-china-europe-railways>

Corridor according to the Belt and Road Initiative) stretching from China to Europe crossing the South Caucasus. Some stakeholders believe that a nascent Middle Corridor could further develop in the coming years, stretching to Europe via Central Asia, Georgia and Turkey. This would allow European food producers to avoid Russian sanctions but as many stakeholders noted, the route itself requires significant hard and soft infrastructure improvements.<sup>5</sup> **This option obviously becomes more than relevant after the end of the Russian with Ukraine which will certainly affect access to railways for goods coming from those countries which joined in imposing sanctions against Russia.**

**MAP 1. Three East-West Corridors**



The Belt and Road Initiative calls the transport corridors as following:

Corridor	Countries to Cross	Comment
Northern Corridor	(1) China-Russia-Belarus-Poland-Germany (Trans-Siberian) (2) China-Kazakhstan-Russia-Belarus-Germany	Japan: Yohokama-Vladivostok
Middle Corridor (South Caucasian)	(3) China-Kazakhstan-Azerbaijan-Georgia-Turkey-CEE (4) China-Kyrgyzstan-Uzbekistan-Turkmenistan-Azerbaijan	
Southern Corridor	(5) China-Kirgizstan-Uzbekistan-Iran-Turkey-Europe	

The **Northern Corridor (1)** is convenient for Japan (for directly shipping goods from Yokohama to Vladivostok) and is continued by the Trans-Siberian railway. Actually, Japan has been using this route since 2019

<sup>5</sup> See Figure 3 at: <https://www.csis.org/analysis/rise-china-europe-railways>

and its goods take 19 days to arrive in Poland. The **Northern Corridor (2)** overpassing China has its attractiveness because of avoiding customs checks, as Kazakhstan, Russia and Belarus form a customs union. Indeed, the **Middle Corridor (South Caucasian)** has a real advantage to be the shortest way allowing goods to arrive in Europe from Japan in 15 days. After all, this route provides an easier reach to Southern Europe and the Mediterranean, the Middle East and Africa which is very important for Japan in order to become a leading trading partner and investor there. In any case, the leverage given to Russia, which is becoming increasingly provocative towards Europe and its eastern partners, would cause potential risks for EU-Japan business relations if the northern route is chosen as the default one. Despite the fact that rail transport accounts for only 1% of all cargo with a destination of Europe-East Asia-Europe as the study supposes, the "...developments, including new airports in Asia and improvements to the European Union's rail network, could impact the competitiveness of railways in the coming years."

Japan itself has three alternatives for shipping its goods to Europe through: 1) direct shipment to the port of Vladivostok (Russia) by the Trans-Siberian railway to Belarus and further to Central and Eastern or Northern Europe, 2) maritime routes going through the South China Sea, the Indian Ocean and further through the Red Sea and the Suez channel to the Mediterranean Sea and 3) railway and road connections through China using the above mentioned corridors (2), (3) and (4) and (5). An important development is that the speed of delivery by rail transport from Europe to East-Asia has increased dramatically and takes around 11 days from Hamburg to Urumchi (China) against the 36-45 days needed in 2006 while maritime transport needed 28 days to reach Japan from a European port. The air transport routes, including through the South Caucasus which seems to be one of the shortest connections between Mediterranean Europe and Japan, may also be explored. Air transport is responsible for the 28-30% of all cargo transport between the above mentioned directions if estimated by its value.

While China is intensively developing rail connections to Europe, operating around 5,000 freight trains a year between China and Europe by 2020, Japanese companies have been trying to use and exploit the Chinese Belt and Road Initiative land routes and send their products to the EU by railway. In 2018, Honda Motors sent its products to Belgium by railway taking just 17 days which is twice as less than by the maritime route.<sup>6</sup> It is also worth mentioning that Uzbekistan has the intention to build a new railway

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<sup>6</sup> See: <https://www.japantimes.co.jp/news/2018/10/15/business/japan-firms-try-chinas-belt-road-cargo-transport-europe/#.XkPTZ1UzaUk>

to connect to China via Kyrgyzstan. If successful, it would automatically expand the possibilities of the Southern Corridor with an alternative route that connects Kazakhstan with the South Caucasus through Uzbekistan, Turkmenistan and the Trans-Caspian ferry connection.

At present, the full capacity of the Aktau port (Kazakhstan) to load and ship diverse types of cargo with the Azerbaijani port of Baku is around 18 million tones. The modernized Baku-Tbilisi (GEO)-Kars (Turkey) railroad connection has the capacity to reach 17 million tons in 2030. In terms of speed, the testing of a fully charged train between the Chinese city of Xinyang and Prague in the Czech Republic takes 11-12 days by the Middle Corridor (3) passing the Turkish underwater tunnels of the Bosphorus and the Dardanelles. This route has proven to be the shortest and is quicker than the Northern Corridors (1) and (2), taking 18 and 16 days, respectively, to arrive in Hamburg.

## **Looking Ahead**

With the end of the COVID-19 pandemic and overcoming its negative consequences, Japanese-EU trade will increase with significant speed in the following years. With the overall increase in the trade volume from South-East Asia to Europe (with less intensity vice-versa), the maritime route for transporting cargo will inevitably become slower. The most problematic issues which seemingly will not be resolved in the near future are the free passage of ships in the South China Sea and the security and safety situation around the Suez channel and around Ormuz Bay. The exploitation of terrestrial routes, especially for rail transport, will become an important endeavor for securing the safe and rapid shipment of cargo from Japan (South East Asia) to Europe.

The Northern Corridor is also an already working option for Japan which avoids the transportation of cargo through China. The direct sea-leg from Yokohama to the Russian port of Vladivostok provides for the arrival of Japanese goods in Poland in 19 days. Indeed, Russia-EU tensions and, especially, the newly established sanctions against the Russian Federation constitute a serious political risk and, actually, unavoidable barriers for businesses to some extent. The corridor already functions and its necessity and economic reasonability cannot be challenged at this stage. Still, among three existing terrestrial corridors, the most rapid and attractive of them seems to be the South Caucasian Corridor (as a part of the Belt and Road Initiative - Middle Corridor). The corridor goes across China, Kazakhstan, Azerbaijan and beyond to Europe via Georgia and Turkey. Alternatively, this can be through Kyrgyzstan (or Afghanistan)-Turkmenistan-Azerbaijan,



etc. The route has already been well studied within the scope of the EU TRACECA project (since 1994). All participating countries along it have a full mutual understanding and excellent relations. There is also a number of Free/Special Economic Zones established in Kazakhstan (port of Aktau) and Azerbaijan (port of Baku) and Georgia (port of Poti) and Anaklia (expecting that the Georgian government will come back to the Anaklia project) and this also substantially reduces the costs and administrative barriers for loading and stocking cargo along the corridor. Moreover, the Turkish government have shown a high interest in promoting the above mentioned corridor and is ready to invest and cooperate with any interested partner. Turkey is undertaking important infrastructural projects in order to improve the speed along the Kars-Edirne segment of the route and amplify and improve underwater connections and railway bridges in order to reach the European coast.

The **Middle Corridor** can be effectively exploited by the EU and Japan as an alternative route. With the growing amount of trade between the partners, the corridor's importance will improve significantly. It is also an advantage that the EU has had a long history of involvement in the creation of that corridor within its TRACECA project. The project, operating in the wider region of the Caspian and the Black Seas, was extremely important for promoting the Europe-Asia corridor and it invested significant means for the harmonization of legislation, customs procedures, feasibility studies, political relations and so on. The EU contributed a great deal to creating the route, including the development of railway traffic across the Caspian Sea. Leaving the above mentioned achievements to the full control of the Chinese Belt and Road Initiative would not be wise or even fair. Therefore, it would be reasonable if the EU actively renews its intentions to operate in Central Asia and the South Caucasus, investing and influencing the development of free and sustainable transit along the corridor. Japan and the EU could work on this together. Among the projects in which they could invest together, the building of the Anaklia deep-water port in Georgia can be considered. The port, which awaits a new tender for construction, will become the largest deep-water port on the Black Sea and serve an important role in shipping cargo from Asia to Europe, especially in view of the intensive efforts in the EU to enhance TEN-T<sup>7</sup> network connections with the Black Sea area. At this stage, there are four pan-European corridors already reaching Black Sea ports and the Danube basin. For the Japanese government, it may be important to secure its active role and participation in the development of the Middle Corridor in order to become a real driver

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<sup>7</sup> <https://euneighbourseast.eu/news-and-stories/publications/eastern-partnership-indicative-ten-t-investment-action-plan/>

and a stakeholder in investment and infrastructural development projects. This involvement can be effectively secured if acting together with the EU which has important leverage on political and state actors in the region and has important expertise and experience in dealing with the region, including on issues related to transport. Joining efforts with the EU may also play an important role in containing Chinese exclusivist intensions and attempts to gain full control over Europe-East-Asia routes.

## Connecting the GUAM Corridor

In 2013, the concept of the GUAM corridor <sup>8</sup> linking Central Asia with Europe through GUAM <sup>9</sup> countries has been adopted. The concept foresees connecting the TRACECA corridor (Almaty-Poti-Illichivsk) with the Black-Baltic Seas route run by “Zubr” a “Viking,” respectively, as container and combined rapid trains.

**Map 2. GUAM Corridor from the Caspian to the Baltic Sea**



<sup>8</sup> “From Poland to Baku, Why Not via Ukraine?,” Conferences for Freight Professionals, available from: <https://events.railfreight.com/news/2020/06/05/from-poland-to-baku-why-not-via-ukraine/>

<sup>9</sup> International organization for cooperation between Georgia, Ukraine, Azerbaijan and Moldova.

At least four European Transport Network TEN-T corridors have had access to the Black Sea, including to the port of Odessa in Ukraine. Other corridors have been reaching the Black Sea at Constanza (Romania), Burgas and Varna (Bulgaria) and Istanbul (Turkey). The above mentioned Middle Corridor has good chances through Georgian Black Sea ports to connect to all of them. Special interest may be focused on the railway route linking Odessa, Ukraine (Black Sea) with the Klaipeda, Lithuania port on the Baltic Sea (former Petra corridor IX). This route seems more competitive than the linkage through Romania and Bulgaria's Black Sea ports. Nowadays, the very successful "Viking" fast container train operates along this corridor. The route provides the possibility for delivering cargo coming from Japan and China through the Middle Corridor by ferry boat from Batumi or Poti (Georgian ports on the Black Sea coast) to Odessa and further to Central and North Europe.

## **Conclusion**

Due to expected increase in Japan-EU trade turnover, using maritime routes for the shipment of cargo between the two partners becomes challenging. The problem is aggravated because of the increasing traffic of vessels along the maritime routes between the East Pacific and Europe. The development of land routes and, especially, rail connections become a good option. China's Belt and Road Initiative, as well as the EU's TRACECA project, have contributed to the development of the above mentioned routes. Indeed, we argue that the so-called Middle Corridor, involving transportation through the South Caucasus, seems to be the most rapid and politically least challenging option.