

PROSPECTS OF GEORGIAN RAILWAY IN A NEW REALITY AFTER THE 50-DAY AZERBAIJAN-ARMENIA WAR

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Abstract

The content of this article is derived and is reflecting the work of one of the authors (R. Nikolaishvili) in the framework of the doctoral thesis at the Free University of Tbilisi. The South Caucasus region, despite its size, can be regarded as globally important in geopolitical and geo-economical terms. One of the reasons for this are the transport links, in particular, the railway network, that not only serves the economic interest of the region but connects the wider region and has a potential to serve these trade links at a much higher effectiveness. Georgia is in the middle of this region and trade hub. In this regard, any development is of crucial national importance for Georgia. However, the region (the South Caucasus) houses potentially competitive projects, under the background of which one project may develop or decline at the expense of the other - some zero-sum game may occur, if not coordinated and concerted uniformly. On the other hand, a win-win situation or vision can be developed with the significant synergy effects, and those approaches have to be sought and developed for the entire South Caucasus, and could also suit economically directly adjacent major regional players (Turkey, Russia and Iran). In this article, it will be argued that today the South Caucasus (still divided along the "front lines", and in the aftermath of the 50-Day Azerbaijan-Armenia War), the wider region and may be even the global economy needs the concept of a Common Caucasian Railway. This idea can be found as accommodating and unifying both, the competing local visions, as well as west-east and north-south trade interest and projects. It may sound as a paradox, but the South Caucasus can accommodate the Chinese ambitions expressed in the One Belt - One Road Strategy, Russian trade ambitions and the Western visions of liberal international economic order, if not in a perfect harmony, but at least not total contradicting one another. And, this can be thought as one of the main avenues for Georgia's political and economic development.

Georgian Railway has a 150-year history. On August 14th, 1871, the first train departed from Kvirila Station (now Zestaponi) in the direction of town of Poti, and then the first train from town of Tbilisi to the same Poti arrived on October 14th, 1872. The latter date is marking a formal the birthday of the Georgian Railway.

During these 150 years, the Georgian Railway went through many stages of development and has turned into one of the shortest routes connecting the east and the west. Although this route is not the only one - other routes compete with it and its 'shortness' is not defeating the

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alternatives. At the same time, the dictum that ‘whoever controls Georgia, controls Caucasus, and whoever controls Caucasus, can rule over a huge area of Eurasia’ is quite realistic as this is certified by the history of Georgia and the region over the last 200 years.

During his visit to Kazakhstan on September 7, 2013, Chinese President Xi Jinping first unveiled the concept of the Silk Road Economic Belt, which targets connecting the central and the western regions of China by land with Central Asia, and then with the Middle East and Europe.

This transit route is of particular importance considering the scale of trade between China and European countries, which in 2014 reached \$615 billion³ and is projected to increase to \$800 billion by 2020.⁴

It is a well-founded assumption that the concept of the Silk Road economic belt may play one of the most important roles in the development of the Eurasian continent in the current century. China is already the second largest global economic player, with the enormous human resources and growing influences.

The Chinese Silk Road development project is supported by several countries that want to become beneficiaries of it. The Silk Road Economic Belt project, also known as the Terrestrial Silk Road, is aligned with the historic Silk Road used centuries ago and offers several alternatives. Those are: the North Route via Russian Federation, the South Route via Iran, and last, but not least - the South Caucasus Route.

The shortest of these routes is the South Caucasus one, which takes the shortest time to transport goods from China to Turkey – 12 days, while the northern route to Russia takes 16 days and is a longer (11,000 km) route, while the southern route to Iran takes 25-30 days⁵. Consequently, the road to the South Caucasus is, according to the data, the most attractive alternative between the various routes of the Silk Road.



Source: The Silk Road Economic Belt. One Belt, One Road Initiative (OBOR) – 12.01.2018; Lenge and Partners; <https://www.lengepartners.com/post/the-silk-road-economic-belt-one-belt-one-road-initiative-obor>

³ China-EU; Trade and Economic Relations in Numbers; Brochure of Mission of China to the European Union; <http://www.chinamission.be/eng/mh/P020190620833948559709.pdf>

⁴ Giorgi Narmania - "Waiting for the Silk Road"; 05.01.2016; Forbes Georgia Publishing House <https://forbes.ge/abreshumis-gzis-molodinshi/>

⁵ Giorgi Narmania - "Waiting for the Silk Road"; 05.01.2016; Forbes Georgia Publishing House <https://forbes.ge/abreshumis-gzis-molodinshi/>

Transportation, including rail transportation, is having a high potential for the economic development of Georgia. That is why in this article we will review all perspectives, as well as the new reality in which the Georgian Government found itself in after the 2020 Azerbaijan-Armenia military confrontation.

The success of any government is determined by how adequately it assesses the ongoing political or economic developments and how much it can anticipate the future trends. As former German Chancellor Willy Brandt said in a 1971 speech, "He who follows the past cannot cope with the future."⁶

In September 2020 Azerbaijan-Armenia, the so-called 50-day-war gave birth to a New Reality and opened up the possibility of alternatives in terms of economic transportation to and through Caucasus.

This is a new challenge for Georgia and the Georgian economy. Georgian government has possibly a historic chance to make the new reality economically and politically attractive and profitable for the country, or become an outsider of the process.

As far back as in the 1990s, after the Nagorno-Karabakh conflict began (in 1988), Armenian Railway to Azerbaijan was virtually shut. Armenia no longer had rail traffic with its neighbors (neither Iran nor Turkey), but except with Georgia. This route was the Kars-Gyumri-Tbilisi section, the construction of which was completed 100 years before, in 1899 during the time of the Russian Empire.

Later, especially during the Soviet period, this connection became very important as it was the only direct railway connection between Turkey and the USSR (Kars-Gyumri connection), as well as between Armenia and other Soviet republics (Gyumri – Tbilisi route). The Kars-Gyumri section has been non-operational since 1993, when Turkey closed its border with Armenia as a reaction on the Nagorno-Karabakh conflict, in support of Azerbaijan.

Against the background of this situation, an agreement was signed in April 2005 on the construction of a directly connecting railway section from Turkey to Georgia, from Kars to Akhalkalaki, as well as the rehabilitation of the existing railway (from Akhalkalaki to Tbilisi and Baku), thus creating the Kars-Tbilisi-Baku railway route⁷.

The European Union and the United States have refused to finance or promote the new railway because they saw it as an act of possible consolidation of the isolation of Armenia and instead politically supported the opening of the Kars-Gyumri-Tbilisi railway line. However, the EU later welcomed the opening of this section (Kars-Tbilisi-Baku).⁸

⁶ Willy Brandt Quotes - <https://quotepark.com/authors/willy-brandt/>

⁷ Samuel Lussac - The Baku-Tbilisi-Kars Railroad and its Geopolitical Implications for the South Caucasus; *Caucasian Review of International Affairs* VOL. 2 (4) – AUTUMN 2008;

⁸ EU Statement on Opening of the Baku-Tbilisi-Kars Railway; Bruxelles, 30.10.2017 - https://eeas.europa.eu/delegations/azerbaijan/34825/eu-statement-opening-baku-tbilisi-kars-railway_en;



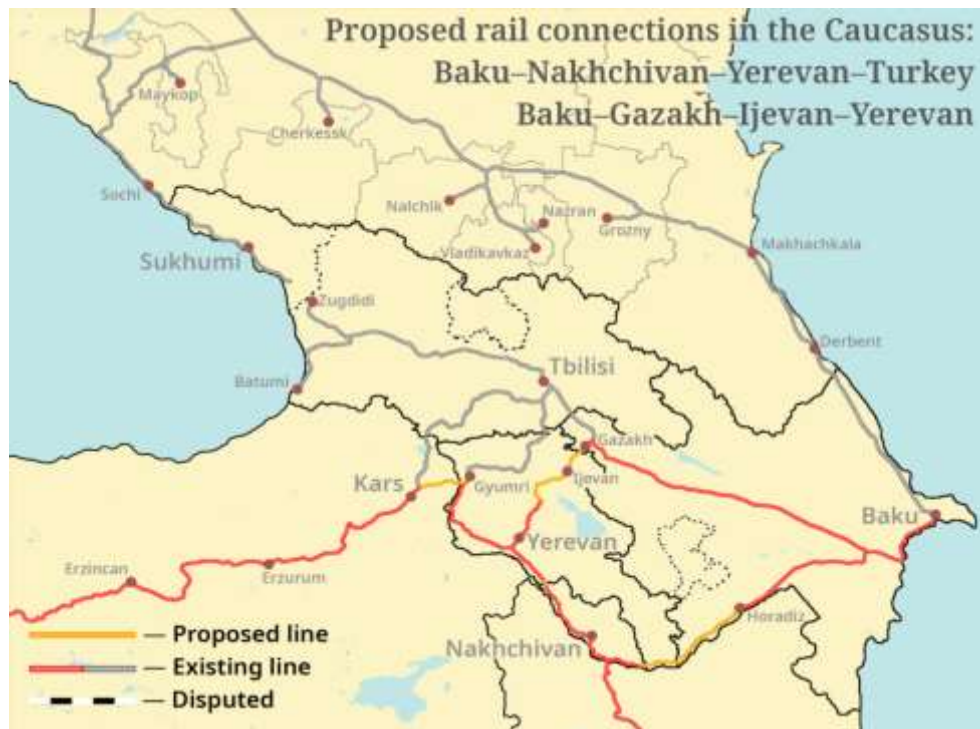
Black: Kars-Gyumri-Tbilisi Railway / Red: Kars-Akhalkalaki-Tbilisi railway
https://en.wikipedia.org/wiki/Kars%E2%80%93Gyumri%E2%80%93Tbilisi_railway#/media/File:Map_of_the_Kars-Akhalkalaki-Tbilisi-Baku_railway.png

Following the civil strife in Abkhazia (Georgia) in 1992, the Georgian Railways also lost its direct connection with Russia, after the separatists declared the former autonomous republic an independent state in 1993, and that Russia recognized the so-called ‘state’ created by the separatists in 2008. At present, cargo entering Georgia from Russia is transported by road, sea, or rail road via Azerbaijan.

After the end of the 50-day war between Armenia and Azerbaijan, on January 11th, 2021, Russian President Vladimir Putin, on his own initiative, held a trilateral meeting with the President of the Republic of Azerbaijan and the Prime Minister of the Republic of Armenia in Moscow.

The issue of (re)construction of the railway was discussed at the meeting. Specifically, they were discussing the construction and rehabilitation of a 185-kilometer stretch and the rehabilitation of a 147-kilometer stretch that will connect Azerbaijan with the Republic of Turkey via Armenia and Autonomous Republic of Nakhichevan (Azerbaijan). In turn, this railway route will be the second access for Azerbaijan to Iran⁹.

⁹ Is an interconnected Caucasus on the horizon? – 14.04.2021; OC Media- <https://oc-media.org/features/is-an-interconnected-caucasus-on-the-horizon/>



After the success of the army units of the Republic of Azerbaijan during the 50-day war in Karabakh, they were able to regain control of the territory of Azerbaijan, which was occupied for almost two decades, and established control also one of the key cities of Nagorno-Karabakh, Shusha.

The status of Nagorno-Karabakh remains unclear – on the one hand, Azerbaijan considers it as its territory, as it has full control over the access roads to Karabakh; on the other hand, Karabakh itself remains under control of a local separatist government, controlled by the Republic of Armenia.

At the same time, Russia has gained significant influence, namely:

- Russia actually controls a large part of the economy of the Republic of Armenia. Russia has a military base in Armenia (Gyumri);
- According to experts, the key to the current de facto situation in Karabakh is kept not in the Republic of Azerbaijan, but in Moscow, more specifically in Kremlin.

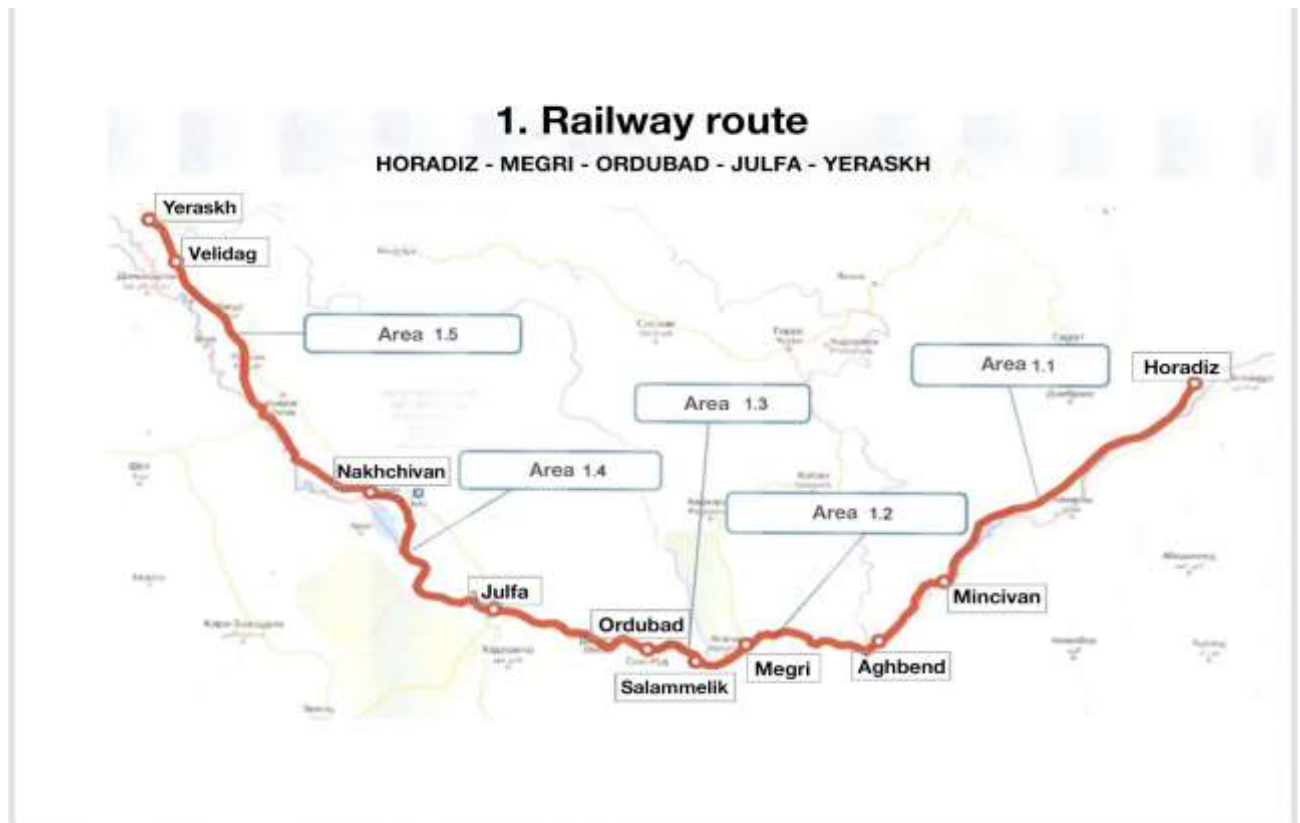
In addition, Turkey has emerged as a side in the conflict, not only because it supported Azerbaijan politically, but also because of its significant military assistance to Azerbaijan, which once again indicates the level of Turkey's interests in the region.

In the meantime, Georgian government is not politically active under these newly emerged circumstances. It has not made any official statement on the economic aspects of this new geostrategic outcome, although this must be a very important issue for Georgia, both politically and economically, which is primarily important in the sense that Russia has been able to expand its sphere of interests in the Caucasus.

Long after the state visit of the Prime Minister of Georgia Giorgi Kvirikashvili to the Republic of Turkey (December 20th, 2016), the latest meeting on this level was held in May 2021 by the Prime Minister Irakli Gharibashvili. Unfortunately, the Prime Minister of Georgia, as well as other members of the government, did not make a public statement on whether the leaders of the two countries spoke about the development of the railway and this issue remains unknown.

In the meantime, according to the publicized plan - the new section of the railway it will start from the city of Horadiz in Azerbaijan and continue to the Armenian border station of Megri.

The length of this section is 100km and the project cost is estimated as US\$188 million. The next section extends from the station of Megri to the border of Azerbaijan to Station of Salammelika. The length of this section is 45km, and its cost is app. US\$ 221-\$270 million. After that, the reconstruction of the railway section continues from the station of Salammelik to Ordubad. The length of this section is 16km and the project cost set at US\$ 32 million. The next section is from Ordubad Station to Sharura Station. The projected cost of rehabilitating this 147 km section is US\$ 15 million; The last section of this plan is from Station Sharuri to Armenian border. The projected cost of this 24 km section is US\$ 25 million¹⁰. The total cost of the project is estimated as US\$ 530 million. So far, it is declared that the project will be financed mostly by Azerbaijan.



Source: Material supplied from Azerbaijan Railway

During the Soviet period, the section from the station Megri to Salammelik was managed by the Azerbaijani Railway, as it was not used by the Armenia, being dead-end railway for them. This section of the railway was not connected to the Armenian Railway. Even in Soviet times, it was used just as a connecting link between Azerbaijan and its autonomous republic of Nakhichevan.

With the planned launch of this section of the railway, cargo from China (Asia) as well as from Russia will reach Iran by a short route, and through Nakhichevan it will be possible to transport cargo to Turkey and then to Europe.

This is an important challenge for the Georgian authorities if they still want to remain an important role in freight transport in the South Caucasus and to 'stay in the game'.

The Karsi-Akhalkalaki railway route, despite its official opening in 2017, is unable to operate at full capacity and is hampered by, among other things, bureaucratic procedures in Georgia. For example, there is a technical problem that the customs border in Kars does not work 24

¹⁰ Material supplied from Azerbaijan Railway;

hours a day. The Turkish-Azerbaijani side raises the issue of moving the customs border to Akhalkalaki and making it work 24 hours a day. Regrettably, such bureaucratic issues are not resolved by the Georgian side, and this is one of the reasons why the railway is not working at its full capacity. Behind the scene, there is a talk of a real reason why the Georgian government does not resolve the issue: on the ground of supporting the sea ports of Poti and Batumi, not distracting the cargo from there and enable them to work at full capacity, and the specific lobbyists are named. Currently, the \$875 million project is operating at a loss that is confirmed by the audit report.¹¹

Railway is the shortest and most real way for Georgia to connect Asian cargo to Europe, and naming that the shortage of cargo coming from China, Azerbaijan, Iran, Afghanistan as a problem, is simply unjustified. Due to the above named reasons, a large fraction of the cargo currently by-passes Georgia, including ports and other alternative routes, partly through Russia by rail and sea ports to Europe. The operation of this section (Baku-Tbilisi-Kars) is not only a political issue, but also an economic issue, that could bring Georgia serious revenue and place it on the world map as a reliable partner with the shortest railway corridor.

It is noteworthy and important that in view of the new reality, in order for Georgia not to find itself in the role of an outsider in these ongoing processes, the probability of which to happen is quite high as this article is written. Therefore, we suggest that Georgian government comes up with the idea of launching a Common Caucasian Railway.

ABOUT THE IDEA

In our opinion, firstly, what it should not be and what it should be: the Common Caucasian Railway should not be a single legal entity, but should be a common tariff corridor.

As it is practiced, all railways, have a tariff system according to their length and, accordingly are having a weighted tariff.

At the moment, the implementation of the idea of a new section of the Azerbaijani railway, which was discussed above, has already begun. According to official sources, the construction of the section of Azerbaijan has begun, for which a minimum of three years is projected. The construction is carried out by Turkish companies and supervised by the Azerbaijan Railway¹²

As Georgian Railway is connected to Armenia, Azerbaijan, Turkey and other countries through seaports, under emerging circumstances, Georgian government should use the opportunity and introduce the idea of creating a Common Caucasian Railway, aiming at attract cargo from China, Asia, Russia by sea, as well as through Azerbaijan and target the Turkey and Iran markets.

In this context it is to be considered that there is already a section of the Azerbaijan Railway (currently blocked) that connects with Iran (the Gulf section).

If Georgia misses this historic opportunity, Georgian Railway will be mostly out of the game, so it will struggle to increase cargo turnover and will forego significant potential revenues.

HOW CAN THE IDEA OF A COMMON CAUCASIAN RAILWAY BE IMPLEMENTED IN A PARTICULAR POLITICAL SITUATION?

Although Georgia has no diplomatic relations with Russia, the latter remains one of Georgia's main economic partners. For the reference, according to the data of January-June 2021, Georgia's largest trade partner countries are China, Russia, Azerbaijan and Turkey. Notably,

¹¹ Shota Tkeshelashvili - 183 Million Losses and Empty Railway - What Happens on Marabda-Kartsakhi Railway - 05.10.2020; Internet portal "Business Media Georgia" - <https://bm.ge/ka/article/183-milioni-laris-zarali-da-carieli-rkinigza---ra-xdeba-marabda-karwaxis-rkinigzaze/65234>;

¹² The population of Azerbaijan will return to the land of their ancestors; CBC TV Azerbaijan; Video uploaded 19.07.2021; Viewed: 22.07.2021; <https://www.youtube.com/watch?v=CLtAUFoP44g>;

these are the four countries that are considered in these common rail shipments. They account for about 55% of exports from Georgia; As for imports, Turkey, Russia, China, Azerbaijan, Armenia are in the top-five and their share is 48%.¹³

At the same time, Georgia is a strategic partner of the United States, which has a rather complex relationship with Iran. However, Georgia given its economic interests has always managed to maneuver and take the acceptable position in these circumstances. In addition it should be considered that this trade route does will never envisage military cargo going to Iran. It will be realistically possible to control this by the strategic partners on Georgian territory.

WHAT BENEFITS CAN GEORGIA GET FROM THE COMMON CAUCASUS RAILWAY PROJECT?

Georgia can become the main dispatcher of the most promising east-west connection.

Although the Armenian Railway is currently 100% under the concession of the Russian Railways¹⁴ (for a 30-year period under the 2008 agreement), Georgian authorities should not find it difficult to yield the economic benefits from this project. If the Georgian government fails to take its role in the project and does not participate, Georgian Railway will not have the prospect of increasing cargo turnover, as cargo to Georgia comes mainly by sea and from Azerbaijan.

As it is known, the development of the Anaklia Sea Port, which was supposed to be a new center of gravity for attracting cargo, has been suspended indefinitely¹⁵; In particular, on January 9, 2020, Georgian government canceled the contract with the Anaklia Development Consortium, which was building the port, and for more than a year no new company has been identified that will start the construction of the port. The suspension of Anaklia port gives Azerbaijan Railways a new prospect of transporting cargo to Turkey via the new railway and thus joining Kars. Certainly it is more profitable for Azerbaijan to transport cargo from the beginning to end by his railways, because on his railway section tariff policy of Azerbaijan applies to the cargo,¹⁶ which brings economic benefits to Azerbaijan. Consequently, the longer he carries the cargo, the more money will be left to carry that cargo. Thus, if new flow of cargo will not pass through Georgia, it will lose the revenue.

In addition it should be considered, that the capacity of the sea ports of Georgia is currently almost fully utilized,. Azerbaijan, for example, has already built a large water supply and large shipping terminal. This is a problem in Georgia, as the load capacity of port of Poti is small, and so is Anaklia. In the end, both Poti and Anaklia are 'funnel', so it is necessary for these ports to be technically permeable in order to move on to tariffs.

¹³ National Statistics Office of Georgia - "Foreign Trade in Goods in Georgia"; 2021, January-July (preliminary results) – 19.07.2021;

¹⁴ South Caucasian Railway - <https://www.railway.am/ru/activity>;

¹⁵ "The agreement with the Anaklia Development Consortium has been officially terminated" - 09.01.2020; Ministry of Regional Development and Infrastructure of Georgia; <https://mrdi.gov.ge/ka/press-center/%E1%83%A1%E1%83%98%E1%83%90%E1%83%AE%E1%83%9A%E1%83%94%E1%83%94%E1%83%91%E1%83%98%20&%20%E1%83%A6%E1%83%9D%E1%83%9C%E1%83%98%E1%83%A1%E1%83%AB%E1%83%98%E1%83%94%E1%83%91%E1%83%94%E1%83%91%E1%83%98/%E1%83%90%E1%83%9C%E1%83%90%E1%83%99%E1%83%9A%E1%83%98%E1%83%98%E1%83%A1-%E1%83%92%E1%83%90%E1%83%9C%E1%83%95%E1%83%98%E1%83%97%E1%83%90%E1%83%A0%E1%83%94%E1%83%91%E1%83%98%E1%83%A1-%E1%83%99%E1%83%9D%E1%83%9C%E1%83%A1%E1%83%9D%E1%83%A0%E1%83%AA%E1%83%98.html>

¹⁶ There is a so-called "Permeable" tariff, which is divided by the number of kilometers that the cargo must pass and thus the tariff is set.

WHAT IF RUSSIA DEMANDS SOMETHING IN RETURN FOR THIS COMMON CAUCASIAN RAILWAY? HOW ACCEPTABLE CAN THE FACTOR OF RUSSIA'S PARTICIPATION BE FOR GEORGIA?

To answer this question, we can look at the 2019 Memoranda signed first between Azerbaijan and Russia, and later between Azerbaijan, Russia, and Turkey, which provides for the development of international transit and export shipments using the Baku-Tbilisi-Kars Railway.

These memoranda do not impose any additional conditions on Russia, and based on the above, it can be assumed that even during the implementation of this joint project, there will be no additional conditions that may turn unacceptable for Georgia.¹⁷

Further, on January 28-29, 2020, in Ankara, Turkey, the second meeting of a group of experts from Russia, Azerbaijan, Turkey and Georgia was held to increase the volume of shipments, also no additional requirements from Russia were discussed.¹⁸

Accordingly, the implementation of this common idea will depend on the specific circumstances and the benefits that this idea can bring to Georgia.

Consequently, the country may also have to agree to certain conditions to implement this project. For example, something that can be like - what happened during Russia's accession to the World Trade Organization (WTO). Although, in terms of Russia's WTO membership, opinion was always divided, Moscow has been diligently negotiating for seventeen years and was aspired to join the organization.

The last problematic hurdle in this process by then was the negotiations with Georgia that was on the final stage mediated by Switzerland and was successfully completed in the fall of 2011. In a statement posted on its official website, Georgian Foreign Ministry said that the Swiss-brokered "agreement is important for Georgia because it gives Russia and Georgia on the entire territory, including Abkhazia, Georgia, and the Tskhinvali region/South Ossetia, Georgia possibility of conducting international monitoring. The agreement reflects all the elements of monitoring that Georgia has been demanding since the beginning of the talks."¹⁹ As Zurab Chiaberashvili, Georgia's then ambassador to the Swiss Confederation, explains²⁰, the essence of the trade agreement is that any cargo entering the occupied territory of Georgia from either territory controlled by the Georgian central government, or from the Russian Federation, will be subject to international monitoring. Of course, the agreement does not recognize the term 'occupied territory'. It talks about the 'transport corridor', which has its geographical boundaries, geographical points that cover the entire coastline. These points are set out in the agreement in such a way that it covers both land and rail.

Regrettably, after Georgian Dream Party came to power in Georgia in 2012, this monitoring has not been carried out due to disagreements over technical details and incomprehensible fears from authorities. Russia has realized that with the opening of the railway, it will definitely be subject to international inspection, so this was not desirable for them. In this situation, Georgia should be interested in fulfilling its obligations under the agreement, which will only benefit the country. If the Russians demand the opening of a railway on the Abkhazian section, Georgia will automatically return to the issue of controlling cargo, which is in Georgia's interests.

Therefore, as we saw at the time (Russia's accession to the World Trade Organization under specific conditions) the Georgian government made this compromise, as it considered that by

¹⁷ Material supplied from the Azerbaijani Railway;

¹⁸ Material supplied from the Azerbaijani Railway;

¹⁹ Lela Kunchulia – Russia - member state of WHO before Georgia; 22.08.2012; <https://www.radiotavisupleba.ge/a/wto/24685097.html>

²⁰ Interview of Ramaz Nikolaishvili with the former Ambassador of Georgia to the Swiss Confederation Zurab Chiaberashvili - August 2021

fulfilling the terms of the agreement Georgia would have full information about cargo transited from Russia to the occupied territories which would be important for Georgia; It can also happen in the case of the Common Caucasus Railway, and this project will be profitable for Georgia, as it will give the country great resources and economic and political leverage.

HOW REALISTIC IS THE IDEA OF A COMMON CAUCASIAN RAILWAY?

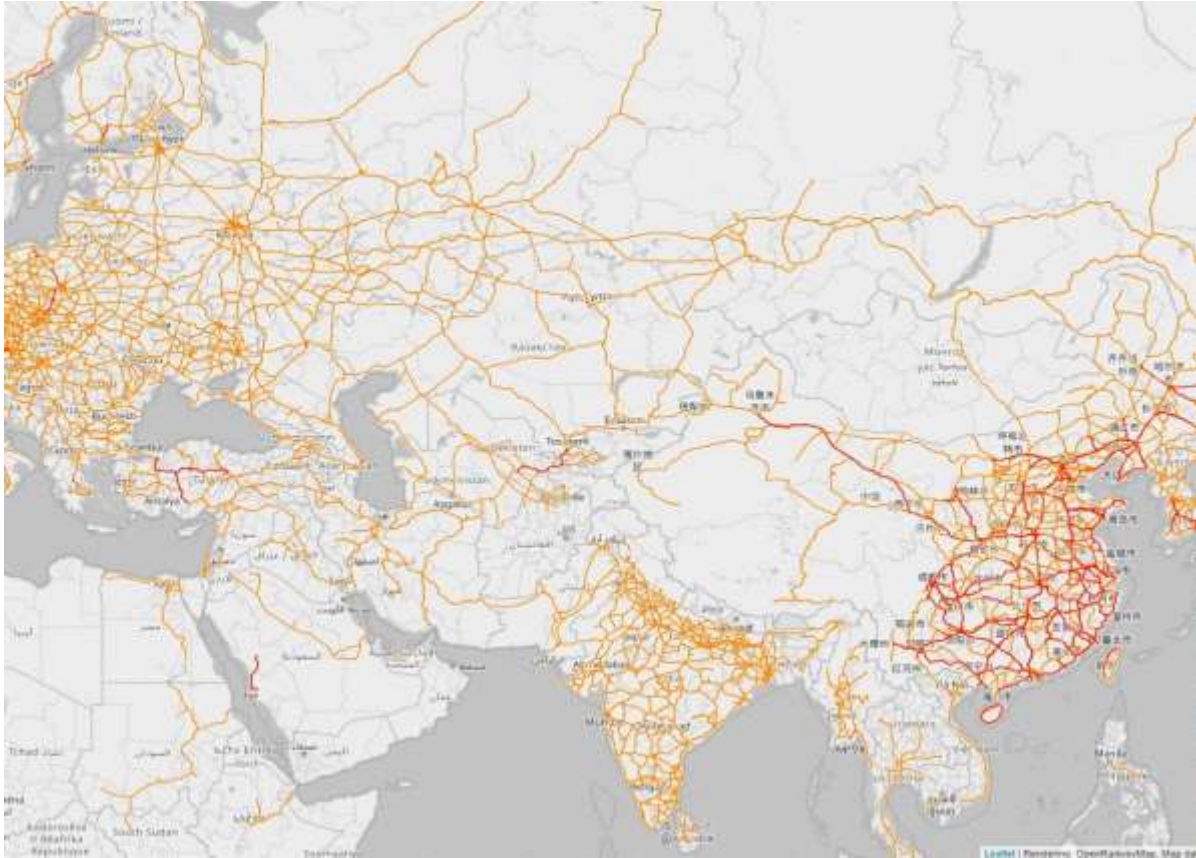
There may be doubts in Georgia whether Azerbaijan will be able to implement an ambitious project (new railway through Kars). The answer to this today is that Azerbaijan has already found the money; a company has been selected through a tender that is already working in this direction. As for the restoration of the railway on the territory of Armenia, the Armenian government has minimal resources, as it has transferred the railway to the Russian railway on a concessional terms, so the Russian Railway, which is interested in passing Chinese and Asian cargo on Russian territory and not on Georgian territory, will be happy to support the implementation of this project. Moreover, the statement of Armenian president Pashinyan on October 19²¹, 2021 confirms the implementation of this new railway (through Kars). As he has stated “Azerbaijan will receive a rail and road connection with Nakhchivan through Armenia”.

Thus under the emerged and evolving circumstances, Georgia should come up with a Common Caucasian Railway initiative, should offer both Turkey-Azerbaijan and Armenia to develop a concerted railway system, which will be a pillar of a politically peace and base for the stronger Caucasian countries. Georgia has a geopolitically unique position and it can talk to Turkey, Azerbaijan, Iran, and Armenia not about political, but about economic projects that will result in economic cooperation in South Caucasus.

Due to the above, if the Georgian government, and consequently, the management of the Georgian Railway will not brainstorm about its development strategy today, in a few years' time Georgian Railway will find it difficult to attract transit cargo and it will become only a carrier of local cargo. Consequently, the ports will not loaded and these cargoes will bypass both the ports and the railway, and the unfortunate tendency of reducing the cargo on the Georgian railway will continue.

Of the three routes mentioned above (South Caucasus, North via Russia, and South via Iran), Georgia is currently one of the shortest routes in terms of cargo delivery from China (Asia) to Europe. The strategy and the vision of the Georgian Railway should be focused on this direction, as only regional transportation, such as cargo delivery to Armenia, Azerbaijan, or domestic economic activity is not the right way to develop the Georgian Railway.

21 Pashinyan: Azerbaijan will receive a rail and road connection with Nakhchivan through Armenia; 15.10.2021; <https://www.youtube.com/watch?v=rFEmlE0aH1o>



Railway map, <https://www.openrailwaymap.org/>

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