



December, 2023

Project: “Rebuilding Trust between Georgians and Abkhaz”

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The Importance of the Railway Passing through Abkhazia for Georgia’s Transit Competitiveness¹

Resume

Given the current politics, the document aims to determine the role of the Abkhazian railway in the context of the Georgian railway system’s transit competitiveness. The paper discusses such important issues as the role of the Abkhazian railway in Soviet Georgia’s railways, and aspects of its capacity; the role of the same railway in the implementation of the One Road - One Belt and New Silk Road regional programs; what the impact of the railway passing through Abkhazia would be on the transit potential of Georgia in the conditions of complete and/or partial transformation of the conflict; advice for the Georgian government, and more. The document is based on expert assessments and official sources.

Introduction

Discussions about turning Georgia into a multifaceted hub and, accordingly, transforming it into a competitive country, are persistent. Theoretically, based on its geopolitical location, Georgia has the ability to adapt to the role of financial and/or technological and/or touristic and/or educational and/or energy and/or transit, and/or any other highly competitive center. This transformation could significantly boost Georgia's 25 billion Lari economy², reduce

the unemployment rate by almost 20 percent³, and lead to other notable successes.

Based on the historical and current international conjuncture, the prospect of making Georgia a transit hub and thus increasing the country's competitiveness is most realistic, especially since Georgia has been performing, if not in the role of a hub, nonetheless in the function of a transit corridor, for decades, using both air, sea and land routes- oil and gas pipelines, air and sea

¹ The paper was prepared within the framework of the project “Rebuilding Trust between Georgians and Abkhaz” implemented by the Levan Mikeladze Foundation. The arguments and opinions presented in the paper are authoritative and may not coincide with the position of the Foundation.

² GeoStat. Gross domestic product. <https://www.geostat.ge/ka/modules/categories/23/mtliani-shida-produkti-mshp>

³ GeoStat. Employment and unemployment. <https://www.geostat.ge/ka/modules/categories/683/dasakmeba-umushevroba>



ports, railways and highways of international importance, and more.

Georgia's transit competitiveness significantly depends on its stability, which in turn is largely determined by the economic, political, and military decisions taking place in the neighborhood and in Georgia itself, both in a positive and negative context. The Armenia-Azerbaijan conflict and Russia's war in Ukraine have opened a window of both difficulties and significant opportunities for Georgia. In particular, in the context of rail shipments taken separately, in 2022, compared to the previous year, the volume of transit cargo increased by 28.6%, from 6.7 to 8.7 million tons⁴, which is largely due to the sanctions imposed on Russia as a result of the war, and, simultaneously, the effective work of the Georgian Railways.

Georgia's transit function and competitiveness along with it, perhaps not so much financially as geopolitically, significantly decreased as a result of Tbilisi's loss of control over Sokhumi and, accordingly, loss of a direct railway connection with Russia. The mentioned connection should be discussed not so much bilaterally but in a regional and strategic context. Georgia has lost its status as a connector between North and South, which includes security, stability, financial, and other dimensions; Georgia has lost its role as

a railway intermediary between Russia on the one hand and at least Turkey, Iran, and Armenia on the other, which otherwise could have been among the main guarantees of its stability. It should be emphasized that the occupied territories and its resource potential significantly exceed the share of the country's territory (20 percent).

Feasibility of revitalizing the railway passing through Abkhazia: An economic analysis

For the transformation of conflicts or their complete resolution, political or security issues are often highlighted on the negotiation table. This requires effort, and requires the presenting of an economic argument as an important issue for the partial or full resolution of the conflict. Perhaps the prospect of finding a special amount of oil, natural gas, and other minerals (for example, coal and steel), and their joint processing, could easily convince the sides of the conflict of the alternative of peace (for example, as in the prehistory of the European Union), but unfortunately, such is not a factor in the potential reconciliation of the Georgians and Abkhazians.

At first glance, the Abkhazian railway can perform a function resembling an economic locomotive in Georgian-Abkhazian relations, which could be considered important support for raising the competitiveness of Georgian transport as a whole. Moreover, a number of

⁴ GeoStat. Main indicators of railway transport. 2022.

<https://geostat.ge/media/51759/%E1%83%A0%E1%83%99%E1%83%98%E1%83%9C%E1%83%98%E1%83%92%E1%83%96%E1%83%98%E1%83%A1-%E1%83%A1%E1%83%A2%E1%83%90%E1%83%A2%E1%83%98%E1%83%A1%E1%83%A2%E1%83%98%E1%83%99%E1%83%90---2022.pdf>



advantages can be found that would encourage the implementation of such a project, among them:

- The creation of new jobs;
- Diversification of the economy;
- Increased opportunity for trading, time, and price profitability;
- Development of infrastructure along the railway (and not only);
- Reduction of economic dependence on Russia for Abkhazians and the emergence of a new economic function;
- Increase in the geopolitical importance of Georgia;
- The probability of attracting new investments in other sectors with the spillover effect;
- Regulation of relations between Georgians and Abkhazians;
- Emergence of new security guarantees.

Nevertheless, the railway of Abkhazia is not a priority for either the Georgian or the Abkhaz side at this stage. There are many reasons for this, both economic and non-economic, both short-term and long-term. Among them are:

- The expected protest from the displaced population;
- The substantial financial resources required for implementation;
- The declared policy of the Georgian government;

- The absence of guarantees for fulfillment of cargo insurance principles;
- Difficulties relating to the implementation of financial transactions;
- The risk of the railway being used as a political tool for blackmail;
- The factor of Russia, Iran, and China and the position of the West;
- Western sanctions against Russia and Iran;
- Open and covert trade wars between China and the West.

Both Georgian media, and that of the neighboring countries, raises the issue of the Abkhazian railway frequently, although the positions are quite polarized. It is possible that the opportunity to join the global project would unite all the players of the region, but unfortunately, it is not seen in this context. For example, the interest of the One Road One Belt initiative, the investment volume of which, according to various estimates, varies from 1 to 8 trillion dollars,⁵ and for which the rehabilitation of the Abkhazia railway is a "drop in the ocean" expense, would, without taking into account the fact that the implementation of the "Chinese project" could cause quite a lot of passion among Georgia's Western partners.

At this stage, if there is no active international interest, or even in the case of its emergence, it is interesting to see what economic benefits the Abkhazian railway can bring to Georgia, in the conditions of: a) maintaining the

⁵ CSIS. (2018). How Big Is China's Belt and Road? <https://www.csis.org/analysis/how-big-chinas-belt-and-road>



existing status quo, b) transformation and c) fully resolving the conflict. However, when discussing the rehabilitation of the Abkhazian railway, it is also necessary to remember that according to the law on occupied territories, any transit activity on the territory of Abkhazia is prohibited by law at this stage. Therefore, the implementation of the railway will require modification of the existing law to reflect any changed status of the conflict.

It should also be taken into account that the launch of the Abkhazian railway, in any case, requires a fairly substantial investment, which, according to the research carried out by the experts of the British "International Alert" in 2013, in which the Abkhazian side also participated, amounted to approximately 300 million US dollars.⁶ However, according to the latest data, the cost of implementing said project has increased to 1.5-2 billion euros,⁷ which is the estimate of the Russian side and may include a large "corruption fee", although there is no doubt that the cost of railway restoration would have increased several times in the last 10 years against the background of global inflationary processes.

Regardless of the cost of the project, in any case, who the financial backer of the project will be remains a problematic issue for the

implementation of the railway. It is a fact that the occupied region of Abkhazia does not have the financial ability to do so with its own 150-million-dollar budget (1/3 of which is contributions from Russia)⁸. Georgia will not be able to find free funds of this volume, and international financial institutions, as a rule, do not participate in such risky projects, even in exceptional cases. There remains Russia, then, which in principle has the possibility to do so, although the question is how much it will want/be able to do it in the current geopolitical situation and also with its own funds. In light of the fact that Russia owns a large part of the projects implemented in Abkhazia, it creates debt for the Republic of Abkhazia by "hanging up".

Along with the financial side, it is unclear what mechanisms and guarantees Georgia should implement or hand over to someone else for the rehabilitation of the mentioned railway, whether we are talking about the total amount or about the distribution of the required amount. It is true that, unlike Russia, Georgia selflessly supports Abkhazia, for example, by purchasing electricity for the Abkhazian side with its own funds (including from Russia) in the event of the shutdown of the jointly managed Enguri HPP. However, in this case, the amount of financial resources required to all intents and purposes excludes

⁶ Mirimanova N. (2013). Rehabilitation of the Railways in the South Caucasus: Assessment of the Potential Economic Benefits... International Alert. <https://www.international-alert.org/publications/rehabilitation-railways-south-caucasus-vol-1/>

⁷ The International Crisis Group. (2022). The Reconstruction of Abkhazia's Railway: Economic Prospects and Challenges.

⁸ ТАСС. Бюджет Абхазии на 2023 год принят в окончательном чтении с дефицитом в 1,7 млрд рублей. <https://tass.ru/ekonomika/16714915>



this possibility, more so without significant control mechanisms on the project. The idea that under the existing status quo, Georgia and Russia (without the Abkhazians, and especially if the Abkhazians are officially involved) will be able to form some kind of consortium and manage it according to international standards is completely unimaginable.

On this topic, it must be said that even during the Soviet period, the Abkhazian railway never had a significant geopolitical impact, being mainly focused on passenger/tourist shipments and less on cargo potential. As such, with the size of the needed investment, the railway running with its Soviet load will be uniquely unprofitable. Moreover, even in the case of full-scale freight interest (possibly including the maintenance of passenger lines), finding the 10 million tons of freight required for its effective operation, which simultaneously determine the maximum throughput and profitability of this railway, will remain a significant challenge.

For clarity, let's imagine the example of the best known/popular export product from Georgia to Russia - wine. In 2022, about 2/3 and/or about 65 million bottles of Georgian wine were exported to Russia.⁹ In the case of rail transportation, this seemingly exceptional volume is just a few days' "portion". In more detail, 1 bottle (0.75 L) of wine weighs 1.2 kg (including wine and tar), which is equivalent to the capacity of 14,500 bottles in a 20-foot container (including cargo

volume), and 22,000 bottles in a 40-foot container. This in turn means that to transport 65 million bottles of wine, the railway will need 2955 units of 40 feet and/or 4483 units of 20-foot containers, which in turn amounts to 60 to 90 echelons and about 1-2 weeks of railway workload. Of course, other cargoes will appear, including not only those destined for Georgia/month, yet the analysis has revealed that it is quite difficult to give guarantees for the constant turnover of cargo 52 weeks a year. In the case of a systematic lack of cargo, the issue of profitability of the project is then called into question.

The political and geo-economic aspects of revitalization of the railway passing through Abkhazia

Talk about the development of transport corridors, and highlighting the role of it in transforming the conflict, as we have already mentioned, is exaggerated, although such an attempt has been made many times, not by the representatives of Georgia or the occupied region of Abkhazia, but by representatives of Russia and Armenia.

The current geopolitical reality acts against the implementation of the Abkhazian railway, to which is added the vagueness of security guarantees, as well as financial settlement mechanisms, the involvement of the occupied territory in international processes, and many other difficulties. Of course, the mentioned issues are solvable, but they require, as a minimum, a favorable

⁹ LEPL National Wine Agency. <https://wine.gov.ge/Ge/Files/Download/15365>



environment and congruent interests among partners.

Although the geopolitical factors surrounding the Abkhazian railway are far from ideal, some international interest can be distinguished, in particular, in the form of the One Road, One Belt and New Silk Road projects, which in the prism of Georgia's status in the Middle Corridor, could become an important push for Tbilisi to start work on the Abkhazia railway. However, the question is how far to go, in case of different images of conflict and occupation, as the importance of the Abkhazia railway for the transit competitiveness of Georgia may differ in different scenarios, namely:

- In conditions of a new status quo.

In this case, it is highly likely that the implementation of the mentioned project would be impossible due to a number of financial, security, recognition, political, military, and other reasons.¹⁰ Accordingly, the search for the issue of who would distribute the necessary funding, and in what proportion, for the implementation of the project, approximately \$300 million according to 2013, and approximately €1.3 billion according to the latest data, and who would receive what from their own investment, in a project that is rigged from all sides, is utopian.

- In case of transformation of the conflict.

The perspective of Abkhazia's railway in this case would perhaps double, although it is still under the influence of quite severe environmental factors in the conditions of the transformation of the conflict. However, it is possible to consider several different scenarios: first, that the parties agree on safety norms and the operation of the railway as a transit through Abkhazia only, in which case the Abkhazians will receive the corresponding transit fee, and the other players will have direct rail access to each other. In the case of the maximum load of the railway (10 million tons), the profit obtained may exceed the costs incurred on it and become profitable.

Second, Georgia agrees to Abkhazia's accession to international organizations, including through the establishment of a railway, airport and seaport, and achieves an increase in its own transit competitiveness, including through an additional, new Asia-Europe route. However, it should be taken into account here that carrying 10 million tons of cargo through the existing infrastructure in the Abkhazia region is unthinkable, only possible if appropriate multi-billion and multi-year investments are made.¹¹ This is also difficult to imagine

¹⁰ Papava V., Charaia V. (2014). Regional railways in the Central Caucasus and Georgia's economic interests. *The Caucasus & Globalization*, 8 (1-2), 58-67.

¹¹ For reference, the construction of a seaport for 10 million tons of cargo is about 1-3, and an airport is about 10-30 billion US dollars, not to mention the international standards, agreements, and procedures that must be followed.



without first resolving the Georgian-Abkhaz / Georgian-Russian conflict.

There may be a place for the third scenario, where the implementation of the railway has only a partial character, seeing the railway not fully loaded and/or not operating at a market profitability rate, yet being acceptable for political expediency for any or several players at once. Most likely, in this case, the Abkhazian railway will remain a transit corridor without the implementation of additional infrastructure, although it remains to be seen who and under what conditions would invest in said railway and distribute dividends.

- In case of the end of the conflict/creation of a unified political entity.

Georgia in this case would acquire the function of a transit hub, where it connects all the people of the region in all directions and increases its competitiveness, attracts important investments, and strengthens its geopolitical importance. Of course, the main challenge in this case is the railway's profitability, which may be different in such a specific situation, however, in case of justification of the need, there would be no difficulty finding investments, just as there would be no obstacle due to the status of Abkhazia.

In the event of a complete resolution of the conflict, the interest of important geopolitical projects such as the Abkhazian railway (which would, in this case, be the united Georgian railway) would also be actively expressed. In this case, Georgia's full participation in the Europe-Asia connection is justified, where, with the help of air and sea ports on the Black Sea, Georgia will be able to transport tens of millions of tons of cargo, even without Russia's involvement,¹² and, with the involvement of Russia, connecting North-South, both for freight and possibly passenger needs.

Regardless of the partial or complete resolution of the Abkhazia railway issue, the short-term and long-term context should be considered:

- In the short term (although, perhaps over the span of many years), due to the sanctions imposed on Russia, the partial implementation of this railway, that is, only in the section of Abkhazia (without the transportation of goods to/from Russia), can be considered as an economically rather weak project. Significant investment not only in the railway, but also in the maritime and air ports, too, is required, not to say anything about the security, political or other risks that will accompany each of these investments, creating the conditions of an

¹² Russia's involvement in the transit through Abkhazia loses its meaning in the conditions of the resolved conflict because Russia itself will be able to connect Asia and Europe with its own railway, which will be even more in demand for this purpose than the Georgian railway. Of course, this is taking into account the lifting of the sanctions imposed on Russia, because under the conditions of sanctioning, Russia's carrying cargo either directly or through third countries (including Georgia) will not be attractive/expedient for European and Asian countries.



overall unprofitable project. However, in the short-term, Georgia has already managed to increase the cargo flow and raise its competitiveness even without launching the Abkhazian railway.

- In the long-term perspective, after the lifting of sanctions on Russia, Georgia would have a direct railway connection with Russia, as well as Turkey, Armenia and possibly Iran, alongside the latter's railway connection with Armenia (if the issue of sanctions and the position of the West did not block it). In this case, the billion-dollar project may pass the financial profitability test positively, although nothing is guaranteed and it would depend on the conjuncture, prices, needs or other relevant issues at that stage.

Concerning the Asia-Europe connection, particularly between China and Europe, we can view the Abkhazia railway project solely as an alternative option. This is because, sooner or later, Russia is expected to reclaim its status as the primary transit route. This shift is attributed to its one-window principle, unified price policy, and existing/anticipated costs, even at the expense of superiority. Consequently, the necessity of the Abkhazian railway in the context of Asia-Europe will likely diminish, although it will retain relevance in the context of the North-South corridor.

Regardless of whether we include the context of the transformation / settlement of the Georgian-Abkhazian conflict, the Russian war on the territory of Ukraine should be considered in the transit competitiveness of Georgia. In particular:

- As a result of the war in Ukraine, a new window of opportunity has appeared for the Georgian Railways: its competitiveness is developing and new customers are emerging. In theory, Georgian Railways has the potential to fully absorb its own capacity (50 million tons of freight after rehabilitation)¹³ and strengthen its competitiveness against the background of the largely idle railways of Russia under sanctions. That possibility is increasing as Russia remains under sanction.

- All other things being equal, the competitiveness of the Georgian railway, even without the Abkhazian railway, including the direct or indirect defeat of Russia in Ukraine, will help. For example, Georgian Railways will receive guaranteed cargo from Asia to Ukraine for many years, which will be aimed at restoring the latter's infrastructure. And it doesn't matter whether the West or Asian countries help here, as, in both cases, China, as the largest producer of all kinds of (including Western) products, will need an appropriate way to deliver goods to Ukraine, where the main role will be given to the Middle Corridor, at

¹³ Zhijavadze T. (2021). Eurobonds of Georgian Railways - currently green. Forbes.
<https://forbes.ge/saqarthvelos-rkinigzis-evrobondebi-amzhamad-mtsvane/>



least until the sanctions on Russia are lifted and/or the infrastructure with Ukraine is restored and relations are normalized.

- A more pessimistic scenario for the end of the Russia-Ukraine war may see Russia winning an open or covert victory in the war that decides the future of Ukraine itself (by bringing a pro-Russian government to Ukraine, slowing down the interest of Western partners in the country, or in some other way). The combination of the development of the Abkhazian railway and the increase in the competitiveness of the Georgian railway may still be realistic in this case, at least until the international sanctions against Russia are lifted. Until Russia regains its role as the main transit corridor, Georgia may already have a significant client base who, due to the lack of other alternatives, will be forced to use Georgian Railways, although the transit of goods intended for Ukraine on the territory of Georgia may become insignificant.

The issue of Georgia's EU candidate status when considering the Abkhazian railway issue deserves special attention. The mentioned event may add additional charm to the railway and see it becoming a tangible project to be curated by the European Union to resolve the Georgian-Abkhazian conflict and raise the competitiveness of the Georgian railway to a peak.

According to the author's expert calculations, the complete rehabilitation of Abkhazia's railway from today's point of view would be possible within just a few years. Among the benefits that can be expected are:

- The creation of approximately 10,000-15,000 additional jobs;
- An increase in the trade turnover of Georgia and Russia from the current 3 to approximately 10 billion US dollars;
- An increase of transit flows through Georgia by 10 million tons;
- An increase to the economy of Georgia by 1 billion dollars, which will lead to +4 percent economic growth in the first year;
- An increase of approximately 1 billion GEL in the state budget.

However, it is necessary to take into account the fragility of these improved economic parameters, specifically with Russia or at the expense of Russia, which may create new challenges instead of new opportunities. In particular, we are talking about tying the Georgian economy to Russia in such a way that it gives it a political tool at the time it sees fit to create difficulties for the Georgian economy or various sectors, in particular, allowing it the opportunity to increase then block tourism, trade, transit, or other parameters, as has happened many times before, for example, in relation to Georgian wine.

Conclusion and recommendations

The railway may prove to be an important factor in the transformation of the conflict



and its peaceful settlement, whether this be decisive or not. In particular, the railway will be able to provide, among others: the creation of new jobs, diversification of the economy, increased opportunities for trade, new investment, increased geopolitical importance, the finding of common interests between Georgians and Abkhazians, and the creation of new security guarantees.

Despite the positive aspects of the Abkhazian railway, however, without appropriate political-economic calculations, it can result in, amongst other things, protests from the population, its being turned into a political tool, upsetting the country's strategic Western partners, and putting the country into a new regional trap.

The prospects of the railway will directly relate to the conditions of conflict: a) maintaining the existing status quo, b) transforming it, or c) fully resolving it. As such, a comprehensive analysis of the issue is important. If the status quo of the conflict is maintained, it would be advisable to leave the issue of railway restoration intact; if the conflict is transformed, it would be possible to develop the railway for transit purposes by launching a direct railway line between Georgia and Russia; and in the event of a full resolution of the conflict, it would be appropriate to attract additional investment for the development of other supporting infrastructure.

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Along with the transformation of the conflict, it is important to pay attention to the Russia-Ukraine war and, accordingly, to the sanctions imposed on Russia. The issue of the rehabilitation of Ukraine may have a reflected effect on Georgian needs, including the Abkhazian railway and competitiveness.

The actions of the Georgian government, in addition to the status of the conflict, the Russia-Ukraine war, large Asian projects and other listed issues, must necessarily take into account the positions of the country's Western partners on the path of Georgia's integration into the European Union.

As, in the short term, Georgia does not have a real lever for the development of the Abkhazian railway against the cascade of difficulties, it is right that Tbilisi's position on the issue remains unchanged and limited to the possibility of increasing the development / competitiveness of the Georgian railway over which it has direct control. The full implementation of the Abkhazian railway can only be implemented after the conclusion of the conflict, because in any other case, there is no prospect of strengthening the Georgian railway / increasing the transit competitiveness for Georgia. As for the assessment of the railway factor in the improvement of Georgian-Abkhazian relations, it is beyond the scope of this paper.