

International North–South Transport Corridor: Investments and Soft Infrastructure

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FACTS AND FIGURES

“NEW LOGISTICS”

The INSTC is the key element of the Eurasian Transport Network:

▶ links to most of the **latitudinal transport corridors**

▶ **shortest land/multimodal transport routes** between the EAEU member states and the countries of South Asia, East Africa, and the Middle East, including Russia–Turkey and China–Iran connections

▶ **Western, Trans-Caspian, and Eastern routes to choose from**

PHYSICAL INFRASTRUCTURE

“Bankable” projects will increase the involvement of the private sector and multilateral development banks in the INSTC financing

102 Corridor infrastructure projects already executed or scheduled for a total amount of **\$38.2 billion**.

69% of total funding to be allocated **to the Western Route of the corridor, with the Eastern Route and the Trans-Caspian Route getting 11.1% and 19.2% of total funding, respectively.**

\$13,2^{bn}

of total value of ongoing and scheduled infrastructure development projects in Russia, with projects in Iran, Kazakhstan, and the other countries valued at \$12.87 billion, \$6.32 billion, and \$6.7 billion, respectively

57%

of total investment to expand the road network along the corridor (59 out of 102 projects).

Key Soft Infrastructure Improvement Measures to Ensure Effective INSTC Operationalisation

SOFT INFRASTRUCTURE

▶ More than 40 barriers are hindering the development of the corridor. Administrative barriers have the largest impact on freight transport and border crossing procedures

1 Harmonisation of border crossing procedures, including customs formalities

2 Through rates and coordination of tariff policies

3 Improvement of payment, mutual settlement and insurance mechanisms

4 Digitalisation of shipping documents and procedures

5 Coordination mechanism for corridor management

6 A marketing policy designed to attract new traffic



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The International North–South Transport Corridor (INSTC) is the key element of the Eurasian Transport Network. It is linked to most latitudinal Eurasian transport corridors. The INSTC is now becoming more relevant due to new logistics; however, various infrastructural and non-physical (tariff and non-tariff) barriers hinder its development. Certain routes of the corridor need investment to fill in missing links (unfinished Rasht–Astara section) and eliminate infrastructure bottlenecks. The report contains a database listing infrastructure development investment projects for the three INSTC routes which are either ongoing or in the pipeline in the seven countries of the region. The authors review administrative and other non-physical barriers and discuss potential elimination measures, including coordination of tariff policies, consistent border crossing procedures, transition to digital procedures and shipping documents, and creation of a corridor management mechanism.

Keywords: INSTC, international transport corridors, transport infrastructure, Eurasian Transport Network, international trade, EAEU, Caspian region, Central Asia.

JEL: F15, F17, L92, O19, R11, R41.

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Summary

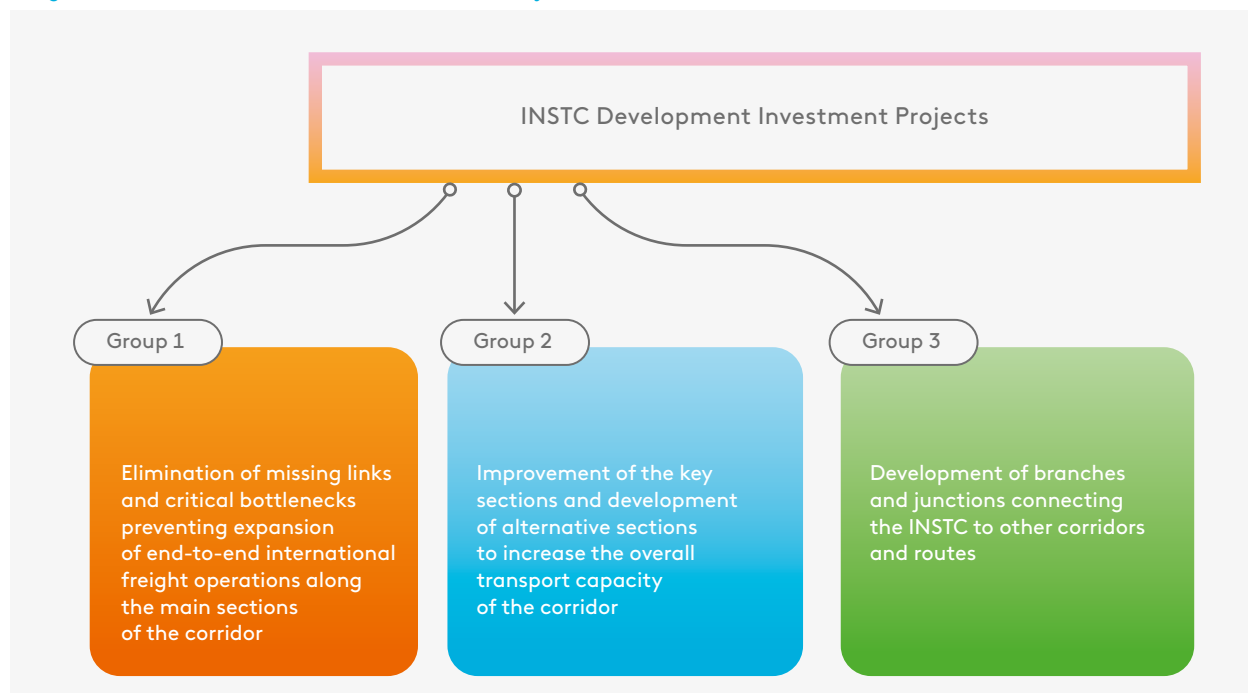
The International North–South Transport Corridor (INSTC) is the key element of the Eurasian Transport Network. It is linked to most of the latitudinal transport corridors used for international freight transport across Eurasia. The INSTC is becoming more relevant due to new logistics and supply chains restored following the COVID-19 pandemic. It provides the shortest freight transport distances between the EAEU member states on the one hand and South Asia, East Africa, and the Far East on the other, and offers three delivery routes, each with certain transport capacity reserves.

As a new logistics element, the INSTC is believed to have great potential for further development. For example, R. Meredov, Foreign Minister of Turkmenistan, announced in his speech at the Ministerial Transport Conference of Landlocked Developing Countries (15–16 August, 2022, Turkmenbashi, Turkmenistan) that his country would join the INSTC Agreement ([Business Turkmenistan, 2022](#)). On 22 August 2022, the heads of customs authorities of Azerbaijan, Iran, and Russia signed the Tripartite MoU on simplification of cargo transit ([FCS, 2022](#)). The Russian Federation is considering financing INSTC infrastructure development projects in Iran ([Potaeva, Ilyushenkov, 2022](#)). July 2022 saw the successful launch of a new Russia–India container service through Kazakhstan, Turkmenistan, and Iran using the corridor’s Eastern Route ([PortNews, 2022a](#)). Iran created a dedicated large-tonnage container fleet to support INSTC freight traffic ([PortNews, 2022b](#)).

However, various **physical and soft infrastructure barriers** stand in the way of the INSTC successful development. We have identified and grouped more than 40 infrastructural, tariff, administrative, and financial barriers. That being said, development of the corridor is most affected by missing links and bottlenecks in the transport and logistics infrastructure, lack of a coordinated through rate and effective corridor management mechanism, and red tape related to border crossing.

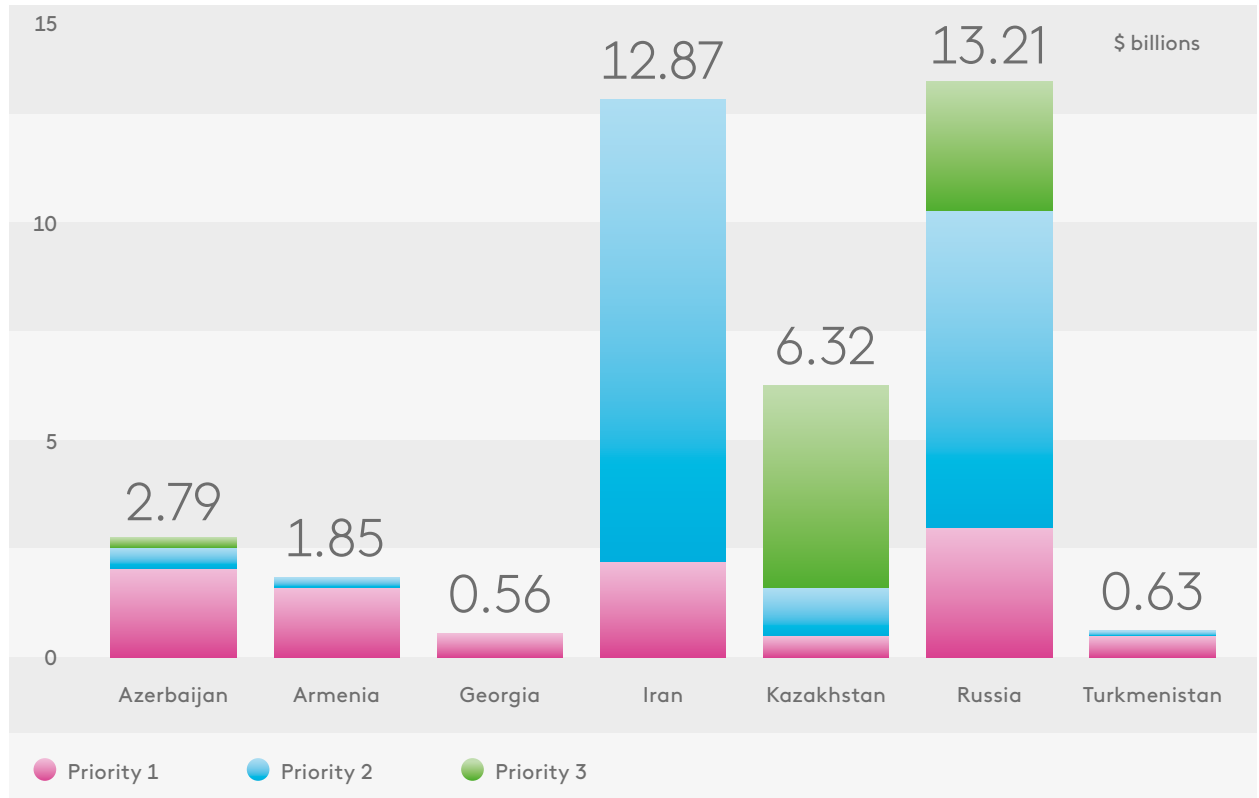
There are some ongoing and scheduled projects envisaged to eliminate any barriers by constructing, reconstructing, and modernising internationally significant transport infrastructure facilities at all three routes of the corridor. During our research, we developed a **database listing more than 100 INSTC infrastructure investment projects**. Those projects are divided into three groups based on their priority (see Figure A).

↓ Figure A. Prioritisation of the INSTC Investment Projects



Source: EDB

↓ Figure B. Geographic Structure of INSTC Infrastructure Investment Projects Ranked by Priority



Source: EDB

Total investment in all ongoing or scheduled infrastructure projects amounts to \$38.2 billion; one quarter (\$10.7 billion) will be used to finance projects assigned to Group 1.

Improvement of the INSTC transport infrastructure in **Russia and Iran** will require the largest investment capital (35 and 34% respectively). **Kazakhstan** accounts for 16.5% of the total value of INSTC development projects (see Figure B).

The database includes 59 projects for roads, 20 projects for railways, 8 projects for sea ports, 7 projects for border crossing points and related infrastructure, 4 projects for inland waterways and 4 projects for shipbuilding, totalling 102 projects. Investment capital is also required for financing modernisation of the rolling stock, handling and other equipment. This will improve shipping performance and the quality of transport and logistics services, and reduce the negative impact on the environment and climate.

The **Western Route** of the INSTC is supposed to receive the bulk of investments (69%), with the Eastern Route and the Trans-Caspian Route getting 11% and 19%, respectively. The Eastern and Trans-Caspian Routes will require fewer capital expenditures to reach their full potential compared to the Western Route.

Group 1 of projects will be critical for the successful development of the Western Route, where the unfinished section of the **Rasht–Astara** railway in **Iran** remains the main missing link and infrastructural barrier. Double transshipment from railway cars to trucks in this section raises costs and delivery times to a point where delivery of cargoes becomes nearly economically unviable. The list of priority projects also includes projects aimed to eliminate critical bottlenecks, including the construction of bypass roads around Vladikavkaz, Astrakhan, Makhachkala, Derbent, and Khasavyurt on the Caucasus Motorway (R-217) and the Astrakhan–Makhachkala Motorway (R-215); modernisation of the Alat–Astara and Sumgait–Yalama railway lines; construction of a section of the Baku–Russian Border express motorway in Azerbaijan, several sections of the North–South Road Corridor in Armenia, and the Sirjan–Bandar Abbas section of the Natanz–Sirjan–Bandar Abbas

express motorway in Iran; and reconstruction of railway and road border crossing points, such as Yarag-Kazmalyar, Derbent, and Verkhniy Lars.

Priority projects related to the development of the **Eastern Route** of the INSTC include the reconstruction of the Russian Border–Aktobe–Atyrau and Aktau–Beyneu roads in Kazakhstan; reconstruction of the Karaozek International Road Border Crossing Point (IRBCP) at the **Russia–Kazakhstan** border; reconstruction of the Trubnaya–Verkhniy Baskunchak–Aksarayaskaya railway section and railway bridges across the Volga in the Aksarayaskaya–Astrakhan railway section; construction of the Turkmenbashi–Garabogaz–Kazakhstan Border road and a new bridge across the Garabogazköl Bay in Turkmenistan; modernisation and development of the Ak-Yayla/Inchek Borun Railway Border Crossing Point (RBCP) at the Turkmenistan–Iran border; and modernisation of the Garmsar–Inchek Borun railway line in Iran.

Priority projects related to the development of the Trans-Caspian Route of the INSTC include the development and modernisation of railway approaches to the ports of Astrakhan and Olya in the Aksarayaskaya–Saratov section; construction of a multifunctional port logistics complex in the port economic zone in Astrakhan Region (port of Olya); and construction of universal combined river-sea navigation bulk carriers/container ships of the Volga-Don Max class.

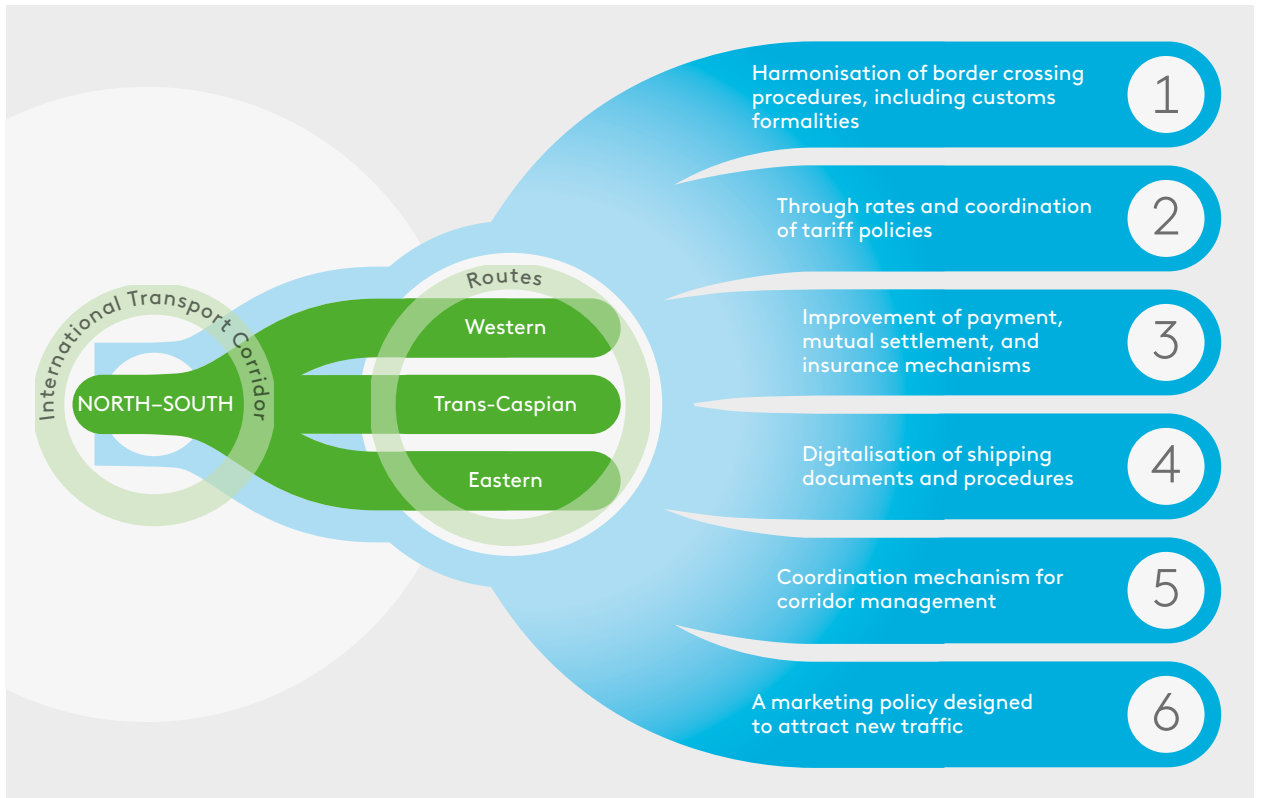
Projects that will appeal to international development banks and private investors ([World Bank, Sum4All, 2019](#)) will help attract investment in the improvement of the INSTC transport infrastructure, in particular, public-private partnership (PPP) projects. State budgets are the sole source of financing for two thirds of the database projects. Very few projects rely on cash flows generated from the subsequent operation of the facilities, such as toll roads, bridges, etc. Only two out of the 58 road projects included in the database involve a road fee: the section of the Moscow–Saint Petersburg express motorway (M-11 Neva) from the 149th to the 208th kilometre (bypass road around the city of Tver), and the interchange leading to Pulkovo Airport on the M-11 express motorway. However, there are some **“bankable”** projects for the development of various auxiliary infrastructure facilities, such as logistics centres, dry ports, container terminals, etc. The higher freight traffic along the corridor’s routes will increase the number and capacity of required auxiliary transport infrastructure facilities, historically placed in the vicinity of ports and border crossing points.

Existing barriers along the corridor cause **long delays, particularly at land crossing points and sea ports**. According to UNESCAP, border crossings take up to 50% of total transit time. Delays at the border crossing points double the transport time between Moscow and the port of Bandar Abbas to 10–13 days, a trip that usually takes six days along the Western Route. Road transport along the Eastern Route involves even longer delays; for example, instead of four days, a trip from Chelyabinsk to Tehran takes 10–12 days, or even longer if drivers have no visas or required permits.

Improved soft infrastructure and developed physical infrastructure might yield the same results. In particular, digitalised vehicle/cargo border control processes may be just as effective as additional check lanes and examination areas. Countries can refer to the success of container traffic boosted along the Northern Eurasian Corridor (China–Kazakhstan–Russia–Belarus–Europe) and the Trans-Caspian International Transport Route (TITR). Promoting the INSTC and developing end-to-end rail, road, and multimodal freight traffic along all of its three routes will require similar measures (see [Figure C](#)).

Investment projects, once implemented, and enhanced INSTC soft infrastructure are likely to boost freight traffic, reduce cargo delivery times, ensure more effective transport infrastructure comprising the Eurasian Transport Network, expand the market for transport and logistics services, improve the quality of logistics and container services, assure road safety and security of freight and transport operations in the Caspian region, and foster communication among the countries involved in transport and New Logistics.

↓ Figure C. Key Soft Infrastructure Improvement Measures for Effective Operation of the INSTC



Source: EDB