



# Policy Brief

## **Optimizing the Middle Transport Corridor in the CAREC Region: Evaluation and Policy Recommendations**

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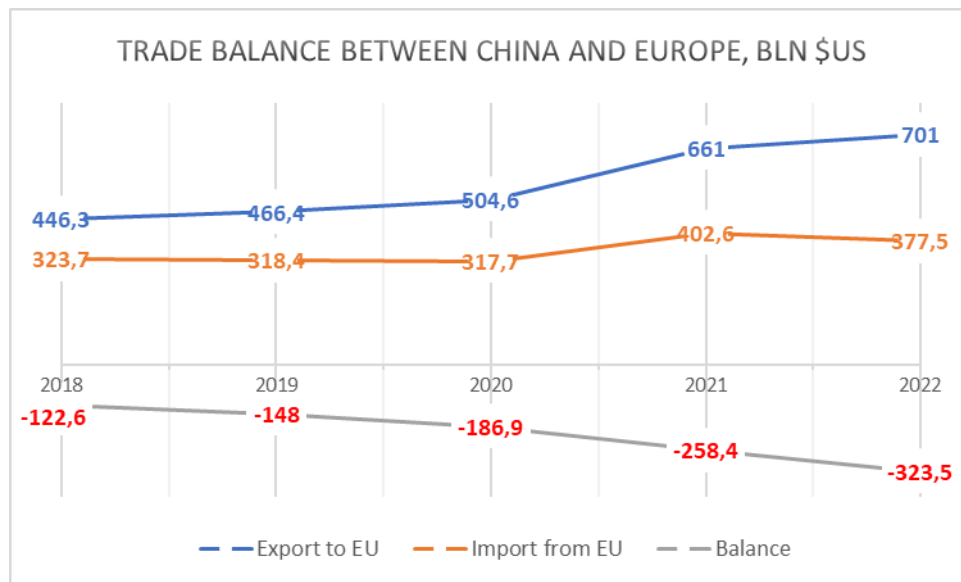
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## 1. Introduction

Central Asia, historically a vital nexus on the Silk Road, is reasserting its role as a strategic bridge for trade between Europe and Asia. Since gaining independence, the countries of the region – Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan – have been actively involved in strengthening regional integration and development. This renewed focus on connectivity presents a significant opportunity for the European Union (EU), Central Asia, and the People’s Republic of China (PRC) to collaborate, stimulate innovation, and achieve mutual prosperity.

Despite the significant expansion of trade between Europe and Central Asia, it is important to recognize that the PRC plays a pivotal role in driving cargo volumes in the broader exchange between Europe and Asia. The PRC is the largest trading partner for European countries, including the EU and Albania, Andorra, Armenia, Azerbaijan, Bosnia and Herzegovina, the Faroe Islands, Georgia, Gibraltar, Iceland, North Macedonia, Montenegro, Norway, Serbia, Switzerland, Türkiye, Ukraine, and the United Kingdom. In 2022, trade between the PRC and Europe reached a record US\$1.1 trillion, despite the global disruptions caused by the COVID-19 pandemic in the past two years. However, there is a significant trade imbalance, with the PRC exporting US\$324 billion more in goods to Europe than it imports (Figure 1).<sup>1</sup>

Figure 1: Import, export and trade balance between the PRC and Europe



Source: International Trade Centre, Trade Map 2023, available at: [www.trademap.org](http://www.trademap.org), author’s calculations

Historically, the bulk of goods exchanged between Europe and the PRC has been facilitated via maritime routes, estimated to encompass around 80-85 percent of the entire volume of EU-PRC trade. In contrast, land-based transportation modes contribute approximately 10 percent, while air transport accounts for

<sup>1</sup> International Trade Center. Trademap. (2023). Trade Data for the European Union and Central Asia. Retrieved from <https://www.trademap.org>

the remaining share. The transportation of goods across the expanse of Asia and Europe primarily occurs along three key corridors offer distinct advantages and challenges.<sup>2</sup>

This policy brief explores the potential of the Middle Transport Corridor (also CAREC Corridor 2) as a more efficient and competitive alternative. By evaluating the current state of the Middle Transport Corridor, this brief aims to identify its strengths and weaknesses. We will propose specific policy recommendations to optimize its functionality. Optimizing this corridor will not only enhance EU-Asia trade efficiency but also unlock the full potential of Central Asia as a strategic player in the global trade landscape.

## **2. Evaluating the Middle corridor**

### **2.1. Current Capabilities and Growth Prospects**

The Middle Corridor offers a notably shorter and more geopolitically secure route compared to the traditional northern corridor, which passes through Russia.<sup>3</sup> Moreover, there are optimistic signs in terms of growing interest from private companies, with industry leaders like Danish shipping company Maersk, Finnish company Nurminen Logistics, Dutch logistics provider Rail Bridge Cargo, German logistic firm CEVA Logistic, Azerbaijan's ADY container, and a group of Chinese rail operators and freight forwarders have already actively engaged in container transport operations along this route.<sup>4</sup>

These developments signify the commitment of nations to strengthen their trade and transport infrastructure and highlight the strategic significance of the Middle Corridor as a key facilitator of regional and international trade. By 2025, these collective efforts are expected to increase the route's annual capacity to a remarkable 10 million tons of cargo, positioning it as a critical artery for international trade and connectivity. However, this impressive growth has also exposed challenges related to connectivity, bottlenecks, and capacity constraints, which have increased transaction costs and hindered the expected growth in container cargo transport.

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<sup>2</sup> European Bank for Reconstruction and Development (EBRD). (2023). Sustainable transport connections between Europe and Central Asia: Final Report. Available at <https://www.ebrd.com/news/publications/special-reports/sustainable-transport-connections-between-europe-and-central-asia.html>

<sup>3</sup> <https://www.weforum.org/events/world-economic-forum-annual-meeting-2023/sessions/the-road-through-eurasia> (accessed date October 26, 2023)

<sup>4</sup> <https://unece.org/sites/default/files/2022-08/ECE-TRANS-WP5-2022-01e.pdf>

## 2.2. Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis of the Middle Corridor

### Strengths

- Efficient transit times (10 days PRC-Kazakhstan border to Türkiye)
- Cost-effective transportation
- Attracting investments from the EU and the PRC due to the growing geopolitical importance
- Offering enhanced security amidst geopolitical uncertainties in other regions
- Strong government commitments from Azerbaijan, Georgia, Kazakhstan
- Ongoing high-potential infrastructure projects (deepening of seaports, road and railway modernization)
- Partnership frameworks for collaboration and bottleneck elimination

### Weaknesses

- Uncoordinated soft infrastructure (digitalization, Public-Private Partnership, etc.)
- Transparency and regulatory harmonization issues
- Difficulty protecting shipper rights due to high risks of cross-border trade disputes
- Unexpected delays at border crossing points and unforeseen costs
- Shortage of skilled labor along the corridor
- Insufficient hard infrastructure, including lack of container availability, platforms, and scheduled feeder services
- Underdeveloped road infrastructure connecting to ports in Kazakhstan
- Inter- and multimodal transportation complexities and mismatches (varying gauges, Caspian Sea crossing, infrastructure limitations)
- Lack of short-term subsidies to improve competitiveness

### Opportunities

- Significant investment potential in transport capacity improvements
- Shift in focus to economic resilience and regional cooperation
- Regional and global economic integration through infrastructure enhancements, global supply and energy industry chains, industrial production, and transportation networks
- Efficiency gains through joint logistics companies and unified tariffs
- National security alternative and diversification of trade routes
- Transportation of strategic goods (oil, grain, uranium)
- Potential for a significant increase in capacity (up to 15% of global rail trade)

### Threats

- Limited ports capacity (Poti, Istanbul) and the impact of climate change (Caspian Sea shallowing and weather conditions)
- Competition from established and subsidized trade routes
- Lack of a collective approach, such as "Whole of Corridor"
- Geopolitical uncertainties and disruptions in the region
- Dependence on political relations and shifting dynamics
- Rapid technological advancements and changing trade trends
- Intracity road congestion challenges in major cities
- Infrastructure obstacles (unreliable electricity, complex regulations, etc.)
- Difficulties in attracting investors due to perceived risks, including substantial funding gap for upgrades and renovations, with potential mismatches between project progress and funding cycles

### **3. Conclusion and policy recommendations**

#### **3.1. Conclusion**

The Middle Corridor presents both significant opportunities and challenges in the realm of international trade and transportation. It offers a shorter and geopolitically independent route for goods moving between the PRC, Central Asia, the South Caucasus, and Europe. However, various factors such as high costs, limited port capacity, regulatory hurdles, competition with other routes, and geopolitical uncertainties threaten its development. The corridor's success is closely linked to the alignment of political relations, regional infrastructure, and technological advancements.

#### **3.2. Policy Recommendations**

##### ***1. Infrastructure Development***

- Invest in hard and soft infrastructure to increase capacity, including railways, ports, roads, and digital systems. This will enable smoother and more efficient transportation along the corridor. EBRD's 2023 report<sup>5</sup> recommends a set of seven soft connectivity measures and 33 specific infrastructure investment priorities as actionable and feasible steps to advance the development of the Middle Corridor. Soft connectivity measures, characterized by their cost-effectiveness and high impact, offer substantial advantages for both the countries implementing them and the broader Central Asian region. These measures have the potential to reduce transaction costs, enhance operational efficiency, and promote increased private-sector engagement, thus improving service provision. It is essential to implement these measures as a prerequisite to enable private-sector participation and pave the way for subsequent hard infrastructure investments.
- Implementing gauge-changing technology, as demonstrated at the Khorgos Border Crossing Point, is a cost-effective and well-established solution to streamline border crossings. This technology minimizes disruptions, allowing for swift border transits, typically taking under an hour.
- Upgrade port facilities in Poti (Georgia) and Istanbul (Türkiye) to alleviate bottlenecks and reduce delays.
- Develop regional trade zones by involving nations along the Middle Corridor to harness the region's economic potential, strengthen engagement with major global trade players like the PRC and the EU, and foster sustainable economic growth through increased trade and investment.

##### ***2. Digitalization and Interoperability***

- Develop a unified digital platform for cargo tracking and tracing, allowing real-time monitoring for cargo owners.
- Facilitate interoperability between countries along the corridor, harmonizing customs procedures and regulations.

##### ***3. Container Platforms and Feeder Services***

- Invest in additional container handling facilities at the Caspian and Black Seas to ensure uninterrupted container transportation along the corridor.

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<sup>5</sup> <https://www.ebrd.com/news/publications/special-reports/sustainable-transport-connections-between-europe-and-central-asia.html>

- Establish scheduled feeder services on the Caspian and Black Seas to complement train services and reduce disruptions.
- Develop and implement policies that are specifically designed to attract freight volumes from the existing northern corridors connecting Europe and the PRC.

#### **4. Regulatory Harmonization**

- Promote regulatory harmonization among the countries along the corridor to streamline customs and trade procedures, specifically by reducing customs clearance times. This will facilitate the flow of goods and reduce transaction costs.

#### **5. Investment Promotion**

- Actively attract investments from governments, international organizations, and private sector players to fund corridor development.
- Highlight the corridor's resilience, strategic resource transport potential, and its role in regional and global integration to appeal to potential investors.

#### **6. Risk Mitigation**

- Develop a robust risk management strategy to address geopolitical uncertainties and dependencies on political relations. Consider diversification strategies for risk reduction.
- Enhance security along the corridor to protect cargo and reduce the risk of theft or damage during transit.

#### **7. Whole of Corridor Approach**

- Encourage countries along the corridor to work collectively, forming a unified entity to drive cargo flows and ensure coordination. The quantity of border crossing points presents a challenge, but it should not be a more significant issue for the Middle Corridor (PRC-Kaz-Aze-Geo-Romania) than for the northern corridor (PRC-Kaz-RF-Bel-Poland). The inclusion of Türkiye introduces an additional border crossing point, which can be mitigated by reaching agreements on transit documents.
- Collaborate with multilateral development banks and local programs like CAREC and TRACECA to empower Middle Corridor countries in implementing best practices.
- Develop robust Public-Private Partnership frameworks.

#### **9. Workforce Development**

- Invest in training and education programs to address skilled labor shortages and build a skilled workforce to efficiently operate the corridor.

#### **11. Sustainable Practices**

- Emphasize environmental sustainability in transportation practices to align with global goals for reduced carbon emissions and responsible logistics.

By systematically addressing these areas, the Middle Corridor can be optimized to reach its full potential as a competitive and efficient trade route, providing significant benefits to the regions it connects and the global trade community.