

International North-South Transport Corridor: Re-energising India's Gateway to Eurasia

Meena Singh Roy

Dr Meena Singh Roy is Research Fellow at the Institute for Defence Studies and Analyses, New Delhi.

August 18, 2015



Summary

There is a conscious effort on the part of India to improve connectivity with the Eurasian region by re-energising the International North-South Transport Corridor (INSTC). Since 2012, the member states of the INSTC have shown renewed interest to move forward and address various problem areas in order to realise the full potential of the corridor. However, without sustained momentum it will only remain an ambitious plan.

Given India's strategic interests in the West and the Central Asian region, and need for greater economic and energy cooperation between South, Central and the West Asian region, New Delhi has stepped up its engagement to re-connect with its extended neighbourhood. To augment New Delhi's ties with the Eurasian region, India had pronounced its 'Connect Central Asia' policy in 2012. These efforts got a further impetus during the eight-day visit of Prime Minister Narendra Modi to all the Central Asian states including the Russian city of Ufa for the SCO Summit in July 2015.

In addition, India is also looking forward to attaining full membership in the Shanghai Cooperation Organisation (SCO), which has emerged as an influential regional grouping in Eurasia. The accession procedure for two new members-India and Pakistan—was formally launched during the SCO Summit held in Ufa on July 10, 2015. Both countries presently have an observer status in the SCO.

Prime Minister Modi's statement at the Ufa Summit was indicative of India's growing desire and interest to play an active role in the region. His recent visit to all five Central Asian countries was a testimony to importance that India attaches to the region. Highlighting the future role of India in enhancing the connectivity with the region, he stated:

"As we look forward, we would lend our support to improving transportation and communication networks in the region. We can create a vast network of physical and digital connectivity that extends from Eurasia's northern corner to Asia's southern shores. The International North South Transportation Corridor is a step in that direction."¹

Modi Government's emphasis has been on building connectivity, forging developmental partnership and promoting economic cooperation with its immediate and extended neighbourhood. It is in this context that the current efforts to re-energise the International North-South Transport Corridor (INSTC) need to be analysed.

Re-energising the INSTC

The INSTC was initiated by Russia, India and Iran in September 2000 to establish transportation networks among the member states and to enhance connectivity with the land locked region of Central Asia.² The North-South Transport Corridor is an ancient

¹ "Remarks by Prime Minister at Plenary of the Shanghai Cooperation Organisation", *Indian Ministry of External Affairs*, July 10, 2015, at http://mea.gov.in/Speeches-Statements.htm?dtl/25454/Remarks_by_Prime_Minister_at_Plenary_of_the_Shanghai_Cooperation_Organisation

² The INSTC later expanded to include eleven new members as Observers, namely, Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkey, Ukraine, Belarus, Oman, Syria and Bulgaria. Though Turkmenistan is not a member but is very much part of the transportation network under the INSTC project.

route that connected South Asia with North Europe for centuries. This route was used by the European, Indian, Russian and many other foreign traders. During the late 17th and early 19th centuries, Indian traders used this route to reach out to the Central Asian markets. Under the Safavid Dynasty (1501-1722), there were some 10,000 to 20,000 Indian traders spread across the empire.³

The modern day INSTC is a multi-modal transportation route linking India Ocean and Persian Gulf to the Caspian Sea via Iran, and onward to northern Europe via St. Petersburg in Russia. The INSTC envisages movement of goods from Mumbai (India) to Bandar Abbas (Iran) by sea, from Bandar Abbas to Bandar-e-Anzali (an Iranian port on the Caspian Sea) by road, and then from Bandar-e-Anzali to Astrakhan (a Caspian port in the Russian Federation) by ship across the Caspian Sea, and thereafter from Astrakhan to other regions of the Russian Federation and further into Europe by Russian railways.

The September 2000 inter-governmental agreement on INSTC signed in St. Petersburg in Russia, which was ratified by all the three signatory states and has been in force since May 16, 2002, noted that the main objectives of the agreement are “increasing effectiveness of transport ties in order to organise goods and passenger transport along the International ‘North–South’ transport corridor”; the “promotion of access to the international market through rail, road, sea, river and air transport of the state Parties to this agreement”; and “providing security of travel and safety of goods” and “harmonisation of transport policies as well as law and legislative basis in the field of transport for the purpose of implementing this Agreement.”⁴

In the past, the development on this project has been slow. The Coordination Council of the INSTC has been meeting to discuss various issues pertaining corridor and has adopted recommendations made by the Experts Groups of the INSTC. However, not much progress could be made between 2005 and 2012.

On January 18, 2012, a meeting of the INSTC member countries to discuss modalities for moving forward on the INSTC project was held in New Delhi. During this meeting, it was pointed out that support of countries like Turkmenistan, Uzbekistan, Kyrgyzstan and Turkey will be sought in order to complete the missing links in the North–South corridor. Hereafter, efforts by the member countries picked up and the sixth meeting of the Experts Group I and II of the Coordination Council of the INSTC project was held from May 28-

³ Taleh Ziyadov, “Strategic Assessment of Euro-Asian Trade and Transportation: Azerbaijan as a Regional Hub in Central Eurasia”, *Azerbaijan Diplomatic Academy*, Baku and *Johns Hopkins University*, June 2011, p. 74.

⁴ See “Inter Governmental Agreement on International ‘North-South’ Transport Corridor”, *International North-South Transport Corridor Secretariat*, Tehran, at <http://www.instc-org.ir/Documents%20Archive/Agreement/Agreement.pdf>

30, 2012 in New Delhi, followed by the 5th Coordination Council meeting in Baku on June 24-25, 2013.

To understand the problem areas and to realise the full potential of the corridor, the dry run was conducted on the Nhava Sheva–Bandar Abbas (Iran)–Baku (Azerbaijan) and the Nhava Sheva–Bandar Abbas–Amirabad (Iran)–Astrakhan (Russia) route via Caspian Sea in August 2014 by the Federation of Freight Forwarders' Associations in India (FFFAI). After the dry run it was noted that there is an existing Iranian road network connecting Bandar Abbas and Astara for transporting Indian cargos through the INSTC route. In addition, there is an alternate route connecting Iranian transport networks with Azerbaijan and Turkey for Russian and European markets. The dry run report clearly points out that "the proposed INSTC route via Bandar Abbas in Iran to Russia and CIS Destination in transit through Iran, could be the best route with optimal transit/cost for the Indian exporters/importers."⁵

The involvement of the stakeholders definitely highlights the increasing interest of the users to explore the new opportunities to enhance the potential of the route. It is important to note that the successful activation of the corridor will help connect India to Russia within 16-21 days at competitive freight rates leading to development of trade on the INSTC. In addition, it is also expected to eliminate usage of reefer containers for agro commodities and further support the supplies to Russia.

Subsequently, the FFFAI in cooperation with the Indian Ministry of Commerce organised the INSTC conference in Mumbai on June 12, 2015 to create a greater awareness about the potential and opportunities for trade between the member countries using the INSTC. Delegates from more than 15 countries and a wide spectrum of logistics industry from all over India including government officials and experts participated in this conference. The practical dimension of the corridor was highlighted, making it easy for the stakeholders and the member countries to identify the problem areas and take advantage of the opportunities opening up in future. The initiatives taken to enhance connectivity through INSTC will get a further boost during the 6th INSTC Coordination Council meeting along with the 7th Expert Committee meeting to be held on August 19-21, 2015 in New Delhi.

Prospects and Bottlenecks

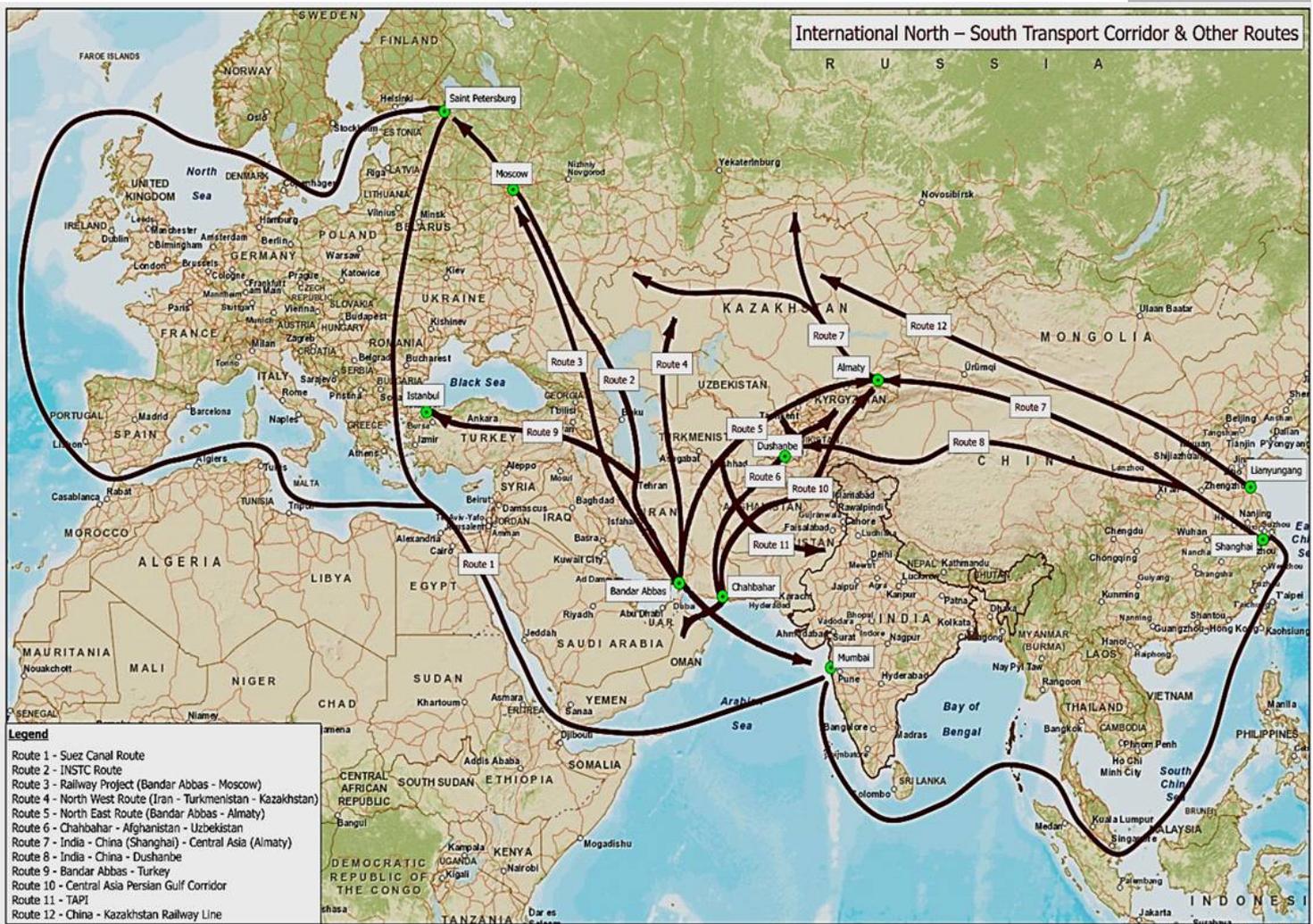
The strategic significance of INSTC for India is immense. It offers many opportunities to enhance India's connectivity with Iran, Afghanistan and the vast Eurasian region and vice versa (see map highlighting INSTC and other alternative routes).

⁵ Dry Run Study Conducted during August 2014 by Shankar Shinde/Sohel Kazani, at http://instcindia.in/uploads/gallery/14335082094NEW_DRY.pdf

Following factors add to the significance of the INSTC for India:

- (a) At present, India has to depend on the sea route via Rotterdam to St. Petersburg and increasingly through China and then inland to transport goods to Russia. To reach out to Central Asia, goods have to be routed through China, Europe or Iran. The routes through China and Europe are long, expensive and time consuming. Therefore, need for a route that is relatively shorter, cheaper and, more importantly, safer and well secured. It is said that the INSTC can reduce time and cost of container delivery by 30-40 per cent.
- (b) The potential of this corridor will be manifolds for India if linked with the Southeast Asian countries. This will boost trade between Europe and Southeast Asia as well. As compared to the current route through the Suez Canal and the Mediterranean Sea, the INSTC is much shorter and cost effective. The Suez Canal route takes 45-60 days, whereas the INSTC would take 25-30 days. In fact, the INSTC is 40 per cent shorter and 30 per cent cheaper.

Map: INSTC and Alternative Routes



Courtesy: GIS Lab, Institute for Defence Studies and Analyses, New Delhi.

- (c) From India's point of view, this corridor would not only help India bypass Pakistan and yet reach out to Central Asia and Russia, but also enable it to transport goods at cheaper cost to the European markets. In addition, Indian exports could potentially get a competitive advantage due to lower cost and less delivery time.
- (d) The completion of Turkmen-Kazakh section of the North South Railway line at Serhetkaya Station on May 11, 2013 provides an alternate to the main INSTC route for connecting to Kazakhstan and beyond from the Iranian port of Bandar Abbas. This route can also be used from the Chabahar Port once the Chabahar-Zahedan-Mashhad line is commissioned, as the access to this route is through Mashhad and Ashgabat. With a shorter distance of 600 km, this transnational project is expected to provide an impetus to regional cooperation and economic integration of the countries in the Eurasian region with Indian Ocean and Persian Gulf ports.
- (e) There is existing railway connectivity between Turkey-Iran and Pakistan. There are plans to further improve the connectivity with an additional route from Kars to Igdir to Dilucu on the Turkish-Azerbaijan border. This new route will reduce the travel time between Istanbul and Lahore by 12 days and between Istanbul and Mumbai by 14 days. From India's point of view, this could be an additional route that can enhance commercial exchange using Iranian ports to reach Turkey and beyond. In addition, Turkey has offered to provide necessary information for linking Black Sea Economic Cooperation (BSEC) with INSTC.
- (f) The agreement on a final and comprehensive Iran nuclear deal, known as the Joint Comprehensive Plan of Action (JCPOA), signed between Iran and six major powers, is a positive development that will provide further impetus to take the INSTC project forward. Removal of sanctions on Iran will open up many opportunities for investors in completing the missing links on the INSTC which in the past was not possible. India has already shown interest in investing in the Chabahar container terminal project as well as the Chabahar-Faraj-Bam railway project. From Bam, which is on the Afghan border, goods can be taken through the Zaranj-Delaram Road, which is linked with the 'garland highway' connecting all major Afghan cities. There is also the possibility of extending this road to Tajikistan and Uzbekistan, which would give further impetus to regional trade and transit.

Recently, Indian Transport Minister Nitin Gadkari signed a MoU for development of the Chabahar port project during his visit to Iran in May 2015. As per the \$85 million deal, India can help build second and third terminals at the port including the construction of the railway line connecting the port with the rest of Iran. This project is expected to become operational by December next year.⁶ Subsequently, in Ufa, Russia, on the side lines of the

⁶ "Chabahar Port on Agenda During Iran Foreign Minister Javad Zarif's Visit", *The Economic Times*, August 12, 2015, at <http://economictimes.indiatimes.com/news/economy/infrastructure/chabahar-port-on-agenda-during-iran-foreign-minister-javad-zarifs-visit/articleshow/48448486.cms>; "Iran Seeks \$8 Billion Indian Investments: Wants Expeditious Decision", *NDTV*, July 26, 2015, at <http://www.ndtv.com/india-news/iran-seeks-8-billion-indian-investments-wants-expeditious-decision-1200716>

SCO summit, Iranian President Hassan Rouhani in his meeting with Prime Minister Modi had sought Indian investments worth \$8 billion in Iran's strategic infrastructure projects including ports, railroads and highways. In July 2015, in a media interview, the Iranian Ambassador in New Delhi, Gholamreza Ansari, asserted the point that India should take advantage of the time and opportunity before Western countries start making investments. He stated that "India has always been there even during the difficult time of sanctions. They should take advantage of their presence on the ground. Otherwise it will be a lost opportunity".⁷

During Iranian Foreign Minister Mohammad Javad Zarif's recent visit to New Delhi on August 14, 2015, both the countries emphasised on the development of Chabahar Port, railway projects and cooperation on the INSTC. Foreign Minister Zarif stated that Iran was open for Indian companies to invest in Chabahar port project. He noted that "We both, India and Iran, are eager to engage in this. I believe sooner rather than later we will start serious work".⁸ India-Iran cooperation on improving connectivity, therefore, could get a major boost as sanctions on Iran are lifted.

The full potential of the INSTC, however, cannot be realised until bottlenecks and constraints are addressed by the member states. Unlike other international organisations, the INSTC still does not have a strong mechanism to address the operational issues on ground; problems related to customs procedure and documentation; issues related to the funding of various infrastructure projects; and, the low level of container trade on the INSTC. Due to the low level of trade, containers often come back empty, increasing the cost of container movement on this route. There is also lack of common border crossing rules among the member countries; problems related to the insurance and data exchange between the member states; gradient problem restricting speed; higher tariffs by rail vis-à-vis road transport for movement from Bandar Abbas to Amirabad; wagon shortage and load restrictions for transit traffic in Iran; problem of break of gauge; and, finally, the security fears emanating from Afghanistan. All these are likely to further hamper the development of the India-Iran-Afghanistan-Central Asia route. Growing violence and the uncertain security environment in the Afghanistan-Pakistan region, continue to pose challenges for the regional countries and their efforts for enhanced connectivity.

A major challenge before the member countries is sustaining the momentum of progress which they have achieved in the last few years. Since India, Iran and Russia are three

⁷ "Iran Seeks \$8 Billion Indian Investments: Wants Expeditious Decision", *NDTV*, July 26, 2015, at <http://www.ndtv.com/india-news/iran-seeks-8-billion-indian-investments-wants-expeditious-decision-1200716>

⁸ "Iran Welcomes Indian Private Investment for Chabahar Port Project", *The Economic Times*, August 14, 2015, at http://articles.economictimes.indiatimes.com/2015-08-14/news/65524447_1_southeast-iran-chabahar-javad-zarif

major pillars of this huge network of north south connectivity projects, a larger share of responsibility will have to be borne by them. As the interest shown by other countries clearly highlight the growing importance of the transnational corridor, regular enhanced cooperation among the 14 member states of the INSTC needs to be accelerated. Also, new members from the region should be encouraged to join the INSTC to make it more effective.

Equally important is the prioritisation and identification of the projects (both reviving old routes and building missing links) which deserve more attention from the point of their utility in enhancing the trade and economic ties between the countries. Member countries need to formulate long-term strategies both at the bilateral and regional level to address the bottlenecks and to realise the future potential of the corridor. Creation of high level working groups on transport cooperation among the regional partners, setting up of independent joint study groups and organising annual meeting of the technical groups to follow the developments in a sustained manner, particularly on transport projects which are more result oriented in nature, will go a long way in re-energising the INSTC.

The recent initiatives by India, Iran and Russia, supported by the countries of Central Asia and also Turkey, Armenia and Azerbaijan, provides a favourable atmosphere to re-activate and realise the full potential of the INSTC. However, without sustained efforts by the member states to address the bottlenecks, it will only remain an ambitious plan, an unfulfilled connectivity project.