

Creating Favourable Environment to Stimulate Trade Volume Through the Middle Corridor

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Abstract— In the global landscape of trade, corridors serve as vital arteries for the flow of goods, connecting regions and driving economic growth. Among these, the Middle Corridor (MC) emerges as a promising pathway, linking Europe and Asia through a network of transportation routes. This paper delves into the critical aspects of fostering a conducive environment to enhance trade volume along the Middle Corridor. Through a comprehensive analysis of economic, infrastructural, and policy factors, it highlights the key challenges and opportunities faced in leveraging the corridor's potential. The paper identifies strategic measures to overcome barriers, including regulatory harmonization, infrastructure development, and trade facilitation initiatives.

Keywords—economic corridors, regulatory harmonization, multilateral cooperation, transportation infrastructure, logistics.

I. INTRODUCTION

Trade corridors play a fundamental role in shaping the dynamics of global trade by facilitating the movement of goods, services, and capital across regions. By linking production centers with consumer markets, trade corridors enable efficient supply chain management and enhance competitiveness in the global marketplace. In addition to promoting economic growth and development, trade corridors contribute to poverty reduction and job creation by generating employment opportunities along their routes.

The Middle Corridor, also known as the Trans-Caspian International Transport Route (TITR), links China to Europe by crossing Kazakhstan to the Aktau Port and then to the Port of Baku - Alat in the other side of the Caspian Sea. It continues through Azerbaijan and Georgia by rail to then either to Europe through Türkiye or crossing the Black Sea (fig. 1). Tracing its origins back to the ancient Silk Road, the Middle Corridor has gained renewed attention as a strategic route for international trade in recent years. By leveraging historical trade routes and infrastructure, stakeholders aim to unlock new opportunities for trade expansion, economic development, and cross-border collaboration.

Its geographical position provides a shorter and more efficient pathway for goods transportation between Europe and Asia, reducing transit times and costs. Understanding the nuances of the Middle Corridor is paramount for policymakers, stakeholders, and practitioners seeking to unlock its transformative potential and enhance trade volumes along this vital corridor. Also, recent geopolitical issues, such as Houthi attacks in the Red Sea and Russia-Ukraine war, highlight Middle Corridor's importance as an alternative route for global trade.

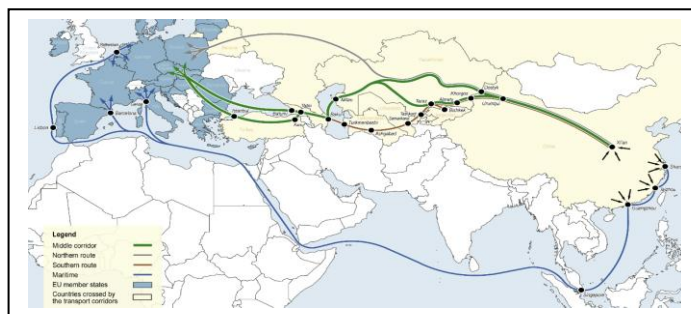


Fig. 1. MC and other trade corridors connecting Europe and Asia [1]

Thus, recent years were marked by a robust increase of the potential trade volumes via the MC. However, the corridor was not prepared for such volumes, leading notably to (a) a modal shift to sea and road and (b) a higher imbalance in eastward versus westward traffic. Also, there are numerous bottlenecks along the entire corridor. Furthermore, the realization of full potential of the route encounters a few challenges that need to be addressed by TITR countries, e.g. lack of capacity of roads and ports, complexity of bureaucratic processes, poor development of infrastructure.

II. CURRENT STATE OF TRADE ALONG THE CORRIDOR

Over the last thirty years, several infrastructure initiatives have contributed to the modernization of the MC and the reduction of marine transit times. The European Union (EU) has made significant financial contributions to the MC in addition to the enormous sums made possible by China's Belt and Road Initiative. Financial institutions from around Europe and beyond promised to contribute about \$10.8 billion to the development of the TITR in Central Asia earlier this year. Russia's full scale invasion of Ukraine sparked the EU's fresh interest in the route as it looks to lessen its dependency on Russia's Northern Corridor route for international commerce from East Asia.

The Trans-Caspian MC has largely been dominated by Kazakhstan's exports and other regional trade; but it handles only a small share of trans-continental primarily EU-China trade – less than 5 percent of transit traffic. Prior to Russia's invasion of Ukraine started back in 2022, the MC was generally considered the next best alternative to the Northern land route, primarily for China – EU transit. Investments were planned in the context of the growing transit flow, rather than bilateral and regional export-import trade of the landlocked countries along this route. In 2021, the share of maritime transport accounted for about 91 percent of China - Europe trade in volume terms (58 percent in value terms), rail

for a mere 3.3 percent (and 5 percent in value). In turn, the Northern Corridor via Russia and Belarus handled more than 86 percent of China – Europe land traffic in 2019–2021, while the capacity of the trans-Caspian route covered less than 1 percent of total traffic [2].

Trade along the MC grew by 10% in volume terms (tonnes) between 2021 and 2022, mostly because of modifications to regional and transcontinental trade patterns. The MC gained traction when Russia invaded Ukraine, partly because to shifting trading patterns. As a result, carrying cargo over the Caspian Sea started to seem like a viable option and has been experiencing a surge in demand since March 2022.

Approximately two thirds of the flows along the MC in 2021 came from commerce with Kazakhstan, Georgia, and Azerbaijan; in 2022, their trade doubled. Due to a rerouting caused by the sanctions placed on Russia, trade flows among the countries increased in 2022, particularly in commodities related to energy and technology. In 2022, compared to 2019–21, trade turnover increased by approximately 45% in Kazakhstan and Georgia, and 72% in Azerbaijan. More than half of the rise in exports from the region was attributed to the EU. In comparison to other years, trade from China and Central Asia has expanded, as evidenced by the observed spike in transit through the Caspian Sea in 2022, particularly in the export of chemicals and metals (fertilisers).

In the first eight months of 2023, the volume of cargo transhipped through the Aktau and Kuryk seaports reached 1.74 million tons, marking an 85% increase compared to the same period the previous year. However, there has been a 37% reduction in container transportation via TITR within the same timeframe, with a total of 12,600 twenty-foot equivalent units (TEUs) recorded. This downturn is attributed to a shift in cargo to southern routes due to lower sea freight costs and the cessation of Chinese subsidies to shippers using the TITR. Overall, the throughput capacity of TITR stands at six million tons, including 80,000 TEUs [3].

III. CHALLENGES TO THE TRADE VOLUME ENHANCEMENT

Despite the immense potential of the Middle Corridor to stimulate trade volume, several challenges hinder its realization. These challenges might be listed as followings:

- Infrastructural;
- Regulatory;
- Economic.

A. Infrastructural challenges:

a) *Insufficient transport infrastructure:* One of the primary challenges hindering trade volume improvement through MC is that transportation infrastructure is inadequate. While significant investments have been made in recent years to improve infrastructure, challenges such as outdated or inadequate railway networks, congested ports, and underdeveloped road networks exist. Insufficient infrastructure capacity and connectivity gaps result in delays,

increased transportation costs, and hinder the efficient movement of goods along the corridor.

When compared to the alternative route via Russia, the time required to export products via the MC is twice longer. In 2022, the MC route took twice as long as the Northern route to transport transit from Dostyk or Khorgos (both in Kazakhstan) to Constanta (Romania), taking more than 50 days. Nonetheless, the travel time was noticeably less in 2021. The reason for the time deterioration in 2022 was the sudden surge in demand and the unreadiness of infrastructure and transport operators to handle such high volumes. Insufficient capacity on railway sections and intermodal transfers of commodities in ports are the main causes of delays. (figure 1) Although the transit time via Türkiye is much shorter (40–45 days), shippers are not as attracted to this route because of capacity issues [1].

b) *Bottlenecks in Logistics and Supply Chains:* Another critical infrastructural challenge is the presence of bottlenecks in logistics and supply chains along the Middle Corridor. Inefficient logistical processes, inadequate warehousing facilities, and limited intermodal connectivity contribute to supply chain disruptions and inefficiencies. These bottlenecks not only increase lead times and operational costs but also undermine the competitiveness of businesses operating along the corridor.

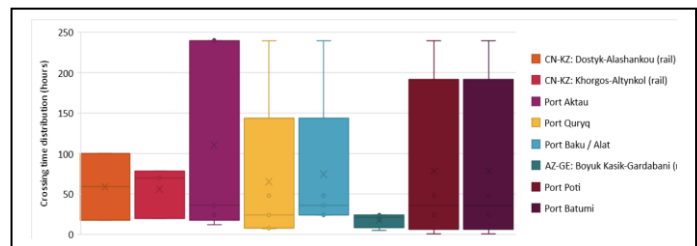


Fig. 2. Crossing time in MC ports

B. Regulatory Challenges:

a) *Trade Barriers and Tariffs:* Regulatory barriers, including trade barriers and tariffs, pose significant challenges to trade volume enhancement along the Middle Corridor. Non-tariff barriers such as import quotas, licensing requirements, and technical standards create hurdles for exporters and importers, inhibiting trade flows. Moreover, the imposition of tariffs on certain goods increases the cost of trade, reducing the competitiveness of businesses operating within the corridor.

In May 2023, a survey was conducted to a sample of stakeholders in order to have a deeper understanding of the market's perceptions of the MC. Aspects of the operations, including countries of origin and destination, routes, and commodities, trip duration and expense, border crossing locations, and major challenges encountered by shippers, carriers, and goods forwarders/logistics operators, were among the questions that were posed. According to the survey, MC transport costs are high and, more significantly, unstable. One FEU (forty-foot equivalent unit) container can be transported between China and Europe via the MC for anything between US\$2,500 and US\$3,250, according to the survey, however, the Northern route through Russia gives a fixed price, which is now US\$2,599 eastbound and US\$3,121 westbound [1].

b) Inconsistent Regulatory Frameworks Across Countries: Inconsistent regulatory frameworks and divergent regulatory practices across countries further exacerbate the regulatory challenges faced by traders along the Middle Corridor. Varying customs procedures, documentation requirements, and administrative processes increase compliance costs and create uncertainty for businesses engaged in cross-border trade. Harmonizing regulatory frameworks and promoting regulatory convergence are essential for reducing trade frictions and enhancing trade volume along the corridor.

C. Economic challenges:

a) Market Access Limitations: Market access limitations, including trade barriers and restrictions, constrain the ability of businesses to fully capitalize on the trade potential of the Middle Corridor. Limited access to foreign markets, protectionist trade policies, and random treatment for domestic industries prevent the enlargement of trade volumes. Addressing this issue requires joint efforts to liberalize trade regimes, eliminate trade barriers, and promote open and inclusive trade policies.

b) Economic Instability and Geopolitical Tensions: Economic instability and geopolitical matters in the region create considerable problems to improve trade volume across the MC. Uncertainty stemming from geopolitical conflicts, border disputes, and security concerns can disrupt trade flows, deter investment, and undermine business confidence. Addressing economic instability and geopolitical tensions requires fostering political stability, enhancing regional cooperation, and promoting dialogue among stakeholders to mitigate risks and uncertainties.

IV. STRATEGIES TO OVERCOME CHALLENGES

Based on the challenges highlighted above, any comprehensive strategy to amplify the performance of MC must cover the implementation of set of measure in three areas, namely infrastructure development, regulatory harmonization and promoting trade facilitation.

By 2027, the countries expect to increase the throughput capacity from six million tons to 10 million tons per year and reduce delivery times to 14-18 days, including five days across Kazakhstan. However, to achieve this it necessitates measures to address infrastructure bottlenecks along the entire corridor and advance the development of the corridor. Up to date some bilateral roadmaps (for example, between Kazakhstan and Georgia) and a trilateral agreements (e.g. Türkiye, Azerbaijan and Kazakhstan) have been concluded.

Furthermore, an intergovernmental agreement between Kazakhstan and China focusing on the development of TITR, particularly for container trains between China and Europe, is needed to be signed. This agreement is set to outline projected annual cargo volumes through the corridor, facilitate the exchange of tracking data for rolling stock within the borders of both nations and provide China with support in optimizing the capacity of main pipelines and port infrastructures.

Construction of logistics centers, multimodal terminals and trade and logistics hubs in ports of the corridor may also accelerate the development of MC. There are mainly three

railways in the route (Kazakhstan Railways (KTZ), Azerbaijan Railways (ADY), and Georgian Railway (GR)). To enable the three railways to make the required capital investments, investment throughout the corridor needs to be streamlined and public sector support is required. Although the railways along the MC produce a respectable amount of freight revenue, they are unable to finance and cover the costs of infrastructure due to unfulfilled public sector mandates and prior debt obligations. With an annual revenue of US\$4.2 billion, KTZ is the major railway [4]. Due to its high debt load, the railway is dependent on public sector funding in the form of IFI (International Financial Institutions) loans or direct budgetary infusions since it is unable to secure private financing on favourable terms. Comparably positioned, ADY is mostly dependent on funding from the public sector. The situation with GR is a little different in that the government wants the railway company to be self-sufficient and financially independent, but a recent 500 million Eurobond issue has exceeded its financial capacity, meaning that GR's ability to finance its capital needs will probably be very limited.

Effective plans should include streamlining and digitizing administrative procedures at the border, checkpoints, ports, and other infrastructure facilities and expanding the geography of corridor participants by attracting new partners to the route. Integrating digital technologies such as blockchain and IoT can enhance transparency, traceability, and efficiency across the logistics value chain. Digitalization of the corridor would improve coordination of operations, effectiveness of information flows, transparency, and more effective tracking of consignments along the MC. Digitalization of the document flow could, approximately, save up to 3 days of the total transportation time through the MC. The World Bank has worked with MC stakeholders and concluded that, among many other needs, the following service areas are to be prioritized; (a) timely location of a cargo item, (b) establish the ETA of cargo, (c) accurate and timely quotes for customers, (d) transparency of data and services, and (e) capture and complete the required documentation for a shipment only once for the entire duration of the cargo movement.

While there is technology innovation available, coordinating international policy is the main obstacle to ensuring that the various legal and regulatory frameworks support the digitalization effort. Since they are typically technology-neutral, current trade agreements already cover digital trade. The 5Gs of trade tech and the digital pillars in focus - Global-Local (Glocal) Data Transmission and Liability Frameworks, Glocal Legal Recognition of Electronic Transactions and Documents, Glocal Digital Identity of Persons and Objects, Glocal Interoperability of Data Models for Trade Documents and Platforms, and Glocal Trade Rules Access and Computational Law—may lead to the explicit rules that are specific to the digital field and are necessary for additional legal certainty.

Encouraging political will for higher-level coordination is essential to the corridor's long-term functioning. Prominent entities such as the World Bank and OSCE can offer vital assistance in directing discussions and agreements, utilising

their global impact to foster comprehension and collaboration. Facilitating open, inclusive communication, supporting conflict resolution, and exchanging best practices should be the main priorities. By doing this, these countries might come to see the advantages of collaborating on the digital ecosystem, which would impact their political will to adopt a more coordinated strategy.

V. CONCLUSION

Although to be seen potentially as an alternative route for EU-China transit, the Middle Corridor has yet to take a sizeable share of the market, mainly because of the infrastructural restrictions and competition from traditional routes. While investments are being made to increase transit flow, the corridor's capacity remains underutilized. However, recognizing the corridor's strategic importance, ceaseless efforts in infrastructure development, regulatory

harmonization, and trade facilitation are essential to unlock its full capacity. By handling these areas, stakeholders can pave the way for sustainable economic growth, regional integration, and enhanced trade volumes along the Middle Corridor.

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