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Side Event : Policy Dialogue on Strengthening South Asia Central Asia Connectivity

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Strengthening South Asia –Central Asia connectivity

Background Note¹

Summary

The countries of the South Asian and Central Asian (SA-CA) region have largely been relying on rising demand for their products in the advanced economies to support their growth over the past two decades. However, now they face an altered economic environment in the aftermath of global financial crisis of 2008-09 with subdued growth of world trade. Region's economies are increasingly looking for alternate engines of growth to sustain the dynamism of their own economies. Significant complementarities exist within and between the sub regions as the patterns of development over the years have diverged between countries. Hence, regional economic integration offers a possible pathway to enable the region to harness the economies of specialization and economies of scale by integrating regional production networks and sustaining their dynamism.

The present document is based on a study being carried out by ESCAP on strengthening South-Asia Central Asia connectivity. It includes a review of the International Transport Networks and initiatives linking the two regions and a discussion on the current status of the Transport Network and the key challenges faced by the same. The document tries to build up a case for developing an Integrated Trunk Corridor – Feeder Route Network Model to connect the two regions based on Trans Asian Railway Routes and Asian Highway Network. The Forum may wish to discuss and provide guidance on (a) identifying potential opportunities and challenges of current South and Central Asia transport connectivity, (b) viability of land based transport corridors vis-à-vis traditional maritime routes, (c) Institutional and facilitation arrangements needed for seamless connectivity.

Contents

I.	Introduction.....	2
II.	Transport Network Options in the region.....	3
III.	Status of International Linkages.....	4
IV.	Transport Trunk Corridor Feeder Network Route	6
V.	Key Issues in Facilitation of International Transport	9
VI.	Conclusion and Issues for consideration.....	11

¹ This document is issued without editing and is meant to serve as a background paper to facilitate the dialogue.

I. Introduction

1. The countries of the South Asian and Central Asian (SA-CA) region have largely been relying on rising demand for their products in the advanced economies to support their growth over the past two decades. However, now they face an altered economic environment in the aftermath of global financial crisis of 2008-09 with the subdued growth of world trade and the region's economies are increasingly looking for alternate engines of growth to maintain the dynamism of their own economy. Significant complementarities exist across the region and sub-regions as the patterns of development over the years have diverged between countries hence, regional economic integration offers a possible pathway to enable the region to harness the economies of specialization and economies of scale by integrating regional production networks.
2. The geographically contiguous sub regions of SA-CA comprise a number of landlocked and least developed countries, natural resources rich countries and some of the fastest growing economies with highly complementary economic structures. However, the potential of mutual trade remains very low as compared to that with other economies, due to poorly developed transportation links, which contribute to high transportation and transaction costs making intra-regional trade relatively less competitive.
3. The basic premise of an efficient global market is the smooth flow of goods, services, technology and people across border, in other words connectivity. One aspect of connectivity is the physical connectivity in between countries to facilitate movement, i.e existence of proper roads, shipping and rail linkages. For international trade however, equally important are the institutional and procedural aspects of connectivity related to rules and policy frameworks that regulate and govern cross border movements.
4. The quality of connectivity is essentially a function of route and origin-destination pair it caters to. So, the quality of connectivity in between Europe and China would be substantially different from the quality of connectivity in between South and South West Asia. The route and mode choices of shippers are best captured by three dimensions of Cost, Transit time and Reliability. Land routes following a shorter distance of movement as in the case of connecting the countries of South Asia is certainly a clear winner in terms of cost and transit times if operational challenges are overcome. Reliability however, is an outcome of certainty which is further defined in international scenario by the extent of transport facilitation that exists in that region.
5. Connectivity within and between SA-CA region remains inadequate because of poor infrastructure conditions, missing links and a lack of transit agreements and transport facilitation measures. ESCAPs recent analysis has shown that the countries of the region could reap greater network externalities by integrating the sub regional transport corridors. In 2014 the total export from Central Asian Countries to South Asian region was a mere 3% of their total exportsⁱ, whereas that of South Asia to Central Asia was less than 1%ⁱⁱ. Enhanced connectivity between the two regions could strengthen economic integration, resulting in more optimal resource allocation and trade prospects.

6. Essentially then, the region stands to benefit highly in terms of trade and growth in economies if the trade routes are defined in an integrated manner to physically connect the Origin – Destination pairs in a cost and time efficient manner. If the route offers reliability in terms of transport facilitation then it has the potential to become the preferred choice of route by the shippers. This study discusses specifically the route choices available with the shippers and that can potentially be developed to achieve higher regional integration. It would try to establish a Transport corridor solution which would combine the benefits of a hub and spoke arrangement internationally and discuss Transport Facilitation Challenges and its possible solution.

II. Transport Network Options in the Region

7. The countries of South, South West and Central Asia have made significant efforts in strengthening transport connectivity in the region by improving both transport infrastructure and facilitation. Despite significant progress made the region still has a long way to go in realizing seamless regional connectivity in infrastructure and operational facilitation.
8. Currently maritime shipping is the only dominant mode of transportation available for trade between SA-CA regions. Maritime shipping offers many advantages to shippers in terms of economies of scale which translates into lower costs of transportation and thus competitive pricing. It also is free from many other transport related issues like cross border problems, delays, lack of infrastructure etc. However SA-CA region is unable to gain from these possible advantages due to the presence of vast continental hinterlands as that of India and also due to landlocked nature of countries like Nepal, Bhutan, Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan and Tajikistan. The huge distances to be crossed on land and transit through Ocean bordering countries make trade very expensive and hence not viable.
9. In recent times Rail Transport is emerging as a viable alternative to maritime shipping. This is even more so in areas where land connectivity offers shorter distances and the countries are either landlocked or have huge hinterlands. In some segments of Asia-Europe connections it now constitutes a credible option which is gaining favor among major international shippers, in particular for movement in between China and Europe. Realizing the importance of rail transport, in South Asia India and Bangladesh have agreed for construction of Agartala - Akhaura rail link which is expected to give a faster and more economical transport link to North Eastern States of India. Studies conducted under the International North south Transport Corridor link (INSTC) from Mumbai (India) to Baku (Azerbaijan) has shown a 30% reduction in cost and 40% reduction in time as compared to the traditional maritime transport linkⁱⁱⁱ. Rail operation is not only time efficient but can also be cost efficient depending upon the origin and destination points, in particular when the final destination is far from seaports. A study by ESCAP reveals that the Southern corridor of TAR may be advantageous to serve trade within that part of the corridor bounded on the west by the eastern part of Turkey and on the east by Bangladesh and North Eastern India^{iv}.

10. Road Transport plays a very important role in the international trade particularly in these two regions. This transport mode is not very competitive on longer distances but plays a critical role for last mile connectivity. As rail transportation within the region is not developed road transportation plays a critical role in facilitating trade especially with land locked countries in SA-CA region. It is pertinent that any strategy aimed at strengthening connectivity in between SA-CA region takes into account the efficiency of road transport in providing last mile haulage. The Asian Highway Network provides for a unique network of Highways which can serve bilateral transport needs in between countries and may also be utilized for defining routes of movement in specific corridors.

III. Status of International Transport Linkages

11. International rail transportation is facilitated under two International railway organization namely OSJD (Organization for Cooperation for Railways) and OTIF(Intergovernmental Organisation for International Carriage by Rail). From the SA-CA region Azerbaijan, Islamic Republic of Iran, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan are members of OSJD. OSJD Commission on Transport Policy and Development Strategy in 2009 formalized 13 railway corridors among their member countries. These corridors were developed from the existing (a) European transport corridors (b) TRACECA corridors (c) Trans Asian Railway Network (d) OSJD networks

Under this framework train runs are being facilitated on the following routes in the SA-CA region.

- i. Islamic Republic of Iran and Azerbaijan via Astara (border),
- ii. Islamic Republic of Iran –Turkmenistan via Sarrahs (border)
- iii. Kazakhstan – Uzbekistan via Sary Agach- Keles
- iv. Kazakhstan Kyrgyzstan via Lugoyava – Bishkek
- v. Kyrgyzstan – Uzbekistan via Karasu
- vi. Tajikistan – Uzbekistan via Istikol – Kudukly
- vii. Turkmenistan – Uzbekistan via Kelif – Khodzhydavlet

Armenia, Georgia, Islamic Republic of Iran, Pakistan, Russian Federation, and Turkey are members of OTIF. The rail services between OTIF members are currently very limited due to closing of several borders for international rail services and limited infrastructure. However, there are both freight and passenger services between Armenia and Georgia, between Islamic Republic of Iran and Pakistan and Islamic Republic of Iran and Turkey.

12. Baku – Tbilisi – Kars Railway Project is a regional project that aims to link Baku in Azerbaijan with Kars in eastern Turkey through Tbilisi in Georgia. Once completed this route will offer alternative transport route for landlocked countries in Caucasus subregion and provide direct access of Azerbaijan and Georgia to sea ports in Turkey located along the Mediterranean Sea.
13. Railway connections between Asia and Europe run through the Russian Federation and Turkey. There are several railway connection, most notably the Trans-Siberian

railway from Moscow to Vladivostok and Trans Asia – Europe Line connecting Turkey and China via Islamic Republic of Iran and Central Asian Countries.

14. Economic Cooperation Organization (ECO) under its ECO Transit Transport Framework Agreement (ECOTTFA) runs container trains on the following routes
 - i. Istanbul Almaty route
 - ii. Bandar Abbas Almaty route
 - iii. Islamabad – Tehran – Istanbul route

Apart from this it is also helping construction of Railway between

- i. Kazakhstan, Turkmenistan and Islamic Republic of Iran (Uzen – Barakat – Gorgan).
 - ii. Qazvin – Rasht – Astara (Islamic Republic of Iran) – Astara (Azerbaijan) railway project
 - iii. Railway connecting China and Europe via Kyrgyzstan –Tajikistan – Afghanistan – Islamic Republic of Iran – Turkey
15. South Asian Association for Regional Cooperation (SAARC) has identified five rail corridors (SAARC 2006). The ones most relevant for South Asia Central Asia Connectivity is the Rail Corridor 1 which connects Dhaka (Bangladesh) to Delhi (India) and Lahore (Pakistan) . This corresponds to TAR southern corridor. SAARC Regional Railway Agreement and Motor Vehicle Agreement are under consideration. Once formulated this would facilitate transit transport in the region.
16. BIMSTEC: The BIMSTEC Transport Infrastructure and Logistics Study (ADB 2008) forms the core of transport planning in the BIMSTEC area and was endorsed by the BIMSTEC ministers in 2009. The BIMSTEC program has identified four rail corridors, some of which overlap with the TAR routes.
17. In South Asia there is limited freight connection in between India and Pakistan. Continuous freight movement takes place between Kolkata (India) to Birgunj (Nepal) and in between India and Bangladesh. Containerized cargo is moved only in between India and Nepal. India is building a new rail link with Bangladesh between Agartala and Akhaura. The proposed railway link has a potential to enhance connectivity of North Eastern States of India with main land via Bangladesh and also to connect it with the port of Chittagong (Bangladesh). Construction is also in progress in connecting North Eastern States of India with Myanmar through the Jiribam – Imphal – Moreh – Tamu – Mandalay link. This would provide the much needed connectivity of South Asia with South East Asia and forms a part of India’s “Act East Policy”. The India – Myanmar – Thailand Trilateral Agreement is working on developing a transport transit agreement connecting the three countries. The Kaladan Multimodal Project under an agreement between Myanmar and India also aims at connecting India with Sittwe Port in Myanmar.
18. The Long/Medium term Master Plan on Railway network of China will provide two links between north East Asia and South Asia through Nepal and Pakistan. The Plan of Afghanistan National Railway Network indicates two rail links in between South Asia and Central Asia through Afghanistan. The Afghanistan government is planning a ring railway network which when completed would connect it to Iran, Uzbekistan,

Tajikistan, Pakistan and Turkmenistan. It would also provide interconnectivity in between these countries.

19. Construction of some sections in all the above mentioned plans has started. Once these initiatives or plans are fully implemented, a complete inter connected railway network will be formed to link most countries of the region. As mentioned earlier these regional and bilateral/multilateral initiatives have to be aggregated under a Transport Trunk Corridor –Feeder Network Model to reap maximum benefits from the infrastructure investments.

IV. Transport Trunk Corridor – Feeder Network Route

20. Seamless Regional connectivity in between South Asia and Central Asia with extended connectivity to South West Asia and South East Asia requires a comprehensive coordinated approach. Extended connectivity corridors have the potential to transform the regions transport corridors into economic corridors and can form the basis of Trunk corridors. While feeder networks give strength to the trunk corridors increasing the volume of goods and services flow, extended corridors will empower strategic localities along the corridor to attract local investments into productive sectors and stimulate agglomeration. This will have spillover effects on other economic activities, strengthening the agglomeration process. Therefore shores of the trunk corridors can potentially host economic hubs, serving industrial parks, special economic zones, clusters of small and medium scale industries, and stimulate formation of regional value chains. Through carefully framed and administered industrial policies, host governments can utilize the transport corridor to form economic corridors, which in turn may be termed as development corridors as benefits of industry and trade led economic growth percolate to social development.
21. The current trade within the countries of SA-CA region is very low. The transport connectivity corridor connecting the two region may catalyze the unlocking of the trade potential however, to justify investments in developing the corridor it needs to serve economic partners having high volumes of trade. Two such conglomerates with high trade potential is Europe on one side and East and South East Asia on the other. Any transport corridor which would connect these two Origin Destination points with South Asia and Central Asia would ensure viability of the network operation.
22. The Trans Asian Railway Agreement and the Asian highway network agreement signed by the member countries attempts to integrate Asia on key aspects providing
 - i. Capital to capital links (for international traffic)
 - ii. Connections to main industrial and agricultural centers as well as growth triangles or zones (links to important origin and destination points)
 - iii. Connections to major sea port and river ports (integration of land and water transport networks)
 - iv. Connection to major inland container terminals and depots (integration of rail and road network)

These connections provide for an identifiable development of Trunk Transport Corridor of International significance which would be substantiated by routes of sub regional or national significance.

23. The TAR network shows that the existing railway lines of international significance generally connects the member countries of TAR from South Asia to South West Asia to Central Asia to North, North East, East Asia. The missing link is only in between South Asia and South East Asia. Theoretically passengers and goods can be transported throughout the land linked subregions at present except some parts of South East Asia. However, in practice international Rail transport on this network only takes place partially due to economic reasons and institutional barriers.
24. In view of the above ESCAP suggests development of a Southern corridor over Trans Asian Rail Network as a trunk transport corridor and till the missing links of South East Asia is developed the DKD(Delhi - Kolkata – Dhaka) route may be operationalized in continuation of the already running ITI route. This would consolidate the overlapping transport route framework of ECO, BIMSTEC, SCO, SASEC, BBIN, ASEAN and the region will benefit from a collective transport development approach. The Trunk Corridor – Feeder Route Network Model would serve as a Master plan Approach to regional connectivity which would be a guiding document for countries and their development partners. Through the Master plan and its phased implementation process, duplication of efforts can be avoided, at the same time, confidence on cross-border trade and transport can be gradually increased with implementation of easy-to-difficult measures to enhance transport connectivity along the corridor.
25. **SA-CA Link Trunk Transport Corridor (ITI-DKD corridor)** : A part of the southern corridor of TAR namely the ITI –DKD (Istanbul – Tehran – Islamabad – Delhi – Kolkata – Dhaka route) from Dhaka(Bangladesh) through Gede – Darshana (India-Bangladesh Border) to Kolkata, Delhi, Attari-Wagah(India - Pakistan Border), Lahore, Islamabad, Quetta Taftan, Mirjaveh(Pakistan –Islamic Republic of Iran border), Zahedan, Tehran, Razi-Kapikoy(Islamic Republic of Iran-Turkey border) right upto Kapikule through Ankara and Istanbul. The above mentioned route as defined by the TAR Southern Corridor assumes significance as this route connects South Asia to Europe through South West Asia. This has branch routes connecting Central Asia, Caucasian countries, Caspian Sea Economies and Black Sea Economies. The feeder routes through sea ports of Bandar Abbas, Proposed route from Port of Chabahar, Bandar – E - Emam – Khomeini, and possible connection to Iraq through Basrah adds to the economies of running a train and makes network interconnections viable. The feeder routes to this corridor would be:
- Extension routes for national connections to ports and industrial centers

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