

International North–South Transport Corridor and CPEC: Synergies and Potential for Integration

Hannan Hussain

July 2024

Executive Summary

The International North-South Transportation Corridor (INSTC) represents an ambitious multimodal trade route that can optimize its connectivity potential by integrating with the China Pakistan Economic Corridor (CPEC). Both corridors are cost-effective, have a common connectivity link through Afghanistan, and have the potential to cut trade and freight costs drastically once operationalised. For Pakistan, a future thaw in tensions with New Delhi could lay the groundwork for closer engagement under INSTC. Islamabad's formal involvement in INSTC makes it difficult for India to oppose CPEC's regional connectivity potential, and strengthens Pakistan's bid to promote trade and market routes to Central Asian states.

The following recommendations are provided:

- Afghanistan could serve as a connectivity link between INSTC and CPEC. Its role in linking both corridors to Central Asian markets should be advocated aggressively.
- Pakistan should continue to leverage Russian support to accelerate its accession process for INSTC. This can help limit Indian opposition to future INSTC-CPEC integration, and challenge prospects of skirting Pakistan to connect to Central Asian markets.
- A planned INSTC logistics hub in Herat should be given priority emphasis for CPEC's integration because it provides a transit link with seaports in neighboring countries, including Pakistan's Gwadar port.

Issue to be Analyzed:

This policy brief examines the costs, benefits and integration potential of the International North South Transportation Corridor (INSTC) and the China Pakistan Economic Corridor (CPEC). It also examines the strategic rationales and stakes of major players engaged under these corridors, and the potential for both initiatives to support multimodal trade and transport connectivity in the region.

INSTC: Salient Features and Objectives

Established in September 2000, the International North South Transportation Corridor (INSTC) is a 7,200-kilometer long multimodal transportation initiative that aims to provide an alternative, cost-efficient route between Europe, Russia, Central Asia, the Gulf region, and the Indian Ocean.¹ It was formalized through an intergovernmental agreement between India, Iran, and Russia, and has since broadened its scope to include Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkiye, Ukraine, Belarus, Oman and Syria.²

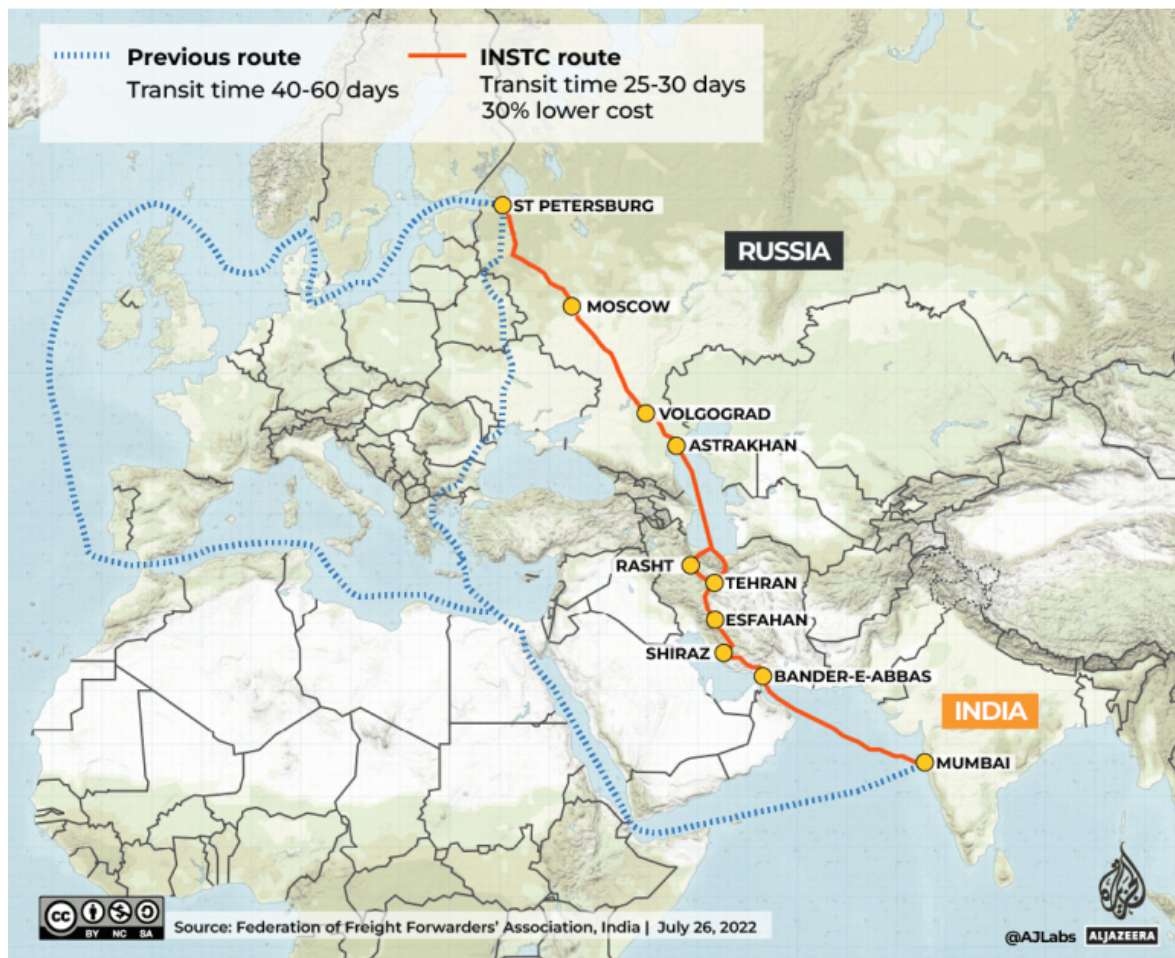


¹ Nima Khorrami, "INSTC: Pipeline Dream or a Counterweight to Western Sanctions and China's BRI?," *The Diplomat*, June 21, 2023. <https://thediplomat.com/2023/06/instc-pipeline-dream-or-a-counterweight-to-western-sanctions-and-chinas-bri/>

² "Explained: INSTC, the transport route that has Russia and India's backing," *Business Standard*, July 14, 2022. https://www.business-standard.com/article/international/explained-instc-the-transport-route-that-has-russia-and-india-s-backing-122071400697_1.html

International North-South Transport Corridor

The INSTC could offer Russia an economic escape route to Asia at a time when sanctions are limiting its transit access through most of Europe.



Through a network of sea, road and rail links, INSTC envisions a trading route that begins from Russia to Azerbaijan and spans the Caspian Sea. The route then connects Iran with India through the Arabian Sea, providing access to Central Asian economies. The INSTC consists of three corridors, namely Central, Western and Eastern Corridors. The Central Corridor connects India's Jawaharlal Nehru Port (from the eastern shores of the Arabian Sea in Navi Mumbai) with Iran's Bandar Abbas Port, while the Western Corridor supports railroad connectivity between Iran and Azerbaijan through Astara.³ On the Eastern front, India seeks connectivity with Russia through Central Asian countries.

³ "International North-South Transit Corridor (INSTC) Impact Analysis," *Intueri Global*, October 2022. <https://intueriglobal.com/international-north-south-transit-corridor-instc-impact-analysis/>

Benefits and Rationales

India

For India, INSTC fulfills the objective of sidestepping Pakistan to gain trade access to Central Asian markets. New Delhi is determined to capitalize on INSTC's potential to accommodate between 15–25 million tons of freight by 2030, and has promised to expand its sphere of “trade and commercial” influence in Central Asia.⁴ It is already pushing ahead with its “Connect Central Asia” strategy, which presently lacks robust multimodal road and rail connectivity links with Turkmenistan, Uzbekistan, and Kazakhstan. (For more information on India's INSTC progress, see Annex A).

Therefore, INSTC's eastern corridor provides trade and transit openings for India in the Persian Gulf and Central Asian region. In a clear expression of approval, New Delhi agreed to join the “Ashgabat Agreement” in February 2018 to help “diversify India's connectivity options” in Central Asia.⁵ INSTC's potential to drastically reduce freight traffic cost is another pull-factor for India, having balked at China's significant trade and investment links with Central Asian states.

Russia

INSTC provides an important opening for Moscow to pursue economic and trade integration in Eastern Europe without facing the same constraints as its Eurasian Economic Union (EAEU). For years, the Russia-backed EAEU has struggled to advance trade integration with Central Asia due to internal disagreements, including a lack of participation from countries such as Tajikistan and disagreements over tariff applications.⁶ INSTC provides a unique road-and-sea link that has its starting point in Russia, and ties Central Asian states to parts of Europe.

Russia also sees INSTC as an important vehicle to advance its transportation and railroad connectivity influence in the Global South. It serves as an amalgamation of

⁴ Evgeny Vinokurov, Arman Ahunbaev, Alexander Zabojev, “International North–South Transport Corridor: Boosting Russia's pivot to the South and Trans-Eurasian connectivity,” *Russian Journal of Economics*. 8 (2022) DOI 10.32609/j.ruje.8.86617 p 168.

⁵ Jagannath Panda, “Revitalizing INSTC: Analyzing Geopolitical Realalignments and the China Factor,” *Institute for Security and Development Policy*, February 2023. https://www.isdp.eu/publication/revitalizing-instc-analyzing-geopolitical-realignments-and-the-china-factor/#_edn15

⁶ Elvira Aidarkhanova, “Who Benefits From the Eurasian Economic Union?,” *The Diplomat*, June 12, 2023. <https://thediplomat.com/2023/06/who-benefits-from-the-eurasian-economic-union/>

several transportation systems and projects spanning non-Western countries, and includes a new logistics hub in Afghanistan that would cut off distribution time and aid Moscow's efforts to spearhead the quickest land connectivity route.⁷ To advance these objectives, Russia is financing 34.6% of total INSTC projects, the largest share for any member country, and sees INSTC as an important gateway to transfer 32 million tons of annual Russian goods by 2030.⁸ Despite the financial commitments, Russia is yet to complete major projects. This includes the 162-kilometer long Rasht-Astara railway which seeks to link the northern Iranian cities of Rasht and Astara, and form a crucial component of INSTC's Western route (Russia-Azerbaijan-Iran-India). For more information on Russia's INSTC infrastructure project investments, see Annex B.

Iran

INSTC provides Iran with a cost-effective trade corridor that withstands Western sanctions, and supports Eurasian connectivity through Iranian ports.⁹ Tehran continues to invest in over a third of INSTC's total infrastructure development projects, and is using INSTC to strengthen its multimodal connectivity partnership with India, Uzbekistan, and Afghanistan. Those efforts have been in motion since 2020, when all four countries formed a joint working group to include Iran's Chabahar port under INSTC's framework.

Iran also sees the corridor as an important gateway to circumvent Western sanctions and support cross-continental trade. INSTC enables Tehran to serve as a critical freight transportation link between Caspian Sea and Persian Gulf ports. Iran has completed the 37-kilometer long Qazvin-Rasht rail link, which connects the Caspian Sea to the Persian Gulf, though progress on other INSTC projects remains unclear. Turkmenistan will start transiting cargo along the Qazvin-Rasht rail link.¹⁰ (For more information on Iran's INSTC infrastructure projects, see Annex B)

⁷ "Taliban plan regional energy trade hub with Russian oil in mind," *Reuters*, May 2, 2024.

<https://www.reuters.com/markets/commodities/taliban-plan-regional-energy-trade-hub-with-russian-oil-mind-2024-05-02/>

⁸ "EDB report: The International North–South Transport Corridor's importance is growing rapidly," *Eurasian Development Bank*, October 26, 2022. <https://eabr.org/en/press/news/edb-report-the-international-north-south-transport-corridor-s-importance-is-growing-rapidly-/>

⁹ "International North-South Transit Corridor (INSTC) Impact Analysis," *Intueri Global*, October 2022. <https://intueriglobal.com/international-north-south-transit-corridor-instc-impact-analysis/>

¹⁰ "Iran inaugurates railway linking Caspian Sea to Persian Gulf," *Rail Freight*, June 19, 2024.

<https://www.railfreight.com/corridors/2024/06/19/iran-inaugurates-railway-linking-caspian-sea-to-persian-gulf/?gdpr=accept>

Central Asian Countries

Central Asia is determined to scale-up its trade with India through INSTC, and Kazakhstan is planning a joint transportation venture along the corridor to aid this objective. Kazakhstan aims to complete a railway link between Russia, Kazakhstan, Turkmenistan, and Iran to cut freight transfer costs, and is planning to modernize dozens of transit checkpoints along the Kazakh-Russian border to extend connectivity to Indian markets.¹¹ The planned Kazakhstan-Turkmenistan route under INSTC is seen as critical for Central Asia to reach Eurasian markets through India, and facilitate expansion of trade that has hovered between \$2 to \$3 billion a year.¹² (For more information on Kazakhstan, Turkmenistan and Azerbaijan's INSTC infrastructure projects, see Annex B)

For other Central Asian states, INSTC extends a single mega railroad link from Iran and Russia that makes it difficult to hinder future energy trade. Kazakhstan and Turkmenistan's support for a logistics hub in Western Afghanistan could also promote ambitions of a short overland transport route that bolsters gas transit infrastructure for Central Asian countries and Russia.

CPEC: Salient Features and Objectives

The China-Pakistan Economic Corridor is a \$62 billion flagship project of the Belt and Road Initiative (BRI). Through a network of highways, railways, and other transport infrastructure, CPEC aims to connect Pakistan's southwest Gwadar port with Kashgar in China's Xinjiang Uyghur Autonomous Region.¹³

The corridor is currently in its second phase and is focused on the development of nine Special Economic Zones (SEZs), and has attracted \$28 billion in direct investment.¹⁴ Through Gwadar, CPEC provides a cost-effective route to connect East

¹¹ "Kazakhstan pushes to increase trade with India via INSTC," *The Economic Times*, March 7, 2024. <https://economictimes.indiatimes.com/news/economy/foreign-trade/kazakhstan-pushes-to-increase-trade-with-india-via-instc/articleshow/108292363.cms?from=mdr>

¹² Gulshan Sachdeva, "India's Central Asia challenge," *East Asia Forum*, April 14, 2022. <https://eastasiaforum.org/2022/04/14/indias-central-asia-challenge/>

¹³ "Pakistan progresses with CPEC projects under BRI," *Xinhua News*, November 1, 2023. english.scio.gov.cn/beltandroad/2023-11/01/content_116787907.htm

¹⁴ Salman Bashir, "China Pakistan Economic Corridor: Challenges and implications of delays," *Arab News*, March 17, 2023. <https://www.arabnews.pk/node/2270251>

and West Asian markets.¹⁵ Under phase two, China and Pakistan have resolved to construct five new corridors, namely the Growth Corridor, Economic Development Projects Corridor, Innovation Corridor, Green Corridor, and the Regional Connectivity Corridor.¹⁶ Pakistan's unique geographical location at the intersection of South Asia, West Asia and Central Asia makes CPEC a critical gateway for cross-regional transit trade and regional economic integration.

CPEC and INSTC: Potential for Integration

There are several complementarities between CPEC and INSTC. First, both provide a cost-effective trade route for landlocked states. While INSTC envisions a network of road, rail and sea routes to cut trade costs between Russia, Central Asia and parts of Europe, CPEC provides an opening for Central Asian states to connect with the Arabian Sea through northwestern China and drastically reduce transportation expenses.¹⁷

CPEC can also add a valuable land route component to the maritime trade link between India and Iran. For instance, CPEC's fast progressing road infrastructure offers an important alternative to possible maritime trade disruptions along the Iran-India route. CPEC's Eastbay Expressway forms a crucial link between Gwadar and major national highways, while the Makran Coastal Highway ensures a direct connection between Karachi and Gwadar ports.¹⁸ These land routes could offset possible maritime trade delays along the INSTC, and extend CPEC's North-South connectivity to Iran's Bandar Abbas, India's Mumbai port and other INSTC ports.

Countries such as Turkiye are also part of the "Middle Corridor" or the Trans-Caspian International Transport Route. This corridor seeks connectivity from Southeast Asia and China to Europe through Kazakhstan, Caspian Sea, Azerbaijan, Georgia and Turkey (See Figure Below). The Middle Corridor and INSTC could intersect in the

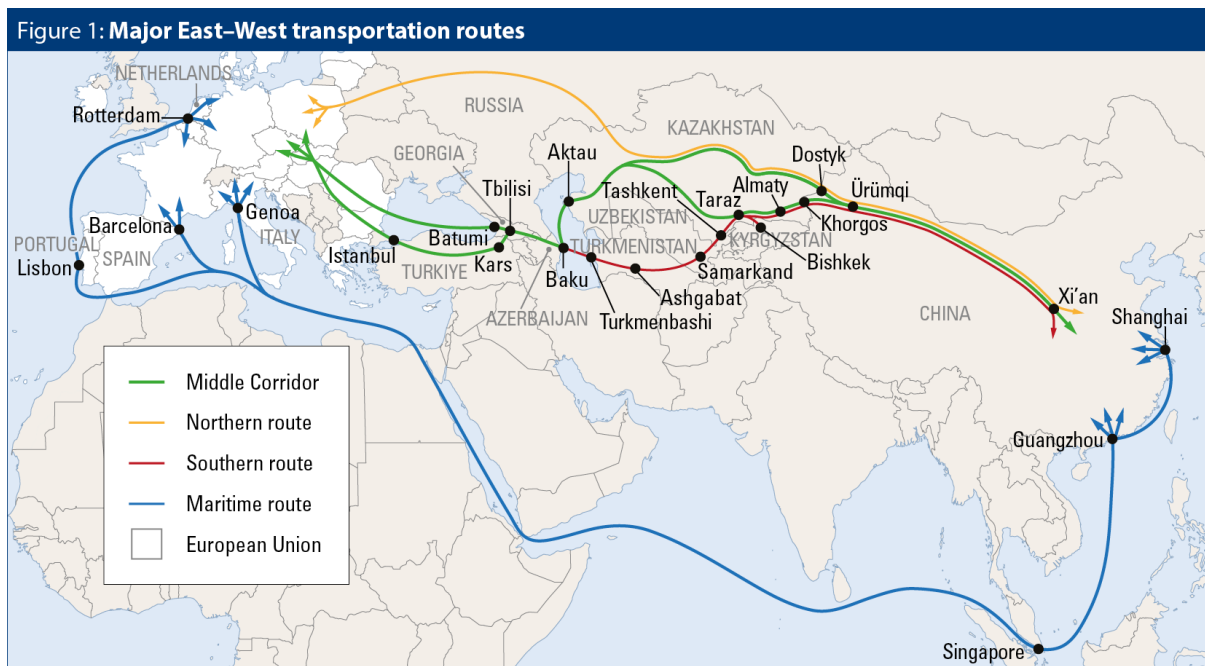
¹⁵ See "Statement at the Plenary by His Excellency: Mr. Muhammad Nawaz Sharif, the Prime Minister of the Islamic Republic of Pakistan," *CPEC Secretariat, Ministry of Planning, Development and Special Initiatives*, May 14, 2017. <https://cpec.gov.pk/news/54>

¹⁶ "CPEC upgrade to improve livelihoods, regional connectivity: analysts," *Global Times*, June 5, 2024. <https://www.globaltimes.cn/page/202406/1313684.shtml>

¹⁷ Ishtiaq Ahmad, "Gwadar: China's Future Gateway to the Middle East," *Strategic Studies*, No(2), 2023. https://issi.org.pk/wp-content/uploads/2024/01/Ishtiaq_Ahmad_SS_No_2_2023.pdf

¹⁸ "Expressway to link Gwadar with highways," *Express Tribune*, June 8, 2022. <https://tribune.com.pk/story/2360544/expressway-to-link-gwadar-with-highways>

Caspian Sea, where INSTC forms a vertical route from Rasht to Astrakhan, while the Middle Corridor seeks to connect Baku to Kazakhstan.



Source: World Bank (2023). 'Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030'. Washington, DC: World Bank.

IISS (2023): "Greater consensus on improving the Middle Corridor."

Afghanistan also forms a common point of convergence for both CPEC and INSTC. China, Pakistan and Afghanistan developed a political understanding to extend CPEC into Afghanistan, providing an easy gateway for Central Asian states to access the wider South Asian market.¹⁹ Unlike INSTC, CPEC's Gwadar port offers the shortest trade and transit route to Central Asia through Afghanistan.²⁰ This is important because Kazakhstan, Turkmenistan, and Afghanistan are set to construct a new logistics hub that links Afghanistan with railroads constructed along the INSTC, reinforcing CPEC's central role in strengthening logistics and connecting shipments to other land and sea ports in the Indian Ocean.²¹ Moreover, if the security situation in Afghanistan stabilized in the long-run, the trans-Afghan railway could serve as a

¹⁹ "Extension of China-Pakistan Corridor to Afghanistan Presents Challenges," *Voice of America*, July 12, 2023. <https://www.voanews.com/a/extension-of-china-pakistan-corridor-to-afghanistan-presents-challenges-7178387.html>

²⁰ Şeyma Kizilay, "Afghanistan's Increasing Role in CPEC," *ANKASAM*, May 23, 2023. <https://www.ankasam.org/afghanistans-increasing-role-in-cpec/?lang=en>

²¹ "Taliban plan regional energy trade hub with Russian oil in mind," *Reuters*, May 2, 2024. <https://www.reuters.com/markets/commodities/taliban-plan-regional-energy-trade-hub-with-russian-oil-mind-2024-05-02/>

crucial railroad addition to INSTC. It would effectively link Peshawar with Termez via Afghanistan. (For information on INSTC's multimodal transportation investments, see Annex C)

Pakistan has ample prospects of joining INSTC and exploring its future integration with CPEC. This month, Pakistani Ambassador to Russia Muhammad Khalid Jamali confirmed Islamabad had agreed to join INSTC, and had begun the accession process.²² This comes as Iran and Russia press ahead with plans to develop their central railroad connectivity link under INSTC. If Pakistan's INSTC accession process succeeds, then it can form an overland route with Iran through the Makran Coastal Highway. This would effectively connect Karachi and Gwadar ports with INSTC's Western route towards Iran.

INSTC's future integration with CPEC would also require a future thaw in diplomatic tensions between India and Pakistan. Presently, New Delhi insists on using INSTC to circumvent Pakistan and access Central Asian markets, but cooling of tensions could generate joint focus on cost-effective transit trade links in South Asia, one of the least economically integrated regions of the world. India's desire to access Central Asia and Afghanistan under INSTC also has its limits. Russian President Vladimir Putin has formally requested Islamabad's participation under INSTC, making it difficult for New Delhi to sidestep Pakistan in its bid to connect with Central Asian markets through Afghanistan.²³

Recommendations

- Afghanistan could serve as a connectivity link between INSTC and CPEC. Its role in linking both corridors to Central Asian markets should be advocated aggressively.
- Pakistan should continue to leverage Russian support to accelerate its accession process for INSTC. This can help limit Indian opposition to future INSTC-CPEC integration, and challenge prospects of skirting Pakistan to connect to Central Asian markets.

²² "Pakistan to Join International North-South Transport Corridor," *Sputnik News*, June 20, 2024. <https://sputniknews.in/20240620/pakistan-to-join-international-north-south-transport-corridor-7664833.html>

²³ Ibid.

- A planned INSTC logistics hub in Herat should be given priority emphasis for CPEC's integration because it provides a transit link with seaports in neighboring countries, including Pakistan's Gwadar port.

Conclusion

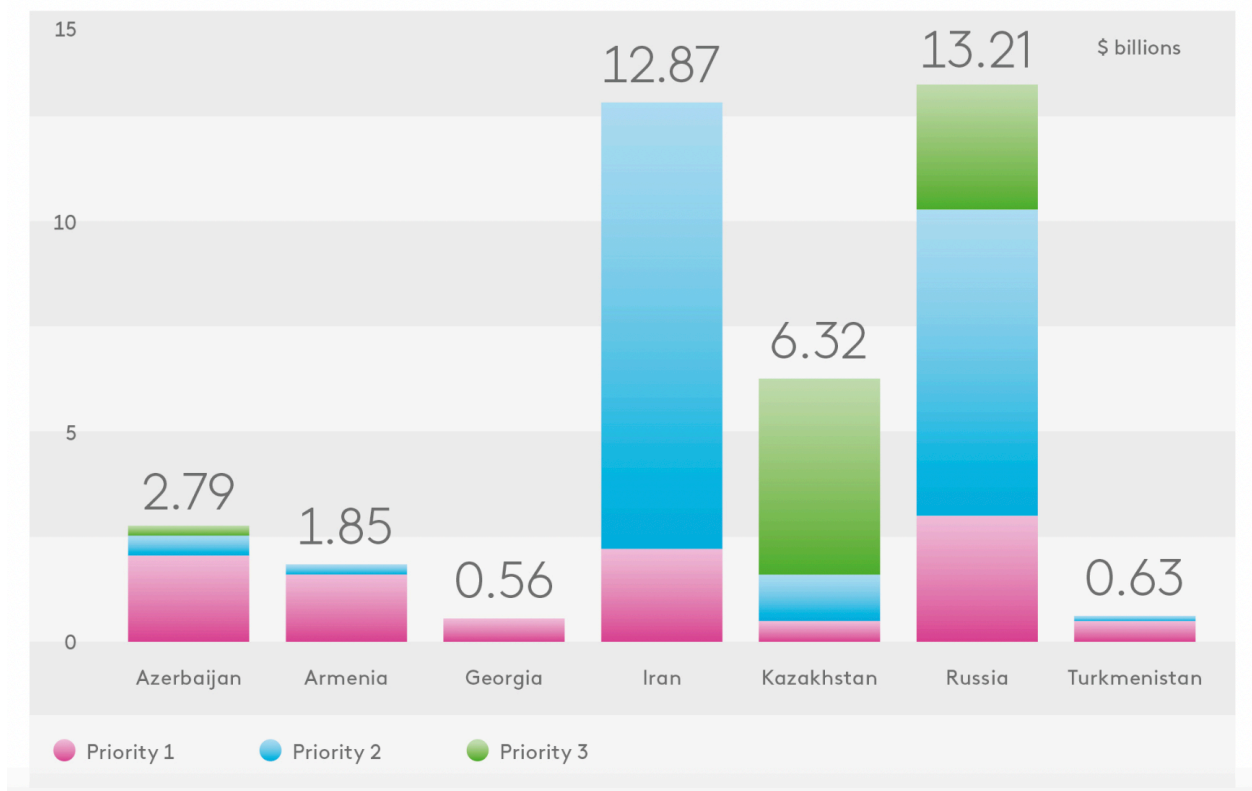
INSTC represents an ambitious multimodal trade route that can optimize its connectivity potential by integrating with CPEC. Both corridors are cost-effective, envision a common connectivity link through Afghanistan, and have the potential to cut trade and freight transfer costs drastically once operational. For Pakistan, a future thaw in tensions with New Delhi could lay the groundwork for closer engagement under INSTC. Islamabad's formal involvement in the corridor makes it difficult for India to oppose CPEC's regional connectivity potential, and strengthens Pakistan's bid to promote trade and market routes to Central Asian states.

Annex A

INDIA – PROGRESS UNDER INSTC
<ul style="list-style-type: none"> October-November 2017: India transports 15,000 tons of wheat from Kandla port (Gujarat) to Afghanistan via Chabahar
<ul style="list-style-type: none"> July 2022: First Russian cargo with 39 containers transits to India’s Nhava Sheva Port (Mumbai) from Bandar Abbas (Iran).
<ul style="list-style-type: none"> June 2024: From INSTC’s Eastern Corridor (Kazakhstan and Turkmenistan to Bandar Abbas), India successfully attracts two trains of Russian coal from Russia’s Kemerovo region.

Annex B

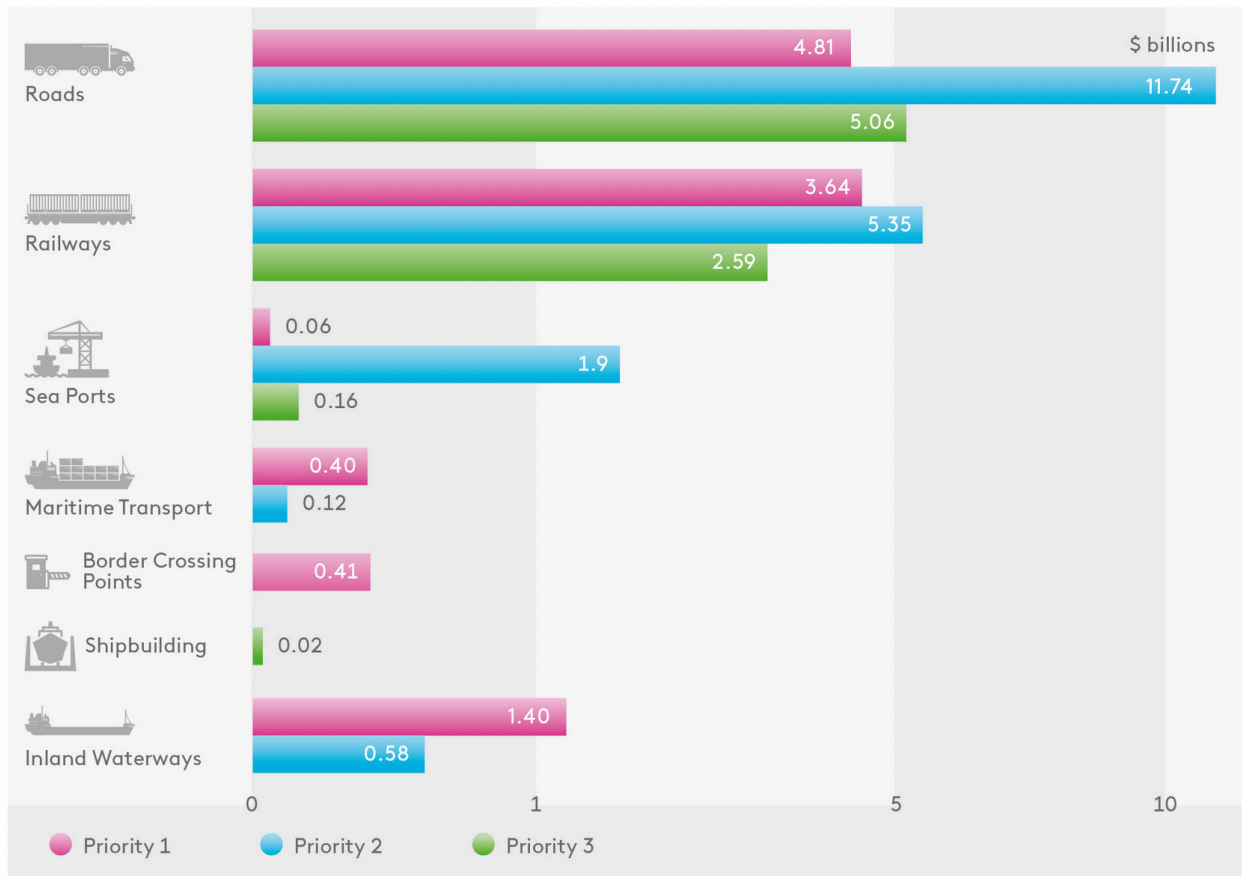
INSTC infrastructure development projects by country and priority



Source: Eurasian Development Bank Report (2022). (Development projects focused on INSTC land infrastructure, particularly roads and railways).

ANNEX C

INSTC Projects: Investments in Transportation Types



Source: EDB (2022).