

An Economic Route to Nowhere?

On the North-South Transport Corridor

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“In recent years we have witnessed what could be called the beginning of the Eurasian railway revolution.”

– Djoomart Otorbaev,
*Central Asia’s Economic Rebirth in
the Shadow of the New Great Game (2023)*

In the twenty-first century, trade remains a key aspect of cooperation between people, serves as the backbone of modern society, and advances peace among nations. From the perspective of trade within the context of the Silk Road region, one of the most well-known and discussed routes is the International North-South Transport Corridor (INSTC), which stretches from Russia, through Azerbaijan and Iran, to India. It is a rail, road, and maritime transportation connection that aims to streamline trade between the start and endpoints of the route.

In the early 2000s, Russia, India, and Iran signed an intergovernmental agreement to create a multimodal transport corridor. Since then, the 7,200-kilometer-long project has seen little meaningful progress. Azerbaijan officially joined the INSTC project in 2005 by ratifying the relevant agreement with other participating countries. After joining the project, Azerbaijani President Ilham Aliyev signed a special decree in 2015 titled On Acceleration of Work on the Azerbaijani Part of the North-South International Transport Corridor. In accordance with this decree, Azerbaijan facilitated the building of a new bridge over the Astarachay River, inaugurated a road with a length of 1.4 kilometers from the railway bridge over the Astarachay River up to the cargo terminal on the territory of Iran, and provided support to finish the construction of the Gezvin-Rasht railway section in 2019.

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Scholarship tends to view the development of international transport corridors (ITCs) as a crucial tool to expand trade and economic cooperation between countries. According to World Bank-funded studies, operational ITCs enhance freight traffic management, improve laws and regulations, implement aligned border-crossing procedures, attract infrastructure investments, and increase the efficiency of state-business interactions.

However, unlike in Europe and East Asia, the density of international transport routes in the heart of the Silk Road region is not particularly high, which means that, all other things being equal, connectivity growth potential is unusually high. In contrast to the East-West route, the absence of meridional linkages in the Silk Road region has long been a challenge for regional states to actualize. In this context, INSTC is the only meridional transcontinental corridor linking the core states of the Silk Road region, particularly member states of the Eurasian Economic Union (EAEU), with points south. Nevertheless, since the establishment of the legal basis of the corridor, INSTC has not gained as much traction as the Silk Road region's existing corridors, Transsib and TRACECA. This is largely a consequence of bottlenecks in existing transport infrastructure as well as of the UN and West-led sanctions imposed on Iran and, more recently, the West-led sanctions against Russia.

Indeed, today's prompt operationalization of multimodal transit routes like INSTC is of particular significance, considering the required reconfiguration of freight transport supply chains in the Silk Road region due to the economic consequences of the conflict over Ukraine. In the context of severe Western sanctions and EU countries' blockage of road transport to their land border with two EAEU members—Russia and Belarus—the whole of the Silk Road region faces a considerable challenge: the reconfiguration of logistics and supply chains.

This policy brief aims to introduce a new concept of the transport backbone of the Silk Road region and to identify the benefits and limitations of the INSTC project for regional connectivity.

INSTC: Sanction-Evasion Corridor?

INSTC has three main routes, each of which are different in length, mode of transport, and level of main and ancillary infrastructure development. The first (“western route”) runs along the west coast of the Caspian Sea through Russia, Azerbaijan, and Iran, and has the best connections to existing railway and road networks. The second is a maritime one (“trans-Caspian route”), which uses ferry and feeder container lines across the Caspian Sea and goes directly from Russia to Iran. Finally, there is the third (“eastern route”), which runs along the east coast of the Caspian Sea through Russia, Kazakhstan, Turkmenistan, and Iran. However, the INSTC project, although at the top of Russia and Iran's agenda as its primary stakeholders, has not made any real progress.

Nonetheless, with the onset of the Russo-Ukraine war in February 2022 the project has gained momentum as a potential way to replace lost European trade due to Western-imposed economic sanctions. The ramping up of U.S. and EU sanctions against Russia has spurred Moscow to bolster trading links with Tehran and reach out further to Delhi, whose imports from Russia have quadrupled to \$46.33 billion over the last fiscal year, mainly through oil. In turn, India has defied Western unilateralism by maintaining economic ties with Russia and Iran and demonstrated ambitions to use INSTC to strengthen commercial engagement with the Silk Road region and Europe. Simply put, the launch of the INSTC route would contribute to the formation of a macro-regional transport and logistic system, dubbed the Eurasian Transport Framework.

Considering the shrinking Western market for Russian goods, Moscow is attempting to reorient most of its trade routes toward the Silk Road region and Asia, thereby increasing the strategic importance of the Persian Gulf. If INSTC becomes fully operational and the flow of goods to Iranian ports can be ensured accordingly, Russia will put additional efforts into linking Syria, its long-term partner in the Middle East, to INSTC via a railway connection through Iran.

In this vein, partner countries are investing heavily in the enterprise—the first shipments began last year, and the annual cargo transit target has already been set at reaching 30 million tons by 2030. However, significant obstacles exist, such as incomplete infrastructure projects and the absence of proper railway links. The lack of critically important infrastructure seems more problematic on the Iranian end. Iranian logistical issues include a major shortage of rail cargo wagons and road transport capacity. Bureaucratic obstacles are also slowing down the full implementation of INSTC. Moreover, compared to other partner states, Iran possesses a tiny fleet in the Caspian Sea and a limited number of roll-on/roll-off ships that can facilitate direct trade between Iran and Russia across the waterway.

Although modern railway infrastructure connecting all partner countries within INSTC is necessary, serious problems regarding railway links in Iran are still challenging. Hence, the linked railway networks of Russia and Azerbaijan still lack a physical connection with Iran. This, in turn, causes heavy traffic on land borders, including the Astara-Astara (Azerbaijan-Iran) and Noruduz-Meghri (Armenia-Iran) crossing points. For many years, Iran, Armenia, Azerbaijan, and Russia have each proposed multilateral rail projects to ease regional connectivity and fill the transit gap. As such, during the presidency of Hassan Rouhani in Iran, Tehran and Baku witnessed growing engagement in joint regional infrastructure projects, namely new railway links, with the Astara-Astara route inaugurated in 2018 as a part of the 164 km long Astara-Rasht-Gazvin railway.

On 22 November 2018, a test train ran for the first time on that section, which was a major engineering achievement, including some 53 tunnels with a cumulative length of over 22 km. Nevertheless, as of 2023, the Rasht-Astara section of the railway connection,

located right on the border between Iran and Azerbaijan, remains incomplete due to insufficient funds and the recently heightened tensions between Baku and Tehran. Since 2021, when hardliner Ebrahim Raisi ascended to power in Iran, bilateral relations with Azerbaijan, whose basis was understood to involve pragmatic economic considerations, swiftly turned tense and culminated with the Azerbaijani border being temporarily closed, which has also held up construction plans. It seems unclear when these tensions will be reduced sufficiently. There are also technical difficulties: part of the railway passes through agricultural lands and marsh areas, causing construction delays. However, about 70 percent of the expected work on the route, infrastructure connections, and support has already been completed.

Iran's inability to fund the construction of the final railway section, Azerbaijan's unwillingness to provide loans due to the risks associated with the latest waves of West-led sanctions, and recent bilateral tensions have resulted in serious setbacks to INSTC's operability. Due to this, Russia has proposed to provide additional investments to Iran for the construction of the Rasht-Astara section. Therefore, as reported during Raisi's visit to Moscow in January 2022, the two sides finalized a previously agreed-upon \$5 billion credit line to complete several development projects, including the aforementioned Rasht-Astara railway. Similarly, on 30 April 2022, the two states signed a comprehensive agreement on cooperation in the field of transportation to complete the missing portion of INSTC. The full completion of Rasht-Astara is strategically vital for Iran, as it would enable the country to connect the Gilan province and the Chabahar-Zahedan rail route to the main connection.

Azerbaijan, for its part, would benefit economically from INSTC, as the main infrastructure work related to the transport corridor in Azerbaijan has been completed. According to Aliyev, once operational, between 15 and 30 million tons of cargo could be transported from the territory of Azerbaijan through INSTC. Officially, the project's development is crucial for advancing trilateral cooperation between Russia, Azerbaijan, and Iran, cemented by a September 2022 agreement.

Unlike the situation with Azerbaijan, Iran's partnership with Russia has deepened over the past few years. Both states signed a contract to construct a cargo ship to operate out of the Caspian Sea port of Solyanka, located in the southern Russian city of Astrakhan. This suggests that the two countries envision not only a land route connecting them via a third country but also to strengthen the Caspian transportation network. It seems that Russia continues to view a land link with Iran as a sound investment, given that Western countries control most major out-of-area sea routes and have imposed restrictions on Russian commercial ship operations.

Notwithstanding the Moscow-Tehran intense partnership regarding INSTC and Moscow's willingness to allocate additional funds to Iran for the completion of the Rasht-Astara railway connection, other practical problems exist, such as the lagging

construction of 22 tunnels and the construction of 15 special bridges along the corridor in Iran. Obviously, this would make the operation of INSTC less smooth.

Bottom Line

Amid global security cataclysms, inflationary and other economic pressures, and the disruption of global supply chains caused by the Western response to the Russo-Ukraine war, the INSTC project is the most viable alternative for heavily sanctioned Russia and Iran to deepen trade relations. Completing a trade route to bypass Western sanctions will likely remain high on the agenda in both Moscow and Tehran, including INSTC.

However, as this IDD Analytic Policy Paper discusses, the project has yet to overcome serious technical obstacles, namely implementing the Rasht-Astara railway connection. Otherwise, Russia and Iran must develop an alternative way to the Rasht-Astara railway link, which is unlikely under current realities. If all technical concerns and diplomatic tensions between Baku and Tehran are not adequately addressed, INSTC will not be transformed from a transport corridor into an economic development corridor.