CAREC Corridor 2 (the Middle Corridor) and the Trade of Caucasus and Central Asia Economies

Lyaziza Sabyrova, Roman Mogilevskii
Central and West Asia Department
Asian Development Bank

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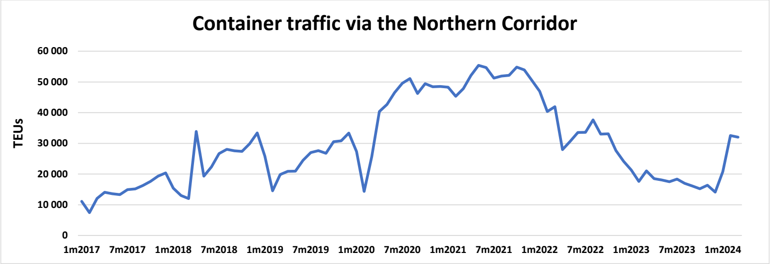
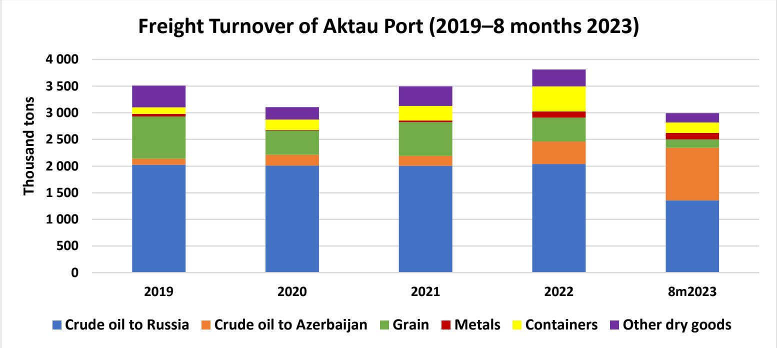
Recent Shocks and Renewed Interest to Middle Corridor

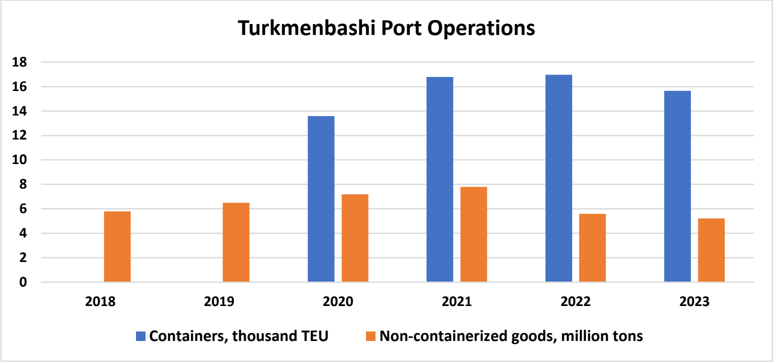
- COVID-19 pandemic and associated supply chain disruptions, the issues with the maritime route via Red Sea/Suez canal, the spillovers of the Russia's war in Ukraine created major risks for PRC–Europe freight traffic
- The CCA economies and their trade with partners in Europe, Americas and North Africa have also been strongly affected by these shocks
- Both exports and imports of CCA economies were growing dramatically in 2022–2023, especially their (re)exports to Russia
- CAREC Corridor 2 (the Middle Corridor, MC) stands as the least vulnerable route for trans-Eurasian and regional transport flows
- The demand for shipments via the Middle Corridor increased in 2022

The Latest Developments and Studies

- The ocean shipments resumed in 2022 and prices fell dramatically – Drewry's WCI per FEU: \$15K (Oct 21), \$1K (Oct 23), \$5K (Jan 24), \$3.2K (Mar 24)
- Northern Corridor (the main competitor for MC) continues its container operations with some decline
- Container traffic via MC has also contracted significantly in 2023
- Caspian Pipeline Consortium continues exports of crude oil from Kazakhstan; no interruptions in Turkmenbashi port operations
- PRC government still considers phasing out subsidies for rail shipments to Europe in the medium-term







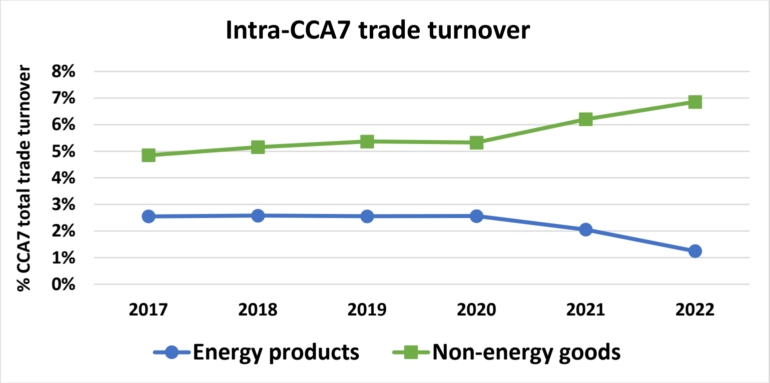
The Latest Developments and Studies (2)

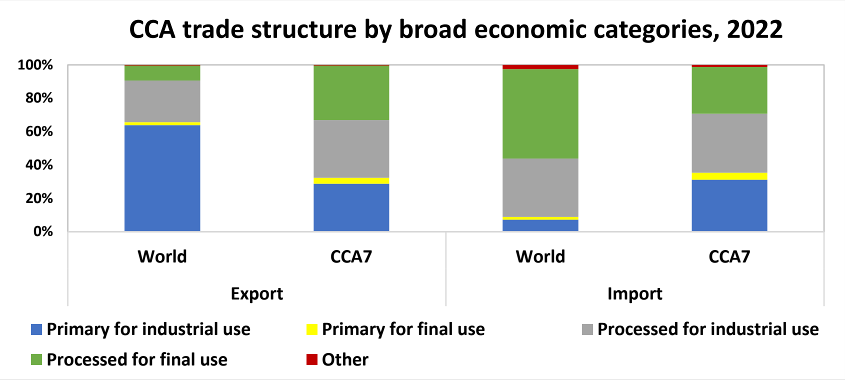
- Several studies on MC have been published/prepared recently by EBRD, World Bank, OECD, ADBI and other organizations and researchers
- Some takeaways from these studies

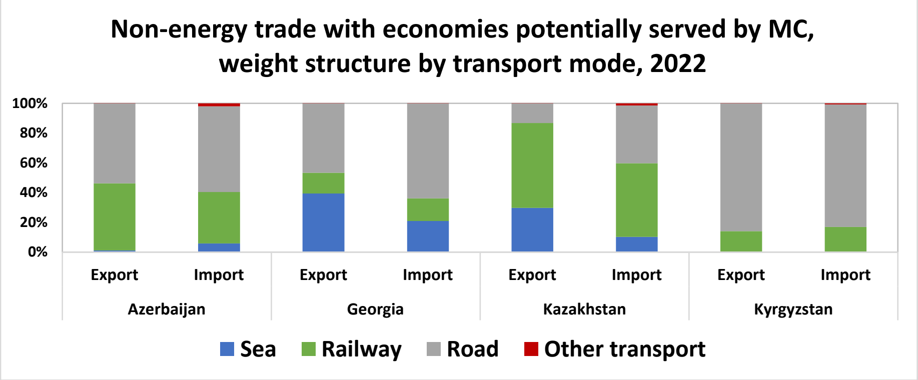
  - MC is going to serve mostly the trade flows originating from/intended for CCA
  - MC retains strategic importance as a critical resilience mechanism
  - Transportation costs and times for shipments via MC are high
  - Large infrastructure investments are necessary for MC development
  - Major improvements are necessary in trade facilitation and logistics along MC
  - Regional cooperation is key for MC development

CAREC Intra-Regional Trade and Its Trade with Europe, Americas and Other Partners

- CCA-PRC trade is large and growing
- CCA intra-regional trade is small, but its non-energy part is growing
- This trade provides CCA economies with better international value chain participation roles than the trade with other partners
- Non-energy trade potentially served by MC is asymmetrical in terms of transport modes and it is more sensitive to trade costs than PRC-Europe transit
- Road transport plays a very important role in this trade, esp. for imports







ADB and Middle Corridor Development

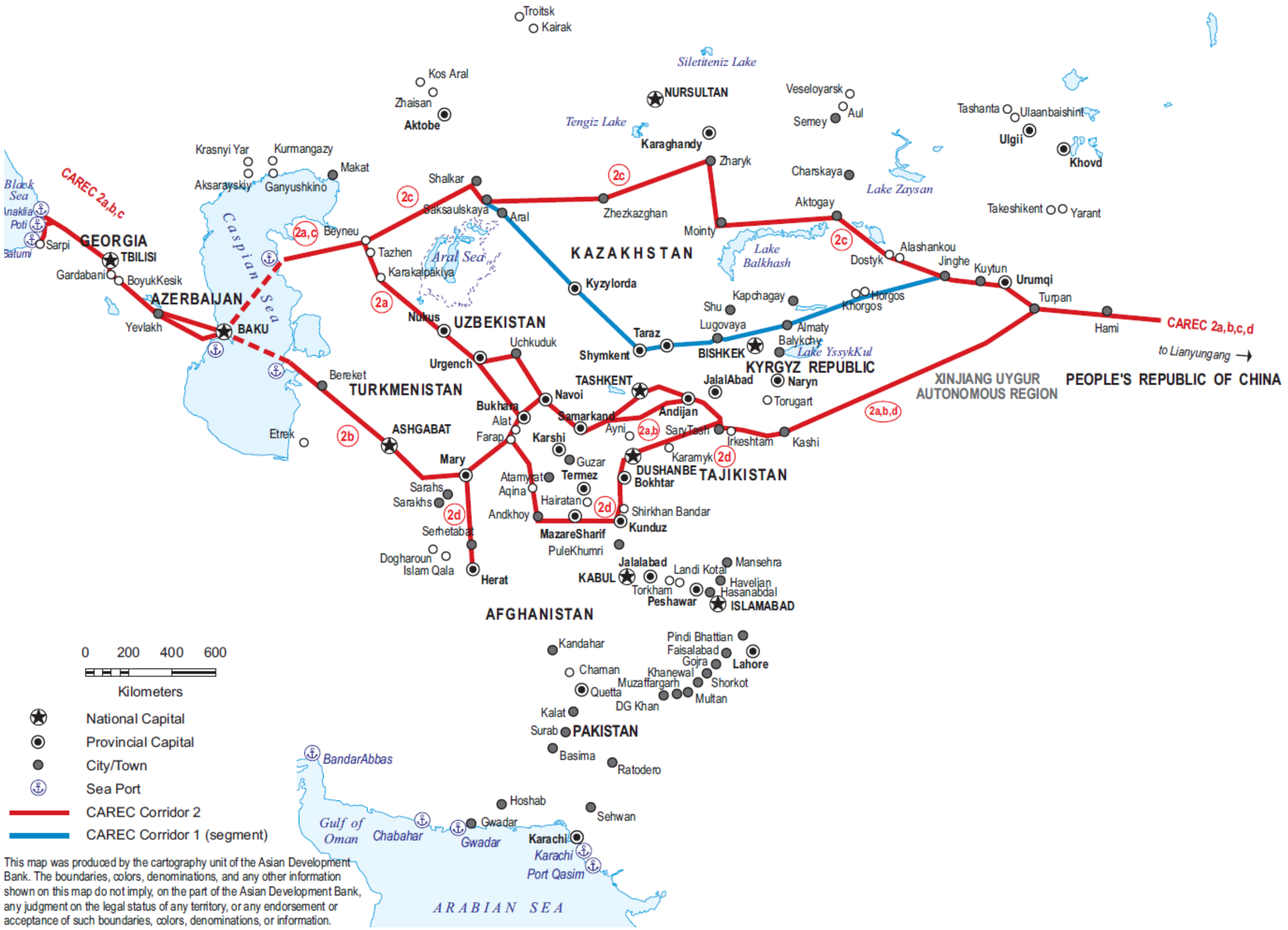
- CAREC as a natural umbrella for MC development: CAREC Integrated Trade Agenda 2030, CAREC Transport Strategy 2030, and the Railway Strategy for CAREC (2017–2030)
- Middle Corridor is CAREC Corridor 2
- ADB activities to support MC development:

  - ongoing/planned hard infrastructure investments in roads (Georgia, Kazakhstan, Kyrgyz Republic, Uzbekistan), railways (Turkmenistan, Uzbekistan), ports (Georgia)
  - structural reforms in CCA economies, e.g., in railway sector
  - soft infrastructure (customs, JBCPs, information exchange, SPS measures, etc.)
  - M&E of the corridor performance (CPMM)
  - institutional development (MC development strategy) and knowledge work

Conclusions and Policy Implications

- Middle Corridor is strategically important as ever to serve CCA non-energy trade within the region and with western partners
- It might also have a role in serving PRC-Europe/Mediterranean transcontinental transit
- MC is a multimodal route combining rail, road, and sea – the need for climate-smart solutions
- To make it competitive, major trade cost reductions are needed
- This might be achieved through a mix of soft infrastructure improvements, competition-enhancing structural reforms, institutional developments, and hard infrastructure investments

CAREC Corridor 2



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