International North-South Transport Corridor: Challenges and Opportunities for Pakistan

Najeeb Ullah*
Muhammad Abbas Brohi**

Abstract

The International North-South Transport Corridor (INSTC) is of immense significance for regional economic growth. In today’s global politics, the corridor has attracted many players due to the newly emerging markets and energy sources in the region. More importantly, this corridor provides a safer and cheaper route for the import and export of goods. In this regard, Pakistan has been developing its ties with Central Asian Republics (CARs) for the pursuit of its economic interest vis-à-vis regional stability. Pakistan provides the shortest possible route to the CARs, helping the landlocked states to connect with the global economy. With the establishment of linkages in the Central Asian region, Pakistan would overcome its future energy challenges. In this regard, other regional players including India will have to play their part for energy security. For this purpose, Pakistan, India and Afghanistan signed a proliferative agreement with Tajikistan to spread energy pipelines across the four countries. Moreover, such economic and energy connectivity in the South Asian region will also result in a positive impact on peace and stability.

Keywords: Central Asia, TAPI, Energy, CPEC

*Najeeb Ullah has done his M.Phil in International Relations from the National Defence University, Islamabad. He is a Research Associate at the Centre for Strategic and Contemporary Research.
**Muhammad Abbas Brohi is an independent scholar who has done his M.Phil in International Relations from the National Defence University, Islamabad.
International North-South Transport Corridor: A Historical Perspective

The International North-South Transport Corridor (INSTC) is a 7,200 kilometre long transport system meant to facilitate trade between India, Iran, Russia, the Central Asian Republics (CARs), Azerbaijan and Europe via a massive network of roads, sea routes and railroads. The project was initially signed in September 2000 between India, Russia and Iran; it came into force in 2002 after ratification by all the three countries. Since then, 11 other countries have become its members including Turkey, Azerbaijan, Kazakhstan, Armenia, Belarus, Tajikistan, Kyrgyzstan, Oman, Syria, Bulgaria and Ukraine. This corridor is considered to be parallel to China’s Belt and Road Initiative (BRI) which stretches across three continents to connect more than 60 countries. India is the leading member of this project and looks at it from a zero-sum perspective in comparison to BRI. However, the rest of the members do not share the Indian vision, and most of them are already either part of BRI or have shown interest in becoming a part of it.

The north of INSTC ends at Astrakhan, Moscow and Baku, whereas the south terminates at Mumbai. While aiming to reopen traditional routes to South Asia and Central Asia with faster and cheaper import and export of goods from Europe, Asia and Africa, INSTC is projected to carry 20 million tonnes of cargo from one end to the other. The cardinal objective of the corridor is to facilitate access to the northern and southern markets by improving safety, reducing the time and other logistical issues. In this regard, the corridor will connect both the northern and southern industrial areas and will also enhance new economic opportunities for the countries.

The INSTC further includes Turkmenistan-Afghanistan-Pakistan-India (TAPI), India-Iran-Afghanistan corridor and the geopolitics of oil and gas which they both entail. It will certainly connect the economic giants of the region within a defined geography. Along with that, it connects the commercial hubs and creates new and strong patterns of regional economic development.

Initially, the INSTC was launched by Russia, India and Iran for the facilitation
of cargo trade. Later, the corridor attracted the attention of other regional countries including Kazakhstan, Tajikistan, Azerbaijan, Armenia, Syria, Oman, Ukraine and Kyrgyzstan. The route would be of much importance for Indian and Russian trade because previously they had to travel through the Red Sea, Suez Canal, Mediterranean Sea, the North Sea and the Baltic Sea.¹ There can be other several objectives of the route including the increase of an effective transport, establishment of international markets via rail, road and air, and achieving resource security. However, cross-border trade and energy projects always face problems of investments and often have issues of sustained supply.

There is no denying the fact that Central Asia has abundant energy and natural resources, having a tendency to bridge the gaps amongst the neighbouring states. Located at a mid-distance from Europe, Asia and Africa, the region forms an ideal location for stimulating regional economic integration. the CARs emerged as a vital source of energy and trade supply after the disintegration of the Soviet Union in 1991.

Currently, the INSTC being one of the shortest transportation routes has been given much importance by the South and Southeast Asian countries. In contemporary global politics, the issue has significantly impacted the socio-political and economic relations of the region. In this regard, the most important regions are Europe, the Middle East, the Commonwealth of Independent States, and South and Southeast Asia. The United States (US) expected these rapidly emerging Muslim states to either fall under the influence of Iran or lean towards religious fundamentalism.² However, the conjecture regarding these states went wrong despite the fact that major global players including the US, China, Russia and India themselves have indulged in the power politics of the region. On the contrary, Pakistan, Afghanistan and Iran have religious affiliations with the Central Asian states. Although India has been trying to establish close ties with the CARs, it is still facing logistical hazards because of its common border with


The interests of major powers have increased the importance of the transport corridor. Political barriers threaten to further interrupt the project. Aside from the dialogue and agreements, the route essentially needs a Trans-Asian railway network. Furthermore, the corridor would serve for gas supplies in the region, including hydrocarbon and electricity supplies. In addition, the United Nation’s Almaty Programme of Action (APA) states that the pipelines provide a cost-effective means of transport for both oil and natural gas. For that, it requires security and cooperation among the landlocked countries.

In terms of the economy, most of the CARs have common characteristics, in addition to sharing religious, cultural and ethnic ties. Most importantly, the Republics have an informal economic sector. In this regard, Pakistan and Uzbekistan have a large scale of informal trade which is a major source of income for most people in the region. Due to this, the tax and custom duties remain substantially low. Furthermore, there is also great diversity in the regional economic policies, most importantly in the trade restrictiveness. The weak centralised governments in the region create further barriers for the private business sector. In addition, regional economic groupings, transit agreements and bilateral agreements have been playing a vital role in promoting transit transport cooperation. The APA also stresses that the transit developing Republics should cooperate for energy supplies between eastern and western Europe.

Pakistan was officially invited by Azerbaijan to join the project in February last year. The Pakistani Ambassador to Azerbaijan responded positively by saying, ‘I think that Pakistan may plan to join the North-South Transport Corridor. Of

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course, it should be negotiated. The proposal has come from Azerbaijan and sent to different ministries. Now they are currently working on it’.6

Gwadar Port: A Gateway to the International North-South Transport Corridor

Gwadar deep-sea port is located on the Makran coast. The Trade and Energy Corridor (TEC) links Gwadar with Kashgar. Moreover, it has significance for China’s geostrategic and economic interests particularly in terms of ensuring resource and oil security for China. The corridor will consist of a pipeline, a highway, and railroad. Due to logistical ease and its geostrategic location, Gwadar Port is imperative for regional development.7 On the other hand, Gwadar provides the critical road connection to Afghanistan and beyond, i.e. Central Asia, Europe


and the Middle East. It would reduce the distance to most of these regions. Moreover, Pakistan has previously entered into an agreement with China to produce jet-fighters, so it can also serve as a military base in case of conflict.

The prominence of the Gwadar deep-sea port lies in its tremendous economic spin-offs, as Pakistan is expected to be transformed into an economic hub by giving a boost to inter-regional and trans-regional economic activities. The resource rich Balochistan province of Pakistan provides an additional incentive for the development of Gwadar. According to the Pakistani Government, the Gwadar Port would link Afghanistan and Central Asia when the port gets operationalised.

Gwadar Port has the potential to maximise Pakistan’s oceanic trade volume. The increase of cargo arrival and departure capacity is expected to double, with a per year increase of up to 400 million tonnes. At the initial stage, Pakistan can transport five million tonnes of cargo through the corridor. It will reduce transaction costs for Chinese industries given its proximity to the Xinjiang province. The Xinjiang province connects rest of the CARs and accounts for 80 per cent of the total Chinese trade volume. In addition, the Economic Cooperation Organization (ECO) believes that the exchange of goods and trade could be transited from Central Asia to Gwadar. The development of new ports would unlock the energy and trade potential of the entire region. In this regard, China has played an active role in building the Karakorum Highway, which links

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Pakistan with Xinjiang.

In fact, the reality in today’s modern world is that the construction of infrastructure is the real game, rather the ‘New Great Game’ being played by regional and global players. In this regard, Pakistan’s higher authorities proclaimed that several countries have revealed their interest in the operations of Gwadar deep-sea port including the United Arab Emirates (UAE), Saudi Arabia, and Singapore.13 Furthermore, the development of Gwadar Port could herald a new epoch of economic prosperity and peace between Pakistan, Afghanistan, the CARs, China and Iran.14

The port at Gwadar will also increase economic opportunities for Foreign Direct Investment (FDI). With reference to this, Chabahar would not be able to directly compete with Gwadar due to its scope and relatively shallow waters. Compared to Gwadar, Chabahar has a capacity of 10-12 million tonnes of cargo while Gwadar has a total capacity of 500 million tonnes annually.15 Its contemporary facilities might not be sufficient. There are also views that the Chabahar Port is being built in an inexperienced manner using Indian assistance. Hence, it may not potentially weaken Gwadar Port’s importance in the region and beyond. Lastly, it is worth mentioning that the Gwadar Port will provide China with a strategic foothold in the Arabian Sea and the Indian Ocean, which would be alarming for both the US and India.16

Rail and Road Corridors

The INSTC has both geopolitical and economic significance for the regional and extra-regional countries. It will significantly increase trade in the region and will

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16 Nadir Mir, *Geopolitik Pakistan Pakistan’s Weltanschauung* (Lahore: University of the Punjab, 2013), 188.
reduce the cost in terms of time and money by 30 to 40 per cent respectively.\(^\text{17}\) In this regard, the rail and road corridors will play a crucial role in the transit of goods across the region. However, the importance of rail and road corridors is yet to be determined, depending upon the increasing trade turnover between the partner countries. In comparison to China’s BRI – connecting more than 60 countries and three continents – the trade volume under this corridor would be considerably less.\(^\text{18}\) But the inclusion of more and more countries in this initiative would have an immense impact on the trade turnover of INSTC. The future connectivity of the region holds greater possibilities of economic integration.

The road and rail routes in Azerbaijan are playing the most crucial role in INSTC by connecting Kazakhstan, Russia, Azerbaijan, Iran and India. The Kazakhstan-Turkmenistan-Iran railway link, also known as the North-South Transnational Corridor, is one of the most strategically important routes for the corridor. This 677 kilometre long route was operationalised in the start of 2014 and connects the CARs with the Persian Gulf for international trade. Similarly, there is another vital railway route known as the North-South Railway Corridor. However, this project is under consideration only on paper due to the lack of finances and substantial economic feasibility. The North-South Railway Corridor will form the missing link between the Black Sea and the Persian Gulf of INSTC.

The Karakorum Highway has vital importance for promoting trade across the region. The Beijing-backed China Pakistan Economic Corridor (CPEC), stretching from Gwadar in Pakistan to Xinjiang in China is a mega initiative towards regional economic integration. Moreover, CPEC is hailed in Pakistan as a ‘game changer’ as it aims to boost regional trade and economy. Pakistan has initiated three routes under CPEC that will link Karachi and Gwadar Ports to Kashgar in China. The upgradation of the Indus Highway at par with international standards will also contribute to the North-South economic trade.\(^\text{19}\)


\(^{19}\) Ibid., 94.
Moreover, Pakistan has planned a direct rail and road network from Gwadar to Chaman and Panjgur districts of Balochistan that will help in the trade of manufactured goods with Afghanistan and the CARs. The Gwadar-Chaman rail line would extend to Kandahar, Kabul and Herat while the Almaty-Karachi road would have a low volume of trade. However, the trade volume is likely to grow after complete operationalisation of Gwadar deep-sea port. Pakistan has also planned a rail link from Gwadar to Zahidan (Iran) via Quetta.

**Turkmenistan, Afghanistan, Pakistan, India Pipeline**

TAPI is a long awaited energy project between the four countries. This mega project is meant to connect energy rich Central Asia with the South Asian countries via an 1,840 kilometre long and 56 inch wide pipeline with an estimated cost of US Dollars eight billion by the end of 2019. The gas pipeline is going to pump 33 billion cubic metres of natural gas from the world’s second largest gas field of Galkynysh in Turkmenistan to Afghanistan, Pakistan and India. Out of a total of 33 billion cubic metres, five billion cubic metres will be provided to Afghanistan, 14 billion cubic metres to Pakistan and the rest of the 14 billion cubic metres will be exported to India.

Construction of the pipeline was initially decided with a Memorandum of Understanding (MoU) signed between Pakistan and Turkmenistan in March 1995, but the project could not be launched due to the civil war in Afghanistan and later on due to the deteriorated geopolitical situation after the US invasion in 2001. Afghanistan became part of the project in 2002; a feasibility report was submitted by the Asian Development Bank in 2006; India became part of it in 2008 and finally, the construction of the project started in 2015 after the agreement of all stakeholders. Turkmenistan has completed the construction on its territory, and a ground-breaking ceremony took place in Afghanistan’s province of Herat in February to complete the construction of the rest of the project in Afghanistan, Pakistan and India. The recent inauguration ceremony

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21 Ibid.
was attended by heads of the governments of Ashgabat, Kabul and Islamabad while India’s Minister of State for External Affairs represented New Delhi.

The Taliban insurgents have guaranteed to support and protect the project for the sake of economic prosperity of their country – Afghanistan. But there are still many challenges in the realisation of this initiative including the worsening security environment in Afghanistan with the rise of ISIS-Khorasan and hostile India-Pakistan relations. These challenges need to be addressed to ensure future energy security in the region.

The US wishes to maintain a monopoly in the region and put an end to Russian dominance. It aims to reduce Iran’s influence in the Middle East and hurt the Russian influence in Central Asia by bringing gas through TAPI. The US bilateral and multilateral relations with the region are an exceptionally important variable in the shifting regional order. This shifting regional landscape is vitally concerned with the security and strategic community of both the South and Central Asian regions. The rising power equilibrium in South Asia and Central Asia has changed the strategic dynamics by creating a challenging environment for the political and military actors.

According to Tariq Fatemi, Pakistan’s former Special Advisor to the Prime Minister on Foreign Affairs, ‘Pakistan is interested in the North South Transport Corridor’. The import of oil and natural gas from the CARs may improve the India-Pakistan hostile relationship, and bring about economic benefits. Pakistan may also be potentially able to use the surplus capacity in future and have the


potential to export to other countries through the Gwadar deep-sea port.27

Pakistan is facing a significant energy shortage which is hurting key sectors, particularly the textile sector of the country. A reasonable ratio of the textile sector has already shifted to Bangladesh due to high prices and shortage in supply of electricity and gas. This shortage of energy has enormous implications for the economy of the country. It increases the cost of production and reduces the export volume which ultimately widens the trade deficit. The trade deficit of Pakistan is increasing with each year and is currently standing at around US Dollars 32 billion.

TAPI has the potential to solve the energy crisis of Pakistan. In addition to getting 14 billion cubic metres of gas annually, Pakistan will also get millions of dollars in transit revenue on the 826 kilometre pipeline in its territory. This project will also open the gateway for several other regional projects, including the TAP-500 and CASA-1000 power projects between the Central Asian states and Afghanistan and Pakistan. The success of this project will also help to bring peace and stability in Pak-Afghan relations in general and in Balochistan in particular, as the pipeline will pass through Balochistan before reaching India.

Challenges for Pakistan

Pakistan is located at the junction of South Asia, Central Asia and Southwest Asia. It shares a common history and strong cultural and economic relations with the regional countries. Beyond the cultural ties, the old silk route also plays an important role in keeping the region intact through diverse commercial trade. However, there is a dire need for pragmatic and commercially profitable engagements with regional countries.

Certainly, the new trends in regional and international politics bring new initiatives for Pakistan and the CARs. Pakistan’s trade and economic relations with the Central Asian region would give a boost to the economy. The landlocked

area needs Pakistan to have an outlet for trade. In the last few years, this region has grown at an impressive rate. Trade has increased rapidly with the development of the market economy. For Pakistan, economic cooperation is possible through joint ventures in textile, agriculture, and information technology. The Central Asian region provides a sizeable consumer market for a range of goods and services.

Central Asia’s importance is emphasised chiefly in the context of Pakistan’s energy requirements. In this regard, Pakistan has also been making overtures to Tajikistan, holding a ‘Made in Pakistan’ exhibition in April 2005, and has signed an MoU for the sale of Tajik electricity to Pakistan. The latter’s trade and economic relations with Kazakhstan have also been improving. However, the murder of a Kazak diplomat in Islamabad deeply affected the bilateral ties. The two proposed pipelines Iran-Pakistan-India (IPI) and TAPI are essential for the energy security of the South Asian region. Due to instability in Afghanistan and acrimonious relations between India and Pakistan, the project has not flourished for many years. The INSTC will give Pakistan access to both the Central Asian and Russian markets. Despite the high expectations, the corridor is only partially functional, even today. This is problematic since Pakistan’s oil consumption is likely to grow in the coming years along with its natural gas demand.

There has remained a major drawback in Pakistan’s policy after the 9/11 attacks which pushed the corridor down to a new low. The US military presence in the region may have affected the regional dynamics. Strategically, Tajikistan


can be Pakistan’s key to access Central Asia. To this end, the 16 kilometre wide Wakhan Corridor, linking Afghanistan and China would be an easier route. Historically, Pakistan has been portrayed as a natural trade and economic route from the Wakhan Corridor for the pursuit of its interests. Pakistan has concluded several agreements for the development of routes, but unrest, rampant corruption and inefficient government administrative machinery in Afghanistan has proven to be a cardinal hurdle in any progress. On the other hand, the CARs lack a comprehensive foreign policy. The policy making by their governments has been facing external pressures. Mistrust and suspicion have often hindered the progress of this region.34

Pakistan is considered as a valued partner by the Republics due to its membership of the Economic Cooperation Organization (ECO) and has been recently inducted into the Shanghai Cooperation Organization (SCO). Trade with the CARs is likely to increase through bilateral agreements and commercial mechanisms. In this regard, Pakistan, Afghanistan and Tajikistan have agreed to construct the Wakhan Corridor road, which will not only increase the trade but also provide electricity transmission lines.35 Also, the electricity could be further exported to India and Afghanistan through the Wakhan Corridor. Pakistan has been reluctant to pursue this project due to the lease of a Tajik military air base to India. Notwithstanding all this, Pakistan’s presence in the CARs would enhance its global role, and in the coming years, Pakistan must further increase its influence in the region and project its soft power with full aplomb.

Conclusion

Pakistan’s cooperation in INSTC further strengthens its intrepid partnership with Russia and the CARs. The possibility of Russia joining CPEC also exists through Kazakhstan, and it is already building INSTC through Azerbaijan and Iran to facilitate trade with India. Thus, an opportunity exists for Pakistan if it opts to use this route’s overland transport infrastructure. A lot of trade already passes

34 Ibid., 31.
through it, as Russia is the leading member of the Eurasian Economic Union (EAEU) – an economic bloc of five northern Eurasian countries that bridge East Asia and Western Europe. The South Asian dynamics are in flux and Russia has no bones to pick with the region.

It is progressively clear to the development experts that a new method is needed to make operational use of economic geography towards the convergence of regional economic integration and growth. Therefore, the INSTC is vital to the economic growth of the region and beyond. Pakistan must identify the measures and a faster regional cooperation mechanism for building the trade and economic corridor which connects it with the region by keeping the current infrastructure in use. In this context, Pakistan has also been establishing a trade zone alongside its motorways so that the business costs would be limited.

However, Pakistan has potential to utilise massive transit opportunities in Azerbaijan and its free trade area through the INSTC. Importantly, this economic integration requires fostering interactive communication. Recently a free trade area has been established at Baku International Sea Trade (BIST) with the support of the UAE. With Islamabad and Moscow’s expansion of interests in Azerbaijan and deepening Iran-Pakistan ties, Pakistan has an opportunity to work with both parallel frameworks, i.e. INSTC and China’s BRI via CPEC. In this way, Pakistan could become a southern gateway to Central Asia while Iran could become an equal southern gateway to the Caucasus. By being so, both these nations could find themselves at the centre of the international trade being carried out in the Indian and Pacific Ocean.