Introduction

The objective of this Working Note is to have a comprehensive look into the Central Asia Regional Economic Cooperation (CAREC) corridors and derive lessons from it for the Bangladesh, Bhutan, India, Nepal (BBIN) sub-region, along with figuring out multimodal connectivity potentials between them.

The Note gives special focus to the CAREC Corridor 2 while it also looks into the competing and complementary features of the CAREC corridors 5 and 6 in establishing connectivity between the BBIN sub-region and the CAREC region.

The geographical position of the CAREC and BBIN gives them the potential to act as a significant link between Europe and Asia. Hence, strong connectivity between the BBIN and CAREC is necessary. The developmental initiatives of the CAREC and the BBIN can be integrated and linked with other regional and interregional connectivity enhancement programmes.

The significant progress of infrastructure development and connectivity initiatives in CAREC corridors, despite the presence of a large number of landlocked countries, makes the BBIN sub-region look into the initiative and learn from it. The BBIN sub-region misses the presence of a central knowledge-sharing institution like the CAREC Institute, to help in the evidence-based decision making and quality initiatives in the sub-region.

This Working Note brings down similar lessons that the BBIN sub-region can learn from the CAREC Programme.

Background and Context

Central Asia Regional Economic Cooperation

CAREC is a partnership of 11 countries in the Central Asian Region, supported by six multilateral institutions. The vision, “Good Neighbours, Good Partners, and Good Prospect” guides the programme. The initiative aims to promote development through cooperation, leading to accelerated economic growth and poverty reduction.

The CAREC Programme was started in 1997 by the Asian Development Bank (ADB) to foster economic cooperation and integration in Central Asia. Since its inception, the CAREC Programme has mobilised investments in the region that have helped establish multimodal transportation networks, facilitated free movement of people and freight and laid the groundwork for economic corridor development. Investments in member countries total US$39.2bn and cover 208 projects, from 2001-2020.
The CAREC Programme has identified six priority corridors (shown in Box 2) to transform into economic corridors through enhanced economic cooperation and greater trade integration of the Central Asian countries.

The corridors were chosen carefully based on current traffic volume; projected traffic growth and economic potential; future capacity to link economic and population hubs; future potential to reduce transport delays; economic and financial sustainability through investment in infrastructure, technology and management; multimodal aspects (road and rail where possible; road only, if the rail is not available).

Each corridor improves access for CAREC countries to at least two large Eurasian markets as well as the ports of Chabahar, Karachi and Gwadar to the south that can open up unprecedented global trade opportunities.

**Box 2: CAREC Corridors and the Countries Included**

**Corridor 1:** Europe – East Asia (Kazakhstan, the Kyrgyz Republic, and XUAR)

**Corridor 2:** Mediterranean-East Asia (Afghanistan, Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan, and XUAR)

**Corridor 3:** Russian Federation – Middle East and South Asia (Afghanistan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan)

**Corridor 4:** Russian Federation – East Asia (IMAR, Mongolia, and XUAR)

**Corridor 5:** East Asia – Middle East and South Asia (Afghanistan, the Kyrgyz Republic, Pakistan, Tajikistan, and XUAR)

**Corridor 6:** Europe – Middle East and South Asia (Afghanistan, Kazakhstan, Pakistan, Tajikistan, Turkmenistan and Uzbekistan)

*IMAR: Inner Mongolia Autonomous Region; XUAR = Xinjiang Uygur Autonomous Region. Both are regions of the People’s Republic of China

CAREC Corridor 2

The rationale for choosing CAREC Corridor 2

CAREC Corridor 2, is a Europe-Caucasus-Asia corridor, which forms an important segment of the overall CAREC transport strategy. One major reason for focussing on this corridor is that it traverses across multiple countries and connects the Mediterranean region with East Asia.3

Also, Corridor 2 handles significant volumes of Central Asian exports and imports with immense potential for further trade along the corridor.

Corridor 2 helps the BBIN sub-region to connect with Central Asia and Europe, using the Chabahar port of Iran. Corridors 5 and 6 also potentially connect the BBIN sub-region to Central Asia and Europe through multimodal means. But, given the complex and uncertain relations between India and Pakistan, as the corridors 5 and 6 passes through Pakistan to reach India, Corridor 2 was chosen for the special focus in this Working Note.
**Corridor 2**, which is the longest, covers 9,900 km of road, 9,700 km of railways and six logistics centres. It is tailored in such a manner to ensure that poor rural women share equal benefits. Specifically, it includes a community and gender action plan for maximising new opportunities for women in the project areas, with such features as support for small roadside businesses and training in farm skills.

Azerbaijan and Uzbekistan are the important transit countries for suppliers. To enter southern Europe via Turkmenistan, Iran, and Turkey, a large number of shipments go through these two countries. There is a high demand for regional and domestic cargo movements of manufactured goods; industrial machinery and metals; and (for export) food, cotton and yarn exists.

Oil products presently dominate the transport pattern in the corridor. In the future, this will drastically reduce with the construction of new pipelines. Strong connectivity to both population hubs as well as economic centres is offered throughout Central Asia through this corridor.

Furthermore, Corridor 2 has a strong intermodal transport potential (linking Black and Caspian seas; road and rail developments). However, as this corridor traverses several countries, the number of Border Crossing Points (BCPs) in Corridor 2 is higher compared to other corridors, which may cause a delay in transit and transport.

The four sub-corridors of Corridor 2 and their multi modalities of connection are mentioned in Table 1.
Trade Dimensions of CAREC

CAREC countries, excluding the PRC, account for less than one per cent of global trade. The CAREC programme aims to promote trade, which is crucial for regional integration.

A new CAREC Integrated Trade Agenda (CITA), 2030 was adopted to enhance the trade of CAREC countries by addressing challenges such as poor market access, limited economic diversification and weak institutions for trade facilitation.

Previously, Transport and Trade Facilitation Strategy (TTFS) 2020 was adopted by the CAREC countries in the 12th ministerial conference held in Astana, Kazakhstan in 2013. The TTFS 2020 was a comprehensive reviewed version of the original TTFS 2008. It aimed at reducing the cost, time and uncertainty of transporting goods across borders to consumers.

As a result of the initiatives of the CAREC to increase trade, the gross domestic product (GDP) of CAREC countries (excluding PRC) steadily increased to 4.67 per cent in 2018 from 4.52 per cent (2017), 3.36 per cent (2016) and 3.43 per cent (2015). Trade in goods and services rose from 68 per cent to 71 per cent of GDP during the period 2015-2017. Exports alone increased from about 27.6 per cent to 30 per cent of GDP during 2015-2017.

High demand exists for regional and domestic cargo movements of manufactured goods; industrial machinery and metals; and (for export) food, cotton, and yarn.

While analysing the inter-region trade of CAREC as given in Table 2, East Asia can be seen as the major trade partner, followed by European Union, Association of Southeast Asian Nations (ASEAN) and Russian Federation. Railways dominate the modal share of transport and cargo movement in the region.

With good geographical coverage, the region has a railway network, which is well developed. The share of road transport is also increasing in the region. The rate of increase in road freight is higher than the growth of rail freight in Central Asia for the past years.

### Table 1: Four Sub-Corridors of Corridor 2 and their Multi Modalities of Connection

<table>
<thead>
<tr>
<th>Sub-Corridors</th>
<th>Countries</th>
<th>Multi Modalities</th>
<th>Sea Ports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2a</td>
<td>PRC, KGZ, UZB, KAZ, AZE, GEO</td>
<td>Road, Water</td>
<td>Aktau-Baku</td>
</tr>
<tr>
<td>2b</td>
<td>PRC, KGZ, UZB, TKM, AZE, GEO</td>
<td>Road, Water</td>
<td>Turkmenbashi-Baku</td>
</tr>
<tr>
<td>2c</td>
<td>PRC, KAZ, AZE, GEO</td>
<td>Road, Rail, Water</td>
<td>Aktau-Baku</td>
</tr>
<tr>
<td>2d</td>
<td>PRC, KGZ, TAJ, AFG, TKM</td>
<td>Road, Rail</td>
<td>-</td>
</tr>
</tbody>
</table>


### Table 2: CAREC’s Inter-Regional Trade

<table>
<thead>
<tr>
<th>Region/Country</th>
<th>Total Trade (in US$bn)</th>
<th>Trade Share (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>East Asia</td>
<td>894.37</td>
<td>982.09</td>
</tr>
<tr>
<td>European Union</td>
<td>676.18</td>
<td>754.62</td>
</tr>
<tr>
<td>ASEAN</td>
<td>525.05</td>
<td>601.7</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>111.16</td>
<td>138.86</td>
</tr>
<tr>
<td>South Asia</td>
<td>111.31</td>
<td>128.38</td>
</tr>
<tr>
<td>India</td>
<td>88.28</td>
<td>101.99</td>
</tr>
</tbody>
</table>

*Source: Calculation using UN Comtrade data, extracted from World Integrated Trade Solution*
The trade of CAREC countries with BBIN sub-region is increasing in a steady phase as shown in Graph 1, even though there are some exceptional years. The total trade between CAREC and BBIN countries amounted to US$4.15bn in 2000, which reached US$118.23bn in 2019. The total trade between CAREC (excluding PRC) and BBIN were US$2.77bn in 2000 and it reached US$99.19bn in 2019.

Analysing the current trends in the growth of trade, the projected trade for 2030 between CAREC and BBIN sub-region is around US$200bn. This points to the need to have strong transport connectivity between CAREC and BBIN sub-region.
Socio Economic Impact

Most of the CAREC countries are landlocked. Landlocked countries mostly suffer from high transportation costs, which can be three times higher than the tariffs on imported and exported goods.

The development of transport corridors is instrumental in lowering these high transaction costs, bringing economies closer and improving the mobility of people in the region. It also brings several intermediate outcomes, such as reduced trade costs, increase in trade, investment and land value that can induce wider economic benefits in the long run.

Transport development under CAREC is indirectly linked to many Sustainable Development Goals (SDGs) and can be used as an effective tool to promote some of them. For instance, the CAREC corridors can be instrumental in assisting SDG 9 (Sustainable Infrastructure), SDG 10 (Reduced Inequalities) and SDG 13 (Climate Action) by reducing the carbon footprint of freight transport by adopting alternative mediums such as inland waterways.

Furthermore, the corridors in the CAREC region have brought together governments, policies, institutions, infrastructure facilities, regulations and investments to spur a wider socio-economic development. Adoption of synchronised fiscal, monetary and exchange rate policies by the Central Asian countries will help promote economic and financial stability by preventing financial contagion, addressing shared systemic risks in banking systems and implementing common regulatory and supervisory standards.

The CAREC initiative is helping the Central Asian countries to change their over dependence on the export of natural resources by production and export structure diversification. CAREC is promoting strong inter-regional integration, which is facilitating more long-term economic development in the region.

Despite some progress in the railways, large space remains for increasing competitiveness and further improving linkages with foreign markets. Border crossing time remains very high and the slow movement of trains makes it less efficient.

Institutional, Policy and Infrastructural Linkages and the BBIN Sub-region

Countries in Central Asia remain in economic transition and trade integration has been less spectacular. Unlike the countries in East and Southeast Asia, the Central Asian countries are situated largely outside the global and regional supply chains.

Under these circumstances linking the regional economies together to harness the potential of economic cooperation is very crucial for Central Asia to promote growth, trade, employment and quality of life.

Apart from CAREC, there are Eurasian Economic Union (EEU), the Belt and Road Initiative (BRI), Shanghai Cooperation Organisation (SCO) and the Economic Cooperation Organisation (ECO), among others to promote similar regional cooperation in Central Asia.

Corridor 2 of CAREC has huge intermodal transport potential, given that it transits the Caspian Sea and then extends to the Black Sea and the Mediterranean Sea. Since this corridor is passing through seven CAREC countries, it is very important for the region’s cooperation in trade and development.

Integration of the CAREC, EEU, BRI, SCO and the ASEAN can build a greater Eurasian transport corridor. Russia is advocating a “Greater Eurasia” connectivity plan to expand the capacity of the Baikal-Amur Mainline (BAM), the Trans-Siberian Railway (TSR) and the Northeast Passage.

In the CAREC Corridor 2, there is heavy traffic from Azerbaijan to Europe. This indicates that Corridor 2 can be the gateway to Europe from Central Asia for goods shipments.

CAREC Corridor 2 can be linked through multimodal connectivity to the Kabul-Delaram-Zaranj-Zahedan-Chabahar route and thus to the ports of Kandla and Mumbai in India (as shown in Map 2) and to the existing Eurasian railway line, which connects other parts of Central Asia. Similarly, this route can hook
onto ongoing corridor plans and programmes like Transport Corridor Europe-Caucasus-Asia (TRACECA) and other multilateral transport initiatives in the region.

Chabahar now becomes the shortest land route option to conduct their maritime trade for the landlocked countries of Central Asia who so far have been depending on seaport facilities in Turkey, Russia, Baltic States, Iran (Bandar Abbas) and China for their maritime trade.

India has developed a Chabahar port in Iran. Through this port, using the Zaranj-Delaram Highway constructed by India, BBIN countries can reach out to the Central Asian countries using the Lapiz Lazuli route.

Iran has already developed infrastructure in and around Chabahar, which will also be beneficial to the BBIN countries. BBIN countries can reach out to Central Asian countries through the CAREC Corridor 2.

India is working on a railway track from Chabahar-Zahedan and it can be used to access the Central Asian railway networks, which are part of the CAREC corridors.

Herat in Afghanistan, which is part of CAREC Corridor 2 is close to Zahedan and can be accessed by the Iran-Afghanistan rail corridor. So, by integrating multi modes of connectivity, BBIN countries can connect with the CAREC Corridor 2 using the Chabahar port.

Also, if Kabul can be connected by rail route from Herat, this will link with the air corridor of India, which will facilitate the speedy movement of dry fruits and agricultural produce along the routes from India to Central Asia and back.

India can rope in more Central Asian countries, like Uzbekistan and Kazakhstan, in its effort to project Chabahar as a gateway between Eurasia and the Indian Ocean. SCO framework can also help in the promotion of connectivity with these Central Asian countries.

Map 3: India-Iran-Afghanistan Transit Corridor Map

Source: The Geopolitics
Map 4: Accessing Central Asian Road Network through Chabahar

Source: GIS Lab, Institute for Defence Studies and Analyses

Map 5: Accessing Central Asian Railway Network through Chabahar

Source: GIS Lab, Institute for Defence Studies and Analyses
India joined the Ashgabat Agreement, which has the objective of enhancing connectivity within the Eurasian region and synchronising it with other regional transport corridors, including the International North-South Transport Corridor (INSTC). The CAREC Corridor 2 can be integrated with INSTC in Baku of Azerbaijan.

Now, the BBIN countries can engage with the Central Asian countries, Russia as well as Europe through the newly developed India-Iran-Afghanistan trilateral trade passageway for commercial activities, which can lead to economic gains.

**CAREC-GMS via SASEC:** The greater integration of Asia through multimodal connectivity means will be possible by linking the connectivity initiatives of Asian Development Bank (ADB) in Central Asia (CAREC) and the Greater Mekong sub-region (GMS) through South Asia (SASEC). The links between these regions can be strengthened by the TIPI-BM (Turkey-Iran-Pakistan-India-Bangladesh-Myanmar) Road Corridor along the Asian Highway (AH) network and ITI-DKD-Y (Istanbul-Tehran-Islamabad-Delhi-Kolkata-Dhaka-Yangon) Container Cargo Corridor along the Trans-Asian Railway (TAR) network. Corridor 2 of CAREC will play a significant role in all these initiatives, due to its proximity with South Asia.

**Competing and Complementing Features of India-Iran-Afghanistan Transit Corridor to CAREC Corridors 5 and 6**

CAREC corridors 5 and 6 are good alternatives of surface connectivity with the BBIN sub-region from the perspective of CAREC countries. This route provides road and rail connectivity to the BBIN sub-region through Pakistan. Both corridors 5 and 6 reach Lahore in Pakistan and can access India through the Wagah border.

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**Map 6: Mumbai-Moscow via INSTC**

*Source: Byju’s IAS*
Corridors 5 and 6 have established connectivity to the Gwadar and Karachi ports, which will give the central Asian countries access to the sea routes to connect with the BBIN sub-region. But India sending cargo to Afghanistan and central Asian countries through this corridor depends on Pakistan’s willingness to allow exports of India through its territory.

The use of the India-Iran-Afghanistan transit route and the connection to the road and railway networks in Central Asia through Chabahar is desirable for the BBIN countries and India especially. There is an agreement between the three countries — India, Iran and Afghanistan — which grants tariff reductions and preferential treatment at Chabahar to Indian goods headed toward Central Asia and Afghanistan.

It is also an easy sea-land route for the BBIN countries to Afghanistan and then to the Central Asian countries through Afghanistan. Landlocked Uzbekistan has developed rail connectivity to Afghanistan and is also interested in using Chabahar port. Other Central Asian countries including Kazakhstan have also expressed interest in using the port.

Conclusion and Recommendations

BBIN countries can learn from CAREC Corridors. As the CAREC and BBIN countries have a significant number of landlocked members, the incorporation of multimodal connectivity can have similar strategies. CAREC has relatively good overland connectivity with its major trading partners.

BBIN and CAREC can incorporate road, rail, sea and inland waterways to diversify the supply chain and for building resilience. Also, rail and water modes should be given a priority while framing strategies for enhancing connectivity, which will help Asia to decarbonise and to meet the SDG commitments.

BBIN sub-region can act as the link between the GMS region and Central Asia and Europe. Integration of multimodal transportation facilities in the BBIN sub-region with that of the multimodal transport initiatives of Central Asia and GMS will help BBIN to play this role. India should take the lead in using Chabahar port as the connecting point with Afghanistan and the rest of Central Asia.

The BBIN sub-region is missing a knowledge sharing institute like the CAREC institute to enhance the quality of the developmental initiatives in the sub-region.

The BBIN countries formed the South Asian Growth Quadrangle (SAGQ) in 1996 and requested the cooperation of ADB in promoting regional cooperation in various fields such as transport and trade. This led to the creation of the South Asia Subregional Economic Cooperation (SASEC) programme in 2001 by ADB. Initially, the four BBIN countries were part of this programme and later three more countries joined the programme — Maldives, Sri Lanka and Myanmar.

SASEC has implemented 61 ADB-financed investment projects worth around US$13.58bn in various sectors like transport and economic corridors as of June 2020. Even though this is a good number, it is below the potential.

During the same period, CAREC has 208 projects worth US$39.2bn. The role of the CAREC Institute in promoting evidence-based development projects cannot be disremembered.

India can take the lead in establishing a similar research institute for providing evidence-based research and capacity building services in the sub-region. The institute can look into regional cooperation challenges and geographical constraints, for which it can suggest solutions by researching and networking.

BBIN countries can establish their own Transport Sector Coordinating Committee, Customs Cooperation Committee and Regional Trade Group, taking the model from the CAREC institutional structure for coordinating all transport sector related activities, for customs related issues and for resolving overarching trade issues, respectively.
A trade portal, which can act as a repository of the trade policies, regulations, trade incentives along with best trade practices in the sub-region, should be developed by the four BBIN countries.

A federation of freight forwarders and multimodal transport operators of the entire BBIN region can be made and they should be provided with the platforms to interact with the public sector regulators involved, like Customs, Food Safety Authorities among others.

As given in Table 2, Central Asia’s volume of trade with South Asia is comparatively low. By integrating the CAREC corridors with the BBIN sub-region through multimodal transport infrastructure, the volume of trade between Central and South Asia can be increased substantially. By integrating the air corridors, trade in perishable goods like fruits and agricultural goods can be increased manifold.

Just as the example of CAREC shows, BBIN should also create strong connectivity to both population hubs as well as economic centres in the sub-region. This will help in the dispersion of the benefits of the developments to the larger public in the sub-region.

One of the major issues faced by CAREC corridors and especially corridor 2 is the high border crossing time. BBIN has to learn from this and make the necessary amendments to make things hassle-free at borders. They should bring together governments, policies, institutions, infrastructure facilities, regulations and investments to spur a wider socio-economic development.

The Corridor Performance Monitoring and Measurement (CPMM) methodology of the CAREC Programme, which depends on internationally accepted tools can be used for monitoring purposes.

BBIN can draw lessons from the refined strategy of CAREC focusing on borders which have created better-coordinated management of BCPs along selected CAREC corridors. This includes BCP improvements intended to increase physical capacity, including modern equipment, ICT hardware and software, passenger facilities and storage capacity.

To reduce delays and informal costs at border crossing points, improvements have been made in border management, particularly greater coordination between customs and other border control agencies.

Joint investments in backbone sectors like telecommunications and financial services by the BBIN countries in the border areas will facilitate smooth trade within the sub-region.

Ratification of Framework Agreement on Cross-border Paperless Trade by Bhutan, India and Nepal will be an important step in implementing digital trade facilitation measures. Bangladesh has already ratified it in October 2020.

BBIN countries can think about a gender action plan, inspired by the CAREC Corridors, for maximising new opportunities for women, with features like support for small roadside businesses and training in farm skills.

There should be an encouragement to the private sector in the BBIN sub-region to invest in and use the transport assets, which will widen the financial base. Connectivity and sustainability should be the major objectives of the transport strategy of the BBIN. Investments in sustainable and crisis resilient infrastructure should be promoted.
References


CAREC Project Portfolio 2020, CAREC Secretariat: https://www.carecprogram.org/projects/portfolio


Endnotes

1 The 11 countries in the CAREC programme are Azerbaijan, Afghanistan, China, Kazakhstan, Georgia, Kyrgyz Republic, Mongolia, Pakistan, Uzbekistan, Turkmenistan and Tajikistan.

2 The six multilateral institutions are the Asian Development Bank (ADB), European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme and the World Bank. ADB serves as the CAREC Secretariat.

3 Afghanistan, Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan, and China.

4 Information from the presentation of Emma Fan (Director, EAPF East Asia Department, Asian Development Bank) in a Consultation Meeting CAREC National Focal Points held on September 24-25, 2019 at Tashkent, Uzbekistan. The presentation can be accessed at the link: www.carecprogram.org/uploads/S4a-CAREC-Trade-Sector.pdf


6 Countries included Japan, South Korea, North Korea, Taiwan (China), Hong Kong (China), Mongolia and Macao.

7 The first trilateral meeting has been conducted by India, Iran and Uzbekistan to discuss possible joint use of the port of Chabahar. The news can be accessed at https://economictimes.indiatimes.com/news/defence/india-uzbek-iran-dec-14-trilateral-meet-on-chabahar-port-to-push-connectivity-in-eurasia/articleshow/79691604.cms