Competitiveness Analysis of the Georgian Transport and Logistics System in the Black Sea Region: Challenges and Perspectives

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Abstract. We have discussed transit potential as the actor of the regional development and Georgia as the transit hub in this piece of work. Performing the function of transit hub represents an important economic and political aspiration for Georgia's integration into the world economy. Effective use of transit potential in global economy conditions guarantees the achievement of success. As a result of the formation of new forms of economic relations, Georgia's function as a Transcaucasia corridor is expanding. The present paper aims to study and analyze the potential of Georgia's transit capabilities and to determine its influence on the financial and economic development of the country. The object of research is the transport and logistics sector of Georgia in terms of transit. The subject of the research is the comparative analysis of the targeted and consequential indicators of the potential of Georgia's transit capabilities. The main results and recommendations of the research, the implementation of which will promote the socio-economic development of Georgia, increase competitiveness and effective use of transit potential are presented in the conclusion part of this paper. In particular, when trying to reveal the problems related to the transit flows of Georgia, it turned out that the favorable geographical location cannot ensure the realization of Georgia's transit capabilities and its formation as a transit hub; The Europe-Caucasus-Asia transport corridor is characterized by low competitiveness both in terms of shipping costs and transit time; The necessity of complex development of the transport system of Georgia and completion of the Anaklia Deep Sea Port Project is substantiated.

Keywords: Transit flows · Transit hub · Caucasus transit corridor · TRACECA · Logistics · Competition · Economic development · Black sea region

1 Introduction

Georgia, as a transit area connecting Europe and Asia, is an attractive short-distance hub for international shipping. Due to its convenient location, Georgia can become a major logistics hub in the Europe-Caucasus-Asia (TRACECA) transport corridor. Utilization of transit potential requires increasing the efficiency of the transport complex, which is related to the need to build multimodal logistics centers. Establishment of logistics centers in Georgia will be an important determinant of the growth of cargo flows in the

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transit corridor and the competitiveness of the country's transit function. In addition, the logistics infrastructure significantly attracts foreign investment. The development of the transport sector is essential for the performance of the transit function, as well as for the development of all priority sectors in Georgia. Transit flows are one of the major components of the budget revenues of Georgia. Therefore, taking effective measures in this direction is an important precondition for the economic prosperity of the country. The difficulties associated with attracting and handling transit cargo flows are increasing. This is caused, on the one hand, by the activation of competing corridors and, on the other hand, by the lack of internal transport infrastructure. The study and analysis of these issues determines the urgency of the given topic. As Georgia is a low-productivity country and therefore the share of exports in total shipping is very low, attracting transit flows is vital for the country's financial and economic development. The problems existing in this regard hinder the performance of Georgia's transit function. Therefore, research and complex analysis of the existing problems in this direction is necessary for the development of Georgia's transit potential.

2 Research Methods

The theoretical basis of the research is the papers of various sciences on the research problem. Out of those, it is significant to analyze the spillover effects of the Logistical Trends in Eurasia at the domestic level, practice and theory on New Silk Road [1–11]. The conducted research is based on the reports of the National Statistics Office of Georgia, Ministries, Eurostat, World Bank, World Economic Forum, Sea ports of Georgia and railway operators, as well as legislative acts related to the research issue.

The research was conducted by using various methods. In particular, the economic activity in the field of transport was studied by the method of analysis and synthesis; Quantitative and qualitative methods were used to determine the volume of revenues received from the fees of road use and cargo turnover of Ports of Georgia. The Logistics Performance Index was calculated by grouping and index method; The competitiveness of the corridors of the Black Sea Region was determined by the method of comparative analysis; The sectorial structure of Gross Domestic Product (GDP) and the share of transport in economic growth were presented using the graphic representation method.

3 Results and Discussion

3.1 Caucasus Transit Corridor and Perspectives of a Logistics Hub in Georgia

In the Modern Global Competitive Environment, transit creates additional capabilities for achieving success in the international market and for the financial and economic development of the country. Using the transit potential to full gives certain advantages to the region, such as: increasing competitiveness; Deepening foreign economic relations; Involvement in international cargo flows; Forming an additional source of filling the country's budget; Promoting socio-economic development. Only economic benefits, which are received from transit flows are not sufficient, each country should develop appropriate approaches and methods to prevent the following threats that accompany

the movement of these flows: wrongful activities, illegal migration, spreading various diseases, vibration and dust caused by the movement of long vehicles. Exactly, to this end, an ECP action plan is developed, which is based on the processing of world practice and forecast data. Regional ECP seminars were conducted in all WCO regions by WCO. It was noted that the exchange of innovative practices among members is favorable means for the development of transit [12].

Competitive transit corridors for Georgia are [13]:

- Northern Maritime Corridor;
- Southern Maritime Corridor;
- Trans-Siberian Railway transit Corridor;
- South Land Transport Corridor;

The New Silk Road (by railway route) is the shortest distance for China to transport cargo to Europe. Despite its short transit time, China prefers a southern maritime corridor which has a flexible tariff policy. There is no unified pricing system in the conditions of the New Silk Road. Tariffs are very expensive due to the fact that it combines all transport nodes. In relation to Chinese cargo, the main competitor is the South Maritime route, which passes through Iran. The Port of Bandar Abbas (Iran), after lifting the sanctions of the West, operates successfully and competes greatly with the ports of Poti and Batumi. Cargo shipping from China via Bandar Abbas port to Azerbaijan is much cheaper than in case of Poti port, the reason for which are high tariffs imposed on services.

Another expression of interest towards the Caucasus region is a project ratified by the European Union. The main goal of the TRACECA project is to create the shortest transport corridor connecting Europe and Asia, which will ensure the development of economic, political and cultural relations among the countries of this region. The Europe-Caucasus-Asia transport corridor represents a precondition for the restoration of the "Great Silk Road". Despite the short transit time and the shortest distance, the disadvantage of this corridor is the multimodal shipments, which increases the cost of shipping. In addition, it is less competitive due to the lack of a unified tariff policy. Georgia's competitors are the ports of Russia, Turkey and Ukraine, which have highly developed and arranged port infrastructure and optimal transit times. In the research of 2012, the recommendations are developed on how the Caucasus Transit Corridor can increase competitiveness compared to alternative corridors. In particular, if the Caucasus transit corridor becomes 10% cheaper, transit time will be reduced by one week, Georgia's railway infrastructure will be improved and reliability will be increases when crossing the Caspian Sea, the abovementioned corridor will carry out unprecedented transit shipments and contribute to the increase of the country's GDP [14]. The modern Silk Road will increase the revenues of all participating parties, including Georgia, in the form of transit taxes. The transit corridor will create real potential for Georgia to become a logistics "hub" and easily connect to all parts of the world. This will be an important stimulus to encourage production development and investment in the country. Georgia has been given the opportunity to play an important role in the transport corridor serving cargo turnover between Europe and Asia, to create transit services for intercontinental passenger flows and to serve the cargo shipment market in the region. The implementation of the Europe-Caucasus-Asia project is of strategic importance for

Georgia. The development of transit shipments through the TRACECA corridor is a task of state importance, which will greatly promote the growth of production and job creation in our country.

The power of states is determined by the perfect realization of all economic capabilities. Militaristic capabilities are gradually losing their role of the main determinant of maintaining a leading position in the world economic system. In the real world, success is achieved through geo-economic war.

The South Caucasus is not only an economically but also a geopolitically important region for both the East and the West, as well as for the modern world. Georgia holds a key place in this region. As well as, our country has the potential capability to become a connecting country between the North and the East.

Georgia is one of the countries in Eurasia that came closer to the EU regions and became involved in its integration processes [15]. Georgia, as an arena of conflict zones and its difficult relations with Russia expresses the difficult nature of the region's development, which significantly hinders the development of the transport corridor from north to south in the direction of Russia-Armenia-Iran. Georgia represents important state for the European Union with the function of a transport bridge connecting Europe-Caucasus-Asia. Georgia, as one of the important participants of this corridor, can play a crucial role in increasing overall efficiency.

The node to strengthening Georgia's transit function is the development of all transit highway, all port, railway and road infrastructure passing on its territory. As well as, the introduction of flexible customs control mechanisms, the implementation of a common European transport strategy and the development of other necessary measures, which are related to the proper functioning of the corridor. Port systems and its geographical regularities of its development play a major role in the development of the global economy. A seaport is a major transportation node through which goods of world importance and passengers are transported from one point to another. More than 70% of world production is shipped by sea and ocean through containers. According to the cargo turnover pursuant to the data of 2018, among the major seaports of the world, the Ports of China are leading ones, which is explained by the fact that the number of exports from Asia to other countries are quite large [16]. Seaports represent not only an instrument for the use of transit potential and socio-economic development of the country, but also a prerequisite for the successful operation of the international transport corridor TRACECA. Maritime transport represents the backbone of the global economy. One of the main components of the logistics chain system is the Georgian ports. They play a major role in the socio-economic development of the country. Transport-transit infrastructure of Georgia is significantly related to the development of seaports. The seaport system of Georgia is currently represented by the ports of Batumi, Poti, Supsa, Kulevi and constructing Anaklia, through which transit cargos (see Fig. 1) passing on Georgia are transported – to the direction of Varna, Constanza, Novorossiysk, Odessa and Istanbul [17].

The Georgian Railway is an important niche in the Eurasian Transport Corridor, connecting Europe with Central Asia and then China with the shortest route. The implementation of the TRACECA project has significantly promoted the increase of the volume of railway shipping. The most cost-effective direction of Georgian Railway is cargo

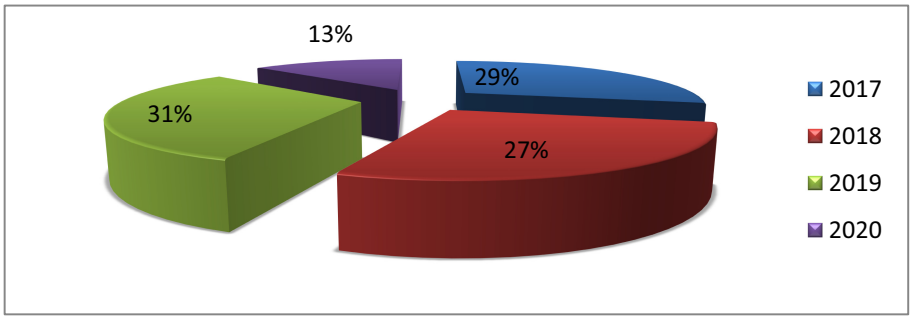

Fig. 1. Georgia Cargo Turnover of Georgia 2017–2020 (I-IV 2020). Source: Compiled by the authors based on the information of the Ministry of Economic and Sustainable Development

shipments. It is linked to the ports of Batumi, Poti and Kulevi, from where cargo is transported directly to the ports of Bulgaria, Romania, Ukraine, Russia and Turkey.

As we can see (see Table 1) in the total cargo turnover of the railway, transit have the leading place, therefore taking effective measures in this direction are required [18].

Table 1. Volume of cargo according to the transport conditions on the Georgian Railway, in tons (during I-III months) 2019–2020.

Volume of Cargo according to the transport conditions	2019	2020
Export	340 956.0	316 031.0
Import	552 720.0	603 942.0
Local	390 607.0	340 002.0
Transit	1 236 224.2	1 514 180.0

Source: Compiled by the authors based on the data of the Georgian Railway

Road transport holds an important place in the structure of the Georgian transport system. About 43–44% comes to road transport (see Fig. 2). After the opening of the border with Turkey, the scale of road transport activities has reached to a maximum. Cargo turnover indicators have also increased accordingly. Almost 17.2 million tons of cargo are transported annually. The automotive sector has an increasing character in recent years. The peak rate was observed in 2015, when the amount of cargo handled on it reached to 47 million ton. By 2018, it has reduced to 31 million tons [19]. Transit from Turkey is characterized by a growing trend, which causes serious delays in traffic. This problem should be solved through the Batumi bypass road, through which ecologic condition wiil be significantly improved in the resort area and international transit traffic will be simplified [7].

When shipping transit cargo directly, the road use fee is accumulated in the budget in the amount of GEL 200, which is provided for the for the utilization of transit infrastructure on the territory of Georgia [20]. In addition, additional benefits for the country during the transit process is obtained from the costs of fuel, food products, maintenance,

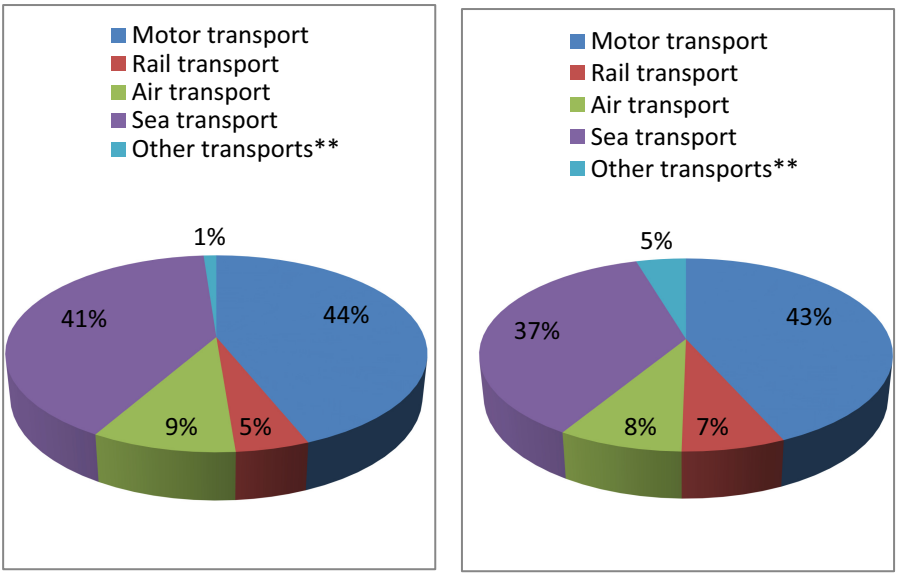

Fig. 2. Exports-Imports of Georgia by Mode of Transport (2016–2021). Source: Compiled based on the information of the National Statistics Office of Georgia [25]

fines and other services. In the case of increased transit cargo flows, significant funds are flowed into the budget (see Fig. 3).

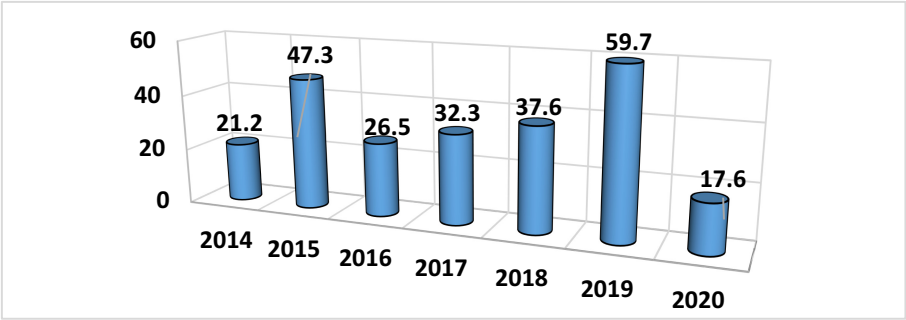

Fig. 3. Revenues received from the Road Use Fees 2014 – 2020 years (million GEL). Source: Compiled based on the information of the Ministry of Finance of Georgia [21]

The increase in road transit shipment from Armenia through Larsi to Russia is conditioned by the increase in the number of vehicles moving by transit. As well as, high road taxes imposed between Turkey and Iran are pushing Turkish cargo owners to carry out the shipment through the transport corridor of Georgia.

The volume of cargo transported by vehicles is characterized by a decreasing trend. In 2018, it was decreased by 0.4 million tons compared to the previous year. In 2019,

a small increase was observed - 42.3 million tons [22]. Despite the decrease in cargo turnover volume, the role and function of the transport sector on the country's economy is still large. Such a trend is caused by foreign or domestic factors. Since we have to function in a dynamically changeable environment we cannot draw conclusions explicitly. Salary levels in this sector are characterized by an increasing trend from year to year (maneuvering within 1300 million Gel), which increases the potential for development. As we can see, transit flows have a great impact on the socio-economic growth of the country. By realizing the transit function, Georgia can promote the growth of cargo transportation, increase the level of employment and achieve common welfare. Increasing investment in this area and strengthening government policy are crucial cornerstones.

Relative share of logistic sector amounts to about 12% of Gross Domestic Product of the Country. The quality and competitiveness of the transport-logistics system represents an important factor in the process of making a decision regarding the investment of capital by an investor in a potential investment country. Georgia is the carrier of LPI low indicator (2.44) compared to its competitive transport corridors (see Fig. 4). It holds 119th place out of 160 countries [23]. The cost of logistics services and shipping is non-competitive. As well as, Georgia lags behind Armenia with LPI indicator of 2018 (2.61 points/rating - 92), which does not even have exit to the sea.

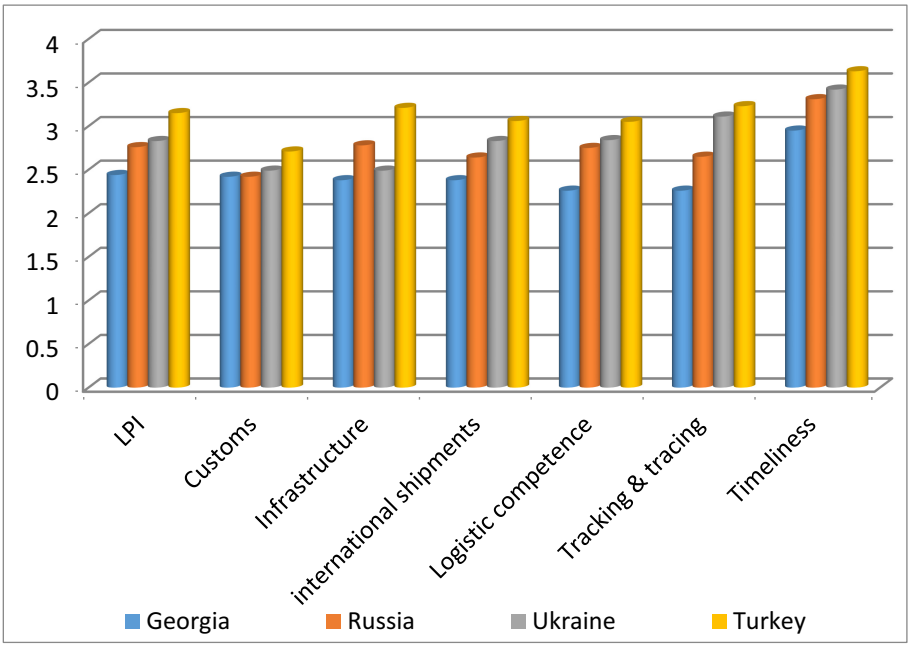

Fig. 4. Logistics Performance Index 2018. Source: Compiled by the authors based on the information of the World Bank [11, 23]

There are no logistic centers in the country that meet modern requirements, which would allow the country to make the most of its transit and trade potential. Georgia will

not become a transport hub in the region until the transport corridor infrastructure is improved.

The Turkish logistics industry holds about 10–15% in GDP, which indicates on a fairly good state of the transport system. There are flexible domestic and international transport networks in Turkey. Large share comes to road transport in domestic transportation, while international shipping is dominated by maritime transport, which amounts to 85% of total shipments. It is the owner of the largest cargo fleet in Europe. The Turkish government hopes, that the indicator of foreign trading will increase to $ 1.1 trillion by 2023. Half of this indicator is export, which will influence on the transport and logistics sector. As for the railway network, the situation is not so favorable, only 5% of the cargo is transported by railway, although it is supposed to increase up to 15% by 2023 [24]. Turkey Logistics Performance Index amounts to 3.15. It overtakes Georgia, Russia and Azerbaijan in all components of this index. Due to Turkey's favorable location, the country actively cooperates with China in domestic and international railway projects. In the direction of Asia, it performs the function of railway gate. Transport and logistics are the main priority directions of Turkey and a large share of investments comes to this field. According to 2018 data, transport amounts to 73% of total exports and 38.8% of total imports. Currently, the epidemiological situation in Turkey is difficult, the cargos are moving, but with great delays. A number of ports are either closed or operating at 20–30% capacity.

3.2 Financial and Economic Aspects of Transit Flows of Georgia

The future stable economic progress of Georgia is connected with the steady development of the transport-transit function. Extreme importance is assigned to the analysis of the levels of transport systems development and transport policies of the neighboring countries - Azerbaijan, Armenia, Russia and Turkey. GDP growth is directly correlated with the increase and decrease in cargo turnover. The relative share of GDP of Georgia is still very low on per capita (13 428.9 in GEL, 4,763.5 in USD), but by using Georgia's national resources, including transport and transit potential to the full, can accelerate economic growth pace and reduce the potential risk of losing transit cargos. In 2019, the largest share in the sectorial structure of GDP comes to trade (16.8%) and industry (16.6%). The third position is held by transport and communications (10.9%). Compared to 2018, its share in GDP is characterized by an upward trend. It has been increased from 9.2% to 10.9% (see Fig. 5).

Accordingly, we can conclude that transport has a multilateral impact on the socio-economic development of Georgia. On the one hand, the level of employment is increasing, the infrastructure is improving, and on the other hand, it conditions Georgia's positioning on the international arena by perfect use of its transit potential.

In 2018, trade made a major contribution (1.2%) in economic growth. It has been increased by 8.3% compared to the previous year. The share of transport in economic growth is 0.8% (see Fig. 6).

According to BIA Business Catalog, 2,410 companies are registered in the field of transport and shipment in Georgia, from which 76.2% are small, 18.7% are medium, and 4.9% are large [27]. Given the diversity of these organizations, we can say that the market is quite competitive. The results of each company's activities have a direct

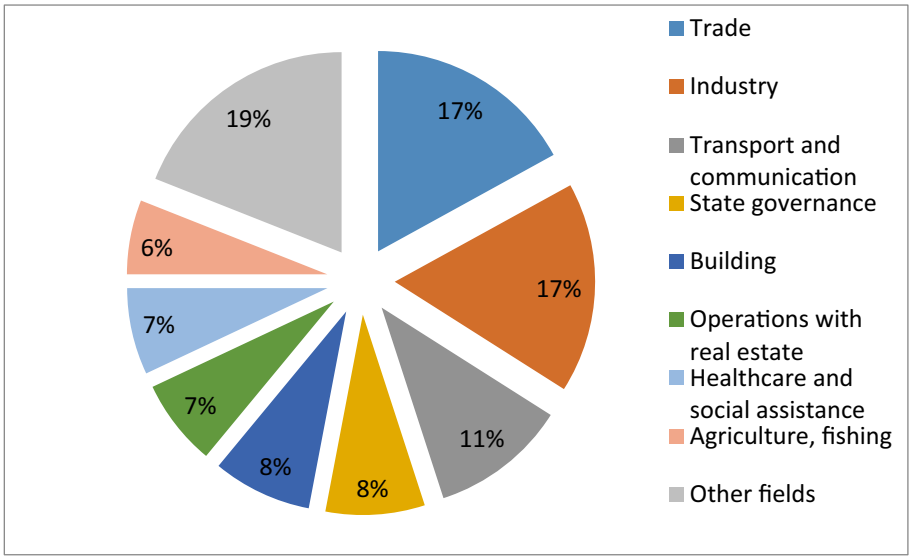

Fig. 5. Sectoral structure of gross domestic product, 2019. Source: Compiled by the authors based on the information of the National Statistics Office of Georgia [25]

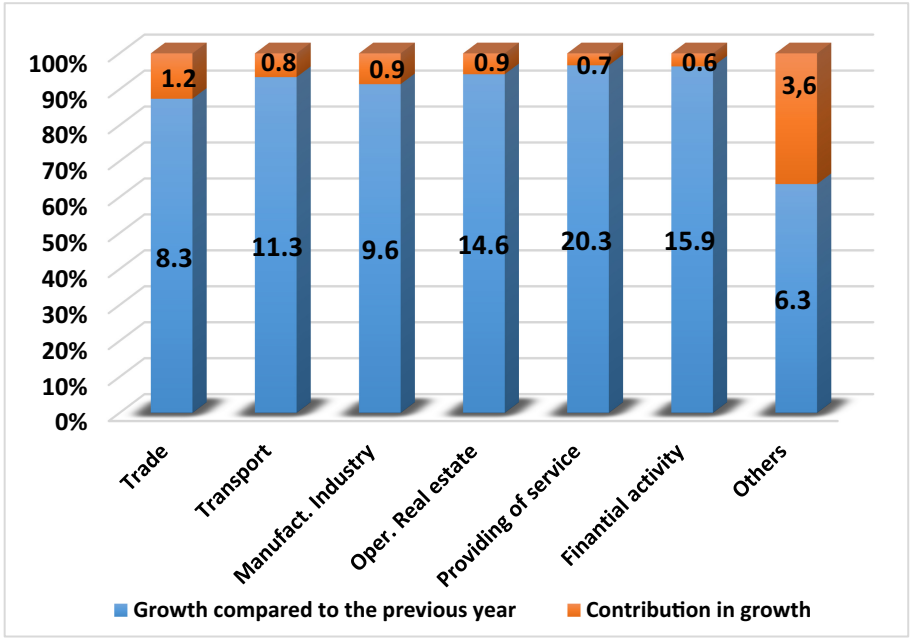

Fig. 6. Economic growth according to the sectors, 2018 year. Source: Compiled by the authors based on the information of the Ministry of finance of Georgia [26]

influence on the financial and economic development of the country. Improving the quality of transport infrastructure plays a crucial role in the successful operation of these organizations. 70% of their financial outcomes are held by revenues received from transit (see Table 2).

Table 2. Economic activity in the field of transport (billion GEL)

Year	2015	2016	2017	2018	2019	2020	2021
Turnover	4.3	4.2	4.7	5.1	6.0	1.4	1.4
Released products	3.1	3.1	3.7	4.1	4.6	1.0	1.0
Value added	1.6	1.6	2.0	2.1	2.3	-	-
Investments in fixed assets	0.665	0.644	1.672	0.597	0.362	-	-
The number of employees	48.7	52.8	56.5	58.1	61.2	52.3	49.6

Source: Compiled by the authors based on the information of the National Statistics Office of Georgia [28]

COVID-19 restrictions [29–48] did not affect transit shipments, although shipping activities were still reduced. There are a number of measures at the border checkpoints in relation to the coronavirus, which delays the crossing of the border and, consequently, the speed of shipping.

At this stage of socio-economic development of Georgia, when the country's economic development, living standards and productivity are still low, foreign direct investments are needed vitally, for which it is important to create a favorable business environment in the country. To create an effective business environment is impossible without relevant fiscal and monetary policies [40, 49–53]. Improving transport-logistical performance is an important task in this regard. The most foreign direct investments were made in 2019 in the financial sector, which is 20.6% of total foreign direct investments. Investment in this sector has slightly decreased compared to last year (22.5%). As for transport, last year it held third place with 17%, and this year the investment has significantly reduced in this sector (5.6%; USD 71.5 million). In 2019, the largest amount of foreign direct investments were attracted from the United Kingdom (19.5%; USD 247.8 million), then follows Turkey – USD 236.5 million and third place is held by Ireland – USD 132.7 million [54]. Logistic infrastructure plays an important role in the process of decision-making on putting investments in these countries.

Transport logistics should become one of the most profitable segments for the national economy. The global transport logistics market is estimated up to $ 3.1 trillion, which amounts to 7.1% of world GDP. The share of transport logistics in developed countries is 13–14% of GDP. Transport plays an important role in the modern economy and society. It has a big impact on economic growth and employment level. The transport industry employs around 10 million people and amounts to 5% of GDP [55, 56].

The TRACECA project plays a crucial role in expanding Georgia's transport corridor. It is important that the countries participating in this project work together in a mutually

agreed and consistent manner in order to gain common benefits in this transit corridor. For which the proper conduct of economic diplomacy is essential.

The New Silk Road (by railway route) is the shortest distance for China to transport cargo to Europe. Despite its short transit time, China prefers a Southern Maritime Corridor, which has a flexible tariff policy. There is no unified pricing system in the new Silk Road conditions. Tariffs are very expensive due to the fact that it combines all transport nodes. The main competitor in terms of Chinese cargo is the South Sea route, which passes through Iran. The Port of Bandar Abbas (Iran), after lifting the sanctions of the West, operates successfully and competes greatly with the ports of Poti and Batumi. Cargo shipping from China via Bandar Abbas port to Azerbaijan is much cheaper than in case of Poti port, the reason for which are high tariffs imposed on services. Given the cost of shipping, this port creates a competitive position for cargo owners. Poti port has the highest tariffs in the Black Sea basin, which is explained by its natural monopoly. The pricing of APM terminal is an independent process. Georgia is losing large and scaled military cargos, coming from the port of Bandar Abbas. It is necessary to increase state regulation (in terms of non-tariff) in the activities of Poti port. Poti port offers consolidated services to its customers, which further aggravates the overall picture. Logistics centers remain "out of the game". Due to its monopoly nature, Poti port does not incur any financial costs to improve the port infrastructure. Due to bad maintenance, ships often have to stand on the raid. In case of excessive cargo flows, it cannot ensure timely and safe handling of cargo. Batumi port cannot play the role of an alternative due to its geographical location, it is ingrown into the city and at the same time, has no carrying capacity. The Anaklia port project is the best lever in this regard. Completion of the Anaklia port project means that Georgia will have a 16-m-deep port that can receive Panamax and Post-Panamax type vessels. The port will also be able to handle about 100 million tons of cargo during the planned 9 phases, which is a very high figure for Georgia. The port of Anaklia provides services to at least 900,000 containers per year [57]. At the same time, the port of Anaklia represents the guarantee of employment for thousands of people. The port of Anaklia is still an unfinished project, which means a significant loss of revenue for the country. The transport networks of Georgia are almost all alienated, except for railway transport, which's 100% is owned by Georgia. Therefore, the state should promote the stimulation of the private sector and imperceptibly "force" them to take care of the infrastructure development. International rating company "Fıtch" downgraded the rating of the Georgian Railways from BB minus to BB plus in 2017. As a result, cargo turnover decreased by 21% and revenues by 25%. The main reason for the decrease in cargo turnover was the shift of Kazakh crude oil to the pipeline transport. It filled rail cargo turnover by 50%. As well as, high tariffs are named as the reason for downgrading the rating, even though it operates in highly competitive conditions. With the effective actuation of the Karsi-Akhalkalaki railway line, it is possible to attract additional cargo [58].

Baku-Tbilisi-Karsi railway allows attracting potential cargo flows. The project will be able to employ 2,500 people after putting into operation, herewith it is supposed that the volume of cargo flows will increase from 5 million tons to 15 million tons. Along with China, Russia is also showing great interest towards this project, which will be able to carry out large-scale shipments to Turkey through this railway line. This will be an

additional lever for Georgia. It will be possible to handle more than 6–8% of cargo with the participation of Russia [59].

In order to use Georgia's transit capabilities to the full, it is necessary to assess the monetary and fiscal policies of those states that affect Georgia's transit function. The development of the transit corridor is not limited to the success of any certain state. It is necessary for all countries participating in this corridor to make joint efforts to achieve a unified result. Each country should be interested in raising all components of the logistics performance index, as this index is the carrier of key meaning for using transit potential to the full, including increasing regional competitiveness and increasing the reliability quality towards corridor.

4 Conclusions

Georgia's geopolitical location is the main point of departure for its formation as a transit hub. Georgia's transport capabilities and transit function has been the subject of the interest to international players for a long time. The analysis reflected in the paper shows that cargo turnover in Georgia varies according to the means of transport and is characterized by a decreasing trend in recent years, which is mainly the result of increased competition, infrastructural and technical capabilities and the lack of agreed pricing policies. One of the directions is the identification of each transport sector for shipments of different types of cargo, so that cargo turnover is not reduced as a result of internal competition. The problems of transit corridor of Georgia are growing due to high competition from competing corridors. Interest towards the new Silk Road, especially towards Chinese cargo, is very high, although the multimodality of the corridor hinders the process of transporting Chinese cargo to Europe. The port of Badar Abbas is considered as an alternative route, despite the short distance and short transit time of the New Silk Road.

The analysis of Logistics Performance Index developed by the World Bank revealed that Georgia's LPI indicator among neighboring countries in the region has deteriorated. It is overtaken even by Armenia, which does not have even the exit to the Sea. It is necessary to take practical steps in this direction. Increased investments in the field of logistics will be reflected both on the improvement of the index and the overall economic development of the country.

As the analysis showed, transit flows have a great influence on the socio-economic development of Georgia. Transit is one of the main mechanisms for filling the state budget of Georgia.

In order to increase the competitiveness of the transport-logistics system and the transit corridor of the country, the following recommendations need to be considered:

- Implementing infrastructural projects - completion of the Anaklia project at the planned pace and provision of technical capabilities of Panamax type vessels;
- Increasing the number of its own containers by the Georgian Railway, creating new locomotives;
- Developing a targeted state policy in the process of transport-logistics decisions;
- Introducing an effective system of state governance;

- Implementing training and skills development support projects, for the formation of the right personnel policy in the field of transport logistics;
- Flexible (unified) tariff policy;
- Building modern logistics centers;
- Establishing Transit Shipment Coordination Council (if we take the example of Azerbaijan, the volume of shipments has increased by 7–8% due to the effective measures taken by the above mentioned Council);
- Forming common conditions for customs procedures in the states along the Silk Road (harmonization of border-crossing legislation) in order to simplify the transportation of transit cargo;
- Improving the operation of transit cargo services;
- Supporting the activities of forwarding and logistics companies to ensure a high level of service;
- Continuous monitoring of transit traffic to eliminate obstacles;
- Developing financial support mechanisms on transport-logistics projects by the state.

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