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## REGIONAL INTEGRATION AND THE EMERGENCE OF AZERBAIJAN AS THE NEW LOGISTICS CENTER

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### Abstract

The Caspian Basin has historically served as a critical nexus for economic, political, and cultural exchanges among diverse civilizations. Recent developments, notably the global pandemic and the war in Ukraine, have profoundly reshaped the dynamics of trade and economic corridors, giving rise to a new geo-economic reality in the region. Intensified economic activity has accelerated regional integration, with Azerbaijan, strategically positioned at the heart of this geography, emerging as a pivotal logistics hub due to recent advancements. This paper first evaluates Azerbaijan's growing transport potential by analyzing major economic corridor projects along the East-West and North-South axes in Eurasia and then examines the process of regional integration. Member states of the Economic Cooperation Organization (ECO) are actively engaged in these international economic corridors, highlighting Azerbaijan's central role within the ECO framework. The primary finding of this study is that Azerbaijan has significantly strengthened its position as a regional transport and economic hub, establishing itself as a strategic intersection for the continent's major logistical corridors in recent years.

**Keywords:** The Caspian Basin; Regional Integration; International Economic Corridors; The Economic Cooperation Organization; Azerbaijan

### 1. Introduction

Well-functioning infrastructure, particularly robust transport network systems, is a prerequisite for the development of international trade, which can foster the integration of economic and political entities at the regional level. This enhanced economic integration fosters the emergence of regional structures that warrant detailed analysis. The literature on new regionalism adopts a broad, multidimensional, and multiregional perspective, in contrast to the post-World War II focus on European regionalization and integration processes (Söderbaum, 2003). Multidisciplinary studies exploring various facets of new regionalism have intensified, driven by successive crises in the new millennium. Amid the failure of free-market mechanisms to serve as a universal solution for crisis recognition and prevention, a global paradigm shift appears to be underway, though not yet fully acknowledged by dominant economic powers. The 2008 global recession highlighted the risks of unregulated financialization, while disruptions in global supply chains during the COVID-19 pandemic exposed severe vulnerabilities in economies reliant on international sources for essential goods and traditional transport routes. Consequently, recent years have witnessed a notable increase in intra-regional trade, as opposed to inter-regional trade, amid ongoing global supply chain disruptions.

International economic corridors are the indispensable part of the regional economic integration since the search for access to markets, combined with transit security concerns, creates the need to establish interconnectivity lines. According to a study by the Asian Development Bank, (Brunner, 2013) the economic corridors are integrated networks of infrastructure within an area designed to stimulate economic development and connect different economic agents in a particular geographical space. The Eurasian geography has specifically witnessed large changes in terms of logistics and trade especially after the sanctions adopted by Western countries against Russian Federation due to its war with Ukraine. Bilateral trade volumes are increasing among the Caspian countries unprecedently thanks to the newly established or revitalized economic corridors. Situated at the nexus of two principal Eurasian transport corridors (East-West & North-South), the Caspian Basin has assumed heightened significance within the framework of multidimensional international logistics projects recently advanced. Specifically, the case of Azerbaijan, centrally positioned within these major regional infrastructure initiatives, exemplifies the successful implementation of economic corridors.

International transport projects have played also an important role in determining the balance of power, along with other dynamics in the world system, in every period of history. Trade routes designed by different economic agents and power centers have also constituted the essence of geo-economic competition. Therefore, it is not a coincidence that mega economic corridors are discussed, especially in periods of systemic change and transitions. Since there are intense commercial activities between the Asian and European continents, there are many infrastructure projects developed to increase and ease economic interaction between the continents. Especially in the last two years, increasing investment, trade and transportation as well as the recent geopolitical issues drew attention to the region. Being located at the meeting point of 'East-West' and 'North-South' axis transportation and the economic corridors between Asia and Europe, Azerbaijan is turning into a playing field in Eurasian geography with the potential to generate impact beyond the region.

This paper first analyzes major international logistics projects in Eurasia, with a focus on their role in reshaping regional trade dynamics. Subsequently, it examines Azerbaijan's emerging potential as a logistics hub and its pivotal contributions to the development of the Economic Cooperation Organization (ECO).

## **2. International Economic Corridors & the Caspian Basin**

A shift in paradigm regarding the trade and economic corridors leads to the modification of existing or construction of new infrastructural projects that interconnects different parts of the Eurasian supercontinent. Since the Caspian basin is located at the very center of Eurasia (between India, Russia, China and Europe) the trade links crossing Azerbaijan have also been energized. The East-West international economic corridors play significant role in accelerating trade between Asia and Europe. Among the East-West axis projects in the region, the most important is undoubtedly the Belt and Road Initiative (BRI).

The BRI encompasses two primary components. The Maritime 'Road' facilitates extensive trade and maritime connectivity from the Pacific Ocean to the Mediterranean. 'The Belt' on the other hand, operating primarily through highways and railways, establishes continental connectivity via multiple sub-routes. The most significant among those routes is New Eurasian Land Bridge or northern route that originates in mainland China, traverses north of Caspian region, and spreads to European Union via the countries in Eurasian Economic Union. Another route that forms 'Belt' is China-Pakistan and China-West Asia

Economic Corridor or southern route. Through these routes, goods are sent to Europe after passing through Central Asia, Caspian, Iran and Türkiye thanks to railway links between the countries.

Apart from the routes along the northern and southern shores of the Caspian Sea, maritime logistics also connects Turkmenistan, Kazakhstan, and Azerbaijan. While transportation through the Caspian Sea remained limited until recently, transport activity has surged in recent years. The growing significance of the Caspian Basin and its transport routes stems primarily from disruptions to the New Eurasian Land Bridge. This disruption resulted from Western sanctions imposed on Russia following the outbreak of armed conflict in Ukraine. These sanctions significantly reduced transit flows between Russia and Europe, disrupted established trade routes, and necessitated a comprehensive restructuring of the transport system. The sanctions tortuously impacted trade between European Union and other Asian states because of Russia's role as a transit hub. As sanctions and physical constraints disrupted cargo transit from China to the EU, the need for route diversification became principal. Consequently, China and Europe have increasingly turned to substitute directions. Since south of Caspian Sea remains less viable due to ongoing sanctions against Iran, the most prominent alternatives are inter-oceanic sea routes and the Trans Caspian International Transport Route which is in a broader sense defined as Middle Corridor.

The Middle Corridor, involving multi-modal transport vehicles, constitutes a significant alternative route and the straight distance in trade between Europe and Asia. Goods originating in European countries, by transiting through Black Sea, reach to Georgia and Azerbaijan and from Alat Port of the latter are posted to the east of the Caspian Sea. In addition, goods originating in Asia, by transiting through Central Asia, reach to Azerbaijan via Caspian Sea before travelling to Europe whether through Georgia or Türkiye. Compared to traditional Northern Corridor, the Middle Corridor is approximately 3,000 kilometers shorter, reducing transit times between China and Europe from 19 days to 12 days, thereby enhancing efficiency and cost-effectiveness (The Astana Times, 2024). While transport traffic through the Northern Eurasia declined by 31.9% annually in 2022, goods transported from Kazakhstan through the Middle Corridor increased by 2.5 times during the same period (EBRD Report, 2023). Moreover, the Global Gateway Initiative of the EU and the 'Build Back Better World' (B3W) of the US are important hints of the new trend for global powers. These initiatives can be viewed as responses to the needs and priorities of developing and underdeveloped countries in relation to developed nations. Of these Western initiatives, the Global Gateway merits particular attention. Amid sanctions on Russia, the European Union seeks to strengthen connectivity with China, positioning Caspian countries as increasingly significant partners. The Global Gateway serves as a key instrument to bolster both soft and hard infrastructure in the region. The cargo transit between the Caspian Basin and Central Asia and the Black Sea and Europe is already noteworthy and plays an important role in the functioning of the regional economy but the transport potential of the region could be further exploited (Tsereteli, 2023).

On the other hand, the international economic corridors on the North-South Axis in Eurasia have also gained importance recently. The 'International North-South Transport Corridor' (INSTC) serves as a prominent example. Although efforts to establish the corridor, which extends from Russia to India through Caspian Sea and Iran, had started in early 2000s, the INSTC has gained significant progress only recently. This 7,000-kilometer corridor spans from Russia's Northern territory to South Asia, facilitating enhanced connectivity and trade. Aim to develop the INSTC is clearly stated in the strategic

partnership agreement that was signed between Iran and Russia on January 17, 2025. In this agreement, it is underlined that such interaction includes the promotion of goods originating from these countries to the markets of third countries, as well as the creation of conditions for the development of continuous transportation along transport corridors both in bilateral traffic and in transit through their territories. (Tass, 2025).

Both Russia and Iran have been accelerating infrastructure work in the Caspian Sea. The INSTC and the BRI rely on Iranian port infrastructure in the Caspian and overland trade routes to expand exports into the Persian Gulf and South Asian markets (Grajewski, 2022). Presently, Iran's only Caspian Sea port connected to its railway network is Amirabad. Transportation traffic and bilateral trade between Russian and Iranian ports have increased significantly. Russia has established an exclusive economic zone in Astrakhan region to support this growth. Additionally, Iran and Russia plan to create a joint fund to enhance Caspian naval transportation and finance the construction of new ships. Given the rising demand in the region, the current number of ships, particularly Ro-Ro vessels, remains insufficient. In order for the INSTC to become operational, Moscow is even thinking to grant an navigation privilege in her internal waters (Volga River and Don Canal) to a third country for the first time (Kaleji, 2023). Under today's circumstances, a ship traveling from northern ports of Russia to Indian seaports via Atlantic shore takes 30–45 days, whereas the route through Iran requires only 14–25 days. Despite its potential, the INSTC faces infrastructural challenges which limit its full functionality and to address these bottlenecks, \$38.2 billion in new investments is required for 102 projects, with the majority allocated to infrastructure development in Russia, Iran, and Kazakhstan (Eurasian Development Bank Report, 2022).

The International North-South Transport Corridor (INSTC) extends beyond the maritime passageway of the Caspian Sea. To the west of the Caspian, a terrestrial network connects Russia with Iran via Azerbaijan. On the eastern side, connectivity is established among Kazakhstan, Russia, Iran, and Turkmenistan. Although the eastern route is well-equipped with road and rail infrastructure, its utilization for international transportation remains limited. In contrast, the western route requires significant infrastructure investments to achieve full operational capacity. Beyond modernizing roads and railways in Russia and Azerbaijan, a critical component is the construction of the Rasht-Astara railway in Iran (Silk Road Briefing, 2023). Upon completion, this railway will enable seamless delivery of goods from Russia to Iran via Azerbaijan, facilitating onward transport to India.

### **3. Emerging Role of Azerbaijan as a Logistics Center and the Economic Cooperation Organization**

Irrespective of their orientation along the East-West or North-South axes, all international corridor projects traversing the Caspian Basin converge in Azerbaijan, positioning the country as a pivotal logistics hub. Consequently, Azerbaijan, previously recognized primarily for its energy commodity exports, has increasingly gained prominence for facilitating the transport of a diverse range of goods, as the significance of Caspian routes has grown. Moreover, energy pipeline projects, long under consideration, have reemerged in discussions over the past two years. Notably, the proposal to transport Turkmen gas to Azerbaijan and onward to Europe via the Southern Gas Corridor has gained traction. However, the feasibility of laying a pipeline beneath the Caspian Sea appears limited without the consensus of all littoral states.

Nevertheless, the revitalization of trade and associated logistics across a broad geography has a positive impact on regional development and institutional structures.

Notably, most countries through which these economic corridors pass are members of the Economic Cooperation Organization (ECO). Through these corridors, ECO member states have successfully attracted substantial international infrastructure investment from major creditors, such as China. The diverse political systems among ECO members, ranging from post-Soviet states to regional powers like Iran, Pakistan, and Türkiye, render China's investments particularly significant. Regional trade among countries with comparable development levels is likely to yield net benefits, provided it aligns with the national priorities of participating nations. Under favorable conditions, the expansion of regional trade can enhance access to larger markets, thereby supporting developmental efforts and improving overall welfare. With the majority of the Caspian or Central Asian countries are being economies in transition, joining such an integrated network can potentially have a great impact on the course of their economic development (Twillert & Vega, 2023).

A key indicator of regional development and evolving integration is Azerbaijan's expanding trade with member states of the Economic Cooperation Organization. Between January and May 2025, Azerbaijan's trade turnover with ECO countries reached \$3.547 billion, reflecting a more than 10 % increase compared to the same period in the previous year (Heybetov, 2025). As a vital member of the ECO, Azerbaijan has significantly strengthened its position as a regional transport and energy hub. Key infrastructure projects involving ECO partners include the Baku–Tbilisi–Kars railway, the Southern Gas Corridor, the Baku–Tbilisi–Ceyhan oil pipeline, the development of the Alat International Sea Trade Port, the Iranian railway connection, and a modern highway network that facilitates efficient cargo transportation. Furthermore, by hosting the 17th ECO Summit in Khankendi in July 2025, Azerbaijan has opened new horizons for regional cooperation, positioning the summit as a catalyst for enhanced regional development.

In light of this, the expansion of regional trade and transport, which underpins new forms of economic integration, has the potential to stimulate diverse growth strategies for ECO countries. In alignment with global economic trends, member states of the ECO are adopting a collective strategy to promote sustainable industrial growth, emphasizing advanced technologies and green energy. Within this context, prioritizing the development of clean energy technologies serves as a catalyst for regional development and sustainable growth among ECO countries. It is no coincidence that Baku was selected as the headquarter for the newly established ECO Clean Energy Center. Through this center, ECO member states can address the dynamics of the global energy transition and develop a region-wide strategy to localize the production of critical clean energy technologies, such as wind turbines and solar panels. This transformative strategy has the potential to further accelerate regional economic integration, with Azerbaijan emerging as one of the key actors in this domain.

#### 4. Conclusion

As a result of recent developments, Azerbaijan has emerged as an international logistics center, driven by the expansion of economic corridors along both the East-West and North-South axes of the Caspian Basin. These dual-axis projects should be regarded as complementary rather than competitive, as they hold significant potential to generate positive regional synergies.

Within the broader Eurasian geography, member states of the Economic Cooperation Organization (ECO) stand to benefit substantially from increased infrastructure investments along both axes. Beyond their transit potential, these transport infrastructure developments



are critical for the emergence of a regional market, fostering greater intra-regional trade, particularly when neighboring countries are included. Finally, the growing transport infrastructure in the Caspian Basin, encompassing ECO member states and regional initiatives such as ECO Clean Energy Center is likely to strengthen the ECO's position as an influential international organization. Azerbaijan's dual role as an emerging logistics hub and an active participant in ECO initiatives will be pivotal in the coming years.

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