

## THE IMPACT OF TRANSPORT CORRIDORS ON THE ECONOMIC DEVELOPMENT OF AZERBAIJAN

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This paper examines the utilization of transport corridors for trade in Azerbaijan. It also highlights the impact of transport corridors on the economic growth of Azerbaijan. It also observes the country's efforts for economic development and emerging challenges. It is found that the journey of Azerbaijan's economic transformation has been started at the time of former president Heydar Aliyev and never seized up thereafter. The leadership of Azerbaijan took bold steps to steer the country out of vicious economic conditions and provided a new direction of development. To make an objective analysis, the paper takes in the reviews of different reports, published articles and news discussing the critical aspects of economic corridors, potentials and risks attached to their functioning. The last part of this paper presents some recommendations too.

**Keywords:** Transport, Corridor, Azerbaijan, Development, Economic.

## Introduction

The new technologies have transformed the sectors of trade, transport and cargo shipping. The countries located at the crossroads of Asia and Europe have gained particular attention as they appear the connect hubs. Azerbaijan is the vanguard of transport infrastructure as it has long corridors stretching from East to West and North to South. It has developed an extensive inland road network that is being used for domestic commerce and for international businesses. The country has constructed more than fifty major roads which are thousands of kilometres linking the outskirts with the centre of the country. Besides, a large number of bridges have been either constructed or renewed for international trade. The development of Azerbaijan can be understood in the context of Heydar Aliyev's vision who believed in a strong economy for a strong state. Following this vision, today's Azerbaijan appears as a land that is well-connected and open for business.

## Background

The personality cult of the former president of Azerbaijan Heydar Aliyev is so strong in the country that it cannot be missed anywhere in Azerbaijan. Being the "National Leader of the Azerbaijani people", he is ubiquitous. The popular leader's smiling portrait is almost everywhere in public places such as the airport in Baku, parks, performance halls, museums and streets are named after the former president Heydar Aliyev. His contributions to the progress of Azerbaijan are significant and he has become a memorable personality. In recognition of the great work done by the late president, this year 2023 marks the 100th anniversary of Aliyev's birth. The current president Ilham Aliyev has declared 2023 to be the "Year of Heydar Aliyev".

The late President Heydar Aliyev was a man who worked with the vision to make Azerbaijan a strong economy. The country made gradual progress largely due to the persistent policy of President Heydar Aliyev, who successfully completed his two presidential terms. The president steered the country out of a quagmire as the country was undergoing a tough time due to the war with Armenia. President Heydar Aliyev laid the foundations of effective policy agendas to accomplish the economic, social and political stability of the country. It would not be wrong to say that the leadership of Azerbaijan was cognizant of the complexities related to its relations with other countries at the time of independence. Hence, it started to balance its relations while it was in a state of war with Armenia. The country not only defended its position in regional and extra-regional affairs but also brought the nation on the path of progress and prosperity.

Certainly, the country went through a jerky period and gradually a considerable economic transformation changed its fate. The breakup of the Soviet Union was a great setback for the economies of the newly independent states; however, Azerbaijan quickly trounced the challenges and adopted a strategic roadmap. President Heydar Aliyev signed a remarkable agreement with Western energy companies, in 1994, to export oil and gas to Europe, paving the way for the economic boom (Eurasia, 2022). The president died in 2003, and the same year his son President Ilham Aliyev won elections and became president of Azerbaijan. It improved not only local but also international road networks with a view to stimulate economic growth, accelerating regional development and increasing the competitiveness of its products. The improved logistics and transport connectivity have contributed to the diversification of Azerbaijan's economy.

## **Geographical Connectivity and Transformation of the Economy**

Traditionally Azerbaijan relied on oil and gas exports, however; the growth of transport corridors has created opportunities for other sectors too such as agriculture, manufacturing, and tourism. The resourceful movement of goods with fewer trade barriers has stimulated trade and attracted foreign direct investment, supporting the country's economic diversification efforts.

Regional connectivity is an emerging trend in different regions of the world today. Many states are setting up different plans to benefit from it as connectivity through roads and connectivity through technology between remote areas enhance the capacity of states and boost the economy. Azerbaijan has also been playing a significant role in regional connectivity through transport corridors and economic development. The country's geographical position makes it a prominent point for connectivity. Many states such as Russia, China and Europe along with other Asian nations have been showing their interest in being linked with other countries through the routes passing through Azerbaijan as it is situated at the crossway of Asia and Europe. It has been investing in transportation infrastructure to improve connectivity with proximate regions and beyond. The growth of trade activities, through the developed transport corridors, has had a significant effect on the economic development of Azerbaijan. Certainly, Azerbaijan has actively engaged in regional initiatives initiated by China. Its participation in the Belt and Road Initiative (BRI) and the Ashgabat Agreement are the most prominent instances to show the readiness of Baku to further its economic corridors which would expand its economic reach and influence. The transport corridors in Azerbaijan are not only facilitating in linking of remote areas to developed areas but also increasing its international trade. The transformation of Azerbaijan's economy is the result of several years of effort and vision.

The country started to focus on the connectivity programs particularly when it joined the Central Asia Regional Economic Cooperation (CAREC) Program in 2003 (ADB, 2019) and strived to build regional prosperity in the post-Soviet space. Through CAREC, Azerbaijan has been working to promote growth and connectivity and to make the region a center of trade and commerce as global markets increasingly integrate. Soon after this, the Asian Development Bank (ADB) also facilitated the country in upgrading the energy and transport infrastructure. Besides, ADB promoted private sector development, helped in developing a clean water mechanism and set up modern sewerage networks (ADB, 2019).

The tireless efforts of the then government steered the country out of a difficult situation and finally, the Gross Domestic Product (GDP) started to grow in the first half of the 21<sup>st</sup> century. It is even listed as a high human development country by the United Nations Human Development Index (UNHDI) (Human Development Reports, 2023). The oil explorations were quick, and the export of oil became the main profit through which the economy of Azerbaijan grew at high speed during 2005–2010 (Aimee Hampel-Milagrosa, 2023). Though there was a short period of economic slowdown in the first half of the last decade; however, it regained its position.

## **Infrastructure Building**

Envisioning the demand for new supply lines due to vulnerable or war situations, the leadership of Azerbaijan has been focusing on the development of logistics and infrastructure needed to link regions. Since infrastructure is a crucial input for economic

production, it has become indispensable to conventional inputs, such as labor and non-infrastructure capital (Aimee Hampel-Milagrosa, 2023). United Nations Conference on Trade and Development held on October 21, 2021, emphasized that constructing economic corridors is a useful concept for integrated solutions (Youssef, 2023). In this context, Azerbaijan has not only been linking hard infrastructure such as roads, ports, railways, and warehouses, but also connecting soft infrastructure including institutions and technology. This is helping in the development of supply chains, and also boosting the tourism sector.

### **Economic Corridors**

The newly formed action plan of Azerbaijan for the strong economy of the country illuminates that the country is on a fast track of economic development. Along with measures, the country is focusing on regional connectivity and reaching out to new markets to overcome the binding constraints. There are many transport corridors that Azerbaijan has constructed such as the East-West Corridor, North-South Transport Corridor, and Baku-Tbilisi-Kars Railway. Besides, the government has been putting efforts into economic diversification and regional Cooperation.

One of the prominent transport corridors of Azerbaijan for international trade is the East-West Highway, which is 500 kilometers long and runs between the Caspian Sea and the Black Sea (CAREC). This corridor starts from the ports of the Caspian Sea and runs through Azerbaijan, Georgia, and Türkiye, providing a vital link between Europe and Asia. The importance of the East-West Transport Corridor or Trans-Caspian International Transport Route (TITR) is largely due to its connectivity of Europe to the Central Asian region. This corridor is the revival of the historic Great Silk Road. This project is to expand the volume of transport from China to Türkiye and European countries and vice versa (Alliance.net, 2023). In this respect, an agreement for the management and development of the route was signed in Azerbaijan in 2016. This corridor has greatly facilitated the movement of goods and trade, enabling Azerbaijan to serve as a transit hub for the region.

The country has made substantial investments in upgrading its rail infrastructure to link the economic centers to neighboring countries. In 2017, another transport corridor the Baku-Tbilisi-Kars (BTK) Railway was inaugurated. This corridor has significantly improved Azerbaijan's connectivity with Georgia and Türkiye and the capitals of the three states go connected and extended to Kars, a city in Türkiye. Notwithstanding, some obstruction in materializing the actual potential of the BTK, new opportunities for trade and transport are bringing hopes for further collaboration. Particularly landlocked Central Asian countries have shown their interest in connecting through the corridor as it offers an efficient route for their goods to reach European markets. The government of Uzbekistan has shown its interest in expanding bilateral trade with Georgia (Devonshire and Georgia, 2023).

A corridor with multiple modes of transportation, including railways, roads, and shipping is the North-South Transport Corridor, which connects Russia to India via Iran. Azerbaijan's geographic location and its investment in infrastructure development have made it an important state in this corridor but Azerbaijan is a bit reluctant to become an active link in this corridor due to multiple reasons.

Azerbaijan has also been making significant investments in the development of its ports, particularly the Baku International Sea Trade Port as the port of Azerbaijan in the Caspian Sea has played a crucial role in the economic development of the country. This port

serves as a crucial logistics hub, enabling the transshipment of goods between different modes of transport, including maritime, rail, and road. The modernization of the port infrastructure has increased its capacity and efficiency, attracting more trade and investment to the country.

The country is cognizant of developing ICT which is contributing to other sectors' development too. ICT is crucial for the improvement of the education system, health arrangements, and the tourism sector. So, it will boost the country's economic efficiency and international competitiveness. Moreover, the upgradation of the ICT sector will also help in developing software, mobile applications, and platforms of E-commerce. The only problem is that geographically Azerbaijan is away from the major global undersea fiber systems that cross the Pacific and Atlantic oceans (Yoon, 2023). Thus, it needs to set up overland fiber cables to access these networks. Besides, better ICT would fascinate foreign direct investment to upgrade technologies.

In summary, the development of logistics and trade, particularly through transport corridors, has had a transformative impact on Azerbaijan's economic development. Improved connectivity, enhanced trade flows, and increased regional cooperation have opened up new opportunities, diversifying the economy, and positioned Azerbaijan as a vital transit hub between Europe and Asia. The transport route starting from China crosses the land of the Central Asian region, then South Caucasus, Türkiye and entering Europe is one of the shortest routes connecting East and West. This route can also improve the devastating economies of the warring countries viz Azerbaijan and Armenia. This route can potentially connect the two states by establishing a new branch of the corridor the "Zangezur corridor" which would through Armenia. It is also possible to brace economic and trade relations through this corridor between the countries located in neighboring areas to give supplementary incentives to the development of the region as a whole (Gawliczek and Iskandarov, 2023).

The overall pattern of Azerbaijan's economic development suggests that being a resource-rich economy, it has always chosen optimal policy choices. However, the episodes of war with Armenia restricted its trade routes and caused diversification.

### **National Development Priorities 2030**

Since Azerbaijan entered a new phase after COVID-19- and the 44-day war, it is setting development priorities for the ongoing era till 2030. The government of Azerbaijan focused on long-term development through five national priorities (permitted by Presidential ruling) for this decade. The Gist of the priorities is as follows; a growing competitive economy, a society based on social justice, a great return to the liberated territories, competitive human capital and a clean environment (UNESCO, 2023).

### **Recommendations**

The trends and patterns of governmental plans started during the time of late President Heydar Aliyev, show that the leadership of Azerbaijan is cognizant of the fact that to build a country, it is important to build up the economy of the state. Notwithstanding, all the efforts of the government have been going in the right direction, this paper suggests a few points:

- The government of Azerbaijan should accelerate economic diversification to

upkeep the dynamic development of the non-oil sector.

- The favorable business environment modernized institutional framework and advancement of a national innovation system should be a continual feature of the governmental plans.
- Accelerate the capacity-building programs in the country by introducing modern technologies, by increasing the investment in education system and launching skill programs.
- The government should allow the private sector involvement in some sectors to improve the overall proficiency of infrastructure facilities.
- Oil business and accrued profits should be directed towards consolidating the non-oil sectors such as agriculture, tourism, education and IT. In this way, the benefits will be felt in many other directions.
- The IT-related services should be available in all parts of Azerbaijan.

## Conclusion

The year 2023 is marked as the year of Heydar Aliyev in Azerbaijan not only to commemorate his 100<sup>th</sup> birthday but also to infuse the spirit of the long haul in the nation. Heydar Aliyev holds a distinct position in the national history of Azerbaijan, he introduced diversity of thought in the country and also created a strong sense of competition. The legacy of his ideas is still reflected in the economic and political system of the country. The government of Azerbaijan has set out a new development plan to be connected with regional countries, for which it has become indispensable to strengthen the country's infrastructure, The country has already been recognized as an important transport and logistics hub. The East–West international transport route passes through the land of Azerbaijan which reduces the duration and distance of cargo. However, the trend of expanding transportation requires private investments too. So far, private investments are mostly in the oil and gas sector. It is also recognized that tourism, agriculture, and IT sectors are critical parts of the development design of Azerbaijan and need more participation.

Since the development of infrastructure is finance-intensive, a substantial share of national resources is needed. Likewise, the institutions and policies are needed to be updated for the planning of the right type of infrastructure. Although the spending on infrastructure in Azerbaijan is already up to the mark; however, the country should upkeep the pace to meet the demand level.

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