

A Hub of Hubs Initiative and its successful implementation: The case of Azerbaijan

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After centuries of neglect, the transport corridors connecting Asia and Europe are on the brink of a rebirth. There are different initiatives to establish overland routes via trucks; to build railways; construct pipelines; improve air connections; develop maritime connections through seaways, such as TRACECA (Transport Corridor Europe Caucasus Asia), CAREC (Central Asia Regional Economic Cooperation), INSTC (International North South Transportation Corridor), and the BRI (Belt and Road Initiative); and so on. Currently, every single country in the world is developing its transportation and logistics potential with the desire to become part of these regional or global initiatives. This article will analyze where Azerbaijan stands on these corridors and what is the current status of soft and hard infrastructure development in this country as regards global transportation corridors. Regional projects initiated by Azerbaijan are already delivering benefits to friendly neighboring countries and transportation projects will also attract revenues to collaborating countries. The Baku–Tbilisi–Kars railway project, newly developed Baku International Sea Trade port, renovated and reconstructed GYD airport, improvement of the Azerbaijan Caspian Shipping Company, new legislation and presidential orders, and other relevant hard and soft infrastructural developments will be assessed in this context. Moreover, Azerbaijan’s collaboration in the transportation sector with its neighboring countries and key allies will be one of the main themes of the article.

Key words: Infrastructure, Transportation, Logistics, Trade, Port, Railway, Corridor



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Introduction

Azerbaijan is geographically located on important East–West and North–South transportation corridors, and its territory was historically used by Silk Road caravans. Therefore, revival of Silk Road-related initiatives cannot exclude Azerbaijan, but will attempt to use the country’s transit potential and natural resources as drivers of development on the route from Asia to Europe and back.

It is obvious that Azerbaijan is also keen to transform these opportunities into real benefits, sharing them with its neighbors. The country’s government understands that, together with several neighboring countries situated to east or west, north or south, Azerbaijan can create new opportunities for global transportation and can benefit from those initiatives. For this purpose, Azerbaijan has invested millions into its own infrastructure, provided funds for the development of infrastructure in allied countries, and offered no-strings loans to other countries.

Therefore, this article will first describe and analyze the hard infrastructure that Azerbaijan has developed. A number of examples will be given of what has been done so far, and what has worked. In addition, future plans will be touched upon briefly. In parallel to that, the article will also discuss financial initiatives made available by Azerbaijan to develop infrastructure in its friendly neighboring countries. However, it is understood that hard infrastructure must always be backed up with soft infrastructure to be able to operate efficiently. For this reason, the second section of the article will discuss and analyze in depth the soft infrastructure created in the country to date for the purpose of the smooth running of the hard infrastructure. Moreover, the country’s future needs for soft infrastructure will also be analyzed.

Hard infrastructure development in Azerbaijan

The Azerbaijani government has made clear that it is one of the states most interested in the development of global transportation and logistics channels and routes. The country’s policy towards these developments is weighted towards cooperation rather than competition, unlike the vision of many other countries around

the world. It considers the revival of the old Silk Road channels as a good opportunity for development of its non-oil sector and supports different initiatives in this regard. Since gaining independence from the Soviet Union, Azerbaijan has invested huge amounts into its infrastructure, developing its rail, road, airport, and pipeline transportation infrastructure to become one of the main branches or hubs of the re-visioned Silk Routes. The government managed to do this mainly with its own funds, generated through the national budget as well as via the State Oil Fund of the Republic, but it has also borrowed from abroad when necessary. The Azerbaijani government does not see the new Silk Roads as a simple route or branch to be used only for transit purposes, but focuses more on their contribution to the development of the non-oil sector of the economy, which has been the main concern of decision makers since the 2014 oil price collapse. The transportation and logistics sector is identified as a priority area in the two main development programs of the country – “Azerbaijan 2020: Vision into the Future” and “Strategic Road Maps on national economy and its main sectors.” For this purpose, Azerbaijani president Ilham Aliyev has issued a number of decrees and given orders such as a directive for the construction of the Baku–Tbilisi–Kars railroad; an order for the relocation of the country’s main sea port to the city of Alat and the creation of Baku International Sea Trade Port, along with a decree for the establishment of a free trade zone in the territory of the port; and directives for the creation of industrial zones and estates as well as IT parks in the regions of the country, among other measures.¹

Currently, Azerbaijan has three major transportation infrastructure projects: the Baku–Tbilisi–Kars railway, which was launched at the end of last year; the Baku International Sea Trade Port, launched this year and currently constructing its third and final phase; and the already completed upgrade of Heydar Aliyev International Airport. However, hard infrastructure development is not limited to these projects and, in addition, existing highways and roads are also in much better condition in comparison with other neighboring countries. As this article mainly focuses on railway and maritime transportation, we will forgo an analysis of air transport in Azerbaijan.

1 Humbatov, M. (2017) The South Caucasus-Centered Transport Hub: The Crossroads of the East-West and the North-South Corridors, Budapest, Hungary.

Baku–Tbilisi–Kars railway project

The idea of establishing the Baku–Tbilisi–Kars railway line goes back to 1993, after Turkey closed down the railway segment extending from Kars (Turkey) to Gumru (Armenia) because of the Armenian occupation of Azerbaijan’s Nagorno-Karabakh region and surrounding territories. Later, in 2005, the presidents of Turkey, Azerbaijan, and Georgia issued a joint declaration regarding the BTK railway connection and its construction started in 2007.²

The biggest challenge in developing the project was funding. Georgia would never be able to afford the construction of its section of the line by itself. Although the participating countries, mainly Georgia, entered negotiations with the USA, World Bank, Asian Development Bank, the European Union, and the European Bank for Reconstruction and Development, they all declined to finance the project. The EU refused to finance the BTK project as it supported the re-opening of the Kars–Gumru–Tbilisi line. The US congress prohibited the financing of the project by the American Export-Import Bank under pressure from the Armenian lobby. Azerbaijan, in this case, took the burden of financing the project’s Georgian section upon itself. Since the inception of the BTK project, many obstacles to implementing this idea have arisen; however, with strong determination and will, particularly from the Azerbaijani government and its leader, Ilham Aliyev, the project has continued to progress.³

The BTK railroad will provide individual benefits to the three host countries. For Azerbaijan this railway route will provide an alternative for transporting locally-produced goods to Europe in addition to the current connections through Iran and Russia. In addition, it will give the country an opportunity to develop as a regional transportation hub. Moreover, by excluding Armenia from its coverage, the BTK railroad will pressure that country to end its occupation of Azerbaijani territories. In addition to all this, the BTK railroad will generate revenues for Azerbaijan from transit fares and have an impact on the development of the non-oil sector. For Georgia, the BTK will provide an

2 Das Kundu, N; Yulek, M; Humbatov, M. (2013) Baku-Tbilisi-Kars Railroad: The iron ground for the Silk Road, SAM Review 13, Baku, Azerbaijan.

3 Humbatov, M. and Sari, K. (2017) Turkic Council Countries: Infrastructure, Trade, Logistics and Transportation, SAM Review 18-19, Baku, Azerbaijan.

important railway link to Europe. Presently, the only railway connection that Georgia has to Europe is via Abkhazia through Russia. The problems that Georgia has with these two regions increase the importance of the BTK railroad for Georgia. Moreover, the BTK railroad will enable Georgia to take full control of its Javakhetia region, which is densely populated with ethnic Armenians. Further, as in the case of Azerbaijan, the BTK railroad will provide Georgia with the chance to become a regional transportation hub. What is more, the BTK railroad will also generate revenues for Georgia and will have a positive impact into the Georgian economy. As for Turkey, the BTK railroad will strengthen its position with respect to the Asia–Europe transportation corridors and will connect Turkey to Russia. Moreover, the BTK railroad will increase Turkey’s connections and access to the Central Asian states, particularly those that are Turkic-speaking.

The BTK project is beneficial not only for the three participating countries, but also for all other countries that may join the project, and even Armenia can benefit from the road once it hands back the occupied territories of Azerbaijan. For China, too, it will be beneficial, both politically and economically, to use the BTK railroad to transport its goods to European countries. From an economic perspective, in time terms, it is much shorter than any other route. The maritime route, in general, takes 36 days to reach a European destination; the trans-Siberian route, 20 days; the Chongqing–Xinjiang–Europe route, 16 days – whereas the Belt and Road Initiative, utilizing the BTK route, takes just 12 days. Another economic aspect concerns tariffs, which are currently subject to broad negotiations among the relevant governments, and it is believed that consensus will be reached on a standard and viable tariff regime. From a political perspective, this route passing through Azerbaijan is more secure in comparison with others due to its geographical and security advantages. When it comes to the BTK railroad in particular, all the three main participating countries are interested in the development of the route and stand behind the security of the route in a collaborative manner.⁴

4 Das Kundu, N.; Yulek, M.; Humbatov, M. (2013) Baku-Tbilisi-Kars Railroad: The iron ground for the Silk Road, SAM Review 13, Baku, Azerbaijan.

Baku International Sea Trade Port project

The Caspian Sea is the largest inland sea in the world and is surrounded by five states: Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan. Currently, these countries are the main maritime traders in the Caspian region. Since Azerbaijan does not have a land border with any of the Central Asian states, maritime transportation via the Caspian is of key strategic importance. There are eleven major ports in the Caspian Sea, not including the region's smaller ports. Of these, four belong to Iran (Anzali, Amirabad, Neka, and Noshahr), three to Russia (Astrakhan, Makhachkala, and Ola), two to Kazakhstan (Aktau and Kulik) and one each to Azerbaijan (Baku International Sea Trade Port) and Turkmenistan (Turkmenbashy). The leading countries in cargo handling are Kazakhstan, Azerbaijan, and Iran. Aktau is Kazakhstan's major Caspian Sea port. Along with the port of Turkmenbashy, it is also Azerbaijan's gateway to Central Asian and East Asian markets as the port for the TRACECA route. This is why the development of these two ports has important strategic implications for Azerbaijan's future transport links with Central and East Asia, particularly with China.⁵

There are currently several concepts for the development of various ports in Azerbaijan. However, the construction stage of one will be finalized in the near future. This port was created based on the operations of the old port of Baku being moved to a city situated 60 km away from the capital. The port city, Alat, is situated on the BTK railroad and this makes the new port more attractive in comparison with other, similar proposals. It should be noted that Baku International Sea Trade Port, as it is officially called, was commissioned in 2015 and was launched in 2018. A state-of-the-art ferry terminal is already in operation at the port. There has also been a presidential decree creating a special economic zone in the territory of the port, and this concept is now being explored. The President of Azerbaijan declared that the port's initial capacity should be 10 million tons and 50,000 containers per year. Upon the imminent completion of the third phase of construction, the port's capacity will rise to 25 million tons of cargo and 1 million containers. To exploit the full potential of its relations with other Central Asian countries, Azerbaijan requires a comprehensive

⁵ Klimas, E. and Humbatov, M. (2016) Baku-Tbilisi-Kars Railroad: Future Opportunities and Prospects, Vilnius, Lithuania.

and forward-looking regional strategy. This is being successfully led by President Aliyev, who is developing the country's bilateral ties with Kazakhstan, Turkmenistan, and Uzbekistan. In addition to this trans-Caspian approach, the Azerbaijani government is also developing economic ties with Iran, allowing Chinese and Indian goods to be transported through the territories of Iran and Azerbaijan.

Soft infrastructure development in Azerbaijan

As has become obvious, Azerbaijan is not only developing its railway sector, or just one port, or the main airport in Baku, or only highways, but is considering the development of all routes and channels to become a real "hub of hubs." Moreover, by creating linkages among the mentioned means of transportation and selecting a strategic location for each of them, Azerbaijan is further developing its multimodal transportation structure, which creates opportunities for logistics companies to use different means whenever any goods are transported via Azerbaijan.

Moreover, the Azerbaijani government's assessment of the opportunities available for the country is not limited only to its transit potential, meaning that there is a systemized approach to the BTK railroad and its connection to land, air, and port facilities, as well as logistical and industrial estates being built across the country. It is argued that FDI (Foreign Direct Investment) should play a significant role in the development of these areas. Government alone cannot take on such a huge financial burden alongside its other expenditures, especially during an era of fluctuating oil prices. To attract FDI into the country's non-oil sector a proper legal and regulatory framework should be created, as was done for the oil sector. Just as PSAs (Production Sharing Agreements) are applied in the oil sector, PPPs (Public Private Partnerships) and similar financing opportunities can be applied to non-oil sectors in combination with the development of an appropriate taxation, financial, and legislative regime. In fact, one can already witness signs of these developments, particularly in a presidential decree issued on November 30, 2016, regarding the law on BOT (Build-Operate-Transfer), which allowed for exemption of investors dealing with this type of scheme from paying state duties, as well as in several other decrees regarding

privatization plans. These prove that Azerbaijan is on the right track. But the speed of the reforms should be increased to catch up with all the innovations that could be useful for the country.⁶ However, one can understand the country's caution, as it has seen what reform of the rail sector in Britain has caused; privatization of this sector, or of transportation and logistics in general, cannot be said to have improved the sector, in most cases.⁷

Going back just a few years, all the official data show that the Azerbaijani economy was highly dependent on oil revenues, although this was quite understandable in context. However, the country has shrewdly weaned itself off its oil dependency in recent years. As Ilham Aliyev stated in one of his speeches:

In Azerbaijan, we see sustainable development as planning for our future. There was a development concept called “Azerbaijan 2020: vision into the future,” where the country's government set out main targets for sustainable development for the near future. It is necessary to diversify the economy for development, because oil and gas were the main criteria of our success. The money generated from the oil industry is paving the way for the favorable financial conditions that will enable Azerbaijan to increasingly focus on economic diversification.⁸

Another set of documents, in the form of strategic road maps on prospects for the national economy, provides the basis for the next phase of development planning. These were developed under the auspices of President Aliyev following the oil price crunch. It has thus become obvious that Azerbaijan fully intends to improve the conditions for doing business by enacting business-friendly legislation and pursuing pro-business policies. Furthermore, taxation is no longer a burden for the business environment and plays a supportive role for the initiatives studied here. This has proved itself and, in the latest *Doing Business Report*, the country was assessed as having one of the most rapidly reforming economies in the world.⁹ Even though there are still

6 Humbatov, M. and Sari, K. (2017) Turkic Council Countries: Infrastructure, Trade, Logistics and Transportation, SAM Review 18-19, Baku, Azerbaijan.

7 An interview with Tom Haines-Doran. Derailing Neoliberalism. Available at: <https://jacobin-mag.com/2016/10/southern-rail-gtr-corbyn-privatization-nationalize-railways>, Accessed: 5 December 2018.

8 “Azerbaijan 2020: Vision into the Future” Development Concept, Available at: https://president.az/files/future_en.pdf, Accessed: 2 December 2018.

9 Doing Business Report, 2019. Available at: http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf, Accessed: 1 December 2018.

some challenges along this road, in general the country is deemed successful in its journey along the path that was highlighted in the development concept presented in *Azerbaijan 2020: Vision into the Future*, which identified four core areas: transportation, agriculture, IT, and tourism.

Azerbaijan within the context of the Belt and Road Initiative

Azerbaijan is part of many intercontinental transportation projects, and TRACECA is one those initiatives. This project, initiated by the EU in the 1990s, was the foundation of regional cooperation, with the clear strategic goal of a reviving the ancient Silk Road and connecting Europe and Asia via Azerbaijan and Central Asia.¹⁰ In 2013 Chinese President Xi Jinping started an initiative called One Belt One Road (OBOR), which later was renamed the Belt and Road Initiative (BRI). The initiative has since then embraced many countries where a considerable number of infrastructure projects have been initiated by China. For the purpose of promoting the initiative, China also set up a multilateral development bank, the Asian Infrastructure Investment Bank (AIIB).¹¹ Some countries opposing China's international transport corridor initiative have shown reluctance to join the AIIB, and China was later accused of attracting some countries into debt traps in order to be able to use their infrastructure for the global initiative's sake. On the other hand, some experts have gone as far as to call BRI "China's Marshall Plan."

Like China, Azerbaijan has invested heavily in its own infrastructure as well that of the neighboring countries involved in the development of the Silk Road project. Azerbaijan's SOCAR (State Oil Company of Azerbaijan Republic) plays an important role in the development of the region and the company has invested vast sums of money in Georgia, Turkey, Ukraine, Greece, and other regional countries. Azerbaijan joined AIIB in 2016 and since then the bank has backed several initiatives in the country.

The Baku–Tbilisi–Kars railroad project is extremely important for China because it will allow the movement of goods and

10 Habova, A. KSI Transactions on Knowledge Society (March, 2015). Silk Road economic belt: China's Marshall plan, pivot to Eurasia or China's way of foreign policy, Available at: <http://www.tksi.org/JOURNAL-KSI/PAPER-PDF-2015/2015-1-10.pdf>, Accessed on 5 October 2018.

11 Klimas, E. and Humbatov, M. (2016) Baku-Tbilisi-Kars Railroad: Future Opportunities and Prospects, Vilnius, Lithuania.

passengers in both directions – from China to Europe and from Europe to China – in a much shorter period, as well as significantly cutting transportation costs. Azerbaijan behaves like an engine for Central Asian states, encouraging them to invest into their transportation infrastructure and coordinating matters with neighboring countries. New Baku International Sea Trade Port is considered a good example of port development for Central Asian states that have maritime access. When Azerbaijan started to build this new port at Alat, other Central Asian countries similarly began planning to regenerate their ports. Today, Azerbaijan's president acts as the main driving force behind the International Trans-Caspian Transportation Route (TITR) and even its extension to Uzbekistan, Kyrgyzstan, Afghanistan, and Pakistan. This route can also be linked via Pakistan's Gwadar port to the China–Pakistan Economic Corridor (CPEC). Azerbaijan also backs and promotes the Lapis Lazuli Corridor, which is considered a lifeline to save Afghanistan from its current problems.

Azerbaijan within the context of the International North–South Transportation Corridor

Under certain circumstances the modern-day International North–South Transportation Corridor (INSTC), a multimodal transportation route that was established in 2000, will link the Indian Ocean and the Persian Gulf to the Caspian Sea via Iran, and onward to Northern Europe via Saint Petersburg in Russia. The INSTC envisages movement of goods from Mumbai (India) to Bandar Abbas (Iran) by sea, from Bandar Abbas to Bandar Anzali (an Iranian port on the Caspian Sea) by road, and then from Bandar Anzali to Astrakhan (a Caspian port in the Russian Federation) by ship across the Caspian Sea, and thereafter from Astrakhan to other regions of the Russian Federation and further into Europe by Russian railways.¹² As is obvious from the route and the geography, the INSTC is a land- and sea-based 7200 km long network comprising rail, road, and water routes that aims to reduce costs and travel time for freight transport in a bid to boost

12 Russian Railways. North-South International Transport Corridor: Geographical position of the North-South Corridor. Available at: http://eng.rzd.ru/statice/public/en?STRUCTURE_ID=4318, Accessed: 25 November 2018.

trade between Russia, Iran, Central Asia, India, and Europe.¹³

On March 2017, India became the 71st nation to join the United Nations' international customs convention, TIR, a decision that made the implementation of INSTC more legitimate.¹⁴ It could be claimed that India's decision was inspired by China's BRI, as India could see a potential threat in China's Silk Road vision.

Azerbaijan maintains the best infrastructure for passenger and freight transportation in the entire Caucasus region. The Azerbaijani transport sector has produced many large-scale projects in recent years. Highway construction and railway modernization, the new Baku International Sea Trade Port complex, modern international airports, and global transport corridors all aim to make Azerbaijan a regional transport hub and expand the country's global reach. One of the primary undertakings in pivoting Azerbaijan to become *the* transit country between Europe and Asia is the INSTC. This will link the railroads of Azerbaijan and Iran, providing a less expensive transport association between India, Iran, Azerbaijan, Russia, Turkmenistan, and Kazakhstan. According to its location on the corridor and role as a transit country, Azerbaijan stands to gain substantially from the INSTC project. When all the necessary infrastructure is in place, the INSTC will be the shortest way to connect Indian ports and markets with Russian and North European markets via Iran and Azerbaijan. Azerbaijan has proposed a similar initiative to the one it implemented with Georgia in the BTK construction project, offering the Iranian government US\$500,000 million to construct the missing rail link between two cities in Iran that will link Iranian railways with Azerbaijani railways.¹⁵ In doing this, Baku hopes to accelerate the implementation of the North–South project and accelerate the work process.

Conclusion

The issues discussed above show that the country's government is keen to transform Azerbaijan into a transportation hub

13 The Economic Times (Delhi) (April, 2017). INSTC inching closer to the reality. Available at: <http://epaperbeta.timesofindia.com/Article.aspx?eid=31816&articlexml=INSTC-Trade-Route-Inching-Closer-to-Reality-11042017019041>, Accessed: 22 September 2018.

14 General Knowledge today (June, 2017). India ratifies UN TIR in a bid to Counter China's OBOR. Available at: <http://currentaffairs.gktoday.in/tags/world-trade-organization-wto> Accessed: 10 November 2018.

15 Valiyev, J. and Mohammadi, M. (2017) Iran-Azerbaijan Relations, Baku, Azerbaijan.

and, further, even to become a “hub of hubs,” where all transportation corridors could cross through Azerbaijan, creating additional value for the benefit of the country as well as for collaborating countries. To this purpose, the government has invested considerable funds into its hard infrastructure and is currently working on the creation and development of its soft infrastructure. The government understands that its neighboring countries are also working on their infrastructural development; therefore, the government of Azerbaijan is attempting to create a better environment to become a link between transportation hubs in its neighboring countries. For the sake of increasing collaboration, the Government of Azerbaijan headed by Ilham Aliyev is inspiring other neighboring countries also to develop their transportation potential and create logistics linkages with Azerbaijan. Moreover, the president himself travels around the world promoting the infrastructure being created in Azerbaijan as well as in neighboring countries. If one considers China as the promoter of BRI, India as the engine behind INSTC, the EU as the developer for TRACECA, ADB as the manager for CAREC, then Azerbaijan is, in reality, the key driver behind the “Middle Corridor” that includes the regions of Central Asia, the Caucasus, and Eastern Europe.

Moreover, the Azerbaijani government has witnessed what types of shortages oil price decline may create for natural resource-rich countries. Therefore, it views transportation as one of few sectors which can be a replacement for the oil sector as an engine to drive the economy of the country. For the time being the government’s initiatives in infrastructure development in the transportation sector are welcomed by many, but the future will show what impact this will have on the country’s economy.