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The Silk Road Economic Belt: Implications for Azerbaijan

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New perception of the silk road in Azerbaijani context

- Post-oil period has started
- Low oil price, low state income
- Economic diversification
- Searching for new financial sources
- Capital investment in local infrastructure

Geopolitics vs Geo-economics

- Russia and Turkey are not against an extension of Chinese influence in the region
- Political implications
- Both West and China has its own approach
- EU supports regional transportation projects but no dominant one

As a regional binder or a regional divider

- Different scenarios
- EU position
- Externality
- Russian-Chinese- Turkish common interests
- Small actors should be heard
- No political interests

Infrastructure development

- Development of infrastructure → sustainable economic growth and development, increased competitiveness, higher employment and poverty alleviation.
- Investment in resilient infrastructure → basic services to households, increasing productivity in industrial sectors, market access for agriculture, sustainable urban development, integration into the world markets



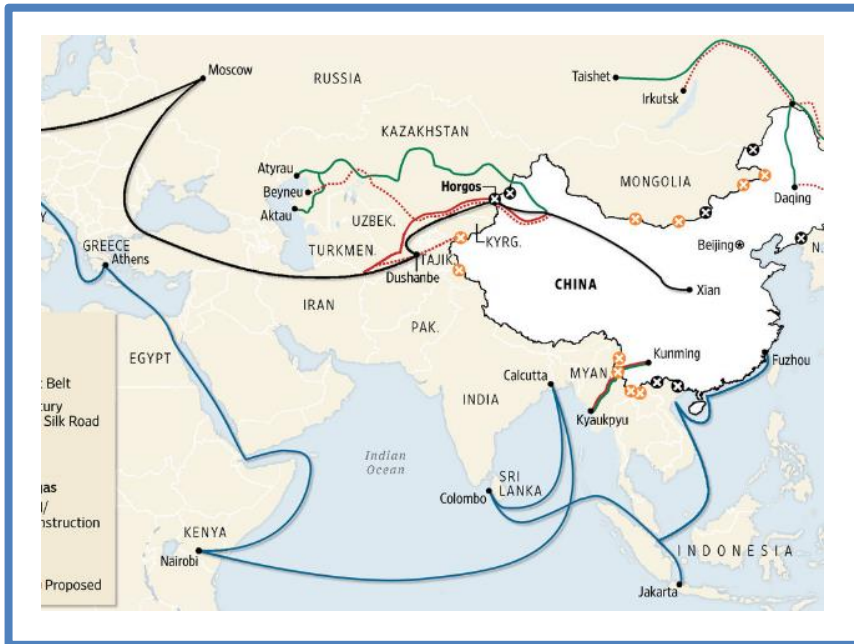
NEW silk road

- The return of a legend → building a New Silk Road
- Massive project, about 60 countries to be involved

an allocation of \$40 billion by China, to be invested in building new roads, in railroads, pipelines, and ports.



New silk road



- “One belt, one road project”
China, Central Asia, Middle East and Europe
- The establishment of Asian Infrastructure Investment Bank (AIIB)
57 countries signed the charter of the AIIB in June 2015, against the will of the United States, including Great Britain, Germany and France.

Some concerns

- Continuous efforts by the region to diversify trade partners, yet Russia remains by far the largest partner,
- With share of Iran and Turkey being modest, and southern neighbours of Pakistan, Afghanistan and India lagging far behind
- Both China and the West have attempted to develop their version of New Silk Road in the region
- Proposed Silk Road Routes:
 - (i) *Silk Road Economic Belt*,
 - (ii) *21st-Century Maritime Silk Road*



Some concerns

- All Southern Caucasus countries score poorly on the logistics performance index
- China offers an additional support packages for countries along the Silk Road Economic Belt.



Transport corridors mean for Azerbaijan

- a) A support factor for the diversification of its economy => increase of the GDP
- b) An opportunity to increase exports and transit operations within different regions
- c) Connects supplier and demand combining different means of transport (railway-ports-roads)

Transport corridors mean for Azerbaijan:

- It fosters multi-lateral relations with other countries and a reason to accelerate the negotiations of the accession of the WTO
- Increases the competitive business climate in the country => because SMEs and big corporations have more opportunities to export their products
- Improvement of infrastructure (physical, administrative, technical and digital)
- Fights unemployment

Azerbaijan main transport infrastructures are :

Goods transportation, thousand tonnes (international)

Name of the infrastructure	2013	2014	2015
Sea Transport	11 509,7	9934,1	6,626
Railway	17,257	15,563	13,095
Road	27,435	28,999	30,652

Source: State Statistical Committee of the Republic of Azerbaijan, 2017

Indicators	January 2017, actual	January 2017 compared to January 2016, per cent
Cargo transportation in transport sector, million tons	16,7	104,3

Data: Statistical Committee of Azerbaijan

Azerbaijan GDP	Last	Previous	Highest	Lowest	Unit
<u>GDP From Transport</u>	818.10	719.40	818.10	515.80	AZN Million

Data: <http://www.tradingeconomics.com/azerbaijan/gdp-from-transport>

Income and expenditure from Transportation in the Transport Sector in 2015

	Income from transportation in transport sector(Azerbaijani Manats)	Expenditure to goods and passenger conveyance in transport sector (Azerbaijani Manats)	Expenditure to goods and passenger conveyance in transport sector (Azerbaijani Manat)	Income from transportation in transport sector, by the last year in %
Railway	232,077,000	201,976,000	90.300	98,2
Sea	93,990,000	154,817,000	130,100	91,8
Air	828 ,058,000	810,422,000	105,200	98,8
Pipelines	1 ,679,770,000	379,729,000	104,800	116,7
Oil pipelines	1,325,903,000	-	-	110,9
gas pipes	353, 867,000	-	-	145,3
Road	1, 128 ,662,000	485,611,000	116,800	110,6

Source: State Statistical Committee of the Republic of Azerbaijan, 2017

Trans-Caspian International Transportation Corridor (TITC)

- Western European countries (passing by Poland, Costanza, Romania,). It divides in north and south:
- A) Ukraine – Russia- Azerbaijan- Kazakhstan- Central Asia- Afghanistan*- Asia/China
- B) Bulgaria-Turkey- Georgia- Azerbaijan- Iran-Asia
- This route involves the Black Sea, especially the ports of Costanza, Burgas, Odessa and Batumi
- * Afghanistan is strategic for transport of military items



- 1) In the railway project Baku-Tbilisi-Kars Turkey and Georgia are not very supportive in this project
- 2) Changing the cargo from rail to boat (multi-model) the cost is higher and the time is longer
- 3) 90% of the China-EU transport across land happens through Kazakhstan- Russia- Belarus-Poland

Activity of the transport related to the Transport Corridor Europe-Caucasus-Asia

Transported goods, thousand tonnes	2013	2014	2015
<i>Railway</i>	21 370	19 890	15 521
<i>Sea</i>	10 236	9 302	6 067
<i>Road</i>	27 435	28 999	30 652
<i>Total</i>	59 041	58 191	52 240

Source: State Statistical Committee of the Republic of Azerbaijan

International North South Transport Corridor (INSTC)

Scandinavian and Baltic countries – Russia – Azerbaijan – Iran (port of Bandar Abbas)- Gulf countries – India

Railway Russia-Azerbaijan-Iran (still not working because it is not Iran priority to develop this corridor yet but to improve their national railways)

Astara river connection between Iran & Azerbaijan (bridge project started in 2016)

Qazvin-Rasht-Astara USD 400 million & 7,200km route

EU-Iran => Joint Comprehensive Plan of Action (JCPOA) 2016

Rasht- Astara Raiway



Source: Ministry of Roads and Urban Development. Islamic Republic of Iran, 2016

ALAT PORT – FREE TRADE ZONE

Investment of 870 million manat (520 million USD).

Estimated transshipment of the new port complex is: up to 10 million tones of cargo and 40 thousand TEU container at the first stage, up to 17 million tons of cargo and 150 thousand TEU container at the second stage and up to 25 million tons of cargo, 1 million TEU- containers at the third stage of the project implementation. The first stage of project implementation is 3 years 6 months, with allocated 104 hectares of the land area and 9 bridges (2 ferry, 4 dry cargo, 1 Ro-Ro and 1 naval service bridges)

Which are the cargo transport means

- 1) Sea. Most cost efficient and best for volume transport.
- 2) Road 90%-99% of trade Turkey-EU and Turkey-Central Asia
- Turkey has not developed their railway system, so they use road transport

- 3) Railway

By train the customs and border checks are faster than by road because by rail only 1 person has to check and the cargo is considered 1 block.

Operational costs of road are not sustainable in long term. There are human factors (security-safety). Rail is more safe.

4) Air freight

Shortest but 3-4 times more expensive than other transport means

Challenges for the development of Successful Transport Routes

- Lack of a long-term management & cooperation Agreement
- Trans-national Political Conflict
- unstable funding
- Inexistence of Environmental Impact Assessment
- Inadequate Material Quality

CONCLUSION AND RECOMMENDATIONS

- Southern Caucasus and Central Asian countries, with the reconstruction of an ancient corridor connecting Eastern and Western civilizations, search for a transformation of their economies.
- ...However, there are several challenges to be addressed: reliance on commodity-oriented exports, undeveloped logistics, lagging integration. These problems can undermine the free flow of goods and capital.
- Azerbaijan needs to stay connected, nonetheless truly seizing this opportunity will necessitate a substantial effort.

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