



Center for Analysis of Economic
Reforms and Communication
of the Republic of Azerbaijan

The Economic Impact of Transport Corridors in South Caucasus and the Perspectives of Economic Relations between the CAREC Region and EU

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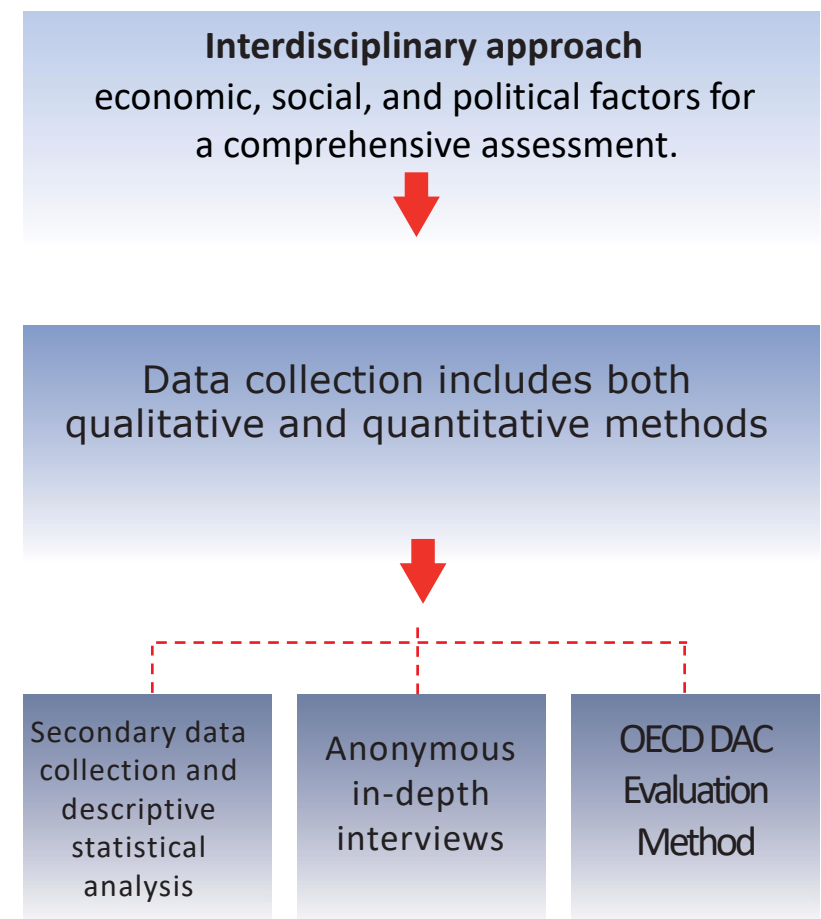
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Introduction

- ▀ **The CAREC region**, primarily consisting of landlocked countries, offers a unique opportunity for **enhancing regional connectivity**.
Multimodal connectivity corridors serve to the purpose of increasing development and cooperation
- ▀ **Historical Significance of the Central Asia and the South Caucasus**
Connecting Europe and Asia along the **Silk Road**
Further supported by their abundant **natural resources**
- ▀ **CAREC 2030 Plan – Operational Cluster**
CAREC's transport connectivity strategy
Development of infrastructure and economic connectivity
Trilateral Agreement 10 Nov 2023
Azerbaijan, Armenia, Russia: New transportation links
Potential for regional integration

Methodology





Significance of the Research

▶ **Cooperation and economic ties within the CAREC** region have been strengthened as a result of deepening economic relations

▶ The significance of **transport corridors** has grown in importance as the countries in the CAREC region have shown increased attention

The Importance of **the Middle Corridor** after the recent geopolitical and geoeconomics conditions have changed the landscape of the supply-chain

▶ **New opportunity raised in the South Caucasus** after the Trilateral Agreement between Azerbaijan, Armenia and Russia

Need to diversify the transport routes passing through the Middle Corridor

Need to enhance the international market and connectivity



Theoretical Framework

- **large-scale trans-regional projects** play a crucial role not only in **strengthening economic connections** but also in **promoting robust integrative relationships** among producer, transit, and consumer nations
- **Diversified corridors** hold significant strategic value, particularly in **bridging the East and West**
- Through the enhancement of **international legal, economic, cultural ties, and mutual understanding**, **projects like the Zangezur Corridor** offer a promising avenue for **bolstering cooperation and security** in the region
- East and West relations will develop further via the diversification of the transport corridors such as **access to technological innovations, economic advantages including new markets, secure transport routes etc.**
 - The **closure of the Suez Canal** drew attention to the potential of the Middle Corridor
 - The realization of the Zangezur Corridor aligns with China's **Belt and Road Initiative (BRI)**
- The Russian South Caucasus Railway Company, which manages railways in Armenia, also has a commercial interest in the Zangezur Corridor. This corridor offers new transportation possibilities, benefiting Tehran, which is not inclined to invest in a costly railway route (estimated at 3.5 billion US dollars) from Armenia to Iran.



Theoretical Framework

- There are six CAREC Corridors:
- **CAREC Corridor 1** aims to boost economic cooperation in **Central Asia** and connecting **East Asia to Europe**
 - **CAREC Corridor 2** enhances connectivity between **Europe, the Mediterranean, and East Asia**
 - **CAREC Corridor 3** passes through **Russia, the Middle East, and South Asia**, involving **Afghanistan, the Kyrgyz Republic, Kazakhstan, and Tajikistan**
 - **CAREC Corridor 4** traverses **Russia, Mongolia, and China**
 - **CAREC Corridor 5** is designed to establish connections between **East Asia, the Middle East, and South Asia**
 - This corridor links the region's countries to the Arabian Sea through three routes that pass through the People's Republic of China (PRC), the Kyrgyz Republic, Tajikistan, Afghanistan, and Pakistan
 - **CAREC Corridor 6**, on the other hand, **links Europe, the Middle East, and South Asia** through four routes, involving **Russia, Kazakhstan, Uzbekistan, Iran, and Turkmenistan** in its projects

Theoretical Framework



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Source: CAREC Secretariat

Theoretical Framework



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The International North-South Transportation Corridor includes significant infrastructure projects connecting **Iran and Azerbaijan**, such as the completed 8.3 km railway from Astara region (Azerbaijan) to Astara (Iran) and the Qazvin-Rasht-Astara railway project

In 2018, a test drive from Russia to Iran via **Azerbaijan** demonstrated the functionality of this railway connection.



Theoretical Framework



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- **The Trans-Caspian International Transport Route**, also known as **the Middle Corridor**, serves as a crucial connection between East and West, spanning from Southeast Asia and China through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, and ultimately reaching Europe
- Trade relations along the historical Silk Road routes
- the EU and the countries along the Middle Corridor handled **over 120 million tons of goods in 2018, with 2.2 million tons** transported by **railway**
- The **rail transport potential** for the Middle Corridor **exceeds 80 million tons**

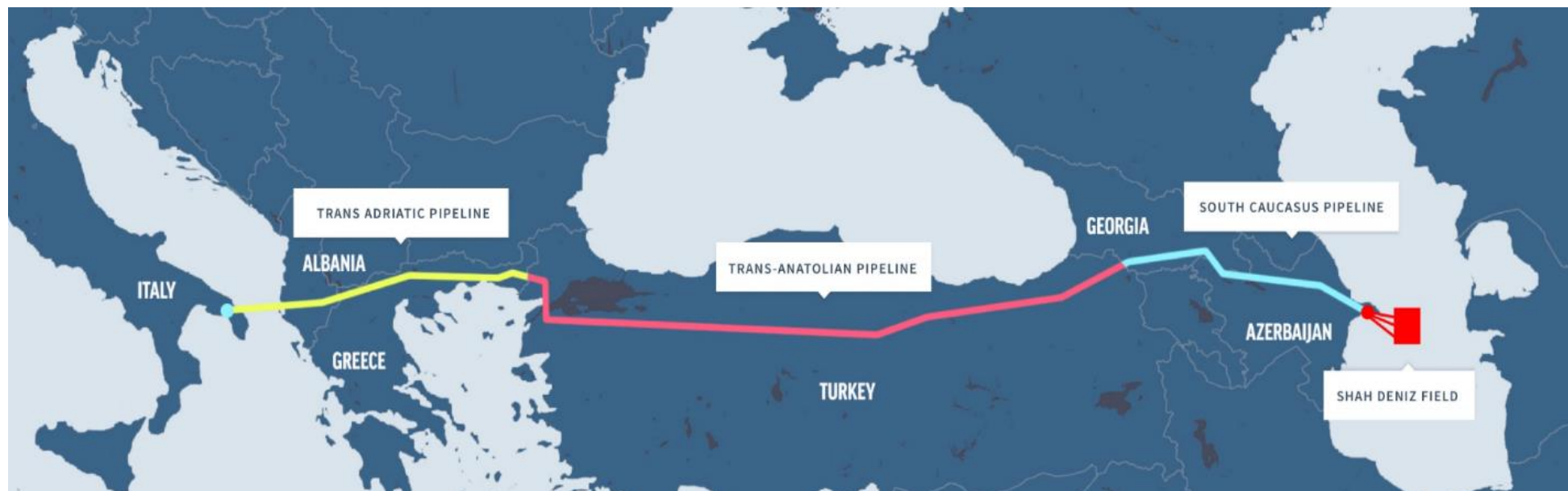


Progressing Toward Zangezur: Mega Infrastructure Projects in the South Caucasus



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- Before the Zangezur Corridor, numerous mega projects in the South Caucasus region initiated by Azerbaijan
- 2019 opening ceremony of TANAP, a 1,850-kilometer-long gas pipeline stretching from the Turkish province of Erzurum to Europe
- the Trans-Adriatic Pipeline (TAP) connecting with TANAP at the Greek border
- Plans to increase TANAP's capacity to **16 billion cubic meters**, and eventually to **31 billion cubic meters**, will further enhance the flow of Caspian gas to Europe
- Two CAREC countries - Azerbaijan and Turkmenistan, signed an agreement on gas exchange through Iran
 - **1.5-2 bcm of gas** will be swapped from Turkmenistan via Iran to Azerbaijan during a year



Progressing Toward Zangezur: Mega Infrastructure Projects in the South Caucasus



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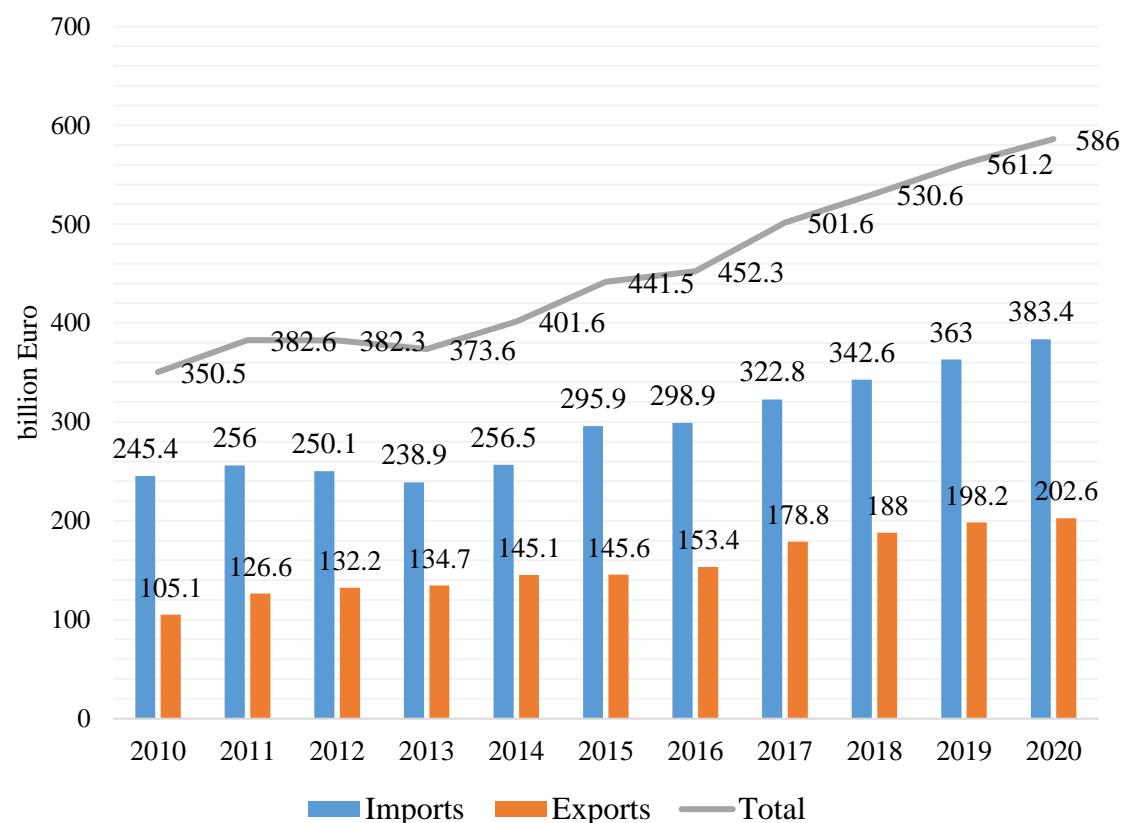
- The supply of the Caspian oil from **Azerbaijan, Kazakhstan, and Turkmenistan** - CAREC countries, though **Baku-Tbilisi-Ceyhan**
- **The Baku-Tbilisi-Erzurum** gas pipeline, which was opened in 2007 with the participation of 2 CAREC countries, Azerbaijan, and Georgia, plays an important role in connecting the energy channels of Europe and Asia.
- **Baku-Tbilisi-Kars railway** that connects the railways of CAREC region (Azerbaijan, Georgia) and Türkiye became operational in 2017
- In 2019, Azerbaijan entered into two distinct agreements with Kazakhstan and Turkmenistan.
 - The joint construction of **fiber optic transmission lines along the bottom of the Caspian Sea** along the Azerbaijan-Kazakhstan route
 - Enhancing the development of the **Trans-Eurasian Super Information Highway (TASIM)**

Findings



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- Two key advantages offered by Azerbaijan:
 - Azerbaijan's **geographical location** is strategically positioned in proximity to nations with substantial domestic markets, including Russia, Turkey, Iran, and Central Asia. The **combined economic size of these countries exceeds \$3 trillion**
 - It sits at the crossroads of international trade routes, serving as a pivotal junction for **global cargo movements linking the East to the West and the North to the South.**

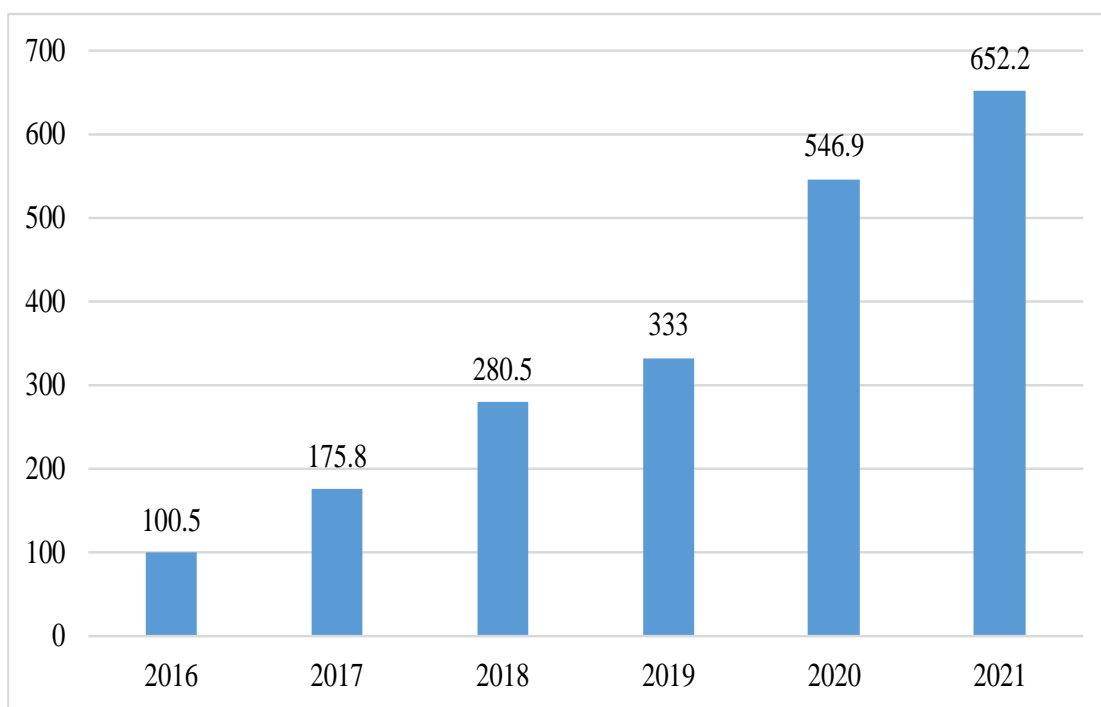


Findings

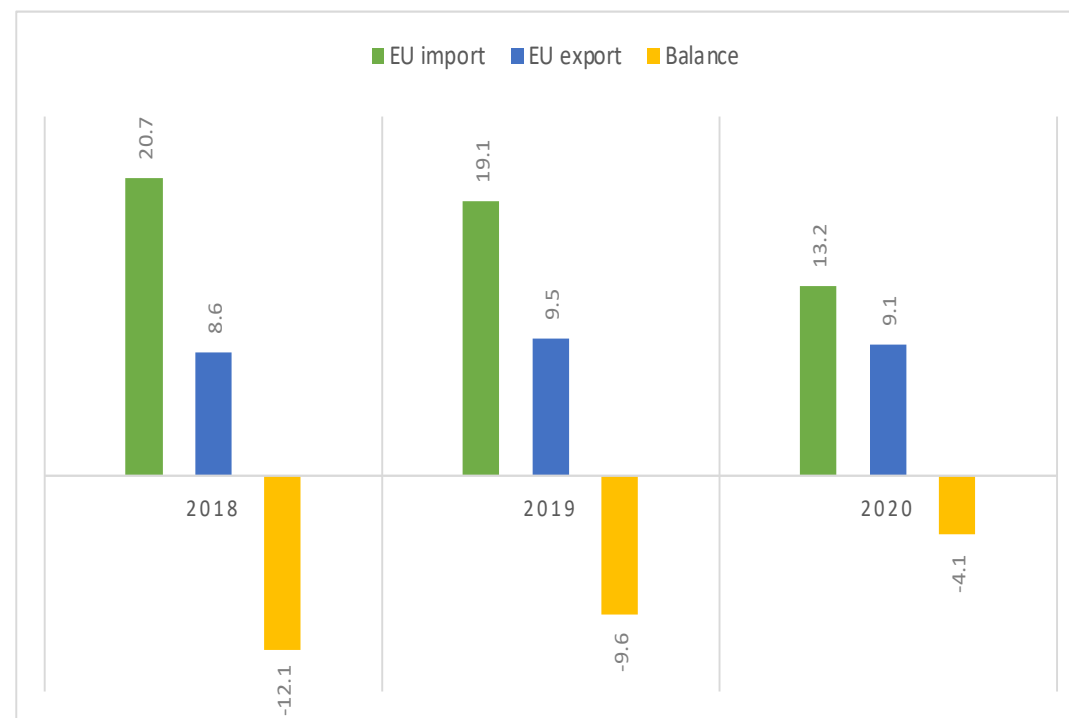


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The China-Europe-China trade route in thousand TEUs.



Trade relations between the EU and Central Asia



Findings



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| SWOT ANALYSIS OF ZANGEZUR CORRIDOR | |
|---|--|
| Strength | Weaknesses |
| <ul style="list-style-type: none"> ▪ The most direct path connecting Europe and Asia ▪ Existing infrastructure advantages, including railways and roads ▪ Rich energy resources along the corridor ▪ Access to technical specifications for railway lines within the corridor ▪ The corridor aligns with the <u>BRI</u> | <ul style="list-style-type: none"> ▪ Lack of information for stakeholders in the region ▪ Uneven and inadequate transport infrastructure in countries along the corridor that requires improvement |
| Opportunities | Threats |
| <ul style="list-style-type: none"> ▪ Presence of special economic zones in countries along the corridor ▪ Complementary role to the Belt and Road Initiative (<u>BRI</u>) ▪ Potential for future development of oil and gas, optical cable channels ▪ Advancement of regional cooperation and strategic goals ▪ Promotion of economic and cultural exchanges among corridor countries ▪ Positive impact on the economic growth of <u>CAREC</u> and European regions, leading to increased import/export ▪ Enhancement of cooperation within and between <u>CAREC</u> corridors | <ul style="list-style-type: none"> ▪ Complex ethnic and religious contradictions in the region ▪ Unstable political environment ▪ Potential delays in infrastructure restoration due to the pandemic ▪ Shortage of qualified personnel for operations ▪ Insufficient coordination in infrastructure development efforts |

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