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**PROMOTING TRADE DEVELOPMENT IN AZERBAIJAN CASE  
STUDY: DEVELOPMENT OF BAKU INTERNATIONAL SEA TRADE  
PORT UNDER THE FRAMEWORK OF BELT AND ROAD  
INITIATIVE.**

**ABSTRACT**

This paper examines the possible impacts of Belt and Road Initiative which initiated by China to Azerbaijan economy, trade as well as seaport development. Azerbaijan is located in the Central Eurasia and it is a gateway between Asia and Europe. An important location of Azerbaijan requires development of transportation infrastructure in order to promote its trade and economic growth. Azerbaijan economy is mostly depending on oil and gas sector; therefore, development of non-oil sector has been priority recent years. In order to develop these sectors Azerbaijan created one of the biggest sea ports in the Caspian Sea cost named Baku International Sea Trade Port. Development of sea port will bring more value and benefits to Azerbaijani economy and trade, especially when BRI project will be fully operational. China is one of the main trade partners of Azerbaijan, therefore such kind of cooperation is very important in order to expand markets and promote trade. Moreover the location of Azerbaijan gives it more opportunities to become logistic hub in the Central Eurasia. On the other hand Azerbaijan is landlocked country and Caspian Sea has not direct access to international waters, therefore these kind of natural obstacles delay development of such kind of sectors. Under the BRI project access to international waters, as well as global market will be more easy and effective for Azerbaijan.

Keywords: Azerbaijan, Economy, Trade, Belt and Road Initiative, Baku International Sea Trade Port.

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## **LIST OF ACRONYMS**

BRI	- Belt and Road Initiative
GDP	- Gross Domestic Product
IMF	- International Monetary Fund
OECD	-Organization for Economic Co-operation and Development
CJSC	-Closed Joint Stock Company
OJSC	-Open Joint Stock Company
TRACECA	-Transport Corridor Europe Caucasus Asia
POB	-Port of Baku
PMIS	-Project Management Information System
PCS	-Port Community System



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# 1 CHAPTER ONE: INTRODUCTION

## 1.1 Background

The interaction of societies with each other plays an important role in the emergence of civilizations with different political, economic, historical and cultural dynamics (A.B Bado, 2011). The interaction of these dynamics with each other was realized by means of transportation, mainly due to trade, migration, war, diplomacy, and so on. Transportation routes have been the most important element that provides the space relationship between people and societies through vehicles that develop in the historical process. Since the earliest times in history, a wide variety of transportation routes have enabled the relationship between communities and states to take place. However, every means of transportation has been destroyed over time and have not been able to make its name to this day. It depends on its geopolitical and geostrategic position, where there is a factor that makes the transportation path valuable and permanent, and ensures that societies maintain their social and economic relations safely. In this context, the oldest and most valuable means of transportation in human history is the Silk Road, where many ancient civilizations were born, covering a geography from Europe to Asia, from Asia to Africa (P. Frankopan, 2015). The Silk Road played an important role in the development of political, cultural relations and the interaction of societies, especially trade among the countries located on the Silk Road route. The historic Silk Road, which dates back 4,000 years, remains internationally important today.

Unlike the world's largest seaports, Central Eurasia's leading commercial cities have historically been land-based hubs. In ancient times, it took months

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or even years for merchants traveling along the Silk Road to travel to Europe and Asia (EGWH, 2010). At that time, the Central Eurasian hubs served as important regional logistics and distribution centers. In each of them there were many caravanserais, where people met and exchanged ideas, traded, people and cultures came together and mingled with each other. These shopping centers connected with other regional hubs and major cities through a wide network of corridors throughout Eurasia and the Middle East. For centuries, the Silk Road has served as a source of economic development for many peoples in Central Eurasia (I.C Beckwith , 2011).

As an important route for trade on the Silk Road, Central Eurasia is seeking to regain its historic role as a commercial bridge between east and west, north and south. Located at the crossroads of major Eurasian land and air transport corridors (a key factor in long-term success if used appropriately), Baku International Sea Trade Port can serve not only as a commercial bridge between Europe and Asia, but also as a major distribution hub in Eurasia. The potential to become one of the main commercial and transport hubs in the region, the availability of natural resources and a dynamic young generation will help in the implementation of regional transformation (POB, 2020).

The Port of Baku was the oldest port on the Caspian Sea and existed at many stages in the history of state building in Azerbaijan. For centuries, the port of Baku has served as a transport corridor between East and West, located on the ancient Silk Road, as well as the North-South transport corridor connecting Northern Europe and Russia with the Middle East and South Asia. Later, this route was used by foreign merchants from Russia, Europe, India and other countries (POB, 2020).

This study focuses on the One Belt One Road Project, an attempt to revive the History of the Silk Road by China. The emergence of One Belt One

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Road project revealed the political and economic dynamics that were effective. The cooperation, opportunities and the effectiveness of the project were evaluated. China is one of the strongest actors in the Eurasian region, with a long tradition of states and nations blending Eastern and Western civilizations. With this feature, it can make the project the leader of a major global expansion. However, it was concluded that it would be premature to make a clear comment on whether the One Belt One Road project could reach the targeted stage in terms of its regional and global consequences, in the international environment, which presents continuity and change (S. Ovali, 2008).

## 1.2 Country Background

Azerbaijan is the country located in the Central Eurasia, on the west coast of Caspian sea and bordering with Russia, Turkey, Iran, Georgia and Armenia. Its territory is 86,6 km<sup>2</sup> with 10 million population (D. Ismailov, 2017). Azerbaijan is the gateway between Asia and Europe, also has great potential to become logistic hub in this region. Moreover developing transportation infrastructure, such as building new railways, highways, seaports and airports gives country more advantages in order to become competitive logistic hub in the region. Thanks to this geographical advantage the amount of transit cargo which passes through Azerbaijan is increasing significantly year after the year. Furthermore, natural and energy resources in the Caspian sea, as well as in the Central Asian countries are easily becoming accessible to the European market through Azerbaijan.

Azerbaijan's economy heavily relies on natural resources, such as oil and gas (N.A. Osman, E. Suleymanov, 2016), Therefore, main exports are Crude Petroleum and Petroleum Gas respectively, moreover Acyclic alcohols and Raw

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Aluminum are also significant export products. Import products are mostly cars, Refined Petroleum, wheat, Packaged Medicaments and broadcasting equipments. Country's GDP was \$46.940 billion and GDP per capita was \$4,722 in 2018 (IMF, 2020). Main export destinations are Italy, Turkey, Canada, Czech Republic and Germany, while import origins are Russia, Turkey, China, Germany and Ukraine (J.Holscher, 2012). Azerbaijan is one of the leading energy suppliers of European countries. "Baku-Tbilisi-Ceyhan" oil pipeline is one of the biggest projects in the region, which is transporting oil from Azerbaijan to South-Eastern Mediterranean coast of Turkey. Also "Baku-Tbilisi-Erzurum" natural gas pipeline is transporting Azerbaijan's gas to Turkey (N.A. Osman, E. Suleymanov, 2016). As a result of both project Azerbaijan's energy products are effectively delivering to the European markets. However, volatility of prices on oil and gas market creates certain difficulties in the economy of Azerbaijan, therefore government's strategy is developing non oil sector and decrease the level of economic dependence on oil and gas sector. The main priority is developing human capital, agriculture sector, transport infrastructure, manufacturing production e. t. c. As a result of this strategy, government is investing in these sectors and R&D through creating new institutions. Therefore, in the recent years significant works have been done in this direction. For instance, building new seaport in the capital city Baku, which is one of the biggest and modern seaport in the region, "Baku-Tbilisi-Kars" and "North-West Transport Corridor" railways and significant improvements in road transport infrastructure can be best indicators of this strategy.

### 1.3 Importance of Silk Road and Eurasia in the historical process

World history is full of examples of economic, cultural and political relations established in order to gain a mutual interest among societies with different

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religious and ethnic traditions. The geography where such relations are most intense and civilizations are in contact is undoubtedly the Eurasian region due to the Silk Road route. The Silk Road, which stretches from the coasts of the Pacific Ocean to the Atlantic Ocean coasts during the ancient and medieval period, is an important bridge of civilization that covers the entire Asian continent and connects the Far East to the Mediterranean (Mammadov H, 2014). Since it is not possible to separate international trade from local trade or local from international cultural exchange, it should be accepted that the Silk Road is as much a way of trade as a way of culture and diplomacy. Therefore, the Silk Road has enabled the shaping and transfer of Eurasian cultures as well as the basic and founding element of the economy. Although the history of the Silk Road is quite ancient, it is claimed that its origins date back to Indian-European migration 4,000 years ago (Beckwith I.C, 2011) with the industrial revolution in international trade on the Silk Road, which has existed since ancient times. Trade on the Silk Road is based on long-distance and varied trade relationships where silk, spices and other goods are sold from agricultural and livestock products. In many sources, the Silk Road, which starts from China and extends to the other end of Europe, is not just a single route.

The strategic power struggle on the historic Silk Road continues today. At first glance, it is not possible to think independently of two very broadly-important concepts such as the Silk Road and Eurasia, which are partnerships in geopolitical, economic and geostrategic context, which seem like geographical concepts. In various disciplines of social sciences, the 20th century was the most diverse. The Silk Road, which has its historical origins very old with the Eurasian concept that has been used since the 19th century, constitutes the important dynamic transfer line of the international economy-political system. In this context, an economic and political structure has been inevitable to ensure the re-rational use of resources in the Eurasia region, as in the Historical Silk

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Road period and to increase the region's strategic power in the international system. China's attempt to revive the Silk Road with the Belt one Road project coincides with this idea (A.R, Topping, 2009).

#### 1.4 Collaborations and Projects related to Azerbaijan

The construction of the modern port began in the middle of the 19th century under the leadership of the Russian Empire and on June 21, 1902, it was officially recognized as a self-governing port. It was one of the world's leading ports for freight and passenger traffic, and was the largest cargo and passenger port in the Russian Empire (PoB, 2020).

In the years of 1923-1924 the volume of trade through the Port of Baku accounted for 27.3% of the total cargo volume in the Soviet Union. This made it the leading seaport of the Soviet Union. In the year of 1963, a new ferry terminal was commissioned, followed by the construction of a passenger service bridge. Later in 1972 construction of a new passenger terminal building is completed. After gaining independence, the Republic of Azerbaijan began to establish close economic relations with neighboring countries (PoB, 2020).

The doors of the countries of the region, which were dominated by the Soviet Union during the Cold War, to the south and west were closed by the USSR with strategic concern. The USSR has carried out the transport of underground resources and produced products in the region to international markets only through its own initiative. The policy implemented by the USSR has also reduced efficiency by eliminating free enterprise and competition in the region. As a natural result, countries have been prevented from developing. These states, which are rich in energy, agricultural products and natural resources, have also struggled to keep up with the free Market economy after gaining their

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independence. However, new power balances and actors have emerged at the regional and global level to fill the power vacuum in the region. Countries in the region, especially those seeking to get rid of the Soviet monopoly in economic context, needed other trade routes and partnerships (Ovalı S, 2008). It is seen that the search for new trade routes based on the mutual dependency relationship of both countries and global actors in the region is integrated with the One Belt One Road project. In this context, many globally supported subprojects have been developed and implemented within the scope of the project. The following topics are also examined in the works carried out for the revitalization of the Silk Road.

## 1.5 TRACECA

This project offered by the European Union to developing countries and the project aims to regain the old value of the Silk Road and contribute to the development of the international economy. Founded in Baku in 1993, TRACECA is in other words, the European Caucasus Asia Transport Corridor, the East-West corridor created to connect the Commonwealth of Independent States countries to Europe via the Caucasus. TRACECA member states are The European Commission, Azerbaijan, Bulgaria, Armenia, Georgia, Iran, Kazakhstan, Moldova, Tajikistan, Romania, Uzbekistan, Ukraine and Turkey. This project was designed to improve trade relations between member states and facilitate international transportation. TRACECA's objectives are as follows;

Helping to improve economic relations, trade and transport links in Europe, Black Sea region, Caucasus, Caspian Sea region and Asia, guarantee traffic safety, cargo safety and environmental protection, harmonizing transportation policies and legal structure in the field of transportation, check the entrance to

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the international road, railway and maritime market, to create equal competition between transportation operations.

*Technical assistance projects under TRACECA project;*

International Road Transport Transit Facility Project, Project for Harmonization of Border Crossing Procedures, Common Policies Project on Transit Fees and Tariffs, Transportation Management Training Project, Transportation Law and Regulations Draft Project, Maritime Education Project in Baku Port, Regional Traffic Forecast Model Project, Road Transport Services Project, Multimodal Transport Project, Highway Management System Project, Baku-Turkmenbashi Ferry Terminals Project, Railway Equipment Maintenance Project, Joint Venture Project for Trans-Caucasus Railways, Arrangement of Railways Tariffs Project, Highway Planning Project, Rehabilitation Project of Azerbaijan and Georgian Railways, Multimodal Service Applications and Training Project, Rehabilitation Project of Baku-Tbilisi and Yerevan Highway Line, Preliminary Feasibility of the Railway Network between Kashgar-Bishkek and Fergana Valley Project, Transit Railway Oil Logistics Center Establishment Project, Rehabilitation Project of Caucasian Highways, Increasing the Capacity of Government Institutions Project.

This project aims to overcome central disruptions in global and regional transport systems; includes a multi-mode transportation corridor covering railway, sea, road and air transport.

## 1.6 Trans-Asian Railway and Baku-Tbilisi- Kars Railway Projects

The Trans-Asian Railway project was not a new project, but it emerged nearly 60 years ago as a rail link between Asia and Europe, extending to Singapore, Bangladesh, Southeast Asia, India, Pakistan, Iran and Turkey. Not only it aimed



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to connect Asian countries, but to connect Asia through Russia to Europe, through Iran to the Middle East, becoming a trade corridor between Asia and Europe. This corridor has had an accelerating effect on the economic and commercial development of the region and its political integration.

Baku-Tbilisi-Kars Railway Project, which was founded in 2007 in partnership with Azerbaijan and Georgia, aims to connect Baku by rail via Tbilisi to Kars. Through The Union of Trans Europe and Trans Asian railway networks, the Caspian Sea transit train and ferry lines and the connection to Kazakhstan and Turkmenistan, Europe and Turkey, this project will provide uninterrupted rail access to the Far East and South Asia (Bagirzade E, 2014). This project aims to provide uninterrupted transportation services from Europe to China by rail. However, it is important to provide easier access to natural gas and oil resources in the region and to open the region to the world. The important ones of the works carried out within the scope of One Belt One Road project are briefly mentioned above. In addition to these there are multiple corridors have been planned between Asia and Europe such as;

- The New Eurasian Land Bridge
- The China-Central Asia-West Asia Corridor
- The China-Pakistan Corridor
- The Bangladesh-China-Myanmar Corridor
- The China-Mongolia-Russia Corridor
- The China-Indochina Peninsula Corridor

As a result, China connects the countries that are on the belt to China and offers new trade links and advantages. It provides opportunities for the operation and development of many ports in support by lending to these countries and by doing infrastructure projects.

Throughout history, the Silk Road has been the route of interaction between

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politics, trade, culture and civilizations. With the phenomenon of globalization, the world has entered into a new political, economic and cultural context by global powers, new actors and borders have emerged. In this context, as a corridor of energy, transportation and trade, the Silk Road has started to gain importance again. The Silk Road, which has been revived in order to revive economic activities led by China, is a globally qualified project that is far from each other and covers the economic and cultural potential segregated by different countries. The One Belt One Road project consisting of the merging of the Silk Road Economic Belt and the 21st Century Maritime Silk Road is important for being a multifaceted initiative involving more than 65 countries. Asia aims to connect the continents of Europe and Africa, to create cooperation between countries over the generation and to strengthen existing cooperation, to ensure development, prosperity and stability. The fact that the countries on the new Silk Road belt are rich in natural gas and oil reserves has increased interest in Eurasian geography. The conflict of influence and interest towards the underdeveloped countries of Eurasia, which has increased its strategic importance after the dissolution of the Soviet Union, has accelerated the search for international actors. In this context, it has included the countries of the region in the One Belt One Road project in China. Railways, land and air routes and trade centers to be opened on these roads will enable economic development of countries in the Eurasian region.

The One Belt One Road project, which China calls the project of the century, will cause not only a line of trade, but also states on the route to engage in political and cultural rapprochement with China. However, it is also important that China has been prevented from trying to restrict Chinese activity in the Asia-Pacific region. China's policy of spreading its economic power around the world intercontinental will result in both strengthening its own economy and the integration of the region into the international system. Ultimately, Chinese

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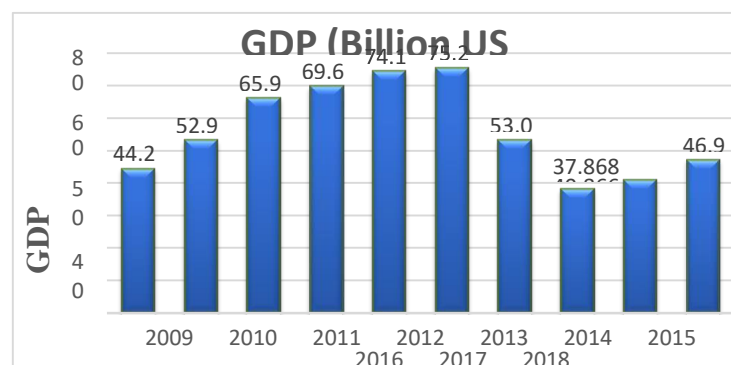
development as a similar form of American hegemony, which has dominated the international system since the aftermath of World War II, is remarkable. China has grown very rapidly in the last decades and has entered into the search for a global economic model. It seems possible to connect the philosophical basis of the One Belt One Road project to this idea. International political instability, rising terrorism incidents and conflicts of interest, however, remain a factor that prevents the project from being carried out in a healthy way. The coming periods will show whether the project of the century will turn into global cooperation and whether it can dominate the international system by replacing American hegemony.

### 1.7 Sectoral Contribution to GDP

The section discusses the relevant data on the different economic sectors in Azerbaijan and their contribution to GDP analysis.

The focus will be on establishing how trade with specific reference to the Port of Baku contributes to economic growth and development with respects to employment and GDP contribution.

**Figure 1.1: GDP 2009 – 2018**



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Source: World Bank, 2018

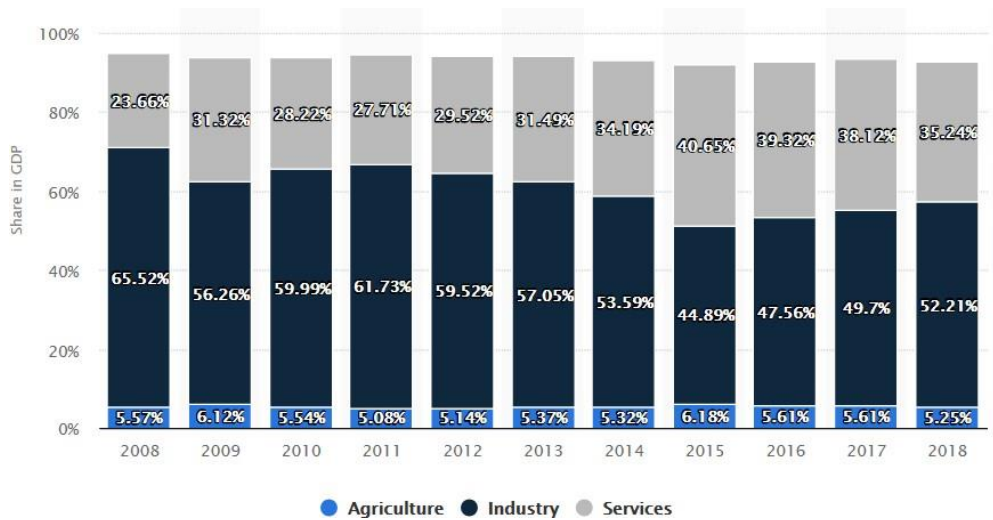
In this graph Azerbaijan's GDP has been shown from the year of 2009 to 2018. At the beginning from 2009 to 2014 there was a significant, positive and consistent increasing of GDP, however sharply decreasing has been after the year of 2014. Slowdown trend has been continuing until the year of 2016. Later from 2016 to 2018 GDP has started to grow gradually.

### 1.8 Contribution to GDP by various Economic sectors

The Azerbaijan economy is mainly divided into three sectors which are Agriculture, Industry and Services. Between the years of 2008 and 2018, the contribution of the various sectors to GDP have been vary year to year. Apparently, the contribution of the industrial sector is seen to consistently dominate the other two sectors. For example, in 2008, the industrial contribution was 65.52%, whilst service contribution was 23.66%, leaving only 5.55% to agriculture. In 2009, a similar pattern occurred with a higher percentage contribution from the industrial sector and the second higher contribution from the service sector. Except in 2015 the industrial and service sectors almost had the same contributions to GDP, the eleven years period (2008 – 2018) had a consistent record of higher industrial contribution to GDP than the remaining two sectors (Service and Agriculture). The below figure shows this

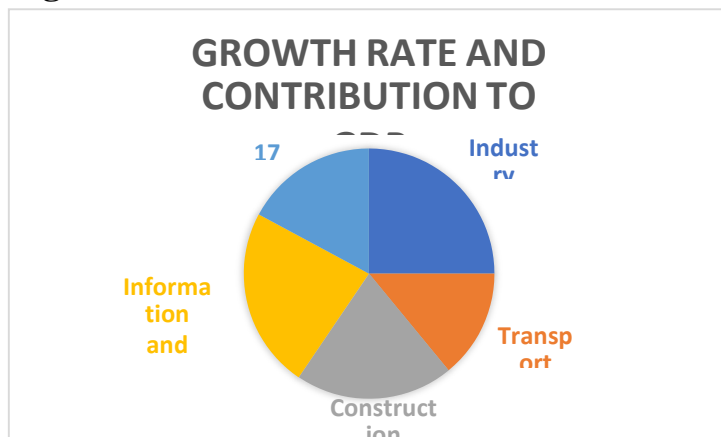
representation in a graphical form below.

**Figure 1.2: Share of Economic sector in GDP**



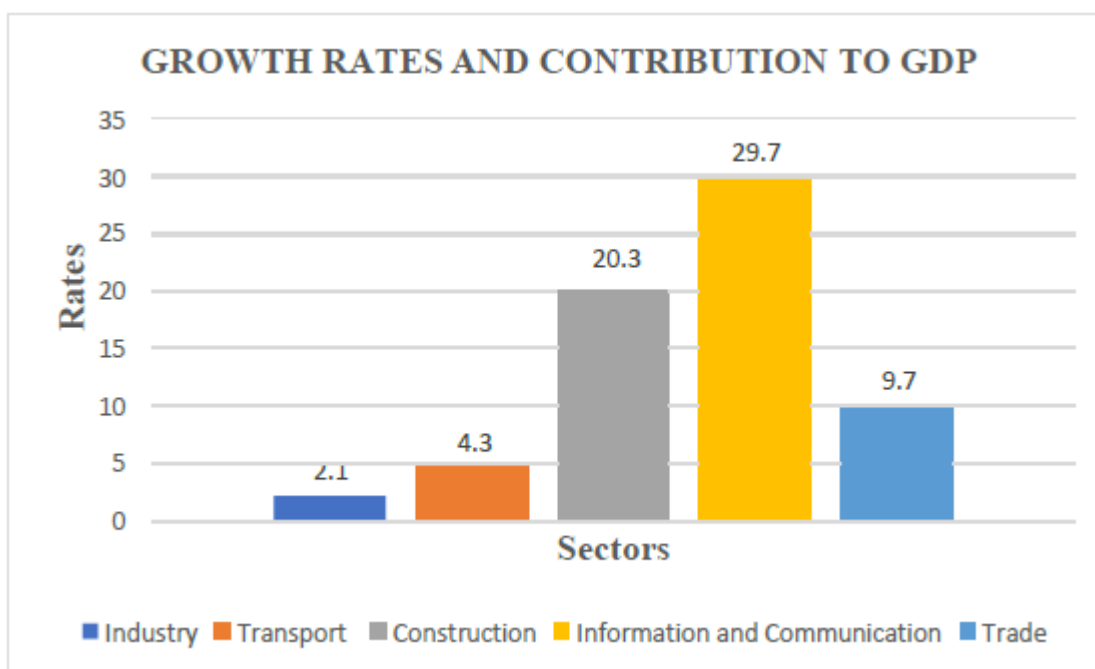
Source: OECD Data, 2018

**Figure 1.3: Growth Rate and Contribution to GDP- 2009**



Source: Figures obtained from Azerbaijan's Ministry of Economy- Author's computation using Excel.

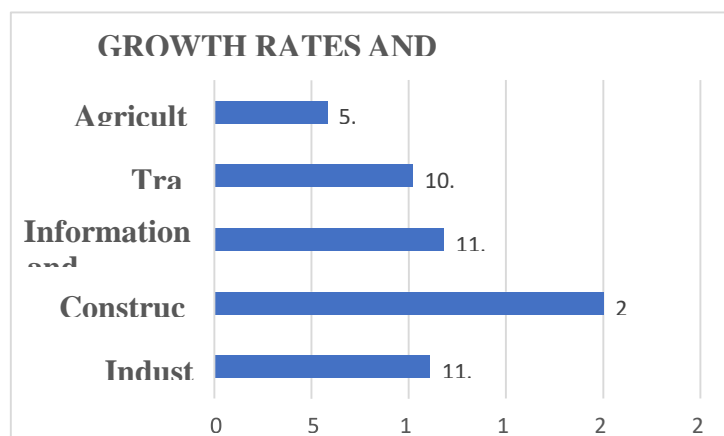
In 2009 the real growth rate in the industrial sector was 25%, in the field of transport 14%, in the field of information and communications 23% and in the field of construction there was a decrease of 21%.



**Figure 1.4: Growth Rates and Contribution to GDP 2010**

Source: Figures obtained from Azerbaijan’s Ministry of Economy- Author’s computation using Excel.

In 2010 the real growth rate in the industrial sector was 2.1%, in the transport sector 4.3%, 29.7% in communications, 9.7% in trade and 20.3% in construction.

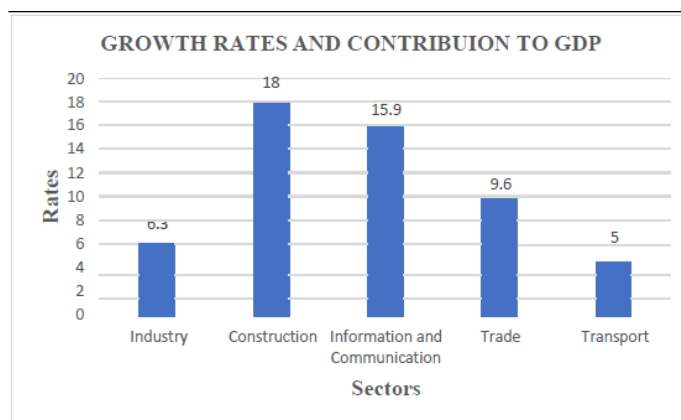


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### Figure 1.5: Growth Rates and Contribution to GDP 2011

Source: Source: Figures obtained from Azerbaijan's Ministry of Economy- Author's computation using Excel.

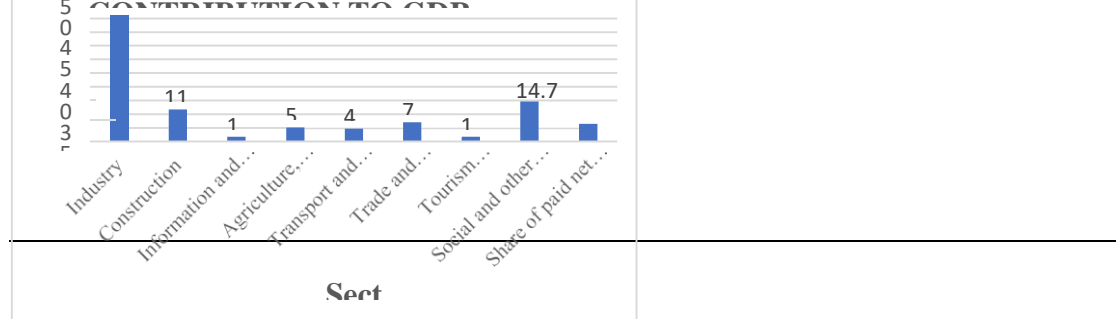
In 2011 there was growth of 5.8% in agriculture, forestry and fisheries, 11,8% in the information and communication field, 10.2% in the trade sector, 20% in the construction sector, 11,1% in the industrial sector.



### Figure 1.6: Growth Rates and Contribution to GDP 2012

Source: Figures obtained from Azerbaijan's Ministry of Economy- Author's computation using Excel.

In 2012, the volume of value added in the industrial sector decreased by 3.8%, 5% in the field of transport, 15.9% in the field of information and communication, 9.6% in the field of trade, 18% real growth was in the field construction.

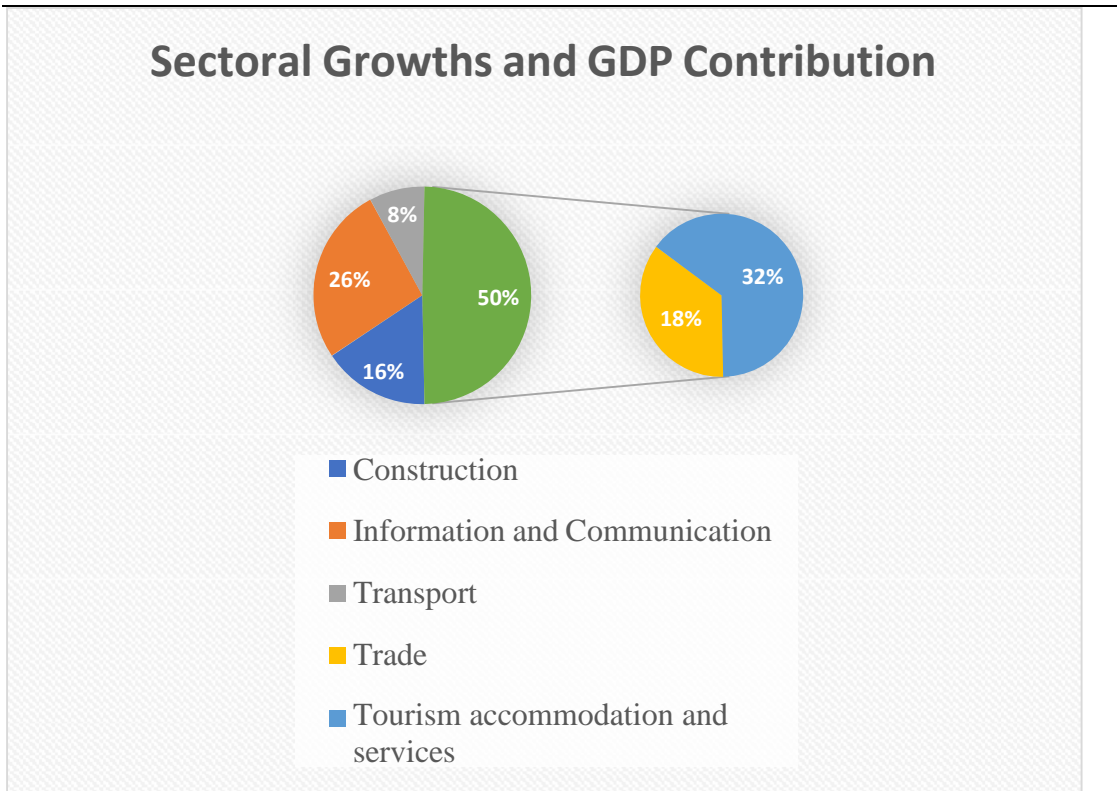


**Figure 1.7: Growth Rates and Contribution to GDP 2013**

Source: Figures obtained from Azerbaijan’s Ministry of Economy- Author’s computation using Excel.

In 2013 there was 46.3 percent growth in industry, 11.8 percent in construction, 7.1 percent in trade and transport vehicle repair services, 5.3 percent in agriculture, forestry and fishing, 4.8 percent in transport and warehousing, 1.8 percent in tourists accommodation and catering services, 1.8 percent in information and communication, 14.7 percent in social and other services, the share of paid net taxes was 6.4%.

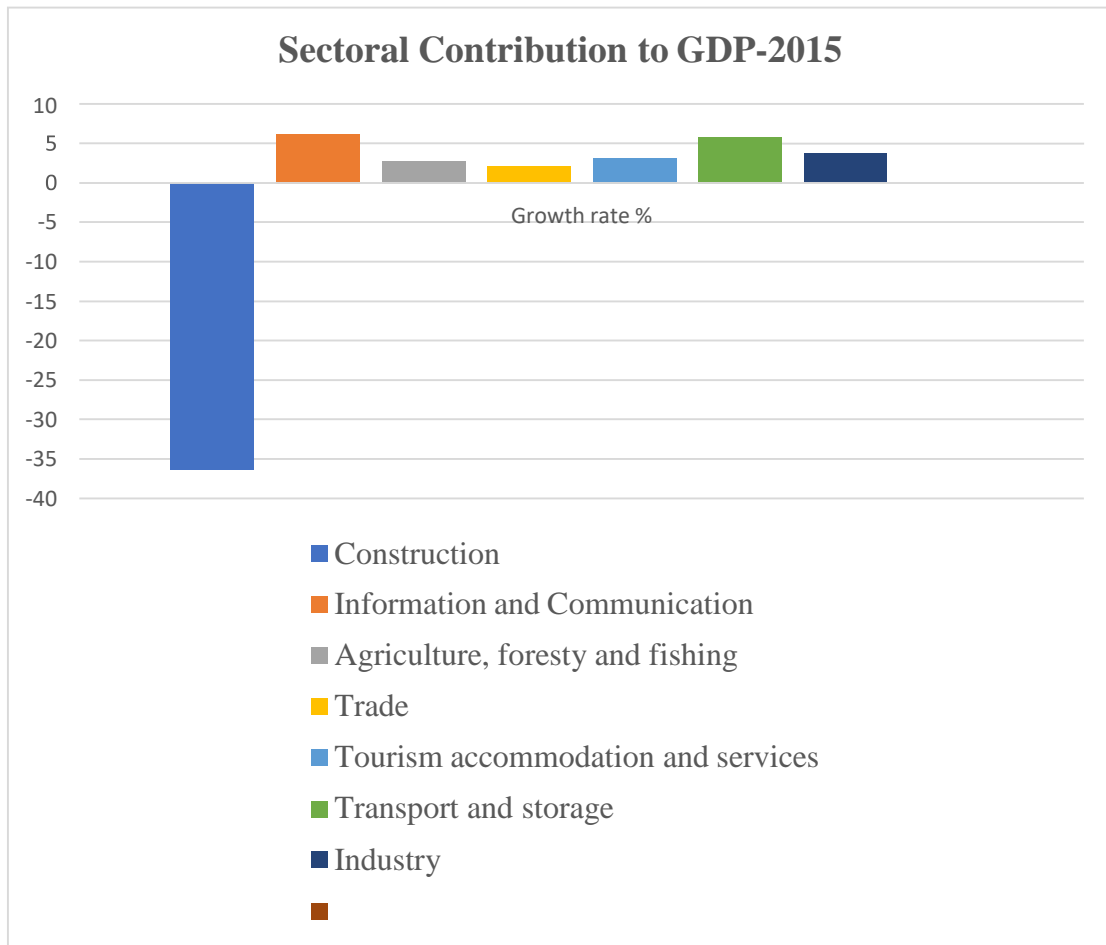




**Figure 1.8: Sectoral Contribution and GDP Contribution 2014**

Source: Figures obtained from Azerbaijan’s Ministry of Economy- Author’s computation using Excel.

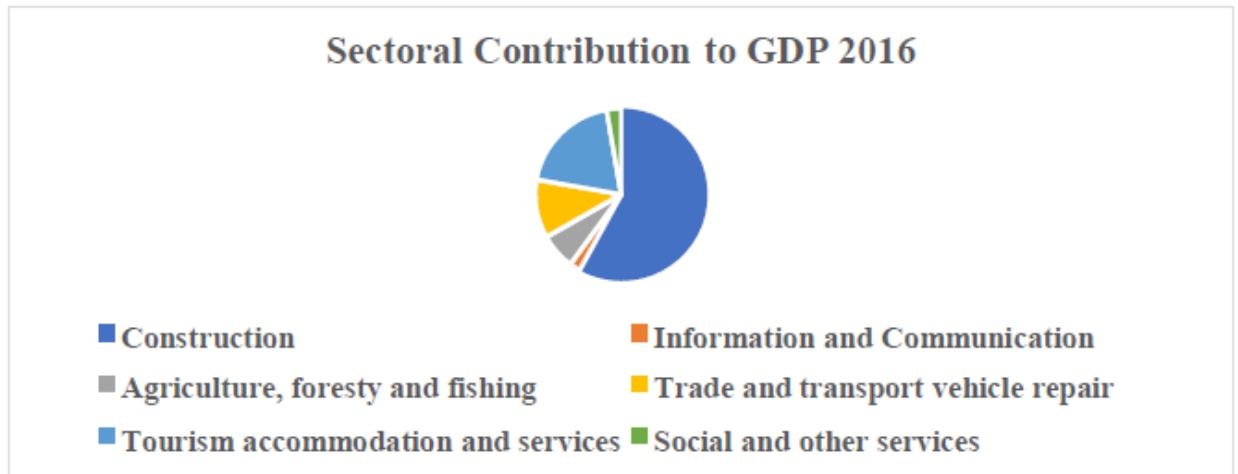
In 2014 communication area was 15.1%, transport area 4.7%, construction area 9.1%,tourists accommodation and catering sector increased by 18.2%, also trade sector increased by 10.0%.



**Figure 1.9: Sectoral Contribution and GDP Contribution 2015**

Source: Figures obtained from Azerbaijan’s Ministry of Economy- Author’s computation using Excel.

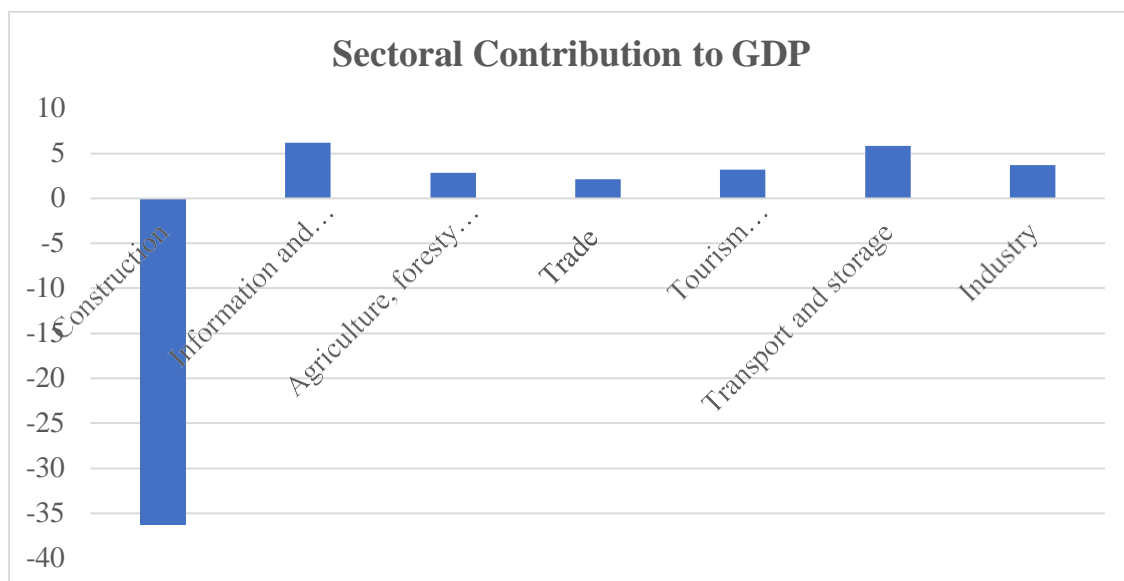
In 2015, value added in non-oil industries increased by 10.0 percent, agriculture, forestry and fisheries by 6.6 percent, tourist accommodation and catering by 14.0 percent, information and communication by 6.8 percent, trade and vehicle repair services by 10.9 percent, social and other services increased by 1.7%, share of construction decreased by 13.4%, transportation and warehousing sector decreased by 1.7%



**Figure 1.10: Sectoral Contribution to GDP- 2016**

Source: Figures obtained from Azerbaijan’s Ministry of Economy- Author’s computation using Excel.

In 2016 there was economic slowdown in the communication area by 5.5%, in the tourist accommodation and catering area by 1.8%, in the trade area by 2.3%, in the agriculture by 2.4%, in construction by 32.0%, in the transport and warehousing area by 1.2%.



**Figure 1.11: Sectoral Contribution to GDP- 2017**

Source: Figures obtained from Azerbaijan's Ministry of Economy- Author's computation using Excel.

In 2017 non-oil industry increased by 3.7%, communication area by 6.2%, accommodation of tourists and public catering by 3.2%, trade by 2.1%, agriculture by 2.8%, transport and storage by 5.8% compared to the same period of 2016.

## 1.9 Statement of the problem

Back to the history trade has been an integral part of Azerbaijan's economy and location of the country gave tremendous advantages for dealing with the trade. Being on the ancient Silk Road line also played an important role in order to deal with an international trade, as well as cultural exchanges with other countries. Needs for globalization and development of the world economy now makes actual the recovery issues of those routes again. Currently BRI, which is initiated by China, is the most important and actual project in order to develop globalization, cultural exchange, international trade, economy and recovery of ancient Silk Road. China as a leader country took responsibility for making recovering Silk Road trade routes, as well as creating new links between continents and surely achieved significant results and progress. These ambitious steps are beneficial not only for China, but for almost all countries, especially least developed and developing countries which are struggling to create effective infrastructure in order to integrate global market. The core idea in this project is creating transport infrastructure links between continents and therefore China is investing in maritime seaports, airports, railways, highways e. t. c.

In this case Azerbaijan is very ambitious to support BRI and invested significantly in transportation infrastructure, such as, building Baku International

Sea Trade Port, Baku-Tbilisi-Kars railway which are effective connections and links between Asia and Europe. Through these routes multiple types of cargo are moving between two continents.

The aim to research this topic is finding new opportunities under the framework of BRI in order to support Azerbaijan's economic development, as well as promote trade and develop Baku International Sea Trade Port. This thesis can be used by policy makers in order to assess new opportunities when they implement policy in terms of trade through maritime and port issues, as well as private companies, especially logistics companies can benefit using these information in order to find effective ways when they ship goods from Asia to Europe and vice versa.

Currently, BRI is very active topic in Azerbaijan, especially in Maritime and seaport issues, therefore policy makers and scientists are very keen to research this topic in order to implement right and effective policy. Government support to research these issues in high and institutional level is also highly appreciated.

#### 1.10 Research questions

Azerbaijan is a land locked country, because Caspian Sea has not a direct access to the international waters. This is a disadvantage in terms of large amount of cargo transportation through maritime routes. However Azerbaijani government made a significant investment in transportation infrastructure in order to create access to the world market. After making all these projects operational, Azerbaijan's economy has been developed significantly in recent years. These infrastructure projects developed not only Azerbaijan's economy, also developed economy of countries in the region. Hence, BRI will be very effective for development of this region, when there will be One Belt, which will connect Asia and Europe. Through this belt Central Asian countries, which are

land locked countries, also will have great opportunities in order to get direct access to the world market. Moreover, many East European countries will benefit a lot from BRI, because they are the gateways between developed West European countries and Asian countries such as China.

Coming to Azerbaijan the country is the logistic hub in the region, especially after Baku International Sea Trade Port became operational, moreover it is also gateway between Asia and Europe. Generally speaking BRI will boom the economy of this region, as well as will develop and improve transportation facilities, such as seaports, railway, highways and ultimately trade will be more effective and efficient. Therefore, this thesis is seeking for answers to the following two main questions:

1. What are the possible impacts of BRI on the economic growth of Azerbaijan?
2. How this development can improve the trade and increase the efficiency of seaport of Azerbaijan?

These issues, which are pointed out in the questions are the main agenda in Azerbaijan in terms of economic development and trade deals. Moreover, Azerbaijan's economy is highly depend on oil and gas resources, this project is considering one of the best option in order to develop non-oil sector and decrease an economic dependency on oil sector. Finding answers to these questions will give some clear ideas in terms of policy implications and understand new trade opportunities related to BRI.

### 1.11 Objectives of the study

The main objective of the study is to understand the significance of the Port of Baku in Azerbaijan in relation to trade and economic contribution to GDP.

Also, the research aims to:

- Analyze the economic impact in terms of employment in the Port of Baku
- To establish a possible partnership between China and Azerbaijan in relation to Belt and Road Initiative for the expansion of the Port of Baku for both phases two and three
- To estimate a projection of trade and economic impact of both phases two and three.

### 1.12 Significance of the study

This study is important in understanding the trade and economy outlook of the Port of Baku. It brings out visibility in to how much economic contribution is made with respect to employment, government revenue, investment as well as contribution to GDP. It is helpful to policy makers in assessing the investment worth of government and the business community and understand the estimation of future expansion of the Port of Baku. Additionally, the research contributes to the existing literature of logistics and port trading activities in Azerbaijan and in other parts of the region and by extension the globe at large.

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## **2 CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Research Framework**

This research will search new opportunities for a land locked country Azerbaijan in order to promote its trade, accelerate economic growth and develop seaport trade under the framework of BRI. In 2013 Azerbaijan invested in seaport infrastructure, as well as railway and highways linked to the seaport and built one of the biggest seaports in Caspian Sea cost named Baku International Sea Trade Port. However, Caspian Sea has not access to the international waters, therefore Azerbaijan needs further developed infrastructure and cooperation in order to get better access to the world market. Increasing the amount of transit cargo capacity passing from Azerbaijan through Caspian Sea has been priority for the government. China is one of the main trade partners of Azerbaijan and cargo turnover between two countries is increasing year after year. Currently cargo from China to Azerbaijan and vice versa going through maritime routes that is, from south China seaports, as well as from Shanghai seaport to Iran or Georgian seaports and then through railways and trucks delivering to Azerbaijan. Another main way of cargo transportation between two countries is through Kazakhstan and Caspian Sea. However, railway infrastructure is not proper on this line, therefore less amount of cargo passing through this way. It is obvious that current situation does not allow increasing cargo turnover significantly because of long distance and lack of transport infrastructure. When BRI project will be fully operational, then especially through Belt cargo operations between China and Azerbaijan, as well as among the countries on the line will be more effective, fast and easy. This study will search clear answers to the questions of how to promote trade through this



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cooperation, how to develop seaport trade?. Moreover finding new solutions and opportunities in the cooperation under the framework of BRI can give clear ideas to logistics companies to develop their businesses, to policy makers to implement better policy in this case, as well as to seaport authorities to develop seaport and increase efficiency of port operations in a long or short run.

## 2.2 Review of existing literature

*Azerbaijan economy*- According to Osman, N.A, Suleymanov E. (2016) as a post soviet country Azerbaijan economy struggled after the union collapse. The reason for it was that the union had the system of planned economy throughout decades and was isolated from world economy. Moreover, right after independency because of regional conflicts and political instability economic growth rate has been decreased dramatically. Especially in 1992-1993 aggression in the western part of country by the neighbor country Armenia led to war in this region and ultimately economy of this region has been destroyed. It had direct and destructive effects on Azerbaijan economy, because more than 1 million Azerbaijani refugees has been hosted in other part of the country, multiple military spending emerged in this period and economic ties between Azerbaijan, Turkey, Iran and Armenia have been destroyed. However, in 1994 cease fire agreement signed in the region and Azerbaijan became politically stable. After the year of 1994 establishing important regional energy projects such as oil pipelines, Azerbaijan economy started to grow significantly.

After 1997 oil production has increased and Azerbaijan had a fast growing economy until 2008, after recession its economic growth decreased, however from 2010 economy started to grow again. In the year of 2002 GDP per capita per year was 760.50\$, however in the year of 2009 it was 5,119\$. In a very short

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period of time Azerbaijan became from low income country to middle income country. In the year of 2006 with 30 percent growth rate Azerbaijan was the fastest growing economy in the world. As a result of this economic miracle the country attracted significant foreign investment at that time (J. Hölscher, 2012).

As we see Azerbaijan economy is highly depend on oil and gas sector, therefore government put some targets in order to develop non-oil sector and decrease dependency on oil and gas industries. Several projects has been planned to develop such as, investing in human capital, creating institutions in order to develop non-oil sector, moreover government support to develop agriculture ( “Azerbaijan 2020: View To The Future” Development Concept, 2012).

### 2.3 What is trade? The role of trade in economy and forms of trade.

Trade is the process of buying, selling and exchanging commodities, goods and services (P. F Drucker, 1994). Trade is one of the important tools in order to promoteliving standards, income distribution, wages e. t. c. Some economists claim that macroeconomic forces, such as technology is more essential than trade, while in general economists agree that trade brings positive benefits to the economy, especially in a long run. Liberalizing trade and investment helps to reduce poverty rate significantly. Moreover, opening markets also have positive effect on economic growth and China is the example for this case. With the impact of digital revolution in the international trade labor incentive activities are shifting to knowledge incentive activities (J.K Jackson, 2018).

Trade process especially in international level is regulating by the international trade law which is the part of international law. World Trade Organization is the largest multilateral agreement among over 150 countries. WTO regulating trade process, solving trade related disputes, preventing unfair

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export subsidies and implementing antidumping policies in all member countries (Posner, E & Sykes, A. 2013).

## 2.4 Trade in Azerbaijan

After independency from former Soviet Union at the beginning Azerbaijan faced many difficulties in terms of trade and economic growth. It happened because of collapsing economy in the whole Union, on the other hand transition from planning economy into market economy. However, mainly thanks to oil industry Azerbaijan improved its economy and trade turnover gradually and currently has trade ties with more than 160 countries across the world (CESD, 2012).

Manufacturing and agricultural product export contained large part of Azerbaijan's trade during Soviet Union. However, after independency in these sectors productivity decreased dramatically and hydrocarbons became dominant part of export trade. Hence, oil and gas products usually exported to European countries, while agricultural and manufacturing products exported to neighbor countries and catered to domestic market (G. B.Navaretti, 2003) Azerbaijan is the observer country in World Trade Organization. In order to become a member of this organization, Azerbaijan started unilateral negotiations from 1997 and still it is continuing. The difficulties of accession to WTO is obvious, because Azerbaijan tries to become a member under easy conditions, however, WTO puts more restrictions to government support on exports. But Azerbaijan has certain goals in order to be part of global trade and to not stand outside of global trade (V. Bayramov, 2010).

## 2.5 Sea Port Trade in Azerbaijan, Baku International Sea Trade Port.

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Baku International Sea Trade Port is one of the largest infrastructure projects which is invested by Azerbaijani government. General services in this port are dry, general, bulk, container cargo handling, as well as warehousing and storage operations. Main trading port partners are Caspian Sea coast ports, such as, Anzali and Amirabad (Iran), Aktau (Kazakhstan), Turkmenbashi (Turkmenistan). Location of the port is very important, which is at the crossroad of North-South and East-West economic corridors, moreover, very close to Azerbaijan's main railways and highways network (T. Ziyadov, 2010).

Baku International Sea Trade Port authority targeted to integrate advanced technology systems in order to increase efficiency, cargo turnover and availability of information among related sector. For this reason PMIS (Project Management Information System) and PCS (Port Community System) systems are currently implementing to the whole operations on the port. Through these systems paper works will be decreased, efficiency of information exchange among the related sector will be increased (PMIS, 2018).

## 2.6 Belt and Road Initiative and Azerbaijan

Infrastructure projects such as railway, airport, seaport, pipelines, power stations and fiber-optic networks are very important for development economy and promote trade. However, such projects cost hundreds of billions of dollars and more likely majority of countries are not able to establish effective infrastructure projects due to lack of budget. Therefore, global leader countries are the hope for other countries in order to help them to establish such kind of massive infrastructure projects (Haider, Z., Jin, F., Goodman, M., Celico, A., Elliott, D., Fan, H., . . . Xijun, Z. 2017) China's Belt and Road Initiative, another

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name One Belt One Road project is President Xi Jinping's one of the ambitious economic and foreign policy. Through this massive infrastructure project China will strengthen its economic and cultural ties with neighbor countries, as well as with the world. On the other hand Chinese policymakers consider it very important in order to refresh the country's industry (Peter C, 2017).

Belt and Road Initiative combines two major projects, Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road. Economic Belt will connect China with Central Asia, Middle East and Europe, while maritime routes will connect Asia, Africa and Europe. It includes more than 65 countries, 900 projects and amount of investment is 850 billion US dollars (I. Sarker, A. Hossin, X. Yin, K. Sarkar, 2018).

Chinese president Xi Jinping stated that, the majority of road, railway, pipeline infrastructure will be established in Eurasian region. However, maritime routes, seaports which connect China to Europe through Pacific Ocean and Mediterranean Sea, there also will be connection with Africa such as Mombasa port in Kenya. The railway from Mombasa to Nairobi is the access to other African countries. Moreover, in 2015 memorandum of understanding have been signed between 54 African countries and China which aimed to connect whole African continent to Maritime Silk Road through airports, highways, seaports e. t. c infrastructure (Tukic. N, 2018). Although BRI is the project aimed to develop world economy, improve trade relations among countries and have benefits to all participating countries through win-win cooperation, there is a lot of threat and security issues for Chinese overseas investment, as well as for Chinese workers in some countries which are politically corrupted and have military tensions in their territories. Because of those issues China have to increase security related expenses, create local security companies or outsource security services from host countries or developed countries (Yang. Z, 2018).

Nowadays China has more interest in trade with Azerbaijan, as well as its

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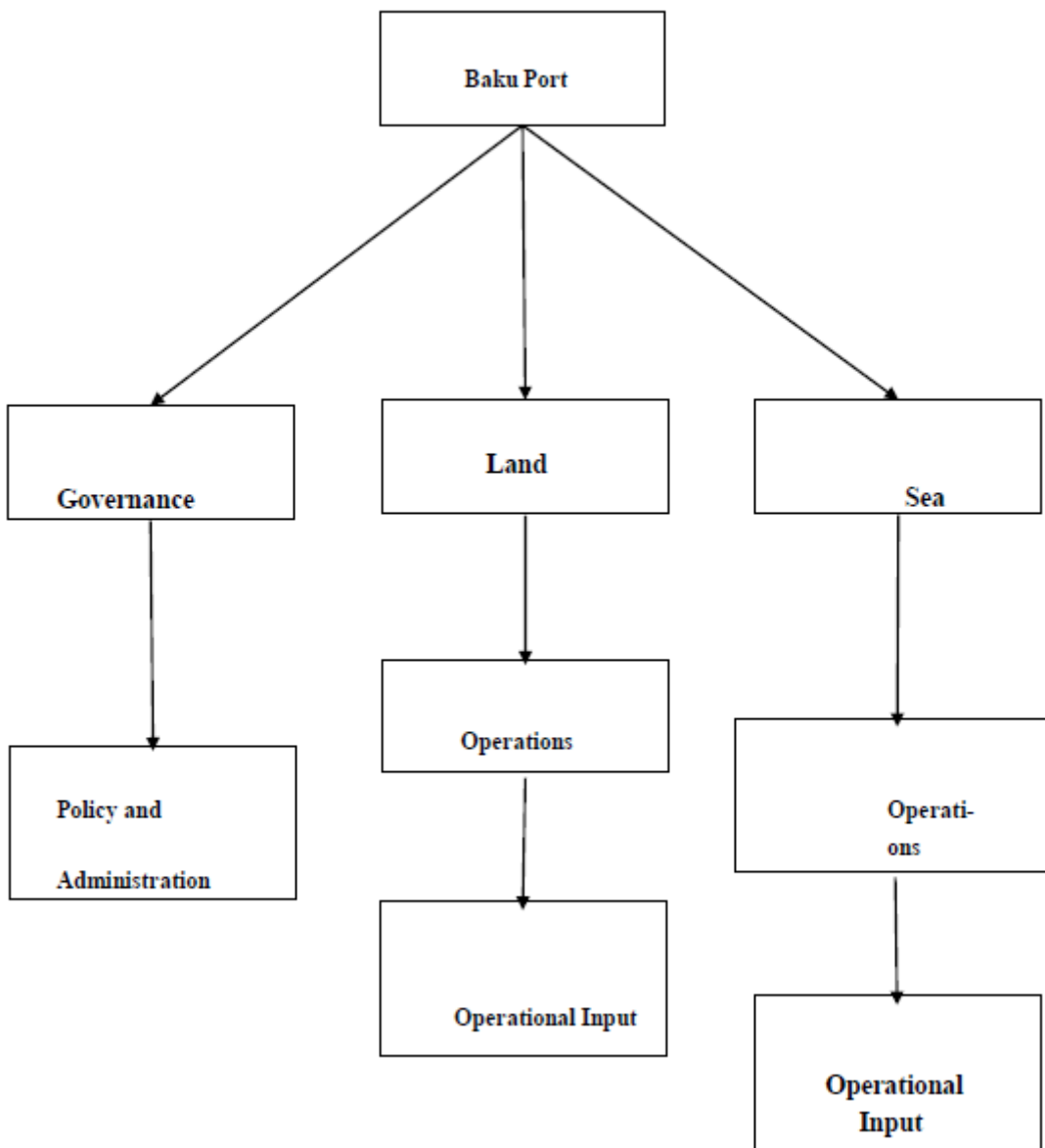
neighbor country Georgia. After establishing several economic corridors in South-Caucasus region, the number of Chinese companies has been increased significantly here. Existing of Baku-Tbilisi-Kars railway infrastructure in the region is the vital component for BRI (E. Ismailov, V. Papava 2018).

Taking everything into consideration, trade plays very important role in Azerbaijan economy, therefore the country has invested in infrastructure, especially in transport infrastructure. When BRI project initiated by China, Azerbaijan is very eager to join this project and enjoy getting mutual benefits and cooperation through this project. This study focuses on how to promote trade development in Azerbaijan in the case of sea port trade through BRI and searching alternative ways to increase Azerbaijan's role in the Central Eurasia.

## 2.7 Conceptual Framework

The conceptual framework looks at the diagrammatic relationship between the various component at the Port of Baku, the main port itself, the land and sea port, the governance structure, operational activities and operational inputs. These explain in brief the value chain relationship with one and other and how they are synchronized to the Port of Baku with respects to economic activities, in terms of employment, trade, investment, and contribution to GDP. This framework also brings out the outlook of the Port of Baku structure with a view to synergizing possible expansions from phase one to two and possibly phase three.

Figure 2.1: Conceptual Framework



### 3 CHAPTER THREE: METHODOLOGY

Qualitative method will be used to study the phenomena, which allows the researcher to understand the current situation and explore the future possible

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conditions in terms of economic development of Azerbaijan. Possible and best fitting theories will be carefully selected and applied for explanation of the issue, about the status and effect of sea and ports on Azerbaijan's economy, specifically the development of Baku International Sea Trade Port under the framework of Belt and Road Project, initiated by China.

### 3.1 Data Collection and Type

Primary data from interviews, secondary statistics and numbers will be taken from official online sources of relevant authorities and institutions, while some of them will be collected by person, as first-hand data. Besides, it is important for the researcher to receive the experiences and ideas of relevant people in the project from the side of Azerbaijan, therefore it would be intended to interview those people. The interviews are initially planned to be semi-structured and video interviews, due to the distance issue between the two countries. Overall, video interviews, secondary and first-hand data are intended to be used for this qualitative research.

Additionally, the researcher has used data from books, journals, articles, and different credible websites from where both literature and data chart and figures have been obtained.

### 3.2 Research Area

PoB's total area is 400 hectares. It has a very good location advantage. Hence, main rail routes and highways are crossing in this area. First face of this project officially became fully operational in 2018. This project is one of the biggest non-oil sector projects in the country. It is fully government investment project



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and all shares are belonging to Azerbaijani government. Seaport has 3 cargo terminals and 1 service terminal. Terminals are general cargo including container, Ro-Ro and ferry terminal. The total amount of cargo turnover capacity of port is 10-11 million tons annually through these terminals. Moreover the port has railway lines, administrative buildings, custom holding place, warehouses, open storage yards, container yard, ramps, service building for passengers, truck amenities area e. t. c.

Lengths of the quays in terminals; General Cargo quay- 650m (4 berths) Ro-Ro quay- 300m (1 birth), Service berth- 450m (various births), Depth of bridges are 7 meters

### 3.3 Ethical Standards

Misleading data is dangerous for use and have negative impact on the outcome of a project if the data were to be relied on. With this in mind, the researcher has therefore noted with caution and have exercised carefulness on data mining, analysis and presentation. The researcher has demonstrated fairness, neutrality and objectivity in analyzing and presenting the data.

## **4 CHAPTER FOUR: DEVELOPMENT OF BAKU INTERNATIONAL SEA TRADE PORT**

### **4.1 Background to the Baku International Sea Trade Port**

As Azerbaijan developed fast in recent years, its capital city also has significantly developed and grown. But this factor had negative affect to port and cargo operations through this port became difficult gradually. Because of huge traffic jams in the city and difficulties of construction of new railway lines in the city center decreased productivity of the port.

As a result of these factors, government decided to build new seaport 80 km away from the city center. Hence, as a result of this strategy, in 2007 construction works started in Alat settlement which is located in Garadagh district of the Baku in order to decrease the impact of other construction works, traffic jams e. t. c to the port operations (COM, 2014).

Moreover, new location would allow the port to increase cargo turnovers and minimize operation times and transaction costs significantly. First steps started with construction of railway lines and road infrastructure which connected port with the main railway lines and Baku-Alat highway (Evrason, 2020). Later in 2014 Ferry terminal has been ready for the operations and in 2015 on March 18 Baku Port was restored and transformed into a closed joint-stock company (CJSC). In 2018 Ro-Ro terminal became operational and later in may 2018 the port became fully operational (POB, 2020). The total length of the bridges is roughly 2100 meters. It has 2 Ro-Ro berths in order to load and unload vehicles from Ro-Ro vessels and vice versa, 2 berths for Ferry vessels, 7 berths for general cargo and container vessels and 1 berth for other type of supportive fleet, such as tug, supply boats, dredgers e. t. c (Evrason, 2020).

The project of the new port complex with an area of 400 hectares was developed by the Dutch company Royal Haskoning, and the construction, supply and installation of goods and services on the land were carried out by Evrascon OJSC (MTCHTRA, 2020).

Cargo handling capacity of the port is 10-11 million tons. Initial phases of construction have been completed and construction for the next phase is planning, which will allow to handle 25 millions of cargoes annually. This port is the largest sea port in the Caspian Sea region (Evrasccon, 2020).

Baku International Sea Trade Port CJSC, one of the leading institutions in the development of the non-oil sector in the country's economy, continues its activities successfully. Thus, in the first half of 2018, the volume of cargo handling reached 2 million tons. 86% of the total cargo fell to transit cargo (POB, 2020).

Thus, the seaport was very important form of trade for Azerbaijan throughout the history and therefore the port has undergone significant development process. The need for port and maritime trade made it necessary to shift it to new place and make operations more effective and efficient. New place of theseaportallows to involve more cargo and earn time efficiency for these operations. Moreover its location advantages create more opportunities for port trade, because main transportation routes in the country intersect in this region. During this period of time seaport has significant contribution to the national economy. Especially recent times it is a main priority for the government to develop non-oil sector due to threat on natural resources limitation and price volatility in the world market for oil products. In this case Baku International Sea Trade Port is one of the biggest non-oilsector's projects in Azerbaijan. Moreover, this port is the biggest seaport in the Caspian Sea region and 400 hectares of its territory allows to develop other business sectors within the port, such as logistics, brokering, catering companies. Ultimately, this large

infrastructure project plays an important role in the country's economy, foreign and domestic trade, as well as business sector.

#### **4.1.1 Dimensional Baku Port construction work**



**Figure 13: Figure 1.1: Construction work on New Baku Sea Port**

**Source:** Port of Baku

Listed below is the Baku Port dimensional construction work for preliminary, underwater, pits development, cargo bridge and so on.

- Preliminary works, clearing and demolition 1 000 000 m<sup>2</sup>;
- Underwater excavation works 100 000 m<sup>3</sup>;
- Development of pits 200,000 m<sup>3</sup>;
- Stone protection wall 500 000 m<sup>3</sup>;
- The total volume of soil dumping is 4,000,000 m<sup>3</sup>;
- Works to improve the soil 1 000 000 m<sup>3</sup>;
- Works on the railway line 36 km;

- General cargo bridge - the length in the water area is 654 m;
- In the beginning part of the bridge the length of the wall is 260m.

Figure 4.14: Baku Port Map (Main Cargo Terminal)



Source: Port of Baku, 2020

Figure 4.15: Baku Port Operations view



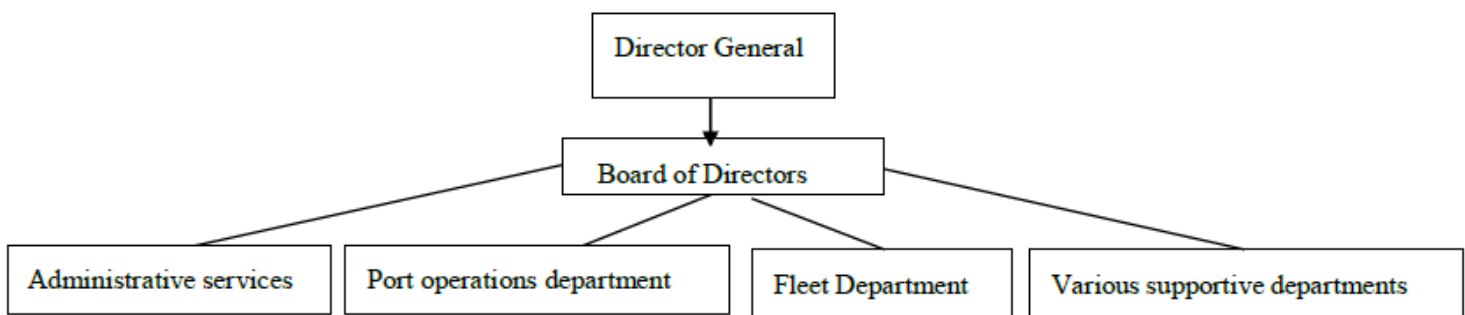
Source: Port of Baku

#### 4.1.2 Structure of the Port of Baku

The initial phases of the project have funded by the government of the Republic of Azerbaijan. Subsequent phases of the project could be funded as an alternative or additional source of funding, based on the public-private partnership (PPP) model to be adopted by the Government, by applying to the private sector. The use of PPP (or BOT) models is a way to develop private sector skills in local ports and logistics by setting up joint ventures with large international firms (POB, 2020). It will also promote ancillary port services such as container maintenance with consignors and consignees, containerized and single-cargo handling, truck services, empty container storage, shipping, supply chain management, warehousing and distribution services. During construction of the project and after it became operational Port of Baku had positive impact on country's employment. Hence, skilled or non-skilled workers have been employed to the various positions according to their skills and performances. Especially local people around the port area have been benefited from these job

opportunities. Moreover, development of the port have positive effect on developing other business sectors such as hotels, restaurants, logistics companies in this region and ultimately this positive trends have direct or indirect affect on the employment rate. During the construction of Port of Baku up to 1500 workers have been employed and worked in various positions. Currently, Port of Baku employs more than 600 specialists representing various areas of port operations and port management. It offers a healthy and friendly work environment, career development, training and opportunities for professional development. (Port of Baku, 2020).

**Figure 4.4: Baku Port Summary Organizational Structure**



Source: Port of Baku, 2020

Overall, the construction of the Port of Baku has been fully invested by the Azerbaijani government. However, in order to realize further expansion projects there will be need for foreign direct investment and private investment. Moreover, privatization or decentralization also can be priority in port operations. In this area there will also be multiple business and service companies in order to support port operations effectively. This positive development processes on trade, logistics, tourism, services sectors will have positive effect on employment rate not only in this region but also in the whole country. Skilled and educated workers from all of the country will have

opportunities to get job in these companies. Ultimately it will be led to improvements of life standards of the population, especially in this region. Port of Baku has implemented a modern technology to the operations such as advanced portal cranes, automotive bridge operation systems, automotive operation system on power engineering e. t. c. Moreover port authority is investing in human resources, such as organizing training programs for employees, participation in the overseas seminars, field trips which help to increase potential of the operation team.

#### 4.2 The Economic importance of Port of Baku

Ports contribute to the development of trade opportunities, industrialization, improvement of living standards and increase in employment and social opportunities in parallel to the regions where they are located. In addition to their economic and social contributions, they are also vital for national and international security. It is imperative that ports of such importance in the national and international arena operate efficiently in order to be preferred in commercial life. In order to increase the efficiency of the ports in the country's economy, development by considering the ports and their hinterlands processes need to be planned.

As each port has a certain life period, they are forced to change dynamically with increasing or decreasing trade volume over the years. If this change does not occur, the ports will not be the reason for preference. Reduced load volume will adversely affect the port area and its hinterland, and the port will operate inefficiently and it will be on the negative side of the country's balance sheet. However, as the port keeps pace with the developing trade volume and technology, as a result of efficient use of resources, its development can be achieved with increased efficiency and the life period can be sustained. As can



be seen in many developed cities today, the concept of port continues to be a trade center. It has also become an industrial center where production can be made (E, Akyurek, 2017).

As a result of globalization policies in the world, the rapidly increasing world trade volume and the biggest sector of the developing transportation industry is the sea transportation. The transportation sector plays an important role in the economic growth of countries. In Azerbaijan, maritime transportation has an important contribution in the transportation system with the feature of being the large transportation system. Ports, which have an important place in the elements of this system, are the entrance and exit gates, where cargoes are transported from land to sea and from sea to land and the economy of the country opens to the outside. Ports have indirect but very important contributions to the economy. Port and industry concepts are life-giving elements. Port activities are a necessity where the industry exists. Where the port service is available, industrial activities develop and grow.

In terms of security and cost-effective transportation, maritime transport is an important force in worldwide competition. Of course, while we are talking about ship transportation, we must emphasize that it is vital for these ships carrying cargo to dock safely, quickly and smoothly, to meet the necessary logistics needs, to load and unload their cargo, and to deliver cargo to scheduled terminal points in a timely manner. At this point, the importance of large and deep harbors becomes apparent. It is very important for Azerbaijan to have a big and modern harbor in order to have strong and globally integrated economy as well as to get a share in global trade.

The goal of Baku Port becoming a major hub includes an integrated development model that will link seaports, airports, logistics centers, the petrochemical industry and other strategic transport and projects under a special legal regime. The framework of Azerbaijan's decentralization strategy is to

create an attractive and competitive business environment that will bring investors and designers to Azerbaijan to invest in the non-oil sector. This can only be achieved in an environment of political and economic stability, with the necessary technical and regulatory skills of the government, as well as a high level of political support for the project.

The New Port Zone in Alat will become the largest industrial and logistics zone in the Caspian region (MTCHTRA, 2020), offering comprehensive logistics services to residents and international customers and serving as an important regional multi-transport distribution center. The purpose of expanding the port in this area is to attract more cargo from the new areas, to provide them with an important import and transit point.

Alat settlement, where the Baku Port is located, intersects with existing roads and railways connecting the interior of the country. Three international railway lines passing through Azerbaijan intersect in Alat. At the same time, the new Baku International Sea Trade Port Complex, located at the junction of the East-West and North-South transport corridors, which is part of Azerbaijan's policy to become an important transport and logistics center in the region, has a crucial role in expanding the country's transit capacity.

The new port will act as a direct loading point for the Baku-Tbilisi-Kars railway, which was commissioned on October 30, 2017. Thus, the formation of an efficient and sustainable logistics chain that will allow the inflow of cargo from the North, South, East and West to the country through the Baku-Tbilisi-Kars railway to Europe or by ship to the East. It is planned to create a free economic zone in the surrounding areas, including the territory of the new port, which will provide wider transit and transportation opportunities to the port as an important transport hub (MTCHTRA, 2020).

#### 4.3 Baku Sea Port tonnage type and quantities for three years period

Table 4.1: Types on tonnage and Quantity 2013-2015

<b>Tons</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>% change*</b>
Auto Vehicles**	8120	19469	186141	+856,09%
Bulk and Break-Bulk	2676466	2215406	1051109	-52,55%
Containerized	141391	321521	350849	9,12%
Railcars	4058299	3337911	1471413	-55,92%
<b>Total</b>	<b>6884276</b>	<b>5894307</b>	<b>3 059512</b>	<b>-48,09%</b>

Source: Port of Baku

There is a statistical data for 3 years of various cargo operations in the port. In the year of 2013, 2014 and 2015 there have been handled Auto Vehicles, Bulk and Break-Bulk, Containerized and Railcars. Hence, in the year of 2013 tonnage of auto vehicles has been 8120, then next year there has been significant increase of auto vehicles up to 19469, almost more than double, however in the year of 2015 it is been sharply increase in this amount of cargo up to 186141. Ultimately it is been +856,09% positive grow on this type of cargo operation.

The tonnage of bulk and break-bulk in the year of 2013 was 2676466, in the next year there is been decrease to a 2215406 and in the year of 2015 there is been dramatically slow down to a 1051109. So, it is been -52,55% negative growth in this period.

The tonnage of containerized cargo was 141391 in 2013, then next year it grew up to 321521 and in the year of 2015 it is been increased up to 350849. Overall there is been +9,12% positive grow of containerized cargo.

In the year of 2013 the tonnage of railcars was 4058299, next year decreased to 3337911 and in the year of 2015 it is been 1471413. In total this kind of cargo operations had -55,92% negative growth.

Totally during this period of time, the tonnage of cargo handled in the port decreased by -48,09%. The reason for this can be an ending of contracts between

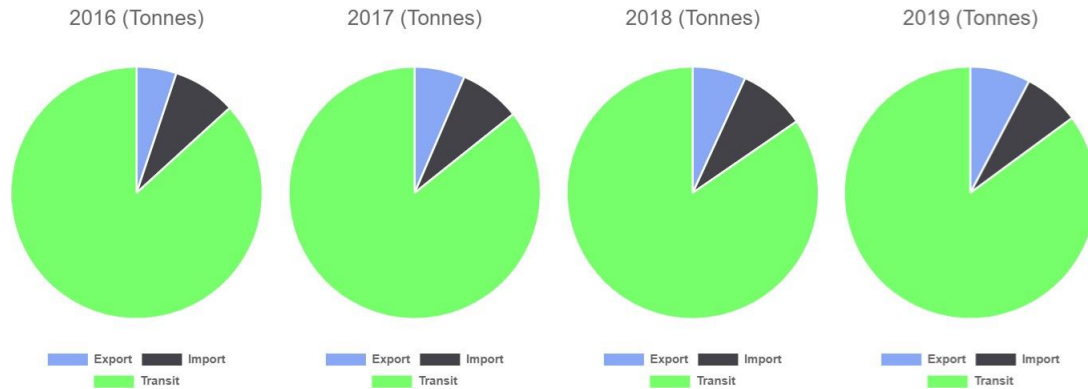
cargo companies, new agreements between involved countries or some political changes in the region.

Auto Vehicles(Units)	448	844	8756	+937,44%
Containers (TEUs, Units)	6117	10485	13307	+26,91%
Railcars(Units)	71610	60156	31440	-47,73%
Passengers (Units)	9408	9742	10707	+9,9%
Vessel Arrivals	2 019	1 769	1245	-29,62%
Vessel arrivals, including not berthing***	2 451	2 194	1 824	16,86%

In this table there is description of a number of units per cargo handled in the port. For Auto Vehicles, Containers and Railcars it is a same volatility as above mentioned. However the number of passengers has been increased. Hence, in the year of 2013 it was 9408, next year 9742 and in 2015 increased up to 10707. All in all, there is been +9,9% positive grow in the number of passengers in the port.

The number of vessels arrivals was 2019, 1769, 1245 in the years of 2013, 2014 and 2015 respectively. As a result of this trend it is been -29,62% negative growth during this period. Moreover, the number of vessel arrivals in total including not entering to the berths was 2451, 2194 and 1824 in the years of 2013, 2014 and 2015 respectively. Here is also a negative growth by 16,86%. Not berthing means that, vessels can arrive to the port but in order to take provision, maintenance services or some documentations. Moreover there can be payment issues between companies or the vessel can be not qualified for the operations.

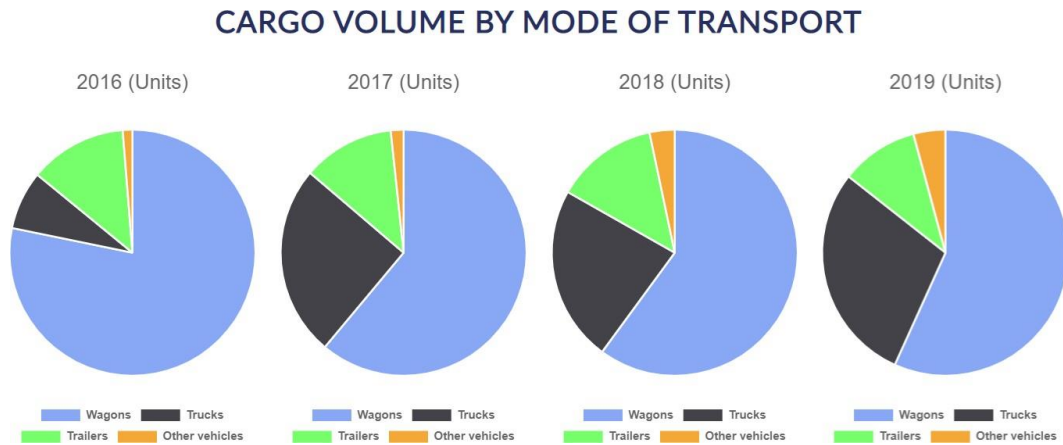
## TOTAL CARGO THROUGHPUT



**Figure 4.17: Total Cargo 2016-2019**

Source: **Port of Baku**

The above figures illustrate cargo throughput of the Baku Port in the recent years (from 2016 to 2019). According to this statistics transit cargo handling was the major work throughout these years. Share of import and export throughput was almost equal and small compare to transit cargo operations. In 2016 in total 3923600 tons transit, 231400 tons export and 367500 tons import cargo, in 2017 in total 3770000 tons transit, 283900 tons export and 344200 tons import cargo, in 2018 in total 3203000 tons transit, 259000 tons export and 325000 tons import cargo and in 2019 in total 3453000 tons transit, 312000 tons export and 292000 tons import cargo has been handled in Port of Baku.



**Figure 4.18: Cargo Volume by mode of transport**

Source: **Port of Baku**

The figures above demonstrate cargo volume in the Baku Port from 2016 to 2019 by various mode of transport such as wagons, trucks, trailers and other vehicles. Unites of wagons were dominated throughout these years, however there is been significant increase on the units of trucks and the overall unites of vehicles have been increased significantly year after the year.

#### 4.4 Cooperation and Achievements

Baku Port benefits from its global network and close partnerships with regional and international ports. The cooperation agreements signed with the partners have strengthened economic and commercial ties, expanded cooperation in the field of joint research of the international market, and contributed to the stability and efficiency of transport channels. In addition to building successful bilateral relations, Baku Port is an active member of a number of international organizations. The IAPH(International Association of Ports and Harbors) 2018 World Ports Conference, held in Baku with great success, reaffirmed the importance of the port in the international port arena and

its commitment to partnership and sustainability that will contribute to the future development of the global economy. Moreover Port of Baku is a member of International Association of Ports and Harbours, Silk Road Chamber of International Commerce (SRCIC), Trans-Caspian International Transportation Route (TITR). Also, Port of Baku has mutual cooperation with European Union. In order to increase the operational efficiency of the new port, Baku Port is developing cooperation with various organizations, including the new project with the European Union. The project will provide technical assistance to the port, allowing it to compete in a highly competitive international and regional environment. The main goal of the project is to support the Government of Azerbaijan to turn Baku Port into an international logistics and trade hub (POB, 2020).

In 2019, Baku Port was awarded the ISO9001 Quality Management System Standard and the ISO14001 Environmental Management Certificate. Moreover, Port of Baku also received the Port Ecological Expertise System (PERS) certificate issued by Eco Ports, the main environmental initiative of the European Seaports Organization (ESPO), for the first time among the Caspian seaports in 2019. Thus, Baku Port became one of the 34 ports in Europe that received this certificate. On September 22, 2017, Baku Port was awarded the OHSAS 18001: 2007 certificate. This reaffirms that Baku Port supports a safe and healthy working environment and seeks to minimize the risk of accidents by monitoring the negative aspects of occupational health and safety. It also shows that the Port of Baku is a responsible entity that seeks to ensure economic health as well as occupational health and safety (POB, 2020).

### **Services in the Port of Baku**

The Port of Baku is responsible for the collection of port duties from ships entering the port area and uses these fees for the development, management and

operation of the port. Moreover, Port of Baku acts as a border post of Azerbaijan, which means that the cargo can move freely in the territory of Azerbaijan after clearance at the port. The State Customs Committee of the Republic of Azerbaijan shall be responsible for the release of goods entering or leaving the country.

### **Services for the vessels;**

The following services are provided 24/7 to all ships arriving at Baku Port: Arrival / departure, arrival / departure from the port, fresh water supply, fuel or diesel oil supply, agent services for foreign vessels.

### **Loading and unloading operations**

Processing of unified (including containers) and bulk cargo:

- Container processing with special accessories (distribution structure), hooks, fasteners (for processing other types of unified cargo), grapples (for bulk cargo handling), etc. portal cranes equipped with.
- Mobile port crane for heavy loads, including project transport
- In addition to cranes, special loading and unloading equipment includes: loaders of containers intended for the movement of containers in the container yard, as well as in a closed warehouse, in addition to carrying out loading and unloading operations from trucks and wagons;
- Hook-shaped hoisting mechanisms designed for the movement of other types of unified cargo in both open and closed warehouses, in addition to carrying out loading and unloading operations from trucks and wagons.

### **Warehouse services**

Baku Port has a capacity of 100,000 TEU containers per year and has an open storage area of 56,000 m<sup>2</sup>. Warehouses with a storage area of 10,000 m<sup>2</sup> are the



best choice for storing products that need to be protected from various weather conditions.

### **Services for passengers**

Baku Port has 2 ferry terminals and 2 Ro-Ro bridges that provide highly improved passenger and freight services. In recent years, a significant increase in passenger traffic through the Baku Port has been observed. Baku Port has relations with Turkmenbashi port of Turkmenistan, Aktau and Kuryk ports of Kazakhstan for passenger movements.

### **Multimodal transportation through Port of Baku Railway transportation**

The ferry terminal at the Port of Baku, which accounts for 80% of its total activity, mainly transit cargo from Kazakhstan and Turkmenistan, is the main access platform in the Eurasian transport network. In order to serve the existing two-storey railway ferries, 26 wagons with a total length of 364 meters can be placed on the four ferry tracks to be provided on each berth. Baku Port has access to four major international railways: the north-western railway from Baku to the south of Russia; west, from Georgia to the Black Sea and Turkish coasts (Baku-Tbilisi-Kars railway); a railway to the southwest, to Iran, and then to Turkey; and a railway from Azerbaijan's south to Astara city on the border with Iran.

### **Road transportation**

Located at the strategic crossroads of the main North-South and East-West transport corridors, Baku Port provides access to the country's main road networks. Baku-Alat-Ganja-Gazakh-Georgia Border (M2 highway), which is part of the Azerbaijani segment of the TRACECA corridor, Baku-Guba-Russian Border (M1 highway), which forms the Azerbaijani segments of the North-South Corridor, Baku-Astara-Iran border (M3 highway) ) and all major roads in

Azerbaijan intersect in Alat.

#### 4.5 Investments

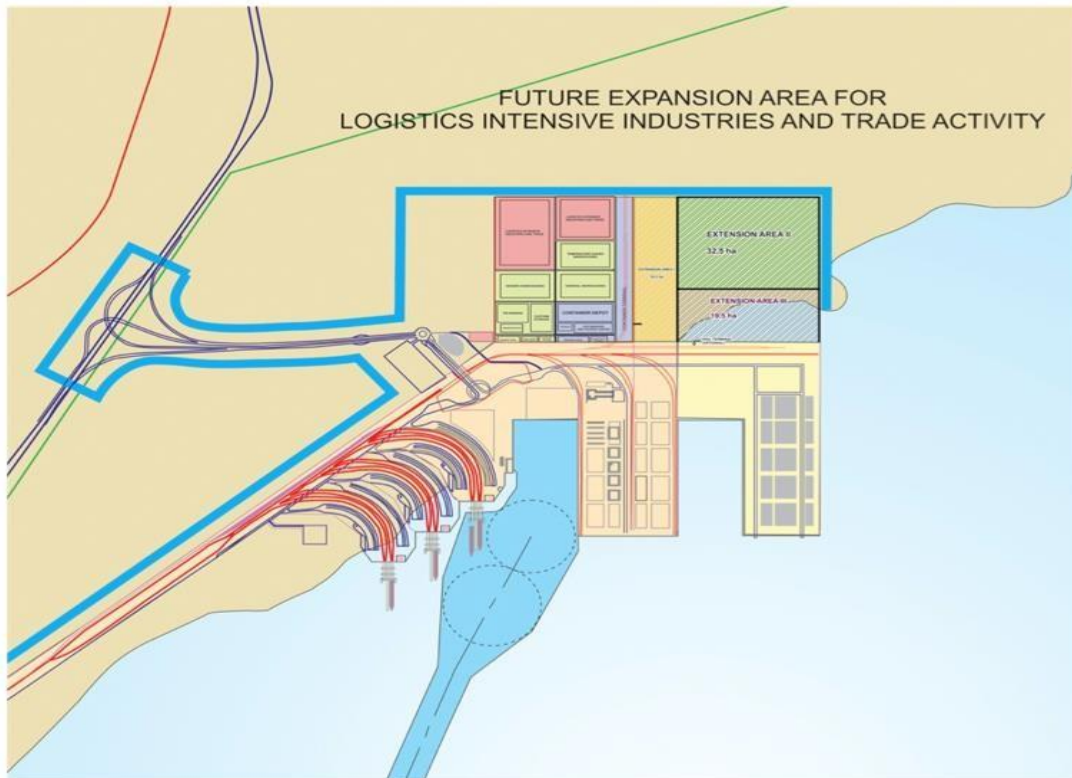
In total it is estimated to invest 870 million AZN for the whole project. This is an equivalent of \$ 1.115 billion using the exchange rate at the time. For the first and main phase the amount of the investment was 540 million AZN. Similarly, the amount was an equivalent of \$ 692 million using previous exchange rates.

##### 4.5.1 Projections on possible expansions of phase two and three of the Baku Sea port

Further analysis has been done on projections for possible expansion of the Baku port to phase two and three with its possible economic benefits vis-a vis the Belt and Road Initiative and partnership collaboration with China.

For the second phase it is estimated 150 million AZN (\$ 192 million) and for the third phase the amount of investment is estimated to be 180 million AZN (\$ 230 million). In this way, diversification can be achieved by making the economy more competitive by creating conditions for commercial activities in the port and logistics zone.

Figure 4.19: Baku Port future extension map



Source: Port of Baku, 2020

Figure 4.20: Expected Final Outlook of all phases



Source: Port of Baku, 2020

**5 CHAPTER FIVE: DISCUSSION AND INTERVIEW**

## ANALYSIS

### 5.1 Respondents Background

The below table illustrates some important information about interviewees working background in the Port of Baku such as years of work experience, designation, number of employees, their ages and department they are working for.

<b>Respondents</b>	<b>Designation</b>	<b>Years of Experience in the company</b>	<b>Age</b>	<b>Department</b>
1	Deputy Director General	4 years	38	Directorate
2	Head of Internal Control Division	3 years	43	Internal control
3	Head of Security Department	4 years	35	Security
4	Head of Port Operations Department	6 years	52	Operations
5	Head of Ro-Ro Terminal	6 years	28	Operations
6	Leading specialist	5 years	30	Operations
7	Leading specialist	4 years	38	Operations
8	Specialist	3 years	28	Operations
9	Specialist	2 years	36	Operations
10	Specialist	2 years	30	Operations

### 5.2 Interview Findings

Ten people have been interviewed from the Baku International Sea Trade Port (PoB hereinafter), being five specialists and five people from executive bodies of the Port, namely Deputy Director General, Head of Internal Control Department, Head of Security Department, Head of Ro-Ro (Roll on - Roll off) Terminal, Head of Port Operations Department. Deputy Director General is dealing with management of reports from all the operations and reporting to the General Director. Therefore, he is aware all the operations over executive decisions and literally a decision maker. Head of Internal Control Department is an inspector of compliance within the port, being aware possible drawbacks in places. Head of Security Department is responsible for the security of equipments in the port and the port operations. Thus, he becomes aware of useful information about the security within the port. Head of Ro-Ro is responsible for the organization of terminal works on Ro-Ro issues.

All the participants agree about the fact that, the New Port plays a key role in making Azerbaijan a reliable partner in the region. The role of the new port for the region is to ensure the rapid transition of the region to the states and in the Eurasian space without transit traffic. Due to the Head of Ro-Ro, the main aspect of the port is to contribute to the non-oil sector where the Deputy Director General also confirmed that the crucial role of the port is to contribute to the non-oil sector. He mentioned, the port is located at the intersection of transport hubs, which in the future will create a free zone around the port. After the establishment of the Free Zone, the port will act as a hub between Europe and Asia, and as a result, the volume of transit traffic through Azerbaijan will increase many times. The result will be a significant contribution to the non-oil sector in Azerbaijan. Besides, the Head of Security Department stresses, since the port is located at the intersection of highways and railways and in the least

wind-affected area of the Caspian Sea, a clay island is located in front of the port to prevent and attenuate wind waves. This makes an importance for the security of the port from possible natural disorders. However, the weak point of the port is that construction is still ongoing. As the port complex is not yet complete, the port currently has an access channel. For this reason, when the vessels enter or leave a port, another vessel has to wait for it. Added by the Head of Internal Control Department, another disadvantage is the lack of container crane and it is planned to buy container cranes in the next construction phase at the container terminal. Almost all of them mentioned that, the Baku International Sea Trade Port is very important as a trade hub in Azerbaijan and the organization of the port in the union of Turkey and European countries from the west with Iran, India and other Asian countries is very important for Azerbaijan in the trade zone.

The strength of the port of Baku is that, it is located in the Free Trade Zone and the port is connected to the sea, land, air and railways. It allows for the construction of parking lots and other necessary facilities, and allows for the comfortable movement and parking of vehicles entering the area or carrying out direct transport from Azerbaijan. The Head of Port Operations Department notes, there are some issues need to be eliminated in the operation of the port, for instance, if a ferry arrives, a RoPax or cargo ship must leave the port and wait for the ferry to approach the bridge. There are other weaknesses, of course, the lack of full automation of certain equipment in the port, the lack of certain passages for passengers to enter the ships in the area, and such cases, as well as the lack of any catering facilities, and so on. The development of the port can be achieved as a result of more efficient and accurate work and it is necessary to eliminate the above-mentioned shortcomings, as well as to conduct certain experiments on how to work in the more developed European and Asian ports and how to transport more cargo.

Due to the specialists have been interviewed, as the entrance and exit tower of the state, the port is the only place where 3 types of transport combine rail, road and water transport. It is the straight center of the Silk Road. According to them, the strengths of the port is being the leading side in the region in terms of cargo capacity, being the only port in the region with the status of the only "Green port", the ability to combine several modes of transport, and other matters. However, one of the disadvantages is that, it is relatively far from air transport. As a solution, the airport should be close to the seaport for international flights, which would also be convenient from the point of the Free Trade Zone. For the future development, the availability of a special terminal for containers, especially during the transition to a global container system, will increase the turnover of the container and the availability of a special terminal will increase profitability. The construction of the airport closer to the seaport in the future would push the development of the port, as the international flight part of the airport will be a great support to the development of the seaport.

As a result, the ten participants in total recommended various possible ways for the further improvement of the port. In such way that, as the next stages, the construction design should be reconsidered and some terminal parts should be automated. For example, the RoPax bridge, which is currently being lifted by hand, can be fully automated. The port operating system should be analyzed and all cargo documents should be provided electronically. Loading and unloading operations should be re-analyzed and all information should be processed in an electronic system from the moment the cargo is loaded on the ship, with the knowledge of the Caspian ports. This can increase the responsibility of the operations and reduce the length of stay of the ship in the port. All loading operations should be monitored regularly and the factors affecting the operation should be eliminated, which will increase productivity.

It is obvious that newly built seaport can have some disadvantages related to

operations and it takes time for adaptation. Some processes need automatization in order to increase effectiveness on operations and significant works should be done in this direction. Moreover, innovative practices should be learned from advanced seaport around the world and should be implemented in Port of Baku as soon as possible. One of the main disadvantages of this port is having one channel from water area which is not able to accept two ships at the same time due to safety reasons. Dredging new channel needs further works and investment, which is planned due to further expansion period. It will improve to maintain frequency of vessels entry and exit safely, decrease delays on the births and anchorage areas. Eliminating these kinds of issues will be beneficial for port and shipping companies in terms of time management and profitability. As above mentioned the biggest advantage of the port is to have an access to the main transportation routes such as railway and highways. However airport is far from the seaport and this situation causes some delays in cargo operations when it comes to seaport and airport related operations. Digitalization of the whole documentation throughout the port operation should also be a priority. This process will faster operations and eliminate delays. Moreover, it will improve accessibility to the system by all companies on the supply chain and this will help them to plan their operations in advance. It will also improve the quality of the information exchange within the port and related companies. Building an airport near to the seaport should be priority in order to have fully supplied mega logistics hub in the region. After that large and effective infrastructure projects Azerbaijan can be a leading trading partner for China and European countries in Central Eurasia especially through BRI. These massive infrastructure projects can be possible with the foreign direct investment. However political stability and business friendly environment allow to attract FDI to the country. Azerbaijani government has always shown great interest on BRI project from the very beginning. Through this mutual cooperation there can be possible



investment to this logistic hub by China as well. This is a great opportunity for Azerbaijan to be a part of BRI, which is considering greatest global project in the modern world.

## **6 CHAPTER SIX: CONCLUSION AND POLICY RECOMMENDATIONS**

Port of Baku has significant trade contribution on job creation, savings, capital accumulation and positive GDP effect. Hence, after the port has become fully operational the volume of cargo operations between Asia and Europe through this region has been increased. More job places emerged in this sector and number of new logistics companies has increased significantly. Moreover, the city region around the port started develop and expand significantly. Large number of local people employed by the port through this period and this positive trend is continuing. As a result of this government has decided to establish free trade zone next to the port and it will be very effective to develop transportation and logistics sector, as well as trade in the country.

Establishing of the new port has positive effect in Azerbaijani trade as well, because the capacity of the port allows that, the country can make more trade agreements and cooperation worldwide.

This infrastructure project will be more effective when Chinese Belt and Road project becomes operational. It will make easy connection of the logistics and trade dots between Asia and Europe. Currently transport and economic corridors on this line are the best example to this cooperation and trade relations.

Additionally, advantageous location of the port is one of the important key factors for its development. Hence, the most important railway and highway lines in the country are crossing near to the port. This important factor helps region and sectors to develop through cluster model. The positive effect of the first phase of the project made government to decide further expansion of the port. Hence it is been planned to develop the infrastructure and increase cargo volume in the port. With the second and third phase of the project cargo capacity of the port will be 25 million tons. Realization of this huge infrastructure project

is dependent on the performance and income through the first phase of the project.

As a result of this research it is recommended to expand port up to 3 phases in order to meet all standards and increase cargo capacity as much as possible. Through this expansion it will be more efficient and effective to cooperate with Belt and Road Initiative project, because it is expected that when BRI will be operational, on this line there will be more cargo movement between Europe and Asia. Moreover, it will add benefits to employment, GDP growth of the country, regional development, income of the country, capital accumulation, import and export regional strength and bilateral promotion between China and Azerbaijan for continued growth and collaboration.

Based on the research and data analysis below are some of the policy recommendations for Port of Baku authorities and government.

#### 1. Air Port

Currently, airport has roughly 150 km distance from the Baku Port and huge traffic jams on this way makes cargo operations less effective when it comes seaport-airport related cargo operations. As the strategy is becoming logistic hub in the region, it is very important to develop transportation system and infrastructure as a cluster. Therefore, building new airport near to the Port of Baku will improve and accelerate cargo operations, as well as develop the region. Seaport, main highways, railway and newly planned free trade zone in the country are already next to each other and it has enormous benefits for transportation development of the country. However, absence of the airport in the region has many disadvantages in terms of trade, logistics and economic development of the region.

#### 2. Passages for passengers

In the Port of Baku as the port newly constructed, some systems and processes need to be improved. For instance, there is no modern and standard passages for the passengers when they go the ships or viceversa. These lines should be established in order to provide better services for the passengers, as well as avoid any kind of accidents and prevent any kind of external safety threats. It would be better to build these lines as in the some advanced airports. These improvements will increase efficiency and effectiveness of the passenger embarking and disembarking operations in the port.

### 3. Improve containerization

Recently in transportation system containerization is more popular and developing very fast. For Port of Baku also this aspect is very crucial, therefore container berth and yards have been established. However, lack of special container cranes and equipment for container cargo operations could be challenging in terms of developing containerization. New container cranes and equipment, which are meeting modern requirements should be equipped in the terminal. Especially when the port will be expanded up to two and three phases and the overall capacity of the port will be 25 million tons these kinds of cranes will be very important for the competitiveness in the region.

### 4. Bridge automation

Ropax bridge, which plays the role connecting ship and port in order to load and unload trucks and trailers in the port is operating manually. This is a disadvantage in terms of time and efficiency. Hence, operating the bridge by labor force manually can also cause some safety issues. In order to avoid any safety issues and accelerate the process this system should be automated.

### 5. Knowledge exchange programs

Port of Baku should also focus on R&D and exchange program for staff. Hence, through these programs employee of the company will have chance to visit advanced ports around the world and explore innovations on these processes. This will help the to improve their skills on the field and implement those experience in the Port of Baku.

#### 6. Partnership building

Taking everything into consideration, all these projects, especially Port of Baku is very important for economic development of Azerbaijan and with the help of foreign direct investment these processes will be faster and more effective. Through Belt and Road Initiative partnership the desire for Azerbaijan to become logistic hub in the region will be more real. Moreover, these projects can be beneficial for Chinese investors as well, because business friendly environment and political stability of Azerbaijan will allow them to develop their business.

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## APPENDICES

### Appendix 1: Interview Questions

	<b>Interview Questions</b>
1	What is a role and significance of Port of Baku for Azerbaijan?
2	What would you describe as Baku port's strengths and weaknesses?
3	What are your recommendations in order to eliminate weaknesses of the port?
4	What are the opportunities available for Baku port?
5	What are your suggestions for future development of the Port of Baku?