

# Azerbaijan's Efforts to Digitalize the Middle Corridor

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Located at a key geopolitical and geo-economic point in the Silk Road region, Azerbaijan has been a main initiator in the development of technologically advanced and economically viable trans-border logistics and transit services. This is largely due to Baku's embrace of a wide spectrum of digitalization and innovation initiatives within the broad-based connectivity framework of the Middle Corridor Initiative (MCI) and other similar such projects. This IDD analytical policy brief will examine various aspects of this important topic as it relates to MCI.

Seizing new opportunities in the digital era whilst developing better measures to boost the digital economy and trade with embedded innovation and emerging technologies has become one of Azerbaijan's top priorities in the past few years. In the wake of significant government-backed digital transformation efforts, special attention is now being placed on enhancing the variety of logistics services on offer, building cutting-edge infrastructure, and upgrading domestic communication systems.

On the back of a successful effort to integrate multiple services and optimize border-crossing regulations, Baku ultimately intends to improve its transshipment capacity and bolster the country's competitive advantages for interconnectivity across the MCI as a means to substantially facilitate region-wide market integration, commercial cooperation, and cultural interaction. As Port of Baku Director-General Taleh Ziyadov put it in the Fall 2020 edition of *Baku Dialogues*, Baku (and by extension Azerbaijan) is "already a transit bridge between Europe and Asia. It aims to become something more, however: a keystone five-star hub of the Silk Road region—a dynamic center of distribution and added value in the heart of Eurasia."

Cognisant of both the strategic desirability and feasibility of expanding intermodal transportation routes across its territory, Azerbaijan has already put extensive efforts

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into systematically developing sophisticated logistics and transport facilities through various multilateral treaties that have been signed within the context of MCI. From the onset, Baku has done this in alignment and through regular consultation with the country's political allies and commercial partners.

Needless to say, intensified inter-governmental efforts have allowed the core states associated with MCI (i.e., Azerbaijan, Kazakhstan, Georgia, and Türkiye) to firmly accelerate regional commercial cooperation by strengthening intercontinental transport connectivity. All this has and will continue to strategically impact upon the overall development of the Silk Road region.

### *Building Technologically-Advanced Transit Routes*

With the Middle Corridor emerging as the most reliable and secure land-based transit pathway in the Sino-European trade network in the wake of Russia's economic isolation, the political establishments of the involved states have attached even greater importance to the further commercialization and digitalization of the aforementioned supply and connectivity channel. They have done this both by upgrading existing infrastructure and building new, technologically-advanced facilities.

The four MCI states have also enhanced their already close working relationships with two sets of external stakeholders to fully exploit MCI's export and transit potential, by applying high-tech industrial technologies and efficiency-focused digital solutions with, first, international financial institutions (IFIs) like the Asian Development Bank (AIB), the Asian Infrastructure Investment Bank (AIIB), the European Bank for Reconstruction and Development (EBRD), and The World Bank; and, second, international shipping companies like Maersk, Nurminen, COSCO, MSC, and Gebrüder Weissrganizes.

It is now becoming clear that ensuring the productive management of transit operations and automating logistics services through the application of emerging technologies is one of the main axes for maintaining uninterrupted connections and coordinating cargo flows in a secure and intelligent manner among the major stakeholders of this flagship intercontinental trade corridor.

A significant milestone event took place on 25 November 2022: the signing of the Middle Corridor Development Roadmap for 2022-2027, which was prepared through the close collaboration of various ministries from Azerbaijan, Georgia, Kazakhstan, and Türkiye. This document sets out concrete goals towards the improvement of technological standards and the development of infrastructural and operational capabilities along the Middle Corridor.

Speaking after this meeting, Georgia's Vice Prime Minister and Minister of Economy and Sustainable Development, Levan Davitashvili, strongly emphasized the significance

of the digitalization of trade and transportation corridors. From a technical point of view, he noted, this comprehensive plan could enhance the agility, resilience, and sustainability of operations. This could lead to more efficient route planning and optimal fleet management by allowing cargo operators to widely access a whole range of data communication services and technologies.

The statement by the Georgian minister as well as comments made by his Azerbaijani, Kazakh, and Turkish colleagues indicates that intelligent transportation system applications and efficient algorithms appear to be top priorities for the aforementioned countries, as they ramp up modernization efforts to enhance service quality and operational efficiency.

The aforementioned agreement on the MCI Roadmap comes in the wake of a series of other important milestone events involving regional stakeholders. The first consisted in the signing of a cooperation document—one that is specifically related to the further technical and technological development of MCI's critical infrastructure—in mid-July 2022, as a result of a long-term partnership established between the Albayrak Group of Türkiye and the Port of Baku. It concerns an agreement to jointly develop the management and handling capabilities of the most promising seaport in the wider Caspian Sea region—the aforementioned Port of Baku. That document aims to improve maritime services by stimulating efficient coordination and control of bulk cargo loading and unloading operations. Reportedly, in the next phase of development, this partnership will help the Port of Baku increase its physical and digital integration with the region's wider supply chain network.

Yet another remarkable development was that the Ministry of Digital Development and Transport of Azerbaijan took a practical step toward the simplification and digitalization of border crossing procedures and transit operations by officially launching a Center for Transit Freight Management in July 2022. Through the seamless monitoring of logistical transport processes and synchronized joint operations, the newly-established center is specifically designed to ease border regulatory procedures and reduce the cost of transport operations that can sometimes hamper cross-regional trade and foreign investment.

A third such development involved two inter-state meetings that included a discussion centered on the digitization of transport procedures and automation of workflows between the freight carriers of MCI's transit states. The first took place during a meeting of the Transport Coordinating Committee of the Organization of Turkic States (OTS) held in Istanbul on 12 August 2022; the second took place during a ministerial-level meeting between Azerbaijan and Georgia in Tbilisi on 8 July 2022.

A fourth milestone event took place on 10 March 2022, when Azerbaijan, Kazakhstan, and Georgia agreed to jointly support the adoption of integrated technology solutions to increase the overall efficiency and accuracy of the Trans-Caspian International Transport Route (TITR)—the formal name of the Middle Corridor. This trilateral deal envisages

the installation of thoroughly automated logistical services and the facilitation of synchronized border crossings through the formation of a unified technology platform. By applying smart solutions, the operations will be highly digitalized to optimize processes and enhance information-flow and information-sharing between stakeholders, paving the way for the full automation and digitization of trans-border commercial operations flowing through these countries.

### *Wartime Boost in Importance*

MCI is also garnering heightened attention from Western policymakers and companies—particularly with regard to the digital transition of strategic facilities along the core Silk Road region portion of the route. Of course, this is in no small measure due to the effects of the great disruption of long-established supply chains caused by the West-led imposition of economic sanctions and export restrictions against Russia.

As a result of the war taking place in the neighboring Ukrainian theater, leading foreign companies are becoming increasingly engaged with Azerbaijan’s modernization and digitization strategies. Two examples will suffice to illustrate this trend. Both involve delegations visiting the Port of Baku.

First, there was a late October 2022 visit by a delegation of major Finnish logistics companies (Teknos, Gemza Group, and Wärtsilä Corporation), which was led by Deputy Foreign Minister Nina Vaskunlahti. During this meeting, the parties discussed entering into wide-ranging collaborative initiatives, ranging from the joint improvement of physical infrastructure to the deployment of software services within the scope of MCI, thus boosting Azerbaijan’s maritime industry and ensuring the port’s long-term growth.

The second example involves the 5 November 2022 visit of representatives from the Port of Singapore Authority (PSA). During this meeting, the parties conferred on issues having to do with the digitalization and automation of the port’s operations, based on PSA’s world-class best practices. Such engagement is particularly important for both the Port of Baku and Azerbaijan more generally, as both PSA and Singapore could help the Azerbaijani government raise digital competitiveness in the ongoing transition process by reducing the digital divide, overcoming various technological gaps, and building a strong maritime tech ecosystem.

### *Regionwide Modernization Initiatives*

Azerbaijan’s concerted efforts to establish functional and integrated trade, communication, and transportation links across the Silk Road region—via MCI and other similar projects—predate the onset of the conflict over Ukraine. Indeed, Azerbaijan had for many years invested in the construction of proper supportive facilities and the development of high-tech industries.

Since the late 2010s, in fact, Baku has been on the lookout for more cooperation with the Caspian basin littoral states regarding the implementation of an extensive range of cross-border digital solutions within the framework of the “Digital Silk Way” project, which was developed and implemented by AzerTelecom. Thus, in 2019, for example, Azerbaijan separately signed strategic partnership memoranda with Kazakhstan and Turkmenistan over the construction of transnational subsea optical cable lines that would run across the Caspian Sea floor. Apart from connecting the South Caucasus with Central Asia via a high-capacity telecommunication channel, a cross-regional digital backbone for expanding the capacity of transmission networks will eventually help these neighboring countries consolidate their roles as prominent digital hubs along the Asia-Europe telecommunication and digital trade corridors.

In addition to ongoing sea-based initiatives, AzerTelecom and Azerbaijan Railways CJSC have been working together on improving the variety of broadband services and upgrading domestic telecommunication infrastructure. They have, for example, built commercial fiber-optic cable lines along the country’s railway tracks, as part of Azerbaijan’s whole-of-government effort to optimize the country’s communication networks.

Azerbaijan has also taken internal steps to modernize its customs services and administration. For instance, its State Customs Committee signed a bilateral cooperation agreement on the optimization and coordination of customs and border management in late 2019 with China’s multinational conglomerate, Huawei. Under this ongoing commercial deal, Huawei’s digital solutions are being employed to comprehensively modernize and automate the entire customs service. The resulting system now properly handles and maintains customs business processes and tracks trade data by utilizing an advanced customs automated information system and a centralized database.

The growing involvement of this Chinese tech giant in Azerbaijan’s technological development is not a new phenomenon. In fact, Huawei was among the first group of foreign high-tech firms that established a strong business presence in the country’s ICT sector. This early market penetration enabled it to gain a solid foothold in the country’s digitalization process from the early 2000s. Since the turn of the century, Huawei has transferred different forms of digital solutions, ranging from building smart settlements and broadband ecosystems to establishing scientific research centers and cutting-edge laboratory facilities in domestic universities. Huawei has also been contracted to implement new networking technologies involving smart solutions in liberated Karabakh.

Huawei is not the only China-based high-tech vendor with a presence in Azerbaijan. During the Second Belt and Road Initiative International Forum hosted by Beijing in late April 2019, AzerTelecom signed a strategic Memorandum of Understanding with China Telecom. This should serve as an indication of the scale of collaborative strategic initiatives that are boosting cooperation in key technological areas.

The foregoing two examples underscore Azerbaijan's longstanding policy priority to jointly create an Asia-Europe telecommunications corridor with Chinese counterparts. In fact, this has been a constant point of emphasis at various bilateral meetings and international fora. It seems likely that an upsurge in the development of technology partnerships will be observed in the coming years. Baku clearly sees Beijing's deepening engagement as a crucial component of the development of Azerbaijan's position in digitally advanced trans-continental trade and communication arteries linking Europe with Asia.

### *Implementing Innovation Policies for Sustainability*

The foregoing should be understood as being in the service improving transcontinental transit and commercial connections. The examples provided illustrate Azerbaijan's commitment to ensure more interconnected, optimized, synchronized, secure, and digitized border crossings and customs services to meet the international market's needs and maintain a smooth flow of trade.

The foregoing will have other benefits, as well. For instance, the widespread diffusion of industrial technologies along the Silk Road region should greatly contribute to the elimination of digital barriers as well as to the simplification and harmonization of regulatory and optimization customs procedures and services for exporters, logistics service providers, and cargo forwarders shipping via MCI. This should, in turn, help to overcome transportation bottlenecks as well as current logistics woes in trans-Eurasian rail shipments.

Indeed, the facilitation of a digital transformation within the maritime industry and the adoption of advanced cross-border collaboration mechanisms through the integration of innovative policies and smart solutions are critical to enabling practical measures to be taken for the further integration of such a complex multimodal trans-regional trade artery into the global transport system.

Lastly, upgrading logistics distribution channels, building integrated and intelligent transport networks, and reaching large-scale digitalization goals will eventually catalyze MCI's harmonization with transformational geopolitical and geo-economic realities in the time ahead—of course, so long as the core stakeholders continue to pursue innovation policies and keep implementing cutting-edge technologies and digital solutions at all levels through long-lasting multilateral collaborative initiatives.