



In the South Caucasus, Can New Trade Routes Help Overcome a Geography of Conflict?

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INTRODUCTION

The forty-four-day war between Armenia and Azerbaijan in 2020 dramatically changed the map of the South Caucasus. The fighting had a grave human cost and did not resolve [the major political differences](#) between the two countries. And yet the outcome of the conflict also opened the prospect of new trade links and economic cooperation across the region for the first time in a generation.

The trilateral ceasefire agreement brokered by Russian President Vladimir Putin and co-signed by Armenian Prime Minister Nikol Pashinyan and Azerbaijani President Ilham Aliyev entirely reversed the dynamics of the thirty-year-old Nagorny Karabakh conflict. It reflected the fact that Azerbaijan had inflicted a military defeat on Armenia and recaptured lands that it had lost more than a quarter of a century before.

Divisive issues keep the two countries a long way from political agreement, however. These issues range from the future status of the Armenians of Nagorny Karabakh to the continuing detention of Armenian soldiers in

Azerbaijan, the demarcation of borders, and the sharing of maps of minefields relating to districts formerly under Armenian military control now restored to Azerbaijan.

The economic picture is potentially more promising. The ninth (and last) point of the 2020 ceasefire agreement [reads](#):

All economic and transport connections in the region shall be unblocked. The Republic of Armenia shall guarantee the security of transport connections between the western regions of the Republic of Azerbaijan and the Nakhchivan Autonomous Republic in order to arrange unobstructed movement of persons, vehicles and cargo in both directions. The Border Guard Service of the Russian Federal Security Service shall be responsible for overseeing the transport connections.

As agreed by the Parties, new transport links shall be built to connect the Nakhchivan Autonomous Republic and the western regions of Azerbaijan.



At issue is a series of transport routes that have been closed since the early 1990s, cutting off Armenia and the Azerbaijani exclave of Nakhchivan from international access. If these closed routes are all “unblocked,” as the agreement stipulates, the most noticeable impact will be a reactivated north-south route that runs from Russia to Armenia and Iran via Azerbaijan. The economic boost to Azerbaijan and to Armenia could be appreciable; both suffer from low incomes, high unemployment, and persistent emigration.

Reopening closed railway lines would also have a positive environmental benefit by shifting large volumes of freight from the roads of the South Caucasus. Rebuilding relatively small sections of railway in Armenia and Azerbaijan would make much more viable the 7,200-kilometer (4,400-mile) International North-South Transport Corridor, a projected [rail route](#) stretching from Finland through Russia to the Persian Gulf and on to India.

A new good-quality rail network with minimal border controls would also boost east-west trade, especially if the Armenia-Turkey border, closed since 1993, is reopened. It would enhance the attractiveness of the Middle Corridor, a route carrying goods between China, Central Asia, Turkey, and the European Union via the South Caucasus.

Since the 1990s, there has been an established east-west route in the region via Georgia, which was made more attractive by the opening of the Baku-Tbilisi-Kars (BTK) railway in 2017. The Middle Corridor currently sees very small traffic flows compared to the Northern Route that runs via Russia and the Maritime Route via the Suez Canal. China’s Belt and Road Initiative includes the China–Central Asia–West Asia Economic Corridor that runs through the South Caucasus, but Beijing has not yet invested in any major infrastructure or transport projects in the region. Many are skeptical about the prospects for the Middle Corridor as an east-west route, regarding it as a poor competitor to its northern and southern rivals due to the obstacles posed by the Caspian and Black Seas and by multiple border crossings in some countries with difficult [customs regimes](#).

A May 2021 [working paper](#) of the Asian Development Bank concluded that “[T]he full transcontinental throughput capacity of the Middle Corridor will remain limited mainly due to the physical bottlenecks around the two Turkish metropolises of Istanbul and Ankara and the limited ferry crossing capacities on the Black Sea and the Caspian Sea.”

However, journey times have decreased along this route with the advent of “block trains” that operate from origin to destination with all documentation having been arranged in advance. [One block train](#) arrived in Tbilisi on February 20, 2021, having left Xian in China twenty-one days before. Even a tiny increase in the overall share of the vast trade between China, Turkey, and the EU using this route would have a beneficial effect on the economies of the South Caucasus.

In January 2021, an Armenian-Azerbaijani-Russian commission consisting of three deputy prime ministers [was formed](#) to work on implementing the “unblocking” of transport routes promised in the ceasefire statement. For most of this year the commission has made little progress, at least that was evident in public. Differences over the status of transport routes has thus far only exacerbated the regional rivalry between Azerbaijan and Turkey, on the one hand, and Armenia and Iran on the other, with other powers such as Israel and India getting involved at the margins.

Historical experience also gives reason to be fairly pessimistic. Plagued by proxy disputes between the region’s big neighbors and ethnonationalist politics, the South Caucasus has almost no historical experience of collaboration. Regional integration projects [have consistently failed](#). The only exception was the experience of the Soviet era when the three republics were closely integrated within an authoritarian political system that was isolated from the outside world. As Laurence Broers and Anna Ohanyan [wrote in 2018](#), this lack of a history of collaboration combined with interventions by bigger powers make the South Caucasus a place characterized by “regional fracture.”

GEOGRAPHY OF CONFLICT

In 1991 the end of the Soviet Union handed independence to the three South Caucasian republics of Armenia, Azerbaijan, and Georgia. But just as they were able to fully open their international borders and engage in new trade relationships with neighboring Iran and Turkey, crucial parts of the transport infrastructure of the region were shut down by conflict.

Even before Armenia and Azerbaijan became independent, the Nagorny Karabakh conflict had closed all transport connections between them. From 1990 the conflict in South Ossetia restricted the main Russian-Georgian highway, known as TransKAM, and the 2008 Georgia-Russia conflict shut it down altogether. The outbreak of

war in Abkhazia in 1992 cut the only rail link between Russia and Georgia along the Black Sea coast.

The **main international artery** between Armenia and Azerbaijan is a railway between Baku and Yerevan, built between 1899 and the 1940s, mostly along the southern borders of both countries with Iran alongside the river Araxes. The route passes through southwestern districts of Azerbaijan, into the southern Meghri region of Armenia, and then crosses into Azerbaijan's exclave of Nakhchivan before heading northward back into Armenia to Yerevan. The Armenian-Azerbaijani conflict of 1991–1994 resulted in large portions of this railway being first shut down and then destroyed, along with the main highways traversing the region.

MAP 1
South Caucasus Transport Routes





In February 2021 Azerbaijan announced it was **starting reconstruction** of the 108-kilometer (67-mile) section of the railway from the town of Horadiz to the border with Armenia. If and when the entire line is restored, the three countries that signed the 2020 agreement stand to benefit. Azerbaijan will be connected to its exclave of Nakhchivan and onward to Turkey. For Russia the reopening of this link means freight traffic can bypass the Caucasus Mountains and pro-Western Georgia to connect to Armenia and Iran—all the way to the Persian Gulf—for the first time in thirty years.

Officials and businesses in Armenia also see advantages, especially in a new reliable alternative route to and from Russia, the country's partner in the Eurasian Economic Union. In January 2021 Raffi Mkhjyan, the head of the Armenian Exporters' Union, **said** the reopening of Armenian-Azerbaijani routes would make the country "the gateway to the Caucasus." In March 2021, before tension with Azerbaijan spiked again, Pashinyan enthused about the plans, **saying**, the unblocking of communications

is profitable for Azerbaijan, because it will thereby get a communication link with Nakhichevan, and it is profitable for Armenia, because we must have a reliable railway and overland communication with the Russian Federation and the Islamic Republic of Iran. This means that the economy of our country can change significantly.

He mentioned in particular how the restored route would boost Armenia's copper exports.

Russia is a major market for some of Armenia's most profitable products: cognac, textiles, and fresh fruits and vegetables. Currently shipping costs are high: trucks must travel either via the Georgian port of Poti, which is time-consuming, or—as is the case for **more than 80 percent of Armenia's exports** to Russia—over the Georgian Military Highway road to Upper Lars in North Ossetia. This road is mountainous, often choked with vehicles or made impassable by bad weather, and sometimes subject to abrupt closures by Russian border

officials. All of this constitutes a risk, in particular for perishable fruit and vegetables, and imposes financial penalties on Armenian traders choosing this route.

For Armenia there will be additional economic benefits if its border with Turkey, closed since 1993, reopens and if the 60-kilometer (37-mile) railway connection between the cities of Gyumri and Kars is reestablished. This route could be used not just for Armenian and Turkish freight traffic but also by Azerbaijani, Iranian, and Russian traders and others. Restoring the railway will be expensive. In a **2013 report**, International Alert calculated the cost of rebuilding or repairing the entire line from Baku to Kars at \$433.7 million. However, restoring it could cost less than three other expensive railway projects that were mooted before the 2020 conflict shifted regional geopolitics.

One project that could be shelved is the planned 223-kilometer (138-mile) railway line between Nakhchivan and Kars. Aliyev and Turkish President Recep Tayyip Erdoğan mentioned this project—worth at least \$200 million—as part of the 2021 Shusha Declaration on cooperation and partnership between the two countries. Yet, being each under significant budgetary pressure, the governments of Azerbaijan and Turkey may pivot away from the project if a less costly alternative route via Armenia becomes a reality. The Nakhchivan project **was not included** in Turkey's 2021 budget.

A second project, a railway from the Iranian border into Armenia, has never been under serious consideration, as the highland topography of southern Armenia makes it expensive and challenging.

A third **rail project** that may now fade away is a 172-kilometer (106-mile) route connecting the southern Azerbaijani town of Astara with Resht in Iran at an anticipated cost of at least \$400 million. The project has long been held hostage to financing problems because of Western sanctions on Iran. Instead Iran could now use its **existing rail network**, which runs to Julfa across the border in Nakhchivan, and from there use rebuilt lines in Azerbaijan and Armenia. This suits Iran's political

agenda of partnering with Armenia and strengthening it as a counterweight vis-à-vis Azerbaijan and Turkey. This rail connection via Armenia would potentially be the missing link in the International North-South Transport Corridor, whose rationale was to **cut journey times** from Finland to Iran from six weeks via the Suez Canal to a mostly overland journey of twenty-two to twenty-five days.

CORRIDOR QUARRELS

Plans to reopen one transport route are a matter of special controversy. This route is a connection across Armenian territory to the Azerbaijani exclave of Nakhchivan, which is specifically mentioned in the November 2020 ceasefire agreement—although the precise path is not specified.

Azerbaijan is a country in two parts, with the majority of its territory to the east separated from the autonomous republic of Nakhchivan. The latter officially has a population of 459,000 people, although the number is **hard to verify**. The region's economy has undoubtedly suffered from its isolation and it has seen high levels of **labor migration** to Turkey. In Soviet times, Nakhchivan was economically reliant on Armenia, which supplied it with gas and provided its road and rail links to the north and east. Since the Armenian-Azerbaijani conflict began in 1989–1990, the border with Armenia has been closed and the only direct connection between Nakhchivan and the rest of Azerbaijan has been by air, while overland links run through Iran or via Georgia and Turkey.

Since 1992 Nakhchivan has received most of its imports by road via Turkey, with which it has an 8-kilometer (5-mile) border. It is also supplied with gas via Iran in a swap arrangement, with Iran receiving 15 percent of the gas crossing its territory as a transit fee. That deal is likely to end as soon as Turkey builds **a projected new gas pipeline** to Nakhchivan.

Following the 2020 conflict, a major goal for Azerbaijan is to de-isolate Nakhchivan and to restore overland connections via Armenia. This almost certainly

requires constructing a major new transport route across a 43-kilometer (26-mile) section of Armenia's southernmost Meghri district, which borders Iran. This potential route has long been a source of controversy between the two countries. In the 1970s, when Armenia and Azerbaijan were Soviet republics, the Armenian Communist Party leader Karen Demirchyan lobbied in Moscow against a project for a major highway across Meghri, believing it would weaken Armenia vis-à-vis Azerbaijan.¹

The route was also a central element of negotiations between the two countries' leaders, Heydar Aliyev and Robert Kocharyan, in 1999–2001. In those years, Aliyev tentatively offered to make concessions on the sovereignty of Nagorny Karabakh in return for guarantees about a new corridor running to Nakhchivan. Disagreements over the status of the corridor were a major reason for the deal collapsing in 2001.

After the 2020 conflict left their country in a new position of dominance over Armenia, Azerbaijani officials have termed the route to Nakhchivan the Zangezur Corridor. (The name Zangezur is the preferred Azerbaijani term for the region. It is also used by Armenians, although they mostly now refer to the region by its administrative name, Syunik.) Prominent Azerbaijani officials have indicated they want to use the country's postwar upper hand over Armenia to impose transportation and even territorial concessions on the country. According to Anar Valiyev, the dean of the Azerbaijan Diplomatic Academy, "What Azerbaijan wants is no checkpoints, not to have to stop at the border . . . We are in a situation where we have leverage, we have time and we can dictate terms."²

Ilham Aliyev unnerved Armenians when he warned in April 2021 that Baku would impose such a corridor on Armenia by force if necessary and claimed the region as historically Azerbaijani territory. (The region had a substantial Azerbaijani population until the late twentieth century). Aliyev **said**:

We are implementing the Zangazur [sic] corridor, whether Armenia likes it or not. If they do, it



will be easier for us to implement, if not, we will enforce it. Just as before and during the war, I said that they must get out of our lands or we will expel them by force. And so it happened. The same will apply to the Zangazur corridor. Our primary rival is time because the construction of a railway and a highway takes time. Therefore, all resources have been mobilized to implement this project. Thus, the Azerbaijani people will return to Zangazur, which was taken away from us 101 years ago.

For Armenia the idea of an Azerbaijani corridor is anathema, as it implies a loss of political control over the route, made worse by Ilham Aliyev's historical claim to the land. On October 2, 2021, Armen Grigoryan, the secretary of Armenia's Security Council, [said](#),

The logic of a 'corridor' must be understood. First, we [Armenia] have stated that there can be no 'sovereign corridor,' a 'sovereign corridor' cannot exist in the territory of Armenia. 'Corridors' or roads, roads existing in Armenia may be opened, which the Azerbaijanis or Turkey will be able to use in order to connect with Azerbaijan; such an option is possible. But those roads will be under the control of the sovereign territory of Armenia.

Benyamin Poghosyan, the chairman of the Center for Political and Economic Strategic Studies in Yerevan, says that Armenians accept that communications to Nakhchivan will be restored across their country's territory but that "the key is not the routes themselves, but the status of the routes."³ According to Poghosyan, Armenians are especially apprehensive about the idea of a road to Nakhchivan through southern Armenia via the towns of Goris and Sisian. In negotiations, Azerbaijan may raise the status of the Lachin Corridor, which runs from Armenia to Nagorny Karabakh across the Azerbaijani region of Lachin. This corridor has been guarded by Russian peacekeepers since the 2020 ceasefire. Azerbaijan remains unhappy over its lack of control of this road and may insist it has a similar right to demand an analogous corridor through Armenian territory.

As an alternative to the rail route across Meghri, Armenia has [also proposed](#) the rehabilitation of the railway across northern Armenia—also closed for three decades—that connects the town of Ijevan with the Azerbaijani town of Kazakh. However, this would require Azerbaijan to agree to de-prioritize its own preferred route through Meghri, which it is unlikely to do. Moreover, the Ijevan-Kazakh route goes through more mountainous territory and has many tunnels: repairing it will be a [long and costly enterprise](#).

The South Caucasus's three big neighbors each have stakes in this dispute. Turkey fully backs Azerbaijan and has an interest in unrestricted access to the country through Armenian territory. Although it currently uses a good transit route to Azerbaijan and the Caspian Sea via Georgia, a new link via Nakhchivan will be faster and run through lowland topography.

Russia has an economic interest in seeing the route to Nakhchivan restored, with the text of the 2020 ceasefire agreement indicating it will have some measure of political control over it too. As noted above, the agreement stipulates that Russian border guards "will exercise control over the transport connections." How much control this will mean in practice—whether Russian troops will have the right to stop or restrict traffic, for example, and on what grounds—will only be clear once a full agreement is reached.

Iran generally supports Armenia, expressing concerns that a "sovereign corridor" connecting Western Azerbaijan and Nakhchivan and running on to Turkey would constitute a threat to its own north-south transit routes via Armenia. As a row between Azerbaijan and Iran broke out in October 2021 over these and other issues, the Iranian News Agency quoted [a warning](#) by Mojtaba Zonnouri, a leading Iranian parliamentarian, that attempts by Azerbaijan "to cut Iran's access to Armenia" were unwelcome. Zonnouri declared that Azerbaijan and Turkey (as well as Israel), in the words of the news agency, "would pay a big price if they pose a threat against Iran."

Even if a political compromise is reached, security problems are likely to persist as Armenian and

Azerbaijani trains and trucks cross the two countries' territory. In January 2021, Armenia's former prime minister Aram Sargsyan [told](#) the Russian newspaper *Moskovsky Komsomolets*, "Even in Soviet times trains, going across Nakhchivan from Armenia were pelted with stones and arrived with broken windows. The same thing happened in Azerbaijan even at the time of the earthquake in Armenia [in 1988] when humanitarian cargoes were going there."

Since the 2020 ceasefire there have been several incidents on roads going to and from Nagorny Karabakh, with cars being detained and [stones thrown](#). It is hard to predict that any route will be trouble-free unless Armenia and Azerbaijan sign a full peace agreement and fully open their border.

GEORGIA—TO BE OR NOT TO BE A HUB

Georgia will face major new challenges if the mooted new transport connections in the South Caucasus are built. For a quarter of a century, with the Armenia-Azerbaijan border closed, it has positioned itself as the indispensable transit hub at the center of the South Caucasus, with functioning road and rail routes carrying Turkish and Western trade to Baku, Yerevan, and on to Central Asia. Georgia can no longer take that status for granted and will need to work much harder to realize its potential as an international transit route, especially with a hostile Russia consciously seeking to marginalize it.

"These new projects are on approximately a seven-year timeline. Georgia has two years to do some strategic planning," says one representative of an international financial institution in Tbilisi of the plans to link Russia, Azerbaijan, Armenia, and Turkey via rail.⁴

Since the 2020 ceasefire, however, there has been little public debate in Georgia about these issues, as the Georgian Dream government and the main opposition party, the United National Movement, have focused almost exclusively on domestic politics and their bitter antagonism toward one another.

Georgia's pitch to be an international hub relies on its location between the Black and Caspian Seas. The country has never been an active sponsor of cooperation projects with Armenia and Azerbaijan; it instead has promoted itself as a pivot in connectivity projects between Europe and Central Asia.

The European Union is helping Georgia to be better connected across the Black Sea. As part of the next phase of the Eastern Partnership initiative the EU is [offering Georgia](#) an ambitious [investment package](#) of grants and loans [worth at least 3.9 billion](#) euros (over \$4.5 billion). Two of the five flagship projects in the plan aim to improve Georgia's physical and digital connections with EU countries on the western shores of the Black Sea. Speaking in Tbilisi in July 2021, EU Commissioner for Neighbourhood and Enlargement Olivér Várhelyi [said](#)

"the main bottleneck and the main vulnerability of the economy and the society of Georgia is the lack of connectivity. Be it rails and roads, be it the unused potential of the Black Sea, be it the connectivity to the mainland through electricity and internet broadband."

One planned project is for a new electricity cable and fiber optic cable to be built under the sea.

For the past two decades the default transit route for oil, gas, and other goods being shipped from the Caspian Sea to Europe and the Mediterranean has run from Azerbaijan via Georgia to Turkey, bypassing Armenia and the Nagorny Karabakh conflict zone. The infrastructure has already been built, notably the Baku-Tbilisi-Ceyhan and Baku-Erzurum oil and gas pipelines as well as the BTK that opened in 2017 at a [cost](#) of more than \$2 billion shared between the three countries. Azerbaijan helped Georgia meet its costs for the railway by supplying \$775 in loans.

This route may now have competition. If and when a new southern route opens up along the Araxes river via Azerbaijan, Armenia, and Turkey, Georgia will lose a great deal of revenue. That begins with transit fees. Currently, [according to one Georgian expert](#), 10–11 million tons of goods transit through Georgia a year



by railway and 6–7 million tons go by road. For each million ton of transiting cargo, Georgia receives \$5 million in tax revenue.

With the exception of certain projects, such as the BTK railway, much of the internal road and rail infrastructure in Georgia is poor. The [East-West Highway](#) across the country is only partially completed and the rail network is badly in need of investment. According to one international financial official in Tbilisi, “Georgia needs a proper highway and railway connection, as well as logistics infrastructure, through the country. Only then can you talk about a geopolitical north-south, east-west hub.”⁵

Georgia also lacks a fully modern port on the Black Sea that is capable of handling substantial volumes of trade from container ships. Its main ports of Batumi and Poti also stand to lose some freight traffic from Armenia if the Armenia-Turkey border opens and Armenian businesses can access Turkish ports. Georgia has the capacity to have one advanced port, but not two. In recent years, however, there has been [intense rivalry between two projects](#) to upgrade port capacity. In 2016 an ambitious \$2.5 billion project was launched, supported strongly by the U.S government, to build a new deep-water port at Anaklia. However, the project was suspended in 2020 amid political acrimony and accusations that the country’s political elite, whose de facto leader is former prime minister and billionaire Bidzina Ivanishvili, had a vested interest in the other project at Poti. An older port, Poti is operated by APM Terminals, which is owned by the Danish shipping giant Maersk. In 2020 APM Terminals [announced plans](#) to expand Poti Sea Port and increase capacity, though to much lower levels than those projected at Anaklia. Domestic politics have obstructed a debate on the real economic and strategic merits of the two port projects.

Georgia also currently functions as the main north-south trade link between Armenia and Russia. This trade goes almost exclusively via the Kazbegi–Upper Lars road across the Caucasus Mountains, known as the Georgian Military Highway, first built in 1817. The road is frequently congested with trucks and vulnerable to closure because of snowfalls in winter months.

Some of these problems will potentially be solved with the construction of a [new bypass road](#) between the villages of Kvesheti and Kobi, funded by loans from the Asian Development Bank and the European Bank for Reconstruction of Development worth \$558.6 million. This bypass road has attracted [criticism](#) from some environmental campaigners, and it will not alleviate the problem of large numbers of international trucks traveling on Georgia’s roads.

If a new reliable route to Russia opens up via Azerbaijan along the Caspian Sea coast, that would be a much cheaper option for Armenian traders and could remove most of the Armenian traffic from the Kazbegi–Upper Lars road, in cold weather months at least. This would make the road predominantly a Georgian-Russian route, used mainly by Georgian exporters taking wine and agricultural products to Russian markets. Russian custom officials have been known to [shut down the crossing point](#) at Upper Lars abruptly, causing serious disruption. Putin ordered the crossing closed long-term in the run-up to the Russian-Georgian war of 2008. Given Moscow’s history of using import and export bans against Georgia as a political weapon and arbitrarily shutting their common border, the Kazbegi–Upper Lars road becoming a mainly Georgian-Russian route would give Russia more opportunities to hurt the country, without causing Armenian businesses much collateral damage.

These coming shifts should be an incentive for Georgia to take a fresh look at reopening two north-south transit routes that are currently closed.

First, it could redouble efforts to implement the never-activated 2011 agreement with Russia to open up [three “trade corridors”](#) for quick access for commercial traffic between the two countries. The deal, brokered by Switzerland, was Georgia’s precondition for not vetoing Russia joining the World Trade Organization. Two of the three corridors are sensitive because they cross the disputed territories of Abkhazia and South Ossetia (which are not named in the agreement, the locations being only indicated by GPS coordinates.) The cargos on trucks are supposed to be sealed and

monitored electronically by an international company (later confirmed as the Swiss firm SGS).

Implementation of the 2011 agreement was near to starting several times. It was controversial in some political circles in Moscow and Tbilisi as well as opposed in South Ossetia and Abkhazia, which were to benefit only indirectly from the cargo flows. Yet the economic benefit for Georgia is clear. The South Ossetian route, along the TransKAM highway, is a much better alternative than the Kazbegi–Upper Lars road, as it goes under the Caucasus Mountains through the Roki Tunnel.

Second, Georgia could revisit rehabilitating and reopening the railway along the Black Sea coast through Abkhazia, which has been closed since 1992. This is the old international route between Moscow and Tehran. Reopening it is of great potential interest to Russia and also to a host of other countries, including Armenia, Iran, Turkey, and others that could use the line for their exports south, such as Ukraine. Before 2020, Azerbaijan tried to veto [discussions about reopening the railway](#), as this would ease pressure on Armenia. Following the 2020 ceasefire, Baku would no longer do so, while the exclave of Nakhchivan could benefit from becoming part of a north-south rail route.

When he was Georgia's prime minister, Ivanishvili spoke positively about reopening the Abkhazia railway in 2013. But the idea is controversial in the country as it is seen as giving concessions to Russia and the breakaway republic of Abkhazia, especially as Georgian internally displaced persons from Abkhazia would not stand to benefit directly from the deal. There are many ways in which it could benefit Georgia, however. It would de-isolate Abkhazia by connecting it to the south and not just to Russia. The railway runs through two economically depressed regions, Samegrelo in western Georgia and the Gali region of Abkhazia, which has an ethnic Georgian majority. Reopening it would give both an economic boost.

The changing transport map of the South Caucasus and the risk of relying on a single mountainous road as

Georgia's sole commercial link to Russia are additional reasons for Tbilisi to take a new look at the Abkhazia railway and see how it could shape a plan to reopen it to its advantage.

Yet, as with Armenia and Azerbaijan, persistent distrust between Georgia and Russia over an old conflict—that in Abkhazia—limits progress on projects that would deliver benefits to a region that suffers from protracted economic underdevelopment.

CONCLUSION

The economic benefits of the opening of closed transport routes in the South Caucasus, including as set out in the November 2020 ceasefire agreement between Armenia and Azerbaijan, could extend to all the countries of the region as well as to Russia, Turkey, and Iran. But the politics remains difficult within the region and between its neighboring powers, with trust in short supply. The economic case for reopening the railway through Abkhazia is potentially strong, and this could have a positive effect on the conflict dynamics of the conflict there. However, many in the Georgian elite are nervous about supporting a project that will connect their country more closely to Russia.

Security concerns also haunt plans to reopen the crucial transport route across southern Armenia to and from Azerbaijan's exclave of Nakhchivan. Azerbaijan and Turkey are already connected by road through the BTK railway across Georgia. A new route via southern Armenia would have the important result of de-isolating Nakhchivan and lifting its economy. Beyond that, this route would acquire more significance only if traffic across it is subjected to minimal checks and controls; Armenia for its part insists that it does not want a "corridor" across its territory over which it has no control, and it is supported in this stance by Iran.

These are political issues, not economic ones. Their resolution currently depends on Russia, which has interests in reopening this route as well as complex bilateral agendas with Armenia and Azerbaijan. In

theory, other more neutral actors could be called in to assist. An October 2021 [paper](#) suggests that the EU, which has the valuable experience of running the Border Assistance Monitoring mission between Moldova and Ukraine, could be invited in as an arbiter and monitor in the South Caucasus. However, Azerbaijan, Russia, or Turkey have not showed any sign of wanting to invite the EU to play such a role.

Political questions also hover over the issue of the funding of these different reconstruction projects. Azerbaijan and Turkey, which have the biggest political interest in making them work, suffer from major budgetary constraints, with the former heavily focused on the reconstruction of the towns and villages it recaptured from the Armenians in the 2020 war. Russia similarly faces budgetary constraints. Thus far, no international financial institutions have been invited to assist with rebuilding these defunct routes.

While some in the South Caucasus have been eager to turn to China for financing and infrastructure, Beijing has no history of funding such projects there. It did not provide any financial support for the BTK railway. Financing these railway projects would be well within China's means, but its track record in the region has been focused on far smaller projects that do not cross borders. The United Arab Emirates, which has [invested](#) more than \$2 billion in Azerbaijan in recent years and has growing ties with Armenia and Georgia, is another possible candidate to finance these transport infrastructure projects, but it has not so far registered any public interest in doing so.

If an invitation does go out to international financial institutions such as the World Bank or to UN agencies and Western actors such as the EU to assist with these transport projects, they should approach such a request in a clear-sighted way. The economic rationale for

rehabilitating these routes is clear, but there is a risk that Armenia or Iran could try to act as spoilers or that Georgia would be marginalized. The international financial institutions should also be aware of a broad history of corruption in regional infrastructure projects across all three countries. A major financial assistance program should ideally aim to promote transparent governance, the normalization of relations between states, and the resolution of conflicts in the South Caucasus—rather than exacerbate its protracted problems.⁶

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NOTES

- 1 Thomas de Waal, *Black Garden, Armenia and Azerbaijan Through Peace and War* (New York University Press, 2013), 149–150.
- 2 Author interview with Anar Valiyev, online, October 11, 2021.
- 3 Author interview with Benyamin Poghosyan, online, October 7, 2021.
- 4 Author interview, Tbilisi, July, 2021.
- 5 Author interview with financial official, online, October 8, 2021.
- 6 This publication was supported in part by the Aso Tavitian Initiative, made possible through a generous gift from the prominent philanthropist and trustee emeritus of the Carnegie Endowment for International Peace, Aso. O. Tavitian.

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