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# **The Economic Importance of the South Caucasus Zangazur Corridor**

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**ADA University**, the Azerbaijan Diplomatic Academy (ADA) was established as part of the Ministry of Foreign Affairs of the Republic of Azerbaijan in 2006, following the demand for a modern training of diplomats. In January 2014, ADA University was created on the basis of the Diplomatic Academy and former IT University. Today's ADA University has four diverse faculties which are leading unique and encompassing undergraduate and graduate programmes, with 2000 students from 32 different countries. The primary goal of ADA University is to prepare innovative global leaders who are committed to making a difference in the region and throughout the world. ADA University is dedicated to fostering advanced research in an innovative and thought-provoking academic setting. ADA University's mission is not only to train a new generation of leaders and help resolve many current challenges in the region, but also to promote innovation in Azerbaijan's higher education system and a new critical mentality among its people.

**GCRF COMPASS project** (ES/P010849/1, 2017-21) is an ambitious UK government capacity-building funding initiative, aiming to extend UK research globally and to address the challenges of growth and sustainability in developing countries. Notably, the COMPASS project led by the University of Kent, in partnership with the University of Cambridge, seeks to establish the '**hubs of excellence**' at the top-level Higher Education Institutions in Azerbaijan, Belarus, Tajikistan and Uzbekistan, to enable them to become the centres for knowledge-sharing and transfer for **research integration, impact governance, and sustainable communities**.

# THE ECONOMIC IMPORTANCE OF THE SOUTH CAUCASUS' ZANGAZUR CORRIDOR

## EXECUTIVE SUMMARY

*Azerbaijan, Russia, and Armenia signed a trilateral declaration to end the Nagorno-Karabakh conflict in November 2020. The declaration put an end to the conflict in Karabakh and laid the groundwork for future cooperation, stability, and security in the South Caucasus and the Caspian region. The South Caucasus is at a crossroads of transportation routes connecting Russia and India, as well as Europe and China. The region also acts as an energy corridor, carrying energy supplies from the Caspian region to the western energy market. For Azerbaijan, one of the most significant achievements of the November trilateral declaration was the inclusion of the article on the opening of all regional transport routes, including the Zangazur corridor, which connects Azerbaijan with Turkey via Armenia and is currently under discussion. The opening of the Zangazur corridor means the opening of trade routes linking Central Asia, the Caspian, Azerbaijan, and Armenia from the Pacific to Turkey. It is also an opportunity to expand the railway network between Russia, Azerbaijan, Turkey and Armenia in order to increase regional trade volume. This policy brief discusses the economic importance of the South Caucasus' Zangazur Corridor in terms of reaching lasting peace, connectivity and integration in the South Caucasus and acceleration of local development. It also argues that the Zangazur Corridor will be instrumental to future South Caucasus reconciliation and economic cooperation.*

**Keywords:** *Zangazur corridor, Azerbaijan, Armenia, transportation corridors, regional cooperation*

### **Abbreviations:**

*US–United States, EU – European Union, Middle Corridor – Trans Caspian International Transport Route, NSC – the North-South International Transport Corridor, YAP – New Azerbaijan Party, UN–United Nations, BRI –the Belt and Road Initiative. BTK – the Baku–Tbilisi–Kars Railroad*

## BACKGROUND

The route, known as “*the Caucasus' Zangazur Corridor*”, connects the Lesser Caucasus to the northeast and the Anatolian highlands to the southwest (See Figure 1 ).<sup>1</sup> In November 2020, Russian President Vladimir Putin, Azerbaijani President Ilham Aliyev, and Armenian Prime Minister Nicole Pashinyan signed a trilateral declaration ending the Nagorno-Karabakh conflict, which included a reference to the transportation corridor linking Azerbaijan’s western regions with the Nakhchivan Autonomous Republic. The latter is an Azerbaijani exclave landlocked between Armenia and Iran to the north and having a short border with Turkey to the south. The Zangazur corridor opens trade routes from the Pacific to Turkey, connecting Central Asia, the broader Caspian region, Azerbaijan, and Armenia, while providing an opportunity to extend the railway network between Russia, Azerbaijan, Turkey, Armenia and Iran.

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<sup>1</sup> Stratfor, 2012.

Figure 1. Zangazur corridor



(Source: [www.ikisahil.az/](http://www.ikisahil.az/))

The end of the Nagorno-Karabakh conflict has created a new environment for the region in terms of development of the Caspian transport network. Therefore, the agreement signed on November 10<sup>th</sup> to unblock the “Zangazur” corridor is an essential step toward Azerbaijan’s goal of becoming a Eurasian transport hub while also contributing significantly to regional economic growth. Moreover, the opening of the Zangazur corridor would undoubtedly strengthen the Caspian transport network including the «East-West» transport corridor and the North-South International Transport Corridor, along with the oil and gas pipeline system extending from the Caspian to Europe.<sup>2</sup> The transit capacity of the region has played a crucial role for the European Union (EU), the United States (US), Russia and China.

<sup>2</sup> Ismailzade and Babayev, 2020.

President Ilham Aliyev reaffirmed Azerbaijan would be willing to achieve sustainable peace and stability in the region in his video format speech at UN 77<sup>th</sup> session of Economic and Social Commission for Asia and the Pacific on April 26, 2021. He also said that Azerbaijan had made a significant contribution to the establishment of regional connectivity projects such as East-West and North-South transportation corridors. He stated that Azerbaijan was working on the “*Zangazur transportation corridor which will be an integral part of the East-West corridor connecting Asia and Europe through Azerbaijan. This corridor will allow Azerbaijan to strengthen its position as Eurasia’s transport and logistics hub.*”<sup>3</sup>

President Ilham Aliyev repeatedly stressed the importance of the Zangazur corridor for Azerbaijan and the rest of the region during his speech to the 7<sup>th</sup> Congress of the New Azerbaijan Party (YAP) on March 5<sup>th</sup>, 2021, and an interview with Azerbaijan Television on April 20<sup>th</sup>, 2021. President Aliyev said during the latter that the Zangazur corridor would serve all of Azerbaijan's national, historical, and future interests. Due to the time and effort required for railway and highway construction, all available resources have been mobilized to complete this critical project<sup>4</sup>. Despite Armenia's destruction of Azerbaijan's historical and religious sites, the President stated that Azerbaijan is ready to cooperate with Armenia. President Aliyev said at the 7<sup>th</sup> Congress of the New Azerbaijan Party that the inclusion of the Zangazur corridor in the trilateral agreement is a significant political achievement for Azerbaijan.

## **ANALYSIS OF THE ISSUE**

The Zangazur corridor allows the operation of a transport corridor connecting Europe and Asia, which is of strategic importance to Russia and China, promises potential economic benefits to all countries in the region. The Zangazur Corridor will boost Azerbaijan’s position in the East-West and North-South transport corridors, as it is situated on the historic Silk Road and seeks to become a logistics hub between Europe and Asia. Azerbaijan is a financially and politically involved participant in both transportation corridors. The East-West corridor is of significance to China and the EU, which had a combined trade turnover of 560 billion euros in 2019. The East-West corridor is crucial for trade between Turkey and Central Asia as well as Turkey-China trade turnover (was €21 billion in 2019). Moreover, the Zangazur corridor will connect Turkic-speaking nations with a combined GDP of 1.1 trillion dollars<sup>5</sup>.

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<sup>3</sup> President.az, 2021.

<sup>4</sup> Azertag, 2021.

<sup>5</sup> Emerging-Europe, 2021.

Moreover, Nakhchivan's land route to Azerbaijan will be reduced with the opening of the Zangazur corridor. Only an air route or a land route via Iran and Turkey link Azerbaijan and Nakhchivan at the moment. By establishing a shortcut with Nakhchivan, businesses in Nakhchivan would be able to grow by gaining access to the East-West transport corridor, as well as reducing travel distances to Azerbaijan and Russia<sup>6</sup>.

The Zangazur Corridor, on the other hand, would improve the South Caucasus' transit role in the Middle Corridor, one of China's alternative corridors under the Belt and Road initiative (BRI). The amount of cargo passing through Azerbaijan on its way from China to Turkey, and vice versa, has recently increased. By developing overland transportation through Armenia, the Zangazur Corridor would improve the Middle Corridor's ability to link Europe and Asia. It will also boost trade between Azerbaijan and Turkey by shortening the transit time. Although the Baku–Tbilisi–Kars Railroad (BTK) and Georgian roads already link Azerbaijan with Turkey, the shorter route has the potential to improve economic ties. Azerbaijan has been able to create a multimodal corridor that follows the shortest land route between China and the European Union. Besides, Azerbaijan is one of the countries which welcomed and supported China's BRI. The unblocking of all communications in the South Caucasus will benefit not only Azerbaijan's position as a logistics hub, but also China's ability to transport goods to Europe with the shortest path. Both the Middle East and the Arab world are accessible through the Zangazur Corridor.

The Zangazur corridor also benefits Turkey. The corridor expands the Turkic states' vision of regional integration, which has been developing an ambitious agenda toward this goal in recent years. At the Turkic Council's informal summit on March 31, Azerbaijani President Ilham Aliyev said that “transport, communications, and infrastructure projects passing through Zangazur would unite the entire Turkic world”<sup>7</sup>. The Zangazur corridor will not only link Turkic-speaking countries with nominal GDPs exceeding \$1.1 trillion, but it will also strengthen Azerbaijan's strategic importance. By using the Zangazur corridor as a gateway to Central Asia, Turkey will be able to strengthen its economic ties with the Turkic world. Also, Turkey will have a new logistics corridor connecting Central Asia and China.

Meanwhile, both Russia and Armenia will benefit from the Zangazur corridor. This corridor has the potential to become Russia's primary route for goods transport to the South Caucasus and neighbouring countries. Russian trains could travel through Azerbaijan on their way to the Zangazur corridor, which

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<sup>6</sup> Orkhan Baghirov, 2021.

<sup>7</sup> Azernews, 2021.



links Armenia, Turkey, and Iran, while Russian goods could travel through Turkey to the Middle East and other Southern Asian countries<sup>8</sup>. The Zangazur corridor will connect Russia and Armenia on a short-distance basis through railway. Besides, the establishment of a railway connection between Russia and Armenia would make it easier for Armenian businesses to access Russian and Eurasian Economic Union markets.

First and foremost, Armenia's impact in the Caucasus will improve, and prospects for potential economic cooperation with Azerbaijan will emerge. By reopening trade ties with Azerbaijan and Turkey, the corridor will also help Armenia get out of economic isolation. Armenia will benefit from access to the East-West Corridor, which has the potential to become a major corridor within the BRI, while improving economic cooperation with Azerbaijan. Armenia can also benefit as a transit country if a proposed trans-Caspian natural pipeline between Central Asia and Turkey is realized in the future. Armenia can also benefit from Azerbaijani investment in the restoration of regional railways.

In general, the use of the Zangazur corridor for peaceful purposes ensures long-term stability for both Azerbaijan and Armenia. As a result, the corridor may lead to future Azerbaijani investment in infrastructure projects in Armenia as well as the growth of cross-border business links. This will, in the long run, contribute to long-term stability and regional cooperation between the two countries. In the future, the Zangazur corridor could also symbolically serve as a 'peace corridor' between Armenia and Azerbaijan, benefiting both countries. As the EU's experience demonstrates, economic projects that bind countries on the European continent played a key role in long-term peace and prosperity. In the South Caucasus, the Zangazur corridor may play a similar role, resulting in long-term peace between countries.

## **POLICY RECOMMENDATIONS**

1. Azerbaijan should use available diplomatic channels and direct dialogue with Armenia's government to explain of the corridor's economic and political benefits. It can use the mediation of international organizations too. Azerbaijan should avoid official statements that can create misunderstanding in Armenia's political and societal circles. Given the project's economic, geopolitical, and political significance, Azerbaijan's internal resources as well as foreign donors can be employed to finance the reconstruction of the railway network in the Zangazur corridor.
2. There is an opportunity to restore Azerbaijani-Armenian ties and develop good neighbourliness. The Zangazur corridor has the potential to economically link the countries and contribute to long-

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<sup>8</sup> Aircentre, 2021.

term peace. Armenia must recognize Azerbaijan's territorial integrity and sign the peace agreement with Azerbaijan.

3. Azerbaijan's President has confirmed numerous times that Azerbaijan is willing to work with Armenia in spite of Armenia's destruction of Azerbaijan's historical and religious sites. Armenia should take a similar approach towards cooperation as the the latter on the Zangazur corridor will beneficial for two nations. .

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