



Revamping the Nakhijevan-Yerevan-Baku Railway: Significance, Opportunities and Obstacles

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Since the fall of the Soviet Union relations between Armenia and Azerbaijan have remained hostile, heightening tensions in the South Caucasus region. The loss of transport infrastructure which connected both states during the Soviet times entails a welfare loss for the whole region but most acutely for Armenia, a small landlocked nation undergoing an economic blockade by its eastern and western neighbors – Azerbaijan and Turkey. The blockade has diminished the importance of railroads for the country as the only state effectively connected with Armenia via rail is Georgia.

The recent trilateral statement signed by the leaders of Armenia, Azerbaijan, and Russia has a clause about opening all economic and transport links in the region, which implies a revamping of the Nakhijevan-Yerevan-Baku-Makhachkala railroad line connecting Armenia to Russia through Azerbaijan as well as the mainland of Azerbaijan with Nakhijevan. Nevertheless, this clause has not yet been fulfilled due to disagreement regarding the

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definition of “corridor” and the reluctance of Azerbaijan to release prisoners of war, hostages, and other detained persons, which it still holds.

A comprehensive estimation of the benefits to the region from opening the railroad for the would be challenging to summarize in such a short paper. Therefore, this paper will focus on the importance of the railroad for Armenia only. The paper also examines a possible solution to the stalemate resulting from the arbitrary interpretation of the 9th point of the trilateral statement which refers to the unblocking of all economic and transport links.

Understanding Transport Corridors

The Azerbaijani interpretation of the transport corridor implies sovereignty over foreign territory. After their military success, Azerbaijan seeks to use wording which is palatable for its public. For Azerbaijan having a sovereign corridor in foreign territory which connects Nakhijevan to its eastern regions means a further materialization of its military success, as well as enhancing the legitimacy of its leadership in the eyes of the population. It arbitrarily interprets the 9th point of the trilateral statement as a right to a sovereign transport corridor in the sovereign territory of Armenia (Kucera 2021). But what is a transport corridor, and does it imply sovereignty over foreign territory at all?

A transport corridor when defined in the widest sense refers to a designated network of transport routes comprising road, rail, inland terminals, and/or border posts (UN-OHRLLS 2020). A corridor is usually established for purposes of enhancing trade and transport facilities so customs and other regulatory agencies can effectively conduct oversight functions among the various stakeholders.

The table below shows various stages of corridors and their associated characteristics (UN-OHRLLS 2020).

Table 1: Stages in Corridor Evolution and Associated Characteristic

Corridor Stage	Infrastructure	Investment	Harmonization
Stage1 Transport Corridor	Single trans-boundary infrastructure (road, rail or waterway) linking a setof cities across states	Corridor attracts limitedlocal investment in the form of shops, cafes, etc.	No corridor-wide Harmonization of policies or regulations among the constituent corridor states Recognition of the corridor as an instrument for economic development is not endorsed by all corridor countries

<p>Stage 2 Integrated Multi-modal Corridor</p>	<p>Multiple modes of trans-boundary infrastructure linking two economic points</p>	<p>Corridor may begin to attract new investment as a result of improved transport linkages in the form of manufacturing facilities and amenities</p>	<p>Creation of cross-border trade agreements between constituent countries</p> <p>Recognition of the importance of the corridor for trade may result in a basic institutional framework to manage it</p>
<p>Stage 3 Logistics Corridor</p>	<p>Integration of multiple infrastructure components to improve functionality, either multi-modal or multi-sector</p>	<p>International investment attracted in manufacturing, tourism, tradable services, etc., either clustered in specific locations or spread along the corridor</p>	<p>Active Harmonization of regulations covering the movement of goods, services, and people as well as investment and tax, regulations specific to key corridor sectors</p> <p>Establishment of an institutional framework to manage the corridor and active promotion of investment and identification of the corridor as a magnet for investment</p>
<p>Stage 4 Economic Corridor</p>	<p>Provision of complementary infrastructure to facilitate flow of goods, services and people, attracting further investment (OSBPs, logistics and warehousing, industrial zones)</p> <p>The improvement of additional infrastructure, such as water and power, to link priority areas</p>	<p>Forward and backward linkages from the new investment sectors are established with spillovers into the wider economy</p> <p>Complementary services and linked sectors which generate economic activity and benefits in surrounding regions</p>	<p>Removal of all barriers to the flow of goods, services, and people</p> <p>Full Harmonization of regulations, policies, taxation regimes, etc. to foster economic, social and spatial development</p> <p>Establishing a free trade area covering the entire corridor</p>

The table above shows that different stages imply different regulations and none of the stages anticipates a sovereignty over the foreign territory. Moreover, the higher the stage the more investments it might generate. The traditional land-based transport corridor is a surface transport link usually originating from a seaport and may contain road, rail or pipelines in part of, or the whole of its stretch into the hinterland. Hence, the Nakhijevan-Yerevan-Baku-Makhajkala railroad may also be incorporated into a transport corridor. The corridor may further contain border posts, dry ports, and inland container terminals (ICDs). A stage four corridor offers ample space for both Armenia and Azerbaijan to interpret the

very vague 9th point of the trilateral statement regarding the opening of all economic and transport links of the region. Moreover, if they decide to go beyond the transport corridor and establish an economic corridor, implying the removal of all barriers to the flow of goods, services, and people, they may avail themselves of the legislation of the Commonwealth of Independent States (CIS) which they have not yet attempted to apply.

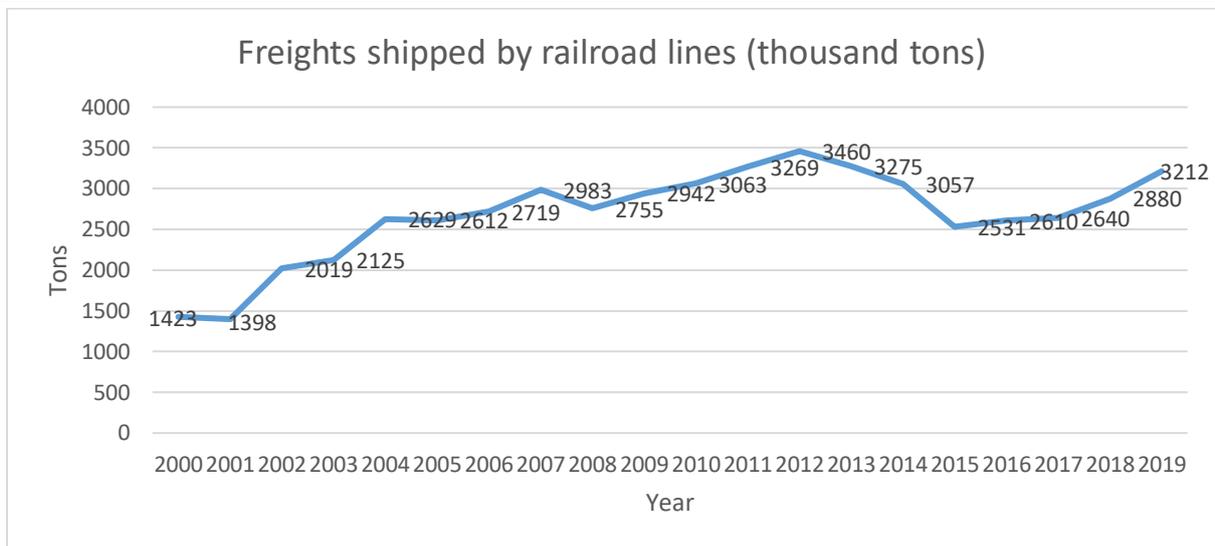
A Quibble Leading to a Cul-de-sac!

The legal base for the corridors mentioned in the table above can be global agreements under regional frameworks, multilateral agreements among countries participating in the corridor, or bilateral agreements. Therefore, the word “corridor” does not imply an encroachment upon the national sovereignty of the states involved. On the other hand, in the 9th point of the trilateral declaration, it is clearly stated that the control over transport communication is to be exercised by the Border Guard Service of the FSS of Russia (Office of the Prime Minister of Armenia 2020). Hence, the claims of Azerbaijan over a sovereign corridor lacks any legal grounds and is not stipulated in the above-mentioned trilateral statement. The stalemate over the meaning of “corridor” raises the possibility for a new round of armed conflict.

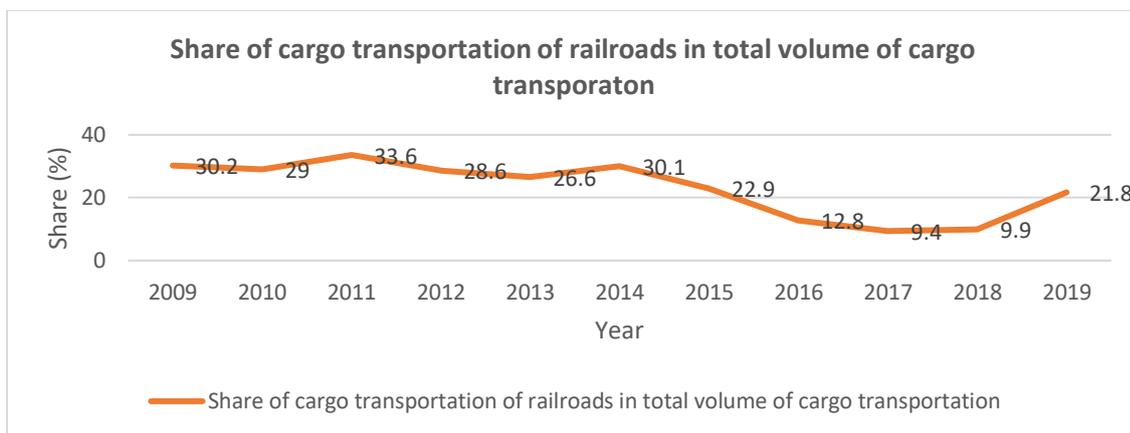
The Importance of Railways for Armenia

As Armenia is a landlocked country, the development of a comprehensive railway network is of the utmost importance for the economic development of the country. The construction of the Armenian railway system started in 1865 and in 1899 the Tbilisi-Aleksandrapol (Gyumri) railway was completed. The Ulukhni-Julfa line followed in 1908, Yerevan-Hrazdan in 1963, and Akhtamar-Tsovagyugh-Shorzha-Zod in 1976. The total railway coverage in Armenia is 1410 km across 73 stations. The network has four intersection points with neighboring countries: Azerbaijan in the east (Ijevan station), Azerbaijan in the south-west (Yeraskh station), Georgia in the north (Ayrum station), and Turkey in the west (Akhuryan station) (South Caucasus Railway, 2021).

Railways have always been crucial for the Armenian economy. The charts below show the volume of cargo transported by rail. Cargo transported via rail more than doubled between 2000-2019 from 1423 thousand tons to 3212 thousand tons.



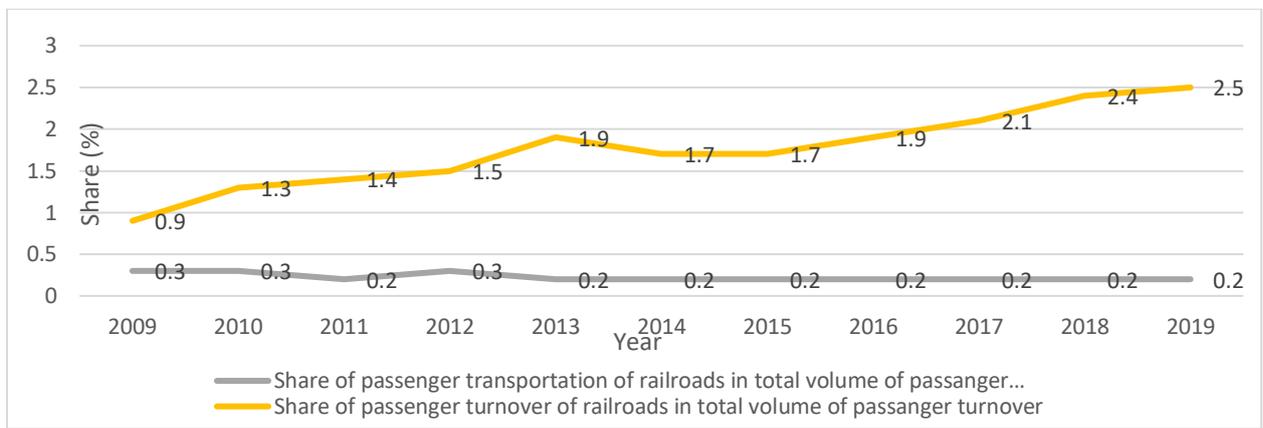
Source: Statistical Committee of the Republic of Armenia



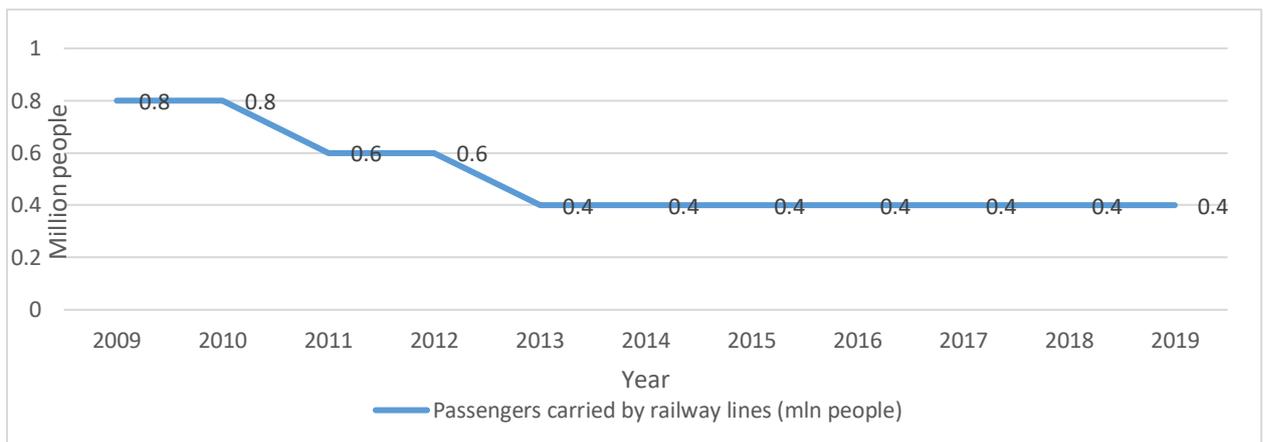
Source: Statistical Committee of the Republic of Armenia

Despite the steady increase of freight shipped by rail, the share of cargo transported in total has declined over the last decade. The volume of freight shipped covers the amount of freight shipped, including the weight of packaging or container. In 2019, compared with the previous period, it increased sharply. This can be explained through economic growth and the increase of automotive imports.

Railways retain a relatively insignificant role in terms of passenger turnover. Passenger turnover is defined by multiplying the number of passengers carried by the average distance per passenger. The volume of passenger transportation via rail (number of passengers carried) and passenger turnover are defined according to the type of travel: intra-community, intraregional, interregional, and international. The volume of passenger transportation includes the number of passengers actually transported (including passengers who receive passage free of charge).

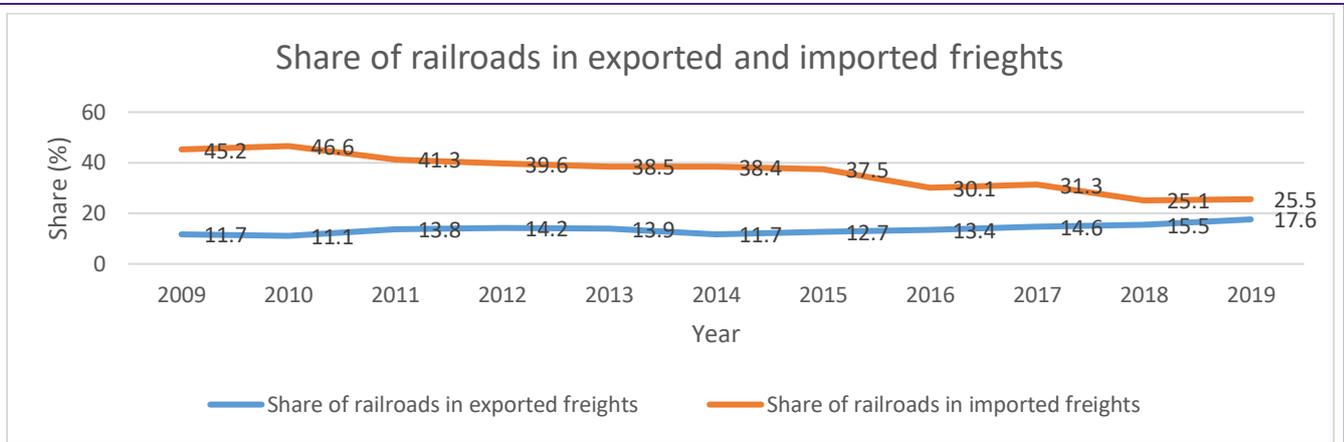


Source: Statistical Committee of the Republic of Armenia



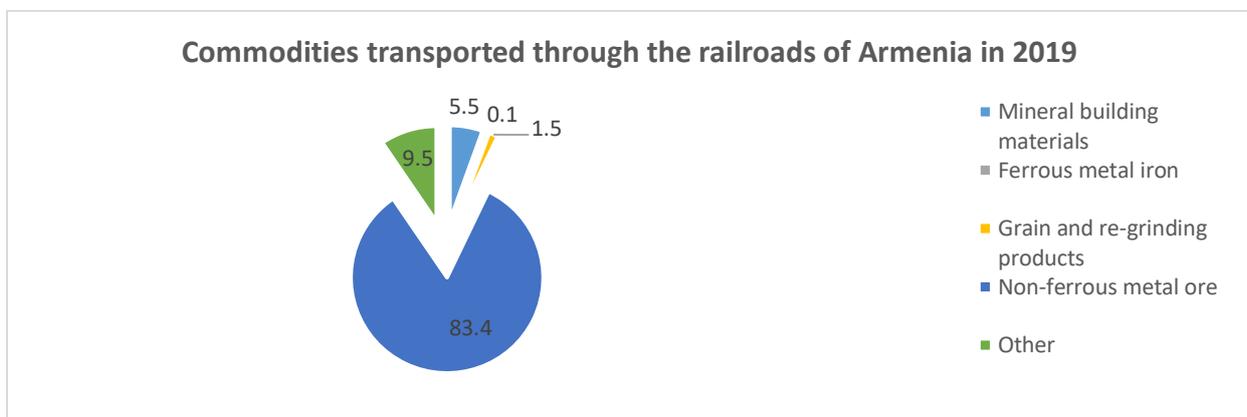
Source: Statistical Committee of the Republic of Armenia

The relatively minor role of railways for passenger traffic can be explained by the absence of rail connections with Iran. Furthermore, the railway connecting Armenia to Russia passes through Georgia's breakaway region of Abkhazia and has not been functional for decades despite the potential economic benefits for Armenia, Georgia, Russia, and Abkhazia. Revamping the Abkhaz section of the Georgian railway and reconnecting it to the regional railway network was proposed by the ex-Prime Minister of Georgia Bidzina Ivanishvili as part of his de-isolation strategy for Abkhazia, but political considerations still outweigh the economic opportunities (Kommersant 2012). As it stands, the Armenia-Georgia line is the only international railroad for Armenia. The last freight train to cross the Armenia-Turkey border was in 1993, when Turkey closed its railway link with Armenia as part of a blockade in support of Azerbaijan during the first Nagorno-Karabakh war. Despite these limitations, the railroad still plays a crucial role for both imports and exports in Armenia.



Source: Statistical Committee of the Republic of Armenia

The chart above shows that despite adequate railroad connections with the rest of the world, rail still retains a significant share in both imported and exported freight. In 2019 Armenia exported more than a quarter of its freight via rail and railroads are especially important for the transportation of non-ferrous metal ore and to certain extent mineral building materials.



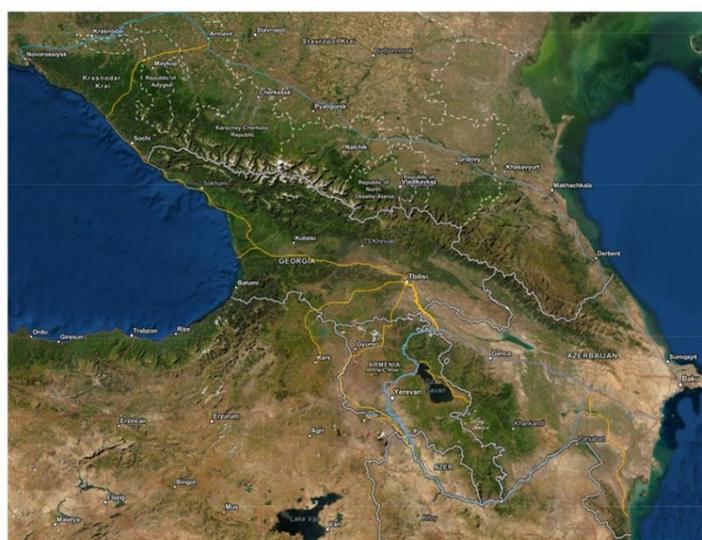
Source: Statistical Committee of the Republic of Armenia

New Opportunities for Armenia and for the Region

Despite the tragic repercussions of the war, the trilateral statement signed on the 9th of November 2020 by the leaders of Russia, Azerbaijan and Armenia paves the way for new economic opportunities which would contribute to the development of the region. In particular, the 9th point of the statement emphasizes that all economic and transport links in the region shall be unblocked (Office of the Prime Minister of Armenia 2020). Presumably, the unblocking of all the transport links includes revamping the Nakhijevan-Yerevan-Baku-Makhachkala railroad. It is worth mentioning that Armenia used the Yerevan-Baku-Makhachkala railroad for cargo transportation during the Soviet era and according to expert

estimation, carried about 80% of Armenian produce to outside markets before its operation ceased in 1992 (Hakobyan 2021).

Reactivating the Yerevan-Baku railroad would allow cheaper transportation for Armenian goods and open new economic opportunities with its number one trade partner, the Russian Federation. While the highway connecting Armenia to Russia via Georgia is shorter, the railroad is a more preferable option. In winter, trucks are often delayed as the Stepantsmida-Larsi section of the route can be closed or restricted due to intensive rainfall and low temperature. Additionally, transportation by rail is normally cheaper than that by road. According to one of the transportation companies plying this route, the price for transporting any commodity by truck from Yerevan to Moscow is at least 1\$ (495 Armenian dram) per kilogram provided that the commodity is 500 kg or more, with lighter materials commanding higher prices (Trans city 2021). Unfortunately, there is no open source information regarding the cargo transportation prices from Yerevan to Batumi via rail. However, short interviews with experts in the field revealed that the cargo transportation price via rail is significantly cheaper than the above-mentioned transportation price via road. Therefore, cargo transported by rail would make Armenian products more competitive as the cost of transport would decrease. Furthermore, it is an economic principle that trade which is free from obstacles and complications contributes to the more efficient allocation of resources in global markets as the deadweight loss either decreases significantly or disappears. In addition, free trade makes states focus on their comparative advantages, thus maximizing the possible gains from trade (Irwin, 2020). However, free trade is not free of externalities and this concept has been challenged by invoking environmental and social justice-related arguments (Hassoun 2008).



Picture 1. The itinerary of Nakhijevan-Yerevan-Baku-Makhachkala-Novorossiysk railroad
Source: Google map, the lines were drawn by the author.

Another possible advantage for Armenia from revamping of the Nakhijevan-Yerevan-Baku-Makhachkala railroad would be a rail connection with its southern neighbor, The Islamic Republic of Iran. Azerbaijan's Nakhijevan Autonomous Republic already has a railway connection with Iran which Armenia would be able to use to its advantage. As of January 2020, more than 5% of the total trade turnover of Armenia was with Iran (Statistical Committee of Armenia 2020). Additionally, Iran is a window for Armenia to extend its export to the Gulf states, notably Iraq and UAE, which are important economic partners for Armenia.

Conclusion

The revamping of the Nakhijevan-Yerevan-Baku railroad will be beneficial for Azerbaijan as it will link Baku with its exclave Nakhijevan, and its short 17 km-long border with Iğdir province in Turkey, the only border between the countries. Moreover, this connection will be of interest to Armenia which remains blockaded by Turkey in the west and Azerbaijan in the east. The railroad would create more trade in the region which is beneficial to all parties, and the increased competition would generate additional consumer surplus while decreasing losses due to inefficient allocation.

The Nakhijevan-Yerevan-Baku railway connection remains theoretical as political motivations continue to prevail over economic calculations. In particular, Azerbaijani insistence on having a sovereign corridor within the territory of Armenia (Syunik region), disagreement over the word "corridor" and the reluctance of Azerbaijan to release Armenian prisoners of war are unlikely to lower the tension in the region (Kucera 2021). Nevertheless, the UN OHRLLS report shows that the concept of a "transport corridor" does not compromise the sovereignty of the states who are the beneficiaries (UN-OHRLLS 2020). Therefore, a possible compromise from the Armenian side on wording would not compromise its sovereignty, and would calm and pacify Baku towards facilitating economic and transport links in the region in general, and the Nakhijevan-Yerevan-Baku railway in particular.

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