

South Caucasus Connectivity Needs More than the TRIPP

An APRI Armenia Analysis

As of 15 April 2026

For countries in the South Caucasus, raising long-term economic growth, resilience, and living standards are among the top economic policy priorities. To achieve this goal, a deeper connectivity push within the region is needed.¹ To date, the Trump Route for International Peace and Prosperity (TRIPP) has been considered the key to unlocking all the barriers to regional connectivity and prosperity. In this APRI Armenia Analysis, we argue that the TRIPP is a helpful – but insufficient – step toward unblocking the South Caucasus, and lay out what the South Caucasus and like-minded partners should do to achieve regional peace and prosperity.

Executive summary

- The TRIPP is a necessary, but not sufficient step toward advancing regional stability in the South Caucasus.
 - The implementation of the TRIPP without opening the Armenia–Azerbaijan and Armenia–Türkiye borders risks continuing Armenia’s economic isolation, as the TRIPP alone does not link the country to Türkiye, Azerbaijan, or any foreign market.
 - The US–Israel–Iran War poses new challenges for the TRIPP and indicates that an even more careful balancing of US and Iranian interests is needed.
- A full unblocking of the Türkiye–Armenia and Azerbaijan–Armenia borders can:
 - create additional east–west supply chains, including a readily available route that passes from Baku and Nakhijevan to Türkiye using Armenian territory.
 - generate an additional US\$1.1 billion annually across trade, tourism, and transit revenues for the countries involved.
 - enhance macroeconomic stability by mitigating high risks of spillovers for Armenia and Azerbaijan arising from geoeconomic fragmentation.
- Regional connectivity projects, and the TRIPP in particular, are mostly seen from a geopolitical perspective. Combined with an economic perspective, however, it becomes more apparent that new routes would benefit all countries involved.

1. Note: In the scope of this Analysis, connectivity is strictly defined as rail and road connections.



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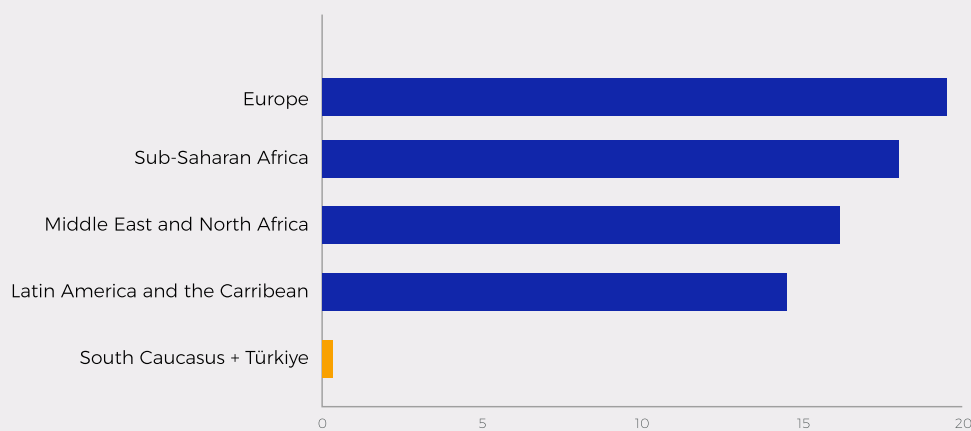
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Snapshot of connectivity routes in the region

In the South Caucasus, economic integration has been severely lacking. Trade within the region accounts for less than 2% of the region's total trade. This lags behind other regions. For instance, trade within Europe accounts for around 20% of total European trade, while trade within the Middle East and North Africa region accounts for 16% of the region's trade (Figure 1). The prevalence of conflict between Armenia and Azerbaijan, and the absence of an open Türkiye–Armenia border has limited the extent to which the South Caucasus could become integrated as a region. It has also prevented the region from becoming a significant facilitator of east–west trade flows. In the last decade, several international transport corridor projects have emerged and could help improve the region's connectivity.

Figure 1: Intra-Regional Trade by Region (Percent of total trade, 2021-24 average)



Source: IMF Direction of Trade Statistics database, and APRI Armenia staff calculation.
Note: Europe includes Russia.

Trans-Caspian International Transport Route (TITR), also called the Middle Corridor

This is a multimodal route connecting China and Central Asia to Europe via the Caspian Sea, South Caucasus, and Türkiye or the Black Sea. The Middle Corridor has recently attracted attention due to Western efforts to circumvent the northern route that connects Asia to Europe through Russia. When it comes to the South Caucasus, it is set to pass along the Azerbaijan–Georgia–Türkiye route. While Armenia has so far not been used as transit territory, the TRIPP project is sometimes framed as part of the Middle Corridor,² and there appears no reason to justify Armenia's exclusion.

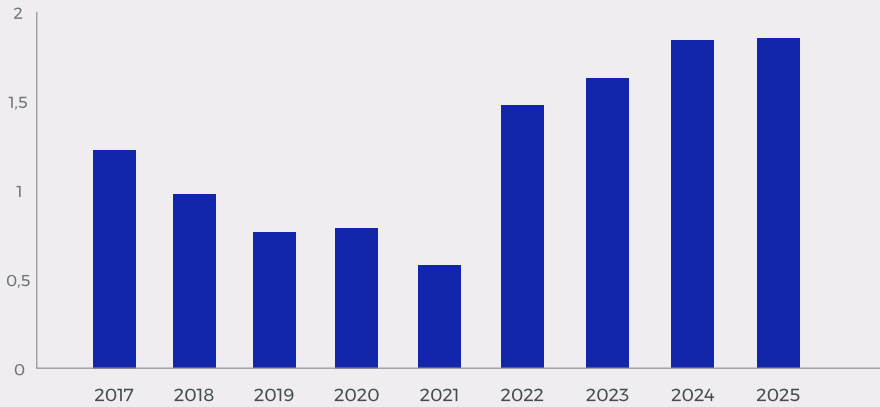
2. Jack Halsey and Toghrul Ali, "Armenia and Azerbaijan Implement Peace: Next Steps in Constructing the TRIPP," Caspian Policy Center, February 2, 2026, <https://www.caspianpolicy.org/research/category/armenia-and-azerbaijan-implement-peace-next-steps-in-constructing-the-tripp>



The volume of trade flows along the Middle Corridor expanded in 2025, reaching 1.9 million tons (Figure 2). If conditions are met, the use of the Middle Corridor is projected to reach 11 million tons annually by 2030, largely driven by Central Asia–Europe trade (Figure 2).³ The European Union seeks to benefit from enhanced east-west connectivity resulting from the Middle Corridor⁴ and is actively funding infrastructure projects along the route.⁵

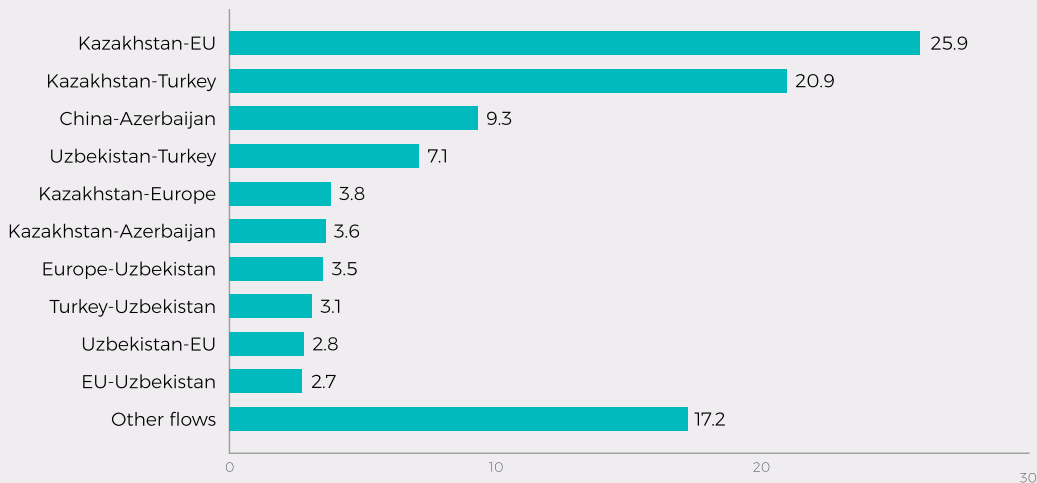
Figure 2: The Middle Corridor

Volume of Container Traffic Along the Middle Corridor (Million tons)



Source: Trans-Caspian International Transit Route website.

Structure of Cargo Flows of the Middle Corridor (Percent of total flows, 2021)



Source: World Bank Middle Trade and Transport Corridor (2023).

- World Bank, "The Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030," November 27, 2023, <https://www.worldbank.org/en/region/eca/publication/middle-trade-and-transport-corridor>
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- European Union, "EU Study Maps Investment Needs to Rebuild Trade Routes between Europe and Central Asia via the Caucasus," February 6, 2026, https://enlargement.ec.europa.eu/news/eu-study-maps-investment-needs-rebuild-trade-routes-between-europe-and-central-asia-caucasus-2026-02-06_en



The International North-South Transport Corridor (INSTC) and Persian Gulf-Black Sea Corridor

The INSTC seeks to connect India to Russia through Iran, Azerbaijan, the Caspian Sea, Turkmenistan, and Kazakhstan. Transit volume along the INSTC has grown rapidly since 2024⁶ and is expected to reach 15–25 million tons per year by 2030.⁷ Since there are no functioning Armenia-Russia or Armenia-Iran rail lines, Armenia's ability to participate in this corridor is limited to road access. Georgia is also excluded since the existing Georgia-Russia railway is obstructed. Azerbaijan is the main country in the South Caucasus benefiting from the INSTC. The Rasht-Astara railway, which will directly link Baku with Iran, is currently under construction. Russia and Iran will also be connected via Baku through electricity and gas transit corridors.⁸

The Persian Gulf-Black Sea corridor, meanwhile, envisages connecting Iran, and potentially India, with Europe via Armenia, Georgia, and the Black Sea. An unblocking of the Türkiye-Armenia and Azerbaijan-Armenia borders would complement this corridor, creating a direct railway from Iran to Georgian ports on the Black Sea via Nakhijevan and Armenia. Having said that, the future of the INSTC and the Persian Gulf-Black Sea corridor hang in the balance due to the sanctions on Iran and the US-Israel-Iran War. The US may see enhanced north-south access for Iran as against its own interests, and could take steps to prevent the corridors from forming.

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6. Emil Avdaliani, "The International North-South Transport Corridor," Gulf Research Centre, August 26, 2025, <https://www.grc.net/single-commentary/302>
 7. Evgeny Y. Vinokurov, Arman Ahunbaev, and Alexander I. Zaboiev, "International North-South Transport Corridor: Boosting Russia's 'Pivot to the South' and Trans-Eurasian Connectivity," Russian Journal of Economics 8 no. 2 (July 29, 2022): 159–73, <https://rujec.org/article/86617/>
 8. APRI Armenia, "Russia-Iran Strategic Partnership: Implications for the South Caucasus," March 13, 2025, <https://apri.institute/russia-iran-strategic-partnership-implications-for-the-south-caucasus/>



The TRIPP, a first step with many hurdles

On August 8, 2025, the leaders of Armenia, Azerbaijan, and the United States signed a joint Declaration that set forth the establishment of the TRIPP.⁹ The proposed project is a 43 km route that will connect mainland Azerbaijan to its exclave of Nakhijevan. The TRIPP represents the US's desired approach to pursue conflict resolution, as it intends to mend conflict through commercial gains. The signature of the Washington Declaration has substantially reduced the risk of conflict between Armenia and Azerbaijan.¹⁰ Importantly, the US sees the TRIPP as a way to bolster the Middle Corridor, providing an additional path for Central Asian critical minerals to reach Western markets.¹¹

It has also enabled small amounts of cross-border trade between Armenia and Azerbaijan. In late 2025, Armenia began using Azerbaijani territory to import grain from Russia and Kazakhstan, as well as limited amounts of oil and diesel from Azerbaijan.¹² These transit flows continue to rely on Georgian territory.

Despite the reduction of conflict risk and the resurgence of limited cross-border trade, the TRIPP faces some geopolitical challenges that could introduce new risks to regional stability. Since the route itself does not link Armenia to Türkiye or Azerbaijan, it would not create economic interdependence between the countries and risks prolonging Armenia's economic isolation, thereby not bringing additional stability in the longer term. Iran has viewed the TRIPP project with skepticism since it implies a US presence near its border with Armenia. Another driver of Iran's skepticism was the fact that Tehran saw the route as a competitor to the preplanned Aras Corridor in Iran, which would connect Azerbaijan to its exclave via Iran (see Figure 3). Iranian officials have also voiced concern that the TRIPP could be used to impede the country's north-south connectivity.¹³

Iran's negative attitude toward the TRIPP has increased recently. The 2026 US and Israel War against Iran has added an additional layer of concern in Iran about having a US presence next to its borders. The likely growth of the Islamic Revolutionary Guard Corps (IRGC)'s influence on Iran's foreign and security policymaking in the postwar era increases the possibility of an even tougher Iranian stance towards the project.

Russia, meanwhile, has historically viewed the South Caucasus as its near-abroad, and was suspicious of greater US involvement in the region. Initially, the Russian reaction toward TRIPP was positive-neutral, considering Moscow did not want to undermine relations with the US amid ongoing negotiations over Ukraine.¹⁴

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9. "Full Text of US-Brokered Armenia-Azerbaijan Joint Declaration," Armenpress, August 8, 2025, <https://armenpress.am/en/article/1226785>
 10. APRI Armenia, "The Washington Summit: Implications for Armenia and the Region," August 14, 2025, <https://apri.institute/the-washington-summit-implications-for-armenia-and-the-region/>
 11. US Department of State, "Joint Statement on Intent of Economic Cooperation," November 7, 2025, <https://www.state.gov/releases/office-of-the-spokesperson/2025/11/joint-statement-of-intent-on-economic-cooperation>
 12. Esmira Aliyeva, "Azerbaijan Ships Russian Grain to Armenia as Part of Peace Agenda," euronews, February 1, 2026, <https://www.euronews.com/2026/02/01/azerbaijan-ships-russian-grain-to-armenia-as-part-of-peace-agenda>; Dana Omirgazy, "Kazakh Grain Becomes First Transit Cargo from Azerbaijan to Armenia," Astana Times, October 22, 2025, <https://astanatimes.com/2025/10/kazakh-grain-becomes-first-transit-cargo-from-azerbaijan-to-armenia/>; Ruzanna Stepanian, "Azerbaijan Makes First Fuel Shipment to Armenia," Azatutyun, December 18, 2025, <https://www.azatutyun.am/a/33627303.html>
 13. Aljazeera, "Iran Rejects Planned Transit Corridor Outlined in Armenia-Azerbaijan Pact," August 9, 2025, <https://www.aljazeera.com/news/2025/8/9/iran-rejects-planned-transit-corridor-outlined-in-armenia-azerbaijan-pact>
 14. Comment by Foreign Ministry Spokeswoman Maria Zakharova on the talks between Azerbaijanian and Armenian leaders in Washington (United States), Russian MFA, August 9, 2025, https://mid.ru/en/foreign_policy/news/2040852/



The growing resentment in Russia about the new course of Armenia's foreign policy, and a more negative attitude toward TRIPP and the Washington Declaration in general came to surface during a tense meeting between Prime Minister Pashinyan and President Putin on April 1,¹⁵ and from Russian Deputy Prime Minister Overchuk's interview on Armenia-Russia relations on April 2.¹⁶

Another challenge for the TRIPP implementation has been that Azerbaijan and Türkiye continue to refer to the project as the "Zangezur Corridor,"¹⁷ which implies an extraterritorial route that ignores Armenia's sovereignty and territorial integrity. Coupled with the Azerbaijani leadership's constant anti-Armenian rhetoric,¹⁸ this framing is inconsistent with President Aliyev's narrative that the peace process is successfully moving forward.¹⁹ The "Zangezur Corridor" phrase also politicizes the route, implying that it is a strictly Turkish-Azerbaijani project, thereby excluding the other countries involved and interested, such as Armenia and the US. Lastly, the TRIPP is also facing delays due to US preoccupation with the Iran War, as mentioned by Prime Minister Pashinyan.²⁰

These new challenges would delay the implementation of the TRIPP and undermine the relative stability established in the region after August 2025 in the longer run.

Moving forward, **one way to avoid these unintended consequences would be to open those communications – Armenia-Türkiye and Armenia-Azerbaijan borders – which do not require significant investment in infrastructure, and which depend mostly on political will, and can be done within a few months. It would ensure regional stability and foster economic cooperation and interdependence, while efforts would be continued toward TRIPP realization.**

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15. Russian-Armenian Talks, Kremlin.ru April 1, 2026, <http://en.kremlin.ru/events/president/news/79454>
 16. Алексей Оверчук: будем оценивать ситуацию с Арменией не по словам, а по делам, Tass, April 2, 2026, <https://tass.ru/interviews/26970323>
 17. Azatutyun, Aliyev Confident About 'Zangezur Corridor' Through Armenia, January 6, 2026, <https://www.azatutyun.am/a/33641496.html>
 18. EVN Report, Aliyev's Forked-Tongue Policy: Peace Meets Anti-Armenian Propaganda, March 5, 2026, <https://evnreport.com/statecraft-governance/aliyevs-forked-tongue-policy-peace-meets-anti-armenian-propaganda/>
 19. Caspian News, President Aliyev Says Peace With Armenia "Already Achieved," February 16, 2026, <https://caspiannews.com/news-detail/president-aliyev-says-peace-with-armenia-already-achieved-2026-2-16-57/>
 20. Azatutyun, "Iran War Hampering Work On 'Trump Route,' Says Pashinian," March 12, 2026, <https://www.azatutyun.am/a/33703772.html>



The economic implications of a full unblocking

A full unblocking of the Türkiye–Armenia and Azerbaijan–Armenia borders would enhance east-west and north-south supply chain resilience, including for countries outside the region. It could also unlock an additional \$1.1 billion worth of trade, tourism, and transit revenues annually, while enhancing the macroeconomic stability of countries in the South Caucasus.

Additional supply chains

A full unblocking of the Türkiye–Armenia and Azerbaijan–Armenia borders would enhance regional connectivity and create new and resilient supply chains. It would optimize the TRIPP’s ability to act as a facilitator of east-west trade, including by providing a readily available route through Armenia. Should the TRIPP pave the way for a full unblocking of regional communications, additional north-south transit routes would emerge, benefiting countries outside the region, including Iran, Russia, India, and Türkiye.

Trade flows that transit from Asia to Europe have historically relied on the northern route via Russia, and recently, the Middle Corridor, which passes through the South Caucasus, but currently excludes Armenia. The US, aiming to strengthen its hold over critical minerals and rare earth metals, has sought to diversify from Chinese- and Russian-controlled supply chains.

There are two potential routes through which the TRIPP can facilitate east-west goods transit. In the first option, transit freight would pass from Baku through southern Armenia, entering Nakhijevan and then Türkiye (Baku–Nakhijevan–Kars; red line in Figure 3). With the second option, transit freight would pass from Baku through southern Armenia, Nakhijevan, then Armenia, before entering Türkiye (Baku–Yerevan–Kars; green line in Figure 3).

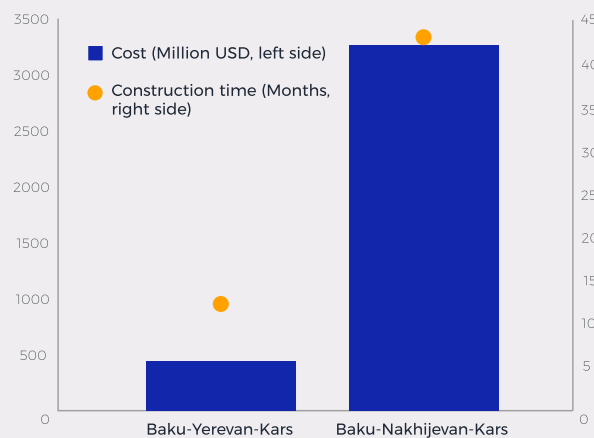
Figure 3: Potential routes for the continuation of the TRIPP





The full cost of restoring the Baku-Yerevan-Kars line, including the TRIPP project, is around \$430.7 million and it would take up to a year to construct (Figure 4). The Gyumri-Kars section of this line would only cost \$32.4 million.²¹ By contrast, the Baku-Nakhijevan-Kars line would cost an estimated \$3.2 billion (of which Kars-Dilicu comprises \$2.8 billion) and would take three to four years to be completed (Figure 4).²² **The connection that involves Armenia is significantly cheaper and will take less time to construct than the Baku-Kars-Nakhijevan route.** But opening both routes would optimize the potential of the TRIPP to facilitate east-west trade flows. It would also ensure the continuity of trade flows should one of the routes face disruptions.

Figure 4: Cost of Rehabilitating Railways in the South Caucasus (Million USD, and months)



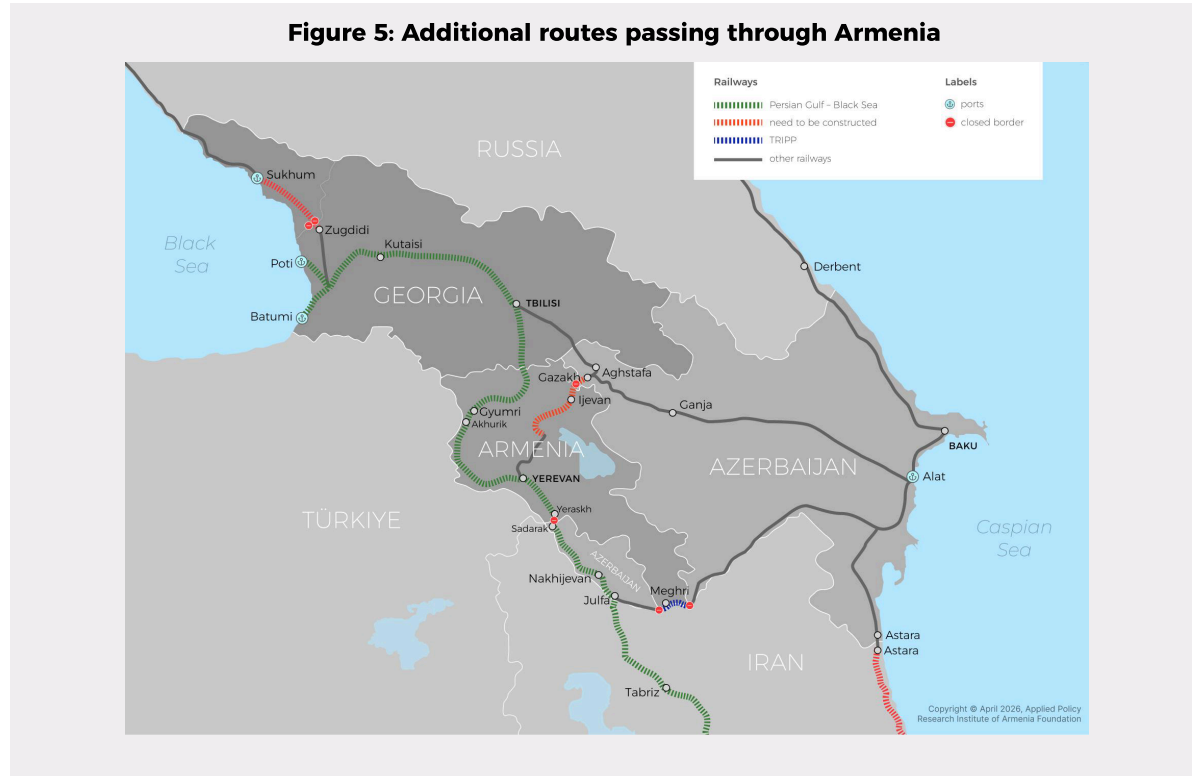
Sources: International Alert (2014), Ministry of Territorial Administration and Infrastructure of Armenia.
Note: The construction costs include the TRIPP project.
Note: The restoration of the Nakhijevan section will include additional costs.

Opening the Türkiye-Armenia and Azerbaijan-Armenia borders would also enhance north-south connectivity, including for countries outside of the South Caucasus. Opening the Armenia-Azerbaijan border, specifically the Yeraskh-Nakhijevan railway, will establish a direct railway connection between Armenia and Iran, as well as an additional line between Georgia and Iran. This would also enhance Iran's access to Georgian Black Sea ports,²³ contributing to the potential future development of the Persian Gulf-Black Sea Corridor (Figure 5). If the Armenia-Türkiye border were to open as well, Türkiye would gain additional rail access to Iran via the Kars-Gyumri-Nakhijevan-Tabriz railway.

21. Yerevan has calculated how long it will take to restore the Armenian section of the Gyumri-Kars railway <https://arm.sputniknews.ru/20250506/erevanum-hashvel-en-vorqan-zhamanakum-kverakangnvi-gjumri-kars-erkatgtsi-hajkakan-hatvatsy-88613941.html>
22. Reuters, "Türkiye Breaks Ground on Rail Line to Azerbaijan's Nakhchivan," August 22, 2025, <https://www.reuters.com/world/middle-east/turkey-breaks-ground-rail-line-azerbajjans-nakhchivan-2025-08-22/>
23. Via the Tabriz-Nakhijevan-Yerevan-Tbilisi-Poti/Batumi railway.



Russia would also benefit from a full unblocking. If additional railways are restored, Russia could gain rail access to Armenia through the Baku-Ijevan-Yerevan railway (Figure 5).²⁴ An opening of the Azerbaijan-Armenia border could also enhance Russia's broader north-south connectivity. For instance, Russian goods traveling to Iran and India could also transit by rail through Armenian territory, passing via the Armenia-Nakhijevan rail section.



Trade, tourism, and transit revenues

A full unblocking of the Türkiye-Armenia and Azerbaijan-Armenia borders could result in an additional \$1.1 billion of trade, tourism, and transit fees annually within the region compared to just the TRIPP (Figure 6). These gains would largely be driven by Türkiye and Armenia, as normalization could result in a significant increase in bilateral trade and tourism flows.

Several studies document the potential economic impact of opening the Türkiye-Armenia and Azerbaijan-Armenia borders. One recent study finds that opening the Türkiye-Armenia border could raise annual bilateral trade to around \$787 million.²⁵ The results support a 2022 study that found that opening the border could increase Armenia's trade with Türkiye from less than 1% to over 10% of its total trade.²⁶

24. This route would require significant repairs, especially the Hrazdan-Ijevan and Ijevan-Chazakh rail lines. See Natalia Mirimanova, "Rehabilitation of the Railways in the South Caucasus: Assessment of the Potential Economic Benefits, Volume 2, Kars-Gyumri-Nakhchivan-Meghri-Baku Railway," International Alert, <https://www.international-alert.org/app/uploads/2021/08/Caucasus-Railways-Rehabilitation-Pt2-EN-2014.pdf>
25. Gevorg Papoyan and Albert Hayrapetyan, "Crossroads of Peace: Advancing Regional Integration and Global Trade Through Post-Conflict Cooperation," Journal of Liberty and International Affairs 11 no. 2 (2025), <https://e-jlia.com/index.php/jlia/article/view/1839>
26. Veronika Movchan, "Opening of Armenia-Türkiye Border: Trade Impact," German Economic Team, May-June 2022, https://www.german-economic-team.com/wp-content/uploads/2022/06/GET_ARM_NL_05_2022_en.pdf



Based on historical trade data, this would imply an additional \$437 million in Türkiye's exports to Armenia and an additional \$115 million in Armenia's exports to Türkiye annually (Figure 6). While the existing literature points to an overall positive economic impact of a border opening, it does not take into account other potential effects of doing so.

Studies focusing on the structure of Armenia-Türkiye and Armenia-Azerbaijan trade find that there is strong trade complementarity within the three countries. In other words, Armenia exports goods and services that Türkiye and Azerbaijan consume, and vice versa.²⁷ One study in particular points out that if the Türkiye-Armenia border were to open, the relatively low cost of Turkish agricultural goods could pose issues for Armenian agricultural producers. The study concludes, however, that Armenia has a range of policy tools under its Eurasian Economic Union (EAEU) membership to combat foreign dumping practices, including from Türkiye.²⁸

Studies that examine the prospects of the Baku-Nakhijevan-Kars railway find that it could result in only a small increase in exports for Türkiye and a moderate increase in exports for Azerbaijan. For instance, one study finds that the railway could increase Türkiye's exports to Azerbaijan by 0.44% and Azerbaijan's exports to Türkiye by 3.4% annually.²⁹ Using historical trade data, this implies an \$11.4 million annual increase in Türkiye's exports to Azerbaijan and a \$129.5 million increase in Azerbaijan's exports to Türkiye.

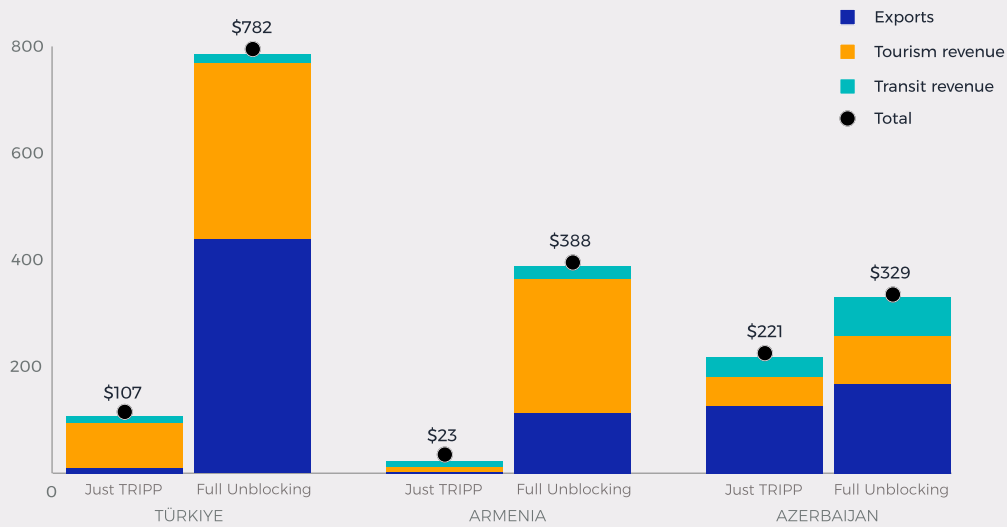
An opening of the Türkiye-Armenia border is also expected to drive large increases in tourism for both countries. The results of a 2025 study suggest that the border opening could lead to an additional \$246 million in tourism revenue for Türkiye and \$250 for Armenia annually (Figure 6).³⁰

Within Türkiye, the country's eastern provinces would benefit the most from unblocking the Türkiye-Armenia border. Connecting eastern Turkish provinces with Armenia would complement Ankara's broader development strategy and help reduce elevated levels of poverty.³¹

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27. Gevorg Papoyan and Albert Hayrapetyan, "Crossroads of Peace: Advancing Regional Integration and Global Trade Through Post-Conflict Cooperation," *Journal of Liberty and International Affairs* 11 no. 2 (2025), <https://e-jlia.com/index.php/jlia/article/view/1839>
 28. Armenian Center for Socio-Economic Studies, "Will Border Opening Flood Armenian Market with Turkish Food Products: Unnecessary Fear or Realistic Concern?," Policy Brief no. 2, September 2024, <https://www.acses.am/policy-briefs/>
 29. Erdem Ates, "The Potential Effects of the Zangezur Corridor on Türkiye's Foreign Trade," *Gazi Journal of Economics and Business* 11 no. 2 (June 2025), 148-161, https://www.researchgate.net/publication/393150165_The_potential_effects_of_the_Zangezur_Corridor_on_Turkiye%27s_foreign_trade
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 31. The Economic Policy Research Foundation of Turkey, "Strengthening Connections and Business Synergies between Turkey and Armenia: Towards a Roadmap for Confidence Building Through Economic Cooperation," November 2014, https://tepav.s3.eu-west-1.amazonaws.com/upload/files/1420818799-5.Strengthening_Connections_and_Business_Synergies_Between_Turkey_and_Armenia.pdf



Figure 6: Economic Gains from the TRIPP vs full Unblocking (Million USD, annual)



Sources: German Economic Team (2022), Papoyan and Hayrapetyan (2025), Ateş (2025), International Alert (2014), ARMSTAT, TURKSTAT, IMF World Economic Outlook, and APRI Armenia estimates.

Note: Estimates for exports, tourism, and transit revenues capture the additional annual increase due to the TRIPP compared to a broader unblocking of the Armenia-Türkiye and Armenia-Azerbaijan borders. Estimates do not include potential gains from trade or tourism with countries outside the region.

Note: Estimates for exports under "Just TRIPP" draw on the results of Ateş (2025) for Türkiye and Azerbaijan. Given the lack of trade between Armenia and Azerbaijan, we assume that exports to Azerbaijan could reach 5.5% of those to Türkiye, given that Azerbaijan's economy is around 5.5% that of Türkiye's. For tourism, the results assume that the TRIPP will moderately increase Turkish-Azerbaijani tourism both ways by 15%. The transit revenue estimates are based on a 2014 USAID feasibility study and are adjusted for average annual global inflation over the 2014-2025 period using data from the International Monetary Fund (IMF) World Economic Outlook database.

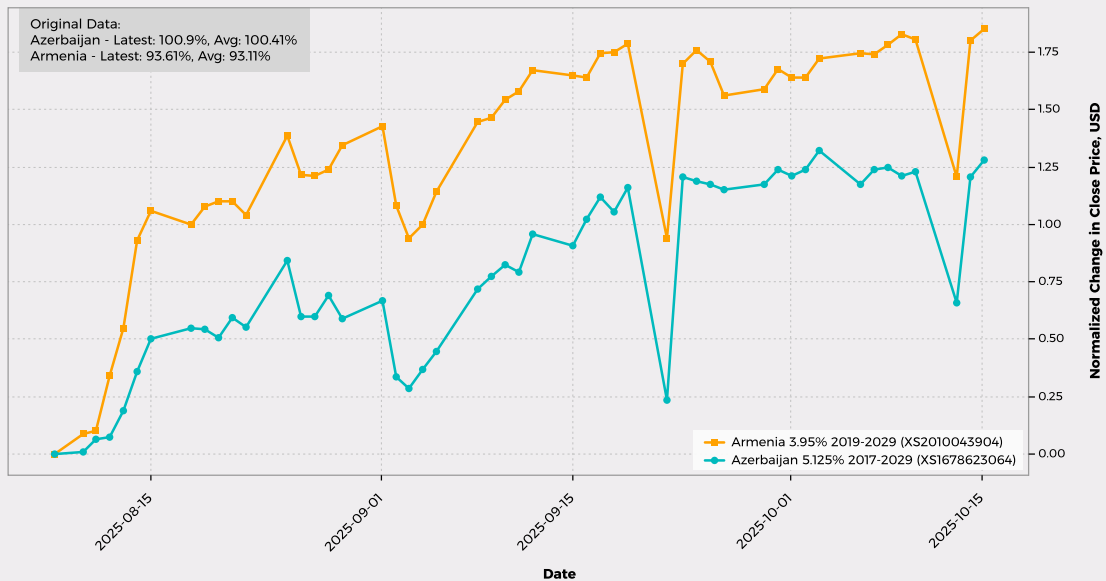
Note: Estimates for trade and tourism under a "Full Unblocking" draw on results from German Economic Team (2022), Papoyan and Hayrapetyan (2025), and ARMSTAT. Estimates for trade under "Just TRIPP" draw on results from Ateş (2025) and TURKSTAT.

The results for trade and tourism flows could be underestimated, since they do not take into account the potential effects stemming from third countries. For instance, an unblocking of the Türkiye-Armenia border could lead tourists from third countries visiting Armenia to also visit eastern Türkiye. Similarly, an unblocking of rail lines between Armenia and Azerbaijan could boost Armenia's trade with Iran, countries in the Persian Gulf, and East Asia. This would provide larger transit revenues for Azerbaijan than estimated (both due to goods passing through mainland Azerbaijan and Nakhijevan exclave).

A genuine regional unblocking would also unlock new investment opportunities and reduce sovereign risk premiums in Armenia and Azerbaijan. To the extent that a deeper unblocking leads to durable peace in the region, sovereign risk premiums in both Armenia and Azerbaijan would decline, boosting the investment profile of both countries. Market signals support this claim. After the August 8, 2025 Washington Declaration, Armenian and Azerbaijani government bond prices rallied and yields fell, signaling positive market sentiment around progress toward a peace agreement (Figure 7). Declining sovereign bond yields ease government debt burdens.



Figure 7: Government Bonds rally Following the Washington Declaration
(Change in bond prices relative to August 8, 2025)



Source: KK Partners.

A broader unblocking would also provide large multinational companies with greater incentives to invest in the region, including deeper market access. For instance, in the scenario of a full unblocking of the Türkiye-Armenia and Azerbaijan-Armenia borders, multinational firms that have a footprint in Armenia could also gain access to the Turkish and Azerbaijani markets, and vice versa. This could boost the investment profile of the region as a whole.

Macroeconomic resilience

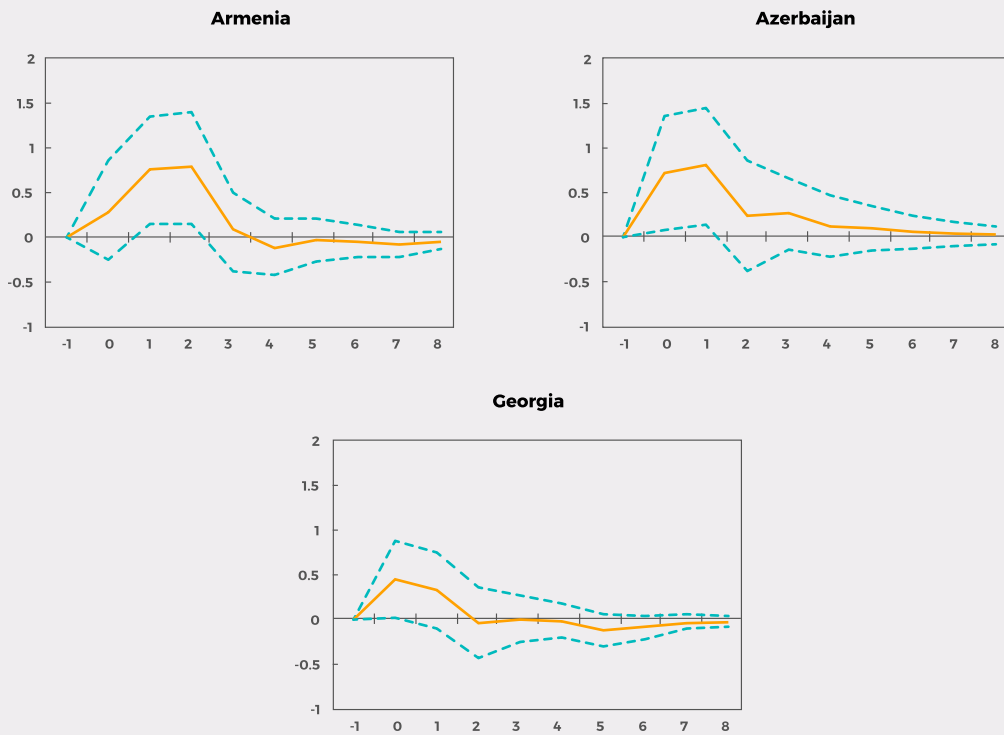
A full unblocking would enhance the macroeconomic resilience of countries in the South Caucasus. Armenia, Azerbaijan, and Georgia have historically strong economic ties to Russia, and these ties are shown to propagate macroeconomic stress stemming from the Russian economy (Figure 8).³² Spillovers from Russia can exacerbate growth, exchange rate, and inflation volatility in neighboring countries.

32. Several papers document how Russia's economic fluctuations impact the South Caucasus region.



Trade is seen as one of the strongest channels through which slowdowns in Russia's economy propagate to neighboring countries. Studies have shown that when Russia's economy slows down, its imports from abroad contract, leading to economic slowdowns in countries with large trade ties.³³ Strong remittance and financial ties between Russia and neighboring countries are also found to transmit macroeconomic fluctuations abroad.³⁴

Figure 8: South Caucasus countries are impacted by shocks to the Russian economy
(Impact of a 1 standard deviation shock to GDP growth in Russia on local GDP growth)



Source: "Spillovers from Russia to Neighboring Countries: Transmission Channels and Policy Options," <https://www.imf.org/en/publications/wp/issues/2023/09/08/spillovers-from-russia-to-neighboring-countries-transmission-channels-and-policy-options-538953>

Note: These estimates simulate the impact of a 1 standard deviation increase in Russian quarterly real GDP growth on growth of Armenia, Azerbaijan, and Georgia. These estimates use quarterly real GDP data from 2004–2019.

Note: The horizontal axis indicates the number of quarters after the initial shock.

33. Shant Arzoumanian, "Spillovers from Russia to Neighboring Countries: Transmission Channels and Policy Options," International Monetary Fund, September 8, 2023, <https://www.imf.org/en/publications/wp/issues/2023/09/08/spillovers-from-russia-to-neighboring-countries-transmission-channels-and-policy-options-538953>
34. Jaime Espinoza-Bowen, Nadeem Ilahi and Fahad Alturki, "How Russia Affects the Neighborhood – Trade, Financial, and Remittance Channels," IMF Working Papers Issue 277, December 1, 2009, <https://www.elibrary.imf.org/view/journals/001/2009/277/001.2009.issue-277-en.xml>



A full regional unblocking could result in greater trade within the South Caucasus and deepen the region's ties with foreign markets. By helping diversify the region's exports, that would mitigate the extent to which the Russian business cycle impacts local economies. Deeper integration within the South Caucasus would also enhance the region's resilience in the face of increasingly deep geoeconomic fragmentation and global trade policy uncertainty.³⁵ According to the IMF, both Armenia and Azerbaijan face high risks of spillovers stemming from geoeconomic fragmentation. The Fund has advised governments of both countries to build buffers against such risks by diversifying their trade baskets and partners.³⁶

Azerbaijan's heavy reliance on oil and gas creates additional macroeconomic vulnerabilities. The country's GDP growth, as well as its fiscal and external positions, are strongly correlated with global oil prices.³⁷ The government has sought to wean its economy off oil and gas, including by becoming a greater transit hub.³⁸ This strategy would benefit from an opening of the Azerbaijan–Armenia border since it would allow Azerbaijan to capture additional transit revenues from freight passing through its Nakhijevan exclave (Figure 6). If the Azerbaijan–Armenia border were to open, Nakhijevan could become central to north–south transit flows, especially flows along the Persian Gulf–Black Sea corridor. This would help Azerbaijan gradually replace hydrocarbon revenues with transit revenues, becoming more resilient to fluctuations in global oil and gas prices over time.

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35. Apostolos Apostolou, Filippo Gori, Thomas Kroen, Salem M. Nechi, Subi Suvetha Velkumar, "Unlocking MENA and CCA Trade in a Fragmented World," International Monetary Fund Working Papers, December 19, 2025, <https://www.imf.org/en/publications/wp/issues/2025/12/20/unlocking-mena-and-cca-trade-in-a-fragmented-world-572720>
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Conclusion

“Connectivity” is at the top of a list of buzzwords describing developments in the South Caucasus after the August 2025 Washington summit. The construction of railways and highways, the launch of oil and gas pipelines, and the laying of electricity and fiber-optic cables dominate the discussions held in many capitals north, south, east, or west. As this APRI Armenia Analysis shows, addressing connectivity challenges and opportunities sits at the nexus between geopolitics and geoeconomics. In a binary logic, geopolitics might obliterate the economic promises of connectivity, or one might be expected to ignore the geopolitical dynamics in order to appreciate the economic advantages of regional unblocking. **A third, more nuanced and inclusive way to view the prospects for Caucasian connectivity is possible, in which the South Caucasus becomes a theater of economic cooperation for countries with different interests.** The full unblocking of regional communications would serve the interests of the three countries of the South Caucasus, their neighbors, and international partners. It can make the South Caucasus an arena not of heightened competition but of cooperation. And, importantly, it may bring additional agency to the South Caucasus countries and form a regional identity, a development that the region has been lacking since the collapse of the Soviet Union.



About APRI Armenia

APRI Armenia is an independent and nonpartisan think tank focused on advancing regional security, sustainable prosperity, and civic engagement. Our mission is to shift Armenia’s – and the wider region’s – trajectory toward a more stable, sustainable, and democratic future.

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