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ARMENIA-AZERBAIJAN: FROM WAR TO COOPERATION A LOOK AT ARMENIA-AZERBAIJAN RELATIONS THROUGH THE PRISM OF "NEW REGIONALISM"

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ABSTRACT

The article analyzes Armenia–Azerbaijan relations through the prism of the "new regionalism" concept. The author examines the peacebuilding potential of international trade from historical and theoretical perspectives. Beginning with Immanuel Kant's idea of "Perpetual Peace," the article focuses on the use of free trade as a means of diplomacy in the 19th and 20th centuries, including the Cobden–Chevalier Treaty, the European Coal and Steel Community, and other examples.

The study demonstrates that international trade can reduce the risk of conflict by increasing interdependence between countries, strengthening trust, and potentially contributing to reductions in defense expenditures. The extremely low volume of trade between Azerbaijan and Armenia, despite their geographical proximity, demonstrates that political factors have constrained the realization of economic potential.

The article refers to empirical calculations based on the theory of comparative advantage and notes that the liberalization of trade in certain groups of goods could generate annual savings of approximately USD 41 million for Armenia. The author concludes that the restoration of regional integration and trade relations could be economically and politically beneficial for both countries.

Keywords: Azerbaijan, Armenia, regionalism, trade, peacebuilding, comparative advantage, regional integration, gravity model, interdependence, trade diplomacy, conflict, cooperation.

INTRODUCTION

The role of international trade in the establishment and development of interstate relations is undeniable. The conclusion of regional integration agreements has consistently contributed to an increase in trade between partners. Strengthening the peacebuilding effects of trade increases the likelihood of reducing confrontation between hostile neighbors. International trade has been used to reduce tensions and bring countries closer together since the publication of Immanuel Kant's *Perpetual Peace* in 1797.
In the 19th century, British statesman Richard Cobden argued that Britain should expand trade with its geographical neighbors in order to convince them of the benefits of free trade and the necessity of a community of nations. These ideas have been supported by various economists and politicians throughout different periods and continue to have advocates today.
A similar view was held by Cordell Hull, who served as the U.S. Secretary of State from 1933 to 1944. He saw the potential for expanding international trade in reducing trade and customs barriers. In his view, eliminating barriers to trade could contribute to resolving the problems of wars and conflicts, while political power in the world was always balanced by economic power.
The fact that diplomatic considerations formed the basis of the 1860 Anglo-French Trade Treaty[1], also known as the Cobden–Chevalier Treaty, was by no means accidental. France did not wish to affect the interests of protectionist groups in any way, while Britain was hesitant to conclude the treaty because it feared that doing so would undermine its free trade policy. At the same time, both countries viewed the bilateral trade agreement as a means of eliminating the major points of contention in their bilateral relations and decided to sign the document with the aim of strengthening diplomatic ties.
In the 19th century, V. Pareto stated that "customs unions are the best means of establishing political and diplomatic relations and, consequently, spreading peace."[2] J. Monnet, one of the founders of the European Economic Community, stated in 1943: "If countries rebuild themselves on the basis of national sovereignty, prestige, and economic protectionism, there will be no peace in Europe... the creation of large armies will once again become necessary... if the European states do not unite in a federation or a 'European Community,' Europe will once again be rebuilt in fear..., the establishment of which will lead to a common economic union."[3]
Together with his compatriot R. Schuman, who also made significant efforts toward the establishment of the European Economic Community, they argued that one of the objectives of the European Coal and Steel Community, which later evolved into the European Economic Community, was to make the outbreak of military hostilities between France and Germany not only unthinkable but also financially impossible[4]. The preamble to the 1951 Treaty of Paris, which established the European Coal and Steel Community, expressed the determination "to substitute for age-old rivalries the merging of their essential interests and to establish, by creating an economic community, the foundation for a broader and deeper community among peoples long divided by bloody conflicts".
International trade can enhance security for the following reasons[5]:

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[1] Irwin D. A. Multilateral and Bilateral Trade Policies in the World Trading System: A Historical Perspective / J. De Melo, A. Panagariya (eds.) // New Dimensions in Regional Integration. – New York, 1993, p.119.
[2] Machlup, F. A history of Thought on Economic Integration. – New York: Columbia University Press, 1977. – Vol. 38, № 32. s 137
[3] Swann, D. The Economics of the Common Market. Harmondsworth, Middlesex. – U.K.: Pennguin. – p. 318.
[4] İbidem
[5] Шифф, М., Уинтерс, Л. А. Региональная интеграция и развитие. – М.: Весь Мир, 2005. – С. 361.

1. International trade leads to greater interdependence and expanded ties between countries. This strengthens states' interest in maintaining peace with their neighbors, as the number of people who have a material interest in peaceful relations increases, thereby strengthening political pressure from the populations of these countries against war.
2. The expansion of international trade leads to increased cooperation and communication between countries and their governments, as well as to a better understanding of the functioning of political, social, and cultural institutions. This, in turn, contributes to greater mutual trust between them.
3. Stable foreign economic relations also reduce the likelihood of war, as they facilitate access to the partner country's strategic raw material resources.
4. Over time, the increase in trust resulting from expanded trade ("peace dividends") can lead to reductions in defense expenditures.

An increase in trade between countries creates greater economic interdependence among the participants, which, in turn, increases the interest of the societies of participating countries in peaceful relations and strengthens mutual trust. Thus, international trade diplomacy can facilitate political relations between countries and elevate their mutual economic and political relations to a higher level.Among the former Soviet republics, Belarus, Kazakhstan, the Kyrgyz Republic, Armenia, Russia, Tajikistan, and Uzbekistan are members of the Eurasian Economic Community, a regional economic cooperation organization. The Eurasian Economic Community prioritizes regional integration, with trade and infrastructure (transport, water resources, and energy) serving as its main functional areas. The organization operates through summit meetings. The Eurasian Economic Community does not have significant budgetary resources of its own to support infrastructure investments. However, in 2006, two of the Eurasian Economic Community's largest members—Russia and Kazakhstan—established the Eurasian Development Bank (EDB) with the aim of expanding membership among the organization's member states and supporting the regional integration objectives of the Eurasian Economic Community through bank-financed infrastructure investments. This study attempts to analyze regional integration between Azerbaijan and Armenia based on the concept of "new regionalism."

According to Hettne and Söderbaum, "new regionalism" is indeed a global phenomenon and is taking place in more regions of the world than before. Contemporary regionalism is not introverted but rather extroverted, reflecting the deeper interdependence of today's global political economy and the complex relationship between globalization and regionalization. It should also be noted that "new regionalism" is simultaneously associated with domestic factors, sometimes challenging the nation-state and, at other times, strengthening it.Thus, the renewed trend of regionalism represents a complex process of transformation involving both state and non-state actors and shaped by forces operating at the global, regional, national, and local levels[6].

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[6] Hettne B. and Söderbaum F. Theorising the Rise of Regionness // New Political Economy. 2000. 5(3). https://doi.org/10.1080/713687778

LITERATURE REVIEW

The academic literature and links used in the article primarily cover three areas: the historical development of international trade theories, concepts of regionalism, and the peacebuilding potential of trade.

The first group of sources traces the evolution of international trade theory. Beginning with mercantilist views, the analysis examines Adam Smith's theory of absolute advantage and David Ricardo's theory of comparative advantage. The author uses these classical approaches to assess the potential benefits of trade relations between Azerbaijan and Armenia. Referring to the empirical calculations of the CESD, the study demonstrates the economic benefits that could result from opening trade in certain groups of goods.

The second group of literature focuses on the concept of "new regionalism." The works of Hettne and Söderbaum (2000, 2003) are regarded as the main theoretical framework characterizing the contemporary stage of regionalism. According to this approach, regionalism is not limited to interstate relations but also encompasses non-state actors and multidimensional interdependence. The works of Baldwin (2008) and other authors critically examine contemporary forms of regional integration.

The third group of sources explores the relationship between trade and peace. Beginning with Immanuel Kant's idea of "Perpetual Peace," Polachek (1992) provides an economic rationale for the potential of trade to reduce conflicts. Schiff and Winters (2005), meanwhile, systematically analyze the impact of regional integration on development. The historical experience of the European Coal and Steel Community (Monnet, Schuman) is presented as an empirical example of the capacity of economic cooperation to reduce political tensions.

It should be noted that classical sources related to the gravity model (Anderson, 1979; Anderson and van Wincoop, 2003; Head and Mayer, 2014) are not directly discussed in the main body of the article and are included only in the reference list. This indicates a limitation in the empirical methodological basis of the study. Overall, although the literature base has considerable theoretical depth, the absence of an active application of modern empirical trade models, particularly the gravity approach, somewhat limits the analytical potential of the article.

THEORIES OF INTERNATIONAL TRADE

The Mercantilist Theory of International Trade

Along with the development of economic thought, theories of international trade have evolved through several stages, and their fundamental questions remain relevant today: What forms the basis of the international division of labor? What type of international specialization is most effective for countries?

The first theoretical foundations of international trade emerged during the 15th–18th centuries, when the economic theories of mercantilism developed. The ideas of the mercantilists were based on the belief that global wealth was limited and primarily associated with gold and silver. They considered economic efficiency to depend on promoting exports and restricting imports, as such policies were believed to prevent money from leaving the country. They argued that exporters gained economically, while importers suffered economic losses.

Mercantilism viewed wealth as fixed and limited. According to this approach, the only way to achieve prosperity was to accumulate gold and impose tariffs on imported goods. Under this theory, nations were expected to sell their goods to other countries without receiving anything in return. As expected, countries faced retaliatory tariffs, which ultimately hindered international trade[7].

THE THEORIES OF ABSOLUTE AND COMPARATIVE ADVANTAGE

The foundations of international trade theory were laid by the English economists Adam Smith and David Ricardo in the late 18th and early 19th centuries. Adam Smith's ideas on trade liberalization represented the first stage of classical international trade theory. Unlike the mercantilists, he argued that every country could benefit from both imports and exports. The central idea of Smith's theory was that the division of labor forms the basis of the wealth of nations and peoples.

In his work *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Adam Smith demonstrated that countries have an interest in the free development of international trade because they can benefit from it regardless of whether they are exporters or importers. In his theory of absolute advantage, Smith argued that a country has an absolute advantage over another country in producing a particular good if it can produce more of that good at a given unit cost.

According to Smith, these advantages can arise, on the one hand, from natural factors, such as climatic conditions and the availability of natural resources. Natural advantages are particularly relevant to agriculture and extractive industries. On the other hand, advantages may result from technological development, workers' skills, and improvements in production.

In the absence of foreign trade, each country can consume only those goods and quantities that it produces domestically. The relative prices of goods in the domestic market are determined by their production costs. The relative prices of identical goods produced in different countries vary. If this difference exceeds transportation costs, gains from international trade can arise.

For trade to be mutually beneficial, the price of a product in the foreign market must be higher than its domestic price in the exporting country and lower than its domestic price in the importing country.

In his work *On the Principles of Political Economy and Taxation* (1817), David Ricardo demonstrated that the principle of absolute advantage represents only a special case of a more general rule and developed the theory of comparative advantage. According to Ricardo, as long as differences in domestic prices between countries persist, each country will have a comparative advantage. In general, a country has a higher comparative advantage in producing a particular good when it can produce that good at the lowest opportunity cost. Relative costs determine the direction of global trade.

A comparison of the situations involving absolute and comparative advantage leads to the following conclusion: in both cases, the gains from trade arise from differences between countries in the ratios of costs in the absence of trade (the slopes of production possibility frontiers). In other words, trade patterns are determined by relative costs, regardless of whether a country has an absolute advantage in producing a particular good.

A CESD study examined the potential benefits of trade relations between Azerbaijan and Armenia based on the theory of comparative advantage[8]. The study empirically demonstrated that, without taking other

[7] https://openstax.org/books/world-history-volume-2/pages/6-3-capitalism-and-the-first-industrial-revolution

[8] https://www.cesd.az/y/read.php?id=277

factors into consideration (such as geographical proximity, shorter delivery times, lower transportation costs, etc.), Armenia could save approximately USD 41 million annually, at actual prices, by importing from Azerbaijan goods belonging to product groups 5, 12, 14, 26, 29, 32, 41, 51, and 63.

In 2020, UNEC conducted a comparative analysis of the macroeconomic, energy, and transportation sectors of both countries. According to the results of the analysis conducted at UNEC, Azerbaijan was once again shown to be significantly ahead of Armenia in terms of development indicators in GDP (4 times higher), international reserves (20 times higher), energy supply (4.6 times higher), and freight transportation (more than 20 times higher)[9].

ARMENIA–AZERBAIJAN: FROM WAR TOWARDS COOPERATION

A "NEW REGIONALISM" PERSPECTIVE ON ARMENIA–AZERBAIJAN RELATIONS

The global processes that unfolded after the Second World War created conditions for reconsidering the configuration of the international system. Globalization and the accompanying processes of regionalism and regional integration—including increased human mobility, the rapid development of information and communication technologies, transport infrastructure, and other factors—began to significantly influence the nature of relations among individuals, transnational corporations, organizations, and states. This, in turn, not only gave rise to positive development trends but also altered the traditional "codes of conduct" of states that had previously been considered "peripheral" in the global political arena.

As globalization has significantly transformed the role of states, regional unions, organizations, and other forms of cooperation have emerged in different parts of the world. These structures aim to develop economic, social, and humanitarian relations at the macro- and subregional levels, as well as to resolve disagreements between individual states. Cooperation among states has become a key priority for ensuring political stability, security, and cultural, economic, and social development.

In studying the processes of regional integration, contemporary researchers increasingly focus on regional integration institutions that differ from the classical European integration model. The multifaceted and complex nature of these processes determines new trends in the development of international cooperation at both the global and regional levels.

New research perspectives view a region within the framework of globalization as an actively and rapidly developing geographical entity characterized by a certain degree of interconnectedness. Contemporary Swedish researcher B. Hettne, who introduced the concept of "new regionalism" into academic discourse while taking into account the specific features of the regional structuring of space at the global level, identifies the following characteristics that influence the nature of integration processes taking place within a region:

1. ***A region comprises several states that are geographically connected within a unified territorial system and characterized by a certain degree of interdependence.*** Despite their geographical proximity, the level of "regionality" among the countries of the South Caucasus remains very low.

[9] https://unec.edu.az/azerbaycan-ve-ermenistan-iqtisadiyyati-muqayiseli-tehlil/

Mutual economic relations and interdependence among these three states remain weak and are largely bilateral. Cooperation in this regard, particularly between Azerbaijan and Georgia and between Armenia and Georgia, is relatively significant.

There are certain trade relations between Azerbaijan and Armenia, and goods have been re-exported between the two countries through third countries. According to data from the UN Trade Data Base[10], trade between the two countries during 2018–2025 was as presented in Table 1.

Table 1. Azerbaijan–Armenia Economic Relations, 2018–2025

Years	Country	Operation	Country	Amount USD $
2018	Armenia	Import	Azerbaijan	4346743
2019	Armenia	Import	Azerbaijan	6841151
2020	Armenia	Import	Azerbaijan	9703045
2021	Armenia	Import	Azerbaijan	722114
2025	Armenia	Import	Azerbaijan	873359,6
2018	Armenia	Export	Azerbaijan	3569703,4
2019	Armenia	Export	Azerbaijan	3037922
2020	Armenia	Export	Azerbaijan	1436319
2021	Armenia	Export	Azerbaijan	6319391

Source: https://comtradeplus.un.org/TradeFlow

As shown in Table 1, there were bilateral trade relations between Azerbaijan and Armenia during 2018–2021, while no trade relations were recorded between the two countries during 2022–2024. However, in 2025, the re-export of Armenian products to Azerbaijan through a third country resumed, while petroleum products worth USD 788.8 thousand were directly exported from Azerbaijan to Armenia.[11]

2*. **The possibility of discrepancies between regional contours (administrative and state borders);*** A region may encompass only part of a state rather than the entire country. In the South Caucasus, such discrepancies are a legacy of flawed mapping practices carried out during the Soviet period, which often failed to take into account natural geographical features, ethnic settlement patterns, and social and economic ties.

As a result of this legacy of Soviet leadership, a total of 59.9 square kilometers of Azerbaijani territory remained as enclaves within Armenia, including Karki village of the Nakhchivan Autonomous Republic (19.2 sq. km), Yukhari Askipara in the Gazakh district (8.6 sq. km), Sofulu (22 sq. km), and Barkhudarly (10.1 sq. km). Meanwhile, an Armenian settlement, Bashkend (40 sq. km), remained as an enclave within Azerbaijan.

In some parts of Central Asia and the South Caucasus, Soviet officials repeatedly altered the borders of these republics without adequately considering the ethnic composition of their populations. In other cases, the Soviet authorities created ethnic exclaves by transferring territory belonging to one country to a neighboring country, leaving those areas completely surrounded by territory belonging to the other country. This created fertile ground for conflicts, largely as a result of policies implemented from Moscow.

Some Central Asian governments have made progress over the past decade, recognizing that territorial exchanges may be the only viable solution for avoiding deadlocks and open conflicts.

[10] https://comtradeplus.un.org/TradeFlow
[11] https://customs.gov.az/uploads/foreign/2025/2025_12.pdf?v=1768974361

Uzbekistan and Kyrgyzstan reached an initial agreement on territorial exchange in 2018, while Kyrgyzstan and Tajikistan reached a similar preliminary agreement in 2023. On March 31, 2025, the presidents of Kyrgyzstan, Tajikistan, and Uzbekistan resolved the last major border dispute in Central Asia through the Agreement on the Point of Intersection of the State Borders of the Three Countries, bringing an end to decades of conflict inherited from Soviet-era delimitation practices that failed to adequately account for local ethnic and geographical factors.

Azerbaijan and Armenia also achieved positive results in the delimitation and demarcation of their state border in 2024. According to the agreement reached between the two countries, the Azerbaijani villages of Baghanis Ayrim (40 sq. km), Ashagi Askipara (9.1 sq. km), Kheyrimli (4.1 sq. km), and Gizilhajili (11 sq. km), which had been under Armenian occupation, were returned to Azerbaijan's sovereign control[12]. As a result, only 13 kilometers of Azerbaijan's 1,066-kilometer border with Armenia have been delimited.

For a territorial exchange between Azerbaijan and Armenia to take place, both states, as stipulated by their respective constitutions, can carry out a territorial exchange only through a referendum. Article 3.2 of Chapter I of the Constitution of the Republic of Azerbaijan[13] and Article 205.1 of Chapter 15 of the Constitution of the Republic of Armenia[14] provide for this requirement.

3**. The *degree of development of regional relations may vary depending on the uneven development of intra-regional economic, political, and cultural relations and cooperation;*** There is a certain level of cooperation in the transit transportation of goods from Azerbaijan to Armenia, the export of gasoline and diesel fuel, and at the level of civil society. This represents one of the first dividends of the emerging peace between Azerbaijan and Armenia.

In November 2025, in a joint press statement with President of Kazakhstan Kassym-Jomart Tokayev in Astana, President of Azerbaijan Ilham Aliyev stated that "Azerbaijan has lifted all restrictions on cargo transit to Armenia that had been in place since the occupation, and the first such transit shipment involved the transportation of Kazakh grain to Armenia."[15]

As of July 10, 2026, the following volumes of cargo had been transported from Russia to Armenia via Azerbaijan's railway network: more than 36,000 tons of grain, approximately 8,000 tons of fertilizer, 1,026 tons of propane, 414 tons of anthracite, 133 tons of aluminum, and 68 tons of buckwheat.[16]

During the first five months of the current year, trade indicators between the countries were as follows (Table 2).

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12 https://zerkalo.az/anklavy-i-delimitatsiya-pojdet-li-azerbajdzhan-na-predlagaemyj-pashinyanom- obmen/
13 https://e-qanun.az/framework/897
14 https://codices.coe.int/codices/documents/constitution/5756ABDA-D9F0-4FFF-97B3-50F1619DEFC5
15 https://report.az/xarici-siyaset/ilham-eliyev-azerbaycan-ermenistana-yuk-tranziti-ile-bagli-butun-mehdudiyyetleri-aradan-qaldirib
16 **https://operativmm.az/az/post/azerbaycan-uzerinden-rusiyaermenistan-tranzit-dasimalari-davam-edir/75233**

Table 2. Indicators of the Import and Export of Goods between Azerbaijan and Armenia in January–May 2026

Product code	Name of the goods	Unit of measure	Import		Export	
			quantity	amount thousand US dollars	quantity	amount thousand US dollars
060311	Fresh cut roses, suitable for bouquets or for decorative purposes	thousand pieces	0,1	0,96	-	-
271013	Motor gasolines, with a lead content not exceeding 0.013 g/l and an octane number of less than 95	ton	-	-	979,46	672,4
271014	Motor gasolines, with a lead content not exceeding 0.013 g/l, with an octane number of 95 or more but not exceeding 98	ton	-	-	1743,22	1167,99
271061	Heavy distillates or gas oils for other purposes (including diesel fuel)	ton	-	-	10048,32	9426,35
392590	Other plastic construction parts, not elsewhere specified or included	ton	-	-	1,39	5,91

Source: State Statistics Committee of the Republic of Azerbaijan

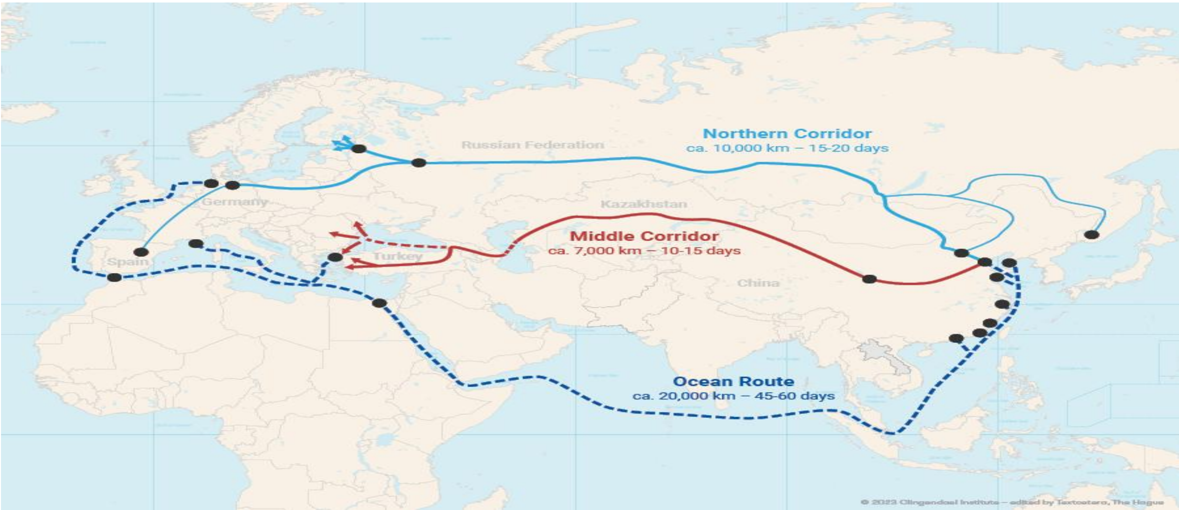
In January–May 2026, fresh roses worth USD 960 were exported from Armenia to Azerbaijan, while petroleum products and plastic construction materials worth USD 12.77 million were exported from Azerbaijan to Armenia. The petroleum products exported from Azerbaijan contributed to a 2–3% decrease in petroleum product prices in Armenia's domestic market.

According to the latest data on bilateral trade turnover between Azerbaijan and Armenia, as reported in the six-month report of the State Customs Committee of the Republic of Azerbaijan for the current year, exports amounted to USD 17.128 million, while imports amounted to USD 960[17].

The development of the Baku–Tbilisi–Ceyhan oil pipeline and the Southern Gas Corridor infrastructure in the South Caucasus has strengthened regionalism by physically, economically, and politically connecting Azerbaijan, Georgia, and Türkiye. At present, the geopolitical and geo-economic importance of the Middle Corridor, or the Trans-Caspian International Transport Route (TITR), which connects Asia and Europe along the East–West axis, has increased as a result of delays affecting traditional transit routes due to the Russia–Ukraine war (Figure 1).

[17] https://customs.gov.az/uploads/foreign/2026/2026_6.pdf?v=1784099956

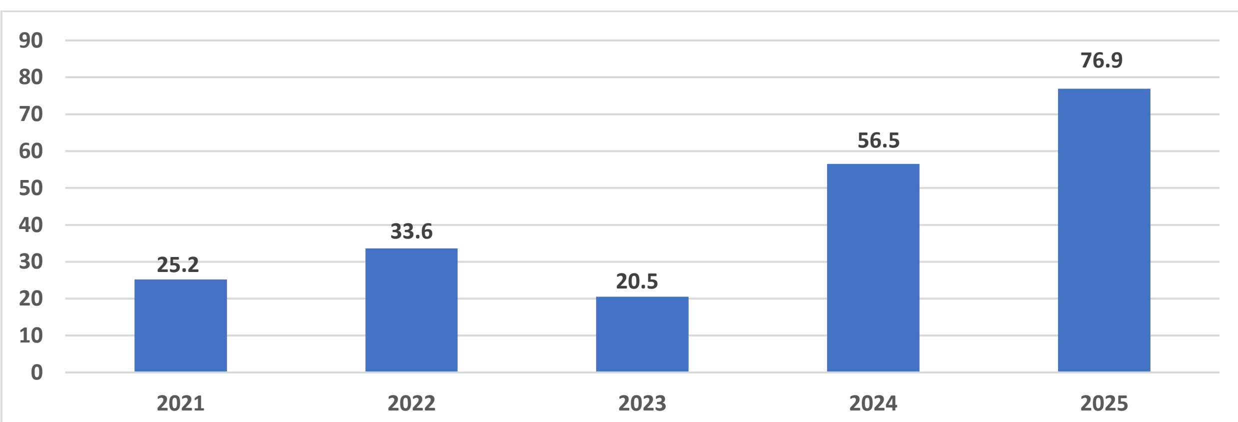
Figure 1. The Middle Corridor



Source: https://www.clingendael.org/pub/2023/the-eu-in-the-south-caucasus/1-the-geopolitical-gordian-knot-of-the-south-caucasus/

The TITR is 6,500 km long, with cargo transportation taking approximately 10–15 days. Following Russia's invasion of Ukraine in 2022, cargo transportation along the Northern Corridor, which passes through Russia, decreased by 40%. TEU volumes along this route, which is the shortest route from Asia to Europe, increased more than threefold in 2025 compared with 2021 (Figure 2).

Figure 2. Container Traffic along the Trans-Caspian International Transport Route (TITR), thousand TEU



Source: https://middlecorridor.com

The Baku–Tbilisi–Kars (BTK) railway, which connects Asia and Europe and was inaugurated in 2017, has strengthened the positions of Georgia and Azerbaijan as transportation hubs in Eurasia. In 2026, the Baku–Tbilisi–Kars (BTK) railway line, as part of the TITR, is receiving particular attention.

In order to increase the competitiveness of the TITR and attract additional cargo flows from Europe to Asia, a **33% discount** is offered on container transportation from Türkiye to Kazakhstan, through

Kazakhstan to Central Asia and the People's Republic of China. A **50% discount** is also offered on container transportation from the Georgian ports of Batumi and Poti to Kazakhstan and China.[18]

In June of this year, "AzerTelecom" and "Telecom Armenia" signed bilateral agreements on providing Armenia with international internet connectivity through Azerbaijan.Under the agreement, "AzerTelecom," one of the region's leading backbone internet operators, will expand the number and geographical coverage of countries supplied with international internet traffic and will also provide transit of internet traffic to Armenia using its own infrastructure[19].Such agreements are aimed at diversifying connectivity routes in the region, further increasing the reliability of telecommunications networks, and developing cooperation in the telecommunications sector.

Figure 3. The Zangezur Corridor

Source: https://www.swp-berlin.org/10.18449/2022C64/

One of the advantages of the Zangezur Corridor, which will connect Azerbaijan with Nakhchivan, is that it will support economic development in the region by connecting the Turkic states, whose combined GDP exceeds approximately USD 1 trillion. Through this corridor, Armenia will establish a railway connection with Iran, while Azerbaijan will establish a railway connection with Türkiye. Although Armenia remains outside the East–West transnational infrastructure project, the construction of the North–South Corridor will strengthen Armenia's connectivity with the global economy. This will not only provide Armenia with unhindered access to Azerbaijan's exclave of Nakhchivan without passing through any checkpoints, but will also provide Türkiye with a direct route to the Caspian Basin and Central Asia. The Middle Corridor is a highly attractive trade route not only because it provides direct connectivity across Eurasia, but also because it reduces the dependence of other Turkic states on Russia and Iran[20]. At the same time, this corridor would enable Armenia to diversify its trade relations.

According to a 2012 analysis by Stratfor, whoever controls the Zangezur Corridor could project its influence toward Türkiye's sphere of influence in Anatolia, Russia's sphere of influence in the Caucasus, and the territories of Persia directly[21].

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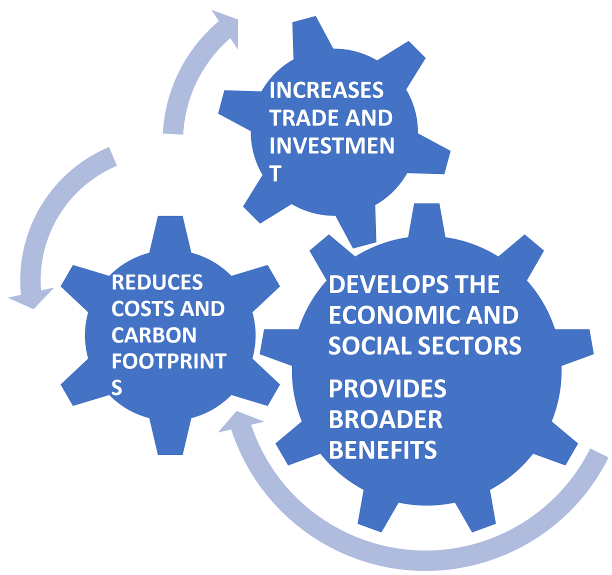
[18] https://middlecorridor.com/en/for-clients/info-clients/11-03-2026
[19] https://www.azertelecom.az/news/new-agreement
[20] https://www.swp-berlin.org/10.18449/2022C64/
[21] https://worldview.stratfor.com/article/caucasus-zangezur-corridor

The Baku–Tbilisi–Kars route is 850 km long. However, in the future, road routes passing through the territory of Nakhchivan are expected to be approximately 343 km shorter—around 1.7 times shorter—than the Baku–Tbilisi–Kars railway line. This would reduce transportation costs and transit times, while the Nakhchivan transportation hub would complement the Baku–Tbilisi–Kars railway and serve as a bridge between Central Asia and Europe[22]. The 224-kilometer railway along the Kars–Iğdır–Aralık–Dilucu route, located near the border with Nakhchivan, is designed for speeds of up to 160 km/h. All countries participating in the "3+3" platform would benefit from the political and economic advantages of this corridor.

Figure 4. Benefits of Transit Corridors for Regional Development



Source: United Nations report on transport issues.

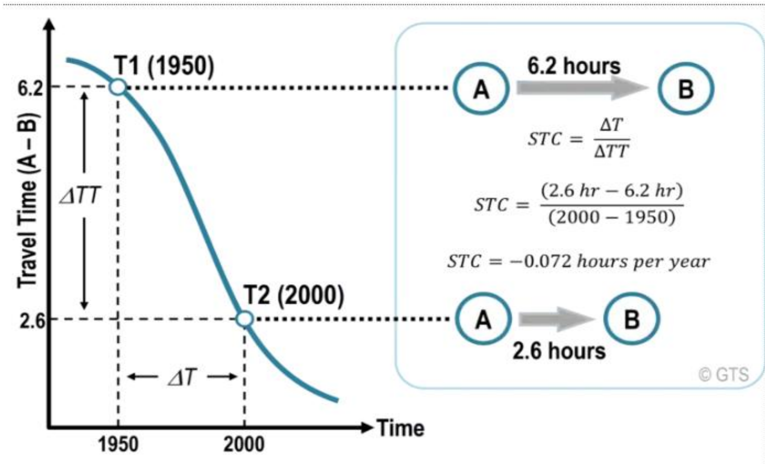
Space–Time Convergence

Space–time convergence, also known as space–time compression, refers to the reduction in travel time between connected locations. This means that economic gains can be achieved by reaching two locations in less time. It is generally driven by innovations in transportation and telecommunications.

Space–time convergence examines the evolving relationship between space and time, including the impact of improvements in transport infrastructure on this relationship. It is closely related to the concept of speed, which indicates how much distance can be covered within a given period of time (Figure 6).

Figure 6. Space–Time Convergence: Assessing Changes in Travel Time and Time Periods

[22] https://news.milli.az/economy/897251.html



Source: https://transportgeography.org/contents/chapter1/what-is-transport-geography/space-time-%20convergence/

To measure space–time convergence (STC), information on travel times between at least two locations and across at least two time periods is required. The change in travel time (ΔTT) is divided by the time period over which this process occurs (ΔT), representing the slope of the curve.

The figure above illustrates space–time convergence between points A and B. In 1950, travel between A and B took 6.2 hours. By 2000, the travel time had decreased to 2.6 hours. Therefore, space–time convergence amounted to −0.072 hours per year, or −4.32 minutes per year. The value is negative because travel time decreased. If the value were positive, space–time divergence would be observed, meaning that connecting the two locations would take longer than before.

Globalization, trade, and the distribution of freight transportation are interconnected and influence the scale of mobility across regions, countries, and often continents[23]. In this regard, shorter travel times and distances for freight transportation through the Zangezur Corridor, together with reduced transportation costs, could contribute to increased trade and, in the long term, to regional stability and cooperation. At the same time, the corridor could serve as a "peace corridor" between Armenia and Azerbaijan, generating benefits for both countries.

4. ***Depending on how the actors operating in the region define their interests, the degree of regional integration may increase or decrease over time[24].*** The Caucasus has historically been a region of geopolitical competition in which several regional and global powers have competed for influence. Historically, three major powers—Russia, Iran, and Türkiye—have competed for influence in the region. The three states of the South Caucasus are part of a complex network of interactions among these powers.

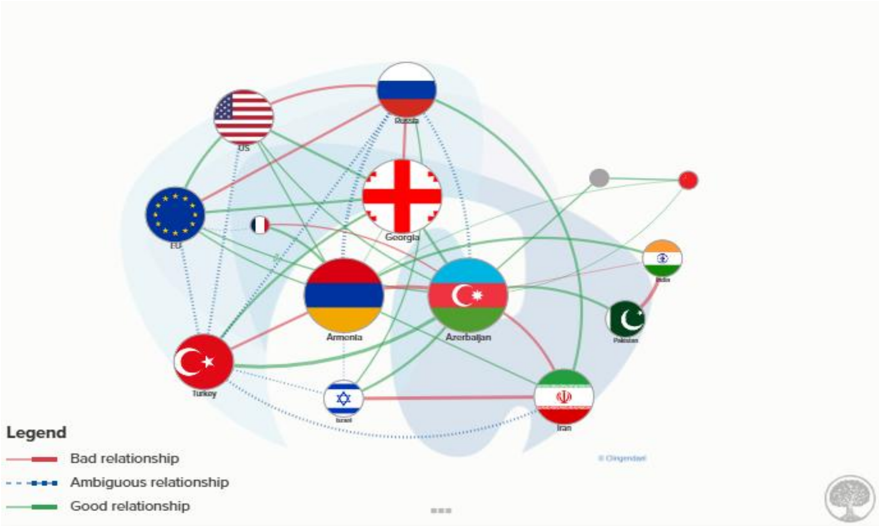
In recent times, in addition to the historical powers, the United States, the European Union, Israel, France, Pakistan, and India have also become involved in the competition for influence in the region. Although China is not yet a major player in the region, it has begun to establish a presence through the Middle Corridor.

A schematic overview of relations in the region can be presented as follows (Figure 7).

Figure 7. Overview of Geopolitical Actors and Relations in the South Caucasus

[23] https://transportgeography.org/contents/chapter1/what-is-transport-geography/space-time-convergence/

[24] Hettne B. and Söderbaum F. Theorising the Rise of Regionness // New Political Economy. 2000. 5(3). P. 38 https://doi.org/10.1080/713687778



Source: https://www.clingendael.org/pub/2023/the-eu-in-the-south-caucasus/1-the-geopolitical-gordian-knot-of-the-south-caucasus/

Although the historical powers in the South Caucasus compete with one another, they are reluctant to allow external actors to enter the region. Following the Second Karabakh War, a new cooperation initiative known as the "3+3" format was launched in the region. This is the only format in which historical powers and neighboring states have come together despite their conflicting relations. Until now, the only organization in which Azerbaijan, Armenia, and Georgia were all represented was the Commonwealth of Independent States (CIS). Georgia withdrew from the organization in August 2008 following the entry of Russian forces into Georgia. The "3+3" format comprises the three South Caucasus countries—Azerbaijan, Armenia, and Georgia—and their neighboring countries—Türkiye, Russia, and Iran. The new format promises significant potential not only in political and security terms but also from an economic perspective. According to estimates, the combined economy of the countries participating in the "3+3" format is close to USD 3 trillion, which would make it the world's fifth-largest economy after the United States, China, Japan, and Germany. With a population of approximately 331 million people, this new format ranks third in the world by population and first by territory[25].

The new political strategies of "new regionalism" reflect changes in approaches to the study and analysis of regionalization and regional integration experiences around the world. These changes can be observed along three main dimensions: the emergence of new regional associations, the composition and nature of their participants, and the strategic objectives pursued by these associations[26]. These objectives are as follows:

1. ***By origin or mechanism of formation:***

Previously, the establishment of regional institutions required similarities in political and economic structures. Today, however, the existence of common problems compels governments to coordinate their policies and develop solutions.

2. ***By participants:***

[25] Trend.az https://az.trend.az/azerbaijan/politics/3546179.html

[26] Hettne B. The New Regionalism Revisited

In the post-World War II period, regional communities were established "from above" by superpowers. Today, the main initiatives for the formation of new regional communities come "from below"—from the states of the region and non-governmental organizations operating within the region.

3. ***By differences in objectives:***

In the contemporary multipolar world, issues of military-political security and economic development have been institutionally separated. Within the framework of "old" regional institutions, specialization was reflected either in a focus on military-political security or on economic development.

New regionalism represents a more comprehensive and multidimensional process encompassing, within its scope, trade and economic integration, environmental protection, social policy, security, and democracy. The functional types of new regionalism are as follows:

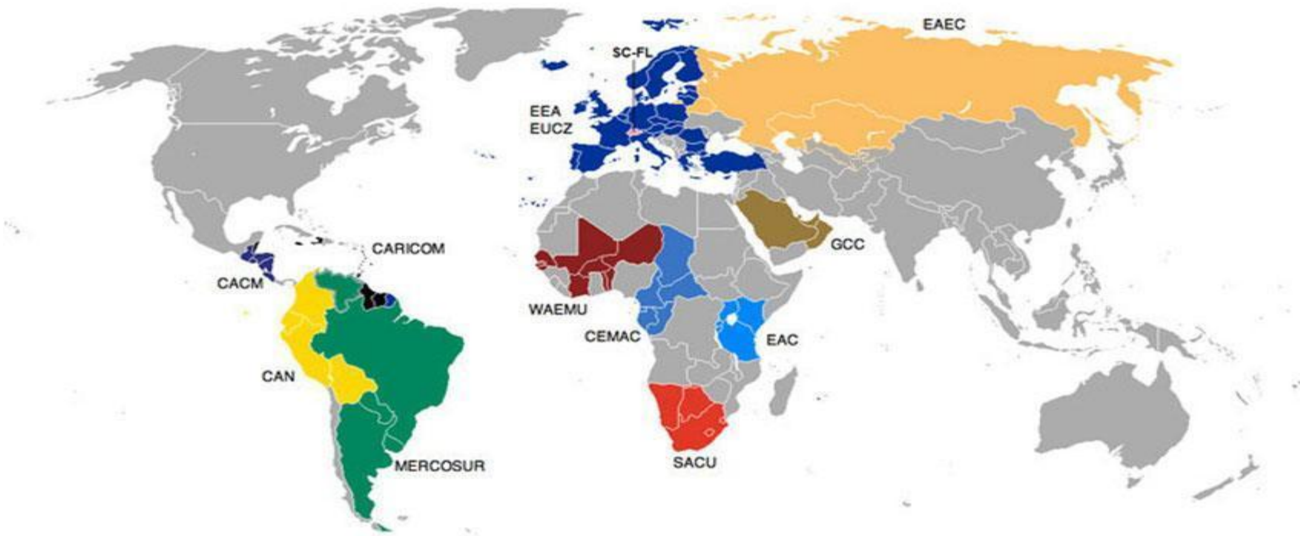
- historical regionalism;
- political regionalism;
- military-political regionalism (NATO, CSTO);
- economic regionalism;
- sociocultural regionalism;
- extraterritorial regionalism (Greater China);
- environmental regionalism;
- cross-border economic corridors.
- The Hettne–Söderbaum theory considers regionality, in comparison with Europe, through the analogy of "statehood" and "nationality." It views a region as a continuously evolving social construct and identifies five levels of regional development: regional space, regional complex, regional society, regional community, and region-state[27]

1) Regional space: A geographical area defined by natural boundaries and physical proximity, but without stable relations or significant interaction among its constituent parts.

2) Regional complex: A stage characterized by increasing close relations and cross-border interdependence among states and groups clustered around common security or economic interests.
3) Regional society: A stage at which institutional ties, shared values, and cultural relations begin to develop.
4) Regional community: A community in which member states concede part of their sovereignty to regional mechanisms and deeper integration is achieved.
5) Region-state: The highest stage of integration, in which the region emerges as a powerful subject and center of influence within the global political system.

Figure 8. Regional Integration Associations

[27] Hettne B., Söderbaum F. and Stålgren P. The EU as a Global Actor in the South // Report. 2008. №8. June. P. 41



Source: https://dergachev.org/geop_events/novy-regionalizm-01.html

A key element of the "new regionalism" concept is the multi-level nature of the integration system. At the lower level, it generally represents the integration of so-called subnational entities, typically within the framework of cross-border trade. A prominent example is the integration and interaction between the southern provinces of the People's Republic of China and Hong Kong. Such integration is usually supported by the state and develops without necessarily requiring the formal legal institutionalization of the cooperation process.

According to Baldwin, "new regionalism" manifests itself as globalization-driven regionalization and, as a rule, is continuously directed toward the structural transformation of the regional and global geopolitical landscape. Today, integration processes are increasingly viewed as a multidimensional phenomenon that challenges the existence of a single, definitive typology, since any particular model of regional integration cannot automatically be transferred to other regions with different political, economic, and cultural traditions[28].

In general terms, regional integration is understood as "the combination of parts into a whole." Regional cooperation tends to be more flexible and less demanding, indicating that participants can cooperate to achieve common objectives in one area despite having conflicting interests and goals in other areas[29].

ECONOMETRIC MODELS OF REGIONAL COOPERATION

Econometric models of regional cooperation are used to assess the relationships between integration, trade, investment, and economic growth among countries and regions. One such model is the **Gravity Model**, which was introduced by Jan Tinbergen in 1962.
The model is based on Newton's law of universal gravitation. Just as gravitational bodies attract each other in direct proportion to their masses and in inverse proportion to the distance between them, in economics, the volume of trade between two countries is directly proportional to their economic size (GDP) and inversely proportional to the geographical distance between them. Thus, the econometric model of regional cooperation can be expressed mathematically as follows:

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[28] Baldwin, R. (2008) Big-think regionalism: A critical survey. Cambridge, MA, National Bureau of Economic Research. P:41
[29] Fredrik, Söderbaum., Timothy M. Shaw. Theories of New Regionalism 2003 s.20 DOI:10.1057/9781403938794

$$T_{ij} = \frac{(GDP_i)^{\beta_1} \cdot (GDP_j)^{\beta_2}}{(DIST_{ij})^{\beta_3}} \quad (1)$$

For econometric analysis, this equation is linearized and transformed into logarithmic form.

$$Ln(T_{ij}) = \beta_0 + \beta_1 * Ln(GDP_i) + \beta_2 * Ln(GDP_j) + \beta_3 * Ln(DİST_{ij}) + \varepsilon_{ij} \quad (2)$$

Explanation of Variables:

- **Tij:** Trade turnover between countries *i* and *j*, serving as an indicator of cooperation between the two countries.
- ***Ln(Tij):*** The dependent variable, representing the logarithm of trade turnover between partner countries.
- **GDPi and GDPj:** The GDP of the partner countries.
- ***Ln(GDPi) and Ln(GDPj):*** The logarithm of the GDP of the partner countries.
- ***DISTij and Ln(DISTij):*** The distance between the capitals of the partner countries and its logarithm.
- **β_0, β_1, β_2, β_3:** The estimated parameters (coefficients) of the model.
- **εij:** The error term, representing the effects of other non-economic and random factors that are not directly included in the model but may influence trade.

And finally,

$$Ln(T_{ij}) = x \quad (3)$$

or

$$T_{iJ} = e^x \quad (4)$$

the **formula** is used, and the resulting figure represents the expected trade turnover between the two countries.

PPML Method

PPML (Poisson Pseudo-Maximum Likelihood) is currently the most recommended estimation method for gravity models. It does **not** take the logarithm of the dependent variable and instead operates directly on the trade volume (**Tij**).

$$T_{ij} = \exp\left(\beta_0 + \beta_1 \ln(GDP_i) + \beta_2 \ln(GDP_j) + \beta_3 \ln(DIST_{ij})\right) + \varepsilon_{ij} \quad (5)$$

The econometric models mentioned above do not produce the expected results. The reason is that econometric models operate with economic variables, whereas the effects of the past political conflict have been stronger than the economic factors. Technically, while classical theory expects the distance coefficient to be negative, it is positive in this case, making it impossible to measure the "effect of distance" and causing the model to deviate from the theoretical framework.

Due to the long absence of economic relations between Azerbaijan and Armenia, bilateral trade data are limited. Consequently, despite the short geographical distance and shared border, the mutual economic potential between the two countries has not been fully realized.

CONCLUSION AND RECOMMENDATIONS

Since the 2000s, global economic development has entered a period of high turbulence and increasing risks. Recent wars have significantly reduced the growth of international trade and slowed global GDP growth, while increasing volatility in currency, financial, and commodity markets. This is associated with disruptions to the structural balance of the global economy, a more complex military-political environment, and the restructuring of the international relations system in response to new technological challenges.

By the middle of the current decade, developed countries have regained their leading position in contributing to global economic growth, driven by the increasing knowledge intensity of their national economies. Against this challenging backdrop, the development of regionalization, characterized by the growing number of regional trade agreements, has reached a qualitatively new level.

Therefore, it is important to identify priority measures and practical mechanisms for their implementation in order to restore mutually beneficial, reliable, reciprocal political and economic relations between Azerbaijan and Armenia.

In general, the countries of the region could establish a unified South Caucasus economic community by creating, at a minimum, intergovernmental (regional) institutions and ensuring their independent operation, while gradually harmonizing future legislation with one another's interests. The establishment of such a new economic partnership in an expanded format, including closer engagement with the United States within the framework of the TRIPP project, would significantly increase the region's economic and political attractiveness to the European Union and other major countries.

The stabilization of the economic and military-political situation in many countries neighboring the region would inevitably produce significant positive outcomes for the region as a whole. The creation of a common economic space in the region would enable mutually satisfactory solutions to the problems facing the countries. To this end, the following measures are proposed:

1. Opening communications in the region: open transport corridors (road and railway) and provide joint guarantees for their security;
2. Creating conditions for the initiation and development of cross-border trade and supporting its expansion;
3. Strengthening economic interdependence by integrating the raw materials of one country into the processing industries of another;
4. Supporting economic relations by reducing or eliminating customs duties;
5. Establishing special production and free economic zones in border areas where businesses from both sides can operate jointly;
6. Developing energy (oil, gas, electricity) and internet transit infrastructure;
7. Establishing joint intergovernmental commissions to regulate trade and investment issues;
8. Creating a unified economic union together with the "3+5" platform countries and the Central Asian states.

Finally, the opening of corridors and restoration of communications, in the interests of all parties, would enable the region to become a major global transit and logistics hub located at the intersection of both the East–West (Middle Corridor) and North–South international transport corridors. The increase in transit flows passing through the territories of the regional countries would accelerate trade relations across the

Eurasian space. As a result, the countries of the region could benefit from transit revenues, while lower import and export costs could stimulate economic activity and contribute to regional economic growth.

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