Sustainability of post conflict recovery strategies: impact to azerbaijani economy

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ABSTRACT
The main goal of economic rehabilitation of war-torn territories is to set their economy on the path of sustainable development. Karabakh region of Azerbaijan had been heavily affected by military conflict in the past decades and the post-conflict economic recovery potential necessitates innovative strategies for the sustainable development of the region. The primary purpose of the research is to show that the region has a potential to not only fully recover but become the growth center in the economic development of the country. The positive experience, and innovative technologies of the countries with similar background has been studied and used for empirical analysis. The paper further argues that the execution speed and order (phases) of programs for restoration of economic infrastructure (roads, amelioration-irrigation system, electricity, gas, water, sewerage, etc.), the return of the IDPs by ensuring the improved quality of life, and improvement and development of social infrastructure (education, health, etc.) is essential in successful implementation. "Smart villages" and “agro-parks” are examples of new approaches that can contribute to sustainable development of region as well as ensure food security and modernization of agriculture and agro-industrial complex. They will provide employment to the rural population and help to increase the income and improve the social situation in the region. The authors conclude that along with state funded programs and domestic investment, the involvement of foreign donors will play a significant role in securing the sustainable development and peace in the region.

Keywords: post conflict recovery, reintegration, innovation, economic potential, non-oil sector, agriculture, tourism, green energy, ecotourism.
1 INTRODUCTION

The economic potential of individual regions and the involvement of the natural resources and their efficient use in the economic turnover play a crucial role in the development of the national economy of any country. In this regard, the state programs on socio-economic development of the regions focus at eliminating regional inequality and aligning the socio-economic policy with regional development. For the past decade, several priority measures as part of 3 State Programs have been taken to develop the non-oil sector and infrastructure areas in Azerbaijan, improve the business and investment environment, increase the use of innovative technologies, reduce poverty and unemployment. The end of the Karabakh conflict in November of 2020, created new economic opportunities not only for Azerbaijan, but also for the region. In this regard, rehabilitation, reconstruction, and reintegration of the conflict-affected areas will be one of the main directions of the development priority of Azerbaijani government in coming years. With the new developments, the scope of the IV State Program on socio-economic development of the regions has expanded to include the post-conflict rebuilding within the general development strategy. With the reintegration of the war-torn territories into the country's economy and value chain, it is essential to evaluate Karabakh’s natural resources, identify and remove the factors that affect and slow down the involvement and efficient use of these resources in economic turnover and to further increase economic activity in the region. Acknowledging global trends and challenges, the commitment to reintegrate these territories will be aligned with two other national priorities - space for modern innovations and clean environment and so called “green growth country”.

2 LITERATURE REVIEW

During World War II, many cities were destroyed, including some of the leading industrial and cultural centers of Great Britain, France, Germany, Italy and Belgium. The research shows that, these countries pursued a more successful post-conflict recovery policy, with more funding allocated for the countries’ priority areas. “Economic recovery priorities must focus on employment, encourage productive investment, mitigate business risks and reduce group inequalities (Makdisi, Samir and Soto, Raimundo (2010) "Economic Agenda for Post-Conflict Reconstruction, Economic Research Forum, Working Paper No.1395).

The Decree “On new division of economic regions in the Republic of Azerbaijan” dated July 7, 2021, #1386, established 2 new regions (Karabakh and East Zangazur) in the territories that returned under the control of Azerbaijan, at the end of the second Karabakh war. The document serves as a strategic, historic, and economically important document to adapt the country's economic development to the new conditions and implement the more flexible, efficient and innovative regulation of governance and management.
The sustainable development of Karabakh and its reintegration into economic activity of Azerbaijan will depend on meeting the resource-related needs of the economy and abundance of its natural resources. “By providing a solid foundation for quality living, we will be able to bring the region’s share in the country’s economic activity to the level it was before the occupation and then steadily increase it.” (Order of the President of the Republic of Azerbaijan on approval of “Azerbaijan 2030: National Priorities for Socio-Economic Development”, February 2021)

Compared to urban areas, rural areas tend to have relatively low access to infrastructure, services, and markets. Technology and innovation can help rural areas overcome this. Customized smart solutions for rural areas can result in greater local economic development with better connectivity and improved services, increased livelihoods and incomes, and improved quality of life (World Bank Report, Smart Villages in Azerbaijan: A Framework for Analysis and Roadmap, 2021)

Given the magnitude of global climate change, emphasis should be placed on the introduction of clean technologies, encouragement of the use of clean energy sources, and recycling and remediation of contaminated areas (Order of the President of the Republic of Azerbaijan on approval of “Azerbaijan 2030: National Priorities for Socio-Economic Development”). The construction of extensive renewable energy sector in 10,000 square kilometers of the “green energy” zone in Karabakh is the result of the so-called “green growth country” and “green energy space” initiative.


For centuries up until the conflict, agriculture was the Karabakh’s dominant industry. Given Karabakh’s favorable geography, there is no reason to believe that agriculture should not again be an integral part of the region’s economy—a key to its sustainable prosperity. However, new generations of young people belonging to the Azerbaijani refugee and IDP community have been born and raised in urban centers and have been experiencing a lifestyle that is significantly different from the largely rural lifestyle their families led in the formerly occupied regions. (Fariz Ismayilzada, Institute for Development and Diplomacy, Baki Dialogues, 2022)

While Karabakh’s arable lands were unused, contaminated, or destroyed during 30 years of occupation, in the rest of Azerbaijan, the government undertook a series of land and economic reforms to move the country from a planned economy to a market economy. Some of the challenges to the sustainable resettlement of IDPs and the launch of agricultural projects in Karabakh include conducting land reforms to ensure the efficient utilization of soil and water resources and policies and training to ensure the optimal utilization and access to all agricultural lands, equipment, and finance for returning families to Karabakh
The abundance of natural resources will encourage investments, but post-conflict reconstruction is a long-term commitment, and international actors too often look for a quick fix and base policies on having an exit strategy within the near future (Dylan O’Driscoll "Good Practice in Post-Conflict Reconstruction", Manchester, 02 November 2018) Hence, the comprehensive promotion of private initiatives based on necessary long term tax incentives and access to low-interest loans as well as the development of public-private partnerships will be of utmost importance (Bayramov, Vugar, “Karabakh Economy: New Driver for Sustainable Economic Development in Azerbaijan”, 2022)

3 DISCUSSION

The first couple of months after the end of conflict in 2020, about 470 applications have been submitted to the Ministry of Economy of Azerbaijan with the purpose of supporting the reconstruction projects in Karabakh region. A working group was established to review the proposals of entrepreneurs who wanted to operate business in the region and 68 of them were submitted to the government.

During the review of the proposals, conceptual approaches were formed, and important areas of activity were identified. The government established the organizations "YASHAT" and "Karabakh Revival Fund" to coordinate the tasks related to reconstruction and integration projects. Initially, 2.2 billion manats (1.3 billion USD) were allocated from the state budget for the economic and social development of the post-conflict territories. The main goal was to provide a modern and quality life in sustainable settlements for internally displaced people (IDPs) who chose to return to their homelands after three decades.

The Karabakh model of development envisioned by “Karabakh Revival Fund” recommended considering the local characteristics, resources, and potential of the region. The use and role of the national resources like land, forest, water, minerals, property and cultural resources were assessed in the development of the region's economy by increasing the volume of fixed assets.

By taking into consideration the natural and historical heritage of Karabakh, the formation of four regional hubs – industrial center in Aghdam district, logistics and trade center in Jabrayil district, cultural and tourism center in Shusha district, and mining and tourism center in Kalbajar district – was recommended for successful and efficient implementation of the programs for utilization of Karabakh’s natural resources, as well as modern and comprehensive development of its economy.
Based on the experience of international organizations, the “Great Return Plan” targets the return of the population to their native lands through 1) the restoration of economic infrastructure (roads, land reclamation, electricity, gas, water, sewerage, etc.), 2) the development of social infrastructure (education, health) and finally, 3) rebuilding the new quality of life.

It should be noted that the economic resources of the post-conflict territories, the level, and types of employment prior to conflict were essential factors in determining both local and domestic priorities. Also, the interaction framework between the post-conflict areas and other regions of the country in the production, processing and sales chain were assessed.

In 1990s, the occupation of 20% of the territories of Azerbaijan caused the withdrawal of Karabakh’s natural and economic resources from the country's economic circulation. Azerbaijan lost one-fifth of its economic potential and 12 percent of its population; 300,000 jobs were eliminated. Karabakh had a large raw material base before the conflict; there were 176 different types of rich natural resources, mineral deposits, including gold, mercury, copper, lead and zinc deposit fields, stone fields, polymetallic and non-ferrous metal ores. The region was home to 133 tons of proven gold reserves, which world market value is estimated to be around $8 billion.

Upon analysis of the regions large raw material resources and their industrial potential, the working group identified four main areas of economic development: 1) rich water supply, 2) electricity, 3) industrial recreation opportunities, and 4) mining of rich minerals. Once the key priorities were selected, the next step was to plan for stages of reconstruction activities. The main concern and blocker became the mines and unexploded weaponry as more than 16 square kilometers (6 square miles) of land are contaminated, with the search and demining activities likely to continue for at least another four years. Currently, countries like Hungary, United Kingdom, USA provide financial assistance to ANAMA (Azerbaijan National Agency for Mine Action) in clearing the territories off the mines and unexploded devices.

One of the areas heavily affected by land contamination is agriculture. Agriculture is of special importance as one of the main directions of economic diversification and further expansion of non-oil sector in the country. To eliminate the dependence of oil and food products on import, it is essential to establish export-oriented processing facilities, secure the sustainability of the agricultural sector and integrate it into the world market, primarily using effective scientific achievements.

There is a great potential to harvest grain, cotton, develop viticulture, animal husbandry, tobacco, cocoon, and food industry (vegetable and fruits) as well as carpet weaving. The reutilization of 200,000 hectares of unused land to restore the production capacity will accelerate the integration into the country's economy, significantly affecting the development of various economic sectors, especially agriculture.
Karabakh also has a large area of grasslands which creates a great opportunity for livestock breeding. Prior to the occupation, these areas accounted for 15.1% and 19.2% of county’s large- and small-scale livestock breeding respectively. After the reconstruction, the ratio of cattle and small-scale livestock to the country’s total count will be 15-18%, which will allow to produce 45,000 tons of meat and more than 200,000 tons of milk. Given that Azerbaijan’s meat import is around 35,000 tons, there will be a very serious import substitution. There is also potential for the development of large beekeeping farms in Kalbajar, Lachin and Gubadli districts.

After the resumption of economic activity in the region, the increase in the level of self-sufficiency in agricultural products will create conditions to meet the food demand, expand the local production, resolve the problem of food security, and, thus, increase employment in the region. The research estimates that with involvement of advanced and modern technologies, development of the agricultural sector will account for 10.4% of the country's agriculture.

One of the examples of innovative approaches in agriculture is creation of “agro-parks”. “Dost Agropark” in Zangilan district is the first of its kind that is currently is under construction and will focus on smart agriculture technologies, zero waste, renewable energy and sustainable agriculture practice. The park will consist of plant production and machinery parks, seed and nursery grounds, a livestock and integrated meat processing facility, a cold storage and packaging facility. The Agro Market within the park will help to meet the seed, fertilizer and agricultural equipment needs of the region. The park will employ 500 people and create an investment ecosystem of more than $100 million and the products produced in this park will be labeled with the brand “Made in Karabakh”.

One of the challenges in the reconstruction of agricultural life in Karabakh is lack of adequate training to work in new enterprises in both older and younger generations of IDPs. Before the conflict, Karabakh’s agricultural production system was based on Soviet “kolkhozs” and “sovkhozs” (collective and state farms). New generations of Azerbaijani refugee and IDP community have been born and raised in urban centers and haven’t had experience working in rural areas. Specialized trainings in best agricultural practices to help new farmers learn how to efficiently manage the health of their land, effectively cultivate their crops, and increase their harvests will be required to ensure the farmers are up to date with new technologies and tools.

Along with the favorable climate and landscape, Karabakh is an attractive destination for tourists. The summer, winter, historical, cultural, as well as therapeutic tourism potential of the region is highly valued. The reserves and sanctuaries along with vast historical and natural monuments create great potential for the development of ecotourism. Up to 120 mineral water deposits of various compositions (“Istusu” in Kalbajar, “Turshsu” in Shusha) differ in their favorable gas and chemical composition, high temperature and large natural resources. There is a potential to revive mineral water filling and packaging
industry as well as the creation of resort and recreational areas on these natural springs, which will result in additional employment opportunities and generate income for local population. Istisu mineral water in Kalbajar is believed to treat variety of both internal and external diseases. It can easily be transformed into the largest touristic center of Caucasus and have a positive impact on the development of the country's economy. Based on the calculations of economists, Karabakh is expected to receive 1 million tourists in the 3 years and the revenues from tourism can exceed $ 1.5 billion which is more than all of Azerbaijan's tourism revenues. This alone is enough to make Karabakh a new driver of tourism industry in the region.

The creation of sustainable transport infrastructure will become the most important aspect of the program for the restoration of Karabakh and the realization of its economic potential. Restoration work in the post-conflict areas will contribute to strengthening security and stability in the Caspian region, the implementation of international transport and communication projects, the diversification of the Azerbaijani economy, as well as increase the country's investment attractiveness and competitiveness in the world. The completion of two airports as well as rehabilitation and expansion of the local road and railway network in the region are examples of programs targeted to boost the strategic importance of the region as a transport hub. Jabrayil, a transport and logistics center, is located on the cross of communication lines with Turkey, Iran and other regions of Karabakh. These roads, which provide access to Karabakh from the northern, eastern and southern directions has a potential turn it into a transport hub of the region.

The restoration of the new international and regional transport and logistics corridor in the region will not only increase the country's access to global markets, but also create conditions for significant economic growth. The economic development of the Karabakh region and its access to the international north-south and east-west transport corridors, as well as the Zangazur corridor, will turn Karabakh to the economic driver of the entire South Caucasus. The Zangazur Corridor, the gateway to both the Caucasus and Central Asia, connects the Eurasian space. As a potential route, it should add value to the country's economy by serving the gate for trade turnover of the regional countries. It is also crucial for perspective economic ties of countries like Turkey whose trade turnover with the Central Asia is $6 billion as well as China, which trade turnover with Turkey is estimated to be around $21 billion.

Renewable energy potential of Karabakh has great prospective as it is also in alignment with “green energy” concept of government’s socio-economic strategy. The region has a potential of more than 4,000 megawatts of solar energy and up to 500 megawatts of wind energy. Khudaferin, Giz Galasi, Sugovushan, as well as small hydropower plants in Kalbajar and Lachin districts can meet Karabakh's primary energy needs. Active use of these energy resources is a key element of the Green Energy Concept, and this potential will enable the energy transportation to other regions.
The Ministry of Energy of Azerbaijan and British Petroleum signed a cooperation agreement in the construction of a 240 MW solar power plant in the Zangilan-Jabrayil zone. The growing share of renewable energy in the energy sector of Azerbaijan will decrease country’s dependence on fossil fuels and fulfill its commitment to reduce carbon emissions by 35 percent by 2030. The government also aims to increase the share of renewables in electricity generation up to 30 percent by 2030.

The investments, the availability of sufficient alternative energy sources and the reconstruction projects with the use of the most advanced innovations promise more than zero-emissions future. The increase of renewable energy share in Azerbaijan’s energy consumption will allow to expand the amount of natural gas to be sent to European markets and decrease EU’s dependance of Russian natural gas and contribute to EU’s resilience against Russia’s energy pressures. After Russia’s invasion of Ukraine and following EU sanctions on Russia’s oil and gas exports, this issue has gained more importance.

One of the most promising reconstruction projects in Karabakh is expected to be Aghdam Industrial Park. Aghdam district has been referred to as a “ghost town” and “Hiroshima of Caucasus” due to the scale of destruction it suffered during the 3 decades of occupation. The Aghdam Industrial Park is supposed to turn Aghdam into a super modern and sophisticated industrial hub of the entire Karabakh region. One of the residents, Smartpoint LLC will organize the production of light poles and devices powered by alternative and renewable energy sources (mainly solar energy). Along with the provision of the domestic market, it’s planned to export the manufactured products to European and CIS countries.

Employment and economic opportunities are the primary drivers that will attract people back to the region. However, the use the latest digital methodologies, scientific research and “smart” thinking in establishment of the prospective businesses is what will ensure the sustainable and rapid development of Karabakh region.

It is worth mentioning that majority of the submitted proposals for the reconstruction and rehabilitation works in Karabakh included the concepts of "new architecture", "smart city", and “smart village”.

The main ide of "smart city" is the application of information technology in all spheres and at all levels. Digital technologies are designed to raise living standards, improve public services for citizens, ensure better use of resources, reduce environmental impact and create new opportunities for rural value chains in terms of products and improved processes.

In summer of 2021, a year after the end of conflict, 66 families settled in the first “smart village” Aghali in Zangilan district. The families were offered the incentives like free housing and ensured employment in local businesses, government agencies and agriculture. Aghali’s agriculture and farming system is based on modern technologies and joint management and control, but the idea goes beyond simply farming methods. The other innovative technologies used in Ashali are “smart” street lighting,
cold- and heat-resistant homes, management of household waste, the installation of hydro and solar power stations, biogas energy, the most advanced environmental monitoring and irrigation systems and use of wastewater in farming. The village’s all energy need is met by solar and wind energy with almost zero emissions.

Approximately $1.3 billion was spent on Aghali and other “smart villages” in Karabakh region in 2022. The construction of about 20 “smart village” projects are currently underway or planned in the region. The cost of creation of this infrastructure is not low, but the investment into this area is not only going to pay dividends in the future, but it will also play an important role in expanding the country's non-oil industry and ensuring economic diversification.

The comparison of the different models of public-private investment cooperation gives us basis to conclude that the rapid development of the region depends mainly on attracting both domestic and foreign investment. For example, In Israel, due to the difficulty of investing large amounts in economy, the diaspora investment model was developed to first attract investments to small and medium-sized businesses followed by investments into large size businesses. Venture capital investments in Taiwan and Japan have proven to be a successful mechanism for financing risky but promising areas of technology.

In world practice, investments are also made through strategic and financial coordination centers. The Chileans living abroad have set up a “Chili Fund” and supported the development and financing of business projects through the diaspora. Based on these findings, it is recommended to attract private and foreign investments and mobilize external financial sources for the implementation of effective post-construction work alongside with state budget funds. This will lead to the revival of the private sector, increase efficiency and reduce the burden on the state budget. Also, the creation and development of entrepreneurship in the region creates conditions for increased employment and income of the population, which indirectly leads to sustainable economic growth with the expansion of the consumer market.

500 foreign investors and businessmen from around 30 countries attending the 25th International Business Forum “Azerbaijan: Pearl of Asia", held in Baku on November 15, 2021, explored not only the country's agriculture, industry and tourism sector, but also Karabakh's investment potential and opportunities.

The Italian “Ansaldo Energia” will provide equipment for four power substations to be built in the Karabakh region. Hungarian national Exim Bank opened a $100 million credit line for the Hungarian companies intending to take part in the revival of the liberated Azerbaijani lands. GOSB Technopark, which supports 130 technology companies in Turkey, and the Azerbaijan Innovation Agency, inked a memorandum to launch a joint high technologies park — an innovation powerhouse that will house cutting-edge researches and production of high-tech devices in the Karabakh region. Currently, Turkey,
Pakistan, Israel, Hungary, Italy, Great Britain, USA and many other countries have companies participating in the process of restoration of Karabakh region.

4 CONCLUSION

With the end of the armed conflict in Karabakh, rehabilitation and reconstruction activities and return of IDPs has become the main priority of Azerbaijani government and its socio-economic strategic programs. The aim of the paper was to show that with its rich natural resources, and strategic location in Caucasus, Karabakh region’s economic revival and re-introduction into the economic life cycle of country could be easily achieved in short term if those programs take into consideration the region’s historical, cultural and economic characteristics.

At present, the process of realization of strategic projects in all spheres of life and economy in the Karabakh region is underway. The socio-economic development of the region is carried out by restoration of priority sectors of the economy by incorporating the latest technological innovations in those areas.

The construction of “smart village”, industrial parks and agro-parks will result in modernization of the urban planning as well as agro-industrial ecosystem of region which will bring social and economic stability not only in Karabakh region, but in the entire region.

From the point of view of investment policy priorities in Karabakh, financial resources and investment flows will be directed heavily into the innovative spheres of the economy. It will accelerate the development of human capital, artificial intelligence, digitalization, biotechnology and other directions that make up the basis of the new technological model in the region.

According to some estimates, the re-integration of Karabakh’s natural resources in the territories will enable Azerbaijan to extract up to an additional 30% of its GDP, which in its turn will give a big impetus to the economy of the country.

Analysis of the processes taking place in the region shows that the economic and social development in Karabakh will strengthen stability and security in the South Caucasus by restoring all economic and transport ties, as well as normalizing relations between the countries of the region. This is the best example of globalization in modern world.
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