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## Introduction

Nowadays it is hard to imagine the world going back to the times when the military power was the only method to go through international conflicts. The invention of the nuclear weapon drastically changed the balance of power in the global political system. Such events as Cuba Missile Crisis showed that it is almost no more relevant for the great powers to challenge each other with conventional weapons, as the several times the world was a couple button pushes away from mass destruction events, as the long-ranged nuclear missile strike could easily destroy any of the rivals.

Conflict originate from the dawn of the humanity’s history and can be observed as long as human kind itself exist. How long this existence will last depends not only on the managing of different types of conflict but dealing with the very phenomena of hostility. This goes from the fact that rivals of the conflict have mostly been tend to escalate violence until the adversary is defeated, especially in such complicated type of conflicts as international ones. However, as conflict participants obviously deal with social and humanitarian crisis, the damage is not bounded with direct physical distortions. A whole economic system of life sustainability shutters throughout the events that devastate post-conflict countries.

By the beginning of the 1990s, one of the rivals, the U.S.S.R. seized to exist, and, following the Budapest Memorandum of Security Assurance, the level of nuclear strike danger was lowered. At the same time, with the U.S.A., becoming the dominant force in the world politics, it started to actively proliferate its’ presence around the world, using economic strength as one of their main assets. Any country that wanted to fit in the international arena had to develop some kind of sustainable economic model, which performance would allow it to stay relevant in accordance to a rapidly developing technological progress showed by the United States. However, the shift towards modern economies showed new challenges for the countries, as the bipolar political system left many issues unsolved, therefore making different types of conflicts to happen.

Economic aftermaths of international conflicts nowadays may be the most significant aftershocks that ripple throughout the post-conflict countries everyday life. From fiscal policy and monetary regulations to microeconomic strategies and revival of small business support: each aspect of society is affected by the economic outcomes of international conflict. Moreover, in the modern world international conflicts often severely influence the economic performance of the countries that are not involved in the conflict directly. As the worldwide economy is becoming more interdependent, it is in the foreign partners’ interests to find out efficient ways to manage the outcomes of the conflict. While often such countries perform as political intermediary, providing a place and guarantees of signing peace treaty and road map towards keeping the conflict down, participation in economic development of the countries may stay on a short-term agreement. Therefore, it is in our consideration to research the means of achieving the successful handling of the economic aftermaths of international conflicts.

The aim of this dissertation is to find out efficient ways of managing economic aftermaths of international conflicts for post-conflict states.

The objectives of this paper are:

to research different types of international conflict;

to define paramount economic aspects of international conflicts;

to explore historical and economic background for the conflict in Nagorno-Karabakh as one of the most relevant international conflicts;

to follow the course of the events of the Nagorno-Karabakh War 2020;

to analyze the economic aftermaths of the war and the ways of their managing.

Hypothesis of the dissertation states that the participants of the modern international conflicts must develop long-term strategic initiatives national economies to successfully sustain the conflicts’ aftermaths.

Objects of the dissertation are the participants of international conflicts (national states, international organizations etc.)

Subjects of the dissertation are economic aftermaths relevant to those participants (inflation level, gross domestic product etc.)

The dissertation implements the following research methods:

Qualitative research: The dissertation covers the works of the authors in English and Russian that provide a deeper understanding of international conflicts and help to navigate through the researched events.

Quantitative research: The dissertation uses the elements of the descriptive research to explicitly demonstrate the economic outcomes of the international conflicts, supporting it with the data provided by well-established statistic resources.

Case-analysis method: The dissertation explores the case of Nagorno-Karabakh war as one of the most relevant conflict that involves several major political actors and severely influences their economic sustainability.

The scientific novelty of the dissertation consists of a consequent arrangement of Nagorno-Karabakh conflict’s economic aftermaths, followed by specific suggestions on the possible restoration of national economies of Armenia and Azerbaijan.

## 

## Chapter 1: The essence of international conflict and its’ influence on economy

## 1.1 Theoretical background behind the phenomenon of international conflict

The issue of finding the origins of international relations has been discussed throughout various research studies. Looking for the most established research approaches, it becomes a tough task to find one that provides some kind of comparison between them. In this aspect, a profound comparison is provided by Griban I. V., Kabykhno N. A. in their article «Conflicts in international relations: modern aspects of the study»[[1]](#footnote-1). For the following paragraphs it would be helpful to take into consideration their description of the famous researches.

First of all, Griban and Kabykhno put forward the book of Norwegian researcher Johan Galtung called «A Structural Theory of Aggression», whose main thesis lies in the fact that the discrepancy between some country’s characteristics in regard of the international political system becomes a main factor of starting international conflicts[[2]](#footnote-2). In this context, Griban and Kabykhno make this statement more definite with the following example: «resourceful, scientific and technological potential of Russia is now in clear contradiction with the country’s current economic situation and with the place that it is at the moment ranks in international relations»1. The authors develop Galtung’s statement, elaborating that the situation structural imbalance in international relations is most likely to become a reason for aggression’s escalation1. Due to their interpretation of Galtung, such imbalance develops when «industrial states act as oppressors and exploiters of the underdeveloped countries»1.

At the same time, Griban and Kabykhno point out another important outcomes of structural imbalance of international system that are provided by Galtung. For the conflict to become a military one, they provide to most important factors:

«violence becomes an integral part of life society»;

«other means of restoring the disturbed balance cannot be implemented»1.

In this article, they are also describing other several key researchers that have left a great impact on the studying of conflicts.

Firstly, they highlight American political scientist Waltz: in the 1960s he proposed to consider comprehensively causes of conflicts by combining three levels of analysis: the level of the individual, state level and international level systems[[3]](#footnote-3). Here is the way there are described the three levels of conflict analysis:

First level: «the study of the causes of international conflict involves the study of the psychological traits of human, especially, acquired features of admired state leaders»3;

Second level: «factors related to the geopolitical position of the states, as well as the specifics of the political regimes ruling in them»3;

Third level: «proposed characteristic features of the system of international relations to find out if there is some kind of polarity or balance of power»3.

Through exploration of all the three levels, Gryban and Kabykhno conclude that even if one of the levels resents at least a hint of conflict, the escalation can be observed on all of them[[4]](#footnote-4).

Another concept is mentioned by Gryban and Kabykhno is made by T. Schelling. It is based on the conflict theory, which states that states operate under perpetual scarcity of resources[[5]](#footnote-5). Schelling's main thesis lays in the idea that «international conflicts do not reflect the concept of zero-sum games but rather are a variable game amount». In particular, «the total winnings of the participants cannot be equal to zero, the victory of one participant is not tantamount to losing the other»[[6]](#footnote-6).

On the page 36 Gryban and Kabykhno point out the works of J. S. Goldstein, professor at the School of International Service at American University, identifies several levels of conflict in international relations[[7]](#footnote-7):

1. «Individual conflicts»:

At this stage, using war and other violent measures of influence in international crises is recognized «natural» and represents country leaders' reasoned judgments. On the other hand, widespread nationalism, cultural animosity, or a natural human proclivity for violence might push leaders to employ force to resolve conflicts. However, this level of analysis cannot be considered as the only one to be seen throughout the investigation, since there are numerous examples in history of both wars that began with pragmatic calculations and wars that arose from leaders' errors and miscalculations1.

2. «Internal conflicts»:

This level of research focuses on the qualities of nations or societies that might influence their proclivity to use violence to resolve conflicts, such as the state's expansionist tendency. Domestic political parties, interest groups, and legislatures may have a big say in whether or not domestic conflicts turn international1.

3. «International conflicts»:

This level discusses conflicts in terms of power dynamics among the international system's major players. Goldstein argues that big wars emerge during periods when power is distributed relatively evenly, and growing power threatens the current hegemons' power. Territorial disputes («over borders, secession, water, and airspace»), governmental control («superpower intervention and influence over less powerful nations»), and economic conflicts are the three categories of international conflicts he distinguishes («rich against poor, problems of trade and drug trafficking»)1.

4. Global conflicts:

Major military actions in the international system, according to Goldstein, are cyclical. He emphasizes numerous techniques at this stage. Major conflicts, according to the first method, are linked to long economic waves in the global economy that span roughly 50 years. The cycle under the second method is unrelated to the economy, and large conflicts occur every 100 years. Only broad war tendencies in the international system can be best explained by these cyclical theories throughout time. There is also the contrary approach, in which war becomes less likely over time as a result of less intensified fighting. Ethnic conflicts, religious conflicts, and ideological conflicts are three «less material» types of conflicts identified by Goldstein1.

Besides, Griban and Kabykhno themselves point out six phases of an international conflict[[8]](#footnote-8):

The first phase:

There is a basis of certain objective and subjective contradictions, the fundamental political attitude and the corresponding economic, ideological, legal, military-strategic, diplomatic attitudes expressed in a «more or less acute conflict form»8;

The second phase:

The parties determine or partially implement a system of mutual practical actions, taking into account the character of struggle or cooperation, in order to «resolve the contradiction in the interests of one or another parties or on the basis of a compromise between them»8;

The third phase:

Clearly seen the explicit use of a fairly wide range of economic, political, ideological, psychological, moral, international legal, diplomatic and even military means to threaten the rivals, without using them, however, «in form of direct armed violence»8.

The fourth phase:

The overall increase in the struggle to the most acute political level - the international political crisis that covers relationships of direct participants of the conflicts, some states of the conflict region, the participation of largest world powers, involving the UN. In some cases, it can lead to a global crisis, which will give the conflict a «never-before-seen severity and the higher likelihood that military force will be used by one or more parties»8.

The fifth phase:

An international armed conflict is being started with a limited conflict («restrictions cover the targets, territories, scale and level of warfare applied military assets, the number of allies, etc. their world status»). Then, under certain circumstances it develops to a «higher level of armed struggle with the use of modern weapons and possible involvement of allies by one or both sides»8.

The sixth phase:

Settlement phase, involves the gradual de-escalation, lowering the level of intensity, «more active involvement of diplomatic means, search mutual compromises, reassessment and adjustment of national-state interests»8.

To sum up, Griban and Kabykhno provide a very diverse and detailed classification of international conflicts that reflects various stages on their time frame of events.

Another thorough research of classifications of international conflicts is provided by Zelenkov M. Y in his book «Social conflictology». In chapter 9 of the book he points out several categories of conflict[[9]](#footnote-9):

By the nature of the fundamental contradictions:

«There are economic, political, ideological, social political, ethnic and religious conflicts that can be roughly divided into two groups: political and non-political. The latter, in case of their transformation into national-state interests take on the character political»9.

By spatiotemporal scale:

«There are global conflicts affecting the interests all participants in international relations; regional and local, which include as parties to the conflict limited number of participants, as well as bilateral. Depending on the duration, international conflicts can be protracted, of medium duration, short-term»9.

By the means of applied arsenal of holding the conflict:

«There are armed conflicts with the massive or limited use of military force, and conflicts using only non-armed means both comprehensively and selectively (various types of blockade, embargoes, trade restrictions, lowering the level of diplomatic representation etc.)»9.

Therefore, as Zelenkov points out, «international conflict appears as multifaceted phenomenon with a political connotation»9. His idea reveals further, as he states that The most diversified contents of the nature of states' foreign policy goals are linked in its one knot. A wide range of objective and subjective factors contribute to international conflict. As a result, examining a given circumstance and referring to only one or various types is impossible. There may be a primary reason and multiple secondary causes that support, reinforce, and complement the primary cause. However, throughout all international wars, the parties' social and economic interests play a significant role9.

T. Reznikova states that «the objective nature of the system of interstate relations and the laws operating in it is determined in first of all, the presence of objective internal needs for all states without exception, which, in turn, give rise to the presence of foreign policy interests of the state and implemented through the maintenance of economic, political, diplomatic or other relations»10. According to her, «foreign policy interests of each state are determined in the first place the needs of domestic socio-economic development and, therefore, are characteristic mainly for a given country, then their extrapolation to the international arena inevitably implies interaction with the interests of other states».

Besides, Zelenkov provides another classification of international conflicts considered by the researcher T. Reznikova in her article «Interethnic conflict: causes, forms of manifestation and nature of development In this regard, in depending on the nature of this interaction»10. There the author gives the following types of foreign policy interests that are identified by her:

«non-overlapping interests»: interests, the implementation of which does not affect the interests of other entities in the system interstate relations;

«parallel interests»: foreign policy interests of one state are realized in in line with the interests of another9;

«common interests»: their realization is possible only on based on the collective action of two or more countries through implementation of a coordinated program of action9;

«diverging interests»: a consequence of the realization joint interests in the case where the subsequent goals do not match, but do not conflict either9;

«confrontational interests»: their realization is unthinkable without infringement of the interests of other states and can be carried out at their expense»9.

Another classification that Zelenkov is referring to is provided by A. Antsupov and A. Shipilov in their book «Conflictology»11. According to the author, they distinguish the following types of interstate conflicts:

«directly interstate conflicts (both sides are states) »;

«national liberation wars (one of the parties - state) »;

«anti-colonial wars of peoples against racism or governments»;

«internal internationalized conflicts (the state is an assistant to one of the parties in the territory of the other states)»9.

As Zelenkov further refers to G. Morgenthau, he mentions the so-called governmental force to compel. In the concept of compelling there are stated nine factors: «geographical location, natural resources, industrial opportunities, military potential, population, national general characteristics, national morality (degree of public support); the quality of diplomacy, the quality of government»[[10]](#footnote-10).

Taking everything into consideration, many of represented studies, though describing international conflicts from various points of view, tend to unite on the idea that as the means of holding conflicts are developing, the interconnections between the motives of the conflicting parties and their actions are becoming more complicated. In this case, it represents a special interest to observe and define main features of armed conflicts as an aggressive form of international conflicts.

## 1.2 Armed conflicts and wars as an aggressive form of international conflicts

Violent conflicts have always been a special area of research within political sciences. One of the most significant research is performed in the book «Territorial conflicts in World Society», edited by Stephen Setter. A special place in this book is provided to Klaus Schlichte and his article «Theories of World Society and War. Luhmann and the Alternatives»[[11]](#footnote-11). Considering his broad approach, it would be helpful to follow authors’ narrative.

First of all, Schlichte states that since the Second World War, organized mass violence has been notable for its absence, particularly in Western Europe and North America11. Large-scale violence in Western nations has been recalled and retold rather than experienced since 1945, and it is not distinct to previous types of physical violence. As a result, war is mostly regarded in Western countries as something missing, something to be avoided at all costs. This was also true throughout the majority of the Cold War, when nuclear weapons were a constant danger. Surprisingly, many social theories of the time ignored the study of organized violence, especially war as an empirical occurrence. Here Schlichte references to modern systems theory, started to develop in the 1970s and 80s, represented in his article by P. Imbush[[12]](#footnote-12). Also, modern systems theory tends to understand modernity as a historical stage in which violence no longer plays any significant role. Therefore, he states that «it is not surprising that in the writings on war, systems theory hardly plays a role»11.

While violence has only a marginal place in modern systems theory, Schilchte considers that for war «the situation is even worse»11. Referring to R. Stitchweit, Schlichte is convinced that modern systems theory has not dealt with that kind of issue[[13]](#footnote-13). The historical omnipresence of violent politics, according to him, was not that visible for this theoretical stream. The reason for that could be the world historical timing of the origin of this approach.

In order to compare different theoretical approaches, Schlichte refers to an instrument of achieving a common measure11. According to him, as the number of relevant theories and approaches becomes bigger, the more necessary this instrument is becoming as well. He then elaborates on the fact it has already become a huge task to establish a complete overview of all those approaches that in the field of war and violence studies. As the author further mentions the works by Hintze, Weber and Elias, he states that theories that are prominent in sociology and history usually try to link the history of violence to the history of states are for example[[14]](#footnote-14). At the same time Schlichte refers to the works of cultural anthropologists and historians, who try to link the occurrence of war and political violence either to the human drive for aggression or to the historical development of forms of rituals and revenge in society[[15]](#footnote-15).

Furthermore, Schlichte elaborates on other authors as well, such as in contemporary German sociology11. There he states that such authors such as Trotha T. and Fearon J.D. prefer an approach that are not focused at building a global theory on the historical development of warfare but «delivers insights into the micro-effects and underpinnings in the exertion of different forms of violence»[[16]](#footnote-16). However, some of such researchers dwell upon the very essence war «on the basis of sophisticated quantitative and formal methods applied to all forms of codified data»[[17]](#footnote-17).

According to Schlichte, the division of social sciences has resulted in a plethora of methodologies and schools in the study of conflict11. Organized violence has been studied by sociologists, psychologists, anthropologists, legal experts, and political scientists, and there have been numerous attempts within each field to come to terms with the wide range of empirical occurrences and theoretical issues provided by this subject. In that framework, studies that traverse the borders of established disciplines are rare, and when experts from various fields researching conflict gather in conferences, mutual deafness is the perennial complaint11.

Another concern raised by Schlichte is the fact that theories of organized violence rarely begin with world society or the world system. Apart from a few recent initiatives in current systems theory, there is only one large research project that has employed a global social emphasis as a conceptual starting point, notably the so-called «Hamburg approach», which was established in the 1990s[[18]](#footnote-18). The «Hamburg approach», which has a somewhat different conception of what comprises world society, would be worth looking at in order to examine the potential and also possible constraints for studying conflict from the perspective of current systems theory.

In general, Schlichte specifies the lack of inter-disciplinary research in the field of armed conflicts study, pointing out, however, some major works, such as Henderson, E.A. and Singer, D.J. «Civil War in the Post-Colonial World»[[19]](#footnote-19). Following the narrative of these and the other authors, he defines the following five major hypotheses on the recent war trends[[20]](#footnote-20):

1. «A growing number of wars».

Since the end of World War II, the number of conflicts fought each year has increased dramatically, peaking in the early 1990s. Since 1993, the number of conflicts has fluctuated at a somewhat lower level, averaging between 35 and 40 each year. The number of wars counted each year, as well as the operational criteria used in different research, varies. However, it is widely acknowledged that this increase is mostly attributable to the fact that conflicts are becoming increasingly protracted. Violent battles such as those in Colombia, Angola, and Chad lasted decades, while in other cases, fighting is only broken up by brief periods of less violent politics that are undeserving of the term «peace». 22.

2. «Predominance of intra-state wars».

After 1945, the vast majority of conflicts were fought between states. The percentage of inter-state conflict has reduced considerably in comparison to what is known about the worldwide distribution of war in past times. After 1945, over two-thirds of conflicts were solely intra-state in nature, while the proportion of inter-state combat has gradually reduced. 1993 was the first year since 1945 when no inter-state war broke out. [[21]](#footnote-21).

3. «War occurs in the periphery».

According to quantitative statistics, more than 90% of wars in the post-World War II era occurred in the so-called Third World. There has been no conflict in North America, huge areas of Europe, and, since 1960, East Asia. This finding may be further broken down into a number of distinct historical events that explain the dispersion. Among these is the observation that decolonization conflicts, as well as regional war networks that connect numerous countries, play a significant role (see contribution by Stetter in this volume). The battles in Indo-China and Southern Africa were complex warfare in which several conflicts were intertwined and supported one another. [[22]](#footnote-22).

4. «Wars last longer».

The finding that the average duration of conflicts has progressively increased since 1945 appears to be connected to the prevalence of intra-state battles. Another important empirical finding in this context is that intra-state battles are less likely to be resolved by peaceful measures, such as mediation. When compared to their engagement in violent conflicts within states, the UN and regional organizations have been far more effective in resolving inter-state disputes. More over half of intra-state battles ended in a military triumph for one of the fighting factions, while only 20% were resolved through third-party mediation. 22.

5. «Decrease of major warring states».

The distribution of governmental engagement in war is extremely unequal. Others appear significantly on the list, despite the fact that certain governments have not been active in hostilities since 1945. The United States, France, the Soviet Union/Russia, and the United Kingdom are at the top of the list, ahead of regional powers such as Iraq, India, China, South Africa, and Israel. 22.

Schlichte believes that these theories cannot account for all elements of armed conflicts, and that their scope should be broadened to encompass a more multidisciplinary approach11. He does, however, remind out that most of the post-World War II hostilities took place in the so-called «third world» regions. He also discusses certain post-Soviet and Balkan countries. As a result, Schlichte believes that armed conflicts are shifting away from great interstate wars, which still occur periodically but less frequently, and toward regional conflicts. These wars, however, can have a comparable influence on surrounding regions since the world has grown more connected than ever before.

Taking everything into consideration, it would be logical to agree with Schlichte that differing approaches to international conflict in general, and wars in particular, result in contradictory study findings. On the one hand, these methods may undoubtedly contribute to a more comprehensive understanding of the nature of international conflict and embrace a variety of viewpoints. On the other hand, the lack of a widely accepted theoretical framework in this field makes doing new research challenging, since it necessitates a move from theoretical to statistical data. Therefore, searching for that data, it would be necessary to refer to the actual consequences of international conflicts.

## Consequences of international conflicts

With the change of the millennium, the changed conflicts entered the everyday life of a modern world: ethnic, confessional, political, territorial and other rivalries have been developing into more interdependent ones. Whether those conflicts are completely local or tend to spread around neighboring regions, their presence itself often reveals a significant concern for the international community. In this narrative, an essential research was delivered by Gridchin A.A[[23]](#footnote-23). Throughout the article, he reviews several examples of the consequences of different international conflicts.

First of all, he points out the results of the Congolese conflict: the international non-governmental organization Oxford Committee for Famine Relief (OXFAM) noted that more than 2.5 million people became victims of the conflict, many of them died from incurable diseases29. Among the other consequences, there are mentioned the following ones:

«In the east of the country, the death rate among newborns exceeded 41%; over 800,000 children have been orphaned by the growing AIDS epidemic»;

«More than 2 million people were internally displaced, of which more than 1 million did not receive any external assistance»;

«16 million people suffer from hunger; only half of the country's population gained access to drinking water»;

«18.5 million people (37% of the country's population) do not have access to medical care»;

«There are only 2500 licensed doctors in the country, while the population of the Congo is 50 million people»;

«There are armed formations in the country, consisting of underage children, with a total number of 10 thousand people»[[24]](#footnote-24)

Furthermore, Gridchin points out that the Democratic Republic of the Congo (DRC), exhausted by internal conflicts, «provoked the aggression of neighboring states - Uganda, Rwanda, Burundi»23. As Gridchin refers to the research performed by A. Lebedev, the military engagement of these nations in the affairs of the DRC prompted a response from a set of neighboring countries - Angola, Zimbabwe, and Namibia - who, if the first acted on the side of the rebels, intervened on the side of the DRC's incumbent government[[25]](#footnote-25).

Another example provided by Gridchin is a situation in Liberia. He claims that political instability in Liberia has harmed the country's economy, which is heavily reliant on the sale of rubber, lumber, iron ore, and coffee. Almost half of the Hevea trees were damaged, as well as woodworking businesses. The government, hospitals, and educational institutions have all shut down. Almost all of the country's foreign businesspeople and professionals have fled. Describing the damage, Gridchin elaborates:

«The civil war almost completely destroyed the economy, the restoration of which, according to some estimates, would require from 5 to 10 billion dollars within 10-15 years[[26]](#footnote-26). From 1980 to 1997, Liberia's economy was based on donor assistance from the West. However, since 1998, financial flows have been significantly reduced, as a result of which many international economic and social programs have been curtailed. Today, the country has a huge total external debt of $35 billion for its size»[[27]](#footnote-27).

The similar negative economic aftermaths were met by Niger. This is the data that Gridchin provides: «The gross domestic product per capita was about $200, and the domestic debt was $1.643 billion. Out of 174 countries, Nigeria ranked last in the UN Human Development Index»[[28]](#footnote-28).

As the author continues, multilateral foreign aid remained a vital component in preserving the stability and push for growth of Niger on the eve of the twenty-first century, without which no leader in power could assure the country's daily existence and progress. The authorities of Niger could not sustain the state machinery, hold elections, undertake economic reforms, or attract investment without the assistance of the former capital - France, EU member states, and international financial institutions. The government was able to pay salaries in the public sector and, thanks to France, continue to pay off salary arrears for a number of prior years with the support of external donors at the turn of the century[[29]](#footnote-29).

Gridchin also emphasizes the social implications of conflicts, stating that they are often shown in the degradation of the population's social status and the criminalization of public life23. For many Africans, armed violence has become a source of income and a way of life. There the author mentions UNICEF research: «during the 1994 genocide in Rwanda, more than 80% of the children surveyed witnessed murders, and about the same number of teenagers lost one of their family members»[[30]](#footnote-30). The armed groups of Liberia were replenished with units in which boys from the age of five received military training. Gridchin also provides data from UN experts: «of the 45,000-50,000 militants who will have to be disarmed and returned to civilian life, half are children and teenagers»[[31]](#footnote-31).

Gridchin is also looking at the socio-psychological effects of wars. Here he claims that it's important to remember that large sections of the African population live in constant terror for their lives, the lives and futures of their children, and have a damaged psyche23. People are continually obliged to look for ways to survive and protect themselves.

The psychological factor is one of the factors that complicates the resolution of conflicts: in African society, a stereotype of a way of life has developed in which participation in armed actions, various types of wars, and conflicts is the only means of subsistence for the populations of the conflicting parties. One's identity becomes firmly linked to violence. Violence destroys the potential of respect for one another, another tribe, or a neighboring state through distorting and distorting Africans' perceptions of a normal, stable life, as well as the creative character of their activities.

However, one of the biggest problems driven from international conflicts that is presented by Gridchin is demographic consequences. This is some statistics he provides:

«During the 1994 genocide in Rwanda, about 1 million people died, with a total population of 8 million people[[32]](#footnote-32). In Liberia, over 14 years of civil war, 240,000 people died, that is, every tenth inhabitant of the country[[33]](#footnote-33). During the civil war that unfolded in Nigeria in 1967-1970, more than 1 million people died[[34]](#footnote-34)».

A significant part of the author’s research is dedicated to the problem of a terrifying increase in the numbers of refugees, the forced migration of the population. While providing the data from the documents of United Nations, Gridchin reviews it as an inevitable and dramatic consequence of regional conflicts which makes regional conflicts international. The statistics show the constantly growing numbers of refugees, which makes the issue relevant to this day. This how Gridchin elaborates the data:

«In 1951, when the United Nations High Commissioner for Refugees (UNHCR) was created, about 1 million refugees came under its mandate35. Today their number reaches 17.5 million. To these should be added the 2.5 million under the control of the UN Humanitarian Commission for Palestine Refugees in the Middle East, and over 25 million internally displaced persons. In 1951 most of the refugees were Europeans. Today, most of them belong to Africa and Asia. The development of events in recent years shows that the movements of refugees are more like a massive outflow of the population, 80% of modern refugees are women and children»23.

Gridchin also states that armed conflicts, natural and environmental calamities, and poverty are only few of the reasons for major population exodus. As a result, many current refugees do not meet the requirements for refugee status under the applicable Convention[[35]](#footnote-35). The United Nations is deeply worried about the recent rise in the number of forced migrants. These are people who are compelled to leave their houses yet stay on their country's territory. As a result, they are not covered by the current refugee protection system. Internally displaced people are mostly from underdeveloped nations. Internally displaced individuals account for more than 10% of the population in some nations.

With refugee children became a special issue, Gridchin derives from the data of the United Nations Children's Fund (UNICEF) that approximately 1 million children have been torn from their parents as a result of war and political upheaval during the last ten years, 12 million have been rendered homeless, and 10 million have experienced serious psychological trauma23. UNICEF concentrates its efforts on providing food, drinking water, medication, and shelter to these children. In addition, UNICEF established the idea of «children as a zone of peace» and declared «days of peace» and «corridors of peace» in the spirit of supporting the safety of children in circumstances of armed conflict and providing them with the required assistance[[36]](#footnote-36). Besides, the problem of severe population movement has become «chronic» in some areas. The United Nations Near East Agency (UNRWA) has been assisting Palestine refugees since 1949. The Agency's vital health, education, emergency, and social services help more over 3 million registered Palestine refugees. UNRWA’s coordination and collaboration of international organizations' actions is a critical success element in resolving the problem of refugees and internally displaced individuals.

Taking everything into account, modern international conflicts are much more complicated than they used to be, with a regional hotbed tending to upscale on the international level. To specifically research the economic consequences of international conflicts, it would require to observe a conflict in more detail. Therefore, it would be helpful to research such complicated conflict as it is in Nagorno-Karabakh.

## Chapter 2. Nagorno-Karabakh conflict as an example of a modern international conflict

## 2.1 Historical overview of a modern conflict

While nowadays Nagorno-Karabakh conflict is becoming more relevant, it has quite a long history. Being observed throughout the last century, it was researched from different interdisciplinary angles by various authors. However, to understand the reasoning and motives behind it, one need a thorough, step-by-step historical overview of the events that happened in the region. One of the most complete historical review of the conflict is given by director of the Central Asia-Caucasus Institute & Silk Road Studies Program Joint Center Svante E. Cornell, the author of several chapters and the editor of the book «The International Politics of the Armenian-Azerbaijani Conflict: The Original «Frozen Conflict» and European Security». In this chapter it would be helpful to follow this narrative to provide the retrospective picture of current events.

Firstly, even though the recent conflict is inclined to be rooted more to the 20th century, it is important to get acquainted with the way the conflict had been developing before that. As it is stated in the book on the pages 4-5, the settlements that used to live at the area of the modern-day Armenia and Azerbaijan already had very diverse backgrounds1. This is how Cornell describes the settlements:

«The lands stretching from eastern Anatolia to the central regions of present-day Azerbaijan were not homogenously populated by ethnic groups that could neatly be divided by national boundaries. The countryside was settled by ethnically defined villages— primarily Armenian, Azerbaijani/Turkish or Kurdish—interspersed in a complex mosaic»1.

The author also points out the factor of constantly shifting dominance of Christianity and Islam in the region. Such instability, along with involvement of nationalistic movements, evolved into a strong enmity between neighboring people, let alone the building of some kind of trusting political relations. Cornell puts these roots together in the following description:

«Larger towns were more multi-ethnic, but divided into Christian and Muslim quarters. In the Ottoman Empire, Christians were second-class citizens and discriminated by the ruling Muslims; in the Russian Empire, these roles were reversed. Yet because these were empires and not nation-states, the urge toward ethnic and religious homogeneity was not yet a driving political force. That changed with the rise of nationalism, imported from Europe, in the second half of the nineteenth century. The urge to build cohesive nation- states effectively destroyed this mosaic over the 100-year period from 1894 to 1994—beginning roughly with the Hamidian massacres of Armenians in Sasun, and ending—for now—with the ethnic cleansing of Azerbaijanis from the provinces surrounding Karabakh»[[37]](#footnote-37).

This level of disturbance transferred throughout the centuries and regimes, from Ottoman Emprie, to Russian Empire and, in the 20th century, to Soviet Union. This happened as well with the region of Nagorno-Karabakh specifically. However, the legal belonging of the region for any of the countries was under a dispute for quite a long time. Nowadays, as Cornell notices further, most scholars would apply the rule of uti possidetis that is settled in PACE resolution 1416 of 2005, claiming in short that «new states that have gained independence have the same territory and with the same borders that they had before»[[38]](#footnote-38), due to the fact that Nagorno-Karabakh was in the territory of Azerbaijan Democratic Republic when it had been formed in 1918. While Azerbaijan’s territory was under dispute by League of Nations, the stakes changed as the Soviet government came to power in the country. The author of the second chapter, Johanna Popjanevski on the page 27 gives these details:

«In that light, circumstances dating back to the era before 1920 (when Azerbaijan’s independence was rejected by the League of Nations) do not affect the status of contemporary Azerbaijani borders[[39]](#footnote-39). Following the invasion of Azerbaijan by the Red Army, and later Nagorno-Karabakh, the Kavburo (Caucasian Bureau of the Central Committee of the Russian Communist Party) declared in 1921 the region to be part of the Soviet Republic of Azerbaijan. According to the Kavburo, the region would remain part of Soviet Azerbaijan but granted autonomous status[[40]](#footnote-40). This was reaffirmed in article 86 of the 1977 Soviet constitution»[[41]](#footnote-41).

During the Soviet times, with Azerbaijan being Soviet Socialistic Republic, the borders remained overall the same, even though the tensions between Armenia and Azerbaijan were still there. However, in the end of the 80s, as the Soviet Union was on the verge of collapse, the situation in the region began to change drastically as well. At the page 26 of the book, Popjanevski, highlights a huge number of immigrants leaving the countries within few years. These movements were followed with violent clashes all over the area. The author describes it specifically:

«After a period of relative calm over the summer of 1988, continuous disagreements over the status of Nagorno-Karabakh at the political level generated a new wave of refugee flows. By the end of November, unofficial sources stated that up to 180,000 Armenians had fled Azerbaijan and 160,000 Azeris had left Armenia. By 1989, Soviet sources reported that 87 people had died and 1,500 had been wounded in clashes between Armenians and Azerbaijanis. In spite of attempts by the central Soviet authorities in Moscow to take control of the region, seemingly to ease tensions, serious violence erupted in the region in 1989 with regular shootouts between armed rebel groups»1.

As Soviet Union was coming to close, the fire of violence spread from the distant areas, such as Ashagy and Goygol, towards capitals and, finally, Nagorno-Karabakh. On the page 26 Popjanevski refers to David Remnick’s article in The Washington Post of February 8, 1989, providing the data of 500 to 1000 deaths happened in total only in Baku[[42]](#footnote-42). As the situation escalated, the more military clashes were happening in the region, with Azerbaijan locals being supplied by Moscow and Armenia transferring the weapons through Lebanon. Popjanevski provides such narrative:

«In response to the alleged resettlement of ethnic Armenians to Nagorno-Karabakh and the Khanlar and Goranboy/Shahumian regions (which was illegal under Soviet law), Azerbaijan, backed up by Soviet Interior troops, launched a forceful offensive in the region in the spring and summer of 1991, famously known as “Operation Ring.” While the operation was officially aimed at carrying out identity controls, in reality it entailed searching out and eradicating Armenian paramilitary groups and confiscating weapons[[43]](#footnote-43). The operation ultimately involved operations in 22–24 Armenian villages north of Nagorno-Karabakh, and reportedly resulted in serious human rights violations and hundreds of casualties»5.

However, the bloodiest clash to that period was only about to break out. Following the events of the previous decade, on the page 26 Popjanevski highlights the referendum in Nagorno-Karabakh, as the region decided to separate from Azerbaijan5. Not only this decision continued the military rivalry in the region, it also escalated the tensions towards a real war between Armenia and Azerbaijan. As up to this period, Soviet army left the support of Azerbaijan behind, the country was no longer ready to provide a considerable defense from Armenian’s offensive. Therefore, in February 1992, the terrifying battle in Nagorno-Karabakh village of Khojaly happened, which is still considered to be one of the most violent collision on the Post-Soviet territory. In this context, Popjanevski provides the data from Human Rights Watch report of 19935: «estimated 600 ethnic Azerbaijani civilians were killed in an Armenian-led attack against the village of Khojaly in Nagorno-Karabakh»[[44]](#footnote-44).

The author then follows the narrative on the page 27 with the statement that it is assumed that at that period the recently formed Russian Army supported Armenian troops, seizing the «ethnically Azerbaijani-populated citadel town of Shusha in Nagorno-Karabakh, as well as the Azerbaijani town of Lachin, located between Nagorno-Karabakh and Armenia, and thus the corridor separating Armenia from Karabakh»5. She also mentions that up to the end of the clash, ethnic Azerbaijanis in Nagorno-Karabakh were either deported or killed, therefore in the towns like Shusha previously pro-Azerbaijan population that used to be dominant in the region basically disappeared5. However, the author summarizes the events under the statement that by the reports of independent international observers, all sides of the conflicts «have been exposed to war crimes that are attributable to both parties to the conflict»5. In this case, Popjanevski considers it unlikely for the people of Nagorno-Karabakh to be considered as an oppressed ones from the point of international law, as this status would not meet the necessary requirements5.

According to the author, the territorial dispute in this context must be discussed with great caution. Popjanevski states that Azerbaijan did not gain the control over Nagorno-Karabakh area right after the 1992 war, so the claims of it is tough to consider to be true the fact that the country to some extend oppressed the rights of the modern population of the region5. While Azerbaijan government proposed several ways to provide help for the region, Armenians in Nagorno-Karabakh were claiming that they still have their rights discriminated. In conclusion, Popjanevski provides the following estimation of the post-1992 situation in the region:

«As a result, accepting the claims of the current Nagorno-Karabakh population to a right to secession based on external self-determination would bring with it serious legal and political implications, as it would risk legitimizing the ethnic cleansing of the Azerbaijani population of the region and its surrounding provinces. This stands in direct contrast to international human rights law, itself a more important component of the self-determination principle than any territorial claims that may flow from it. In this light, the right to self-determination cannot be seen as applicable as a basis for secession in relation to the Nagorno-Karabakh region»5.

## 2.2 2020 Nagorno-Karabakh war

However, after a relatively calm decades of the international relations between Armenia and Azerbaijan, the situation seriously worsened after the events of the Second Nagorno-Karabakh war happened in autumn 2020. Up to this day it is possible to see the influence of the war’s outcomes on the policies of the countries, considering that the war itself happened very recently. The more complicated has become a political climate surrounding the conflict as well: foreign countries, such as Turkey and Russia were involved in the process more actively, while at the same time trying to be some kind of mediation middle ground between the rivalries. As the ripple effects of the war are still being observed, it becomes a tough task to find out a versatile approach towards researching the events themselves. Nevertheless, one of the most profound study was prepared by writer, analyst and Senior Fellow at Carnegie Europe Thomas de Waal in his working document for Centre for European Policy Studies called «The Nagorny Karabakh conflict in its fourth decade»[[45]](#footnote-45). This narrative would help to discover the events of 2020 war and their settlement.

To begin with, on the page 4, de Wall puts forward the events that led to the war outraged at 27th of September 20209. He mentions that during the four battle days on the border between Armenia and Azerbaijan 18 people were killed in July 2020. This military clash was met with protests in Baku, as the people of Azerbaijan fled the streets of the capital to demand a military initiative from their government. These demonstrations were so severe that even some activists were able to invade the building of the countries’ parliament.

Taking into consideration the fact that these events were happening during the outbreak of COVID-19 pandemic, the diplomacy during that period was struggling to find proper ways to realize its’ functions. Therefore, Azerbaijan’s government found a proper moment to invade Nagorno-Karabakh.

Furthermore, de Wall finds the situation for Azerbaijan in the beginning of the conflict more favorable than for Armenia. On the page 4, de Wall points out three main reasons for that statement9:

Firstly, de Wall mentions the fact that Azerbaijan had been funding its’ army 15 years prior the events of the new war. This was possible with the help of Turkey, as its’ officers provided NATO background trainings for the countries’. De Wall here provides an article from Bloomberg of 2016 by Milda Seputyte and Ott Ummelas, with the data that provides a picture of Azerbaijan’s spending on military from 2006 to 2011: due to a great income from oil transfers, the country was adding around $4 billion a year for its’ military budget.[[46]](#footnote-46) Despite the fact that after 2016 the oil incomes declined, Azerbaijan still gathered modern military technologies, such as drones, tanks and artillery. This is how de Wall describes the military equipment Azerbaijan received throughout the years:

«Azerbaijan deployed Turkish Bayraktar TB2, and Israeli military ‘kamikaze’ Harop, Orbiter and SkyStriker drones to devastating effect, before having to use ground troops. These drones destroyed Armenian armour and defences, enabling Azerbaijani forces to make rapid progress in the regions south of Karabakh[[47]](#footnote-47). There is a strong body of evidence that Turkey also recruited more than 2,000 mercenaries from Syria to fight for Azerbaijan, although Baku and Ankara continue to deny this»9.

Secondly, as de Wall states further, it is not the only help Azerbaijan received from Turkey. In fact, this move is also a kind of a political support, as this is the first time Turkey provided Azerbaijan with the direct military support9. Within the scale of the first Nagorno-Karabakh war in 1990s, the help from Turkey was mostly exclusively political, whether now, military help would strengthen this agenda, upgrading Turkey’s influence in the region. In this context, de Wall states: «the Zurich Protocols with Armenia were signed in 2009 but never ratified. President Recep Tayyip Erdoğan reversed this policy and gave Azerbaijan full military and political support in the conflict of 2020, helping Baku to break the equilibrium that had persisted in the conflict zone»9.

Thirdly, de Wall points out that Russia’s involvement in the conflict was not as pro-Armenian as the country’s citizens would assume before the war9. However, as the author is convinced, while Russian President Vladimir Putin definitely personally preferred cooperation with the President of Azerbaijan Ilham Aliyev rather than a recently elected opposition leader of Armenia Nikol Pashinyan, the decision to handle quite a double-sided strategy was not entirely based on this narrative. De Wall describes the motives this way:

«It was a matter of Russia’s overall strategy in the South Caucasus, in which good relations with Azerbaijan were just as important as those with Armenia, despite Moscow’s formal military alliance with Yerevan, and Armenia’s membership of two Russian-led organizations, the Eurasian Economic Union and the Collective Security Treaty Organization. Azerbaijan is key for Russia as a transport route southwards to Iran, Turkey and the Middle East»9.

De Wall is also convinced that from today’s perspective an outside observer cannot be sure whether Russia was full-aware of the incoming war or hopped into the conflict on the spot, quickly calculating the possible outcomes9-. It is also unknown if Russia planned for this conflict to be held in a more limited variant or wanted to upscale it as much as possible. For certain, the author is sure that Azerbaijan’s actions towards establishing misbalance in the region were welcomed by Kremlin, as it would make possible for it to influence the politics of the new Armenian government9. De Wall specifies:

«Once started, the offensive had a galvanizing effect on Azerbaijani society. Almost everyone, including the radical opposition, backed the military operation. Thousands of volunteers signed up to fight. Morale was also initially high on the Armenian side, but quickly began to deteriorate»9.

De Wall further states that many foreign experts, along with Armenian people, believed that the dominance of the high ground and defensive rings built up over many years would shield them from a new Azerbaijani invasion. This turned out to be a ruse. The strategies used by Azerbaijan yielded quick results. The Armenian military, particularly the troops of the unrecognized Armenian-administered Nagorno-Karabakh Republic, lost land and were unable to rotate their personnel. Morale had fallen, and troops were unwell, as the author providing the words of then-leader Arayik Harutyunyan[[48]](#footnote-48). Azerbaijani forces took Hadrut, the Armenian-majority town inside Nagorno-Karabakh, in mid-October. De Wall describes the October events on the page 6 this way:

«On 22 October, Azerbaijan announced it had reconquered the full length of its frontier with Iran along the Araxes River. Azerbaijani forces then appeared to be moving to cut off the ‘Lachin Corridor’, the road that connects Armenia with Nagorny Karabakh. In the final few days of October the push switched to the town of Shusha. This vitally important hilltop town, which had a large Azerbaijani majority during the Soviet period, is situated in the heart of Karabakh and overlooks the whole territory»9.

The author continues, following the events, as when Azerbaijani troops captured Shusha on November 8, they were on the verge of encircling Stepanakert, the region's principal city, and had a realistic chance of conquering all of Armenian-administered Nagorny Karabakh and forcing out its ethnic Armenian population9. The territory's population was estimated to be between 100,000 and 150,000 people, with a substantial number of people fleeing to Armenia during the fighting, however many more remained. There was a substantial potential of much more carnage and a far worse humanitarian situation as a result. Here what de Wall mentions on the chances of Armenia’s troops:

«There was also a strong chance that Armenia might try to deploy Russian-made long-range Iskander missiles against Azerbaijan, a step it had not taken hitherto in the conflict (there is evidence that one Iskander missile was fired against Baku on 9 November but did not hit its target). It was at this point that Russia intervened. President Putin’s ceasefire statement of 9-10 November, co-signed by the Armenian and Azerbaijani leaders, averted a complete Armenian defeat, while also ratifying a strong Azerbaijani victory».

Russia most likely wanted to mediate an agreement that would not heavily favor one side over the other, but the Azerbaijani military outperformed all expectations, and the Armenian leadership failed to take advantage of previous opportunities to make concessions. De Wall provides the statement of President Putin telling media about the ceasefire deal that the Armenians might not have lost as much land if Prime Minister Pashinyan had accepted to a Russian-brokered ceasefire, which Putin proposed on October 19-20[[49]](#footnote-49).

## 2.3 International settlement of the conflict

Considering the ceasefire deal of November 9-10, 2020, de Wall is sure that it without saying brought the battle to a standstill and saved lives9. However, he argues, the opposing parties are still a long way from reaching a genuine peace accord in which Armenia and Azerbaijan would open their borders and establish diplomatic relations. With the deployment of the Russian peacekeeping operation in Karabakh for an initial five-year period, a medium-term window opened up that promised to reduce the bloodshed. The mission might be extended for another five years under the terms of the agreement, but one of the three signatories — most likely Azerbaijan — could veto the extension. The author expands this narrative:

«Russia would certainly find powerful arguments with Baku as to why its soldiers should stay, but this clause in the agreement gives Azerbaijan leverage over Russia that is not available to Georgia, Moldova or Ukraine. In the following ten months, several issues left the Armenian side angry and resentful. Around 45 Armenian detainees remained in Azerbaijani captivity. The Armenian side claimed they were prisoners of war who should be released under international humanitarian law. Various international organizations, as well as the US and the EU, also called for their release[[50]](#footnote-50). The Azerbaijani side said that the men had been captured after the November ceasefire agreement and were not liable to the same treatment as those taken captive during the conflict»9.

The author then points out that tensions rose along the Armenia-Azerbaijan border, which had not been formally delineated since the Soviet Union's disintegration. An alleged Azerbaijani invasion into an area that most maps indicate as Armenian territory, followed by the imprisonment of six Armenian soldiers, heightened tensions even further. The ongoing existence of fatal landmines in the seven occupied areas that Azerbaijan regained in late 2020 was the primary source of concern for the Azerbaijani side. Baku requested maps from the Armenian side, but was informed there were none available. The author provides an article from Eurasianet, which states that in the Kelbajar area, two journalists were killed when their car collided with a landmine[[51]](#footnote-51). Blaming the weak initiative on cooperation, de Wall states:

«The lack of cooperation, even on humanitarian issues, was proof that, as the International Crisis Group reported, every issue had become “a political bargaining chip”. On 12 June, in a Georgianbrokered agreement, Armenian detainees were freed and the Armenian side shared maps of minefields in the Aghdam region[[52]](#footnote-52). These rows overshadowed the main promised medium-term peace dividend of the November agreement: the planned reopening of transport routes, especially a route connecting western Azerbaijan and the Azerbaijani exclave of Nakhichevan. A follow-up meeting in Moscow of the three signatories of the November agreement, Aliyev, Pashinyan and Putin, focused on the economic aspects of the deal, by forming a trilateral working group to address the transport issues»9.

However, as de Wall marks further, no agreement on the deployment of additional transportation connections throughout Armenian territory has been reached9. The November deal handled one of the conflict's two key issues: Armenian troops' partial or complete possession of the seven districts around Nagorny Karabakh, as well as the relocation of their whole population. With the exception of the tiny Lachin Corridor linking Armenia and Karabakh, all of the districts had been returned to Azerbaijani sovereignty by December 2020. On the page 8 the author states:

«This gives the right of return to more than half a million Azerbaijani displaced persons, even though it will take many years of reconstruction for them to be able to exercise that right and return home. The second issue, the fundamental problem at the root of the conflict, the issue of the rights and status of the Armenians of Karabakh, remained unresolved. Armenian -administered Nagorny Karabakh continued to exist, albeit under much reduced circumstances, after the ceasefire agreement. The de facto government continued to operate as before»9.

Taking everything into account, de Wall is convinced that the ending of the conflict would seem to «kill off the aspirations of the Karabakh Armenians to achieve independence from Azerbaijan»9. The President of Azerbaijan, Ilham Aliyev, who proposed before “the highest autonomy in the world,” according to the article of Azernews is no longer will to provide any kind of autonomy, even stating that that «Nagorny Karabakh’» or «Mountainous Karabakh» is no longer an affordable idea for Azerbaijan[[53]](#footnote-53). Despite that, Armenians are still referring to the area by their native name «Artsakh» and insisting on regaining their rights for it. For the foreseeable future, it seems that the situation would keep this kind of stalemate, if there no more political reasoning would appear behind reviving the military phase of the conflict.

## Chapter 3. Conflict resolution and economic restoration on the example of Nagorno-Karabakh war 2020

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## 3.1 Economic aftermaths of Nagorno-Karabakh war 2020

## 3.1.1 Costs to Armenia

While researching the available data for analyzing the economic consequences of Nagorno-Karabakh war 2020, the difficult task was to find a study that is based on a detailed and diverse data for the respective countries. On the Armenia’s outcomes, such study is held by Mirza Ibrahimov, called «The military and economic consequences of the Second Karabakh War for Armenia»[[54]](#footnote-54).

As Ibrahimov states in his article, Armenia's army lost most of its military equipment and fighting capabilities as a result of the war's defeat. During the conflict, Armenia's Armed Forces lost military equipment and installations worth hundreds of millions of dollars, as detailed above1. Referencing Center for Analysis of Economic Reforms and Communication, he claims that the total worth of Armenian military equipment destroyed or captured as trophies by the Azerbaijani Army during the conflict is estimated to be over $3.8 billion[[55]](#footnote-55). If looking at Armenia's military spending in recent years in comparison to its war losses, it can be understood how catastrophic the losses were for Armenia.

The author also highlights that despite the fact that Armenia's yearly military expenditures are not substantial when compared to nations that spend a significant amount of money on militarization, this is a significant financial outlay for a tiny country like Armenia with limited economic resources1.

Here is the data by World Bank the author refers to:

«In the past decade, the share of the military expenditure of Armenia in its Gross Domestic Product (GDP) was about 4% and reached almost 5% in 2019 and 2020[[56]](#footnote-56). That figure is even greater that those of countries such as the U.S.A. (3.4%) and Russia (3.9%) that dedicate substantial financial resources to militarization»1.

Given Armenia's severe economic woes, the government's decision to spend vast sums of money on military objectives demonstrates the Armenian government's attitude toward territorial occupation. As a result, we estimate that the worth of military equipment lost by Armenia during the Second Karabakh War accounts for more than 77 percent of the country's total military spending during the last 10 years. When the author includes Armenia's other losses, such as military personnel (about 4,000) [[57]](#footnote-57) and war-related economic damage, he states that the Second Karabakh War robbed Armenia of the majority of its military capabilities, which had been built up over a ten-year period.

As a result, the author is convinced that given its current economic and financial difficulties, Armenia will take decades to recover its’ military:

«Calculations based on military expenditure statistics show that, in the most recent ten years, the average annual amount of the money spent for military purposes in Armenia was about $490 million. With spending at this average value, to recover the $3.8 billion in damage that Armenia experienced in the war will need at least eight years»1.

Armenia, due to Ibrahimov, will not be able to deploy all of its financial resources to restore its military capabilities1. He claims that Armenia is facing major economic and social issues as a result of the epidemic and the war. The Armenian government must also invest financial resources for economic growth in order to tackle these challenges and prevent escalating social unrest in the country. As a result, given the country's economic and budgetary issues, Armenia's army will take a long time to rebuild.

The Armenian government expected to reduce military spending in 2021, taking into account all of the country's economic and budgetary issues, due to Report News Agency [[58]](#footnote-58). Military cuts were discussed at meetings between cabinet members and the defense ministry.

Despite the conflicts inside the Ministry of Defense about reducing the military budget, Ibrahimov is sure that the Armenian government has no other option1. The use of a significant portion of the country's limited financial resources for military reasons would leave other economic issues unsolved. As a result, the already rising societal tensions brought on by the conflict might be exacerbated. Given the difficulties of reinstating the army in a short period of time, the Armenian administration is now concentrating on economic and social issues.

The author states that Armenia faces economic hardship not just as a result of military defeats, but also as a result of the loss of different natural riches in the areas it occupied for over 30 years1. Armenia used all energy, mineral, and agricultural resources in the conquered lands throughout the occupation. Armenia's energy, food, and financial stability were all impacted by these resources. Now that Azerbaijan has liberated its lands, Armenia no longer has access to those resources, causing significant economic issues.

Due to Ibrahimov. Armenia will have to import resources from other nations to replace those lost, increasing the country's financial burden1. The release of Azerbaijan's occupied lands has posed a threat to Armenia's energy security. Because such areas have abundant water resources, several hydroelectric power plants were developed during the occupation. The researcher points out The power generated at the stations served the energy needs of Armenians in the occupied regions, with surplus electricity being sent to Armenia in the spring and summer:

«In recent years, electricity imported from the occupied territories made up about 7% of the electricity supply in Armenia. However, as a result of the war, 30 hydroelectric power stations out of the 36 that existed in the occupied territories came under the control of Azerbaijan[[59]](#footnote-59). This led to the loss of 60% of the electricity production capacity for Armenians in the previously occupied territories. In 2020, Armenia planned to import about 330 million kWh of electricity from the occupied territories»1.

Ibrahimov puts a stress on the fact that due to the conflict, however, only a quarter of the intended amount was delivered, resulting in severe electrical deficit in Armenia. It's also worth noting that Armenia now not only has to buy power from outside the country, but also needs to export electricity to help the Armenians who remain in the seized territory.

The author also mentions that Armenia also lost the enormous agricultural fields of Azerbaijan that it had exploited for the previous thirty years and that had played a critical role in ensuring food security as a result of the conflict:

«As a result of the war, Azerbaijan has liberated more than 90,000 hectares of arable land used for grain production. This means that Armenia has lost about 90% of arable land in the previously occupied territories. Those territories were producing 150,000 tons of various grain crops annually, of which 100,000 tons were exported to Armenia[[60]](#footnote-60). As the total demand for grain products in Armenia is about 450,000 tons, the grain products imported from the occupied territories provided about 20–25% of the country’s total demand»1.

Ibrahimov notices that Armenia's budgetary sector was also severely impacted by the Second Karabakh War1. In October, the Armenian Parliament adopted a measure revising the statute implementing the 2020 State Budget, which recommended an increase in budget expenditure of around $85 million due to increased military spending during the war7. However, the author states that the Armenian government had made the first modifications to the national budget in April, due to pandemic-related economic issues:

«As a result of these budget amendments, the budget expenditure of Armenia reached $3.44 billion, which was about 30% of GDP in 2020. The increasing budget expenditure also led to an increase in the budget deficit; its level reached $964 million, or 7.56% of GDP, in 2020. As a result of budget changes in 2020, budget income decreased about $590 million (17.5%) and the budget deficit increased by about three times. The high level of the budget deficit, in turn, created substantial financial security problems for Armenia»1.

As a result, we can agree with Ibrahimov that the Second Karabakh War has had a significant impact on Armenia's agriculture industry and food security. Armenia, like the energy industry, would have to significantly increase grain imports to satisfy its population's demands due to the loss of agricultural resources.

## 3.1.2 Costs for Azerbaijan

One of the most complete study of Azerbaijan’s economy of the past years is provided by I. Fedorovskaya[[61]](#footnote-61). This article is especially peculiar as it covers both economic aftermaths of COVID pandemic and Nagorno-Karbakh war 2020 as well as possible reconstruction projects. First of all, Fedorovskaya states that due to the threats to the country's economic development, such as the fall in oil prices, the restrictions caused by the COVID pandemic and Nagorno-Karbakh war, there was a significant decline in GDP in Azerbaijan in 2020 amounted to 4.3%, and the decline in GDP per capita (data for 11 months) - 5%, according to the State Statistics Committee of the Republic8. Tangible problems arose in the foreign economic sphere. In particular, Fedorovskaya points out that the foreign trade turnover of Azerbaijan, according to the State Customs Committee, in 2020 compared to 2019 decreased by 26.5%, while the drop in exports was 30%, imports - 21.5%8. The foreign trade balance remained positive ($4 billion), but its volume decreased by half compared to the previous year. As for the structure of foreign trade, the oil and gas sector continues to dominate in total exports. In 2020 (data for 10 months), its share was 88.19%, and the share of goods of other industry groups, respectively, was 11.81%. In terms of volume and value, exports in both commodity groups decreased in 2020, and especially in the oil and gas sector[[62]](#footnote-62). As a result, many industrial productions and the service sector were under attack.

In relation to the tourism industries, Fedorovskaya considers that they were hit the hardest. In January-November 2020, the largest decline was recorded compared to the same period in 2019 - 56.9%, the volume of passenger (40.5%) and cargo transportation (19.6%), paid services to the population (25. 8%), construction (11.3%)8. In general, industrial production in Azerbaijan fell by 4.7% over 11 months of 2020. The only industries that showed at least slight growth in 2020 were agriculture (2%) and information and communication services (1.6%)[[63]](#footnote-63).

However, Fedorovskaya states that the financial sphere is making a better performance. The country's gold and foreign exchange reserves did not decrease in 2020; moreover, the Central Bank increased its strategic foreign exchange reserves by $150 million. The State Oil Fund of Azerbaijan (SOFAZ), which, according to many experts, is considered a «safety cushion» for the country and which has collected an estimated $40-45 billion, has managed to maintain its assets. As of October 1, due to EADaily, they decreased by only 0.08%[[64]](#footnote-64).

The government of the republic used financial leverage very carefully during the pandemic, which, according to Fedorovskaya, made it possible to avoid the instability of the national currency. The manat exchange rate remained stable in 2020, and the devaluation expected by many experts was avoided. If the fall in oil prices is not a new situation for Azerbaijan, then the pandemic is an absolutely unique phenomenon. According to the Minister of Economy M. Jabbarov, during the days of strict quarantine, the country lost 100-150 million manats (65-70 million dollars) daily. Fedorovskaya also notices that the crisis hit the country's population the hardest: unemployment rose by 45.2%, amounting to 366,000 people, according to the State Statistics Committee, which is a very high figure for Azerbaijan's small population8. In reality, the figure is even higher, this is recognized by the authorities of the republic.

Besides, Fedorovskaya points out that the labor market was one of the first to react to the onset of the economic crisis. Many private companies have started laying off employees. The most severe losses were suffered by small and medium businesses, where most of the country's population is employed, often unofficially. If in the pre-crisis years of 2018–2019, according to the World Bank, 57% of the population of Azerbaijan was assessed as «unprotected from poverty»[[65]](#footnote-65), then in 2020 the situation worsened. The real incomes of the population decreased by 5%, and the deposits of citizens in banks decreased by 10.7%. Fedorovskaya suggests that in the face of falling incomes, citizens have to spend savings to survive. The coronavirus and the associated economic crisis have certainly led to an increase in poverty in Azerbaijan. By April 2020, the government of the republic had developed a program to minimize the damage to the economy called «Main Instruments for Supporting Economic Growth and Entrepreneurship Development»8. The total amount of state support is around 2.5 billion manats (about $1.5 billion), which is approximately 3% of the country's GDP12. Fedorovskaya states that this is the highest figure among the countries of the South Caucasus, which is not surprising, given the financial resources that Baku has8.

The program includes 10 areas of business support and social assistance to the population. Among them are:

«the participation of the state in compensating for the loss of wages of those employed in areas that have suffered losses from the coronavirus pandemic;

financial support for individual (micro) entrepreneurs and workers in the sectors most affected by COVID-19;

financial support for the mechanism of mortgage lending and loan guarantees; a social package to support the financial situation of the population, which includes the allocation of funds for the payment of unemployment benefits and some other social benefits, support for the payment of tuition costs for students from low-income families, as well as support for utility bills in the form of an increase in the preferential limit for the use of electricity;

a program of tax incentives, privileges and tax holidays for business entities operating in areas affected by the coronavirus»8.

The most significant in social terms, due to Fedorovskaya, were measures to support small and micro (no more than 10 employed) entrepreneurs, since part of the money allocated to them (215 million manats) will be used to pay salaries to employees of closed enterprises within 2 months in the amount of 100%, but not more than 712 manats (about $420)8. In addition, 200,000 unemployed people will receive AZN 190 ($112) for 2 months. Experts believe that these measures will certainly mitigate the consequences of the economic crisis for the citizens of Azerbaijan, but only partially. Thus, only the registered unemployed can receive benefits, however, as already noted, in Azerbaijan, especially in the field of micro-business and agriculture, many, if not most, work informally. In addition, the government, according to experts, could take over the payment of public utilities for the period of the pandemic and freeze interest on loans.

True, this would require even greater expenditures on the part of the state. However, Fedorovskaya claims that although the economic situation of Azerbaijan is an order of magnitude better compared to neighboring Armenia and Georgia, the fall in oil prices has significantly shaken the financial well-being of the country8. Indeed, in 2020, the Azerbaijani oil and gas complex, which is the main source of income for the republic, was in a fever. In April 2020, the price of oil fell to $15.8 per barrel from $71 at the beginning of the year. This is not the first time Azerbaijan has faced such a sharp drop in oil prices - this circumstance caused the economic crisis of 2015-2016.

Fedorovskaya considers important to pay attention to the fact that the deterioration of the situation in the energy market occurred even before the introduction of strict quarantine restrictions around the world. In April 2020 the OPEC+ countries manage to sign an agreement to reduce oil production, which further ensured price growth. In May 2021, the price of Azerbaijani oil fluctuated around $70 per barrel[[66]](#footnote-66). This allows the government to at least be sure that the 2021 budget will be executed, since it was calculated on the basis of an oil price of $55 per barrel. However, experts do not exclude the possibility that in the future, when the agreement reached ceases to be valid, the price of oil may fall again. According to the State Statistics Committee of Azerbaijan, in 2020, oil production in the country fell by 7.8%[[67]](#footnote-67). The share of the oil sector in the country's GDP also fell by 7%, which is almost twice as much as the rate of decline in the economy as a whole. The fall in demand for oil caused by the pandemic has led to a reduction in its exports. In quantitative terms, oil exports from the country decreased by 5.9%, and in monetary terms - by 36.8%. However, oil continues to dominate the overall structure of exports. In 2020, it accounted for 68.15% of total exports, and if we take into account gas, the supply of which from Azerbaijan to Europe is growing, then their total share is close to 90%.

The gas sector of the country, as Fedorovskaya states, was the least affected by the war. Demand for gas in the world fell not as significantly as for oil, which allowed Azerbaijan not only not to reduce gas production in 2020, but to increase it by 3.1% compared to 2019[[68]](#footnote-68). Moreover, in the first quarter of 2021, gas exports amounted to 5 billion cubic meters. m, of which 3 billion were supplied to Turkey, 1.1 billion to Europe, 784 million cubic meters to Georgia. According to the Ministry of Energy, natural gas exports for the first quarter of 2021 increased by 39.5% compared to the same period in 2020.

In general, comparing the data of economic features of Armenia and Azerbaijan for the last several years, we can see the situation followed by the table below.

Table: Macroeconomic indicators of Armenia and Azerbaijan in 2017-2021

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 2017 | 2018 | 2019 | 2020 | 2021 |
| Level of inflation[[69]](#footnote-69), % | | | | | |
| Armenia | 2,6 | 1,8 | 0,7 | 3,7 | 7,7 |
| Azerbaijan | 12,8 | 2,3 | 2,7 | 2,8 | 6,7 |
| GDP, $ bil.[[70]](#footnote-70) | | | | | |
| Armenia | 11,54 | 12,43 | 13,67 | 12,65 | 13,9 |
| Azerbaijan | 40,75 | 46,94 | 48,17 | 42,61 | 45,00 |
| GPD per capita, $.15 | | | | | |
| Armenia | 4219 | 4407 | 4732 | 4012 | - |
| Azerbaijan | 5805 | 5769 | 5880 | 5073 | - |
| Level of unemployment, %15 | | | | | |
| Armenia | 17,8 | 19,0 | 18,3 | 18,1 | 18,5 |
| Azerbaijan | 5,0 | 5,2 | 4,8 | 6,3 | 6,0 |
| Level of poverty, %15 | | | | | |
| Armenia | - | 23,5 | 26,4 | 27,0 | 27,0 |
| Azerbaijan |  | 5,1 | 4,8 | 5,0 | 6,0 |
| Minimal salary, $ per month.[[71]](#footnote-71) | | | | | |
| Armenia | 121 | 121 | - | 149 | 149 |
| Azerbaijan | 130 | 130 | 143 | 250 | 300 |
| Military spending, $ mil.16 | | | | | |
| Armenia | 464 | 591 | 658 | 635 | 652 |
| Azerbaijan | 994 | 1624 | 1804 | 2173 | 2727 |
| Military spending, % of government spending16 | | | | | |
| Armenia | 3,9 | 4,8 | 4,9 | 4,9 | 4,4 |
| Azerbaijan | 4,0 | 3,5 | 4,0 | 5,4 | 5,3 |
| Corruption index[[72]](#footnote-72) | | | | | |
| Armenia | 35 | 35 | 42 | 49 | 49 |
| Azerbaijan | 31 | 25 | 30 | 30 | 30 |

From the presented data we can distinguish that in spite the fact that Azerbaijan’s post-war economic performance quite better than Armenia’s, both countries severely suffered with the fall of GDP and GDP per capita indicators. The latter indicator had an especially major drop from 2019 to 2020, consisting 15,22% for Armenia and 13,72% for Azerbaijan. Another menacing feature here is the drastic increase of inflation level: from 2019 to 2021, this indicator rose by 7% in Armenia and 4% in Azerbaijan.

Interestingly, having a weaker economic performance, Armenia sustains a better position in a corruption index, being 19 points ahead of Azerbaijan in 2021. This may have a political effect, with Nikol Pashinyan leading a rather fresh prime minister position after 2018 civil uprise in Armenia, while Azerbaijan president Ilham Aliyev is keeping his authority for more than two decades. However, it is interesting to observe if those outcomes correlate with the measures being held to restore economic stability in the post-conflict countries. For that, it would be important to refer to some specific methods of dealing with post-conflict reconstruction.

## 3.2 Post Conflict Reconstruction

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## 3.2.1 Internal economic regulations

One of the most fulfilling studies on post-conflict reconstruction is «Economic agenda for post-conflict reconstruction» by Samir Makdisi and Raimundo Soto[[73]](#footnote-73). According to them, in contrast to normal economic development, which occurs within a particular political and economic framework, post-conflict rebuilding necessitates a significant shift in the pre-war economic, social, and political fabric. The fundamental objective is to cause a dramatic shift in the political system's developmental philosophy and activities. As a result, the economic reconstruction agenda must be broader than postwar stabilization in order to include not only the restoration or creation of basic services and infrastructure that were destroyed during the war, but also the modernization or creation of the macroeconomic and microeconomic institutional framework required to create a viable economy.

As Makdisi and Soto elaborate, State building, or the establishment of state institutions, is a part of reconstruction[[74]](#footnote-74). The latter also includes nation-building, or the creation of a feeling of shared national identity in order to overcome ethnic, sectarian, or communal divisions that would undermine alternative sources of identity and allegiance; and populist mobilization in support of a parallel state-building endeavor[[75]](#footnote-75).

The authors pay attention to the fact that because the former social contract based on government-led development, guaranteed public jobs, and extensive transfers is no longer possible, private sector economic activity, employment possibilities, and welfare gains must be given[[76]](#footnote-76). Recovery and expansion of the private sector are critical for increasing the supply of products and services, increasing productivity, and providing working people with job opportunities that allow them to make a decent and legal living.

Additional argument from Makdisi and Soto to assist the private sector is that a robust recovery is needed to convince displaced families to return to their previous economic interests, particularly those that are not related to the war economy or criminal businesses18. Prioritizing and sequencing interventions will be required in every rebuilding program[[77]](#footnote-77). In theory, better targeting and timing of state-building reforms, management of conflicting demands, knowledge of requirements, development trajectories, and paths out of fragility may all be aided by planned prioritizing and sequencing. There is widespread agreement that security and development are intertwined, and that security must come first in the early phases of restoration. There is also considerable agreement that successful transitions are contingent on obtaining acceptable levels of governance in four areas: political, administrative, judicial, and economic.

The authors highlight the debates between the economists, which main focus is that security is a precondition for economic progress, and that prosperity improves security[[78]](#footnote-78). Policymakers must decide whether and when to support economic changes, as well as if such reforms can be implemented in the absence of a stable political settlement. Decisions on which economic changes and sectors to prioritize are extremely political, and they must take into account the possible effects on various conflict players and dynamics.

Makdisi and Soto state that most post-conflict reconstruction aims at strengthening macroeconomic systems as early as possible. However, they also point out that such changes are inadequate in and of themselves to provide sustained welfare improvements to the population beyond the peace dividend's initial impact. Furthermore, they frequently favor those who are in a position to benefit more than the broader public, leading to crony capitalism and higher degrees of corruption in extreme circumstances.

Rebuilding institutions at the microeconomic level is considered by the researches as consequently critical for long-term development and, more crucially, for population appropriation of development gains18. These measures, if effective, will improve the legitimacy of rebuilding. The authors outline a number of significant concerns that need to be addressed in the economic agenda for rebuilding in the following sections. Makdisi and Soto organize these issues in the three guiding principles.

First: «the need to restore –and sometimes expand—property rights, so that security levels improve and the returns of efforts are accrued to their legitimate owners»18;

Second: «a proper delimitation of the areas where the private initiative is best allocated by market forces, from those sectors where market fail due to «imperfections» such as natural monopoly power, informational asymmetries, and externalities»18;

Third: «the design of proper regulatory setup for each type of market. Competition in free markets would not deliver its promise of development and welfare gains if adequate regulation and supervision are not in place Likewise, where the market fails, intervention must be designed so that efficiency is preserved and benefits accrue to the population and not to interest groups or those bureaucrats in charge of running state-controlled businesses»18;

Government engagement and control of big enterprises or monopolies in vital areas, such as infrastructure, construction, and the banking sector, must also be addressed in reconstruction measures, continue Makdisi and Soto18. For two key reasons, reform initiatives should focus on finding prospects for the privatization of state-owned enterprises (SOEs) operating in industries with no market failures. First and foremost, for the sake of efficiency. The majority of the evidence suggests that privatization may greatly enhance efficiency and have large spillover effects on the rest of the economy if done correctly. Second, for resource-scarce post-conflict economies, privatization may be a valuable source of revenue. However, the true issue is monopoly vs. competition, not public vs. private. Infrastructure is essential for economic growth and competitiveness.

Network utilities, such as electricity, natural gas, telecommunications, railways, and water supply, as the authors claim, were «vertically and horizontally» integrated state monopolies during much of the twentieth century and in most nations18. This strategy frequently resulted in very deficient services, particularly in developing and transitional economies, and especially for the poor. Low productivity, excessive costs, poor quality, limited income, and investment deficiencies were all common issues. Recognizing the importance of infrastructure, several governments have pursued far-reaching infrastructure changes in the last two decades, including restructuring, privatization, and new regulatory methods.

Privatization of SOEs due to Makdisi and Soto is an appealing policy option for post-conflict MENA nations due to resource constraints and a lack of managerial skills among bureaucrats18. Despite that, they point out that the region's track record is not encouraging: privatization projects have lacked a clear strategic focus, have been conducted on a stop-go basis, and have, in many cases, resulted in the transfer of ownership but not the transfer of state management. Fears of job losses have also hampered privatization, especially in the industrial sector[[79]](#footnote-79).

However, the authors state that privatization has been much more successful in normal regions, and the lessons learned can be applied to how to properly design the privatization process, reducing corruption and inefficiency, how to regulate privatized firms so that efficiency gains benefit the general public, and how to provide incentives for investment and development in privatized industries.

Makdisi and Soto also highlight the fact that control of vital industries by the armed services or its employees is an important part of the privatization process[[80]](#footnote-80). Privatization and market liberalization are likely to damage military interests, jeopardizing the peace process, and it is very unlikely that commanders will react to calls for divestment unless some sort of remuneration is provided. This is a difficult topic, both in terms of peace accords and long-term development, for which there are no easy solutions. Therefore, external economic help may help with the development of strategic-based projects.

## 3.2.2 External economic help

One of the post-war macro planning goals is the reconstruction and development of physical and institutional infrastructure. Rebuilding countries would have to rely on foreign resources due to a lack of internal resources. Foreign direct investment (FDI) is one source of such funding. The advantages and difficulties of implementing the methods of FDI are profoundly presented in the article «The economic benefits of justice: Post-conflict justice and foreign direct investment» by Benjamin J Appel and Cyanne E Loyle of West Virginia University. Consequently dissecting their study, we can get the idea how FDI can be implemented in the cases of post-war economic help[[81]](#footnote-81).

First of all, according to Alvaro that Appel and Loyle refer to, FDI causes technological spillovers, aids human capital formation, adds to international trade integration, aids in the creation of a more competitive business environment, and promotes company development[[82]](#footnote-82). Aside from the obvious economic benefits, FDI may also improve the host country's environmental and social circumstances by, for example, transferring «cleaner» technology and promoting more socially responsible business strategies. All of these factors lead to increased economic growth, which is the most effective instrument for poverty reduction in emerging nations. Although there is widespread agreement on the economic benefits of foreign direct investment, these gains are frequently considered as contingent on recipient nations achieving certain levels of institutional, financial, and human capital development.

While speaking of the issues of attracting FDI, Appel and Loyle refer the work of Lewarne, S. and D. Snelbecker[[83]](#footnote-83). There they claim that this process demands the establishment of an acceptable institutional framework that allows investors to operate their business successfully and without excessive risk. Firm registration, private property protection, minority shareholder protection, and a contemporary bankruptcy legislation would all be part of an effective institutional structure. Investors value environments where rules and their implementation are based on the principle of nondiscrimination between foreign and domestic enterprises, where the law is applied in accordance with international standards, where the right to free transfers is respected, and where investments are protected from arbitrary expropriation. A stable macroeconomic climate is also favorable to FDI, especially if it allows for simple access to international trade27.

However, as Appel and Loyle continue, gains are not a natural result of FDI, and any spillover effects may only be realized if local businesses have the ability and willingness to engage in absorbing foreign technology and skills27. Furthermore, it is critical to acknowledge that FDI might have negative consequences, which must be taken into account when developing strategic strategies to attract and control foreign investment. Not all kinds of foreign direct investment are beneficial to the economy. Importantly, any investment policy must understand that foreign investment is a means to a goal, not an end in itself, in the process of rebuilding and peacebuilding. As a result, the FDIs that should be promoted are those that contribute to post-conflict rebuilding goals like job creation and boost the host economy.

In fact, the authors pay attention the fact that in the case of oil-rich countries, achieving the aforementioned goal may be more challenging due to their proclivity for attracting FDI with little revolutionary potential27. Purely extractive businesses (e.g., mining) have minimal touch and connectivity with local enterprises, offer limited potential for job creation and economic integration, and, in certain circumstances, have significant environmental and social consequences.If these countries wish to get the most out of their FDI inflows, they must address this issue. Clearly, there is no «one-size-fits-all» policy option for promoting and regulating post-conflict investment28.

Another factor to consider is that establishing a sound FDI policy may be aided by assistance flows. Here Appel and Loyle reference Garriga and Phillips, who uncover evidence that development aid can operate as a signal to promote investment in low-information contexts[[84]](#footnote-84). Firms look for information on possible host nations before investing abroad. Reliable information is scarce in post-conflict nations, in part because governments confront exceptional incentives to distort data. In these circumstances, businesses rely on signals.

For foreign direct investment researchers, post-conflict states provide a difficulty (FDI). While these countries may be high-risk for international investors, they have tremendous incentives to strive to attract foreign capital. For example, foreign direct investment (FDI) is widely acknowledged as one of the most essential engines of economic development. Early investment can help to convince other investors and potential trading partners that the post-conflict state has a bright economic future. Appel and Loyle state that economic growth is also a key component in minimizing the likelihood of war recurrence, referencing here the article «Policies for building post-conflict peace» [[85]](#footnote-85). New leaders can utilize FDI as a domestic signal of their capacity to manage and assure their own lawful time in government, in addition to the benefits of economic growth for states.

The authors also point out that researchers have previously argued that favorable economic circumstances might boost FDI inflows. Economists have shown that states with larger economies, faster growth rates, and more developed economies attract higher levels of FDI[[86]](#footnote-86). Similarly, countries with less capital restrictions, trade obstacles, and taxation are more likely to attract FDI[[87]](#footnote-87)..

Leaders of post-conflict nations might use components of post-conflict justice to reassure international investors that their interests would be safe in the post-conflict state (PCJ). In a nutshell, PCJ is temporary justice processes (such as trials, truth commissions, reparations programs, and other accountability procedures like amnesty agreements, banishment, or purging) that are introduced after a period of conflict to address wrongdoings that occurred during that period. Referring to the article «armed conflict and post-conflict justice» Appel and Loyle state that it's defined as any procedure started within five years at the end of an armed conflict to redress wrongdoings committed during the war[[88]](#footnote-88).

PCJ cover a wide range of prior incidents, including crimes against humanity, war crimes, and/or systemic human rights violations (e.g. torture), and may target the state (former government), dissident organizations, or all former combatants. Appel and Loyle consider The International Criminal Tribunal for the former Yugoslavia (1993), the South African Truth and Reconciliation Commission (1995), and the Special Court for Sierra Leone as the trials that are contributed to the modern-day understanding of post-conflict justice, which began with the trials in Nuremburg and Tokyo in 1945–4627.

Appel and Loyle classify PCJ into two categories:

«restorative justice: seeks to restore or bring dignity to victims, such as truth commissions or formal acknowledgement procedures (i.e. reparations programs) »;

«retributive justice focuses on a specific, individualized punishment for participants in a given conflict, such as trials, exile or purges»[[89]](#footnote-89).

Restorative justice PCJ strive to expose the truth while publicly acknowledging individual suffering. Restorative measures are more wide, more public, and more expensive to administer than retributive justice, which is why the authors are interested in the sorts of institutions that might convey credible and costly signals of stability to the international community. The authors focus on truth commissions and restitution processes in particular27.

Because they are adopted to avoid violence and improve stability in a post-conflict nation, PCJ serve as a symbol of stability[[90]](#footnote-90). While each kind of PCJ employs various methods to attain this aim, Appel and Loyle identify two key processes for increasing stability: acceptance and reconciliation, as well as domestic political legitimization:

First – «PCJ are designed to reduce violence in a given country through acknowledgement and reconciliation»27.

The authors consider that according to conventional thinking, failing to fully address the past will result in private justice, vengeance killings, mob justice, and a future restart of violence. Individual (and collective) complaints are addressed, people are held responsible for previous actions, and conflicting populations are reconciled through PCJ. The process can resolve grievances by drawing attention to systemic patterns of abuse within a population, as well as addressing the grievances that may have prompted violent conflict in the first place.

By addressing these grievances, Appel and Loyle are convinced that country can avoid a recurrence of fighting over the same topics. For example, by using the material acquired during a truth commission to highlight the violence and injustices faced by a particular group, leaders might reduce the likelihood of the group returning to violent conflict over those concerns because their complaints have been addressed publicly. PCJ also reduces the risk of revenge or retribution killings by individual victims of past wrongdoings by resolving transgressions from the preceding war. Individuals and organizations are held accountable for previous wrongdoings when the public is aware of them. The authors consider that recognizing the persons accountable for crimes, whether punitive or symbolic, helps lessen the urge for widespread vigilante action against those individuals. Both victims and offenders can publicly combat with the past by openly admitting and confronting previous misdeeds. Individual wrongs can be freely aired and permanently remedied in this public form of reconciliation. Addressing the historical legacies of war and reconciling different communities reduces the likelihood of violence resuming in the country.

Second – «PCJ increase stability by strengthening the political legitimacy of the current ruling government»27.

PCJ can be used to boost a group's legitimacy, especially during times of democratic consolidation. As Appel and Loyle refer to «Skeletons in the Closet: Transitional Justice in Post-Communist Europe», through the adoption of PCJ, new administrations or leaders can distance themselves from previous atrocities by displaying a strong commitment to the above-mentioned aims of acknowledgment and reconciliation[[91]](#footnote-91).

In this sense, Apple and Loyle consider that PCJ can provide a level of political legitimacy that may have been lacking or systematically neglected in the prior time. A new administration, for example, might demonstrate publicly that previous actions were wrong and would not be repeated by creating a compensation scheme for torture victims. PCJs strengthen a newly developing democratic citizenry and contribute to the stability of that government by establishing a new commitment to public admission of past wrongs and by opening up the judicial process to political involvement. [[92]](#footnote-92).

As we took into consideration the internal and external possible methods of post-conflict reconstruction, it would be useful to observe the potential projects for Armenia and Azerbaijan.

## 3.3 Resolution measures

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## 3.3.1 For Armenia

As referring back to Mirza Ibrahimov’s article «The military and economic consequences of the Second Karabakh War for Armenia», because Armenia's immediate priority was to address its massive budget deficit, one of its first responsibilities would be to take on foreign debt1. According to him, Armenia's energy industry is anticipated to encounter major issues this year, and because public debt is one of the country's primary economic concerns, it has little alternative but to seek financial assistance from foreign nations or institutions.

Leading from this, Ibrahimov claims that Armenia's state debt has still been significantly rising:

«According to official data from the Armenian government, in 2020, the total public debt of Armenia increased by about $1.37 billion (18.5%), amounting to $8.74 billion at the end of the year[[93]](#footnote-93). High public debt, in turn, worsened the economic situation in Armenia, threatening the financial security of the country. Because of the increasing public debt, the Debt to GDP ratio, one of the main indicators that reflects the level of financial security of a country, reached a dangerous level. After the second amendment to the state budget, the Armenian government predicted that Debt to GDP ratio would reach nearly 67%, passing the 60% threshold.[[94]](#footnote-94) However, as the recorded decline of GDP was greater than the predictions of the government, by the end of the year the Debt to GDP ratio of Armenia had reached 69%»1.

As Ibrahimov states further, because of the current economic issues, this percentage is anticipated to rise even further in 2021 and later years1. Due to him, the Armenian government is currently unable to carry out its approved budget initiatives for 2021 due to existing challenges that have exacerbated the financial situation. The Armenian Parliament adopted its budget projections for the coming year in December 2020.

However, Ibrahimov notices that despite the country's economic difficulties, the Armenian government presented budget projections for 2020 that were similar to those adopted in 20191. This cast doubt on the likelihood of such forecasts being realized. The Armenian government began to have difficulties fulfilling its budget programs since its estimates were unrealistic, and it chose to slash certain anticipated expenditures. Armenia's Deputy Prime Minister said in February that the administration is studying ways to cut the cost of running the governmental apparatus. A ten percent decrease in governmental institutions is projected. The research dwell upon the fact that the exchange rate of Armenia's national currency, the dram, against the US dollar has been significantly influenced by the country's economic status throughout the postwar period[[95]](#footnote-95):

«During the war, from September 27 to November 9 2020, the dram fell about 1.9% against the US dollar, which was lower than expectations. However, as the negative economic effects of the war began to be felt after the end of the war, the depreciation of the dram accelerated. From November 13, 2020 to March 15, 2021, the dram fell by about 6.3%. More broadly, from the beginning of the war up to March 2021, the dram depreciated by about 8.6%»1.

Finally, Ibrahimov states that the drain of foreign money from Armenia is moderated by the fact that pandemic-related restrictions are still in force in Armenia and other countries1. As a result, the currency does not depreciate as quickly. As a result, even in the post-pandemic period, the dram is likely to plummet. The Armenian government is forced to spend its limited foreign exchange reserves to ensure currency stability, which causes financial challenges for the country.

However, speaking of government, according to OECD’s report «Sustainable Infrastructure for Low-carbon Development in the EU Eastern Partnership: Hotspot Analysis and Needs Assessment», it was significantly reorganized in 2019, reducing the number of ministries from 17 to 12[[96]](#footnote-96). One benefit of such reorganization, due to OECD, is the consolidation of activities relating to energy, transportation, and territorial administration under a single infrastructure ministry, which might encourage better coordinated infrastructure planning across critical, carbon-intensive sectors42. Armenia established the Armenian Territorial Development Fund with the help of the Swiss Agency for Development and Cooperation, the International Bank for Reconstruction and Development, USAID, and the Asian Development Bank to help implement the Strategic Programme for the Future Development of the Republic of Armenia 2014-2025.Its’ concentration is on rural development projects, similar to those of its predecessor, the Armenian Social Investment Fund[[97]](#footnote-97).

Armenia's government, as it is stated in the report, has made internal and international connection a top priority42. One of the key goals of the government's Strategic Program 2014-2025 mentioned by OCED is to maintain dependable road connections between distant villages and regional centers:

«Only 30% of such settlements had suitable road connections in 2014, and the government aim to provide 90% of settlements with good-quality road links by 2025. Armenia also plans to boost the quality of its road network in general, achieving ‘good’ conditions on 65% of all roads in the country’s network (100% of international, 60% of national and 45% of local roads) by 2025[[98]](#footnote-98) Improving domestic connectivity, especially to smaller settlements, is an essential step in reducing poverty, since 70% of Armenia’s poor live outside of the capital, particularly in rural areas[[99]](#footnote-99) Since 2014, Armenia’s road network has expanded marginally (7 568 km of general purpose motor roads in 2019 compared to 7 792 km in 2014), and local road development has accounted for most of the increase (3 895 km in 2019 compared to 3 801 km in 2014)[[100]](#footnote-100)»42.

Armenia's north-south corridor, which connects the country's two open international borders with Georgia and Iran, is another major goal mentioned in the report. This will entail extending Armenia's national rail network, developing international linkages with Iranian rail lines, and reconnecting the country's present network with the country's southern regions. For more than a decade, Armenia and Iran have discussed creating a rail link, but the project has struggled to attract investors. One of the project's investors most recently filed an international lawsuit against Armenia's government in 2018, leaving the project's future uncertain. The Armenian administration has also shown interest in repairing relations with Turkey and restoring border crossings between the two countries in the medium future[[101]](#footnote-101). However, Turkey's support for Azerbaijan in the 2020 Nagorno-Karabakh conflict raises doubt on any quick reconciliation of relations.

As it can be seen, post-war Armenia is still struggling with the adjusting its’ economic features. For the country’s position, there is definitely a lack of strategic initiatives that would be helpful for dealing with the issues. Moreover, the international projects that were suggested via the Strategic program 2014-2025 are significantly slowed down. While the reasons of taking a step back with investing in Armenian initiatives can be explained economically, the promising political climate of rooting for democratic modernization of the country should be taken into consideration by foreign partners as a firm sign of dedication to international cooperation. Restoring the transport development with the help of international investors would help to strengthen Armenia’s economy and stabilize the payments for a foreign debt.

## 3.3.2 For Azerbaijan

Searching for the possible post-conflict resolution measures for Azerbaijan, it would be helpful to refer again to the study provided by I. Fedorovskaya. Firstly, the author state that despite all the crises happened in the country in 2020, such projects as the completion of the construction of the Southern Gas Corridor and the first deliveries of Azerbaijani gas to Europe are still a major breakthrough for the country8. At the same time, as President I. Aliyev stated, Azerbaijan was the initiator of the creation of the Southern Gas Corridor, and the Azerbaijani side assumed the main financial burden for the implementation of the project:

«We have built three interconnected gas pipelines with a length of 3,500 kilometers», said the President of Azerbaijan. – «The Shah Deniz-2 field was put into operation, and European consumers are already receiving Azerbaijani gas. This is beneficial both for them and for us. At the same time, work was carried out successfully on other projects. I am sure that the development of these projects will bring us additional dividends, both economic and political»[[102]](#footnote-102).

Though, the achievements of the gas industry, due to Fedorovskaya, inspire optimism, significant progress in the diversification of the Azerbaijani economy has not yet been observed8. The oil and gas sector has been and still remains the dominant feature of the country's economy, and the decline in the oil industry is compensated by the growth in gas production and exports, and experts still see no prerequisites for changing the structure of the Azerbaijani economy.

Fedorovskaya points out a war with Nagorno-Karbakh as one of the most influencing crisis happened in Azerbaijan in 2020. She considers that is is difficult to unambiguously assess the impact of the war on the economy of the republic due to the lack of reliable data8. However, according to experts, every day of the war cost the budget of the republic 50–80 million dollars[[103]](#footnote-103). This is a lot, however, taking into account the strategic reserves of Azerbaijan, the country should not have experienced serious economic shocks.

Moreover, Fedorovskaya claims that public in Azerbaijan believe that the development of new territories can become a driver for the development of the republic's economy as a whole. According to estimates, territories rich in gold, copper, marble, limestone and other minerals have been returned to the country, there are reservoirs and hydroelectric power stations. As Minister of Economy M. Jabbarov stated, in the new territories «we will create attractive conditions for investors. However, being open to investment does not mean that Azerbaijan will not be able to carry out reconstruction work without foreign investment. This (2021) year, we plan to invest $1.5 billion in the reconstruction of the region»[[104]](#footnote-104).

First of all, Fedorovskaya concerns about the transport infrastructure. The result of the war, in addition to the territories returned to Azerbaijan, was the unblocking of economic and transport links8. Over the next three years, Baku plans to restore railway communication with Nakhichevan through Karabakh and the Zangezur corridor, passing through the territory of the Syunik region of Armenia, and from there is a direct exit to Turkey, which is the main political and economic partner of Azerbaijan. This fully fits into the long-term plans of the country's leadership - to turn Azerbaijan into a transport hub of the Caspian region. Other routes are being considered. In principle, this circumstance also suits Armenia, whose economy was suffering from a transport blockade.

However, Fedorovskaya points out that now the country has the possibility of direct rail communication with the Russian Federation8. It is known that Russia, Azerbaijan and Armenia have previously agreed on the creation of a transport corridor that is convenient for all countries, but political instability in Armenia prevents the project from being launched. Certainly, the economic crisis of 2020, caused by the coronavirus and the fall in oil prices, dealt a painful blow to Baku's ambitions. However, in the midst of the pandemic in Azerbaijan, as part of a program to turn the country into a hub for logistics and trade, a new free trade zone in Alyat was officially opened8. It will include the village of Alyat and the Baku International Sea Trade Port, the largest in the Caspian. Baku hopes that the FTA in Alat will help expand trade between Azerbaijan and Central Asia and become a bridge for the Central Asian countries in their trade with Europe.

Though, Baku's other international transport and logistics projects came under strong financial pressure as a result of the crisis. First of all, this concerns the Chinese initiative “One Belt, One Road”8. Azerbaijan positions itself as one of the main participants in this project. However, at present, China is forced to redirect resources to modernize its own economy, therefore, according to experts, most of Beijing's global projects will be suspended. The same applies to China's investment in Azerbaijan's petrochemical complex. Most likely, they will be frozen, and the Baku leadership will have to borrow financial resources from other sources - from the EU and the USA, and this is not easy for Azerbaijan due to the regularly arising disagreements between Baku and Brussels over the violation of democratic principles in the country[[105]](#footnote-105).

The same idea Fedorovskaya express about the Russian project of the international transport corridor «North-South», designed to provide a transport link between India and Northern Europe through Iran, Azerbaijan and Russia. Its implementation will also be complicated due to the lack of financial resources from the participating countries. Nevertheless, Baku intends to continue to adhere to the strategy of turning the country into the largest logistics hub in the region.

In addition, Fedorovskaya mentions the fact that Azerbaijan is hatching plans to become a digital hub of the region. In 2019, the laying of a fiber-optic communication line between Kazakhstan and Azerbaijan began, with a length of 400 186 kilometers. The cable at the bottom of the Caspian Sea should have been put into operation at the end of 2021, but got belated[[106]](#footnote-106). In addition, in March 2020, an agreement was reached with Turkmenistan on laying a fiber-optic communication line from the eastern region of Azerbaijan to the city of Turkmenbashi. The length of the line will be about 300 kilometers. According to the Azerbaijani leadership, these two lines should become the main digital telecommunications corridor for Internet traffic from Europe to South Asia. Since the main financial burden for turning the republic into a digital hub lies with Azerbaijan, the country's economic problems caused by the 2020 crisis will inevitably affect these plans. The common problem - the lack of financial resources - is unlikely to lead to a freeze on ambitious projects, but their implementation will slow down. However, the republic expects that the economic recovery will proceed at a rapid pace.

The World Bank forecast that Fedorovskaya quotes looks even more pessimistic – «the Bank's experts expect Azerbaijan's economy to recover no earlier than in 2025»[[107]](#footnote-107). Whatever the forecast may come true, it is clear that Azerbaijan, like other countries of the world, will face difficult times to restore the economy destroyed by the pandemic. At the same time, the republic, in comparison with its neighbors in the South Caucasus - Armenia and Georgia, is undoubtedly in a better position. With all the problems caused by the decline in oil prices, income from the export of hydrocarbons contributes to the accumulation of financial resources. The total assets of the Central Bank of Azerbaijan and SOFAZ are approaching $50 billion, which exceeds the country's GDP for 2020 ($42.6 billion)54.

Taking everything into consideration, we can assume that according to the data, Azerbaijan is provided with a more sufficient strategic help that would positively influence the country’s post-war economy. The stabile situation in oil and gas market along with the enduring autocratic role of President Aliyev plays into the hands for Azerbaijan, as most of the foreign partners rely on this kind of stability to continue their investments in the country’s economy.

In contrast with that, the freshly transferred to democratic norms political establishment of Armenia, met with economic crisis and territory loss, does not find the same level of strategic support from the investors, as a result, having its’ promising economic programs paused. However, revisiting the provisions of the Strategic program 2014-2025 in accordance to the new economic features would help the country to find a stable path in post-war conditions

Therefore, it would be rational for the foreign partners to credit not only the current economic situation of the post-war countries but also consider their potential, cooperating with such countries on the strategic terms.

## Conclusion

The research provided in the dissertation showed that the management of the process of finding main economic aftermaths of international conflicts for their participants is tightly intertwined with the deep observation of interdisciplinary correlations between the subjects and objects of the research. Moving forward with each chapter, the findings show another layer of interdependence of economic aftermaths with political, historical and even psychological factors that influence the ways of defining and managing the issues within the national economies of post-conflict countries.

In the first chapter we made an overview of theoretical approaches towards the conflicts, highlighted the specifics of armed conflicts as one the most devastating ones and distinguished the consequences of international conflicts. The overview provided the fact that even though the reasons behind the conflict behavior have been provided with a significant research, the number of armed conflicts in international relations is still rising. The violent rivalries are becoming more diverse due to dispersing fallout of the decay of the bipolar world system, therefore the consequences are becoming more specific to deal with.

In the second chapter we followed the events of Nagorno-Karabakh conflict as one of the most relevant international conflict that provides a broad picture on its’ roots, key installations and attempts of peace regulations. This narrative reveals the remarkable features of the constant tension and risk of destabilization of the situation in the region due to complicated and often interdependent political, ethnic, historical background. Therefore, the management of economic aftermaths in the region represents a daring task.

In the third chapter we considered the possible ways of defining and managing the economic aftermaths of Nagorno-Karabakh conflict and reviewed some examples of promising projects that are about to be implemented by the governments of Armenia and Azerbaijan. The results showed that both countries suffer a lot throughout several aspects of economy. Both of them are to some extend reshaping their economic strategies that were started way before 2020 war. Wherein Armenia definitely experienced more issues with regulating economic aftermaths of the conflict than Azerbaijan due to more stable economic performance of the latter. Nevertheless, foreign partners tend to point out mostly the short-term effects of the conflict, considering the level of help and general involvement in national economies specifically on the indicators shown right after the conflict. This tactics, however, may be to some extend rash: not only Armenia’s just survived the loss of a territory and an economic decline, it was only getting on democratic rails after a civil uprise two years before the war. Meanwhile, Azerbaijan’s political climate had been remaining almost the same decades before the war, therefore the investors could consider it a guarantee for more or less stable economic environment.

Therefore, as the post-war states are still struggling with the adjusting its’ economic features, dedication for long-term of strategic initiatives would be helpful for dealing with the issues of economic aftermaths of the war. For instance, due Armenia’s problems with stabilizing the payments of a foreign debt, it can focus on reshaping its’ Strategic program 2014-2025 with amendments on the current economic situation in the country. In another turn, Azerbaijan’s severe drop in GDP per capita can be restored with such programs as corridor «North-South» included mutual long-term for technological training and education with the partners, which would increase the level of skills of domestic workers and encourage them to open new businesses and getting higher incomes.

Taking everything into account, an efficient way of managing economic aftermaths of international conflicts would be developing a long-term cooperation of post-conflict countries with foreign states. The results of such cooperation can be properly achieved by looking beyond the momentary post-conflict state of the countries’ economy, considering the strategic economic and political potential of the country. The more objective would the foreign partners examine this potential, the more sophisticated would be the economic performance of the countries and therefore more stable would be the regional situation itself.

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