

Nagorno-Karabakh resolution could bring economic gains to Armenia and Azerbaijan

By Violetta Rusheva Journalist/Correspondent
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More than three decades after one of the former Soviet Union's bloodiest and most complicated of the post-Soviet wars broke out in the South Caucasus, a lasting resolution to the still-unresolved conflict between Armenia and Azerbaijan over Nagorno-Karabakh region still remains elusive.

With a new reformist government now in power in Armenia following a peaceful revolution that brought down the corrupt government of long-time Prime Minister **Serzh Sargsyan**, a new sense of optimism that a lasting peace between the two warring parties may be possible for the first time in a generation.

According to a report by Berlin Economics, a peaceful settlement and the re-establishment of relations will lead to a substantial rise of GDP in both countries following after both no longer need to sustain such massive defence budgets which would increase in foreign investments by up to 50%.

The report was presented at the European Policy Center on January 29 and argues that the breakdown of relations between Armenia and Azerbaijan began in the late Soviet-era when Armenians living in Nagorno-Karabakh, then a part of the Azeri SSR, began agitating for unification with Armenia after a series of pogroms in 1988 by Azeri mobs targeted ethnic Armenians both in the region and in the industrial city of Sumgayit, near Azerbaijan's capital Baku.

Once the Soviet Union collapsed, the majority of the residents of Nagorno-Karabakh, 90% of whom were Armenian, attempted to secede from Azerbaijan, which started a four-year war that killed over 30,000 people and left close to 1.5 million as refugees. The war left the Armenians in control of Nagorno-Karabakh and a large swathe of Azeri territory

around the region, but Armenia's military victory left it economically cut off and isolated from the outside world after Azerbaijan's ally Turkey sealed the Turkish and Armenian border and instituted a blockade of the small landlocked country that remains in place to this day.

Having routed militarily, Azerbaijan lost a quarter of its territory to Armenian forces and was saddled with the burden of having to take in and re-settle war refugees who were forced to flee the conflict zone. The burden this placed on the Azeri economy and the vast sums of resources poured into defence spending in order to reconstitute the country's shattered military has severely hampered energy-rich Azerbaijan's growth potential.

The knock-on effects of what is now a frozen conflict, as no official resolution has been found since the two warring parties agreed to a ceasefire that was brokered by the US, Russia, and France in 1994, are startling.

According to the Berlin Economics report, the two sides could annually save \$977.2 million and \$334.1 million, respectively, if they could find a peaceful resolution to the conflict. Though the prospects for a mutually-agreed-upon resolution remain, the report underlines the potential economic benefits that the two could experience by signing a peace accord, which may serve to motivate both Armenia and Azerbaijan to engage in a constructive dialogue.

The opening of Armenia's borders would allow it to improve its integration into regional trade, including a potential 13% increase in trade with its historic enemy Turkey, a country with whom Yerevan has yet established diplomatic relations. The normalisation of ties with Azerbaijan, whose population is more than three times the size of Armenia's 3 million people, will allow the latter to significantly decrease its military expenditures and permit fiscal savings on defence of 2% of GDP per year.

Major positive shifts could be also brought as a result of conflict resolution to Azerbaijan, who receives 70 % of its drinking water from the Kura-Aras basin – named for the two main rivers that run through Azerbaijan from Turkey, Georgia, and Armenia. While there are more than 130 major reservoirs that exist in the basin's tributaries, most of the water is in Armenia. According to Baku, the Armenian government reduces the water supply from the reservoir in Nagorno-Karabakh for downstream use. The problem becomes particularly aggravated during the summer period when the temperature in Azerbaijan may reach up 39 degrees Celsius.

A conflict resolution may bring substantial economic benefits to the economies of the two countries, but **Anahit Shirinyan**, an Academy Fellow at Chatham House, says that no settlement is feasible without building trust between the two sides.

“Confidence-building is a pre-requisite to move to a final stage for conflict resolution in Nagorno-Karabakh. Unfortunately, the political context always blocks any developments and the societies in both countries remain highly suspicious of the other’s intentions,” Shirinyan said.