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Peace treaty between Azerbaijan and Armenia: Who will economically win?

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Following the recent September escalations along the Azerbaijan and Armenian border, in a way towards achieving a sustainable peace deal and long-lasting security in the Caucasus, the quadrilateral meeting in pragmatic terms is deemed to play a significant role in this vein putting an end to hostilities. The President of Azerbaijan and the Prime Minister of Armenia met in Prague on 6 October 2022 in the margins of the first European Political Community at the invitation of the President of the French Republic and the President of the European Council. Both sides reiterated their commitment to the Charter of the United Nations and the Alma Ata 1991 Declaration through which both recognize each other's territorial integrity and sovereignty which will act as a legal basis for the work of the border delimitation commissions. Additionally, the next meeting of the border commissions is planned to take place in Brussels by the end of October. In order to facilitate a civilian EU mission alongside the border with Azerbaijan, the consensus of Armenia has been achieved while Azerbaijan expressed its intention to cooperate, of which mission is considered to take confidence-building measures contributing to the border commissions.

Historical data concerned with Alma Ata's 1991 declaration establishing the Commonwealth of Independent States reveals founding principles that aim to build democratic constitutional states, the relations between which will develop on the basis of mutual recognition and respect of the state sovereignty and sovereign equality recognizing and respecting the territorial integrity of each other and inviolability of the existing borders. The cooperation between members of the CIS was considered to be carried out in accordance with the principle of equality through coordinating institutions formed on a parity basis and operating in the way established by the agreements between members of the organization. Upon its foundation, member states including Azerbaijan and Armenia adopted the Alma-Ata Declaration, which confirmed the promise to cooperate in various fields, and announced the guarantees for implementation of the international commitments in which recognition of the respective territorial integrity of the countries concerned was enshrined.

The currently ongoing events furthermore bring forward the importance of the Alma Ata declaration in light of the peace deal between Armenia and Azerbaijan as well as the Russia-Ukraine war that will result in the increased value of the declaration. In addition, during the October 6th meeting in Prague Azerbaijan again submitted a unilaterally designed peace proposal containing basic principles for the establishment of mutually beneficial relations with Armenia in March 2022, which include mutual recognition of territorial integrity, mutual

confirmation of the absence of territorial claims against each other; obligation to refrain in their inter-state relations from undermining the security of each other; delimitation and demarcation of the state border, and unblocking of the transportation and other communications' lines.

According to the speech of Ilham Aliyev, although the first meeting of foreign ministers did not generate positive results, the Prague meeting is deemed to be a positive step. The working groups of the two countries will start dealing with the text of the peace agreement. Neither Armenia nor the EU demonstrated any inappropriate approach about the five principles submitted by Azerbaijan for peace talks. The president also reiterated that the ethnic Armenians living in the Karabakh region are the citizens of Azerbaijan with their fate, and their future life as being the internal matter of Azerbaijan.



It should be noted that the viable use of the newly emerging economic opportunities stipulated the need for the mutual recognition of the respective territorial integrity of the countries concerned whereby no corridor without customs could have been provided by Azerbaijan linking the Karabakh region to Armenia.

Unlike the pre-second Karabakh war period in the aftermath of the liberation, the EU's meditation between both actors kicked off to prevail with its economic and political interests associated. While the EU expresses its strong commitment to reaching a long-lasting peace deal in the Caucasus, which will certainly provide stability on the verge of the former, on the other hand, the active involvement of the EU wards off the accession and further advances of Russia in the region. At the moment, on a multilateral basis, work towards achieving a peace deal is underway which is highly likely expected to be signed by the end of the year. As aforementioned citations further dictated, the significance of the Alma-Ata Declaration

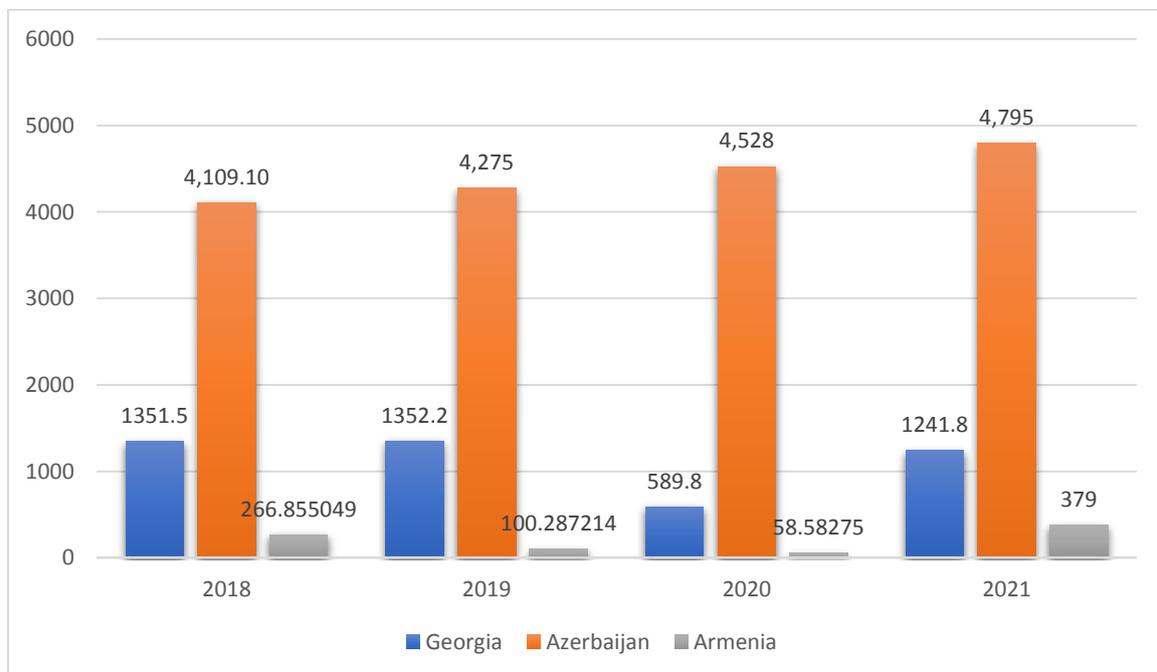
appears to be increasing in the upcoming period due to inter-CIS clashes within the former Soviet Union territory acting as a legal basis in regulating the inter country relations and in providing the security to the Euro-Asia region.

Statistical indicators of the possible interrelations

The evaluation shows that the resolution of the conflict will have a better effect on the economy of these countries. The opening of communication routes will have a positive effect on GDP, FDI, Trade, Import, and Export issues, the production of countries will increase, and their interest in making more investments will boost as well.

In order to show the potential future economic outlook following the unblocking and establishment of connectivity infrastructure in the inter-wined region, it could be worth analyzing the recent FDI trends in the respective countries of Caucasus. The figures below depict that Azerbaijan experienced a constantly increasing investment inflow while Georgia and Armenia recorded a slump in FDI which could be attributed to pandemic-related repercussions.

Graph 1. Foreign direct investments in the Republic of Georgia, Azerbaijan, and Armenia (million USD)



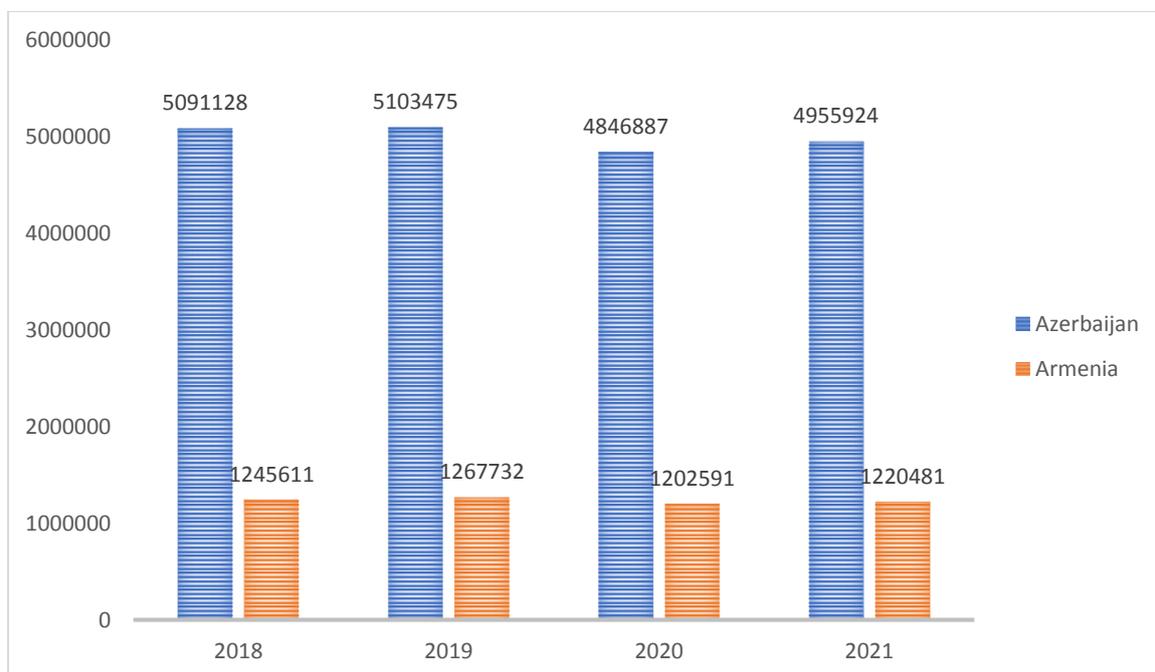
Source: National Statistics Office of Georgia, Central Bank of the Republic of Azerbaijan, and World Bank, 2021

As the graph (1) plots, in the aftermath of global-pandemic, foreign direct investment could be seen as an important element of economic recovery in Georgia with more than a double increase in one year. Although the graph shows slight reduction compared to the pre-pandemic level, the government's plan as a priority sector and post-pandemic revival are expected to significantly contribute to the process.

As mentioned before, Azerbaijan pertains to the least countries with constant increase in FDI amid global upheaval of pandemic. Following the liberation of occupied territories, the country presents a remarkable opportunities with specific programs to encourage and stimulate investment policy in the western parts of Azerbaijan that have a good potential in terms of international access and logistics channels to be used for the export to the neighbourhood as well as to European and Asian markets.

The above-mentioned highlights demonstrate pre-pandemic plunge as regards the FDI in Armenia. However, the post-pandemic upswing is well observed in Armenia with remarkable increase in this term. With sustainable peace deal, which is likely to come into force according to latest developments, the country may enjoy favorable economic opportunities from multidirectional perspective.

Graph 2. The labor force of the Republic of Azerbaijan and the Republic of Armenia (total)



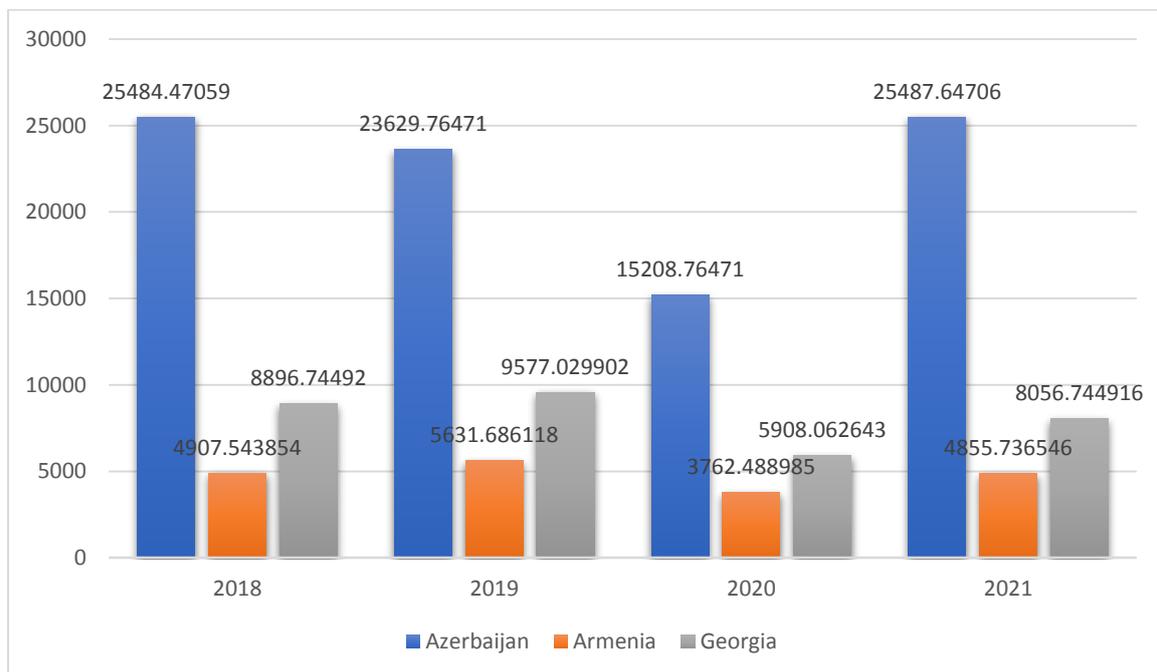
Source: World Bank, 2021

The figures obtained from the World Bank in comparative terms show a significant decline in the labor force of Azerbaijan and Armenia respectively. Similar tendencies are attributed to the decline in economic activities,

particularly in the non-oil sector which generates 97 percent of employment in the case of Azerbaijan. In both cases, economic rebound shows a revival in labor force participation as well. The bar charts enlighten incomparably bigger amount of economically active population in the specified period in Azerbaijan compared to Armenia due to strong economic performance.

Analyzing the process of political perspective reveals that, with a long-lasting peace deal coming into force, integration of the Armenian labor force into Azerbaijan society can certainly accelerate the process resulting in an increase in the economically active population of Azerbaijan.

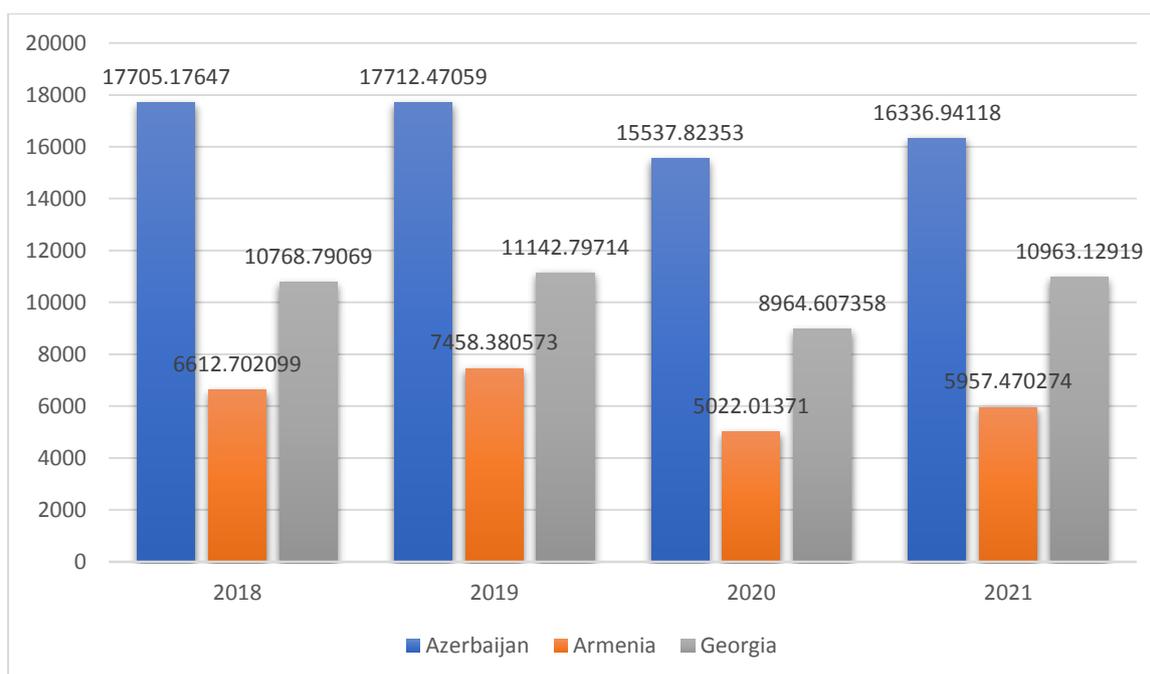
Graph 3. Exports of goods and services– Azerbaijan, Armenia, and Georgia (current million US\$)



Source: World Bank, 2021

As can be seen from the graph (3), Azerbaijan has maintained its leadership in the Caucasus region in the export of goods and services in recent years. Except for the global pandemic, in other years the export trend is followed at an increasing rate. Even after the pandemic, i.e., in 2021, it exceeded the number in 2018. This trend can also be attributed to Armenia.

Graph 4. Imports of goods and services– Azerbaijan, Armenia, and Georgia (current million US\$)



Source: World Bank, 2021

As can be seen from the import graph (4), Georgia quickly recovered the indicators slowed down by the pandemic and even surpassed the pre-pandemic level. Although the indicators of Azerbaijan and Armenia differ in terms of amount, they continue on a similar trend, and Armenian imports exceed previous years.

Conclusion and Recommendations

The Alma-Ata declaration is a very good example in terms of recognizing the territorial integrity of countries. Of course, it is certain that Georgia's signing of this declaration will have positive results in the future.

The South Caucasus single market will result in the creation of a financial reason for long-term peace in the area. Strong pillars for a durable peace will be laid by the nations' economic cooperation. The South Caucasus will become more unified as a result of a single market.

The conclusion of the peace agreement will be observed with increases in all 3 countries; Tourism, especially, will have a positive effect on GDP growth, rapprochement with Europe, etc.

And there are some recommendations in the process of the sustainable peace:

- 1) Acceleration of the delimitation and demarcation process
- 2) Strengthening direct communications

- 3) Restoration of communication in a shorter time
- 4) Opening communication links between the Republic of Azerbaijan and the Autonomous Republic of Nakhchivan
- 5) The opening and commissioning of the Zangezur corridor
- 6) Expansion of international economic relations after the conclusion of the Peace Treaty.

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