

# Liberated Karabakh

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### Strategic Implications of the Liberation of Karabakh

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If there is one topic that has been tied together consistently with Azerbaijan's three-decades' long period of renewed independence, then it is the conflict over Karabakh. Moreover, this same territorial conflict contributed, in many ways, to the collapse of the Soviet Union and the birth (or rebirth, as the case may be) of 15 independent states. It has also been a driving force of Azerbaijan's national agenda, both in terms of domestic and foreign policy.

The brutal and illegal occupation of around 20 percent of Azerbaijan's internationally-recognized lands, in clear violation of the UN Charter and UN Security Council resolutions, the ethnic cleansing of some 900,000 Azerbaijani civilians from their homes, the wanton looting and destruction of their private property, their subsequent displacement to refugee and IDP camps, the organization and implementation of the Khojaly massacre (and a number of other such crimes) by Armenian troops, and, finally, the great damage to Azerbaijan's economy have all had a massive, traumatic impact on the national consciousness of the citizens of Azerbaijan.

Azerbaijanis felt betrayed by the international community, which did nothing to stop the occupation, prevent the humanitarian catastrophe,

and help to implement UN Security Council resolutions. A sustained and comprehensive reform effort—modernization, increased defense capabilities, economic overhaul, and investment in human resources—was seen as the only plausible way to overcome what amounted to a national humiliation.<sup>1</sup> The country’s principal ideology came to revolve around an active diplomatic and political posture to end the occupation, return its lands and displaced persons, restore its territorial integrity, and seek international justice.

Despite nearly 30 years of both mediated and direct negotiations, efforts to achieve a peaceful resolution to the conflict, that presupposed ending the Armenian occupation, produced no fruitful result.<sup>2</sup> The Second Karabakh War, which started as a result of Armenian military attacks in the Tovuz region and ended with an embarrassing military defeat in Karabakh, clearly showed the different trajectories that Armenia and Azerbaijan pursued since both countries regained their respective independence due to the implosion of the Soviet Union.<sup>3</sup> While Azerbaijan engaged in an active foreign policy that consisted in seeking out new allies, engaging in regional cooperation, and cultivating economic and military might, Armenia further and deeper isolated itself and essentially chose to live in a self-created utopia of “Greater Armenia.”

The war that resulted thus provided a paradigmatic example of the consequences of two countries’ increasingly divergent economic, demographic, and military potentials. In the hearts and minds of many Azerbaijanis, it was also a war for the restoration of national pride: thus, the Second Karabakh War was not only about restoring the country’s territorial integrity, but also encompassed issues of justice, international law, and collective dignity and core values.<sup>4</sup>

Now that the territories have been liberated from the Armenian occupation and the Azerbaijani government has started massive reconstruction works in the freed areas, in partnership with foreign companies and international organizations, questions have arisen about the strategic implications and benefits of the Second Karabakh War (or, as many in Azerbaijan call it, the “Great Patriotic War”) for the country and for the region. This chapter will attempt to address some of these issues.

## IMPLICATIONS FOR THE NATION-BUILDING PROCESS

First, one should not overlook the strategic importance of the war and its outcome for Azerbaijan’s domestic politics, alongside, obviously, its geopolitical and regional economic implications, as well as for the reconstruction of Karabakh and the return of IDPs and refugees.

The country is a melting pot of many ethnic and religious groups.<sup>5</sup> Ever since the restoration of its independence in 1991, Azerbaijani politicians and public opinion leaders have struggled to find a unified ideological message. Especially in the early years, some in the country advocated emphasizing the titular nation’s Turkic roots while others pushed for more a pro-Iranian or a pro-Moscow orientation. Small marginal groups even advocated for an Islamic model of governance, including the imposition of Sharia. Unifying and integrating all these groups and segments of the population has been a very challenging process.

Azerbaijan is also home to more than 40 registered political parties and 3,000 NGOs pursuing a wide range of foreign policy preferences that range from advocacy for Euro-Atlantic integration and a fully liberalized economy to democratization and anti-Western values. All this diversity also significantly complicated the political situation: in the early 1990s, the country experienced several coups, witnessed the overthrow of presidents, fought a civil war, and was forced to confront various radical and extremist domestic groups.

While some analysts had evaluated Azerbaijan’s domestic situation as fragile and potentially unstable, the Second Karabakh War firmly brought the veracity of such assertions to an end: both during the war and in its wake, immense unity and patriotism was demonstrated on the part of all segments of population.<sup>6</sup> In the early days of the war, Armenia had tried to play the ethnic minority card through a targeted public messaging campaign to ethnic minorities in Azerbaijan, urging them to rise up against the state. To no informed observer’s surprise, this attempt failed miserably, as representatives of Talysh, Lezgin, Tat, Avar, Russian, and many other ethnic minorities not only lined up in front of military recruitment offices to volunteer for the army and fight for their country, they also actively engaged through social media channels to advocate and lobby for national unity.

The unity message was also strongly supported by various political players, including even the most radical opposition groups. The war for the liberation of Karabakh, in other words, stood far removed from the vicissitudes of everyday politics. Social media was full of patriotic messages, letters, posts, posters, and videos from young people, women, religious leaders, NGO activists, students, professors, and many other segments of the populace. Even the Azerbaijani diaspora was very actively engaged in the groundswell of support.

The war, the victory, and the successful implementation of the Karabakh reconstruction campaign in many ways put an end to many domestic disputes by demonstrating the prudence of the government's foreign policy course of strategic patience. Its pursuit with unmitigated focus and ultimately exceptional aptitude produced a historic outcome that has remade the regional order and challenged long-held inaccurate assumptions about Azerbaijan's determination and ability to shape its own destiny. Many geopolitical masks were uncovered during the Second Karabakh War as well, with foreign allies and opponents revealing their true nature and intentions.<sup>7</sup>

Even the harshest critics of the government—both at home and abroad—could not help but be impressed by the rapidity of Azerbaijan's wartime gains, augmented with swift diplomatic moves that together resulted in a remarkable victory. Many of these sceptics have now become convinced that the country's governance processes are moving in the right direction and that the state's moves that had built up the military as much as the country's economic and social potential had been planned and executed correctly. This, in turn, diminished pressures and squabbles originating in various domestic quarters, consolidated the support of all ethnic and religious groups under one national unity umbrella, showed that peaceful coexistence and tolerance among all groups works in Azerbaijan, and also sent a positive message to Karabakh Armenians that their peaceful reintegration with the rest of the country is both possible and advantageous for them and all other citizens of Azerbaijan. This harmonious coexistence and unity proved to be a successful model for a fully sovereign, firmly secular Azerbaijan—something that is very hard to successfully nurture (much less achieve) in a rather tumultuous part of the world.

This strategic cementing of national unity—a trend that predated the onset of the war but that its outcome certainly helped to entrench—has had great implications for perpetuating the independence of Azerbaijan. This is still largely an underappreciated aspect of the war's outcome: in the past, various foreign powers tried to harness internal dissent to demoralize and weaken the country, produce internal fragmentation and fracturing, and bring an end to its independent foreign policy and even its statehood. From a long-term, strategic perspective, Azerbaijan's victory in the Second Karabakh War has consolidated the nation, improved and strengthened Baku's nation- and state-building processes, restored the country's faith and pride in itself and its achievements, deepened national confidence in an even brighter future, and lifted three decades of humiliation from the minds of Azerbaijanis that had seen themselves as a defeated nation.<sup>8</sup> As one economist in Baku said to me during a private conversation; “it is a special, indescribable feeling to be the son of a victorious nation.”

That being said, Baku now faces a special and strategic task: to find the right model for the reintegration of Karabakh Armenians into the fabric of Azerbaijan's constitutional order. The country must develop a positive and forward-looking stimulus package that include both economic and security arrangements, preparations for which seems to be nearing their end. This is especially important as deliberations begin on the period after the departure of Russian peacekeepers from the region—a moment that may come as early as November 2025, in accordance with the procedure set out in Article 4 of the 10 November 2020 tripartite statement that ended the Second Karabakh War.

Azerbaijan's president, Ilham Aliyev, has made numerous offers to Armenia to work together on a peace plan that would include provisions on border demarcation and the mutual recognition of territorial integrity. The 15 October 2021 speech by Armenia's prime minister, Nikol Pashinyan, which was delivered at a virtual meeting of the Commonwealth of Independent States Council of Heads of State or Government, might indicate a preliminary readiness on the part of Yerevan to move forward along these lines. Working with Azerbaijani authorities, the Karabakh Armenians will also need to develop ways to establish conditions for peaceful coexistence and mutual respect. The protection of cultural and religious sites, ensuring the free movement of people, providing for

educational opportunities, and instituting mechanisms to protect private property are important pillars of such a future peace agreement.

#### CHANGE OF THE GEOPOLITICAL LANDSCAPE

The Second Karabakh War and its outcome also brought deep and lasting changes to the geopolitical landscape of the South Caucasus. Some (if not most) of these changes advance the strategic interests of Azerbaijan, while a few others pose challenges to its future national security.

Since the 1990s, the Silk Road region (including the South Caucasus), has been a pivotal playground for classical geopolitical East-West rivalry. Back in those days, the West (in general) and a more actively engaged than now United States (in particular) pushed concertedly for virtually all of the former constituent Soviet republics to adopt a Euro-Atlantic orientation. In the context of the South Caucasus, this resulted in the profession of perhaps decisive encouragement to both Azerbaijan and Georgia to build the strategically important Baku-Tbilisi-Ceyhan oil and the Baku-Tbilisi-Erzurum gas pipelines—the first such pieces of hydrocarbon infrastructure in the former Soviet Union to bypass Russian territory, one effect of which was to break the monopoly of Moscow-based energy players in the region.<sup>9</sup> These flagship pipelines were aimed not only at diminishing Russia's geopolitical and geo-economic primacy in the region, but also at connecting the region to Turkey, a NATO member state. As a result, the South Caucasus effectively became a region of strategic interest for the Atlantic Alliance in general and for Turkey and the United States in particular. Since then, this supportive policy has also been pursued by the European Union and its member states through various forms of advocacy and the provision of some financing capital in the construction of the Southern Gas Corridor. The subsequent building of the Baku-Tbilisi-Kars railway, as well as other more recent regional infrastructure projects, was a byproduct of these initial strategic investments.

While the aforementioned projects did indeed open the door for Turkey to enter the region both economically and commercially, it was really the Second Karabakh War that brought Turkey into the South Caucasus militarily.<sup>10</sup> Turkey's strong and decisive support to the Azerbaijani war

effort significantly boosted both Turkey's image in the region and its future responsibility as a security guarantor of Azerbaijan. While the 10 November 2020 tripartite statement that ended the Second Karabakh War did not envision a role for Turkey, only days later formal arrangements were made with Russia and Azerbaijan to ensure a Turkish presence in a newly-established Joint Center for Monitoring the Ceasefire in Karabakh. As a result, and by common consent, Turkey now has boots on the ground in Azerbaijan. One Azerbaijani scientist remarked to me in private conversation that “during Soviet times we could not dare to pronounce the word ‘Turkey.’ Now Turkey has troops in the Caucasus. Look how much the world has changed!”

Turkey's increased role in the region plays well into the strategic interests of Azerbaijan. It shifts the geopolitical balance in the South Caucasus, and perhaps beyond. Neither of Turkey's historic archrivals, Iran and Russia, could oppose this development, with the latter even formally accepting it (this can be contrasted negatively with the former's response). The bottom line is that, as a result of the changes to the geopolitical landscape brought on by the outcome of the Second Karabakh War, Tehran's interests and capabilities have been limited while Moscow's have been significantly diminished. What has effectively become a strategic alliance between Turkey and Azerbaijan—enshrined in the Shusha Declaration on Allied Relations signed by the heads of state of both countries on 15 June 2021—has been further bolstered by a supportive Pakistan. This has created a potentially strong new element in the security architecture in the Silk Road region. To this we can add the steadily increasing stature of the Turkic Council, which has now expanded beyond its four founding members (Azerbaijan, Kazakhstan, Kyrgyzstan, and Turkey) to include Uzbekistan, Turkmenistan, and Hungary (as an observer). This relatively new inter-state organization has become a very convenient and practical platform for various forms of cooperation among Turkic-speaking countries, which has also enabled each of them to firm up their solidarity on the basis of a shared Turkic identity. In fact, Kazakhstan and Kyrgyzstan, which are members of both the Turkic Council and the Russia-led Collective Security Treaty Organization (CSTO), preferred to prioritize their Turkic identity during the Second Karabakh War by making it known that, come what may, they would each refuse to provide any military aid to Armenia, a fellow CSTO member.

Another manifestation of the change to the region's geopolitical landscape, which predates the onset of the Second Karabakh War but has been entrenched by Azerbaijan's victory, is Baku's heightened confidence in engaging multilaterally, which has in turn further contributed to a rise in the country's regional ambitions. Azerbaijan has been termed both a "keystone state" and a "middle power."<sup>11</sup> Baku's wide-range diplomatic outreach has included the strengthening of bilateral relationships with regional countries and stakeholders as well as the deepening of its multilateral activities: for example, in recent years it has presided over the Non-Aligned Movement, the Turkic Council, and GUAM. All told, this has resulted in Baku gaining much respect and credibility.<sup>12</sup> Having witnessed Azerbaijan's mighty victory in the war, particularly the countries that belong to the Silk Road region (understood in the broadest sense possible), now regard Baku as a strong military, political, and economic partner—one that is able to develop trade and commerce as well as provide attractive business opportunities for their companies, especially in the liberated areas of Karabakh, which require massive reconstruction works. More on this below.

The Second Karabakh War brought not only strategic geopolitical gains to Azerbaijan but also some related risks and concerns. With the arrival of Russian peacekeepers to the territory of Azerbaijan, many politicians and ordinary citizens in the country have expressed concern about their objectivity and neutrality. Some fear that these peacekeepers will help Armenians to boost their military capabilities and seek revanchism; others say that the presence of Russian military personnel poses a threat to Azerbaijan's statehood and sovereignty.

While these fears are somewhat justified on historical grounds, if nothing else, they undergird what is essentially a binary and thus simplified understanding of Azerbaijan's foreign policy posture towards the Russian Federation. That being said, Baku will surely have to deal even more carefully and delicately with the Kremlin in the coming years. But this necessity is hardly novel: for instance, Azerbaijan already has a plethora of experience in dealing with the presence of the Russian military on its territory.<sup>13</sup> While former Soviet military bases were painfully and with much tensions evacuated from Azerbaijani soil in 1992-1993 (Azerbaijan was in fact the first former Soviet republic to reach an agreement with Russia in this area, and many analysts believe that Baku went on to pay a heavy price

for this initiative in the First Karabakh War), the closure of a strategically important radar station operated by the Russian Aerospace Defense Forces in the Azerbaijani town of Gabala in 2012 was achieved with much diplomatic finesse, with both sides feeling satisfied with the agreement that was reached. The present situation is also different in that the scale, scope, and duration of the presence of Russian peacekeepers on Azerbaijani soil is explicitly laid out in the tripartite statement. In and of itself, this does not guarantee adherence; on the other hand, in no other contemporaneous situation has Moscow agreed in writing to such conditionality.

This may have much to do with the fact that Azerbaijan has always chosen to pursue a pragmatic policy towards the Kremlin—unlike its neighbors Armenia and Georgia. Baku has focused its relations with Moscow on trade and commerce, increasing political dialogue, avoiding radical statements and unnecessary frictions and tensions, preventing diplomatic scandals, and refraining from being a party to hostile Western policies directed against Russia. By and large, this approach has been successful, in part because both countries have sufficient leverage over the other and both leaders clearly understand each other's positions and preferences.

It therefore stands to reason that Azerbaijan will continue to make use of rational and even-handed language in its multifaceted dialogue and engagement with Russia, and that Moscow will continue to work as closely as it can with Baku, in accordance with the latter's economic and strategic importance for the Kremlin. In fact, one of the reasons why Russia refrained from overtly taking the side of Armenia during the Second Karabakh War, despite its military alliance with Yerevan, was the Kremlin's well-developed economic partnership with Azerbaijan, which Russia was unwilling to sacrifice.

All told, the outcome of the Second Karabakh War brought about a new geopolitical balance of power in the South Caucasus. While this has had obvious strategic implications for Azerbaijan, it did not bring to an end all of the country's security challenges. In the coming years, Azerbaijan will need to maintain a careful balancing act between Russia, Iran, Turkey, and the West—as Baku has done over the last 30 years—in order to consolidate its military gains on the ground, rebuild Karabakh, and ensure the successful reintegration of Karabakh Armenians into the fabric of Azerbaijan's constitutional order.

## UNLOCKING REGIONAL ECONOMIC AND TRANSPORT OPPORTUNITIES

The tripartite statement that ended the Second Karabakh War sets the terms for opening up new economic opportunities for the region. Perhaps for the first time since 1991, the opportunities now on offer constitute a regional win-win scenario whilst laying the foundation for sustainable and long-lasting peace between Armenia and Azerbaijan. One of the most important elements of the aforementioned agreement are those clauses that mandate the reopening of regional transport routes, the unblocking of trade arteries, and the establishment of new transportation corridors. The reopening of the Zangezur corridor will put an end to decades-long blockages in the region, create commercial opportunities for businesses in the region, and bring together investors and customers in one common, unified market.<sup>14</sup> For Azerbaijan, reopening the routes through Armenia to Nakhchivan and further on to the Turkish and European markets opens immense opportunities, both politically and economically. For its part, Turkey will have gained more direct access to Azerbaijan as well as Central Asian markets, which once again reaffirms the point made above about the growing importance of the Turkic Council. Armenia also gains much from the terms of the tripartite statement, as it will regain direct access to Turkish, Azerbaijan, Iranian, and Russian markets and railway systems. The Azerbaijani town of Jufla, located in Nakhchivan, can again become an important connectivity hub for the countries of the region in terms of railway systems, as was the case in Soviet times.

The development of East-West transport corridors in the Silk Road region has always been a strategic foreign policy priority for Azerbaijan and much has been done over the past several decades to move this vision forward, including the completion of regional oil and gas pipelines, the construction of Baku-Tbilisi-Kars railway, and the development of new ports on the shores of the Caspian. All this has resulted in increased connectivity with Central Asian markets and its transport infrastructure. The network of East-West transport corridors has been also actively supported by the European Union and United States, which adds a geopolitical dimension to a geo-economic project. These efforts have been done in parallel (and are complimentary) with with another important transport corridor—the

North-South one, which connects Russia and the markets of north Europe and Russia with Iran and South Asia via Azerbaijan.

To this can be added the gradual yet powerful emergence of the China-led Belt and Road Initiative, which Azerbaijan also supports, and which aims at the further restoration and strengthening of the Silk Road region's transit, connectivity, and transport corridors, building on a grand legacy of past centuries of open trade and resulting prosperity.<sup>15</sup>

Perhaps the most far-reaching new strategic initiative to emerge as a consequence of the Second Karabakh War's outcome is the 3+3 regional platform proposed by the Azerbaijani and Turkish presidents in its aftermath. The idea is to bring Armenia, Azerbaijan, and Georgia together with Iran, Russia, and Turkey in a cooperation mechanism focusing on connectivity and security issues. All six states could greatly benefit from working closer together in various economic areas, which ought to foster a higher level of interdependence, and, in turn, lower the risk of military and security escalation. What makes this initiative a challenge to get off the ground is the continued animosity between Georgia and Russia as well as Iranian concerns that it stands to lose both economic and security clout in the region's new, postwar geopolitical situation. Georgia, too, has economic concerns. That being said, Georgia could be a useful and effective neutral party in Armenian and Azerbaijani negotiations, as Tbilisi recently demonstrated in brokering a deal to exchange Armenian detainees for landmine maps. Azerbaijani will need to figure out how to properly incentivize both Georgia and Iran to enter into this new cooperation framework by working with Turkey and Russia to address the fears of both Tbilisi and Tehran that they could suffer tangibly economic losses once the new transport and transit corridors traversing Turkey-Nakhchivan-Armenia-Azerbaijan come into use, as mandated by the tripartite statement. Baku will also have to deal with Tehran's renewed concern about Israel's growing influence on Iran's northwest border.

Azerbaijan's autonomous region of Nakhchivan can also greatly benefit economically from this new opportunity, as it has been under Armenian blockade for three decades: ordinary Azerbaijanis could only travel to and from the province to the rest of the country by air or circuitously by land through Iranian territory. Shorter connectivity times to Nakhchivan

from other parts of Azerbaijan will help the province's economy to prosper and turn it into an important transport connectivity hub, with many new local jobs being created. Nakhchivan will also cease having to deal with the shortage of natural gas and electricity supplies, another result of the Armenian blockade.

For Azerbaijan in general, the development of transport corridors also stands to play an important strategic role in spurring further economic modernization, reducing its economic dependence on oil and gas exports by stimulating the growth of its non-hydrocarbon economy, and enabling it to increasingly focus on turning the country into a regionally attractive and business-friendly connectivity hub. In the years prior to the outbreak of the Second Karabakh War, Azerbaijan had already begun to make capital investments in such areas. The Baku International Sea Trade Port in Alat and the Alat Free Economic Zone are cases in point: the opening up of trade and transport routes as envisioned in the tripartite statement will enable these to reach their full potential—as will Azerbaijan's significant improvement in relations with Turkmenistan, further synergizing the East-West transport corridor whilst paving the way for joint exploration and development of hydrocarbon resources in the Dostluq field, located in the Caspian Sea.

The liberation of the formerly occupied territories also opens another strategic economic advantage for Azerbaijan: the restoration of full control over the entirety of its border with Iran. This is already helping Baku to more thoroughly prevent the trafficking and illegal smuggling of weapons, drugs, and other illicit goods through this formerly grey zone. Some 130 km of the internationally recognized border of Azerbaijan with Iran along the Araz river had been under the de facto control of Armenian forces since 1994. Azerbaijan was unable to exercise border and customs controls, which allowed trucks originating in Iran to cross the border into the formerly occupied lands with impunity and without having to pay any customs duties to Azerbaijan. After the liberation, Baku has successfully retaken control over the border and various customs fees and duties are already being collected. More importantly, the illegal transport of weapons and armaments to Armenian separatist forces has been stopped.

Another important and under-appreciated consequence of the tripartite statement is that Azerbaijan has been able to fully bring into joint operation, with Iran, the Khudaferin and Giz Galasi hydroelectric stations built on the Araz river in the formerly occupied lands.<sup>16</sup> These stations were built by the Iranian side but the intergovernmental agreement between Azerbaijan and Iran envisioned their joint usage. In the wake of the Second Karabakh War, Azerbaijan will be able to fully benefit from this opportunity, which will not only bring economic benefits, but also provide a win-win aspect to Iranian-Azerbaijani relations and boost the regional focus on developing renewable sources of energy. At the moment, it looks like Azerbaijan will be able to export its excess capacity of produced electricity.

At the same time, the Armenian-Azerbaijani border in the Karabakh area is also being brought under full Azerbaijani control, which will also help to prevent the smuggling of weapons and drugs, and, through customs duties, add revenue to the state budget. No hard border existed during Soviet times, and demarcation and delimitation works are urgently needed to clarify some contested areas, prevent further escalation between the warring sides, and ensure security and stability for the surrounding villages on both sides of the border.

In this context, the fate of the Goris-Kapan road is very important, as this Armenian road passes through the territory of Azerbaijan's Gubadly region and is actively used by both Iranian and Armenian drivers to deliver goods and passengers.<sup>17</sup> It should be noted that the geography of the area is such that no alternative route can easily be built. Since the liberation of Karabakh, Azerbaijan has allowed safe usage of this road while at the same time establishing customs and border check points. In the long run, this road will deepen interdependence between Armenia and Azerbaijan and, for that matter, between Iran and Azerbaijan whilst resulting in further economic and security dividends for Baku.

The continued safe and secure use of both the Goris-Kapan road and the Lachin humanitarian corridor could help ease the Armenian side into a situation in which it will become more politically acceptable for Yerevan to reach agreements on ensuring reciprocal guarantees, as envisioned in the tripartite statement, for the future use of the Zangezur corridor to Azerbaijani (and Turkish) passengers and cargo.

## THE REDEVELOPMENT OF KARABAKH

The formerly occupied lands of Azerbaijan constituted some 20 percent of the country's total territory. Most of it is now again under the control of Azerbaijani military forces and is being quickly redeveloped and reconstructed. The scale of vandalism, looting, and destruction of the territory's cities and villages are beyond imagination. Even the conflict's most seasoned analysts and experts did not expect to see so much destruction in the occupied lands. Many of the cities, like Fuzuli, Aghdam, and Jabrayil were completely raised to the ground. Vibrant demographic centers with industry and colorful life are all gone. Foreign journalists called Aghdam as "Hiroshima of the Karabakh."<sup>18</sup>

From the very first days of the postwar period, President Aliyev prioritized the rapid redevelopment of the area, beginning with infrastructure projects.<sup>19</sup> For him personally as for the entire country, fast-tracking the efficient reconstruction of Karabakh is a matter of both national pride as well as economic necessity. Within a very short period of time, several major road projects have been launched and the Victory Road to Shusha has been completed. Several electric power stations have been finished. A new railway project is underway as well. Airports are being built. Residential complexes and hotels are being developed. Demining activities are proceeding as quickly as possible. Foreign companies have been invited both as investors and subcontractors to help with the speedy modernization and redevelopment of the area.

Karabakh is also a region rich with mineral resources and agriculture opportunities. According to official statistics provided at the time by the illegal occupation authorities in Karabakh, the exploitation of the area's natural resources by Armenian and foreign companies contributed up to 5 percent of Armenia's GDP<sup>20</sup> (unsurprisingly, Azerbaijan is now planning to sue those foreign firms in international courts). But unofficial figures suggest the number was closer to 20 percent.

All these regained resources are now going to help fund the redevelopment works in the liberated areas, which will in turn raise consumer spending and lead to a rise in economic activity throughout Azerbaijan. Already, for 2021 Azerbaijan's government has pledged

\$1,3 billion from the national budget to begin the process of rebuilding Karabakh. Several foreign firms are setting up agricultural enterprises, and particular focus is being paid to building smart cities, smart villages, and eco-friendly zones featuring renewable energy power plants and energy-saving green technologies.

All in all, the outcome of the Second Karabakh War will certainly result in an increase in Azerbaijan's GDP, whose economy already amounts to 62 percent of the GDP of the South Caucasus (it was 75 percent before the 2014 currency devaluation).<sup>21</sup> Control over important water resources in Karabakh has also reverted to Azerbaijan. The region's extensive mineral resources will also now be available for exploitation again, further boosting Azerbaijan's non-hydrocarbon export potential. Tourism, especially international inbound tourism, will open new investment opportunities in the service sector. Azerbaijan's post COVID-19 economy will recover more rapidly thanks to increased investments and consumer spending in Karabakh.

At the same time, Azerbaijan's postwar period will be characterized not only by the rapid development of its economy and infrastructure, but also its military-industrial complex. The country has proven its military might to the world. Its domestic military industrial complex is gaining more respect: its reputation abroad has increased, which ought to help grow its military export numbers. Continuing to modernize its military with the help of latest technologies from abroad will also serve the defense and security needs of the country and the region.

## THE TASK AHEAD

In the context of celebrating the thirtieth anniversary of its regained independence this year, 2020's successful liberation of Azerbaijan's formerly occupied lands presents both a significant historical milestone but also a future strategic opportunity. The country's political leadership has gained a unique and unprecedented vote of confidence and consolidated public support to further enact political and economic reforms in the country, modernize the hydrocarbon-dependent economy, invest strategically in the liberated areas, push



forward with technological and infrastructure projects, and lay the groundwork for the nation's successful and sustainable development over the next 30 years.

Although the region's balance of power and its security arrangements remain fragile and vulnerable, for the first time since the collapse of the Soviet Union the South Caucasus can delve into a peaceful model of coexistence, mutual respect, cooperation, and interdependence. Azerbaijan will need to carefully plan for the reintegration of Karabakh Armenians back into its sovereign space and constitutional order, fulfil regional transport and connectivity opportunities, find ways to manage the Russian peacekeepers issue, and advance its national interests whilst taking care not to infringe on those of neighboring powerhouses and those farther afield. Still, the view from Baku has never looked better. And that's worth celebrating on the first anniversary of the liberation of Karabakh.

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