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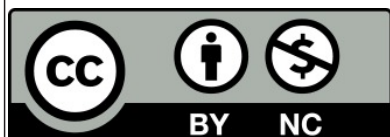
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ABSTRACT

This article examines the role of investment in economic recovery and sustainable development in post-conflict regions, using Garabagh and Eastern Zangezur as a case study. The main objective of the research is to assess the impact of post-conflict public policies, institutional reforms, and investment promotion mechanisms on regional economic revitalization. The article first outlines the region's pre-conflict demographic and economic characteristics and then systematically analyzes the main pillars of the recovery strategy implemented since 2020. The study is based on a descriptive-analytical approach and draws on a comparative analysis of official statistics and documents, institutional decisions, and selected academic sources.

The analysis indicates that infrastructure projects, the development of transport and logistics corridors, the establishment of industrial parks, the introduction of modern technologies in agriculture, and renewable energy initiatives all play a significant role in shaping the regional investment environment. At the same time, demining, institutional coordination, and social reintegration emerge as essential preconditions for restoring economic activity. Fiscal incentives and investment support measures introduced by the government have accelerated the inflow of both domestic and foreign capital into the region.

Overall, the development model pursued in Garabagh and Eastern Zangezur demonstrates that, in post-conflict settings, a comprehensive and coordinated investment policy can promote not only economic growth but also social stability and long-term sustainable development. The findings suggest that public investment plays a catalytic role during the post-conflict phase by reducing initial risks, building core infrastructure, and improving entry conditions for private capital.

Keywords: Garabagh; Eastern Zangezur; post-conflict; investment; economic recovery

JEL Classification: 010, 018, R11, H54

INTRODUCTION

Investment is widely regarded as one of the principal drivers of economic development and of the formation of regional economic structures. Capital investment expands production capacity, supports infrastructure development, facilitates the adoption of new technologies, and creates employment opportunities. Particularly in developing regions or those undergoing reconstruction, investment not only stimulates economic growth but also contributes to social stability and institutional strengthening. In this respect, sound investment planning and the efficient allocation of resources constitute an essential part of regional development strategies (Todaro & Smith, 2020).

In post-conflict regions, investment activity becomes a critical component of economic recovery, as conflict tends to weaken economic activity, undermine the business environment, and create unstable market conditions. Under such circumstances, attracting investment is vital for normalizing economic life, creating jobs, and revitalizing the regional economy. In post-conflict economies, issues such as shaping investment conditions, managing risk, and strengthening institutional mechanisms for long-term stability are of central importance, underscoring the role of investment in regional recovery (Hacioglu, Dincer, & Celik, 2012).

Research shows that investment plays a strategic role not only in physical and economic reconstruction, but also in enabling technological upgrading, fostering innovation, and enhancing competitiveness. At the same time, the strategic direction of investment significantly affects the development of local entrepreneurship and the sectoral balance of labor. This approach strengthens the sustainability of economic growth in post-conflict areas and contributes to the region's long-term socio-economic development (Hay, Karney, & Martyn, 2019).

The Garabagh region has likewise faced severe economic challenges as a result of decades of conflict. In such a setting, attracting investment has become strategically important for reviving economic activity and unlocking the region's potential. The Second Garabagh War, which ended in 2020, created new geopolitical and economic realities in the region. Following the liberation of Garabagh and Eastern Zangezur, large-scale reconstruction and redevelopment efforts were launched, accompanied by infrastructure projects, social programs, and investment promotion mechanisms implemented by the state. In particular, transport and logistics projects, renewable energy initiatives, agriculture, and the establishment of industrial parks are among the key factors strengthening the region's economic prospects. These measures encompass not only the restoration of physical infrastructure, but also the restructuring of the regional economy, the creation of new areas of economic activity, and the development of a more attractive investment environment. The post-conflict recovery strategy aims not only to ensure long-term economic development, but also to strengthen the region's integration into national and international economic systems.

This article presents an overview of the region's demographic indicators and economic characteristics, explains the pre-conflict economic structure and its main features, and analyzes the principal directions of post-2020 recovery policy and their impact on regional development. Within this recovery framework, the investment-led policies and initiatives implemented in

Garabagh and Eastern Zangezur are multidimensional in nature, covering various sectors of the economy and functioning as one of the main instruments of socio-economic revitalization. These investment activities are concentrated on the restoration and development of infrastructure, the re-establishment of production and service sectors, and the efficient use of economic resources. This approach accelerates the restoration of economic activity in a post-conflict setting while also laying the institutional and economic foundations necessary to unlock the region's long-term development potential. At the same time, state policies and incentive mechanisms contribute to improving the investment climate and expanding capital inflows.

The research is guided by the following questions:

1. What is the function of public investment in the initial phase of economic recovery in a post-conflict setting?
2. How do infrastructure, security, and institutional coordination shape investment attractiveness in Garabagh and Eastern Zangezur?
3. What are the main structural risks affecting the sustainability of the current model?

LITERATURE REVIEW

Sustainable development and inclusive economic growth in post-conflict regions are of major importance in both theoretical and practical terms. In the post-war and post-conflict period, regional recovery is not limited to rebuilding infrastructure; it also includes promoting economic activity, strengthening institutional mechanisms, and improving the investment climate. In this regard, a wide range of studies provides valuable insights into models of post-conflict regional development.

Although post-conflict economies often exhibit relatively strong initial growth potential during the transition period, the sustainability of that growth depends on institutional stability and effective economic policy. Elbadawi (2008) notes that international assistance and sound economic policy play an important role in restoring stability. Collier (2007), meanwhile, argues that deep structural changes in economies mean that conventional development strategies are not always effective, and that the proper direction of public expenditure can be decisive in the recovery process. Based on the experience of Sub-Saharan Africa, Ali (2009) likewise shows that institutional reform and effective governance are essential for long-term stability.

Recovery is a complex process that extends beyond physical reconstruction to encompass institutional and economic dimensions. Addison and Murshed (2001) emphasize that stronger institutional mechanisms and improved governance are fundamental conditions for sustainable development. Moritz, Block, and Morina (2023) demonstrate that entrepreneurship is important for stimulating economic activity and creating new jobs, although financial constraints and institutional instability may hinder its development. Brück, Naudé, and Verwimp (2013), in turn, identify the restoration of the business environment and the promotion of new forms of economic activity as important contributions to post-conflict recovery.

Cross-sectoral coordination and the efficient management of resources are also critical. Mourad (2023) shows that recovery in the water sector is essential for agricultural development and social welfare. Rezk, Pons-Valladares, and Muñoz-Blanc (2025) argue that applying sustainability principles in reconstruction and infrastructure projects generates long-term economic and environmental benefits. Barakat (2005) similarly stresses that recovery processes must encompass not only physical rebuilding but also social and economic systems.

Drawing on these experiences, international support should also be integrated into the recovery process. Such support contributes to improving the investment climate, strengthening institutions, and securing long-term stability. For example, reports by the World Bank (2004) and UNDP (2008) show that in post-conflict regions, financial assistance and technical support make it possible not only to implement infrastructure projects, but also to strengthen local economic institutions, encourage entrepreneurship, and promote sustainable economic recovery.

Within this framework, the development of agrarian entrepreneurship and the role of human capital are also significant in post-conflict settings. Baghirov (2025) shows that innovative training models, the expansion of digital technologies, and greater transparency in governance contribute to the revival of the agricultural sector. Stronger public-private cooperation, the establishment of vocational training centers, and the efficient allocation of resources function as key mechanisms for building sustainable entrepreneurship. These approaches are also visible in the Azerbaijani context. Yusibov (2026), for example, explores the green energy potential of the Garabagh region in the post-war period and shows that solar and wind energy create new opportunities for economic development. Aliyev (2025), meanwhile, notes that infrastructure projects implemented in the region have supported the development of transport, energy, and agricultural sectors and created the conditions for the emergence of new forms of economic activity.

The literature review indicates that although there is a substantial body of research on the development of post-conflict regions, certain limitations remain. Many studies focus on post-conflict countries in general and do not sufficiently address the specific socio-economic characteristics of individual regions. In particular, the limited availability of empirical data for Garabagh and Eastern Zangezur, together with the relative recency of the post-conflict period, constrains both the number and the depth of existing studies. Against this background, the present article seeks to partially address this gap by analyzing the socio-economic development prospects of Garabagh and Eastern Zangezur and contributing to the broader academic debate on post-conflict regional development.

BACKGROUND: THE SOCIO-ECONOMIC CONTEXT OF GARABAGH AND EASTERN ZANGEZUR

Demographic and Economic Profile of the Garabagh and Eastern Zangezur Economic Regions

Before the conflict, the Garabagh and Eastern Zangezur economic regions held major strategic importance within Azerbaijan's socio-economic system and were regarded as key economic zones with strong regional development potential (Suleymanov & Suleymanov, 2012). The Garabagh economic region covers approximately 10,000 km², while Eastern Zangezur covers 6,340 km². According to official statistical data, the former Nagorno-Garabagh Autonomous Oblast and the surrounding districts accounted for roughly 20% of the country's total territory and possessed considerable demographic and economic potential (IITKM, 2025).

Before the conflict, the population of the cities and districts that now form the Garabagh and Eastern Zangezur economic regions showed stable growth. This increase was reflected not only in the total population but also in the shares of urban and rural population. More detailed information is presented in Table.

Table 1. Population of the Garabagh and Eastern Zangezur Economic Regions,
thsd. people

Garabagh Economic Region			
Indicator	1979	1989	1991
Population	527.8	637.0	675.2
Urban population	166.0	215.3	229.4
Rural population	361.8	421.7	445.8
Eastern Zangezur Economic Region			
Population	204.5	217.1	227.0
Urban population	29.6	38.7	42.9
Rural population	174.9	178.4	184.1

Source: State Statistical Committee of the Republic of Azerbaijan

Population dynamics and settlement patterns in the region had a direct impact on the formation of its economic structure. During the Soviet period, Garabagh functioned as one of Azerbaijan's major industrial centers. According to 1987 data, the value of industrial production assets in the region amounted to approximately 300 million manats, representing a 55.6% increase compared to 1980. By the late 1970s, the Garabagh region accounted for around 6% of Azerbaijan's total industrial output, including more than 30% of construction stone, 14%

of facing stone, 9% of sawn stone, and 35% of plasterboard production. The region also held a significant share in the production of wine, oil, footwear, raw silk, mineral water, and construction materials (Suleymanov & Suleymanov, 2012). Between 1970 and 1987, industrial growth in Garabagh was three times faster than the national average, while agricultural output increased by 1.7 times, demonstrating the region's strong industrial competitiveness and economic potential. Mineral resources played a key role in this development. Garabagh and Eastern Zangezur contained deposits of gold, copper, mercury, polymetallic ores, marble, travertine, and other construction materials, which were incorporated into mining and construction activity (ANAS, 2021).

Alongside industry, agriculture was one of the principal sectors of the economy in Garabagh and Eastern Zangezur, supported by fertile land, favorable climatic conditions, and developed irrigation systems. The total land area of the former NKAO was approximately 439,100 hectares, 39% of which was classified as suitable for agriculture (Mammadova, 2024). In the 1980s, the region accounted for about 2.5% of Azerbaijan's total agricultural output and played an important role in the production of wheat, cotton, tobacco, potatoes, vegetables, and grapes. Viticulture was especially significant, with the region supplying approximately 25.5% of national output, making it strategically important for both regional and national exports (Fikretzade & Hajiyeve, 2020).

Livestock farming also played a central role in the regional economy. In the 1980s, the region had approximately 321,000 head of cattle and more than 1.106 million sheep and goats. It produced 27,500 tons of meat and 163,800 tons of milk, making Garabagh one of Azerbaijan's leading livestock areas (Fikretzade & Hajiyeve, 2020).

The region's natural resource base also supported the expansion of economic activity. Garabagh and Eastern Zangezur are rich in recreational natural resources, which create favorable conditions for the development of both summer and winter tourism. The presence of more than 120 mineral and thermal water sources provides considerable potential for health and balneological tourism. Forest and mountain-landscape ecosystems cover approximately 178,100 hectares, forming a natural resource base for ecotourism, mountain tourism, and rural tourism. The mountainous terrain and varied climatic zones further enhance the region's attractiveness for both summer and winter tourism and create new sources of income for the non-oil economy (IITKM, 2022).

The natural resource base also creates strategic opportunities in the energy sector. Garabagh and Eastern Zangezur have major renewable energy potential, and according to current assessments, the technical potential of solar, wind, and hydropower resources in the region is estimated at approximately 10,000 MW, constituting one of the main pillars of Azerbaijan's "green energy zone" concept (IITKM, 2025).

Overall, Garabagh and Eastern Zangezur constitute one of Azerbaijan's strategic development zones, and the return of the population is expected to revive economic activity and strengthen the region's socio-economic development prospects. These territories are projected to play an important role in the sustainable development of the national economy in the future.

Reconstruction Strategy After 2020

Following the Second Garabagh War, Azerbaijan developed and has been implementing a comprehensive reconstruction and development plan for the Garabagh and Eastern Zangezur economic regions. The post-2020 strategy establishes a multidimensional recovery framework that combines physical reconstruction with institutional recovery, economic renewal, sustainable resettlement, and investment promotion. This planned strategy ensures effective coordination among future investment flows, infrastructure projects, and social programs. The reconstruction program is a core component of the “Great Return” State Program, which aims to ensure the safe, dignified, and sustainable return of internally displaced persons to their places of origin (President of the Republic of Azerbaijan, The First State Program on the Great Return to the liberated territories of the Republic of Azerbaijan (2022–2026), 2022). As end of 2025, official statistics indicate that approximately 26,000 people, or more than 6500 families, had returned to their homes under the Great Return program (The State Statistical Committee, 2025).

The initial stage of reconstruction focused on security and large-scale humanitarian demining operations. Widespread mine contamination in residential areas, agricultural land, and transport corridors severely constrained mobility and posed a major obstacle to post-war development. These operations created the basic conditions necessary for safe resettlement, infrastructure development, and economic activity (ANAMA, 2023). Approximately 960 km² of Garabagh and Eastern Zangezur remain contaminated by mines, with hundreds of thousands of anti-personnel and anti-tank mines posing both humanitarian and economic risks. These threats delay the resettlement of around 40,000 displaced persons and restrict both agricultural and industrial activity. Azerbaijan has linked demining operations to infrastructure reconstruction, strategic settlement planning, and investment promotion, thus embedding security measures within a broader framework of sustainable regional development. This process has been financed largely through domestic resources, with only USD 10.4 million in foreign assistance received in 2022 (Jalilzade, 2025). Empirical research suggests that comprehensive mine clearance may require up to 25 years and more than USD 50 billion in funding. Demining therefore functions not only as a humanitarian obligation but also as an economic enabler of sustainable regional development (Guliyev, 2025).

Within this framework, demining and security measures do more than facilitate physical reconstruction; they also create the basis for effective institutional coordination and administrative functioning. Centralized planning mechanisms, monitoring dashboards, and performance-based project evaluation help ensure efficient implementation and accountability while minimizing delays (ANAS, 2025). Institutional and administrative restructuring has thus become a vital component of effective governance in the post-conflict recovery and development process. New executive authorities have been established, legislation has been updated, and the activities of state institutions have been restored. Institutional reconstruction has played a key role in rebuilding state capacity, planning systems, and regulatory oversight suited to the post-conflict context (IITKM, 2022).

Institutional support has also enabled the successful implementation of infrastructure projects. Within this agenda, priority has been given to energy and water supply. In the green

energy zones of Garabagh and Eastern Zangezur, renewable energy sources, including solar, wind, and small hydropower, have been prioritized in order to ensure energy security, reduce carbon emissions, and support long-term development (Ministry of Energy of the Republic of Azerbaijan, 2025). The construction of drinking water systems, reservoirs, and irrigation networks has made an important contribution to expanding agricultural activity, improving socio-economic welfare in rural areas, and supporting population resettlement.

The strengthening of energy and water infrastructure, together with the integration of digital and environmental technologies, complements the reconstruction strategy's emphasis on modern urban and rural development concepts. These concepts include digital governance, green energy, smart public services, and environmentally friendly technologies. In the Zangilan district, the village of Aghali has been built as a Smart Village featuring energy-efficient housing, smart grids, online public services, and modern farming tools. In cities such as Shusha, Smart City initiatives have been introduced to promote intelligent transport systems, cultural heritage preservation, and modern urban management (IITKM, 2024). These projects form the basis of sustainable urban and rural development and stimulate both economic and social progress.

At the same time, the upgrading of transport networks has increased mobility within the region and created conditions for the expansion of economic activity. Strategic roads, bridges, and transport corridors connect Garabagh and Eastern Zangezur to national and regional logistics networks. Airports in Fuzuli, Zangilan, and Lachin have strengthened connectivity and helped stimulate investment, economic activity, and tourism (Maharramov, 2025). Economic corridors and connectivity projects are at the center of regional recovery. Research suggests that modernized roads, bridges, and transport hubs play a critical role in directly supporting trade and in attracting investors and encouraging industrial development. When such physical transport infrastructure is integrated with state-supported digital infrastructure, administrative efficiency and investment transparency improve significantly (Hajiyeva, Mammadova, Abdullazade, & Malikov, 2023).

Public and private investment are both crucial drivers of economic recovery. Industrial parks, agro-industrial clusters, and special economic zones have been established to stimulate employment, private sector participation, and regional value chains. Tax exemptions, customs privileges, and financial support mechanisms have been introduced to encourage both domestic and foreign investment (IITKM, 2025).

As part of the post-2020 reconstruction strategy, the Araz Valley Economic Zone and the Aghdam Industrial Park were established to attract local and foreign investment and to promote economic development in the region. The Araz Valley Zone's strategic location, along key road and rail networks and at the southern gateway linking Eastern Zangezur with Iran, facilitates exports to multiple markets. The Aghdam Industrial Park, in turn, supports the development of manufacturing infrastructure in Garabagh, ensures the efficient use of

resources, and promotes the establishment of processing-oriented enterprises (Maharramov, 2025).

From a financial standpoint, current reconstruction efforts constitute one of the largest investment programs in Azerbaijan's history. Road and rail infrastructure remain a priority in line with Azerbaijan's ambition to serve as a transit hub along the Middle Corridor. Turkish companies have secured major infrastructure contracts worth more than USD 3.4 billion through bilateral cooperation and strategic partnerships (Guliyev, 2025).

In the post-2020 reconstruction strategy, security, infrastructure, social services, and investment-led economic development are being implemented in an integrated manner. The alignment of these components allows the government to transform the newly liberated territories into dynamic, economically robust, and socially inclusive regions. Modern urban planning approaches, an environmentally sustainable energy sector, innovative settlement models, and targeted investment incentives together form a forward-looking vision of post-war transformation (IITKM, 2022).

From a broader development perspective, Azerbaijan's post-2020 reconstruction strategy is increasingly aligned with the concept of inclusive growth. Policy-oriented research shows that infrastructure-led development alone does not generate sustainable outcomes. Long-term regional growth also requires human capital development, labor market integration, and equal access to public services. In this context, public investment plays a catalytic role in reducing initial risks and crowding in private capital, particularly in post-conflict regions characterized by high uncertainty. This approach reflects a strategic effort to balance financial efficiency with social inclusion and to minimize regional disparities (Yagubov, Aliyev, & Mikic, 2021).

ANALYSIS OF INVESTMENT POTENTIAL

Infrastructure Readiness

Infrastructure readiness is one of the basic preconditions for expanding economic activity in Garabagh and Eastern Zangezur. Although infrastructure development in the region is still ongoing, a number of critical physical components, such as transport, energy, and water infrastructure, as well as social infrastructure, including education and healthcare, have been developed in parallel, while digital connectivity has also been expanded. Under the first "Great Return" program, AZN 22.3 billion was allocated from the state budget for implementation in 2020–2025, and an additional AZN 3.5 billion is planned for 2026. Overall, the funding required for 2027–2029 is projected at AZN 10.0 billion (Ministry of Finance of the Republic of Azerbaijan, 2025). Total state capital investment for 2020–2029 is projected at AZN 35.8 billion and covers transport and logistics networks, the energy system, digital and social infrastructure, and water and utilities.

The region's transport infrastructure has expanded substantially through the implementation of more than 1,300 km of new and reconstructed roads and the commissioning of the international airports of Fuzuli, Zangilan, and Lachin. In addition to the existing railway network, the Aghdam–Khankendi and Horadiz–Aghband lines are among the priority projects. If the planned regional transport links are realized, the region's connectivity with Nakhchivan and Türkiye could increase significantly, strengthening its transit and logistics functions.

The energy sector is particularly noteworthy in terms of grid integration and renewable energy potential. The region has been connected to Azerbaijan's national energy system through four 330/110 kV substations located in Ganja, Agjabadi, Imishli, and Jabrayil. This integration provides an important infrastructural base for reliable energy supply. As of 2025, 38 hydropower plants with a combined capacity of 307 MW are operating in the region. The estimated renewable energy potential of around 10,000 MW, covering solar, wind, and hydro resources, points to major opportunities for the expansion of green energy projects. The 240 MW “Shafaq” solar power plant under construction by BP in the Jabrayil district may be regarded as a prominent example of large-scale international investment in this sector (Ministry of Economy of the Republic of Azerbaijan, 2026).

Telecommunications infrastructure has also been expanded successfully. More than 20 settlements are now served by 5G mobile networks, fiber-optic internet, and IPTV services. Postal and banking services have been established in a number of settlements, creating a base for the expansion of e-commerce and digital financial services. In the field of social infrastructure, nearly 20 educational institutions and seven kindergartens had been put into operation by the end of 2025. Garabagh University, located in Khankendi, is an important institutional component in expanding access to higher education in the region. Healthcare infrastructure includes modular hospitals, family health centers, and medical stations.

Water resource management has focused on the restoration of major reservoirs, including Sugovushan and Khachinchay, as well as irrigation networks. The Zabukhchay reservoir and its associated 50-km pipeline network provide drinking water to newly established settlements. The Khudafarin and Giz Galasi hydropower plants serve as examples of multi-purpose infrastructure, contributing both to electricity generation and agricultural irrigation.

Taken together, this infrastructure base creates the conditions necessary for the expansion of sectoral economic activity across the region. The next subsection outlines the region's sectoral opportunities based on key directions and specific indicators.

Sectoral Opportunities

The economic opportunities of Garabagh and Eastern Zangezur can be characterized across several priority sectors. These include agriculture and agribusiness, industrial production and processing, renewable energy, tourism, transport and logistics services, as well as real estate and construction. However, the transformation of sectoral potential into actual investment and employment outcomes depends not only on the resource base and infrastructure, but also on the design and implementation of supporting incentive mechanisms.

This subsection presents sectoral opportunities in relation to resource endowments, infrastructure suitability, and institutional support mechanisms.

Agriculture, as one of the region's traditional economic sectors, remains one of the principal areas of focus within the re-emerging economic structure of the post-conflict recovery phase. In the Zangilan district, the USD 100 million "Dost Agropark" project is planned on an area of 6,000 hectares and stands out as one of the region's major private agribusiness initiatives. The project is designed to integrate pedigree cattle breeding, meat processing, and seed production within a "smart agriculture" model, thereby strengthening linkages between primary production and processing activities.

In terms of industrial production and processing, the main opportunities are concentrated in the Aghdam Industrial Park and the Araz Valley Economic Zone Industrial Park. Priority areas in Aghdam Industrial Park include the production of construction materials, the processing and packaging of agricultural products, the food industry, as well as service and logistics support infrastructure. In the Araz Valley Economic Zone Industrial Park, warehousing and logistics services, sorting and packaging, alternative energy projects, metal processing, and the production of metal goods are among the key areas of activity. To date, investment in these industrial parks has reached AZN 190 million.

The attractiveness of industrial parks in the liberated territories is shaped not only by the provision of dedicated production space and sectoral specialization, but also by the incentive mechanisms available to resident firms. Residents benefit from ready-made infrastructure financed by the state, including utilities, internal road connections, and digital connectivity. In addition, they are granted tax exemptions for a defined period from the date of registration, as well as exemptions from VAT and customs duties on the import of machinery, technological equipment, and installations intended for production purposes (President of the Republic of Azerbaijan, 2021). The current policy framework also provides for state-guaranteed concessional credit instruments, interest subsidy mechanisms, partial compensation of utility costs through cashback arrangements, subsidies for social insurance contributions, and, in some cases, additional privileges related to dividend income and raw material imports. These incentives can be viewed as institutional mechanisms that reduce initial investment and operating costs for industrial park residents.

The renewable energy sector is regarded as one of the strategic directions in the medium- and long-term development trajectory of the region. A 2021 presidential decree established the institutional framework for the creation of a green energy zone in the liberated territories. The region's estimated renewable energy potential of 10,000 MW, including wind energy potential of 300–500 MW in the mountainous areas of Garabagh, enhances the sector's investment attractiveness (Ministry of Economy of the Republic of Azerbaijan, 2026). The impact of this sector is not limited to energy generation alone; through channels such as technical maintenance, equipment supply, and demand for skilled labor, it can also stimulate related areas of economic activity.

Tourism opportunities can be grouped into several main categories: cultural heritage tourism in Shusha, Aghdam, and Fuzuli; eco-mountain tourism in Lachin, Kalbajar, and

Zangilan; health and thermal tourism in Kalbajar; and winter sports tourism. Within this framework, Shusha and Istisu may be regarded as priority areas for public-private partnership projects. At the same time, the actual realization of these opportunities depends on accessibility, seasonality, service quality, and the pace at which market demand takes shape.

The combination of road, rail, and air infrastructure creates opportunities for multimodal freight terminals and customs facilities, refrigerated warehouses and distribution centers for agricultural exports, vehicle maintenance and repair centers, and international transit logistics linked to the prospective integration of the Zangezur Corridor.

The real estate and construction sector is directly tied to the scale of the return process and the phased expansion of settlement. Housing construction and the development of new settlements not only create residential stock, but also generate additional demand for retail, office, and mixed-use properties.

Overall, any assessment of sectoral opportunities in the region must consider not only resource and infrastructure advantages, but also the sectoral scope and operational characteristics of institutional incentive mechanisms. At the same time, the conversion of these opportunities into concrete economic outcomes remains dependent on structural factors such as the pace of resettlement, the scaling of markets, the alignment of skilled labor supply with sectoral demand, and the sequencing of project implementation.

Institutional and Governance Framework

In the post-conflict period, new institutional and administrative mechanisms were established in order to ensure the reconstruction and effective governance of the liberated territories. In this context, Azerbaijan reorganize its economic zoning structure in 2021, marking an important step toward improving the regional governance model. As a result of the new classification, the previous 10 economic regions were reorganized into 14, and, in particular, the creation of the Garabagh and Eastern Zangezur economic regions provided the legal and administrative basis for centralized and coordinated governance in the liberated territories (President of the Republic of Azerbaijan, Decree on the classification of economic regions of the Republic of Azerbaijan., 2021).

Table 2. Economic Regional Classification

Before 2021	After 2021
Absheron	Absheron-Khizi
Ganja-Gazakh	Baku
Shaki-Zagatala	Ganja-Dashkasan
Lankaran	Shaki-Zagatala
Guba-Khachmaz	Lankaran-Astara

Before 2021	After 2021
Aran	Guba-Khachmaz
Yukhari Garabagh	Central Aran
Kalbajar-Lachin	Garabagh
Mountainous Shirvan	Eastern Zangezur
Nakhchivan	Mountainous Shirvan
	Nakhchivan
	Gazakh-Tovuz
	Mil-Mughan
	Shirvan-Salyan

Source: Prepared by the authors based on the decree of the President of the Republic of Azerbaijan

To ensure the swift and unified implementation of state functions in the liberated territories, the President of the Republic of Azerbaijan issued the Decree on Organization of Temporary Special Administration in the Liberated Territories in 2020. This decree provided for the establishment of temporary commandant's offices, which were tasked with ensuring public order, security, and the implementation of state policy. These commandant's offices operated in coordination both with central executive authorities and regional governance structures (President of the Republic of Azerbaijan, Decree on organization of temporary special administration in the territories of the Republic of Azerbaijan liberated from occupation, 2020).

To improve coordination and inter-agency effectiveness, the head of state also established a Coordination Headquarters in 2020. This body coordinates the activities of state institutions in the liberated territories, centrally monitors the implementation of reconstruction projects, and ensures that reintegration processes are carried out within a unified strategic framework. It has functioned as the central coordination mechanism for multi-level governance in the post-conflict period (President of the Republic of Azerbaijan, 2020).

In addition, special representative offices were created to ensure the unified implementation of state functions in the liberated territories and to align the regional activities of the central executive authorities. The establishment of these offices was carried out in phases. On 19 January 2021, the head of state decided to create the institution of special representatives, and on 4 February 2021, representative offices in the Garabagh and Eastern Zangezur economic regions officially began operating. These structures were subsequently expanded in stages in line with the needs of the post-conflict period (President of the Republic of Azerbaijan, Decree on the creation and regulation of special representative offices in the liberated territories, 2021).

To facilitate the return of the population and accelerate infrastructure recovery in these post-conflict regions, public legal entities known as Restoration, Construction and

Management Services were established in various districts. These bodies are responsible for the construction and management of apartment buildings and private homes, landscaping, greening, and the organization of municipal and communal services. They operate in Aghdam, Fuzuli, Khojavand, Jabrayil, Gubadli, Zangilan, Lachin, Kalbajar, Khankendi, Aghdara, and Khojaly (Ministry of Economy of the Republic of Azerbaijan, 2025).

Alongside reconstruction and infrastructure projects, the creation of industrial parks and economic zones has been an important institutional step toward ensuring sustainable economic development. The Aghdam Industrial Park and the Araz Valley Economic Zone serve as institutional platforms for attracting investment, expanding productive capacity, and facilitating regional economic reintegration (Ministry of Economy of the Republic of Azerbaijan, 2023).

The steps taken toward regional recovery and economic development are further systematized through the First State Program on the Great Return for 2022–2026. The program defines institutional mechanisms for infrastructure restoration, settlement, the provision of social services, and the planning of economic activity. The implementation of smart city and smart village concepts is intended to support the development of a modern governance model (President of the Republic of Azerbaijan, The First State Program on the Great Return to the liberated territories of the Republic of Azerbaijan (2022–2026), 2022).

Overall, the institutional and governance framework in the Garabagh and Eastern Zangezur economic regions is built on a multi-level, centralized model grounded in strategic planning. Through temporary commandant's offices, the Coordination Headquarters, special representative offices, central executive bodies, industrial zones, and state programs, this model enables the integrated management of reintegration and development processes and creates the conditions for the rapid reconstruction and sustainable development of the liberated territories.

CONCLUSION

The analysis shows that economic recovery in post-conflict regions is a complex process requiring a multidimensional and phased approach. The case of Garabagh and Eastern Zangezur demonstrates that the reconstruction of physical infrastructure alone is not sufficient; strengthening the institutional environment, introducing investment incentives, and establishing socio-economic reintegration mechanisms are equally important. In this regard, the coordinating role of the state and a strategic planning approach have emerged as decisive factors in the recovery process.

Policies implemented since 2020 indicate that large-scale public investment accelerated the restoration of economic activity in the initial phase, while infrastructure projects strengthened the region's integration into national and international economic systems. In particular, the development of transport corridors, the construction of airports, and the expansion of logistics networks have become major drivers of trade and investment flows. At

the same time, the establishment of industrial parks and economic zones has contributed to the creation of productive capacity and new jobs.

Another key conclusion is that security and demining are indispensable preconditions for economic recovery. Progress in this area not only facilitates the return of the population but also reduces investment risk. At the same time, the implementation of smart city and smart village models introduces an innovative dimension to regional development and opens new opportunities for long-term sustainability.

Overall, the recovery model pursued in Garabagh and Eastern Zangezur shows that an investment-led strategy grounded in institutional capacity can be an effective approach to achieving sustainable economic development in post-conflict regions. This experience offers important practical and theoretical lessons that may also be relevant for other post-conflict countries.

The principal limitation of this study is that long-term data on investment, employment, and productivity in the region are not yet fully established. As a result, the analysis is based mainly on descriptive and institutional observations. Future research would therefore benefit from a more empirical evaluation of investment outcomes at the sectoral level.

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POST-KONFLİKT REGIONLARDA İNVESTİSİYA YÖNÜMLÜ İQTİSADI DİRÇƏLİŞ: QARABAĞ VƏ ŞƏRQİ ZƏNGƏZURDAN DƏLİLLƏR

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XÜLASƏ

Bu məqalə post-konflikt regionlarda iqtisadi bərpa və dayanıqlı inkişafda investisiyaların rolunu Qarabağ və Şərqi Zəngəzur regionlarının təmsalında araşdırır. Tədqiqatın əsas məqsədi münaqişədən sonrakı dövrdə həyata keçirilən dövlət siyasətinin, institusional islahatların və investisiya təşviqi mexanizmlərinin regional iqtisadi canlanmaya təsirini qiymətləndirməkdir. Məqalədə əvvəlcə regionun münaqişədən əvvəlki demografik və iqtisadi xüsusiyyətləri təsvir olunur, daha sonra isə 2020-ci ildən etibarən həyata keçirilən bərpa strategiyasının əsas istiqamətləri sistemli şəkildə təhlil edilir. Tədqiqat təsviri-analitik yanaşmaya əsaslanır və rəsmi statistik məlumatlar, sənədlər, institusional qərarlar və seçilmiş akademik mənbələrin müqayisəli təhlilinə söykənir.

Təhlillər göstərir ki, infrastruktur layihələri, nəqliyyat və logistika dəhlizlərinin inkişafı, sənaye parklarının yaradılması, kənd təsərrüfatında müasir texnologiyaların tətbiqi və bərpa olunan enerji təşəbbüsləri regionun investisiya mühitinin formalaşmasında mühüm rol oynayır. Eyni zamanda, mina təmizləmə fəaliyyəti, institusional koordinasiya və sosial reintegrasiya iqtisadi fəaliyyətin bərpası üçün zəruri ilkin şərtlər kimi çıxış edir. Hökumət tərəfindən tətbiq edilən fiskal təşviqlər və investisiya dəstəyi tədbirləri regiona həm daxili, həm də xarici kapital axınını sürətləndirmişdir.

Ümumilikdə, Qarabağ və Şərqi Zəngəzurdə həyata keçirilən inkişaf modeli göstərir ki, münaqişədən sonrakı şəraitdə kompleks və koordinasiyalı investisiya siyasəti təkcə iqtisadi artımı deyil, həm də sosial sabitliyi və uzunmüddətli dayanıqlı inkişafı təşviq edə bilər. Nəticələrə görə, dövlət investisiyaları ilkin risklərin azaldılması, əsas infrastrukturun qurulması və özəl kapital üçün giriş şərtlərinin yaxşılaşdırılması baxımından münaqişədən sonrakı mərhələdə katalizator rolunu oynayır.

Açar sözlər: Qarabağ, Şərqi Zəngəzur, post-konflikt, investisiya, iqtisadi bərpa

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