

THE IMPACT OF THE COLLAPSE OF ECONOMIC RELATIONS BETWEEN THE REPUBLIC OF ARMENIA AND THE REPUBLIC OF ARTSAKH ON THE ECONOMY OF THE REPUBLIC OF ARMENIA

Manush MINASYAN

PhD, Associate Professor, Senior Researcher, IE NAS of Armenia

Key words: economic ties, product structure of export and import, economic losses, material and non-material values

Introduction

Since the proclamation of the Republic of Artsakh, the Republic of Armenia has been not only the guarantor of its security but also the main supporter in the formation of all state institutions, legislative framework, and ideological foundation. The Republic of Armenia was the guarantor of the Republic of Artsakh's economic stability, the establishment of financial and fiscal systems, and the only gateway to the outside world. For the newly independent Republic of Artsakh, it would have been impossible to establish and develop without Armenia's support, especially considering the legacy of the Soviet era. For about seventy years, being forcibly annexed to Azerbaijan, the NKAR (Nagorno-Karabakh Autonomous Region) was used as a raw material appendage. Despite having an agricultural orientation and producing significant amounts of grain, grapes, meat, and dairy products, there was a marked deficit in the consumption of these products (including processed ones) in Artsakh. The level of investments, labor productivity, utilization of fixed assets, and population consumption was significantly lower compared to the average indicators of Azerbaijan. As a result, due to the outflow of the Armenian population and the artificial influx of Azerbaijanis, the national structure of the population was rapidly changing: if in 1926 Azerbaijanis made up 10% of the NKAR population, then according to the results of the last Soviet census in 1989, they made up 21.5%, increasing 3.2 times [Xojabekyan, 2002, 78]. If we add the impact of the war and the complications caused by changes in the economic system, the picture becomes more complete. The economic ties between the Republic of Artsakh and the Republic of Armenia have developed, deepened, and changed for more than thirty years. Today, it is very important to analyze these ties, assess the economic consequences of their severance, and outline the resulting changes in macroeconomic policy. The purpose of the article is to assess the impact of the loss of Artsakh on Armenia's economy. Which sectors of the economy will suffer the most, what adjustments should the financial system make, will the social burden increase in Armenia, how to regulate the newly emerging issues of the labor market and poverty assessment: these are the key questions we have been addressed.

Methodology

In the context of observing the impact of the loss of the Republic of Artsakh on the economy of the Republic of Armenia, methods of analysis and synthesis have been applied,

which have allowed to reveal socio-economic losses, make certain calculations, and identify some of the existing and future problems. Scientific methods such as historical-logical, abstraction, and compilation of statistical series have also been used.

Literature Review

Economic ties are the basis for the development and establishment of small states, which was especially evident in the case of the Republic of Armenia and the Republic of Artsakh. Economic unification with Armenia was urgent for the small and unrecognized Artsakh. This is the case when "...countries do not build their trade relations to have economic and political influence in other countries, but want to create relationships based on mutual interests" [Dergaev, 2017]. For Artsakh, the connection with mother Armenia also implied the realization and development of export potential. The economic encyclopedia offers the following definition of a country's export potential: "it is the ability of various branches, sub-branches of the national economy and enterprises operating in them to produce sufficient and competitive goods for export" (Ekonomiskaja enciklopedija, 1999). American economist B. Balassa views economic ties between countries as an opportunity to increase their activity. According to him, economic integration is "the development of interstate economic ties through the evolution of economic and political partners' mutual agreement" [Balassa, 1961]. Swedish economist Myrdal, while appreciating the positive role of economic integration between countries, believed that "the free market mechanism can lead to disproportionate development of production and uneven distribution of profits" [Troickij, 2008].

Scientific novelty

The consequences of the collapse of economic ties between the Republic of Armenia and the Republic of Artsakh, and the socio-economic issues facing the Republic of Armenia have been assessed. The natural and social wealth of the Republic of Artsakh has been addressed, and part of the material losses suffered by the Armenian people as a result of the occupation of Artsakh have been evaluated. The analysis has made it possible to propose some solutions aimed at mitigating the created socio-economic and humanitarian crisis.

Analysis

The socio-economic, national-ideological, demographic, deprivation of zones of influence, destruction of historical and cultural heritage, violation of human rights, and many other similar issues of the occupation of Artsakh will be addressed by generations. In the framework of this article, we have tried to assess only a small part of the losses. First, we lost a significant and very important part of our historical homeland: 11.8 thousand square kilometers of territory, land comprising about 40% of the territory of Armenia, we lost about thirty years of investments of the Armenian diaspora, budget allocations of Armenia, millennia of possessions and work results of Artsakh Armenians. With Artsakh,

we lost our pride, with which we have raised generations, with which the Armenian diaspora has lived for thirty years. To all this, we must add the efforts and investments of years that will be required to bring all this back. We will try to present our loss more measurably and visibly in numbers.

Table 1. Total land area, distribution of agricultural lands by types [AH AVC, 2022, 261]

	01.07.2020	%
<i>Total land area, 1000 ha, of which:</i>	1180.30	
agricultural land, of which	577.31	100.0
arable land	134.29	23.2
perennial grass	7.61	1.3
plough-land	34.48	6.0
pastures	362.34	62.8
other	38.59	6.7

23.2% of agricultural lands were arable lands, 62.8% were pastures.

Table 2. Housing stock [AH AVC, 2021, 191]

	01.01.2020
<i>Total area of total housing stock, 1000m² of which</i>	4415.1
Urban	2426.0
Rural	1989.1
<i>Housing stock of multiple dwellings, of which</i>	
number of apartments, unit	12953
Urban	12567
Rural	386
total area, 1 000 m² , of which	736.0
Urban	716.9
Rural	19.1
<i>Housing stock of dwelling houses</i>	
number of dwelling houses, unit	31445
Urban	10473
Urban	20972
total area, 1 000 m² , of which	3679.1
Urban	1709.1
Rural	1970.0

The population of Artsakh has been deprived of apartments and houses built by different generations over millennia. As of 01.01.2020, the total residential area amounted to 4,415,100 square meters, comprising about 13,000 apartments and 31,400 houses, along with their interior and exterior finishes.

Table 3. Material, non-material values as of 01.01.2020 [AVC AH, 2021]

	Quantity
Urban	12
Rural	241
General education schools	220
Specialized secondary schools	6
Higher educational establishments	5
Pre-school establishments	51
Hospitals	21
Medical institutions rendering out-patient and dispensary aid to population	26
Libraries	10
Books and magazines	399000
Museums	12
Museums exhibits	63160
Theatres	2
Hotels	51
Registered legal entities	4428
Registered sole proprietors	12105
Composition of funds of medium and large organizations, million drams	474610.3
Only non-current assets, mln drams	290449.9

Azerbaijan has forcibly taken possession of 12 cities and 241 villages built by Armenians, along with their infrastructure. 220 schools, 21 hospitals, 26 institutions providing outpatient and polyclinic care to the population, 51hotels, 12 museums, more than 10 thousand historical and cultural objects, this list can be continued endlessly. From 1995-2022, 843,253.8 million drams or an average of 30,116 million drams per year of construction work was carried out in Artsakh. During the same period, 518.9thousand square meters or 18.5 thousand square meters of residential space per year was put into operation. The value of fixed assets put into operation in the Republic of Artsakh in 1995-2022 amounted to 499,335 million drams.

The "fall" of the Artsakh economy was transmitted to the Armenian economy through a number of channels, some of which had an immediate visible effect, while others were gradual. Here, I find it necessary to make a small reference to the economy and natural wealth of Artsakh. The average annual atmospheric precipitation in the territory of Artsakh is 580mm. This means that more than 2,530million m³ of water is formed annually in the territory of Artsakh (excluding the regions of Kashatagh and Shahumyan) (18 billion m³ of water in the territory of Armenia). 55% of this volume, 1,390 million m³, evaporates, and the other part, 1,140m³, forms surface and underground flow [Melqowmyan, 2005].

Artsakh is incomparably well-provided with water resources per capita. The rivers of Artsakh have great energy and irrigation significance. Thus, the hydroelectric potential of the largest Tartar river has been estimated at 150 thousand kw, of which about 80% is technically usable [Melqowmyan, 2005]. The territory of Artsakh is insufficiently studied from the geological exploration point of view, but the existence of a number of metallic and non-metallic mineral deposits is known. Coal deposits have been discovered near the villages of Maghavuz, Nareshtar, and Kolatak in the Martakert region. Polymetals, especially zinc, lead, copper, gold, sulfur pyrite, and iron deposits and occurrences have been discovered since ancient times. There are copper and other non-ferrous metal ore clusters near the villages of Drmbon, Kusapat, Vank, Mets Tagher, of which only Drmbon's gold and copper were exploited. Artsakh was also rich in non-metallic resources - marble, limestone. The village of Harav in the Askeran region is entirely on marble layers. There are also many mineral water resources, man-made recreational resources, historical and architectural monuments, and church complexes in Artsakh. However, both in the Soviet period and throughout the period of independence in Artsakh, the problem of comprehensive assessment of all natural resources was not solved. It is of particular interest the study of metal deposits and their qualitative and quantitative assessment.

The NKR is connected to Armenia by the North-South highway, which was built with the resources of all Armenians-through the All-Armenian Fund. In 2019, another highway connecting Artsakh to Armenia was put into operation-Sotk-Martakert. In 2008-2011, the airport in Artsakh was completely renovated, which was never put into operation due to Azerbaijan's failure to provide security guarantees. Natural gas was supplied from Armenia to Artsakh by pipeline transport and electricity by electronic transport, which was also delivered to the villages of Artsakh.

Economically justified ties between the two Armenian republics were a vital necessity, and the correct use of comparative advantages contributed to economic growth and improvement of its quality. However, we must note that no program or concept for creating an economic union between Armenia and Artsakh, the sequence of actions and steps derived from it, target indicators have ever been adopted and defined. It is true that the two Armenian republics were in the same economic field, Artsakh did not have a national monetary unit, independent central and commercial banks, did not pursue an independent monetary policy, the fiscal policy was fully harmonized, there was a system of mutual offsets of indirect taxes, a significant part of the expenditures of the state budget of Artsakh is financed at the expense of the interstate loan received from Armenia, independent external economic policy, naturally, was not pursued due to the absence of a customs border. Nevertheless, deep cooperative ties were not established between the economies of Armenia and Artsakh, especially between the private sectors. Integration ties were also absent in the plane of social infrastructures: there were unified standards of the educational system, they were guided by the same general education programs and text-

books, but all universities, secondary vocational educational institutions, schools were separate subjects, the same was true for health institutions, scientific institutions. The population of Artsakh underwent several wars in a short period of time, lived in a situation of neither war nor peace and had a great dependence on social benefits: their number exceeded nine dozen. In recent years, an attempt was made to introduce a unified system according to the assessment of family needs, but it was not introduced. The absence of integration ties was especially evident in the labor market: the presence of the state system and the army in Artsakh had significantly mitigated the problem of unemployment. Moreover, there was a need for many specialists, especially craftsmen. However, no targeted policy was pursued here either, which would solve the problems of Artsakh settlement on the one hand, and directing labor migration from Armenia on the other. There were no economic ties between the economic entities of Artsakh and Armenia either. The fact that the same owners have created two different organizations for the exploitation and processing of the results of the Drmbon mine in the Martakert region of Artsakh speaks about the problems existing in the legislative field. Armenia was Artsakh's largest trading partner: in all the years of independence, Armenia accounted for a significant part of Artsakh's exports and imports.

Table 4. Export and import of the Republic of Artsakh by countries [6,2023, pp. 375-379], (mln.dollars)

	2016		2017		2018		2019		2020		2021		2022	
	Export	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Total	81,1	256,9	156,6	287,8	202,1	353,0	283,0	373,1	137,0	280,8	98,5	258,4	335,5	496,5
of which:														
Armenia	68,0	232,2	141,5	260,1	191,5	333,3	190,7	362,8	135,6	265,8	97,2	254,3	166,1	319,6
% in rel. to each other	83,8	90,4	90,3	90,4	94,8	94,4	67,4	97,2	99,0	94,7	98,7	98,4	49,5	64,4

Observing the product structure of foreign trade is a more objective approach to the problem. Mainly mineral raw materials were exported from Artsakh - 80% of the exported material values in 2017-2021, and another 14.3% was grain. The indicators given in the table have made obvious the limitation of Artsakh's economic opportunities as a result of the 44-day war in 2020: thus, in 2021 compared to the previous year, the export volume increased 4.4 times, including mineral raw materials 4.6 times, grain 20.4 times. It should be noted that the import volumes have not suffered much from the 2020 disaster by 21%. Imports from Armenia to Artsakh are more diversified in terms of the nature of goods, as both final consumption and raw materials and capital goods are imported. Mineral raw

materials also have a large specific weight in import volumes – an average of 60.2% in 2017-2022, products of vegetable origin - 9.0%.

Table 5. The foreign trade turnover of Armenia and Artsakh 2017-2021 [AVC AH, 2022, 375-379], thousand ton

	Exports					Imports				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
1 Live animals and products of animals origin	1,6	1,0	1,2	1,9	0,5	2,7	3,7	3,5	7,2	4,1
2 Products of vegetables origin	52,8	45,1	46,0	30,0	3,4	20,8	26,6	26,0	19,6	21,1
of which: grain	49,2	38,9	38,4	27,0	1,3	1,9	5,1	3,1	1,7	5,1
3 Fats and oils	0,3	0,6	0,6	0,6	0,2	0,8	0,7	0,5	0,3	0,5
4 Products of prepared food	2,1	1,3	2,0	1,7	1,5	20,3	18,5	21,6	18,4	18,5
5 Mineral production	93,4	180,0	235,3	287,8	62,2	168,4	157,8	139,3	179,7	115,1
6 Goods of chemical production	0,2	0,0	0,0	0,2	0,0	7,2	8,4	9,5	5,8	5,1
7 Textile articles	0,1	0,0	0,1	0,0	0,1	1,0	0,7	0,6	0,9	0,4
8 Footwear, umbrellas, headwears	0,3	0,1	0,2	0,1	0,0	0,1	0,2	0,3	0,2	0,1
9 Stone, plaster, cement	0,4	0,4	0,7	0,4	0,5	4,7	8,2	7,7	5,1	6,7
10 Precious stones and metals	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0
11 Base metals and articles of it	1,0	0,0	0,3	0,5	3,7	7,0	13,2	14,3	9,7	16,4
12 Machinery and equipments	0,2	0,2	0,5	0,1	0,1	4,2	5,8	8,1	3,1	3,1
13 Transport means	0,1	0,1	0,5	0,3	0,4	8,1	8,7	9,9	5,6	9,2
14 Furniture, toys other industrial goods	1,3	0,7	2,7	0,9	0,2	12,6	12,0	17,1	9,4	8,2
15 Other	1,8	0,6	0,5		0,3	1,3	1,1	2,0	1,4	2,2
Total	155,6	230,1	290,6	324,5	73,1	259,2	265,6	260,4	266,4	210,7

A significant part of the mineral raw materials exported from Artsakh was processed in Armenia and exported this was perhaps one of the reasons for the underdevelopment of the manufacturing industry in Artsakh. In 2018-2020, the electric energy produced in Artsakh satisfied not only domestic needs but was also exported to Armenia, thus the balance of electricity export and import from Artsakh to Armenia during the mentioned period was about 200 thousand kwt. Artsakh was also self-sufficient in terms of all types of

meat and grain. Moreover, more than one-third of the grain produced in Artsakh was exported to Armenia. It's no secret that Artsakh was not a leader in fruit and vegetable cultivation compared to Armenia, but it was an important supplier for some types: pomegranate, tangerine, walnut, grape, melon crops.

After 2020, Artsakh's economic dependence on Armenia has greatly increased, first the amount of interstate loan in 2021 increased by 70.9 billion drams or 2.2 times compared to 2019 (2.7 times compared to 2016). This was mainly due to the socio-economic consequences of the war: loss of agricultural lands, forest fund, economic objects, livestock, housing stock, etc., as well as the decrease in own revenues and increase in social burden. Compared to 2019, tax revenues decreased by more than 40percent in 2021. This development was due to the loss of four regions and taxpayers operating there, as well as post-war tax privileges, debt forgiveness, reduction of tax rates [AH AVC, 2022].

The economy of Armenia will probably not have a problem with the realization of goods exported from Artsakh, because a significant part of the forcibly displaced people from Artsakh, moving to Armenia, will be consumers.

It is also essential to learn about the human resources of the Republic of Artsakh and the issues of their integration into the economy of Armenia. The number of permanent population as of 01.01.2020 was 148.8 thousand people. The number of labor resources was 105.6 thousand people, including the number of employed – 61.9 thousand people and only 10 thousand unemployed. As in Armenia, there was no record of the professional structure of the population in Artsakh: one can notice that according to the results of the last census in 2015, about 30 percent of the population had higher education.

Table 6. Human resources [AVC AH, 2021, 37, 62]

	Quantity for 01.01.2020 ^р
Total population size, thsd. persons	148.8
Labour resources, thsd. Person	105.6
Employed, total thsd. Person	61.9
Employees thsd. Person	52.1
Unemployed population thsd. Person	10.0
Disabled. Person	8437
Families receiving allowances. person	8785
Children of families receiving allowances. person	19407
Pensioners. person	30454
Teacher, person	4415
Physicians, person	365
Paramedical personnel, person	1410
professorial staff, person	308
Doctor of Science, person	9
Candidate of Science, person	112

As it can be seen from the data presented in the table, 4,415 teachers, 365 doctors, 1,410 paramedical personnel, 308 lecturers worked in Artsakh, including 36.4 percent candidates of science, 3.0 percent doctors of science. The number of professional, seasoned experts of various branches of the state administration system was also quite large. However, it must be stated that this potential was not appreciated in Armenia, naturally, it was not used: as a result, thousands of qualified personnel also left Armenia. No serious, fundamental and long-term program was implemented to ensure the employment of Artsakh people, the work experience of people in various state structures was ignored. Along with this, the number of those in need of social care was quite large in the composition of the Artsakh population, thus: in Artsakh, every fifth person was a pensioner and every fourth family was a beneficiary. This implies a rather large social burden, if we add to this the problems of satisfying people's daily food, other essential expenses due to the loss of residence and work, the seriousness of the problem will become obvious. Until the 44-day war, in 2019, the amount of interstate loan provided from Armenia to Artsakh amounted to 57.8 billion drams, of which 22.5 billion drams or 38.9 percent was directed to social protection expenses [AH AVC, 2022]. According to the report on the progress and results of the implementation of the Government of the Republic of Armenia program (2021-2026) for 2023, approved by the Government of Armenia's decision N 266-A of February 23, 2024, various foreign governments, international organizations have allocated about 142 million US dollars to the Government of Armenia to mitigate the humanitarian crisis created as a result of forced displacement from Artsakh, of which 34 billion drams or about 60 percent was used in 2023 [Melqowmyan, 2005].

Not having exact, official numerical data for 2024, we have calculated the main expenses made by the Republic of Armenia on Artsakh people through the observations, available databases (including data provided in the aforementioned document), and data from various sources: 3.8 billion drams monthly (45.6 billion drams annually) for pensions and living allowances. This number will constitute about 30.0 percent of the 176 billion drams interstate loan provided to the Republic of Artsakh in 2022. Another important circumstance is that more than 80 percent of this amount represents direct income for Armenian citizens, while the rest is also injected into Armenia's economy in the form of consumer spending.

Conclusions

The loss of Artsakh is an unspeakable pain and a deep psychological wound for every Armenian. It is difficult to materialize this. However, the material losses are also great: hundreds of villages and cities, thousands of apartments and houses, immeasurable natural wealth, decades of investments by the Armenian diaspora and millennia of investments by Artsakh Armenians, historical and cultural monuments - this list can be continued endlessly. The Republic of Artsakh and the Republic of Armenia were in a unified

economic field; therefore, Armenia's economy will bear the negative effects of the collapse of economic ties and the loss of a prosperous and democratic country. This primarily means 150,000 homeless, jobless, and destitute people, a quarter of which are pensioners and disabled, and a fifth are minors. Moreover, if, in the initial period, foreign governments and international organizations shared the social burden, in the coming years, Armenia itself will have to find solutions or record another wave of emigration.

The two newly independent Armenian republics did not seriously address the ever-present danger of war in their development path, did not form a military-industrial complex, did not generate all the resources of the Armenian diaspora, especially in the direction of producing modern weapons, putting the economy on a military footing in a short time, creating financial resources and insurance funds to compensate for the socio-economic damages of wars. Our defeat in the war also resulted in the absence of materialization or competitiveness. The available natural and economic resources were not used effectively.

Our analysis has allowed us to present several proposals aimed at overcoming the created socio-economic and humanitarian crisis, in particular:

- conduct an inventory of available resources and develop realistic employment programs for Artsakh people based on educational, professional, and work skills and abilities standards;
- implement an inventory of free housing stock in Armenia, providing it free of charge temporarily to Artsakh people: by keeping Artsakh people in mother Armenia, some demographic problems and the issue of rural resettlement can also be solved;
- work actively through diplomatic channels towards the return of Artsakh people to their homeland and living a dignified life there, and until then, demand compensation for economic and moral losses from Azerbaijan in international economic courts, and accountability for war crimes.

An assessment of the material losses of Artsakh people should be carried out. It is also worthy to assess public and private investments.

Armenia is the homeland of every Armenian, but an Artsakh person cannot reconcile with their loss; it is impossible to accept that you were forced to move under the threat of forced physical extermination and can no longer live in your land, your home. People have left their homeland with the expectation of returning, relying on the efforts of the Armenian authorities and the international community; only the hope of returning is their bulwark for living.

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Manush MINASYAN

The influence of the breakdown of RA and AR economic relations on the RA economy

Key words: economic ties, product structure of export and import, economic losses, material and non-material values

The economic ties between the Republic of Artsakh and the Republic of Armenia have developed, deepened, and changed for more than thirty years. Today, it is very important to analyze these ties, assess the economic consequences of their severance, and outline the resulting changes in macroeconomic policy. The purpose of the article is to assess the impact of the loss of Artsakh on Armenia's economy. Which sectors of the economy will suffer the most, what adjustments should the financial system make, will the social burden increase in Armenia, how to regulate the newly emerging issues of the labor market and poverty assessment - these are the main questions that have been addressed in our research. This article addresses the natural resources of Artsakh, the thousand-year-old country of Armenians, presents numerical data on some material losses of the Armenian people as a result of the occupation of the Republic of Artsakh, the economic ties between RA and AR, and assesses the consequences of their collapse on the RA economy. As a result of the analysis, several steps aimed at mitigating the created socio-economic and humanitarian crisis have been proposed, in particular:

- Conduct an inventory of available resources and develop realistic employment programs for Artsakh people.
- Implement an inventory of free housing stock in Armenia, providing it free of charge temporarily to Artsakh people.
- Work actively in all possible ways towards the return of Artsakh people to their homeland and living a dignified life there, and until then, demand compensation for economic and moral losses from Azerbaijan in international economic courts.

In order to implement the latter idea, it is necessary to assess the material losses of Artsakh people. It is also very important to assess public and private investments. This work will be continuous, including the results of surveys of forcibly displaced households from Artsakh and their analysis and summary.