

## *Chapter 8*

# **Azerbaijan's Foreign Policy: What Role for the West in the South Caucasus?**

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Since gaining independence twenty-five years ago, Azerbaijan has pursued three major foreign policy goals: resolution of the Karabakh conflict based on the territorial integrity of the country; preservation of its own independence and security; and finally becoming the major regional player by using its energy and geographical positions. Azerbaijan's foreign policy actions may be considered a kind of "silent diplomacy," which Baku is using to gradually develop Azerbaijan's role in the region, playing off of contradictions among other powers. During this time, Baku has taken some bold actions that indicate its policy is not dependent on regional powers and that its interests are to be taken into account.

Today, looking at the fast-changing situation in the region, we can conclude that none of these goals have been fulfilled completely. In fact, the country is facing more challenges than before. The Karabakh conflict remains one of the most problematic issues. In terms of security and trade, Azerbaijan is still struggling to find its place in the mosaic of such institutions as the EU and the Eurasian Economic Union. In addition, the sudden drop in oil prices and the inability of the country to create a diverse economy has become another headache for the political establishment. Moreover, the lack of needed investments decreases the chances that the country will become a regional hub. This chapter reviews current problems challenging the country and recommends ways the transatlantic community can deal with Baku on pressuring issues.

### **Security Challenges**

The Karabakh conflict continues to haunt the Azerbaijani establishment. Events of the last two years have shown that the conflict is not only far from settlement, it could turn into a full-blown war. Events in Ukraine, sanctions against Russia, and a looming new Cold War put the Azerbaijani government in an uncomfortable position. For the last few years Baku has

been building good relations with Russia, hoping to persuade Moscow to side with Azerbaijan in resolving the Karabakh conflict. Massive arms purchases from Russia, a benevolent foreign policy toward Moscow, and Baku's unwillingness to deepen relations with the European Union and NATO have all created a reasonably positive image of the country in the eyes of the Russian establishment. Some might describe Azerbaijan's policy as a kind of Finlandization, akin to the Finnish pursuit of neutrality after World War II in the face of a hostile Soviet Union.<sup>1</sup> Russia's occupation of Crimea and its support for separatists in the Donbas have complicated Azerbaijan's position, however. While the Azerbaijani government fully supports Ukraine, Baku cannot afford to spoil relations with Moscow due to the latter's significant leverage in the Caucasus. Azerbaijan is left with the option of trying not to irritate Russia while staying on the side of those who object to Russia's intervention.

At the same time, the crisis in Ukraine and fear of interrupted natural gas supplies have led to renewed EU attention to an alternative transport system for delivery of gas from the Caspian region to European states. European consumers have even begun to express interest in revitalizing the idea of a trans-Caspian gas pipeline that would deliver Turkmen gas to Europe via Azerbaijan.

Overall, the crisis in Ukraine has made Baku's geopolitical alignment a valuable prize along this new east-west divide. Baku has tried to use the situation in Ukraine to its own advantage by calling attention to parallels with Azerbaijan's own separatist conflict. President Ilham Aliyev has repeatedly pointed out that the West is applying double standards: it imposes sanctions against Russia for its occupation of Crimea and support of separatism in the Donbas while it has never considered sanctions against Armenia for the occupation of Karabakh.<sup>2</sup>

Meanwhile, the United States during the Obama administration disengaged from the region and relations with Azerbaijan deteriorated. Constant criticism of Baku regarding human right violations and initiating a Turkish-Armenian rapprochement without taking into consideration Azerbaijan's interests were major events shaping relations between Washington

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<sup>1</sup> Anar Valiyev, "Finlandization or Strategy of Keeping the Balance? Azerbaijan's Foreign Policy Since the Russian-Georgian War," PONARS Policy Memo N 112, 2010, <http://www.ponarseurasia.org/memo/finlandization-or-strategy-keeping-balance-azerbajjans-foreign-policy-russian-georgian-war>.

<sup>2</sup> Anar Valiyev, "Azerbaijan's Balancing Act in the Ukraine Crisis." PONARS Memo N 352, 2014, <http://www.ponarseurasia.org/memo/azerbajjans-balancing-act-ukraine-crisis>.

and Baku. Moreover, the Obama administration did not show any interest in energy issues in the region, in contrast to the Clinton and George W. Bush administrations. Washington did not endorse the Nabucco project, the construction of a pipeline from the Caspian Sea to Europe. At the same time, the Obama administration's disinterest in a resolution of the Karabakh conflict allowed the Russian administration to monopolize the negotiation process.

U.S. disengagement from Iraq and Afghanistan also affected Azerbaijan. Baku lost its strategic value for the United States as a major transportation hub for the U.S. Army. The number of high-ranking visits of U.S. officials also diminished. Moreover, the situation was further exacerbated by the fact that for some period Baku did not even have a U.S. ambassador, due to delays and holds in the Senate confirmation process. Of course, it is important to admit that Baku also played a role in the deterioration of relations by cracking down on civil society and shutting down U.S.-sponsored NGOs and projects including Voice of America and Radio Liberty.

Confronted with U.S. disengagement and facing growing Russian expansionism, Baku tried to pacify or at least not irritate the Russian establishment as well as to buy Russian loyalty through arms purchases. Over the last four years, Azerbaijan has imported about \$3.35 billion in arms, of which 80% has come from Russia, including two S-300 missile systems, 94 T-90S tanks, 20 Mi-35M helicopters, and 100 BMP-3 armored vehicles.<sup>3</sup> Azerbaijan has also purchased 25 Su-25 planes and 93 T-72M1 tanks from Belarus, Russia's ally. Meanwhile, the Russian establishment did not rush to help the region in resolution of Karabakh conflict. Moreover, Russian indecisiveness and support of separatism led to the resumption of military actions in Karabakh in April 2016. The four-day clashes between Armenian and Azerbaijani forces left hundreds of people dead from both sides and stoked fear that such incidents could reoccur.

The security situation in the region has deteriorated since the April 2016 hostilities. Following the shock of defeat, the Armenian side began massively purchasing military equipment in an effort to change the balance of power or deter future Azerbaijani actions. At a September 2016 military parade dedicated to the 25th anniversary of Armenian independence, Yerevan presented Russian-made *Iskander* mobile short-range ballistic missiles. The appearance of Russian *Iskanders* in Armenia is likely to spark a new arms race in the South Caucasus and creates new challenges for security

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<sup>3</sup> Ibid.

in the region. It is highly unlikely that the weapon will actually be used against Azerbaijani cities by the Armenian/Russian side. Still, their presence on Armenian territory puts Baku in an uncomfortable position. Even if these few *Iskanders* do not change the overall military balance in the region, Baku will nonetheless strive to obtain similar weapons if only to maintain parity with its regional archrival.<sup>4</sup>

Meanwhile, the Karabakh conflict will continue to be a headache for Azerbaijan for a long period of time. The conflict will exert tremendous negative impact on the future of the country, from the perspective of both democratic and economic development. The years of Western disengagement from the problems of the region created a vacuum into which an increasingly aggressive Russia has inserted itself. Rather than seek peaceful resolution of the conflict, Moscow saw an opportunity to use the conflict to bolster arms sales and to meddle in the respective countries' foreign policy agendas. By 2016 neither the United States nor the EU have the same degree of leverage in the region as does Russia. In fact, the involvement of the Russian establishment has increased the chances that the countries could go to war.

### European Union or Eurasian Economic Union: Where to Go?

Cooperation with the European Union is one of Azerbaijan's foreign policy priorities. Azerbaijan looks to the EU as a market for its resources and with the hope that the EU can become a force to counterbalance Russia in resolving the Karabakh conflict. For the last twenty-five years, the EU has been an important partner for Azerbaijan, providing around €333 million in technical, humanitarian, emergency, and food assistance. EU investments of €35 billion make it the largest investor in Azerbaijan. Moreover, the share of EU countries in Azerbaijan's foreign trade was 47%, far more than the country's trade with any other partner.<sup>5</sup> The Azerbaijani public has traditionally regarded the EU with a comparatively high level of trust. However, for the last decade the EU has lost many Azerbaijani

<sup>4</sup> Anar Valiyev, "Russian Iskanders in Yerevan: New Challenges for Azerbaijan's Security." *Eurasia Daily Monitor* Volume 13 Issue: 156, 2016, <https://jamestown.org/program/russian-iskanders-in-yerevan-new-challenges-for-azerbajians-security/>.

<sup>5</sup> In 2015 the EU accounted for 31.92% of Azerbaijani imports and 59.1% of Azerbaijani exports. See Anar Valiyev, "Azerbaijan: Perspective of Eurasian Integration." European Council on Foreign Relations 2016, [http://www.ecfr.eu/article/essay\\_eurasian\\_integration\\_Azerbaijan](http://www.ecfr.eu/article/essay_eurasian_integration_Azerbaijan).

supporters due to its inability to stop Russian aggression against Ukraine and its struggle to master its own economic crisis, including Greece's ongoing challenges. In 2010–2013, the percentage of respondents who distrusted the EU grew to a record 30–33% while the percentage of those who trusted the EU dropped to roughly 20%. Nonetheless, almost 50% of Azerbaijanis surveyed in 2011–2013 consistently supported the country's membership in the EU. Only 11% were against such membership, while significant numbers were still either neutral or undecided.<sup>6</sup>

The shocking results of the 2016 UK referendum rejecting EU membership, however, has further rocked Azerbaijani elite and popular perceptions with regard to future cooperation with the EU. As the main investor in Azerbaijan, the UK has often played the role of EU front man in the country. Moreover, the UK's specific energy interests in Azerbaijan allowed Baku to promote its interests within the EU, since London had been the country's major EU defender. That was the case with the gas pipeline to Turkey and Europe, the Baku-Ceyhan pipeline, as well as several other megaprojects of the region.

It is hard to believe that Baku will stop cooperating with the EU, despite the Brexit vote. However, the departure of its major EU supporter will make it more difficult for Azerbaijan to garner the same degree of support for its projects. Moreover, Baku fears that growing skepticism of EU countries toward cooperation with non-EU countries in wider Europe could endanger future cooperation. The EU may be expected to concentrate more on its own problems rather than expanding its influence to the east. This is especially alarming if one takes into consideration the recent warming of relations between Baku and Brussels on many issues. In this situation, the future of the ill-fated Eastern Partnership initiative, launched in 2009, will become even more problematic. Moreover, Eastern Partnership countries, and Azerbaijan in particular, are quite skeptical whether EU institutions are likely to be able to cope with the EU's internal problems.

The record of the Eastern Partnership initiative with Azerbaijan has been mixed. Azerbaijan secured EU support for trans-Anatolian and trans-Adriatic pipelines to transport Azerbaijani gas to Europe. Baku was also successful in negotiating a visa facilitation and readmission agreement that eased the visa process for Azerbaijanis. But that was the program's only real success. While countries such as Armenia, Moldova and Ukraine

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<sup>6</sup> *Caucasus Barometer 2013*. Caucasus Research Resource Center, [www.crrccenters.org](http://www.crrccenters.org).

signed or were on the edge of signing EU Association Agreements, the EU did not feel that Baku fulfilled the conditions for such an agreement.

By the time of the 2013 Vilnius summit it became clear that Baku was not interested in an Association Agreement but rather preferred a separate Strategic Modernization Partnership Agreement. The EU, however, could not close its eyes to human right violations in Azerbaijan, given mounting numbers of political prisoners and a crackdown on civil society. Azerbaijan's political establishment, in turn, began to disengage from reform commitments it had made, since such commitments would require greater political tolerance and economic liberalization, which irritated the government and generated discontent among the elites. Moreover, increased oil prices had caused the country's coffers to fill again, rendering Baku arrogant enough to disengage from earlier agreements and to set forth its own version of cooperation with the EU.

Such negative attitudes were certain to affect public perceptions of the Eastern Partnership. A survey conducted by Caucasus Research Resource Center highlights growing levels of mistrust toward the EU in Azerbaijan over recent years. In 2008 Azerbaijani trust toward the EU reached a peak. But following the Russia-Georgia war perceptions darkened, so that by 2013 "trust" in the EU had fallen to just 8%, and the "somewhat trust" level hovered near 22%, while a plurality (37%) of those polled expressed a "neutral" attitude toward the EU.

Trust toward NATO in Azerbaijan reflects the same perception that people have toward the EU. In a Gallup poll conducted in February of 2017, around 21% of those surveyed associated NATO with protection of the country. Sixteen percent viewed NATO as a threat, while 44% viewed the alliance as neither threat nor protection. It is interesting to observe that among the post-Soviet countries, Azerbaijan has the lowest number of people who consider NATO as a threat, following Georgia (8%). Meanwhile, Azerbaijan has the highest percentage of the population neutral with regard to NATO, followed by Moldova (38%).<sup>7</sup> Such a high percentage of neutral sentiment in Azerbaijan is related to the perception that NATO responded weakly to the Russian threat in Georgia and Ukraine.

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<sup>7</sup> "Most NATO Members in Eastern Europe See It As Protection," Gallup, 2017, [http://www.gallup.com/poll/203819/nato-members-eastern-europe-protection.aspx?g\\_source=Azerbaijan&g\\_medium=search&g\\_campaign=tiles](http://www.gallup.com/poll/203819/nato-members-eastern-europe-protection.aspx?g_source=Azerbaijan&g_medium=search&g_campaign=tiles).

Given growing euroscepticism, the Russian-driven Eurasian Economic Union (EEU) might appear to be the preferable choice for Azerbaijan. Baku's membership in the Commonwealth of Independent States (CIS) has not brought anything negative to Azerbaijan. On the contrary, it eased Azerbaijani-Russian relations after a tense period in the early 1990s and, with its visa-free regime, addressed the problem of high unemployment in Azerbaijan by allowing for massive labor migration to Russia. Joining the EEU now would increase the ability of Azerbaijani products to penetrate neighboring markets. In addition, the import of cheap Russian food products would decrease prices and benefit a large share of the population.

The overall cost of joining the EEU, however, is far greater than these benefits. Azerbaijan's largest trading partner is not Russia but the EU. Joining the EEU would not alter the structure of Azerbaijan's imports, it would raise the cost of vital products as it would force Azerbaijan to impose EEU-level tariffs on various goods. Moreover, free trade with the EU would be less damaging to Azerbaijan's agricultural sector. The cost of agricultural products in the EU is comparatively high, and at least not less expensive than Azerbaijani products. Given transportation costs, it will not be profitable for EU states to export agricultural products to Azerbaijan. This is not the case with Russian, Belarusian or Kazakhstani agricultural products. Imports from EEU members could destroy Azerbaijan's agriculture sector, which employs about 40% of the country's workforce.

## **Efforts to Become an Economic and Transport Hub**

Azerbaijan is located at the crossroads of major Eurasian land and air transportation corridors. Since gaining independence, the Azerbaijani government has actively tried to make the country a bridge between Europe and Asia. After the collapse of the Soviet Union, the European Union initiated projects to re-connect post-Soviet states with the markets of Europe and Asia. A May 1993 conference in Brussels launched the Transport Corridor Europe, Caucasus and Asia (TRACECA) program as a way to spur intermodal transport initiatives. The program received its second wind at a summit in Baku in 1998, when member states established a Baku-based Intergovernmental Commission and Permanent Secretariat. Since then, the EU has invested around \$800 million into capital projects and the renovation of ports, railroads, and roads along the TRACECA corridor.

Member states have also pursued integration of their infrastructure, tariffs, and logistical chains. By 2007, trade among TRACECA members

surpassed \$40 billion, while their combined trade with the EU reached \$290 billion.<sup>8</sup> Of this, 70% of the trade was in oil, with most of the transportation occurring along the Azerbaijani-Georgian segment of the corridor. Azerbaijan and Georgia are the two states that have most benefited from TRACECA. The corridor has also been useful to hydrocarbon states Kazakhstan and Turkmenistan.

Overall, however, the limited non-energy export base of most members of TRACECA, coupled with obstacles related to border delays and controls, custom offices, and corruption, have limited its potential to emerge as a major trade corridor.

Given lower oil prices and less oil profits, Azerbaijan has intensified its efforts to diversify its economy and revive TRACECA and, especially, transportation links with Central Asian states. In January 2015, the working group of the Coordination Committee of the trans-Caspian international transport route (running from China to Turkey) met in Baku and reached an agreement to intensify container service on the China-Kazakhstan-Azerbaijan-Georgia-Turkey route. Azerbaijani authorities believe that by 2020 around 300–400,000 containers can be transported via this route, bringing billions of profits to its participants. At the start of August 2015, the first container along the route arrived from China at the newly constructed Baku International Sea Trade Port. The container reached Baku in a record six days, traveling more than 4,000 kilometers. This event has appeared to signal a new era in regional transportation links and a revival of the TRACECA concept.

The countries of the region have been the main motors behind this new burst of initiative; the EU has not been actively involved. Over the last decade, Azerbaijan has invested billions of dollars into commercial infrastructure and transportation projects. It is finalizing construction of the largest port in the Caspian Sea (in Alyat, 60 kilometers south of Baku), it has helped construct the Baku-Akhalkalaki-Kars railroad, and it is turning the Baku airport into a modern hub. Billions have been invested into the road system, significantly decreasing travel times between the Caspian Sea and the Azerbaijani-Georgian border, 550 kilometers west of Baku. The main idea of these projects is to position Azerbaijan as a lucrative link between Asia, Central Asia, the South Caucasus, and Europe. Baku under-

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<sup>8</sup> Taleh Ziyadov, *Azerbaijan as a Regional Hub in Central Eurasia* (Baku: ADA University Press, 2012).

stands the importance of implementing diversification strategies in anticipation of the depletion of the country's hydrocarbon reserves.<sup>9</sup>

Despite the attractiveness of East-West Corridor, Azerbaijan does not reject the idea of a North-South corridor from Russia to Iran. Azerbaijan was in favor of this project, but both Russia and Iran lacked much interest in pushing it forward. However, the economic crisis, sanctions against Russia, and the opening of Iranian markets, may afford the opportunity to revitalize the project. On April 7, 2016, the foreign ministers of Azerbaijan, Iran and Russia met in Baku to discuss the North-South transport corridor. On April 20, Azerbaijan and Iran launched construction of 8-kilometer railway linking the borders of Iran and Azerbaijan that will be finished by the end of this year. Meanwhile, the Iranians have accelerated work on the construction of the Rasht-Astara railway that would link the rail systems of Iran, Russia and Azerbaijan, allowing Russian goods to reach the Persian Gulf in record time. Moreover, Baku had already given a \$500 million loan to Iran to finish the project. Finally, on August 8, 2016 the presidents of Russia, Iran and Azerbaijan met in Baku and gave life to a new transport corridor, calculating that a route through Azerbaijan would increase trade and significantly reduce freight costs, particularly trade heading from Russia to India and back.

Economically, Baku understands the need to diversify, given the volatility of oil prices and the country's limited reserves. Politically, Baku expects that becoming both a major energy supplier to the EU and a major transportation hub will contribute to making Azerbaijan a political heavyweight in the region, enabling it to strengthen its position in future negotiations with the EU on trade preferences, political engagement, and potentially even membership.

Azerbaijan's desire to become a regional transit hub is inspired by the success of two countries: Singapore and the United Arab Emirates (Dubai specifically). The main infrastructure projects Azerbaijan is implementing today resemble those undertaken by these two success stories. In particular, Dubai's Rashid and Jabal Ali Ports, Free Economic Zones, international airport, and other state-of-the-art projects represent vivid models for Baku planners, and the emir of Dubai, Mohammed bin Rashid Al Maktoum, is a revered frequent visitor. Following Dubai's emphasis on port development, Baku is constructing an enhanced port at Alyat—"the Jewel of the

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<sup>9</sup> Anar Valiyev, "Azerbaijan: Perspective of Eurasian Integration." European Council on Foreign Relations, 2016, [http://www.ecfr.eu/article/essay\\_eurasian\\_integration\\_Azerbaijan](http://www.ecfr.eu/article/essay_eurasian_integration_Azerbaijan).

Caspian”—which includes the port, an International Logistics Center, and a Free Economic Zone. The whole project is estimated to cost around \$870 million, and it is expected to handle 10 million tons of cargo and 40,000 containers a year (with an eventual capacity of up to 25 million tons of cargo and 1 million containers). Other transportation links have also been needed.<sup>10</sup>

Meanwhile, Azerbaijan is considered as the key geographical territory for many integration projects happening in the region. Today, Azerbaijan is at the center of three major integration initiatives—the European Union, the Eurasian Economic Union and the recently established OBOR (One Belt One Road) initiative championed by China. All three initiatives more or less target Azerbaijan. Still, official Baku was putting a lot of hope on the East-West corridor as the way to get closer to the EU.

Whether Azerbaijan's major transportation projects are sustainable is a significant question. Dubai appears an appropriate model for Azerbaijan according to certain parameters (political regime, economy, geographic location). However, contrasts between the two can disrupt Baku's plans.

First, geographical constraints prevent Azerbaijan from becoming a regional player. Cities and states that have become successful usually contain ports with ocean access. Singapore, Hong Kong, and Dubai are at the center of sea trade routes. Baku, on the other hand, is effectively landlocked; the Caspian Sea does not have ocean access.

Second, compared with Dubai and Singapore, Azerbaijan does not have as much resources to implement so many large projects. Third, unlike Dubai or Singapore, which boast diversified economies, Azerbaijan's economy remains dependent on oil, a highly volatile commodity. Baku is currently trying to switch from oil to gas as Azerbaijan's main commodity of export. However, gas is also volatile and requires massive infrastructure investment as well as appropriate markets. As Iran begins selling its gas, EU customers may end up with abundant amounts.

Third, Dubai's success was highly dependent on historical circumstances: surplus international capital seeking profitable investment possibilities in the 1990s and early 2000s. Dubai took advantage of these opportunities and amassed physical and human assets in a relatively short time. Azerbaijan's rapid development, in contrast, began during a period of global financial and economic crisis, when excess capital rushed to save

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<sup>10</sup> Anar Valiyev, "Baku—City Profile." *Cities* 31, 2013, pp. 625–640.

economies in Europe and elsewhere. The only investment that spurred development in Azerbaijan was its own, which it received from the sale of oil and gas.

Finally, starting in 2014 Azerbaijan began to experience serious economic difficulties. After the shocking devaluations of February and December 2015, when the Azerbaijani manat depreciated by almost 100%, the government turned its attention to efforts that might mitigate the crisis and alleviate the situation by promoting more business activity. Dozens of licenses for entrepreneurial activities were eliminated, while tax and custom authorities were rendered more transparent. Apparently trying to break the monopolistic nature of the economy, the government also eliminated some duties and taxes for import-export operations. Moreover, the government began to make the tourism sector's long-standing priorities to facilitate international travel, and further liberalize its visa regime. However, in-depth analysis shows that these actions have not yet resulted in any significant impact. The economy remains monopolistic and foreign investors are not rushing in. Most of the reforms do not target root problems and are more "cosmetic" in nature. The lack of free competition, no respect for private property rights, as well as the absence of independent courts, have, and will, continue to make these new economic initiatives fruitless.

As a result, the Azerbaijani government is most likely to face serious problems in near future. To fulfill its commitments to expand oil and gas development in the region, including the SOCAR-backed TANAP (trans-Anatolian) and TAP (trans-Adriatic) pipeline projects, Azerbaijan is in dire need of massive investment.

### **Domestic Problems: Corruption, Monopolistic Economy, and Bad Governance**

For much of a decade Azerbaijan experienced a financial windfall due to high oil prices. The influx allowed Baku to spend money on many areas previously ignored, especially regional development. However, most of the programs and development initiatives were short-term in nature and did not achieve long-lasting effects. Given its substantial resources, Azerbaijan stopped looking for international assistance or listening to international advisers regarding economic restructuring. Moreover, the oil-dependent economy was marked by prevalent corruption and dense interlinkages between business and politics. As in many countries of the

former Soviet Union, Azerbaijan's small business sector is not very well developed, since the country pays more attention to development of large corporations and companies, usually belonging to some of the public officials. Thus, decisions of the government are very often taken and implemented for the benefit of large businesses, make it impossible for other companies to compete.

Another hindrance to business in Azerbaijan is the presence of monopolies. Certain areas of the Azerbaijani economy are controlled by a company under the patronage of a public official. Other companies are disadvantaged because custom offices or tax agencies prevent from becoming involved in a monopolized business. The monopolists, in turn, are able to increase prices to reap additional profits without repercussions.

Corruption remains one of the country's endemic problems. For the last decade, Azerbaijan has occupied the highest positions on Transparency International's Corruption Perception Index. Corruption is prevalent in almost every sphere of social life and considered one of the country's challenges in its transition to a market-based economy. Azerbaijan has not shown much improvement over past decades. Corruption is most visible in large-scale privatization, small scale privatization enterprise restructuring, price liberalization, and competition policy. This has become the major challenge for the Azerbaijani government. Endemic corruption emanating from the bureaucratic apparatus and public administration system hampers investments and innovations. For years Baku has been unable to solve this problem, although some positive changes have happened in governmental services following the establishment of the centralized ASAN-service, one-window system, which helps citizens to get services without delay and bribes. Nevertheless, Azerbaijan still ranks low on various indexes of transparency and corruption. Most surveyed businesses mention corruption as the major obstacle for investments and doing business in the country.

Azerbaijan began to experience serious economic difficulties in early 2015. After the shocking devaluations of February and December 2015, when the Azerbaijani manat depreciated by almost 100%, the government turned its attention to efforts that might mitigate the crisis and alleviate the situation by promoting more business activity. Dozens of licenses for entrepreneurial activities were eliminated, while tax and custom authorities were rendered more transparent. At the macroeconomic level, the government established the position of Presidential Assistant on Economic Reform tasked with creating a roadmap for economic reforms. The team

began by prioritizing the sectors of Azerbaijan's economy that they deemed best positioned to create jobs and attract investments. However, in-depth analysis shows that these actions have not yet resulted in any significant impact. The economy remains monopolistic and foreign investors are not rushing in. Most of the reforms do not target the root problems and are more "cosmetic" in nature. The lack of free competition, no respect for private property rights, as well as the absence of independent courts, have, and will, continue to make these new economic initiatives fruitless. As a result, the Azerbaijani government is likely to face serious problems in near future.

All of these problems, including the unwillingness to start reforms, stems from the fierce opposition of the bureaucratic apparatus occupied by the former Communist *nomenklatura* or their heirs. These bureaucrats perfectly understand the dangers real changes pose to their positions, and so torpedo most reforms. Most institutional reforms, innovations or changes are done halfway or in a such manner, that they do not change the nature of the system itself. As a result, no major or profound reforms have been implemented. The recent so-called Road Map, adopted by the government as a strategic plan for taking the country out of crisis, does not envision fundamental reforms. Instead, it discusses mostly cosmetic reforms and unfulfilled plans. It is hard to expect that official Baku will be able to solve the country's perpetual crisis with the current team or its understanding of "reform."

Given these entrenched interests, Azerbaijani establishment tends to look at other post-Soviet countries for models of development. Sadly, Baku replicates most Russian policies, whether they be economic issues or dealing with civil society. Russia's model of authoritarian development appeals to the Azerbaijani establishment. The country may adopt a pro-Western façade and rhetoric, but nature of the system resembles the Russian model of management. Azerbaijani elite behavior over the past number of years demonstrates a tendency to "bandwagon" with the Russian foreign policy agenda and to avoid harsh criticism of the Russian establishment. Moreover, when EU or U.S. criticism becomes particularly vocal, Baku tends to turn to Moscow. As long as the post-Soviet *nomenklatura* retains power, it is unlikely that Baku would opt for full-fledged cooperation with either the EU or the United States.

## **What Can the Transatlantic Community do to Help Azerbaijan?**

Azerbaijan today is at a crossroads. The failure of economic development, absence of democratic governance, the looming Karabakh conflict, and growing Russian ambitions in the South Caucasus make Baku very vulnerable to external and internal shocks. Azerbaijan today, as never before, needs massive and urgent assistance from the transatlantic community. There are few critical areas that requires immediate attention and assistance where Western help could be crucial.

### ***Train a New Generation of Public Administrators***

One of the most important areas for Azerbaijan today is growing a new generation of public administrators who can replace the old nomenclatura bureaucrats. The key to success in public administration reform is education. The EU and the United States could allocate resources and help Azerbaijan re-train its public servants and foster the new generation of civil servants. The EU already engages considerably in these activities, but could do more. The United States should revive and reinvigorate educational programs training young Azerbaijanis in public administration, public health, education as well as law. The U.S. Muskie Fellowship program, shut down by Congress in 2009–2010, was one of the best U.S. initiatives that provided training for hundreds of young Azerbaijanis in areas critical to governance. Numerous other U.S. programs could be re-launched that would allow young Azerbaijanis to gain experience and necessary know-how. Unfortunately, of overall U.S. assistance to Azerbaijan of \$10 million in 2015, only \$600,000 (6%) was directed toward education.

### ***Assist in Institutional and Economic Reforms***

The West should help Azerbaijan strengthen the effectiveness of parliament, increase transparency and build an impartial legal system; strengthen political and civic participation by developing civic leadership skills and enhancing institutional transparency and credibility; promote anti-corruption advocacy and the establishment of legal advice centers; and improve the status of women by raising public awareness of issues that affect them.

### ***Help to Revive Civil Society***

Over the past decade the Azerbaijani government has done everything it could to discredit and eliminate civil society. As of early 2017 Azerbaijani

civil society has been marginalized; no major non-governmental organizations are active. Only recently has Baku begun to loosen conditions enabling NGO activity. Nevertheless, it is difficult to regenerate NGOs overnight or to create favorable conditions for them. Transatlantic efforts should lend support to NGOs and public civil organizations, focusing on helping such groups raise their public appeal, impact and membership base. Such support can help plant the seeds of grassroots democracy in the country.

### ***Help Baku Become Regional Hub***

Over the last decade, Baku has invested billions of dollars into commercial infrastructure and transportation projects to position itself as a lucrative link between Central Asia, the South Caucasus, and Europe. However, the recently established Eurasian Economic Union (EEU) can now be expected to compete more robustly with major transport corridors that might bypass Russia. In this context the political support of the transatlantic community cannot be underestimated. Azerbaijan's political establishment still remembers that Clinton administration support allowed the Baku-Tbilisi-Ceyhan pipeline to be built and launched. The pipeline allowed the region get closer to the West and brought long-awaited financial and energy independence from Russia. Building a new transportation link between Central Asia and Europe via Azerbaijan/Georgia would be another step bringing the region closer to the West and sending a strong signal to the EEU about the region's identity.

### ***Provide Political Support for Azerbaijan's Territorial Integrity***

Today, the majority of the Azerbaijani public is dissatisfied with the lack of clarity from the transatlantic community with regard to the territorial integrity of the country. While Western governments express constant support for Georgia's sovereignty over Abkhazia and Ossetia, they are reluctant to recognize Azerbaijan's sovereignty over Karabakh, which leads the Azerbaijani public to accuse them of double standards. The transatlantic community should clearly state its support for the territorial integrity of the country as well as render political support to Baku. This would mean Baku would no longer need to seek political support from Moscow and could use EU or U.S. support to negotiate a peace agreement. At the same time, both the EU and the United States should engage actively in the resolution of the Karabakh conflict. Given the current level of confrontation between Russia and the West, fruitful cooperation on this issue is

unlikely. Instead, the transatlantic community should work directly with Azerbaijan and Armenia to accept Western, rather than Russian, mediation. To make Western mediation attractive for both sides, the West should consider a developmental package similar to the Marshall Plan for Karabakh and surrounding territories. Moreover, helping to build down each sides' enmity would limit the chances of full-scale war or instigation of conflict from third parties.

### *Increase the Transatlantic Community's Soft Power in Azerbaijan*

It is very hard to underestimate the soft power of the West in Azerbaijan and in the South Caucasus in general. Besides the technological advancements, entertainment industry, or even travel preferences, the Western education system is a major destination for Azerbaijani students who wish to continue their education abroad. Thousands of Azerbaijani students are currently studying in the United States or Europe. Many students are studying in Europe through joint programs between consortium of European universities through Erasmus and other EU programs. Many graduates of EU and U.S. universities have returned to find jobs in the Azerbaijani government. Establishing joint educational programs with Azerbaijani universities or creating new programs to educate Azerbaijani youth could be great stimulus for people and improve the positive image of the West.

In addition to education, the West should pay specific attention to the media space of the region. Today, most of the information Azerbaijanis received is via local, Russian or Turkish sources. That deprives people of unbiased information and boosts Russian influence. Airing of TV channels across the country, or establishing news services in the Azerbaijani language would allow local populations to get first hand information, bypassing other sources of information. So far, only BBC and Radio Free Europe have Azerbaijani language services, and their airing is limited.

## **Conclusion**

Azerbaijan as well as the whole South Caucasus is currently at a crossroads. U.S. disengagement and EU weakness have created a significant vacuum that Russia has filled. If the situation continues, the West risks losing Azerbaijan, and with it, access to the Caucasus and Central Asia. Thus, the transatlantic community should actively reengage in regional affairs. Washington and Brussels should assist Baku in its efforts to cope

with economic crisis and its initiatives to become a regional hub, while not ignoring the issues of bad governance, lack of transparency and corruption that plague the country, and work with Baku to tackle these problems. The year 2017 offers momentum for the West to return to the region. However, If Western momentum is lost, Azerbaijan may easily fall prey to the competing pro-Russian Eurasian Economic Union and the reservoir of trust the EU and the United States have sought to build over decades is likely to dissipate.

