BAKU DIALOGUES

POLICY PERSPECTIVES ON THE SILK ROAD REGION

Vol. 4 | No. 3 | Spring 2021

ISSN Print: 2709-1848
ISSN Online: 2709-1856

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bakudialogues.ada.edu.az

Published by

ADA University
Baku, Azerbaijan

Under the editorial direction of

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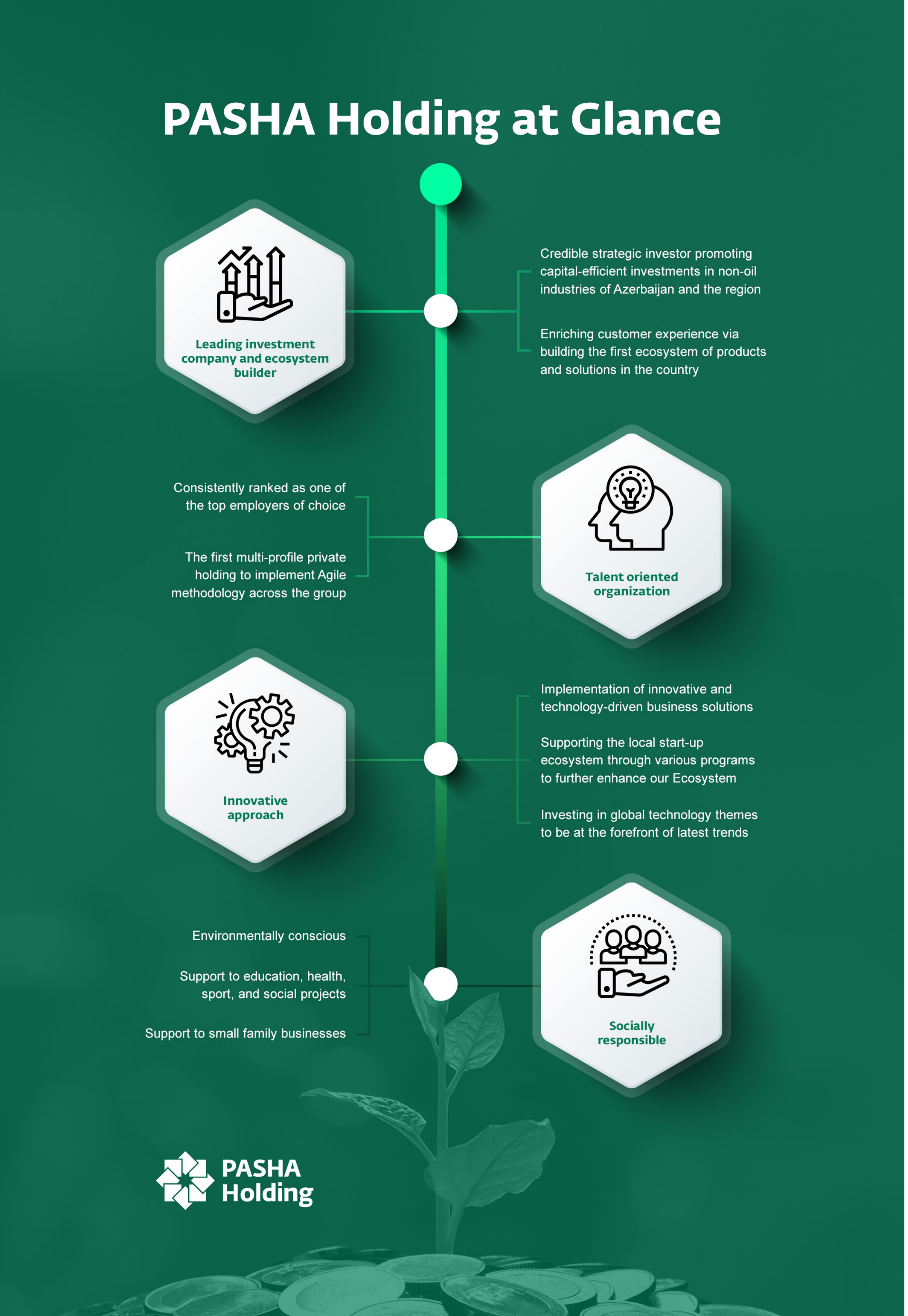

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Seeing Beyond Victory

Azerbaijan's Pathways After the Second Karabakh War

Laurence Broers

In the aftermath of the Second Karabakh War, Azerbaijan stands at a critical moment in its history. The war has resolved many of the issues driving Azerbaijani grievances over the last three decades. Yet it leaves others both unresolved and entangled within a new regional configuration that more than ever hinges on the interactions of external great powers and the fractured local politics of the South Caucasus.

The regionalization of the Armenian-Azerbaijani conflict—meaning its transition to a Russian-Turkish condominium—ultimately links the conflict to the vagaries of what Pavel Baev and Kemal Kirişci call the "serpentine" relations between Moscow and Ankara in the era of Recep Tayyip Erdogan and Vladimir Putin. The conflict is now one link in a string of conflict theatres where Russia and Turkey are involved, and across which Moscow and Ankara may negotiate trade-offs that have little to do with the interests of local parties. To be sure, Azerbaijan's closeness to Turkey assuages concerns over Russian influence for now. And the strategic, rather than tactical, outlook on Azerbaijani-Turkish partnership means that few in Azerbaijan believe that Turkey would ever engage in trade-offs that cross Azerbaijani red lines. This belief is reflected in the experience of the Turkish-Armenian "football diplomacy" normalization initiative that took place in 2008-2009. Nevertheless, while the Armenian-Azerbaijani conflict is now seen by many in Azerbaijan as resolved, it has in fact been repackaged and embedded in a new, highly complex, and unpredictable web of linkages.

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Three Liberations

This is not to underestimate the significance of the war's outcomes in Azerbaijan. Victory in the Second Karabakh War can be read in terms of three liberations for Azerbaijan. The first of these is territorial. Through the military advance along the southern flank in October and November 2020, and then in accordance with the terms of the November 2020 Russian-Armenian-Azerbaijani trilateral declaration, Azerbaijan restored control over all of the seven districts occupied by Armenian forces in 1992-1993, with the exception of a narrow corridor connecting Nagorno-Karabakh and Armenia. Azerbaijan thereby all but restored its territorial integrity.

> *Victory in the Second Karabakh War can be read in terms of three liberations for Azerbaijan.*

Restoration of sovereignty over de-occupied areas translates into the personal liberations of hundreds of thousands of Azerbaijanis displaced from those territories in 1992-1993. The fate of this population has been a continual concern in Azerbaijan, with fears that the construction of new settlements would lead to a de facto integration of these communities and, by implication, acceptance of forced displacement. Although the challenges of rehabilitating and reconstructing the de-occupied territories are formidable, the prospect of return is now an attainable goal. A strategy for the "great return" has already been published, and working groups are elaborating its operationalization.

The third liberation is affective: emancipation from the humiliation of a devastating military defeat in 1994. No other conflict in the former Soviet Union featured such drastic overspill beyond the territory originally disputed. An equivalent scenario in Georgia, for instance, would have seen a swathe of western Georgia at least as big again as Abkhazia itself occupied and its population driven out. Furthermore, as American journalist Thomas Goltz documents in his famous memoir *Azerbaijan Diary* (1998), Azerbaijan's defeat derived as much from internal divisions and political turmoil in Baku that resulted in a disorganized war effort and the loss of several regions without a fight.

Apparent international indifference to Azerbaijan's tragedy added insult to injury. Other conflicts consistently overshadowed the Armenian-Azerbaijani conflict, whether in the Balkans and Chechnya in the 1990s, South Ossetia/Georgia in 2008, Ukraine and Syria in the 2010s. Unlike these confrontations, the Armenian-Azerbaijani conflict never sustained prolonged international attention. American and European attention to the conflict has declined over time, amid the sense of fatigue palpable in U.S. Secretary of State John Kerry's comments, made at the Atlantic and Aspen Institute in September 2016 just five months after April's Four-Day War that killed more than 200: "you can't quite see [a way forward] right now because the leaders [of Armenia and Azerbaijan] aren't ready, because the tensions aren't there."

For many in Azerbaijan, there is now a sense that strategic patience has been vindicated over the diplomatic concessions expected of Baku in the Minsk Process mediated by the Organization of Security and Co-operation in Europe (OSCE). International lip-service to the restoration of Azerbaijan's territorial integrity has been exposed for what it was, and Azerbaijan has achieved its goals its own way.

The Limits of Victory

Victory is of course intoxicating. Yet many—if certainly not all—victories contain within themselves the seeds of future defeats, whether on or off the battlefield. In 1905 Japan scored a stunning victory over Russia. In a set-piece sea battle at Tsushima in May of that year, a Japanese fleet under Admiral Togo destroyed a Russian expeditionary force, sinking eight battleships in two days. Over the following four decades, Japan's naval doctrine centered on preparation for another set-piece confrontation, leading the country to construct the largest ever capital ships in the history of naval warfare: the super-battleships *Yamato* and *Musashi*. Yet despite the fact that they outgunned any possible rival, *Yamato* and *Musashi* never fought their Tsushima. Like the vast majority of ships in the Imperial Japanese Navy, they were sunk by American air power having never once engaged enemy

battleships in battle. The paradigm had changed, and like the proverbial generals anticipating yesterday's war, Japan had prepared for the wrong battle.

Great Britain emerged twice victorious in the world wars of the twentieth century. Yet as Irish journalist Fintan O'Toole argues in his book *Heroic Failure* (2018), the United Kingdom was alone among the winning parties of World War II in failing to find a new purpose or mission in the decades that followed. British identity remained attached to the "spirit of 1940" that merged over time with imperial nostalgia into a sense of especially English exceptionalism. To this day, wartime tropes and memes are embarrassingly trotted out in the tabloid press every time England plays Germany in international football, while the slogan "Keep Calm and Carry On," accompanied by World War II symbols and artwork, is a staple meme in popular culture. This sense of exceptionalism, catalyzed by a multitude of other influences, led eventually to Brexit—a major strategic setback for the United Kingdom, the price of which we are only starting to understand now.

> *Victories easily become fixed in the stories that nations tell about themselves, but the conditions that brought them into being do not always last.*

Armenia was also, in its own way, overwhelmed by victory in 1994. For a nation with a long history of military defeats, the outcome of the First Karabakh War was a stunning reversal. Through the trope of "victory for the victims," that outcome was suffused with a sense of historical justice that became very difficult to interrogate internally. Over time, attachments grew to the wider territorial identity of what I call "augmented Armenia"—encompassing the Republic of Armenia, Nagorno-Karabakh, and the surrounding occupied territories. The latter were increasingly referred to by Armenians as "liberated territories" in an escalating scale of perceived territorial ownership. Armenia was increasingly dragged into a strategically unwinnable project of territorial aggrandizement in a context where Azerbaijan had resources to re-equip and re-arm. These dynamics provided the backdrop for the Second Karabakh War, in which Turkish support converted Azerbaijani preponderance into dominance, leading to what was for Armenia a devastating military defeat in 2020.

There is nothing inevitable about such processes and this is not to forecast a one-way trajectory to future military setbacks for Azerbaijan. It is, rather, to highlight that victories easily become fixed in the stories that nations tell about themselves, but the conditions that brought them into being do not always last. Even as the euphoria of victory continues, it is prudent for any winning party to ask itself whether there are risks of becoming too comfortable with a victor's identity.

Segregation, Interaction, and Interests

Azerbaijan's horizons following its late 2020 victory are in some ways very distinct from those of Armenia in 1994. Whereas Armenia's outlook in 1994 accepted the long-distance segregation of Armenian and Azerbaijani communities as a condition of security, Azerbaijan's outlook in 2021 presumes their interaction.

This is evident first in the November 2020 trilateral declaration that brought the war to a close. This document is in many ways a strange hybrid between the minimalism of a ceasefire agreement and the expansive vision of a comprehensive peace settlement. It sets out a highly ambitious agenda for opening up the closed borders, blockades, and the contorted, work-around transit routes of the post-Soviet South Caucasus. Most significantly for Azerbaijan, the declaration mandates the construction of a new transit route connecting western Azerbaijan with its Nakhchivan exclave and by extension Turkey, across Armenia's southernmost region of Syunik (known as Zangezur to Azerbaijanis). This transit corridor has potentially far-reaching consequences as a second east-west corridor that would reconfigure Armenia as a transit state critical to the successful functioning of the corridor.

The November 2020 trilateral declaration is in many ways a strange hybrid between the minimalism of a ceasefire agreement and the expansive vision of a comprehensive peace settlement.

The return of displaced communities to the areas restored to Azerbaijani jurisdiction will bring Armenian and

Azerbaijani communities into their closest proximity for decades. In the former Nagorno-Karabakh oblast, returnees to Shusha (known as Shushi to Armenians) will overlook the territory's capital Stepanakert (known as Khankendi to Azerbaijanis), and control the latter's former water supply. Some of the de-occupied territories, such as Kelbajar and Lachin, are remote, being hemmed in by mountain ranges and surrounded on several sides by Armenian-populated territories in the Republic of Armenia and in Nagorno-Karabakh, and by the Lachin corridor.

These geographies impose the question of whether rehabilitation, reconstruction, and return are to assume the continued segregation of communities, or their gradual integration via common infrastructure, markets, and institutions. Segregation can, of course, be built into infrastructure, as the elaborate design of sole-use installations on the West Bank shows. However, the risk is that 10 or 20 years from now, what we may see in southwest Azerbaijan is a heavily securitized and segregated periphery, populated by sparse, economically dependent, and still mutually hostile communities.

The return of displaced communities to the areas restored to Azerbaijani jurisdiction will bring Armenian and Azerbaijani communities into their closest proximity for decades.

For vibrant and secure communities of Azerbaijani returnees in Nagorno-Karabakh and the de-occupied territories—and for transit corridors to become real vehicles of regional development beyond "safe passage" through "enemy territory"—the optimal scenario is a transformation in Armenian-Azerbaijani relations also providing for vibrant and secure Armenian communities. The extent to which such a transformation is seen as *necessary* in Azerbaijan is moot (and this author has not had the opportunity to visit the country since the onset of the global pandemic). Yet as the long history of Armenian-Azerbaijani security dilemmas shows, for communities in close proximity to one another real security can only be shared. There is an opportunity now to craft an integrative peace weaving the defeated party into a new regional infrastructure, meeting sufficient needs to remove a future basis for the contestation of that structure—thereby safeguarding the future of another generation of Armenians and Azerbaijanis from yet another devastating war.

The alternatives would appear to range from a kind of *hard peace*, implying a lowest common denominator of transactional interactions across the narrowest possible spectrum of issues, and a *punitive peace*, involving the kind of long-term humiliation that Azerbaijan itself had to endure for more than a quarter of a century. Yet when the interests and needs of the future generations that will live with the legacies of this moment are considered, surely neither of these scenarios can be seen as optimal. Surely, what we ultimately wish for is Armenian and Azerbaijani citizens who not only transact, but who trust one another.

Transforming the Relationship

No one expects an overnight transformation of the Armenian-Azerbaijani relationship. Across the divide, the losses are too great, the wounds too fresh, and identities shaped by the memories of violence and death too resilient. Yet if it may be too early to speak of conciliatory gestures, there are three moves that Azerbaijan can make now that can contribute at least to more nuanced relations that will ultimately also serve its interests better.

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First, *differentiated relations with distinct Armenian communities*. Conflict discourses tend to totalize the adversary. Antagonistic rhetoric sets up hard self/other dichotomies, diminishing difference both within and across the conflict divide. A first move that Azerbaijani can make is to shift from a mythologized view of Armenians as a monolithic "enemy" to differentiated perspectives on a variety of real-world Armenian communities: the Armenians of Nagorno-Karabakh, the Republic of Armenia, and the Armenian diaspora. Each of these communities presents a different set of challenges—and interests—for Azerbaijani policy.

It is ironic that the least developed of these relationships is with that community of Armenians

that Azerbaijan claims as its own citizens. After the late-1990s, Azerbaijan largely eschewed dialogue with Karabakh Armenians for fear of tacit recognition of their self-determination claim. The only kind of dialogue admissible from Baku's perspective was that between Karabakh Armenians and the Karabakh Azerbaijani population displaced from Nagorno-Karabakh in 1992. This format, in turn, was rejected by Karabakh Armenians as a negation of their self-determination claim and electoral majority. This impasse continued for years.

The context for this relationship has now changed immeasurably. A key outcome of the 2020 war from Azerbaijan's perspective is that the status of Nagorno-Karabakh has been taken off the agenda—underpinning rhetoric to the effect that the conflict is over. It is difficult at present to envisage when or under what conditions the relationship between Karabakh Armenians and the Azerbaijani state—however we frame it—will again become a subject of dialogue, yet it remains the core underlying issue that is in contention. It is problems in this relationship that ultimately account for the turn of events of the last three decades, and which now provide the framework within which it is possible for a substantial Russian peacekeeping operation to be fielded in Azerbaijan. And the more problematic—indeed, conflictual—that this relationship is, the easier it will be to justify the continued presence of peacekeepers.

It is now more than ever in Azerbaijan's interest to craft a distinct relationship with the Armenians of Nagorno-Karabakh. Baku now has the opportunity to do this without the fear of tacit recognition. The challenges are formidable—not least that the Karabakh Armenian wartime leadership have been charged in Azerbaijan in connection with war crimes, notably the missile strikes on Ganja and Barda that claimed the lives of dozens of Azerbaijani civilians. Yet it is crucial to differentiate between leadership and populace, between a political project in secessionist state-making, and a human community with fears, needs, and grievances, radicalized by the recent experience of war

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and its own forced displacement. Submerging this population within a wider, singular narrative of hostile Armenians—or isolating it so that it has no choice but to depend on outside actors—does not ultimately serve the goal of transforming a relationship that has troubled Azerbaijan for more than a century. And in the new situation, the isolation of the Armenians of Nagorno-Karabakh under conditions where Armenia's capacities are radically weakened will by default advance their reliance on Russia.

It is with the Republic of Armenia that the conflict has played out over the last quarter-century. Decisively defeated in the Second Karabakh War, Armenia's doctrines of deterrence, strategic depth, and military self-reliance in Nagorno-Karabakh have been routed and the country's military capacity devastated. As of this moment it is difficult to imagine how Armenia might ever challenge Azerbaijan again. Yet it is worth noting the experience of another notorious and asymmetric rivalry. Despite successive defeats in actual wars, including a crushing defeat in 1971 that led to the loss of East Pakistan (now Bangladesh), Pakistan has sustained its rivalry with India. Scholar T.V. Paul has indeed identified Pakistan as suffering from what he terms the "geostrategic curse": the capacity to live off the rents provided by external actors due to location and geostrategic importance in the wider foreign policy goals of great powers. In Pakistan's case, the geostrategic curse generated rents for a military elite, underpinning their domestic political dominance and Pakistan's identity as a "warrior state."

Armenia does not depict itself as a warrior state, yet particularly with regard to the borrowing of Russian power there are aspects to the resourcing of a long-term rivalry that resemble the geostrategic curse. In the aftermath of the Second Karabakh War, Armenian society is debating what lessons it is most appropriate to draw from the defeat. One side in this debate concludes that Armenia should become a "garrison state," privileging the allocation of resources to a new domestic military-industrial complex capable of producing advanced weaponry. This would presumably entail substantial external support.

This debate raises critical questions for Azerbaijan. What kind of Armenia does Baku want to see? Through its actions, what kind of influence can Baku exercise now over the internal debate in Armenia in ways that best serve Azerbaijani interests? Does Azerbaijan want to deal with a revanchist Armenia committed to renewed military competition, or to facilitate a transition to a different kind of bilateral relationship? Clearly, a totalized rivalry heightening insecurity will fuel the arguments of those advocating the pathway of building a "garrison state" in Armenia. Weaving Armenia into a new regional economic structure generating development, opportunity, and interdependencies for all will weaken those arguments.

Consider India's other major rivalry—namely, the one with China. Despite the fact that the two countries fought a brief war in 1962, continue to contest more than 135,000 square kilometers in three different locations, and compete for control over natural resources, trade between them has grown steadily since the 1990s to the point where China is India's leading trading partner. Their rivalry persists with regular but localized bouts of violence, yet India and China have a multifaceted relationship in which these issues do not preclude mutually beneficial cooperation on other issues. Even India and Pakistan trade and work together to manage natural resources.

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At the third layer, the Armenian diaspora is of course not one community but many, each with its own specific experience. In the Azerbaijani imagination, the Armenian diaspora has played a very significant role in facilitating secessionism in Nagorno-Karabakh—by both supporting it with material resources and promoting it through a diasporic nationalism that is seen in Azerbaijani debates as alien to the South Caucasus. In Azerbaijani perspectives, diasporic Armenian nationalism is also seen as the most challenging variety of Armenian identity, since it is not structured by material interests in the South Caucasus or the pragmatics of prospective every day encounters. Instead it is seen, in Benedict Anderson's famous formulation, as a "long-distance nationalism" to be neutralized rather than engaged with. Competitive dynamics in the communal relations between Armenians and Azerbaijanis in various diaspora theatres reached new lows in 2020 with clashes, vandalism, and street violence in both July and October-November 2020. This amplification of local struggles in the South Caucasus into a globalized rivalry—implicating all Armenians and Azerbaijanis wherever they live in a hardened identity politics—serves the interests of neither nation-state. While such horizons may seem beyond the scope of what is possible at present, there are other examples from across the world where diasporas have contributed towards reducing such trends, for example through economic investment in inclusive and sustainable development initiatives or through the initiation of "post-national" debates seeking to de-construct the hard identity politics fueling conflict.

In short, differentiating among Armenian communities is critical to a more nuanced appreciation of distinct interests vis-à-vis each of them. This is an important first step towards transformed relations with each of them—and preventing contested issues in one of these relationships spilling over into the others. It goes without saying that a more critical and differentiated view of "the other" is needed across the divide. The sublimation by Armenians of Azerbaijanis and Turks, and also of various Azerbaijani stakeholder communities—such as refugees from Armenia and Karabakh Azerbaijanis—into a single overarching and antagonistic identity category of "the Turk" represents a similarly problematic identity practice.

Second, *constructing Azerbaijani identity in ways that mitigate, not aggravate, conflict.* Azerbaijan can, entirely unilaterally, project a vision of itself that is compatible with the plans afoot for regional development and, over time, transformed Armenian-Azerbaijani relations. Azerbaijan prides itself on its inclusive civic nationalism. Azerbaijanism (*Azərbaycançılıq*) is the state's formal identity doctrine. It is an idea focused on the territory of the republic, thereby differentiating an Azerbaijani nation-state space from the wider Azerbaijani ethno-space that reaches deep into Iran. As an idea focused on territory, Azerbaijanism frames an inclusive approach towards the citizenry living on that territory—whether Muslim (Shia or Sunni) or Christian (Orthodox or otherwise) or Jewish; or ethnic Azerbaijani, Talysh, or Russian.

Since the mid-2000s, however, Azerbaijanism has increasingly co-existed alongside another geopolitical tradition that I call "wide Azerbaijanism." This tradition articulates a lateral widening of the space identified as "Azerbaijan" to the west and argues that Armenia is actually a recent and artificial construct on what had previously been Azerbaijani lands. Visible in cartography, historical textbooks, and some touristic products, this tradition also made its way into the speeches of political elites, who have evoked historical geographies to suggest that areas in the east and south of the Republic of Armenia in particular can be identified as Azerbaijani.

It is important to acknowledge that claims on the territory of the Republic of Armenia are not part of any formal doctrine or state strategy. President Ilham Aliyev's foreign policy advisor, Hikmet Hajiyev, has recently spoken of the need for Armenia and Azerbaijan to re-establish relations "within their sovereign borders." Yet President Aliyev included references to Zangezur (roughly Armenia's southernmost Syunik province) and even Yerevan in his speech at the November 2020 victory parade. Opposition politician Ilgar Mammadov also proposed the idea that Armenia might cede Syunik to Azerbaijan by way of reparations. Instability in defining an Armenian-Azerbaijani border has become an aspect of political rhetoric. Political elites, of course, perform speech acts according to occasion, audience, and interests. Yet "wide Azerbaijanism" as a theory of the recent arrival of Armenians in the South Caucasus is also taught in schools, narrated in museums, and subtly visualized in maps. It has become part of the nation-building process, and as such may not be straight-forward to control.

"Wide Azerbaijanism" is both a product of the conflict and a feedback loop reinforcing the conflict dynamic. It reflects back to Armenians their own geopolitical vision of an "augmented Armenia" comprising the Republic of Armenia, Nagorno-Karabakh, and the surrounding occupied territories. "Augmented Armenia" was never formalized as a doctrine of Armenian statehood, yet it was tolerated and encouraged both symbolically in cartography and popular culture and structurally in new infrastructure and development projects. Public usage of its corollary—namely, the conceptualization of occupied territories as "liberated territories"—moved over time from indicating a radical position to a mainstream one. Geopolitical constructs can assume their own momentum over time. Moreover, both "augmented Armenia" and "wide Azerbaijanism" are dangerously associated with recursive practices of cultural erasure that are highly incendiary for Armenian-Azerbaijani relations.

After the Second Karabakh War, "wide Azerbaijanism" no longer confronts "augmented Armenia." A post-war poll conducted in Armenia in February 2021 by MPG/Gallup International (with a sample of 801) suggests a dramatic decline in popular attachments to the expansive space of "augmented Armenia." Whereas in 2017 86.4 percent of those surveyed supported a maximally defined Nagorno-Karabakh within the de facto boundaries created by the First Karabakh War and were opposed to any territorial concessions, in the 2021 poll only 30.7 percent supported such a definition of Karabakh—a drop of nearly 56 percent. This is a highly significant shift away from overlapping and incompatible conceptualizations of homeland.

> *After the Second Karabakh War, "wide Azerbaijanism" no longer confronts "augmented Armenia."*

Yet the persistence of "wide Azerbaijanism" obstructs and delays a final stabilization of borders between Armenia and Azerbaijan in three ways. First, its questioning of Armenian statehood can inevitably only add to insecurity and strengthen arguments in Armenia on the need for a "garrison state." Building a sense of self that undermines a neighboring state's right to exist will deepen, rather than assuage, Armenian-Azerbaijani security dilemmas.

Second, in its projection of a Turkic unity stretching from Anatolia to the Caspian—powerfully reinforced by the joint Turkish-Azerbaijani effort to win the Second Karabakh War—there is a risk of importing elements of Turkish identity politics into the already complex negotiation of the Armenian-Azerbaijani relationship.

In a third and related point, "wide Azerbaijanism" undermines the potential for new pathways to Armenian-Azerbaijani relations to be found in the framework of Azerbaijanism. Introduced by Heydar Aliyev in 1993 as a pragmatic approach to rebuilding the fragmented Azerbaijani state (and containing the scope for Azerbaijani irredentism focused on Iranian Azerbaijan), Azerbaijanism emphasizes both civic inclusiveness and a defined territoriality with clear borders. As a national project it offers a more promising horizon for the re-negotiation of relations with distinct Armenian communities, and offers more space to alternatives to a "garrison state" in Armenia itself.

Resonant though the idea of "one nation, two states" may be, especially in the glow of victory, Azerbaijani problems should be resolved through the framework of Azerbaijani statehood, rather than an expansive Turkic ethno-space submerging local detail, nuance, and difference.

Third, *open up to dialogue*. This last move that Azerbaijan can make in the aftermath of the Second Karabakh War centers on dialogue beyond the state. This is without any doubt one of the most important prerequisites to a transformation of Armenian-Azerbaijani relations, yet it had all but died out in the years preceding the war. Research conducted by the Yerevan Press Club and Yeni Nesil in 2019 found that informal dialogue between the parties to the Karabakh conflict had reached its lowest level since the conflict began in 1988. Dialogue and people-to-people contacts fell into sharp decline from the early 2010s. Track-II initiatives were increasingly securitized, as cross-border visits became very rare and highly choreographed events. Already in decline, dialogue never recovered after the April 2016 Four-Day War.

Azerbaijan has historically regarded Track-II peacebuilding with concern as potentially leading to acceptance and normalization of an unacceptable status quo. Yet diplomatic summits in distant capitals have emphatically failed to appreciably challenge Armenian-Azerbaijani security dilemmas. Elite-level interactions have not been able—and will remain unable—to achieve a lasting breakthrough for as long as the strategic culture of rivalry persists. There is of course the riposte that war has resolved what dialogue could not, but this both assumes that the underlying conflict is resolved and exaggerates the extent to which Armenia and Azerbaijan engaged in serious and potentially productive dialogue—especially over the last 15 years. But as already noted, for new regional development plans to be both viable and sustainable for communities on the ground their participation will be necessary—

both through vertical dialogue with their own authorities and horizontal dialogue across the divide.

Face-to-face contacts between Armenians and Azerbaijanis are crucial to breaking down the security dilemmas that fuel the conflict between them. What has effectively become a state monopoly on dialogue needs to be opened up to a wider interface across a wider cross-section of Armenian and Azerbaijani societies. Negotiating mutually acceptable and beneficial outcomes requires the trust and confidence that can only come from personal encounters. As historical experience has shown—for example in work facilitated by the peacebuilding NGO Saferworld between populations along the Tovuz/Tavush border in 2011—local communities can often demonstrate a pragmatism informed more by immediate needs and interests than national-level discourses and rhetoric. This kind of pragmatism will be necessary if the communities that will be living along multiple new contact lines established by the November 2020 tripartite agreement are not to live in multiple new micro-security dilemmas defined by fear and suspicion towards one another.

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Partnership or Domination?

Armenian-Azerbaijani relations are at a historical inflection point. As the winning party of the Second Karabakh War, Azerbaijan has scope to set in motion new dynamics in its relations with a variety of Armenian communities. There is a fundamental choice to be made between an approach that seeks to convert victory into a longer-term domination of Armenia, and an approach that seeks a transformation from the securitized rivalry of the last three decades to the prospects of partnership. Azerbaijan's choices at this juncture will interact critically with Armenia's own choices between rebuilding a revanchist "garrison state" or revising and, by implication, de-securitizing its relations with Azerbaijan. The choices are set out schematically on the next page.

Partnership (integrative peace)

- Interactivity / interdependencies
- Bilateral relations
- Differentiated relations with distinct Armenian communities
- Azerbaijanism
- Networked regionalism / regional suture
- Normalization?

Domination (punitive peace)

- Segregation / zero-sum thinking
- Leveraging outside influence
- Monolithic enemy imagery
- Wide Azerbaijanism
- Hegemonic regionalism / regional fracture
- Securitized rivalry, future conflict?

These choices are too often submerged in the grander narrative of how great powers shape and re-shape South Caucasian geopolitics. The emergence of a Russian-Turkish duopoly over the Armenian-Azerbaijani conflict only appears to affirm this narrative. But while only a multifactor analysis can explain this outcome, a crucial enabling condition is the tendency among antagonists in South Caucasus conflicts to leverage outside powers to sustain or win their struggles with one another. The resulting outcomes build external interests and power dynamics into new status quos that in their asymmetries cannot generate either inclusive or sustainable security arrangements. Rather, a new cycle of regional fracture begins, with the security of some of the region's actors depending on the insecurity of others. This in turn sets the stage for future cycles of violence.

There is little doubt that the rivalry mindset and associated zero-sum thinking patterns will continue in both Armenia and Azerbaijan in the short-term. The experience of the Korean peninsula shows that even in a context where it is different parts of the same nation that are in conflict, antagonistic mindsets can long outlast the structural context for their original emergence—Cold War polarity, in the case of divided Korea. The challenge for Armenia and Azerbaijan as distinct nations that since the restoration of their respective independence came to regard each other as "the other"

There is little doubt that the rivalry mindset and associated zero-sum thinking patterns will continue in both Armenia and Azerbaijan in the short-term.

against which they defined themselves is all the more daunting. The worst-case scenario is a new spiral of threat perception, whereby each state continues to supply a *Feindbild*—enemy image—for the other: an Azerbaijan intent on dominating Armenia and borrowing Turkish power to do so, and an Armenia intent on rebirth as a revanchist "garrison state."

What, then, might be a best-case scenario? Progress might look like a shift from a totalized, identity-driven rivalry to more compartmentalized relations, still vulnerable to periodic crises—but not so total as to exclude a diversifying gradient of relations encompassing trade, shared resource management, and common regional infrastructure. Crises would not spill over into total lockdowns of relations, allowing interactions on specific issues to continue. These interactions over time could lead to cross-cutting networks acting for mutual benefit and disincentivizing escalation. Armenia and Azerbaijan would engage in dialogue across a broad spectrum of issues, without the obligatory presence of international mediators. Leaders and foreign ministers would visit the other country in an effort to bring the peace process home. Other kinds of visitors from across the border would become a regular and unremarkable phenomenon, and Armenian and Azerbaijani journalists would report on developments in the other country from the ground. Competitive commemoration of the traumatic events of the past would increasingly co-exist with acknowledgement of others' losses. Homogenized conceptualizations of history and homeland would over the long-term yield to more complex and multi-vocal traditions. Perceptions of outside actors as indispensable purveyors of security would recede, and new regional configurations would become more imaginable.

Although often framed as geopolitical pawns, especially by each other, Armenia and Azerbaijan have enough agency to make this scenario more than just a pipe dream. BD

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From Struggle to Permanent Failure

Why the Karabakh Attempt at Secession Failed

Azer Babayev

After 44 days of fighting, the Second Karabakh War came to an end on 10 November 2020 as a result of a Russian-brokered ceasefire agreement. The most important questions here appear to be: what led to this dangerous military escalation, and what does it mean for the conflict, given that it seems to have now entered into a (new) political phase, again?

In the declining Soviet Union, what was originally a *status* dispute over the autonomous Nagorno-Karabakh region escalated into an international violent conflict between Armenia and Azerbaijan in the early 1990s. Following the end of a bloody war in 1994 (the First Karabakh War, 1992-1994), a fragile situation around the conflict region took root: the "frozen conflict," as it came to be known, lasted for nearly three decades and led to conditions of neither war nor peace. And during this period, it was feared that the longer the sides had to wait for a peace agreement to be reached, the more likely the conflict would re-escalate and eventually erupt again into a hot war. As it turned out, this is exactly what happened: an all-out six-week war erupted again unexpectedly between the conflict parties in late September 2020, and, as a result, the Armenian side more or less capitulated.

But first things first: in the First Karabakh War, Azerbaijan suffered a major defeat, ceding to Armenian forces not only the secessionist region itself but also seven surrounding territories. These other lands were, as a whole, twice the size of Nagorno-Karabakh itself and contained five times the old oblast's population, the entirety of which was expelled by the time an armistice was signed in 1994. And that is why during this war the UN Security Council responded by passing four resolutions demanding the withdrawal of Armenian forces from the occupied areas of Azerbaijan. However, the UN resolutions failed to have any effect.

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Since that time, no international protagonists felt a strong, compelling need to try to resolve the Nagorno-Karabakh conflict. In addition, all international actors dismissed the idea of "power mediation." Moreover, although Russia as a key international actor is directly involved in all the conflicts on the territory of the former Soviet Union, its involvement in the Nagorno-Karabakh dispute has been rather indirect: in the Karabakh case, Moscow has been both a critical and a questionable actor. On the one hand, the Kremlin has taken a central position in mediating a peaceful settlement to the conflict while, on the other hand, it has been delivering weapons to both sides. This last represents perhaps the most striking situation regarding the international dimension of the conflict. Russia is militarily allied with Armenia and has a military presence in the country. It has provided security guarantees to Yerevan, primarily through their shared membership in the Collective Security Treaty Organization (CSTO), which neutralized to a certain extent the potential effects of Russian arms being sold to financially strong Azerbaijan on a purely commercial basis.

From the First to the Second Karabakh War

Following the end of the First Karabakh War, Armenia and Azerbaijan could not reach a political solution to the conflict: countless attempts and numerous rounds of negotiation failed; an attitude of resignation creeped in. Particularly, as nearly three decades went by, Azerbaijan got justifiably frustrated with a lengthy peace process that produced no tangible progress. The OSCE Minsk Group co-chairs (France, Russia, and the United States), as the key peace brokers to the conflict, were reproached for not placing enough political or diplomatic pressure on the Armenians to withdraw from the occupied Azerbaijani territories, which especially precluded any settlement via negotiations.

Although the conflict was sparked by the status of Nagorno-Karabakh, the issue of the occupied surrounding territories complicated the nature of the conflict as a whole. In this regard, the Nagorno-Karabakh conflict brought with it the risk of an additional shift in former state boundaries, in contrast to other conflicts in the region. Overall, after the First Karabakh War the conflict situation featured a structural asymmetry: Armenia wanted to use the power of facts (i.e., military control) to maintain the territory's *de facto* status whilst changing its *de jure* status; Azerbaijan wanted to use the force of law (i.e., international law) to preserve the *de jure* status and change (back) the *de facto* status.

Having lost the First Karabakh War, Baku was particularly dissatisfied with the seemingly permanent occupation of its territories and the plight of IDPs; at the same time, it interpreted Armenia's negotiating practices as representing a kind of salami-slice tactic: Yerevan was trying to make only rhetorical—or at most, minimal—concessions in order to prolong negotiations because it was not at all interested in changing the status quo established by the ceasefire that ended the First Karabakh War. Armenia counted on the negotiations either coming to an end with it having to offer minimal concessions or being broken off with absolutely no results. The positions thus remained entrenched. The peace process was leading nowhere, which was why, from time to time, the Azerbaijani side made a point of asking what the point of the negotiation process was exactly, and threatened to use its ultimate form of pressure—its military—in order to prevent the Nagorno-Karabakh conflict from remaining "frozen."

Although the conflict was sparked by the status of Nagorno-Karabakh, the issue of the occupied surrounding territories complicated the nature of the conflict as a whole.

Overall, following the end of the First Karabakh War until the onset of the Second Karabakh War, a fragile situation around the conflict region took root. However, an equilibrium favoring the status quo appeared to be established around this "frozen conflict" in basically three ways. *First*, militarily: an offence-defense balance between Armenia and Azerbaijan (favoring defense); *second*, internationally: a regional balance of power with Russia as the key stabilizing actor; and *third*, socio-psychologically: a political

inertia (habituation effect) in the conflict countries.

For many years after the First Karabakh War, the offence-defense balance appeared to overwhelmingly favor Armenia, which had clear defensive advantages favored by military and geographical factors. It is no surprise that Nagorno-Karabakh has been among the most militarized regions in the world: heavy defensive fortifications—including many kilometers of tunnels interlinking with each other along the ceasefire line and dense minefield—offered the Armenian side a false sense of invincibility for a long time.

In the years leading up to the Second Karabakh War, however, the offence-defense balance changed gradually, ultimately shifting in favor of Azerbaijan.

In the years leading up to the Second Karabakh War, however, the offence-defense balance changed gradually, ultimately shifting in favor of Azerbaijan. Its extensive military buildup, which took place over the last several years, became the first important indicator of this shift. One visible element of this is the fact that, several years ago, the Azerbaijani government established a Ministry of Defense Industry to build up the country's military capabilities. In addition, Baku imported high-tech modern weaponry in large quantities, including drones and loitering weapons (i.e., kamikaze munitions) from countries like Israel and Turkey, thus creating considerable offensive advantages. It came as no surprise that these weapons proved to be very effective in the recent war: within a few weeks, Azerbaijani troops were able to break through the Armenian defense line at several places and retake significant swaths of occupied territory. That is why Azerbaijan's President Ilham Aliyev proudly stated during the war that "in this case, unmanned aircraft, both Turkish and Israeli drones, of course, helped us a lot."

Turning next to the geopolitical context of the conflict in the last decades, Russia's role as an external veto power has also been central in at least two respects. On the one hand, Moscow has been the only external actor that was believed to be able to contain and actually stop a new war between the conflict parties, as was evident during the April 2016 clashes (what some call the Four-Day War), when the Kremlin forced them into a ceasefire. On the other hand, any amicable resolution to the conflict that goes against Moscow's will is unimaginable. As such, Russia appeared to create a state of geostrategic stability or balance around the military and political status quo on the ground.

In recent years, Turkey's rapid rise in power and Ankara's introduction of a more assertive foreign policy in its neighborhood, resulted in a gradual shift in the region's balance-of-power system that came to favor Azerbaijan. Specifically, Turkey and Azerbaijan built a very effective alliance—encapsulated in Heydar Aliyev's "one nation, two states" phrase—which in turn weakened the "stabilizing" impact of the Armenia-Russia alliance that had been effectively designed to perpetuate the status quo. But Baku also tried to maintain close relations with Russia as part of its "balanced" and "multivectoral" foreign policy, which had a constraining effect on the scope of Russian commitments towards Armenia.

In addition to military and geopolitical factors, starting in the second half of the 1990s, political stability set in also domestically in both Armenia and Azerbaijan. And a decades-old conflict situation, coupled with unsuccessful negotiations, created a lasting condition of "No War, No Peace," which the adversaries appeared to accept implicitly and gradually. Most importantly, over time it led to the effect that they appeared to avoid new costs or "extreme" measures in terms of both military escalation and substantive compromises. In other words, the willingness to take high risks declined continuously on both sides. Being full of uncertainties and insecurities, "No War, No Peace" implied a potential source of instability—but what amounted to a "stable" one. Paradoxically as it may sound, "stable instability" worked in practice for decades: the conflict parties got used to this in-between situation. Thus, "No War, No Peace" became a new normal of sorts and established its own particular form of equilibrium. And this inertia became more sustainable the longer it lasted.

Paradoxically as it may sound, "stable instability" worked in practice for decades: the conflict parties got used to this in-between situation.

But then a revolution took place in Armenia: a new opposition leader, Nikol Pashinyan, came to power after a popular uprising in 2018, also raising

expectations—hopes, even—in Azerbaijan for progress in negotiations. Initially, it looked as though "he was an open interlocutor ready to discuss thorny issues," as Robert Cutler put it in an October 2020 *Foreign Policy* essay. Yet, gradually, quite the opposite happened. Tensions escalated, as the democratically elected Armenian government started making increasingly populist statements with respect to the Nagorno-Karabakh conflict. Most prominently, Prime Minister Pashinyan said in his address at the opening ceremony of the Pan-Armenian games held in Nagorno-Karabakh in August 2019: "Artsakh is Armenia. Period." He also repeatedly led the crowd in chants of "*miatsum*" (the Armenian word for "unification")—a pan-nationalist slogan that gained popularity during the original escalation of the conflict in the late 1980s. In this way, to refer to another Cutler formulation, Pashinyan apparently yielded to an "irredentist nationalism seemingly required to survive in Armenian domestic politics."

After Armenia's military defeat in the Second Karabakh War, it can be argued that Nagorno-Karabakh's struggle for secession has now been transformed from a unilateral attempt to a permanent failure.

In general, the increasingly provocative statements and actions by the new Armenian leadership were probably motivated by reasons of domestic power consolidation: they sought to increase their legitimacy by attempting to appear more nationalistic than the forces they had deposed. But by doing so—whatever the reason—Yerevan came to be seen as taking a harder and thus dangerously populist line on the Karabakh issue. And, most importantly, these moves were perceived in Azerbaijan as insulting and hurtful to the country's national pride, thus amounting to, as the saying goes, adding insult to injury in the public's perception. It can be argued that such actions by the Armenian authorities upset both the people and government of Azerbaijan, which in turn upset the political inertia that had characterized each country's posture towards the other beginning in the years that followed the end of the First Karabakh War. As Aliyev made clear during the Second Karabakh War, "insulting the Azerbaijani people" proved to be "too costly" for the Armenian government.

Overall, the Nagorno-Karabakh conflict had been a typical dispute in the interwar period (1994-2020), having reached an advanced stage of attempted secession that had been brought about by military force used by a neighboring patron state. Despite these military-political advantages, however, Nagorno-Karabakh could not become independent. And after Armenia's military defeat in the Second Karabakh War, it can be argued that Nagorno-Karabakh's struggle for secession has now been transformed from a unilateral attempt to a permanent failure.

There may be many reasons—whether they be actor- or process-centered—for why, against all odds, the Azerbaijani side *never accepted* the attempted secession of the breakaway region, despite its complete defeat in the First Karabakh War. To develop a deeper understanding of Baku's invariable stance, we must first (and foremost) consider structural factors, such as geographic and historical preconditions, the ethnic composition of the state, and the country's dominant legal system. From today's perspective, these structural factors appear to be relevant to providing an explanation for the ultimate failure of Nagorno-Karabakh's attempt at secession.

Geography

Covering an area of just 4,400 square kilometers, the Nagorno-Karabakh region is relatively small. As such, it comprises only 5 percent of Azerbaijan's state territory. Along with this great asymmetry between Azerbaijan proper and Nagorno-Karabakh, the political and physical geography of the breakaway region differs from that of the other conflict cases in the post-Soviet space and beyond. The fact of being an *enclave* should have hindered the region's secessionist aspirations: it certainly strengthened the Baku central government's resistance all along. At the same time, Nagorno-Karabakh's specific geographic position helped to expand the conflict beyond its boundaries: the Armenian side's military strategically occupied the adjacent Azerbaijani regions, thereby creating an extensive "security belt" around Nagorno-Karabakh to offset the enclave's precarious isolation and facilitate Armenian control by shortening the length of the front line. Armenia also sought to create an overland connection to Nagorno-Karabakh, thus expanding the original conflict, which was at bottom about the region's political status, into a territorial conflict that involved the desire to shift state borders. On the other hand, the issue of the surrounding territories complicated the nature of the conflict as a whole, in contrast to other conflicts in the region. In particular, the permanent occupation of these districts by Armenian troops precluded any peaceful settlement in the last decades.

There is a further geographical factor playing an important role in the conflict's dynamics. In ethno-territorial conflicts, a peripheral location (a border region or an island) is generally said to have strong centrifugal effects; whereas the contrary (an enclave in a heartland) is expected to foster centripetal tendencies and cause secessionist efforts to be strongly resisted. Nagorno-Karabakh is an ethno-territorial enclave within the Azerbaijani heartland that is separated from Armenia by the high mountains of the Lesser Caucasus, which make access from Armenia even more difficult.

Thus, the breakaway region clearly exemplifies the aforementioned second situation that, all other things being equal, should have inhibited secession because it made it much harder for Azerbaijan to agree to any territorial compromise in the interwar period. Interestingly enough, back in 1921 the Soviet leadership cited Nagorno-Karabakh's constant connections with Lower Karabakh and the rest of Azerbaijan as its official reason for retaining the region within the borders of Azerbaijan.

What is more, geographic locations at times also constitute a reference point of one's national identity. The relevant territory is seen as a site which solidifies the nation's collective memory into an indispensable component of its "character." Shusha, a key town in Nagorno-Karabakh, best illustrates Nagorno-Karabakh's national importance for Azerbaijan. Once the regional center for traditional carpet production, Shusha was also home to many Azerbaijani composers and singers who made the town famous as the musical capital of Azerbaijan. During the Soviet era, Shusha was even declared an inspiration for Azerbaijani culture.

It is thus no surprise that Aliyev made the liberation of Shusha a central goal during the Second Karabakh War, because, as he put it, "Shusha has a special place in the hearts of the Azerbaijani people. [...] Without Shusha, our business would be unfinished. Of course, this issue was [also] always on the agenda during the [peace] talks."

History

Shusha is also a good example of a situation in which geography and history reinforce each other. As the old capital of the Karabakh khanate (1748-1822), Shusha is also an important component of Azerbaijan's (political) history. For example, the successful 33-day-long defense of the Shusha fortress against the all-powerful army of the Iranian Aga Mohammed Khan Qajar in 1775 is a *lieu de mémoire* for a popular national-historical story of Azerbaijani heroism.

Historically, another factor inhibiting secession is the lack of Armenian statehood in Nagorno-Karabakh. Although the Armenian side refers to its bloody fights for sovereignty in the disputed area, Nagorno-Karabakh cannot invoke an earlier era of political independence under Armenian authority, which is always helpful for legitimizing secession. The region's lack of any Armenian sovereign tradition contrasts with Abkhazia, for example, another long-term post-Soviet conflict in the region: a principality from the fifteenth to the nineteenth century with its own tradition of statehood, Abkhazia was a Soviet Socialist Republic from 1921 to 1931 before it was downgraded by Stalin to being an autonomous republic within Georgia.

What is more, over the decades, Azerbaijan was mostly concerned about losing *still more* land to its neighbor—in addition to the areas that Moscow had ceded to Armenia in the twentieth century. In Azerbaijani public opinion, Nagorno-Karabakh's secession would be thus perceived as Azerbaijan losing part of its territory to Armenia *again*. Most prominently, a comparison was made with the historical province of Zangezur, which had been transferred to Armenia after the establishment of Soviet rule in the South Caucasus in the early 1920s. That is because Azerbaijan sees in the conflict two complementary processes: first, the violent attempt at secession of a breakaway minority that seeks to expand beyond even its administrative borders; second, the *irredentist* policy of Armenia, which supports this attempted secession militarily in order to further expand its borders at the expense of Azerbaijani territories.

In this respect, it had been a dominant historical narrative in Azerbaijan in the past years and decades that, as Aliyev said back in 2014, for example, its

"historical lands are not limited to Nagorno-Karabakh and surrounding areas. [...] Today's Armenia is, in fact, the historical land of Azerbaijan." That is why the Azerbaijani government repeatedly made its policy plain that it would never allow a "second Armenian state" to be established on Azerbaijani soil. It is no surprise that Aliyev famously announced, already back in 2009, that "Nagorno-Karabakh will not be an independent state, not today, not in ten years or one hundred years. Azerbaijan's position is unequivocal. Despite all the pressure, we will defend this position to the end."

Ethnic Composition

With only 1.5 percent (150,000 people) of Azerbaijan's total population (10 million) documented as residing in Nagorno-Karabakh (as of last count), there is a huge asymmetry in the quantitative relationship between the majority and the minority group in the country.

Another relevant factor inhibiting the attempted secession is connected to the ethnic composition and structure of settlements in the secessionist area. Prior to the war, the situation in Nagorno-Karabakh proved contradictory. Ethnic Armenians represented more than three-quarters of the population, but the region also had a substantial number of ethnic Azerbaijanis. However, the Azerbaijani and Armenian settlement areas were not compact, displaying an *ethnic heterogeneity* in the conflict area: they were spread throughout the region—a situation that generally seems best suited to a system of autonomy with minority protection.

Then, during the First Karabakh War, ethnic cleansing transformed Nagorno-Karabakh into a homogeneous, ethnically pure Armenian region. Just as in seven occupied surrounding territories, all ethnic Azerbaijanis either fled Nagorno-Karabakh or were expelled. At the onset of the conflict, in Azerbaijan proper only a tiny part of the population living in an equally tiny part of the country was of ethnic Armenian origin.

However, unlike the Israeli-Palestinian conflict for example, the ethno-cultural differences in Nagorno-Karabakh have not caused it to become an international proxy conflict between two religious groups—despite efforts by Armenia and its diaspora to portray themselves as an endangered Christian outpost in a predominantly Muslim region. Although Christianity is a source of the West's general sympathy for Armenia, its direct effects are limited. For example, the United States was the only Western country to impose sanctions against Azerbaijan in 1992—a sign of one-sided solidarity helped by the Armenian diaspora's intensive lobbying.

Dominant Legal Order

Along with the aforementioned non-political factors, Azerbaijan's tradition of a centralized state made Nagorno-Karabakh's attempted secession even more difficult to accept. Also, regarding either a federative or a confederative scheme—namely, granting maximal sovereignty to Nagorno-Karabakh short of a state independence—the following structural constraint immediately strikes the eye: as a *unitary state* with a presidential system of government, it would be very hard for Azerbaijan to consider even a loose union with Nagorno-Karabakh.

A sober calculation reveals that an internal settlement within Azerbaijan can present significant advantages for Nagorno-Karabakh.

While looking at other conflict settlement cases, autonomy arrangements are rather a typical characteristic of centralist unitary states (albeit also found in federations), which was also Baku's preferred solution in the interwar period. It is no surprise that back in 1998, the international peace broker's *common-state* plan—which foresaw a joint state for Azerbaijan and Nagorno-Karabakh—failed because Azerbaijan would not accept Nagorno-Karabakh as its equal.

In addition to Azerbaijan's domestic system, it is also the international system that makes Nagorno-Karabakh's attempted secession highly problematic. In this respect, Nagorno-Karabakh's legal status in the Soviet Union plays a central role. The Soviet leadership first issued a binding decision declaring Nagorno-Karabakh an autonomous region (oblast) of Azerbaijan in July 1921. Baku continues to regard this ruling as confirmation of the Azerbaijani nation-state's rightful boundaries (*uti possidetis juris*—principle of the inviolability of borders). Accordingly, when Azerbaijan became independent—like all other former Soviet republics—it was under international law recognized by the community of states within the boundaries that it had as constituent republic of the Soviet Union. Azerbaijan therefore always saw the conflict first and foremost as an act of aggression by Armenia because it illegally occupied its sovereign territories during the First Karabakh War. That is why the UN Security Council also condemned the Armenian occupation in the early 1990s in four separate resolutions.

Significant Advantages

A sober calculation reveals that an internal settlement within Azerbaijan can present significant advantages for Nagorno-Karabakh. One aspect is its geographic link to Azerbaijan: this would facilitate the development of the territory's economic and transportation connections, which in turn would positively impact upon the surrounding regions. Also, twentieth-century history reveals another important and positive moment in the collective memory of the two communities: the period of peaceful co-existence when they lived together and got along with each other day in and day out. Building on these and similar examples could gradually transform the historically antagonistic distortions and enemy images and make it possible to create a new, shared identity.

In addition, Azerbaijan's economic potential, which is far superior to that of Armenia, along with its financial resources, also presents opportunities for relatively poor Nagorno-Karabakh. The case of South Tyrol in Italy can serve as an example: a once mostly poor province populated by mountain farmers, South Tyrol is now one of Italy's wealthiest provinces. South Tyrol benefited not only from Italian government grants, but also from Italy's membership in the EU, which granted significant regional funds to the autonomous province. In the same vein, if Nagorno-Karabakh were to become prosperous in comparison to Armenia—like South Tyrol (Italy) did in comparison with North and East Tyrol (Austria), it could develop its own economic interests and self-confidence. This, however, would require creating incentives, for instance in the form of special offers, such as starting a "Develop Karabakh" initiative and financial transfers. The regional road network, municipal infrastructure, and energy supply urgently need to be upgraded. Creating competitive structures, renovating and modernizing homes, and building new housing are also needed.

But it can be done. BD

Hydrocarbon Energy Complexes

Central Eurasian Keystone Triangles

Robert M. Cutler

The editorial statement of *Baku Dialogues* posits a certain geographic definition of what is called the "Silk Road Region," namely "the geographic space looking west past Anatolia to the warm seas beyond; north across the Caspian towards the Great Plain and the Great Steppe; east to the peaks of the Altai and the arid sands of the Taklamakan; and south towards the Hindu Kush and the Indus valley, looping down around in the direction of the Persian Gulf and across the Fertile Crescent."

When I served on the Executive Board of the Central Eurasian Studies Society 20 years ago, its website provided a lengthy but useful geographic definition of "Central Eurasia." This definition included "Turkic, Mongolian, Iranian, Caucasian, Tibetan, and other peoples in a broad area that geographically extends from the Black Sea region, the Crimea, and the Caucasus in the west, through the Middle Volga region, Central Asia and Afghanistan, and on to Siberia, Mongolia, and Tibet in the east." To clarify the term "Black Sea region," which appears in that definition, I adopt the European Union's characterization of that region as stretching from Romania and Bulgaria, through northern Turkey and on to Georgia, but including only a thin coastal strip some 20-60 kilometers wide within the EU itself, including the Danube delta. From that definition, it would follow that the Silk Road Region is largely embedded in Central Eurasia.

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The name "Central Eurasia" was sometimes used in the 1990s as a shorthand for the 15 former Soviet republics together (Russia included), but this usage has faded away. The collapse of the Soviet Union did not assure the eventual geoeconomic consolidation of Central Eurasia, but the conditions for that consolidation have now been established. This has occurred thanks to the confluence of international financial and industrial interest in the region's energy resources, the political will of the United States (the only remaining superpower), and the freedom and rapidity of networked information exchanges made possible by the internet.

The Geoeconomic Approach

The fact that the Silk Road region is embedded in Central Eurasia illustrates one of the elements of the complex-scientific approach—*embeddedness* in particular—that informs the present essay. (I use "complex-scientific" to mean "concerning the science of complex systems," sometimes also called complexity science.) Herein I describe the complex-scientific evolution of energy geoeconomics in Central Eurasia with a focus on the Caspian Sea region, and its geopolitical extensions, since the early 1990s. This article is also a non-technical condensation of specialized and scientific work on the topic in which I have been engaged for a couple of decades. Let me start by explaining what I mean by *geoeconomics*.

The term "geoeconomics" focuses attention on how international structures constrain national choices over energy-resource development and export (and import), but without determining those choices uniquely. It draws attention to how those choices feed back into the structuration of regional international systems and how these systems constellate themselves so as to configure and reconfigure "system-level" international structures. Edward Luttwak introduced the term in its modern sense, without specific reference to energy. The approach that is proper to the analysis of Central Eurasian energy development is less neo-Clausewitzian than his, which it modifies in an ordinary-language direction. In particular, it is animated by an insight of the Swiss-American scholar Arnold

Wolfers, made in the early stages of the Cold War (that then got lost in the abstractions of North American international relations theory), about levels of analysis between "system" and "state-actor." That insight is the common-sense acknowledgment that foreign policy strategies are conditioned by territoriality, shaped by geographical location, and informed by geographical understandings about the world.

The better to define geoeconomics, it may first be contrasted with the geopolitics approach. The latter concerns how a state's geographical situation and natural environment influence its practice of foreign policy. The intellectual heritage of "geopolitics," associated with such names as Alfred Thayer Mahan, Karl Haushofer, Halford Mackinder, and Nicholas Spykman, is over a century old. It has been challenged by "critical geopolitics," which seeks to unpack the discourses by which elite and publics construct spaces for political action. This latter approach has led to a "neoclassical geopolitics" approach that seeks to re-emphasize physical and geographical determinants of international political action, but with a more global perspective and attention to non-state actors. None of these approaches focuses specifically on international energy questions or their particular characteristics.

Foreign policy strategies are conditioned by territoriality, shaped by geographical location, and informed by geographical understandings about the world.

Another approach, the "resource scarcity" approach, identifies three types of energy scarcity: demand-induced, supply-induced, and "structural" (which is actually supply-induced but is triggered by deliberate actions of an external actor such as a state, a company, or a cartel). This approach draws useful attention to "resource nationalism"—that is to say, a government's direct participation in natural-resource exploitation on the territory of its state, often through a national oil and/or gas company (sometimes called a "champion"). The resource-scarcity approach is a useful adjunct to the geopolitical perspective, yet even together the two of them are insufficient. They do, however, point the way towards the geoeconomic approach, which underlines *inter alia* a state's dependence on foreign sources of energy while taking account of the given country's domestic energy policy.

The complex-scientific analysis of the evolution of geoeconomic energy networks draws special attention to energy pipeline projects and the networks that they evolve. In the nineteenth century, the construction of railroads in European states served national authorities as a means for establishing and embedding central administrative power in the countryside. Today, the construction of energy pipelines creates axes for the international projection of influence by great powers. These pipelines signify and embody cooperative strategic ententes, sometimes verging on *de facto* political alliances among the various states.

The complex-scientific analysis of the evolution of geoeconomic energy networks draws special attention to energy pipeline projects and the networks that they evolve.

Basic Concepts

Some interpretations presented here are new, but they have emerged from newer phenomena manifesting on the ground in the region. Even if they have evolved on the basis of older interpretations, these latter are not necessarily invalidated, because they arose from examination at different scales of analysis. It is part of complex-scientific epistemology that observations may be interpreted differently according to scale of analysis (e.g., Turco-Caucasia vs. Central Eurasia). When the theories that are used for explaining observations change (with the scope of analysis), then the interpretations (of the observation language) change as well.

My earlier work occasionally presents slightly different chronologies and even different names for different "hydrocarbon energy complexes" (a term that I define below). Here, those have been revised so as to take into account new phenomena on the ground that have more recently emerged, eliciting new interpretations and slightly different chronologies. The discussion in this essay relies on four basic complex-scientific concepts, in addition to nestedness. It is convenient to introduce them briefly here, including a brief repetition of embeddedness, the fifth basic concept. The other four are: complex system, emergent coherence, hydrocarbon energy complex, and energy triangle. Each will be examined briefly in turn.

A *complex system* is a system having multiple interacting components, of which the overall behavior cannot be inferred simply from the behavior of the components. The canonical non-complex system is an automobile factory: from studying inputs and how they are transformed, one can predict what is produced. The canonical complex system is the biological cell; human societies, human-created political systems, and individual human beings are also complex systems. In the perspective employed here, a complex system is characterized by three phrases of *emergent coherence*. Emergence is the first phase and coherence is the last phase. They are intermediated by "autopoiesis" (meaning self-creation or self-production), which refers to the capacity of a complex system to establish autonomously self-generated goals and to pursue them via evolutionary adaptation to its environment.

The next term is emergent coherence (formally an "EAC cycle" for emergence-autopoiesis-coherence), understood as a framework for analyzing and explaining the extension of oil and gas pipeline networks from the Caspian Sea basin westward to Europe and eastward to China. In an EAC cycle, 'emergence' and 'coherence' have their ordinary-language meaning. They are intermediated by autopoiesis. Autopoietic dynamics explain the extension of hydrocarbon energy pipeline networks out from the Caspian Sea basin to Europe and China.

A potential pipeline project is a complex system that interacts with its physical and human environment. After it emerges as an idea, it alters its form as necessary through the working of the (evolutionary) principle of variation. Such altered forms then either survive (e.g., the evolution of the Baku-Supsa oil pipeline into the Baku-Tbilisi-Ceyhan pipeline or fail to survive (e.g., the evolution of the Nabucco project into the Nabucco West variant, which subsequently died). The surviving pipeline projects are those that have cohered, through the (evolutionary) principle of selection, in a manner best adapted to their environment. Not only can complex systems, including pipeline projects, evolve; they can also combine and recombine into new complex systems.

It is worth remarking that the general post-Cold War international system evolved in the same way as this. First there was a phase of the bubbling-up of possibilities of new patterns of international relations, relatively free from bipolar constraints. There then followed a phase where unsustainable patterns of structuration of regional subsystems fell away and those still incipiently coherent settled-down and persisted. Finally, these now-emerged and autopoietic regional subsystems began to establish deeper-running reciprocal relations. This last development has reinforced their coherence as well as their constrained but self-directed autonomy, with respect to their own evolution as regional subsystems of the general international system.

I also use the term *hydrocarbon energy* complex (HEC). An HEC designates a regional geographical construct—typically transnational or international—that is structurally unified by energy flows that are, in turn, typically institutionalized by oil and gas pipelines. These may now include translittoral pipelines, such as Blue Stream that goes from Russia to Turkey under the Black Sea, and, if they are significant enough, transoceanic vectors such as in the case of liquefied natural gas (LNG). The complex-scientific nature of an HEC emerges from the fact that development, production, and pipeline transmission of energy resources is a complex social system. Such a system contributes to configuring geopolitically the territories where the energy is produced, transited, and consumed. Its evolution is governed by the effects of internal dynamics of social and economic growth in combination with external geopolitical constraints.

Pipeline networks and their associated social systems participate in configuring and reconfiguring the geopolitics of territories where hydrocarbon energy is produced, transmitted, and consumed.

This geoeconomic HEC approach considers pipeline networks (oil and gas transmission systems) to be complex adaptive systems, executed by human agency, that transform their human and physical economic, political, financial, and ideological environments. Pipeline networks and their associated social systems thus participate in configuring and reconfiguring the geopolitics of territories where hydrocarbon energy is produced, transmitted, and consumed. They can alter inherited balance-of-power geopolitical patterns by unifying elements of adjacent geoeconomic subregions in new ways. And they can transform international regions and promote interregional restructuring from the bottom up. This was most evident in the circum-Caspian littoral regions in the 1990s and early 2000s.

Recent geoeconomic trends—in retrospect somehow ineluctable but not predetermined—argue strongly that the Greater Central Asia region, and its HEC in particular, has expanded into an East-Central Eurasian HEC, while the Greater Turco-Caucasian HEC has expanded into a West-Central Eurasian HEC. The present evolution of the East-Central and West-Central Eurasian HECs—particularly their emergent interconnections—was not pre-determined. This evolution takes place thanks to human agency, constrained by the international and geophysical environment. This agency has prevented certain other tendencies of energy-geoeconomic evolution over this same period of time. The observed energy-geoeconomic evolution thus shows an aesthetically pleasing tendency toward unification. Its analysis as a phenomenon is empirically justified.

The term *nestedness* has already been mentioned but not explained. It signifies that every region is "nested" within different scales of analysis and also, in turn, may nest other regions within itself. To take another example, Central Asia is nested within a broader yet well-defined (transborder) macro-region of Greater Central Asia, which is in turn located within the demographic, cultural, geographic, and historical unity called Central Eurasia. Likewise, what we will call Greater Turco-Caucasia nests Turco-Caucasia within itself and is also itself nested within Central Eurasia as its western component. In addition, each chronological phase of emergent coherence (i.e., emergence, autopoiesis, and coherence) may comprise its own nested subphases of emergence, autopoiesis, and coherence; also, it may be nested in a superphase of meta-emergence, meta-autopoiesis, or meta-coherence. Examples of how this is so are given towards the conclusion of this essay, after the main analysis, on which it is based, has been first set out.

The concept of nestedness responds to the need for a way to transcend the mere aggregation of bilateralisms that was characteristic of so much international relations theory during the life of the Cold War international system. Such multilateral arrangements have now become the norm throughout European and Eurasian geoeconomics, and the method of triangles may be extended to higher orders of multilateral relations. Quadrilateral relations, for example, may be

constituted as a set of triangles. Examples of this will also be given later the present essay.

Finally, the analytical tool of *energy triangles* implements the insights of network sociologists from the 1990s. These scholars showed that the dynamics of triads differ qualitatively from any iteration of dyadic relations. The Baku-Tbilisi-Ceyhan oil pipeline was the first trilateral project implemented in the history of the world hydrocarbon industry, for example, and it cannot be reduced to an aggregation of bilateral Azerbaijan-Georgia, Azerbaijan-Turkey, and Georgia-Turkey relations.

On the Two Shores of the Caspian Sea

To recall: the complex-scientific geoeconomic HEC approach considers pipelines and their networks as complex systems executed by human agency that transform the human and physical economic, political, financial, and ideological environments in which they are embedded. Energy pipeline projects unify elements of adjacent geoeconomic subregions in new ways, altering the antecedent balance of power and its corresponding geopolitics. They signify and embody cooperative ententes, sometimes verging on *de facto* political alliances, among different states. Oil and gas pipelines and their networks thus transform international regions and promote interregional restructuring from the bottom up.

Different periodizations of HEC evolution are possible, especially depending upon the geographic scale and level of analysis. Here I will present a straightforward and relatively unelaborated one, focused on the emergent coherence of the Central Eurasian HEC; but it is necessary to start on a smaller scale and build up to that. Earlier I mentioned "Turco-Caucasia," and it is now time to define it.

The term "Turco-Caucasia" signifies a certain region beyond the South Caucasus through which the implementation of oil and gas exploitation and transmission projects extends. While a Central Asian HEC may be defined simply as the five post-Soviet republics together located there, the Turco-Caucasian HEC is a bit more complex. The latter would include all three South Caucasus states plus mountainous and lowland territory in the North Caucasus up to the port of Novorossiysk, but not including most of the territory over which the Caspian Pipeline

Consortium (CPC) eventually laid its pipeline in southern Russia from Tengiz to Novorossiysk.

The Turco-Caucasian HEC also includes a half-dozen Turkish provinces in the northeast of the country around the territory of the Baku-Tbilisi-Erzurum natural gas pipeline (now also called the South Caucasus Pipeline, SCP). Greater Central Asia and Greater Turco-Caucasia are geographical enlargements of those two concepts, traced by events. Culturally, historically, and demographically, it is possible to suggest that, as a geopolitical rather than a geoeconomic concept, Turco-Caucasia may also include that part of the Anatolian peninsula east of the BTC pipeline, northern Iraq including the Kirkuk-Ceyhan pipeline, and a part of northern Iran populated in the majority by ethnic Azerbaijanis. However, the facts of the HECs evolution on the ground do not warrant the inclusion of Iraqi or Iranian territories in the geoeconomic concept of Turco-Caucasia.

It is also possible to set dates on the evolution of Turco-Caucasia. The region itself, as a geopolitical unity, fell out of its Soviet-era configuration already by 1989; its emergent coherence as a geopolitical region was achieved by the end of the twentieth century. However, conceived as an energy-geoeconomic entity—i.e., as the Turco-Caucasian HEC—it emerged only following the provisional resolution of ethnic conflicts that had erupted in Georgia and Azerbaijan in the late 1980s. The negotiations over both the Baku-Chirag-Gunashli oil field and the Shah Deniz natural gas deposit (and their incipient exploitation) are the main actual developments that motivated the emergent coherence of the Turco-Caucasian HEC from 1992 through 2003.

The Turco-Caucasian HEC evolved autopoietically into the Greater Turco-Caucasian HEC from 2004 through 2015. "Greater Turco-Caucasia" signifies the evolution of geoeconomic Turco-Caucasia into a region of still greater scale, including the eastern part of the Anatolian peninsula. Culturally and demographically, it would enlarge also to include larger swathes of the Azerbaijani-populated region in northwest Iran; however, as an energy-geoeconomic HEC construct, Greater Turco-Caucasia excludes that region. The construction and entry into service of the BTC oil pipeline—which originates in Azerbaijan's offshore zone in the Caspian Sea, goes through Georgia and terminates at Turkey's East Mediterranean coast—occurring during roughly the same time

frame, was an important driving force in the geoeconomic enlargement of Turco-Caucasia into Greater Turco-Caucasia.

The Central Asian HEC comprised simply the five Central Asian states. The Greater Central Asian HEC includes, in addition, much of the eastern North Caucasus that are not part of the Greater Turco-Caucasian HEC, plus southern Siberia, western Mongolia, Xinjiang, a small part of northern Afghanistan, much of northern Pakistan, and part of northeastern Iran. The concept has historical, cultural, demographic, and geophysical bases, as well as being applicable to contemporary energy-geoeconomic developments.

Only around the middle of the 2000s, with the geoeconomic enlargement of Central Asia into Greater Central Asia (and of Turco-Caucasia into Greater Turco-Caucasia), did the two regions on opposite sides of the Caspian Sea begin to move towards geoeconomic merging. Oil shipments from Kazakhstan and Turkmenistan across the Caspian Sea to Baku and Makhachkala account for this tendency, as does the reanimation of the Trans-Caspian Gas Pipeline (TCGP) project under the aegis of the European Union at that time. The clearest developments motivating the gradual merging of the two HECs—located on opposite shores of the Caspian Sea—that one sees beginning today to be under way, was not just the unsuccessful attempt to implement the TCGP at that time, but also the successful implementation of the Caspian Pipeline Corporation (CPC) pipeline for oil from Kazakhstan's Tengiz deposit to cross southern Russia to its Black Sea port of Novorossiysk (and the subsidiary port of Tuapse).

The CPC pipeline was a main artery of the geoeconomic enlargement of Central Asia into Greater Central Asia. The geoeconomic regions of Turco-Caucasia and Central Asia were thus not connected by international energy flows until sometime after the fall of the Soviet Union. Attempts at the time, largely unsuccessful, to develop further the Karachaganak gas deposit, which depends upon the Russian processing plant in Omsk, also played a role in the geoeconomic enlargement of the Central Asian HEC into the Greater Central Asian HEC. Kazakhstan's supergiant offshore strike at Kashagan raised the possibility (still being developed) for gas exports to be taken under the Caspian Sea through the South Caucasus to Europe. The Kazakhstan-Caspian Transportation

System (KCTS) was first sketched on the drawing-boards at that time.

The KCTS still envisages bringing Kashagan oil onshore to enter a (still to be constructed) pipeline inside Kazakhstan from Atyrau to Kuryk, and then shipped through an undersea pipeline to Azerbaijan, whence Kashagan oil could enter the BTC pipeline for export to the world market. At the time, it was also conceived that this oil could reach Odessa under the Black Sea from Georgia, then flow east-to-west through the Odessa-Brody pipeline (also called the Sarmatia pipeline) to a point near the Ukrainian-Polish border. It was planned to construction a further pipeline from there into Poland, arriving at Plock with an eventual extension to Gdansk, from where the oil could be shipped to world markets.

Also in the middle of the 2000s, when each HEC (on either side of the Caspian Sea) was reaching its autopoietic stage, it was intended that an extension of the Nabucco gas pipeline project (namely, the TCGP) should enter Central Asia. This pointed toward the eventual knitting-together of the Greater Central Asian and Greater Turco-Caucasia HECs—and their respective enlargement and transformation—into the West-Central and East-Central Eurasian HECs.

West-Central and East-Central Eurasia

To summarize the narrative so far. On the western Caspian shore, the Turco-Caucasian HEC emerged from 1992 to 2003, developed autopoietically into the Greater Turco-Caucasian HEC from 2004 to 2015, and is cohering as the East-Central Eurasian HEC as from 2016 until 2027. Likewise on the eastern Caspian shore, the Central Asian HEC emerged from 1992 to 2003, developed autopoietically into the Greater Central Asian HEC from 2004 to 2015, and is cohering as the West-Central Eurasian HEC as from 2016 to 2027. It may or may not be a coincidence that each of these geoeconomic enlargements, into the East-Central and West-Central Eurasian HECs, entail the adjoinment of a fourth vertex to its respective foundational triangle. Let me explain.

Taking the energy-triangle postulate as the point of departure, it becomes clear that the triangular basis—let us call it the *keystone triangle*—for the Greater Central Asian HEC comprises Kazakhstan, Russia, and Turkmenistan. The enlargement of the Central Asian HEC into the Greater Central Asian HEC required that each of its chronological phases be

characterized by the addition, to that basic Central Asian triangle, of a different strategic player: a "fourth vertex," as it were. In each succeeding phase, the previously introduced actors did not disappear, but a former non-actor achieved prominence and drove events. Thus from 1995 to 2000, this was the United States, mainly through involvement in Kazakhstan; from 2001 to 2006, it was the EU (including several of its member-states and their "national champions"), also in Kazakhstan but in some Russian regions as well; and from 2005 to 2010, it was China, which became deeply involved in all members of the original energy triangle.

By the end of this three-phase cycle, only one of these fourth vertices survived as an ongoing energy partner, namely China. Competition increased between China and Russia for Turkmenistan's natural gas. Russia's project for a refurbished Caspian Coastal Pipeline (CCP, sometimes termed 'pre-Caspian' in English, following the Russian *prikaspiiskii*) went unrealized while China successfully constructed the Turkmenistan-China gas pipeline, which also crosses Uzbekistan and Kazakhstan. The East-Central Eurasian HEC then emerged on the basis of the earlier triangle plus China. This new quadrilateral, in turn, may be regarded for the purpose of analysis as four triangles, each one constructed by consecutively omitting one the quadrilateral's vertices.

These present observations are simplified sketches of much more complex and complicated developments. They are not, however, reductionist, and they do not falsify any actual history. There are actually three broad schools of complex-systems studies. One emphasizes "complex adaptive systems" and studies how interactions give rise to patterns of behavior. A second, more typical of the natural sciences, seeks to understand the different ways in which complex systems may be normatively described. The third is a cybernetics-based and system theory-oriented approach that looks at the process of the structural formation of complex systems through pattern formation and evolution. The last is the approach adopted here. So here we are engaged in the description of patterns that have not only emerged but also cohered through the formation and evolution of international energy-geoeconomic structures.

Now, with respect to the West-Central Eurasian HEC, we can say it emerged from the triangular basis of the Turco-Caucasian HEC and then later the Greater

Turco-Caucasian HEC. This basis comprised Azerbaijan, Russia, and Turkey. Fourth vertices appeared over time here also. Instead of one every six years, however, there has been one every 12 years. The United States was the dominant energy player from outside the region during the 1990s and the early 2000s. It was the U.S. that made it possible for BP to strike the "Contract of the Century" with Azerbaijan. Not just American companies but also American diplomacy were intimately involved, in the late 1990s, in the negotiations around the first incarnation of the TCGP. However, the United States began to lose interest in the region's energy geoeconomics in the mid-2000s, and that relative lack of interest has endured up until the present day.

It was the European Union that next entered the scene, first with the inter-ministerial conference and the resulting Baku Initiative in 2004, which was the first meeting ever in which the EU and the South Caucasus and Central Asian countries discussed energy cooperation. The initiative was followed by the 2006 Astana Roadmap. The EU's interest continued with the Nabucco project, which turned into the Southern Gas Corridor with an Italian rather than an Austrian terminus. The success of this endeavor is today on the ground for everyone to see—notwithstanding the formal closure by the EU in 2016 of the underlying institutional support mechanism launched in 1995 under the moniker "Interstate Oil and Gas Transportation to Europe" and better known as INOGATE.

Following the logic of the successive enlargements from the Central Asian to the East-Central Eurasian HEC, China might be next on the scene through the 2020s. However, there are not yet any signs of this; nor, in fact, are there likely to be any such signs. Indeed, China has been and is continuing to turn its attention to South Asia, in particular Pakistan and most recently Iran, the northwestern section of which was originally considered above as a part of cultural-demographic Greater Turco-Caucasia, but which was excluded from energy-geoeconomic Greater Turco-Caucasia.

The Southern Gas Corridor and continuing offshore developments in Azerbaijan guarantee the EU's continuing presence in the Greater Turco-Caucasian HEC. Indeed, just as China become the enduring fourth vertex that transformed the Greater Central Asian HEC (with its Kazakhstan-Russia-Turkmenistan keystone triangle) into the East-Central Eurasian HEC,

so the European Union appears as the enduring fourth vertex that has transformed the Greater Turco-Caucasian HEC (with its Azerbaijan-Russia-Turkey keystone triangle) into the West-Central Eurasian HEC.

What about other Central Eurasian HECs? If the Greater Turco-Caucasian HEC grows into the West Central Eurasian HEC, if the Greater Central Asian HEC grows into the East Central Eurasian HEC, and further if these enlargements permit these complexes to merge and grow into one another, then how should the evolution over time of *this* phenomenon be conceived and periodized? To answer this question, it is necessary first to realize that although the West Central Eurasian and East Central Eurasian HECs may together define—in its broad outlines—the Central Eurasian HEC, nevertheless this is not the limit of the analysis.

There can be no better catalyst for achieving the lasting stability and prosperity of Central Eurasia than the final realization of the fully-fledged Trans-Caspian Gas Pipeline.

If the energy geoeconomics of the 1990s and early 2000s produced the HECs of Central Asia and Turco-Caucasia, and from the early 2000s until the mid-2010s the Central Asia HEC evolved into the Greater Central Asian HEC—and the Turco-Caucasian HEC into the Greater Turco-Caucasian HEC—then why are there no analogous developments in South Asia? During the 2000s and early 2010s, this question was in fact not yet decided. The projects of the Iran-Pakistan-India pipeline, a putative underwater Iran-Oman-India pipeline, and the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline together raised the possibility of the emergence of a South Asian or Greater South Asian HEC.

The TAPI pipeline project would have played a role in connecting a putative Greater South Asian HEC with the Greater Central Asian HEC; and also the Iranian projects with the Greater Turco-Caucasian HEC. In the event, however, the energy-geoeconomic consolidation of neither South Asia nor Greater South Asia occurred. Had it occurred, it could have theoretically further enlarged into a South-Central Eurasian HEC. Geophysical limitations such as the

Himalaya mountain range, as well as social-demographic limitations such as produce political unrest the transborder Baluchistan region, are among the factors that prevented such a development. There were, however, also economic and financial constraints, not to mention political and geopolitical barriers, that could not be overcome.

Is there a North-Central Eurasian HEC? Not really. If there were a North-Central Eurasian HEC, it would include mainly Russian territory. But the Russian gas transmission system is still not nationally unified with a comprehensive export pipeline network, as for example is Turkmenistan's, which can export gas from any corner of the country in any direction. Russian President Vladimir Putin had once envisioned both the EU and China being connected up to West Siberian sources of natural gas, with his own hand on the valve to determine which direction it might flow; however, that did not come to pass.

A putative North-Central Eurasian HEC is in fact divided between what one might call—if events continue along the paths already tentatively sketched—a Greater East-Central Eurasian HEC and a Greater West-Central Eurasian HEC. The former would reach all the way to Sakhalin, and even to the Kamchatka gas production center, while including as well the Yakutia and Irkutsk gas production centers and the whole Power of Siberia pipeline linking to China. The latter would include the Yamal development and other west Siberian and Arctic production centers, with their pipelines linking to the EU. However, these two energy-geoeconomic formations are still in their emergent phase. Even if they would appear to be passing from emergence to autopoiesis, their boundaries are still somewhat amorphous.

Keystone Triangle

Other work established the first three phases of evolution of what I now call Greater Turco-Caucasia (the geopolitical construct, as opposed to its HEC) as 1989-1994, 1995-2000, and 2001-2006; whereas the first three phases of the evolution of Greater Central Asia (the geopolitical construct, as opposed to its HEC) were 1995-2000, 2001-2006, and 2007-2012. Recall that this five-year offset is due to the fact that the post-Soviet transition effectively began in the South Caucasus roughly five years earlier than in Central Asia. The civil war in Georgia and the First Karabakh War all date from

the mid- to late-1980s. By contrast, Central Asia was the last region of the Soviet Union where the union republics declared their independence. Kazakhstan was indeed the very last, four days even after the Russian Federation did so.

The phases of the evolution of the broader-scale Central Eurasian HECs were assigned the dates 1992-1997, 1998-2003, and 2004-2009, for the reasons given above. Recalling that not only energy-geoeconomic HECs but also chronological EAC cycles can be nested within one another, it is natural to conceive that that EAC cycle on the Central Eurasian scale, running from 1992 through 2009, may be a superphase of a meta-EAC cycle. If so, then it would be followed by a superphase of meta-autopoiesis (embedding another EAC cycle with the three phases: 2010-2015, 2016-2021, and 2022-2027). The projects entering into service during these years would define the axes of development for the whole of energy production—from Central Europe to Central Asia—over the entire half-century following the collapse of the Soviet Union.

Challenges to the stability of any international system typically begin to appear during its third superphase, which for the current system would begin in 2028.

Challenges to the stability of any international system typically begin to appear during its third superphase, which for the current system would begin in 2028. The failure to govern the said challenges results in a breakdown into a transitional period to a new international system. The final superphase—one of meta-coherence—would fall into the period 2028-2045. The argument in favor of this pattern is especially persuasive in view of the fact that a number of foresight scenarios (including one of my own, elaborated from the same complex-scientific principles as set out here for studying HECs) predict the downfall and collapse of the current "post-Cold War" international system in the mid-2040s. Complex-systems studies predict that the trigger will come in the early 2030s, and that after the mid-2040s there will follow a dozen years of another "international transition" (a period coincidentally similar in length to the dozen years following the end of the Cold War).

It is interesting to note that we are near the midpoint between the origin of the present international system (the year 2001) and its breakdown. But how it breaks down is path-dependent over time. The present system's configuration in the late 2020s and 2030s would therefore condition the particular characteristics of how that breakdown comes to pass—i.e., the "initial state" for the next international transition, which will produce the point of departure for the evolution of the next international system, as from the mid- to late-2050s.

> *The knitting-together of the East-Central and West-Central Eurasian HECs into a genuine overall Central Eurasian HEC is the pivot upon which the energy geoeconomics of those future developments will turn.*

The knitting-together of the East-Central and West-Central Eurasian HECs into a genuine overall Central Eurasian HEC is the pivot upon which the energy geoeconomics of those future developments will turn. For the stability of the countries in the region, not to mention for the well-being of the populations there and their economic prosperity, there can be no better catalyst than the final realization of the fully-fledged Trans-Caspian Gas Pipeline (TCGP) with its two large-volume strings: one feeding a further expanded South Caucasus Pipeline into the Southern Gas Corridor for markets in the south of Europe, and the other crossing from Georgia under the Black Sea and making landfall in Romania (the White Stream pipeline project) for markets in Central and Eastern Europe.

Such a TCGP will assure the robust formation of the *Central Eurasian keystone triangle*, composed of Azerbaijan-Kazakhstan-Turkmenistan, thus unifying the East-Central Eurasian energy-geoeconomic keystone triangle, Azerbaijan-Russia-Turkey, with its Kazakhstan-Russia-Turkmenistan counterpart in West-Central Eurasia.

Despite the European Green Deal, the TCGP remains an important project for Europe, for numerous reasons that have been explained elsewhere. From the standpoint of energy geoeconomics, upon which so much of general geopolitical evolution today depends, the implementation of Turkmen gas exports to the EU in sizeable quantities would cement Central Asia's ties with Europe. No other project can do this. Kazakhstan and Uzbekistan would later join Turkmenistan in westward gas ex-

ports, securing revenues totally independent from those gained from Russia and China. Just as the Baku-Tbilisi-Ceyhan oil export pipeline was a demonstration project enabling the South Caucasus Pipeline and the Southern Gas Corridor, so the TCGP would be a demonstration project signaling that other trans-Caspian energy projects might go forward, while also giving a decisive boost to transport and other projects outside the energy sector.

As the two components of a prospective Central Eurasian HEC grew together and increasingly intertwined from 1992 to 2009, it has become appropriate to refer to the expanded Greater Turco-Caucasian HEC as the West-Central Eurasian HEC, and to the expanded Greater Central Asian HEC as the East-Central Eurasian HEC. In further evolution, the former has enlarged already to extend to southern Europe, for example via the Southern Gas Corridor to Italy, and the latter to China's coastal areas and eastern Siberia. It therefore becomes indicated, later on, to entertain the possibility that the Central Eurasian HEC enlarges into a Greater Central Eurasian HEC. This could possibly include North-Central Eurasian parts of Russia not part of the East-Central and West-Central Eurasia HECs; and, even more importantly, this opens the possibility for integration with South-Central Eurasian regions, notably India, as a necessary balance against the Chinese and now Russian energy-geoeconomic domination of Pakistan as well as against the ever-increasing Chinese presence in Iran.

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The unification—or not—of the West- and East-Central Eurasian HECs will condition how this third superphase (meta-coherence, from 2028 to 2045) will begin to emerge, thus whether Central Eurasia and eventually Greater Central Eurasia will emerge and cohere either as an HEC or even as a coherent geopolitical unit. The TCGP would thus be a potential catalyst for the beneficial evolution of the structure of the international system up to the half-century, and even decades beyond: a factor for stability while the rest of the world is in the throes of yet another system-change.

The foundational basis—the *keystone triangle*—of the East-Central Eurasian HEC is the Kazakhstan-Russia-Turkmenistan triangle, with China adjoined to form a quadrilateral (treatable as four triangles). That having been said, Russia-Turkmenistan energy relations are nearly nonexistent now, so any triangle that would include those two vertices together would be of trivial significance. Of the three triangles formed by Turkmenistan with any pair of vertices from its foundational basis, only the China-Kazakhstan-Turkmenistan one has any real significance—for now. As for the West-Central Eurasian HEC, with its Azerbaijan-Russia-Turkey keystone triangle, the EU is the additional vertex now forming a quadrilateral.

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The EU has already come to terms with its continuing need for natural gas. The Caspian Sea region is the only cost-effective source for significant quantities that would be able to decrease its dependence on Russia. Leaving aside the manifold benefits and prosperity that would accrue from implementing the TCGP and its follow-on projects—both in and outside the energy sector—it is obvious from sheer geography and geoeconomics that *Azerbaijan is the key link of this keystone-triangle bridge* represented by the incipient Azerbaijan-Kazakhstan-Turkmenistan formation—so, in other words, between Eastern-Central and Western-Central Eurasia—and not just for energy HECs alone. For Kazakhstan, Turkmenistan, and even Uzbekistan to have a western egress to European markets will only enhance stability in the Caspian Sea region by providing more balance for their multi-vectorial foreign policies. Such increased stability would be to everyone's benefit in the turbulent decades to come, up through the collapse of the current international system in the 2040s, and beyond. BD

The Strategic Benefits of the Southern Gas Corridor

Vitaliy Baylarbayov

At the end of 2020, the Southern Gas Corridor became fully operational. This marked the completion of a journey that began a decade ago when the government of Azerbaijan and the State Oil Company of the Azerbaijan Republic (SOCAR) took a strategic decision to launch a major natural gas export project.

The Southern Gas Corridor is one of the largest and the most expensive gas supply projects in the world built to date. In December 2013, SOCAR and its partners signed a Final Investment Decision (FID) to establish a gas pipeline corridor from Azerbaijan through Georgia, Turkey, Greece, and Albania before ending in Italy. A branch pipeline is now under construction to Bulgaria, which is expected to be completed in the second half of 2021. In July 2018, the project supplied its first gas to the Turkish market and went on to change the dynamics of that country's gas market, whereby Azerbaijan is now one of its top gas suppliers. On December 31st, 2020, inaugural commercial gas supplies arrived from the Caspian into Europe, signaling the commencement of the Southern Gas Corridor's full operations.

For Azerbaijan, the Southern Gas Corridor provides a major source of revenue unlinked to the global oil market; the project also strengthens Baku's links with its neighbors and Europe. For SOCAR—as operator of components of the project and investor in all its segments—the project's success represents a major step in the company's transition from a national to an international energy company. The Southern Gas Corridor provides new gas supplies to Turkey, Georgia, and Europe and is a platform for increased supplies to these markets and also can be extended to reach additional markets in Europe. With the completion of the first stage of the Southern Gas Corridor, Azerbaijan and SOCAR, together with their partners, are examining strategies for the next phase of the corridor's development.

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The Southern Corridor is a strategic mega-project, transiting seven countries and six regulatory systems. The project links 11 different investors and, in its first stage, will supply 12 different gas buyers. SOCAR and BP have been involved in all aspects of the $33 billion project. The consortium and SOCAR concluded 25-year contracts with European gas buyers, which serve as a check on potential changes in market conditions. Despite the complexity and scope of the project, the Southern Gas Corridor has been completed on schedule and below budget. Initial project costs were estimated at $44.6 billion, while in the end the project was completed with an investment of $33 billion—a savings of more than 26 percent.

The Southern Corridor is a strategic mega-project, transiting seven countries and six regulatory systems.

The present corridor is comprised of four different commercial projects: the upstream development of the Shah Deniz II gas field in Azerbaijan; the expansion of the South Caucasus gas pipeline; the establishment of the Trans-Anatolian Pipeline (TANAP) through Turkey; and the establishment of the Trans-Adriatic Pipeline (TAP) from the Turkish border to Greece, Albania, and Italy via the Adriatic Sea. In tandem with the FID on the Southern Gas Corridor, Azerbaijan and its investment partners have extended Production Sharing Agreements (PSAs) on the Shah Deniz field to the year 2048.

This essay will next examine Azerbaijan's political and commercial goals in establishing the Southern Gas Corridor. It will then consider the project's impact on European energy security, the strategic importance of the project, and the hurdles that were overcome. It will conclude with a discussion of lessons learned for international energy export and policy.

Azerbaijan's and SOCAR's goals

The main goals of contemporary Azerbaijan and SOCAR—in terms of oil and natural gas production and export projects—have always been to provide resources to fuel the country's development and strengthen its independence and security. Azerbaijan reestablished its independence in 1991, amid the collapse of the Soviet Union, and is geographically located at the geopolitical crossroads of three major powers: Turkey, Russia, and Iran.

Early in its independence period, neighboring Armenia invaded Azerbaijan and occupied close to 20 percent of the latter's sovereign territory. Armenia expelled all ethnic Azerbaijanis from both Armenia and the occupied territories, turning more than one million Azerbaijanis into refugees or displaced persons. The new state also inherited a collapsed economy and healthcare and education systems.

In the midst of this turmoil, Azerbaijan sought to attract foreign investment and develop its energy resources—extreme challenges in light of the prevailing situation. Moreover, Azerbaijan's landlocked status meant that it needed cooperation from neighbors to get its hydrocarbon resources to world markets. It was, in short, almost impossible to imagine that the young state could carry out major new production and export projects. Yet a little more than a decade following this tragic period, the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the South Caucasus gas pipeline had both become operational. Revenues from these energy export projects allowed Azerbaijan to develop good infrastructure and public services as well as build housing for the refugees.

Despite the complexity and scope of the project, the Southern Gas Corridor has been completed on schedule and below budget.

In 2010, the government of Azerbaijan and SOCAR decided to launch the Southern Gas Corridor in order to take further advantage of the country's more than 2.6 trillion cubic meters of proved gas reserves. Additional Azerbaijani gas reserves are currently estimated at 3.45 trillion cubic meters. The Shah Deniz field is a large, world-class gas resource in Azerbaijan, containing over 1 trillion cubic

meters of natural gas and more than 240 million tons of condensate.

In addition to providing a steady revenue stream, the Southern Gas Corridor project is designed to strengthen the country's ties with its neighbors and Europe. More broadly, Baku hopes that the project will generate a stronger Western interest in preserving peace and security in the South Caucasus, due to Azerbaijan's new role as a major energy supplier.

As noted above, SOCAR is in the midst of an important transition from a national oil company into an international oil company. SOCAR is the operator of the Southern Caucasus Pipeline and is also an investor in all the components of the Southern Gas Corridor, including the Europeanportion—TAP. Thus, the Southern Gas Corridor constitutes a new investment model with the European Union.

In addition to providing a steady revenue stream, the Southern Gas Corridor project is designed to strengthen the country's ties with its neighbors and Europe.

In terms of its commercial goals, SOCAR, BP, and other Shah Deniz partners assessed that while natural gas demand in Europe may stagnate, imports will grow because domestic production in Europe is in decline. Moreover, with some European states attempting to phase out coal consumption and nuclear energy, there will be growing demand for natural gas in many European markets.

The economics of the Southern Gas Corridor project were positively affected by the fact that Shah Deniz is also a condensate field; thus, production of the gas is accompanied by condensate production for export as well, which is linked to the global price of oil. The gas supply contracts concluded for the first stage of the Southern Gas Corridor are exceptionally long-term—up to 25 years—as are the transit agreements. Two important considerations follow from this: *first*, Southern Gas Corridor supplies are not subject to market vacillations and price volatility; *second*, consumers are able to rely on stable gas supplies at an anticipated price.

Prior to launching this gas export project, Azerbaijan needed to design it in such a way as to ensure alignment with the interests of multiple public stakeholders (i.e. Turkey, Georgia, Albania, Greece, Italy, the EU, and United States) and companies (chief among them BP). This was not an easy feat, since divergent goals were in play: the companies wanted to bring supplies to the most profitable markets in Europe in the most cost-efficient manner whereas some political actors wanted the gas supplies to reach Europe's most vulnerable markets (located in Eastern and Central Europe) in order to improve the region's security of supply. In designing the Southern Gas Corridor, Azerbaijan therefore had to identify a route that met both commercial and policy goals.

Azerbaijan's gas export strategy reflects several principles. *First*, Azerbaijan works with all countries. Thus, Azerbaijan exports gas in multiple directions and is prepared to transit it from multiple sources without discrimination. *Second*, the investing companies in the Southern Gas Corridor are from multiple countries and even different continents. A prevailing principle is that energy is never used as a coercive political tool. *Third*, Azerbaijan is not competing with other suppliers in the European market. It does not strive to supplant another supplier but rather to make more gas supplies available to the European continent.

European Energy Security

The volumes of the Southern Gas Corridor are quite modest relative to Europe's overall gas consumption. However, the project provides for significant supply diversification for specific markets, which constitutes its unique energy security and geopolitical contribution. The contracted gas to Europe in its first stage is 10 billion cubic meters (BCM) annually, in addition to 6 BCM to Turkey. It should be noted, in this context, that the capacity of TANAP and TAP can be relatively easily doubled to 32 and 20 BCM, respectively. Moreover, these can be further expanded to deliver additional volumes. By 2022, the gas supplied by the Southern Gas Corridor will provide, in terms of total national gas consumption, 13 percent of demand in Italy, 20 percent in Greece, and 33 percent in Bulgaria.

The high-level support extended to the Southern Gas Corridor by both Washington and Brussels over the past decade contributed to the project's success. The United States and the EU sought to improve Europe's energy supply security and reduce national security vulnerabilities by establishing a new source and a new route of gas supplies into Europe from the Caspian region. Doing so required a long-term

strategy that extended over multiple terms of both American administrations and EU commissions.

The Southern Gas Corridor has also catalyzed the building of interconnector natural gas pipelines in Southeast Europe. Further interconnecting gas markets across Europe has been an American and EU policy goal for a long time; however, it was only this private sector initiative that was able to establish such an interconnection in practice. The Ionian-Adriatic Pipeline (IAP) is an additional interconnector with likely prospects for development.

The project provides for significant supply diversification for specific markets, which constitutes its unique energy security and geopolitical contribution.

Clear Strategic Value

The geopolitical importance of the Southern Gas Corridor was clearly illustrated in the weeks before the project's technical operational commencement in November 2020. Due to the clear strategic value of the project, Azerbaijan's adversaries—together with those that oppose the improvement of European energy security—sought to undermine the Southern Gas Corridor project. For instance, on July 12th, 2020, Armenia launched an attack on Azerbaijani military units stationed near the border between the two states in the Tovuz region—a part of the country through which its major energy and transport corridor runs westward, in the direction of Europe. At the time of these attacks, Elshad Nasirov, Vice-President of SOCAR for Marketing and Investments, stated that "it is not by chance that Armenia launched a military operation against Azerbaijan three months before the start of Azerbaijani gas supplies to Europe."

Yerevan chose the timing and location of the attacks in an attempt to create the impression that Armenia has the capacity to disrupt this strategic energy and transit corridor. During the fighting, Armenia attempted to capture the Qaraqaya Heights in Azerbaijan, which are perched above the energy and transit corridor. Following these attacks, senior Armenian officials haughtily pointed out that Armenia's goal in the fighting was to make it clear to the EU that somehow "Armenia is the guarantor" of Europe's energy security, announcing that Yerevan had plans to coordinate with the EU's Directorate General for Energy in light of the July 2020 attacks.

> *As a result of the war, Azerbaijan removed the Armenian threat to the Southern Gas Corridor and restored its strategic deterrence.*

As subsequent events made clear, the July 2020 fighting represented an initial phase of the full-scale Second Karabakh War that broke out in autumn 2020. As a result of the war, Azerbaijan successfully liberated its territories that had been under Armenian occupation for close to three decades. In addition, Azerbaijan removed the Armenian threat to the Southern Gas Corridor and restored its strategic deterrence.

Hurdles Overcome

Not only has the Southern Gas Corridor had to contend with military threats to the project's security, but it has also had to address questions about its long-term commercial viability in light of significant gas market changes. During its development stage, some questioned whether mega-natural gas supply pipeline projects were still relevant in a world awash in liquified natural gas (LNG); others raised the issue of whether they met energy security and geopolitical needs that could not be fulfilled by LNG. Still others asked whether, given significant growth in renewable energy consumption and public support for such directionality, there would be significant future demand for natural gas in Europe.

Thus, before seeking investment, SOCAR and its partners had judged that while renewable capacity and demand was growing significantly in Europe, the EU had not fully found adequate substitutes for its diminishing nuclear and coal generation capacity. In addition, SOCAR and its partners were able to draw on the scientific and public policy consensus that had determined that natural gas is the most compatible baseload fuel with the current generation of renewables. Thus, a conclusion was drawn that demand for renewables went hand in hand with demand for pipeline-supplied natural gas.

Demand for pipeline natural gas will be preserved for at least several more decades, despite the rising available supplies of LNG for several reasons. *First*, pipeline natural gas is cheaper: LNG still

costs more in Europe on average than most pipeline-supplied options. Many consumers in Europe have found the price of LNG to be prohibitive.

Second, relying on LNG supplies exposes consumers to extreme volatility in prices. The potential for extreme LNG price spikes was illustrated in January-February 2021, when a cold spell in Asia rocketed demand for LNG cargoes, leading subsequently to soaring gas prices in Europe and the UK as well as increasing the level of difficulty to access supplies. During this same time period, pipeline-supplied natural gas continued to be delivered to Europe stably and at a much lower price. This is an important case study in comparing the security of supply and security of price benefits of pipeline gas versus LNG for Europe.

Third, as additional regions of Europe—particularly the Balkans and other parts of Southeast Europe—develop economically enough to adopt more environmentally friendly fuel mixes, demand for natural gas in these regions is anticipated to grow. However, most of these new consumers will find LNG access prohibitive, either because of geographic or price constraints. Indeed, despite increasing LNG options, the Shah Deniz consortium was able to conclude 25-year gas supply contracts that will allow it to sell all the gas capacity planned in the first stage of the project's production.

Fourth, geographic factors also restrict LNG supplies. LNG cannot solve the gas needs of many landlocked states in Europe presently dealing with security of supply challenges—mostly located in Central and Eastern Europe. Moreover, countries whose maritime access is located east of the Bosporus, such as Bulgaria and Ukraine, cannot directly receive LNG supplies, since LNG vessels are prohibited from transiting this waterway. To this may be added the fact that increased instability in recent years in regions and countries that border major trade waterways—most notably the Persian/Arab Gulf—has increased public aversion to current trade policies in parts of the West. Also, unexpected external shocks, such as the COVID-19 pandemic, raise further questions about the reliability of LNG deliveries.

An additional hurdle to actualizing the Southern Gas Corridor project came in the form of the potential for EU regulatory changes proposed after it had already been initiated and foreign investments made. This hurdle has been overcome by agreement.

Initially, it was widely assumed that the political risk of the project was highest in Georgia and Turkey, and that the European portion would be built smoothly. In reality, the Georgian and Turkish portions were built without a glitch: on time and below budget. It was, in fact, the segment in Europe (TAP) that ended up presenting the biggest challenge: project costs were greatly reduced in the easternmost parts of the Southern Gas Corridor located in Azerbaijan, Georgia, and Turkey whilst costs in the TAP segment dropped only marginally. Moreover, the Southern Gas Corridor elements in Azerbaijan, Georgia, and Turkey were completed ahead of schedule whilst TAP ended up being delivered later than initially expected. Investors considering the establishment of new supply projects into Europe very clearly noticed these challenges, which represents an informative case study.

Looking Ahead

Now that the Southern Gas Corridor is up and running, SOCAR has turned its attention to the development of Phase II of the Southern Gas Corridor. SOCAR now aims to reach additional markets and transit natural gas from additional locations as well as to develop Azerbaijan's untapped gas resources. In this next phase, the Southern Gas Corridor would be able to transport gas from new sources, such as those located in the Eastern Mediterranean, Central Asia, and, at some point, Iran.For instance, the signing on January 21st, 2021, of a Memorandum of Understanding between Azerbaijan and Turkmenistan on the joint development of the newly named Dostluq oil and gas field in the Caspian Sea increases the likelihood of the future export of Central Asian hydrocarbons westward via the Southern Gas Corridor and the BTC oil pipeline. This agreement reflects a mutual desire of the two states for increased cooperation.

In this next phase, the Southern Gas Corridor would be able to transport gas from new sources, such as those located in the Eastern Mediterranean, Central Asia, and, at some point, Iran.

In Azerbaijan, SOCAR plans to produce additional gas volumes through the initiation of new phases of production in existing fields (e.g. Shah Deniz III, deep gas in the Azeri-Chirag-Gunashli field project) as well as the inauguration

of production in new fields. These include Shafag Asiman (the giant structure where the first exploration well is being drilled by BP), Babek (400 BCM of gas), Absheron (350 BCM of gas), and Umid (at least 200 BCM of gas)—all of which also contain extensive condensate reserves. Azerbaijan is engaged in the development plans for these resources and seeks to add between 15 and 20 BCM annually by 2030.

SOCAR is also engaged in developing new infrastructure to extend the reach of current gas production. One significant new piece of infrastructure will be the pipeline connecting Nakhchivan—Azerbaijan's exclave—to Turkey's existing pipeline network, which is already supplied by Southern Gas Corridor volumes from the main part of Azerbaijan via the existing pipeline corridor. Despite being small and inexpensive, this new piece of infrastructure will have a significant impact on regional gas flows, increasing the security of supply to Nakhchivan and creating greater interconnection within Turkey itself, thereby allowing additional regions of Turkey to access the new gas resources originating in Azerbaijan.

One significant new piece of infrastructure will be the pipeline connecting Nakhchivan—Azerbaijan's exclave—to Turkey's existing pipeline network.

In addition, the November 10th, 2020, the agreement that ended the Second Karabakh War contains a provision stating that infrastructure links between the two states will be restored. Accordingly, a direct pipeline between Nakhchivan and the main part of the country can be envisioned.

Lessons for International Energy Projects

The decade of work that went into the Southern Gas Corridor—from conception to execution—provides several lessons. *First*, major energy production and supply projects require fulfillment of both commercial and policy goals. Policy goals alone are not enough to incentivize the establishment of production and infrastructure costing billions of dollars. On the other hand, commercial ventures on their own—without significant public interests and political support—probably cannot make it across seven states with two dozen investors and gas buyers.

Second, states still fulfill an important role in proving for energy security. Having strong political support from the government of Azerbaijan, the main partners along the route (such as Turkey), and the United States and the European Union were all essential to the success of the Southern Gas Corridor.

Third, receiving gas supplies requires years, if not decades, of planning and activity and the EU will need to give a signal to the market if it wants to receive new future gas supplies. The European Union is presently engaged in a policy formation process to determine the role of natural gas in its fuel mix in the decades prior to transitioning to the primary consumption of renewable energy. The EU faces a policy dilemma on the role of natural gas in its future fuel mix. On the one hand, EU institutions seek to produce comprehensive policies to ensure the security of their gas supplies, such as the EU's support for the establishment of the Southern Gas Corridor. In contrast, many policymakers and non-governmental organizations would like to reduce the use of natural gas, which they lump together with other fossil fuels. Environmental NGOs in the EU today tend to treat natural gas similar to the Union's policy toward coal and oil, despite the lower environmental and climate impact of natural gas.

Having strong political support from the government of Azerbaijan, the main partners along the route (such as Turkey), and the United States and the European Union were all essential to the success of the Southern Gas Corridor.

It should be noted, of course, that the current phase of Caspian gas export will not be affected by any anti-gas sentiments in the EU, since long-term supply contracts have been concluded. However, further exports and potential the expansion of the Southern Gas Corridor pipeline network could be affected by prevailing attitudes toward the consumption of natural gas.

The EU is thus in a policy conundrum: its institutions and popular sentiment are, by and large, averse to supporting new gas projects in Europe; at the same time, renewable energy supplies at this stage cannot deliver Europe's energy needs—especially without gas providing baseload generation (i.e. a stable energy supply base that allows proper electricity grid function). Major gas import projects such as the Southern Gas Corridor require years of planning and major investment commitments. This means that the EU needs to clearly signal years ahead if it wants to receive new gas supplies in order to secure a smooth transition to a greener economy.

With this new policy signal emanating from Brussels, many EU member states are likely to adopt the quickest path to emissions reductions by increasing their respective consumption of natural gas.

In December 2020, the European Commission decided that each EU member state could chose the composition of its own fuel mix and thus the way it plans to achieve emissions reductions. Accordingly, this is interpreted to mean that EU member states can include natural gas and nuclear energy in their future fuel mixes. This decision may lead to an increase in demand for natural gas in Europe. In this context it is useful to underline that America's experience indicates that the cheapest and fastest way to achieve climate-altering emissions reduction is through switching from coal to natural gas in power production. With this new policy signal emanating from Brussels, many EU member states are likely to adopt the quickest path to emissions reductions by increasing their respective consumption of natural gas.

The July 2020 tragic attacks by Armenia in close proximity to the Southern Gas Corridor are a reminder of the importance of the continued protection of critical energy infrastructure. Because these pipelines have strategic importance, they can become easy targets. Now that the project is up and running, it needs to be constantly protected: Azerbaijan will continue to engage in further improving its critical energy infrastructure-protection capabilities.

Of course, the best protection is peace. As part of SOCAR's next stage of project development, the government of Azerbaijan has initiated plans to renew energy supplies to Azerbaijan's newly-liberated territories. These supplies will be made available to the entire population of the formerly occupied territories, as is the case with all citizens of Azerbaijan. Hopefully, the victory that returned the liberated territories to Azerbaijan will also produce a new phase of peace in the South Caucasus in which energy infrastructure will play an important role in advancing regional cooperation. BD

The Southern Gas Corridor and the New Geopolitics of Climate Change

Morena Skalamera

It has been argued that the U.S. shale revolution, the Trump Administration's energy policies, and the global shift towards low-carbon energy sources and renewables have contributed to shape a new energy order—one that challenges the market power traditionally enjoyed by petro-states. Nowhere are these developments more relevant than in Azerbaijan, as the country's expensive investments in the Southern Gas Corridor come under increasing pressure. Unless Azerbaijani gas can be decarbonized at a competitive cost, it may risk becoming redundant within a couple of decades as Europe embraces a greener future.

Geopolitics and Geo-economics

The Southern Gas Corridor (SGC) is a $45bn mega-project ($25bn for the development of the Shah Deniz II field and at least $15bn for the delivery system) to supply natural gas from the Caspian Sea to Europe and, by so doing, reduce reliance on Russian imports. This is a priority that has taken on urgency in the wake of Russia's 2014 annexation of Crimea and the sharp deterioration in relations between Moscow and Brussels that ensued. Currently, the SGC is made up of two pipelines to deliver gas from Azerbaijan's Shah Deniz II field to Turkey and Europe—one called TANAP that is already operational and runs the length of Turkey, and another known as TAP stretching from Turkey's border with Greece across Albania to Italy, which started pumping gas in late 2020.

This is how a leading ADA University policy expert described the situation to me in October 2020, in light of technical delays in the pipeline's inauguration and the big changes in energy markets described above: "the TAP pipeline is 90 percent completed and will be inaugurated soon. Unlike oil pipelines, whose flexible delivery to the end-consumer can be sorted out once they are built—as oil travels via tanker, rail, etc.—gas pipelines are more rigid investment endeavors. [...] You don't agree on a gas pipeline unless you have secured a buyer on the other end." While natural gas supplies from Azerbaijan's Shah Deniz field are already contracted, the project has seen numerus twists and turns since it was signed with great fanfare at the end of 2013. The SGC is an expensive endeavor and the institutions that lined up to finance it are a testament to the degree of strategic importance it carries for the EU. The project has, indeed, been designated as one of the EU's "priority projects."

> *The EU, backed by the United States, has long championed the Southern Gas Corridor as a way for Europe to reduce its dependence on Russian gas.*

The EU, backed by the United States, has long championed the Southern Gas Corridor as a way for Europe to reduce its dependence on Russian gas. BP is a major shareholder in the project, to which the World Bank supplied a $400m loan, and both the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), owned by EU member states, also provided large funding. In October 2017, the EBRD approved a €1.5bn financing package for the TAP project. This included €500m of its own crucial money—the EBRD's biggest-ever single loan—and a further €1bn syndicated loan to one of the Southern Gas Corridor pipelines, the TAP. Similarly, the EU's EIB in February 2018 approved a €1.5bn loan for building the TAP, one of the largest ever for Europe.

These loans came under increased scrutiny when in October 2017 the board of the Extractive Industries Transparency Initiative (EITI) instructed the Azerbaijani government to revise some laws regarding civil society within four months or face suspension, on the grounds that Baku had not made satisfactory progress on requirements related to civil society engagement. In response, Azerbaijan withdrew from the international transparency watchdog, presenting

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a dilemma to international financial institutions (IFIs) such as the World Bank and the EBRD, which were at the time appraising loans to Azerbaijan's energy sector conditional on its compliance with EITI norms. The withdrawal at first cast doubt on prospects that Western IFIs would lend for Azerbaijan's contribution to the SGC project; but given the importance of the SGC, the U.S. and some European countries lobbied against outright suspension of the agreed financing, with officials at the EBRD—the only international financial institution with a specific mandate to promote democracy—insisting that it had ensured that TANAP met the usual standards.

According to an August 2018 story that appeared in the *Financial Times*, the EIB's financing also went on without any human rights safeguards, spurring criticism over how Western officials and IFIs chose to minimize the inconvenient truth that their energy policies (and related funding) are directed toward actors whose human rights practices are understood to diverge from EU norms. Former British prime minister Tony Blair's appointment for offering, through his consulting firm, political and strategic advice to the BP-led Shah Deniz consortium on the export of Azerbaijani gas to Europe has also been placed under the microscope and discussed through the prism of scholarly debates—as exemplified by a 2018 *Journal of Democracy* article authored by Alexander Cooley, John Heathershaw, and J.C. Sharman entitled "The Rise of Kleptocracy: Laundering Cash, Whitewashing Reputations."

At the same time, Western stakeholders' demands for limited legal changes in light of the October 2016 EITI ultimatum were not well received by senior figures in the Azerbaijani government, who pushed back hard against the perceived interference in Azerbaijan's internal affairs and, subsequently, went on to mobilize less 'demanding' financiers. Two months later, the China-led Asian Infrastructure Development Bank (AIIB) approved a loan of $600 million, the largest at that point in its history, for the construction of the TANAP gas pipeline from Azerbaijan to Turkey. As Elshad Nassirov, Vice-President for Investments and Marketing at SOCAR, the state oil company, told me: "Chinese money was quicker."

Given that IFI finance is so critical for the SGC, which had continued to face a funding gap (especially after 2014, when world oil prices collapsed), it appears that Western banks moved closer to

the AIIB position with respect to questions about Azerbaijan's record on corruption and democracy subsequent to the latter's entry as a funder. More widely, such "pipeline politics" in the SGC has been scrutinized for its divergence from the normal ways in which economics tended to trump politics in the European gas trade. As energy expert Akhmed Gumbatov has argued in a recent *Baku Dialogues* essay, for the EU and the U.S., the SGC is clearly a project of geostrategic importance.

SGC Benefits

The EU insists that the SGC is important for its efforts to diversify supply routes and develop an open, competitive gas market. While not involving zero-emission or renewable energy, it will help to replace coal and lignite, still widely used in the Balkans, with cleaner gas. In this sense, TANAP and TAP not only help increase total gas volumes available to Europe, but they are also going to help diversify the gas supplies of central and southeastern EU member states (and Western Balkans candidates and aspirants), which strongly rely on Russia-dominated supplies of natural gas. Compared with the Middle East, Azerbaijan is a safe place to do business—due to the fact that, while foreign companies need the resources, Baku needs their technology and the revenues. Moreover, SOCAR has been enabled to become a real player in the international industry. And TAP, with plans to deliver 10bn cubic meters to Europe a year, will provide modest yet important diversification in Europe's natural gas sources as well as slightly reduce the EU's reliance on Russian supplies. Europe's strategic interests explain SGC's built-in scalability (i.e., the underlying desirability to increase its size) and investors' interest in the project despite the somewhat high risks and costs associated with it.

As British sociologist Anthony Giddens argues in his 2009 book *The Politics of Climate Change*, all risk assessment is contextual and depends, in the final analysis, upon values, which inevitably shape our perception of the saliency of given threats: the constant variable shaping decisionmaking given that no course of action is ever risk-free. In that sense, the idea to open a new corridor to the European continent to import gas not only from Azerbaijan but the wider Caspian region and the Middle East, including Turkmenistan and Iraq, has dominated the EU's energy policy discourse. Initially, the 3,500km SGC network would transport gas from the giant, BP-led Shah Deniz field in offshore Azerbaijan, but, ideally, would in future draw supplies from other Caspian and Central Asian countries and even the Middle East, changing the energy map of the whole region. Despite the strong momentum, it has become increasingly challenging to make the case that expanding the SGC makes commercial and political sense for four crucial reasons. The sections below will examine each in turn.

Security of Supply

European Union officials have long argued that TAP could turn out to be a "first step" towards the construction of a Trans-Caspian Pipeline that would bring gas from Turkmenistan (and some day from Iran) to Azerbaijan — and thus help to diversify Europe's energy imports. The pipeline is designed to be flexible enough to be scaled up if new sources of gas emerge.

For example, Maroš Šefčovič, a former European commissioner for energy, has often hailed the project as "a new source, new supplier, new route, and really new molecules of gas" and argued that the EU would like to see the corridor expanded to take in gas from other states, such as Turkmenistan, Iran, and Iraq. In 2016, Šefčovič was quoted in the *Financial Times* as saying, "it's a project which is built in a super-strategic area, very rich in hydrocarbons, very close to Turkmenistan, Iran, northern Iraq. […] The guys who are developing Israeli, Egyptian, or Cyprus gas fields are also looking at this pipe as a [...] potential [delivery] route." TAP and connected pipelines could, indeed, become a route for other new suppliers. For instance, Turkey's 2020 big discovery of natural gas in the Black Sea has prompted analysts to argue that the size of the provisional find would be significant if it proved to be commercially viable.

Due to the geopolitical quandaries involved in East-Med gas and the uncertainty over the profitability of Turkey's discovery, though, in the short-term the SGC is only likely to increase in volume if and when low-cost supplies from Iran and Turkmenistan come onstream. But low-cost Iranian or Turkmen gas is far from being available. Therefore, one major risk linked to the project's expansion is resource availability—in other words, the ability to demonstrate a steady, balanced, long-term flow of gas. It appears that the SGC team is yet to take steps that would secure the gas necessary to fill any expansion of the pipelines. Thus

far, only Azerbaijan has gas reserved for Europe. Iran's gas is off the table due to the effects of American sanctions. Direct European access to Turkmen gas is not likely to become a reality in the near future for a variety of reasons, not the least of which involve China's increasingly competitive offers to take the gas in the other direction, the unproven feasibility of an undersea Caspian route, Russian and Iranian opposition to the whole project, and a combination of low market prices and high transit costs involved. Earlier in 2021, Azerbaijan and Turkmenistan signed a landmark agreement to jointly develop a long-disputed Caspian gas field, a move that could, in principle, pave the way for the transit of Turkmenistan's massive gas reserves to Europe. In practice, however, most observers stress that an undersea gas pipeline across the Caspian Sea to take gas from Turkmenistan would still be "difficult" due to the above-mentioned factors.

Earlier in 2021, Azerbaijan and Turkmenistan signed a landmark agreement to jointly develop a long-disputed Caspian gas field, a move that could, in principle, pave the way for the transit of Turkmenistan's massive gas reserves to Europe.

Expanding the SGC project is, of course, less commercially attractive in a lower price environment, which is why SOCAR's Nassirov has said that "it is in the interests of everybody to find these additional low-cost volumes, which would make the pipeline's expansion both commercially viable and politically interesting." The result of the current lack of additional gas molecules to fill the SGC's planned expansion may be that Russia's Gazprom—which has been in intense competition with these EU-backed projects to supply more gas to the EU's lucrative markets—is coming to be viewed as a candidate that could still make the expansion feasible, if not very profitable. "The more gas in the pipeline, the more profitable it becomes," Nassirov told me in an interview. "It is not accurate to say that Azerbaijan plays games to keep competitors at bay. More gas only adds to economic profitability."

The Role of Russia

The EU, supported by the U.S., has long insisted that the SGC has advantages over Russia-backed pipelines, as it will bring gas from a new source. But the politics surrounding the SGC are turning Russian gas, ironically, into a potential justification for the economics of expansion.

When BP first committed to bringing new gas volumes to Europe, it pledged to do so through a secure corridor and at a competitive price. But the SGC has yet to secure the gas needed to justify the scalability of the funded pipelines, which could, in principle, swiftly be increased in capacity to supply gas from other fields as well. While taking gas from Russia would run counter to EU energy objectives to diversify gas supply away from Russia, the European Commission may struggle to find a legal basis to challenge such a proposition. Under EU law, pipeline operators are obliged to grant third-party access or specifically seek exemptions from this. While an exemption was granted for the first phase of Shah Deniz development to take on Azerbaijani gas only, TAP and TANAP will likely both need to apply the key principles behind the EU's energy laws in case any expansion occurs. These include transparent pipeline operation, non-discrimination in setting fees, third-party access, and separation of supply and transmission. At the moment, Gazprom does not appear to be signaling that it is seriously considering this route; at the same time, the company has repeatedly floated the idea of TAP as an alternative export route for Russian gas.

While taking gas from Russia would run counter to EU energy objectives to diversify gas supply away from Russia, the European Commission may struggle to find a legal basis to challenge such a proposition.

Nassirov says that SOCAR does not view Russian gas as a rival and has pledged there will be no political obstacles to Gazprom's participation in feeding an expansion of the SGC, "should the EU not object it." As such, according to Azad Garibov, an analyst specializing in Caspian affairs at the Jamestown Foundation, Russian gas in the SGC seems to be an alternative that could make expansion commercially viable without provoking backlash from Moscow. Russian gas is typically low-cost, which makes it very competitive. This explains why the economic case for Russian gas supplies has typically been received more favorably than the current state of geopolitical standoff might otherwise suggest: despite

the Ukraine crisis, EU member states imported about 170bn cubic meters of Russian gas by pipeline in 2018, about 37 percent of their total consumption, according to BP's 2019 *Statistical Review of World Energy*. Russia's role aside, SGC's expansion may still face other problems. Another question mark is the geostrategic risk related to transit.

Transit Risk and Security of Demand

Involving seven countries and 11 companies, the marathon project has been described by BP as the global oil and gas industry's "most significant and ambitious undertaking yet." Political and cross-border uncertainties are among some of the key risks during the development phase of a major pipeline. Consensus amongst governments can at times be difficult to reach due to differing priorities among the various countries involved.

As the SGC runs only a few kilometers from Nagorno-Karabakh and South Ossetia, the uncertain economic rationale of expanding the SGC—especially as gas demand in the destination markets is not expected to grow—is compounded by the geopolitical risk of relying on a number of volatile transit countries, not least Turkey.

Turkey's and Russia's involvement in the Nagorno-Karabakh conflict, Iran's proximity, and the presence of major strategic oil and gas pipelines all make this a region a place where a local flare-up could quickly turn into an international headache. Potential funders of the project's expansion will evaluate if and how it is possible to overcome the very large potential transit risks linked to the project.

In addition to the supply, transit, and technical risks of any major pipeline project, risks such as security of demand (which may be variable due to changing environmental and social priorities) must be considered early in the development stage of such a large-scale undertaking of expansion. As mentioned, gas demand may be subject to abrupt shifts. The TAP is a good, albeit modest, answer to the growing gas need in Europe in the next couple of decades. However, according to the IEA's 2019 *World Energy Outlook*, by 2040 demand for gas is expected to sharply decline in the European Union despite the depletion of indigenous sources. This casts more doubt about the project's expansion.

Two game-changing events have recently altered global politics in fundamental ways and reordered the world, as it were, from the perspective of hydrocarbon producers. *First*, the shale revolution has fundamentally eroded hydrocarbon industry profitability. *Second*, the renewables' revolution will continue to depress growth in demand for fossil fuels. The combined result has put the profitability of the entire global hydrocarbon industry under pressure. As U.S. energy expert Meghan O'Sullivan noted in a Spring 2020 *Bloomberg* column, history has shown that a big change in energy markets often precipitates a big change in geopolitics. For instance, the shift from coal to oil catapulted Middle Eastern countries to strategic significance. And the recent technology-driven boom in shale oil elevated the United States to net oil exporter status, changing its outlook on the importance of oil in global affairs.

the world now also faces one of the largest shifts in the global oil and gas industry, which could impact directly on SGC expansion plans.

Similarly, the world now also faces one of the largest shifts in the global oil and gas industry, which could impact directly on SGC expansion plans. For one, the collapse in oil prices induced by the shale revolution complicated things for the SGC. But the larger long-term disruption has had not so much to do with a cyclical fall in oil prices, but rather with the energy transition—a secular shift that places a strong emphasis on promoting energy efficiency and the development of renewable energy. It is this trend that explains a lower appetite for big hydrocarbon investments among the world's oil majors.

In December 2019, the EU unveiled its Green Deal, aimed at creating the world's first carbon neutral continent by 2050. The Green Deal envisions a power sector based largely on renewable sources, the rapid phasing out of coal, decarbonization of gas, and a focus on energy efficiency. Over the next few decades, mounting pressure to take action on the threat of climate change may be the single most important factor in deciding the fate of SGC expansion.

A Bridge Fuel?

Gas is sometimes referred to as a "bridge fuel," in the sense that it can be a lower-carbon option to help the transition from a coal-burning past to a renewable energy future. This explains why Azerbaijan has tried to reinvent itself as a leading producer and transit hub for natural gas—a process concurrent with the terminal decline of the Azeri-Chirag-Deepwater Guneshli, the enormous field offshore in the Caspian Sea, whose development since 1994 had spurred Baku's previous oil boom.

Yet the world market for gas, too, has shrunk by more than 10 percent in the past decade and is liable to decline further as climate policies accelerate the switch to renewables. Furthermore, in an era of shale gas-induced abundance, global competition over the EU's gas market is fierce: with LNG imports increasing, and Russia determined to dominate the European market, there is no shortage of supply. In addition, the outlook for SGC's enlargement could worsen as renewables become cheaper and more accessible over time.

That said, as long as at least some fossil fuel power plants are needed to back up variable generation from wind and solar—and during the indeterminate period that will see homes and businesses switch to electricity for heating—there will still be demand for imported gas in the European Union (especially as the domestic sources held by member states are rapidly depleting).

Some EU countries may still argue that additional supplies of Caspian gas are not required, as the EU expects additional gas to be available from the construction of liquefied natural gas terminals, and through the Nord Stream II project from Russia. In the long run, as gas competition over Europe's oil and gas market tightens, existing trading relationships will fall away. In that sense—and not unlike Russia and other fossil fuels supplying countries—Azerbaijan finds itself in a buyer's market that it cannot control. All this explains the gradual pivot to the east—in investments, and perhaps, in the future, also in the energy trade.

The Role of China

As political scientist Farid Guliyev argues in a 2019 essay published in *Energy Policy*, existing scholarship appears to have overlooked the deep shifts in the Trump Administration's energy policy and the long-term consequences for the global energy system. America's shale revolution—which keeps oil prices low due to a global oversupply—and the implementation of the EU's climate agenda has made long-term projects for the import of fossil fuels such as the SGC largely redundant. So far, Joe Biden's policies do not appear to run contrary, in a fundamental way, to those of the previous administration in this regard. Guliyev goes on to observe that in the absence of investments by Western oil companies—and given the lack of U.S. and EU leadership in developing new energy projects—Caspian energy producers, with the exception of those in Azerbaijan, are looking to China and other Asian countries for export markets.

Azerbaijan is an interesting case in this context: the government in Baku has borrowed billions of dollars from Western lenders to build a network of gas pipelines (e.g., TANAP and TAP) to ship its gas to southern Europe—an endeavor that also perpetuates the country's dependence on revenues from conventional fossil fuels. The country still remains the only exception in the regional panorama in terms of its commitments to westbound export markets for its fossil fuels. However, more recently, Chinese lenders and the AIIB have loomed large in the list of financiers from which Baku has borrowed billions: so even though Azerbaijan is not actively looking to China (as yet) for pipeline export markets, it had taken on Chinese debt during the boom in commodities prices, while its finances are particularly vulnerable to plunging commodity markets today.

In the past five years, the U.S. has turned into a major exporter of oil and natural gas, which has had far-reaching implications for the global energy order. As Guliyev contends, this new energy order also means a lower demand within the West for Caspian fossil fuels. For the resource-rich countries of the Caspian basin, these trends have fed a strong Chinese presence and a more permanent tie-up to Beijing. Yet, as seen from the perspective of the recipient countries, Beijing's strong push to assert influence is by no means an unmitigated blessing. On the one hand, some of the Caspian countries have become more vulnerable to kleptocratic state capture; on the other hand, there has been much debate whether China's regionalism in Central Asia—and in particular BRI—reflects debt trap diplomacy that has left many host countries mired in debt.

A 2018 article by Mehdi P. Amineh and Melanie van Driel entitled *China's Statist Energy Relations* epitomizes the position of those who argue that China's growing economic interest in the oil-rich nations of Caspian basin should come as no surprise, as Beijing's domestic power-wealth structure relies on uninterrupted foreign (energy) supplies. Within the larger region, Azerbaijan sits on a geopolitical

fault line between west and east and is gaining in importance as an energy transit route and as a hub between European and Asian markets. As such, Azerbaijan has become increasingly alluring to China, along with more established players such as the EU, Iran, and Turkey as well as Russia and the United States.

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China's hydrocarbon investments and "greening" efforts within the Silk Road region must be viewed in light of its long-term effort to meet its energy needs, curb pollution, and set itself at the forefront of clean technology investment at home and abroad. While Western IFIs investments in Azerbaijan persist, a related domestic political development is worth noting here. As Meghan O'Sullivan notes in her 2017 book *Windfall: How the New energy Abundance Upends Global Politics and Strengthens America's Power*, domestic efforts by the United States to style itself as a "global energy superpower" have boosted global supplies of hydrocarbons. At the same time, global demand has withered due to Western policies favoring decarbonization and a change in consumer behavior, mirrored in consumers' willingness to pay for clean energy, thus creating new opportunities and jeopardizing traditional business models.

These developments are likely to make expansions of Caspian oil and gas pipeline projects targeting the EU market prohibitively expensive, revealing an interaction between domestic politics and international bargaining that, in the field of international trade, has been discussed under the rubric of U.S. political scientist Robert Putnam's two-level games.

Two-level Games and Stranded Assets

The $40bn, 3,500km SGC conduit is one of the biggest infrastructure projects in the global oil and gas industry. Today, however, the geopolitical calculus around this large gas corridor has changed—not only do the U.S. and Russia compete in global hydrocarbon markets but Azerbaijan, too, has become a potential competitor for the U.S. and Russia in the lucrative EU gas market. It remains to be seen whether America's new energy prowess and the EU's climate agenda will affect the eagerness of Western IFIs to finance the long-discussed expansion of the SGC.

A more likely scenario is that these large infrastructure investments become stranded as the EU transitions away from fossil fuels in an increasingly well-supplied gas market where lower-costs suppliers such as Russian piped gas, Qatari LNG, Yamal LNG, and American LNG ferociously compete for market share. Here we come to the term "stranded assets." The International Energy Agency defines stranded assets as "those investments which have already been made but which, at some time prior to the end of their economic life, are no longer able to earn an economic return." Vast swaths of Caspian oil and gas reserves may never be extracted because doing so would intensify global warming as foreign policymakers, fossil fuel companies, and leading thinkers come under increasing pressure to consider how the world will change in response to this very phenomenon.

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Globally, the U.S. is the largest combined shareholder of leading multilateral development banks (MDBs), including the World Bank, the Asian Development Bank (ADB), and the EBRD. It bears watching whether in the upcoming tranches of infrastructure financing there will be any observable decrease in Western development monies allocated to the SGC. If so, this would support an argument about *how* the waning interest in financing the region's hydrocarbon projects is reflective of changes in America's domestic energy policy as well as transitions to low-carbon energy sources and renewables in Western Europe, both of which are reshaping the global energy order. This, in turn, would draw attention to the domestic sources of multilateral trade cooperation through the logic of two-level games.

In a 2013 article published in *World Politics,* political scientists Daniel Mao Lim and James Vreeland, indeed, show that regional hegemons do not hesitate to use their power in multilateral organizations to advance unilateralist foreign policy objectives. Similarly, in their recent analysis of China and Japan's role in Asia, political scientists Saori N. Katada and Jessica Liao argue that powerful states often use tools of economic statecraft to establish regional leadership. In a 2015 article published in *International Studies Quarterly* entitled "Oil and International Cooperation," scholars Michael Ross and Erik Voeten indicate that the more states depend on oil exports, the more unilateralist they become. Besides reflecting new dominant ideas on sustainability within the West's policy discourse, any abrupt decrease in Western investment in SGC hydrocarbons would also reflect the material domestic priorities of relevant actors able to call the shots within Western MDBs, such as the United States (a situation reminiscent of the Chinese "greening" tied to domestic priorities of combating "air pollution.")

With oil prices falling (coupled with energy-transition related difficulties), Baku is rethinking how it will fund a possible expansion of the SGC project. Should Azerbaijan and China's interests align in the future, one should not rule out a more prominent role for Beijing in the country's hydrocarbon investments, given that China's ruling class continues to recognize a connection between the domestic economy and the economies of resource-rich countries.

The Pandemic's Disruptive Effects

Adopting carbon friendly policies may not suit countries that depend on oil and gas for government revenues but suffer less pressure to change their behavior from the investment community. Azerbaijan is one such country. Global secular trends in "greening" are, however, now concurrent with an ongoing crisis that may have lasting market and geopolitical implications for hydrocarbon producers: namely, the coronavirus pandemic. According to Russian economist Tatiana Mitrova, it is highly likely that the effects of COVID-19 will amplify and accelerate trends for decarbonization, especially in Europe, Azerbaijan's main export market.

Some analysts go on to add that the instability of the oil market could hasten a structural shift toward renewable energy by making traditional fossil fuel companies less attractive to investors. While renewable energy projects typically generate lower returns than oil and gas exploration, they also offer long-term price stability that would become more attractive in the current market. As Mitrova notes, there are already increasingly vocal calls from governments and international organizations to adopt a low-carbon approach to restarting the economy.

Azerbaijan is a prime example of a shift in energy power from producers to buyers, and the country is especially vulnerable to such *external shocks*—a situation cemented by the oil boom of the 2000s that made it even more dependent on oil and gas. The combined effect of the secular decline in global oil prices and the coronavirus pandemic (which halved gas prices and reduced oil prices by a third) seriously damaged Azerbaijan (at least in the short-term), as oil and gas revenues make up 45 percent of the country's economy.

Structural reforms undertaken since the drop in oil prices in 2014 may help to mitigate the impact, but for the state budget, the slowdown in fossil fuels exports meant a sharp hit and a may force a rethink of the country's established economic model. The Second Karabakh War also put a strain on state coffers, all of which may now force a geopolitical reset.

Given that fossil fuels are still very much seen as the basis of China-powered growth, one should not rule out an enlargement in the scope of BRI-driven engagement in Azerbaijan. Such cooperation could have far-reaching social and political consequences for Azerbaijan, as new transnational clientelist relationships may continue to disproportionally benefit local political elites.

Reordering

Judging by the decreasing cost of renewables and their increased appeal for investors, we may conclude that the current disruption in hydrocarbon markets will reorder some power relationships. In a 2019 edition of the *Caucasus Analytical Digest*, scholars Farid Guliyev and Marco Siddi argue that, guided by commercial interests, Western oil companies have already shown no interest in investing in new Caspian energy developments, and the idea of building a seabed Trans-Caspian Pipeline to connect Central Asia to Azerbaijan remains stuck on paper. It is worth watching how prominent EBRD investments in the hydrocarbons of the Shah

Deniz Gas Field will evolve in light of the seismic changes currently underway in the global geopolitics of energy, and whether any links can be drawn between the international economic statecraft of Western IFIs and the domestic priorities of important stakeholders within their ranks.

In the past, Russia has questioned the feasibility of the SGC. In 2015, Vladimir Chizhov, Russia's ambassador to the EU, described the project as "extremely challenging from a technical point of view" and "exorbitantly expensive." Then of course it got built. The first phase of the SGC excluded third-party access and went on to take gas only from the Shah Deniz field in offshore Azerbaijan. Any expansion is likely to guarantee third-party access in accordance with EU regulations. Time will tell if Russia will try to join the SGC and, by so doing, use TANAP and TAP pipelines built on the back of billions of, *inter alia*, EU public monies to undermine the European Union's Southern Gas Corridor diversification plan. BD

Oil Pipelines in the Silk Road Region

Coordination and Collaboration Amidst Competition and Confrontation

Rodrigo Labardini

For centuries, numerous projects have wanted to connect the Caspian Sea to its main markets in the East (China) and the West (Europe). All vie to link energy sources (oil and gas) and goods (commodities and manufactured products) with consumers. Contemporary pipelines and transport corridors are presented as cost-efficient, faster, and profitable, and thus sound economical alternatives to traditional hauling via tankers.

Reviewing the political map, continental pathways between East and West must traverse two regional "choke-points," each with three alternative routes. *First*, the "Eastern Gap" at the Caspian Sea: Russia, Iran, and the Caspian Sea. The Caspian Sea region also includes Azerbaijan, of course, since it is the only state (together with Russia and Iran) located on its western bank, with routing options via the Caucasus to reach the Black Sea and Anatolia on to Europe. *Second*, the "Western Gap" at the Black Sea: Russia (again), the Black Sea, and Anatolia.

The South Caucasus' unique geographical location between East and West as well as between Russia and Iran place it at a strategic crossroads of key

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geopolitical interest. Furthermore, the Caucasus-Caspian Sea-Central Asia region (CCCA) today—this corresponds more or less to what the editors of *Baku Dialogues* have called the "Silk Road region"—is merging ever closer with Eurasian and Middle East politics. The politicization of energy and transport—with pipeline politics often dealing with opposing economic and partisan interests—as well as sanctions against Russia and Iran, also raises the importance of sanctions-free routes. Compounding these issues is the fact that several countries in the region are landlocked, dependent on transit states, and vulnerable to the latter's maneuvers.

Energy geopolitics

Energy is essential to life: it's a necessity for mankind, for all communities, and for every country. Whomever controls any of the processes to produce energy and reach markets has important social and international leverage. Energy resources possess a unique natural double characteristic used as a foreign policy tool: they are both commercial and strategic goods, which explains their political nature.

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Great influence and power are available to whomever has partial or total control over any of the processes involved in delivering energy to the consumer: source possession, exploitation, production, transport, storage, distribution, and price-setting capabilities. These subjects constitute energy security: the capability to guarantee resources at predictable affordable prices.

The more actors—whether public or private—that participate in any project, the more complicated it is to attain results. Numerous technical questions, economic considerations, legal misunderstandings, and political waves have to be tackled with unswerving commitment in spite of governmental changes.

In classical geopolitics, geography and surroundings impact upon foreign policy. In other words, geography matters. Yet, in a critical perspective, image construction and language shape geopolitical interaction. Political actors may use any narrative strategically to shape domestic and international policy discourse and, in turn, to promote their own interests. They are also influenced by domestic, international, and regional dynamics involving political and economic developments.

The desire to reach markets can foster international relations in energy flows. Countries and transnationals jointly build regional infrastructure and garner specialized knowhow and assistance from international finance institutions. Oil and gas originating from the CCCA region are becoming a growing reality in European households. Examples to transport Caspian oil to Europe include the Caspian Pipeline Consortium (CPC), the Baku-Novorossiysk (BNP), the Baku-Tbilisi-Erzurum (BTE), and the Baku-Tbilisi-Ceyhan (BTC) pipelines. Intricacies become evident when we consider that the Southern Gas Corridor (SGC) was initially developed by six countries (Azerbaijan, Georgia, Turkey, Greece, Albania, and Italy), yet it may further develop to the East—with Turkmenistan via a Trans-Caspian Pipeline (TCP)—and further into Europe—with the Balkans and Southeast Europe via the Ionian-Adriatic Pipeline (IAP) and the Interconnector Greece-Bulgaria (IGB) pipelines. SGC became fully operational on December 31st, 2020, and as it keeps developing, more countries will join—probably even Russia.

It all comes down to a safe route to access energy resources and diversify supplier countries and routes.

Nonetheless, tensions may occur due to copious issues—mainly political and economic—in all processes involved in delivering energy to markets, fueling conflict. Recent Eurasian examples include the Russia-Ukraine gas crises of 2006, 2009, and 2014; the 2009 Turkmen-Russia gas dispute; the Belarus-Russia 2007 and 2020 energy disputes over gas and oil; and the 2017 and 2020 Belarus-Lithuania transport disagreements.

Eurasia is surrounded by turbulence, with energy projects competing with one another. Challenges abound. It all comes down to a safe route to access energy resources and diversify supplier countries and routes. Countries, producers, transporters, price-setters, and consumers are involved in a cooperative delivery game whilst competing with each other to reach the markets.

An energy strategy arises from geopolitics, foreign policy priorities, and market characteristics. Caspian and Central Asia

countries followed varied paths in search of increased revenue, energy security, and economic independence. These involved cooperation and coordination amidst competition and confrontation, with crisscrossing projects avoiding collision. Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan—all former Soviet republics endowed with rich hydrocarbon resources—inherited a share of that former country's pipeline network. They each tried to increase oil and gas production, establish transport routes to world markets, and build petrochemical industrial complexes. These constituted the basis for opportunities in both the Eastern and Western Gaps to reach the Black and Mediterranean Seas via the Caucasus and Anatolia, while side-stepping sensitivities to the north and the south.

Pipelines and Reserves

Today, the world is much more aware of the Caspian Sea's energetic relevance. It has even been called the New Persian Gulf, for it may contain 16 percent of the world's oil and its natural gas and oil reserves. And we should keep in mind that its reserves, together with those of Central Asia, "dwarf those of Kuwait, the Gulf of Mexico, or the North Sea," as Zbigniew Brzezinski wrote in *The Grand Chessboard* (1997). This makes the Silk Road region a center of a global energy focus. Yet, it is worthwhile remembering that in 1991, during the demise of the USSR, the Caspian Sea countries—excluding Russia—represented 0.68 percent and 2.11 percent of the world's oil and gas proven reserves, respectively. In 2019—again excluding Russia—they represented 2.22 percent and 13.20 percent of the world's proven oil and gas reserves, respectively.

The Caspian region faced challenges to extract and transport energy resources, as well as financing challenges. Caspian hydrocarbon fields are located far from export markets and initially had to rely on old, Soviet-era pipelines. But the Caspian countries used their geography as a bargaining chip for export routes. For example, in 1994, Azerbaijan signed the Contract of the Century with eleven multinationals from eight countries to deliver oil to Europe; in 1997, Kazakhstan agreed to build the China financed Kazakhstan-China Oil Pipeline (KCOP): the first pipeline to directly send Caspian oil to China. Nonetheless, the legal status of the Caspian Sea was still pending; this was addressed with the 2018 Convention on the Legal Status of the Caspian Sea, with maritime border guidelines and some cooperation parameters set up for the countries in question to use and share aquatic and subsea (hydrocarbon) resources. Yet it seems that this document requires trans-Caspian pipelines to be approved by all Caspian Sea states and, as it happens, both Russia and Iran apparently still oppose these on environmental grounds.

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Hydrocarbon reserves are unevenly distributed in the Caspian Sea, with all five littoral states' economies largely dependent on oil and gas. Kazakhstan has the most substantial proven oil reserves, Azerbaijan was a pioneer in offshore oil production, Turkmenistan is a leader in proven natural gas reserves, while the Russian and Iranian share is insignificant. Whereas for Azerbaijan, Kazakhstan, and Turkmenistan, the Caspian Sea is the main source of energy reserves, Russia and Iran have other, more plentiful energy resources at their disposal.

In addition to drilling and logistics issues, for the longest time another problem for Caspian Sea resources to reach the world markets was the fact of landlockedness. Furthermore, the Caspian Sea and its resource-rich states (Azerbaijan, Kazakhstan, and Turkmenistan) were surrounded by neighbors that were commercial rivals and possessed major regional access routes, notwithstanding what American analyst Robert Manning termed a "a plethora of alternative oil and gas pipelines." This author lists several options whose point of origin is the Caspian basin: to Russia; to Europe via Russia and the Black Sea; to the Black Sea via Georgia; to Europe via Turkey; to the Persian Gulf via Iran; to Pakistan and India via Turkmenistan and Afghanistan; and to the Yellow Sea via Uzbekistan, Kazakhstan, and China.

Before the demise of the Soviet Union there was no major geopolitical game in the Silk Road region. Afterwards, each country took a different path to diversify and development whilst seeking to reduce their respective dependence on Russia. After seven monopolistic decades, the countries of the Silk Road region started receiving serious interests for exploring, developing, and producing their oil and gas resources through investment

and partnership with foreign energy companies, mainly originating in the United States, the European Union (and the UK), and China. Azerbaijan pursued a balanced foreign policy whilst vying to achieve economic independence by opening up to foreign direct investment in oil endeavors to fund development and promote regional stability and growth. Kazakhstan implemented major economic reforms to attract foreign investors. Turkmenistan kept a strong control over its economy, particularly in the energy sector. Uzbekistan aimed at stabilization in the quest to avoid economic and institutional shocks.

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Caspian Basin Countries

Azerbaijan's regional hydrocarbon relevance was described by Zbigniew Brzezinski thusly: "Azerbaijan, with its vast energy resources, is also geopolitically critical. It is the cork in the bottle containing the riches of the Caspian Sea basin and Central Asia," he continued. "The independence of the Central Asian states can be rendered nearly meaningless if Azerbaijan becomes fully subordinated to Moscow's control."

After regaining its independence in 1991, Azerbaijan experienced a severe economic recession characterized by negative growth for five years, including a 50 percent decline in oil production from 20 million tons to 10 million tons over a 25-year period (1970-1995) due to outdated technology, poor planning, lack of investment in new drilling and rehabilitation of existing wells, and the conflict with Armenia over Nagorno-Karabakh.

As a newly independent country with a long oil tradition, Azerbaijan used all available routes to transport its Caspian hydrocarbons. Crossing the Caspian Sea either to send or receive hydrocarbons was complicated, since it required a legal definition of this body of water, its maritime borders, and an agreement on the exploitation of its subsea resources. Azerbaijan was pragmatic: to reach European markets, it developed routes through Russia, Georgia, and Turkey. With the latter two, Baku stressed that a security alliance was most beneficial.

A successful oil and gas strategy led to extraordinary international investment and economic growth with the signing of the aforementioned Contract of the Century and the Shah Deniz field agreement, agreed two years later (in 1996). Azerbaijan received $60 billion in foreign investment in its oil and gas sector between 1994-2010, or $77.8 billion between 2000 and 2017. The country's oil and gas revenues were expected to reach $200 billion by 2024.

In the 1990s, Iran was facing problems in the world's oil export markets, and prospective Caspian oil and gas producers were a threat. After an international consortium backed by Western capital looked to Azerbaijan's hydrocarbons, Iran tried to obtain a share by advocating Azerbaijan's position on dividing the Caspian into national sectors.

However, unable to do so by demand of the United States, Iran then strenuously argued in favor of a condominium concept (in this, Tehran was supported by Moscow), which then gave rise to the idea that geopolitical rivalry was restricting Russian and Iranian exploration, development, and export routes. Additionally, American sanctions were applied on Iran, amidst frosty Azerbaijan-Iran relations on account of Iran's support for Armenia during the First Karabakh War.

Kazakhstan implemented a multi-vector foreign policy, walking a thin line between, on the one hand, its two major neighbors, Russia and China, and, on the other hand, the Western countries, whilst pivoting towards China with the construction of the KCOP as well as the Central Asia-China gas pipeline. Energy is the country's main source of income (85 percent of its total 2007 annual revenue and 67.1 percent of total exports).

Three main pipelines carry Kazakhstani crude and oil products: the Uzen-Atyrau-Samara (UAS) and Caspian Pipeline Consortium (CPC) pipelines to Russia, as well as the KCOP pipeline to China, in addition to rail (to Russia and China) and tanker shipments (across the Caspian Sea to Russia, Azerbaijan (linking to BTC), and Iran). An underwater trans-Caspian pipeline seems to be the best option for increasing production and diversifying export routes.

Geographical proximity may

bring Kazakhstan, Turkmenistan, and Iran together to jointly build oil pipelines to overcome Russia's regional influence. A Kazakhstan-Iran protocol envisaged Iran financing the reconstruction of Kazakhstan's Aktau port, linking it to the Tengiz oil field further north to see Kazakhstani oil flow via Iran's Caspian port in Bandar-e Anzali to oil refineries located in other parts of that country. It also developed the Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI)—still under construction as of March 2021.

Russian production in the Caspian Sea basin traditionally came from onshore fields in the North Caucasus, particularly Krasnodar, Stavropol, and Chechnya. This region supplied Russia with 65,000 bbl/d (in 2013 numbers). Aside from oil revenues, developing the northern Caspian gives Russia an opportunity to advance new technologies to employ in the Arctic.

After the downfall of the Soviet Union, Russia lost its previously vast Soviet Caspian Sea resources. It tried to preserve its geo-strategic, political, economic, and environmental interests, while facing technical difficulties in oil extraction from the Caspian Sea. Hence, Russia became involved in a struggle for the transportation of Caspian hydrocarbons (vis-à-vis Azerbaijan, Kazakhstan, and Turkmenistan), offering projects to transport oil and gas from various Caspian fields.

One of the first projects to give Russia an opportunity to compete in Caspian oil transport was the Tengiz-Novorossiysk pipeline (CPC) connecting Kazakhstani fields with Russia's Black Sea, contributing to the development of Novorossiysk. Ultimately, this strengthened the importance of the Black Sea while boosting Russia's economy and Turkey's control of oil-flow through the Bosporus and the Dardanelles.

Most of Turkmenistan's gas reserves are located in the Amy Darya basin in the southeast, the Murgab basin in the south, and the South Caspian basin in the western part of the country. The economy is highly dependent on natural gas (86.8 percent of exports), trailed by petroleum oils and crude oil. The fuel industry accounts over 81 percent of domestic industrial output. Thus, its economy is highly vulnerable to gas and oil prices' fluctuations with restricted exports markets.

Turkmenistan has given great importance to diversifying its export routes in order to reduce vulnerability, prevent political instability, and overcome the perils of landlockedness. It opened up the Cheleken oil and gas drilling project to foreign investment, with most of its exports in 2011 going through Azerbaijan to the world markets. Most of its gas exports go to China; most of its oil exports are exported over the Caspian Sea to world markets.

Caspian Oil Pipelines

The Caucasus/Caspian Sea region has significant transit infrastructure, hosting major trans-Caucasian oil pipelines: the Caspian Pipeline Consortium (CPC), the Baku-Novorossiysk Pipeline (BNP), the Baku-Supsa Pipeline (BSP), the Baku-Tbilisi-Ceyhan pipeline (BTC) and, inasmuch as it reaches the same destination point and thus becomes a competitor, the Kirkuk-Ceyhan Pipeline (KCP). To the United States and the EU, the region matters as a transit route for energy goods from the Caspian Sea as well as for energy source diversification.

Caspian oil moves through pipelines, ports, ships, and railways. Two pipelines—CPC and BTC—dominate the network, with over 50 percent of available capacity. Smaller pipelines, together with Russian pipelines available to Caspian production, provide another 25 percent. This is supplemented by smaller but significant routes involving railways, swaps with Iran, and other transport options.

Of noteworthy interest is the temporal framework of regional pipelines. KCP was built in 1970—some three to four decades earlier than the other Caspian/Caucasus pipelines, namely BNP (1998), BSP (1999), CPC (2003), and BTC (2006). This reflects the evolving state of the world. The oil embargoes of 1956 (Saudi Arabia vs. France and the UK) and 1967 ("Arab oil" vs. America, the UK, and Germany) may not have been successful as foreign policy tools, but they evidenced the importance of diversification (both for producers and consumers), while striving to satisfy domestic industrial needs and acquiring foreign currency.

KCP is a clear example: it offers diversification to Iraq, direct oil imports and currency for Turkey, and reduces Russian influence for both. The other pipelines (BNP, BSP, CPC, and BTC) arose when pipelines to (Northern) Europe had been developed and had crafted European dependency from Russian fuel, impelling diversification.

KCP reshaped Iraq-Turkey relations, as the former needed markets and export routes to the Mediterranean and the latter needed reliable sources of supply and currency. With KCP, Iraq became Turkey's largest oil supplier while providing Iraq an imperative alternate export route.

KCP was developed during the Iraqi-Turkish economic rapprochement of the 1960s. Iraq's support for Turkey in the 1974 Cyprus Crisis, Turkey's diplomatic support for the Arabs in the 1967 Six-Day War and the 1973 Yom Kippur War, and both countries' common interest in dealing with their respective Kurdish populations allowed Baghdad and Ankara to overcome historical mistrust and build the KCP. It was built independently of major oil companies and, at one point, was the largest pipeline system in the Middle East.

KCP enhanced Iraq's export routes whilst providing Turkey direct imports from Iraq as well as foreign currency for transit fees for oil transshipped from Ceyhan.

Next up is the Baku-Novorossiysk Pipeline (BNP). Post-independence Azerbaijan had to overcome several serious challenges, including possible civil war, a dire economic situation, and a distraught oil industry. It had two large markets in view: Europe and China; the former was more attainable in the immediate near future as the latter required longer distances to traverse and would require more complex political arrangements. The crux was to reduce dependence on Russia while avoiding situations where international sanctions could apply. An initial compromise allowed pumping oil to Georgia (BSP) and to Russia (BNP). Turkey claimed to be a part of the energy corridor and found strong support in Washington from policymakers wanting to limit Russia's control over exports of Caspian oil. Out of seven general routes, only one destination remained (i.e., Europe) with three possible routes: Russia/Black Sea, Georgia/Black Sea, and Georgia/Turkey.

The advantage of BNP was its lesser cost ($1 billion), which was achieved by reversing a Soviet-era pipeline that had previously delivered Russian crude from Grozny to Baku refineries and extending it to the offshore oil terminal at Sangachal. Its disadvantages included preserving Russia's monopoly over Azerbaijani oil and recurring wintertime problems with fog and wind that made tanker loading difficult. Later, a Chechnya bypass was constructed. BNP passes close to Russia's

Makhachkala port, allowing access for oil from the eastern Caspian.

Azerbaijan undertook a politically sound decision for its oil to reach European markets notwithstanding the negative effect on its revenue stream. To wit: by exporting through BNP, Azerbaijan agreed to blend its higher quality semi-light sweet crude with Russian crude and market it as the medium sour crude Urals blend, which is sold at 10 percent less than the usual price. BNP has had geopolitical/flow issues due to quota disagreements, technical matters, earthquakes, and military issues.

The Baku-Supsa Pipeline (BSP) was built in 1998 by refurbishing a partially constructed pipeline in Azerbaijan connected to a disused pipeline from northwest Tbilisi to Batumi. This was further refurbished as far as Supsa, located on Georgia's Black Sea coast, where an offshore loading facility was constructed.

BSP was closed in mid-2006 because of corrosion and a landslide. After a major explosion and fire closed BTC in August 2008, BSP was used to re-route Azerbaijani oil deliveries, which were also temporarily closed for safety reasons due to the Russo-Georgian War. In July 2015, Russian troops gained control over a section of BSP in occupied South Ossetia. Nonetheless, SOCAR stated that Azerbaijan can deliver to Supsa via alternative routes.

We now come to the Baku-Tbilisi-Ceyhan pipeline (BTC). After the renewal of its independence, Azerbaijan wanted to export its oil to Western markets. The immediate routes were BNP and BSP. Both had the inconvenience of traversing the Bosporus and Dardanelles bottlenecks. The onset of the Second Chechen War in 1999 helped to justify the final choice of BTC, at which point, Russia's Lukoil withdrew from the consortium. Moscow maintained that Azerbaijani oil reserves were too limited to justify as costly a project as BTC.

Iran also opposed BTC. Tehran was wary about it. It claimed BTC was unreasonably expensive ($3.6 billion). Together with Russia, Iran alleged that a trans-Caspian oil and gas pipeline (connecting Tengiz oil and Turkmen gas with Baku) might have undesirable ecological consequences due to the region's seismic situation. Tehran argued the Caspian had considerably less oil reserves than was the case, especially in the Azerbaijani sector. As tensions over BTC heated up,

Iran proposed alternatives, suggesting oil swaps as most profitable.

Nevertheless, BTC opened in mid-2006. It runs parallel to BSP as far as Georgia before turning south through Turkey to Ceyhan on the Mediterranean coast. BTC is capable of transporting around 50 million tpa of crude oil. Capacity can be increased to 60-65 million tpa by employing drag reducing chemicals and to 80 million tpa by adding pumping capacity. It has also carried Kazakhstani and Turkmenistani oil.

While BNP and BSP were important for Azerbaijani oil revenues, BTC was the defining project for Azerbaijan and the region. BTC helped unlock the Caspian's economic potential, bringing investment and revenues as well as parallel economic development. The pipeline also strengthened competition by expanding the transport capacity of Caspian hydrocarbons. This pipeline practically put an end to Russia's monopoly on the transport of Caspian energy resources. Together with CPC, BTC provided more than half of available transport options for Caspian oil.

Since 2010 BTC has run with spare capacity, wherefore SOCAR proposed reversing part of BNP to export Russian oil through BTC. This would also allow Russian oil to bypass the Turkish straits.

Driven by American and EU energy interests, Azerbaijan managed to establish transit routes for energy resources; first through Russia's Black Sea (Novorossiysk), later bypassing Russia to Georgia's Black Sea (Supsa), and finally bypassing the Black Sea and the Bosporus by engineering a pipeline project whose terminal is located in the Mediterranean (Ceyhan).

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Thus, Azerbaijan became less dependent on Russia and Iran after BTC. This pipeline is both a power resource and the interaction medium for regional and international actors, including governments and NGOs, due to the wide array of connections made possible.

We turn now to the Caspian Pipeline Consortium (CPC). After gaining its independence, Kazakhstan arranged a swap arrangement with Iran. Iran would deliver to the Persian Gulf an amount equivalent to Kazakhstani oil delivered to northern Iran. An agreement with Turkey was signed in March 1993 to build a pipeline from Baku connecting to KCP, tracing a route south of the Iranian border. It would have carried Azerbaijani and Kazakhstani oil.

As part of its active policy in pipeline development strategy, Russia has shown a desire to distance itself from any clashing or what three Russian energy experts called in a 2016 article in the *International Journal of Energy Economics and Policy* a "dominating attitude of the transit countries" in its export routes. With meager compensation, Russia established with Kazakhstan the Caspian Pipeline Consortium to transport Caspian oil from the Tengiz field located near the Caspian Sea to Novorossiysk and to international markets via the Bosporus. Although Russia and Kazakhstan have shares, Moscow had to allow the participation of Western companies such as Chevron, Shell, ExxonMobil, Eni, and British Gas. As the largest privately-operated pipeline route, CPC is the only oil pipeline within Russia not controlled by state-owned Transneft, Russia's oil pipeline monopoly.

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The Trans-Caspian Oil Transport System (TCOTS) is a proposed oil transport infrastructure project designed to carry oil through the Caspian Sea from Kazakhstan to Azerbaijan and on to the Mediterranean or Black Seas. The cost is estimated at $4 billion. The plan is to build a 739 km pipeline from Eskene to Kuryk in Kazakhstan (the Kazakhstan-Caspian Transportation System) and a 700-kilometer undersea Trans-Caspian Oil Pipeline (TCOP) from Kuryk to Sangachal, alternatively using tanker shuttles from Kuryk to Sangachal with a 500 kbd capacity in the initial stage, rising to 1,200 kbd.

So far, the project seems to be stuck in neutral gear, in part due to Iranian and Russian opposition. Here it can be noted that the original TCOP provided for 150 kbd of Kazakh oil across the Caspian in the first stage. In 2016 this was almost fully accounted for with 120 kbd sent to Azerbaijan by tanker.

Laying Eurasian Pipelines

To build oil pipelines from Caspian Sea sources to European markets—or, for that matter, between any source and its markets—over time states evidenced economic and political motivations, preferring easier and more economical routes, subject to political considerations. This is confirmed by analyzing the timeline of when and where major international pipelines were built in Eurasia, as well as accounting for the intended purpose for their construction.

An examination of any map depicting the major international pipelines originating in the Caspian basin that link to European markets provide at least the following standout observations. Pipelines serve dissimilar regions with varying consuming patterns, derived from different refineries, consumption patterns of large consumers, and even seasonal consumption patterns (as well as storage capacities). They are principally directed to major demand centers in Germany, France, and markets along the way. Pipelines both complement each other and are at competition with each other, as well as with other modes of transportation, in filling these needs. There are long-haul versus short-haul pipelines. From their layout, several distinctive purposes may be contemplated for building oil pipelines.

First, *to directly reach European markets from the sources.* Directed to markets in Germany and France, and traversing Italy and Central Europe directly from sources in Asia/Eastern Europe. Druzhba and Norpipe are prime examples. Druzhba is the world's longest pipeline, originating in Almetyevsk in central Russia, where it collects oil from western Siberia, the Urals, and the Caspian Sea, before moving on into Ukraine, Hungary, Poland, Slovakia, and Germany. Norpipe is a Norwegian pipeline running from the offshore Ekofisk Complex, which collects both oil and gas from neighboring fields as well as its own, and transports this to Teesside in the UK and Emden in Germany.

Druzhba and Norpipe directly reach their intended markets from sources in central Russia and

Siberia, and the North Sea. In these systems, the regions surrounding the main markets serve as transit routes and benefit in a twofold manner: by receiving oil from sources and from transit fees revenue. In time, these pipelines evidenced a mutual dependence between sources and markets. In 2018, almost one third of the European Union's oil imports came from Russia. In 2016, the export of crude oil and petroleum products amounted to nearly 70 percent of total Russian petroleum liquids production, mostly to European countries, with revenues from oil and natural gas—including exports—making up 36 percent of Russia's federal budget revenues.

Second, *to reach the world's oil markets via oceans*. Obviously, the oil market is not only European but global in nature. Oil that does not directly reach its intended market via pipelines is destined to reach these via maritime transport. This evidences the liquid nature of oil and the relative ease for its handling.

A number of pipelines exemplify this. Here we can list eight. First, the Baltic Pipeline System (BPS) collects oil from Russia's Timan-Pechora region, west Siberia, and the Urals-Volga regions to Primorsk at the eastern part of the Gulf of Finland. Second, BPS-2, which was designed to bypass Belarus after the 2007 oil transport dispute with Russia. Third, the Odessa-Brody pipeline (OBP), which travels from Ukraine's port city of Odessa to Brody, a town near the border with Poland—a planned extension could see it expand to Plock on the Vistula and Gdansk on the Baltic Sea. Fourth to eighth, the aforementioned CPC, BSP, BNP, BTC, and KCP pipelines. Caspian Sea hydrocarbon countries (Azerbaijan and Kazakhstan) reused old pipelines (BNP) or built new pipelines to reach the Black Sea (CPC, BSP) or the Mediterranean (BTC). The maritime points each of these pipelines reach are veritable oil logistics hubs.

Third, *to reach consumption centers from the oceans*. Mirroring pipelines from the sources to the oceans, these pipelines connect to the consumption regions from a coast—receiving oil from the world's sources. Evidently, oil coming into European consumption centers is not necessarily originating from Eurasian production centers.

The Trans-Alpine Pipeline (TAL), which originates in Italy's northern Adriatic port of Trieste and transports oil to refineries in Central Europe (Germany, Austria, and the

Czech Republic), is one such example. Another is the South Europe Pipeline (SPSE), which originates west of Marseilles and supplies oil to refineries in France, Switzerland, and Germany. A third is what is now known as the Adria oil pipeline and originally called the Yugoslav or JANAF pipeline, which runs from a terminal on the Dalmatian coast into the Croatian hinterland, Serbia, Hungary, Slovakia, and the Czech Republic, with branch lines to Slovenia and Bosnia and Herzegovina.

Furthermore, while it is good to have access to the seas, there are differences associated with each particular sea. Thus, while an option may be to reach the Black Sea, it is better to reach the Mediterranean because from there it can reach world markets faster while avoiding dense traffic in the Bosporus and Dardanelles bottlenecks.

Geopolitics had a more significant role in the construction and maintenance of some pipelines than others.

Fourth and relatedly, *interconnector pipelines*. With ocean-to-consumption pipelines in place, smaller but necessary efforts must be taken to haul oil to additional consumption centers. The Ingolstadt-Kralupy-Litvinov pipeline (IKL), which runs from Germany to the Czech Republic, and the Adria-Wien Pipeline, which runs from Italy to Vienna, exemplify this point. Both carry oil from main lines to consumption centers not as large as the main line destination point.

Fifth, *a geopolitical vision*. Oil pipelines—as any other large regional infrastructure project—are rife with geopolitical battles. To conclude any project requires vast amounts of financial resources (from countries, international financial institutions, and companies), cooperation between builders to overcome complex technical issues, and a constant and unswerving political commitment to accomplish the final result. Such cooperation and understanding must continue after the project becomes operational, or it may become unused. Nonetheless, geopolitics had a more significant role in the construction and maintenance of some pipelines than others.

Three examples can be given. The aforementioned Druzhba pipeline (the term means "friendship" in Russian), used to be known in some circles as the COMECON pipeline due to the fact that it originated in Soviet plans to provide eastern Russian oil to energy-hungry western regions of the Soviet Union (western Russia, Ukraine, Belarus) as well as to its "fraternal socialist allies" in the former Soviet bloc like Czechoslovakia, Poland, Hungary, and East Germany. It is the largest principal artery for the transport of Russian (and Kazakh) oil across Europe and remains one of Russia's greatest geopolitical instruments for Russia.

Another is the aforementioned Baku-Novorossiysk Pipeline (BNP). The transport of Azerbaijani oil became a controversial issue in the late 1990s, as Moscow had been insisting on delivering it to Novorossiysk, while a consortium of largely Western companies, led by BP, was reluctant to opt for this cheaper option but wary of antagonizing Russia. As noted above, with BNP, Azerbaijan had to accept to mix its high-quality oil with Russian lower grade and sell it as an Urals blend for less money

A third is the Odessa-Brody pipeline (OBP), also discussed earlier in the essay. It was initially intended to haul oil from Kazakhstan to Odessa and to link up with the South Druzhba pipeline. However, as sufficient capacities of oil supplies were not agreed, in July 2004 the Ukrainian government accepted Russia's proposal to reverse the pipeline flow. This made OBP transfer Russian oil from South Druzhba southwards to the Black Sea and on to Mediterranean destinations. Hence, Russia preempted Caspian Sea oil flowing into Europe and prevented competition for its oil in the EU market.

Lastly, the Baltic Pipeline System Two pipeline (BPS-2). While BPS was built between 1997 and 2001 on the basis of solid commercial principles, BPS-2 had clear geopolitical views in its planning, development, and construction. The project surged after the January 2007 oil transit dispute between Belarus and Russia. Even with a negative profitability report, Russia developed BPS-2 to bypass the Belarus transit route with the aim of protecting Russia and its partners from what the aforementioned Russian energy experts called "dominant attitudes of the energy transit countries," including decisions to raise tariffs or siphon off hydrocarbons.

Sixth, *once in operation, pipelines become more business-oriented and may disregard ideologies.* Intents for regional pipelines may vary substantially during any of its pre-operational phases—including design, financing, and construction—in which case the projects may stall and never come to fruition. On the other hand, once operational, a pipeline may survive its original political impetus, as in Druzhba, which after the Soviet Union's demise continued to function as an important source of revenue (somewhat) independent of ideology—in spite of important technical problems, including oil contamination. On the other hand, due to political or economic reasons or instability, a pipeline may become unsound or discover new interests. BNP is a case in point.

Geography Matters

Two different regions emerged between Asia and the Atlantic coast: Northern and Mediterranean Europe. The vast majority of the oil pipelines discussed in this essay link production centers in Eastern Europe or Eurasia to consumption centers in Northern Europe, both in direct source-to-consumption pipelines and in ocean-to-consumption-center pipelines. Major oil sources for Northern Europe are Russia and the North Sea. By building—in the Soviet era—one pipeline (namely Druzhba) with two branches to former Soviet republics and allies in the Soviet bloc, Russia became dominant in the north. Decades later came the development of pipelines in the Mediterranean region.

One set of pipelines were developed to reach the oceans and another set to reach the consumer markets from the coasts. By doing so, these pipelines provide the shortest possible route to reach maritime regions and through them world markets. The major source for these pipelines is Russia, but they also include Caspian Sea states (Kazakhstan and Azerbaijan) as well as Iraq.

Another distinct feature is the timeline for the Mediterranean and Caucasus pipelines. Northern pipelines linking their points of origin with Northern Europe were built first: Nord-West Oelleitung (NWO)—the first long-range crude oil pipeline in Europe—in the late 1950s and Druzhba a few years later. These were followed later by ocean-to-consumption centers pipelines (AWP and ADRIA), as new European consumption centers developed. The southern pipelines—BNP (1998), BSP (1999), CPC (2003), and BTC (2006)—were built in less than one decade, yet some three to five decades after the northern pipelines—save for KCP, which was built in 1970.

This points to geopolitical developments as well. After the demise of the Soviet Union, the newly independent countries in Central Asia and the South Caucasus had to develop large regional infrastructure projects in order to overcome their respective landlockedness. This required very important and prolonged negotiations between governments and companies—not only to address complex technical issues but particularly to cement agreement amidst coordination and cooperation between competing and confronting interests of governments, with regional crisscrossing interests in possible collision. The South Caucasus pipelines could only be developed after the demise of the Soviet Union: once the resource-rich newly independent states could act by themselves to channel international revenues to their respective countries directly. In the Silk Road region, only Russia, Iran, and Georgia are sea-abutters, wherefore these further gained geopolitical relevance to reach the world markets—with only the latter not subjected to Western (Russia) or international (Iran) sanctions.

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Interestingly, there is no major international oil pipeline from Asia to Southeastern Europe (the Southern Gas Corridor, as its name indicates, does not supply crude oil). One can surmise that this is due to the large distance involved and the high associated costs, possibly impelling commercial interests to build a pipeline thereto. As the region grows economically, this would represent an option for development.

Final Thoughts

Energy is a life necessity and one-third of the world's primary energy comes from fossil fuels. Controlling any part of the processes requires one to identify the source, exploit and produce it, transport it, distribute it, store it, and set its price. This obviously provides great influence and power, which explains why a plethora of countries seek to participate in as many of these as they possibly can.

Much has been said about the European continent's dependence on Russian energy. Russia certainly has influence in Europe on account of its oil—and in fact has used it as political pressure, as with Belarus and Ukraine. But it needs to be said that, especially in the EU space, negotiations over Russian oil are generally more about supply and pricing. Political factors, if they exist, are not primary. However, it is important to note that the resulting dependency is mutual. Just as Europe depends on Russian energy, Russia depends on European oil revenue.

In large cross-border infrastructure projects, including pipelines, economic and commercial issues are of paramount importance, having to satisfy technical matters in long-maturing political processes. To become a reality, and to continue to operate, they cede to political concerns as foreign policy tools. Some pipelines, like BPS-2, have been specifically built for political reasons, despite not satisfying commercial issues. On the other hand, ideological and geopolitical motivations may be overcome once a pipeline becomes operational—including surviving a new era, such as Druzhba—but they seldom operate seamlessly. Nonetheless, once operational, pipelines develop a life of their own, wielding new sources of cooperation and cooperation dealing with competition and confrontation, amidst crisscrossing projects that avoid collision.

In the EU space, negotiations over Russian oil are generally more about supply and pricing. Political factors, if they exist, are not primary.

Of the examined major international oil pipelines, none directly deliver oil directly from their point of origin to Europe, except for Druzhba. Pipelines go first to the oceans, then transport by ship to Europe before being taken by delivery pipelines to their ultimate markets. Pipelines between Europe and Asia were developed during the 1958-1990 period, while the Caspian Sea and South Caucasus pipelines were built in less than a decade at the turn of the millennium (1997-2006)—again, except for KCP, which became operational in the 1970s. They were and could only be developed after the demise of the Soviet Union.

In the Caspian Sea-South Caucasus region, during the Soviet era all pipelines were controlled by Moscow and went to Russia. Somewhat opening up the market, in 1997 BNP still preserved Russia's monopoly whilst providing Azerbaijan with much needed international revenue. As expert and former U.S. Department of Energy official Leonard Coburn put it, the first fissure occurred in 1998 with BSP and the opening up of rail routes from Baku to Batumi and Supsa. The second took place when CPC opened in 2001, carrying Kazakhstani oil to the Black Sea via Russia. The third came about in 2006, with BTC finally breaking Russia's monopoly and bypassing the Bosporus-Dardanelles bottleneck. Furthermore, Kazakhstan and Azerbaijan are developing trans-Caspian oil shipping from Aktau to BTC, that in 2016 was 80 percent fulfilled—and committed to building a trans-Caspian pipeline. These routes provide the Silk Road region with competitive and diverse routes that undermine Russia's position. Thus, Azerbaijan—together with Kazakhstan—managed to inhibit Russia's oil monopoly in the Caspian Sea in a span of less than a decade.

By breaking the oil source monopoly for Europe, the Caspian Sea-South Caucasus region has opened alternatives for European energy sourcing. When (or if) sanctions against Iran are lifted, this may become even more so. Whereas Europe was importing 35 percent of its oil from Russia in 2011, by the first half of 2020 the figure had dropped to 26.4 percent. Thus, it has oiled the hinge to open the door in Eurasia as one economic and political continent through the construction of regional oil pipeline infrastructure. It seems unlikely that the genie will be put back inside the bottle. BD

Beijing's Long Way to the Gulf Region

Oil, Security, Geopolitics

Fuad Shahbazov

Energy cooperation has been a key aspect of growing bilateral cooperation between China and the Arab states of the Gulf region for the past several years. Since 1996, China has become a net importer of crude oil and, as the second-largest energy consumer in the world after the United States, is now the third-largest importer of oil after the United States and Japan. Therefore, it should not come as a surprise that China is eying a deep and strategic partnership with the states of a region that sits on top of the world's largest proven crude oil and natural gas reserves.

The deepening political and economic cooperation between China and the member states of the Gulf Cooperation Council (GCC) has received increasing attention from the region's more established strategic players: foremost the United States, but also the UK as well as the EU and some of its member states. Indeed, the region's apparent geopolitical challenges—such as the American withdrawal from the Middle East, the escalation of sectarian wars in the region, the outbreak and development of the Syrian conflict followed by the spread of Islamic radicalism and similar threats—have encouraged the Arab states in the Gulf (as well as Iran) to look more to the East for new reliable partners. This has provided China with an opportunity to obtain a foothold in the region, which sits adjacent to the Silk Road region and is therefore of significant and lasting interest to readers of *Baku Dialogues*.

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With the rapid growth of its economy and consequent heightened energy demands, China is viewed as a potential investor by the oil rich GCC states, each of which needs to diversify its economy. Ongoing Western sanctions directed against Iran also make China an attractive proposition for Tehran. Although the Chinese interest in, and policy towards, the region is increasingly complex, this new axis between the Gulf region (especially the Arab half) and China has not received much attention from the think tank and academic communities—at least in the West.

It has become commonplace but no less important nowadays to stress that China's rising influence across the world represents the most salient development of contemporary international politics. Its ballooning economy is forcing the country to search for stable sources of energy in its immediate neighborhood and beyond. This can be seen as a determining factor in China's deepening cooperation with resource rich GCC states, as per Beijing's pragmatic approach. Although China viewed events in the Gulf region during the Cold War era through its revolutionary ideology, its relations with the region's states are now driven largely by energy and trade concerns. China is rapidly taking control of the energy field in the Gulf amid the decreasing influence of the West and declining crude oil demand.

For the Gulf states (the Arab ones, in particular), the interest of Chinese oil companies in the region offers new and potentially highly lucrative business opportunities. Moreover, considering the huge capacity of the Chinese energy market, regional hydrocarbon powerhouses like Saudi Arabia and Iraq are keen to expand their respective ties with Beijing. Simultaneously, Chinese interest in the region is not limited only to crude oil and natural gas imports; Beijing also views this area as a new platform for the expansion of its ambitious Belt and Road Initiative (BRI), which consists of a series of infrastructure networks along with trade and economic investment projects that span, roughly speaking, all the various land and maritime routes of the ancient Silk Road.

The Gulf states are of particular interest to China due to their increasingly important capital resources. As a matter of record, new, closer relations between the GCC states and China have come at the expense of older strategic ties, such as the Beijing-Tehran partnership—although the recent announcement of a new economic and security relationship may serve to correct this trend. However that may be, it appears that China's maintenance of good economic, political, and even security relations with Tehran is likely to avoid the provision of open, unconditional support of Iran's positions in the Middle East or in its particular sort of rivalry with the West.

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This essay will mainly analyze China's relations with the GCC states, Beijing's particular interest in their energy resources, and the role of the Belt and Road Initiative in advancing relations between the aforementioned countries. It will also examine how the balance of power between traditional Western actors and China is changing in the Gulf region. Lastly, the essay will discuss China's rising influence in the Arab half of the Gulf region and its strategic implications for the West.

Energy Trends in China

China's spectacular economic development is clearly the most important causal factor in its rising energy demand. Another fact that has contributed to the considerable rise in China's energy consumption is the manufacturing and construction boom resulting from economic expansion and the building of entirely new cities across the country. As a result, China has seen a rapidly increasing demand for refined petroleum, gasoline, liquified natural gas (LNG), and related products.

To fulfill its energy requirements, China has gone from being a net exporter of oil to one of the world's largest importing countries, thus challenging the United States' position in the global energy market. China's main priority in growing its oil imports is to fill its strategic oil reserves: once this is satisfied, it is likely that oil imports will decrease slightly. Compared to its domestic oil reserves, China's natural gas supply is more limited, with national reserves being largely undeveloped. This factor has pushed China to increase the volume of imported natural gas, mainly from the Gulf region.

Although the current trade war between the West and China is expected to slow the latter's economic growth, the increasing volume of Chinese goods transported overseas will expand oil imports. For that purpose, China is actively seeking new, alternative, and reliable energy sources. In that sense, with its vast oil and natural gas reserves, the Gulf region is the perfect option for oil-thirsty China. Energy and economic cooperation have been core elements in developing relations between China and the GCC states, with the region reportedly being home to six of China's foremost oil importing companies.

Although traditionally Russia and Central Asian states have been China's primary energy donors, as it were, the lack of economic prosperity that the oil industry is currently experiencing is hitting hard. Russia, for instance, is experiencing deep troubles amidst decreasing oil prices and ongoing Western sanctions. Russia's energy-rich territories in the west and far eastern parts of its territory have been in operation since the early 1970s and are now substantially depleted. Therefore, they require serious and costly technological renovation in order to resume output equal to the previous level. Also, the lack of necessary transport and refinery infrastructure in eastern Siberia and the Russian far east is already leading to some shortages in oil and natural gas export to China. In this regard, the wealthy Gulf Arab states, with their modern infrastructure and economic potential, appear to be more attractive destinations for Chinese investments.

China's Changing Role in the Middle East

The objective of this section is to scrutinize the pivot of China towards the Middle East region. China is a relatively new player in the Middle East in general, and in the Persian Gulf in particular. Unlike major Western powers like the United States and some EU member states that have maintained a leading role in this region for decades, Chinese influence and involvement in the Gulf was, until recently, relatively minor.

Until the 1980s, China supported various local resistance movements against the local Gulf monarchies, viewing the region through a socialist revolutionary prism. From the 1990s onwards, Chinese cooperation with the region's states gradually increased, though its presence and influence in the Gulf remained insignificant compared to the West. Nevertheless, the changing geopolitical situation has swiftly shifted the balance of power in the Gulf region over the last several years. While all attention is now focused on the endless U.S.-Iran dispute and the ongoing bloody conflict in Yemen (and Syria, of course, and Libya, and so on), China is rapidly and quietly consolidating a presence in this vitally important region.

The general failure of the Western powers to ensure peace and stability in the Arabian Peninsula and the Gulf region over the past century, which has been overshadowed by the legacy of colonialism and harsh "human rights" rhetoric, has allowed Beijing to play a larger regional role. As a result, the trade volume between GCC countries and China has risen substantially, making the latter a significant economic partner. Three main reasons may explain Beijing's successful integration into the economies of the Gulf. *First*, no political obligations imposed by China on regional countries. *Second*, non-interference in their domestic affairs. And *third*, the decisions of the regional states themselves to downgrade the Western influence in the Gulf by reaching out to Beijing, the result of which has gone a long way to create a balance of power. These should be kept in mind as a backdrop to the sections that follow.

China's most significant interest in the Gulf region is oil, in addition to natural gas. As the largest oil importer and consumer globally, China imported nearly 6.2 million barrels of crude oil per day in 2014, more than half of which was from the Middle East. Being a customs-free market with a population of 280 million, the GCC region has considerable amounts of petrodollars. Its sovereign wealth funds have swollen to a cumulative $2.3 trillion, accounting for around 36 percent of the world's total, according to a 2019 study by the China Institute of International Studies, the official think tank of the country's foreign ministry.

Hence, it should not come as a surprise that Chinese state-owned companies have been operating in the Middle East since the 1980s, dealing mainly with the construction of necessary energy infrastructure and oil exploration issues. According to available data, in 2013 alone, China imported more than 3 million barrels per day (b/d), compared with U.S. imports of 2 million b/d from the Middle East. As of 2020, China's crude oil imports from top supplier Saudi Arabia rose 26 percent compared to 2019. Overall, China's imports of crude oil jumped by 9.9 percent compared to the first half of 2019, despite the devastating

coronavirus pandemic that locked down China for weeks.

Most of China's oil imports from the Middle East originate from the Gulf region, particularly Saudi Arabia, Iraq, and Iran, while Qatar is a significant exporter of liquified petroleum gas and LNG. China imports about 55 percent of its oil from the Gulf. China can be seen as an "energy panda" that needs secured energy resources to satisfy its appetite. Since the beginning of the 2000s, the country's growing dependence on crude oil quickly became a source of concern for Beijing. Therefore, China has always needed to ensure a reliable oil supply, which requires stable trading partners. Considering the substantial hydrocarbon resources of the region's states, China focused heavily on Iran, Iraq, and Saudi Arabia as major suppliers of oil. For Beijing, Riyadh is considered a relatively stable source of oil because of its close alignment with Washington and the security guarantees provided, while Iran is convenient because of its relative proximity to China.

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In the case of Iran, Tehran is willing to keep the Chinese oil market open for export to compensate its missing trade partners in light of U.S. economic and political pressure. The robust, Western-led sanctions regime threated to cut off access to the international banking system for any company that does business in Iran, which succeeded in suffocating the Iranian economy by scaring away badly needed foreign trade and investment.

Chinese oil companies would be the only losers in such circumstances, notwithstanding the lower price of Iranian oil. In July 2019, a new first was registered in this regard when the Trump Administration imposed economic penalties on a Chinese company (called Zhuhai Zhenrong) for "violating U.S. sanctions" by importing crude oil from Iran, while the major China National Petroleum Company (CNPC) pulled out of the country in October 2019. Nevertheless, China's decision not to entirely cut partnership ties with Iran despite U.S. pressure demonstrates Beijing's desire to act as an equal global power. Meanwhile, Iran's efforts to strengthen ties with China are likely motivated by its desire to use China as a counterbalance, which has the technology and appetite for oil that Iran needs.

On the other hand, at a time when the U.S. was overwhelmed with an economic recession and worsening COVID-19 cases, China and Iran decided to take the next step for closer partnership by signing a new comprehensive strategic partnership in the immediate aftermath of the Chinese president's visit to Tehran, where Xi Jinping met Iran's Supreme Leader Ali Khamenei. According to the document, the pact is set to go further than economic cooperation and include unprecedented collaboration in transport and logistics in Iran's southern ports and islands as well as the country's defense and security sectors. While some argue that the new strategic deal would enable isolated and suffocated Iran to counter the U.S. influence in the Middle East, the opposite seems to be happening: this partnership is likely to increase Iran's reliance on China—both economically and politically.

When assessing the GCC-China partnership in the fields of energy and economics, it becomes clear that Beijing's extensive relations with Iran are based on the idea of securing freedom of navigation in the Gulf region, which is of particular importance to boost influence. The new cooperation agreement envisages some critical infrastructure projects like the construction of high-speed railways, highways, telecommunication networks, and developing free-trade zone in the cities of Maku (in Iran's West Azerbaijan province) and Abadan (located near the border with Iraq just north of the Gulf coast).

Unlike the U.S., China has adopted an apolitical and development-oriented approach, refuting to take sides in political disputes in the Gulf region. By deepening its economic partnership with Iran, Beijing aims to help it reach a consensus with other Gulf states. Therefore, the Gulf monarchies are not particularly irritated with the China-Iran partnership since their bilateral cooperation neither imposes any political obligation nor poses a critical threat to regional security. Also, China will

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unlikely allow Iran to implement destructive policies in the Gulf that would undermine Beijing's reputation in the region.

Thus, keeping good relations with Iran masks a series of more profound shifts in energy imports from the region. According to reports, bilateral trade between China and the GCC states has seen significant growth this century, with the GCC representing a large proportion of Chinese trade in the Arab world. Trade value had increased from just under $10 billion in 2000 to nearly $115 billion in 2016. Those numbers have grown further in the interim.

Saudi Arabia has become China's most important trading partner in the Middle East, and the UAE ranks second. Saudi Arabia's Crown Prince Mohammad bin Salman (MbS) paid an official visit to China at the beginning of 2019 amid his big Asia tour. Surprisingly, the visit by MbS to China came right after the Iranian delegation's visit to Beijing, which was led by Parliament Speaker Ali Larijani and Foreign Minister Javad Zarif. The Saudi crown prince's visit to China was a particularly exciting event, for a number of reasons. MbS wants China to be closely engaged with his ambitious Vision-2030 plan, as Beijing can help the kingdom develop renewable energy resources and decrease its dependence on oil exports. Also, to obtain necessary leverage, Saudi Arabia increased investments in China and thus reduced the role of its arch-rival Iran. This ongoing dispute between the Gulf states is undoubtedly in Beijing's interest. In 2020, Saudi owned Aramco and Saudi Basic Industries Corp. (SABIC) were both in negotiations to invest about $35 billion in projects in China, with production capacities reaching 7.5 million tons in chemicals, which accounts for 45 percent of total overseas production capacity of Saudi producers overseas.

Collectively, the GCC ranks as China's sixth-largest export destination and fifth-largest import destination. Any possible conflict in the Strait of Hormuz involving Iran and a U.S.-led coalition would inevitably have negative consequences for China and other Asian consumers. China's need for oil will grow even more in the next several years due to the insufficient domestic reserves, and, according to reliable estimates, China is projected to import 8 million BPD by 2020 and 11.4 million BPD by 2030. From the perspective of the GCC countries—particularly Saudi Arabia and the UAE—a willingness to partner closely with China can be attributed to the perception of the U.S. as a "disruptive element" in the region, its decreasing demand in oil import due to vast national oil reserves (reportedly, 293 billion barrels), and an overall disappointment with Washington's anti-Iranian rhetoric, with no real action taken or measures imposed against the country.

Moreover, Washington's restrained position over frequent drone and missile attacks on Saudi Arabian oil fields and other infrastructure (this particularly refers to the Trump Administration, and the jury's still out on a possible Biden Administration reaction) encouraged countries such as Saudi Arabia, UAE, Oman, and Kuwait to seek a new, powerful ally such as China. According to the data, China's imports from Saudi Arabia in July 2020 were at a two-year high of 1.8 million barrels a day, up from 663,000 for the same month in 2019. Nevertheless, frequent missile attacks on Saudi Arabia would likely push China to diversify its oil import partners to avoid possible supply disruption. Experts' data indicate that there will be visible outcomes for China as a result of supply disruption. Although China has an option to pivot towards Iran and increase the volume of imported crude oil again, it is unlikely that it will make such a controversial decision.

Although Beijing reportedly has more than one billion barrels of strategic reserves to cover around 640 days of imports, the question for many oil-thirsty Asian countries, especially for China, is whether there is a possibility of further devastating strikes and provocations that could trigger more considerable turmoil in the region. This question is of strategic importance for China given its ambitions, plans, and investments regarding the Gulf states implemented under the BRI umbrella. Meanwhile, former U.S. Joint Chief of Staff General Joseph Dunford underlined that an increased number of U.S. military personnel in the Middle East and the provision of U.S.-made weapons exported to Saudi Arabia would not fully guarantee the security of the kingdom's oil fields. Undoubtedly, Dunford's position and opinion revealed deeper concerns among overseas consumers of Saudi oil—a fact that could further affect global oil prices in the event of new attacks. Similarly, Saudi Arabia's vulnerability to external attacks would motivate the country to build up a security cooperation relationship with China that would help Riyadh halt armed conflicts in the region.

The Belt and Road Initiative and the Gulf Region

This section aims to assess the importance of the energy partnership between China and the Gulf region, as well as its impact on the implementation of the Belt and Road Initiative in this region. Although officially, the GCC is not a core part of BRI, the Gulf is one of the main regions where the project is being implemented, as it is considered one of the world's most influential financial hubs. The project itself provides a suitable outlet for Chinese state-owned companies—mostly those dealing in hydrocarbons—to increase their investments overseas. In contrast, for regional states, their objectives in fields like economic diversification, crude oil/natural gas export market diversification, and regional security align perfectly with the BRI concept.

The BRI project means better connectivity and the building of new ports, pipelines, highways, and terminals to enhance energy partnership with the Gulf region. In part, China's energy partnership with the region's countries is somewhat complementary. However, the BRI project is at least partially about directing energy resources to China and facilitating the flow of energy through regional states. With regard to this policy, nearly all Gulf states are aware of the necessity of securing reliable and long-term export markets, and the growing energy appetite of China seems like a perfect solution.

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Although the Middle East possesses massive hydrocarbon resources, interconnectivity between regional states is weak due to current (and longstanding) geopolitical and economic turmoil. In turn, the BRI framework also allows the regional states to develop stronger relations with each other and other future-proof economies along the various routes of the Belt and Road Initiative. New energy roads, rail networks, maritime hubs, and pipelines routes proposed within the BRI framework could help knit the Gulf region into a unique network stretching from Europe to China. It is estimated that the region would need around $3 trillion investment for BRI-related infrastructure projects between 2018 and 2030. At the China-Arab States Cooperation Forum held in 2018, Beijing proposed $20 billion in loans and $106 million in financial aid to Middle Eastern countries.

While demand for crude oil is declining slightly in Western countries, the importance of crude oil as an important part of Chinese foreign policy strategy—and that of other big Asian hydrocarbon-consuming states—will rise in the coming decades. Moreover, Chinese leader Xi Jinping has clearly and repeatedly emphasized the GCC region's geostrategic importance in various fora. For instance, his speech at the opening ceremony of the Sixth Ministerial Conference of China-Arab States Cooperation Forum, held in Beijing in 2014, formally gave a green light to Chinese state-owned and private companies to flood local markets in the GCC, particularly those related to energy. Simply put, China intends to build a transcontinental link that connects Asia, Africa, and Europe. As such, in November 2019, UAE's Ministry of Economy and the China Venture Capital Research Institute (CVCRI) inked a memorandum of understanding for a long-term strategic partnership to share resources, enhance trade, and boost BRI-related investments.

Some claim that China's expansion in the Gulf region is happening because of certain external actors' immense power vacuum. The U.S. is reducing its political and security commitment to the region while its major NATO/EU allies are going through a period of political and economic instability for well-known reasons that do not need to be repeated here. All told, the effects of all this have provided China with a suitable platform to make inroads into the domestic markets of the GCC states. For instance, during its post-war rehabilitation, Beijing was particularly supportive of Iraq. China helped the country rebuild its oil industry and restore its national telecommunications service, whereas the Western coalition's promises to rebuild local infrastructure in Iraq and boost economic growth remained an illusion. China sees itself contributing to the region differently.

Iraq became one of the first regional states that publicly applauded the BRI project and formed a committee to coordinate future projects under the initiative. Following this, two Chinese companies—Power-China and Norinco International—signed a new agreement with the Iraqi government to build a new oil refinery at the port of Fao on the Gulf with the capacity to produce 300,000 barrels per day.

China's most active oil-related projects in the region are located in Iraq, with significant stakes in the Al-Ahdab, Rumaila, and Halfaya oil fields. With regard to oil supply, the regional countries' oil production over this period will rise by 29 percent, and China is expected to emerge as the world's largest consumer of energy: in 2035 it is expected to account for 26 percent of global energy demand.

Iraq is not the only Gulf state benefiting from Chinese infrastructural investments and energy cooperation within the BRI framework. Oman, which is another active oil supplier to China, is also actively involved in the BRI project. Oman is of particular interest and importance for China due to its position as a politically stable and neutral country, especially when compared to other neighboring states. The country's easy, direct access to the Indian Ocean doesn't hurt, either.

Overall, China's purchases of Omani oil reached 70 percent of the total Omani oil exports in June of 2019, according to an official source. Additionally, under the BRI project Oman received significant investments from China to establish a joint industrial park in the Duqm special economic zone (Duqm is located halfway between Muscat and Salalah on the coast), which is expected to become home to several enterprises, including petrochemical and railway infrastructure projects. China has pledged to spend $10.7 billion by 2022 to develop the Duqm special economic zone. This investment plan can be viewed as a main pillar of China's strategic calculation to lay down an effective sea route for international trade. As in Oman, Saudi Arabia also admires the BRI project as an irreplaceable contribution to its "Vision-2030" agenda.

Bearing in mind the figures for oil consumption of Asian countries (both current and projected), especially China, it is safe to say that any further major contribution to meet oil demand will almost certainly have to come from the Gulf region; and that this demand will be a crucial element in the economic growth plans of the regional oil-producing states. It thus seems evident that the Gulf countries' reorientation towards China is not a temporary phenomenon, but rather integral to their respective long-term visions.

The new pro-Chinese trend emerging in the Gulf region is firmly bound to the current political situation in the European Union and its implications for the giant energy companies that have operated in the Gulf for decades. The growing push in Europe for greater diversification and the massive decarbonization policies associated with developing alternative energy sources that nearly all EU member states are implementing are the main reasons behind declining oil demand in Europe. A consequence of this policy is that the EU is no longer a major hydrocarbon trade partner anymore. On the other hand, big Western companies like ExxonMobil, Shell, Chevron, and others have found the working conditions and oil contracts in the Middle East unprofitable, due to the escalating security risks and interstate crises that became inflamed following the Arab Spring.

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In this regard, Iraq has the most robust business terms for foreign energy companies, even those from China. Thus, Shell agreed to sell its entire stake in Iraq's West Qurna oilfield, which produces 405,000 BPD, to Japan's Itochu Corp. The company (along with Exxon) withdrew a bid to renew its rights to a massive oil concession in the UAE. Although the ISIS insurgency in Iraq explicitly destabilized Chinese oil interests in Iraq a few years ago, things are getting back to (new) normal for Beijing's interests. This is in part due to Western countries leaving the country's energy market, as noted above. Thus, we see China looking to safeguard its oil interests through expanded bilateral cooperation with the authorities in the semi-autonomous Iraqi Kurdistan region, where the political situation is more stable.

With the giant Western energy companies leaving Iraq, the local energy market's competitiveness level decreased, which opened new horizons for Chinese oil companies. Another fact is that the U.S.-imposed sanctions on Iran, which is another major oil supplier in the Gulf region, deliberately made conditions tougher for Western companies, as was the case with France's Total, which pulled out of the Iranian energy market in May 2019.

Historically, any major power attempting to develop relations with states in a volatile region hampered by interstate conflicts and a high level of tension will face some problematic issues, such as whether to support one state against another, accurately balance between them, or find a way to support none but still be able to penetrate the market. This issue applies to Western countries and China alike. Western states usually take an ignorant position or take a concrete side in regional conflicts in the Middle East, and their involvement in regional affairs does not bring visible positive outcomes. Simultaneously, unlike Western countries, China has wisely avoided taking sides in intra-Gulf disputes and disagreements, helping to shape its image as a "positive and neutral actor."

This means that China prefers to create and boost its soft power in this region by successfully integrating it into the BRI project, thereby obtaining outcomes in both sides' mutual interest (the 'win-win' formula). Nevertheless, unresolved disputes, inflamed tensions, or the onset of yet another armed conflict in the Gulf could inflict severe damage on Chinese interests here, particularly energy interests. Still, one balance, there are good reasons to conclude that the region will bear witness China's peaceful rise and the declining influence of the West.

China's wisest subsequent strategy would be to make an effort to bring regional states to reconciliation through proactive negotiations. In other words, to boost energy partnership and secure its investment projects in the Gulf, China must actively endeavor to defuse tensions with regards to the Saudi Arabia-Iran dispute; it also needs to take measures to ensure the intra-GCC dispute between Qatar and the Saudi-led coalition, which now looks to have been resolved, stays resolved.

Some experts claim that China has enough diplomatic leverage to bring the various Gulf states to the negotiating table because of the region's active involvement in the BRI project. For now, however, China has less influence in this sense than its Western counterparts, which stand ready to offer military support in the "resolution" of intrastate disputes. Beijing is unlikely to do so. Rather, China's influence in the Gulf lies in economic links and energy cooperation, which allow for the development of good relations with the governing circles of regional states, but this does not provide the desired leverage. The historical record indicates that close energy partnerships and investment projects cannot, by themselves, be understood as sufficient leverage to be able to exert enough pressure on a regional state to engage in a process of reconciliation.

China's Energy Strategy in the Gulf Region

China's state-centered approach towards energy security has motivated it to enhance relations with a number of energy-rich countries, both in its immediate neighborhood (i.e., in many parts of what the editors of *Baku Dialogues* call the Silk Road region) and beyond, including North Africa and the Middle East. As mentioned above, China is increasing its power projection in the Middle East—especially in the Gulf region—even though it still cannot (and does not seek to) fully replace the United States as the only power in the region. Despite the growing volume of imported crude oil and natural gas, and the participation of regional states in at least some aspects of the BRI project, America still remains the only external power that can provide a unique security umbrella in the Gulf. For now.

America's gradually decreasing influence in the Gulf region and other parts of the Middle East, coupled with a general shift in the global balance of power, suggests that China is not far from becoming a contemporary global power.

However, America's gradually decreasing influence in the Gulf region and other parts of the Middle East, coupled with a general shift in the global balance of power, suggests that China is not far from becoming a contemporary global power. Considering China's crude oil and natural gas imports and its huge investment projects launched within the framework of BRI, Beijing is already playing a more critical role in this region than at any previous period in history. Nonetheless, the successful implementation of the BRI project to ring-fence an energy partnership with the region is highly dependent on intra-Gulf political stability as well as rapprochement with Iran, another important regional country and energy supplier. Still, given that BRI can (and should) be viewed as an "energy road" (especially in the context of the Gulf region), the flow of hydrocarbon resources is likely to grow in the years to come.

Because of China's seemingly endless appetite for hydrocarbons originating in the Gulf, China could become a driving force of regional energy integration, boosting the construction of new pipelines and electricity transmission infrastructure, as well as the implementation of energy security initiatives.

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From the Gulf states' point of view, a growing energy partnership with China would allow them to obtain a greater role in a newly emerging intercontinental trade process and benefit from a new partnership. Thus, although China views the Gulf region as an energy hub that can satisfy its own needs, it is actively attempting to diversify mutual partnerships beyond energy. Unlike traditional Western partners, China is building new seaports, industrial parks, and telecommunication systems in the Gulf, thus strengthening commercial relations in various trade and investment fields. While all these projects and growing partnership ties are complementary not only for China but also for the Gulf states, Beijing is also keen to receive more sponsorship from wealthy Gulf countries in order to amplify the strategic relevance of its economy, since this represents a perfect opportunity to bring the region closer to China. BD

Trilateral Cooperation Between Azerbaijan, Turkey, and Georgia

A View from America

Richard Weitz

Since the breakup of the Soviet Union, Azerbaijan, Turkey, and Georgia have achieved unprecedented levels of economic and security collaboration. Through this expanding cooperation, the three countries have established themselves as a collective hub of Eurasian energy extraction and multi-model transportation. Their growing ties have accelerated since the opening of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline in 2006 to extend to the construction of additional pipelines, the launching in 2017 of the Baku-Tbilisi-Kars (BTK) railway, the holding of regular trilateral military exercises, and the convening of frequent high-level leadership meetings. The South Caucasus remains one of the world's most complex geopolitical regions, with several external powers competing for regional influence. By pooling their capabilities Azerbaijan, Turkey, and Georgia aim to enhance their autonomy, security, and prosperity—though they could benefit by receiving greater support from the United States and its European allies.

National Perspectives

Since regaining independence, Azerbaijan's economy has grown at an astounding rate. The country's hydrocarbon exports, marked by the discovery of the massive Shah Deniz field in 1999, benefited from the extensive construction of new east-west oil

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and gas pipelines to supplement the mainly north-south conduits built during the Soviet period between Russia and the other Soviet republics, which all too often subordinated these states to Moscow. The new east-west hydrocarbon pipelines, rail and road links, and fiberoptic cables have proved critical in sustaining Azerbaijan's economic autonomy and strategic significance. Whereas Azerbaijan's foreign economic policy initially concentrated on attracting foreign investment, Azerbaijani capital has since gained a significant foothold in neighboring countries, including Georgia and Turkey. To complement these economic ties, Azerbaijani diplomacy has pursued better diplomatic ties with its neighbors to enhance its foreign-policy flexibility.

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Though Turkey's "Zero Problems with Neighbors" policy has generally failed, Ankara's troubled ties with many European and Asian countries may have increased its interest in deepening relations with Azerbaijan and Georgia. In addition to its strained ties with some European and Middle Eastern countries, the souring of Russian-Turkish relations following the downing of a Russian warplane in 2015, and the subsequent imposition of Russian sanctions on Turkey, called into question the wisdom of Turkey's energy dependence on Russia. The major Russian-Turkish energy projects have included energy pipelines and a nuclear power plant, and the overall relationship has also seen substantial increases in trade and tourism.

Through various initiatives, Turkey has amplified its regional economic and security influence in the South Caucasus and the Caspian Basin, becoming an essential transit corridor and energy hub between these regions and Europe. In addition to becoming a key transit zone and hub for Azerbaijani gas flowing to Europe, Turkey's good relations with Georgia have increased regional stability while reducing Turkey's reliance on Russia and other states.

Relations between Azerbaijan and Turkey have traditionally been close due to shared ethnic, cultural, linguistic, and religious ties. The consistent and warm official discourse between Ankara and Baku highlights their special relationship: observers sometimes characterize their people "one nation, two states"—a phrase coined by Heydar Aliyev and repeated often ever since. In September 2020, Turkey's trade minister, Ruhsar Pekcan, announced that Ankara plans to sign a free trade agreement with Azerbaijan, noting the importance of the "Georgia-Azerbaijan-Caspian direction" that links Turkey and Central Asia and emphasizing the importance of previously undeveloped trade routes amidst the economic disruptions caused by COVID-19 pandemic.

In addition to receiving and transporting Azerbaijani oil and gas, Turkey has become a major partner in Azerbaijan's other hydrocarbon projects. Thousands of Turkish companies operate in Azerbaijan, many in Azerbaijan's energy sector, which attracts the bulk of Turkish foreign direct investment. Azerbaijani entities also have invested billions of dollars in Turkey's economy. Recent Azerbaijani investment projects in Turkey include the building of the new oil refinery in Izmir, which will produce millions of tons of diesel each year, saving Turkey the costs of importing petroleum and making the country more energy independent. Future Azerbaijani projects in Turkey will feature the construction of a new petrochemical complex and urea (carbamide) plant. The two states have also agreed to construct rail and pipeline links between Turkey and Azerbaijan's Nakhchivan Autonomous Republic, whose main international links until now have been through Iran.

Well before the Second Karabakh War that was fought in late 2020, Azerbaijan has received substantial military training and capacity building from Turkey. The 1996 Azerbaijani-Turkish Agreement on Cooperation in the Fields of Military Technology and Military Training provided a foundational framework for deep security collaboration. The 2010 Agreement on Strategic Partnership and Mutual Support between Azerbaijan and Turkey furthered this bilateral defense cooperation through a commitment to render mutual assistance in the case of armed aggression towards one or both parties. The agreement also provides for joint military exercises, joint training, and defense industrial cooperation. These security ties with Turkey have over several decades helped Azerbaijan deter military threats from Russia and Iran as well as, most recently, recover occupied territories from Armenia.

In recent years, companies in both states have jointly manufactured defense systems. Both

countries have also hosted joint military exercises to show solidarity and rehearse protection of critical infrastructure, such as the BTC pipeline. Turkey has regularly backed Azerbaijan in its conflict with Armenia, providing critical diplomatic, economic, and military support (though almost all of Azerbaijan's major weapons systems come from Russia).

The enhanced Turkish security role in the South Caucasus helped thwart Moscow's strategy of manipulating tensions to control escalation dynamics in its favor.

In earlier years, Turkish diplomats unsuccessfully attempted to encourage Armenia to return Azerbaijani-occupied territory in exchange for economic and diplomatic concessions from Turkey, including resumed trade and official diplomatic ties. The failure of these overtures contributed to the April 2016 border clash between Azerbaijan and Armenia as well as the 2020 war, when the benefits of previous Azerbaijani-Turkish security cooperation were evident.

Previously, Moscow had exploited tensions between Azerbaijan and Armenia to sell weapons to both states and generate leverage for Russian diplomatic efforts to push Baku toward Moscow-led regional integration structures. Russia's goal of preserving its balance of interests across multiple states is the major reason why Moscow declined to intervene militarily on Armenia's behalf, despite their shared membership in the Collective Security Treaty Organization (CSTO).

In the Second Karabakh War, Russian President Vladimir Putin chose to throw Russia's formal ally Armenia under the bus to sustain influence with Azerbaijan and Turkey. By refusing to intervene militarily on Yerevan's behalf and pressing Armenia into an agreement that consolidated Azerbaijan's gains, Putin secured another Russian military foothold in a South Caucasian statelet carved out of Nagorno Karabakh, while punishing a stubborn Armenian leader for failing to heed Russian recommendations to compromise on the dispute before the onset of the war.

Yet, the enhanced Turkish security role in the South Caucasus helped thwart Moscow's strategy of manipulating tensions to control escalation dynamics in its favor. Ankara tenaciously backed Baku in its successful recovery of

Armenian-occupied territories and has a guaranteed role in the post-conflict diplomacy thanks to the joint Russian-Turkish monitoring center in Azerbaijan and Turkey's continuing participation in regional diplomatic dialogues.

Azerbaijan and Turkey have also become two of Georgia's largest trading partners. Thanks to its comprehensive post-Soviet economic and political reforms, Georgia has become a top regional economic performer. Authorities in Tbilisi have worked diligently to reduce barriers to trade and improve their country's foreign investment climate, contributing to a substantial expansion in Georgia's export revenues, inward capital flows, and economic growth. Georgia's free trade agreement (FTA) with Turkey came into effect in 2008, while its FTA with Azerbaijan has been in force since 1996.

Azerbaijani and Turkish investors have thus assumed leading positions in key Georgian economic sectors such as transportation and energy. For example, the State Oil Company of the Azerbaijan Republic (SOCAR)—represented in the country by SOCAR Georgia Gas LLC—has become a leading investor in the Georgian economy. Among other benefits, Azerbaijani gas shipments and Turkish investments provide Georgia with attractive alternatives to Russian imports and capital, decreasing Georgia's economic dependence on Russia. Of note, Azerbaijan continued to deliver gas and electricity even during Georgia's 2008 war with Russia. Since then, Baku and Ankara have resolutely supported Georgia's sovereignty and territorial integrity despite the risks of challenging the Russian occupation.

Trilateral Economic and Energy Ties

The ties that Azerbaijan, Georgia, and Turkey have built over the years have enhanced their collective clout with other states and boosted the overall global importance of the South Caucasus. Bilateral partnerships are mutually beneficial, but they can be enhanced through trilateral economic, energy, security, and diplomatic ties. In 2017, Turkey's Foreign Economic Relations Board member Rona Yircali noted, "We, as three neighboring countries, should work together for the continuation of economic development in our region. Development of economy will bring peace and prosperity to the region. [...] The effective cooperation among Turkey, Azerbaijan, and Georgia can be an example for other countries."

This trilateral partnership has boosted employment, investment, and revenue for the participating states, making them more important partners to Europe and affording them greater leverage with Euro-Atlantic actors. Their cooperation also attracts external investment to the region and contributes to greater global energy security through the diversification of world export routes. Lastly, their trilateral energy collaboration is rooted in the complementary geographic location and resource endowments of the three countries. For example, geographic considerations allow for the oil and gas riches of the Caspian Basin to reach European markets through the South Caucasus.

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Various projects have advanced mutual investment in energy, transportation, and other infrastructure. The 1,800km BTC oil pipeline (with about 450km in Azerbaijan, 250km in Georgia, and 1,100km in Turkey) has become the most prominent example of the advantage of routing energy trade through the region. It transships oil from the Azeri-Chirag-Deepwater Gunashli field in Azerbaijan, as well as from fields in Kazakhstan and Turkmenistan, to the Turkish Mediterranean seaport of Ceyhan. A parallel 1,000km South Caucasus Pipeline (SCP, aka the Baku-Tbilisi-Erzurum Pipeline) moves natural gas from the Shah Deniz field through Baku and Tbilisi before flowing towards Erzurum in eastern Turkey. The Trans-Anatolian Natural Gas Pipeline also draws from the Shah Deniz field, connecting with the SCP on the border of Georgia and Turkey, and extends to the Turkey-Greece boundary. The recently completed Trans-Adriatic Pipeline (TAP), which connects with the Trans-Anatolian Pipeline and the SCP, sends these energy exports further, into Southern Europe.

These conduits together feed into the newly launched 3,500km Southern Gas Corridor (SGC), which has begun transporting enormous volumes of gas from the Caspian Sea region to Europe (including several EU member states) through

Georgia and Turkey. As production increases from Kazakhstan's Kashagan field, hydrocarbon shipments to Europe through Azerbaijan, Georgia, and Turkey could grow even further. The Memorandum on Joint Exploration and Development of the Dostuk natural gas field situated between the two countries in the Caspian Sea (ratified in February 2021) has increased the prospects that Turkmenistan may supply gas through an Azerbaijan-Georgia-Romania Interconnector project, though a separate gas pipeline must be built under the Caspian Sea to the coast of Azerbaijan—or liquefied natural gas (LNG) must be delivered through the sea via tankers for this plan to be realized.

The South Caucasus also functions as a gateway for non-energy trade and transit between the Caspian Basin region and Europe. Azerbaijan, Georgia, and Turkey continue to build conduits connecting these two regions through their territories. They have followed BTC and TANAP with the BTK railway that connects Azerbaijan to Turkey's much larger rail network through Georgia. Unlike the pipelines, though, the railway can also convey manufactured and other non-energy goods, including petrochemicals, to additional markets. Although it presently provides mainly freight services, the BTK line may eventually convey a substantial number of passengers and significantly more cargo. Azerbaijan and Turkey largely paid for the rail line themselves, lending money to Georgia, as the World Bank, Asian Development Bank, and European Bank for Reconstruction and Development each declined to fund the route. The three countries also established a permanent commission to oversee cooperation between their respective customs bodies.

With additional partners and capacity, the BTK railway could eventually rival Russia's Trans-Siberian Railway.

With additional partners and capacity, the BTK railway could eventually rival Russia's Trans-Siberian Railway. In the interim, however, the partners need to encourage and cultivate increased demand for the railway. One of the new transport line's main uses will be the shipment of oil exports from Kazakhstan's Kashagan oil field, whose discovery was the largest of its kind in the past forty years. Azerbaijan and Turkey are planning to expand the system to connect Azerbaijan's Nakhichevan

Autonomous Republic exclave to the Aegean port of Izmir in Turkey. Neighboring countries such as Iran, Uzbekistan, and Turkmenistan have all expressed interest in joining the project. The railway can help reduce the China-to-Europe overland transit time to approximately two weeks. Several other initiatives to connect Asia with Europe are already in progress, including China's Belt and Road Initiative (BRI), which encompasses all three states as well as most of their neighbors. The Trans-Asia-Europe fiber-optic communications line also travels through these countries and connects Shanghai to Frankfurt.

The foreign, defense, and other ministers of Azerbaijan, Georgia, and Turkey now confer regularly to discuss trade, security, sovereignty, and transportation issues.

Due to the impact of the global COVID-19 pandemic, the South Caucasus suffered a major economic slowdown in 2020 following the collapse of global trade and tourism, lockdowns, curtailed remittance flows, and a fall in global energy prices. The governments had to raise their debt-to-GDP ratios to cushion labor markets and enterprises from the slowdown, even at the risk of renewed inflation, a rise in non-performing loans, and currency depreciations.

Nonetheless, the three states weathered the crisis better than many other countries. For example, Georgia achieved some success in limiting the spread of COVID-19 among its population. The IMF's most recent *Regional Economic Outlook* forecasts renewed growth for the South Caucasus in 2021, especially if their leaders focus on renewing human capital, promoting innovative digital information industries, creating more space for the private sector to compensate for their state-heavy interventions in 2020, and further boosting regional economic cooperation.

Diplomatic and Security Coordination

Reflecting their better relations, the foreign, defense, and other ministers of Azerbaijan, Georgia, and Turkey now confer regularly to discuss trade, security, sovereignty, and transportation issues. In these high-level meetings, the three governments have repeatedly reaffirmed their territorial integrity, growing security ties, and European connections. In 2014, the presidents of Azerbaijan, Turkey, and Georgia met for the first time in a trilateral format; they have held half-a-dozen joint meetings since then. Their foreign ministers have also met approximately annually since 2012, in rotating locations among the three states (the latest meeting took place in February 2021). Their agenda typically includes managing regional conflicts, boosting economic collaboration, catalyzing new business-to-business cooperation, and extending collaboration to science, culture, and other humanitarian areas.

In their 2012 Trabzon Declaration, reaffirmed in their 2018 Istanbul Declaration, each country pledged mutual support for the others' territorial integrity, increasing the volume of passenger and cargo transportation along the Trans-Caspian East-West Corridor, and collectively endorsed their aspirations for memberships in international organizations. During the eighth trilateral meeting of foreign ministers in 2019, Turkey, Azerbaijan and Georgia signed the Tbilisi Statement and adapted a trilateral sectoral cooperation action plan for 2020-2022 that encompassed such areas as agriculture, culture, education, environment transportation, trade, and tourism.

Defense and security cooperation among the three countries has also been growing. At their November 2018 session in Istanbul, the ministers signed a joint cooperation protocol addressing their intent to provide security for their multinational economic projects. Zakir Hasanov, Azerbaijan's Defense Minister, stated that "Azerbaijan, Georgia, and Turkey share the same views in particular on the regional stability, mutual cooperation, finding peaceful solutions to the problems and protecting the territorial integrity of countries. [...] The aim of our meeting is to ensure the security of strategic energy projects realized by the three countries and to support peace and stability in the region."

Military exercises involving Azerbaijan, Turkey, and Georgia also regularly occur, either as part of larger multilateral drills (sometimes with the United States military as a participant) or on a three-nation basis, with the drills focusing on defending their transborder gas pipelines. For example, in November 2018, the three countries' armed forces rehearsed how they plan to protect the BTC oil pipeline.

The Azerbaijani, Georgian, and Turkish defense communities also aim to expand ties in

professional military education. Another emerging area of collaboration has been decreasing the vulnerability of their information systems to cyberattacks and malware.

Thanks to Ankara's being a member of NATO and the EU Customs Union, Turkey offers Azerbaijan and Georgia connections with these Euro-Atlantic institutions. Georgia, a member of NATO's Partnership for Peace program, has a particularly strong relationship with the Trans-Atlantic alliance and regularly hosts joint military exercises that project NATO capabilities toward Russia. Georgia's prospective membership in NATO was affirmed at the 2008 Bucharest Summit prior to the 2008 Russo-Georgian war. Azerbaijan is also a NATO Partner for Peace, has contributed forces to both NATO missions in Kosovo and Afghanistan under Turkish military command, and cooperates with the Alliance on counterterrorism and natural disaster response.

Concluding Observations

The three countries' mutual cooperation has been mutually beneficial on several fronts. Azerbaijan has traditionally been a driver of trilateral efforts to foster energy ties between Europe and Eurasia and has benefitted enormously from the larger role the region has taken in global energy commerce. Turkey has long sought additional energy imports to satisfy domestic demand, but also has used its relations with the South Caucasus region to expand its role as a leading economic bridge between Asia and Europe. Georgia's economic managers want their country to become more attractive to foreign partners, especially as Tbilisi seeks further integration with Western institutions like the European Union and NATO. The trilateral format pursued by Baku, Tbilisi, and Ankara has helped instigate broader Eurasian-European energy collaboration and foreign policy coordination in a region traditionally lacking both.

Notwithstanding their vigorous diplomacy, impressive economic growth, and other achievements, these countries remain relatively weak compared with their great power neighbors. The nations of Azerbaijan, Turkey, and Georgia have been objects of rivalry between the Persian, Ottoman, and Russian empires for centuries. Their leaders understand that by pooling resources, they can better manage the constraints of their being situated at the crossroads of great-power competition. Though none of these three governments characterize the nature of their alignment as directed against any other country, their mutual support has helped compensate for their exclusion from many Euro-Atlantic projects as well as helped them navigate the Moscow-led Eurasian integration projects (such as the CSTO and the Eurasian Economic Union) and China's BRI. Moscow's and Beijing's regional integration frameworks offer opportunities for Azerbaijan, Turkey, and Georgia but at the risk of decreased independence. These trilateral ties also have helped them manage longstanding regional security issues, such as the so-called frozen conflicts in the occupied regions of Azerbaijan and Georgia and the tensions surrounding Iran. The Russian-Ukraine conflict has highlighted the security dilemmas of all Eurasian countries that find themselves outside of NATO or other regional security blocs.

The United States and its European allies need to render more support for this unprecedented trilateral partnership between Azerbaijan, Turkey, and Georgia. Their cooperation can enhance Western energy security, balance Russian and Chinese predatory behavior, and promote stability in a perennially troubled region.

Although the signing of the Convention on the Legal Status of the Caspian Sea in August 2018 has potentially paved the way for projects that traverse that sea, the prospects of a Trans-Caspian energy pipeline in the future remain unclear. Though all the countries with shorelines bordering the Caspian Sea—Russia, Iran, Kazakhstan, Azerbaijan, and Turkmenistan—signed the Convention, dividing the body's natural resources will require further negotiations (notwithstanding the recent agreement in principle between Turkmenistan and Azerbaijan on exploiting and transporting Caspian gas to the West).

Azerbaijan, Turkey, and Georgia have been objects of rivalry between the Persian, Ottoman, and Russian empires for centuries. Their leaders understand that by pooling resources, they can better manage the constraints of their being situated at the crossroads of great-power competition.

For example, the Caspian gas pipeline between Turkmenistan, Kazakhstan, and Russia has made little concrete progress. Russia will continue to possess a strategic interest in blocking the construction of competing energy pipelines that circumvent Russian territory. From the east, China beckons all three states with promises of vast economic aide, but actual assistance and concrete projects have been far fewer than pledged. Furthermore, the growing presence of China in their national economies has the potential to serve as a Trojan Horse and impede Azerbaijan, Turkey, and Georgia from integration with Euro-Atlantic partners. Meanwhile, influential players in Georgia are becoming frustrated by the obstacles placed along the route to greater Euro-Atlantic orientation. The 2016 Association Agreement as well as the Deep and Comprehensive Free Trade Agreement between the European Union and Georgia represent a promising start but needs more consistent execution. In 2018, NATO Chief Secretary General Jens Stoltenberg reiterated that Georgia will one day join the Alliance and restated "full support for Georgia's sovereignty, security, and territorial integrity," but Georgian patience for indefinitely extended timelines for ascension is wearing thin.

All three South Caucasus countries have contributed to the NATO mission in Afghanistan and supported realization of other Western security objectives. Most notably, Georgia became the largest non-NATO contributor of forces to the International Security Assistance Force.

The United States and its allies should recognize the commitment of these states to Western political and security institutions and affirm that these states' sovereignty and their economic integration with the West remain foreign-policy priorities. They should pursue more vigorous public information campaigns, exchange programs, and cultural diplomacy to more clearly emphasize appreciation of the trilateral partnership's importance. Aside from traditional military exercises and missions to counter terrorism, NATO members should also engage with these states more on non-traditional missions that are relevant to their security such as refugee management, countering regional trafficking, managing natural disasters and other major crises, responding to cyber-attacks, and thwarting hybrid political-military subversion. Western diplomats need to work with their regional counterparts to secure the end of illegal territorial occupations, which create ungoverned spaces for transitional criminal groups and WMD proliferators.

As former U.S. Ambassador to Azerbaijan Matthew Bryza observed in the previous issue of *Baku Dialogues*, the ceasefire arrangement that ended the Second Karabakh War offers these states a historic opportunity for long-term reconciliation, to their mutual benefit as well as that of the West.

Armenia and Azerbaijan can build on their November 2020 tripartite declaration and their Moscow meeting of January 2021 by concentrating on regional economic development and reconstruction. Armenia in particular would benefit from the dismantling of prewar trade barriers, which largely excluded Armenia from the benefits of the Azerbaijan-Turkey-Georgia regional integration processes for overcoming its constraining landlocked status. Azerbaijan has helpfully pledged to facilitate this process, as well as ensure the protection and integration of its Armenian minority in the recovered territories.

Armenia and Azerbaijan can build on their November 2020 tripartite declaration and their Moscow meeting of January 2021 by concentrating on regional economic development and reconstruction.

Western countries can do their part to assist this process, especially by providing economic and diplomatic support. For example, they can encourage mutual strategic restraint between Armenia and Azerbaijan and keep them focused on future opportunities rather than past grievances. Regarding the latter, they can aide in the return of Azerbaijani refugees into the newly liberated territories and, as the current population chooses, the preservation of the Armenian population in Nagorno-Karabakh or its movement back into Armenia's internationally recognized territory. Western governments should also oppose military revanchism and challenges to civilian control in Armenia while encouraging the Armenian armed forces to identify the location of the many landmines scattered throughout the former occupied territories, which will impede regional development opportunities. Western help may also be needed to circumvent Russian and Iranian impediments to trans-Caspian energy projects and secure the departure of Russian peacekeepers from Nagorno-Karabakh according to the agreed timetable. These and similar measures could help avert renewed conflict in this increasingly critical geopolitical crossroad. BD

Ukraine's Strategic Relations with the South Caucasus

With References to Turkey and Russia

Taras Kuzio

Ukraine's relations with the three Southern Caucasian states of Azerbaijan, Georgia, and Armenia have been varied during the three decades since the disintegration of the Soviet Union. Ukraine has paid greater attention to pro-Western Georgia and multivectoral Azerbaijan, and the least attention to pro-Russian Armenia.

In Soviet times, the Ukrainian and Georgian dissident and nationalist movements maintained close ties, and this influenced the development of friendly relations between Ukraine and Georgia in the post-Soviet era. From the late 1990s onwards, Ukraine and Georgia made joining both NATO and the EU priority goals, which also played a role in bringing Kyiv and Tbilisi together. Azerbaijan pursued a multi-vector foreign policy of integration without membership in these two institutions, managing to be cautiously pro-Western but at the same time not anti-Russian. Armenia, on the other hand, has been a member of all Russian-led regional integration projects since the early 1990s, and therefore Kyiv has had few common interests with Yerevan.

Relations with Armenia have deteriorated since 2014 because of Armenia's support for Russia's annexation of Crimea and the presence of Armenian mercenaries fighting against Ukraine in the ranks of Russia's proxies in the Donbas. During the Second Karabakh War, the Ukrainian media, President Volodymyr Zelenskyy and all political parties (except one pro-Russian one) enthusiastically supported Azerbaijan.

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Hybrid Warfare and Frozen Conflicts

It would be very wrong to believe that hybrid warfare and information warfare were invented by Russia's President Vladimir Putin or the country's Chief of the General Staff Valery Gerasimov who famously published in February 2013 an article entitled "The Value of Science in Prediction" that analyzed hybrid warfare (or what the Russians call "non-linear warfare").

Still, the latter's essay is a benchmark and is worth quoting at the onset. Reflecting on the Arab Spring, Gerasimov writes that the "very 'rules of war' have changed. He then explains that "the role of nonmilitary means of achieving political and strategic goals has grown, and, in many cases, they have exceeded the power of force of weapons in their effectiveness." He goes on to define "non-military measures" in the following manner: "the broad use of political, economic, informational, humanitarian, and other measures—applied in coordination with the protest potential of the population." He then adds: "All this is supplemented by military means of a concealed character, including carrying out actions of informational conflict and the actions of special-operations forces." And he concludes: "The open use of forces—often under the guise of peacekeeping and crisis regulation—is resorted to only at a certain stage, primarily for the achievement of final success in the conflict."

But if we take a step back, we realize that the Soviet Union had pursued these or similar policies for decades, and that even in the pre-internet era was a master at propagating disinformation (fake news). Assassinations abroad ("wet operations") by the Soviet secret services stretch back to the 1920s; in 1926, 1938, 1957, and 1959, four Ukrainian nationalist leaders were murdered in Paris, Rotterdam, and Munich. The Soviet regime spread fake news about the 1933 *Holodomor* (Murder Famine) that murdered four million Ukrainians, admitting only in 1990—one year before the USSR disintegrated—that an artificial famine had taken place in Ukraine.

In the 1990s under President Boris Yeltsin, Russia continued to pursue hybrid warfare in the former Soviet region by seeking to undermine central governments through political instability and inter-ethnic and regional conflicts. Frozen conflicts were engineered in the early 1990s in Azerbaijan, Georgia, and Moldova, as well as nearly in Crimea, Ukraine.

It is important to recognize six consistent policies pursued by Russian security policies towards Russia's neighbors since 1992. The *first* of these is covert backing of separatist proxy forces by supplying them with military equipment and inserting Russian special forces (*spetsnaz*). This aims to create frozen conflicts in favor of the separatists who are given direct Russian (South Ossetia, Abkhazia, Trans-Dniester, Donbas) or indirect Russian (Nagorno-Karabakh) assistance.

The *second* is ethnic cleansing, as exemplified in the success of Russian-led separatist forces from Nagorno-Karabakh and the surrounding seven districts, as well as South Ossetia and Abkhazia. Nearly one million Azerbaijani's were forced to flee from Armenian pogroms and occupation. Two million people have fled or were pressured to leave Russian-controlled Donbas, of which 1.7 million are IDPs in other parts of Ukraine and the remainder are refugees in Russia.

The *third* is assassination attempts against political leaders and terrorism in regions outside the frozen conflict. The *fourth* is the weaponization of energy through blockades and corruption of local elites. Russia's biggest export in Europe is corruption, not energy.

The *fifth* consists of contradictory rhetoric of officially supporting the territorial integrity of Russia's neighbors while unofficially backing separatist forces. This plank of Russian policy was swept away in 2008 when Russia (alone in the CIS) recognized the "independence" of South Ossetia and Abkhazia and in 2014 when it annexed Crimea. The sixth and last is the positioning of Russia as a negotiator and peacemaker with proposals to resolve frozen conflicts through federalization leading to weak central governments and weak neighboring states.

Russia's biggest export in Europe is corruption, not energy.

Russia supported separatism in Ukraine's Crimean region throughout the 1990s, which led to Ukrainian security policy having common interests with Azerbaijan and Georgia—as both had suffered from similar activities. Frozen conflicts fomented by Russian-backed separatists in Azerbaijan's region of Nagorno-Karabakh, Georgia's regions of South Ossetia and Abkhazia, and Moldova's Trans-Dniester, coupled with Russia's failed attempt to do the same in Crimea, was a major factor behind the formation of what is now the GUAM Organization for Democracy and Economic Development in 1997 (GUAM stands for Georgia, Ukraine, Azerbaijan, Moldova; three years later Uzbekistan joined before withdrawing in 2005). GUAM was an Azerbaijani idea put forward in the 1990s when the country had a limited number of allies and when Ukraine's President Leonid Kuchma provided various forms of assistance, including exporting military equipment.

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GUAM epitomized the close national security and energy relations of Ukraine with both Azerbaijan and Georgia, which have survived in high and low points up to the present day. Relations between GUAM participating states have gone through three periods: a high point from 1997 to 2009, a low point in 2010-2013, and a revitalization of relations since the 2014 crisis in Ukraine.

Relations in the First Period

Of GUAM's four participating states, Ukraine and Georgia wished to join NATO, called for the Atlantic Alliance to keep its doors open, and rejected Russia's demand for a veto over former Soviet countries joining NATO. Ukraine, Azerbaijan, and Georgia by and large supported NATO enlargement into post-communist countries and backed high levels of integration and cooperation by their countries with a wide range of NATO structures.

Ukraine, Azerbaijan, and Georgia actively participated in NATO-led peacekeeping operations and created a peacekeeping battalion under NATO auspices. Remembering the ethnic cleansing conducted by Russian-backed separatists in Georgia and Azerbaijan, GUAM participating states supported NATO's operation against Serbia in 1999. All four GUAM countries held a suspicious attitude towards Russia because of its support for separatism and its unwillingness to recognize their sovereignty and territorial integrity. Thus, GUAM's founding document called for the recognition of the inviolability of the territorial integrity of states and rejected "aggressive separatism," "ethnic intolerance," and "religious extremism."

Political leaders during the first period of Ukraine's relations with the South Caucasus came from the Soviet *nomenklatura* and because of this they approached dealing with Russia in a cautious manner; this was very much in contrast to their nationalist critics at home whose rhetoric and actions would often inflame relations with Russia. Hence, Ukraine's Leonid Kuchma, Azerbaijan's Heydar and Ilham Aliyev, Georgia's Eduard Shevardnadze, and Moldova's Vladimir Voronin each adopted multi-vector foreign policies of integration with the West and cooperation with Russia and the CIS.

Although Kuchma had come to power in 1994 on a moderately pro-Russian platform, he quickly became pro-Western because of Russian intransigence over recognizing Ukraine's territorial integrity, borders, and sovereignty. Russia's relations with Ukraine were far more problematic than with any other post-Soviet state because Moscow never accepted Ukrainian independence, claimed Ukraine was an "artificial state," and denied the existence of a separate Ukrainian nation.

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In 1994, Russia, the U.S. and the UK signed the Budapest Memorandum with Ukraine, which provided security assurances for Ukraine's territorial integrity and sovereignty in exchange for Ukraine giving up the world's third largest nuclear weapon arsenal that had been inherited from the USSR. It took Yeltsin three years to travel to Kyiv to sign an inter-state treaty that recognized the Russian-Ukrainian border and another two years before it was ratified by both houses of the Russian parliament (in other words, this took Kuchma's entire first term in office, which lasted from 1994 to 1999). The Budapest Memorandum and the subsequent inter-state treaty were both flouted by Russia in 2014 when it invaded and annexed Crimea.

In the 1990s, Kyiv also developed relations with Ankara. Turkey positioned itself as the protector of Crimean Tatars, although not to the same extent as during the subsequent period of Recep Tayyip Erdogan's rule. Kemalist Turkish politicians were less keen on exporting Turkish soft and hard power compared to Turkish Islamic nationalists. From the onset Ukraine became an active participant in the Turkey-led Organization of the Black Sea Economic Cooperation (BSEC), the Caucasus Stability and Cooperation Pact initiative (which in some versions noticeably did not include Armenia), and various energy transportation projects. Azerbaijan believed that it was in its security interests to support Ukraine's energy independence from Russia and exported the first consignment of 50,000 tons of oil in 1999 through a pipeline that crossed Georgia.

The Georgian Rose and Ukrainian Orange Revolutions changed the dynamics of GUAM and Ukraine's relations with the South Caucasus states, but also with Russia and Turkey.

The Georgian Rose and Ukrainian Orange Revolutions changed the dynamics of GUAM and Ukraine's relations with the South Caucasus states, but also with Russia and Turkey. National democratic leaders Mikhail Saakashvili and Viktor Yushchenko came to power in Georgia and Ukraine, respectively, and they moved away from multi-vector foreign policies, instead prioritizing relations with the West. In 2005-2007, politics in Russia turned in a nationalistic direction with the creation of the Russian World Foundation, an extensive cyber-attack against Estonia, the assassination of the Russian FSB defector Alexander Litvinenko in London, and Putin's xenophobic speech to the Munich Security Conference.

Meanwhile, Turkey began moving away from a political system dominated by Kemalist politicians to one led by Islamic nationalists after the Erdogan-led Justice and Development Party (AKP) came to power in 2003. In contrast to his Kemalist predecessors, Erdogan has demonstrated greater preparedness to assert Turkish leadership over the Sunni world and to export Turkish soft and hard power throughout Ukraine and the Greater Middle East, as seen in Azerbaijan, the eastern Mediterranean, Egypt, Syria, Libya, and elsewhere.

This re-configuration was taking place against the background of the Greater Middle East having become divided into two geopolitical groups that have remained more or less constant to the present day. On the one side stands Greece (although a NATO member), Armenia, Russia, and Iran. On the other stands Turkey, Azerbaijan, Georgia, and the other two GUAM participating states. Iran and Russia see eye to eye on designating the Caspian as an "internal lake," oppose alternative Azerbaijani energy routes, and back Russia's monopolization of peacekeeping in Eurasia (or what is coming to be known in some circles as the Silk Road region). Iran remains very sensitive over its large Azerbaijani minority, which actively supported Baku in the Second Karabakh War. In contrast to GUAM participating states, Armenia has always supported Russian military bases on its territory.

Iran and Russia have long viewed the West in negative terms. Russia is very hostile to what it claims is the West encroaching on Russia's "privileged sphere of influence," as Dmitry Medvedev described Eurasia in 2008. Iran backs Russia's view of a multipolar system and its opposition to a U.S.-led unipolar international system. Russia never condemned Iran's building of nuclear weapons and when Ukraine succumbed to U.S. pressure by halting its supply of nuclear turbines to Iran, Russia went ahead and supplied them.

Ukraine's relations with Azerbaijan are continuing to develop in several areas. Ukraine's large military industrial complex is a source of weapons for Azerbaijan as it has been for Georgia. Both countries' intelligence services have fruitfully cooperated. Ukraine and Azerbaijan have always supported each other's territorial integrity, as in 2014 when Crimea was annexed. It is therefore little wonder Ukraine's relations with Armenia never progressed, as Yerevan always backed Russian policies, integration initiatives, and hybrid warfare in Eurasia.

Under Yushchenko, GUAM became institutionalized with the creation of a parliamentary assembly, which received observer status at the UN. A headquarters and secretariat were established in Kyiv with coordinating offices located in each participating state. GUAM received a moniker, becoming known officially as the GUAM Organization for Democracy and Economic Development. GUAM expanded its interests beyond security to the economy and transportation, business cooperation, security and combatting organized crime, culture and tourism, and youth and sports. The heads of state of GUAM meet twice a year at international summits such as the UN General Debate, and foreign and defense ministers meet twice a year as well.

Saakashvili and Yushchenko had very bad relations with Putin over a wide range of factors, including NATO's explicit endorsement of Ukraine and Georgia's aspirations to join the Atlantic Alliance ("we agreed today that these countries will become members of NATO," to quote from the April 2008 Bucharest Summit Declaration) and written support for Kyiv and Tbilisi to each apply for Membership Action Plans (MAP) at an undisclosed future date. Although espionage against fellow members was not permitted in the CIS, Russian intelligence increased its subversive activities in the GUAM participating states. In 2008, Yushchenko rallied Polish and Baltic leaders in support of Georgia during Russia's invasion when Russia was incensed its aircraft had been shot down by Georgian forces using Ukrainian surface to air missiles. In 2009, Ukraine expelled three Russian diplomats for espionage and providing support to separatists and extremists in Crimea and Odessa, which led to a very undiplomatic open letter protest from President Medvedev.

GUAM, Russia, and the West Under Yanukovych

The second period of relations between GUAM participating states (2010-2013) was quieter during Viktor Yanukovych's presidency of Ukraine. Yanukovych's election signaled a return to "normality" for Russian leaders, as he was viewed as a satrap in similar fashion as is Belarus's President Aleksandr Lukashenko. Yanukovych and his Party of Regions was hardline pro-Russian: its electoral stronghold in the Donbas resembled Crimea in the strength of its inhabitants' pro-Russian sentiments and their deeply-felt Soviet nostalgia. In the CIS (Russia aside), only the

Party of Regions and its allies—the Communist Party of Ukraine and Crimean Russian nationalists—backed Moscow's 2008 recognition of the "independence" of South Ossetia and Abkhazia.

Yanukovych implemented what Medvedev had demanded the year before, which included dropping Ukraine's goal of seeking NATO membership and replacing it with a vague "non-bloc" foreign policy. NATO membership had been supported by both Kuchma and Yushchenko *and* by Yanukovych when he had been prime minister during Kuchma's presidency. Although Yanukovych continued to claim he supported Ukraine's participation in the Eastern Partnership, which offered integration with but not membership in the EU, his relations with Brussels were strained over the imprisonment of opposition leaders Yulia Tymoshenko and Yuriy Lutsenko.

A lesson Ukraine has learnt from that presidency was that agreeing to all of Russia's demands never led to an improvement in Russian-Ukrainian relations; rather, each demand Ukraine fulfilled simply led to further Russian demands. Despite fulfilling virtually all of Medvedev's demands, Russia charged Ukraine the highest gas price in Europe throughout Yanukovych's presidency. In addition, Yanukovych and his gas oligarch allies had no interest in Ukraine seeking energy independence from Russia, of which Azerbaijan was an important element, because they were making billions of dollars from corrupt gas intermediaries.

Despite fulfilling virtually all of Medvedev's demands, Russia charged Ukraine the highest gas price in Europe throughout Yanukovych's presidency.

Following Putin's re-election in 2012, Russia pursued a three-fold strategy. *First*, pressure would be brought to bear on Armenia and Yanukovych to drop the signing of the EU-Ukraine Association Agreement, which happened in November 2013. *Second*, Russia would ensure Yanukovych's re-election as president in January 2015. *Third*, a re-elected Yanukovych would take Ukraine into the Eurasian Economic Union (as the CIS Customs Union was renamed). Russia's annexation of Crimea and the onset of hybrid war in eastern Ukraine was its angry response to the failure of the second

and third strands of the Russian strategy to include Ukraine in the Eurasian Economic Union (with its core being the three eastern Slavic nations of the Russian World). It was also a result of Putin's personal anger at having been humiliated for a second time. The first occurred during the Orange Revolution, which denied Yanukovych's fraudulent election, and has been described by Russian political technologist Glen Pavlovsky as "Putin's 9/11."

Ukraine and the Greater Middle East in the Aftermath of the 2014 Crisis

The 2014 crisis—Russia's annexation of Crimea and the onset of hybrid warfare in Donbas—brought Ukraine, Georgia, and Azerbaijan closer together in a similar manner to what happened during the 2008 Georgian-Russian crisis.

Russia's brazen annexation of Crimea was undertaken in the belief the West would react in a weak manner, as it had in response to Russia's invasion of Georgia and Moscow's recognition of the "independence" of two separatist Georgian territories, South Ossetia and Abkhazia, six years earlier. Initially Moscow appeared to have made a proper judgment. Western sanctions only became tougher in July 2014, after a Russian BUK missile shot down the MH17 civilian airliner that killed 298 civilians and a month later when the Russian army invaded Ukraine.

Armenia has been a long-term Russian ally since the disintegration of the USSR in the early 1990s; Yerevan's pro-Russian stance can be seen in the fact that Yerevan has never condemned Russian military aggression anywhere in Eurasia, including in Ukraine in 2014. Armenia benefitted from Russian hybrid warfare when former Soviet troops assisted Armenia in occupying Nagorno-Karabakh and the seven districts surrounding the region during the First Karabakh War.

Yerevan's pro-Russian stance can be seen in the fact that Yerevan has never condemned Russian military aggression anywhere in Eurasia, including in Ukraine in 2014.

In Eurasia there are two types of color revolutions: pro-European and pro-Russian. The former has included Ukraine (2003-2004, 2013-2014) and Georgia (2003), whose leaders then sought NATO and EU membership; the latter has included Armenia (2018) and Belarus (attempted in 2020), and in both cases the countries have remained in the Eurasian Economic Union.

In 2013, Armenia withdrew from the EU's Eastern Partnership and joined the CIS Customs Union (from 2015, called the Eurasian Economic Union). Armenia's 2018 color revolution brought Nikol Pashinyan to power and did not lead to an 'Armexit'—a withdrawal of Armenia from the Eurasian Economic Union. Had the opposition come to power in Belarus, it also would not have engendered a 'Belexit'—a withdrawal of Belarus from the Eurasian Economic Union. Countries can only be in one customs union, which for Eurasian countries means either the Eurasian Economic Union or the EU. Pashinyan's rule was more nationalistic than it was democratic and his bombastic statements on Nagorno-Karabakh and his military aggression in July 2020 ultimately laid the ground for the Second Karabakh War and Armenia's defeat.

Ukrainians rose up against Yanukovych when he attempted to end Ukraine's path to European integration in the same year Yerevan turned its back on Europe—a major contrast.

Ukrainians rose up against Yanukovych when he attempted to end Ukraine's path to European integration in the same year Yerevan turned its back on Europe—a major contrast. Russian policies succeeded in Armenia but failed in Ukraine. Armenians did not protest their country's shift from European to Eurasian integration while Ukrainians protested in the millions and hundreds were murdered during the Euromaidan Revolution in defense of their country's European choice.

After 2014, Georgia and Azerbaijan aligned with Ukraine in defense of its territorial integrity. Turkey also stated it would never recognize the annexation of Crimea. One reason is because Turkey has longstanding historical ties with the Crimean Tatars who have been subjected to centuries of discrimination. The Crimean Khanate had existed for three centuries before the peninsula was annexed by the Tsarist Russian Empire in the 1780s. In the nineteenth and twentieth centuries, millions of Crimean Tatars had fled from Russian and later Soviet persecution towards the

Ottoman Empire and later Turkey. In 1944, Crimean Tatars were victims of genocide when half of them died during Stalin's ethnic cleansing campaign and the other half ended up in Central Asia. Crimean Tatars began returning to Ukraine in the late 1980s, were staunch supporters of Ukrainian independence, and their representatives were elected to the Ukrainian parliament as part of Yushchenko's Our Ukraine and the Poroshenko Bloc. Pro-Russian forces in Ukraine and nationalists in Russia have traditionally supported Stalin's ethnic cleansing of Crimean Tatars while Ukrainian national democrats and centrists have condemned this genocide. In 2015, the Ukrainian parliament recognized Stalin's ethnic cleansing as an act of genocide committed against the Crimean Tatars. Since 2014, 30,000 Crimean Tatars have fled to the Ukrainian mainland, Crimean Tatar institutions have been closed down, hundreds of activists have been imprisoned, and dozens have been murdered.

In Turkey, where there an estimated six million Crimean Tatars, they are often called Crimean Turks because of the closeness of Turkish and Crimean Tatar languages, culture, and history. This sizeable Crimean Tatar minority is vocal, active, and influential in Turkey. In the 1990s, Turkey supported Crimean Tatars and Ukraine's territorial integrity, but this support became more vocal and active starting in the early 2000s.

Turkey played an important behind-the-scenes role in supporting Ukraine's campaign to achieve religious autocephaly (independence) from the Russian Orthodox Church. Moscow's control over Ukraine, which began in the seventeenth century, was declared uncanonical by Ecumenical Patriarch Bartholomew I of Constantinople in January 2019 in a Tomos (decree) of Autocephaly to the Orthodox Church of Ukraine.

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The loss of 40 percent of the worldwide total number of Russian Orthodox Church parishes, which had been located in Ukraine, was a geopolitical disaster for Russia and a defeat for Russian soft power in Ukraine. President Putin called an emergency session of the Russian Security Council to deal with this religious conflict in Ukraine. The Russian Orthodox Church is no longer the largest of the autocephalous Orthodox Churches and is now similar in size to the Romanian Orthodox Church. Moscow cannot understand the Russian World without Ukraine and the historic city of Kyiv, which is 600 years older than Moscow.

The Crimean Platform is needed because the West has focused on the war in the Donbas while consenting to Russia's demand that Crimea's status is non-negotiable.

Ukraine, Azerbaijan, and Georgia are longstanding pro-NATO and pro-Western former Soviet states in a contested region that Russia demands the West recognize as its exclusive sphere of influence. As a NATO member, Turkey supports their integration into and cooperation with NATO. Erdogan support's Ukraine and Georgia's NATO membership aspirations.

Turkish-Ukrainian security cooperation is growing through the Quadriga (2+2) comprehensive dialogue formula of foreign and defense ministers as well as through Kyiv's Crimean Platform initiative, which is described by analyst Vladimir Socor as a "a multi-level framework for devising actions that would raise the costs of Russia's occupation and contradict Moscow's thesis about the irreversibility of its hold on the peninsula." Ukraine's First Deputy Foreign Minister Emine Dzhaparova—herself of Crimean Tatar origin—has said the Crimean Platform is part of Ukraine's strategy for the "de-occupation of Crimea." It is designed to work on four levels: through foreign heads of state, foreign and defense ministers, an inter-parliamentary group, and experts.

The Crimean Platform is needed because the West has focused on the war in the Donbas while consenting to Russia's demand that Crimea's status is non-negotiable. Thus, Crimea was never included in the largely unproductive Normandy Format bringing together Ukraine, France, Germany, and Russia—the last meeting of which was held in December 2019, the first to be held since October 2016, and the sixth to be held since it was set up in 2014. Additionally, Crimea was never included in the OSCE-led negotiations within the Protocol on the Results of Consultations of the Trilateral Contact Group (known as the Minsk Protocol).

Zelenskyy is as unhappy with the lack of achievements of the Minsk Protocol over the last six years as Azerbaijan was of the OSCE Minsk Group's results regarding Nagorno-Karabakh over nearly 30 years of existence. France adopted pro-Armenian and pro-Russian stances in the Minsk Group and the Minsk Protocol, respectively, which disqualified Paris as an impartial and neutral negotiator.

Ukrainian-Turkish relations developed in a more sustained and productive manner under both Poroshenko and Zelenskyy. At an October 2020 joint press conference with Zelenskyy, Erdogan said, "Turkey sees Ukraine as a key country for ensuring stability, peace, and prosperity in our region. Within this framework we have always supported and will continue to support Ukraine's sovereignty and territorial integrity, including over Crimea." Erdogan then added, "Turkey has not recognized and does not recognize the annexation of Crimea." In language reminiscent of Turkish support for Azerbaijan's territorial integrity, a joint statement issued by the two presidents said, "we agree to continue our efforts towards de-occupation of the Autonomous Republic of Crimea and the city of Sevastopol, as well as restoration of Ukraine's control over certain areas in Donetsk and Luhansk regions of Ukraine." The joint Turkish-Ukrainian statement also raised the plight of Crimean Tatar and Ukrainian prisoners held by Russia and the protection of human, national, and religious rights in Crimea.

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A related point is the fact that Turkey, Azerbaijan, Georgia, and Ukraine have developed common interests in the area of Black Sea security in the aftermath of Russia's November 2018 naval piracy in the Azov Sea. Turkey, the U.S. and the UK support the rebuilding of Ukraine's navy, which is being boosted by Ukraine's purchase of Turkish MILGEM-class corvettes.

Another important point is the fact that cooperation between Turkey, Ukraine, Azerbaijan, and Georgia in the joint production and use of military equipment is progressing in the aftermath of Azerbaijan's successful use of Israeli and Turkish drones in the Second Karabakh War.

Ukrainian policymakers and experts are assiduously studying the implications of Azerbaijan's military victory for the Donbas and Crimea theatres. Ukraine has already purchased 48 Bayraktar TB-2 drones, which will be based in the Donbas war zone. NATO training, electronic warfare, military communications, intelligence, drones, and other forms of military equipment such as night vision are important areas of Turkish-Ukrainian cooperation. And Ukraine's military is learning lessons from Azerbaijan's experience in the Second Karabakh War. Turkey and Ukraine are jointly manufacturing drones and other military equipment befitting a twenty-first-century army. A huge $3 billion of Armenian military equipment was destroyed by Azerbaijan in the Second Karabakh War, which brought out the inferiority of Russian military equipment. Turkey's Akinci (Raider) drones are powered by Ukrainian Ivachenko-Progress A1-450T turboprop engines. Other areas of mutual military cooperation include unmanned fighter jets, a technology used successfully by Azerbaijan in the recent conflict with Armenia.

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Azerbaijan is the main country providing gas supplies to Turkey and Europe as an alternative to hydrocarbons originating in Russia, which has major geopolitical ramifications for the South Caucasus, Black Sea countries, and Southeast Europe. The American pursuit of sanctions against Nord Stream 2, which is supposed to supply Russian gas to Germany, is strategically good for both Ukraine and Azerbaijan. With regards to the former, this is because it forces Russia to continue using Ukraine's pipeline network to export gas to Europe; with regards to the latter, this is because it would enable Azerbaijan to compete with Russia in supplying gas to European customers. Ukraine has been independent of Russian gas supplies since 2015 and seeks to become an importer of Azerbaijani gas.

Lastly, Turkey is a vital regional hub for the Trans-Anatolian Natural Gas Pipeline (TANAP), one of three pipelines in the Southern Gas Corridor connecting Azerbaijan's Shah Deniz II field to European markets. The Turkish-Azerbaijani strategic alliance cements the former as a regional energy hub independent of Russia while enabling the latter for the first time to become a major gas exporter to Europe and Ukraine. In addition, 40 percent of the oil that Israel imports originates from Azerbaijan, an important factor which cements that particular strategic partnership. A high proportion of Jews in Israel are from Ukraine, and ties between Ukraine and Israel are also close.

Conclusions

Ukraine first developed close and productive relations with the South Caucasus and the Greater Middle East during Kuchma's second term (1999-2004) and Yushchenko's presidency (2005-2010), although both sets of ties began deepening further in the wake of the 2014 crisis, during Poroshenko's term and continuing into Zelenskyy's. Ukraine's relations with Turkey have grown into a strategic partnership under Poroshenko and Zelenskyy, as well.

Ukraine, Azerbaijan, and Georgia have consistently supported several shared objectives. They do not agree to Russia having a monopolistic sphere of influence over Eurasia or having the CIS representing them in international organizations. They disagreed with the UN and the OSCE agreeing to Russian demands for a monopoly on conducting peacekeeping operations in Eurasia. Azerbaijan and Georgia have sought for decades—without success—to replace Russian with UN or OSCE peacekeepers. Ukraine proposed a plan to introduce UN peacekeepers on the Russian-Ukrainian border only to have Russia oppose it, demanding instead any peacekeeping force be stationed on the contact line in the Donbas war zone.

Ukraine, Azerbaijan, and Georgia distrust Russia because of Moscow's support for separatism in their respective countries. They believe it is in their interests to develop their countries energy independence from Russia. They view membership (Ukraine, Georgia) and integration (Azerbaijan) into Trans-Atlantic structures as a means to remain independent from Russian hegemony. Finally, they support a minimalist CIS rather than having the CIS used as a vehicle to deepen Russian-led integration, which in turn would limit the sovereignty of its non-Russian members.

This, then, is how we in Ukraine see these matters. BD

Development or Regression?

Eurasia's Investment Attractiveness

Stanislav Pritchin

In 2021 the countries of Central Asia and the South Caucasus—some call it Eurasia, other the Silk Road region—will celebrate thirty years of independence. Theoretically, this period should have provided sufficient time for each to have formed a new economic model, set and at least partially attain long-term development goals, and developed a foreign policy model for optimal interaction with investors, including foreign ones. However, the experience of the post-Soviet republics under consideration in this essay, which does not aspire to be comprehensive but should rather be considered a preliminary assessment, indicates that independence is neither a prerequisite for successful development nor one that centers of achieving a sustainable increase in popular welfare.

Despite the fact that in 1991 standards of living and educational and economic attainment in the Soviet republics that are examined in this essay were approximately similar, after three decades of independent development the countries under consideration have been significantly stratified in terms of national wealth, types of political and social systems, and the specifics of their economic activities. Former fraternal republics look today as if they are countries from different continents. Since the breakup of the Soviet Union, some have done very well, others less so.

In considering the economic dimension of independent development, we can assert that, with a few exceptions, these countries have not managed to seriously reform the model inherited from the USSR. Instead of rebuilding their economies so as to integrate them into global production chains, a majority of them have squandered the industrial potential built during the Soviet era. Consequently, the overall investment attractiveness of these countries remains at a suboptimal level.

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Former fraternal republics look today as if they are countries from different continents. Since the breakup of the Soviet Union, some have done very well, others less so.

Two markers or indicators stand out as effective tools to analyze the systematic work of a state as a responsible actor in domestic economic policy and in penetrating foreign markets: its investment attractiveness and the responsibility of its approach in working with non-state internal and external players.

Unfortunately, it can be stated that, again with a few exceptions, the countries of the Silk Road region have not been able to achieve serious success in creating a competitive, diversified, and open economies with effective systems for protecting private property and investors' rights. Moreover, most Eurasian countries have not even officially set such a goal for themselves. Given contemporary global conditions, characterized by a cutthroat international economic environment, none of the states in question can expect high-quality development and improvements of their respective socio-economic situations without building the capacity to attract foreign investment on the basis of international best practices and a focus on harnessing the latest technologies.

That being said, the growth of investors' interest in the countries of Central Asia and the South Caucasus continues to be facilitated by the systematic development of regional integration projects, as well as transport infrastructure within a number of major projects, such as the Belt and Road Initiative, the Eurasian Economic Union (EAEU), the Southern Energy Corridor, TRACECA, and so on. A final determination to direct investment into a country made by a series of important factors, some of which are featured in an April 2020 report on the investment attractiveness of the countries of Central Asia and the South Caucasus issued by a team of analysts at the Moscow-based ECED Expert.

The purpose of that study, as well as this essay, is to rank the countries of Central Asia and the South Caucasus by ordering those that are, in the view of this author, the most promising and potentially profitable for investors and safe from the point of view of doing business and protecting property rights. In this case, investment attractiveness was assessed on the basis of an analysis of the development of the region's countries, considerations involving the stability of political institutions, an evaluation of economic potential, and the openness and hard to quantify "friendliness" of each country towards domestic and foreign investors.

With a few exceptions, the countries of the Silk Road region have not been able to achieve serious success in creating a competitive, diversified, and open economies with effective systems for protecting private property and investors' rights.

The first section of this essay consists of a brief discussion of each of the countries belonging to the core of the Silk Road region, in alphabetical order. This is then followed with a list rank-ordering them in terms of investment attractiveness, with brief explanations provided.

In making my determinations on the positions of countries in the region, I have had recourse to the macroeconomic stability indices provided by three leading rating agencies—Fitch, Moody's, and Standard & Poor's—as these form the basis for decisionmaking about investments for many investors. The countries with the best and most stable financial systems in the region—namely Kazakhstan and Azerbaijan—have the highest recommended investment ratings of the region's countries. Among the other countries, Georgia and Uzbekistan form a second-highest cluster. The obvious weak participant is Turkmenistan, which has not been included on the lists of ratings agencies for a decade due to a judgment made that the statistics provided by the country are unreliable.

I have also made use of criteria found in the World Bank's annual "Doing Business" flagship reporting series. There we can see that the countries of the region are working to improve their rankings by improving their respective business environments. This work has brought results. Over the past several years, some of the Silk Road region countries have significantly increased their presence at the top of the ratings list. Georgia became the region's undisputed leader in the latest report, taking seventh place overall in the global ranking. However, progress in other countries is also impressive. On the World Bank's list of top 40 ease-of-doing-business countries from the Silk Road region we see (in addition to Georgia) Kazakhstan and Azerbaijan. Armenia is in 47th place, which is at first glance impressive but for the fact that only a few years ago it was in 35th place. Uzbekistan is rapidly improving its business environment, moving from 150th place in 2016 to 76th in the latest World Bank report. Kyrgyzstan has fallen in the rankings whilst Tajikistan has moved up quite impressively.

Political stability, continuity of economic and investment policies, and stability of foreign policy contacts with key trade partners are also important parameters of investment attractiveness for any country.

It is also critical to note in this introductory section that political stability, continuity of economic and investment policies, and stability of foreign policy contacts with key trade partners are also important parameters of investment attractiveness for any country. The Central Asia and the South Caucasus countries are largely states in political transition from a socialistic political model. Therefore, the impact of political processes on investment attractiveness is very high. In this regard, the current political situation in all selected countries needs to be taken into account with regards to stability and vulnerability to destabilization; potential foreign policy risks were also reviewed.

All this being said, we can now turn to an examination of each of the countries that make up the core of the Silk Road region, in alphabetical order.

Azerbaijan

In general, the situation in the country is quite stable: President Ilham Aliyev's team controls the situation in the republic, and the pro-government party has a stable majority in the parliament after its latest electoral victory in February 2020. The main challenge for the political system is managing the ongoing large-scale renewal of the political elite due to the departure of the older generation of politicians who worked under Heydar Aliyev, the country's former president and father of the current one.

The formation of a new balance of power in the Azerbaijani political system may be associated with the emergence of points of tension between different political groups within the elite. At the same time, the authority and political weight of the president in many ways enables him to effectively stop intra-elite conflicts in time and prevent such internecine episodes from adversely affecting the system as a whole.

The main military and political challenge for the country remains the problem of Nagorno-Karabakh, whose sovereign ownership the republic defends in a long-standing dispute with Armenia. The November 2020 tripartite ceasefire that brought back most of the occupied lands under the direct control of Baku marks an important turning point, but it is not a peace treaty.

The November 2020 victory against Armenian forces strengthened drastically Aliyev's authority and credibility at home and abroad, making him the most respected leader in Eurasia.

On the scale of internal political stability, Azerbaijan is a very stable state, which means that a balanced political system has been formed in the country, which implies a fairly balanced power vertical, a stable socio-economic situation, and broad electoral support for the country's leadership.

From the point of view of the foreign policy model, Azerbaijan has a pragmatic approach to building relations with major regional players. At the same time, Baku is trying to build equidistant relations with key global centers of power, while having intensive economic ties with all of them. The existence of the conflict with Armenia for Nagorno-Karabakh has been a long-term challenge for consolidating the conditions for the establishment of a healthy investment climate, as each new escalation could have resulted in military risks for Azerbaijan's energy, industrial, and transport infrastructure. However, the Second Karabakh War has largely mitigated this threat: it brought about not only a military victory for Azerbaijan but also opened new investment opportunities for internal and foreign businesses. The newly-liberated territories represent new areas for massive construction and economic development. Meanwhile, in political terms the November 2020 victory against Armenian forces strengthened drastically Aliyev's authority and credibility at home and abroad, making him the most respected leader in Eurasia.

Armenia

In contrast to Azerbaijan, Yerevan's defeat in the Second Karabakh War brought the political situation in the country to the brink of disaster. Before the start of the war, the internal political situation in the country has gradually stabilized after the revolutionary changes that took place in April 2018. By and large, the team led by prime minister Nikol Pashinyan had never held high positions in government before, although in the wake of popular street protests and with unusually high public support his team quickly gained almost complete control over Armenia's political system (the same could not be said, however, with respect to the military and the civilian security sectors).

The results of the Second Karabakh War, including the terms of the tripartite agreement ending it, were considered disastrous in many Armenian circles. Immediately after the announcement of the signing of a truce with Azerbaijan with the mediation of Russia, protests began in Yerevan demanding Pashinyan's resignation. With ebbs and flows, these have continued until the present day. An early election has been called, and the prime minister's political future remains uncertain. Armenia continues to face months of political turbulence, with ambiguous prospects for stabilization. Coupled with battlefield and diplomatic losses due to the war, the investment and economic situation in Armenia will remain extremely negative in the medium term.

The border with two of its four neighbors (Azerbaijan and Turkey) remains closed in the aftermath of the Second Karabakh War, although that may change in the time ahead. Relations with its other two neighbors (Iran and Georgia) are not exactly smooth, since Iran itself is under sanctions and cooperation with it does not sufficiently compensate for the closed borders with Azerbaijan and Turkey. Ties with Georgia are also uneven due to the complex nature of relations between Tbilisi and Yerevan's main geopolitical partner, Moscow. Given that only through the territory of Georgia can Armenia trade with Russia and other partners in the EAEU, the country's difficult geopolitical position is obvious.

Georgia

The internal political situation in Georgia is currently quite unstable. The positions of the ruling "Georgian Dream-Democratic Georgia" coalition remains vulnerable, despite having a majority in the legislative chamber as a result of recent elections. Over the past few months, the Georgian opposition has organized mass protests, boycotting the work of the parliament, and organizing what it has called "corridors of shame" for members of the ruling elite. A key demand of the opposition is to switch to a proportional electoral system that would allow it, so it says, to compete on more even terms with the ruling coalition. The authorities are not ready to grant this and other concessions. Georgia's Western partners—the EU and the United States—have so far been entirely unable to break the impasse.

Georgia is also characterized by a difficult socio-economic situation, which is manifested in a sharp depreciation of the national currency, a state budget deficit, and a drop in the standard of living of the general population. The government's anti-crisis measures do not correspond to the scale of problems in the economy and may be ineffective due to a lack of available material resources. It seems that a high level of political tension will remain the prevailing reality. The situation may develop according to the most negative scenario, including some sort of revolutionary change of power. Thus, the country's political stability assessment continues to be very low.

The foreign policy situation for Georgia is no less complicated and tense. The key conflict factor is the loss of Abkhazia and South Ossetia and the support both breakaway territories continue to receive from Russia. This configuration creates long-term foreign policy tension for Georgia, which has to deal with the reality of having a constant conflict with a key economic partner, namely Russia. For the moment, Tbilisi has no choice but to live with this contradiction, putting its political posture above its prospects for economic stability and development goals. In such circumstances, potential economic projects have a significant risk of foreign policy destabilization.

Kazakhstan

In March 2019 the country's first and only president since independence, Nursultan Nazarbayev, announced his resignation as head of state and proposed his longtime associate, Kassym-Jomart Tokayev,

to become his successor. (This was later formalized in an election.) Thus, the first ever transition of power in the history of the republic was launched. However, a genuine transfer of power and resulting movement to a post-Nazarbayev era has not yet occurred. Nazarbayev remains at the helm of the country's ruling party and chairs the state's Security Council. Kazakhstan thus maintains a sort of dual power situation. On the one hand, Tokayev is the formal president and head of state, but Nazarbayev's ambitions, political weight, and constitutional powers make him the de facto head of state.

Such a dual power arrangement is quite risky, especially for the political class of Kazakhstan, as it allows different groups to play on the contradictions and differences in the approaches of the two leaders to achieve their particular goals. Moreover, given the presence of several centers of power, Tokayev's political weight is at a suboptimal level: he has been unable to consolidate his authority sufficiently to fully control all the levers and mechanisms of government necessary for effective leadership. The transition remains ongoing.

In general, Kazakhstan has a stable electoral situation, and the weakness of the opposition assures it cannot become a serious destabilizing factor. The main risks come from the uncertainty surrounding the final transition of power and the presence of a hidden split in the political elite, hidden tensions in society due to socio-economic problems, and a complex ethnic situation.

The foreign policy model of Kazakhstan, built on the principle of a balanced multi-vector approach, reflects the pragmatic interests of the republic as much as possible. The country remains an important part of key regional integration projects like the EAEU and the Collective Security Treaty Organization (the CSTO), while actively developing relations with other leading centers of power in China, the United States, the EU, and others.

Kyrgyzstan

The key event in the recent political life of the country took place in October 2020 with the annulment of the parliamentary elections as a result of opposition protests and allegations of vote rigging. The incumbent president, Sooronbay Jeenbekov, resigned after appointing a prime minister who was acceptable to the opposition. After a period of uncertainty, Sadyr Japarov was elected president in January 2021, equipped with enhanced executive powers endorsed by a constitutional referendum.

The political elite remains divided along regional and clan lines, and the difficult socio-economic situation in the country is such that the new leadership will have trouble stabilizing the political one.

Taking into account the country's socio-economic crisis, one can conclude that there may be a rise in national populism in public policy characterized in part by calls to squeeze out foreign investors and conduct a policy of nationalization. Japarov came to public prominence a decade ago through a lively campaign to renationalize the massive Kumtor gold mine, and since becoming president has been sending mixed signals on the issue. Moreover, while Kyrgyzstan is unlikely to withdraw from the EAEU, the possibility of torpedoing some of the country's obligations to the Union remains actual.

Kyrgyzstan's foreign policy model assumes a strong orientation towards the Russian Federation for reasons having mainly to do with economic interests and security issues. At the same time, Bishkek has relatively stable relations with other world power centers, notably China and the United States. It is also important to take into account the country's high external credit debt, most of which is owed to China. Meanwhile at the regional level, Kyrgyzstan regularly has border disputes with Tajikistan and trade disputes with Kazakhstan, which seriously affects the country's overall investment climate.

Tajikistan

Presidential elections were held in Tajikistan in fall 2020. The country's leader since 1994, Emomali Rahmon, was reelected yet again. The March 2020 parliamentary elections were also carried out under full control of pro-government parties.

Despite the ruling elite's continuing success in consolidating power, Tajikistan remains a country with a fairly high risk of political instability. This is due to a number of factors, the most important of which are: unresolved economic problems (lack of jobs, a high level of real unemployment, rising import prices against the background of the fall in the national currency, the continuing outflow of Tajik migrants from Russia); gradual archaization and degradation of the administrative state apparatus, high level of corruption, and links with organized crime; dissatisfaction of regional and clan groups with Rahmon's policies and the unavailability of serious channels for the authorities to receive feedback from society; and the ongoing Islamization of parts of society driven by the possible infiltration of radical Islamist elements from neighboring countries (Afghanistan) and the Middle East (Syria, Iraq).

Tajikistan's foreign policy model is generally quite balanced, with smooth relations with all partners, but sometimes foreign policy factors have an impact on the economic situation and the position of investors. The risk of state insolvency is not just a theoretical possibility. A potentially worrisome precedent was the transfer of rights to a gold mine project to China in the face of the Dushanbe's inability to repay previously received loans.

Turkmenistan

Due to the country's rigid presidential model, the political situation remains relatively stable even in the face of difficulties in the socio-economic sphere. At the same time, the further deterioration of the economic situation in the context of reduced hydrocarbon export revenues, overborrowing, and the possibility the government will be unable to meet its social obligations may prompt the Turkmenistani authorities to invite new investors and open some sectors of the economy (gas production, in particular), but without changing the conditions for foreign investment. The recently signed agreement with Azerbaijan to jointly develop Caspian Sea hydrocarbons could become an economic game-changer.

The country also faces a complex set of military and terrorist threats related to the situation in Afghanistan. The long, weakly protected border with an unstable country as well as the appearance of Islamic State emissaries in the border areas with Turkmenistan creates a whole range of new risks for Turkmenistan.

Its foreign policy of official neutrality should ideally guarantee the republic equal relations with all foreign policy partners, but in reality the situation is more complicated. Isolation, weak involvement in regional projects, and the insecurity of the long border with unstable Afghanistan do not create the most positive background for investment projects in the country.

Uzbekistan

The political situation in Uzbekistan remains stable five years after the transition of power and the arrival of Shavkat Mirziyoyev as president. The president confidently controls the administrative apparatus and remains the most influential player in the political system, even in the conditions of liberalization of political and social processes in the country. Thanks to systematic work on reform that are in many ways transformational, Myrziyoyev has a high level of support and approval from the population. The parliamentary elections held at the end of December 2019 showed that despite the presence of five parties, each of which won seats in the legislative chamber, they all occupy their own niches in the existing political system whilst all support the president.

Uzbekistan is becoming a Central Asian success story and is inching towards Kazakhstan. Perhaps the most efficient reference point to gain further details on the achievements of its ongoing transformation, especially with regards to its foreign policy, is to refer the reader to the interview with its foreign minister, Abdulaziz Kamilov, published in the previous edition of *Baku Dialogues*. Here it is sufficient to underline that trade turnover in terms of volume and geography, as well as investment inflows, have been growing rapidly in recent years.

Rank Ordering

With this we can now come to rank-ordering the countries that make up the core of the Silk Road region. The country that tops this list is Kazakhstan. Its confident pole position demonstrates that even against the background of the current power transition, the country is developing quite successfully with respect to its neighbors, using geographical transit opportunities and natural resources to nearly optimal advantage.

The country has serious economic potential, a large domestic market of 19 million people coupled with the markets of the EAEU countries, rich reserves of natural resources, a legislative framework focused on attracting investors, a set of programs for the development of a non-resource economy, and, accordingly, the existence of favorable conditions for investors in these areas.

Meanwhile, political risks associated with the uncertainty surrounding the transition of power, the presence of intra-elite conflict potential, corruption risks, and a complex inter-ethnic situation are relatively low.

Coming in second and third, respectively, are Azerbaijan and Uzbekistan. Virtually tied with respect to the number of points in the aggregate analysis of most parameters, Azerbaijan holds a slight lead due to the duration of its domestic stability and its recent battlefield and diplomatic triumphs. That being said, all three of the Silk Road region's leading states (Kazakhstan, Azerbaijan, Uzbekistan) have a fairly large market, natural resources, and sustainable political models that allow them to realize their economic and investment potential.

All three of the Silk Road region's leading states (Kazakhstan, Azerbaijan, Uzbekistan) have a fairly large market, natural resources, and sustainable political models that allow them to realize their economic and investment potential.

In the case of Azerbaijan, positives include: significant resource potential; political continuity and stability; good transport accessibility and developed transit opportunities; a relatively large market (10 million people); an economic policy focused on the admission of foreign investors; streamlined administrative services; and measures to reform the economy, diversify it, and increase its attractiveness to investors. The main minus is the monopolistic, semi-closed nature of the non-oil economy dominated by major domestic players, but also a high degree of state regulation of the economy.

In the case of Uzbekistan, the positives include a large domestic market (over 34 million people); a diversified economy; the availability of its own resource base; political stability; and ongoing efforts to systematically reform the country's economy and create favorable conditions for investors. Disadvantages include: strong state intervention in the economy; a weak financial system; corruption and a burdensome bureaucracy (especially outside the capital); the presence of social contradictions; low purchasing power of the population; and low qualification of labor resources.

Fourth place goes to Georgia, thanks to its past reform successes and the fact that it managed to maintain a high level of transparency and attractiveness to foreign institutions. Domestic political turbulence has not fundamentally changed this situation, which is all the more impressive given that the country neither has significant natural resources nor a capacious internal market.

Advantages include: favorable conditions for doing business; favorable transit location; relatively diversified economy; and ongoing efforts to strengthen economic and migration ties with the European Union. Disadvantages include: deep structural problems in the economy due to the breakdown of relations with traditional economic partners (e.g., Russia); unresolved foreign policy disputes and secessionist threats (e.g., the conflict with Russia and the situation in Abkhazia and South Ossetia); seemingly permanent political instability; and risks of social protests.

Fifth, sixth, and seventh place go to Kyrgyzstan, Armenia, and Tajikistan, respectively. These three former Soviet republics each offer an inexpensive labor force, limited but important mineral reserves, and a favorable climate for the development of agriculture. At the same time, they are each characterized by underdeveloped infrastructure, a narrow domestic market, corruption and burdensome bureaucratic procedures, state intervention in the economy, and the lack of real mechanisms for entrepreneurs to protect their rights.

In the case of Kyrgyzstan, specific advantages include: relatively liberal legislation; the work of the authorities to create favorable conditions for investment; an inexpensive labor force; favorable conditions for the development of agriculture; developed light industry and a healthy tourism sector; and the country's participation in the work of the EAEU;. Disadvantages include: state interference in the economy; a number of serious precedents pointing to difficulties faced by foreign investors in implementing projects in the country; repeated revisions of previously reached agreements with foreign investors; lack of continuity of the political course; high risks of political instability; spread of Islamist ideology; narrowness of the domestic market; and low qualification of the labor force.

In the case of Armenia, advantages include: a relatively diversified economy; a skilled workforce; and a relatively favorable investment climate. Minuses include: a high risk of political destabilizaton; a transport blockade; an insignificant resource base; the presence of social contradictions; and psychological issues as a result of losing the Second Karabakh War.

In the case of Tajikistan, advantages include: a low-cost labor force; availability of a number of minerals; and a favorable climate for the development of agriculture. Disadvantages include: poor infrastructure; a narrow domestic market; high risks of political destabilization; corruption and heavy bureaucracy; state interference in the economy; and a lack of real mechanisms for entrepreneurs to protect their rights.

Eighth place goes to Turkmenistan. Despite the presence of large hydrocarbon reserves and the state's enormous transit potential, Ashgabat still has not realized its great economic potential due to its tight political model, which implies serious control over all economic activity in the country.

Advantages include: the presence of large hydrocarbon reserves; high transit potential; political stability and continuity of the economic course; and the adoption of measures by the authorities to reform the economy and maintain stability in society. Disadvantages include: total control of the country by a tight-knit group centered on the head of state over the economy; lack of protection of property rights; high corruption and bureaucratic inefficiency; the danger of the Islamization of society; risk of destabilization due to the crisis in Afghanistan; and over-dependence on hydrocarbon exports to China for state revenues.

Reflecting on the Top Three

When speaking about the future development of countries, it is important to take into account those that are most important in terms of the readiness of a given state to improve its business environment, namely assessing its development programs and investment policies. These areas—in contrast to the availability of natural resources and the geographical location of the country—are changeable: they can be improved if there is sufficient political will and a corresponding desire to develop properly.

With respect to the countries of the Silk Road region we see that, with rare exceptions, a systematic approach to national development and the setting of long-term goals for economic growth is lacking. The same is true for their respective investment policies. While each of the countries discussed try to nominally have progressive laws protecting the rights of investors at the level of legislation, in practice businesses and foreign investors usually have virtually no real mechanisms and institutions to protect their interests before the state authorities.

According to this important criteria, among the countries of Central Asia and the South Caucasus, at present only three—Kazakhstan, Azerbaijan, and Uzbekistan—are carrying out systematic, comprehensive work to develop their economies and create favorable and comfortable policies for investors. Moreover, while Kazakhstan has traditionally been singled out in the post-Soviet space for its numerous ambitious development programs, Uzbekistan has made a rapid breakthrough in the development and successful implementation of a whole range of industry-specific growth and development programs, which are generally included in its five-year structural strategy.

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The ambition and scale of Azerbaijan's economic development programs has been boosted since the announcement of various economic initiatives in the wake of the Second Karabakh War. This gives hope to foreign investors that it may further climb up the ranks of various surveys in the years to come—but it is simply too early to make definitive predictions. Rising population growth, job creation, and economic diversification remain challenges that, in some ways, Georgia has exceeded in overcoming in comparison to its eastern neighbor, notwithstanding the paucity of it natural resource base.

Here it seems appropriate to say a few additional words about Azerbaijan. In order to realize its investment potential, the country will need to launch a systematic effort to promote its economy through the organization and participation of investment fora both within the country and abroad. At the same time, Azerbaijan already has extensive experience in holding such events, and it is recommended to focus on attracting medium-sized foreign businesses to targeted areas that have the greatest potential for development: tourism, agriculture, construction, and so on. In this regard, one of the most underreported but potentially game-changing factors involves a joint Italian-Azerbaijani initiative that first arose in February 2020 during Aliyev's state visit to Italy to establish an innovative academic consortium spearheaded by the institutional home of Baku Dialogues, ADA University.

With an anticipated program portfolio comprised of applied hard sciences, information technology and computer sciences (including big data analytics), business and engineering, design, food science and agrotech, and management as well as entrepreneurship, such a flagship project could catapult Azerbaijan to the very top of regional rankings. By combining world-class academics with hands-on tech labs, fabrication facilities, a business incubator, and similar ready-for-the-real-world curriculum innovations, such a project—if successful—would go a long way towards demonstrating Baku's fundamental commitment not just to providing a world-class university education but also to advancing sustainable economic diversification plan and, in turn, help Azerbaijan move up the global value chain. BD

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