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POLICY PERSPECTIVES ON THE SILK ROAD REGION

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Trump's 'Business Diplomacy' in the Caucasus

Nikolas K. Gvosdev

President Donald Trump's approach to the Sharm el-Sheikh Middle East peace summit, ongoing efforts to bring some sort of end to the conflict over Ukraine, and various other anti-war diplomatic initiatives share an underappreciated common denominator: "business diplomacy."

Another geopolitical theater where this approach to conflict resolution is being tested is the Silk Road region. The question is this: Acting in this manner, can he bring about a long-term, durable settlement of one of the disputes in the South Caucasus, leading to the normalization of relations between Armenia and Azerbaijan—a principal stumbling block to finalizing regional economic integration?

In other words, can Trump's approach—which the Co-Editor of *Baku Dialogues*, Damjan Krnjević Mišković, defines as a combination of "conflict resolution, peacemaking, transport and energy connectivity, commercial opportunities, and respect for everyone's sovereignty"—succeed where decades of conventional diplomacy had failed?

This brings to mind a related question: In a region where the perpetuation of the causes of conflict is an important part of the toolkit of great power competition, will other major players who believe that they should have a voice and a veto in determining the shape of the regional architecture react negatively to U.S. efforts enough to derail what he has sought to achieve?

The 8 August 2025 deal signed between President Ilham Aliyev of Azerbaijan and Prime Minister Nikol Pashinyan of Armenia at the White House in Trump's presence reflects one of the most audacious applications of Trump's business diplomacy approach to ending the deadlock between Azerbaijan and Armenia. The centerpiece of the normalization agreement is to establish what the Armenian side was reportedly the first to call the Trump Route for International Peace and Prosperity (TRIPP) within the Zangezur Corridor that connects 'mainland' Azerbaijan with its Nakhchivan enclave across sovereign Armenian territory, allowing for a trade route to run from Türkiye to Central Asia. A separate bilateral agreement between Armenia and the United States will establish the legal framework for the U.S. to operate the corridor in a way that does not infringe on Armenian sovereignty whilst satisfying Azerbaijani requirements that TRIPP will ensure the unimpeded (or unobstructed) movement of Azerbaijani persons, vehicles, and cargo in both directions—to refer to language contained in Article 9 of the November 2020 ceasefire agreement between Armenia and Azerbaijan, which also called for the unblocking of all economic and transport connections across the region.

> *Can Trump's 'business diplomacy' approach succeed where decades of conventional diplomacy had failed?*

Yet efforts to move forward in various intergovernmental frameworks failed to make progress. Questions about territorial integrity, protecting sovereignty, and providing the necessary security guarantees to incentivize sufficient business investment were not satisfactorily resolved. The deal made at the White House attempts to move beyond these questions by harnessing the power of the private sector. Armenia will grant America exclusive development rights to the corridor, including the lease to the necessary real estate. In turn, the United States will sublease the corridor to a U.S.-structured consortium of commercial firms that will operate the corridor within the parameters of Armenian law but will do so as an American entity to develop, manage, and operate the necessary rail and road links, commodity transport infrastructure, and communications networks. It

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is an effort, as Krnjević describes it, in "transforming a geopolitical bottleneck […] onto a commercial foundation."

What is striking about TRIPP is the extent to which the linchpin of Armenia-Azerbaijan normalization will be privatized. The United States government—as a government—makes no commitment of military force or security assistance to guarantee the corridor's viability; there are no demilitarized zones or state monitoring of the commitments and obligations. Essentially, the U.S. government pledges only to use its powers, authorities, and tools of statecraft to midwife a private consortium upon whom responsibility for TRIPP will be bequeathed. The gamble is threefold: *one*, that an American private-sector presence will be treated as a de facto U.S. official guarantee by the parties concerned; *two*, that an American private-sector presence is a more palatable form of U.S. intervention for other major actors with interests in the region; and *three*, that a private consortium can generate the necessary security resources—including credible enforcement forces—to protect the new infrastructure.

What is striking about TRIPP is the extent to which the linchpin of Armenia-Azerbaijan normalization will be privatized.

The Roots of Trump's Business Diplomacy

Speaking at the Council on Foreign Relations in March 2025, America's special envoy for Ukraine, General Keith Kellogg, described Trump's assessment of "economics as the foundation and driving force behind international affairs." In his telling, the Trump perspective is that commercial partnerships are what "underpin a security architecture" and that when there is a "direct invested interest" in a particular region, it can serve as a de facto guarantee.

Trump's view of the superior utility of commercial approaches to conflict resolution begins with his own personal cognitive mindset. As a young Spain-based scholar, Alberto Ferreres Fernández, describes it, the U.S. president views himself as the country's "chief executive officer" and sees foreign policy in terms of corporate policy, developing a portfolio of partners for "America, Inc." Trump and his team also have significant doubts as to the efficacy of "traditional" forms of diplomacy. The U.S. president views government bureaucrats as too rule-bound, committed to following procedure rather than finding solutions, and prefers to rely on independent dealmakers and setting up ad hoc arrangements, rather than relying on formal structures. Indeed, a defining characteristic of the Trump Administration is the preference for personal friends and business associates to take the lead, as opposed to long-serving federal employees.

Trump is especially skeptical of international organizations and their focus on process over results. In his 23 September 2025 address at the UN General Assembly, he called into question the purpose of various inter-state institutions and derided the issuing of communiqués and demarches as "empty words" that "don't solve wars." Instead, he cited the penultimate example of his commercial diplomacy, the 2020 Abraham Accords, as an example of the "action" that is needed to bring about conflict resolution.

Trump's approach is often described as a departure from a type of diplomacy grounded in appeals to shared norms and values, in favor of transactional deals—a description the U.S. administration has embraced. The U.S. president's assessment is that paper commitments are not what bring about peace and stability; it is the incentivization of elites who stand to profit from a settlement (and who risk loss if the accord is subsequently undermined). The desire to secure benefits, not adhere to diplomatic norms, is what gives agreements their staying power, as Trump himself argued in his 13 May 2025 address to the U.S.-Saudi Investment Forum in Riyadh.

The present American assumption is that acceptance of painful compromises can be smoothed over by demonstrating immediate gains from any agreement; this appeal to self-interest is thus a better guarantor than requiring the United States to invest a great deal of its own resources in maintaining the arrangement. A defining characteristic of various Trump initiatives—the Abraham Accords, the Gaza peace plan, arrangements to support Ukraine, the Congo-Rwanda peace deal, and the Armenia-Azerbaijan summit—is the very limited role envisioned for the U.S. government. Instead, his preferred "peace model" is to incentivize the private sector to invest the necessary resources.

One of the key domestic political drivers for this is a growing reluctance on the part of Trump's political base to endorse a broad, expansive role for the U.S. in global affairs at the expense of the U.S. taxpayer and with greater risk for the U.S. volunteer military. For the last decade, Republicans have increasingly expressed ambivalence about the efficacy of American military intervention and the costs of foreign policy activism. As Arta Moeini has assessed, the 2024 elections demonstrated that more Americans are reluctant to expend blood and treasure to "serve as the policeman of the world, [...] extend security guarantees without limit, and launch interventions to remake societies in its image." Part of the ongoing shift in focus of the Trump Administration, Moeini added in the same *UnHeard* article, "is ensuring U.S. competitiveness in the twenty-first century through a project of national renewal. To remain a great power, Washington must urgently upgrade its infrastructure and manufacturing capacity, while creating regionally integrated supply chains for essential items like semiconductors, pharmaceuticals, and microchips." U.S. national security is increasingly being redefined in terms of trade partnerships and the securing of supply chains, which can generate economic growth and geopolitical influence.

Beginning in his first term (2017-2021), Trump demonstrated a readiness to turn to businesspeople to provide solutions to military and diplomatic problems—and, in particular, to explore private-sector options that could limit the U.S. military's exposure to casualties. Increasingly, he seems more willing than his predecessors to consider the use of private sector contractors to provide security assistance and act as a deterrent to renewed conflict without the need for U.S. troop deployments. In other words, the U.S. government is willing to facilitate private firms to take the steps necessary to secure their investments, which will also serve U.S. national security interests.

The Abraham Accords reflect the apotheosis of Trump's commercial vision: security and stability are guaranteed because regional partners are connected via "American economic and technological systems" that create incentives, especially for governing elites, to make the process work, in the judgment of Dan Diker, President of the Jerusalem Center for Public Affairs. The TRIPP proposal follows the advice of Samuel Doveri Vesterbye, the Managing Director of the European Neighbourhood Council, an EU-funded think-tank, who wrote several years ago that

achieving a breakthrough in the South Caucasus "will likely require a strong economic incentive, which could be found in the spillover effects (supply-chain hubs, economic growth, connectivity transit spillover, etc.) of a successfully implemented Middle Corridor connectivity strategy."

The outsourcing to the private sector also changes the dynamic of U.S. involvement.

TRIPP is meant to create such a golden river of profit and opportunity for all parties to be able to compensate for any losses they may experience as a result of agreeing to a peace settlement (and subsequent normalization) while raising the costs for any future attempts to undermine or undercut the arrangements. It also buttresses what a recent Asia Times article refers to as a Trump "transactional, resource-focused diplomacy," in which direct presidential-level engagement creates the framework for U.S. firms to obtain access to critical minerals and other resources, as well as the necessary infrastructure partnerships to facilitate these corridors.

But this outsourcing to the private sector also changes the dynamic of U.S. involvement. Private security contractors do not constitute any sort of formal security guarantee along the lines of NATO's Article 5. Nor will the presence of American corporations guarantee that the U.S. government will backstop any arrangements. This becomes especially important in that "deals" reached with the Trump Administration that are not formal treaties or even executive agreements will not necessarily bind or commit future U.S. administrations—and Trump is term-limited to step down as of January 2029. The TRIPP gamble is that there will be a U.S. consortium in place by then, capable of managing and securing this Caucasus corridor—and this consortium will be seen as credible by all parties concerned.

What About Other Stakeholders?

On September 1, 2025, by the joint request of both the Armenian and Azerbaijani governments, the OSCE "Minsk Group," established in 1992 to try and facilitate a negotiated settlement to the Nagorno-Karabakh conflict, was formally dissolved. In place of the "Co-chair Troika" (Russia, France, and the United States), and the participation of other European states and Türkiye, the normalization of

Armenia-Azerbaijan relations is now solely (or at least primarily) under the aegis of the United States.

TRIPP represents the first major diplomatic initiative in the South Caucasus in which Russia plays no formal role as a mediator or guarantor. As such, it represents a major setback to Moscow's efforts over the first quarter of the twenty-first century to argue that solutions for the security and economic challenges of the South Caucasus should be developed and executed by the three Caucasian states under the guidance and management of Russia, Türkiye, and Iran with no need to involve "extra-regional" powers such as the United States or the Europeans. This is known as the 3+3 model. From Moscow's perspective, the conclusion of the Convention on the Legal Status of the Caspian Sea in 2018 demonstrated how the countries of the region could settle their differences without U.S. (and EU) involvement, and, as I argued in my book Russia's Southern Strategy (2019), this approach has been Russia's preferred template for regional dispute resolution. After the Second Karabakh War, Vladimir Putin and his foreign policy team assumed that Russia and Türkiye would jointly manage developments in the South Caucasus and that their cooperation meant that, in the words of Pavel Baev writing in the Georgetown Journal of International Affairs in early 2021, "the United States and the European Union have few levers for influencing the management" of the security situation.

TRIPP represents the first major diplomatic initiative in the South Caucasus in which Russia plays no formal role as a mediator or guarantor.

For its part, Iran was never part of the Minsk process and was often frozen out of regional deliberations. Despite significant policy differences, at times, with Moscow and Ankara, Tehran nevertheless embraced the idea of regional actors developing a regional security architecture without the involvement of the West. Building on a similar Turkish proposal, Tehran unveiled its version of the 3+3 model, which then-Iranian foreign minister Javad Zarif described in January 2021 as a "six-party cooperation union" for the region. Moreover, the Iranians hoped to rejuvenate transit corridors connecting the three Caucasian states with their vision of a Persian Gulf-Black Sea Transit Corridor.

The TRIPP process provides for no formal role, voice, or veto for either Russia or Iran. It thus leaves the United States as the sole guarantor, supplanting the role Moscow had been playing since the 2020 ceasefire. It explicitly denies to Moscow any role in administering or securing the transit corridor, a role it had sought to obtain. It is also a de facto rejection of various forms of a 3+3 approach, which envisioned the formal, active involvement of not only Moscow and Tehran, but also Ankara, in managing regional infrastructure.

In theory, the dissolution of the Minsk Group also eliminates any official Turkish role in the peace process. Ankara, however, expects that the loss of any formal governmental role, whether through the Minsk Group or as part of its bilateral arrangements with Russia, will be recouped in two ways. First, by Turkish political leadership in pursuit of its "middle corridor strategy" in promoting what Vladimir Norov defined as a "shared vision among Turkic states to deepen regional integration, diversify transit routes, and strengthen their role in Eurasian logistics." This is buttressed by a dramatically improved relationship with the United States in general, and with the Trump Administration in particular, which gives Ankara confidence it will be able to influence the development of TRIPP as a close, trusted partner.

The TRIPP process provides for no formal role, voice, or veto for either Russia or Iran. It thus leaves the United States as the sole guarantor, supplanting the role Moscow had been playing since the 2020 ceasefire.

Second, by the economic influence Turkish firms are expected to wield in the development and maintenance of a direct and unbroken land connection facilitated by TRIPP through Azerbaijan, across the Caspian, and into Central Asia. The Kars-Iğdır-Aralık-Dilucu Railway Project (KIAD), for instance, is poised to connect to TRIPP and streamline cargo and passenger traffic, offering cost and time savings compared to other Silk Road region corridor routes, which will further spur growth in eastern Anatolia as a logistics and transport hub. While the TRIPP proposal has no formal role for Türkiye as a co-guarantor, Ankara can expect that both its geopolitical and geoeconomic interests would be respected under any Trump initiative.

The dissolution of the Minsk Group also eliminates France's role as a co-chair, along with the largely symbolic positions of Germany, Finland, Sweden, and Italy as members. The challenge for EU countries, notably France, is whether the Trump Administration will try to align TRIPP with Armenia's "Crossroads of Peace" initiative, which so far has gone nowhere, and connect TRIPP to the EU's own "Global Gateway" program—and whether EU-based firms will be awarded contracts as part of the new consortium.

But Global Gateway investments in other parts of the Middle Corridor would seem to ensure EU support for the TRIPP project, as the final link in a potentially secure supply chain for critical materials and energy for an EU free of Russian or Iranian involvement. In mid-September 2025, EU Commissioner for Enlargement Marta Kos more or less confirmed this assessment in her public comments. In an interview with the Trend news agency upon her return to Brussels from Baku and Yerevan, she stated that her visit

> was a first step in the broader strategy of connecting [the] EU towards the South Caucasus and further towards Asia via the Black Sea region. We want to reinforce ties with Azerbaijan by advancing mobility, energy and digital links, also looking towards Central Asia. The EU has a positive agenda for Azerbaijan: a concrete offer to boost economic development and sustainable growth. This offers significant economic, political and security benefits for Azerbaijan essential in the development of the Middle Corridor. In this regard, Azerbaijan is a key partner along the Trans-Caspian Transport Corridor. […] Our [EU] vision is one rooted in our own experience in Europe. European cooperation became a success because we started to work in concrete areas of mutual interest between countries that had been historic foes. Transport and logistics could be those ingredients for relations between Azerbaijan and the EU, but also with the wider South Caucasus. Both sectors are crucial economic sectors with great political significance. For our business, but also for our citizens. […] A key element in the [peace] agreement [between Armenia and Azerbaijan initialed at the White House] is the commitment to enhanced connectivity. It will not only strengthen links within the region but also bring Europe closer to the South Caucasus and Central Asia.

During his joint press conference with Kos in Yerevan, Armenian Deputy Prime Minister Mher Grigoryan made this point explicit: the TRIPP proposal and the EU

Global Gateway are "complementary to each other."

China remains the dragon in the room. Unlike Moscow or Tehran, Beijing has never played an institutional role in conflict-resolution efforts in the Caucasus. Yet China has reason to monitor developments very closely for several reasons.

China has not only been deepening its strategic footprint in Central Asia, but Beijing has also been quickly expanding it into the South Caucasus in recent years. This should be considered alongside what China's top foreign policy official Wang Yi said at the February 2025 Munich Security Conference: "China is willing to synergize high-quality Belt and Road cooperation with the European Union's Global Gateway strategy, so as to empower each other and empower the entire world."

This statement gains salience when put alongside the fact that the TRIPP announcement was followed a month later by Poland's decision to close the Małaszewicze crossing, used by the China-Europe Railway Express. This rail link handles over 90 percent of freight traffic between China and the EU. The disruption, combined with ongoing issues along the maritime Silk Road and its chokepoints from the Straits of Malacca to the Red Sea, underscored the critical need for Chinese companies to have alternative routes to the EU (and Western Balkan and Turkish) markets. It also reinforced the belief that developing the Middle Corridor is vital to China's geoeconomic interests. The disruption to the China-Europe Railway Express, even if ultimately temporary, has further solidified China's resolve to utilize routes that traverse the Silk Road region.

China is already investing heavily in developing the China-Kyrgyzstan-Uzbekistan (CKU) railway and various trans-Caspian options. Still, for the Middle Corridor to succeed, China would prefer even more stability in the South Caucasus. Beijing has welcomed the peace process (but without crediting Trump's role). In theory, a "fully operational TRIPP feeding reliably into the Middle Corridor […] could lower transportation costs and provide alternative routes for Chinese exporters," as was put by Eka Khorbaladze, a young Georgian scholar based in Hong Kong writing for a Singapore-based publication.

Yet China, along with Russia and Iran, remains understandably concerned about a vital transport corridor that would be under U.S.

management (even in private hands). They accept as a given that a functioning TRIPP corridor will increase U.S. influence in the region—a development China feels it can manage and that Russia and Iran, due to recent setbacks (in Ukraine and as a result of the Twelve-Days War, respectively), cannot prevent. Of particular concern to all three is whether the United States will leverage that influence to be able to regulate or even curtail their access to a key trade corridor and, beyond that, actively reshape the regional balance of power. That, in turn, will challenge whether a project developed under the rubric of "business diplomacy" can sustain the burdens of a new "Great Game" in the region. If TRIPP ends up functioning as announced, which in part means that their companies will be treated in accordance with the same criteria as companies from other countries, then all three are likely to be able to live with this new situation. More on this below.

Twisting and Turning

If Moscow (and Tehran) could turn the clock back to 2020—and implement some version of the Zangezur corridor proposals that were being advanced—they surely would. They recognize that the TRIPP "framework sidelines Moscow's mediator role and inserts a U.S.-backed operator into a critical artery on Iran's northern flank, which Tehran publicly opposes. Brussels' Global Gateway and ongoing connectivity loans further anchor a Western economic/security footprint," as Nona Shahnazarian of Armenia's National Academy of Sciences Institute for Archaeology and Ethnography argued in a recent interview for the *Astana Times*.

On the other hand, Pashinyan indicated in a Fox News interview that aired shortly after the White House summit that he believes both Russia and Iran could also benefit from access to TRIPP, which connects via Azerbaijan to the International North-South Transport Corridor (INSTC) and gives Iran access to the Black Sea. Indeed, Pashinyan went so far as to predict that "this project could become a good opportunity for economic cooperation to begin between Iran and the U.S., and between Russia and the United States." He has repeated this argument numerous times since then, including in the presence of Iranian and Russian leaders and officials.

A critical problem is that Pashinyan's comments about the purpose of TRIPP are contradicted by other U.S. policymakers,

albeit none who are part of the Trump Administration (in the sense of serving in the executive branch). From Trump-allied legislators, however, such as Senator Chris Daines (R-Montana), we have heard statements that TRIPP is designed to bypass Russia, China, and Iran, reduce their influence, and allow regional states, especially Armenia, to reorient to the West, particularly in the context of energy supply. A number of commentators anticipate that the TRIPP plan will leave Washington in a strategically advantageous position vis-à-vis Russia and Iran, and, as one has put it, TRIPP could "counter, if not curb, China's influence in Central Asia."

Therefore, one of the problems in assessing how TRIPP will be received and whether it will promote peaceful integration or draw the South Caucasus even more into an intensifying rivalry between Russia and China, on one hand, and the West (the EU and the United States) on the other, arises because there are two variants of conceptualizing the geopolitical and geoeconomic role of TRIPP. The first is to see the corridor as a minimalist geoeconomic hedge that gives the regional states more leverage vis-à-vis Russia and Iran while also guaranteeing that at least some of the Silk Road region's trade with the West—particularly critical minerals and energy—does not flow via conduits that Moscow or Tehran can shut down. Indeed, U.S. strategy since 1991 has sought to ensure, as the Center for the National Interest's Elvira Aidarkhanova has written, "access to resources […] and supporting transcontinental trade routes" by having alternatives to corridors that flow through Iran and Russia.

The second is to see TRIPP as a maximalist geopolitical project designed to fundamentally reshape the balance of power within the region, effectively expel Russian and Iranian influence, and provide an exclusionary alternative to China's Belt and Road Initiative (BRI). In this iteration, TRIPP becomes the conduit to funnel not simply Western investment but American power, including, ultimately, military force, to integrate the region into the Euro-Atlantic world fully, and in so doing, contain Iran, isolate Russia, and block BRI expansion.

TRIPP, as of this moment, has only been depicted in very broad strokes. As the fine print is developed, the choice moving forward is, as Charhar Institute Research Fellow Hao Non concludes in an incisive article in *The Diplomat*, whether "to make the corridor a shared economic lifeline rather than an exclusive Western asset." All the core countries of the Silk Road region, including Armenia and Azerbaijan, would clearly prefer the former.

Chinese firms—and the Chinese government—have adopted a wait-and-see approach. If TRIPP is likely to produce the sort of stability in the region that benefits their interests and will facilitate their trade and investment strategy, they will not oppose it. If TRIPP becomes exclusionary to Chinese interests, Beijing will continue to pursue alternative projects throughout the region while also maintaining other hedges against the possibility of Euro-Atlantic management of the western termini of the Middle Corridor, including the development of the Northern Sea Route or redirecting flows along the Middle Corridor to bypass TRIPP. As one Chinese analyst concluded, China has no choice but to discover ways to leverage "this new multi-corridor landscape" as it is "essential for future competitiveness."

For its part, Iran at this point can vocally demonstrate its displeasure but has little wherewithal to derail the TRIPP project, particularly as Tehran attempts to salvage its position in the Middle East in the aftermath of the collapse of its Shia Crescent strategy and the impact of U.S. and Israeli strikes on its nuclear program.

Ultimately, the only state that could credibly serve as the principal spoiler to TRIPP is the Russian Federation, but this does not necessarily mean that it will want to play that role. Moscow is well aware that in its currently weakened condition, it cannot take steps to preserve its pole position on connectivity in the Silk Road region. The Kremlin cannot prevent projects like TRIPP or Global Gateway from moving forward and does not want to disrupt relations with the states of the Silk Road region, especially Azerbaijan.

Ultimately, the only state that could credibly serve as the principal spoiler to TRIPP is the Russian Federation, but this does not necessarily mean that it will want to play that role.

Indeed, events of the last several years have demonstrated that Moscow is willing to accept a loss of influence as long as core interests are respected, especially the need for alternate partners to be able to cope with U.S. and EU sanctions imposed after the resumption of full-scale military activities in Ukraine in 2022. This means that Russia needs the core states of the Silk Road region to serve as one of its "windows" to the global trading system and financial ecosystem, as I argued in the summer 2024 edition of *Baku Dialogues*. Thus, the Russian government, in responding to TRIPP, is guided by the logic of what Daria Isachenko has labeled (also in an article published in this journal) "manageable interference"— as long as that Western "interference" does not attempt to board up Moscow's increasingly vital southern Silk Road region "window." Thus, if TRIPP is largely guided by the first variant (as described above), Moscow will seek to complement its development alongside its own Silk Road region plans and strategies.

Moscow has learned, by trial and error, how to pragmatically adjust when its preferences are not met; it has also now understood that the core states of the Silk Road region, as well as Türkiye, have the wherewithal to bargain with Russia and even impose conditions that the Kremlin may not like but can learn to live with. Moscow has reached an equilibrium with Azerbaijan and a modus vivendi with Georgia. Currently, Russia is adjusting to an Armenia that seeks to rebalance its relationship with Moscow, in part because of a sense in Yerevan that a close military and economic relationship with Russia is no longer a guarantor of its security and prosperity while complicating its efforts to pursue closer relations with the European Union and the United States.

Some commentators believe that the TRIPP proposal offers Armenia a chance to sever its connections to Moscow decisively. Such comments are read with concern by Russian analysts who remain apprehensive that the West will treat the South Caucasus as a zero-sum game. Russian experts have never closed the door on the possibility, as I noted last year for a monograph published by the German Institute for International and Security Affairs (SWP), that a "Western-sponsored peace deal between Armenia and Azerbaijan and the conclusion of a lasting rapprochement between Türkiye and Armenia would reduce the need for a Russian role." The continuation of this line of thinking leads to a conclusion that Moscow could face the risk of being excluded not only from the operations of, but even access to, the Middle Corridor. It also unnerves some in the Kremlin how much Russia must now trust that Ankara and Baku will respect its core equities. That being said, neither Azerbaijan nor Türkiye has, so far, shown a willingness not to reach reasonable accommodations with Russia. What has changed is the balance of power between each of them and Moscow.

If U.S. engagement via TRIPP, therefore, is an effort to promote the second option—i.e., the complete exclusion of Russia from the region—then Moscow will oppose this via any means necessary. Even with the damage done to Russian power as a result of the campaign in Ukraine, Moscow still has potential for reconstitution of its military power and retains significant tools of hybrid warfare that can be used to disrupt the TRIPP project. There are indications that the Russians are seeking assurances from Washington that the U.S. will not use this project as a way to block Russia's access to global markets and that there will be no deployments of U.S. military or intelligence personnel to the TRIPP corridor—a topic I wrote about in the run-up to the Anchorage Summit in *National Security Journal*. The critical question is whether the regional states, starting with Azerbaijan (as well as Türkiye), will also endorse such a request. Again, it seems to me that no country in that part of the world is interested in pursuing a course of action that would eliminate the "Russian factor," in part because doing so would result in the sort of strategic antagonism that would serve none of their national interests.

The Fate of a Multipolar Approach

For the past two decades, as Russian power resurged after the tumultuous collapse of the 1990s—and as the West demonstrated the limits of its willingness to use its own tools of statecraft to confront and contain Moscow (especially after the disaster of the 2008 Georgia war)—the core states of the Silk Road region have generally found a way to accommodate Russian concerns, including, most recently, Georgia.

Rather than be caught in the vicissitudes of great power competition, most governments in the region have adopted some version of what I have called an "interest-based multipolarity" and taken up a posture of what Krnjević has termed "strategic transactionalism" in which no major outside actor is wholly excluded from regional initiatives. The bargain has been to recognize Russian equities in such projects in return for Russian guarantees not to disrupt their operations.

What has transpired is that, alongside the overall Middle Corridor project—where both Western and non-Western (read: Chinese, but also GCC and Turkish) investment has been solicited—the states of the region accommodated Russian interests regarding the status of the Caspian Sea and the development of the INSTC. Moreover, countries like Azerbaijan see benefit in linking together and connecting complementary projects (e.g., INSTC with BRI). This also gives regional states more options to utilize all possible corridors, including those via Iran and Russia.

Despite the optics of the White House summit, it seems that, for the time being, regional leaders are hesitant to exclude Russia entirely. Two months after the historic meeting at the White House, Aliyev met with Putin on the sidelines of the CIS summit in Dushanbe, itself a reminder that Russia still has equities and capabilities in the Silk Road region. The Dushanbe bilateral (one media report called a meeting to "bury the hatchet") reaffirmed that the basis of the Russia-Azerbaijan relationship remains rooted in "cold calculation" driven by "political pragmatism" and national interest, as Russian journalist Aleksandr Klement put it in *Vestnik Kavkaza*. He added that

> both perceive interstate relations from a position of equals, where respect should not be declared, but proved by actions. Putin sees Aliyev not as a junior partner, but a leader who cannot be ignored. Aliyev sees in Putin not an enemy, but a person with whom you can speak in the language of calculation.

Russia's strategic leverage in the region, even if diminished, was acknowledged, while Azerbaijan obtained political assurances for its regional partnerships. For Russia, it reflects a push to retain strategic leverage in the South Caucasus as its attention remains divided by the war in Ukraine.

Yet the assessment of the desirability of an "interest-based multipolar" approach rests on two factors. The first is whether there is an ongoing erosion of Russian power and capabilities due to the prosecution of its special military operation in Ukraine and continued Western pressure on its economy. The second is a change in the commitment of both the EU and the United States to more energetically pursue a South Caucasus strategy. Either—or both—could change the desirability of having to accommodate Russia.

This creates a real conundrum for the Trump Administration: the more TRIPP is portrayed as a geopolitical game-changer intended to eliminate Russian influence in the South Caucasus, the more Moscow will be incentivized to interfere. This, in turn, may raise the geopolitical risk for investors far beyond their comfort zone in the absence of well-defined, concrete security guarantees from the U.S. government. Think tank pundits and Western politicians can wax grandiose about what TRIPP is meant to achieve on the regional geopolitical chessboard, but the project's success ultimately rests on what businessmen and financiers are prepared to commit and what regional leaders are prepared to accept.

The more TRIPP is portrayed as a geopolitical game-changer intended to eliminate Russian influence in the South Caucasus, the more Moscow will be incentivized to interfere.

The signals from the Trump national security team suggest that the administration will continue to shift its focus away from the European theater and will expect that other partners will assume more of the security burden in areas "considered secondary by Washington"—which would include the Silk Road region in general and the South Caucasus in particular. It appears unlikely that, as the Trump Administration continues to rebalance its security resources toward Asia and the Western Hemisphere, it will be prepared to undertake a major new U.S. government commitment for the South Caucasus.

Yet it would be a mistake to see anything but the maximalist approach as a defeat. Even the more minimalist approach to TRIPP would nevertheless still result in important geoeconomic results for the West. A functioning TRIPP as part of the Middle Corridor ensures that energy and critical resources, especially minerals, can be sourced from the region and reach European and American consumers. The EU's Critical Raw Materials Act targets and America's C5+1 Critical Minerals Dialogue both rest, at the end of the day, on the ability of Western firms to access, process, and ship the ores, raw materials, and components that are vital to the development of Fourth Industrial Revolution technologies without being interrupted by possible Chinese, Russian, or Iranian bottlenecks. The only realistic way to do that is via the Middle

Corridor, which requires buy-in (and thus provides leverage to) the three South Caucasus states, particularly Azerbaijan (for basic reasons of geography).

The minimalist/maximalist conundrum also bedevils the core states of the Silk Road region itself. The willingness to really challenge Russia (and also China) is directly connected to the degree of support and iron-clad guarantees from the United States and the European Union. In the months since TRIPP was announced, the impression is that the U.S. role can strengthen their respective negotiating positions with regard to Russia and China, but falls short of being able to completely displace either power from regional affairs, as Carnegie's Temur Umarov has noted.

In addition, given that Russia and China are "near" while the U.S. is much more distant (and, to a lesser but important extent the EU), regional states are unlikely to fully gamble their respective futures on what they suspect may ultimately be unreliable actors—or, as one commentator based in the Silk Road region told me recently, "fair-weather friends." The EU has the additional problem of still wanting to impose a normative framework on its overall strategy toward the countries of the Silk Road region, which could end up imposing conditions unacceptable to regional governments for its assistance.

The foregoing is one of the reasons given for the so far relatively mild response from Moscow to what many have characterized as a major geopolitical setback for Russia: the Russian foreign policy establishment believes that the TRIPP paradigm will short-circuit. Putin, who continues to praise his relationship with Trump, may not want to draw his ire by taking active measures against a Trump initiative that may still end up being stillborn—and thereby complicate his relationships with Armenia, Azerbaijan, Türkiye, and other regional states.

After all, another "business diplomacy" deal—the June 2025 framework between the Democratic Republic of the Congo and Rwanda—was heralded as a similar game-changer. Yet the consensus assessment now is that the United States underestimated the depth and complexity of the challenges of making the Congo-Rwanda strategic minerals corridor agreement work. Efforts to flesh out the details and bring the initial framework to fruition have been delayed—and there are concerns that Trump himself will have to become personally reinvolved in the process to ensure progress.

In terms of the South Caucasus, Senior Research Fellow at Clingendael's Security Unit, Marina Ohanjanyan, has expressed concern that "whether a sufficient level of U.S. attention and effort will remain in this region for a sufficiently long period of time to ensure the conclusion of the peace deal and implementation." As Vusal Guliyev, writing in the Fall 2022 edition of *Baku Dialogues*, has assessed regarding the Middle Corridor (and which applies to TRIPP) to fulfill its potential, it "will depend on the future political commitment of regional actors" to continue developing the necessary infrastructure.

Beyond the staying power question, because Trump prefers to use informal channels and rely on a small network of close trusted friends and advisors, he has demonstrated that, as Natalia Tsvetkova wrote in early September 2025, he can take "quick and unconventional steps" but his ability to "dock" the results of his personalized diplomacy to both domestic and international institutions to take over and handle the day-to-day challenges is quite limited. How the legal, commercial, and security infrastructure that will govern the TRIPP corridor's operations—and resolve inevitable disputes and disagreements—will be established and ratified remains unclear: as of this writing, American and Armenian officials are still negotiating the details. The TRIPP process is a stress test of the staying power of a Trump approach that prioritizes deal-making over institution-building.

The TRIPP process is a stress test of the staying power of a Trump approach that prioritizes deal-making over institution-building.

After the excitement fades, the hard work begins. TRIPP rests on the gamble that the U.S. private sector can be incentivized and empowered to take up the challenge of ensuring that a corridor in a tense geopolitical region remains open for business and guarantees continuity of operations "even in times of tension," as Hao Non points out.

Whether TRIPP, as an American-sponsored corridor—but without hard or traditional U.S. security guarantees—provides a sufficient insurance policy of U.S. commitment for Europeans, Turks, and Caucasians alike to move ahead with this project, but without crossing red lines for Russia, Iran, and China, is difficult to assess. In turn, will Moscow, Tehran, and Beijing

accept a distinction between U.S. "management" of TRIPP versus U.S. "control"?

How these questions are answered will determine whether TRIPP validates a business diplomacy approach—and possibly provides a model for other conflict zones, including in the Middle East—or becomes another interesting proposal discarded on the ash heap of good intentions. However, given that 30 years of "traditional diplomacy" failed to make any lasting progress in bringing peace to the South Caucasus, an appeal to commercial self-interest seems to have had much more initial success. If a business mindset prevails over geopolitical thinking, then the promise of TRIPP to solidify around mutual geoeconomic benefit for all participants might in fact be realized. BD

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The 3Bs Framework: Brussels-Baku-Beijing

Power Poles in the Silk Road Region

Nargiz Azizova

In today's world, connectivity and global supply chains have evolved into a distinct language of power, one that reflects how states project influence and pursue geopolitical ambitions through geoeconomic competition. Unlike traditional hard power (built on the ability to coerce through the credible threat of military projection and the use of force), or the normative soft power approach (based on the cross-border promotion of specific "values" and the belief that these are attractive), connectivity projects influence through economic integration, interdependence, and infrastructural development.

Traditionally serving as a facilitator of trade and mobility, connectivity now functions as an instrument of strategic influence for sovereign states that know what they're doing through transforming economic assets such as energy pipelines, transport corridors, and digital networks into tools of power. By shaping routes, standards, and access, connectivity affects how dependencies, cooperation, and alignments get structured as well as influences decisionmaking outcomes and geopolitical preferences.

In other words, connectivity operates both as a geoeconomic practice and a geopolitical narrative. Thus, transport routes and supply chains have evolved from their initial function into power-determining elements of the architecture of strategic cooperation in the Silk Road region. This architecture will likely take on institutional form one day. This transformation is evident in the rise of connectivity initiatives across the Silk Road region—from China's Belt and Road Initiative to the EU's Global Gateway and Azerbaijan's Middle Corridor. Each of these projects reflects a distinct vision and a distinct set of power-projection tools (i.e., connectivity versus coercion).

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> *Connectivity operates both as a geoeconomic practice and a geopolitical narrative.*

Together, these are forming what I call the 3Bs framework—Brussels, Baku, and Beijing, representing connectivity as the new language of power in the Silk Road region and interpreting distinct models of power and order for each "B."

Here, the first B, Brussels, represents regulatory power, normative influence, and multilateral diplomacy. Its flagship foreign connectivity initiative, Global Gateway, stands for standards and rules, using market access to shape regional norms.

Positioned in the heart of the core Silk Road region and at the geographical crossroads of its main east-west and north-south connectivity routes, the second B is Baku. A "keystone state" possessive of "brokerage power," it is the region's "network broker"—terms that will be explained below.

The third B, Beijing, stands for geoeconomic power and represents economic growth for the world at large, rooted in large-scale infrastructure investments. Unprecedented and breathtaking in scope, ambition, and financial commitment, the Belt and Road Initiative represents a surge of interdependence across more than half the globe, centered increasingly on the states that belong to this part of the world.

The 3Bs framework, therefore, conceptualizes the Silk Road region as a space where competing conceptions of world order meet through their respective embodiments of three poles of power language. Together, these three power types define interaction with the 3Bs. These dynamic shapes the broader Silk Road region through corridors and alliances, creating new opportunities for "keystone states" as well as for smaller and medium-sized states seeking greater autonomy.

How, then, does the interaction among the 3Bs reshape power dynamics in the Silk Road region and strengthen the quest of its three "keystone states" (Azerbaijan, Kazakhstan, and Uzbekistan) for strategic autonomy?

Before this question can be examined, I wish to clarify a few terminological matters.

First, this paper uses the term "Silk Road region" in line with the *Baku Dialogues* Editorial Statement, which considers it to be a "single geopolitical theater with multiple stages. We define it loosely as comprising that part of the world that looks west past Anatolia to the warm seas beyond, north across the Caspian towards 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 around down to the Persian Gulf and back up across the Fertile Crescent and onward to the Black Sea littoral." In terms of the political map, this is the region that encompasses the three South Caucasus and five Central Asian states. Other near-synonymous terms in use include "Central (or "Core") Eurasia," "Greater Central Asia," "Inner Asia," "Middle Asia," "Caspian Basin," "Greater Caspian region," and "Caspian Sea Region."

Second, the term "keystone states" refers to a concept whose principal author is Nikolas K. Gvosdev, a professor at the U.S. Naval War College, and which was subsequently taken up by various authors, including Damjan Krnjević Mišković. It refers to countries that have the wherewithal to acquire and maintain autonomous or (ideally) independent agency, are seen by others as "being (or having the potential to become) trusted interlocutors, reliable intermediaries, and go-betweens or conciliators between major powers" (Krnjević), and possess what Amitai Etzioni called "integrative power."

The foregoing, Gvosdev argues, can be derived from "a number of sources: the existence of important transit and communications lines that are vital for trade traversing its territory; the position of the state to promote regional integration and collective security among its neighbors; its role as a point of passage between different blocs, or its position overlapping the spheres of influence of several different major actors, thus serving as a mediator between them; or its willingness to take up the role as a guaranteed barrier securing neighbors from attack." In other words, "a keystone state connects and protects its neighbors." Moreover, keystone states "give coherence to a regional

order. Such countries are important because they are located at the seams of the global system and serve as critical mediators between different major powers, acting as gateways between different blocs of states, regional associations, and civilizational groupings." Lastly, a keystone state's integrative power is supplemented by the fact that "an effective keystone state can [also] serve as a pressure-release valve in the international system, particularly as the transition to conditions of nonpolarity continues, by acting as a buffer and reducing the potential for conflict between major power centers."

The concept of "keystone states" is preferred to the term "middle powers," whose "real-world application" and "analytical utility" have been delegitimized convincingly by scholars Jeffrey Robertson and Andrew Carr in a lengthy 2023 academic article in *International Theory*. Their basic conclusion is that "the middle power concept does not capture anything substantive about the behaviour of mid-sized states. It should therefore not be used by scholars any further."

To sum up, "keystone states" have limited hard power but pursue active diplomacy, coalition-building, and multilateral engagement, and are increasingly able to shape regional politics. To repeat: the Silk Road region's three keystone states are Azerbaijan, Kazakhstan, and Uzbekistan.

Third, the terms "network broker" and "brokerage power" were defined by Emilie M. Hafner-Burton, Miles Kahler, and Alexander H. Montgomery in a 2009 *International Organization* article. Azerbaijan's "brokerage power" enables Baku to capitalize on its status as a keystone state by transforming its geographical facticity into a strategic strength to mediate flows, diversify partnerships, enhance regional influence, and link the interests of other stakeholders through its pragmatic multi-vector foreign policy and the adoption of a posture of "strategic transactionalism," as Krnjević has called it. Brokerage power refers to actors (Baku within the 3Bs framework) occupying a brokerage position (in the Silk Road region) and exercising power by mediating interactions between others (along the Middle Corridor).

In the context of 3Bs framework, these terms stand for how the keystone states of the Silk Road region build on their brokerage power derived from geographic location and connectivity role to enhance their strategic autonomy and bring coherence to the region's geopolitical and geoeconomic endeavors, with an emphasis on heightened strategic cooperation that falls short of EU-style integration (which limits an independent state's sovereignty and the unique prerogatives that go along with it).

Brussels: Normative Power

Amid global transport disruptions caused by the COVID-19 pandemic, the Russian war in Ukraine, the deterioration in Russia-West relations, and the continued growth in prominence of China's Belt and Road Initiative (BRI), the European Union introduced its flagship connectivity strategy, Global Gateway, in 2021.

Global Gateway was designed to enhance the EU's visibility and influence in global connectivity projects. Senior EU officials recognized that, despite being the world's largest development assistance donor and a major investor in developing economies, EU-led connectivity efforts had not achieved the geopolitical and geoeconomic recognition of BRI. Global Gateway was explicitly positioned as the EU's answer to BRI and today is being positioned as its strategic counterpart, particularly in the Silk Road region, where both frameworks compete for influence through infrastructure and connectivity investments.

The initiative seeks to strengthen the EU's strategic presence by moving away from its traditional, grant-based technical assistance and capacity-building model toward investment mobilization and blended financing that combines public guarantees, loans, and private capital. Initially, the strategy prioritized digital and green connectivity, transport, health, education, and research. Following the events of February 2022, energy access and critical raw materials gained prominence. Global Gateway has since become more relevant amid intensifying geopolitical and geoeconomic competition, supply-chain reconfiguration, and the search for resilient connectivity routes traversing the Silk Road region.

The October 2025 Global Gateway Forum was intended to showcase its relevance, timelines, and development. The event strengthened Global Gateway's positions and expansion (the initiative has already overshot its €300 billion target by 2027; the new aim is €400 billion by 2027) as a tool of the EU's geopolitical presence and what it calls its "external action." The event also drew a pathway to resilience and presented itself as a solution in a "volatile, complex, and unpredictable world where the challenges are obvious: economic uncertainty; trade weaponization and disruption; and geopolitical rivalry"—to quote EU High Representative for Foreign Affairs and Security Policy Kaja Kallas. The foregoing signals the EU's intention to transform Global Gateway from a financial instrument into a geopolitical platform.

The Cross-Regional Connectivity Agenda, launched at the 2025 Global Gateway Forum, aims to establish a secure and resilient connectivity framework between the EU and Central Asia via Türkiye and the South Caucasus. This showcases Brussels' enhanced focus on the Silk Road region as a strategic space for the EU's energy, trade, and digital diversification priorities, which it claims will reduce its dependence (through diversification of options) on less friendly actors whilst extending its strategic influence beyond its eastern frontiers.

The Silk Road region has become one of the world's key geographies for implementing this new EU approach, institutionalizing its turn toward geoeconomic instruments. This shift can be illustrated by several new initiatives in which investment-led projects and the blended finance logic of Global Gateway have replaced traditional grant-based models. Examples include an EIB Global €200 million loan to Kazakhstan's Development Bank for sustainable transport and energy infrastructure, and an EIB-EU €60 million digital connectivity package supporting broadband access in rural areas of Central Asia.

In Uzbekistan, EU support still heavily relies on grant funding (the EU allocated €119 million of grant funding to support its partnership with Uzbekistan), but is starting to combine this with the application of Global Gateway financial instruments, as in the case of the memorandum of understanding on critical-raw-materials cooperation that the two sides signed in 2024. Most recently, the EU and Uzbekistan signed an Enhanced Partnership and Cooperation Agreement, marking a significant milestone in bilateral ties and deepening regional cooperation. This document establishes a new legal basis for reinforcing political dialogue and for deepening cooperation in trade and investment, sustainable development and connectivity, critical raw materials, and so on.

South Caucasus-based activity examples under Global Gateway include signing a €43 million loan with AzInTelecom to build two state-of-the-art data centers and accelerate e-government service in Azerbaijan and the signature of a Memorandum of Understanding to prepare the Baku Metro upgrade, which couples technical assistance with future investment in low-carbon urban mobility. Together, these moves illustrate the EU's shift from a grants-based model to a repayable loan and investment one. The foregoing exemplifies Global Gateway's blended financing model and reflects the EU's shift from traditional aid to investment-based (geoeconomic) engagement in the Silk Road region.

In this sense, Global Gateway operationalizes the EU's evolving foreign policy logic: using investments rather than donations to increase its influence, resilience, and strategic autonomy. Yet, the EU also seeks to stay true to its self-understanding as a normative power. Its engagement in the Silk Road region (and everywhere else) remains grounded in governance standards, sustainability, and values-based cooperation.

Normative conditionality of financing within the Global Gateway framework is provided through standard EU mechanisms. These include democratic values/high standards, good governance/transparency, equal partnerships, green and clean, security-focused, and catalyzing private investment. Other documents add specificity. The aforementioned Uzbekistan-EU 2024 Strategic Partnership on Critical Raw Materials, for example, commits both parties to sustainable, resilient, and diversified value chains, linking investment facilitation to environmental, governance, and research and innovation cooperation—an example of pragmatic geopolitical engagement tied to a value-based partnership.

The EU's approach exposes an obvious limitation to its self-positioning: reliance on a value-driven agenda while aspiring to act as a geopolitical power.

Thus, within the 3Bs framework, Brussels stands for regulatory and normative influence, seeking to establish itself in the Silk Road region through rules and quality benchmarks. At the same time, the EU's approach exposes an obvious limitation to its self-positioning: reliance on a value-driven agenda while aspiring to act as a geopolitical power.

Global Gateway illustrates this dissonance, revealing gaps between

means and ends as well as inconsistencies between the EU's geopolitical ambitions and its self-image as a civilian and regulatory actor shaping an increasingly defunct "rules-based" liberal international order. This tension between norm-driven cooperation and strategic pragmatism defines the inherent limits of the EU's capacity to project influence effectively. It tests its ability to reconcile the idea of a "geopolitical Europe" with its contemporary values.

Beijing: Geoeconomic Power

Since the late 1970s, China's long-term foreign policy strategy has been inspired by a famous guideline commonly attributed to Deng Xiaoping: "Hide your strength, bide your time," which later came to be understood as a geoeconomic-first approach to engagement abroad—the key to its "peaceful rise" at home, supplanted in time by its "harmonious diplomacy" doctrine that would bring about the "great rejuvenation of the Chinese nation." The country's current leader, Xi Jinping, has spoken of the "Chinese Dream," a formulation that now has constitutional standing and, along the way, has acquired a military dimension.

All in all, China now sees itself as being in the business of restoring its traditional historical role of the principal power within the region (and beyond). What we can call China's "Make China Great Again" policy is articulated, inter alia, through the Belt and Road Initiative (BRI), which serves as a tool for expanding Beijing's geopolitical influence globally using geoeconomic instruments, including foreign direct investments, acquisitions, and infrastructure financing, all of which have, in turn, enhanced trade flows between China and scores of participating countries. Not only does trade with them account for more than half of China's total imports and exports, but China is now the top trading partner of around two-thirds of UN member states.

The Silk Road region occupies a particularly important place in BRI's land routes, as it constitutes the first non-Chinese territory traversed by Chinese overland cargo heading in a westerly direction to foreign markets. Similarly, BRI holds significant importance for the Silk Road region states, particularly the Central Asian ones, influencing their national development policies and strategic alliances. Kazakhstan has long synchronized its national priorities with Beijing's connectivity vision, as the initiative's infrastructure investments have been aligned with the government's domestic development program, *Nurly Zhol* ("Bright Path"). The China-Kazakhstan strategic partnership has since expanded and today covers cooperation in nuclear and conventional energy, aerospace, digitalization, customs regulation, agriculture, e-commerce, tourism, intellectual property, medicine, media, science, and interregional development.

A similar multidimensional engagement can be observed in Uzbekistan, where a comprehensive strategic partnership with China has deepened across trade, infrastructure, and energy domains. Energy cooperation has intensified, with Uzbek natural gas exports to China increasing and a strategic reorientation toward green infrastructure and technological modernization. At the same time, Tashkent's support for the China-Kyrgyzstan-Uzbekistan (CKU) railway represents a structural shift in national transport planning toward China-West connectivity.

In the South Caucasus, Beijing has deepened its presence through both infrastructure development and strategic partnership agreements with all three countries. Participation in BRI aligns with Azerbaijan's goal of promoting economic growth, strengthening its position as a strategic logistics hub linking Central Asia to Europe via the Caspian Sea, and its national development strategies.

Azerbaijani-Chinese cooperation initially deepened through logistical and transport projects such as the Baku International Sea Trade Port, the Alat Free Economic Zone, and the Baku-Tbilisi-Kars (BTK) railway, and has since grown into a Comprehensive Strategic Partnership signed in 2025. Today, the two strategic partners actively enhance collaboration across key industrial sectors, including oil and gas, renewable energy, chemicals, metallurgy, mining, textiles, automotive manufacturing, construction materials, pharmaceuticals, and food production. A developing area of cooperation is renewable energy, where China has invested in the construction of floating solar and offshore wind power plants, as well as a battery energy storage system.

Similarly, Georgia signed a strategic partnership agreement with Beijing in 2023 as part of an enhanced effort to attract Chinese investment into the country's transport and logistics sectors and industrial zones, all of which align with Georgia's connectivity agenda. Armenia also signed a strategic partnership agreement in mid-2025.

These developments illustrate how BRI's expansion into the Silk Road region, which initially focused on physical infrastructure, has evolved into a mechanism shaping national development agendas, policy frameworks, long-term economic orientations, and regional integration priorities. In effect, it has begun to embed the states of the core Silk Road region within the wider geoeconomic architecture of Chinese connectivity. This should not be much of a surprise, since what has evolved into the Belt and Road Initiative was, after all, launched by Xi Jinping in Kazakhstan in September 2013—that is to say, only months after fully consolidating his position as China's paramount leader.

China's engagement with partners is free of political conditionality, the cornerstone of which is its oft-repeated commitment to non-interference in the internal affairs of UN member states. This approach, which is in line with Article 2(7) of the UN Charter, distinguishes Beijing's engagement with the core states of the Silk Road region from that of the European Union, whose Global Gateway and other traditional external action tools are based on conditionality and normative variations, as well as "values." China, in contrast, appeals to partner governments on pragmatic grounds. Yet, the Chinese non-conditionality narrative is opposed by political and economic asymmetry between China and its BRI partners, as massive capital flows and project financing enable Beijing to impact partner states' development priorities and strategic alliances in ways advantageous to its own interests. For example, 40 percent of Kyrgyzstan's external debt is owed to Chinese creditors. In that and other BRI partner countries, debt obligations have become a persistent source of criticism of BRI.

This represents a cautionary tale for Azerbaijan, which appears to be seeking to maintain a more reserved approach to Chinese investment in strategic industries such as energy (e.g., oil and gas) and critical infrastructure (e.g., railways and ports). Some Western analysts, however, continue to suggest that recipient countries lack a viable option to refuse BRI projects and investments, making them beholden to Chinese strategic interests and preferences.

In this sense, BRI exemplifies the Beijing dimension of the 3Bs framework: a geoeconomic mode of power projection that rejects political conditionality yet achieves influence through asymmetric economic integration, reconfiguring the Silk Road region's power architecture through infrastructure networks and financial interdependence rather than normative conditionality and political coercion. At the same time, China's strategic influence and its ambition to serve as a regional order-setter are checked by other major powers, such as Russia, the EU, and the United States.

Baku: Connectivity as a Tool of Sovereign Agency

Since February 2022, the connectivity landscape of the Silk Road region has changed drastically as a result of the EU's decision to join the U.S.-led sanctions and export restrictions regime against Russia in response to the onset of the present stage in the conflict over Ukraine. One of the consequences of this choice by the West was the disruption of the Northern Corridor and, in turn, increased attention to the strategic potential of the Trans-Caspian International Transport Route (TITR), also known as Trans-Caspian Transport Corridor, and the Middle Corridor, which connects China to Europe via multimodal transport routes through Central Asia, across the Caspian Sea and into the South Caucasus. In less than a decade, the Middle Corridor has evolved from an infrastructure development project into both a geoeconomic instrument and a political power resource for regional states (understood as a whole).

Civilizations and powers intersected along the Silk Road region for two millennia, ebbing and flowing in response to geopolitical and geoeconomic developments whose causes and consequences came about, for the most part, beyond the region itself. Today, it is again seen by relevant external players as an important bridge (and transport hub) within East-West connectivity with great potential to serve as a connectivity corridor alongside more established maritime and land routes. This potential is derived from both its geographical location and—this is a new variable—the rising capabilities of the core states of the Silk Road region, as well as the strategies and policies they have adopted. This last is reflected in the fact that the countries belonging to the region, led by its three keystone states (Azerbaijan, Kazakhstan, Uzbekistan), are becoming leading factors in shaping, developing, investing in, and managing this corridor.

Efforts to develop an alternative overland transport network connecting East and West through the south date back to 1993, when the European Union launched the Transport Corridor Europe-Caucasus-Asia (TRACECA) program with the involvement of eight post-Soviet states (i.e., Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan). Although the route has been operational for many years now, it has not been economically competitive due to various bottlenecks.

While TRACECA laid institutional and infrastructural foundations championed by an outside power (i.e., the EU), its successor—the Middle Corridor—represents a regionally owned evolution of that vision. Considered a practical alternative to existing northern (via Western-sanctioned Russia) and southern (via UN- and Western-sanctioned Iran) corridors at its emergence in 2013, the Middle Corridor has since 2022 become a geopolitically strategic route.

At its core, the Middle Corridor comprises three interconnected multimodal transport routes, each combining road and rail transport routes with maritime links across the Caspian and Black Seas. The route from China passes most directly through Kazakhstan to Azerbaijan, where it branches into two parts: one through Georgia and the other through Georgia and Türkiye, onward to the European continent. Its multimodality and need to cross many borders made the Middle Corridor a suboptimal choice for decades, as numerous actors and standards required to be coordinated along the transport chain.

In response to the growing need to put the vision into action, the TITR International Association was established, bringing together state railways and port operators from Azerbaijan, Georgia, Kazakhstan, Türkiye, and Ukraine. This multinational consortium aims to improve the long-term potential and sustainability of the Middle Corridor's development by harmonizing tariffs, customs, and logistics procedures and expanding transit capacity. Its goal is to transform the corridor into an integrated, competitive, and viable transport system.

Achieving this requires close collaboration, driven by political will toward regional integration, infrastructure investment, and supranational coordination. Its establishment, following the launch of the Middle Corridor, marks a major shift from reliance on external programs (like TRACECA) toward regional ownership, investment, and leadership. This reflects both the increasing strategic autonomy of the core Silk Road region states and their determination to become active players in global connectivity systems.

Various other sectoral agreements complement the foregoing. For instance, Azerbaijan, Georgia, and Kazakhstan have harmonized their customs procedures. The results speak for themselves. In his November 2025 address at the Seventh Consultative Meeting of Heads of State of Central Asia in Tashkent, President Ilham Aliyev put it this way: "Over the past three years, cargo transportation along the Middle Corridor through Azerbaijan has increased by 90 percent. Transit time along the corridor has significantly reduced. The Alat International Port, which is expected to reach a throughput capacity of 25 million tons per year in the coming years, the Baku-Tbilisi-Kars railway, nine international airports, the region's largest cargo airline, and other factors have transformed Azerbaijan into an international transport hub."

> *The Middle Corridor is not just a transport route or an infrastructure project, but represents, rather, a convergence of normative and geoeconomic powers.*

There is one final point that could turn out to be truly game-changing: the distinction between viewing the Middle Corridor (and Azerbaijan's indispensable role within it) as a transport corridor versus an economic corridor. Should it become more of the latter, then it could truly serve as the backbone of the Silk Road region's renaissance.

Perhaps this distinction is what China's foreign minister, Wang Yi, had in mind when he indicated, at the Munich Security Conference in February 2025, that "China is willing to synergize high-quality Belt and Road cooperation with the European Union's Global Gateway strategy, so as to empower each other and empower the entire world." Although the EU has yet to respond directly, Brussels has reaffirmed its interest and support for the Middle Corridor. It acknowledges it as a flagship route in its newly launched Cross-Regional Connectivity Agenda.

In short, there is growing evidence that the Middle Corridor is not just a transport route or an infrastructure project, but represents, rather, a convergence of normative and geoeconomic powers. This convergence does not generate confrontation;

instead, within it, differing approaches to connectivity and power projection coexist in a complementary manner. This constructive approach is at the core of a well-managed synthesis of the Middle Corridor: it transforms potential competition among the 3Bs poles of power into an opportunity to build a more resilient, mutually reinforcing framework for regional cooperation and development.

Within the 3Bs framework, Baku (and other core states of the Silk Road region) embodies this convergence. Framed as a brokerage power, Baku is mediating, setting the agenda, and linking competing frameworks and formats (the EU's Global Gateway and China's Belt and Road Initiative), while maintaining neutrality and enhancing regional autonomy and bargaining leverage. This inevitably leads to broader sovereignty of the Silk Road region's keystone states, making connectivity a vital and existential interest in their foreign policy and supporting a new vision of the Silk Road region as a strategically important transportation and economic hub.

Strategic Independence

The transformative dynamics of the current global situation, characterized by increased instability and polarization, compel the Silk Road region's countries to seek a strategic balance amid great-power competition. These powers are increasingly aiming to influence their foreign policies to support competing geopolitical interests.

Located at the nexus of major connectivity frameworks, the Silk Road region, led by its three keystone states, aims to leverage deepening cooperation into greater sovereignty, diversified alliances, increased bargaining power, and strategic independence.

The 3Bs framework has been applied to illustrate the Silk Road region's transformation from a peripheral space, long shaped by external powers, into a keystone region—a strategic space in terms of not only geoeconomics and infrastructure, but also geopolitical cooperation. In other words, connectivity is becoming both a new tool and a new source of power thanks to, as Aliyev stated in January 2025, the leveraging of the Silk Road region's geographic location through "consistent effort and strategic planning." BD


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Will the Chinese Dragon Outfly the American Eagle?

Repercussions for the Silk Road Region

Chingiz Mammadov

On 8 January 1918, U.S. President Woodrow Wilson presented to the U.S. Congress his famous "Fourteen Points" for what he had referred to in an earlier landmark speech as "making the world safe for democracy." At that time, the United States was already the world's largest economy, accounting for nearly one quarter of global GDP.

More than a century later, in late August and early September 2025, China's paramount leader Xi Jinping delivered a series of speeches at the annual SCO summit, at a military parade commemorating the eightieth anniversary of the end of World War II, and at various diplomatic receptions. In these speeches, he outlined China's vision for a new and more just international order. Interestingly, it happened at a time when China's economy is surpassing that of the United States.

At first glance, Wilson's Fourteen Points and Xi's recent statements appear to belong to entirely different worlds: one was articulated in the aftermath of the First World War, the other amid twenty-first-century geopolitical realignments. Yet a closer comparison reveals striking structural parallels. Both represent not simply neutral visions of cooperation but rather blueprints for world order designed to secure a leadership role for their respective nations.

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Wilson's Universalism with an American Advantage

Wilson couched his principles in the language of liberal internationalism: open diplomacy, freedom of the seas, free trade, disarmament, national self-determination, and the League of Nations as a universal institution. These ideals promised a peaceful postwar settlement but also positioned the United States to benefit from Europe's weakening and from expanded access to global markets.

Unlike the European powers, the United States had no far-reaching colonial empire to dismantle. It could therefore prosper in a system based on free trade and transparent diplomacy. Rejecting the balance-of-power system established at Vienna in 1814-1815, Wilson advanced the principle of collective security, which, in turn, implied national self-determination and the establishment of the League of Nations. As Kissinger observed in *Diplomacy* (1994), Wilson "proposed to found peace on the principle of collective security. In his view […] the security of the world order called for not the defense of the national interest, but of peace as a legal concept."

At first glance, the contrast is stark: Wilson's liberal-democratic ideals versus Xi's sovereignty-centered multipolarity. Yet in both cases, universal conceptions of world order provide legitimacy, while institutional architecture advances national leadership.

Yet European realities frustrated the application of these principles, and at home, the U.S. Congress rejected Wilson's entreaty for America to join the League. The contrast between rhetoric and reality proved to be striking. Having suffered far less than Europe or Asia during the war—and having profited enormously from supplying food, goods, and military equipment—the United States entered the post-WWI era stronger than ever. Wilson's Fourteen Points and his vision of a world anchored in self-determination and collective security did not secure lasting peace; less than twenty years after Versailles, Europe and the world plunged into an even bloodier conflict. But his program ensured that the United States emerged as a dominant world power in the interwar years, even without joining the League.

Wilson himself recognized America's leverage. Writing to his close adviser Colonel House in April 1917, just as the U.S. entered WWI, he noted: "When the war is over, we can force them to our way of thinking, because by that time they will, among other things, be financially in our hands."

This was not an expression of cynical manipulation. Wilson sought to use America's growing power to redirect the European powers away from Realpolitik and balance-of-power rivalries toward what he believed would be a more just and durable order. His idealism, however, did little to ensure lasting peace. Paradoxically, the universalism he preached—though conceived as a gift to the world—became the foundation of America's own rise and of the distinctly American century that followed.

Xi's Sovereignty and Multipolarity

Like Wilson at the time, Xi today frames China's initiatives in universalist terms, though with a distinct vocabulary: sovereignty, non-interference in the domestic affairs of UN member states, multipolarity, shared development, and the promotion of institutions such as the Belt and Road Initiative (BRI), the Shanghai Cooperation Organization, BRICS, and the Asian Infrastructure Investment Bank (AIIB).

If Wilson's moment coincided with the decline of the colonial order and self-determination was the "coin of the time," Xi addresses a world of sovereign states often troubled by disputes among neighbors, cross-border ethnic tensions, and external interventions. In this context, China's emphasis on sovereignty and non-interference resonates, especially among small and medium-sized states wary of outside pressure.

China has advanced three global initiatives—the Global Development Initiative (GDI), the Global Security Initiative (GSI), and the Global Civilization Initiative (GCI)—outlining a vision for a more inclusive, multipolar world. The GDI, launched in 2021, focuses on development, poverty alleviation, health, green energy, and South-South cooperation. The GSI, announced in 2022, emphasizes cooperative and sustainable security while respecting sovereignty and opposing unilateralism. The GCI, proposed in 2023, promotes dialogue among civilizations, mutual learning, and cultural exchange.

Together, these initiatives signal China's effort to provide global public goods, shape international norms, and enhance its influence as a responsible global actor. As Xi has emphasized, countries should "uphold the principles of equality, mutual learning, dialogue and inclusiveness among civilizations."

Here, again, we see a parallel with Wilson: his vision did not guarantee a just and peaceful world but ensured U.S. strategic influence and, ultimately, primacy (for a time). Whether China's initiatives will secure long-term dominance is uncertain, yet the intentions are clear and resemble the U.S. approach after Versailles. Just as the U.S. rejected the European balance-of-power system established after the Congress of Vienna, China subtly critiques the post-Cold War security and institutional order, emphasizing sovereignty and equality of states while rejecting hegemony.

With this spirit, China declined U.S. proposals to share global leadership in a G2 format, recognizing it could not outpace Washington by following existing rules. Instead, it has established its own frameworks, stressing adherence to an UN-centered order while opposing unilateralism, power politics, and a normative approach to the conduct of external relations. Leveraging its permanent seat on the UN Security Council reinforces China's legitimacy while allowing rhetorical critique of the system—a stance appealing to leaders like Türkiye's Recep Tayyip Erdoğan, who famously said, "the world is bigger than five," highlighting dissatisfaction with Western-dominated decisionmaking.

Xi calls for a "new type of international relations" and a "community of common destiny for mankind," placing the interests of sovereign states above international hierarchy. Through initiatives such as the GDI, GSI, and GCI, China elevates the interests of sovereign countries, appealing to the majority of UN member states without permanent representation in the Security Council. This strategy channels competition with the U.S. into economic and technological realms, where China increasingly appears to hold a comparative advantage.

The rhetoric emphasizes resistance to hegemonism and "win-win" cooperation, yet the underlying strategy is clear: to position China at the center of emerging economic and institutional networks. Sovereignty language shields Beijing from criticism of its internal affairs, while multipolar institutions dilute Western dominance and produce arenas in which China assumes the convening role.

Different Vocabularies, Shared Logic

At first glance, the contrast is stark: Wilson's liberal-democratic ideals versus Xi's sovereignty-centered multipolarity. Yet in both cases, universal conceptions of world order provide legitimacy, while institutional architecture advances national leadership. Wilson's formula of 'self-determination plus the League of Nations' and Xi's package of 'Global development, security, and civilization initiatives, reinforced by sovereignty through SCO and BRICS,' serve a parallel function: turning systemic transitions into opportunities for global influence.

Regional Institutions: A Historical Parallel

Another striking similarity emerges in the realm of international organizations. Though Wilson proposed the League of Nations, the U.S. never joined, with the U.S. Congress seeing it as a potential burden and entanglement in Europe's endless quarrels. Instead, Washington consolidated influence through regional and parallel institutions, where it could lead:

- *The Pan-American Union* (founded in 1890, expanded in the 1920s-1930s, and transformed in 1948 into the Organization of American States), reinforcing U.S. dominance in the Western Hemisphere.
- *Washington Naval Conference* (1921-1922), setting rules for Pacific security outside League structures.
- *Kellogg-Briand Pact* (1928), an international treaty outlawing war, signed by 63 states but again independent of the League.

The U.S. also reaped tremendous benefits in the financial sphere, as Britain and France repaid war debts using German reparations. New York rose as a rival to London in finance, and while the British pound remained dominant, the U.S. dollar was steadily gaining ground.

In short, the U.S. rejected multilateral institutions it could not control but promoted parallel initiatives that preserved and expanded its leadership.

China's approach today mirrors this logic, pursuing global leadership not by relying solely on Western-led frameworks such as the UN or WTO, but by developing complementary institutions—a parallel strategic architecture—that enhance its influence and autonomy.

- *Shanghai Cooperation Organization (SCO)*: advancing Eurasian security and cooperation.
- *BRICS/BRICS+*: uniting emerging economies that often question Western dominance.
- *The Belt and Road Initiative (BRI)*: promoting global connectivity through infrastructure and trade.
- *The Asian Infrastructure Investment Bank (AIIB)*: offering a financial alternative to the IMF and World Bank.

Unlike the United States a century ago, China does not withdraw from global institutions—doing so would be unwise in today's interdependent system. Instead, it reinforces its position by supplementing them with parallel frameworks that extend its strategic reach and gradually reshape global governance norms.

Beyond the Old Horizon

As we look beyond the old horizon of U.S.-dominated unipolarity, it is clear that China is emerging as a new pole in global politics, challenging three decades of U.S.-led dominance and pushing the world toward a new configuration of power. The key question is whether this system will become unipolar, with China rapidly surpassing the United States; bipolar, with the U.S. and China as the two dominant powers for a sustained period reminiscent of the Cold War; or multipolar, with several strong centers of influence shaping global affairs.

A look at the numbers offers perspective. The United States currently accounts for roughly 25-26 percent of global GDP, while China contributes about 17 percent. The European Union accounts for 16-17 percent of the world economy but lacks unified military capacity—neither its member states nor the EU as a whole can project comparable military strength. Russia, meanwhile, despite maintaining one of the world's most powerful militaries, is only the tenth-largest economy, accounting for less than 2 percent of global GDP. India, at about 7 percent, and Brazil, around 2 percent, are significant emerging players, yet neither matches the economic weight of the U.S. or China (nor even Russia's military might).

These figures suggest that the world is moving toward a new form of bipolarity, in some respects reminiscent of the Cold

War era when the U.S. and the USSR dominated global politics—but with crucial differences. Unlike that earlier confrontation, today's emerging bipolarity is shaped by deep economic interdependence, intricate global supply chains, and intense technological competition, which together make direct confrontation costly while creating incentives for selective cooperation.

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Examining these similarities and differences helps clarify the contours of the new equilibrium, which is gradually taking shape. One thing is clear: the pace of change may be faster today, driven by economic integration, technological rivalry, and competing models of governance.

How—and how quickly—lesser powers and regional actors (including keystone states) respond to this evolving landscape will be crucial, not only for their own futures but also for the broader balance of power between Washington and Beijing.

This dynamic also makes both the U.S. and China, to varying degrees, dependent on the choices of other players navigating this shifting horizon. In turn, these developments will shape not only the balance between the two great powers but also grant middle powers and regional actors greater flexibility—and, consequently, a stronger sense of sovereignty.

From Mountains to Drifting Ice

During the Cold War, the world resembled two formidable mountains: the United States dominating the 'West' and the Soviet Union dominating the 'East.' Washington led North America and Western Europe, while Moscow controlled Eastern Europe and parts of Southeast Asia. The competition extended to South America, Africa, and other regions of Asia. Smaller states had little room to maneuver—the superpowers largely dictated their politics. The system was rigid, with very few exceptions—such as Yugoslavia, which remained in the Soviet camp but showed some 'disobedience' by maintaining economic ties with the West and allowing limited private property.

Today's emerging bipolarity between the U.S. and China looks different. It is less like two rigid mountains and more like two gigantic ice masses drifting in an unstable ocean. Around them float other large ice pieces: Europe, India, Russia, Brazil, keystone states, and alliances. Many smaller pieces—lesser powers, smaller countries—also move fluidly: sometimes drifting closer to one pole, sometimes toward the other, and sometimes remaining in between.

Today's emerging bipolarity between the U.S. and China is less like two rigid mountains and more like two gigantic ice masses drifting in an unstable ocean.

During the Cold War, countries like Poland had virtually no independent voice in their relations with Moscow; in turn, Western Europe's key states, like Germany, rarely deviated from Washington's line. Today, however, Poland plays a more active role in shaping its relationship with the U.S. than it did in its former relations with the USSR. In turn, Germany, though acting cautiously, is increasingly asserting an independent voice in international affairs.

This fluidity creates opportunities for other states—both large and small, more and less powerful, more and less influential—to advance their own interests while forcing the U.S. and China to account for them. India illustrates this dynamic: it leaned toward the U.S. for decades, but after Washington imposed tariffs over Russian oil imports, New Delhi moved closer to Beijing—a shift that could reverse again if political calculations change. Another example is Azerbaijan—far smaller than both the U.S. and China in territory, economy, and military power—yet able, through careful maneuvering, to protect its own interests in relations with both. The

The Battlegrounds of Competition

The rivalry between Washington and Beijing spans many areas—ideology, economics, military balance and alliances, new frontiers such as space, the Arctic, and advanced technologies, as well as culture. Many of these arenas echo Cold War patterns, but they also differ in fundamental ways. Six then-vs.-now elements will be compared.

First, *ideology*. Unlike the Cold War, there are no longer fierce ideological battles. The Soviet Union and its socialist-communist appeal are gone. The United States, which, after 1991, enjoyed three decades of unrivaled dominance and sought to shape the world in its own liberal-democratic image, had to scale back these ambitions.

Two factors explain this retreat. First, U.S. economic strength has weakened, limiting its ability to influence other countries. Second, liberal democracy no longer appears as irresistible as it did in the early 1990s, when it triumphed over Soviet communism. China's experience has shown that alternative models of governance and development—including mixed systems, like its own, rooted in meritocratic governance—can succeed.

As a result, ideology plays a much lesser role in today's rivalry. China's emphasis on sovereignty and non-interference appeals to many states weary of external pressure. Even more strikingly, elements of current U.S. politics—such as Donald Trump's America First posture—resemble Beijing's longstanding focus on self-interest, centralized governance, and internal priorities. In this sense, China appears to be winning the less visible ideological contest.

Second, *the economy*. As ideology has faded, economics has become a primary battlefield. Half a century ago, the U.S. produced over 40 percent of global GDP, while China accounted for just 4 percent. Today, as noted above, America's share has fallen to around 25 percent, while China's has risen to more than 17 percent. By purchasing power parity (PPP), China surpassed the U.S. as early as 2014-2015. By nominal GDP, it could overtake the U.S. within the next five to six years if current trends continue. Even with growth slowing to around 5 percent last year, the sheer size of China's economy ensures that its annual expansion remains substantial, reinforcing Beijing's leverage in global trade, technology, and investment—the key arenas of U.S.-China strategic competition. China also holds foreign currency reserves and gold reserves four times as large as those of the U.S. In turn, U.S. foreign debt is six times higher than China's. China is equally successful in trade. For example, in 2002, the U.S. was the largest trade partner

of all South American countries, except Cuba. In 2024, China was the biggest trade partner of all South American countries except for Colombia.

Moreover, the nature of economic relations has changed significantly since the end of the Cold War. Back then, ideology acted as a barrier between the two 'mountains.' Now, with that barrier thinning or even disappearing, the world economy has become highly interdependent. There may be something to all the talk of deglobalization or bifurcation, but only when compared to the very peak of globalization in the 1990s and 2000s (and even then, it's not that great a difference).

Unlike during the Cold War, when U.S.-Soviet economic ties were insignificant, U.S.-China competition cuts directly through the same global economy. The two remain deeply interdependent: they trade daily in massive amounts, even as they impose tariffs and sanctions on each other. This makes economics and technology—semiconductors, artificial intelligence, green energy, space—the main battlegrounds of their rivalry.

China also seems to enjoy structural advantages. With a population 4.5 times larger than the U.S., two points stand out. First, it will take much longer for Chinese labor costs to reach developed-country levels, ensuring that foreign investment continues to flow into China for longer than it did into the U.S. during its rise. Second, the size of China's internal market, with growing purchasing power, helps the country absorb external shocks—such as the 2007-2008 housing crisis—much better than the United States.

Third, *military power and alliances*. The United States still possesses the world's most advanced military. In the early twentieth century, rapid economic growth turned America into the world's largest economy and, within decades, a leading military power. Similarly, China today—with a GDP approaching that of the United States—is already translating its economic might into military strength. Yet, as current events show, the pace of change has accelerated, and gaps in military capability can close faster than they did a century ago. The conflict over Ukraine, for example, drains U.S. and European resources, indirectly strengthening China's strategic position. Back then, two world wars enabled Washington to surpass Britain in a relatively short time, particularly in military capability.

Much like the United States in the first half of the twentieth century, Beijing now seeks to avoid direct confrontation, focusing on peaceful competition while building economic and technological strength. Washington, by contrast, has incentives to entangle China in conflicts that would sap its strength—much as two devastating wars blunted Germany's potential. Conscious of these risks, China remains cautious about wars that might undermine its development.

Flashpoints already exist—in the South China Sea, around Taiwan, and across the Indo-Pacific. Proxy wars, sanctions, and economic tools dominate, but the risk of escalation remains. Thus, not only military strength but also alliances will be decisive. The U.S. is building up a circle of partners around China, including Japan, South Korea, the Philippines, Thailand, Australia, India, and others. China, in turn, through the Shanghai Cooperation Organization (SCO), is developing its own security networks and maintaining friendly relations with states at odds with the U.S., such as Iran, Venezuela, and Russia, while also managing tensions within that circle through diplomacy rather than confrontation, as shown by its engagement with India at the recent SCO meeting after the U.S. imposed tariffs on India for buying Russian oil.

It remains unclear to what extent Beijing anticipated or influenced Russia's invasion of Ukraine. But three points are evident: the war benefits China by diverting U.S. attention and resources; it also allows Beijing to buy Russian energy and materials at below-market prices; and it occurred immediately after Russia's withdrawal from Kazakhstan following unrest there, and immediately after the Beijing Olympics. Taken together, these suggest that China was at least aware of Moscow's intentions, if not encouraging of them.

Trump understands the strategic opportunity of splitting Russia from China and, therefore, invited Putin to Alaska. But the price Putin demanded was too high, and Trump could not deliver it at the time. But he also understands that the longer the conflict over Ukraine goes on, the more likely it is that Russia becomes China's Belarus.

We may thus see future U.S. attempts to involve China in conflicts with its neighbors allied to Washington. Yet two factors give Beijing an advantage and may help avoid war. First, its centralized system enables it to scan the environment more effectively and take preventive measures without rushing into conflict. Second, what we may call its "Sovereignty

First" foreign policy (coupled with its economic might and trading advantages) makes it harder for Washington to mobilize others against China.

During the Cold War, the U.S. and USSR managed to avoid direct military confrontation. The most serious threat—the Cuban Missile Crisis in 1962—was resolved through statecraft, the reaching of accommodations, and mutual compromise by the leaders of both superpowers. The open question is whether the present-day leaders of the U.S. and China will be able to demonstrate the same level of accountability in the face of direct confrontation, for example, over Taiwan.

Fourth, *technology and the new frontiers*. Over the past five years, 1.5 times as many patents have been filed in China as in the United States, underscoring Beijing's determination to outpace Washington in technological innovation. Backed by vast financial reserves, Beijing can lure global talent with compensation packages that equal or exceed those of Silicon Valley, turning the tables on one of America's longstanding advantages. What once was a country restricting the mobility of its own citizens has now become a hub, confident in both retaining its brightest minds and attracting foreign expertise. This transformation illustrates not just China's capacity for catching up, but its ambition to set new global standards in science and technology.

Washington, for its part, strives to maintain leadership by deepening technological cooperation with allies. Trump's recent visit to the U.K., which produced a $360 billion high-tech agreement and meetings with CEOs of major U.S. AI and communications companies, underscores the centrality of technology in the ongoing U.S.-China strategic competition.

Until recently, China was often seen primarily as copying and stealing Western technology—a view that still persists in many analyses. However, copying is frequently the first stage in industrial competition. Some countries never progress beyond it, while others eventually innovate. China has now moved decisively into that second phase. Its advances in AI, biology, chemistry, nanotechnology, digital and military technologies —combined with the scale and breadth of its innovation system—demonstrate that it is no longer merely catching up but beginning to drive innovation. This trajectory suggests that it is likely to succeed in these fields as well.

Consider that, in 2024, 34 percent of first-year Chinese university students studied engineering, compared with just 5-6 percent in the United States. It is widely recognized that technical specialists, rather than humanitarian ones, are the primary drivers of national progress.

Relatedly, space, the Arctic, and Antarctica are emerging as new frontiers of strategic competition. Trump's remarks on Greenland and Canada highlighted not only U.S. ambitions but also an awareness of their geostrategic importance. China, in turn, relies on cooperation with Russia to secure advantages in the Arctic. Competition in space is also set to intensify, and the concept of "colonies" on the Moon may soon become a realistic prospect.

Fifth, *culture and soft power*. The U.S. benefited greatly from the fact that its main rival and predecessor as global hegemon—the UK—spoke the same language. The simplicity of the English language and script helped its global rise. Schools, universities, and scientific publications worldwide continue to use English. Without it, advances in science, culture, business, and finance would be much more difficult.

China is a different story. Mandarin has a complex script and is not widely studied outside the Sinosphere, so China must develop a new system of soft power. Should it continue to use English, or attempt to promote Mandarin as a global language? Will Chinese films rival Hollywood worldwide? Will Chinese universities attract tens of thousands of foreign students, as is currently the case in the U.S. and the rest of the Anglosphere? Will universities outside China massively offer courses of study in Mandarin, as is the case with English in many universities around the world today? These and many other questions likely remain open for China's leadership and intellectuals.

Sixth, *internal strength vs. internal division*. In a world of drifting ice masses, the country that maintains internal stability (a consistent internal temperature, which prevents melting) gains an edge. On this score, China projects unity and stability through long-term strategies, centralized governance, and fewer visible divisions.

The United States, by contrast, suffers from polarization. Its democratic openness is both a strength and a weakness. When Trump claims that the war in Ukraine began due to a flawed Biden Administration foreign policy, he

is not merely attacking his predecessor and his team—he is undermining America's global credibility.

Lobbying delivers another blow to U.S. integrity and image. The influence of powerful groups—especially the pro-Israel lobby—shapes Washington's Middle East policy in ways that generate resentment not only in Muslim countries but also in many non-Muslim ones. These dynamics work to China's advantage, as Beijing emphasizes sovereignty, avoids entanglement in ideological disputes abroad, and presents a more balanced position, less influenced by internal lobbies promoting external interests.

Another difference lies in speed. China's centralized decisionmaking system allows it to adapt more quickly to shifting circumstances. By contrast, the U.S., with its pluralistic and divided politics, often reacts more slowly. This agility gives Beijing an advantage in today's dynamic international environment.

The Silk Road Region as a Lens on Emerging Bipolarity

Recent developments in the South Caucasus and Central Asia vividly illustrate how global bipolarity plays out in the Silk Road region. Keystone states and smaller countries alike increasingly navigate between Washington and Beijing, seeking tactical gains while testing the limits of Moscow's influence.

On 8 August 2025, Azerbaijani President Ilham Aliyev and Armenian Prime Minister Nikol Pashinyan traveled to Washington, where, under Donald Trump's auspices, they signed a Memorandum on the Trump Route for International Peace and Prosperity (TRIPP), establishing a framework for opening the Zangezur corridor. Yet only weeks later, both leaders attended the SCO summit and the military parade in Beijing marking the eightieth anniversary of the end of World War II—signaling openness to China's parallel institutions. Both countries have also applied for SCO membership.

The contrasts in their behavior further illustrate the region's balancing game, akin to icebergs of different sizes floating in the ocean. Pashinyan also appeared at Moscow's Victory Day commemoration, while Aliyev demonstratively stayed away, signaling Azerbaijan's discontent with unresolved issues stemming from its downed passenger plane. An accommodation was reached a few months later, but relations worsened further before they got better: Azerbaijan successfully resisted Russia's attempt to steer the country away from its independent course. Armenia's Pashinyan may have attended the 9 May parade. Still, he has firmly refused to participate in CSTO meetings, seeing little utility in the organization, and has hosted joint trainings with U.S. forces in Armenia. Such calibrated maneuvering is likely to continue, as regional leaders seek to maximize gains while avoiding overdependence on any single great power.

These moves highlight a broader pattern: Russia still exerts influence but lacks the levers to impose outcomes even in its immediate neighborhood. Its failure to implement the 10 November 2020 Moscow-brokered ceasefire provisions on reopening transit between mainland Azerbaijan and its Nakhchivan exclave exposed both political weakness and waning soft power. Washington's success in advancing TRIPP further underlined Moscow's diminished role, showing that the Kremlin is losing ground not only in Eastern Europe or the Middle East but also in the South Caucasus (and other parts of the Silk Road region, including those geographically closer to China). Looking ahead, Moscow's influence may continue to contract unless it reinvents its regional role.

China, by contrast, steadily expands its economic and political presence. Chinese goods already transit westward via Azerbaijan, Georgia, and Türkiye at rapidly rising rates, making Baku an important BRI hub.

At the October 2025 Valdai Club meeting, Putin stated that roughly 25 percent of the uranium used in U.S. nuclear power plants is sourced from Russia—this resulted in over $800 million in export revenue for the first eight months alone—and accused Washington of hypocrisy for pressuring allies to cut imports of Russian hydrocarbons while maintaining its own uranium purchases. Keen to avoid such charges, Washington is looking to Kazakhstan and Uzbekistan, two major uranium producers, for an alternative supply.

Here again, Azerbaijan becomes a pivotal transit hub, since the West sanctions land routes through Russia and Iran. In the medium term, this dynamic raises the Silk Road region's strategic importance for both Washington and Beijing, while creating opportunities for Central Asian exporters. Notably, four out of five states along the Middle Corridor—Azerbaijan, Kazakhstan, Türkiye, and Uzbekistan—are members of the Organization of Turkic States (OTS), with Georgia maintaining

strong strategic ties to both Ankara and Baku.

This increases Azerbaijan's leverage. While Baku is eager to see the Zangezur corridor open, it insists on unimpeded transit under its own conditions. Unlike under previous U.S. administrations, Washington now appears less inclined to pressure Azerbaijan and Türkiye to accept Armenia's terms, as publicly available information about TRIPP suggests. With functioning routes through Georgia and with Chinese trade already flowing across its territory, Baku can afford to wait until its expectations are met. If TRIPP is fully realized, Azerbaijan could emerge not only as a transport hub but also as a geopolitical broker, mediating between rival corridors and spheres of influence—a role with long-term implications for regional stability. Armenia, too, stands to benefit if it carefully weighs the pros and cons of participation.

The Silk Road region has become a testing ground for the new bipolarity. The U.S. and China are the dominant poles, while Russia struggles to hold ground, and keystone states seek to convert great-power rivalry into opportunity.

Taken together, these dynamics demonstrate how the Silk Road region has become a testing ground for the new bipolarity. The U.S. and China are the dominant poles, while Russia struggles to hold ground, and keystone states seek to convert great-power rivalry into opportunity. Over the next decade, whether through TRIPP, energy corridors, or Chinese transit routes, the region's choices will shape not only its own trajectory but also the broader strategic balance between Washington and Beijing.

Navigating the Times Ahead

The world is steadily moving toward a new bipolarity. However, the new bipolar world will not replicate the one that existed during the Cold War. It will be less about rigid blocks and more about constant maneuvering. The new bipolarity leaves room for countries that know what they're doing to thrive by embracing a posture of what the Co-Editor of *Baku Dialogues*, Damjan Krnjević Mišković, calls "strategic transactionalism." Such states will shift positions depending on circumstances, sometimes leaning toward Washington, sometimes toward Beijing, and often keeping their options open. This makes the competition more unpredictable and more challenging to manage for both Beijing and Washington.

The United States now faces structural limits: internal polarization, economic challenges, and a reduced ideological appeal. China, meanwhile, plays the long game, betting that domestic cohesion and strategic patience will eventually tilt the balance in its favor. Potential challenges include whether, while playing this "long game," it can also sustain harmony with the market-oriented approach of the Communist Party's monopoly on power and the country's long-term centralized system of competitive governance.

A universal truism reminds us that nothing is for sure. As mentioned earlier, Germany had the opportunity at the beginning of the twentieth century to become one of the world's leading countries. However, due to both its own mistakes and its rivals' actions, it lost this opportunity. China clearly possesses such a capacity. The question is whether it will be able to realize this potential.

Besides internal issues, external factors also may play a role. Lacking a strong ideological counterweight and struggling to contain China's economic rise, Washington's remaining tool is indirect confrontation—encouraging proxy conflicts that might slow Beijing's ascent without triggering direct war. A direct conflict between two nuclear superpowers would be catastrophic for both and for the world.

The trajectory of relations will also depend on whether China can assert itself without making the U.S. feel embarrassed or humiliated—and, conversely, on how tolerantly the U.S. responds to the emergence of a peer (or near peer) power in the international arena.

The foregoing suggests, therefore, that the struggle between the eagle and the dragon is not about who first strikes the final decisive blow, but about who can better adapt to a fluid, shifting environment—and who can endure and remain steady while the temperature in and around them rises and falls dramatically over time.

A Harbinger Call?

As this edition of *Baku Dialogues* was going to press in late November 2025, a phone call between Xi and Trump took place. A harbinger of what's to come may be the Chinese readout of that conversation, which one of the most astute observers of the Sino-American relationship, Arnaud Bertrand, assessed as follows: "China is attempting the most significant reframing of U.S.-China foundational narrative in fifty years."

The Chinese readout of the call asserted that "Taiwan's return to China is an important component of the post-war international order," but the broader context was an affirmation that China and the United States must work "jointly" to "maintain" the WWII victory fruits" over "fascism and militarism."

Bertrand believes the foregoing is an indication that Beijing has reframed the

> foundational narrative of U.S.-China relations from post-Nixon to post-WWII, which would change the very nature of the relationship, from pragmatic accommodation between adversaries to historical allies with shared responsibility.

If Bertrand is correct, then the Xi-Trump call might come to be seen in retrospect as the moment when China accepted the G2 idea, which was initially put forward by the United States at the highest level during the Obama Administration and revived explicitly by Trump one month before his call with Xi.

In other words, the eagle and the dragon, as the G2, might seem to be heading toward a strategic accommodation to shape and oversee world order. This would be entirely compatible with something Kissinger said in 2011: "The future of the world depends on the relationship between China and America. China and the U.S. should further seek common interests for the world's peace and security."

I conclude with a final observation: Trump will host Xi at the White House for an official state visit next year—only the fifth such visit of a Chinese leader since the restoration of bilateral ties between the two giants more than five decades ago (it will also be the first in 11 years, and the first ever for Xi). The Chinese leader will also host his American counterpart in China in 2026. They may meet in person two (or more) additional times over the next 12 months at the margins of multilateral summits. This strongly suggests that they will have plenty of opportunities to talk things through—to set up a "new type of great power relations" on non-ideological grounds.

In so doing, they may end up burying for good any hope for the "rules-based liberal international order" that some in the West and a few in the non-West still believe can (and should) define an equilibrious world order in the twenty-first century. BD

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Azerbaijan's Active Non-Alignment

How Baku is Pivoting to Greater Power

Farid Shukurlu and Joseph Shumunov

Azerbaijan's decisive victories in the Second Karabakh War (2020) and the subsequent Anti-Terror Operation (2023) resolved one of the most enduring conflicts of the post-Cold War era, bringing an end to nearly three decades of Armenian occupation over almost one-fifth of Azerbaijani territory. These two victories also enabled Baku to consolidate its position not only as a formidable military power but also as an emerging diplomatic center serving as an essential platform for regional cooperation and multilateral engagement. As Svante Cornell wrote in the Fall 2020 edition of *Baku Dialogues*, "Azerbaijan has embarked on a foreign policy that seeks to maintain functioning relations with all neighbors and avoid making itself dependent on any particular power for its security."

The comprehensive nature of Azerbaijan's triumph has opened the way for genuine dialogue with Yerevan and other regional actors, affirming Baku's status as a rising geopolitical power. The liberation of Karabakh has not only entrenched Azerbaijan's economic, military, and political influence in the Silk Road region but has also enabled it to project diplomatic reach beyond the Silk Road region—from facilitating rapprochement between Türkiye and Israel to expanding energy exports as far afield as Syria while becoming a vital guarantor of European energy security.

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Beyond its successful integration into the wider diplomatic arena, Azerbaijan's most remarkable achievement has been its ability to establish a new regional balance of power following the war—a pivotal turning point in contemporary geopolitics. With the Karabakh issue resolved, Baku is no longer constrained by a single-issue foreign policy doctrine that once limited its capacity to realize its multilateral potential fully.

Azerbaijan's most remarkable achievement has been its ability to establish a new regional balance of power following the war—a pivotal turning point in contemporary geopolitics.

Today, Azerbaijan is shaping a new, balanced foreign policy that is economically sustainable, politically diverse, and firmly independent. What once was a non-aligned state in both practice and formality (as an official member of the Non-Aligned Movement) has undergone a transition—or rather, an evolution—toward a policy of "Active Non-Alignment" (ANA). That is, it has shifted from a strategy of strategic precarity to one of strategic power-seeking.

To fully understand the foregoing, one must situate Azerbaijan's foreign policy evolution within the broader history of non-alignment. In its original self-understanding, non-alignment was a calibration strategy that proliferated in the developing world in response to the bloc-making of the Cold War. These often smaller, poorer, and less powerful states—many of which were emerging from centuries of Western colonial domination—pursued three key principles: "non-participation in military pacts with great powers," the refusal to take sides in bloc conflicts or enter *a priori* alliances, and the preservation and "furtherance of national interests," to refer to a 1977 article by Muhammad Badiul Alam in the journal *World Affairs*.

The pursuit of such a policy duly served Azerbaijan as a cornerstone of its hydrocarbon, logistical, and transportation connectivity in the Silk Road region—even more so after it formally joined the Non-Aligned Movement in May 2011. Baku prioritized the preservation of peace and open relationships with all great powers to ensure the full realization of its policy without external threats. Under conditions of peace and mutual relations, Azerbaijan could worry less about external pressures and instead focus its energies on the conflict over Karabakh and the expansion of its hydrocarbon market—both vital to its national security.

Indeed, with the Armenia-Azerbaijan conflict nearing a full resolution and its hydrocarbon and cross-regional corridors becoming ever more important in the shadow of deepening geopolitical and geoeconomic divisions, Baku's non-alignment no longer has to be passive but can instead be distinctly active.

Azerbaijan, along with several other small and middle powers of the developing world, is now pursuing a strategy articulated by academics such as Carlos Ominami, Carlos Fortín, and Jorge Heine—one entails balancing ties across rival powers to extract benefits, reduce dependency, and resist coercion, all in an effort to accentuate regional power, that is, Active Non-Alignment (ANA). States pursuing an ANA strategy also assert leadership in multilateral forums without being subordinated to major powers. This is evident in Latin American and East Asian states balancing between the U.S.-China rivalry, and similarly within greater Eurasia, where states like Azerbaijan and India navigate between the United States and Russia.

Azerbaijan's Active Non-Alignment seeks to actively leverage competition among neighbors, regional players, and global actors to advance its national interests.

Unlike Cold War-era non-alignment, which emphasized avoidance, Azerbaijan's Active Non-Alignment seeks to actively leverage competition among neighbors, regional players, and global actors to advance its national interests. Azerbaijani foreign policy is thus proactive, pragmatic, and sovereignty-centered, with its pivot to greater power permeating three levels of analysis.

At the *neighborhood level*, strategic balancing and assertive realism have enabled Azerbaijan to occupy a leadership position amid a limited Russian and Western rollback in the South Caucasus and Central Asia; at the *regional level*, Baku has emerged as a tacit third pillar alongside the growing alliance between moderate Arab states and Israel in the Middle East; and at the *systemic level*, Azerbaijan's multivector hedging and multilateralism have allowed it to project influence and safeguard national interests in an increasingly fragmenting world order.

Each will be examined in turn, in the context of the ANA argument presented in this essay.

Neighborhood Level

At the neighborhood level, we begin with Türkiye. Ankara's unconditional support for the liberation of Karabakh extended beyond military assistance (it only really ramped up in the runup to the 2020 war); it also reflected brotherly solidarity and moral responsibility grounded in shared history, culture, and identity. Turkish support for Azerbaijan's territorial integrity was reinforced when Turkish F-16 Viper fighter jets were stationed at Ganja International Airport during the war.

In the aftermath of the Second Karabakh War, relations between Azerbaijan and Türkiye entered a new phase of cooperation. What had been described as an informal "brotherly" relationship evolved into a formalized strategic alliance across military, economic, and cultural spheres. This transformation was institutionalized with the signing of the Shusha Declaration in June 2021, a landmark agreement designating Türkiye as a formal ally of Azerbaijan. By codifying the principle of "one nation, two states" within the legally binding framework of a treaty, the Declaration established a structured basis for expanded cooperation. In practice, this translates into joint defense initiatives, regularized military exercises, and collaboration in the defense industry.

The Shusha Declaration not only strengthened bilateral relations but also underscored Azerbaijan's determination to deepen its strategic partnership with Türkiye. This marked a decisive shift from cultural kinship to a geopolitical alliance. In a region marked by uncertainty, this partnership represents a bold step toward sustainable security guarantees and long-term cooperation.

Although Azerbaijan is entrenched within this alliance as an emerging asymmetric actor, it continues to pursue an ANA foreign policy, reinforced by reliable partnerships. Azerbaijan balances Türkiye's regional aspirations with its own interests, evident in Baku's calibrated diplomacy and pursuit of strategic goals beyond Turkish influence.

Evidence of this independence is reflected in Azerbaijan's role in assisting Türkiye with managing its complicated relations with Israel. Maintaining strong ties with both, Baku leverages its position to facilitate negotiations and ease tensions. Azerbaijani President Ilham Aliyev confirmed that Azerbaijan played a pivotal role in the first reconciliation between Türkiye and Israel, which led to Israeli President Isaac Herzog's state visit to Ankara. Azerbaijan also helped establish a "red line" mechanism in Syria, enabling direct contact between the Israeli Defense Forces and Turkish-backed forces, thus preventing escalation.

Azerbaijan's post-war diplomacy with Türkiye has expanded into the energy sector. In August 2025, Baku announced that it will export 1.2 bcm of natural gas annually to Syria through Türkiye via the restored Kilis-Aleppo pipeline. Supported by Türkiye and funded by Qatar, the project symbolizes a significant shift in regional energy cooperation and reflects Ankara's active involvement in Syria's reconstruction. Azerbaijani Minister of Economy Mikayil Jabbarov highlighted Türkiye's crucial support, stating that cooperation between the two states made this success possible. The pipeline not only provides energy to Syria but also creates a new corridor linking the South Caucasus to the Middle East.

Recent developments highlight Azerbaijan's optimism regarding the trajectory of its relationship with Türkiye, building on the Shusha Declaration, which elevated Baku's ties with Ankara to the level of a strategic and formal alliance. Azerbaijan pragmatically balances its foreign policy with Türkiye while maintaining relations with other allies and exploring new avenues of cooperation, reflecting a nuanced and multifaceted approach.

Remaining in the neighborhood, we turn next to Russia. Baku's relationship with Moscow is dual-edged: on one hand, as a direct border-to-border neighbor in the South Caucasus; on the other, as a small state within the orbit of a great power. In both respects, Azerbaijan has not only adopted a more strategic posture but has also significantly pushed back against the centuries-old patron-client dynamic with Russia.

In the years preceding the Second Karabakh War, Baku, as a neighbor of a larger and more militarily capable state, observed a series of military interventions and expansive operations by Moscow against ostensibly Euro-Atlantic-aligned states such as Georgia, Moldova,

and Ukraine. Since the very beginning of its reemergence as an independent state, Azerbaijan has had to tread carefully to avoid a similar fate. Indeed, the 10 November 2020 Russian-brokered ceasefire between Azerbaijan and Armenia, which Russia guaranteed, included a clause mandating the deployment of Russian peacekeepers across most of the former Nagorno-Karabakh Autonomous Oblast. By February 2022, only days prior to the onset of the current stage in the conflict over Ukraine, Baku and Moscow signed the Declaration on Allied Interaction between the Republic of Azerbaijan and the Russian Federation.

The document described Azerbaijan and Russia's "historical traditions of friendship and good neighborliness" and pledged to raise "bilateral relations to a qualitatively new […] level of allied relations." It committed both states to mutual security guarantees through respect for territorial sovereignty, joint defense cooperation, and consultations in times of threat, as well as to deepening economic partnership in trade, energy, transport, and finance. In the immediate aftermath, the move appeared to some outside observers to signal Azerbaijan's full alignment with Russia. But instead, it has turned out to be an example of Baku's ANA gameplay.

In the years that followed, Azerbaijan's accommodation of Russia became a veritable Trojan horse for Baku's power-seeking, apparent from a three-step process: first, deepen and strengthen the bilateral relationship into an allied partnership; second, build sufficient trust so that, during a period of Kremlin overextension, Azerbaijan would be entrusted with and share the burden of regional security; and third, challenge and ultimately displace Russia's position of primacy in the South Caucasus.

Having completed the first step, the latter two steps were also successful. Russia's invasion of Ukraine and its economic reorientation due to the effects of the Western-led sanctions and export restrictions regime, combined with Azerbaijan's formal alliance with Türkiye and its own Anti-Terror Operation in Karabakh in 2023, established the context in which an early Russian peacekeeper withdrawal became feasible. This indicated to many analysts that, amid Russia's focus on the Ukraine theater, the Kremlin had ceded its security umbrella to its rival, Türkiye, and to its ally, Azerbaijan.

The end result was that Azerbaijan has been able to distance itself from Russia in practice. After 2023, Russia no longer appeared to be a third pillar of security in the South Caucasus; as a result, Azerbaijan and Türkiye have emerged as the two primary arbiters of power in the region.

Whereas pre-2020 Baku sought to move as little as possible to avoid provoking Russia, a postwar Baku guided by its ANA posture actively pursued, if not overtly triggered, a series of maneuvers to reduce Russia's footprint in its neighborhood, as evidenced by its salami-slicing tactics in Karabakh between 2020 and 2023. Still, as Uzbekistan's former Foreign Minister Vladimir Norov has put it (in the context of Central Asia, but the statement is valid with regards to the South Caucasus as well), although "Russia is no longer the 'big brother,' [it remains] one of several major partners."

The third neighborhood power is Iran. The Islamic Republic's strategic posture toward Azerbaijan did not change after the Second Karabakh War. This is to some extent due to the fact that the losing side in that conflict—Armenia—was—and, in some ways, remains—a stalwart ally (and friendly neighbor) of Iran.

Tehran's stance is often perceived as an adverse reaction to Azerbaijan's sovereign ambitions, particularly regarding the establishment of the Zangezur Corridor, which has been known since August 2025 as the Trump Route for International Peace and Prosperity (TRIPP). This strategically vital route would establish a direct connection between mainland Azerbaijan and its Nakhchivan enclave, bolstering territorial integrity and development, and facilitating transport from China to Europe along the fastest and only unsanctioned land route.

Baku has long viewed Iran as a country with which it shares historical, cultural, and religious ties. A significant factor is the 35 million ethnic-Azerbaijanis living in northern Iran. While Azerbaijan expects its neighbors to refrain from interfering in its internal affairs, some in Iran's ruling elite, including figures like Ali Akbar Velayati and members of the religious ruling class, have fueled anti-Azerbaijan rhetoric. From accusations of conspiracies to declaring the Zangezur Corridor Iran's "red line," Tehran has projected suspicion.

Although Azerbaijan's stance toward Iran has been historically neutral, the post-war dynamic has shifted. Having secured a victory against Armenia in Karabakh and strengthened its military with support from Türkiye and Israel, Azerbaijan now engages Iran from

a position of confidence. Its neutrality and cooperation no longer stem from fear but from good faith and a desire to engage with a reformist, pro-minority Iranian government to secure more favorable bilateral terms.

Still, Azerbaijan has demonstrated it can respond decisively if provoked. In 2023, when its embassy in Tehran was attacked, Baku suspended diplomatic relations and attributed responsibility to the Islamic Revolutionary Guard Corps (IRGC). This highlighted Azerbaijan's readiness to defend its interests while maintaining pragmatism.

A turning point came with the July 2024 election of Masoud Pezeshkian, an ethnic-Azerbaijani, as Iran's president. His victory opened a more pragmatic chapter in relations, with Tehran reducing military exercises along the border. Baku welcomed this shift and invited him for a state visit, during which he attended the Seventeenth Summit of the Economic Cooperation Organization in Khankendi, the former center of Karabakh Armenian irredentism.

Nevertheless, Azerbaijan remains cautious. Hardline elements in Iran continue to fuel anti-Azerbaijan sentiment through media and religious institutions. For Baku to fully embrace cooperation, Tehran must address this persistent hostility. Other elements in Iranian politics, rooted in post-imperialist ambitions to project influence and dominate trade routes, perpetuate military provocations along the border. Such hawkish approaches reflect Iran's insecurity in the evolving South Caucasus, where Azerbaijan's assertiveness highlights its growing role as an independent regional actor. Iran's skepticism toward the U.S.-brokered peace agreement further demonstrates its intolerance of Azerbaijan's rise as a multilateral diplomatic power.

Despite Baku's balanced foreign policy, Iran has a tendency to frame its bilateral relationship within the context of Azerbaijan's ties with Israel. The integration of Israeli military technology into Azerbaijan's defense industry reflects, in part, a pragmatic response to Iran's posture. While Azerbaijan's policy does not threaten Tehran, Iran frames Israel-Azerbaijan ties as antagonistic to undermine Baku's regional role. This baseless narrative highlights Tehran's unease with Azerbaijan's growing influence and military success. In the wake of the White House trilateral at which TRIPP was announced in August 2025, elements of the Iranian elite were again rhetorically out in force. Since then, however, statements out of Tehran have been more restrained, perhaps in part because TRIPP is a deal that enjoys the support of its Armenian ally.

The last neighboring state to be examined is Armenia. Since 2020, following the Russia-brokered ceasefire and the 2023 anti-terror operations that effectively ended hostilities between Baku and Yerevan, Armenia's rhetoric has gradually shifted from that of an adversary to that of a negotiating neighbor, taking significant diplomatic steps toward reconciliation and peace. A pivotal moment in the peace process emerged in October 2022 at the Prague meeting, where both states reaffirmed their mutual respect for territorial integrity and sovereignty, explicitly ruling out any potential territorial claims. Anchoring this declaration in the principle of uti possidetis juris and the Soviet-era borders established a legal and diplomatic foundation for resolving disputes peacefully and paved the way for border delimitation. The Prague statements, delivered during Ukraine's successful counter-offensive against Russia, marked a new chapter in history: Armenia was no longer an adversary but a neighbor with whom Azerbaijan could negotiate.

Peaceful steps towards the practical implementation of the Prague commitments were taken in April 2024 when four Azerbaijani villages controlled by Armenia were returned. Following this event, both countries entered a new stage of border demarcation and installed posts, signaling a resolution to settle matters through increasingly direct talks.

Eventually, this process led to the culmination of the Whitw House summit, where the two countries' foreign ministers initialed—in the presence of their respective bosses and U.S. President Donald J. Trump—the text of the Agreement on the Establishment of Peace and Interstate Relations between the Republic of Armenia and the Republic of Azerbaijan whilst their bosses reaffirmed their commitment to sign the peace treaty after Armenia amends its constitution. A separate document outlined the TRIPP vision, boosting the prospects for regional connectivity and cooperation to advance the Middle Corridor.

The disbandment of the OSCE Minsk Group on 1 September 2025 represented another crucial milestone in the peace process, enabling both countries to engage in good faith and conduct dialogue without intermediaries. Since the

establishment of constructive neighborly ties grounded in diplomacy and multilateral engagement following the drastic shift in Armenia's foreign policy in the wake of the Second Karabakh War, it is now evident that Armenia no longer harbors grievances or revanchist ambitions toward Azerbaijan. Instead, Yerevan seems to have begun to regard Baku as a regional middle power—a keystone state, as Nikolas Gvosdev and others have argued—projecting influence, which compels neighboring Yerevan to position itself as a negotiating partner for Baku.

Azerbaijan is shaping a new, balanced foreign policy that is economically sustainable, politically diverse, and firmly independent.

Regional Level

Next, we turn from a neighborhood-level analysis to a regional one. Here, we shall concern ourselves first with the Arab-Israel-Azerbaijan triangle in the context of Baku's ANA. Aliyev once reportedly compared Israel's relations with Azerbaijan, which date back to 1991, to an iceberg: "nine-tenths of it is below the surface." Bilateral ties now resemble a mystery box: visible yet still secretive. Israel's military and intelligence support helped Azerbaijan achieve a new type of victory, boosting its regional political influence. Despite strong ties, Azerbaijan had not opened an embassy in Israel for several reasons. Still, the Second Karabakh War and rising threats from Tehran, which conducted drills along Azerbaijan's border, helped to change that (it did so in March 2023).

Previously, Baku engaged Israel discreetly to maintain Arab and Islamic bloc support. Resolving the conflict over Karabakh allowed Azerbaijan to publicize its longstanding ties more freely, while the Abraham Accords encouraged more visible engagement by other Muslim-majority countries. From Baku's perspective, establishing an embassy in Tel Aviv was also an independent decision, making it the first Shia-majority country to open a diplomatic mission in Israel.

For Baku, Israel is not only a reliable ally providing military and technological support, but also a trusted partner in building a bridge between Azerbaijan and the United States. This represents a clear example of contemporary rapprochement with Washington, which had adopted an anti-Azerbaijan stance during the Biden Administration thanks to Tony Blinken's inept diplomacy and misunderstanding of the geopolitics of the Silk Road region. Trump's return to power marked a pivotal moment for Baku.

In addition to Israel's messaging, American Jewish community leaders also sent letters to Trump urging him to restore strong relations with Azerbaijan, a move that proved highly effective for Israel's energy sector. AIPAC's Chief Executive Officer, Elliot Brandt, also visited Azerbaijan. At a meeting with Aliyev, he stated that "Azerbaijan's support will be remembered." This historical moment was a first in AIPAC's history to a Muslim-majority state, which both Israel and the U.S. can call a very close friend.

Azerbaijan's ambassador to Israel, Mukhtar Mammadov, additionally emphasized Israel's role in helping Azerbaijan win the Second Karabakh War, saying that "Azerbaijan will never forget Israel's support during that time." Contrary to some forecasters, Azerbaijan-Israel relations did not falter in the aftermath of that war; rather, they flourished further and evolved into a multidimensional friendship based on mutual trust between two peoples who have more in common than most think. This resilience was once again demonstrated after the 7 October 2023 terrorist attacks, when the Azerbaijani public expressed solidarity with Israelis by laying flowers and placing toys in front of the Israeli Embassy in Baku. As a matter of fact, Azerbaijan and Israel are among the few countries that have consistently withstood international pressure. Although Baku was urged to halt oil supplies to Israel through the Baku-Tbilisi-Ceyhan pipeline, it instead acted as a guarantor of Israel's energy security.

Israel also responded similarly during the Second Karabakh War, when much of the Western world adopted resolutions condemning Azerbaijan for liberating its formerly occupied territories from separatist forces. This dynamic illustrates a friendship forged in turbulent times, uniting two multicultural nations through shared resilience and mutual support. As a former Israeli ambassador to Azerbaijan, George Deek observed, more than 80 percent of Azerbaijanis support Israel and view it as a reliable partner. Azerbaijan has not allowed the fact that it neighbors Iran to hinder its relations with Israel, whether in the energy sector, investment in Israel's Tamar gas project, or cooperation in artificial intelligence and education. The relationship stands

out as both pragmatic and fruitful, reflecting the qualities Baku values and seeks in all of its alliances.

With respect to the Arab world, developments in the Middle East—e.g., the Israel-Hamas War, the fall of the Assad regime have reshaped the regional order, dividing it between a U.S.-backed bloc and an Iran-backed bloc. The former—primarily the Gulf monarchies, the new Syrian regime, and Jordan—derives its security from the U.S. and has cooperated in response to Iranian attacks and Israeli insecurity, serving as Tehran's counterweight. U.S. policies under both Trump and the intervening Biden administrations have thus sought to foster cooperation between Israel and the former bloc by establishing and then expanding the Abraham Accords.

From a close distance, whether such bloc-making ultimately succeeds or not, Baku views this as an opportunity to establish what amounts to an Arab-Israeli-Azerbaijani triangle through which its influence in the Middle East could increase in two ways. First, by leveraging its growing relations with Israel to secure both economic and security backing in the region; second, by drawing on its decades-long policy of non-interference, which affords it the credibility to serve as a conciliatory and connective force in a reconfiguring region. In this sense, the Middle East has become a veritable geostrategic market for Azerbaijan—one in which it seeks to expand its reputation, transportation linkages, and security agreements.

The clearest evidence of this was the groundbreaking visit of Syria's new transitional leadership to Baku in July 2025. President Ahmad Al-Sharaa met his counterpart for a lengthy conversation on developing political, economic, cultural, and humanitarian cooperation with Baku. Al-Sharaa later stated he wanted to "deepen cooperation in all fields, especially investment in the energy sector," with further reports stating they discussed plans to export Azerbaijani gas to Syria via Türkiye "in the near future."

Reports then stated that Israeli officials were headed to Baku to meet Syrian officials to strike a peace and normalization agreement. Other sources noted that holding the meetings in Azerbaijan, a decision supported by the U.S., was intended to send a message to Iran. This follows several Azerbaijani trade agreements with Gulf states, including a Comprehensive Economic Partnership Agreement with the UAE in July 2025, the country's hosting of the "Eternal Brotherhood IV" special military exercises in September 2025, which included Qatari forces, and Baku's role as an arbiter in the Turkish-Israeli rapprochement in 2023. Taken together, these developments highlight Azerbaijan's emerging role, rooted in its non-aligned posture: a broker of peace and mediator, as well as a regional connector and investment partner for Arab states.

Founded in 2000 as the Turkic Council, the Organization of Turkic States (OTS) has evolved from a sociocultural organization into a geopolitical bloc. Although the organization's power centers are between Türkiye and the vast landmass of Central Asia, Azerbaijan—the connective bridge of the organization—has played an outsized role in its establishment and transformation.

Azerbaijan hosted the inaugural summit in Nakhchivan, where the Nakhchivan Agreement set out the organization's objectives, including developing common foreign policy positions and deeper cooperation in trade and culture. Yet the OTS only began to function effectively after 2020, when Baku's financial and diplomatic investments enabled the launch of major projects such as the Common Turkic Alphabet and the Joint Turkic Investment Fund in the post-Karabakh era. Until then, the organization remained weak; afterward, it evolved into a budding security and economic union.

The anticipated launch of TRIPP—linking Türkiye with Azerbaijan and, by extension, the wider Turkic world—further underscored this shift. The victory in Karabakh signaled that a contiguous and integrated Turkic union was possible, weakening the arguments of OTS's detractors, particularly Russia and Iran, who are apprehensive about a united Turkic region that could bisect key trade routes.

Notwithstanding the ethnolinguistic kinship that unites the region, Azerbaijan's influence within the OTS has been closely tied to its national interests. First, the organization provides a multilateral avenue for Baku to access Central Asia's vast trade and transport markets, with Azerbaijan as a central hub along the Middle Corridor (this has recently been supplemented by Azerbaijan's inclusion in the C5). Second, it offers a platform to foster a tightly knit bloc capable of replacing—or at least rivaling—Chinese, Euro-Atlantic, and Russian ambitions to acquire

or maintain spheres of influence in Central Asia by moving pieces around the "grand chessboard." The increasing presence of the Euro-Atlantic powers is especially significant given Azerbaijan's policy of "equidistance" toward these outside powers, traditionally pursued through both formal and informal non-alignment.

However, the OTS provided Baku with an official and robust safe haven—one in which Azerbaijan's more active non-alignment translated into building institutions of its own design, allowing the export of Baku's regional power role to operate in tandem through the establishment of a native "fourth pillar" in Central Asia. In this sense, transforming the OTS into a security and economic association served three core strategies of Azerbaijan's national interest: first, to push back against Russian and Chinese influence in Central Asia; second, to facilitate Türkiye's emergence as a regional power in the region, exemplified by the enrichment of Kazakh and Uzbek militaries with Turkish weaponry; and third, to establish a bloc of alternative alignment that, while consistent with Baku's policy of equidistance, would simultaneously secure for Azerbaijan a leadership role within a much broader regional framework.

Baku's intentions became even clearer after the emergence of the 2023 Karabakh status quo. During the July 2024 OTS summit in newly liberated Shusha, Aliyev called for developing the organization into an "influential global entity," declaring that the "twenty-first century must be a century of progress for the Turkic world" in line with his fifth-term pledge, articulated during his February 2024 inaugural address, to pivot Azerbaijan's foreign policy toward Central Asia. This *active*—if not ambitious—approach to non-alignment was further underscored by Aliyev's candid public remarks in June 2024 at a meeting with members of the Parliamentary Assembly of Turkic States: "We don't listen to anyone's orders; we don't allow anyone to come here and interfere in our work. Don't hit me, and I won't hit you. If you are going to hit me, then you will also get a headache."

Indeed, the progress made has clearly not been impeded. Since the announcement of its *Turkic World Vision-2040* in 2021, the OTS has made significant strides in multisector cooperation. In trade and transport, the Middle Corridor initiative continues to grow in importance, with year-on-year growth being measured. In economics, member states are harmonizing customs procedures and transit tariffs to facilitate intra-Turkic commerce. Most notably, in the security sphere—of particular concern to actors like China and Russia—the OTS has committed to combating "the threats of radicalization, violent extremism, Islamophobia, xenophobia and terrorism," strengthening border security, and pursuing collaboration with other regional organizations such as the Visegrad Group.

Systemic Level

So far, we have explored Azerbaijan's ANA at the neighborhood and regional levels. We now turn to an examination of the systematic level, which we characterize as *multivector hedging in a fragmenting world order*. We start with Azerbaijani foreign policy towards the West, particularly with the U.S. and the EU. It has evolved drastically, shifting from what could be described as a "situationship" characterized by limited engagement to a deeper, more strategic partnership.

While Azerbaijan's national security doctrine has not been formally amended in the aftermath of the Second Karabakh War, it clearly endorses a pro-Western trajectory aligned with integration into Euro-Atlantic security and economic structures. Some version of this undeclared vision continues to shape Baku's foreign policy orientation, earning Azerbaijan the label of a "pro-West" country—whether in the modernization of its armed forces or its close alliance with NATO member state and brotherly country, Türkiye.

Since its victory in the Second Karabakh War, Azerbaijan has taken notable steps to expand its diplomatic relations with the West. Efforts have been made to improve ties with the U.S., culminating in high-level engagements such as the White House summit hosted by Trump on 8 August 2025. This was a pivotal moment in Azerbaijan's contemporary history, in part due to Trump's resumption of the suspension of Section 907, a congressional embargo imposed on Azerbaijan to prevent the country from receiving direct U.S. aid, which had not been renewed by the Biden Administration.

Section 907 had long been considered the greatest success of Armenian lobbying groups such as the Armenian National Committee of America (ANCA) and the Armenian Assembly of America (AAA). These diaspora lobbying bodies were also the first to

condemn the U.S. rapprochement with the region, where American economic and security interests are evident. With this revocation, a critical stumbling block has been removed from the bilateral political agenda. The suspension of Section 907 will increase U.S. government cooperation and open the door to investment in Azerbaijan, financially supporting the country's ability to expand export operations to the West via TRIPP.

Azerbaijan has also expanded its cooperation with the EU in the energy sector. In 2022, following the invasion of Ukraine, the EU and Azerbaijan signed a Memorandum of Understanding on Strategic Partnership in the Field of Energy. European Commission President Ursula von der Leyen praised Azerbaijan's role in diversifying European energy infrastructure and announced that the EU aimed to double its energy imports from Azerbaijan by 2027 through key routes such as the Southern Gas Corridor. This corridor, along with other energy infrastructure projects (like the Black Sea and Caspian green electricity corridors), has been crucial to the strategy, supported by Western investments. New energy deals mentioned at the White House underscore growing U.S. interest in leveraging Azerbaijan as a strategic energy partner amid broader geopolitical competition.

These positive developments in Azerbaijan's post-2020 Western orientation reflect a strategic yet cautious opening, strengthened by diplomatic ties, critical legislative shifts such as the repeal of Section 907, and significant energy cooperation. The country's national aspiration is to transition to broader relations with the Transatlantic community while maintaining balanced regional relations with Russia and even China, whose footprints in the South Caucasus are becoming increasingly visible.

Azerbaijan, like other states that have successfully managed Russia as a neighbor, has grown increasingly skeptical of Russia's ambition to maintain a robust sphere of influence in what it used to call its "near abroad," particularly as Baku gains sufficient regional power to question Russia's posture without fear of reprisal.

Moreover, if Azerbaijan truly seeks to be actively non-aligned, then it needs to rid itself of any neocolonial dynamics—and this includes recalibrating the terms of its ties with Russia. Thus, just as Azerbaijan managed to remove Russian hard power from its territory in Karabakh after 2023 through its salami-slicing tactics, those same tactics are now being actively applied to diminish Russian soft power within its borders.

The downturn of bilateral relations triggered by the tragic downing of an Azerbaijan Airlines flight on 25 December 2024 in Russian airspace—caused by two Russian air defense missiles fired against three Ukrainian drones in the area that technically malfunctioned and exploded near the airplane—lasted nearly ten months. It was bookended by an initial but, judging by subsequent events, an insufficient apology by Putin in a phone call to Aliyev on 28 December 2024, and an in-person apology during a meeting between the two in Dushanbe on 9 October 2025. During this downturn period, Azerbaijan improved its relations with the West (culminating in the White House summit). Before recalibrating the terms of its ties with Russia, Azerbaijan curtailed aspects of Russian soft power in the country, including suspending Sputnik's operations and terminating *Russkiy Dom's operations* in the capital.

In sum, Baku's actions were incremental and measured, yet also swift and severe—a strategy possible only for a state prepared for recourse and unburdened by other territorial distractions, undertaken to preserve its non-aligned and unbeholden position within the international system.

The last country to examine in the context of Azerbaijan's foreign policy at the systematic level is China, which has gone from being a silent player to an active partner in relatively short order.

The Azerbaijan-China relationship in the years leading up to the Second Karabakh War fell short of its full potential. Although China has been widely regarded by analysts and scholars as a great power for a decade or more, Azerbaijan's foreign policy remained primarily focused on navigating the West-Russia interplay, while gaining standing in the developing world. The central connective element in the growing relationship was, of course, the Middle Corridor, which underwent significant development—most notably with the completion of the Baku-Tbilisi-Kars Railway in 2017. As the conflict over Karabakh approached its conclusion, thereby expanding the use of Azerbaijani territory for interregional transport, and as China's Belt and Road Initiative sought to extend into the western part of the Silk Road region (i.e., the South Caucasus), confidence in expanding Sino-Azerbaijani relations further solidified.

As with many burgeoning economic relationships, security soon emerged as a concern—if not an immediate interest—particularly for a power-seeking state that perceives both the decline of the West and Russia as a rationale for engaging a rising Silk Road region partner. After years of developing relations through the Middle Corridor, which facilitated the transport of millions of tons of goods to Western markets, it was with this security concern in mind that Baku and Beijing signed a Comprehensive Strategic Partnership on 22 April 2025. The agreement sought to strengthen their respective roles in global supply chains, but in a manner that would render them increasingly important to one another, given China's manufacturing capacity and Azerbaijan's indispensable role in securing strategic connectivity across the only land trade route to Europe that bypasses Russia and Iran, two countries sanctioned by the West.

> *Routes associated with the Belt and Road Initiative will traverse Azerbaijan from both north to south and east to west, positioning Baku as a veritable crossroads of connectivity in the Silk Road region.*

The Sino-Azerbaijani Comprehensive Strategic Partnership has since begun to work in tandem with Baku's participation in the Shanghai Cooperation Organization (SCO) as a Dialogue Partner (as of September 2025). Although Baku submitted a bid for full membership, it was ultimately rejected due to a lack of consensus in the membership. Nevertheless, this has not deterred Azerbaijan's efforts to establish an even more security-sensitive corridor with China through the International North-South Transport Corridor, linking India, Iran, and Russia, alongside the Middle Corridor that connects the European continent to China. In this way, routes associated with the Belt and Road Initiative will traverse Azerbaijan from both north to south and east to west, positioning Baku as a veritable crossroads of connectivity in the Silk Road region. In a world that is becoming increasingly multipolar—more precisely, tripolar (China, Russia, U.S.—Baku is orienting itself toward the East for connectivity in logistics, trade, and security.

Assuming Leadership

The trajectory of Azerbaijan's ANA was accelerated, if not triggered, thanks to the restoration of its sovereignty as a united country following two unprecedented military victories. Since 2020, Azerbaijan has not only secured military success but also achieved numerous diplomatic victories, positioning itself as a rising power capable of paving the way for other states. As presidential adviser Hikmat Hajiyev noted, "Azerbaijan won the war, and now Azerbaijan is winning the peace." This is precisely where the country is headed.

The main difference between Azerbaijan's old and new foreign policy is that Baku now negotiates as a powerful, sovereign regional leader, placing its national interests at the center of its diplomacy. This trend will continue with the opening of TRIPP, which is set to amplify Azerbaijan's already stable position as an indispensable connectivity hub controlling a vital element of international trade. Historically, Baku was of great importance for its natural resources, including oil and gold, which managed to broker economic deals with the West while maintaining a balance with the East. Yet today, Azerbaijan is prepared to make more assertive choices that serve its national economic and political interests.

Its victory in the Second Karabakh War enabled Azerbaijan to strengthen its role as a bridge between Ankara and the Central Asian capitals, thereby contributing to the strategic coherence of the Turkic world for the first time in centuries. Baku also deepened its military relationships with Israel, Pakistan, and the Arab world, forging a unique brand of Realpolitik rooted in pragmatic calculation. Moreover, Azerbaijan has proven to be a reliable partner in times of crisis: for the EU, it is an increasingly important energy supplier; for Türkiye, a brotherly nation; for Israel, a close friend; for Pakistan, an example; and for the Arab world, a model of coexistence.

In these turbulent times, one fact in the South Caucasus remains indisputable: any reliable partnership must pass through Baku. This is evident in America's renewed rapprochement with Azerbaijan as a gesture of appreciation and a boost in cooperation under Trump's leadership, which is highly valued in the region. It is now certain and undeniable that Azerbaijan is no longer merely a follower of the regional order but an active player shaping regional norms, order, and events as a rising keystone state or middle power.

After this review of the depth and reach of Azerbaijan's new ANA foreign policy doctrine, it is evident that Baku is increasingly

punching above its weight compared to other states of similar size. While Azerbaijan's geographic location and natural resources contribute to its importance, the country's strategic endeavors—from forging intensive economic and security partnerships to building an evidently superior military since the end of the conflict over Karabakh with Armenia—make it insufficient to classify Azerbaijan as merely another "small state" in the international system.

Accordingly, some analysts have classified the country as a keystone state; others, as a middle power—or at least as one seeking to achieve middle-power status through its strategic pivot and power-seeking behavior. The latter classification, however, would place Azerbaijan in the company of established middle powers such as its neighbors Türkiye and Iran, as well as states like Israel and India, which, according to one definition, "cannot act alone effectively but may be able to have a systemic impact." Indeed, as the Middle Corridor increasingly becomes a matter of international security, Baku's decisions could prove decisive in ensuring the stability of cross-regional trade.

Middle power scholar Carsten Holbraad suggests that such states are particularly "trusted to exercise their diplomatic influence and military power in the interest of international society, that they were capable of being less selfish than great powers and more responsible than small states."

In Baku's case, it is beginning to exercise its diplomacy to assume a leadership role in the Silk Road region and the Turkic world, right at a time when the major powers seem to be retrenching. However, whereas other middle powers possess their own regional polarities and alignments, Azerbaijan does not yet have the capacity to serve as a metropole to its own periphery. Moreover, it must still preserve its active, non-aligned posture as a matter of state survival—a challenge somewhat more manageable for far larger states such as Türkiye or Iran. BD

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The Evolution of the EU's Regulatory Role in Energy

Samuel Furfari

Since its establishment, the European Union has gradually asserted itself as a significant force in economic and political regulation, particularly within the energy sector. While its initial policies focused primarily on post-WWII reconstruction and economic cooperation, the EU has developed an increasingly complex legislative arsenal over the decades, aimed at harmonizing, securing, and modernizing the economic systems of its member states. As energy formed the basis of the EU's establishment and integration, this development is particularly evident in this sector. Initially, this evolution was reflected in a desire to promote technological progress through ambitious research and development funding, before the EU adopted a much more prescriptive approach involving the imposition of constraints and binding targets on decarbonization requirements, energy efficiency, and renewable energies.

These changes are having an impact on internal cohesion and the EU's external relations. Domestically, the rise in regulatory requirements has increased administrative burdens for member states, sometimes undermining their energy sovereignty or economic competitiveness. Externally, the European Commission is showing a marked tendency to export this regulatory model in terms of climate and energy, illustrating its ambition to act as a global legislator—an approach that is contested by many developing and developed countries around the world.

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The evolution of the EU's regulatory role, particularly in the energy sector, can be understood through this dual internal and external dynamic. The organization has been able to shape markets, guide technological choices, and drive major transitions with a voluntarism that is sometimes seen as centralizing and restrictive. This essay explores the historical and contemporary trajectory of this regulation, its effects on European management, the burden it imposes on member states, and its impact on the EU's geopolitical position.

Energy is the foundation of European integration and has become the primary focus of EU regulation.

Historical Origins

Energy is the foundation of European integration and has become the primary focus of EU regulation. As early as 1951, the European Coal and Steel Community (ECSC) established the economic cooperation of countries that had been enemies for too long by pooling the war-related sectors of coal and steel. This led to industrial recovery and peacekeeping, which paved the way for reconciliation.

The Euratom Treaty (1957), signed alongside the Treaty of Rome, represents a fundamental step in the history of European integration. Unlike the EEC Treaty, the Euratom Treaty has retained its separate legal identity and has never been incorporated into the European Union. This distinctive feature has enabled the European Atomic Energy Community to develop a specific and coherent approach to nuclear cooperation. The Euratom Treaty established a legal framework for pooling knowledge, infrastructure, and funding for civil nuclear energy, ensuring not only the security of Europe's energy supply but also the establishment of uniform safety standards to protect the population.

Thanks to Euratom, Europe has been able to develop independent nuclear expertise and a robust industrial base, contributing significantly to the continent's energy sovereignty while promoting scientific excellence through coordinated research programs. This cooperation, based on common objectives rather than regulatory constraints, illustrates an approach to European integration that has proven its effectiveness and acceptance by member states and their populations. While there were no legislative regulations in the energy sector, there were provisions to facilitate this emerging market.

For decades, the European Commission has been developing concepts that are not regulatory in nature. In 1968, it published a document titled "First Orientation of the European Community's Energy Policy." This document proposed medium-term forecasts and guidelines for each energy source, as well as the establishment of a common market and a policy to ensure a secure and affordable supply. It also recommended establishing research and development programs in the field of hydrocarbons. As its title suggests, this was merely guidance; implementation was not an option, as the treaty did not allow it. It took the oil shocks of the 1970s for these ideas to be put into practice.

Following the oil crises of the 1970s, the EU became aware of its energy vulnerability and external dependence. This period saw an increase in the coordination of national policies to secure supply and the first discussions about a common energy policy. However, economic divergences and national models—often based on integrated incumbents—limited harmonization, leaving regulation fragmented until the 1990s.

The 1980s saw an integration effort through the Single European Act (1987), which aimed to eliminate barriers to cross-border energy trade. Establishing internal markets became a key objective, with directives on the liberalization of electricity in 1996 and gas in 1998. New legislative packages followed in 2003 and 2009, separating generation, transmission, and distribution activities. This promoted competition and the interconnection of national systems.

The Lisbon Treaty

The 2009 Treaty on the Functioning of the European Union (TFEU)—the so-called Lisbon Treaty—saw energy receive specific legal articulation for the first time, as it was considered a competence shared between the Union and its member states, alongside environmental policy. Article 122 enables the EU to implement emergency measures, particularly—says the treaty—in the energy sector, to address crises and reinforce solidarity among member states.

Article 194, which is specific to energy, establishes that the Union's policy in this field shall, within the framework of establishing or functioning of the internal market and taking into account the need to preserve and improve the environment, aim to ensure the functioning of the energy market and the security of energy supply in the Union. It shall also promote energy efficiency and energy saving, as well as the development of new and renewable energies, and the interconnection of energy networks, in a spirit of solidarity between the member states.

These measures do not affect a member state's right to determine the conditions for exploiting its energy resources, its choice of energy sources, or the general structure of its energy supply (Article 194-2). Clearly, this means the Union cannot impose the use or prohibition of its resources or imports on one or more member states. As for tax measures relating to energy, these must be agreed unanimously. However, the EU imposes a reporting and planning matrix, indicative of increasing centralization.

Promoting Energy Technologies

In order to measure the changing role of legislation and regulation, it is important to note that research and development was paramount in the EU for decades. When I joined the European Commission's Directorate-General for Energy, technology was ubiquitous and at the heart of activities. Occasionally, analyses and scenarios were published, but there was hardly any legislation to enforce action on member states.

The EU's involvement in energy research and innovation can be traced back to the founding texts, long before the recent surge in innovation funding. As early as 1951, Article 55 of the ECSC Treaty established programs to encourage technical research that was essential for the industrial productivity and competitiveness of Europe's coal and steel sectors. Specific aid was allocated for R&D projects. This was the first step in the structuring of European industrial power, placing scientific investment at its heart.

The signing of the Euratom Treaty in 1957 gave energy research a systemic dimension.

Chapter 1 of the Treaty explicitly provides for "the development of research and the dissemination of technical knowledge," overseen by the Joint Research Centre (JRC), which was established for this purpose. By encouraging member states to share their nuclear research programs and coordinating projects, the Commission upgraded scientific expertise and enabled the establishment of Common Indicative Nuclear Programmes (NICs).

Research was not limited to nuclear energy; in response to the oil crises of the 1970s, the European Community launched demonstration programs to address various challenges related to energy supply security and energy diversification. These programs focused on conventional oil and gas production (the Oil and Gas Demonstration Programme), the conversion and clean combustion of coal, and the promotion of "alternative energy," which encompassed not only emerging renewables.

In the 1980s, the launch of the first Framework Programs for Research and Development (FPRD) marked the beginning of a new era of organized collaboration. This movement gained momentum with the Horizon 2020 program (2014-2020), which focused on scientific excellence, industrial competitiveness, and societal challenges, with energy occupying a central place. The program funded projects on smart grids, storage, innovative industrial processes, and renewables, catalyzing an unprecedented mobilization of research in the EU.

In 1993, the European Commission began encouraging renewable energy sources through various non-technological policies, including the ALTENER program, which aimed to promote alternative energies through non-binding measures, and the SAVE program, which aimed to promote energy saving through non-legislative measures. These non-binding measures included conferences, publications, training for energy managers, awareness campaigns, cooperation exchanges, and other non-technological initiatives. Within the framework of the SAVE program, I managed the energy management action for local and regional authorities, again focusing on stimulating energy savings in territorial authorities through 'soft' measures and promoting renewable energies through awareness-raising initiatives. The European Commission partly financed the project, but still without coercive measures.

In short, the EU combines pioneering institutional foundations (ECSC, Euratom) with powerful contemporary instruments, making research and innovation support a cornerstone of European energy policy, centered on the challenges of competitiveness, sovereignty, and resilience.

Energy Regulatory Constraints

Initially a promoter of an incentive strategy based on research and voluntary stimulation, the European Union has gradually evolved its arsenal of instruments towards a legislative model. This model was initially soft enough to result in real omission. This process has accelerated since 2000 under the pretext of implementing the Kyoto Protocol. Within a few years, the European Commission proposed, and the European Parliament quickly adopted, directives on renewable energies (2001), energy performance in buildings (2002), the promotion of biofuels (2003), and cogeneration implementation (2004). Then, restrictive regulations were imposed on energy services and manufacturers of energy-using appliances, known as Ecodesign (2006), accompanied by labelling obligations for all this equipment. The adoption of Directive 2009/28/EC, which introduced an obligation to consume and produce renewable energy, marked a significant turning point in the continent's energy governance.

It should be noted that the 2001 EU Directive on the promotion of renewable energy (2001/77/EC) established national "indicative targets." Each member state was expected to produce a certain proportion of its electricity from renewable sources. Still, there were no direct legal constraints, and therefore no real obligation, to achieve results. This approach was adopted at the time because member states resisted the imposition of binding measures from Brussels, as this was the first directive to do so.

However, Directive 2009/28/EC saw member states succumb to pressure from the European Commission and the European Parliament, finally accepting mandates and binding targets. These were defined by the European Commission at the national level to collectively achieve a 20 percent target for renewable energy by 2020 for the EU as a whole (with specific thresholds for each member state based on its capabilities and starting point).

Despite some initial reluctance, all member states eventually agreed. At the time, this would have been frowned upon by the EU population. The states were therefore legally bound to meet their national targets.

The different treatment of the same renewable energy production target in these two directives highlights the accelerated pace of the European legislative process in recent years. The 2009 Directive has led to the harmonization of the regulatory landscape, forcing all governments to transform their national support, network management, and reporting frameworks. The obligation to provide evidence via guarantees of origin and the setting of sectoral targets brings member states into alignment with a common agenda, reducing their room for maneuver.

Successive changes to the directive have further tightened the regulatory framework: the 2030 target was initially set at 32 percent, then raised to at least 42.5 percent in the 2023 revision (RED III) as part of the "Fit for 55" package and in response to the Ukrainian crisis. This normative pressure also aims to reduce the EU's dependence on Russian fossil fuels by explicitly incorporating geopolitical constraints into EU legislation. These obligations to produce renewable energy are accompanied by a requirement to prioritize their dispatch.

Consequently, cheap nuclear electricity in France or cheap coal-fired electricity in Poland, for example, is forced to reduce production to allow renewable energy to be prioritized, despite the fact that it exists only because it is subsidized. Since these obligations to produce uncompetitive energy had to be accompanied by public aid, the EU authorized the member states not to respect the right to competition in this area, producing an additional layer of legislation. Once again, we can observe an increase in the power of European legislation.

More Normative Pressure

The "Energy and Climate" packages and, more recently, the "Clean Energy Package for All Europeans" package (2019) complete this normative stack. These texts no longer only concern production; they also reform the governance of the entire market. For example, there are new rules on vertical disintegration (electricity companies can no longer produce, transport, or distribute electricity; independent companies must manage each of these services), new flexibility mechanisms, and incentives for innovation and the development of cross-border trade. There is also increased integration of citizens as consumers ("prosumers"). The principles of solidarity and flexibility are gradually being replaced by standardized objectives and reporting at the EU level. National policies must comply with the harmonized national energy and climate plans, which are verified by the Commission.

The increase in constraints is also evident in the Energy Efficiency Directive, which was strengthened in 2009, 2012, and most recently in 2023 to achieve carbon neutrality by 2050. The directive imposes quantified reductions, such as an improvement in energy efficiency of at least 11.7 percent by 2030, and requires large companies and many SMEs to undertake new mandatory audits. Urban planning, the renovation of public buildings, and energy performance management become legal and operational obligations for all member states.

When the Energy Performance of Buildings Directive was adopted in 2002, measures were put in place to inform citizens. Standardized labelling indicating the building's performance level must accompany its sale or rental. Subsequently, however, this directive became a coercive instrument: it is now illegal to sell or rent buildings that do not meet the minimum energy performance requirements.

What was initially a useful information tool has evolved into an investment obligation to enhance performance levels. Currently, the number of residential properties for sale or rent is decreasing, as owners believe that the investment required by the regulations cannot be profitable in the sales or rental market. This is another example of excessive regulation, similar to that seen in the renewable energy sector.

As with any directive, member states are required to implement its provisions, but they may exceed these requirements. However, their freedom to define their renewable energy mix is limited by the obligation to prepare a National Action Plan (NAP), which details how the individual targets will be achieved.

The European Commission examines plans submitted to it within a given timeframe and may request revisions if it deems the targets insufficient in relation to the required results. Even if the plan is in accordance with the principle of subsidiarity, it must be drafted using an extremely detailed template. To illustrate the level of detail required by the European Commission for the Renewable Energy Directive, the template comprises 29 A4 pages and 13 tables.

The European Commission has made decarbonization the guiding principle of all its policies, integrating this imperative into legislation relating to energy, buildings, mobility, industry, agriculture, and taxation.

These legislative packages have profoundly changed the way EU energy governance functions, introducing forced interoperability, standardized planning tools, mandatory and detailed reporting, and the submission of national instruments to the European Commission for validation.

Despite their diverse economic and energy contexts, member states must comply with the pace and standards set in Brussels. This leads to a significant increase in compliance costs and a partial loss of autonomy in defining energy policies, as well as increasing the administrative and strategic burden. This final constraint necessitates the employment of large numbers of civil servants to ensure implementation. The workload for a small member state like Malta is the same as for a large member state like Germany, with consequences that are easy to imagine.

This change, which is focused on fighting decarbonization, is disrupting the traditional hierarchy of priorities—security of supply and competitiveness—that has historically prevailed in the EU's energy strategy.

The Decarbonization Turning Point

This is indeed the decarbonization strategy that the EU has pursued since the early 2000s, culminating in the adoption of the European Green Deal in 2019, which considerably strengthened European legislation. The stated objectives are twofold: to achieve climate neutrality, or 'net zero,' by 2050; and to rapidly reduce net greenhouse gas emissions by

55 percent by 2030 compared to 1990. Furthermore, the European Commission has made decarbonization the guiding principle of all its policies, integrating this imperative into legislation relating to energy, buildings, mobility, industry, agriculture, and taxation.

The European Green Deal has led to an increase in the number of regulatory texts, particularly the EU Emissions Trading Scheme (EU ETS), which is now the cornerstone of its climate policy. Launched in 2005, this carbon market forms the basis of a system that imposes a cap on CO2 emissions in energy-intensive industries and the energy sector (including industry and electricity production, and soon buildings, maritime transport, and road transport). Companies receive or purchase allowances through auctions and must either adhere to them or compensate for them on the market, under the threat of sanctions. This mechanism is continually strengthened to encourage continuous reductions in emissions by shifting the cost of pollution to the most intensive players, thereby promoting the decarbonization of industrial and energy processes. Between 2010 and 2023, this has achieved an effective 22 percent reduction in emissions, while broadening the scope of sectors covered to include maritime transport, construction, and, ultimately, road transport.

Other tools, such as the low-carbon hydrogen strategy, the Innovation Fund, and the reform of the electricity market, complement this regulatory framework to accelerate the transition.

The emergence of decarbonization as the supreme imperative has profoundly altered the governance and management structure of the energy sector in the member states. National planning is now subject to rigorous National Energy and Climate Plans, which are evaluated by the European Commission to ensure compliance with the directives and to assess their potential impact. Control mechanisms, such as emission inventories, energy audits, and real-time monitoring tools, are being strengthened at all levels, leading member states and companies to integrate unprecedented budgetary, legal, and technical constraints.

The centralization of energy management priorities in Brussels has also strengthened the standardization of calculation and action methods, establishing new compliance obligations, particularly for heavy industry and established energy sectors. This regulatory shift is also changing traditional trade-offs: security of supply and competitiveness, which were previously priorities, now take a back seat to the EU's carbon trajectory.

Asserting Universal Normative Competence

The European Green Deal is the EU's most significant climate and energy policy initiative to date. The goal is to make Europe the first carbon-neutral continent by 2050. This places the climate imperative at the top of the Community's priority hierarchy, overturning the historical balance in favor of security of supply and competitiveness through legislative and coercive measures.

The mechanism has gradually expanded to include the Carbon Border Adjustment Mechanism (CBAM). The CBAM is a European Green Deal tool that originated from the desire to complement the Emissions Trading System (ETS), established in 2005. The ETS had a perverse effect on energy-intensive industries, such as steel, cement, aluminum, fertilizers, and hydrogen production. Many EU-based companies producing such goods have relocated their production to countries where carbon costs do not exist, a phenomenon known as "carbon leakage." The CBAM aims to address this issue by replicating the carbon price signal at the EU's borders. Under the scheme, an importer in the EU must acquire CBAM certificates equivalent to the CO2 price that a producer in the EU would have paid if the same goods had been manufactured in the EU. In other words, the aim is to treat EU and foreign producers equally, while encouraging the latter to reduce their emissions.

Clearly, the CBAM is an instrument of normative power: the EU is attempting to impose its environmental standards beyond its own borders. This puts Brussels in the position of being the architect of global carbon regulation, but it comes at the cost of increased trade tensions. Partners such as China, India, and Türkiye view this as a form of hidden protectionism. Even the Biden Administration, despite its ambitious climate policies, had criticized the mechanism's extraterritorial logic, considering it contrary to WTO rules.

Furthermore, the CBAM is being implemented in the context of global geoeconomic rebalancing. By seeking to 'green' its supply chains, the EU is increasing

its dependence on critical metals produced outside its borders. This produces tension between climate objectives and economic security, particularly with regard to supplier countries such as South Africa (coal and steel), Russia (aluminum and fertilizer), and China (aluminum and hydrogen).

CBAM is an excellent example of the extraterritorial extension of EU law. It has been gradually coming into force since 2023 and will be mandatory from 2026. However, another directive also provides for this extraterritorial competence. The Corporate Sustainability Due Diligence Directive (CSDDD), adopted in 2024, forms part of a strategy to strengthen the EU's sustainable regulation. It affirms the EU's ability to define companies' responsibilities on a global scale by combining business law, environmental governance, and social justice.

In response to mounting pressure from environmental activists demanding greater corporate social and environmental responsibility, the European Union introduced transparency obligations through directives on the disclosure of non-financial information in 2014, reinforced in 2022. The CSDDD goes further still by producing a legal obligation of means, not just a reporting obligation. Companies with more than 1,000 employees and a turnover exceeding €450 million must now identify, prevent, mitigate, and report on human rights, social rights, and environmental rights violations in their value chains. This duty applies not only to their subsidiaries, but also to their subcontractors and suppliers located outside the EU—a significant development in the area of economic extraterritoriality.

This legislative instrument extends the EU's regulatory power beyond its own borders. In practice, a company operating, for example, in Africa, Asia, or Latin America that supplies a customer in the EU will have to comply with the environmental, social, and governance (ESG) standards set by Brussels. Thus, the mechanism transforms the classic contractual relationship into a vertical normative chain in which EU companies effectively impose EU regulations worldwide.

This evolution has several effects. From an economic perspective, it increases the administrative and financial burden on companies, particularly SMEs, who will now be responsible for ensuring their global suppliers are compliant. In terms of trade, some partners may perceive it as a form of moral neoprotectionism aimed at imposing EU production standards worldwide. Geopolitically, the directive reinforces the perception of EU unilateral normative power, raising questions about the compatibility of certain requirements with the regulatory sovereignty of third countries and the WTO's multilateral rules. The extraterritorial implementation of the directive could also lead to the fragmentation of global value chains, as some non-EU companies may choose to stop trading with customers in the EU rather than submit to this normative control.

CSDDD illustrates the EU's transformation from a trade regulatory body to a global normative power.

However, controlling thousands of suppliers, verifying complex supply chains, and accepting legal liability for events that occur abroad could, paradoxically, weaken EU competitiveness. Additionally, unequal application between large multinationals and SMEs could establish a new internal barrier to the EU market.

Some companies, both large and small, are wondering whether it would be cheaper to withdraw completely and pay a substantial fine for non-compliance. I received a first-hand account of this calculation from someone in charge of it at a large German SME. Other companies are reconsidering their interest in doing business in the EU, cancelling planned investments and halting ongoing projects. This is already happening dramatically in the chemical industry. These are companies that wish to conduct their business in an ethical and sustainable manner but cannot justify the cost of compliance or the legal risk of making a mistake.

CSDDD illustrates the EU's transformation from a trade regulatory body to a global normative power. While this transformation gives the EU greater influence in defining global standards, it must nevertheless be accompanied by economic and diplomatic realism; otherwise, the EU could find itself isolated by a normative strategy disconnected from the balances of global trade.

The imperative of decarbonization is thus becoming a driver and a main constraint. This is leading to massive investment

costs, the need for a profound transformation of infrastructure, and pressure on the competitiveness of many industrial sectors. Of course, there is also an increase in energy prices. As Mario Draghi, the former president of the European Central Bank, noted in his now-famous report, there is a worrying loss of competitiveness.

The CSDDD Directive is accompanied by the Corporate Sustainability Reporting Directive (CSRD), which represents a significant shift in the regulation of sustainability reporting within the European Union. It requires companies to be more transparent and to align their strategies with the ecological transition. Proposed by the European Commission in April 2021 as part of the European Green Deal and ambitions for sustainable finance, the CSRD was officially adopted in 2022 and will gradually come into force from 2024 onwards. The scope of the CSRD has been considerably broadened, now covering all large companies and listed SMEs. It requires standardized, audited, and harmonized ESG reporting at an EU level. The main objective is to direct financial flows towards sustainable activities, thereby strengthening investor confidence and combating greenwashing.

This legislative instrument shifts the balance of power between member states and companies in the energy transition. Sustainability strategies must now form part of business and governance models, implying a redefinition of the role of the boards of directors and senior management. To comply, companies must implement a structured process for collecting and analyzing ESG data, ensure rigorous traceability, and adopt EU standards, accompanied by independent audits in each member state.

The measure aims to establish the European Union as a leader in sustainable regulation and set an ambitious global standard, directly impacting the international competitiveness of EU companies. However, intensifying reporting obligations to increase the administrative burden on companies and risks distorting competition compared to non-EU companies not subject to the same requirements.

The adjacent table summarizes the differences between these two similar directives, both of which contribute to an increase in the bureaucratic burden on companies.

Criterion	CSRD (Reporting)	CSDDD (Due Diligence)
Objective Hand	Enhance corporate transparency on environmental, social, and governance (ESG) dimensions via standardized reporting with the ESRS.	Impose a formal duty on large companies to identify, prevent, and address negative impacts on human rights and the environment throughout the value chain.
Geographic Scope	EU companies and non-EU companies with significant EU activity.	Large EU-based companies, and non-EU companies with notable EU turnover.
Target Companies	Large companies (>250 employees or €40m turnover), listed SMEs, and EU subsidiaries of foreign groups.	Very large companies (>1,000 employees and €450m global/ net turnover), certain non-EU companies depending on EU turnover.
Main Bonds	Annual publication of a sustainability report, according to ESRS, with third-party assurance.	Ongoing duty to identify, prevent, and remedy risks/harms; Compulsory climate transition plan.
EMS Exclusion	Non-listed SMEs excluded, except as subsidiaries or suppliers of in-scope firms.	SMEs formally excluded but indirectly affected as part of the value chain; support measures envisioned.
Enforcement	Audits by statutory auditors; national penalties for non-compliance.	Oversight by national authorities; fines, injunctions, civil and administrative liability.
Timeline (with delays)	Staggered application: two-year postponement for 'waves 2 & 3' under 'Stop the clock directive.'	National transposition by 26 July 2027; staged application until 26 July 2029 based on company size/sector.

Excessive Legislation

This dynamic will inevitably lead to widespread protest from certain member states and business circles as the regulatory power grows over the years. In concrete terms, this resistance has led to questions about the logic of normative expansion and to the launch of a major revision of European Green Deal policies in 2025. Known as the "Omnibus Package," this initiative aims to simplify, defer, and, in some cases, alleviate the obligations imposed by climate legislation, particularly with regard to sustainability reporting

(e.g., CSRD, CSDDD) and the implementation of the CBAM.

The stated objectives are to reduce the administrative burden and restore competitiveness by raising application thresholds, reducing the volume of required data, and postponing deadlines. For example, SMEs are now exempt until 2029, and small importers are temporarily excluded from the CBAM scope. The complex revision procedure involves the EU's Parliament, its Council, and its Commission, taking stakeholder consultations and national opinions into account when adjusting the texts.

This step is not just simple administrative pruning; it reflects a growing opposition that is pushing the EU institutions to strike a more pragmatic balance between normative ambition and economic reality. Nevertheless, climate ambitions have not disappeared, and the future balance will depend on the EU's ability to adapt its objectives without compromising the coherence and credibility of the energy transition project.

This increase in the EU's normative competence is sparking significant internal disputes. Several member states fear that, through the unification of governance and the prescriptive force of the new instruments, the European Commission will substantially reduce their freedom to design policies, particularly in the energy sector, where national energy mixes differ greatly.

Disagreements over how to share efforts, when to implement timetables, and how to balance climate ambition with preserving competitiveness have led to deadlocks, rising tensions within the European Council, and multiple demands for differentiation or flexibility in implementing standards. The risk of the "European project" losing legitimacy in the eyes of member states' populations worried about their energy and industrial sovereignty is now real.

Against a backdrop of increasing normative centralization and evermore ambitious EU energy transition targets, some member states are openly opposing the imposed deadlines and constraints, particularly Hungary and Slovakia, whose economies remain heavily dependent on Russian fossil fuel supplies.

Hungary's government justifies its continued energy imports from Russia due to a lack of viable alternatives in terms of both infrastructure and costs. Budapest stresses that a sudden disruption in gas and oil flows would seriously compromise national supply security and cause a significant rise in energy prices, directly affecting households and industrial competitiveness. Prime Minister Viktor Orbán has declared that his country has "no realistic alternative," rejecting European and, more successfully, American pressure to rapidly reject Russian hydrocarbons while defending a gradual approach that would preserve internal economic stability.

Slovakia takes a similar position, citing geographical and logistical constraints that render an immediate transition impossible. The country relies on historic oil and gas pipeline networks connected to Russia that were inherited from the Soviet era. Redirecting these networks would require substantial investment and extended deadlines. This continued dependence forms part of a regional context characterized by the war in Ukraine, volatile global energy markets, and uncertainties surrounding the availability of new suppliers.

These national positions illustrate the tensions caused by rapid normative integration coupled with accelerated disconnection from Russian fossil fuels. Faced with EU directives, Hungary and Slovakia are attempting to negotiate EU-wide financial support mechanisms to offset the costs of diversifying their energy mix. They insist that replacing or adapting infrastructure designed over decades to work with Russian flows poses a significant economic and technological challenge, particularly with regard to the compatibility of existing networks with new sources of supply.

While this does not call into question the EU's overall decarbonization strategy, it does highlight the difficulty of energy governance in the face of deep structural disparities between member states. Through their position, Hungary and Slovakia are pointing out that the harmonization of energy policies cannot ignore national realities; otherwise, the cohesion and stability of the Energy Union will be undermined. Therefore, finding a balance between climate ambition and economic pragmatism is essential to avoid persistent bottlenecks in countries most vulnerable to supply shocks.

Emerging Parliamentary Resistance

This resistance is also evident in the European Parliament, as well as in some member states. While the proper functioning of the internal market requires harmonization of its rules, this has gradually turned into regulatory proliferation, often driven by additional policy objectives relating to the environment, society, or climate. These objectives have increased the complexity of the normative framework. Consequently, there is a growing concern within the European Parliament about this normative inflation, particularly among non-left-wing parties that consider environmental, social, and climate policies. Since 2024, these parties have criticized the proliferation of reporting obligations, compliance procedures, and environmental criteria, which they say has turned the regulatory landscape into a bureaucratic labyrinth.

MEPs deplore the fact that these requirements result in considerable fixed costs for SMEs and start-ups, including administrative time, the use of legal consultants, and increased difficulties in accessing EU aid. They believe that this bureaucracy harms the overall competitiveness of the EU's economy by slowing down innovation and discouraging new investment in the EU.

It also distorts the internal market itself: large companies, which are better equipped to manage regulatory complexity, strengthen their position while smaller companies are forced to limit their growth ambitions. Furthermore, the competitive dynamic with other global economic centers exacerbates this issue: the United States and several Asian countries favor more flexible regulatory frameworks that incentivize investment and industrial research, whereas the EU is locked into a procedural logic.

To preserve the spirit of the internal market and revive the EU's competitiveness, a proportionate and differentiated regulatory approach is necessary. This should lead to the simplification of legislation resulting from the European Green Deal by distinguishing between essential requirements and ancillary obligations.

A strengthened principle of subsidiarity should be applied by granting greater latitude to member states and regions to adapt the rules to their economic fabric, rather than the European Commission imposing measures for implementation. The institution responsible for legislation has proposed establishing a permanent mechanism for testing competitiveness before any new legislation, in order to assess its administrative impact on SMEs and private investment.

Scaling Back Good Intentions

In this essay, I examined the evolution of the EU's regulatory role in the energy sector, showing how it has moved from an approach based on research and development, coordination, and incentives, to a highly normative model characterized by unprecedented legislative inflation. The historical trajectory reveals that during its first 50 years, the European Community had mainly focused on 'soft' measures of coordination and support for innovation, a period during which it enjoyed strong popular support.

> *Should EU institutions continue their trajectory of normative expansion, risking the further alienation of voters, or should they reduce their legislative ambitions to win back popular support?*

This fundamental transformation is closely linked to the rise of the European Parliament in the EU's institutional architecture, particularly since the Maastricht (1992) and Lisbon (2009) treaties, which gave it considerably increased legislative powers. When this institution only had budgetary powers, the EU focused mainly on incentives and research funding. The gradual granting of legislative powers to the Parliament has triggered an institutional dynamic: an institution with new powers naturally tends to exercise them fully, or even to amplify them.

Among the 720 MEPs, each is seeking to gain visibility in his or her constituency to maximize his or her chances of re-election. This visibility is mainly achieved through legislative activity, transforming many deputies into "hyperactive legislators," multiplying regulatory initiatives. To obtain this visibility and hope to be rapporteurs on important texts, parliamentarians, who do not have the right of legislative initiative, constantly ask the European Commission through resolutions to "give them wheat to grind"—that is to say, legislative proposals to be amended, enriched, and adopted. The European Green Deal is a perfect example of this trend, with a proliferation of directives, regulations, and reporting obligations that have ended up establishing a normative ecosystem of unprecedented complexity and cumbersomeness.

This legislative inflation has provoked a growing rejection from both citizens and the business community, which now threatens the legitimacy of the "European project" itself. EU institutions are therefore at a decisive crossroads: should they continue their trajectory of normative expansion, risking the further alienation of voters, or should they reduce their legislative ambitions to win back popular support?

One thing is clear: during the first half of its existence, when the European Community and then the European Union had not yet developed this ubiquitous legislative vocation, enthusiasm for this political construction among member state populations was considerably stronger. The correlation between normative inflation, which has become particularly evident since the European Green Deal, and the rise in popular disavowal, is a worrying trend.

In a globalized, non-polar world, EU member states can no longer influence major global challenges individually, demonstrating the vital need for a strong, coherent European Union. However, to safeguard this essential organization, the pretense of controlling every detail of citizens' and businesses' daily lives, and even imposing standards on third countries, must be abandoned. Paradoxically, it is by reducing its legislative footprint that the EU could regain its legitimacy and political strength. The solution to saving the European Union is less legislation. BD

INTERNATIONAL IDD PROJECTS

EUROPEAN ENERGY EFFICIENCY TOWARDS MUTUALLY REINFORCING PARTNERSHIP WITH GEORGIA, AZERBAIJAN AND UKRAINE

BTU

Co-funded by the European Union

Project ID: 101128576

The project aims at modernizing and empowering higher education institutions in Azerbaijan, Georgia and Ukraine and cooperation

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Sustainable Balance

Azerbaijan's All-of-the-Above Energy Strategy

Artem Krashakov

Humankind has long used renewable energy sources, but the technological advancements achieved in this domain over the past few decades are impressive. These advances greatly improve society's energy landscape by diversifying sources and tackling environmental issues. However, the strong political focus and ongoing promotion of renewable energy—along with exaggerated claims about the urgent need for a quick green "transition"—have negatively shaped public perception of traditional energy sources, which remain essential for global energy demands. Moreover, many companies, influenced by political pressure, have shifted their investment strategies based on political motives rather than economic or technological factors. Contrary to what climate maximalists say, traditional energy sources (i.e., oil, natural gas, nuclear, and coal) are not outdated or inherently dangerous. In fact, the growth of renewable energy is itself affected by this politicization—especially due to large state subsidies that interfere with market forces and hinder the natural, balanced development of the energy industry, which is vital to economic stability and social development.

Renewable energy technologies undeniably provide numerous benefits, improving living standards through better energy access and promoting the sustainable use of natural resources. Wind and hydropower usage are ancient technologies, while solar power has been evolving rapidly for many decades. Continuous scientific and technological progress in these fields is unquestionably beneficial. However, embracing renewable energy should not imply neglecting further technological innovation and the use of conventional energy sources. It is essential to acknowledge realistically that a large share of the world's population will continue to rely on traditional energy sources for the foreseeable future, following a market-driven evolutionary trajectory of the global energy system. Even today, the "transition"—for example, from coal to oil and gas—remains incomplete. In fact, strictly speaking, there is no "transition," since the world today consumes more hydrocarbons (and more coal) than ever before in history.

Natural gas, in particular, stands out as an ideal transitional fuel, balancing economic viability and environmental benefits. Many states, constrained by economic, financial, and technological realities, cannot immediately shift predominantly to renewables. For these countries, gas offers an optimal interim solution, addressing current energy challenges and significantly reducing environmental impacts, especially in replacing coal-based generation—a goal widely supported in global climate discussions such as COP summits. Consequently, energy policies should remain balanced, objective, and free of simplistic labels such as "good" or "bad," fostering pragmatic, reality-based global energy development. The failure to reach even anything resembling a consensus at COP30 even to begin discussions on a timeline to transition away from fossil fuels in energy systems, speaks directly to this point.

Today, politicians and other public figures in some countries sometimes exhibit almost fanatical adherence to green energy goals, prioritizing them above other critical considerations such as energy affordability, cost-effectiveness, and security of supply. However, the rapid expansion of renewable energy is not feasible for all states, given current geoeconomic conditions. For instance, consider the Asian region, home to most of the world's population. In 2022, coal accounted for 48.9 percent of the region's energy mix, oil 23.3 percent, gas 11.1 percent, bioenergy and waste 7.7 percent, solar and wind 3.64 percent, nuclear 2.89 percent, and hydropower merely 2.46 percent. Notably, despite housing roughly 60 percent of the global population in 2022, Asia was responsible for only 51.19 percent of global CO_2 emissions.

China heavily influences this energy profile, actively developing

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renewable energy and leading globally in green technologies. In 2024, China's energy mix was: coal 59 percent, gas 3.1 percent, hydropower 12.9 percent, wind 9.9 percent, solar 8.6 percent, nuclear 4.5 percent, and biomass 2 percent. Clearly, coal and other traditional sources dominate, and their rapid replacement is impossible despite China's remarkable progress in renewable energy. For many countries, the green transition remains prohibitively expensive, driving a continued preference for more affordable traditional energy sources due to limited financial resources and infrastructure constraints at both the governmental and household levels.

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It is important to highlight that the potential of traditional energy sources, particularly natural gas, remains significantly underutilized. The primary argument in favor of green technology today is an environmental one. This argument is valid, as evidenced by Chinese studies comparing the life-cycle emissions of solar panels and coal-fired power generation. They found that coal emissions per kilowatt-hour substantially exceeded 3.6 times the full lifecycle emissions of solar panels—an outcome that appears relatively favorable for coal.

According to the United Nations Economic Commission for Europe (UNECE), greenhouse gas emissions from coal generation average 820 grams CO2-equivalent per kilowatt-hour, while solar power emissions range from 40 to 50 grams. The difference is significant. However, gas power equipped with carbon capture, utilization, and storage (CCUS) technology can reduce emissions to approximately 92 grams per kilowatt-hour, comparable to solar energy. Without CCUS, gas emissions range from 403 to 513 grams per kilowatt-hour. Although CCUS technology increases project costs by approximately 50 percent, these projects remain economically viable and competitive under current market conditions. Hence, gas-based projects with CCUS could optimally balance generation costs and emissions reductions for many countries.

Beyond emission concerns, renewable energy technologies introduce additional environmental risks associated with resource extraction (such as lithium, silicon, and rare-earth metals) and with waste management from used batteries, solar panels, and turbine blades. Numerous studies highlight the considerable environmental footprint of solar panels and batteries throughout their life cycles, suggesting that their ecological friendliness is less straightforward than commonly assumed.

Renewable energy technologies also present certain technological risks, prompting many countries to seek an optimal balance within their energy mixes. Renewable energy sources inherently depend on weather conditions, resulting in intermittent and unstable energy production. This intermittency can pose significant challenges for maintaining stable grid frequencies and voltages. A notable example was the widespread blackout in Spain on 28 April 2025, which caused substantial economic damage across mainland Spain and parts of Portugal and France. Government assessments indicate that full reliance on renewable energy sources at the time of the failure, which could not maintain stability during significant voltage fluctuations, was a critical factor. Consequently, renewable energy not only faces economic constraints but also challenges in ensuring reliable supply and grid stability.

Renewable energy technologies also present certain technological risks, prompting many countries to seek an optimal balance within their energy mixes.

Advances in energy storage technologies and improved battery efficiency could mitigate many of these issues. However, a technological breakthrough in storage systems is urgently needed to facilitate broader global adoption of renewable energy. Currently, available storage solutions fall short of meeting modern demands. Pumped-storage hydropower, accounting for the majority of global stored energy capacity, is limited by geographic availability. In Europe, nearly all feasible locations for pumped storage have already been utilized.

Meanwhile, battery storage systems, particularly lithium-ion batteries, the most widely used option, are constrained by limited charging cycles, safety concerns, high flammability, and toxicity of certain components (this last makes recycling complex and costly). Alternative battery technologies, such as solid-state lithium batteries and sodium-ion batteries, are still under development and have not yet reached efficient industrial-scale production. These unresolved technological challenges currently limit the effectiveness and economic viability of battery-based storage systems.

Thus, existing practical solutions do not fully meet current economic and technological requirements, but ongoing developments will naturally transform the energy market. Additional extensive governmental subsidies are not necessarily required, as many industry players are already efficiently operating there and actively pursuing breakthroughs.

Azerbaijan's Energy Policy and Strategic Initiatives

At present, renewable energy solutions significantly reduce environmental harm and diversify energy sources, but cannot replace traditional ones due to technological limitations, which in turn raises energy security concerns. Additionally, renewable energy remains economically uncompetitive in most of the developing world. Even in developed countries, substantial government subsidies significantly impact market dynamics. Hence, political biases and excessive focus risk disrupting the natural evolution of energy technology, creating distortions and additional risks for the energy sector.

Meanwhile, energy demand, particularly for reliable electricity, will inevitably grow. Economists typically forecast future energy consumption based on current data trends without accounting for potential qualitative technological shifts. However, it is increasingly evident that unexpected spikes in energy demand may emerge from technologies currently under development or recently introduced. For instance, the expansion of artificial intelligence (AI) is expected to significantly influence energy consumption, although predicting its exact scale in the next decade is challenging. According to current estimates, one query to ChatGPT consumes approximately 0.34 watt-hours of energy, enabling about 2,940 queries per kilowatt-hour (and requiring 0.95 liters of water). Although individually small, the cumulative electricity demands for widespread AI applications could become enormous, given the rapid advancement and integration of AI technologies into everyday life.

Therefore, comprehensive and balanced energy development strategies must be considered today. Countries should not limit themselves to a single energy source merely because it seems best from one perspective. All options should be preserved and expanded. Natural gas remains an optimal solution for many countries, balancing economic accessibility and a relatively low environmental footprint. In specific regions, other energy sources may be more suitable, underscoring the need for a diversified, balanced energy strategy.

An increasing number of key market players today recognize that rushing the energy transition process is not advisable. For example, BP, a global energy major pioneering not only in hydrocarbons but also in the renewable energy sector, recently announced substantial reductions in renewable energy investments over the next few years while increasing expenditures on oil and gas projects. Specifically, BP plans to reduce capital investment in renewable energy from $5 billion to $1.5-2 billion by 2027, whereas investments in oil and gas will increase by an additional $10 billion during the same period.

Azerbaijan's Role in Global Energy Transition

Azerbaijan serves as a notable example of the ebb and flow of global energy development, given its nearly two-century-long history at the forefront of the industry. Baku's current energy policy exemplifies a balanced and comprehensive approach, continuing to nurture traditional oil and gas industries while simultaneously embracing new renewable energy technologies. Although oil and gas extraction and processing constitute the core of Azerbaijan's industrial activities, the country is setting ambitious goals for renewable energy development.

Azerbaijan serves as a notable example of the ebb and flow of global energy development, given its nearly two-century-long history at the forefront of the industry.

Azerbaijan is actively pursuing various renewable energy initiatives with a wide range of technologies, notably designating its liberated Karabakh region as a fully renewable energy zone (focused on hydropower). Additional ambitious projects include wind and solar energy development—both onshore and offshore—a waste-to-energy plant, and battery storage solutions.

Baku is strategically expanding its renewable energy initiatives, carefully evaluating technological alternatives before scaling projects. A notable example of such a strategy is an experimental floating solar installation on Lake Boyukshor, which has operated for several years. Recently, SOCAR GREEN moved to the next stage of this technology development and signed a memorandum with China Datang Overseas Investment Co. to evaluate and potentially develop a 100 MW floating solar power plant complemented by a 30 MW battery storage system.

Practically, Azerbaijan employs a systematic "all-of-the-above" approach, piloting various technologies and carefully selecting optimal pathways. Numerous collaborative projects are underway involving major international partners such as Masdar (UAE) and ACWA Power (Saudi Arabia), as well as the aforementioned BP and China Energy Engineering Corporation Limited. These projects address both domestic market diversification and renewable energy exports, which attract significant interest from European partners.

Traditionally, the European Union, Azerbaijan's leading partner and energy export customer, has focused primarily on natural gas imports. A few years ago, at the initiative of the EU, with the participation of Ursula von der Leyen and Ilham Aliyev, plans were announced to double Azerbaijan's gas exports to Europe, aiming to reach 20 bcm annually by 2027. Azerbaijan and energy companies operating in the country are prepared for this scenario, given the significant untapped potential of local gas fields. However, ideologically driven European Commission regulations have imposed limits on the freedom of EU member states to commit to new long-term contracts that would enable them to reach these ambitious goals, preferring short-term agreements involving limited volumes. The same regulatory framework imposes constraints on banks headquartered in the EU to provide financing for such projects. This approach by Brussels is somewhat puzzling given the successful track record of long-term partnerships such as the Shah Deniz project, a notable example of beneficial long-term cooperation.

Baku's annual oil and gas exhibition and conference, held this year in early June, reinforced current trends. Türkiye, represented

by Turkish Petroleum (TPAO), showed significant interest by participating alongside SOCAR and BP in the Karabakh and Shafag-Asiman projects. Furthermore, ExxonMobil signed a memorandum of understanding with SOCAR for geological exploration and the development of new oil and gas projects that could be game-changing. Last year, ADNOC entered Azerbaijan's oil and gas sector through a partnership with SOCAR and TotalEnergies on the Absheron project, revitalizing its development. Hungarian companies MOL and MVM have also invested by acquiring stakes in Azeri-Chirag-Gunashli and Shah Deniz recently. These activities highlight global interest, although companies based in the EU have remained relatively cautious regarding new oil and gas projects in Azerbaijan. Again, a major reason is the restrictive regulatory environment imposed by the European Commission on certain categories of hydrocarbon projects.

Simultaneously, the European Union's commitment to renewable energy is commendable. Provided that policies are implemented judiciously and professionally, significant positive outcomes can result.

Azerbaijan is actively prepared to support the EU's green energy agenda, assuming it makes economic sense for Baku to do so. Among promising initiatives is the Black Sea Green Energy Corridor. In December 2022, Azerbaijan, Georgia, Hungary, and Romania signed a strategic partnership agreement in Bucharest to develop and transmit electricity produced from renewable sources. These countries have long and successful relations with Azerbaijan in the energy field.

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Black Sea Green Energy Corridor

The Black Sea corridor involves laying submarine cables to transmit green energy from Georgia and Azerbaijan to the EU and perhaps the Western Balkans. An Italian firm, CESI, is preparing the feasibility study. Initially designed for 1 GW capacity, discussions now contemplate a 4 GW alternative—a more scalable, future-oriented approach that considers potential costs and broader project viability.

However, several challenges must be addressed. The first is *scale and route*. The Black Sea is notably deep, reaching depths of up to 2,212 meters. Consequently, it is reasonable to expect cable installation at several hundred meters below sea level when following a coastal route, and potentially over 1,000 meters if a more direct path is chosen. Current project estimates indicate a total length of 1,195 km, of which only 40 km would be on land. For comparison, NordNed (Norway-Netherlands) spans 580 km, with a maximum depth of 410 meters; and the North Sea Link (Norway-UK) spans 720 km, with a maximum depth of 700 meters. The Black Sea project is thus significantly longer and deeper, making it technically more challenging.

Second is *capacity*. While NordNed and North Sea Link have transmission capacities of approximately 1.4 GW and 700 MW, respectively, the proposed Black Sea project is designed for 4 GW and will consist of multiple parallel-laid cables. No comparable technological project of this scale has yet been implemented globally.

Third is *synchronization*. Infrastructure synchronization across multiple participating countries (and legal systems) is critical, requiring robust alignment of generation and transmission capacities. Many players must work simultaneously, adding to the overall complexity.

Fourth is *EU Green Standards*. Stringent adherence to EU certification standards for renewable energy adds an additional layer of complexity. Infrastructure for renewable generation and transmission must be separated from existing lines to ensure the purity of green energy. Otherwise, the share of green energy in the country will be applied to new projects if transported via standard lines. This requirement will increase project expenses for all involved parties.

Fifth is *administration*. Given its complexity and the direct involvement of at least two EU member states, the project will undergo rigorous monitoring by Brussels and possibly receive EU funding. While EU supervision enhances reliability, it may affect the project's implementation speed due to lengthy decisionmaking processes in member states and EU institutions.

Overall, the project—which aims to transmit electricity over thousands of kilometers and includes a substantial subsea segment with a planned capacity of up to 4 GW—will require significant investment. In addition to the submarine cable itself, the project entails the development of dedicated renewable generation facilities and extensive supporting infrastructure. While current public estimates suggest a cost of around $4 billion, some analysts have speculated that the total expenditure for the entire system—including construction, equipment, and grid integration—could reach $10 billion. (The $4 billion figure likely accounts only for the main subsea cable and terminal converter stations at both ends.)

By March 2026, a comprehensive feasibility study for the marine segment of the project is expected to be completed, as noted above. The resulting technical and economic parameters will allow for a more accurate assessment of the project's viability. While part of the funding—such as for the construction of additional generation capacity or the development of receiving infrastructure on the consumer side—will be provided by the participating countries, a significant portion of the investment will need to come from external sources. In this regard, there are high expectations for support from EU institutions, which have recently shown strong interest in green energy projects.

Caspian Sea Green Energy Corridor

Azerbaijan is prepared to move forward on the Black Sea Green Energy project. The country is already rapidly expanding its renewable electricity generation capacity. Moreover, in response to EU demand, Baku is exploring new opportunities for regional cooperation in the green energy sector and is open to new partners.

One initiative is a proposal to lay a subsea energy cable across the Caspian Sea to facilitate renewable electricity exports from Kazakhstan and Uzbekistan. This move has received strong backing from regional partners. The European Union is also deepening its engagement in the region. On 4 April 2025, the first EU-Central Asia summit was successfully held, where energy cooperation and potential EU investments in the region's green electricity generation were key agenda items. As a result, energy deliveries via the Black Sea corridor could eventually be complemented by new supply sources from Uzbekistan and Kazakhstan, enabled by expanding the project through a dedicated Caspian Sea cable connection.

On 1 May 2024, the energy ministers of Azerbaijan, Kazakhstan, and Uzbekistan met in Tashkent, culminating in a detailed memorandum to interconnect their energy systems and export renewable electricity to the EU. This significantly accelerated project activities, including consultations with interested buyers from the EU.

The feasibility study for the Caspian Sea submarine cable project, also conducted by CESI, might be completed even sooner than the Black Sea project, due to its smaller scale. The proposed Caspian project's cable spans roughly 380 km and, notably, traverses relatively shallow waters, predominantly less than 100 meters deep. Moreover, an optical fiber telecommunications cable is also being laid between Azerbaijan and Kazakhstan along a similar route, set for completion by 2026. This project, managed by AzerTelecom and Kazakhtelecom, serves as practical groundwork, enhancing technical expertise and organizational capabilities beneficial for expediting the subsequent energy cable project.

The planned capacity of the Caspian cable is 1 GW, using High-Voltage Direct Current (HVDC) technology, allowing efficient energy transmission and bidirectional reversibility with minimal losses. Economic evaluations suggest scaling the project to 2 GW, possibly implemented in two phases, but this requires proper design and ground preparations at the beginning.

The Caspian Sea project is smaller in scale but of no less strategic importance. The proposed cable spans roughly 380 km and traverses relatively shallow waters, with depths predominantly less than 100 meters. An optical fiber telecommunications cable is also being laid between Azerbaijan and Kazakhstan along a similar route, set for completion by 2026. This project, managed by AzerTelecom and Kazakhtelecom, serves as practical groundwork, enhancing technical expertise and organizational capabilities beneficial for expediting the subsequent energy cable project.

Although no official cost estimates have been released, historical benchmarks from similar projects provide guidance. For instance, NordNed (580 km, 700 MW HVDC, completed in 2008) cost approximately $880 million, while the North Sea Link (720 km, 1.4 GW HVDC, commissioned in 2021) cost €1.6 billion. Adjusted to 2025 price levels, the revised cost of the first project would be approximately $1.28 billion, and the second project would be approximately €1.71 billion.

Preliminary budgetary estimation tools suggest the following mid-range values for the Caspian project:

- submarine cable: $1.25 billion
- land cable: $250 million
- converter stations: $500 million

In total, this comes out to $2 billion in construction costs. Operational costs are anticipated at $30-40 million annually. Assuming an initial phase operating at 1 GW capacity, a load factor of approximately 60 percent, an electricity purchase price of $0.25 per kWh, and a sale price of $0.70 per kWh, the project would deliver around 5.25 million kWh per year. Under these conditions, the payback period is projected to be around 10 years—an attractive outcome for an infrastructure project of this scale that, in theory, could remain in operation for many decades.

Strategic Outlook

It is important to consider that infrastructure already exists to support electricity exports through Azerbaijan and Georgia to Türkiye via the Azerbaijani transmission system, including the Akhaltsikhe-Borchka interconnection in Georgia, which has a capacity of 700 MW. Azerbaijan currently exports over 1 million kWh annually through this corridor. Türkiye could serve as a key link in this emerging energy bridge—potentially as part of a swap mechanism—receiving electricity in the east and transferring it westward.

Türkiye is actively expanding its renewable energy generation and plans to gradually commission approximately 1.5 GW of nuclear capacity at the Akkuyu plant each year over the next few years. Thus, it has the generating capacity to support such a role and is open to participating in this initiative. Expansion of electricity supplies there may also be supported by exports from Azerbaijan's Nakhchivan exclave, which are currently under consideration.

Active cooperation and coordination among the countries involved in the energy bridge project are already underway, reinforcing the viability of the Caspian Sea cable as a key component of regional energy integration.

Crucially, the project has already secured financial support for initial assessments from institutions like the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB). Interest from additional potential partners, including companies from

China, Saudi Arabia, and the UAE, further strengthens the project's prospects for attracting sufficient financing and swift implementation. Companies from these countries are demonstrating strong interest and are actively exploring both technical and investment participation in the project. Ultimately, it is clear that the project may secure the required financing that could speed up its implementation.

An important consideration is the project's "green" implementation. While Azerbaijan, Georgia, Kazakhstan, Türkiye, and Uzbekistan are fully prepared to channel their renewable energy sources into these projects described above, regulation and certification depend largely on how the European Union defines and applies its procurement standards. A key question remains: how will this electricity be recognized and certified as "green," especially when it may be transmitted through the grids of various countries? This remains subject to further technical and regulatory discussions.

Nonetheless, the project is positioned initially as a green energy initiative. First, the Caspian project can be integrated into the broader Black Sea corridor described earlier. It could serve as a complementary source of generation capacity, which is especially relevant given the Black Sea project's intended 4 GW transmission volume—an output that requires a substantial renewable generation base. Second, the countries involved in the Caspian initiative have clearly stated their commitment to developing new renewable energy specifically for this project.

Based on current market prices for electricity produced even from conventional sources in the EU and Western Balkans, the project remains highly relevant and economically viable. This explains why it is attracting growing interest not only from regional stakeholders but also from countries in the EU not currently part of the main Black Sea project. This includes Bulgaria, which may benefit from competitively priced electricity generated from genuinely renewable sources. Ultimately, the project's recognition as "green" will depend on the EU's regulatory approach. However, participating countries are ready to take responsibility for its development and are actively advancing the initiative.

Besides its economic and environmental benefits, the Caspian energy cable also carries significant geopolitical implications. It directly integrates the energy systems of Azerbaijan, Kazakhstan, Uzbekistan, and, potentially, Türkiye, enhancing regional cooperation and economic integration. The project symbolizes a significant step forward in tangible energy collaboration within the Organization of Turkic States, contributing to deeper integration among its member states.

It should almost go without saying that the Black Sea and Caspian Sea projects are not rivals. Moreover, the involved countries recently took a very promising step in the opposite direction. According to Azerbaijan's Energy Minister, Parviz Shahbazov, he and his colleagues from Georgia, Hungary, and Romania (the Black Sea Green Energy Corridor quartet) agreed on 14 November 2025 to explore and develop strategic synergies between the Black Sea and Caspian Sea projects. Merging the two concepts (only Azerbaijan is a party to both) could enhance their prospects and accelerate the process. While each is likely viable on its own, combining them could boost both the efficiency and investment appeal of the electricity corridor as a unified system.

Baku remains actively engaged in renewable energy projects and proactively supports initiatives such as the Black Sea and Caspian subsea cable projects to supply the EU and Western Balkans with green energy.

Overall, Azerbaijan exemplifies comprehensive energy diversification that aligns with contemporary global energy strategies. Responding to requests from partners in the EU, Baku has demonstrated a readiness to significantly expand gas exports to Southeast Europe, steadily broadening the number of its partners in the EU in terms of reliable gas supplies. The country also maintains a wide geographic distribution of oil exports. Simultaneously, Azerbaijan positions itself as a leader in energy transformation, actively addressing both ecological and economic challenges, highlighted by its successful hosting of COP29 in November 2024.

If partners are interested in green projects right now, Azerbaijan is ready to support them. Baku remains actively engaged in renewable energy projects and proactively supports initiatives such as the Black Sea and Caspian subsea cable projects to supply the EU and Western Balkans with green energy. Its collaborations with reputable international companies in the field, such as BP, Masdar, ACWA Power, and China Energy Engineering

Corporation Limited, underscore its capability and reliability in delivering on ambitious energy commitments.

All of the Above

Ultimately, global energy cooperation requires a balanced and integrated approach. Countries vary significantly in their energy transition stages; thus, political pressures should not disrupt this naturally diverse progression. Natural gas, in particular, remains a strategically optimal choice for addressing many contemporary energy challenges, serving as a crucial transitional resource for scores of countries. Growth in oil and gas production is being observed in the Silk Road region, the Gulf, North America (led by the United States and its "energy dominance" strategy), and elsewhere. It seems there are no obstacles to deepening LNG supply cooperation between the U.S. and the EU. In fact, such cooperation has been accelerating rapidly in recent years.

Should the European Union maintain its commitment to a green energy future, Azerbaijan and its partners are ready to support it actively. Regardless of the direction taken, infrastructure development remains essential, necessitating tangible support and action from partners in the EU. This may contrast somewhat with historical examples such as the Nabucco pipeline, which was extensively discussed but ultimately replaced by concrete initiatives such as TANAP, developed by Azerbaijan alongside Türkiye and BP. This project made the Southern Gas Corridor happen. The coming years will reveal whether the EU's current green initiatives will receive substantial support or follow the unrealized path of projects like Nabucco.

Energy remains a foundational need, warranting cool-headed, professional rather than ideologically driven political decisionmaking. Responsible governance in energy policy will encourage broader societal awareness and critical reflection on issues such as the actual environmental footprint of renewable energy infrastructures, including the sourcing and lifecycle impacts of materials used in green technologies. Such a balanced approach will also foster greater appreciation from society for traditional energy sectors and oil workers, who still primarily provide reliable, affordable energy to meet the daily needs and support the development of humankind. BD

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Baku's Green Finance Policy

Pathways to Sustainable Economic Transformation

Fuzuli Aliyev

This essay explores Azerbaijan's strategic approach to green finance as a tool for sustainable economic transformation. It outlines the national and international policy context, institutional landscape, financial instruments, and key challenges. The paper concludes with actionable recommendations to strengthen the green finance ecosystem and support Azerbaijan's climate commitments, especially in light of its COP29 presidency and the COP30 outcomes.

Embracing Green Finance

The premise of the entire project launched by the United Nations Framework Convention on Climate Change (UNFCCC) in 1992 is that climate change and environmental degradation pose significant risks to economic stability, public health, and long-term development. As part of their response, countries around the world, including Azerbaijan, have increasingly turned to green finance—a strategic approach to mobilizing capital for what are said to be environmentally sustainable projects and initiatives. Green finance encompasses a wide range of financial instruments and policies aimed at supporting the "transition" to a lower-carbon, climate-resilient economy.

Azerbaijan's strategy to embrace green finance has both environmental and economic dimensions. As a country rich in natural resources and heavily reliant on hydrocarbons, Azerbaijan faces the dual challenge of reducing its carbon footprint while diversifying its economy. The government has signaled its commitment to sustainable development through national strategies such as *Azerbaijan 2030: National Priorities for Socio-Economic Development*, and also via its increasingly active role in global climate negotiations during its COP29 presidency and subsequently. The country's green finance policy is emerging at the intersection of national development priorities and its global climate responsibilities. Baku is increasingly recognizing the need to align its economic model with environmental sustainability, especially as it hosted COP29 and deepened its role in international climate diplomacy.

This essay explores Azerbaijan's strategic approach to green finance as a tool for sustainable economic transformation.

Azerbaijan's long-term development vision, articulated in *Azerbaijan 2030*, identifies "a clean environment and green growth country" as one of its five strategic goals. This priority reflects a shift toward integrating environmental considerations into economic planning and infrastructure development. The country's *Strategy for Socio-Economic Development for 2022-2026* further implements this vision by emphasizing the importance of energy efficiency, renewable energy, sustainable agriculture, and green urban planning. Together, these strategies provide a foundational policy framework for developing green finance mechanisms that can support the transition to a lower-carbon economy.

Azerbaijan is a party to the Paris Agreement, reached in 2015 at COP21, and has submitted updated Nationally Determined Contributions (NDCs), committing to reduce greenhouse gas emissions by 35 percent by 2030 compared to 1990 levels, with a conditional target of 40 percent. These commitments signal Azerbaijan's intent to contribute meaningfully to global climate efforts. The country's COP29 presidency offered a unique opportunity to showcase leadership in climate finance and sustainable development. It has sped up domestic reforms, attracted international partnerships, and positioned Azerbaijan as a regional hub for green finance innovation.

In recent years, Azerbaijan has taken concrete steps to build a

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supportive policy environment for green finance. For example, the Central Bank of Azerbaijan (CBAR) launched the *Sustainable Finance Roadmap 2023-2026*, which outlines key priorities such as the development of a national green taxonomy to classify sustainable economic activities, the integration of ESG (Environmental, Social, and Governance) criteria into financial risk assessments, and the promotion of green financial instruments like green bonds and sustainability-linked loans, and capacity building for banks and regulators on climate-related financial risks. Complementary legislative efforts include laws on energy efficiency and renewable energy, along with reforms to environmental impact assessment procedures. These initiatives are supported by the World Bank, the United Nations Development Programme (UNDP), the Asian Development Bank (ABD), the European Bank for Reconstruction and Development (EBRD), and other likeminded institutions by providing technical assistance and funding to strengthen Azerbaijan's green finance ecosystem.

Institutional and Regulatory Landscape

The development of green finance in Azerbaijan is supported by an expanding institutional framework and evolving regulatory mechanisms. Although the ecosystem is still in its early stages, several key institutions have started to play a proactive role in shaping the country's sustainable finance agenda.

As mentioned earlier, CBAR has emerged as a leading institution in promoting green finance in the country through its *Sustainable Finance Roadmap 2023-2026.* It is also working to align its supervisory practices with international standards, including those set by the Network for Greening the Financial System (NGFS) and the Task Force on Climate-related Financial Disclosures (TCFD).

Azerbaijan's long-term development vision, articulated in Azerbaijan 2030, identifies "a clean environment and green growth country" as one of its five strategic goals.

At the same time, the Ministry of Ecology and Natural Resources plays a central role in setting environmental policies and climate governance. It is responsible for coordinating Azerbaijan's climate commitments under the Paris Agreement and for implementing national strategies related to biodiversity, emissions reduction, and environmental protection. The ministry works with financial institutions and foreign partners to ensure that green finance initiatives align with national environmental priorities. It also supports the development of monitoring and reporting systems for climate finance flows.

Being closely connected with the legacy global financial system, established multilateral development banks and international or regional organizations help support Azerbaijan's green finance agenda. Institutions such as the World Bank, ADB, EBRD, and UNDP provide technical assistance for policy development and capacity building, funding for green infrastructure and climate resilience projects, and support for issuing green bonds and developing ESG frameworks. These partnerships are important for adapting global best practices to national conditions and mobilizing climate finance on a larger scale, as are other, more regional ones. These include the Astana International Finance Centre (AIFC), the Islamic Development Bank (IsDB), the Asian Infrastructure Investment Bank (AIIB), and the nascent Turkic Investment Fund.

Financial Instruments and Market Development

As noted above, green finance development in Azerbaijan is gradually expanding through the introduction of financial instruments that promote environmentally sustainable investments. Although the market is still in its early stages, recent initiatives show increasing interest from both public and private sectors in leveraging finance to achieve climate and environmental goals.

In recent years, green bonds have become some of the most prominent instruments in Azerbaijan's emerging green finance landscape. In 2024, Unibank became the first Azerbaijani financial institution to issue a green bond, marking a significant milestone for the domestic capital market. The interest-bearing, uncertificated, registered, unsecured bonds have a maturity of 36 months, a nominal value of 100 manat (AZN, the national currency), an annual interest rate of 11.5 percent, a coupon payment period of every three months, and an issue volume of 20 million AZN. The bond was certified under international standards and aimed at financing renewable energy and energy efficiency projects. This issuance was supported by international partners, including ADB and the AIFC Green Finance Centre, which provided technical assistance and ensured alignment with global frameworks like the International Capital Market Association (ICMA) Green Bond Principles. The success of Unibank's green bond has paved the way for other financial institutions to explore similar instruments, and discussions are underway to develop a national framework for green bond issuance, including incentives and regulatory support.

Beyond green bonds, Azerbaijani banks are starting to explore sustainability-linked loans (SLLs), which connect loan terms to the borrower's environmental or social performance. These instruments offer flexibility and can be applied across sectors like agriculture, manufacturing, and construction. The Central Bank of Azerbaijan has issued preliminary guidelines for ESG integration in lending practices, encouraging banks to assess climate-related risks and opportunities in their portfolios. Although adoption is still limited, pilot projects supported by foreign donors are helping to increase capacity and awareness.

Azerbaijan has access to various international climate finance mechanisms, including the Green Climate Fund (GCF), the Global Environment Facility (GEF), and bilateral donor programs. These funds support projects in renewable energy, climate adaptation, and sustainable land management. From this perspective, blended finance—combining public and private capital—is increasingly viewed as a practical way to expand green investments. Public guarantees, concessional loans, and technical assistance can help de-risk projects and attract private sector participation, especially in infrastructure and energy sectors.

> *Blended finance is increasingly viewed as a practical way to expand green investments.*

The development of capital markets is also crucial for expanding green finance in Azerbaijan. Regulatory reforms are underway to enhance transparency, investor protection, and ESG disclosure standards. The Baku Stock Exchange is considering opportunities to list green financial products and attract institutional investors interested in sustainability. However, on the buyer side, investor engagement remains difficult because awareness of green finance principles is still limited among

domestic stakeholders. Educational campaigns, capacity-building initiatives, and demonstration projects are needed to build trust and increase demand for sustainable financial instruments.

Azerbaijan's Regional Role

As Azerbaijan positions itself at the forefront of climate action and sustainable development in this part of the world, regional cooperation in green finance emerges as a critical pathway to achieving its environmental and economic transformation goals. As a keystone state of the Silk Road region, coupled with its leadership role at COP29, provides a unique opportunity to build collaborative frameworks that attract capital, share expertise, and expand green investments across borders.

> *Azerbaijan has taken bold steps to institutionalize its green finance agenda. The launch of the country's Climate Finance Action Fund (CFAF) in 2024 demonstrates its commitment to regional leadership.*

These days, climate change is said by some to be a transboundary challenge that demands multinational, coordinated responses. The Silk Road region faces shared vulnerabilities—ranging from water scarcity and desertification to "energy transition" and infrastructure resilience. Despite these common challenges, regional climate finance initiatives have historically been underfunded, receiving less than 2 percent of global climate finance between 2013 and 2018. Recognizing this gap, regional actors have started to align their strategies accordingly. The EU-led Cross-Regional Connectivity Agenda, launched in October 2025, aims to improve sustainable transport, energy, and digital infrastructure across the Black Sea and Silk Road regions. This initiative prioritizes renewable energy deployment and the "green transition" as foundational pillars. Additionally, COP29 in Baku catalyzed dialogue on regional climate finance. Panels featuring stakeholders from Azerbaijan, Kazakhstan, Uzbekistan, and international institutions like the World Bank and the Japan Bank for International Cooperation (JBIC) emphasized the need for harmonized taxonomies, public-private partnerships, and shared verification standards for green financial instruments, which have already started to show results and are expected to keep progressing.

Azerbaijan has taken bold steps to institutionalize its green finance agenda. The launch of the country's Climate Finance Action Fund (CFAF) in 2024 demonstrates its commitment to regional leadership. The CFAF, capitalized through contributions from fossil fuel-producing countries and companies, aims to raise $1 billion for climate projects in developing states, including those in the Silk Road region. Additionally, Azerbaijan's partnership with multilateral institutions such as the World Bank and ADB has strengthened its capacity to participate in regional green finance. The World Bank's Country Partnership Framework (CPF) for Azerbaijan (2025-2029) highlights regional integration, renewable energy corridors, and climate-resilient infrastructure as key priorities.

Among the core states of the Silk Road region, Kazakhstan holds special significance for Azerbaijan in terms of cooperation and joint projects. Azerbaijan's strategic partnership with Kazakhstan across various sectors, including transport, renewable energy, financial services, and others, reflects its regional ambitions.

The Astana International Financial Centre (AIFC) has become a key institution for ensuring a level playing field for all financial market participants. Accredited by the Climate Bonds Initiative (CBI) and the International Capital Market Association (ICMA), the AIFC Green Finance Centre offers verification, advisory, and capacity-building services for sustainable financial instruments. As mentioned earlier, in 2024, AIFC played a crucial role in Azerbaijan's debut green bond issuance. Unibank, one of Azerbaijan's leading private banks, issued $11.8 million in green bonds aligned with ICMA's Green Bond Principles. The AIFC Green Finance Centre provided a Second Party Opinion, certifying the bonds' environmental credentials and giving Unibank an "excellent" rating for its sustainability strategy. This collaboration not only validated Azerbaijan's green finance capabilities but also set a precedent for future issuances. AIFC's involvement ensures that Azerbaijani green bonds meet international standards, thereby boosting investor confidence and facilitating access to global capital markets.

Beyond verification, AIFC provides a distinctive legal and

regulatory environment based on English law, making it appealing for international transactions. Its infrastructure supports innovative financing mechanisms, including green sukuk, sustainability-linked loans, and blended finance structures. These instruments are particularly relevant for Azerbaijan as it aims to diversify its financial toolkit and attract foreign investment into its green economy.

Opportunities and Challenges

The shift to green finance presents Azerbaijan with a variety of strategic opportunities while also revealing structural and institutional challenges that need to be addressed to ensure long-term success. Understanding both aspects is crucial for designing effective policy measures and encouraging sustainable investment. Given the country's GDP structure, we can suggest that green finance provides a pathway for Azerbaijan to diversify its economy beyond hydrocarbons. Investments in renewable energy, sustainable agriculture, and green infrastructure can stimulate new industries, generate jobs, and lessen reliance on oil and gas revenues.

We can list the opportunities as follows:

- As a developing country and the host of COP29, Azerbaijan is well-positioned to attract international climate finance from sources such as the Green Climate Fund (GCF), the Global Environment Facility (GEF), and bilateral donors. These funds can support large-scale projects in the energy transition, climate adaptation, and ecosystem restoration.
- Green finance can open new opportunities for the private sector, especially in banking, insurance, and investment. Financial institutions can develop innovative products like attractive green bonds, sustainability-linked loans, and ESG investment portfolios, while businesses can gain better access to capital for sustainable projects.
- Investing in climate-resilient infrastructure and sustainable land use can lower vulnerability to climate risks such as droughts, floods, and soil degradation. This is particularly important for rural communities and sectors such as agriculture and water management.
- As the host of COP29, Azerbaijan has a unique opportunity to position itself as a regional leader in climate finance and sustainable development. This can boost its international image and

encourage stronger collaboration with neighboring countries and multilateral organizations.
- Azerbaijan should establish a Silk Road Region Green Finance Forum to institutionalize regional platforms, promote dialogue, share best practices, and coordinate joint projects.
- Leveraging support from multilateral financial institutions and international organizations will be essential to co-finance regional green infrastructure, especially in energy and transport sectors.
- Supporting the proposed Trans-Caspian Development Bank (TCDB), as outlined in the Spring 2025 edition of *Baku Dialogues* by Carlos Roa, Charles Yoakey, and Ibrahim Mammadov.
- Azerbaijan should expand its verification partnerships by continuing collaboration with AIFC for future green bond issuances and exploring joint certification schemes for sustainability-linked instruments. Finally, promoting capacity building through targeted training programs for financial institutions, regulators, and project developers will enhance the understanding and implementation of green finance tools, thereby strengthening the region's overall climate finance ecosystem.

Despite recent progress, Azerbaijan's financial institutions often lack the technical expertise and resources needed to effectively implement green finance frameworks. The good news is that regulatory bodies are aware of this and offer support to the country's financial institutions. Some of these capacity-building efforts include:
- Workshops and training programs organized by the Central Bank of Azerbaijan in partnership with the World Bank and UNDP, focusing on ESG integration, climate risk assessment, and green bond structuring.
- Technical assistance programs provided by the Asian Development Bank to support the development of a national green taxonomy and sustainable finance guidelines.
- University-led initiatives, such as curriculum development in sustainable finance and climate economics, aimed at preparing the next generation of professionals. For example, ADA University offers a Sustainable Finance course in the Bachelor of Science in Finance program.
- Regional knowledge exchanges, where Azerbaijani regulators and bankers participate in study tours and peer learning with institutions in countries like Georgia, Kazakhstan, Türkiye, and Uzbekistan.

These efforts are essential to build the human capital and institutional readiness needed for a robust green finance ecosystem.

Besides opportunities, we see challenges in various areas. A significant portion of Azerbaijan's banking sector is exposed to climate-sensitive sectors. According to one estimate, over 55 percent of the country's banking loan portfolio is vulnerable to climate-related risks. Without proper risk management tools, some foreign analysts claim that this could pose systemic threats to financial stability. The absence of standardized ESG disclosure requirements limits the ability of a self-selected group of investors and regulators to assess the sustainability of financial products. Clear and enforceable regulations are essential for market credibility and investor confidence. Moreover, public and private sector awareness of green finance remains low. Many businesses and financial institutions are unfamiliar with ESG principles, climate risk assessment, or the claimed benefits of sustainable investment. Education and outreach are critical to building market demand (along with competitive return rates, of course).

It is challenging for managers to make sustainability-related decisions because environmental and climate-related data are often scarce or fragmented, hindering progress tracking, risk assessment, and reporting on green finance flows. Developing robust data systems and monitoring frameworks is a key priority.

Policy Recommendations

To accelerate the development of green finance in Azerbaijan and ensure its alignment with national and international sustainability goals, a coordinated and multi-level policy approach is required.

The following six set of recommendations aim to strengthen the regulatory framework, attract investment, and build institutional capacity.

One, standardized ESG disclosure requirements should be introduced for financial institutions and large corporations to enhance the overall integrity and sustainability of the financial system. These disclosures would significantly improve transparency and accountability in that niche field, allowing interested stakeholders to better understand the environmental and social impacts of financial activities. They would also enable more accurate risk assessment and portfolio alignment with sustainability goals, helping institutions manage climate-related risks more effectively.

Lastly, standardized ESG reporting would facilitate the integration of Azerbaijan's financial sector with global ESG investment flows, possibly attracting additional foreign capital and positioning the country as a credible player in sustainable finance.

Two, the government and the Central Bank should introduce a range of fiscal and regulatory incentives to stimulate the growth of green bonds, sustainability-linked loans, and other climate finance instruments. These incentives could include tax exemptions, reduced interest rates for certified green projects, or other subsidies, thereby lowering the cost of capital, reducing market risks, and encouraging investment in environmentally sustainable initiatives. Additionally, credit guarantees or risk-sharing mechanisms could be implemented to mitigate financial risks and attract private sector participation in green investments.

To further accelerate project implementation, fast-track approval processes should be established for sustainable infrastructure developments, ensuring that green projects can move efficiently through regulatory channels and begin delivering environmental and economic benefits without delay.

Three, capacity-building programs should be expanded across the financial sector, government agencies, and academia to strengthen Azerbaijan's green finance ecosystem. This includes training regulators and bankers on climate risk management, ESG integration, and the design of green financial products to ensure informed decision-making and regulatory oversight. Universities and research centers should be supported in developing specialized curricula and research initiatives focused on sustainable finance to prepare future professionals with the necessary expertise.

Lastly, establishing a national green finance knowledge hub would facilitate data sharing, policy coordination, and stakeholder engagement, serving as a central platform for learning, collaboration, and innovation in the field.

Four, green finance should be integrated into Azerbaijan's public-private partnership (PPP) framework to attract private investment in sustainable infrastructure. This involves designing bankable green PPP projects in key sectors such as energy, transport, and water, ensuring they meet both environmental and

financial viability criteria. To reduce investment risks and enhance project attractiveness, the government can leverage concessional finance and donor support, and offer guarantees or co-financing arrangements.

Lastly, promoting blended finance models that combine public and private capital will help attract larger funding pools and facilitate the implementation of complex, long-term green infrastructure projects.

Five, a robust system for tracking climate finance flows should be developed to monitor progress and ensure accountability in Azerbaijan's green finance initiatives. This system should be able to collect and publish comprehensive data on both public and private sources of green finance, providing transparency and enabling informed decision-making. It must also align with international reporting standards, such as those established by the OECD and UNFCCC, to ensure consistency and comparability with global practices.

Azerbaijan's proactive engagement in regional green finance cooperation positions it as a catalyst for sustainable transformation in the Silk Road region.

Lastly, the system should support evidence-based policymaking and facilitate stakeholder engagement by providing accessible, reliable information to guide strategic planning and foster collaboration across sectors.

Six, Azerbaijan should actively engage in regional platforms and global initiatives to strengthen its green finance ecosystem, share best practices, and attract sustainable investment. This includes participating in climate finance dialogues in international forums and conferences, thereby reinforcing its leadership role in global climate action. Collaboration with neighboring countries on cross-border green projects—such as renewable energy corridors, sustainable transport networks, and shared water resource management—can enhance regional resilience and unlock economies of scale.

Lastly, Azerbaijan should deepen its engagement with multilateral development banks and climate funds to access technical expertise, concessional finance, and co-investment opportunities that support the implementation of large-scale sustainable infrastructure and climate adaptation projects.

Transformative Opportunity

Green finance represents a transformative opportunity for Azerbaijan to align its economic development with environmental sustainability and global climate commitments. This essay has outlined the strategic policy context, institutional landscape, financial instruments, and key challenges shaping Azerbaijan's green finance ecosystem. While progress has been made—particularly through the Central Bank's roadmap, the issuance of the first green bond, and emerging regulatory reforms—significant gaps remain in capacity, market readiness, and stakeholder engagement.

To advance the approach recommended in this essay, Azerbaijan should implement a comprehensive, coordinated strategy that includes enhancing ESG disclosure standards, incentivizing sustainable investments, and strengthening institutional capacity. Public-private partnerships and international collaboration will be crucial to attract the large-scale finance needed for a successful "green transition."

Azerbaijan's proactive engagement in regional green finance cooperation, supported by institutions like the AIFC, positions it as a catalyst for sustainable transformation in the Silk Road region. By leveraging its strategic partnerships, regulatory reforms, and financial innovation, Azerbaijan can not only meet its climate goals but also contribute to a resilient and inclusive regional economy.

In short, by embracing green finance, Azerbaijan can not only meet its climate goals but also unlock new avenues for economic diversification, innovation, and regional leadership. The time to act is now—through bold policy choices, strategic investments, and inclusive dialogue, Azerbaijan can shape a sustainable future for generations to come. BD

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