

**Azerbaijan's Political Economy
and Foreign Policy in 2015**

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Introduction

This chapter seeks to explore the developments in Azerbaijan's political economy and foreign policy as well as their implications for the regional politics in the South Caucasus in 2015. Just like the other South Caucasian republics, Azerbaijan has also experienced a very challenging year in 2015. These challenges of Azerbaijan originate mostly from its own domestic dynamics but also from regional and global developments. In turn, Baku's responses to the developments in Azerbaijan as well as its relations with major international actors and neighbouring countries tends to shape some of the developments in the South Caucasus.

The main argument of this chapter is as follows: the falling global energy prices had a considerable impact not only on Azerbaijan's economy, but also on its ability to pursue a balance of power policy towards Russia, the EU and the US. This is mainly because Azerbaijan's domestic economic and political problems make it more cautious about improving its relations with the Western powers and institutions and more vulnerable to the pressures of Russia. In order to re-engage Azerbaijan as a country and the South Caucasus as a whole, the EU and the US could develop new inclusive initiatives which could revitalize the process of Europeanization in Azerbaijan without antagonizing Russia. This argument is based on the assumption that a more Europeanized Azerbaijan could develop more cooperative relations with its neighbours in the South Caucasus than a less Europeanized one.

This chapter is organized as follows: This short introduction is followed by an analysis of developments in Azerbaijan's political economy. Afterwards, the chapter discusses the major issues in Azerbaijan's foreign policy and Baku's relations with major international actors, including, the United States, the European Union and Russia. Next, the chapter examines Azerbaijan's relations with its neighbours, including Armenia Georgia, Turkey, Kazakhstan, Turkmenistan, and Iran. The concluding chapter discusses the main

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findings of this chapter in terms of their implications for the regional dynamics in the South Caucasus.

Azerbaijan's political economy in 2015

Needless to say, the energy sector is one of the most important priorities of Azerbaijan's domestic politics and foreign policy. Azerbaijan's rich oil and natural gas resources have enabled Baku to ensure a high degree of political stability domestically and to project considerable diplomatic power regionally. This has been the case as long as oil and natural gas prices remained high in international energy markets. Nevertheless, energy prices are very unpredictable given their high sensitivity to the international technological, diplomatic, and security developments.¹

Starting from the mid-2014 global energy prices for oil and natural gas have begun to decline sharply. Most of the energy-rich countries have started to experience the tangible negative economic consequences of this decline in energy prices since the early 2015.² It should be noted that not all energy rich countries have suffered from declining energy prices severely. In fact, the energy-rich countries which are less vulnerable to the sharp decline in global energy prices include two groups of countries: The first group covers those countries which are able to maintain high level of oil and natural gas production even at very low energy price levels due to their very low production costs, such as the US and Saudi Arabia. The second group includes those countries whose economic systems are not over-dependent on revenues from the energy exports, such as Norway and Canada.

Azerbaijan belongs to neither of these groups of countries that are not vulnerable to the sharp declines in global energy prices. Azerbaijan's production costs are very high at its aging oil and natural gas production areas. In addition, Azerbaijan's economy is overwhelmingly dependent on the revenues from oil and natural gas exports. This overdependence on energy sector prevents Baku from taking effective economic measures in order to compensate the negative impact of the falling energy prices in the short term.³

In order to cope with the negative impact of the falling energy prices at the global markets, Azerbaijan's Central Bank sought to

¹*Caucasus and Central Asia: Oil Price Decline and Regional Spillovers Darken the Outlook*, Regional Economic Outlook Update, IMF, May 2015, p. 3.

²*Ibid.*

³See: *The Economy of Azerbaijan in 2015*. Center for Economic and Social Development (CESD), Independent View, Baku, CESD Press, 2016.

devalue its national currency, *Manat* vis-à-vis other national currencies on February 21, 2015. This devaluation almost equalized the value of 1 *Manat* with the value of 1 US Dollar. Baku's sharp devaluation of *Manat's* value (around 34 percent) shocked the Azerbaijani people as well as domestic and international investors in Azerbaijan because such a development was quite unexpected.⁴

Azerbaijan's government has responded to the economic crisis by taking two important steps: First, Baku decided to privatize some of the public assets with the aim of increasing revenues to the state budget from the non-energy sectors of economy. In addition to the privatization program, Azerbaijan's government has also stepped up its anti-corruption measures to minimize the amount of public money used for accumulating private wealth. This measure has also served to increase the level of professionalism in Azerbaijan's public administration significantly.⁵

The impact of the falling global energy prices was not limited to Azerbaijan's economy, its politics was also affected by this development. Not surprisingly, Azerbaijan's drastic devaluation of its national currency, *Manat*, has played a crucial role in the dissatisfaction of the ordinary Azerbaijani people with their living standards. Consequently, there was a considerably increase in the social protests against the increases in the price levels starting from mid-March, 2015.⁶

These social protests against economic problems have quickly taken a political character in the second half of the year. This is mainly because of the approaching parliamentary elections, which was scheduled for November 1, 2015. The parliamentary elections have provided a golden opportunity for the opposition parties to politicize the economic crisis in Azerbaijan. Nevertheless, the opposition parties have largely failed in becoming a credible political alternative at a time of economic crisis. This failure of the opposition parties is closely linked to their organizational weaknesses. In fact, Azerbaijan's political parties are not only deeply divided but also very weak both

⁴*Azerbaijan Devalues Currency Amid Plunging Oil Prices*. Available at: <http://www.rferl.org/content/azerbaijani-devalues-currency-amid-plunging-oil-prices/26861627.html>

⁵Vugar Bayramov, *The Road Map of an Anti-Crisis Strategy in Azerbaijan*, Baku, CESD Press, 2016.

⁶*Baku Protesters Decry Price Hike Following Currency Devaluation*. Available at: <http://www.rferl.org/content/azerbaijan-baku-protest-manat-devaluation/26902186.html>

organizationally and ideologically. Organizationally, these parties are quite small and their bureaucracy makes it very difficult to be representative of the grassroots tendencies. Ideologically, these parties are also weak in formulating and conveying their messages to the electorate in a widely acceptable manner. Overall, the opposition parties have largely remained marginal in Azerbaijan's politics.⁷

Obviously, Azerbaijan's the most important domestic political development in 2015 was the parliamentary elections on November 1. It was during the election campaign period that the ruling New Azerbaijan Party (YAP) emerged as the most likely winner of the elections, as in the past elections. Without a clear prospect for success in the elections, all of the major opposition parties in Azerbaijan, including the *Musavat* Party, the Azerbaijan Popular Front Party and the National Council of Democratic Forces, have decided to boycott the elections just a few days before the elections.⁸

The OSCE's Office for Democratic Institutions and Human Rights (ODIHR) also refused to monitor these elections in the absence of major rival political parties and some problems during the campaigning period. The elections were monitored by several international and local observers. These observers have largely confirmed that elections were mainly free and fair in contrast to the views of the OSCE's ODIHR, which boycotted the elections.⁹ According to the results of the parliamentary elections, the New Azerbaijan Party (YAP) won by taking 70 seats in the parliament. The independent candidates got 43 seats. The remaining 12 seats were almost evenly distributed among the eleven very small parties, which did not boycott the elections.¹⁰

After the parliamentary elections, Azerbaijani authorities have decided to free a human rights activist Leyla Yunus due to her health problem on December 9, 2015. This move signalled that Azerbaijani authorities sought to lower the criticisms of international actors against

⁷Laurence Broers, *Parliamentary Election Highlights Azerbaijan's Change Dilemma*, 29 October 2015. Available at: <https://www.chathamhouse.org/expert/comment/parliamentary-election-highlights-azerbaijan-s-change-dilemma>

⁸Ibid.

⁹*Azerbaijan's Ruling Party Wins Majority of Seats in Parliament*. Available at: <http://www.rferl.org/content/azerbaijan-elections-ruling-party-majority/27340546.html>

¹⁰*Azerbaijani Election Authority Announces Tentative Parliamentary Election Results*, Trend.Az, November 2, 2015. Available at: <http://en.trend.az/Azerbaijan/election2015/2451374.html>

Baku for not observing the freedom of mass media. Nevertheless, the freeing of Leyla Yunus did not mean the end of charges against her and her husband, Arif Yunus.¹¹ Azerbaijan is likely to be dealing with the challenges of democratization in the foreseeable future, as it could take some time for the ruling and the opposition groups to agree on a sound and sustainable strategy for democratization.

Azerbaijan's political economy in 2015 seems have created serious challenges for the Azerbaijani authorities in the economic field while the political developments have consolidated the position of the Azerbaijani leadership in the political realm. These characteristics of the economic and political developments in Azerbaijan have also affected Azerbaijan's foreign policy and its relations with major international actors.

Azerbaijan's policy towards the major international actors:
The US, the EU, and Russia

Azerbaijan has also experienced significant challenges in the field of foreign policy in 2015. These challenges stemmed mostly from the dynamic character of the relations among the major international actors, namely the US, the EU, and Russia. These international actors have seemed to be less interested in the developments in the South Caucasus as compared to the developments in Ukraine and Syria. The decline in the geopolitical importance of the South Caucasus as compared to the Black Sea and the Middle Eastern regions has weakened Azerbaijan's position both internationally and regionally.

In fact, Azerbaijan's foreign policy has long been based on the idea of balancing the interests of major international actors. However, it has become increasingly more difficult for Baku to pursue this balance of powers diplomacy. Azerbaijan's economic problems and the falling global energy prices in addition to the declining Western interest in projecting its influence in the South Caucasus have made Baku more vulnerable to Russia. Meanwhile, the Western countries have refrained from developing a sound strategy for deepening their relations with Azerbaijan.¹²

The core problem between Baku and the Western countries as well as institutions stem from their differences over the nature of political system in Azerbaijan. Although Azerbaijan declares itself an

¹¹*Rights Activist Leyla Yunus Freed From Jail in Azerbaijan*. Available at: <http://www.rferl.org/content/leyla-yunus-released-azerbaijan/27416597.html>

¹²See: Kamal Makili-Aliyev, *Azerbaijan's Foreign Policy: Between East and West*, IAI Working Papers 13, January 5, 2013, pp. 1-13.

important model for secular democracy for countries with Muslim majorities, the Western countries and institutions highlight Azerbaijan's shortcomings in institutionalizing democracy. These problems, for Western countries include the restrictions regarding the freedom of press and mass media as well as civil society. The difficulties of Western NGO's and their partners in Azerbaijan also contribute to the Western criticism of Azerbaijan's political system. From the perspective of Azerbaijani authorities, Azerbaijan is genuinely interested in institutionalizing democracy gradually. It is argued that a top-down rather than bottom-up approach is more compatible with the characteristics of democratization process in Azerbaijan. The gradualist approach of Azerbaijani elites also emphasizes the challenges to democratization process in unstable regions. The Azerbaijani authorities also consider this gradualist and top-down approach to the democratization process more sustainable in a very turbulent regional context.¹³

Azerbaijan's approach to the process of democratization has some parallels with the "sovereign democracy" understanding of Russia. Just like Russian leader Vladimir Putin, Azerbaijani leadership claims that it could develop democracy in its own way assuming that there was no universally accepted approach to democracy and democratization. Following the Russian example, Baku criticizes the West, in general, and the EU, in specific, for "double standards" and using the "democratization card" in order to intervene into the domestic affairs of small countries with "emerging democracies."¹⁴

This understanding of democracy and democratization of Azerbaijan's elites has created tensions between Azerbaijan and the Western powers as well as institutions in 2015, particularly before the parliamentary elections. This reflects that the divide between Azerbaijan and the Western powers and institutions centred on the question of common political values. From the perspective of the Western powers and institutions, Azerbaijan's position seems to have risked its marginalization within the wider European community of

¹³Tamila Varshalomidze, *West urged to support democracy in Azerbaijan*, Al-Jazeera, October 19, 2013. Available at: <http://www.aljazeera.com/indepth/features/2013/10/west-urged-support-democracy-azerbaijan-2013101451455841240.html>

¹⁴*Mehdiyev invites the West to a dialogue according to the conditions of the regime*, October 30, 2015. Available at: <http://contact.az/docs/2015/Analytics/103000134771en.htm#.VsxVL8s5mDY>. Also see: Ivan Krastev, 'Sovereign democracy', *Russian-style*, Open Democracy, November 16, 2006.

states due to its incompatibility with the prevailing of the EU position on democratization process.¹⁵

Similarly, political values and media freedom have also become central issues in Azerbaijan's relations with the United States since the late 2014. Their bilateral relations have started to sour especially when Azerbaijan publicly criticized the broadcasting of Radio Free Europe/Radio Liberty (RFE/RL) in Azerbaijan. The RFE/RL was labelled as a foreign organization. Eventually, the Azerbaijani authorities decided to close down the Baku bureau of the RFE/RL on May 22, 2015. It is important to note that this office closure did not affect the RFE/RL's broadcasting, as the RFE/RL service continues its operations as usual.¹⁶

Azerbaijan has also questioned the activities of a number of Western international organizations. These organizations include the Organization for Security and Cooperation in Europe (OSCE) and the European Union. Azerbaijan decided to close down the OSCE's Project Coordinator Office in Baku on 4 June, 2015. The OSCE claimed that Azerbaijan made this decision unilaterally without providing any explanation.¹⁷ Besides, Baku also considered the request of the European Parliament for the release of some journalists and human rights activists from prison as an intervention in its own domestic affairs, and has even cancelled the scheduled visit of a European Commission delegation to Azerbaijan.¹⁸

Despite its criticism of the European institutions for intervening in its domestic affairs, Baku has continued to emphasize its importance to the EU as well as its European orientation in 2015. To this purpose, Baku has used two occasions: The first one was the EU Eastern Partnership (EaP) Summit, which was held in Latvia on May 21-22, 2015. This meeting has focused on the impact of the EU's conflictual relations with Russia on its relations with the EaP countries, namely Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. President Aliyev has used this occasion to highlight his concerns with the EU's approach to Azerbaijan by not participating in

¹⁵Joshua Kucera, *Azerbaijan Snubs the West*, New York Times, January 8, 2015.

¹⁶ *RFE/RL Closes Baku Bureau, Continues Azerbaijan Operation*. Available at: <http://www.rferl.org/content/azerbaijan-rferl-closes-baku-bureau/27031745.html>

¹⁷Carl Schreck, *Azerbaijan Orders OSCE To Close Baku Office*. Available at: <http://www.rferl.org/content/article/27055923.html>

¹⁸*Azerbaijan Cancels EU Delegation's Visit After Criticism Of Its Rights Record*. Available at: <http://www.rferl.org/content/azerbaijan-cancels-eu-visit/27242761.html>

this important meeting. Although it is not clear if this is the best way of sending such messages, the message was noticed internationally.¹⁹

Another occasion for Azerbaijan's public diplomacy towards the European audience was the First European Games which was held in Baku in June, 2015. Contrary to the earlier expectations of Ilham Aliyev, many European leaders refused to participate in this key sports event, citing Azerbaijan's shortcomings in the democratization process.²⁰ Unlike most of the European leaders, Vladimir Putin and Recep Tayyip Erdoğan participated in the opening ceremony of the First European Games. Ilham Aliyev held meetings with these leaders in order to discuss key bilateral and regional issues.²¹

The re-orientation of Azerbaijan towards Russia has become more visible since the beginning of 2015. Azerbaijan has been careful in not antagonizing Russia since the Vilnius summit of the EaP in late 2013 when the relations between Russia and the EU started to deteriorate. Baku has sought to counterbalance its relations with the EU by deepening its cooperation with Moscow further. Azerbaijan's relations with the SCO reflect this balancing policy very clearly. In addition to Armenia, Cambodia, and Nepal, Azerbaijan was also admitted to the SCO as a dialogue partner during the SCO summit in Russia.²² Despite this development, Baku seems to be careful in not getting too close to Moscow in order not to alienate the other Western and regional actors.

Azerbaijan's relations with its neighbours

Azerbaijan's relations with Armenia have remained the most challenging issue throughout 2015 too. Although the Nagorno Karabakh conflict has been assumed to be a frozen conflict, there have been occasional fightings between the Armenian and Azerbaijani forces especially since the summer of 2014. In this respect, the most important development has been the escalation of the fighting along the armistice line in January, 2015, and throughout the autumn of

¹⁹*EU Eastern Partnership Summit To Kick Off In Riga*. Available at: <http://www.rferl.org/content/eu-rga-eastern-partnership/27028358.html>

²⁰*European Games Open In Azerbaijan Amid Rights Concerns*. Available at: <http://www.rferl.org/content/azerbaijan-european-games-open-rights-concerns/27069499.html>

²¹*Meeting with President of Azerbaijan Ilham Aliyev*. Available at: <http://en.kremlin.ru/events/president/news/49704>

²²*After BRICS, Putin Hosts Shanghai Cooperation Organization Summit In Ufa*. Available at: <http://www.rferl.org/content/russia-putin-shanghai-cooperation-organization-summit-brics-ufa/27120442.html>

2015.²³ Unlike the earlier years when there were some fighting between the Armenian and Azerbaijani forces, both the frequency and the number of casualties have increased considerably in 2014-2015. This development has alarmed the Co-Chairs of the OSCE Minsk Group. After the heavy fighting in December, 2015, John Kirby, Spokesman of the US State Department, asked both sides to end this cycle of violence and commit themselves to the peaceful settlement of this conflict.²⁴

In line with the US request for dialogue between Armenia and Azerbaijan, there were some attempts at de-escalating this armed conflict through direct talks between their top leaders in 2015. Thanks to the initiative of the OSCE Minsk Group, the Armenian President Serzh Sargsyan and Azerbaijani President Ilham Aliyev had a meeting on the Nagorno Karabakh conflict in Switzerland on December 19, 2015. After this meeting, Aliyev and Sargsyan reiterated their commitment to the peaceful settlement of this conflict through direct talks as mediated by the OSCE Minsk Group.²⁵

Azerbaijan's relations with its other neighbours have focused mostly on regional security cooperation and energy diplomacy issues. In this respect, Azerbaijan's relations with Georgia and Turkey have continued to be very important as these countries have developed a trilateral framework in order to deepen their cooperation. Although Georgia's relations with Azerbaijan have not been as good as their relations during Mikheil Saakashvili's Presidency in Georgia, it is important for Baku to maintain strong ties with Tbilisi and strengthen this trilateral framework for regional cooperation.

Azerbaijan's relations with Turkey have remained central to Baku's overall regional policy in the South Caucasus and the wider Black Sea region. Presidents of Azerbaijan and Turkey had a meeting when Erdoğan participated in opening ceremony of the First European Games in Baku in June, 2015. In this meeting, both countries reviewed all aspects of their bilateral cooperation from energy diplomacy to regional politics.²⁶ As the rotating chair of the G20 in 2015, Turkey also provided Azerbaijan with a unique opportunity to participate in

²³ Armen Karapetyan, *Armenia-Azerbaijan: More Talk, More Shooting*, Institute for War & Peace Reporting, December 24, 2015.

²⁴ Ibid.

²⁵ Ibid.

²⁶ *Azerbaijan*. Available at: <http://www.tccb.gov.tr/yurt-disi-ziyaretler/355/32695/azerbaycan.html>

the G20 Summit in Antalya on 16 November, 2015, which was attended by all members states of G20 at the highest level. Aliyev's participation in this high level diplomatic event was made possible thanks to the invitation from Recep Tayyip Erdoğan who hosted the event.²⁷

One of the most important regional developments which could have significant implications on Azerbaijan's relations with Russia and other neighbors is the downing of a Russian Su-24M bombardment jet by a Turkish F-16 on the border between Turkey and Syria on November 24, 2015. The Russian authorities disagreed with the Turkish authorities regarding the violation of Turkey's airspace by the Russian bombardment jet. This incident sparked the most serious crisis between Russia and Turkey in the post-Soviet period. Russia decided to suspend all bilateral relations with Turkey until Ankara apologized and compensated for the incident, which is very unlikely because Turkey's claim that the Russian jet violated Turkey's airspace was already confirmed by the US and NATO.²⁸ If this crisis is not solved in a short period of time, which is very unlikely, then it is possible that the crisis could lead to a new wave of rivalry between Turkey and Russia in the Black Sea, the Caucasus, and the Central Asian regions, as in the 1990s.

Highlighting the significance of Azerbaijan in Turkey's relations with Russia, Turkey's Prime Minister Ahmet Davutoğlu visited Baku shortly after the "jet crisis" on December 3, 2015. During this meeting, Davutoğlu informed Ilham Aliyev about the background of the crisis and its possible implications for regional security and energy diplomacy in the South Caucasus. Taking the suspension of the Russian-backed "Turkish Stream" project into account, Davutoğlu and Aliyev have agreed that the construction of the Trans-Anatolian Pipeline (TANAP) project will be accelerated.²⁹ In this way, Ankara and Baku hoped to score a point against Russia's natural gas strategy towards the EU by supporting TANAP, which is central to the

²⁷Ilham Aliyev Addressed Discussions at G20 Summit. Available at: <http://en.president.az/articles/16779>

²⁸Dion Nissenbaum et.al. *Turkey's Downing of Russian Warplane*, The Wall Street Journal, December 1, 2015.

²⁹Turkey, Azerbaijan Agree To Speed Up Gas Pipeline Project. Available at: <http://www.rferl.org/content/turkey-azerbaijan-gas-pipeline/27405267.html>

European Southern Energy Corridor.³⁰ The realization of this project is crucial for European energy security since it will reduce the European dependence on Russian natural gas considerably.³¹

The TANAP project could take an even more strategic character if it is extended to Kazakhstan and Turkmenistan, the two Eastern neighbours of Azerbaijan in the Caspian region. Azerbaijan's relations with Kazakhstan have been developing in various bilateral and multilateral frameworks mostly under the watchful eyes of Russia. In this respect, Azerbaijan signed a security cooperation with Kazakhstan on November 4, 2015. This agreement has enabled both of these countries to have joint naval exercises on the inland sea.³²

Turkmenistan is also a key actor for Azerbaijan's long-term strategy of exporting natural gas to the European energy markets. Nevertheless, their disagreements over the Sardar/Kepez area in the Caspian Sea has long been blocking their energy cooperation. Despite this Turkey, Azerbaijan, and Turkmenistan continued to discuss the ways of overcoming the existing problems and developing energy cooperation among these countries in 2015.³³

Last but not least development in Azerbaijan's neighbours was the lifting of the economic sanctions on Iran in 2015 as part of the deal on Iran's nuclear program. This deal has envisaged the lifting of most of the economic sanctions on Iran in exchange for Iran's acceptance of the monitoring of its nuclear energy program by the International Atomic Energy Agency (IAEA). When the IAEA declared that Iran's existing nuclear energy program complies with the IAEA guidelines in

³⁰TANAP is the key energy project, linking natural gas resources of the Shah Deniz II field with the European natural gas networks through the realization of the European Union's Southern Gas corridor. The TANAP project is planned to transport around 31 bcm natural gas to European markets by 2026.

³¹Robert M. Cutler, *Azerbaijan Energy Cooperation with Turkey and Europe to Solidify*, November 4, 2015. Available at: <http://www.eurasiansecurity.com/uncategorized/azerbaijan-energy-cooperation-turkey-europe/>

³²Evan Gottesman, *The Caspian States in Russia's Military Bind*, November 2015. Available at: <http://thediplomat.com/2015/11/turkey-russia-tensions-put-caspian-states-in-a-bind/>

³³*Dışişleri Bakanı Mevlüt Çavuşoğlu Türkiye-Azerbaycan-Türkmenistan Üçlü Toplantısı'na katıldı*. Available at: http://www.mfa.gov.tr/disisleri-bakani-mevlut-cavusoglu-turkiye_azerbaycan_turkmenistan-uclu-toplantisi_na-katildi.tr.mfa

January, 2016, these sanctions have already been formally lifted.³⁴ Azerbaijan's response to the deal was quite cautious. Baku has been concerned with the geopolitical implications of this deal as Azerbaijan has developed very close relations with Israel in the last couple of years in order to contain the expansion of Iran's ideological influence into Azerbaijan. On the one hand, the normalization of the economic relations between the Western countries and Iran could diminish the geopolitical importance of Azerbaijan in the eyes of the Western countries. On the other hand, Azerbaijan also expects an increase in its trade with Iran: the economic boom in Iran could slightly help Azerbaijan to recover from its own economic crisis.

Conclusion

To conclude, Azerbaijan's political economy and foreign policy developments in 2015 have significant implications for the regional politics in the South Caucasus. As a country with the largest GDP and rich energy resources, the developments in Azerbaijan's economy and energy policy as well as its relations with global actors such as the US, the EU, and Russia and regional actors such as Turkey, Israel, and Iran could have several impacts on the developments in the South Caucasus.

Firstly, the sharp decline in global energy prices has considerable implications for Azerbaijan's economy and its energy cooperation with the neighbouring states around the South Caucasus. Azerbaijan's economy has been experiencing the concrete adverse effects of the decline in global energy prices since the beginning of 2015, when the value of *Manat* was devalued. Since there is usually a correlation between economic problems and political unrest, Azerbaijani authorities are very likely to prioritize political stability in Azerbaijan as long as economic problems continue to affect the well-being of ordinary people.

Secondly, Azerbaijan is also very likely to be keen on realizing the TANAP project in order to increase its natural gas exports to the European energy markets. Therefore, the trilateral cooperation among Azerbaijan, Georgia, and Turkey is very likely to continue in the foreseeable future. In other words, Georgia will continue to play a crucial role in Azerbaijan's energy strategy. The main challenge for this trilateral partnership could be a delay in the realization of TANAP

³⁴Don Melvin and Michael Martinez, *Sanctions Lifted after Iran Found in Compliance on Nuclear Deal*. Available at: <http://edition.cnn.com/2016/01/16/middleeast/vienna-iran-iaea-nuclear-deal/>

project since this might deepen the economic crisis in both Azerbaijan and Georgia and create a risk of energy supply security for Turkey's economy if the ongoing crisis between Ankara and Moscow affects their existing energy projects, such as the Western route and the Blue Stream pipeline. This is why Azerbaijani and Turkish authorities agreed to accelerate the realization of TANAP project in December, 2015.

Thirdly, even if the TANAP project is realized as planned, Baku could still find it difficult to have working relations with Brussels if they do not resolve their ongoing differences over the democratization process in Azerbaijan. It is clear that President Ilham Aliyev and the ruling political party, YAP, enjoy the support of the majority of people in Azerbaijan. The political opposition which boycotted the Parliamentary elections on November 1, 2015, remains very weak and internally divided. It is likely that Azerbaijan could carry out certain reforms that might strengthen the role of civil society without undermining political stability. This presents the only realistic window of opportunity to revitalize the democratization process in Azerbaijan without alienating its political leadership from the EU.

Fourthly, Azerbaijan's tensions with the Western powers and institutions simply serve to orient Azerbaijan towards Russia further. In this respect, Azerbaijan's commitment to the Europeanization process and its membership in the EaP, the OSCE and the Council of Europe seem to be key anchors that could help Baku to carry out a number of reforms domestically. These European institutions could also encourage Baku and Yerevan to increase their diplomatic contacts as well as dialogue between various segments of the Armenian and Azerbaijani societies. This approach could help both Armenia and Azerbaijan to develop confidence building measures in order to avoid violent clashes at the line of armistice.

Fifthly, Azerbaijan seems to be increasingly more vulnerable to the pressures of due to its own weaknesses in the fields of security, diplomacy and economy as well as the increasing assertiveness of Russia in global politics from the Ukrainian crisis to the Syrian civil war. Azerbaijan's low level engagement with the EaP and its recent dialogue partner status in the SCO might enable Baku to accommodate Russian interests without changing its current foreign policy orientation which is based on the policy of balance of powers.

The real risk for Azerbaijan stems from the ongoing tensions between Turkey and Russia. Moscow could pressurize Baku into severing some of its ties to Turkey even if it may not yield the desired

outcome. Alternatively, Azerbaijan could use this crisis as a golden opportunity to serve as a channel of communication between Ankara and Moscow as long as the bilateral relations between these countries remain conflictual.

Sixthly, Iran's entry into the global economic system could have significant implications on Azerbaijan's relations with Iran and Israel. This development is likely to decrease the perceived geopolitical importance of Azerbaijan in the eyes of the European powers as they could establish direct contacts with Tehran. Nevertheless, it may take some time for the US and Israel to normalize their relations with Iran and to establish diplomatic relations. During this transitional period Azerbaijan could be expected to have a degree of geopolitical importance for the policy-makers in the US and Israel.

All in all, Azerbaijan has experienced a very challenging year in 2015. It has experienced significant problems in its economy, energy sector, and domestic political processes. These domestic problems had significant foreign policy implications, especially for Azerbaijan's relations with the EU and Russia. Nevertheless, Azerbaijan's authorities are likely to maintain Azerbaijan's existing domestic and foreign policy orientation despite these challenges both at home and abroad.