



Azerbaijan: drifts and shifts

by Anaïs Marin

A decade ago Azerbaijan's economy experienced world-record annual GDP growth (34.6% in 2006) and the World Bank ranked it as a top reformer. A foreign policy which was oriented towards the West – the main consumer market and provider of Foreign Direct Investment (FDI) for its booming hydrocarbons sector – consolidated Azerbaijan's independence from Russia as well as its partnership with the EU. A key intermediary for connecting extracting Caspian Sea states with Europe via Turkey and Georgia (the Southern Gas Corridor), Azerbaijan enjoys a pragmatic relationship with the EU, notably under the revised European Neighbourhood Policy (ENP). Following President Ilham Aliyev's visit to Brussels on 6 February 2017, negotiations started on a comprehensive agreement due to replace the 1999 Partnership and Cooperation Agreement (PCA).

Since 2014, however, the fall of world oil prices to below \$50 per barrel brought about major changes for Baku. The Aliyev regime took a more autocratic and assertive turn domestically, and is rebalancing its foreign policy priorities, too.

Socio-economic challenges

In 2016 Azerbaijan's economy contracted by 2.5% due to falling revenues from the (re-)export of hydrocarbons, which account for over 90% of the country's total exports. On 21 February 2016, its currency, the manat, was devalued by a third in a bid to reduce fiscal pressure and compensate for the negative current account balance. Inflation reached 12% and GDP per

capita was abruptly cut by half compared with 2014. Declining energy revenues exacerbated competition between regional business clans over access to assets, and in early 2016, protests erupted in several regions. These were met with increased repression and populist half-measures to limit corruption at lower levels of state administration. In the absence of structural reforms, however, it was impossible to diversify the economy properly, make it more competitive and reduce corruption.

Defence spending, which doubled in ten years to reach over \$4 billion in 2015 (dwarfing rival Armenia's defence budget), was cut. A logical consequence of the regime's increasingly bellicose rhetoric against the Armenian occupation of Nagorno-Karabakh and the surrounding Azerbaijani territory, armed conflict resumed between the two countries in April 2016. Although this short diversionary war ended in a symbolic victory for Azerbaijan, it was not enough to distract its population's attention away from looming socio-economic problems.

Dynastic regime-consolidation

In September 2016, a referendum was called to endorse amendments to the constitution. The vote was not observed by the OSCE, which already refused to monitor the November 2015 parliamentary elections – in which the dominant Yeni Azerbaijan Party (YAP) secured 71 seats out of 135, and the opposition none – on the grounds that it was denied the conditions to conduct a meaningful observation mission.



The amended constitution expands the presidential mandate from 5 to 7 years and establishes a post of vice-president, who is entitled to replace the president in case of death or long-term incapacity. On 21 February 2017, the first lady, Mehriban Aliyeva, was appointed to this position, thereby consolidating the ‘sultanistic’ features of Azerbaijani neo-patrimonialism.

Another constitutional reform – the lifting of the age limit to run for president – could open the door for a further dynastic transfer of power to the Aliyevs’ 20 year-old son Heydar in the future. Meanwhile, and in spite of her limited political skills, the newly-appointed vice-president (who already plays a key role in the regime’s public diplomacy by heading the generous Heydar Aliyev Foundation) is increasing the influence of her own clan, the Pashayevs, over the country’s oligarchic system.

Authoritarian regimes tend to become more repressive in times of economic hardship. For Azerbaijan, shrinking energy dividends means an increased reliance on European FDIs for financing energy extraction in, and transportation from, the Shah Deniz II gas field in the Caspian Sea. Even though Azerbaijan’s dismal human rights record never really hampered business and diplomatic ties with the West, the regime feels it must at least give the impression of progressing towards democracy. Pardoning the most prominent prisoners of conscience and freeing several journalists last spring was, for instance, a tactical gesture designed to please the West ahead of high-level meetings. Yet, soon after, the regime began harassing and jailing dozens of activists and bloggers and further restricted civil society’s already narrow room for manoeuvre – allegedly in an effort to prevent the contagion of Islamic radicalism.

In its 2016 report Freedom House downgraded its assessment of political rights in Azerbaijan from 6 to 7 – the lowest possible grade in its ranking. With an aggregate freedom score of 6.84, Azerbaijan is ranked closely behind Uzbekistan and Turkmenistan, consolidated authoritarian regimes which both score 6.93. The international image of Azerbaijan deteriorated further with its suspension from the Extractive Industries Transparency Initiative (EITI), a caucus advocating clean business practices in petrostates.

Shifting geopolitical alliances?

For most observers the 2016 ‘reheating’ of the frozen conflict in Nagorno-Karabakh came as no surprise: the parties involved have long been signalling their growing frustration with the intractable character of the dispute. For the past two decades Azerbaijani

diplomacy has mainly aimed at convincing the international community, and notably Western democracies, to pressure Armenia into complying with UN resolutions calling for the evacuation of occupied territories and the return of refugees and IDPs to their homes. As a result of a lack of support and given that negotiations under the aegis of the OSCE’s Minsk Group on a sustainable conflict-settlement remained inconclusive, Baku made clear its intent to use force in order to regain control over the breakaway republic and surrounding districts.

All parties involved were disappointed by the fact that the EU’s Eastern Partnership was unable to contribute to a peaceful resolution of the conflict. And after Brussels condemned Russia’s 2014 annexation of Crimea, Baku hoped that the Union would adopt a similarly firm stance in favour of Azerbaijan’s territorial integrity. When this did not occur, the regime felt it had no choice but to seek the patronage of Moscow. Over the past years, Azerbaijan has sought to pressure Armenia into making diplomatic concessions by placing orders for arms deliveries from Russia. In fact, while remaining Armenia’s traditional security guarantor, since 2010 Russia produced 85% of the weapons – including offensive ones – that Azerbaijan has imported.

This unexpected, albeit cautious, *rapprochement* with Russia is also meant to counter-balance Azerbaijan’s growing discomfort with its traditional strategic ally, Turkey. Over the past decade Ankara’s foreign policy has become much less predictable and embroiled in a string of diplomatic and military conflicts. This trend runs contrary to Baku’s interest in regional stability, while Erdogan’s rupture with Kemalist secularism could destabilise religious co-existence in Azerbaijan proper, adding to the grievances of its own restive Shia Muslim community.

Uncertainty regarding the future configuration of alliances in the wider region is a source of concern for Baku. Whereas the apparent thaw between Moscow and Ankara is not exactly to its liking, the prospect of a triangular partnership involving Teheran is even more distressing. Disappointed with the West and worried about Iran’s renewed influence in the South Caucasus following the lifting of sanctions, Azerbaijan might consider that the best way not to be side-lined by any possible anti-Western alliance in the region would actually be to join it. This would augur ill of Azerbaijan’s chances to return to a democratisation agenda.

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