

AZERBAIJAN: REALIZING THE VISION

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Despite Azerbaijan's relatively small size (less than 90,000 square kilometers) and population (under 9 million people), it is far from small in its regional and global influence. In particular, its role in the establishment of the Caspian-EU corridor for energy and transportation linkages has increased Azerbaijan's international standing considerably.

This article will focus primarily on the conceptualization and realization of strategic European and Eurasian energy projects that involve Azerbaijan. It will also cite some related areas, such as regional cooperation, to demonstrate that Azerbaijan is emerging as a pivotal country in a critically important region.

Establishing the East-West Corridor

Thanks to its own rich oil and gas resources, as well as its interest in assisting the transit of Central Asian resources, Azerbaijan is becoming a critical new energy supplier for Europe, helping European countries to diversify energy sources and routes.

Following its independence in 1991, Azerbaijan's rise to prominence began with the signing of the "Contract of the Century" in 1994. This was the first agreement signed between Azerbaijan and foreign energy companies, and it paved the way for all future oil and gas development in the region. The country's president at the time, Heydar Aliyev, made the visionary decision to grant energy concessions to American, European, Russian, and Turkish companies, thereby giving them all a stake in his country's stability and security.

The Aliyev administration then committed itself to the establishment of multiple export routes for its oil so that the country would not be dependent on a single route (or country) and thus minimize its vulnerability to political and economic pressure. First, two oil pipelines were built connecting Baku to Black Sea ports — one to Novorossiysk in Russia, another to the Georgian city of Supsa. Soon, it became clear that more export options would be needed in order to handle the high volume of oil expected to be produced in Azerbaijan's offshore fields.

Given its location, Azerbaijan had four options. The oil-producing companies preferred to simply expand the two existing pipelines — the cheapest solution. However, since all Black Sea tanker shipments must pass through the dangerously narrow Turkish Straits, Ankara objected, endorsing instead the construction of a new pipeline from Baku to its Mediterranean port of Ceyhan. A third option was to build another route via Russia, but that would have made no sense for Azerbaijan's desire to diversify and consolidate its energy independence. A pipeline via Iran was the fourth option and the second-best option for the oil companies — because of the short distance and lower costs. Sending its oil via Iran made even less sense for Azerbaijan, not only because Iran was on hostile terms with the West, but also because it had supported Armenia in the war over Nagorno-Karabakh.

Close relations between Turkey and Azerbaijan, notably on a personal level between Aliyev and his Turkish counterpart Suleyman Demirel, ultimately made the Turkish option the most appealing. After all, the two countries shared so many historic, cultural, religious and ethnic links that they referred to each other as "one nation, two states". An additional benefit of the Turkish option was Turkey's NATO membership and strategic partnership with the United States. Aliyev wanted to secure US support for a major non-Russian pipeline, as the Russians would inevitably oppose a breakup of their monopoly.

After the Baku-Ceyhan option was adopted by Aliyev, there was another key question that had to be answered: would the pipeline cross Armenia (a shorter route), or travel around it via Georgia? If Yerevan had agreed on a settlement of the Karabakh issue, Azerbaijan and Turkey would have supported the Armenian route. However, even in the event of a peace agreement, there were still obvious risks in committing to a several-billion-dollar project through an area to which full-scale conflict could return at any time. In the end, Armenia would not be seduced by the prospect of regional integration or transit revenues. Thus, the Georgian route was chosen, and the pipeline was named Baku-Tbilisi-Ceyhan (BTC).

Of course, the BTC project would not have been realized if it did not make commercial sense. The oil companies were initially reluctant to commit themselves to this multi-billion dollar pipeline. Regardless of the political will behind BTC, neither the oil companies nor the international financiers, which included the World Bank (via the IFC) and the EBRD, would have undertaken such a massive project unless it made good business sense. In the end, the attractive legal, political and economic incentives the three governments offered made BTC a greatly profitable project.

Thanks to BTC, the three governments formed a close trilateral partnership, as the success of one became dependent on the two others. This partnership became even stronger after huge volumes of gas were discovered in Azerbaijan's Shah Deniz offshore fields. Aliyev, along with the companies involved in both the oil and gas fields

(led by BP), once again selected a Caucasian route — to run parallel with BTC. The three countries and numerous firms then spearheaded the construction of what was named the South Caucasus Pipeline (SCP), from Baku to the Turkish city of Erzurum.

The BTC and the SCP pipelines are particularly important because they provide Azerbaijan with major oil and gas export routes that are not controlled by Russia. Energy has long been a tool by which the Kremlin exerts influence; both SCP and BTC considerably reduce this leverage on Azerbaijan. Baku now has the ability to resist potential pressure from Moscow, which does not like its former vassals to drift out of its sphere of influence.

In fact, Russia has used a variety of scare and pressure tactics in an attempt to bully countries and companies away from BTC and SCP — including shutting down gas exports to Georgia in the middle of winter. In the end, the pipelines were made possible thanks to the close partnership that existed among Turkey, Azerbaijan, and Georgia, together with unwavering US political support, the commercial viability of the projects, and the fact that the relatively weak and divided Russian government under Boris Yeltsin was unable to mount an effective campaign to prevent it.

Contributing to European Energy Security

Completed in 2006, BTC and SCP were only the first legs of a larger transport corridor for Caspian and Central Asian hydrocarbons to Europe. In November 2007, a gas pipeline connecting Turkey and Greece was inaugurated. Thanks to this Turkey-Greece pipeline, gas from Azerbaijan can for the first time flow all the way to the EU free from Russian control. Construction will soon begin on an extension of the Turkey-Greece connection to Italy and plans are in the works for the massive Nabucco gas pipeline that will stretch from Turkey, across the Black Sea, Bulgaria, Romania, and Hungary, and into Austria. Nabucco, with a planned capacity of 31 billion cubic meters (bcm) per year is a critical part of Europe's energy diversification strategy. The pipeline is categorized as an EU "priority project" and has the full support of the United States.

A key objective of these gas pipeline projects is to overcome Europe's increasing dependence on Russian and Russian-supplied natural gas. Collectively, the twenty seven countries of the European Union rely on Russia for nearly 50 percent of their gas imports — representing around 25 percent of the bloc's total gas consumption. This dependence is not distributed evenly. As one heads eastward, Russia's share of the energy supply grows ever larger. Of the ten EU nations that rely on Russia for at least 75 percent of their gas imports, seven once lay behind the Iron Curtain¹. This dependence is troubling due to the somewhat unique nature of natural gas as a tradable commodity — there is no global market, and the construction of costly pipelines effectively locks consumers into a prolonged contract with producers. This means that Moscow can more easily translate dependence into political and economic leverage. Natural gas is vital to the economies of many European nations — and the fuel's primacy is growing. The prospect of being forced to pay a higher price for that gas, or even having the supply of that gas curtailed, can exert a powerful influence on a country's domestic, and especially foreign, policies.

Despite Nabucco's importance to Europe's energy security, and despite official support from Brussels, the future of the project remains uncertain. Just as it did for the SCP and BTC pipelines, Moscow strongly opposes Nabucco and is sparing no effort to prevent its construction. Unfortunately for the project's future, the current Russian administration is far more organized, and its power far more centralized, than that of the 1990s. Moscow has proposed its own pipeline in Southeast Europe, one that would mirror the Nabucco route closely, and the Russian leadership never misses an opportunity to deride the EU-backed pipeline as unrealistic or infeasible. The Russian pipeline is known as South Stream and would cross under the Black Sea to Bulgaria, where it would split into two spurs: one heading west through Greece, across the Ionian Sea, and into Italy; and one heading north through Serbia, Hungary, and potentially Austria.

Particularly with regards to external energy policy, the European Union lacks solidarity. The Kremlin has exploited this disunity in a policy that could best be described as "divide and conquer." Top Russian leadership — including then- President Vladimir Putin — have frequently traveled to countries along Nabucco's route in an effort to persuade them to join South Stream. Hungary and Bulgaria have already committed to South Stream as well, and Austria is close to doing so. Despite assurances from member state and EU officials that Nabucco and South Stream can coexist, it is utterly impossible to build a pipeline such as Nabucco — which will cost upwards of €4.6 billion — unless investors are confident gas demand will be high enough for them to make a profit. And many investors rightly doubt that demand in European countries will be, at least in the short term, large enough to justify Nabucco if they are also being supplied by additional Russian gas from South Stream.

Thanks to the strategic vision of its leadership under President Ilham Aliyev, the Azerbaijani government fully supports Nabucco's construction and has publicly stated that it has sufficient gas production potential to supply the first phase of the pipeline. In fact, recent discoveries made by the consortium of companies operating in the Shah Deniz gas field indicate that there are far more reserves there than previously estimated. While the US is bullish about Azerbaijan and its potential as a major new gas supplier for Europe, many in Europe remain skeptical —in part because of Russian propaganda indicating otherwise. In many ways this is a replay of the period before

¹ The exceptions are Finland, Greece, and Austria — all of which are geographically in the east of Europe.

the completion of BTC; then too the US was fully confident in the estimates, whereas most Europeans were convinced there would not be sufficient volume to make this oil pipeline commercially viable. Today, many in the EU hail BTC as critical to European energy security; as EU Energy Commissioner Andris Piebalgs stated, this pipeline is a “milestone infrastructure project which is of the highest importance for the economic development of all participating countries as well as for the security of energy supply in Europe and worldwide.”²

Realizing that the Caspian-Europe gas corridor would be even more attractive to potential investors with Turkmenistan on board, Baku has also made efforts to improve relations with Ashgabat. In March 2008, Turkmenistan reopened its embassy in Baku after a seven-year closure, a move that reflects substantial progress in Turkmen-Azeri relations. This rapprochement has enabled progress on the delimitation of contested Caspian Sea hydrocarbon deposits, including the previously intractable dispute over the Serdar/Kyapaz formation. Relations between Heydar Aliyev and former Turkmen president Saparmurat Niyazov were never stellar, but they truly began to sour in 1997, when the two clashed over the ownership of the Serdar/Kyapaz oil field. Aliyev and Niyazov each stubbornly refused to yield on their positions and eventually Ashgabat withdrew its ambassador to Azerbaijan in 2001. Since then, both Heydar Aliyev and Niyazov have passed away and been succeeded by younger leaders who do not have any personal enmity and are thus more open to reconciliation. Moreover, as noted earlier, President Ilham Aliyev has shown true leadership in trying to resolve bilateral issues so the East-West corridor can reach its full potential. In the end, the two countries reached sufficient common understanding that it became possible for Turkmenistan’s President Gurbanguly Berdimuk - hammedov to travel to Baku in May — an important step, as it was the first state visit by a Turkmen leader in twelve years.

A solid relationship between these two Caspian Sea littoral states may indeed be a necessary prerequisite to give confidence to potential investors in Nabucco. Without the potential of a trans-Caspian gas pipeline being built to transport additional supplies from Turkmenistan, Nabucco may struggle to win the necessary commitment of the countries involved, which would also have a negative impact on investors’ willingness to lend the needed financial backing. After all, even under the most optimistic scenario, given its volume commitments to TGI, as well as Turkey’s, Georgia’s and its own domestic consumption, Azerbaijan will only be able to supply the first phase of Nabucco; additional sources of gas may need to be identified to convince investors of the pipeline’s commercial viability. Turkmenistan, with its vast, largely undeveloped natural gas reserves is the ideal candidate to supplement Azeri gas in Nabucco. In fact, in April, Berdimukhammedov pledged to provide 10 bcm per year for this pipeline in order to send this gas directly to Europe.

The EU, of course, is optimistic that Nabucco can also be sourced by Middle Eastern gas. For now the most frequently mentioned potential supplier is Iraq, but the highly uncertain future of that country makes investors cautious. There is also potential for Egyptian and Qatari gas, but in these cases there are serious questions over volume. And then there is of course the Iranian option, which cannot be discussed at least until the nuclear issue is resolved. Even then, Iran’s continued support for terrorism may make it impossible to involve it in such a critical project. Most importantly, Iran currently is short on gas — its huge reserves remain undeveloped and even when there is Western technology available, huge domestic needs will make it difficult for Iran to export gas.

In fact, this year Iran had to import gas from Azerbaijan. Though bilateral relations are not great, they are predictable. In general, Iran does not get involved in Azerbaijan’s domestic affairs, while Azerbaijan conspicuously stays out of Iranian developments, especially when it comes to the fate of the ethnic Azeri community in adjacent regions of northern Iran. Thus, after Iran’s shortage, it was natural for Azerbaijan to cooperate with its neighbor by sending it gas.

Though more committed to European energy security than are many European leaders themselves, President Aliyev certainly cannot push much harder for either Nabucco or the trans-Caspian pipeline than the Europeans — the projects’ primary beneficiaries — are willing to push themselves. European governments and companies must come forward and offer a deal. They need to take ownership for the projects as gas needs to be “pulled” from the region. Most importantly, they must be willing to stand up to Moscow, something which Aliyev has done on multiple occasions for a very simple reason: these projects are not meant to be anti-Russian, but simply represent a strategically important direct connection from the Caspian to Europe.

In fact, even if Europe failed to muster the necessary political will and commitment to complete the Nabucco project, Azerbaijan has other options for exporting its gas to the West. There is the aforementioned SCP and the Turkey-Greece-Italy pipeline, which will have an eventual capacity of 11 bcm. In addition, Azerbaijan could also transport its gas across the Black Sea to Europe. This project, called White Stream, would connect the SCP to Supsa. From there, pipe would be laid beneath the Black Sea to either directly to Romania or first going to Ukraine and then to Romania, where it would connect with existing transport infrastructure. Alternatively, White Stream could utilize a system of LNG tankers to ferry gas from Supsa across the Black Sea³. Initial feasibility studies are in the works to determine the commercial viability of these various options.

Baku is already serving as a corridor for Central Asian oil to Europe, and a lot more oil is expected to flow from the Caspian, especially Kazakhstan. During the planning phase of BTC, the possibility of supplying the

² Andris Piebalgs, “Baku-Tbilisi-Ceyhan pipeline is a milestone project for security of supply.” Speech delivered in Baku, 25 May 2005.

³ “White Stream Woos Majors,” *Platts Energy in East Europe*, Iss. 139, May 9, 2008, p. 24.

pipeline with Kazakh oil was frequently discussed. In January 2007, Kazakhstan's state energy company signed a Memorandum of Understanding for the development of a tanker route from Kuryk to Baku, where it would be pumped to the Georgian port of Supsa. From there, it would be shuttled across the Black Sea to Romania or Ukraine. Alternatively, Kazakh oil could be pumped into the BTC pipeline. In any case, this Caspian tanker route is expected to cost \$3 billion and could be operational by 2010 or 2011; about the same time that Kazakhstan's massive Kashagan field is to start producing. However, given the substantial production potential of Kazakhstan, the shuttle system would eventually be insufficient (and costly). Ideally, a trans-Caspian oil pipeline should be constructed.

The plan for this Caspian tanker system highlights the cooperation that is occurring among Azerbaijan, Georgia, and Ukraine — particularly in the oil sector. The leaders of these three countries, all of whom are members of the regional cooperation organization GUAM, have met several times over the past two years to discuss supplying Ukraine's Odesa-Brody pipeline with Azeri and Kazakh oil. They have been joined at these summits by the Presidents of Poland and Lithuania, both of whom support filling Odesa-Brody with Caspian oil. Odesa-Brody was actually built for that purpose but failed to secure supply commitments from oil producers. As such, it has been operating in reverse direction ever since, transporting Russian crude from Brody to Odesa. In addition to switching Odesa-Brody back to its intended direction, Azerbaijan, Georgia, Ukraine, Poland and Lithuania all support extending the pipeline to the Polish city of Płock. From there, it would connect to the existing Polish network, enabling oil to continue to the Baltic Sea oil terminal of Gdańsk. SOCAR, the state oil company of Azerbaijan, is interested in utilizing the Black Sea as a transit route for Azeri and Kazakh oil.

Investing Abroad

Georgia, by virtue of its geographic location, is vital to Azerbaijan's prosperity. As noted earlier, Azerbaijan's only other options for getting its natural resources to market are via Iran, Russia and Armenia, each of which are undesirable for a number of reasons. Thus, ensuring Georgia's success and stability is an important policy objective for Azerbaijan. For two consecutive winters (2005/2006 and 2006/2007), Baku provided gas supplies to Georgia at a discounted price, enabling the latter to resist Russian pressure tactics. In early 2007, when Moscow suspended gas supplies to Georgia, the Azerbaijani government provided emergency supplies to its beleaguered neighbor. Georgian President Mikheil Saakashvili labeled this an act of "political heroism" by his Azerbaijani counterpart, Ilham Aliyev.

Indeed, Aliyev can be credited with another such act: an Azerbaijani loan is paying for Georgia's portion of the \$400 million Baku-Tbilisi-Kars railroad. This is a strategically important project, as it will be the first railway linking Georgia and Turkey and significantly improving the transportation of people and goods from Asia to Europe. Given Georgia's economic difficulties, Azerbaijan extended over \$200 million (US) in credit to its neighbor to cover construction costs of the Georgian section of the project —thus allowing construction to begin without any further delays and ensure that the railway will be completed by 2010. A number of connections already exist between Turkey and Europe, and both Kazakhstan and China have already indicated their interest in utilizing the railway. This would allow for goods to be transported overland from the Far East all the way to Europe, drastically cutting down on shipping time compared to sea routes.

Azerbaijan is also an active investor in Georgia's energy sector. SOCAR, which has established a Georgian subsidiary, made its first large investment in early 2007, acquiring the Kulevi oil terminal near the Black Sea town of Poti. The Kulevi terminal, which SOCAR officially launched on May 16, 2008, currently has a capacity of 10 million tons per year; SOCAR has stated its intention of eventually doubling this figure to 20 million tons per year. The Azeri company also plans to construct a 5 to 10 million ton-capacity refinery at Kulevi, which is supplied with oil by rail. In addition, SOCAR owns and operates a number of retail fuel stations in Georgia, and intends to invest \$35 million towards the construction of additional stations across the country.⁴

Georgia is only the first step in Azerbaijan's ambitious international investment plans, which seem to stress the transportation of crude oil across the Black Sea, where it will be processed by jointly or wholly Azeri-owned refineries. In fact, in January 2008, Ukrainian President Viktor Yushchenko announced that SOCAR would soon construct a refinery in his country. The following month, Azeri Energy Minister Natiq Aliyev stated that the government has received offers to build refineries in a variety of other East European countries including Romania, Bulgaria, and Poland⁵. SOCAR had earlier made an attempt to acquire a 75 percent stake in Rompetrol, the state oil company of Romania, but lost out to Kazakhstan's KazMunaiGaz. While this defeat was disappointing to SOCAR, it does not diminish the prospects of Black Sea oil transport; in February 2008, KazMunaiGaz purchased Georgia's 15 million ton-capacity Batumi oil terminal. Like Kulevi, this facility is supplied with oil by railcar via Azerbaijan.

The recent acquisition of downstream infrastructure by oil producers bodes well for the Black Sea oil trade. SOCAR and KazMunaiGaz are far more inclined to supply oil to terminals and refineries in which they have

⁴ SOCAR already controls 40 percent of the wholesale fuel market in Georgia.

<http://www.investinggeorgia.org/news/view/1021>.

⁵ <http://www.energypublisher.com/article.asp?id=14258>.

interests.

While Ukraine and its Odesa-Brody pipeline certainly have the potential to transport Caspian oil, it is Romania that could truly evolve into a major transit corridor. Romania is a staunch advocate of Europe's energy diversification and has strongly supported Nabucco and related pipeline projects. In fact, Romania is the only member of Nabucco that has not been swayed by Moscow to join a Russian pipeline project. SOCAR opened an office in Romania in 2006; this is likely only the first step in what might become a deeper partnership — for Azerbaijan, partnership with Romania would mean a direct link to the EU.

SOCAR is also an active investor in Turkey; it formed a joint venture with the Istanbul-based Turcas Petrol in December 2006. Through this venture, SOCAR plans to construct a 10 to 20 million ton capacity refinery at Ceyhan, investing over \$4 billion in the region⁶. The SOCAR-Turcas joint venture — together with Saudi company Injaz — also recently acquired a 51 percent stake in Petkim, Turkey's largest petrochemical company⁷. However, relations between Turkey and Azerbaijan have been strained by an ongoing disagreement over the nature of gas transit for the proposed Nabucco pipeline. Rather than receive a transit fee for Azerbaijani gas, Ankara wants to purchase it at the border and resell it to European customers at a higher price. This arrangement would also enable Turkey to supply its own consumers with cheaper gas. Azerbaijan, however, understandably wants to reach export deals directly with the EU countries, and the Europeans prefer to buy gas directly from the supplier as well. So far, this disagreement has contributed to the delays in Nabucco.

Avoiding the Oil Curse

In addition to crafting a sound external energy policy, Azerbaijan has also done a commendable job managing its vast oil and gas wealth. Large endowments of natural resources can be both a gift and a curse. Thus far, Azerbaijan has avoided the worst of the symptoms that typically plague economies overly-dependent upon natural resources. However, inflation was still 16.3 percent in 2007 and is expected to stay in double digits in 2008. Moreover, the economic performance of the country is still closely tied to that of the oil and gas sector. Approximately 84 percent of Azerbaijan's export revenue in 2006 came from oil sales. Baku is well aware of the dysfunction that can result from over-reliance on the energy sector and has made diversification a priority. The government seeks to expand output in the tourism, agriculture, finance, textiles, manufacturing and transportation sectors. This strategy is bearing fruit: non-energy sector economic production grew eight percent in 2006, with non-energy industrial production rising by seven percent.

Azerbaijan has also committed itself to the transparent and accountable management of its resource rents. It was one of the first countries to sign the Extractive Industries Transparency Initiative (EITI), a British government-proposed program for improving responsible management of natural resource wealth. Azerbaijan also established the State Oil Fund of Azerbaijan (SOFAZ) in 1999 to manage its growing oil revenues. A portion of Azerbaijan's hydrocarbon sector revenues is set aside in SOFAZ to be used for a variety of public works, while others are saved for use when global energy prices fall. SOFAZ also acts as an interest-earning savings account, one that will benefit future generations even after oil and gas reserves have been depleted. Although the operation of SOFAZ is relatively transparent, it lacks sufficient oversight and the rules governing the disbursement of funds are ambiguous⁸. This is an area that requires continued attention.

Baku has clearly made a significant commitment to responsible stewardship of its oil and gas resources. To do otherwise would mean risking everything that Heydar Aliyev planned for the country. If Azerbaijan succumbs to the symptoms of Dutch Disease (inter alia: spiraling inflation, low growth in the non-extractive sector, poor governance, and a lack of transparency), its population could increasingly fall sway to political Islam. In fact, attacking the secular, moderate nature of Azeri Islam has long been a goal of a number of groups and organizations. They view Azerbaijan as the antithesis of what they are trying to promote: that is, the fusion of religion and government.

At the same time, failing to prevent the resource curse would also derail Azerbaijan from its current path towards the Euro-Atlantic alliance. Due to its geography, religion, and ethnicity, Azerbaijan is often viewed as a Central Asian republic. Generally, people are more inclined to consider Georgia and/or Armenia as European or "Western" countries than they are Azerbaijan. Yet, a country's status as "Western" is certainly not contingent upon geography or religion or ethnicity but upon values. Azerbaijan, like Georgia, already embraces many values of the West. But these shared values could be endangered if care is not taken to safeguard against the degradation of governance, rule of law and human rights that often plagues resourcedependent countries.

In this context, it is important to note the activities of the Heydar Aliyev Foundation, which was established in April 2004 with the goal of conducting programs and funding projects that supported the national vision of the former President. Among its many objectives are the promotion of religious tolerance, the development of Azerbaijan's human capital and the implementation of public works projects. Particular emphasis is placed on

⁶ <http://www.turkishweekly.net/news.php?id=44374>.

⁷ <http://uk.reuters.com/article/idUKIST00168520080304>.

⁸ Robert Ebel, ed., *Caspian Oil Windfalls: Who Will Benefit?*, Open Society Institute: New York, 2003.

supporting education and research. The Foundation is sending Azerbaijani students to Western schools as well as improving the quality of local institutions. A well-educated workforce of independent thinkers is vital to the success of a nation. The Foundation represents both an attempt to honor the legacy of the country's first president, but also to ensure that the nation he led for so long remains true to its principles.

Progress towards that goal has been mixed. While Azerbaijan's transparency and accountability certainly do not compare to that of Norway, its circumstances also differ dramatically. For one thing, Azerbaijan is surrounded by two large states — Russia and Iran — with which it has a history of antagonistic relations and another — Armenia — with which it has an active territorial dispute. Indeed, the dispute with Armenia over Nagorno-Karabakh is a very important concern of the Azerbaijani government. Given the tension between the two countries, it is understandable that Azerbaijan would wish to invest some of its resource revenue in military improvements, even though armed conflict remains a last resort for Baku.

Looking Ahead

Following years of positive interaction with the West, especially through partnerships in strategic energy projects, Azerbaijan has cemented its orientation towards a future in European and Euro-Atlantic institutions. It has also emerged as a responsible stakeholder in its region, assisting its neighbors in difficult times, and thereby solidifying their independence and prosperity. In addition to maintaining good relations with Russia, Azerbaijan has contributed to the development of GUAM, resumed its relations with Turkmenistan, enhanced its ties to Israel and established solid relations with new EU and NATO members like Romania and Poland, among others. It has also become a strong partner for the United States, and even contributed troops to missions in Kosovo, Afghanistan and Iraq.

The only neighbor with which Azerbaijan has serious problems is Armenia; the two countries have remained locked in conflict over the territory of Nagorno-Karabakh since war began in 1993. Despite the best efforts of the OSCE Minsk Group, tasked with resolving the conflict, a solution has still not been found to this economically, diplomatically, politically and even emotionally-taxing issue. Furthermore, there are tens of thousands of internally displaced people who are highly susceptible to influence by radical Islamist groups. While as of the end of 2007 these people no longer live in refugee camps, and instead have been moved to temporary houses courtesy of SOFAZ, their unresolved status still leaves them vulnerable to radicalism.

Thus far Azerbaijan is developing on the path of Westernization as a unique energy - rich Muslim-majority nation with a secular and democratic government. Impressively, Azerbaijan is doing all this without losing touch with its heritage. Azerbaijan was after all the first Muslim nation to declare a secular and democratic republic in 1918. Thanks to its history, culture and traditions, the Azerbaijani understanding and practice of Islam is moderate and tolerant; Christian and Jewish citizens are treated with respect and equality.

In sum, after just over a decade of independence, while there are certainly shortcomings in Azerbaijani democracy, the trend is quite promising. Moreover, its leadership is conscious of the potential "resource curse" that has afflicted many resource rich nations, and thus is diversifying its economy. Staying on this path, Azerbaijan has great potential as a rising star in the strategic Eurasian region.