

Influence through Trade: Russia's Power Play in Azerbaijan

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While Azerbaijan came out of the Second Karabakh War a winner, its Russian neighbor might be pursuing other objectives than simple peacekeeping operations. The outcome could have been much different if not for the unexpected Russian decision not to provide any direct military help to its Armenian ally. Despite this being seemingly in Azerbaijan's favor, the power dynamics remain complex as the country is still stuck between large regional powers, namely Turkey and Russia. The ruling elite has been able to use this geostrategic position to their advantage before, but things might slip out of control if nothing is done.

With an economy that is highly dependent on oil and gas exports, Azerbaijan's economic policies were already affected by the decrease in prices since the beginning of 2020. However, the latest trade restrictions put by Russia on one of Azerbaijan's largest non-oil-and-gas exports might have driven the final nail to the coffin. One might assume that the relations between Azerbaijan and Russia should be relatively good since the November ceasefire agreement. However, it now seems that things are not that simple. In early December 2020, a few days after Putin acknowledged dealing with the increase in food prices for Russian consumers as a priority, Rosselkhoz nadzor, the Russian Federal Service for Veterinary and Phytosanitary Surveillance, banned the import of tomatoes and apples from Azerbaijan, a decision that did not seem strategically sound as Azerbaijan is one of the largest suppliers of these agricultural products to Russia.

Azerbaijan has entered a position that others have been

through before. Much to Azerbaijan's displeasure, peacekeeping is not a priority for President Putin, who has more grandiose plans in the South Caucasus. While the world is focusing on the COVID-19 pandemic, Russia has been developing its power in the post-Soviet region. One clear sign of this was the attempted change in peacekeeping operations on December 13, 2020 when the Russian military extended the territory to be guarded with new observation points beyond the ones agreed upon.

Several sources have been speculating that this change in plans and the ban on vegetable imports show Russia's dissatisfaction with the Azerbaijani demonstration in Baku of Russian-made weapons captured during the Second Karabakh War. However, the shift in plans was quickly criticized as a Russian attempt to increase control in the region, resulting in a quick change back to the initial plan. The trade restriction that Russia put on Azerbaijani imports was, at least partially, politically motivated, responding to growing Turkish involvement in the region and reminding Azerbaijan of Russia's power over its foreign policy direction.

This paper will analyze Russia's previous attempts at using trade policy as a weapon against its post-Soviet neighbors and apply this analysis to the current situation in Azerbaijan. After summarizing the history of Russian unilateral trade restrictions, Azerbaijan's unique geopolitical position will be discussed in light of decreasing Russian influence and the emergence of new possibilities on the New Silk Road.

Trade Policy as a Weapon: A Powerful Tool for Russia

Being under many US and EU sanctions, Russia is no stranger to using trade sanctions as a weapon against its regional partners. Contrary to its mutual sanctions against the EU, Russia is known for unilateral bans on imports from its former Soviet partners such as Ukraine, Poland, or Georgia.

Russia used trade restrictions and strict customs controls to

show dissatisfaction with the Polish accession to the European Union in 2005 (Ambroziak 2018), a 'tradition' that was continued with a restriction on Polish apples in 2015 and 2018. However, Polish farmers were less affected by the loss of Russian contracts as export diversification and newly signed preferential trade agreements gave them access to a more extensive list of trade partners. Another example is Russia's ban on the import of Turkish tomatoes after a Russian jet was shot down by Turkish military forces in Syria in 2015. Falling from an average of over 65% of all tomato exports between 2010 and 2015 to only 28% in 2019, Turkish exporters turned towards other markets instead of focusing on the Russian one.

The Georgian case is perhaps the most relevant as the country was under Russian threat for its unwillingness to follow Russia's orders (Miller 2016). Unfortunately, the long-term result was not the one intended by Russia. At first, both sides suffered as Russia had to change suppliers for specific products, and Georgia had lost its leading partner. However, this strategy helped Georgia become less dependent on its exports to Russia and diversify its partners. As of 2018, Russia is Georgia's leading export partner, but only at a 13.90% share of all foreign trade. Countries such as Bulgaria, Ukraine, Turkey, Azerbaijan, and Armenia have all been in the top 10 for several years. This trade independence only made Georgia more capable of implementing foreign and national policies that would benefit themselves instead of accommodating Russia. With the development of the Eastern Partnerships between the EU and Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine, this loss in Russia's direct coercive power was made apparent.

The well-known 2014 Ukrainian crisis might first appear to be an issue of nationalism and historical tensions over Crimea and Donbas; however, it is trade that was at the origin of the conflict. This geopolitical fiasco involving Russia, Ukraine, the EU, Belarus, and Kazakhstan started with Yanukovych's

attempt at playing a double game (Pomeranz 2016), negotiating with both the EU and the Eurasian Economic Union (EAEU). Despite Russia's attempts at forcing then President Yanukovych's hand with restrictions on Ukrainian agricultural exports to Russia, Ukraine decided to play both sides to get the best possible trade agreement, a strategy that ended up catastrophic for both sides as Ukraine lost its EU and EAEU opportunities and went through the Maidan revolution. Russia's actions in the eastern pro-Russian regions of Ukraine led to such high trade sanctions that the ruble's value plummeted.

The 2014 crisis culminated in the Russian annexation of the Crimean Peninsula, revealing the country's neo-imperial aspirations (Charron 2020). Most importantly, it exposed the real weaknesses of such a politically imbalanced customs union as the EAEU. While Russia was trying to impede Ukraine in signing an FTA with the EU, Belarus was re-exporting EU-made products to Russia, thus completely bypassing the EAEU principles. To top it off, once the ruble plummeted, Kazakhstan put a ban on Russian imports as Russian-made goods became much more price-competitive because of the sanctions. Had Ukraine decided to join the EAEU at that time, together with Kazakhstan and Belarus's economies, it would have counterbalanced the Russian influence inside the EAEU. Each of these crises stemming from neo-imperialist fantasies has only pushed the victims away, further weakening whatever influence Russia had over its ex-Soviet partners.

Between East and West: A Unique Geopolitical Situation

Azerbaijan's geographical position makes its foreign policy highly susceptible to influence from its powerful neighbors, namely Russia and Iran, which have close ties historically with the country. Despite the ceasefire with Armenia, other security threats remain as the Azerbaijani government fights for its position in between the East and the West (Abilov and Hajiyev 2019).

One such attempt is the Trans-Caucasian Pipeline project in which interest has been renewed since the Southern Gas corridor's completion in late 2019 and its recent launch of operations at the beginning of 2021, making Azerbaijan the middle point between European markets and Central Asian suppliers (e.g., Turkmenistan). Despite this project not being economically sound (Stein 2020), it does achieve a geopolitical goal: securing Azerbaijan with backing from Europe. Formerly, however, these endeavors in attracting Western interests would result in retaliatory repercussions. In the early 1990s, Azerbaijan avoided any Russian meddling by forcing their military out of its territories before negotiating the deal of the century with Western companies, such as British Petroleum. Later in the same year, Azerbaijan lost 14% of its land to Armenia backed by Russian forces, which used this to push Azerbaijan to join the CIS defense arrangements.

In the following years, the USA and the EU created a counterbalancing power dynamic against Russian interests in the region (Abilov and Hajiyevev 2019). These tightening relations also meant that Azerbaijan was more involved in European plans to find alternatives to Russian gas, significantly after Russia cut off gas exports to Ukraine in the late 2000s (Shiriyev 2019). Turkey thus appeared as the perfect transit point to European markets for Azerbaijani gas through the Trans-Anatolian pipeline. However, as soon discovered by the ruling elite, a closer partnership with the EU included an undesirable side-effect that strengthened civil society groups and, thus, the opposition. It is no wonder that the relationship with Turkey has since then been prioritized. After all, Turkey was the perfect candidate to secure Azerbaijan's neutrality goals while still backing Azerbaijan militarily and supporting its current political regime.

Meanwhile, just like Russia, Turkey has been dreaming of reinstating its influence in the Turkic world that gained independence in 1991. However, Central Asia did not greet pan-

Turkic ideas with enthusiasm, and Russian influence remained strong throughout the 1990s. Furthermore, all projects aimed at developing cultural, economic, and political ties had to be broken off as Turkey's economy suffered a crisis in the mid-1990s (Fida 2018). In the last two decades, Turkey and Russia's relationship has become more amicable despite their military crisis in Syria after the downing of a Russian jet by Turkish forces in 2015. Turkey's attempt at solidifying its influence in Central Asia with the creation of the Turkic Council in 2009 with four member states – Azerbaijan, Kazakhstan, Kyrgyzstan, and Turkey – did not meet expectations as Russian influence has remained a barrier to Turkey's plans, especially with the creation of the EAEU in 2014. However, recent years have shown a revival of Turkish influence with a higher interest in Trans-Caspian trade routes. Turkish interests in the Azerbaijani gas and oil pipeline projects are motivated by their potential to reinforce Turkey's influence in the South Caucasus and connect it to Turkish-speaking Central Asian markets (Kardaş, 2014).

Azerbaijan heavily relies on Turkey as the Baku-Tbilisi-Ceyhan and Trans-Anatolian oil and gas pipelines connecting it to European markets both transit through Turkish soil. Showing its full support to the Erdogan regime, Azerbaijan closed all educational institutions and media related to the Gülen movement in 2016 after the attempted coup (Geybulla 2018). This relationship's strength was further revealed during the Second Karabakh War when Azerbaijan regained its lost territories from Armenia thanks to Turkish military support. Securing Azerbaijan's territorial integrity serves to protect Turkey's plans of increasing trade ties with Central Asia through the Caspian Sea. Finally, with Uzbekistan joining the Turkic Council in 2018, two years after the election of Shavkat Mirziyoyev and the liberalization of the country's economy (Köstem 2019), and the plans to connect Turkey to Central Asia via the Turkmen trade port of Turkmenbashi, Turkey's efforts seem to be reaping rewards.

All of this has been irritating Russian interests in both Central Asia and the South Caucasus. The South Caucasus' power dynamics have completely shifted in the last decade after the Georgian crisis in 2008. The 2018 Armenian Velvet Revolution elected a new government, less eager to follow the Russia's guidelines. The latest events have only reinforced the lack of trust of Armenia in its Russian ally. Moreover, this loss of influence has been exacerbated by the anti-fraud protests against the re-elected Russia-friendly Belarusian president Lukashenko and the strengthened relations between Turkey and post-Soviet Turkic countries, such as Kazakhstan, Turkmenistan, and Uzbekistan.

A Tumultuous Relationship

The ban on Azerbaijani tomato and apple imports was of short standing, being lifted on December 16, 2020, only a week after its implementation. Demonstrating Russian discontent with increased Turkish political power in the South Caucasus, this trade restriction attempted to put the Azerbaijani government back into line with Russian plans. Trade policy is an effective line of manipulation on the Russian side as Azerbaijan prioritizes the development of the non-oil sector and Russia is its largest trade partner. With 47% of all non-oil-and-gas products exported to Russia in 2019, Azerbaijan's biggest non-oil industries are still dependent on the Russian market.

It is in Russia's interest to further integrate the post-Soviet area into the EAEU, which prevents the development of stronger Western relationships (Yelisseyev 2019). Adding Azerbaijan to its EAEU partners has been discussed thoroughly throughout the years. However, Azerbaijan has decided not to pursue accession to the EAEU, nor to the World Trade Organization (WTO) as its current monopolistic economy would only be jeopardized (Valiyev 2016). This situation puts Azerbaijan at a disadvantage for partner diversification, but membership would not have helped as the WTO trade dispute

settlement body does not protect against unilateral retorsion measures. The only viable solution for Azerbaijan to free itself from Russian economic blackmail is to diversify its partners with, for example, Free Trade Agreements outside of the post-Soviet region.

Armenia's position is not much different from Azerbaijan's in this case. The country had been under the impression that being part of the EAEU, with Russia accounting for over 31% of all its exports and 75% of all its energy imports in 2019, would keep them protected from outside threats. Furthermore, being Russia's military ally since its independence, Armenia saw itself as untouchable in the conflict with Azerbaijan.

Despite its history of military presence in Armenia, Russia did not intervene in the Second Karabakh War, instead watching the conflict from afar, only truly participating during the final ceasefire. This act has resulted in a loss of trust in Russia among the general population in Armenia that trusted Russia as an ally against Azerbaijan and Turkey. Thus, less Russia-oriented policies are expected on the Armenian side in the coming years as the country searches for more reliable sources of security.

Fortunately for Azerbaijan, the signed agreement in the recent ceasefire includes constructing a direct railway line between the Turkish city of Kars, Azerbaijan's Baku, and its Nakhchivan exclave through the Armenian district of Syunik. This is a development that might not be good for Azerbaijan's other close neighbor, Iran, which has benefitted from the lack of direct trade routes between Turkey, Azerbaijan, and Central Asia (Khorrami 2020). However, this might revive Chinese interest in the region as a link between East and West in its Belt and Road Initiative to develop efficient trade infrastructure connecting China to Western Asia and Turkey.

The New Silk Road: A Way out of Russian Influence?

On December 4, 2020, the first Turkish train to set off for

the Chinese Xi'an province via the Baku-Tbilisi-Kars railway was proof that Chinese interest to reconnect countries throughout the Eurasian continent has been revived. The New Silk Road initiative's main objective is to reduce shipment time between industrial China and European markets (Sahbaz 2014). From China to the port of Aktau in Kazakhstan to the Azerbaijani port of Alyat, Chinese and Central Asian goods are already transported through the Middle Corridor. With the soon-to-be-operational Baku-Nakhchivan-Turkey railroad, this trade route will create more economic opportunities for Azerbaijan.

Trade between Azerbaijan and Asia is not as developed as it could be, but with further investments in the New Silk Road, the situation might change soon. Other than Turkey and China, Azerbaijan currently has high transport imports from Japan, machinery from Vietnam, and vegetables from Kazakhstan, while exporting minerals, metals, and ready foodstuffs to Georgia, Turkmenistan, and Uzbekistan. Chinese energy diversification plans could also benefit Azerbaijan. China seeks to diversify its energy sources outside of Southeast Asia, a region deemed to be under threat of US blockades (Ratner, Greenberg 2018). By developing its transport infrastructure, Azerbaijan could thus find new oil-and-gas importing partners.

In this regard, Turkish and Azerbaijani interests fully align politically and economically. Both countries are interested in new trade partners but also want to decrease Russian influence on regional trade. For Azerbaijan, the Trans-Caspian trade route's successful development means less dependence on Russian trade for food security. Turkish interests are also satisfied as more trade with Central Asia would also mean increased cultural and political influence.

With a fully operational Middle Corridor, Azerbaijan will have easier access to European and Asian markets, greater integration in the globalized world, and maintain its role as a critical player in the region, acting as a vital transit

point in the Eurasian transport network. One question remains – that of the role of the Russian peacekeepers in any future trade operations.

Russian Forces in the South Caucasus: Peacekeeping or Maneuvering from Within?

Using peacekeeping operations as a way of instilling instability in its former Soviet partners is not new for Russia. One country in the South Caucasus is well aware of that – Georgia. In the mid-1990s, Russia used military force to support separatists in Abkhazia, which was used as an excuse to insert a Russian peacekeeping military presence in the west of the country (Remler 2020). Further strengthening its presence in South Ossetia, Russia supported another separatist movement by invading a large portion of Georgia in 2008. These operations and their outcomes highlight Russia's real aspirations when it comes to peacekeeping: instead of an impartial effort at bringing peace and dialogue to a conflicted region, a controlled instability that enables Russia to influence politics in the area (Murusidze 2020).

The recent ceasefire agreement between Armenia and Azerbaijan is essentially the Lavrov plan that was first discussed in 2015 by the Minsk group. Satisfying Azerbaijan's wishes in exchange for a Russian military presence in Nagorno-Karabakh, the Lavrov plan had been criticized for being a Russian attempt at reinstating its lost empire. Giving access to Russian forces essentially means more space to manipulate Azerbaijan's political course from within its borders. Neutrality is not something Russia wants to pursue; maintaining a certain level of hostilities and tension between the two South Caucasus countries can only be advantageous.

The introduction of Turkish military forces with the construction of a military airbase in the Azerbaijani city of Ganja is being discussed to counter Russian influence instead of simple drone monitoring operations. An appealing short-term

solution, but not so much in the long-term. The unstable Turkey-Russia relationship could be detrimental to Azerbaijan's territorial integrity. Furthermore, any action that is not discussed and agreed upon with Russia can lead to more trade restrictions as a form of intimidation.

Conclusion

The implications of the Second Karabakh War and its consequences on the South Caucasus region's power dynamics are diverse. With a new Russian military presence on Azerbaijani land and the threat of trade restrictions on the Azerbaijani economy, a new strategic direction needs to be taken. As part of its aspiration to independence from foreign influence, particularly that of Russia, Azerbaijan needs to shape its future integration into global supply chains by diversifying its trade partners with further transport infrastructure development, making it a vital transit point between East and West, challenging its current reliance on Turkish and Russian trade routes. Improving logistical infrastructure is, however, not the only priority for Azerbaijan on its way to independence. Transportation safety is essential in attracting investment and trade opportunities. Securing the Nakhchivan connection to Turkey implies improving relations with Armenia and close monitoring of Azerbaijani-Russian relations. Perhaps too ambitious in the short-term, strategic commitment to global integration and regional safety will determine Azerbaijan's role on the international scene, at the heart of a trade network between European, Central Asian, and East Asian markets, insulated from its neighboring powers' influence.

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