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BULLETIN

HIGHLIGHT OF THE FOREIGN POLICY OF REPUBLIC OF AZERBAIJAN

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I. **Azerbaijan successfully tackles the COVID-19 pandemic**

Azerbaijan has so far been successful in containing the spread of COVID-19 by taking swift actions, such as setting up a Task Force under the Cabinet of Ministers to tackle the pandemic, closing borders, suspending teaching at educational facilities, canceling or postponing public events, introducing a special quarantine regime and series of social distancing measures. The government has allocated 20 hospitals for the treatment of coronavirus patients and 23 laboratories for COVID-19 testing, with some 7000 tests conducted on a daily basis. The production of protective and other medical gears was also arranged in the country in a short time. In May, Azerbaijan began gradually easing lockdown measures it imposed following the outbreak of the coronavirus. However, some restrictions are still in place and easing measures are subject to change if there are new outbreaks. With comprehensive testing and efficient contact tracing, Azerbaijan hopes to contain its own outbreak and avoid the risk of widespread lockdowns in future. In his March 23rd letter to President Ilham Aliyev, Dr. Tedros Adhanom Ghebreyesus, the Director-General of the World Health Organization (WHO), praised the measures taken by the Azerbaijani government to fight the coronavirus pandemic. While the risk of a second wave of infections is still high, Azerbaijan has proven adept at containing the coronavirus.

As the global spread of COVID-19 continues, downside pressure on global economic growth will likely remain in place. The combination of demand and supply-side shocks, a drastically worsening consumer and business psychology indicate that the global economy is on the

precipice of recession. As with every other country fighting the coronavirus, economic growth outlook for Azerbaijan has also been subdued. Nevertheless, with public debt ratio of just below 50.0% of GDP, Azerbaijan has been successfully instrumentalizing its strong fiscal position to respond to the COVID-19 pandemic. The government pushed to support households and businesses whose livelihoods were severely disrupted by the pandemic. To contain the negative economic spillover, stimulus programs were rolled-out promptly. To ensure macroeconomic and financial stability and solve the problems associated with employment, the Azerbaijani government adopted a stimulus package in the amount of more than \$2 billion. The government also has fully retained the salaries of more than 900 000 people working in the public sector and paid a significant part of the salaries of 690 000 workers in the non-state sector. 600 000 low-income, unemployed and informally working people were also provided with the subsistence minimum for two months. To ensure the social protection of the unemployed, the government is planning to create 90 000 public jobs by the end of 2020. Until 2021, taxpayers in the sectors worst hit by the pandemic will receive various tax benefits and tax breaks. The government is planning to provide a guarantee for 60% of new loans issued by banks to businesses.

The Covid-19 pandemic and the lockdown measures in place has led to global collapse in oil demand. In addition to the collapse of the global economy and oil demand, OPEC+ also failed to extend production cuts in early March. The double shock of demand and supply have send the oil prices into a free fall. Although effective May 1, OPEC+ has agreed to a 9.7 million barrel per day cut, the market's response to the agreement has so far been

-muted because of the belief that the cut is insufficient to mitigate the damage caused by the pandemic. While expectations of a quick recovery are unlikely to become a reality, the outlook for the global economy remains bleak. Despite the coronavirus pandemic, plunging oil prices, and escalation of geopolitical disputes, including growing US-China tensions, Azerbaijan has managed to keep its reform momentum going, focusing on attracting investment and boosting growth potential. Given significant fiscal buffers, the Azerbaijani government has sufficient economic tools to cushion the domestic economy from the combined threat of Covid-19 and falling oil prices. At the same time, the government is keenly aware of the need for economy to diversify away from energy sources and continues to pursue wide-ranging structural reforms meant to pave the way for new investments, diversification of the economy and reduced dependence on hydrocarbons.

Azerbaijan has also been very active on the international stage in its support of the global fight against the pandemic. Hikmet Hajiyev, Assistant to the President of the Republic of Azerbaijan on Foreign Policy Issues and Head of Foreign Policy Affairs Department of the Presidential Administration, noted that the Azerbaijani perspective is that “the global pandemic is not a time for self-isolation, but for global solidarity”. So far, Azerbaijan has initiated two Summits related to the coronavirus. On April 10, it held an Extraordinary Video Summit of the Cooperation Council of Turkic-Speaking States, which became the first Summit at the level of heads of state and government in the world, dedicated to the issue of the COVID-19 pandemic. Also on May 4, the online Summit of the Non-Aligned Movement (NAM) Contact Group was held through videoconference. In support of the global fight against coronavirus,

Azerbaijan has also provided voluntary financial assistance in the amount of \$5 million to the WHO’s COVID-19 Solidarity Response Fund.

II. Azerbaijan holds online Summit of the Non-Aligned Movement

On May 4, in response to the COVID-19 pandemic, the online Summit of the Non-Aligned Movement (NAM) Contact Group was held through videoconference. The proposal to hold a Summit and establish a Contact Group under the theme of “United against COVID-19” was put forward by the President of the Republic of Azerbaijan and Chair of the Non-Aligned Movement Ilham Aliyev. The decision to hold a meeting was unanimously supported by all the member states of the NAM. The President of the UN General Assembly, the Director General of the World Health Organization (WHO) and Chairman of the African Union Commission also participated in the Summit. The UN Secretary General, Antonio Guterres, and the High Representative of the European Union and Vice-President of the European Commission Josep Borrell sent video messages to the participants of the meeting as well. Despite the brief period of membership in the NAM, since its admission, Azerbaijan has been very active in the Movement, aiming to increase the importance of the NAM – a second largest international institution after the UN – in the global arena and strengthen its international authority. Azerbaijan has also sought to make the NAM more efficient by finding new and upgrading existing mechanisms of coordination.

While economic fallout from the pandemic could be massive the road to recovery will undoubtedly be very bumpy. COVID-19 exposed serious deficiencies in global supply

chains. As governments and companies contemplate global supply chains security and think of bringing production close to home, it might put massive downside pressure on global trade and could lead to lower productivity, higher prices and fragmented markets. That is why, in his speech at the Summit, President Ilham Aliyev noted that the pandemic can only be defeated with mutual support and joint effort, “without locking ourselves up.” President Ilham Aliyev also emphasized the importance of maintaining trade openness and carrying out international cargo transportation without any interruptions, pointing out that “Azerbaijan, as a reliable transit and logistical center responsibly treating its role in the pandemic, provides unhindered transit traffic through its territory.” President Ilham Aliyev also announced that Azerbaijan will allocate additional \$5 million to the WHO, intended as an assistance for the members of the NAM in Asia, Africa, and Latin America. It was also proposed to add COVID-19 related humanitarian and medical needs of the NAM members to the unified database, which can subsequently be presented to international donors and humanitarian organizations for the provision of feasible support. President Ilham Aliyev also offered to share Azerbaijan's experience in containing the spread of COVID-19, which could serve as a lesson for other countries now facing the coronavirus. President Ilham Aliyev also proposed to hold a special – in the format of a videoconference – session of the UN General Assembly at the level of heads of state and government, dedicated to the COVID-19 pandemic.

Commenting on the importance of the meeting, Dr Esmira Jafarova, a board member of the Center of Analysis of International Relations (AIR Center), noted that the significance of the Summit is in its desire “to

draw resources and efforts from diverse economic, cultural and national centers represented in the NAM and scattered across the world, to the global fight against COVID-19.” Dr Esmira Jafarova also noted that in the era of hyperglobalization the only way to tackle such contagious virus is “through amassing the power of multilateralism and display of global solidarity.”

III. Provocation in the occupied territories of Azerbaijan

On May 21, Armenian Prime Minister Nikol Pashinyan participated in the “oath taking ceremony” for the new head of the puppet regime in occupied Nagorno-Karabakh region of Azerbaijan. Rather provocatively, the Armenian side for the first time decided to hold the ceremony not in Khankendi (the center of former the Nagorno-Karabakh Autonomous Region), but in Shusha – the city that is widely recognized as the cradle of Azerbaijani music and culture, with predominantly Azerbaijani population before occupation in 1992. The Azerbaijani government denounced the event, pointing out that the only purpose of such provocations is to undermine the peace talks. Earlier in May, commenting on Armenia’s war-mongering rhetoric, which has recently become even more toxic, Hikmat Hajiyev, Assistant to the President of the Republic of Azerbaijan on Foreign Policy Issues and Head of Foreign Policy Affairs Department of the Presidential Administration, noted “the lack of constructive actions by Yerevan” to push the negotiation process forward. Since coming to power, Nikol Pashinyan has not only dragged out the negotiation process, but also actively derailed it by using increasingly hostile and unconstructive rhetoric. By stirring up the tensions with Azerbaijan amid the COVID-19

pandemic just to appeal to his populist base, Pashinyan does not move the peace process forward, he only obstructs it.

IV. Increased importance of the Middle Corridor amid the pandemic

Although the COVID-19 pandemic has created significant challenges for international trade, transportation and logistics, it also opened up new opportunities for some newly established connectivity routes. For a long time, the main links connecting Europe and Asia have been maritime shipping and land routes going through Russia and Iran. Currently, Russia and Iran are the main export routes linking Turkey with Central Asia. Past political disputes with Russia and Iran and the COVID-19 pandemic have brought forward the need for Turkey to bypass the political constraints of those routes. Today several emerging routes offer a viable alternative over the traditional Northern and Southern competitors. The Middle Corridor – through Turkey, Georgia, Azerbaijan and the Caspian Sea – presents a competitive and dynamic route network based on the land-sea combination linking East and West. This new commercial superhighway will drastically boost regional development by interconnecting a significant part of the Eurasian landmark through a comprehensive network of both “soft” and “hard” infrastructure materialized around the Corridor. On April 10, during the Extraordinary Video Summit of the Turkic Council on the issue of the COVID-19 pandemic, initiated by President of the Republic of Azerbaijan Ilham Aliyev, President of Turkey Recep Tayyip Erdoğan highlighted the significance of the Middle Corridor.

Intercontinental rail network is a defining feature of the Middle Corridor’s land

component. The Azerbaijani government has been a strong political and investment driver behind the developing new and upgrading existing regional rail routes. With attractive investment opportunities and liberal foreign investment regime, Azerbaijan offers one of the most lucrative business environments in the South Caucasus and Central Asia. Azerbaijan aims to establish itself as an important connectivity and digital hub in the region. Azerbaijan has committed massive efforts and enormous resources to make the Middle Corridor a competitive option over the Northern and Southern routes.

As a defining element of the Middle Corridor, the newly established Baku-Tbilisi-Kars (BTK) railway line offers the safest and shortest route from Asia to Europe. In October 2017, Azerbaijan, Turkey, and Georgia officially launched an 826-kilometer long Baku-Tbilisi-Kars railway line. With the initial capacity to transport 5 million tons of freight a year and just 14 days to reach destination, the BTK offers a significant shortcut in comparison to alternative routes. On November 2017, the first train cargo from Kazakhstan arrived in the Turkish port of Mersin via the BTK. The first successful transit of goods was received with enthusiasm in Kazakhstan also reviving the possibility of the TITR – the Trans-Caspian International Transportation Route, connecting Kazakhstan, Azerbaijan, Georgia and Turkey. In parallel, in August 2018, the landmark Caspian Sea Convention was signed by five littoral states – Iran, Russia, Kazakhstan, Turkmenistan and Azerbaijan – accelerating the development of Trans-Caspian transportation projects. Another Trans-Caspian transportation project in the making is the Lapis-Lazuli Corridor, which is connecting Afghanistan, Turkmenistan, Azerbaijan, Georgia and Turkey. The formal agreement on the project was signed in October 2017 and the

opening ceremony of the route took place in Herat in December 2018. On April 19, an 82-container train, the longest freight train to have operated on the BTK rail line, departed from Turkey, with planned stops in Azerbaijan, Kazakhstan and Turkmenistan before reaching its final destination in Uzbekistan.

Despite the fact that rail shipping is faster than maritime shipping and cheaper than air freight, it still has a low intermodal market share in the trade between Europe and Asia. As the use of railroads to transport cargo requires less human involvement, rail shipping is becoming an attractive alternative option and gaining new momentum amid the pandemic. The BTK could also gain a real competitive edge in those manufacturing sectors which due to a low profit margin require fast shipment with none of the cost associated with air freight. It also has the potential to be popular with those manufacturers that tend to make highly seasonal products such as the apparel manufacturers.

China with its Belt and Road Initiative (BRI) and the EU with its new Connectivity Strategy also stand to gain politically as well as economically if this Corridor becomes competitive to Northern and Southern routes going through Russia and Iran respectively. Unlike the Southern Gas Corridor, initially, the BTK rail corridor did not featured prominently in the EU's foreign policy agenda. However, this is starting to change. Closing the infrastructure gap and boosting the connectivity across Eurasia is equally important for the regional players, as well as great powers. The EU understands that closing those infrastructure gaps is a significant challenge that cannot be tackled by one actor alone. In this context, Azerbaijan and the EU pursue similar development strategies based on the increased interconnectivity. Commenting on

the launch of the BTK railway, the EU noted that “[it] welcomes the new rail corridor which, coupled with investments, improved infrastructure and logistics coordination will provide better connectivity, new business opportunities and increased trade. This is at the heart of its Eastern Partnership as well as of its Central Asia strategy.” As Dr Cavid Veliyev has pointed out recently “this route, which is supported by the United States and the European Union, also encourages greater integration of the regional countries as well as the development of trade relations between landlocked countries, such as Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan and Afghanistan—finally more directly connecting them to the global market.”

V. TAP introduces first natural gas into the Albanian section of the pipeline

On May 20, as part of its testing phase, the Trans Adriatic Pipeline (TAP) AG started to introduce the first natural gas into a 4 km section of the Albanian part of the pipeline. Despite the challenges stemming from the ongoing coronavirus pandemic, the construction of the pipeline continues uninterrupted. On March 31, TAP AG and PRISMA European Capacity Platform GmbH signed an agreement that gives TAP access to Prisma's gas capacity trading platform, which vastly improves TAP's trading position in European markets. The TAP AG consortium is planning to deliver first gas to Europe before the end of 2020. According to TAP AG, the pipeline project is 95.1 percent completed. When it is finished, gas from Azerbaijan's Shah Deniz Stage II will be delivered via TANAP to the Turkish border with Greece and then via the TAP pipeline will be transported across Greece, Albania, and the Adriatic Sea to southern Italy. The Southern Gas Corridor

continues to be a critical aspect of the EU's targeted diversification of energy supplies strategy. Today the importance of the SGC is more obvious than ever. When it is finished,

the pipeline is not only going to diversify European supply sources, but will also make the European gas market more competitive.