Azerbaijan and Iran after the Sanctions: The Pathways of Advanced Engagement and Confrontation

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Note:

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Introductory notes

Situated in the Caucasus, one of the most geopolitically delicate regions of the world, Azerbaijan has always been careful to build relations with its ‘big neighbours’. Baku is distinguished for its balanced approach to the foreign policy, which tries to manage the balance between the West, Russia, Turkey and, of course, Iran.

The ‘balanced foreign policy’ was and is the only way out of the situation - to which nature itself placed Azerbaijan - for Baku to maintain its sovereignty. Therefore, Azerbaijan's foreign policy, which highlights neutrality between the parties (this is in contrast to the neighbouring Georgia and Armenia’s policy) and balance, can be called ‘specific’.

Even so, the Iranian-Azerbaijani relations have a particular specificity. There are many reasons for this. After the Arab conquest (the Islamisation of Iran), Azeri's role in the history of Iran is not less significant than the Persians. For many centuries, they were part of a single state. Since the Islamisation of Iran in the VII century, the predominant number of the dynasties that have established their own state and ruled in Iran, or the region including the territory of modern Iran, have Azeri roots or ethnically were very close to Azerbaijanis. Qajars - the last Iranian dynasty, which had Azerbaijani roots - were overthrown by the Persian Pahlavi dynasty in 1925.

Just this factor alone would be sufficient for making the Azerbaijani-Iranian relations specific. Nevertheless, there are other points.

The Russian-Iranian war, which ended in 1828, resulted with the Azerbaijani people being divided and live on both sides of the river of Araks. Araks has become the new border between the Russian Empire and the Qajar Iran. Russia's Azerbaijan (now the Azerbaijan Republic) experienced completely different development pattern: at the beginning, as a part of the Russian Empire, and later - the Soviet Union. While developing in the different political and economic formation, acquiring the features of secularism and becoming westernized, Modern Azerbaijan self-identified itself with a very different set of values than Iran, which underwent Islamic revolution in 1979.

Nevertheless, in general, the relations between Iran and Azerbaijan have always been uneven and irregular. Starting from the first days of the disbandment of the Soviet Union - Azerbaijan regaining its independence - a completely new reality emerged on the northern borders of Iran.

During this period, Iran was suffering from the Western imposed sanctions; the 'irregularities' between Azerbaijan and Iran took place during the opposition to the West by Tehran.
Abolishment of the sanctions changes everything. Or almost everything. The magnitude of changes can be so great that it complicates forecasting the Iranian-Azerbaijani relations. The factors creating irregularities are still out there. Once Iran is out of the international isolation and acquired a new status, it can greatly facilitate the relations or make it complicated even more. Even so, the lift off of the sanctions creates a new phase, with a different set of conditions in the relations, which needs to be analysed. Taking into account the difficulty of predicting on the topic, the article firstly examines the underlying factors associated with the relationship between Azerbaijan and Iran.
Historical Overview. Factors Stipulating the Relations Between Countries

As mentioned earlier, the factors stipulating the relations between countries have historical roots, and by building mutually beneficial rational economic relations many disappointments could have been avoided.

In this section, we will review these factors in detail. First, we consider historical, and then move on to the religious and ethnic factors. Short background info will help us to build up the article and explain the current relations. In the light of uncertainty and the difficulty of forecasting, understanding these factors is important for explaining the suggested scenarios.

Iran was among the first countries recognizing the sovereignty of Azerbaijan after the disintegration of the Soviet Union. Iran was flattered by the idea of a second Shiite state in its sphere of influence over its northern borders. It is still an interesting topic for backroom discussions in Azerbaijan, how the Iranian generals offered their services in favour of Azerbaijan during the first years of the Armenian-Azerbaijani conflict over Nagorno-Karabakh. One can even encounter witnesses' memories on how in the early years of independent Azerbaijan the portraits of Iranian religious leaders flashed in the waves of nationwide protest. Tehran was eagerly expecting a religious revolution in Azerbaijan, in kind of 1979 in Iran, and the accession of Azerbaijan to ‘historic homeland’ - to Iran. Iran was very attracted by this idea which seemed promising: getting a client state for itself, and exporting the ideas of the Islamic Revolution were skilfully used in the speeches of Iranian politicians. Back then, after 11 years since the religious revolution, the topic was very relevant for the domestic audience in Iran.

Nevertheless, Azerbaijan was considering its future in a different direction. Even in the period of political turmoil, which occurred in the first years of independence, theocratic ideas by Iran were not attractive for different political groups in Azerbaijan. Secular political and social view was entrenched in society, and religious social and political values offered by Iran were perceived by many as ‘the backwardness of the historical development’.

The young Republic of Azerbaijan - as the first country in the region - which could insist on the complete withdrawal of the Russian troops from its territories, did not wish the presence of another state army. Turkey, which was a NATO member and offered Western values, was much more welcome than Iran with its political and ideological ambitions and intentions.

The subsequent events called for reconsideration of relations between the countries.
In March 1992, Iran, as a country interested in peace and stability at its northern borders, initiated mediation between Azerbaijan and Armenia. Offering its hospitality, Iran invited Armenian and Azerbaijani delegations to Tehran, where a declaration on the resolution of the conflict was signed. Yagub Mammadov, the Acting President of Azerbaijan back then, was visiting Tehran in those days too. At the same time, on 8 May, the Armed Forces of Armenia seized and captured Shusha, a city with not only military-strategic importance, but also considered as a cradle for Azerbaijani music and culture, populated by Azerbaijanis. In terms of military strategy and moral damage to Azerbaijan, it was more than noticeable.

The fact that it all happened when the Acting head of the state was abroad for the invitation initiated by Iran and for signing a peace treaty, made things even more complicated. On 14 May 1992, Ayaz Mutallibov became president, again. Despite Tehran’s harsh criticism, the capture of Shusha at the time of signing the ceasefire agreement has deteriorated the public image of Iran in Azerbaijan even more. Even now, Iran justifies this being arranged by external powers that were not interested in strengthening role of Iran in the region (‘Echo’ newspaper, 2015). By this they are implying the Russian support to Armenia during the conflict. As a result - Iran has discredited itself, and not only as a peace mediator.

The following events, strained the relations even further. Iran began helping Armenia too: not publicly, of course.

Assessing the role of Iran in support to Armenia, Robert Kocharyan, the second president of Armenia, admitted that there were critical times, and without the support by Tehran, Armenia would lose its independence.

Referring to the strategic relations between Armenia and Iran, in his interview to ‘Moscow News’, Levon Ter-Petrosyan, another head of Armenia mentioned that during the negotiations OSCE Minsk Group proposed an option for the exchange of territories between Azerbaijan and Armenia. "Karabakh would join Armenia, and Azerbaijan would get the lands between its mainland and Nakhichevan - Meghri corridor. It is not a speculation. But I would never go for such decision. In this case, we would be deprived from the border with Iran, and in strategic plan, it is more important than Karabakh" - he said (‘Moscow News’, 2014).

Nowadays, in spite of the amiable words of the heads of states to address each other, the relations between Azerbaijan and Iran cannot be considered as cordial. The Azerbaijani-Israeli diplomatic relations is a topic of great significance for Iran's annoyance. There is an unusual background for these relations. After leaving Azerbaijan to Israel, the Jews, who lived in Azerbaijan in Soviet times and before, are particularly affectionate toward Azerbaijan. As a result, there is a very strange unity: excellent diplomatic relations
between Azerbaijan, which is populated mainly by Muslims, and Israel. This fact cannot be ignored by Tehran.

Iran also opposes Azerbaijan for attracting foreign companies to develop oil fields in the Caspian Sea. In 2001, there was an incident between Azerbaijan oilmen and Iranian border services in the Caspian Sea. The problem was solved thanks to the Turkish fighters, whose air-performances were organised in Baku for public with a short notice ("Vedomosti" newspaper, 2001) (Armenpress.am, 2001).

As noted earlier, Iran considers Azerbaijan as its historical lands. Official Iranian historians call Azerbaijan exclusively "Republic of Azerbaijan". According to them, the name ‘Azerbaijan’ can be claimed only by the inhabitants of the Iranian Azerbaijan.

Starting from the second half of the 1990s, both of the countries mutually began looking for vulnerabilities in each other.

In this context, there are two factors, which brief mentioning about them will be necessary for understanding the situation between Iran and Azerbaijan: ethnicity and religion.

In Iran, there is great number of Azerbaijanis or ‘Azeri Turks’. Nationalistic communities suggest that the number is as high as 40 million people. Iran is concerned that the nationalist communities in Azerbaijan may gain strong-ground among Azerbaijanis living in Iran, which could lead to the disintegration of the country.

In turn, Iran has potential for destabilising Azerbaijan within. Increasing his veiled influence to the political situation in Azerbaijan, Tehran could achieve a lot. By supporting religious groups close to Iran, Tehran is interested in gaining popular support.

So, due to the fact that Iran and Azerbaijan have a lot in common, both of the sides are capable of substantially hurting each other. The history of Iranian-Azerbaijani relations is full of such examples. Lifting off the sanctions can trigger different pathways for the development of the relations.
The Pathways of Advanced Engagement and Confrontation

It would oversimplify to build the scenario development scenarios between Iran and Azerbaijan basing on the oil prices. As one would expect, the oil and the price of oil (or how they are going to be affected by the agreement on the nuclear program) are also an important factors in relations. Nevertheless, there are other points, which should be taken into consideration. Based on the information provided above, we will present how these relations can develop in negative and positive terms.

Pessimistic scenario

As the current relations between the countries have a gloomy background, the pessimistic scenario should be highlighted first. The negative scenario is built on the assumptions that Iran will use its resources to impose its own ambitions on Azerbaijan, once it gets stronger. After the sanctions are lifted off, thanks to newfound markets, Iran is getting richer can persuade the realisation of its ambitions toward Azerbaijan. At the same time, Iran can act in several directions.

First of all - it is helping Armenia.

The economic cooperation with Armenia is not profitable to Iran, if the calculations are based on purely economic profits. Armenia - a country, which lacks its own mineral resources, whose borders with Turkey and Azerbaijan are closed and isolated, which has no seashore - cannot be a profitable economic partner. In addition, in Armenia, the number of population is shrinking (lin.am, 2013) (Express.am, 2015), making the consumer market less attractive. Armenia can be interesting to Iran only as an opponent party putting pressure on Azerbaijan. The resources, which Iran may acquire as a result of lifting off the sanctions, can be spent on the implementation of joint projects with Armenia. These projects were not implemented so far due to lack of funds from Iran, and Armenia could not get aid from international investors and donors. The project for building road infrastructure (and the project for railway communication) did not seem cost-effective for international investors, as Armenia with its limited capabilities, are in conflict with Azerbaijan. Isolated Armenia cannot guarantee the transfer of sufficient amount of goods via these roads. Another option, which considers transportation of the goods using these communication lines to Russia, via Georgia - is also unviable because of the conflict between Georgia and Russia (or its unrecognised satellites).

Now, when Iran is not bearing the burden of the sanctions, has the means to invest in economically unprofitable projects only for political reasons.
Not only investments, but also the dialogue with Armenia over these projects may cause back-splash from Baku and lead to a deterioration of diplomatic and economic relations.

Another important area that Iran can take advantage over Azerbaijan - is to delegate to the pro-Iranian groups in Azerbaijan.

In this case, one should not forget about the factors stipulating the relations between Iran and Azerbaijan: religion and ethnicity.

Iran is probably the only country that has the potential to blow up Azerbaijan from within. Since investing into the immensely unprofitable projects with Armenia and military action against Baku economically is not favourable, investment to the pro-Iranian communities in Azerbaijan can strongly influence the political situation in the country.

There were speculations on cancellation of the Eurovision Song Contest 2012 in Baku because of the threat from religious communities in Azerbaijan. Despite that, Baku was able to maintain security and keep these communities under the control. The year of 2011 was probably the most active year in this regard. Following the steps of the religious communities - beating police officers in a public outcry (which was the first case in Azerbaijan) - the government responded with asymmetrical measures: the leader of the Islamic Party of Azerbaijan Movsum Samedov and five activists of the party, who were particularly active during the demonstration, were arrested (Eurasianet.org, 2011).

Nevertheless, there are other ‘weapons’ in the arsenal of Tehran: ethnic minorities in Azerbaijan, in particular - Talysh. Talysh are Iranian-speaking ethnic minorities living in the border regions of Azerbaijan and Iran. In the early 1990s some of their representatives were politically active, attempting to establish their own state, which was not successful. Nowadays, Azerbaijan suspects Iran on sponsoring a radio station in the Talysh language from the territory of Armenia and Nagorno-Karabakh, controlled by Yerevan.

A country, which politically and financially investing to this case, indeed, cannot be favoured by Baku.

Another area that should be reviewed is the increased role of Iran in the conflicts in the Middle East. It is expected that Iran will openly counterbalance the religious and terrorist groups tied to some of the families in Saudi Arabia. The feud between the Saudis and the Iranians has a long prehistory. By making a deal with Iran, Washington thereby gave Tehran a chance to balance the situation in the Middle East and tame the Saudi ambitions.
In this context, Iran would require the support of Azerbaijan, which population mainly has Shia-Muslim background. Azerbaijan always preferred to remain neutral, which in this case, can be another reason for Tehran's great anger.

At the end, by acquiring a new status and supremacy in the region, Iran will enjoy comparatively more resources. So far, it is not clear what share of these resources will be allocated to spend on Azerbaijan.

Nevertheless, we must take into account the fact that the signed agreement on the nuclear deal will also have an impact on the economy of Iran. This creates new opportunities for pushing the Iranian economy into the reforms and building favourable conditions for an optimistic scenario.

**Optimistic scenario**

In the long-term period, the positive scenario for the relations between Azerbaijan and Iran depends on the liberalisation and deregulation of the Iranian economy. For now, the existing economic and political model in Iran, with its social programs and other budget spending, is more similar to the economic model of the former Soviet Union countries, although Iran labels it as 'liberal'.

The public and economic regulatory mechanisms, implemented by the government in Iran, make the country's economy less similar to the existing western liberal-democratic model of society and economy. Iran may consider and label its economy as 'liberal', but the heavy regulatory measures dictate the opposite.

Particularly, it does not adhere to the needs of international investors.

For example, if an international investor wants to invest in Iran's oil industry, based on the existing legislation and regulatory mechanisms, the necessary equipment have to be acquired from the local producers. International companies are allowed to buy the equipment outside of Iran, if there is no local production. A certain share of the work force should also be employed from Iran. There are many other restrictions.

The signed agreement on the Iranian nuclear program is expected to change it.

Iran desperately needs foreign investments. This means Iran has to please international investors and undertake reforms to deregulate the economy and make it more liberal.

This is the point where the changes are expected to take place. The economic reforms in the country cannot be undertaken without changes to the current political institutions and foundations. At the moment, the oil business of Iran is under the supervision of the
Revolutionary Guards. Any reforms in the oil sector will lead to decreasing their influence. An important political-military and ideological institution in Iran, such as the Army of the Guardians of the Islamic Revolution, will not remain idle in this situation. Reforms in other areas will have the same consequences for other politically might groups in Iran. And Iran needs reforms - there is no other option. All of this will gradually lead to political changes.

Usually, controlled and strictly regulated economic models are suitable tool for policy-makers to achieve their own objectives. Tehran capable of rapid interventions to the economic cooperation between Iran and other countries, which is unusual for liberal-democratic regimes.

Iran is expected to become more rational in their economic and political ambitions after the reforms. Hence Iran will not be able to ignore its northern neighbour, which economic potential is about 80 per cent of the economic potential of the South Caucasus.

All of this will create opportunities for the development of the bilateral relations. Transport infrastructures as a railroad passing through Astara (Azerbaijan), should join the existing railway networks of Russia and Iran. The project, which is the part of the ‘North-South’ transport corridor, will be vital part for integration of transport and information highways of Russia, Azerbaijan, Iran, India and Oman. With limited political ambitions, this project is more than feasible.

Construction of the railway between Azerbaijan and Iran will also contribute to the improved connections with the Nakhchivan Autonomous Republic - Azerbaijani exclave, which is surrounded by Iran, Turkey and Armenia.

The first signs of the optimistic scenario are already visible. Right after reaching the agreement with Western countries, official representatives of Iran invited his Azerbaijani colleagues to Iran to discuss the future of post-nuclear cooperation. The government delegation of Azerbaijan, led by Shahin Mustafayev, the Minister of Economy and Industry, visited Iran at the beginning of August 2015. The delegation also included representatives of the State Oil Company of Azerbaijan, Central Bank, Ministry of Communications and High Technologies, ‘Azerenergy’ JSC, ‘Azerbaijan Railways’ CJSC, the Caspian Shipping Company, State Agency for Alternative and Renewable Energy Sources and businessmen from different sectors.

In conclusion to this section it should be noted that the positive development of relations between Azerbaijan and Iran is attainable and depends on the reforms in Iran. The agreement reached by E3/EU+3 is a good platform to push for reforms in Iran.
As it was mentioned above, these changes will gradually transform the policy and bring about structural changes in the existing situation. And it will be only beneficial for relations.

**Conclusion**

The history of relations between Iran and Azerbaijan has a particular specificity, causing all stages of the development of bilateral relations. The agreement reached on Iran's nuclear program, creates a new stage of relations between Azerbaijan and Iran.

The magnitude of the changes in the region makes the forecasting of the development of bilateral relations between Iran and Azerbaijan a very difficult task: too many variables exist. In this context, the only possible way is analysing the factors stipulating the relations between the countries so far, and forecasting the development of factors separately; which was done in this article.

This paper was trying to predict the development of the bilateral relations based on the negative and positive scenarios.

Basically, Azerbaijan is going to win from the deal on the nuclear program of Iran. First of all, Azerbaijan feels secure for the potential source for global instability at its southern borders coming to an end; this is a positive factor for the development of relations.

The economic and political reforms in Iran are inevitable under the pressure of the international community. As explained in the article, it will only benefit the Azerbaijani-Iranian relations.
References


