Azerbaijan and Saudi Arabia: Bilateral Opportunities in a Changing Middle East

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The relationship of the Republic of Azerbaijan and the Kingdom of Saudi Arabia goes back to as early as the first year after the independence of the former Soviet Republic of Azerbaijan on December 30, 1991. Nevertheless, the official relationship was not established until the visit by the former president of Azerbaijan, Heydar Aliyev (1923–2003), to Riyadh in April 1994.1 In that year, Azerbaijan established its embassy in Riyadh (the embassy was also accredited to Bahrain and Oman), and subsequently, formal political and diplomatic relations began to draw the two countries closer in order to improve cooperation and reciprocal representation on many levels. After the move of the Azerbaijani toward a closer relationship with the Saudis, Saudi Arabia opened its embassy in Baku in June 1999. The incumbent president of Azerbaijan (and son of the former president), Ilham Aliyev (1961–) began his presidential duties after his father’s death on 12 December 2003. Only after two years, in 2005, did the Azerbaijani president Ilham Aliyev pay an official visit to Saudi Arabia, officially paving the way for more visits by Azerbaijani state officials and meetings with their Saudi counterparts in the years that followed. Since then, both countries began to make political, economic, cooperative official visits, agreements, and plans for new joint projects to benefit both countries.

Background of Bilateral Politics

A look at the historical relationship of Azerbaijan and Saudi Arabia shows the strong mutual support exchanged on various occasions following the establishment of their official connection. After gaining its independence, Azerbaijan sought membership in many international organizations, including the Organization of the Islamic Cooperation (OIC), to which it was admitted in December 1991; this made it a partner to Saudi Arabia in an international and important organization. In later years, particularly in the mid-1990s, Saudi Arabia was among the first countries to provide humanitarian assistance and economic support to the Azerbaijani who were displaced following the war of Nagorno-Karabakh, a conflict over a disputed territory in the border between Azerbaijan and Armenia. During the years of the conflict (1988–1994), Armenia has occupied 20 percent of Azerbaijan, including the region of Nagorno-Karabakh

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along seven surrounding districts.² In this matter, the Saudis have backed the right of Azerbaijan in the United Nations General Assembly meetings and in the OIC, asserting its internationally recognized authority over Nagorno-Karabakh. Furthermore, Saudi Arabia does not have yet any level of official or even unofficial ties with Armenia.³ This is because the Saudis have tended to side with Azerbaijan, especially on this particular issue. However, Saudi support is not limited to this concern, but can also be seen in the Saudi investments in Azerbaijan made by the Saudi Fund for Development (SFD) in the early 2000s to assist the Azerbaijani state with various infrastructural projects.⁴

Bilateral Economic Values

From an economic perspective, Saudi Arabia has been investing in Azerbaijan since the mid-1990s, but these were modest compared to the new development it was involved in, especially after 2009 (see figure 1 below). The total public and private Saudi investment is about $370 million.⁵ The trade exchange between the two economies in 2018 was about $17 million, according to the State Customs Committee of Azerbaijan.⁶


The two countries maintain the Azerbaijan-Saudi Joint Commission on Cooperation, which meets to allow both states’ officials to target expansion in the economy, investments, technology, trade, culture, sports, and youth. The first meeting between the two countries was held in 2001 in Baku and hosted reciprocally in later years. The recent meeting was convened in Baku in March 2019 and resulted in some agreements aimed at developing economic partnerships and increasing trade and the growth of business in various sectors, which was
signed by the Azerbaijani Ministry of Finance and the Saudi Arabian General Investment Authority (SAGIA).7

Azerbaijan and Saudi Arabia both have active oil, gas, and petroleum industries. Since the mid-1990s, Saudi Arabia has been establishing stronger ties with Azerbaijan through participation as it did in Azerbaijan’s Contract of the Century for the development of its oil business, and its joint-American Delta-Hess Company held 2.72 percent in that contract.8 Later, in 2012, two other companies in the petroleum sectors, the Azerbaijani national firm SOCAR and Saudi firm Soroof, signed an agreement on oil and gas projects in Azerbaijan in 2012.9 Moreover, in 2018 Saudi Aramco has established a stronger presence in Azerbaijan by registering a regional representative company, Aramco Overseas Company Azerbaijan LLC, in Baku in order to focus on oil and gas industries in Azerbaijan and Central Asia.10

Azerbaijan’s New Engagement with GCC

Moreover, in response to the Azerbaijani desire to create economic engagement and initiatives in the Middle East, Baku hosted in October 2017 the first Gulf Cooperation Council (GCC)–Azeri Business Forum, including all six members: Saudi Arabia, United Arab Emirates, Bahrain, Kuwait, Qatar, and Oman. The conclusion of the forum was to support and encourage the GCC-Azeri economic partnership and cooperation. The forum concluded that the GCC’s total investment so far in Azerbaijan was about $1.3 billion, while Azerbaijan maintained an investment of $300 million in the GCCs.11 Recent numbers in 2017 pointed to an increase of...
the trade turnover between the GCCs and Azerbaijan, which reached $86 million. Moreover, there are approximately 260 GCC companies operating inside Azerbaijan.\textsuperscript{12} In addition to the GCC, Azerbaijan has targeted the Arab countries too, as evident from the launch of the first Azerbaijan-Arab Investment and Business Forum in May 2018.\textsuperscript{13} The forum was organized by the Association for Azerbaijan-Arab Cooperation (AACC), which has been working since 2017 to strengthen and attract Arab business and capital, particularly in the Gulf.

\section*{Regional and International Challenges}

In terms of its geopolitics, Azerbaijan is in an important location next to the Caspian Sea, bordered by Russia and Georgia in the north, Armenia in the west, and Iran in the south. The international relations of Azerbaijan aimed at actively improving its relationship with neighbors both close and far, including as Saudi Arabia. Azerbaijan maintains friendly relations with Russia and China, and also have ties with the United States and the European Union, and with Turkey and Israel in the Middle East.

However, since its independence, Azerbaijan has experienced some international tension mostly with Armenia, and to a lesser extent, with Iran.\textsuperscript{14} With respect to Armenia, the tension has been largely related to Nagorno-Karabakh since the first days of the conflict. Iran, in comparison, has less diplomatic tension with Azerbaijan but also has a complicated and contested relationship.\textsuperscript{15} The Iranians have supported Armenia on many occasions, while maintaining good connections with the de facto self-ruling Nagorno-Karabakh.\textsuperscript{16} In addition, according to some reports, Iran has occasionally disagreed with Baku’s politics.\textsuperscript{17} This has been a factor in making Baku highly cautious of Iran. In this regard, Iran has some concerns on its border with Azerbaijan because a

\begin{enumerate}
\item \textsuperscript{12} Ibid.
\item \textsuperscript{17} Alex Vatanka, “Iran-Azerbaijan Relations Hit the Rocks over Iranian Meddling in Azerbaijani Internal Affairs,” Middle East Institute, Feb. 2, 2017, https://www.mei.edu/publications/iran-azerbaijan-relations-hit-rocks-over-iranian-meddling-azerbaijani-internal-affairs.
\end{enumerate}
quarter of Iran’s population is of Azerbaijani origin and lives close to the border with Azerbaijan (as well as with Armenia and Turkey), which is about 765 km in length.\(^\text{18}\)

Even though Azerbaijan seems to have had some challenges with its regional neighbors, such as Armenia, and to some extent Iran, in recent years relations appear to have shifted dramatically, especially with the latter.\(^\text{19}\) While Iran did not enjoy a good relationship with Azerbaijan in the recent past, during the presidency of Hassan Rouhani (2013–), it made initial contacts and, indeed, was successful with Azerbaijan. Since December 2018, the two countries have started to find common ground and been on good terms, as is clear from recent visits of Iranian officials following the five-nation agreement on the Caspian Sea in August 2018.\(^\text{20}\)

On an international level, the U.S. position on the politics of the South Caucasus has been supportive of Azerbaijan, especially in regard to border security, defense, and logistics. The United States allotted over $42.9 million to Azerbaijan in 2018, according to Pentagon reports to Congress.\(^\text{21}\) The United States is seen as supportive to Azerbaijan, especially after the increase of its sanctions against Iran. On the other side, Russia has been competing with the United States to offer better assistance and support to Azerbaijan. The Russian attempts were intended to boost its business and investments in Azerbaijan as well as voice its support for shaping a transportation route for moving goods through Iran, Azerbaijan, and Russia.\(^\text{22}\) While both the


\(^{20}\) The Caspian Sea Deal is the result of the agreement of the five states bordering the Caspian Sea, Azerbaijan, Iran, Kazakhstan, Turkmenistan, and Russia, on the Convention on the Legal Status of the Caspian Sea. Some analysis concluded that such an agreement on a longer issue had been debated for more than twenty years. The convention defines the Caspian as a sea rather than a lake, and thus grants more equal control to the bordering countries, and implies a greater Russian influence on the South Caucasus region. For more information on the politics of Iran in regard to both Azerbaijan and Armenia, as they involve the Caspian, see Claude Moniquet and William Racimora, “The Armenia-Iran Relationship: Strategic Implication for Security in the South Caucasus Region,” European Strategic Intelligence and Security Center, Jan. 2013, http://www.esisc.org/upload/publications/analyses/the-armenian-iran-relationship/Armenian-Iran%20relationship.pdf.


United States and Russia try to exert their influence in the Caucuses and improve bilateral relations with Azerbaijan, Azerbaijan has been careful in its dealings with both nations and has proposed comparable policies toward them both, though analysis suggests that the Azerbaijanis prefer Western support.23

Since the beginning of the diplomatic relationship between Azerbaijan and Saudi Arabia, both countries have been on excellent terms on various political and international issues and on economic cooperation. In the past few years, the two countries began to engage actively to improve their bilateral diplomatic and economic connections, to include potential military cooperation.24 In fact, recently Azerbaijan appointed a military attaché and established an office in Riyadh. Military officials began to exchange visits and meetings between the two countries, and as a result, in April 2019, the Azerbaijanis and Saudis signed an agreement to boost their military cooperation for the coming years.25 This suggests that sooner rather than later, the two countries may begin military training and exercises in both countries, and possibly even invest in each other’s arms industry.26

(26) Should such a scenario eventually come about, it could trigger several consequences. Most importantly, it could complicate the fluctuating relationship between Iran and Azerbaijan.
Culture and Tourism Industry Tell More

The relationship of Azerbaijan and Saudi Arabia is not only improving in political and economic terms, but also, apparently, in culture and tourism. It is important to note that both countries are members of the OIC, and they share some cultural, religious, and historical similarities. For example, although Azerbaijan is based on a secular constitution, it has many mosques, along with temples of various other religions, and visitors of the country worship freely. Recent reports find that the Saudis are visiting Azerbaijan more often in recent years.27

Azerbaijani state statistics indicated that in 2016, 7,500 tourists from Saudi Arabia visited Azerbaijan, and the number more than quadrupled, to 33,000, in 2017.28 Moreover, in 2018, there were 73,000 Saudi tourists, which comprised 2.6 percent of the total number of tourists to Azerbaijan (2.8 million). Even the number of tourists coming from the GCCs has doubled. For example, in 2018, the number of tourists from Bahrain increased by over 200 percent; Kuwaitis, by nearly 200 percent; Emiratis, by over 300 percent; and Omanis, by more than 8 percent. The flux of tourists to Azerbaijan is understandable as the country offers many choices to tourists,

(28) Ibid.
including halal foods, as well as its proximity to the Gulf region. In addition to its temperate weather, Azerbaijan has a coastal environment, being bordered by the Caspian Sea. A recent survey by an Azerbaijani company found that Saudis and Emiratis were the most frequent tourists from the GCCs, and that Emirati tourists numbered around 93,000, even exceeding the Saudis in 2018.\(^\text{29}\) According to the same survey, Saudi and Emirati tourists preferred Baku, where they stayed, on average, for six days, and the most visited region was Gabala, a historical region with a mountainous landscape, which is located in the north of Azerbaijan.

Other destinations in the region compete with Azerbaijan in the tourism sector, particularly Turkey and Georgia. Although Turkey could be seen as more familiar to tourists than either Azerbaijan or Georgia but in recent years it began to lose its share, mostly to Azerbaijan. One expert in the tourism industry noted that because of an increase in terrorism activities and continued political instability in Turkey, tourists stopped going there and began to come to Azerbaijan, which they found to be a suitable and alternative destination and safer in comparison than Turkey.\(^\text{30}\) Additional factors that contributed to the rise of the popularity of Azerbaijan as a tourist destination included initiatives launched by the Azerbaijan government. For example, starting in 2016, Azerbaijan began to issue tourist visas for Saudis and citizens of the GCC on arrival, which were good for a thirty-day period. For many years there were no direct flights between Saudi Arabia and Azerbaijan, but recently (since 2018) the two countries established direct flights by local airline companies.\(^\text{31}\) These developments could potentially help increase business in the tourism, services, investment, marketing, and import-export sectors.


Future of the Azerbaijani-Saudi Relationship

Azerbaijan and Saudi Arabia have many issues related to their politics, economy, and society that are built on solid common ground. The two countries have never experienced any significant conflict or even minor tension, and instead have maintained good, reliable bilateral relationships. It is important to note that their relationship has rapidly improved in recent years, as evident in the character and number of political and official visits, the signing of mutual agreements between their governments, and the significant increase in the number of business endeavors and tourism.

However, despite this development, on the economic front, trade between the two countries has seemed to be on a slower pace than desired, as it was less than $20 million in 2018. In addition, while the two governments signed many agreements in fields such as investment, information technology, trade, and imports and exports, it is important that those signed agreements go into effect sooner rather than later, as any delay may deter any benefit for either side.

Moreover, on political terms, while Azerbaijan did not enjoy close relation with Iran for many years, this situation began to change following recent Iranian political moves and bilateral agreements with the Azerbaijanis. Consequently, it is important for Azerbaijan and Saudi Arabia to coordinate on regional politics and recent developments, not only those related to Iran, but also those concerning the Caspian Sea, oil production and investment in petrochemicals, and the peace process in the Middle East.

As for culture and tourism, it is expected that the tourism industry will continue to expand and attract further business. Regardless of this positive prospect, however, the current level of cultural exchange is considered inadequate. Ideally there should be exchanges of cultural activities, journalists, students, businesspeople, and private sector initiatives to move the bilateral relationship from a state-to-state to a people-to-people level.

For the Azerbaijani-Saudi relationship to improve further, both states have to activate the signed bilateral agreements, and the states, along with the private sectors, have to increase the volume of trade since both countries are among the oil-producing countries and focus on developing
non-oil businesses as well since this is an integral part of the Saudi 2030 Vision.\(^{32}\) Both countries must initiate more partnerships to explore all possible opportunities that could benefit either side. Ultimately, however, the relationship between Azerbaijan and Saudi Arabia is strong on account of their common and economic and political opportunities. Nonetheless, both countries should work to further strengthen their ties to achieve the maximum in bilateral and reciprocal gains.

In sum, it is important to outline a few recommendations to strengthen the Azerbaijani-Saudi alliance, as follows:

1) Both governments should maintain official channels of dialogue to support their cooperation in economic, political, and cultural activities. This may necessitate organizing a workshop or forum to bring together both government and nongovernment representatives of interested institutions to discuss challenges and put forward suggestions for improving bilateral relations in relevant and important growing businesses.

2) It is very important for the two states to support and facilitate private-sector initiatives from both countries in a number of fields, including business, technological industries, as well as trade, import and export, tourism, and health.

3) Both countries have growing oil, gas, and petrochemical industries, so it is extremely important that they engage with related businesses and coordinate to facilitate cooperation in the future.

4) The two states must pay attention to political developments and conflicts, especially those involving Iran; therefore, it is critically important that they establish political, security, and military channels for cooperation and coordination in order for both countries to arrive at a more strategic position on these issues.

5) Similar to the Azerbaijan-Arab Investment and Business Forum, the Saudis should establish an independent business and investment organization that seeks to observe, analyze, and connect with newly growing businesses and capital, especially involving initiatives established of the six members of the GCC in Azerbaijan and in the surrounding Central Asian countries, including Georgia, as well as countries beyond the Caspian Sea, such as Kazakhstan and Turkmenistan.

King Faisal Center for Research and Islamic Studies (KFCRIS)

The KFCRIS is an independent non-governmental institution based in Riyadh, the Kingdom of Saudi Arabia. The Center was founded in 1403/1983 by the King Faisal Foundation (KFF) to preserve the legacy of the late King Faisal and to continue his mission of transmitting knowledge between the Kingdom and the world. The Center serves as a platform for research and Islamic Studies, bringing together researchers and research institutions from the Kingdom and across the world through conferences, workshops, and lectures, and through the production and publication of scholarly works, as well as the preservation of Islamic manuscripts.

The Center’s Research Department is home to a group of established and promising researchers who endeavor to produce in-depth analyses in various fields, ranging from Security Studies, Political Economy, African Studies and Asian Studies. The Center also hosts the Library which preserves invaluable Islamic manuscripts, the Al-Faisal Museum for Arab Islamic Art, the Al-Faisal Institute for Human Resources Development, the Darat Al-Faisal, and the Al-Faisal Cultural Press, which issues the Al-Faisal magazine and other key intellectual periodicals. For more information, please visit the Center’s website: www.kfcris.com/en