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**Azerbaijan at the Crossroads: Navigating Historical Legacy,
Energy Wealth, and Strategic Geopolitics in the 21st Century**



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Executive Summary

Azerbaijan stands as a pivotal state in the Eurasian architecture, leveraging its geostrategic location and substantial energy resources to assert influence far beyond its size. This paper examines the nation's trajectory from a post-Soviet state to an increasingly confident regional power. It analyzes the interplay between Azerbaijan's hydrocarbon-driven economic growth



and its strategic imperative for diversification into tourism and technology. Furthermore, the article explores Baku's sophisticated "multi-vector" foreign policy, balancing relations between Russia, the West, and Asia, while addressing the resolution of the Nagorno-Karabakh conflict and the associated challenges of regional peacebuilding. Special attention is given to the country's environmental commitments following its hosting of COP29 in 2024 and its ambitious renewable energy targets.

Introduction

Situated at the crossroads of Eastern Europe and Western Asia, Azerbaijan occupies a unique geopolitical niche in the South Caucasus. Bordered by the Caspian Sea to the east, Russia to the north, Georgia to the northwest, Armenia to the west, and Iran to the south, the country serves as a critical land bridge connecting East and West. In the complex tapestry of 21st-century international relations, Azerbaijan has emerged not merely as a supplier of energy security to Europe but as a key architect of trans-regional connectivity.

The year 2024 marked a significant inflection point for the nation. With the restoration of full sovereignty over its internationally recognized territories, Azerbaijan has begun to pivot from an era defined by territorial conflict to one focused on consolidation, reconstruction, and economic modernization. However, this transition occurs against a

backdrop of global volatility, necessitating a delicate balancing act in foreign policy and an accelerated push toward economic diversification away from hydrocarbon dependence.

Historical Evolution

Azerbaijan's historical narrative is one of empires and trade routes. Ancient Azerbaijan, known as Caucasian Albania, was a vital segment of the Great Silk Road, facilitating the exchange of goods and ideas between China and Europe. Throughout history, the region fell under the sway of various powers, including the Persian, Ottoman, and Russian empires, each leaving an indelible mark on its cultural and administrative fabric.

The modern era of Azerbaijani statehood began with the short-lived Azerbaijan Democratic Republic (1918–1920), the first secular democratic republic in the Muslim world, which granted women the right to vote. This period of independence was truncated by the Bolshevik invasion, leading to seven decades of Soviet rule. The collapse of the Soviet Union in 1991 ushered in a turbulent restoration of independence, marred by the First Nagorno-Karabakh War and economic collapse. Under the leadership of Heydar Aliyev and subsequently Ilham Aliyev, the state stabilized, leveraging its oil wealth to rebuild its economy and military capabilities, setting the stage for its current resurgence.

Cultural Richness and Heritage

The cultural landscape of Azerbaijan is a testament to its multicultural history. Often referred to as the "Land of Fire," a moniker derived from its ancient Zoroastrian heritage and abundant natural gas reserves, the country is home to a rich mosaic of traditions. The capital, Baku, epitomizes





this synthesis, where the UNESCO-listed Walled City of Baku with the Shirvanshah's Palace and Maiden Tower stands in stark contrast to the futuristic Flame Towers.

Azerbaijan prides itself on its secular, multicultural society, hosting significant Jewish, Christian, and Muslim communities. This tradition of tolerance is promoted as a core element of state identity. The country's intangible heritage, from the intricate art of carpet weaving to the complex musical tradition of Mugham, continues to be celebrated globally, reinforcing Azerbaijan's soft power appeal.

Economic Development and Energy Resources

Since the "Contract of the Century" was signed in 1994, opening the Caspian Sea's vast energy reserves to international development, Azerbaijan's economy has been inextricably linked to hydrocarbons. The oil and gas sector remains the engine of the economy, accounting for a significant portion of GDP and the overwhelming majority of export revenues. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Southern Gas Corridor (SGC) have cemented Azerbaijan's role as a guarantor of energy security for Europe, particularly as the EU seeks to diversify away from Russian energy supplies.

In 2024, the economy demonstrated resilience, expanding by approximately 4.1%, driven by a modest recovery in the hydrocarbon sector and robust performance in non-oil industries. Natural gas exports have become increasingly critical, with Azerbaijan committed to doubling its gas exports to Europe by 2027 under a strategic partnership memorandum signed with the EU.

Economic Diversification Efforts

Recognizing the volatility of global energy markets and the long-term imperative of the green transition, the government has accelerated efforts to diversify the economy. The non-oil sector grew by a notable 6.2% in 2024, signaling initial success in these endeavors. Two key pillars of this diversification strategy are tourism and technology.

Tourism Sector Growth

Tourism has emerged as a high-priority sector. Following the pandemic-induced slump, the industry has seen a vigorous rebound. In 2024, international arrivals surged, reaching approximately 2.6 million visitors, a substantial 30% increase year-on-year. Strategic initiatives to simplify visa regimes, develop winter tourism infrastructure in regions like Gabala and Gusar, and promote Formula 1 and international cultural events in Baku have been effective in attracting a diverse portfolio of tourists from the Middle East, South Asia, and Europe.

Technology and Innovation

The push for digitalization is reshaping the economic landscape. The establishment of technoparks and tax incentives for IT companies aims to position Azerbaijan as a regional technology hub. Investments in high-speed internet infrastructure and the digitalization of government services—epitomized by the ASAN Service model, a one-stop shop for public services—have improved the ease of doing business and transparency.



Strategic Geopolitical Role

Azerbaijan's geography is its most significant strategic asset. It is the linchpin of the "Middle Corridor" (Trans-Caspian International Transport Route), which connects China and Central Asia to Europe via the Caspian Sea, bypassing Russia. In the wake of the war in Ukraine and subsequent sanctions on Moscow, the Middle Corridor has seen exponential growth in cargo volume, elevating Azerbaijan's status in the Belt and Road Initiative (BRI).

Baku has invested billions in upgrading the port of Alat and modernizing its railway network to handle increased transit flows. This connectivity strategy not only generates



transit revenue but also embeds Azerbaijan deeply into the supply chains of major global economic powers, providing a layer of geopolitical security.

Foreign Policy and Regional Partnerships

Azerbaijan pursues a pragmatic, "multi-vector" foreign policy designed to maximize autonomy while maintaining productive relations with competing major powers. The European Union is Azerbaijan's largest trade partner, accounting for roughly 65% of its total trade turnover. The relationship is anchored in energy cooperation but is expanding into transport and green energy.

Despite historical complexities and the shifting security architecture, Baku maintains a functional relationship with Russia, characterized by careful diplomatic management to avoid antagonism while pursuing independent interests. Meanwhile, the alliance with Turkey is the cornerstone of Azerbaijan's foreign policy, described by the motto "One Nation, Two States." Ankara provides crucial military and diplomatic support, as evidenced during the Second Karabakh War.

Additionally, Azerbaijan maintains a robust strategic partnership with Israel, involving significant defense cooperation and energy trade, a rare dynamic for a Muslim-majority nation bordering Iran. Engagement with Central Asian Turkic states across the Caspian has also intensified, focusing on logistics and energy transit.

Regional Conflicts and Security Challenges

The resolution of the Nagorno-Karabakh conflict fundamentally altered the regional security environment. Following the military operations of September 2023, Azerbaijan restored full sovereignty over the region. By 2024, the focus shifted from active conflict to the complex processes of demining, reconstruction, and the resettlement of Internally Displaced Persons (IDPs).

While major hostilities have ceased, the peace process with Armenia remains fragile. Negotiations on border delimitation and a comprehensive peace treaty continued

throughout 2024, with significant progress made on the principle of mutual territorial recognition. However, the issue of opening transport links, specifically the route connecting mainland Azerbaijan to its Nakhchivan exclave (often referred to as the Zangezur Corridor), remains a point of contention.

Environmental Sustainability and Climate Action

Azerbaijan's selection as the host for the 29th Conference of the Parties (COP29) in November 2024 underscored its desire to be seen as a responsible global stakeholder in climate action. This was a significant diplomatic victory and a platform to showcase its green energy potential.

Despite its hydrocarbon wealth, the country has committed to reducing greenhouse gas emissions by 40% by 2050 (compared to the 1990 base year). The government has set an ambitious target to increase the share of renewable energy in the installed power capacity to 30% by 2030. Major wind and solar projects are underway, often in partnership with international firms like Masdar and ACWA Power, aiming to export "green electricity" to Europe via a proposed Black Sea submarine cable.



Modernization and Digital Transformation

Modernization in Azerbaijan is a state-led project encompassing infrastructure, governance, and society. The digital economy is viewed as a catalyst for efficiency. In 2024, the ICT sector continued its upward trajectory. The government has prioritized the development of a "Smart Village" and "Smart City" concept, particularly in the



liberated territories of Karabakh, which are being rebuilt from the ground up as net-zero emission zones with integrated digital management systems.

The innovation ecosystem is nascent but growing, supported by the Sabah.hub and various incubation programs. Challenges remain in developing a skilled workforce to meet the demands of a digital economy, prompting educational reforms and partnerships with international universities.

Opportunities and Future Prospects

Looking ahead, Azerbaijan is well-positioned to capitalize on several strategic opportunities. As the Middle Corridor matures, Azerbaijan can evolve from a mere transit route into a logistics and manufacturing hub, adding value to goods passing through its territory. Furthermore, with vast wind potential in the Caspian Sea, Azerbaijan has the opportunity to become a significant supplier of renewable energy to the EU, future-proofing its energy revenues. The rebuilding of Karabakh offers a massive economic stimulus, potentially attracting foreign direct investment in construction, agriculture, and tourism.

Challenges Ahead

Despite its successes, Azerbaijan faces structural challenges that could impede its long-term development. The economy remains dangerously exposed to fluctuations in oil and gas prices. The inevitable global energy transition poses an existential long-term economic risk if diversification efforts falter. Additionally, decades of oil extraction have left significant environmental scars, particularly on the Absheron Peninsula, requiring costly remediation.

Geopolitical volatility remains a concern; situated in a "rough neighborhood," Azerbaijan is vulnerable to spillover effects from regional conflicts. Finally, sustainable development will require continued improvements in governance, transparency, and



judicial independence to foster a competitive private sector and attract high-quality non-energy investment.

Conclusion

Azerbaijan in 2024 stands at a decisive crossroads. Having successfully navigated the post-Soviet transition to consolidate statehood and restore territorial integrity, it now faces the more complex task of sustainable development in a decarbonizing world. The country's strategic utility to the West as an energy and logistics partner provides it with significant leverage, yet its long-term prosperity hinges on the success of its domestic diversification and modernization agenda.

By leveraging its geography, embracing technological innovation, and committing to a green transition, Azerbaijan aims to redefine its global identity beyond oil. As it balances the interests of great powers while asserting its own sovereignty, Azerbaijan's trajectory offers a compelling case study of a small state navigating the turbulent currents of 21st-century geopolitics.