

Azerbaijan's Membership in BRICS and SCO: Myths and Realities

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Abstract

The Azerbaijani government is rapidly changing its course. Following the adoption of the "Joint Declaration on the Establishment of Strategic Partnership between the Republic of Azerbaijan and the People's Republic of China," Azerbaijan's intent to first become a member of BRICS and then a dialogue partner, along with its ambition to obtain observer status in the Shanghai Cooperation Organization (SCO), signals a recent U-turn towards the East, specifically the Global South. This article will focus on the reasons driving the Azerbaijani government, which has long been committed to European integration through close neighborhood relations and the Eastern Partnership programs, towards this opposite path and the potential consequences it might entail. At the same time, we will assess the gains and losses in the new political and economic situation that this change may create. The paper examines the myths and realities of Azerbaijan's membership in BRICS and SCO, providing a crucial understanding of the country's future direction.

Keywords: Azerbaijan, China, BRICS, SCO, Middle Corridor, IMEC, transit revenues, tourism, transport

Myth 1: Membership in BRICS and SCO will strengthen Azerbaijan's international position by increasing the number of its supporters in global discussions.

Reality: There is tension between the G7, an intergovernmental political and economic forum comprising Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States, which plays a significant role in resolving global political issues, and NATO, which holds a leading role in addressing security matters, and Russia and China. Ongoing tensions between these two alliances with Russia and China and internal disagreements related to trade and climate policies are observed. In our view, Azerbaijan's participation in international platforms created under the leadership of China and Russia could negatively impact its bilateral and multilateral relations with member countries of alliances like the G7 and NATO, where international powers are concentrated. This could ultimately weaken Azerbaijan's global position.

Regarding the platform for discussing international conflicts, its mandate lies with the UN Security Council, where China and Russia, founding members of BRICS and SCO, are permanent

members. Azerbaijan has signed bilateral cooperation declarations with both countries. There are no countries from BRICS or SCO among the ten non-permanent members of the UN Security Council elected for two-year terms by the General Assembly. In the previous composition, however, India, a leading member of BRICS, supported Armenia's position during a meeting on the tense situation on the Azerbaijan-Armenia border on September 16, 2022. Representatives from China, the US, Russia, Ireland, and other countries made general statements, calling on Azerbaijan and Armenia to avoid tensions and engage in dialogue¹.

On the other hand, India, the fourth-ranked country in the 2024 Military Strength Ranking², is currently among the few countries supplying arms to Armenia³. Additionally, it should be noted that a bilateral military cooperation plan was signed between Azerbaijan and Pakistan in 2016⁴, and Pakistan expressed support for Azerbaijan during the Second Karabakh War, while Azerbaijan supported Pakistan in the "Kashmir conflict"⁵. Thus, membership in BRICS is unlikely to significantly change India's relationship with Azerbaijan due to its ties with Pakistan.

Finally, the significant shift in global power dynamics is evident with Russia's declining influence following its military intervention in Ukraine, along with discussions to expand the G7, which includes Japan, to include new members like South Korea and Australia to counter China's stance. This shift also impacts Azerbaijan's intention to increase its supporters in global discussions through membership in BRICS and SCO.

Myth 2: Membership in BRICS and SCO will provide an impetus for the liberalization, modernization, and development of the Azerbaijani economy, enabling access to new markets and attracting investments.

Among the founding members of BRICS and SCO, except for Kazakhstan, the economic freedom index for 2024⁶ released by the Heritage Foundation is lower in China, Russia, Brazil, South Africa, Kyrgyzstan, Tajikistan, and Uzbekistan compared to Azerbaijan. This implies that these

¹ <https://xalqqazeti.az/az/siyaset/135504-bmt-ucun-edalet-sinagi>

² <https://www.globalfirepower.com/countries-listing.php>

³ <https://report.az/xarici-siyaset/prezident-fransa-hindistan-ve-yunanistan-ermenistani-bize-qarsi-silahlandirir-biz-gozleye-bilmerik/>

⁴ <https://report.az/xarici-siyaset/prezident-fransa-hindistan-ve-yunanistan-ermenistani-bize-qarsi-silahlandirir-biz-gozleye-bilmerik/>

⁵ <https://report.az/analitika/azerbaycan-pakistan-elaqeleri-daha-boyuk-ugurlara-dogru/>

⁶ <https://www.heritage.org/index/pages/all-country-scores>

countries still have significant work to do in terms of liberalizing their economies and transitioning to a market economy. For Azerbaijan, which needs fundamental reforms in its economy, it seems unlikely to benefit from these countries' experiences in liberalization, macroeconomic stability, restructuring and privatization, legal, and institutional areas.

Regarding economic modernization, Azerbaijan, ranked 71st in the global modernization index, has a high demand for technologies and know-how. However, none of the BRICS and SCO member countries are in the top 20 most modern countries in the world⁷. In the global innovation index rankings⁸, only three BRICS countries are represented in the top 50: China at 12th place, India at 40th place, and Brazil at 49th place. Therefore, Azerbaijan could potentially engage in closer cooperation with China to attract global innovations, for which the "Joint Declaration on the Establishment of Strategic Partnership between the Republic of Azerbaijan and the People's Republic of China" offers broad opportunities.

In 2023, BRICS and SCO member countries accounted for around 25% of Azerbaijan's total trade turnover⁹. In the fourth quarter of 2023, 64.2% of Azerbaijan's trade turnover was with member countries of the Organization for Economic Co-operation and Development (OECD), with 46.2% of that being with European Union (EU) member countries¹⁰. During that period, the share of the Asia-Pacific Economic Cooperation (APEC), including China and India, in Azerbaijan's trade turnover was 25.5%. Azerbaijan's trade relations with BRICS members Brazil and South Africa are weak, with low development prospects. Regarding India, it was Azerbaijan's largest trading partner in Asia for crude oil and bituminous mineral products last year. However, considering the decline in crude oil production in Azerbaijan, the prospects for trade relations, especially in crude oil exports, are not high.

In conclusion, Russia and China are Azerbaijan's third and fourth-largest trading partners. There has also been rapid growth in trade dynamics with Russia. In 2023, trade turnover with Russia increased by 17.5%, reaching \$4.4 billion, nearly doubling in the last three years.

⁷ <https://www.heritage.org/index/pages/all-country-scores>

⁸ <https://www.wipo.int/edocs/pubdocs/en/wipo-pub-2000-2023-en-main-report-global-innovation-index-2023-16th-edition.pdf>

⁹ <https://www.wipo.int/edocs/pubdocs/en/wipo-pub-2000-2023-en-main-report-global-innovation-index-2023-16th-edition.pdf>

¹⁰ <https://www.wipo.int/edocs/pubdocs/en/wipo-pub-2000-2023-en-main-report-global-innovation-index-2023-16th-edition.pdf>

When it comes to investment attraction, the potential with Russia is significant, and there are promising signs for future cooperation with China and India. Notably, there has been a substantial surge in mutual direct investments between Russia and Azerbaijan. By 2022, Russian-origin investments in Azerbaijan's oil sector had reached a substantial \$5 billion, with \$1.3 billion in the non-oil sector. For instance, while investments from Russia to Azerbaijan were at \$50 million in 2021, they skyrocketed to approximately \$295 million in just the first nine months of 2023. The strategic move to join BRICS and SCO is a clear indication that Azerbaijan is exploring alternatives to fill the gap created by unmet investment expectations from the West, turning its attention to Russia, China, and India. However, it's important to remember that, unlike the West, all three countries are known for their expansionist policies. In particular, China's investment conditions in foreign countries are stringent, often with the aim of becoming a beneficial owner and maintaining long-term influence over the countries where it invests.

The potential for cooperation in the tourism sector with BRICS and SCO countries is higher than that of trade and investment.

Myth 3: Azerbaijan's membership in BRICS will lead to the replacement of the dollar.

Research shows¹¹ it is anticipated that Azerbaijan's membership in BRICS and SCO will not significantly impact the share of transactions conducted in dollars in its foreign trade and international settlements. Despite the influence of BRICS in issuing currencies, the expected changes have not yet materialized. However, in the near future, the Chinese Yuan and Russian Ruble could potentially become the third and fourth most used currencies after the dollar and euro for BRICS and SCO countries. The stabilization of Turkey's economy, Azerbaijan's second-largest trading partner, could also open new prospects for the Turkish Lira in such calculations.

Myth 4: Membership in BRICS and the SCO will turn Azerbaijan into a logistics center between East and West, increasing transit revenues to compensate for the lost income from declining oil exports.

Strengthening Azerbaijan's international transit position and developing its transit potential primarily depend on creating modern transport logistics infrastructure, geopolitical position, trade relations, and geographical location. Azerbaijan is already

¹¹ Ibadoghlu, Gubad, Can BRICS Membership Reduce the Role of the US Dollar? . Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4899374

recognized as a significant center in the international arena, with its East-West, North-South transport corridors and the Middle Corridor route. Undoubtedly, Azerbaijan's potential for growth is further enhanced by its membership in several international and regional organizations, offering promising opportunities for boosting its transit potential. Economic cooperation with BRICS and the SCO, which Azerbaijan seeks to join, can play a significant role. Therefore, one of the essential tasks currently facing the Azerbaijani government is to turn the country into a transport hub and logistics center. In this regard, controlling the global supply chain along the East-West transport route connecting the South Caucasus, Caspian, and Central Asia regions is of particular importance not only for Azerbaijan but also for the Organization of Turkic States.

The rapidly changing geopolitical situation due to the Russia-Ukraine war has intensified global powers' interest and competition in establishing a vast economic and trade route along the Caucasus-Caspian-Central Asia line. Western states, particularly Europe, are working urgently to prevent Russia and China from dominating this crucial route and supply chain. The Middle Corridor, which has gained strategic importance as an alternative route for goods from China, passing through Kazakhstan to the Caspian Sea, Azerbaijan, and then to Georgia and Turkey, reaching final destinations in Europe, is now a key focus. China is eager to gain direct control over the Middle Corridor, a vital component of its Belt and Road Initiative, which spans three trade routes totaling 4,256 kilometers by road and rail and 508 kilometers by sea. Russia, on the other hand, is also keen to secure direct control over the Zangezur route, which is a part of the Middle Corridor.

It is worth noting that after the opening of the Zangezur corridor, which will enable access from Nakhchivan to Turkey and beyond, Azerbaijan's transit position can be strengthened by integrating into the North-South, East-West corridors, with the Middle Corridor serving as a crucial link between these two major routes. This strategic integration through alternative routes further enhances Azerbaijan's transit potential. Additionally, after the U.S.-China "trade war," the trade volume between China and European Union countries, including the UK and Switzerland, exceeding \$900 billion, further highlights the importance of the Middle Corridor for Azerbaijan's economy. Since

trade between the East and the West is approaching \$1 trillion, achieving 10% of this trade through the Middle Corridor could bring additional transit revenues to Azerbaijan. Considering that most of these goods between China and European countries are transported by sea, and the growing threats and dangers in the Red Sea by Yemen's Ansar Allah movement (Houthis) are creating global threats to international maritime transport, the increasing interest in land routes, primarily rail transport, enhances the probability of achieving this goal.

A World Bank report¹² published in November last year titled "Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030" also discusses the importance of the Middle Corridor and the policies to be implemented in this direction. In a press release, Moody's stated¹³ that considering the increasing importance of this route as an alternative channel for trade between China and the EU, future growth prospects in this sector will support further economic diversification in the region, particularly in Azerbaijan and Kazakhstan. Therefore, at a meeting held in Aktau on November 25, 2022, aimed at developing the Trans-Caspian Transport Corridor, bilateral agreements were signed between representatives of Georgia, Kazakhstan, Turkey, and Azerbaijan to enhance the efficiency of the Trans-Caspian International Transport Route (Middle Corridor) and a Roadmap for 2022-2027¹⁴ for the synchronization and elimination of significant barriers and development of the TITR route was prepared and approved. This document outlines measures to remove infrastructure constraints on each part of the route, increase transit and transportation capacity, create a unified transport space to ensure seamless movement of passengers, goods, and vehicles, and synchronize technical and technological processes in the transport sector. This includes the creation of a "unified transit portal" for customs authorities along the Middle Corridor and simplifying customs procedures. Thus, these

¹² <https://thedocs.worldbank.org/en/doc/6248f697aed4be0f770d319dcaa4ca52-0080062023/original/Middle-Trade-and-Transport-Corridor-World-Bank-FINAL.pdf>

¹³ <https://ratings.moody's.com/ratings-news/410384>

¹⁴ <https://turan.az/az/siyaset/orta-dehlizin-inkisafi-ve-istismari-uzre-2022-2027-ci-iller-ucun-yol-xeritesi-tesdiqlenib>

countries are working together to strengthen their roles as critical points in the global land trade of their regions.

The "Action Plan for 2024-2026 to Increase the Transit Potential of International Transport Corridors Passing through the Territory of the Republic of Azerbaijan and Promote Transit Cargo Transport," approved by the Presidential Order of November 23, 2023¹⁵, targets increasing transit cargo transport by 27% compared to 2022, from 10.7 million tons to 13.6 million tons by 2026. For information, in 2022, the volume of transit cargo transported through the territory of the Republic of Azerbaijan (rail, sea, and road) increased by 75% compared to 2021, reaching 10.7 million tons¹⁶. The Action Plan includes several measures to increase Azerbaijan's importance as a transit country and its revenue from this sector, including improving physical infrastructure, strengthening coordination, and enhancing the legal and regulatory framework.

While Azerbaijan's National Security Doctrine prioritizes Euro-Atlantic integration, the intention to join BRICS and observer status in the Shanghai Cooperation Organization will not be the key factor in strengthening Azerbaijan's position in international cargo transportation. As outlined in the Roadmap, urgent policy changes and substantial investments are required to eliminate 'bottlenecks' and reduce transit times by 2027. It's crucial to note that saving one day in trade along the Middle Corridor translates to an average export increase of 5.2%, underscoring the importance of these actions.

In 2023, nearly 2.8 million tons of cargo were transported through the Middle Corridor, an 86% increase compared to 2022. With the cargo transport volume expected to exceed 4 million tons in 2024, the Middle Corridor route is not just becoming more popular, but it's also brimming with potential as an alternative to significant supply routes, offering exciting opportunities for international trade and transportation.

According to the "Strategy for Social and Economic Development of the Republic of Azerbaijan for 2022-2026," approved by the Presidential Order dated July 22, 2022, the transport sector is expected to make a significant contribution to the country's economy,

¹⁵ https://static.president.az/upload/Files/2023/11/23/f3c8be9a0b9c0a07c03c8ac2a48b5afd_2621987.pdf

¹⁶ <https://www.stat.gov.az/source/transport/>

with the average annual growth rate projected to exceed 5% by 2026. The revenue from transit cargo transport is expected to double from 227 million manats in 2019 to 450 million manats (265 million dollars) by 2026. The entire corridor operation will significantly increase Azerbaijan's transit revenues in the future, offering a hopeful outlook. While it's true that the revenue from communication projects like the East-West and North-South transport corridors may not equal the income from oil sales, the potential of the transport sector to contribute significantly to the country's economy is promising. For comparison, in the first half of 2024, the revenues of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) from oil and gas contracts amounted to 6 billion 436.5 million manats, including 5 billion 657.0 million manats (3 billion 786.2 million dollars) from the sale of profit oil and gas, 775.9 million manats in bonus payments, 0.3 thousand manats in transit revenues, and 3.6 million manats in acreage fees¹⁷.

As seen, the expected transit revenues 2026 will amount to 7% of SOFAZ's actual revenues from oil and gas contracts in the first half of 2024.

Regarding Azerbaijan becoming a logistics center between East and West, this process began before the intention to join BRICS and the SCO was announced. At the same time, let's remember the disagreements between China and India, the leading members of BRICS. India wants to move closer to Europe via the Middle East. At the G20 Leaders Summit on September 9-10, 2023, Indian Prime Minister Narendra Modi announced¹⁸ a "historic agreement" on the India-Middle East-Europe Economic Corridor (IMEC). If realized, this project will consist of two separate corridors: 1) the Eastern Corridor connecting India to West Asia and the Middle East, and 2) the Northern Corridor connecting West Asia and the Middle East to Europe. The proposed corridor project will extend from India to the UAE, then pass through Saudi Arabia, Jordan, and Israel, connecting to Europe. The project envisions faster shipping of goods from India to Europe via Israeli and Greek ports.

¹⁷ <https://oilfund.az/fund/press-room/news-archive/1649>

¹⁸ <https://www.hindustantimes.com/india-news/from-g20-summit-to-middle-east-corridor-indias-5-geopolitical-wins-in-2023-101703865419222.html>

Let's remember that the Southern Corridor passing through Iran is an alternative to the Middle Corridor, so Iran, being a member of both BRICS and the SCO, has no interest in developing the Middle Corridor. In this regard, Iran's opposition to the Zangezur Corridor should also be seen as a stance against the diversification of the Middle Corridor, a move that could potentially escalate geopolitical tensions in the region.

Conclusion

In conclusion, the reality is that the President of Azerbaijan is interested in BRICS membership and observer status in the SCO to secure his political power, with no regard for human rights and freedoms. Predicting the decline of Russia's global and regional influence in the future, the Azerbaijani government believes that joining BRICS and the SCO will help counter Western pressures, with the expectation of future assistance from China. Therefore, membership in both organizations is aimed not at economic benefits for Azerbaijan's development but at gaining political dividends to extend the regime's lifespan.