



# DISPATCHES

## **Beyond Energy**

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BAKU—Today, the Caspian region has emerged at the forefront of global geopolitical discourse. It is many things to many countries. For the nations of Europe, the Caspian is an access route to Asia, and vice versa. For Russia, it serves as both a zone of economic interest and a geopolitical buffer. And for the United States, the region holds the promise of an important new source of energy at a time of great global upheaval.

The Caspian, in other words, is a strategic crossroads, and its importance to the world is on the rise. But in order to achieve its strategic potential, the countries of the region will need to work more closely and forge a coherent common vision of post-Soviet prosperity.

Azerbaijan is uniquely positioned to lead such an effort. Already, it connects the eastern and western coasts of the Caspian, serving as a key outpost for Caspian energy development. But in Baku we are thinking even bigger. Today, our government is formulating plans for a regional—and even a global—role.

The first dimension of Azerbaijan's strategy is economic. At 35 percent, Azerbaijan's economic growth was the highest in the world last year. Two primary factors contributed to this trend. The first was the completion of the Baku-Tbilisi-Ceyhan pipeline, which finally established a durable conduit to bring Azeri oil to world markets. Second, high world oil prices have helped make Caspian oil a valuable commodity, and Azerbaijan's economy has benefited. This state of affairs, moreover, is not likely to change. With oil prices projected to remain high, and with other important energy projects nearing completion, Azerbaijan's economic future remains bright.



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But this future hinges upon steady and secure access to European and international markets. Without it, Baku will not be able to serve as a reliable supplier of either energy or commodities. Consequently, one of the major objectives of our government is to upgrade the infrastructure connecting the Caspian with the European Union, and beyond. As a practical matter, this means Azerbaijan and other regional states need to invest in road and railway upgrades, increase the capacity of their ports, and improve security along these transportation routes and hubs.

The second aspect of Azeri strategy revolves around sustainability. Azerbaijan understands full well that its good energy fortunes may not last forever. And the government is responding, using our oil income to inject capital into the development of other sectors of the economy. Already, Azerbaijan's agriculture and tourism sectors are seeing serious and sustained attention.

The third element of Baku's regional approach deals with security. Like its economy and infrastructure, Azerbaijan's security doctrine is being modernized. In recent years, the Caspian has undergone a profound transformation. Although the risk of state-to-state conflict still exists, the probability is lower today than at any time in the past. At the same time, regional states are becoming bigger stakeholders in the global economy, and the price tag that would be attached to a potential conflict has become much greater.

Of immediate concern are the porous borders that permeate the region, and the lack of effective control over territory exhibited by local governments. These conditions make the Caspian states attractive to smugglers, organized crime networks and even terrorists. With our economic prosperity tied ever more closely to energy exports and foreign trade, enhancing territorial and resource security has become a shared imperative.

This makes resolution of the "frozen conflicts" in the South Caucasus a key priority. These long-running disputes are dangerous precisely because they help to sustain lawlessness and prevent effective governmental control over national borders. Today, there is no effective control over territories like Nagorno-Karabakh, Abkhazia and South Ossetia, making them potential hubs for terrorism and organized crime.

The Nagorno-Karabakh conflict must be resolved promptly, and the region deserves full autonomy. But the territorial integrity of Azerbaijan is non-negotiable and must be respected. Armenia, therefore, should withdraw its forces from the occupied territories surrounding Karabakh.

A secure Caspian is likewise imperative. Azerbaijan is currently in discussions with both Kazakhstan and Turkmenistan regarding the possibility of extending gas and trade links across the Caspian, thereby linking the South Caucasus with Central Asia. This dialogue hints at the Caspian's potential as the center of an expanded Eurasian trade and energy zone. But in order to realize this potential, regional stability is required. Iran is a key player in this context, and should be included in the region's strategic discussions. An Iran firmly integrated into the Caspian trade and security flows could become a bigger stakeholder in the region's future, and thus a predictable international player with a positive regional role.

Security goes hand in hand with economic development. So too should democracy. Azerbaijan and the other countries of the region have decisively embraced this ideal, and all are now in different stages of democratization.

But democracy in the Caspian cannot function without economic stimuli. Nor should democracy be imposed from the outside. Rather, the necessary institution building needs to take place indigenously, and gradually. In Azerbaijan, democracy will flourish if the institutions that can support it exist, and if there is real economic development to nurture it.

With patience and strategic vision, the Caspian has the potential to develop into a new global center of economic development, innovation and cultural tolerance. Azerbaijan's strategic outlook is intended to ensure that the region achieves this goal.

