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**CHARLES UNIVERSITY IN PRAGUE**

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**International relations between  
Azerbaijan and the EU, their  
background and perspectives**

*Master thesis*

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## **Abstract**

This master's thesis is aimed at analyzing the integration processes between the European Union and Azerbaijan. Azerbaijan is a major oil and gas supplier, while the European Union actively seeks diversification of energy resource supplies for the purpose of reaching higher energy security.

The aim of the research is to investigate the relations between Azerbaijan and the European Union. The nature of relations between the two stated subjects are being analyzed, and the main preconditions favoring such relations. In order to provide comprehensive analysis, the situation of Azerbaijan's relations with the European Union with the same bilateral relations with the EU of Turkey, Ukraine and China are being analyzed within this thesis.

## **Keywords**

Integration processes, European Union, Azerbaijan, oil and gas supplier, diversification of energy resource, energy security, bilateral relations, Turkey, Ukraine, China.

**Range of thesis: 137667 characters (including spaces), 77 pages**

## **Declaration of Authorship**

1. The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.
2. The author hereby declares that all the sources and literature used have been properly cited.
3. The author hereby declares that the thesis has not been used to obtain a different or the same degree.

Prague 30.07.2015

Namik Hasanov

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## Master Thesis Proposal

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### Proposed Topic:

**International relations between Azerbaijan and the EU, their background and perspectives.**

### Topic Characteristics:

This master thesis focuses on international relations and trade relations between Azerbaijan and the EU. International diplomatic and trade relations between geopolitical units have always been one of the key questions and of mutual cooperation between countries. The theory of international relations and diplomacy covers and studies this question from different perspective, providing classical and modern theory concepts to explain processes that take place within international relations. Thus this thesis is a study of the practical aspects of mutual cooperation between Azerbaijan and the European Union together with the theoretical justification for this cooperation.

One can argue that international relations between Azerbaijan and the EU are not an issue of current political and diplomatic interest according to different political directions and interests. However the topic is very interesting and relevant and author's contribution is to show that even though cooperation of these two geopolitical units is of less public

discussion (in comparison with other non EU countries, ex. Ukraine, Turkey), still is has its proper and current development in all agendas of international relations: diplomatic, trade, economical, security etc. and the milestones of this cooperation has been set out.

The opinions of Azerbaijani diplomats and politicians about the cooperation and development of relations with the EU are different: some critics support the idea of diplomatic relations without further development of mutual economic and trade relations, and more inclined to work closely with the countries of Eastern Europe; logically other diplomats and political authorities claim that Azerbaijan-EU trade and economic relations are the most perspective and appropriate way of international development according to the current stage of Azerbaijan's economy and its resources. The truth is subjective and relative as well as the estimated result of thesis research.

*The main objective and research question of this thesis is to investigate and analyze the factors that shaped the relations between Azerbaijan and EU in the period since Azeri independence, and assess their potential for evolution in the future.*

**Research question 1:** What is the character of relations between Azerbaijan and the EU? What are the main reasons of developing international relations with the EU member states?

**Research question 2:** How does Azerbaijan stand in comparison with other states, as Turkey, Ukraine, China? What are the main problems and barriers in mutual negotiations and cooperation between Azerbaijan and the EU?

### **Hypotheses:**

1) If one compares Azerbaijan's economic development and political independence with other countries, which are particularly interested in EU integration processes, for example Turkey, Ukraine, than it becomes clear and rational that Azerbaijan has no "vital" need to facilitate immediate and tight cooperation with the EU countries as it has sufficient economic resources and is relatively independent transitional economy. To test the hypothesis one must evaluate and compare economic situations and indicators in Azerbaijan and mentioned countries.



2) Although Azerbaijan is still a transitional economy, the main economic indicators for macroeconomic stability are comparable to EU averages, and it shows readiness of Azerbaijan to deal about integration processes. This research follows the previous hypothesis by means of a comparative study with the EU average indicators of stability.

3) Ruling political parties in Azerbaijan are inclined to develop mutual cooperation with the EU and proceed with numerous improvements. To approve or disapprove this hypothesis one must analyze and evaluate political estimations and short-term and long-term goal of political parties and contrast it with the opposition goals of international development.

**Methodology:**

My research will be based on the methodological principles of the theory of institutional realism, i.e. I will carry out my analysis of relations between Azerbaijan and the EU from the point of view of institutional links between the two subjects, and the functions performed by their respective institutions in the course of such activities.

Concerning the discussion on international relations and key agendas in the first part of the thesis, I am going to provide the quantitative literature review methodology, a meta-analysis. It combines, tests and contrasts the same phenomena from different angles. The main theoretical background included into research analysis is bargaining power within institutionalism and political realism, globalisation and integration issues.

To evaluate Azerbaijan's current economic and development status the macroeconomic indicators analysis has to be conducted and compared to EU averages and other countries economic results. This will show Azerbaijan's position on economic and political scene and its potential.

The other analysis describes the main directions of political development in recent years. The thesis includes critical evaluation of political development in the context of Azerbaijan's-EU international relations.

# Contents

<b>INTRODUCTION.....</b>	<b>10</b>
<b>1 THEORETICAL BACKGROUND AND THE REVIEW OF WORLD LITERATURE 12</b>	
1.1 INTERNATIONAL RELATIONS THEORIES RESEARCH.....	12
1.1.1 <i>Realism</i> .....	13
1.1.2 <i>Institutionalism</i> .....	16
1.1.3 <i>Liberalism</i> .....	18
1.1.4 <i>Constructivism</i> .....	21
1.1.5 <i>English school</i> .....	23
1.2 CRITICAL APPROACHES .....	25
<b>2 THE ECONOMICAL AND POLITICAL BACKGROUND FOR DEVELOPMENT OF EU-AZERBAIJAN RELATIONS .....</b>	<b>28</b>
2.1 RECENT NEGOTIATIONS AND DEVELOPMENT OF THE EU-AZERBAIJAN RELATIONS.....	28
2.2 THE ISSUE OF ASSOCIATION AGREEMENT AND THE EU INTEGRATION IN THE REGION.....	42
<b>3 EXTERNAL POLICY OF AZERBAIJAN TOWARDS THE EU .....</b>	<b>46</b>
3.1 MAIN POLITICAL AND DIPLOMATIC DIRECTIONS IN AZERBAIJAN CONCERNING THE EU COUNTRIES .....	46
3.2 DISCUSSING THE ISSUE OF ECONOMIC INDEPENDENCE OF AZERBAIJAN AND ITS POLITICAL SOVEREIGNTY .....	50
3.3 DISCUSSION OF THE RESULTS .....	54
<b>CONCLUSIONS .....</b>	<b>63</b>
<b>BIBLIOGRAPHY .....</b>	<b>68</b>
<b>LIST OF FIGURES AND TABLES.....</b>	<b>73</b>

## **Introduction**

Regional integration is one of the key trends in today's international relations. Participation in integration processes is primarily dictated by the states' will to establish close economic relations, with a view to ultimately form political coalitions and become more stable against external threats and risk factors. The European Union is nowadays the most powerful integration formation on Earth, and it is currently enlarging through accession of new member states.

This paper is aimed at analyzing the integration processes between the European Union and Azerbaijan. The goals of this work are especially important taking into consideration the fact that Azerbaijan is a major oil and gas supplier, while the European Union actively seeks diversification of energy resource supplies for the purpose of reaching higher energy security. Therefore, Azerbaijan and the EU actively cooperate in the economic sphere, and their integration could potentially bring substantial advantages to both subjects.

The aim of my research is to investigate the relations between Azerbaijan and the European Union, for which purpose I will answer several main questions. I will analyze the nature of relations between the two subjects, and the main preconditions favoring such relations. Also, in order to provide comprehensive analysis, I will compare the situation of Azerbaijan's relations with the European Union with the same bilateral relations with the EU of Turkey, Ukraine and China (the first two states pursue the goal of European integration, while China is involved in active cooperation with the European Union in the economic field, just as Azerbaijan, and therefore evaluating their state of cooperation with the EU could be valuable for my analysis).

The thesis will be divided into several main chapters for convenience. Chapter 1 is this introduction giving a brief overview of the thesis, its topic, relevance and goals. Chapter 2 provides theoretical analysis of approaches to foreign relations. This theoretical analysis is important in order to understand the basics of international cooperation, and provides ground for practical analysis. Chapter 3 investigates recent development of

Azerbaijan's relations with the European Union, and the issue of association agreement between them. Chapter 4 discusses how integration with the European Union could affect the economy and geopolitical sovereignty of Azerbaijan. Chapter 5 provides the conclusions drawn based on the findings of my analysis. Chapter 6 includes the list of bibliographic sources used to write this thesis.

Based on the findings of my analysis, I will try to confirm or disapprove several core hypotheses which give greater added value to my research. The first hypothesis states that Azerbaijan has no vital need to run integration processes with the European Union, as the country has substantial economic resources allowing it to maintain a stable high position in the international arena in both economic and geopolitical terms. The second hypothesis states that, despite being a transitional economy, thanks to its rapid development, Azerbaijan's main economic indicators are comparable to the ones reached by EU member states. The third hypothesis affirms that the leading political parties of Azerbaijan tend to promote closer cooperation and integration with the European Union as the main vector of Azerbaijan's foreign political vector.

In order to answer the research questions and confirm or disapprove the hypotheses posed, I will run a thorough research of the EU-Azerbaijan relations, compare them with similar relations involving Turkey, Ukraine and China, provide basic recommendations to Azerbaijan based on the experience of the abovementioned countries, and analyze potential alternatives of Azerbaijan's integration.

# **1 Theoretical background and the review of world literature**

Prior to proceeding directly to the practical part of my thesis, it is necessary to analyze the main theoretical aspects of international relations, in order for my research to be comprehensive, and for the practical analysis to be based on a stable theoretical background. In this chapter of my work, I would like to provide an overview of theories generally used for analyzing international relations.

## ***1.1 International relations theories research***

International relations represent relationships between countries or economic subjects of different states, pursuing certain economic, political, social or other goals (Daddow, O. (2009). *International Relations Theory*, p. 11). Being exercised on the interstate level, international relations go beyond the field of influence of any particular country, and in fact involve a much larger circle of indirect participants, than relations between entities and/or individuals within a single state. This is true for each particular aspect of international relations: national legislation no longer works here, and states need to seek mutual solutions with regard to legal issues, rules of taxation change with involvement of other parties, cross-border trade is submitted to certain rules or restrictions, unforeseen actions of other states' subjects occur, and so on. Thus, international relations represent a very complex concept, which should be thoroughly analyzed from the perspective of theoretical justification.

Due to the complexity of the international relations concept, there have historically been many schools of theoretical analysis regarding this field of research. As of today, these theories always continue to evolve in their development, as conditions of the global economy also tend to be changing (Edkins, J., & Vaughan-Williams, N. (2009). *Critical Theorists and International Relations*, p. 28).

Different researchers use different classifications of international relations theories, but one of the most widely used classifications divides international relations into five main

groups: realism, institutionalism, liberalism, constructivism, the English school, and the so-called critical approaches (Jackson, R., & Sørensen, G. (2012). *Introduction to International Relations: Theories and Approaches*, pp. 14-15).

### 1.1.1 Realism

The school of classical realism (prominent theoreticians: Morgenthau, Carr, and others) treats the sphere of international relations as inherently anarchic and autonomous, i.e. without any centralized authority. States participating in international relations pursue their own goals of economic benefits and geopolitical domination. States can establish international organizations and elaborate international codes or rules, but however they won't be the guiding factor in international relations, as states anyways always pursue only their own goals (Dunne, T., Kurki, M., & Smith, S. (2013). *International Relations Theories*, pp. 44-48).

If we analyze the roots of political realism in international relations, the theory initially originated back in the ancient times. Even though research in this epoch did not have any signs of a systematic scientific theory of international relations, empirical findings of the most prominent scholars played a very important role not only for the subsequent development of the realist school, but also for the overall establishment of international relations theories. Thucydides' History of the Peloponnesian War is largely regarded as the first major work in political realism. The author considers the armed conflict between Athens and Sparta, and affirms that the states' self-interest always has priority over morality. In their conflict, both cities didn't consider the "right" or the "wrong", only trying to gain superior strength (Williams, M.C. (2005). *The Realist Tradition and the Limits of International Relations*, pp. 28-33).

Thus, starting from Thucydides' work, classical realists have traditionally regarded human nature as a starting point for their studies. The self-interest inherent of any human being is extrapolated on the level of states, which similarly follow the same goals for their own benefit. In the course of interaction on the international level, states do not have a

single authority supervising their actions, i.e. the entire system is rather self-functioning. Each state pursues the goal of survival in harsh conditions of international struggle for power and domination (Crawford, R. (2013). *Idealism and Realism in International*, pp. 65-66). Therefore, each state independently defines its goals, strategies and tactics of their achievement on the international level, while always pursuing the aim of gaining a dominant position over other states in economic and political terms.

The classical realism theory continued its development in the Middle Ages, with N. Macchiavelli being its most prominent adept and scholar. Macchiavelli's political realism is a radical theory applied to both domestic and international relations. The researcher's doctrine rejects any morality in politics, and Macchiavelli sees all methods, either moral or not, as appropriate for achieving political aims. Wars are considered as inevitable measures undertaken by states in order to ensure geopolitical domination. Although wars bring deaths and destruction, they are regarded as inherent of the entire global relations system, which comes out from the very nature of states, which only seek expanding their powers (Donnelly, J. (2000). *Realism and International Relations*, pp. 55-57).

Thomas Hobbes (1588-1683) further deepened the theoretical basis of political realism in the field of international relations. The scholar justified the theory of political egoism inherent of any state, and also viewed politics as a sphere which could be efficiently managed, if rationally studied. One of the core concepts introduced by Hobbes is the idea of the anarchic state of nature. According to this concept, on the international level, there are no constraints for the states, as they act as purely independent and unsupervised organisms. Therefore, wars can occur, as different states' egoistic intents often collapse, and do not allow for any mutually efficient cooperation (Guzzini, S. (2013). *Realism in International Relations and International Political Economy: The Continuing Story of a Death Foretold*, pp. 101-103).

The modern classical realism was completely formed in the XX century in response to the idealist approach that was back then dominant in the field of international relations. E.H. Carr (1892-1982) described the idealist concept as purely Utopian, and impossible in real life. Carr mainly challenged the idea of the universal harmony of interests. He stated

that this concept can only be used as relative, and in practice, states call moral those actions which serve their own interests. Carr contrasts this idea with the realist concept of conflict of interests inherent of international relations. H. Morgenthau (1904-1980) further developed political realism as a full-fledged international relations theory. According to Morgenthau, the states' desire for power is insatiable, and they always seek expanding their appetites. Political leaders act in terms of their states' interest in gaining larger power. Power is a universal category, and the essential concept of international politics. Morgenthau doesn't reject the role of moral and ethics, but still argues that the states' self-interest is dominant over them (Williams, M.C. (2005). *The Realist Tradition and the Limits of International Relations*, pp. 180-184).

The school of neo-realism (Waltz, and others) slightly parts from the classical realist principles, and focuses on the polar structure of international relations dominated by superpowers. With the receding of the Cold War in the 1990's, it became obvious that international organizations can play quite an important role, which had previously been rejected by realists, and therefore the classical realism theory was added by new theoretical concepts, which formed the so-called neo-realism (Moore, C., & Farrands, C. (2010). *International Relations Theory and Philosophy: Interpretive dialogues*, p. 65). Kenneth Waltz regarded power and state behavior in a way different to classical realists, who believed power to be both the goal and a method of action. In contrast, neo-realists argued that each state's primary goal is security, and therefore the main attention should be focused on distribution of powers. According to Waltz, there are two main reasons that predefine the anarchic nature of the international relations system: unequal gains and insecurity (Glenn, J., Howlett, D.A., & Poore, S. (2004). *Neorealism Versus Strategic Culture*, pp. 76-79).

Having analyzed the basic concepts of the theory of political realism, in the next section of my thesis, I would like to pay particular attention to the international relations theory of institutionalism.



### 1.1.2 Institutionalism

Institutionalism (Veblen, Commons, and others) shares the views of realists with regard to the state being a self-interested and rational actor pursuing its own goal to survive. However, in contrast to realists, institutionalists argue that sustainable cooperation in the international arena is possible, as interests of separate states can be consistent with each other, and in such cases, mutual cooperation can help reach all the participants' goals. Here, international institutions, i.e. organizations, sets of rules and norms between countries, play a key role in ensuring mutually efficient relations between countries. Although, institutionalism is a complex theoretical direction, and it includes several main schools having some differences with regard to their perception of international relations. The major schools of institutionalism are functionalism, neofunctionalism, regime theory, state cartel theory, rational choice institutionalism, and historical institutionalism (Daddow, O. (2009). *International Relations Theory*, pp. 70-76).

The functional theory of international was proposed by David Mitrany in the inter-war period, and was historically the first school of institutionalism. Functionalists focus on mutual interests and needs of states and non-state actors, in contrast to realists, which completely reject any mutual interests in international relations, proceeding from the assumption of all actions being driven by self-interest and the will of domination. One of the key points of functionalism is that this school believes that states should focus on how to ensure greater human welfare, instead of seeking creating larger territorial formations. Peace and prosperity are thus regarded as the main goals of all actors involved in international relations. States should act in their foreign relations using economic methods and the political will. The role of international organizations is seen as very important for the purpose of intensifying international cooperation, and softening sharp edges in relations between states (Brecher, M., Harvey, F.P. (2009). *Realism and Institutionalism in International Studies*, pp. 14-22).

The neofunctionalist international relations theory (E.B. Haas, L. Lindberg, and others) regards the issues of integration between states, proceeding from the following three key factors interacting with each other: ever-growing economic and political

interdependence between states in the international arena, organizational capacity to settle and eliminate disputes, and supranational market rules, i.e. international regulations superseding the ones valid within separate states. Neofunctionalists argue that integration in one sector provides wider opportunities for the subsequent integration in other sectors, which concept is called the positive spillover effect. Supranational formations are inevitable in the course of internationalization and globalization of relations between states. In such conditions, the role of international organizations becomes especially important, as they help develop mutually beneficial relation between countries, and to a large extent prevent conflicts (Guy Peters, B. (2005). *Institutional Theory in Political Science: 2nd Edition*, pp. 107-111).

The regime theory (Krasner) argues that the international system is not in practice anarchic, but has a certain structure predefining the vectors of states' actions in the international arena. The so-called regimes are organizations and sets of rules governing the field of international relations. Such regimes establish the framework for the decision-making process on the international level. In fact, the regimes are created by states showing their political will to cooperate for the purpose of higher benefits through interaction (Greenwood, R., Oliver, C., Suddaby, R., & Sahlin-Andersson, K. *The SAGE Handbook of Organizational Institutionalism*, pp. 85-95).

The state cartel theory regards states as economic entities seeking domination in the world. Although military means can also be used to achieve larger power, today, states rather tend to impose their economic will for the purpose of expanding the geopolitical influence. At a certain level of development, powerful states see that their cooperation could bring greater benefits than competition and opposition. By forming cartels, they can largely increase their area of control, and have greater powers with regard to other subjects of international economic relations. International institutions are therefore important in order not to let such cartels deprive developing states of their political sovereignty through invading their economic field (Rutherford, M. (1996). *Institutions in Economics: The Old and the New Institutionalism*, pp. 194-195).

Rational choice institutionalism mainly focuses on international relations from the perspective of the role of international organizations. Such institutions are considered to be formed by states for the purpose of having a unified and comprehensive legal framework of actions in the international arena. Such structuring allows reducing transaction costs of collective activities, which would otherwise be substantially higher. Therefore, in interacting with international organizations, states mainly use a “calculus” approach (Brecher, M., Harvey, F.P. (2009). *Realism and Institutionalism in International Studies*, pp. 224-228).

The historical institutionalism school (Anderson, Bendix, and others) analyzes international institutions from the perspective of their impact on historical dynamics in international relations, impact on the current trends of their development, and so on. I.e., this school rather focuses on analytical studies than explanatory modeling (Greenwood, R., Oliver, C., Suddaby, R., & Sahlin-Andersson, K. *The SAGE Handbook of Organizational Institutionalism*, pp. 545-546).

The neo-institutionalist school (Coase, and others), which was created based on a redefinition of the findings of institutionalists, focuses more on the social role of international institutions in the course of cooperation between countries (Dunne, T., Kurki, M., & Smith, S. (2013). *International Relations Theories*, p. 84). The main attention of this theoretical direction is paid to the institutional environment in which state and non-state subjects of international relations have to interact. Although international institutions can act as restraining factors, they play a key role in regulating the framework of international relations (Lecours, A. (2005). *New Institutionalism: Theory and Analysis*, pp. 33-35).

The next school I would like to consider more in detail in the next section of my thesis is liberalism.

### **1.1.3 Liberalism**

The main insight of liberalism (Hayek, Doyle, and others) is that national features of different states play a key role in their international relations. The main actors of

international relations are considered to be individuals and legal entities, while states directly participating in such transborder relations in fact protect the abovementioned subjects' interests. Later theories proceeding from liberalism, such as neo-liberalism, liberal institutionalism, neo-liberal institutionalism and post-liberalism, were based on the same ideas, but rather differed in terms of the amount of sovereignty delegated by states to international institutions in the process of their interaction. The liberalist school of international relations studies includes several main directions within it, namely the following: commercial liberalism, sociological liberalism, republican liberalism, institutional liberalism, and democratic peace theory (Edkins, J., & Vaughan-Williams, N. (2009). *Critical Theorists and International Relations*, pp. 101-104).

The democratic peace theory (Doyle, Rummel, and others) proceeds from the fact that democratic states refrain from entering armed conflicts with each other. Proponents of the democratic peace theory point out some key preconditions impacting such an inherent state of peace between countries. First of all, democratic authorities of states are forced to accept culpability for war losses and the ensuing economic decay in the eyes of their electorate, and therefore they are interested in preserving peace in order to maintain their powers. Second, democracies tend to see other democratic countries not as competitors or rivals, but, to the contrary, as potential partners. Third, democracies more often have greater resources than other states, and therefore are least interested in hostilities for the purpose of not affecting the national infrastructure. Finally, democratic leaders are more likely to establish international organizations to efficiently regulate international relations (Moravcsik, A. (1992). *Liberalism and international relations theory*, pp. 31-34).

Commercial liberalism (originated from the works of Montesquieu) emphasizes the importance of international economic interdependence and free trade between states. Adepts of the school argue that states acting in the international arena primarily follow their economic goals, as economy is the basis for any state's might. In order to get higher advantages from international economic relations, countries seek deeper cooperation, which assumes deeper interdependence. In such conditions, free trade is sought by states in order to intensify economic flows between them, and is the final aim of any cooperating countries

(Gismondi, M.D. (2007). *Ethics, Liberalism and Realism in International Relations*, p. 111).

Proponents of sociological liberalism believe that studies of international relations should be state-centric. To the contrary, adepts of this scientific school see international relations as relationships driven by people and social organizations. From this perspective, sociological liberalists argue that people are interested in deepening international relations, as this process allows creating new forms of social cooperation and integration, and thus ultimately increasing the overall welfare and level of living (Harr, E. (2009). *Classical Liberalism and International Relations Theory*, pp. 128-130).

Republican liberalism is very close to the democratic peace theory. This current of scientific thought affirms that democratic republics are most interested in preserving peace, and therefore seek deeper integration on the international level. At the same time, this theory stresses on the moral and ethical side of international relations, and affirms that moral is also very important even for those states, which actively pursue their purely economic goals (Moravcsik, A. (2001). *Liberal international relations theory: a social scientific assessment*, pp. 265-267).

Institutional liberalism regards the field of international relations as key for ensuring any state's prosperity and efficient development. Proponents of this school believe that international organizations such as the UN, the World Bank, etc. are essential for efficient cooperation between states (Moravcsik, A. (1992). *Liberalism and international relations theory*, p. 39).

The theory of neoliberalism (Keohane, Nye, and others) which grew from the classical liberalism actively uses game theory to explain states' interest in international relations. Since its proponents emphasize the possibility of mutually efficient cooperation, they are particularly interested in developing a wide and comprehensive structure of international institutions favoring deep cooperation between states (Macartney, H. (2010). *Variegated Neoliberalism: EU varieties of capitalism and International Political Economy*, pp. 41-45).

In the next section of my thesis, I would like to consider another international relations studies direction, constructivism.

#### **1.1.4 Constructivism**

The theory of constructivism (Onuf, Ashley, and others) affirms that international relations are shaped by ideas and social structures. According to constructivists, purely rational interests can never dominate the field of international activities. At the same time, the role of non-state actors is emphasized more than in any other school (Moore, C., & Farrands, C. (2010). *International Relations Theory and Philosophy: Interpretive dialogues*, pp. 84-85).

In their political theoretical studies, constructivists largely criticize the realist approach to international relations. For instance, Wendt states that realism's idea of anarchy dominating the international domain of relations is far from being true in real life. First, according to the researcher, the international system does have a structure, which has been created and is currently supplemented and updated by states themselves. International organizations play a very important practical role with this respect, as they ensure efficient interaction between different foreign subjects. Second, there is indeed a certain degree of anarchy, as international relations are quite turbulent and rapidly changed, but this anarchy doesn't necessarily mean any hostilities between states, which can seek joint achievement of mutual interests through close and deep cooperation (Guzzini, S., & Leander, A. (2005). *Constructivism and International Relations: Alexander Wendt and His Critics*, pp. 114-116).

Constructivists reject the essential effect of anarchy on the behavior of international relations actors, which is largely emphasized by realists and neorealists. Moreover, proponents of this school further move away from realism's materialist assumptions, and focus on individuality and identities of state and non-state actors of international relations, stressing on the fact that such particular features of those actors predefine the structure, volume and efficiency of international cooperation between countries, and not the anarchic

state of things. A particular state's behavior in international relations is considered to be defined not only by its own interests, but also by the values of social interaction. Therefore, the constructivist methodology emphasizes the necessity to study the internal structure of states, their history of formation, and the key driving factors in internal policies. Therefore, analysis in terms of international relations should go further beyond the state, and investigate its basic constituting elements as well (Klotz, A., & Lynch, C. (2007). *Strategies for Research in Constructivist International Relations*, pp. 207-214).

The constructivist approach sees it important to analyze the nature and development of state sovereignty based on the principles of social reality. This concept assumes that sovereignty is subject to constant changes and challenges in the international arena. States interacting on the international level finally undergo processes of integration. Such processes first of all develop in the economic field, for the purpose of granting larger monetary benefits and higher social welfare for the states involved. The next stage of integration is political integration, which assumes delegation of a certain degree of powers. Due to this, states lose part of their political independence for the purpose of becoming deeper integrated into the global community. Therefore, the desire to preserve geopolitical sovereignty can shape the vectors and volumes of international relations (Orjinta, I.A. (2010). *Social Constructivism in International Relations and the Gender Dimension*, pp.40-42).

Finnermore focuses more on the impact of humanitarian assistance on international relations. According to the researcher, this field of international cooperation shows that social security is key in defining the vectors of states' foreign politics. The humanitarian aspect in fact shows that states obviously not only pursue their egoistic goals in the international arena, but also try to construct a solid social infrastructure and welfare on the global level (Shannon, V.P., & Kovert, P.A. (2012). *Psychology and Constructivism in International Relations: An Ideational Alliance*, pp. 188-191).

Onuf also goes further in criticizing the idealists' approach of inherent anarchy in international relations. He marks out hegemony, hierarchy, and heteronomy as different domination structures in international relations. By this, the researcher shows that absence

of a single global government doesn't necessarily mean domination of anarchy as such. Instructive rules are considered to be essential in governing relations between states, and the role of international organizations is also significantly emphasized (Zehfuss, M. (2002). *Constructivism in International Relations: The Politics of Reality*, pp. 57-61).

In the next section of my thesis, I would like to analyze the core concepts of the English school of international relations studies.

### **1.1.5 English school**

The English school (Bull, and others) emphasizes the central role of international society in studying international relations. Researchers representing this direction tend to analyze the historical aspects of international relations, rather than to develop explanatory models. Overall, the English school of international relations theory is quite comparable to constructivism, as its proponents argue that it is rather ideas than just material capabilities that shape the vectors of politics in the international arena. However, the English school differs due to its more versatile approach to theoretical studies, which is based on achievements of other scientific branches (Dunne, T., Kurki, M., & Smith, S. (2013). *International Relations Theories*, pp. 191-192).

Similarly to realists, researchers of the English school put the idea of anarchy into the center of international relations. They point out that the international system is not an established structure: it appears only when two or more states start interacting with each other in any domain. As such interaction is unregulated (since there is no single global government), the international system is inherently anarchic. At the same time, in the course of their relations, all states seek having higher power, which gives birth to the concept of power politics: actions of governments in the international arena undertaken in order to expand domination (Linklater, A., & Suganami, H. (2006). *The English School of International Relations: A Contemporary Reassessment*, pp. 81-84).



However, in contrast to realists, the English school theoreticians argue that states share a certain level of common interests in their international activities, which is described by Bull as fear of unrestricted violence. Due to this fear, states tend to hold dialogues with each other, and thus elaborate sets of rules and standards governing their mutual relations. Although such international regulations are not imperative in nature, they give a certain degree of confidence in peaceful and mutually efficient settlement of any disputes emerging on the international level. In terms of such rules, the classical English school theoreticians point out several key institutional concepts, such as war, diplomacy, balance of power and international law. All these factors closely interact and thus shape the structure of the international relations system (Buzan, B. (2004). *From International to World Society?: English School Theory and the Social Structure of Globalisation*, pp. 49-51).

International norms mutually agreed upon by states thus define the vectors of development of international society. In this context, theoreticians of the English schools especially emphasize protection of human rights as one of the essential fields of international cooperation between states. Proponents of the classical English school also regard world society as the basis for considering global identity, i.e. an identity common for all states involved in international relations and established by their will to cooperate for the purpose of gaining larger benefits. However, some of the theoreticians, namely B. Buzan, do not accept this approach, and rather tend to perceive global society as a Utopian concept, still believing that states tend to preserve their sovereignty and autonomy, and therefore a uniform worldwide society is inherently impossible (Griffiths, M. (2007). *International Relations Theory for the Twenty-First Century: An Introduction*, pp. 166-169).

Currents within the English school of international relations studies are generally divided into two directions, as proposed by Bull: the so-called pluralists, and the so-called solidarists. The pluralists (Jackson, and others) proceed from their key assumption that international society is formed by states each of which has its own ideology, moral principles, goals, strategies, and tactics of their implementation, and so on. Therefore, each state's actions in the international arena are unique, and express their different concept of

world perception. At the same time, the solidarists (Wheeler, and others) argue that independent states should promote universal values of human rights on the international level, rather than seeking promoting their self-interest through any means (Griffiths, M. (2013). *Fifty Key Thinkers in International Relations*, pp. 60-62).

Thus, currents within the English school of international relations theory differ in terms of their vision of motives and driving factors of international relations. The pluralists rather tend to accept the classical realist idea of the anarchic state of things, while the solidarists rather tend to adopt a positivist approach, stating how things should be done, but being far from analyzing the actual situation in the international arena. However, in terms of other perceptions of international relations, both currents rather share common views (Dunne, T. (1998). *Inventing International Society: A History of the English School*, pp. 151-155).

In the next section of my thesis, I would like to consider more in detail critical approaches to international relations studies.

## ***1.2 Critical approaches***

Critical approaches are based on critique of explanation of the state's role in international relations provided by other scientific schools. Critical approaches include the theories of Marxism, feminism, colonialism, foundationalism, anti-foundationalism, positivism, orientalism, the green theory, and so on (Daddow, O. (2009). *International Relations Theory*, pp. 160-162).

The Marxist theory of international relations sees the international system as a complex formation represented by two opposite ideological camps, namely the capitalist and the socialist ones. The entire development of international relations is driven by the spreading of those ideologies across the globe. Capitalist states are based on unequal distribution of national wealth, and therefore unequal earnings of people, which provokes differences in terms of social structure. Socialist states emphasize the necessity of

elimination of any social hierarchy, and equalization in income distribution. Both camps seek largely expanding their influence in the international arena, involving new states and spreading their ideas. Marxist theoreticians believe that international relations should be governed by socialist ideas, as the capitalist society is only aimed at promoting oligarchic interests of the ruling elites (Lüdert, J. (2008). *International Relations: Marx(ism) a Ghost Unwilling to Disappear?*, pp. 21-29).

The feminist theory of international relations (Enloe, and others) regards the field of international cooperation from the perspective of the states' ruling authorities' gender structure. Proponents of feminism require equality in participation of men and women in state administration, and stress on the fact that tensions and hostilities in international relations are provoked by men's desire to hold large powers, while women are more moderate and tend to preserve peace as the backbone of stability and prosperity. Here, the concept of feminist consciousness is introduced by adepts of the school in order to describe such differences between female and male state officials (Tickner, J.A. (1992). *Gender in International Relations: Feminist Perspectives on Achieving Global Security*, pp. 130-136).

Proponents of colonialism argue that the field of international relations is dominated by a kind of relations where powerful states aim to create colonies from economically less developed countries. Colonies are seen purely as economic sources of raw materials, workforce, sales markets, or income-generating assets. No moral or ethical goals are anyhow or anytime followed in the course of international cooperation, and thus less developed states have to struggle for their survival, and maintenance of their self-identity, which is very hard in conditions of deepening internationalization. Even though, nowadays, there are formally no colonies, powerful states use levers of tension to control developing countries in economic terms, without directly controlling them in geopolitical terms (Muppidi, H. (2012). *The Colonial Signs of International Relations*, pp. 170-177).

Orientalism as a theory of international relations is aimed at analyzing cooperation on the international level from the perspective of focus on the East, as the epicenter and the essential driving factor of its development. According to adepts of this theory, vectors of development of global society are to a large extent predefined by Eastern countries. This

can largely be explained by the fact that Eastern countries have major energy resources, which are the core assets in international relations, shaping the energy security of any state, which is a prerequisite for its efficient functioning. The impact of Eastern countries can't be underestimated, and should be taken into account by the rest of states in defining their foreign policies (Haynes, J. (2011). *Religion, Politics and International Relations: Selected Essays*, pp. 60-64).

The foundationalist and anti-foundationalist approaches have opposite vision of international relations studies. Proponents of the first school regard the existing reality of international relations as a single structure established on the global level. At the same time, anti-foundationalists negate such vision of international relations, and to the contrary argue that the systems of international relations are different for each particular state, and are formed on the local level (Moore, C., & Farrands, C. (2010). *International Relations Theory and Philosophy: Interpretive dialogues*, p. 303).

The green theory of international relations assumes that cooperation between states should first of all be based on environmental aspects, and protection of the worldwide ecosystem. Environmental aspects are especially important for states, as they define the opportunities for their further development, and in fact constitute a universal category absolutely important for all countries, regardless of their ideological doctrines followed, etc. (Edkins, J., & Vaughan-Williams, N. (2010). *Critical Theorists and International Relations*, pp. 112-113).

Different theories of international relations studies regard cooperation between states from different perspectives, and underline different driving factors and core elements of such relations. However, all of them are important to analyze in order to have a comprehensive picture of the field of theoretical analysis of international relations.

Thus, having analyzed the core theoretical aspects with regard to analysis of international relations, in the next chapter of my thesis, I would like to pay closer attention to the EU-Azerbaijan relations, and the background for their development.

## **2 The economical and political background for development of EU-Azerbaijan relations**

Azerbaijan proclaimed its independence on October 18, 1991, shortly after the collapse of the USSR. Being a newly formed state, with a weak economic condition and obsolete structure of the state apparatus, Azerbaijan was forced to reshape its internal and external policies in order to become integrated into the global community. In the 1990's the state remained very much dependent on Russia, with the latter being its main economic partner in all fields of international relations. However, in the XXI century, having formed a solid economic basis, Azerbaijan started closely interacting with the Western countries, which became an equally important vector of its foreign politics (Ergun, A., Isaxanli, H. (2013). *Security and Cross-Border Cooperation in the EU, the Black Sea Region and Southern Caucasus*, pp. 55-68). The state proclaimed its key foreign political priorities to be integration with the European and Euro-Atlantic structures, cooperation with international organizations, cooperation with foreign countries in the field of common security, etc. (Bayulgen, O. (2010). *Foreign Investment and Political Regimes: The Oil Sector in Azerbaijan, Russia, and Norway*, pp. 33-36). For the purpose of my research, in the next section of this paper, I would like to consider more in detail the EU-Azerbaijan relations and their recent developments.

### ***2.1 Recent negotiations and development of the EU-Azerbaijan relations***

When analyzing the history of the EU-Azerbaijan relations, it can obviously be stated that the first major step in this domain was undertaken in 1994, when Azerbaijan signed an international agreement with major transnational oil-and-gas corporations, Azeri, Chirag and deep-water Gunashli (ACG)-International Contract No. 1. This contract is widely known as the Contract of the Century due to its importance for the Azerbaijani economy. Through concluding this agreement, Azerbaijan opened its internal market to corporations from Western Europe. This was needed for the state in order to boost its

economy, and start more effectively extracting and using its rich energy resources. Due to the years of decay for the oil-and-gas sector survived during the USSR era, the industry required substantial resources, and most importantly, up-to-date technologies, which the country did not have. Therefore, through raising foreign investment, Azerbaijan pursued the goal to give a push to its industry. At the same time, the EU member states were interested in deepening cooperation with Azerbaijan in the energy sector due to the sharply posed issue of energy security within the Union. Azerbaijan was seen as a potential major supplier of energy resources to the EU (Le Borgne, E., Aturupane, C., Gvenetadze, G., Hobdari, N., Wakeman-Linn, J., Danninger, S. (2004). *Managing Oil Wealth: The Case of Azerbaijan*, pp. 63-74).

In the subsequent periods, the relations between Azerbaijan and the EU as economic partners have mostly been based on the energy sector, as it always remains the most important income-yielding industry for Azerbaijan, and a source of energy supplies diversification for the European Union. Azerbaijan is a member of the EU's INOGATE energy program aimed at improving energy security, converging the EU member states' markets, and raising vaster foreign investment in the energy sector. The EU supports Azerbaijan's domestic policy assuming wider use of renewable energy sources, instead of the traditional ones. Azerbaijan and the European Union have also concluded multiple agreements regulating particular issues in the oil-and-gas sector (Bjørnebye, H. (2010). *Investing in EU Energy Security: Exploring the Regulatory Approach to Tomorrow's Electricity Production*, pp. 202-203).

In addition to cooperation in legal framework elaboration, Azerbaijan and the EU also implement vast physical projects in the energy sector. As of today, the Trans Adriatic Pipeline and the Trans-Anatolian gas pipeline construction projects are the most important mutual projects implemented by the Azerbaijani and the European authorities. The Trans Adriatic Pipeline (TAP) project was launched in 2003, and currently undergoes the last stages of coordination and approval. The main destination of TAP is to transport natural gas from Azerbaijan through Greece via Albania and the Adriatic Sea to Italy, and then to the other EU member states. The Trans-Anatolian gas pipeline (TANAP) project was

announced in 2013, it is currently being thoroughly developed by the EU's and Azerbaijan's experts. TANAP is assumed to be a natural gas pipeline from Azerbaijan via Turkey to Europe. Both projects are critically important for the EU and Azerbaijan. The European Union is much dependent on Russia in terms of energy supplies, and therefore seeks diversification of suppliers in order to strengthen its energy security, and decrease the level of risks. Azerbaijan also seeks ways of direct supplies to Western European states, without involving Russia as an intermediary for gas and oil transportations (Onder, H. (2013). *Azerbaijan: Inclusive Growth in a Resource-Rich Economy*, pp. 177-190).

The successful experience of interaction between the European Union and Azerbaijan in the energy sector has allowed expanding their mutual cooperation to other fields, even beyond the purely economic interests. In 1999, Azerbaijan signed the Partnership and Cooperation Agreement with the EU, and joined the the European Neighborhood Policy. In 2006, Azerbaijan and the EU adopted the Action Plan within the framework of the abovementioned program. In 2008, the Eastern Partnership initiative was adopted at the initiative of Poland and Sweden at the EU summit in Brussels. The Partnership program assumed a much wider level of political integration and interaction with former USSR republics, namely Azerbaijan. In July 2010, negotiations on the Association Agreement between the European Union and Azerbaijan were launched (Jafarova, A. (August 26, 2013). *Prospects of Azerbaijan-EU relations in spotlight*). The Memorandum of Understanding on National Indicative Program (NIP) for 2011-2013 within the framework of the EU's European Neighborhood and Partnership Instrument was signed between Azerbaijan and the European Commission on January 13, 2011. The Memorandum of Understanding on Framework Document of Comprehensive Institution Building (CIB) Program was signed between Azerbaijan and the EU on January 13, 2011 (*The legal framework of relations of the Republic of Azerbaijan with the European Union* (April 04, 2013)). Those two documents also play a key role in further expanding integration between Azerbaijan and the European Union.

In October 2013, the Cooperation Council between the EU and Azerbaijan declared that it was satisfied with the progress reached in negotiations on the Association

Agreement, visa facilitation and readmission agreements (Orujova N. (October 3, 2013). *EU, Azerbaijan satisfied with ongoing negotiations*). On November 29, 2013, the EU-Azerbaijan agreement on facilitating the issuing of visas was signed (*EU-Azerbaijan agreement on facilitating the issuing of visas dated November 29, 2013*). In November 2013, participants of the Vilnius Summit signed a declaration stating that “*the EU stands ready to launch negotiations on a Deep and Comprehensive Free Trade Agreement (DCFTA), as part of an Association Agreement, following Azerbaijan's accession to the World Trade Organization (WTO)*” (Ahmadova S. (November 29, 2013). *Vilnius Summit participants welcome progress in EU-Azerbaijan negotiations on Association Agreement*).

In February 2014, another major step was made in relations between Azerbaijan and the European Union. The parties signed the Agreement on Readmission, which stipulates mutual commitments with regard to return of illegal migrants, including those who have come from third countries through their territories. This agreement is important, as it shows both Azerbaijan's and the EU's readiness to cooperate in all fields on a mutually advantageous basis (*Подписано соглашение между ЕС и Азербайджаном о реадмиссии* (February 28, 2014)).

Also, in February 2014, MalenaMard, the head of the European Union's Delegation to Azerbaijan, had a meeting with Azerbaijan's Minister of Energy NatigAliyev, with whom they discussed the opportunity and advantages of signing the Shah Deniz 2 Final Investment Decision. This would allow further strengthening economic ties between Azerbaijan and the EU, as the latter sees Azerbaijan as a key partner in ensuring its energy security (*Azerbaijan, EU discuss energy cooperation* (February 1, 2014)).

In March 2014, taking into account the Russian intervention in Ukraine, and the connected issues related to possible interruptions in energy supplies, high EU officials again stressed the importance of diversifying power supplies, thus minimizing energy dependence on Russia. Namely, H. Van Rompuy said that the EU should make all efforts to accelerate construction of the so-called Southern Corridor which would allow delivering gas from Azerbaijan to Europe through TAP and TANAP gas pipelines. This project is

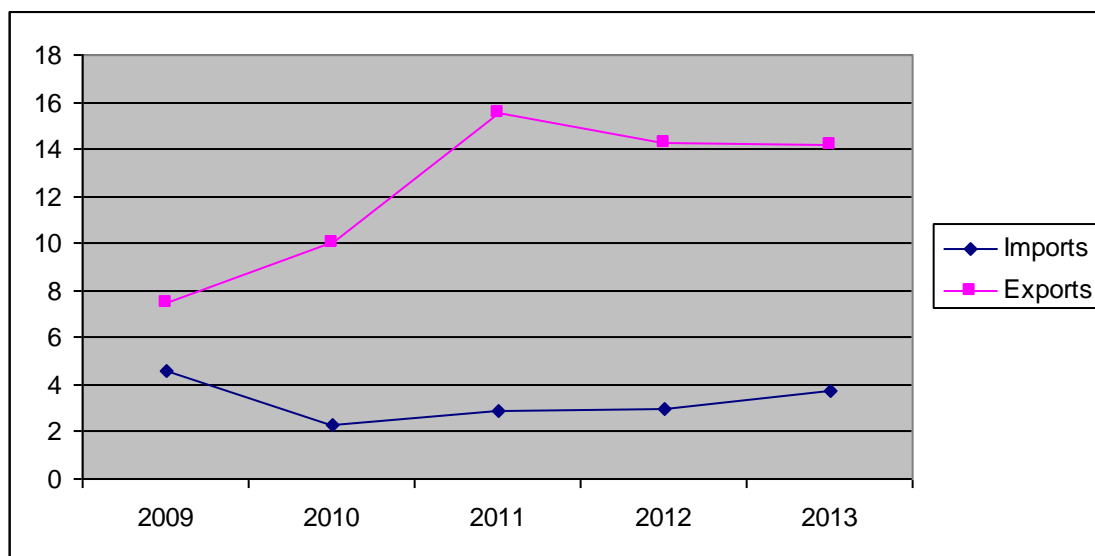


potentially very beneficial for both Azerbaijan and its European partners (*EU plans to reduce Russian energy dependence* (March 21, 2014)).

For the purpose of investigating more deeply the current relations between Azerbaijan and the European Union in the economic field, it is worth comparing their main development indicators.

	2009	2010	2011	2012	2013
Imports	4,6	2,3	2,9	3	3,7
Exports	7,5	10	15,5	14,3	14,2
Balance	2,9	7,7	12,6	11,3	10,5

**Table1. Structure of Azerbaijan’s foreign trade with the European Union in 2009-2013, in billion euros**  
**Source: European Commission. *Azerbaijan*. [online]. [cit. 2013-01-10]. Retrieved from [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_111475.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111475.pdf)**



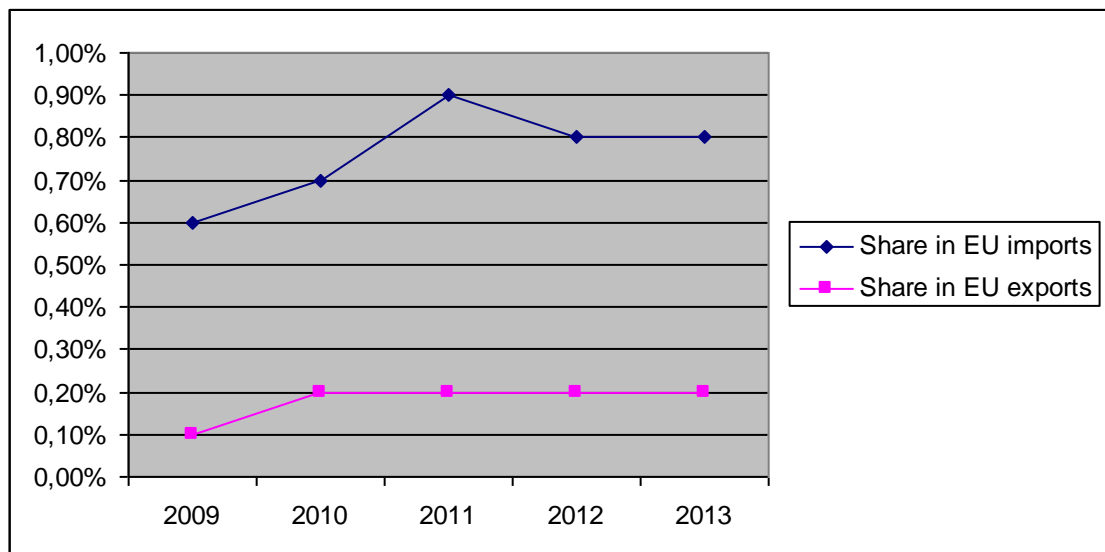
**Figure 1. Structure of Azerbaijan’s foreign trade with the European Union in 2009-2013, in billion euros**  
**Source: European Commission. *Azerbaijan*. [online]. [cit. 2013-01-10]. Retrieved from [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_111475.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111475.pdf)**

As Table 1 and Figure 1 above illustrate, Azerbaijan has lately been actively performing trade activities with the European Union. Azerbaijan’s balance of foreign trade with the EU always remains positive, as the country exports more than it imports (which is mainly due to the role of energy resources imported by the EU, which are the main product

of Azerbaijan's exports to the Union. At the same time, Azerbaijan mainly imports technological and similar equipment from the EU).

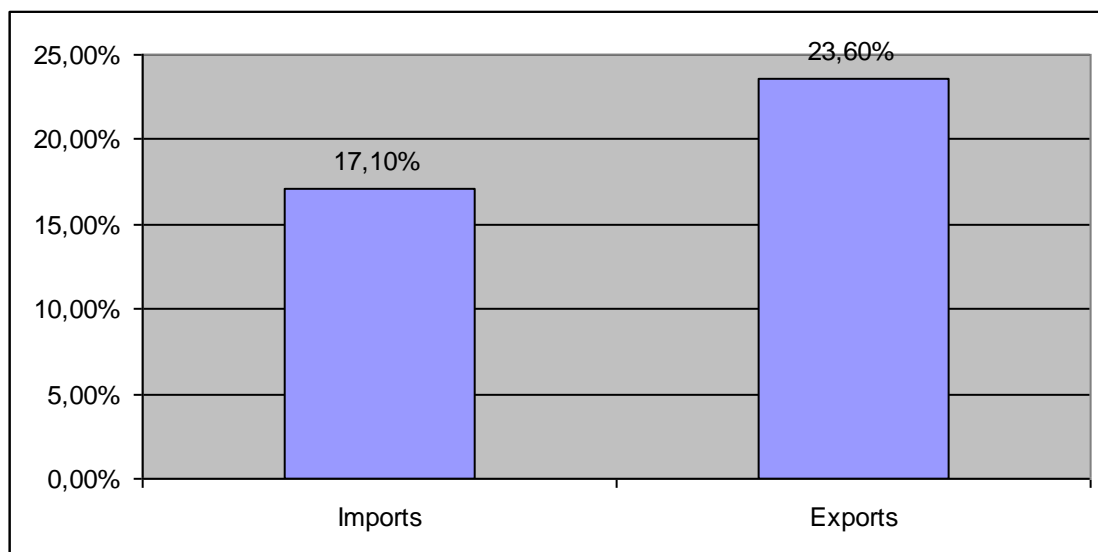
	2009	2010	2011	2012	2013
Share in EU imports	0,60%	0,70%	0,90%	0,80%	0,80%
Share in EU exports	0,10%	0,20%	0,20%	0,20%	0,20%

**Table 2. Growth dynamics of Azerbaijan's foreign trade with the European Union in 2009-2013**  
**Source: European Commission. Azerbaijan. [online]. [cit. 2013-01-10]. Retrieved from**  
**[http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_111475.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111475.pdf)**



**Figure 2. Growth dynamics of Azerbaijan's foreign trade with the European Union in 2009-2013, in billion euros**  
**Source: European Commission. Azerbaijan. [online]. [cit. 2013-01-10]. Retrieved from**  
**[http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_111475.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111475.pdf)**

As Table and Figure 2 above show, Azerbaijan's overall share in the European Union's exports and imports has lately remained stable. Despite being rather small (0.8% for imports and 0.2% of exports as of 2013), those shares demonstrate stable values, which testifies that Azerbaijan and the European Union perform mutually effective trade, and are important foreign trade partners.



**Figure 3. Growth dynamics of Azerbaijan's foreign trade with the European Union in 2009-2013, in billion euros**

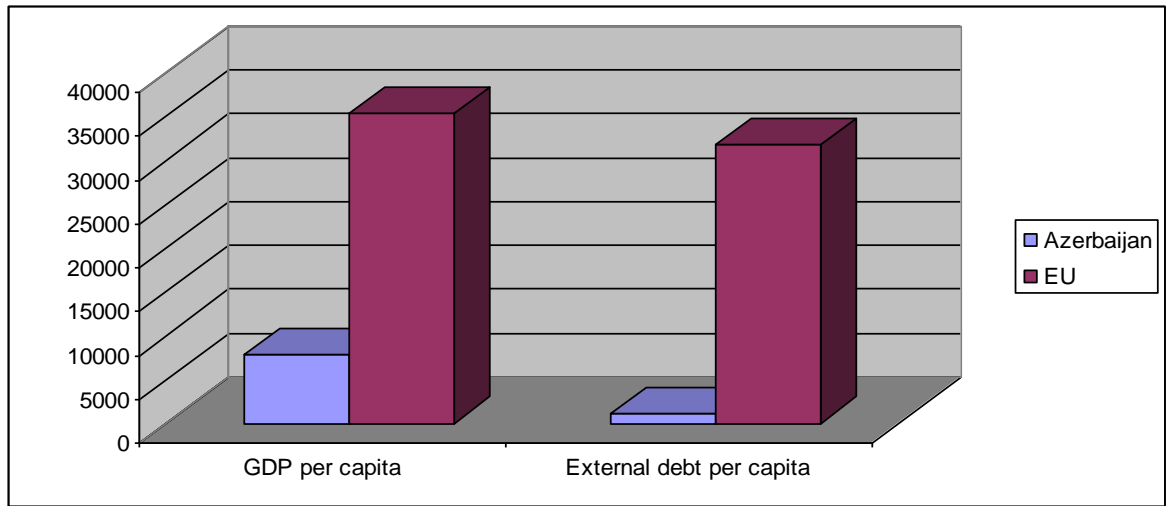
**Source: European Commission. *Azerbaijan*. [online]. [cit. 2013-01-10]. Retrieved from [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_111475.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111475.pdf)**

Figure 3 above demonstrates that the average rate of growth of Azerbaijan's imports from the EU made up 17.1% in 2009-2013, while the same figure for exports amounted to 23.6%, which means that Azerbaijan's exports to the European Union are growing at a faster pace than Azerbaijan's imports. This can mainly be explained by Azerbaijan's ever-growing role as a supplier of energy resources to the EU.

	EU	Azerbaijan
GDP	15850	102,7
Unemployment	10,50%	6%
Inflation rate	1,50%	2,40%
External debt	15950	9,552

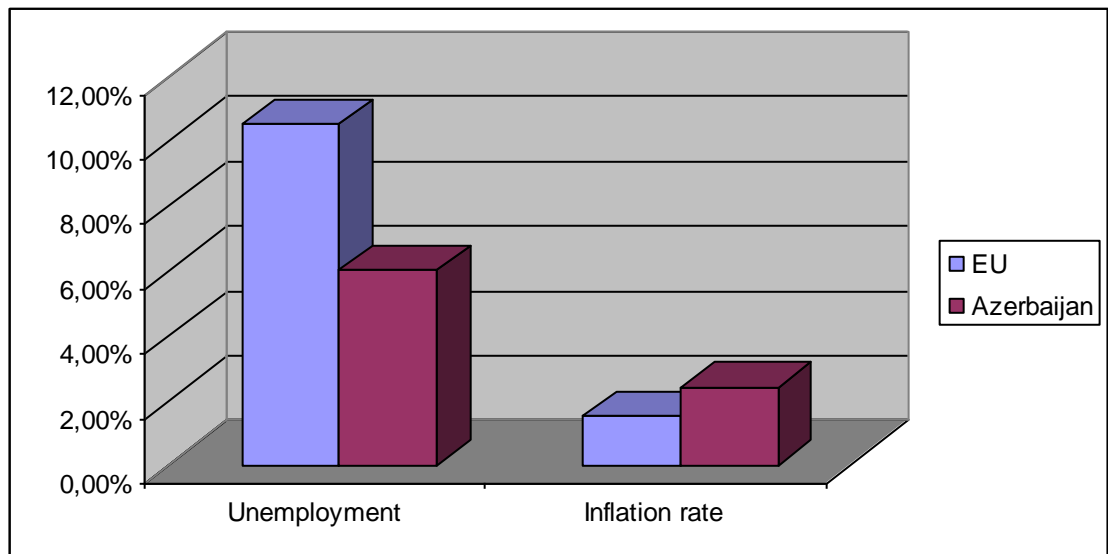
**Table 3. Main economic indicators of Azerbaijan and the European Union as of 2013, in billion US dollars**

**Source: Central Intelligence Agency. *Main economic indicators of Azerbaijan and the European Union*. [online]. [cit. 2013-01-10]. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/geos/ee.html>**



**Figure 4. Main economic indicators of Azerbaijan and the European Union, as of 2013, in current US dollars**

Source: Central Intelligence Agency. *Main economic indicators of Azerbaijan and the European Union*. [online]. [cit. 2013-01-10]. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/geos/ee.html>



**Figure 5. Main economic indicators of Azerbaijan and the European Union as of 2013, in billion US dollars**

Source: Central Intelligence Agency. *Main economic indicators of Azerbaijan and the European Union*. [online]. [cit. 2013-01-10]. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/geos/ee.html>

Table 3, Figure 3 and Figure 4 above demonstrate comparative values of Azerbaijan's and the European Union's main economic indicators. As we can see from those data, the EU's GDP is approximately 150 times larger than the one of Azerbaijan. However, the aggregate external debt of the European Union slightly exceeds its total GDP, while Azerbaijan's GDP figure exceeds its external debt almost 11 times, which testifies the country's strong economic positions and small level of dependence on third parties in the international arena. The unemployment level in Azerbaijan is significantly smaller than in the European Union, which also proves the country's strong economic positions, but its level of inflation is higher, which is a negative tendency. Overall, the economics of indicators of Azerbaijan and the European Union are rather comparable, taking into account their level of development, and provide grounds for prospective cooperation in different fields.

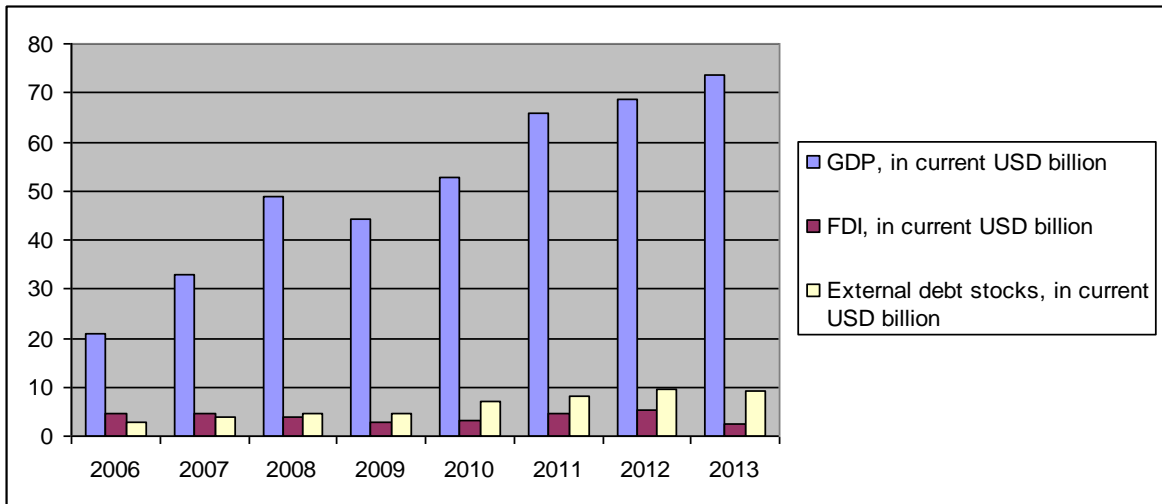
	2006	2007	2008	2009	2010	2011	2012	2013
GDP, in current USD billion	20,98	33,05	48,85	44,29	52,9	65,95	68,73	73,56
GDP per capita, in current USD	2473	3851	5575	4950	5843	7190	7394	7811
FDI, in current USD billion	4,49	4,59	3,99	2,9	3,35	4,49	5,29	2,62
Inflation, CPI	8,40%	16,60%	20,80%	1,40%	5,70%	7,90%	1%	2,40%
External debt stocks, in current USD billion	2,69	3,73	4,47	4,75	7,03	8,08	9,55	9,22

**Table 4. Azerbaijan's main economic development indicators dynamics in 2006-2013**

**Source: World Bank. Main economic indicators of Azerbaijan and the European Union.**

**[online]. [cit. 2015-04-15]. Retrieved from:**

**<http://data.worldbank.org/indicator/DT.DOD.DECT.CD/countries?page=1>**



**Figure 6. Azerbaijan’s main economic development indicators dynamics in 2006-2013**

**Source: World Bank. Main economic indicators of Azerbaijan and the European Union.**

**[online]. [cit. 2015-04-15]. Retrieved from:**

**<http://data.worldbank.org/indicator/DT.DOD.DECT.CD/countries?page=1>**

As can be seen from Table 4 and Figure 6 above, Azerbaijan has lately been able to reach positive growth dynamics across its main economic development indicators. Thus, the country’s gross domestic product amounted to USD 73.56 billion, which was almost 275% higher than the same figure in 2006. Azerbaijan’s foreign direct investment inflows have rather remained steady in recent year, with a dropdown in 2013. However, overall, it can be stated that the country is attractive for investors, and obtains significant funds as investment in its national economy. The external debt indicator has remained stable as well, and even slightly declined in 2013, which is a positive tendency for the country.

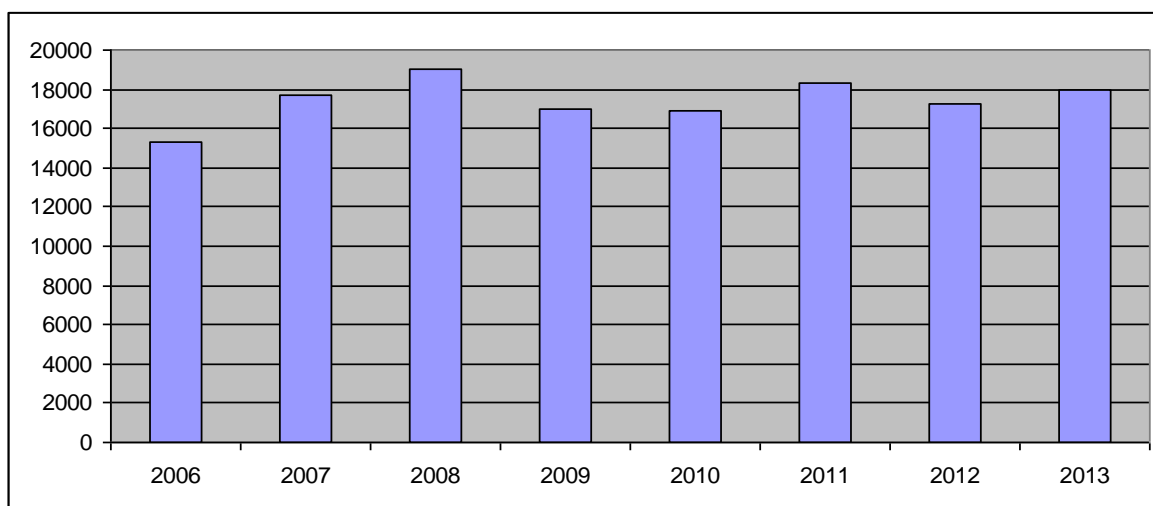
	2006	2007	2008	2009	2010	2011	2012	2013
GDP, in current USD billion	15273	17661	19008	17001	16934	18308	17251	17958
GDP per capita, in current USD	31275	33445	35928	35415	35347	35584	35215	35530
FDI, in current USD billion	739674	1070831	867046	380331	558889	505997	278302	296327
Inflation, CPI	2,20%	2,30%	3,70%	1,00%	2,10%	3,10%	2,60%	1,50%

**Table 5. EU's main economic development indicators dynamics in 2006-2013**

**Source: World Bank. Main economic indicators of Azerbaijan and the European Union.**

[online]. [cit. 2015-04-15]. Retrieved from:

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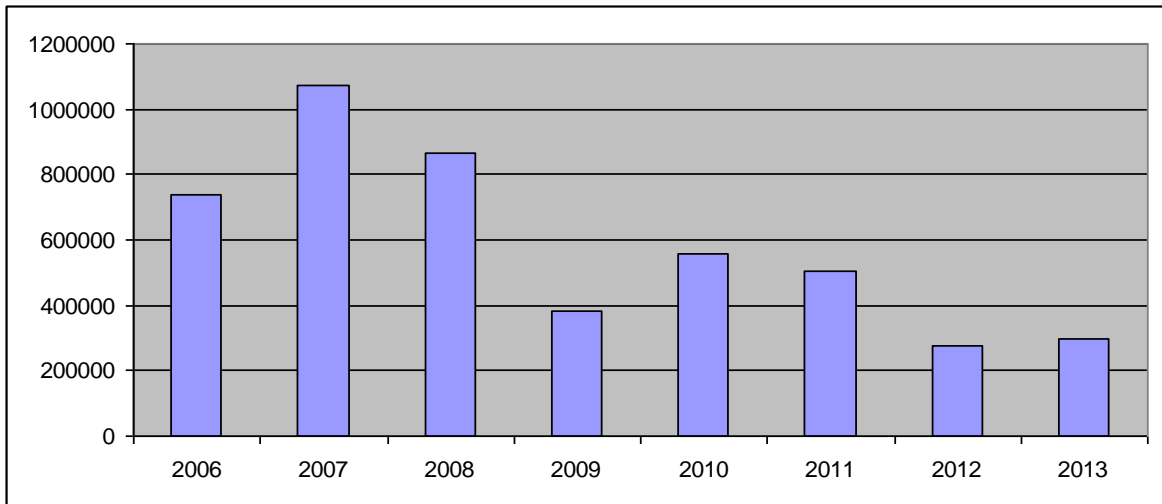
**Figure 7. EU's GDP dynamics in 2006-2013, in current USD billion**

**Source: World Bank. Main economic indicators of Azerbaijan and the European Union.**

[online]. [cit. 2015-04-15]. Retrieved from:

<http://data.worldbank.org/indicator/DT.DOD.DECT.CD/countries?page=1>

As can be seen from Table 5 and Figure 7 above, the European Union has lately been demonstrating steady aggregate GDP indicators. The total GDP value in 2013 nearly made up 18 trillion US dollars. Overall, those dynamics testify the EU's effective policies in the field of economic development.



**Figure 8. EU's net FDI inflows dynamics in 2006-2013, in current USD billion**

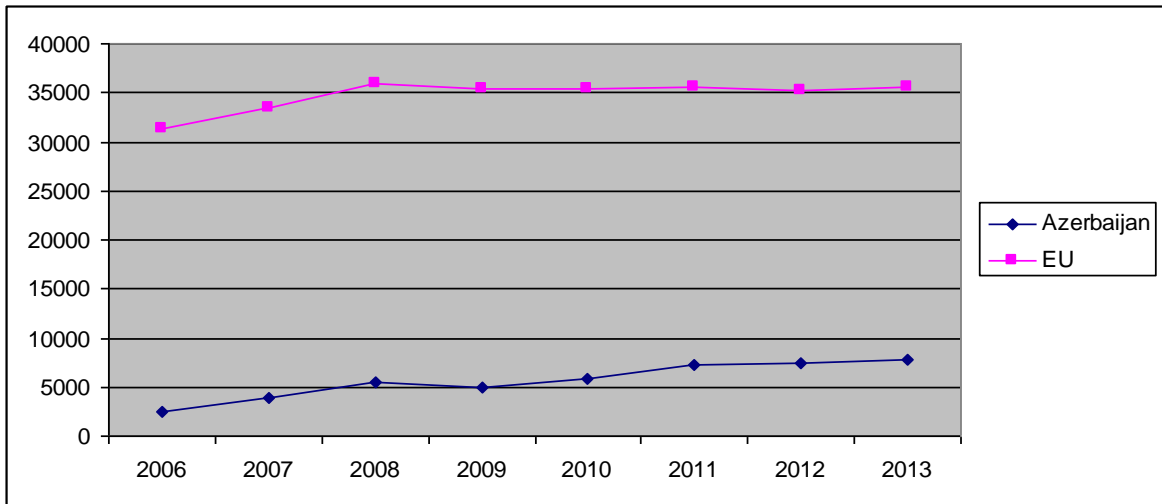
**Source: World Bank. Main economic indicators of Azerbaijan and the European Union.**

**[online]. [cit. 2015-04-15]. Retrieved from:**

**<http://data.worldbank.org/indicator/DT.DOD.DECT.CD/countries?page=1>**

As Figure 8 above illustrates, the aggregate amount of net foreign investment inflows in the European Union has recently been dropping. This tendency has become particularly obvious since 2008, the year of the global financial and economic crisis. In the period from 2006 to 2013, the aggregate net FDI inflows value in the EU decreased by almost USD 450 trillion. This tendency is much negative for the European Union.





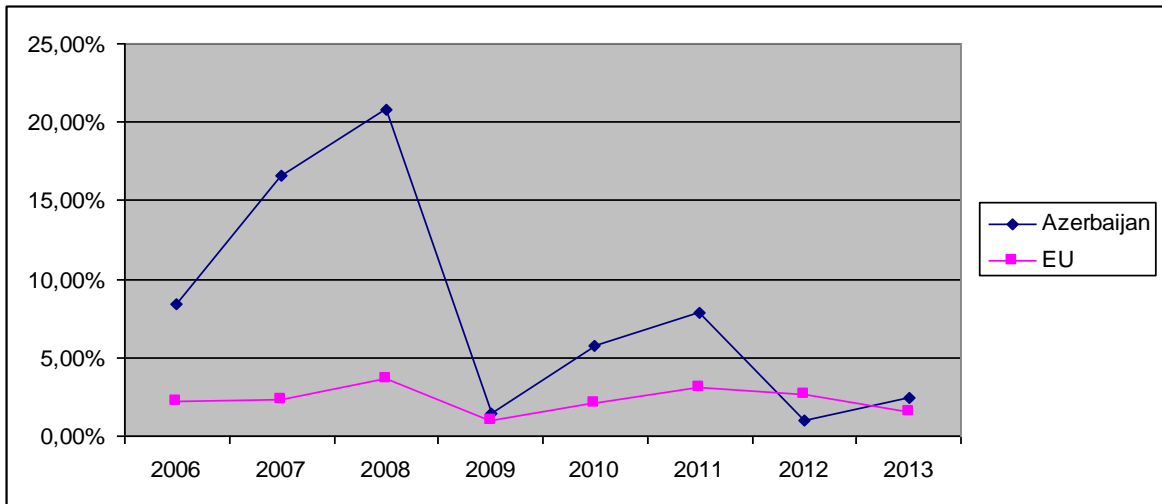
**Figure 9. Comparative dynamics of the EU's and Azerbaijan's GDP per capita in current USD billion in 2006-2013**

**Source: World Bank. Main economic indicators of Azerbaijan and the European Union.**

**[online]. [cit. 2015-04-15]. Retrieved from:**

**<http://data.worldbank.org/indicator/DT.DOD.DECT.CD/countries?page=1>**

Figure 9 above illustrates the comparison between the changes in Azerbaijan's and the European Union's GDP per capita values in the period from 2006 to 2013. While the European Union's GDP per capita indicator has remained rather stable since the time of the 2008 global crisis, Azerbaijan's GDP per capita has lately been constantly growing. Despite remaining significantly lower than the GDP per capita indicator of the European Union, the increase in this figure's value in Azerbaijan testifies the country's improved level of the population's living, and the overall economic growth.



**Figure 10. Comparative dynamics of the EU's and Azerbaijan's inflation in 2006-2013**

**Source: World Bank. Main economic indicators of Azerbaijan and the European Union.**

[online]. [cit. 2015-04-15]. Retrieved from:

<http://data.worldbank.org/indicator/DT.DOD.DECT.CD/countries?page=1>

As Figure 10 above illustrates, the inflation rate in the European Union is much more stable as compared with Azerbaijan, and no major fluctuations have lately occurred in the EU's index of consumer prices. However, recently, Azerbaijan has significantly reduced its inflation rate, which is definitely a positive tendency for the country's economic development.

Thus, as can be seen, Azerbaijan and the EU have lately been raising their economic cooperation. However, despite the obviously effective measures undertaken by the EU and Azerbaijan in the field of economic cooperation and political integration, there have recently been issues emerging with regard to the Association Agreement, which I would like to analyze in the next section of this paper, together with the EU's other integration steps in the region.

## ***2.2 The issue of association agreement and the EU integration in the region***

As it has already been stated earlier, in 2010, Azerbaijan launched negotiations with the EU with regard to the Association Agreement. The same negotiations were simultaneously launched between the EU and Armenia, and the EU and Georgia, respectively. Although there have been some positive achievements in this field, the final agreement between the EU and Azerbaijan is yet to be reached.

The Association Agreement between the European Union and Azerbaijan assumes openness of the EU member states' and Azerbaijan's internal markets, facilitation of transborder movements of goods, capital and workforce, and most importantly, it opens a possibility to adhere to the European Union as a full-fledged member state in the future. As for the EU, conclusion of the Association Agreement with Azerbaijan is an important step within its eastward integration enlargement strategy, with Azerbaijan being a gateway to Central Asia (*European Council president supports association agreement with Azerbaijan* (June 21, 2013)).

However, the progress in this field is quite slow. While the European Union constantly seeks signing the Association Agreement, Azerbaijan rather wishes to enlarge cooperation in income-yielding fields, namely in the energy sector, thus preferring to deepen economic integration, without becoming anyhow politically dependent on the European Union. Here, one of the key obstacles is Azerbaijan's attitude toward human rights. This field is one of the most important requirements of the Association Agreement, but, according to experts, Azerbaijan's level of human rights requirements satisfaction always remains low, and even worsens (Hale, J. (May 2012). *EU relations with Azerbaijan: More for Less?*, pp. 2-3). In addition to this, in 2013, Azerbaijan adopted a number of regressing laws in human rights, which to a large extent suppress the freedom of speech and expression in the country. In such conditions of the rapidly deteriorating situation with human rights, signature of the Association Agreement becomes absolutely unacceptable for the EU, and tensions occur with Azerbaijan. Negotiations are constantly being held for the

purpose to make Azerbaijan review its policy in the field of human rights, which currently poses the main threat for the subsequent relations with the Union (Gogia, G. (June 19, 2013). *The EU and Azerbaijan: Mismatched objectives*).

Azerbaijan's authorities state that, as of today, there has been found no formulation completely acceptable for the state in order to sign the Association Agreement with the European Union. However, Azerbaijan doesn't refuse to continue its integration steps with the EU, still requiring parity in defining the legal framework of such relations (Orujova, N. (January 18, 2013). *Azerbaijan, EU to continue negotiations on association agreement*). Furthermore, in 2013, Azerbaijan's officials many times affirmed, that unlike many states, Azerbaijan remains confident in its proclaimed direction of domestic and international policy, and doesn't seek to drastically change it in the near future (Mammadli, H. (January 25, 2013). *European Union and Azerbaijan: What are the impediments for the association agreement?*).

In December 2013, BaharMuradova, the vice-speaker of the Azerbaijani Parliament, told that, despite the slow progress, Azerbaijan continues seeking deeper integration with the European Union, however only on mutually acceptable conditions. The vice-speaker also stressed on the fact that no comparison should be made in these terms with other countries of the region, as each country's situation is absolutely unique, and Azerbaijan simply tries to preserve its national interests (Dementieva, V. (December 02, 2013). *BaharMuradova: "Azerbaijan supports continuation of the European integration pursuing an independent policy and demonstrating will"*).

In 2014, the negotiations between Azerbaijan and the EU haven't yet reached any great success. However, the authorities of Azerbaijan continue stressing the fact that association with the European Union is their main strategic vector in international relations. For instance, in February 2014, a session of the National Council of Azerbaijan was held, where Azerbaijani officials discussed possible association with the European Union in the light of recent events in Ukraine. GultekinHajibeyli, a member of the National Council, formulated Azerbaijan's officials' position with regard to association with the EU. According to her, the 2014 revolution in Ukraine was caused by the country's authorities'

rejection of the European integration vector. The speaker said, that the same sentiments exist in Azerbaijan, where people would like to join the all-European community. Therefore, the authorities of the country do not have any plans to refuse the association agreement, and moreover, see it as the only variant of Azerbaijan's further development in the international arena. However, the National Council is persuaded that the current level of Azerbaijan's economic development doesn't allow signing the association agreement with the European Union right now. This is first of all due to the fact that Azerbaijan's market is very vulnerable to the external conditions, and openness of economic borders with the European Union would provoke inflow of more powerful competitors, which would mean negative consequences for Azerbaijan's domestic producers. The state's economic power is based on its industrial sector, and therefore, opening access to powerful European manufacturers could potentially destroy, or at least damage, the domestic economy of Azerbaijan, leaving energy resources the only source of its income. Moreover, association with the EU imposes some major restrictions and requirements, for instance requirements to increase prices for utilities for the population. In a country where social standards are considerably lower than in the European Union, this would mean negative response of the population, and overall deterioration in the living conditions. Therefore, according to Azerbaijan's authorities' position, the country isn't right now ready to meet all of the EU's requirements, but work is being conducted in this regard, and Azerbaijan makes all efforts to comply with such requirements already in the near future. As soon as it is done, Azerbaijan will be ready to sign the association agreement (*There is no alternative to Azerbaijan's European integration* (February 28, 2014)).

Simultaneously with seeking opportunities to sign the Association Agreement with Azerbaijan, the EU also actively runs integration processes with other states of the South Caucasus region.

Although the EU-Armenia negotiations on the Association Agreement and a Deep and Comprehensive Free Trade Area had been ongoing for almost four years, in 2013, President of Armenia SerzhSarkisyan abruptly changed the country's foreign policy in this field, and proclaimed Armenia's course toward integration with Russia, Belarus and

Kazakhstan within the framework of the Customs Union (Grigoryan, A. (September 18, 2013). *Armenia Chooses Customs Union over EU Association Agreement*).

Integration steps with Georgia have so far reached greater success. In 2013, many mutual agreements were signed between the state and the European Union, enhancing cooperation and integration. A full-fledged Association Agreement is currently being finalized, and Georgia intends to officially sign the Agreement with the European Union in September 2014 (*Georgia plans to sign association agreement with EU in September 2014* (December 21, 2013)).

It is obvious that countries of South Caucasus have quite different attitudes toward political integration with the European Union: while Georgia is quite likely to sign the Association Agreement already in the near future, Armenia seems to have finally refused this opportunity, while Azerbaijan's position remains to a large extent unclear. In order to better understand the relations between Azerbaijan and the European Union, and investigate the reasons for the slowdown in the process of Azerbaijan's integration with the EU, in the next section of my thesis, I would like to analyze the external policy of Azerbaijan with regard to the Union, and particularly compare it with the policies of Ukraine, Turkey and China in the same field.

### **3 External policy of Azerbaijan towards the EU**

By proclaiming its course toward signing the Association Agreement with the European Union, Azerbaijan clearly showed its will to expand its European integration vector. However, the recent slowdown in the process of integration with the EU gives signs of possible changes in Azerbaijan's foreign political direction, especially taking into account that the state also has other integration opportunities, for instance with Russia or Central Asian countries (Gogia, G. (June 19, 2013). *The EU and Azerbaijan: Mismatched objectives*). I would like to consider these processes more in detail in the next section of this paper.

#### ***3.1 Main political and diplomatic directions in Azerbaijan concerning the EU countries***

The authorities of Azerbaijan have multiple times proclaimed, and continue affirming that the state's main goal is to further deepen integration with the European Union. At the same time, Azerbaijani officials do not give any clear reply to whether the state has an ultimate goal of becoming a full-fledged member of the Union (*Azerbaijan and the EU: A Policy Dilemma* (September 24, 2013)). As of today, Azerbaijan regards only the opportunity of signing the Association Agreement, which would allow indeed strengthen relations with the European Union. The Azerbaijani authorities however argue that they are interested in integration processes only on conditions of parity and equality, and some of their steps, especially in the field of human rights, where requirements of the EU are quite tough, do not show an enormous desire to complete the first step of the integration process (Hale, J. (May 2012). *EU relations with Azerbaijan: More for Less?*, pp. 2-4).

Obviously, the main goal of Azerbaijan is nowadays economic cooperation with the European Union, without losing the state's sovereignty and economic independence. Azerbaijan is interested in having free access to the EU member states' markets, as the latter seek higher diversification of energy resource supplies, and Azerbaijan proposes a

great alternative to Russia's hegemonic supplies of oil and natural gas (Kobzova, J., & Alieva, L. (June 4, 2013). *The EU and Azerbaijan: Beyond Oil*).

However, if we omit the economic side of the question, and address only the purely political and diplomatic aspects, the following key directions in the EU-Azerbaijan integration relations can obviously be pointed out: visa facilitation, strategic modernization partnership, and interaction in the field of human rights and democratic freedoms (*EU-Azerbaijan: Willingness to enhance cooperation on all levels* (December 9, 2013)).

In terms of visa facilitation, the Visa Facilitation Agreement and the Mobility Partnership Agreement have already been signed, and the last key document, the Readmission Agreement, is planned to be signed in 2014 (*EU-Azerbaijan agreement on facilitating the issuing of visas dated November 29, 2013*). Interaction in this field is aimed at enhancing people-to-people contacts between Azerbaijan and the European Union.

Strategic modernization partnership assumes interaction between the EU and Azerbaijan for the purpose of improving the state of industrial and technological development in Azerbaijani regions. This field of relationship has recently been in crisis, as Azerbaijan refused to sign the Strategic Modernization Agreement with the EU in 2013. According to Azerbaijani officials, this is due to the fact, that the European Union requires the state to sign the Association Agreement at once, which is unacceptable to Azerbaijan due to lack of equally beneficial conditions stipulated in the abovementioned document (*Azerbaijan not to sign Strategic Modernization Partnership document with EU at the Eastern Partnership Summit in Vilnius*).

The worst situation can be observed in the field of human rights. As it has already been stated earlier, the EU is completely dissatisfied with the situation in Azerbaijan, as laws adopted in 2013 only deteriorate the level of freedom of speech in the state (Gogia, G. (June 19, 2013). *The EU and Azerbaijan: Mismatched objectives*).

Thus, as we can see, only one of the three key directions of the EU-Azerbaijan integration relations is well developing and indeed favoring cooperation between the Union and the state, while the two other directions are lagging behind, and make any substantial



progress in integration absolutely impossible as for now. In this context, it is interesting to give an overview of integration relations between Turkey and the EU, and Ukraine and the EU, as both countries also seek integration with the Union, as well as of China with the EU, as, despite lack of any opportunity of integration, the example of China is well illustrative in terms of deep cooperation without direct integration.

Ukraine's foreign political course adopted by the country proclaims European integration as the main vector of the state's goals in the international arena. Ukraine fulfilled all the conditions imposed by the EU to sign the Association Agreement, but in November 2013, President Yanukovich refused to sign the Agreement, motivating such actions by the fact that Ukraine was still not ready economically. This gave birth to allegations that Ukraine wished to change its foreign political direction toward Russia and the Customs Union (Demianchuk, A. (December 15, 2013). *EU puts Ukraine integration deal on hold - bloc's enlargement chief*). The situation is very important to be analyzed by Azerbaijan, as Ukraine is economically much dependent on Russia, and the latter actively uses its levers to favor the Eastern vector of Ukraine's integration, which may also be the case of Azerbaijan.

Turkey has been an associate member of the EEC since 1963. In 1999, the state was officially approved as a candidate for accession to the EU. In 2005, negotiations started with regard to Turkey's official accession, but they ultimately failed due to a number of reasons, one of the main of which is that Turkey should first settle its relations with the problematic region of Cyprus (*EU enlargement – Turkey* (November 6, 2013).). This is also especially important for Azerbaijan, which has actual issues with the Nagorno-Karabakh region, and deeper integration with the EU is impossible without the ultimate resolution of this situation.

Relations between the EU and China are purely economic, and are efficient for China, as the state has an enormous market for selling its products, and the EU can satisfy its needs with relatively cheap Chinese products of a quite wide range. Relations in this field are governed by the 1985 EU-China Trade and Cooperation Agreement. Since 2007, there have been negotiations to sign a new Partnership and Cooperation Agreement, with

particular emphasis on individual industry sectors (Bersick, S. (September 11, 2011). *EU-CHINA RELATIONS IN TIMES OF CRISIS*). China's experience of interaction with the EU is especially important for Azerbaijan, as the state tends to be more interested in economic cooperation with the Union, rather than in political integration.

Also, it is worth mentioning the cases of Bulgaria and Romania which joined the European Union in conditions somehow similarly to the currently existing circumstances and obstacles on the way toward Azerbaijan's integration with the EU. Despite joining the Union, those countries' level of development is still significantly lower than the average in the European Union, which testifies that integration with the EU doesn't necessarily mean economic success, and each integration option should be evaluated individually, taking into account the conditions existing for a particular state.

As of today, it is hard to predict how the situation would change in Azerbaijan, if the ruling political party lost the elections. Probably, Azerbaijan would accelerate its integration with the EU, and would start complying with the requirements of the EU toward protection of human rights. However, taking into account the signs of autocracy in Azerbaijan's domestic political relations, such scenario is very doubtful. In case of the expected victory of the current ruling elite, in my opinion, no political crisis similar to the one in Ukraine would occur. On the one hand, the ruling party's positions in Azerbaijan are very strong, and on the other hand, Azerbaijan's level of economic development is constantly rising, and therefore there are no significant pro-European sentiments among the Azerbaijani population.

Therefore, it can obviously be stated that the current condition of Azerbaijan's integration with the European Union is to a large extent due to the fact that Azerbaijan doesn't wish to lose its sovereignty. I would like to consider this issue in the next section of my thesis.

### ***3.2 Discussing the issue of economic independence of Azerbaijan and its political sovereignty***

As it has already been stated in this thesis, Azerbaijan doesn't seek signing the Association Agreement with the European Union as rapidly as possible, as, according to Azerbaijani officials, at the moment, the European Union doesn't offer any equal conditions, and therefore Azerbaijan's national interest would be adversely affected, if the abovementioned agreement was signed (Orujova, N. (January 18, 2013). *Azerbaijan, EU to continue negotiations on association agreement*).

It is obvious that, in this case, the authorities of Azerbaijan try not to undertake any anticipated steps, fearing to lose the state's political sovereignty and economic independence. Any integration requires delegation of a number of the state's powers, and its wider economic openness to the target integration formation.

If Azerbaijan chooses to open its market to the European Union, which is a precondition for the integration processes to take place, the internal industry of Azerbaijan will be likely not to endure the competition of more powerful European manufacturers. Most importantly, the energy sector may be affected, which is the backbone of Azerbaijan's wealth and prosperity. On the one hand, it will get larger investment, however, on the other hand, international corporations will have much greater impact on the state's policy in this field. Deprivation of levers in the energy sector would undoubtedly pose Azerbaijan's geopolitical independence under threat as well, as the state's might to a large extent relies on its vast energy resources massively exported, namely to Western European countries (Ergun, A., Isaxanli, H. (2013). *Security and Cross-Border Cooperation in the EU, the Black Sea Region and Southern Caucasus*, pp. 227-235). Therefore, any integration measures should be well-thought for Azerbaijan to preserve both its economic stability and political sovereignty.

In this context, choice of alternative integration scenarios is also important for the state, if, for instance, it ultimately fails to agree upon integration with the European Union.

In addition to the EU vector, two other major integration directions are followed by Azerbaijan: integration with Central Asia, and with Russia.

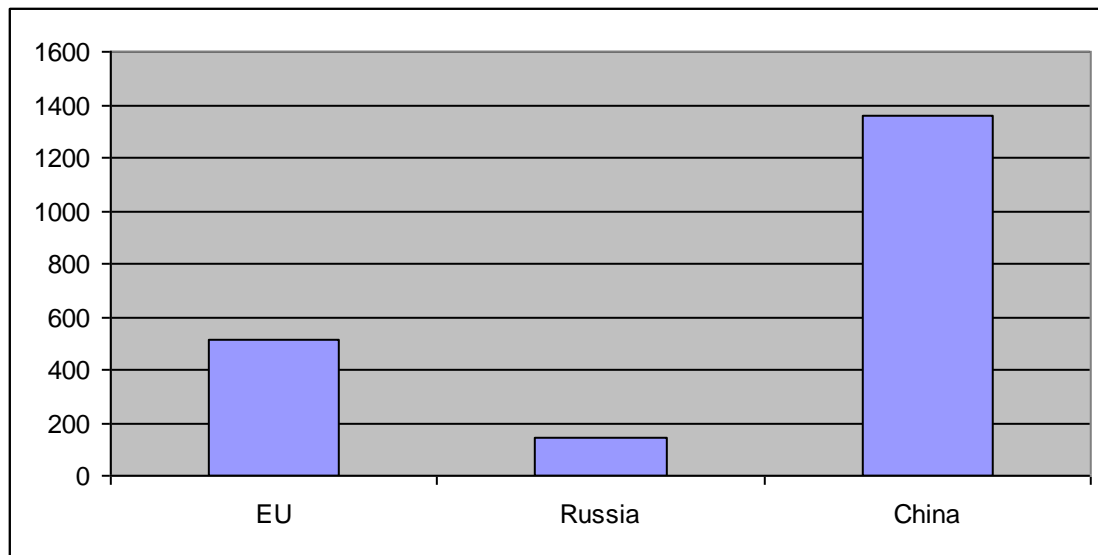
Integration with Central Asia started for Azerbaijan in 1997, when Afghanistan, Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Turkmenistan, Tajikistan, Uzbekistan, and six international organizations formed the Central Asia Regional Economic Cooperation (CAREC) program. (Kaminski, B., & Mitra, S. (2012). *Borderless Bazaars and Regional Integration in Central Asia: Emerging Patterns of Trade and Cross-Border Cooperation*, pp. 21-23). CAREC's main aim is to promote cooperation and higher investment flows between the countries of Central Asia. Even though it is currently a purely economic formation, it may become a powerful political union in the future, due to the consistence of its members' interests. However, as of today, the Program is in a state of decay, and the member states do not show any significant desire to revive it (Linn, J. (2012). *Central Asian Regional Integration and Cooperation: Reality or Mirage?*, p. 6).

Another option of integration for Azerbaijan is integration with Russia, and accession to the Customs Union. This scenario is actively promoted by Russia. The state is much interested in having Azerbaijan as a member of the Customs Union, as this would grant free access to the rich Azerbaijani market of energy resources (Rosner, K. (2006). *Russia's Energy Interests in Azerbaijan*, pp. 27-29). Thus, Russia would become able to even strengthen its energy monopoly in Europe (Alili, Z., Abbasov, T., Chang, D.N., & Hoyt, M. (2013). *Accession to the Customs Union: Shaping the strategy for Azerbaijan*, pp. 5-8).

	EU	Russia	China
Population, million persons	511	142	1356
GDP, billion US dollars	15850	2113	13390

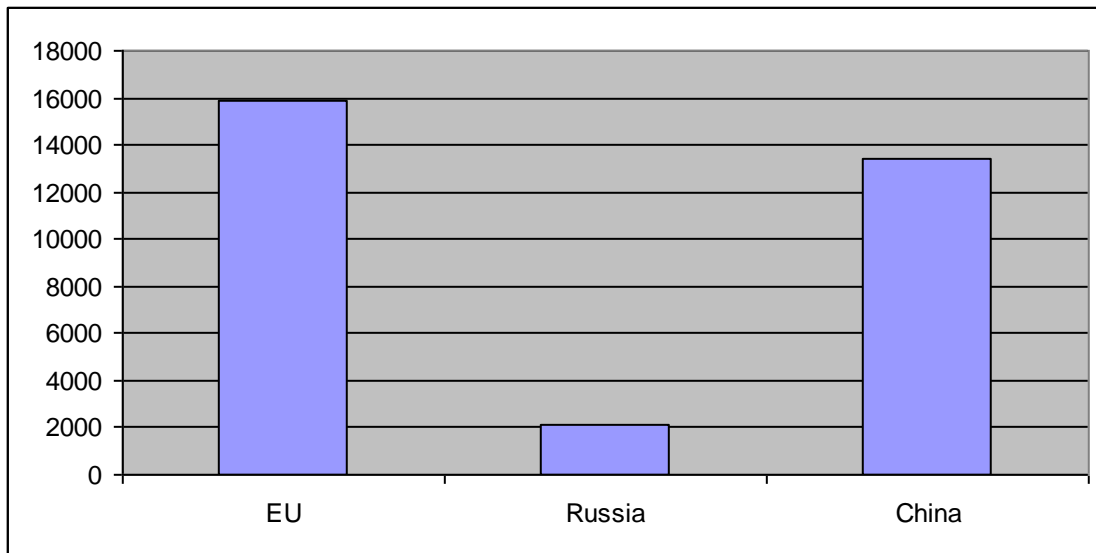
**Table 6.** Main economic indicators of Azerbaijan and the European Union as of 2013, in billion US dollars

Source: Central Intelligence Agency. *Main economic indicators of Azerbaijan and the European Union*. [online]. [cit. 2013-01-10]. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/geos/ee.html>



**Figure 11.** Population of Azerbaijan's integration options as of 2013, in million persons

Source: Central Intelligence Agency. *Main economic indicators of Azerbaijan and the European Union*. [online]. [cit. 2013-01-10]. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/geos/ee.html>



**Figure 12. GDP of Azerbaijan's integration options as of 2013, in billion US dollars**

**Source: Central Intelligence Agency. *Main economic indicators of Azerbaijan and the European Union*. [online]. [cit. 2013-01-10]. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/geos/ee.html>**

Table 6, Figure 11 and Figure 12 above demonstrate the main indicators of three chosen options of Azerbaijan's integration: the European Union, Russia and China. As we can see, Russia significantly loses to both the EU and China in terms of the number of population and level of gross domestic product. At the same time, despite having considerably smaller population, the European Union's GDP is substantially higher than the one of China, which demonstrates that the level of GDP per capita and the overall standards of living are the highest in the EU. According to those indicators, the EU is obviously the most appropriate option of Azerbaijan's subsequent integration, however it is obvious that all integration vectors have certain threats and advantages, and Azerbaijan should be careful in shaping its foreign policy.

In the next section, I would like to discuss the results of my research.

### ***3.3 Discussion of the Results***

In discussing the results of my research, it is first of all important to give a final answer to the research questions, and confirm or disapprove the research hypotheses.

When analyzing the nature of relations between Azerbaijan and the European Union in all fields of cooperation, it should first of all be understood that Azerbaijan is a country highly dependent on raw materials, namely on its oil-and-gas sector. Back in the late XIX-early XX centuries, Azerbaijan established itself as the world's leader in the field of energy resources supplies. The energy industry ensured Azerbaijan's economic might, and provided the state with an opportunity to quickly integrate into the global economic community. In the Soviet Union, the oil-and-gas sector of Azerbaijan was to a large extent ignored by the central authorities implementing Union-wide programs based on active exploration of oil and gas fields mainly on the territory of Russia. However, when Azerbaijan proclaimed its independence in 1991, the country was forced to seek new ways to meet the new requirements to life in the international community. Obviously enough, Azerbaijan's authorities chose the country's oil-and-gas sector as the backbone of its subsequent development. This was predefined by the objective conditions formed on the local market. All spheres of Azerbaijan's industry were rather underdeveloped due to the extensive development path followed in the Soviet Union, within the framework of centrally planned economy. The equipment and technologies used in all sectors were obsolete, and therefore Azerbaijani domestic manufacturers were not only unable to compete with foreign producers, but also to satisfy in full domestic demand. As the country didn't have any free substantial resources to fund all economic sectors, it had to choose strategic alternatives to be followed in order to ensure the greatest degree of economic stability and independence from any exterior players. The oil and gas field was considered by the country's authorities to be the most prospective economic branch, and therefore they started allocating the greatest investments to that field. In my opinion, Azerbaijan's authorities perfectly understood the market conjuncture, and saw that energy resources would become one of the greatest national security factors already in the near future. The

level of proven oil and gas reserves in Azerbaijan allowed planning the country's economic strategies not only for the short- and mid-, but also for the long-term period.

Azeri, Chirag and deep-water Gunashli (ACG)-International Contract No. 1, or the so-called Contract of the Century, signed in 1994 showed Azerbaijan's readiness to perform large-scale market reforms for the purpose of intensifying cooperation with Western partners. As a newly formed state, Azerbaijan was unable to restore its oil-and-gas sector with own forces, lacking the required financial resources. Exploration and processing facilities in the sector were very obsolete. When speaking of oil production, it should be understood that it was produced at minimum capacities due to the equipment used. Therefore, Azerbaijan was losing considerable profits each year, and oil exports were obviously the most material component of the country's GDP. The Contract of the Century signed with major Western oil-and-gas corporations in fact marked a new era in development of Azerbaijan as a full-fledged independent state. While preserving national control over the sector, Azerbaijan attracted large resources from international corporations, and was able to start massive intensification of oil and gas exploration and production activities. Western energy corporations got access to an absolutely new and very attractive market of oil and gas, while Azerbaijan wisely used foreign investors' funds for modernizing its economy. This is important to track, as from those events, we can see that cooperation between Azerbaijan and the Western world rather started from the energy sector, and, in my opinion, such relations are still to a large extent grounded on Azerbaijan's oil production and export capacities, and the country's attractiveness for the European Union starving for energy resources and seeking diversification of supplies from Russia.

In answering the first research question, it should be stated that the character of relations between Azerbaijan and the European Union is mainly economic. Azerbaijan is interested in cooperation with the European Union, as the latter represents an enormous market for Azerbaijani energy resources, which are the country's main yield-generating assets. At the same time, the EU seeks cooperation with Azerbaijan in the energy sector in order to diversify supplies of energy, and thus increase its energy security.



Again, we can confirm that energy resources form the core of relations between Azerbaijan and the European Union, which is due to the current international market conjuncture. Moreover, it is quite natural that the EU is actively undertaking efforts to enter into deeper cooperation relations with powerful oil and gas producers, as it is much dependent on Russia's supplies. Due to this, on the one hand, Russia has substantial mechanisms to control the overall prices on the oil-and-gas market and to a large extent impose its will in different aspects to Western European countries, and on the other hand, any negative market shocks or external events such as Russia's conflicts with Ukraine or any other countries raise significant risks of suspension of energy supplies to the European Union. Azerbaijan is a beneficial opportunity for the European Union to ensure greater energy stability in the long-term period. The country has the required oil reserves, and the level of oil exploration is high thanks to the efforts of Western corporations functioning on the Azerbaijani territory. It is also worth mentioning that the projects of gas pipelines TAP and TANAP currently implemented between Azerbaijan and the EU show both subjects' dedication to and interest in developing mutual cooperation in the energy field. In my opinion, relations in that sector will only continue actively developing in the near future, taking into account the current trends on the energy market on the global scale. However, relations between the EU and Azerbaijan are not only limited to economic cooperation. They have already moved far beyond the economic sector, and are actively developing in the political field.

As of today, the issue of association agreement between Azerbaijan and the European Union is actively being discussed. The authorities of Azerbaijan have already proclaimed their official course toward integration with the EU through conclusion of such association agreement. I believe that this was done in order to send a positive signal to Western partners, and show Azerbaijan's readiness for further phases of integration of its relations with the European Union. However, in practice, the agreement hasn't yet been signed, and the Azerbaijani authorities argue that, as of today, its terms and conditions are unfavorable for the state, and would bring significant harm to the national economy. Due to this, Azerbaijan would like to postpone signature of association. However, European leaders raise concerns that Azerbaijan is opting toward integration with the Russian

Federation within the framework of the Customs Union, and therefore allegedly wishes to stop its integration with the EU. Although we do not know the true reasons for Azerbaijan to suspend association with the European Union, this situation shows how Azerbaijan is important for Western countries. The EU would like to have Azerbaijan as its associate member, and wouldn't like to allow for Azerbaijan's integration with Russia. In my opinion, this desire, despite lying in the field of politics, rather relies on a purely economic basis. European countries understand that Azerbaijan's integration with Russia would not only deprive them of a potentially major partner in the oil-and-gas sector, but would also further strengthen Russia's positions on the energy market, thus providing it with even greater mechanisms for imposing its geopolitical will to Western states. Therefore, obviously, the EU is interested in integrating more deeply with Azerbaijan in all respects.

In answering the second research question, it is worth mentioning that Azerbaijan's integration opportunities with the EU can hardly be compared with the ones of Ukraine and Turkey, as each state's situation is quite different. At the same time, China's cooperation with the EU is somehow similar, as both countries efficiently interact with the Union in the economic field.

If we compare Azerbaijan with Turkey, both countries are industrial states, where production sectors to a large extent ensure their prosperity by providing the population with employment, and the budget with tax receipts. However, Turkey doesn't have such a developed energy sector, and therefore doesn't rely on its exploitation. To the contrary, Turkey's economy is versatile, and its development has been gradually ensured by the public authorities for the purpose of granting Turkey's economic independence from other states. The country signed its association agreement with the European Union in 1963 and became a full-fledged candidate for membership in 2005, which process may take over a decade to be completed. Such advancement in relations with the European Union was made possible thanks to Turkey's wise domestic policies and strategy of economic development, but also thanks to the fact that all the requirements of the European Union for association and the subsequent integration were complied with. In the course of a hard negotiations process, Turkey gradually eliminated all drawbacks detected by its European partners, and

in the long run harmonized its legislation and actual economic activities with the standards effective in the European Union. This is in contrast to Azerbaijan, where the association agreement can't yet be signed due to the fact that Azerbaijan hasn't still fulfilled the requirements of the European Union in basic fields such as protection of human rights. Due to this, in my opinion, it can obviously be stated that Turkey non-recurrently follows its path toward integration with the European Union, while Azerbaijan still hasn't developed a single position with regard to such integration within the state.

The case of Ukraine is somehow more similar to the one of Azerbaijan in terms of integration with the European Union and the overall development of the national economy. This is obviously due to the fact that both countries are post-Soviet states, and therefore had similar problems and opportunities upon collapse of the Soviet Union. Also, the situation with signature of association agreement was similar in Ukraine in the late 2013. Despite the officially proclaimed course toward integration with the EU, President Yanukovich rejected the opportunity to enter into it immediately, which, according to him, was due to the country's inability to withstand the competition from European national economies. However, just as in the case of Azerbaijan, European leaders believed it to be start of integration with the Russian Federation within the framework of the Customs Union. The same opinion was shared by the Ukrainian population, which clearly opposed such actions made by the country's President, and the so-called Revolution of Dignity started. In the long run, the newly elected President of Ukraine Petro Poroshenko confirmed the country's desire to sign association with the European Union, and the agreement should be signed already in the near future. Again, in Azerbaijan this is still impossible due to the non-compliance with the EU's basic requirements, namely in the field of human rights protection.

China obviously cannot integrate with the European Union, but its cooperation ties with the EU are very deep, and cooperation between them is similar to cooperation between Azerbaijan and the European Union. Such cooperation mainly relates to the economic sector, where China is one of the EU's most important partners in terms of both imports and exports. Such economic cooperation is profitable for both the European Union and

China, as the latter get access to Europe's wider market, and the former gets an opportunity to fill its market with a wide range of products at different price levels, which can to the largest extent satisfy the needs of the region's population. However, a major difference with Azerbaijan is that China supplies products manufactured in all sectors of its economy, while Azerbaijan's foreign trade with the EU to the maximum relies upon exports of energy resources. Therefore, in case of any market shocks, China would have much more stable positions in its economic cooperation relationships with the European Union than Azerbaijan.

The main problem for integration between the EU and Azerbaijan is definitely the latter's policy in the field of human rights, which, according to the EU, is aimed at suppressing the freedom of speech.

At the stage of association, the European Union doesn't impose any strict economic requirements to countries wishing to enter into the respective agreement, but rather focuses on the political side of the issue. Of course, there are some economic restrictions and liabilities as well, but they do not assume such strict compliance criteria, as, for instance, in the case of full-fledged integration. An essential aspect of association agreements is creation of free trade zones for various types of goods between the European Union and the respective country. Azerbaijan's manufacturers are definitely weaker than the European ones due to the objective economic and market conjuncture factors. However, according to the statements of Azerbaijani officials, the country would be ready to sign the association agreement with the EU in those terms, and therefore the economic factors do not represent any major obstacle for its signature. However, the EU is largely dissatisfied with the situation with human rights protection that currently exists in Azerbaijan. Many officials believe that the Azerbaijani authorities are following an authoritarian type of domestic policy aimed at restricting freedom of speech and other basic human freedoms. In their turn, Azerbaijani authorities do not recognize such claims made by the European Union, and believe them to be a lever of tension of Azerbaijan. Therefore, they do not wish to implement any major changes in that field, considering the situation to be quite normal in

the existing realities. However, for the European Union, those conditions are crucial, and without Azerbaijan fulfilling them, no association agreement is possible.

In the course of my research, I have tested several core hypotheses which are stated in the beginning of this thesis.

The first hypothesis of my thesis can be confirmed, as Azerbaijan has indeed quite a powerful economic basis represented by its rich energy resources, and this ensures the state's solid geopolitical position. Therefore, it isn't forced to seek stronger partners in integration formations, but can act independently in its politics. Of course, this can only partially be affirmed, and only in the current situation. Here, we should understand that oil and gas resources are limited, and even if their proven reserves are very large as of today, in the long-term perspective, Azerbaijan's energy resources will be gradually exhausting, and the country will be likely to lose its main source of income. As of today, Azerbaijan's economy would undoubtedly be unable to survive without its rich energy resources, on which the state is so much dependent. Therefore, in the long-term perspective, Azerbaijan should either completely modernize its national economy for the purpose of ensuring full-scale development of all economic sectors, and creating a powerful domestic complex able to autonomously satisfy all domestic needs, or seek deeper cooperation with foreign partners, probably within the framework of integration projects. However, if we compare Azerbaijan's situation with the one existing in Ukraine (which is another country on the verge of signing association with the EU), it is much better, and it provides Azerbaijan with an opportunity to proceed more independently in the international arena. Ukraine's economy doesn't have any strategically important resources, and the country's authorities haven't been able to boost its development. Due to this, the Ukrainian economy remains to a large extent retarded, and integration opportunities seem to be the only variant in the mid- and long-term perspective. At the same time, the situation with Turkey shows that a country can effectively exist outside the EU, provided that its authorities implement wise economic initiatives. Nevertheless, being deprived of energy resources, Turkey also seeks integrating into the European Union in order to join the collective security mechanisms. In this respect, Azerbaijan has greater freedom thanks to its rich oil and gas resources.

The second hypothesis can also be confirmed, which was testified by the findings of my work. However, it should be stated that Azerbaijan's stability is to the largest extent granted by its industry of raw materials, namely the energy sector, while other sectors are quite weak, and therefore, any deterioration in the energy industry could lead to overall adverse effects. To the contrary, in the European Union, overall high stability indicators are mainly reached thanks to the versatile development of all economic sectors, and the synergic effect from mutual cooperation between member states. However, at the same time the level of stability is decreased due to the fact that the EU is forced to import oil and gas from abroad, and is highly dependent on Russia in those terms. Therefore, the overall level of the European Union's stability feels negative effects of lack of energy resources. Despite the different structure of economic stability factors, it can be stated that, both in Azerbaijan and the European Union, they are quite comparable. However, neither the EU nor Azerbaijan can feel absolutely confident in their stability in the future, and thus are forced to always seek better economic alternatives, namely in the energy sector.

The third hypothesis can only be partially confirmed. On the one hand, Azerbaijan indeed undertakes important cooperation measures, such as, for instance, execution of the Visa Facilitation Agreement. However, the state refused to sign the Strategic Modernization Partnership, and still hasn't improved the situation with human rights, which is one of the EU's main requirements. Azerbaijan's association and the subsequent integration with the European Union are to a large extent harmed by the current political structure within the state. As it has already been stated earlier in the thesis, despite the vast economic liberalization, Azerbaijan still remains a country with numerous signs of authoritarian mechanisms in the field of political government. Therefore, the real political weight in the country belongs only to the pro-Presidential party. Despite the fact that oppositional parties are not prohibited, they are mainly represented by political movements and currents loyal to the President, and often support his course in either express or implied ways. So, there is no real competition in Azerbaijan in terms of struggle for power, and the ruling elite is able to implement any initiatives it wish, at the same time using oppositional parties to hide the real motives. As of today, it is impossible to draw a final conclusion on Azerbaijan's desire to sign the association agreement with the European Union. This aim is

proclaimed by the country's official leaders, but in practice, we can see that no real steps are undertaken, even in such terms as human rights protection, which may raise doubts with regard to Azerbaijan's real wish to sign association. Oppositional parties which are considered to form the real opposition in the state accuse the ruling elite of slowing down the association process in order to join the Customs Union headed by Russia, while the authorities affirm that the only aim of such postponements is to better prepare the Azerbaijani national economy to free market competition on the European scale.

Thus, I believe that the research questions of my thesis have been answered, and its goals have been reached.

## Conclusions

Azerbaijan is a post-Soviet state which currently seeks deeper cooperation with the European Union. Historically, Azerbaijan's economic might has been based on extraction and exports of raw materials, namely energy resources: oil and gas. The country became the worldwide leader in terms of their production back in the early XX century, but lost its importance in times of the Soviet Union due to the specificities of the USSR-wide economic policies implemented by the central authorities. With the collapse of the Soviet Union, the newly formed independent state of Azerbaijan found itself in conditions of deep economic stagnation, where obsolete equipment and technologies were used across all economic sectors, and no skilled workforce was available in order to cope with the up-to-date requirements of the global market conjuncture. In such conditions, the state had to fulfill two aims at once: on the one hand, it had to reshape the structure of political relations with foreign partners in order to ensure Azerbaijan's greater openness, and on the other hand, it had to implement massive large-scales reforms in the economic field in order to restore Azerbaijan's economic positions. Obviously enough, the state's authorities chose oil and natural gas as the backbone of the subsequent development, and started heavily investing in this sector.

Azerbaijan's cooperation with the European Union is preconditioned by many factors. The essential driving force for close economic ties between the state and the Union is right the energy sector. Azerbaijan is a major producer of energy resources such as natural gas and oil, and the state seeks foreign markets in order to sale its main yield-generating products. At the same time, the EU, constantly trying to improve its energy security, sees Azerbaijan as a perfect opportunity to diversify its energy supplies, so much dependent on Russia.

Cooperation between Azerbaijan and the European Union in the economic field, and namely in the energy sector, started slightly after Azerbaijan had gained its independence. In 1994, the EU and Azerbaijan entered into the so-called Contract of the Century, under which major European oil and gas corporations obtained access to the Azerbaijani oil-and-



gas market in compensation for investing in exploration and production of energy resources on the territory of the country. The deal was effective and profitable for both the European Union, which sought another partner in terms of energy supplies in order to diversify to the largest extent supplies of such resources, and for Azerbaijan, which not only obtained substantial financial resources, but also started building mutually beneficial relations with Western partners, which had previously been impossible.

Based on the tight economic cooperation, integration processes occur between Azerbaijan and the EU. Lately, signature of the Association Agreement has been widely discussed. Azerbaijan has already fulfilled some of the EU's requirements, but as of today, there are too many obstacles preventing further deepening of the two subjects' integration relations. First of all, Azerbaijan fails to implement the EU's requirements with regard to human rights.

The economic requirements imposed by the European Union for signing the association agreement are rather soft, and Azerbaijan meets those requirements in all respects. Moreover, according to the state's authorities, Azerbaijan's domestic manufacturers are ready to withstand the competition from Western European producers, and therefore larger openness of markets based on the free trade agreements under association would only be beneficial to the Azerbaijani side. The officials of Azerbaijan gladly welcome the perspective of signing the bilateral agreement on association, and subsequently deepen cooperation through completion of integration processes. However, despite those affirmative statements, no real measures have yet been undertaken by Azerbaijan in order to meet the political requirements of the European Union, and the association agreement is yet far from being signed.

The political structure currently existing in Azerbaijan is to a large extent similar to the one that existed in times of the Soviet Union. Despite the fact that oppositional parties are not officially prohibited on the state level, the entirety of power belongs to the ruling elite, and opposition doesn't play any significant role in the country's political life. Moreover, most oppositional parties are in fact loyal to the government and can be effectively used by it for manipulating social opinion. Thus, for instance, most such

oppositional parties oppose signature of the association agreement with the European Union, while political movements which are considered to be independent from the pro-governmental forces support the idea of European integration, and stress that the Azerbaijani authorities are slowing this process down, in order to lead the country to the Customs Union headed by the Russian Federation. The true reasons for such actions still remain unknown, as the authorities of Azerbaijan deny any similar allegations, and only argue that association would be harmful for Azerbaijan as of today, since the European Union imposes requirements which would restrict Azerbaijan's powers on the international scale.

Although integration with the EU can obviously bring substantial advantages, it also poses certain threats, which Azerbaijan's authorities would like to avoid, in order to preserve the state's economic independence and geopolitical sovereignty. This is probably the main reason for the recent slowdown in bilateral negotiations between Azerbaijan and the EU. The situation is quite comprehensible, taking into account Azerbaijan's strong positions on the international market. Possessing large energy resources, Azerbaijan feels quite confident in its future, and therefore the desire to preserve political independence in all respects is obviously understandable. Any integration processes assume delegation of part of national powers and government mechanisms, which the Azerbaijani authorities wouldn't like to lose. Having vast oil and gas resources, Azerbaijan will be likely to anyways play a crucial role for Western European partners, the concerns raised among European leaders by the Azerbaijani authorities' refusal to sign association only testify how important the state is for the European Union as a supplier of energy resources. As of today, thanks to its positions as an exporter of oil, Azerbaijan has an opportunity to influence not only economic relations, but also political decisions in the European Union, and the country's authorities would probably like to use this opportunity to the maximum.

In the course of writing this thesis, I have also analyzed the situation with integration of the European Union and Ukraine and Turkey, respectively. Turkey signed its association agreement with the EU back in 1963, but hasn't yet become a full-fledged member of the Union, while Ukraine is currently standing on the verge of signing this

agreement. Those states have different motives for entering into integration relations with the European Union. Ukraine's economy remains quite weak, and the country is unable to restore it with its own forces. Moreover, the recent events have shown that Ukraine feels a sharp need to enter the European system of collective security. To the contrary, Turkey's economy is well developed, and could continue developing autonomously, without any integration. However, lacking any energy resources, Turkey is forced to seek integration with the European Union as well in order to increase its national security by joining the mutual energy supplies program. Azerbaijan drastically differs from the two countries, as it has vast energy resources, which preconditions the state's powerful positions in the international arena. Azerbaijan doesn't have any sharp need to seek integration with the European Union right now, and the issue rather lies only in the sphere of geopolitics, and not economics. Cooperation between Azerbaijan and the European Union could rather be compared with cooperation between the EU and China: those are purely economic ties, where both counterparties gain benefits from their mutual cooperation, without initiating any integration processes in the political field.

Azerbaijan also has alternatives of integration with Russia or Central Asian states, which should be thoroughly analyzed by the state's authorities. Due to its abundance in oil and gas resources, Azerbaijan is an attractive integration partner for all those formations, and obviously, in the near future, they will be likely to struggle for Azerbaijan's participation. This is already proven by the current opposition between the European Union and Russia's Customs Union for Azerbaijan's membership. This situation shows how Azerbaijan has been able to use its resources available in order to become a self-sufficient country playing an important role in the European geopolitics.

As of today, it is impossible to unequivocally say that the European Union is the only effective variant of integration for Azerbaijan. Despite its seeming effectiveness, it is worth analyzing behavior of Azerbaijan's authorities in the international arena in the subsequent years, and track integration processes in Asia, which may gain significant development. Probably, new integration options will emerge for Azerbaijan in the Asian region, and the country's authorities will opt toward those variants. Another important

aspect to be tracked is development of the Customs union, which may become an essential economic and geopolitical player in the Eurasian region already in the near future.

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## List of figures and tables

Figure 1. Structure of Azerbaijan's foreign trade with the European Union in 2009-2013, in billion euros.....	32
Figure 2. Growth dynamics of Azerbaijan's foreign trade with the European Union in 2009-2013, in billion euros.....	33
Figure 3. Growth dynamics of Azerbaijan's foreign trade with the European Union in 2009-2013, in billion euros.....	34
Figure 4. Main economic indicators of Azerbaijan and the European Union, as of 2013, in current US dollars.....	35
Figure 5. Main economic indicators of Azerbaijan and the European Union as of 2013, in billion US dollars.....	35
Figure 6. Azerbaijan's main economic development indicators dynamics in 2006-2013 .....	37
Figure 7. EU's GDP dynamics in 2006-2013, in current USD billion.....	38
Figure 8. EU's net FDI inflows dynamics in 2006-2013, in current USD billion .....	39
Figure 9. Comparative dynamics of the EU's and Azerbaijan's GDP per capita in current USD billion in 2006-2013.....	40
Figure 10. Comparative dynamics of the EU's and Azerbaijan's inflation in 2006-2013 .....	41
Figure 11. Population of Azerbaijan's integration options as of 2013, in million persons.....	52
Figure 12. GDP of Azerbaijan's integration options as of 2013, in billion US dollars.....	53
Table 1. Structure of Azerbaijan's foreign trade with the European Union in 2009-2013, in billion euros.....	32
Table 2. Growth dynamics of Azerbaijan's foreign trade with the European Union in 2009-2013 .	33
Table 3. Main economic indicators of Azerbaijan and the European Union as of 2013, in billion US dollars.....	34
Table 4. Azerbaijan's main economic development indicators dynamics in 2006-2013.....	36
Table 5. EU's main economic development indicators dynamics in 2006-2013.....	38
Table 6. Main economic indicators of Azerbaijan and the European Union as of 2013, in billion US dollars.....	52