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# Azerbaijan in Conflict

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*Research on the motives of Azerbaijan to escalate its conflict with Armenia in the spring of 2016*



Figure 1 Flag-map of Azerbaijan

Source: [https://upload.wikimedia.org/wikipedia/commons/d/d3/Flag-map\\_of\\_Azerbaijan.svg](https://upload.wikimedia.org/wikipedia/commons/d/d3/Flag-map_of_Azerbaijan.svg)

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## Abstract

In the spring of 2016, Azerbaijan undertook a military campaign to conquer Nagorno-Karabakh. Although the estimated number of casualties, as well as the land taken by Azerbaijan differs per source, it is agreed that it is the most violent clash between Armenia and Azerbaijan since the 1994 ceasefire agreement was reached. This thesis will argue what the worsening economy of Azerbaijan and the shifts within its domestic political situation have moved Azerbaijan towards this escalation of the conflict. Using a state level of analysis, as well as an individual level of analysis, this thesis will analyse how the resource curse of Azerbaijan which backfired after the Oil Boom ended, combined with the increase in protests from the civilians, has led to the regime deciding to move to escalate its conflict with Armenia over the Nagorno-Karabakh region.

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## Chapter 1: Introduction

On 2 April 2016, in the early morning, the region of Nagorno-Karabakh, which is situated in between Armenia and Azerbaijan, experienced more unrest than it had experienced in years. The fighting, lasting for four days, was heavier than it had been since 1994. (Jarosiewicz A.) The conflict between Armenia and Azerbaijan over the region of Nagorno-Karabakh has been in existence for a lot longer than that. What follows is a historical account. When the Soviet Union was dissolved, many new nation states were created. This did not happen without conflict between various peoples. One of these conflicts is found in the South Caucasus, particularly between the republics of Armenia and Azerbaijan. The conflict between these states can be dated back before either of them were named the way they are today. In the 2000-year period before Azerbaijan became the state it is today, it has undergone several changes in name and leadership. It was first part of Caucasian Albania and was later renamed depending on the ruling entity, before it became a part of the Russian Tsarist Empire. The region of Arsakh (or Ganja, or Karabakh depending on the source and time period) was one of the most important in the wider territory of what is now Azerbaijan. After the occupation by the Russians, in the 1830s, Armenians were first relocated due to a treaty between Persia and the Russian Empire. A special oblast was created for the Armenian population in 1828 and was later dissolved. However, most of Azerbaijan was Christianised by Russia, as well as Armenianised through “Provisional Regional Management” which also included the Armenian bishop. Russia’s reasoning for relocating Armenians into the South Caucasus was simple; It wanted a Christian periphery on its borders with the Muslim world. Georgians were not to be trusted easily and thus the Armenians offered refuge. Armenians enjoyed a favourable position in the South Caucasus, as opposed to the native tribes and peoples. In the aftermath of the October revolution, Azerbaijan, Georgia and Armenia were officially proclaimed in Tbilisi, however, Azerbaijan had to cede territory to the Armenians in order for Armenia to *de jure* become a state. The Armenian people were granted the

Erivan and Echmiadzin districts. In roughly the same years, during the period of British occupation and the allied powers of the First World War, the Karabakh region was fully ascribed to Azerbaijan due to its geographical location on the Azerbaijani side of the mountains. Even though the Azerbaijani administration was the sole recognised power in Karabakh and its democratic party represented all ethnic groups living there, there were still many supporters of the Armenian Dashnak government. This, in turn, resulted in many clashes and eventually the failure of resistance against the Bolsheviks in 1920. The Azerbaijani troops were forced to fight the Dashnak rebels in Nagorno-Karabakh instead of protecting the borders with Russia. According to Rau, it is thus clear that before and during the short existence of the Democratic Republic of Azerbaijan, the region of Nagorno-Karabakh was a part of its territory. After this, however, the legislation changed. The issue was that all factors, with the exception of population, were in favour of Nagorno-Karabakh being a part of Azerbaijan. To acknowledge this, Nagorno Karabakh was, as a compromise between the Armenian people and the Azerbaijani government, proclaimed an autonomous administrative region of Soviet Azerbaijan in 1921. When this was strengthened by a 1923 declaration stating that the Armenians could develop their own culture and language and thus had the chance to fully entrench themselves in Nagorno Karabakh. Throughout the period of Soviet rule, the autonomous rule of Nagorno-Karabakh attempted to transfer from the Azerbaijani SSR to the Armenian SSR, being rejected by the Soviets in Moscow and Baku continuously. This happened during periods of unrest in the Union, for instance during the *perestroika* and *glasnost* periods. (Rau 7-36)

In 1988, the late Soviet period, Nagorno-Karabakh was again under political siege. In February of that year, the Supreme Soviet turned down a petition by the Nagorno-Karabakh Autonomous Oblast (NKAO) to be incorporated in the Armenian territory. Armenia responded to this by expressing its wish to incorporate the NKAO into its territory, but Azerbaijan rejected these claims made by Armenia on the grounds of territorial integrity. In the end, the Supreme Soviet did not change the status of the NKAO and even placed special regime and Soviet troops in Nagorno-Karabakh. These stayed in place until the 1991 declaration of independence by Azerbaijan. After this

declaration, Nagorno-Karabakh again attempted to gain independence by declaring itself the Nagorno-Karabakh Republic (NKR). This declaration only led to Azerbaijan revoking the autonomous status that Nagorno-Karabakh had enjoyed for the past decades. When a referendum in 1996 by the NKR declared its independence, the last judicial move was made. A new situation arose, where the NKR did not only go unrecognised by Azerbaijan, but also by Armenia. After this, all that remained was conflict between Azerbaijan and the NKR. Armenia takes the side of the NKR claiming its legal independence from Azerbaijan, while Azerbaijan does not cease to see it as part of its territory. Regular clashes continued to take place between the opposite forces, until a ceasefire agreement was reached in 1994. Since then, there have been two noteworthy events of violence, 2008 and 2014 (Pokalova 72-73) In 2016, there was an upsurge in the conflict. News sources have reported on the escalation in April 2016, as well as on the previous two in 2008 and 2014.

On 5 March 2008, the British Broadcasting Corporation reported on the break of the ceasefire around the Nagorno-Karabakh region. According to them, there were 3 fatal casualties. (British Broadcasting Company) This death toll is disputed by both sides. Azerbaijan has spoken of 12 fatalities and 15 wounded. (Today.az) The escalation was most likely a result of the election results in Armenia in the month before. Because of these results, the people of Armenia were in protest, which had caused the government of Armenia to declare a state of emergency and use police and military forces to put an end to the protests. This has led the Armenian government to claim that Azerbaijan used the weakness of Armenia to take back a part of Nagorno-Karabakh. The Azerbaijani authorities dispute this claim and present their own version of what happened. Their story revolves around Armenia making the first move in order to divert the attention of its people away from the previously mentioned election results. (Radio Free Europe Radio Liberty)

In the summer of 2014, on 1 and 2 August, there was another series of clashes. These again receive various accounts of what exactly happened, as well as different numbers of casualties from different authorities. The difference in this situation is that Nagorno-Karabakh had seen an

opportunity to declare independence in 2008, as they saw the case of Kosovo gaining independence in the eyes of the majority of the international community as a precedent. The number of casualties reported differs from 4 Azeri soldiers and only one soldier from Armenia or Nagorno-Karabakh, to 9 Azeri soldiers and one soldier from Armenia or Nagorno-Karabakh. The first version was adopted by the Ministry of Defence of Azerbaijan, while the second version was told by the Ministry of Defence of Nagorno-Karabakh. (Radio Free Europe Radio Liberty) In fact, the numbers of that period have differed greatly between the two countries, with Armenia stating an amount of 25 casualties on the side of Azerbaijan since July 28, when Azerbaijan goes as far as saying 70 Armenians died on the first two days of August alone. (Eurasianet.org)

In the year 2016, with tensions having risen to a higher and higher level, Azerbaijan moves to an attack on the forces of Armenia. Starting early in the morning on 2 April and lasting for four days until a ceasefire agreement was reached on 5 April, this clash between the two nations is often referred to as the “Four-Day war” or “April War”. In reality, both nations accuse one another from starting this escalation, “although everything indicates that Azerbaijan took the initiative.” (Jarosiewicz) As in the previous two clashes, the number of casualties has been difficult to pinpoint. Both sides are reporting 60 military casualties at the least and that number is being fueled by the civilian casualties that occurred due to the use of heavy weaponry, including artillery, rocket launchers and even tanks. The United States Department of State estimates the total number of casualties to 350. (U.S. Department of State) This number would mean that more lives were lost in the Four-Day War than there were in the preceding eight years. This escalation is reported to be more violent in nature than any before it since 1989. The reported casualties, as well as the arms used to fight by both sides support this claim. The question remains, why Azerbaijan escalated its conflict with Armenia in 2016?



## Chapter 2: Literature Review

After the 1994 ceasefire agreement between Azerbaijan and Armenia concerning the region of Nagorno-Karabakh, there have been only 3 noteworthy events of armed clashes. Given the significantly more violent and casualty heavy nature of the most recent event, it is important to establish the motives for this escalation. By extracting the motives of Azerbaijan for their escalation of the conflict, the temporal element will also be covered. This being the explanation of not only why Azerbaijan acted the way it did, but also why Azerbaijan acted the way it did at that specific moment in time. This leads to the research question: Why did Azerbaijan escalate its conflict with Armenia in 2016?

In this respect, there is one particular hypothesis by Carlson that offers a foundation for further research. Her hypothesis “states that as the disparity between the players' cost tolerances increases, there is an increase in the probability that the lower cost tolerant (LCT) actor achieves his or her maximum level of escalation at the outset of the conflict.” (Carlson 512) This hypothesis assumes a mainly economic reasoning behind conflict escalation. In essence, Carlson hypothesises that, when two countries are in conflict, the country that experiences less economic growth or more economic decline will let the conflict escalate. This thesis makes use of the research of Carlson and Goldsmith to test the hypothesis that the economy of Azerbaijan was declining in the period before the conflict between the nations escalated and hence this declining economy was one of the deciding factors in Azerbaijan escalating its conflict with Armenia. Goldsmith has gone further to research the effects of trade on conflict. He argues that when a party has enough resources to bear the costs of conflict without damaging its trade volume, it will have the upper hand in the pre-escalation phase. In his research he tests four hypotheses that assume the positive and negative effects of trade interdependence and volume on the onset and escalation of a conflict. (Goldsmith 560-61) Goldsmith does not go into detail when it comes to one of two parties in a conflict being economically deprived or weakened. His research does however support the claims of Carlson that when the cost tolerances

of two parties in a conflict are too far apart, the party that performs the least will seek escalation of the conflict. With this research it is possible to argue economic downturn to be a plausible motive for Azerbaijan to opt for conflict escalation. For this reason, this thesis will test the following hypothesis.

Hypothesis 1 (H1): The economy of Azerbaijan was declining in the period before it escalated its conflict with Armenia in April 2016.

To further elaborate on the economic situation of Azerbaijan, Dutch disease and the Rentier State theory come into the fold. Hasanov gives four characteristics of Dutch disease which he uses to identify it in a case study. “(1) decline in manufacturing growth, reflecting both direct and indirect de-industrialization; (2) faster growth in the non-tradable sector; (3) surge in overall wage level and (4) real exchange rate appreciation, due to an increased relative price of non-tradable sector.”(Hasanov 467)

Further research has pinpointed another area to explore when discussing conflict escalation. The research of Wright and Diehl is of help when trying to understand why the conflict between Azerbaijan and Armenia is escalating at all. Wright and Diehl attempt to convince their readers of multiple factors that make it more likely to let a territorial dispute escalate into war or other violence between states. They summarise and build upon the works of Tir and Vasquez, Hensel, Chan, Lektzian and Souva, and more, to continue their efforts to form a more universal theory and fill the gaps that they believe still exist in the findings of their predecessors. Wright and Diehl, like their sources, state that territorial disputes are more likely to escalate into war than any other type of dispute. This is a statement that definitely applies to the conflict between Azerbaijan and Armenia. They pay particular attention to the idea of outbidding. This describes the situation where the citizens of a country agree on the enemy, but do not see eye to eye as to how to deal with the situation. The other theory that they advocate is the selectorate theory. Wright and Diehl explain this as “a progressive theory of international and domestic politics that purports to explain the democratic peace as well as a series of domestic political behavio[u]rs.” (Wright and Diehl 649) They

further elaborate on this by stating that a democracy will always need to be consistent in its actions and justify them by pointing out their use for the public good. An autocracy, on the other hand, merely needs to keep their small elites content and therefore only concerns itself with the distribution of private goods in order to stay in office. When it then comes to outbidding, the claim is that it is not the public that will be divided, but the elite that is after its own private interests. After the explanation of the difference between an autocracy and a so-called strongman state, which is an autocracy lead by a clear personality, it can be concluded that both Armenia and Azerbaijan are generally classified as strongman states. Wright and Diehl conclude with another three notable findings which they see as worthy of further research. They assume that when a stalemate occurs, it will only increase the rivalry between dyads as time progresses. Democracies will have longer conflicts, whereas autocracies are more prone to take risks. This is because democracies have their eye on the public good and taking risks will not show their interest in this area. Autocracies do not have to worry about this and can take risks, they are thus also more likely to let the conflict escalate into violence. A theory that has come to life in the case of Azerbaijan and Armenia. (Wright and Diehl 649-664) This research of Wright and Diehl has opened up the possibility to test a second hypothesis through which it is possible to answer the research question of this thesis. The testing of this hypothesis covers the developments in the domestic politics of Azerbaijan.

Hypothesis 2 (H2): The political situation in Azerbaijan was increasingly unstable in the period it escalated its conflict with Armenia in April 2016.

The ruling elite in Azerbaijan has used its business to practice politics. According to Heinrich and Pleines, the ruling elite “clearly perceive themselves as actors who determine the fate of their countries and not merely as objects in an international power struggle.” (Heinrich and Pleines 108) On the other hand, as Wright and Diehl are arguing, the elites of Azerbaijan would merely be concerned with the preservation and increase of their power and resources. These theories put forward by this article are helpful in determining whether the escalation of the conflict between

Armenia and Azerbaijan in the spring of 2016 was predictable or can at the very least be explained. Radnitz describes the way in which the Aliev regime has taken power and his work, together with that of Kendall-Taylor, also describes how the regime has been able to keep it. Sultanova takes on the other perspective and discusses the way in which opposition in Azerbaijan has existed and developed since 1991, which is added to by Bedford to discuss the latest years of political mobilization in Azerbaijan. These last years, which is also the period leading up to the escalation of the conflict between Azerbaijan and Armenia, will be more elaborated on using various news sources. This thesis will attempt to minimise bias from these sources by using the accounts of multiple. Furthermore, it will solely rely on the reports on events and not the reports on opinions or statements. However, as the author is not in any position to read Azerbaijani or Russian sources, or any source other than English ones, it is possible that the Western account of events will have an upper hand.

## Chapter 3: Method & Methodology

In order to answer the question why Azerbaijan escalated its conflict with Armenia in early 2016, the first distinction that needs to be made is between the internal and external factors that can be researched in this context. Scholars like Wright and Diehl focus on the internal or domestic factors that cause conflict escalation. They pay particular attention to public opinion in relation to different systems of government. According to them and the authors they reference, the combination of these two factors are of vital importance to understanding conflict escalation. Wright and Diehl are advocates of researching the domestic to explain the transnational. On the other side of the spectrum, there are those that argue for the research of external factors. Smith Stegen and Kuznir discuss the external relations between nations based on economics. They then link the development in the world economy to the political relations of countries. This is mostly based on the changes in the oil market. (Smith Stegen and Kuznir 91-103) The premise of the thesis is that Azerbaijan escalated the conflict with Armenia. For this reason, it is necessary to look at Azerbaijan rather than Armenia to find out what may have been the reasoning behind the escalation. The move to escalation has been an internal decision within Azerbaijan, which has had an external effect onto Armenia. Therefore, it is most helpful to start looking at the internal to see what changed that made it necessary to include the external. This does mean it is important to recognise the different possible levels of analysis. This thesis will focus on researching the domestic factors of Azerbaijan, the state level of analysis. Moreover, when discussing the inner changer within the regime of Azerbaijan, it will look at the individual level of analysis. It would be possible to discuss the sub-state level or the systemic level as well. However, with the question at hand, which asks for the reasoning of Azerbaijan behind the escalation of its conflict with Armenia, it is outside the scope of this question to include a sub-state, or even global level of analysis. The way Azerbaijan is functioning and the changes that have occurred within its own borders are more likely to have caused a change in behaviour than the changes that have occurred outside of their territory. It is not the case that a

domestic approach will exclude external influences. When a domestic factor is researched in this thesis, the external influenced on that particular factor will also be taken into account. The approach chosen can further be explained by the topic that is researched.

It is possible to look at several domestic factors within a country. The main four factors that are addressed in scholarly literature are the economy, politics, culture and society of a country. The last two factors are easily confused with each other. In this context, the definition of the Cambridge Dictionary will be used, this states that culture is “the way of life, especially the general customs and beliefs, of a particular group of people at a particular time.” (Cambridge Dictionary) “Society describes a large group of people who live together in an organized way, making decisions about how to do things and sharing the work that needs to be done.” (Cambridge Dictionary) In the case of the Nagorno-Karabakh conflict, culture and society are important factors to take into account. However, this thesis does not concern itself with the nature of the conflict, but merely with the motivation of Azerbaijan to get the conflict to escalate at the particular moment in time that they did. In this respect, the only domestic factors that can be considered to be important are those that have to do with the economy and the politics of Azerbaijan. This thesis will discuss two domestic factors that it hypothesises to have caused Azerbaijan to again escalate the conflict with Armenia. These factors are the economy of Azerbaijan and the domestic politics of Azerbaijan. Concerning the economy, this thesis will address the nature of the resource curse which it has endured since the discovery of its oil and the way this has affected the economy when the Oil Boom ended. Domestic politics in this thesis are defined as the political activity that occurs within the border of a country, regarding the regime and its relation to civil society. When discussing the domestic politics of Azerbaijan, this thesis will focus on the developments within the standing regime as well as the development of civil society in relation to it. This means that while the analysis of the economy will take place on a state level, the analysis of the domestic politics of Azerbaijan will take place on both the individual as well as the state level. There are other factors that could have contributed to Azerbaijan moving to escalation of the conflict. These factors will not be discussed in the further thesis, but they will be addressed here

to show their significance for future research. In the context of Azerbaijan, it is important to take into account the geographical element. It is a bridge between different parts of the world economy and as such there is often a lot of stress put on the region surrounding it. The relations that Azerbaijan upholds with surrounding countries and others are therefore very interesting to review. However, the international relations surrounding Azerbaijan would draw away so much attention from the domestic factors that they cannot be discussed in this particular thesis. It is possible that future research conducted on this would reveal that the external relations of Azerbaijan and their influence have had a greater impact on the decision-making that eventually led to the escalation of the conflict with Armenia in 2016. Nonetheless this thesis is focussing on the domestic factors of Azerbaijan and the effect they have had on the decision-making of Azerbaijan. To elaborate further on the methods used in this thesis, the research question is answered through the testing of two hypotheses.

Hypothesis 1 (H1): The economy of Azerbaijan was declining in the period before it escalated its conflict with Armenia in April 2016.

Hypothesis 2 (H2): The political situation in Azerbaijan was increasingly unstable in the period it escalated its conflict with Armenia in April 2016.

Before H1 can be tested, an understanding of the economy of Azerbaijan is needed. It is widely accepted by the scholars that have been consulted for this thesis, such as Hasanov, Rasizade and Alper, that the economy of Azerbaijan can be characterised to suffer from a resource curse. A resource curse is generally defined as the situation in which a state with more natural resources experiences less democracy, economic growth and economic development than a state with less natural resources. The concept was first proposed by Sachs and Warner. Scholars such as Alper and Hasanov have researched the concept of the resource curse to affirm its premises. There are several ways to establish this. This thesis will use the concepts of Dutch Disease and Rentier State Theory to argue that Azerbaijan is suffering from a resource curse. The Dutch disease theory argues for the decrease of one economic sector when another increases. Usually these two sectors are tradable

sectors and the increasing one is usually involving natural resources, which is the case in Azerbaijan. It is, however, not by definition the case that Dutch disease only occurs in countries with a rich natural resource sector. This thesis will follow the method of Hasanov to identify whether or not Azerbaijan suffers from Dutch disease and, if so, to what degree. To show the trends in the economy of Azerbaijan that identify whether or not Azerbaijan suffers from Dutch Disease, this thesis will rely on data from several sources. The sources that have been consulted are the Trading Economics Indicators, Quandl Collections, World Bank Data, UN Data and The State Statistical Committee of the Republic of Azerbaijan. These sources will also be applied when discussing the rentier state theory in relation to Azerbaijan. This theory is more focused at the effects a resource curse has on the political situation of the country, whereas the Dutch disease research focuses on the implications for the economy. The rentier state theory describes a state that receives most of its income from resource based rents. In such a state, the political economy, democracy level, economic growth and security matters are, according to rentier state theory, linked and the effects of the political economy are felt further in the politics of the country as well as its economic performance. As previously explained, the rentier state theory focuses on the political effects of a resource curse, whereas the Dutch disease theory focuses on the effects on the economy of a state. Thus, these two theories complement each other and they are exactly what is needed for the first hypothesis. Their explanation of the economic situation of Azerbaijan contributes to the gathering of data to use for testing this hypothesis. When H1 is not disproved by the findings that arise from analysing the works of Hasanov, Alper and the data gathered, it is possible to conclude that Azerbaijan escalated its conflict with Armenia because its economy was declining. In the period leading up to it.

The second hypothesis, which states that the political situation in Azerbaijan was increasingly unstable in the period before the conflict between the nations escalated, is based on the research of Wright and Diehl, as well as that of Heinrich and Pleines. Especially the selectorate theory and the concept of outbidding are of relevance to H2. The hypothesis will be tested using the methods proposed by Radnitz, Kendall-Taylor, Bedford and Sultanova. Each brings their own addition to the



research done for this thesis. Radnitz focuses on the rise of the Aliyev regime and follows its rise to power whilst focussing on the elite, instead of civil society. This method is most suited to Azerbaijan as the state has, according to Radnitz, experienced more resistance from within its own ranks than from the citizens it governs. (Radnitz 64-65) Since Radnitz wrote his research over a decade ago, there have been changes, however slight in the political situation within the borders of Azerbaijan. Bedford has aptly chosen to review the protests on 12 January 2013 to challenge the point of view that the elite of Azerbaijan only challenge each other, while civil society does nothing to challenge them. Her approach and method are different in the respect that her level of analysis is beyond the regime itself and includes civil society to indicate a shift in the political situation of the country. This is reinforced with the work of Sultanova who takes a further step and looks at a wider timeline of political opposition rather than a single event. Using these three levels of analysis, together with more recent news sources, it is possible to link their conclusions to the research of Heinrich, Wright and Diehl. He reviews the decision-making of Azerbaijan and Georgia in the development of their National Security Concepts. These were meant to reintegrate the territory that they had lost after the dissolution of the Soviet Union. The development in the reintegration policy, disguised as a national security policy, is meant not only to send messages to the international community, but can also be used to convince civil society of an external enemy rather than the regime. This again links back to the words of Wright and Diehl who state that autocratic regimes risk conflict escalation in order to divert the attention of its subjects away from itself and towards an external enemy. The conclusion of the analysis of the political situation in Azerbaijan on three levels in relation to the selectorate theory and the concept of outbidding will give ample results to either disprove or not disprove H2. The three levels are the regime itself, the regime in relation to civil society within the boundaries of a specific event and the regime in relation to civil society during most of their existence. When H2 is not disproved by the analysis of the abovementioned research, it is possible to conclude that Azerbaijan escalated its conflict with Armenia because political situation was becoming increasingly unstable in the period leading up to it.

When the two hypotheses have been tested, the results can be combined to answer the research question of this thesis. This question is why did Azerbaijan escalate its conflict with Armenia in 2016?

## Chapter 4: Economic Spiral

In order to test the first hypothesis that the economy of Azerbaijan was declining in the period before it escalated its conflict with Armenia in April 2016. It is needed to analyse the economy of Azerbaijan. In this chapter, the economy of Azerbaijan will thus be described and analysed in order to be able to conclude whether or not the first hypothesis is plausible. To do this, the resource curse theory will be applied. To see the effects of the resource curse on Azerbaijan, this chapter will draw on both the Dutch disease concept and the rentier state theory. In order to accurately analyse the situation of Azerbaijan through these concepts, the thesis will use data from various sources. This will achieve an understanding of the economic as well as the political effects of the resource curse. When this is completed, this chapter will move on to use the latest data to show to what degree the economy of Azerbaijan was declining in the period before Azerbaijan escalated its conflict with Armenia.

## Dutch disease

In order to be able to identify the state of the economy of Azerbaijan to the end of testing H1, this thesis will draw on the works of Hasanov, combined with various data sources. Hasanov proposes to identify it as a country that is suffering from Dutch disease. The concept of Dutch disease is described as follows.

*“appreciation of a country’s real exchange rate, caused by the sharp rise in exports, and the tendency of a booming resource sector to draw capital and labor away from a country’s manufacturing and agricultural sectors. The subsequent dynamic leads to a decline in exports of agricultural and manufactured goods and inflate the cost of non-tradable goods.” (Hasanov 464)*

This means that when a country has a lot of natural resources which are in high demand with foreign buyers, this country will at a certain time decide to start exporting an exponentially larger amount of these resources, making the country its currency increase in value in comparison with other currencies. When looking at Azerbaijan between 2000 and 2007, this is indeed the case. Their resource exports were rising significantly since 2000 and their currency thus also deflated. (The State Statistical Committee of the Republic of Azerbaijan) Since the natural resource sector is then rapidly growing, the demand for capital and labour will be greater than it is in other sectors and it will thus take away capital and labour from the other sectors in the economy. Eventually this leads to a decreasing export trend in all other sectors of the economy and an increase in the costs of non-tradable goods. Azerbaijan is, according to Hasanov, heavily dependent on its natural resources. He explains that the investments, both domestic and foreign, are mostly done to improve and enlarge that part of the national economy. Hasanov divides the economy in three sectors, the oil sector, the non-oil tradable sector and the non-tradable sector. By testing four “symptoms” in the case of Azerbaijan, Hasanov can establish to what extent Azerbaijan is suffering from Dutch disease. These four symptoms are: “(1) decline in manufacturing growth, reflecting both direct and indirect de-

industrialization; (2) faster growth in the non-tradable sector; (3) surge in overall wage level and (4) real exchange rate appreciation, due to an increased relative price of non-tradable sector.”(Hasanov 467) By examining these four symptoms, Hasanov concludes that Azerbaijan has not experienced “absolute de-industrialization”, but “relative de-industrialisation” of the non-oil tradable sector, as well as substantial expansion in the non-tradable sector. This could be explained by the Dutch Disease theory, since non-oil production sectors experienced de-industrialisation while the non-tradable sector grew. However, the employment in the oil sector did not increase. On the other hand, there has been a significant influx of capital into the non-tradable sector which was made possible by the oil revenues. Hasanov shows this is correct by linking the real oil price directly to the real exchange rate of Azerbaijan. This was true for the years 2000 to 2007. However, when looking at statistics from the World Bank used by Trading Economics, the real exchange rate had, since the end of 2015, more than doubled in early 2016. (Trading Economics) The timing of this is parallel to that of the drop in oil prices. (Trading Economics) What is problematic for Azerbaijan, according to Hasanov, is that the foreign investments into the oil sector have redirected the focus to this sector and this has made for a decrease in exports from other tradable sectors. This has led Azerbaijan right onto the path of being a resource driven economy. (Hasanov 463-475)

## Rentier state

After discussing the Dutch disease theory in relation to Azerbaijan, this thesis will now discuss the rentier state theory. The theory also addresses the fact that Azerbaijan gains most of its revenues from its natural resource sector. Which is confirmed by data from The State Statistical Committee of the Republic of Azerbaijan. (The State Statistical Committee of the Republic of Azerbaijan) The difference with the Dutch disease concept is that rentier state theory is more focused on the political implications of a resource curse, rather than the economic implications. A rentier state is described as a state where revenues come mostly in the form of rents from a natural resource sector in the economy. It further aims to establish a link between such a political economy and democracy, economic growth and security matters of state. Almaz uses the rentier state theory to argue that the political economy created by natural resource revenues in Azerbaijan hinders democracy. A point that will be strengthened by Radnitz and Kendall-Taylor in chapter 5. He concludes by claiming that Azerbaijan fits within the theoretical framework of a rentier state. The fact that citizens are not taxed, but that the government relies on its energy revenues instead is counterproductive to the cause of democratisation. Azerbaijan does tax its citizens, however the level of taxes has dropped since 2010. (The World Bank) The entire state system is also corrupted because of this, because the authorities are not provided with the proper resources due to lack of taxes. According to Transparency International, Azerbaijan is one of the more corrupt countries that they have monitored. In their 2015 index ranking, they put Azerbaijan at 119 out of 168. (Transparency International) Besides this, the regime suppresses any opposition and reinforces its authority by supporting the societal groups that strengthen its grip on the nation. Lastly, Almaz shows the significant amount of the Azerbaijan GDP that is being spent on national security, which is especially aimed at the infrastructure around the natural resources that pay for most everything that goes on in the country. (Almaz 59-67)

## End of the Oil Boom

Seeing as Azerbaijan has been suffering from a resource curse, as Azerbaijan can be described as both suffering from Dutch disease, as well as being a rentier state, this thesis will now move on to discuss the developments in the economy of Azerbaijan over the recent years that have led to economic deterioration. In doing so, it will test H1 that the economy of Azerbaijan was declining in the period leading up to it escalating its conflict with Armenia in 2016.

When looking at the economic performance of Azerbaijan in the period of 2013 to early 2016, there are several trends that stand out. First of all, there was a drop in government budget. (Trading Economics) This can be explained by the fall of the oil prices throughout 2015 which did not see an end until well into the year 2016. (Trading Economics) On the other hand, the government did spend more and more every year on their military. Their spending more than doubled between 2012 and 2016. (Trading Economics) Furthermore, to stop their own currency from inflating after the fall in the oil prices, Azerbaijan all but depleted its foreign exchange reserves between late 2014 and early 2016. (Trading Economics) The inflation rate was not completely contained as it rose by 300% between the last months of 2015 and January of 2016. (Quandl) (Trading Economics) All of these factors are reflected into the GDP of Azerbaijan. The GDP, as well as its growth saw a rise until 2015, but then dropped down with a very negative growth in 2015 up to early 2016. (Trading Economics) (Quandl) (The State Statistical Committee of the Republic of Azerbaijan ) This means that by all accounts, the economy of Azerbaijan was declining in the period leading up to it escalating its conflict with Armenia in 2016. Thus, H1 holds. This means that a part of the answer to the question why Azerbaijan escalated its conflict with Armenia in April 2016 is answered. This thesis will move on to test H2 that the political situation in Azerbaijan was increasingly unstable in the period before it escalated its conflict with Armenia.

## Chapter 5: Domestic Politics

In this chapter, hypothesis 2 will be addressed. This states that the political situation in Azerbaijan was increasingly unstable in the period before it escalated its conflict with Armenia. To test this hypothesis, it is first necessary to address how the regime in Azerbaijan was formed and how it stayed in power. To do so, this thesis will draw on the works of Radnitz and Kendall-Taylor, who discuss the rise of the Aliyev regime and explain how it has survived. This will cover the individual level of analysis. Next, to look at the way civil society has functioned under this regime, or rather how it has turned itself against the regime, this chapter will follow the works of Sultanova and Bedford. They respectively elaborate on protests in Azerbaijan from 1991 onwards, and the specific protests that took place in January 2013 and their aftermath. This section will cover the state level of analysis. When there is a better understanding of the developments in the domestic politics of Azerbaijan, The chapter will discuss the way these developments have eventually led to the regime of Azerbaijan escalating the conflict with Armenia. It will do so through the use of Heinrich, Wright and Diehl and their theory on outbidding and their selectorate theory. When these three processes have been completed, this chapter will be able to conclude whether or not H2 is disproved, to the end of answering the question why Azerbaijan escalated its conflict with Armenia in 2016.



## Establishment of the regime and its survivability

To examine the developments in the political situation of Azerbaijan, this thesis will first establish what regime was like and how it rose to power. To do so, it will look at the works of Radnitz and Kendall-Taylor. Radnitz explains the way that the Aliyev regime took power. He then argues that the regime in Azerbaijan could stay in place because the opposition, in contrast with the colour revolution cases, came from within its own ranks. This, combined with the absence of Western support to the outside opposition of the regime, made for a situation in which the ruling elite had no trouble staying in power. Radnitz does argue on the other hand that this might not have been the case, had Azerbaijan not been a country with an abundance of natural resources. This is supported by the research of Kendall-Taylor. Who shows that the ruling elite in oil-rich countries, to remain in control, the president had to be surrounded by a ruling elite that supported his leadership. In order to do so, Hayder Aliyev made them all materially benefit from his presidency. This way he made it their interest to protect their material gains through supporting a non-democratic government and advocating that there was no need for economic reforms. When Aliyev and his supporters gained control, they made some reforms to the economy, however, they also reintegrated a large part of the economy under the state. Privatisation was stumped by the concentration of growth in the oil sector. A substantial amount of the revenues gained from the oil sector was at the disposal of the regime. This resulted in more patronage in order to reaffirm the political position of Aliyev and his regime. At the same time, the booming oil sector gave room for a middle class society that was prone to keep the system as it was intact, for their own personal interest. A pro-democratic uprising by society was thus not imminent. The issue with decreasing privatisation meant that those who were previously wealthy outside of the regime could not protect their assets without supporting the regime. This resulted in the labelling of such elites as threats and some were even exiled. The last benefit that Azerbaijan had from its oil was the lack of opposition support from the West. Their oil was so important to Europe that if the country was to fall into a political crisis, this might jeopardise the oil exports from Azerbaijan. Although the people of Azerbaijan have started to lose faith in their

regime, a real uprising did not happen until after 2010. The regime controls the main media sources and possesses the means to silence or bribe their main opposition because of the oil revenues.

Radnitz stresses the importance of the factors described as these were the factors missing from the same situation in Georgia, where a colour revolution did take place. (Radnitz 60-72) (Kendall-Taylor 737-758) The interesting times when the regime had possible issues with opposition parties, were during an election year. In these times, the international community was paying close attention, which ensured the opposition got space and means to spread its message. However, next to state media, the opposition did not have access to any other forms of communication besides printing. This meant that through privatised media, mainly television and radio, citizens of Azerbaijan heard much more of the campaign from the Aliyev camp than from any other party. Furthermore, Kendall-Taylor explains the ways in which the regime was able to use the enormous profits from oil production during these election periods. The ruling elite had a particular interest in staying in power. Both Wright and Diehl and Kendall-Taylor acknowledge this. (Wright and Diehl 650) (Kendall-Taylor 741) Their financially beneficial status came from the current regime and thus they wanted to keep it in place in order to keep reaping what they had sowed. It is hypothesised by Kendall-Taylor that: "Elections in oil-abundant countries will be preceded by expenditure increases rather than revenue reductions." (Kendall-Taylor 743) When looking at government expenditures before the last 3 presidential elections in Azerbaijan, which were in 2003, 2008 and 2013, it is visible that what she poses is indeed the case. (Trading Economics) (Quandl) (Kendall-Taylor 737-758) Both Radnitz and Kendall-Taylor thus show ways in which both the Aliyev regimes have been able to survive and remain unchallenged. "The Aliyev regime controls the instruments of coercion, the media and the revenues from oil with which to buy off potential rivals." (Radnitz 71) Besides this, the regime has tampered with the elections since 1995, ensuring their victory. (Radnitz 70) Nevertheless, there has been opposition to the regime which has attempted to challenge its rule. It is possible that this opposition has eventually contributed to the destabilising of the political situation in Azerbaijan, which is, according to H2 a reason for Azerbaijan escalating its conflict with Armenia in April 2016.

## Opposition to the regime

Now that the forming and survivability of the regime have been laid out, this thesis will move on to review the developments that have taken place regarding any opposition from civil society to the regime of Azerbaijan. For this purpose, Sultanova and Bedford will be consulted. Particular attention will be paid to the January 2013 protests and their aftermath. When that has been completed, this section will discuss the most recent protests in Azerbaijan, in order to show correlation between these protests and the decision making of the regime of Azerbaijan to move to escalate its conflict with Armenia in 2016. This is done to the end of testing H2 that the political situation in Azerbaijan was becoming increasingly unstable in the period leading up to the escalation of its conflict with Armenia. If H2 holds, it will become possible to answer the question why Azerbaijan escalated its conflict with Armenia in 2016.

When talking about the opposition in Azerbaijan, Sultanova stresses the importance of distinguishing between the old and the new oppositions. Amongst these oppositions was the Azerbaijan Popular Front (APF). A movement made up of educated and uneducated citizens who were mostly motivated by nationalism and who fought against the rule of the Soviets. This movement became active in the last years of Soviet Azerbaijan, when the Kremlin allowed citizens to question their leaders. Through the success of the APF, Azerbaijan got more and more autonomy and could eventually, in 1991, declare its independence. Despite their progressive and liberal style of governing, the APF was very unorganised. Due to this unorganised structure and some disloyalty amongst commanders, the military forces in the Nagorno-Karabakh conflict could not be controlled properly. Thus, Azerbaijan lost the war with Armenia over the region. When the presidential representative of Azerbaijan in Nagorno-Karabakh then overthrew the APF in June 1993, it was unable to stop him and Heydar Aliyev came into power. (Sultanova 15-18) From the moment when the first elections in Azerbaijan took place, the opposition parties to the Aliyev regime, which consisted of two parties, the APF and the Musavat parties, did not have a lot of tools to work with.

They were particularly watchful of political prosecution. Especially the APF was heavily attacked and had its headquarters occupied for several years. The opposition rallies and protests were almost all being shut down in Baku when Ilham Aliyev came to power in 2003. The opposition parties did not encourage violence, but rather peaceful protests. It was mostly during the election years that the opposition could spread its messages and really campaign against the regime. They did not go unchallenged by the Aliyev regimes. The opposition did get access to broadcasts on state television and radio, but they had no other means of media, besides paper printing, to run their campaign on. The Aliyev regime however, has had control of all forms of media since they rose to power. This meant that the larger public mostly saw the campaign messages of the ruling party. The opposition has shown especially active resistance against the election of Ilham Aliyev, the son of Heydar Aliyev. In 2003, when it was announced that he had won the first round of elections, opposition activists gathered and protested this result. They were violently dispersed by riot police and military soldiers, who had been deployed pre-emptively. It was one of the more violent clashes between the opposition and the regime in the history of Azerbaijan. Hundreds of protesters were arrested and after this, the regime kept on propagating through the media. In the 2005 elections, a similar event took place, where protests broke out, but were quickly put to rest by the use of force. (Sultanova 21-24) It was after the failure of the opposition to make a change and keep an active and united front when an election period had ended, that younger and newer opposition groups were founded. Most of them had supported the ideals of the existing opposition, but had lost faith in the execution of these ideals. During the mid-2000s, the three most popular new groups were the Dagha youth movement, AN network and OI movement. Dagha made a name with bold protests and many of their members were arrested because of it, or had a difficult time at university. This was different for the AN network, which consisted of Western university graduates and aimed to educate the population of Azerbaijan. They built their success with the internet, using public social media pages to spread their messages. The essence of their movement was connecting the Azerbaijani students that had been educated in the western countries with the local youth. This network was disconnected by the

regime of Azerbaijan. It did, however, give way to new, young opinion leaders in Azerbaijan. The same can be said for the OI movement, who, with help of Western funding, established the Free Thought University, or, in Azeri, Azad Fikir Universiteti (AFU). The goal of the AFU was to educate the people of Azerbaijan in Western values, such as democracy, human rights and liberalism. The AFU educated mostly the youth of Azerbaijan through an alternative education programme. In 2013 they were shut down by the Office of the Chief Prosecutor. These three movements were not about challenging the regime, but about educating the population and develop civil society so it would be ready when change did come. When the 2010 parliamentary elections had passed, three new groups emerged. Positive Change, Free Youth and N!DA all aspired to do the same as their three predecessors. They sought to educate to induce change. None of the six groups actually wanted to govern Azerbaijan, but they all wanted to bring about change by spreading the messages of democracy and freedom. In contrast with these six groups, Republican Alternative, or ReAl, did, and still does, aspire to govern. Their aim is to form a parliamentary republic, which is a difference from the other opposition movements, as they are looking to move away from a republican model. Another key difference is the age of the founders of the movement. Whereas the previous six movements all contained founders who were under the age of 30 when they began their oppositions, ReAl was looking at an average age of around 40 amongst its founders. This also helped with gaining credibility. They touch upon a larger group of supporters as they do not only appeal to the young and the poor, but also to the financially stable and older middle class. This became apparent in the 2013 elections, when ReAl did not join the National Council, a union of oppositions. Their leader was prosecuted and was therefore denied the right to run as the candidate for ReAl, which thus saw the opportunity not to win the elections, but to spread its name and message through their campaign. This did not go as well as hoped, as the AFP and Musavat have created their name as the general opposition of Azerbaijan. ReAl has thus far gone unrecognised as a valid alternative to these two parties. The issue there is that ReAl does not want to be associated with the traditional opposition parties, it wants to establish itself as a new opposition party with innovative

visions. The traditional opposition cannot succeed in their eyes, because they only fight the regime in the political arena, which is a fight that the regime will always win. Whereas it is more difficult for the regime to keep the opposition from reaching civil society with their message. (Sultanova 27-34) It remains to be seen whether the new opposition movements will eventually succeed in their apolitical quest for change. It is clear though, that the traditional opposition will not succeed with the strategy they are currently employing. What is interesting, is the challenging of the regime that has taken place in recent years. Starting in 2013, there were a lot of heavy protests that had initially little to do with political ambition. Bedford has researched the protests of January 2013 and those that have followed them to show how the opposition in Azerbaijan has become more active during that particular election year. According to Bedford, when she talks about the protests in 2013, "some analysts and activists described these events as the beginning of an "Azerbaijani Spring."" (Bedford 4) According to her, these protests and their increase in number had mostly to do with the shift within the opposition, which experienced new and younger leaders coming in. Whereas many protests were addressing democratic ideals, some were focussing on the economic issues facing Azerbaijan. Both of these groups were stating their dissatisfaction with the regime. The protests were somewhat successful at first, but were quickly and forcefully shut down by the police and military. Which has put an end to the "Azerbaijani Spring" before it had a chance to thaw the winter. Nevertheless, these protests and the opposition that has existed for over twenty years, show that there is a significant part of Azerbaijan that is motivated to be politically active. As has been described by Sultanova, the actors of the opposition have changed and developed into a more impactful group in civil society. (Bedford 2-4) This meant that the outcome of protesting was a different story in the beginning of 2016. Three years after the beginning of the "Azerbaijani Spring", the authorities in Azerbaijan were called on to handle a new wave of protests. In the second week of January, there were upsurges in several cities. These protests addressed the economic state Azerbaijan was in. The basic tools for living, such as bread and flour, had been steeply rising in price because of the failing economy in Azerbaijan. Due to the falling oil price and therefore revenues, in combination with the drop in value

of the national currency (the manat), had hit the citizens on Azerbaijan with inflation and unemployment. (Trading Economics) (Central Bank of the Republic of Azerbaijan) In return, the government of Azerbaijan cut the taxes on food essentials, this and brute force by the authorities were meant to stop the protests. (The Guardian) After these protests, the inflation of food prices did drop. After an inflation rate of 18,27% in January 2016, it decreased to 9,6% in April. In fact, when looking at the inflation rate of food prices, it has been steadily going up since January 2015. (Trading Economics) Combining the increased inflation on food with a falling Gross Domestic Product (GDP) and a decreasing Gross National Income (GNI) per capita since 2014, it is not surprising that these protests broke out. (The World Bank) It is thus clear that the political situation in Azerbaijan was becoming increasingly unstable in the period leading up the escalation of its conflict with Armenia. This means that H2 holds. The question in this matter is whether or not these protests and the political unrest that they highlighted were a cause for the regime of Azerbaijan to move to escalation of its conflict with Azerbaijan. Wright and Diehl show that in this situation, with a deteriorating economy and a riled up opposition, the regime of Azerbaijan would undoubtedly move towards escalation of the conflict, as they want to create a common enemy for the regime as well as the citizens of Azerbaijan. This would distract the public from the issues facing the nation.

## Chapter 6: Conclusion

In conclusion, it is visible that, when reading the above, the hypotheses tested by this thesis have not been disproved. Although Azerbaijan does not fully suffer from Dutch disease according to the methods of Hasanov, it does show symptoms. The economy was growing because of a rise in exports and the revenues were used to expand in the non-tradable sector. With the research of Almaz, the characteristics of a rentier state are ascribed to Azerbaijan, as it does not rely on taxes, which leads to widespread corruption. This means that the Republic of Azerbaijan does suffer from a resource curse. With the end of the Oil Boom Azerbaijan only held on to their economy until the fall in the oil prices occurred in 2015. This led to inflation of their currency and a depletion of their foreign exchange reserves. Overall it is most visible what the impact of this period was when looking at the trends in GDP growth, which show negative growth from 2014 onward. It is thus abundantly clear that the economy in Azerbaijan was declining in the period leading up to the escalation of the conflict with Armenia. H1 is thus not disproved. This declining economy had also led to the increased activity within civil society. The regime used force to put an end to these protests time and time again and, with their media control and election manipulation has managed to stay in power. Whereas protests were previously happening during election periods, protests became more frequent when the economy of Azerbaijan declined. Now, the citizens and the opposition did not only have the political situation in Azerbaijan to protest, but also the management of the economy by this regime. Hence, the political situation within Azerbaijan was increasingly unstable in the period leading up to the escalation of the conflict with Armenia. This shows that H2 is not disproved. The research question of this thesis; why did Azerbaijan escalate its conflict with Armenia in 2016, is thus possible to be answered. Azerbaijan escalated its conflict with Armenia in 2016 because it had a declining economy and an increasingly unstable political situation. The regime needed to draw the focus of the public away from itself and towards another situation, another enemy.



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