

An Auspicious Partnership is Taking Shape

The Deepening Ties between Azerbaijan and the UAE

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President Ilham Aliyev made a point by welcoming United Arab Emirates Sheikh Mohamed bin Zayed Al Nahyan (popularly known by his initials as MBZ) to Baku on 9 January 2024, using the first official visit of its kind to emphasize that this new phase in Azerbaijan-UAE bilateral relations has risen to the level of a strategic partnership.

“I am confident that this visit will contribute significantly to the development of friendship and brotherhood between our two countries,” Aliyev said at the beginning of their expanded meeting. Aliyev pledged cooperation across a range of issues, including in the field of energy, especially green energy.

This is not to say that high-level meetings between the two leaders have not been regular occurrences: they met twice in 2023 in the UAE. But the meeting in Baku was of ultimate importance, as Azerbaijan and the UAE signed an array of documents expanding bilateral cooperation, including a Memorandum of Understanding on Strategic Partnership that adds depth to an already strong and increasingly vibrant relationship.

Ties between Azerbaijan and the UAE have been marked by a flurry of activities since 2020. Notably, the partner countries have expanded their cooperation and increased investment and trade, energy and green energy, construction, and tourism. The “upward trajectory,” as MBZ characterized the relationship, has never before looked so promising and friendly. Besides, it offers prospects for improved

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inter-regional cooperation involving other countries in the Silk Road region and the Middle East. full-on Transcaspiian gas pipeline.

This IDD Analytical Policy Brief reviews developments in Azerbaijan-UAE bilateral relations since the end of the Second Karabakh War, analyzes the potential for cooperation, and discusses some of the prospective benefits of this unprecedented partnership featuring a [keystone state](#) each belonging to a keystone region—especially given that our world characterized by wholesale geopolitical and geoeconomic transformation.

Background

Since early 1990, when diplomatic ties between the two states were established, bilateral relations developed in various spheres. The period until 2020 was marked by reciprocal visits and meetings carried out at ministerial and delegation levels, where they would each participate in international conferences, exhibitions, and festivals organized in these countries, meet, and discuss important issues interesting to both sides. But top-level visits were rare. In parallel, bilateral cooperation developed within the bounds of significant international organizations, such as the United Nations, the Organization of Islamic Conference, the Non-Alignment Movement, and so on. On 16 June 2001, Azerbaijan [opened](#) its embassy in Abu Dhabi. Since 2008, the Azerbaijan-UAE Joint Intergovernmental Commission has focused on economic, trade, and technical cooperation. In 2011, the UAE [opened](#) an embassy Baku, including a consular section, and dealt with not only political and economic issues but also educational and cultural ones. In 2012, the Dubai Chamber of Commerce and Industry established its first office Baku. Since 2017, the [Azerbaijan Trade Mission](#) has had representation in Dubai, and in 2019, the [Azerbaijan Trade House](#) opened in Dubai.

Currently, more than 350 UAE-invested commercial institutions in various fields, including industry, agriculture, transport, construction, trade, and service, are [registered](#) in Azerbaijan. Bilateral trade relations between the two states increased by 21 percent in 2023, reaching \$58.5 million in bilateral trade between January and July of 2023, indicating a [significant increase](#) from \$43.3 million in the same period of time in 2022.

The UAE is among the top investors in the non-oil sector in Azerbaijan. On 9 January 2020, UAE-based Masdar became a partner with Azerbaijan to design, finance, build, and operate a 230 MW solar project in Azerbaijan.

The deepening partnership between Azerbaijan and the UAE is taking place against the backdrop of the rise of diplomatic and economic cooperation between Gulf Cooperation Council (GCC) countries, pursued individually and collectively by the countries that make up the core of the [Silk Road region](#). Examples of this multi-regional rapprochement include the activities of ACWA Power, a leading Saudi developer, investor, and operator

of power generation, water desalination, and green hydrogen plants in Azerbaijan; the establishment of diplomatic relations between Riyadh and Yerevan; and the first summit between GCC heads of state and the Central Asian republics last summer.

The rapprochement between Azerbaijan and the UAE could also impact upon the posture of third countries towards Azerbaijan. India is one such country: Delhi's burgeoning ties with Abu Dhabi (ORF's Samir Saran [recently called it](#) a "mutually indispensable" relationship) could play a role in getting India to reconsider the way in which it ranks its relationships and interests in the Silk Road region, for example.

Rapprochement after the Second Karabakh War

The resolution of the conflict over Karabakh has become a catalyst for the evolution of the Silk Road region's geopolitical landscape. After emerging as a victorious power in the region, Azerbaijan has reinforced its efforts in pursuing an active foreign policy course. Following its strategic path aimed at consolidating its [political and economic sovereignty](#), official Baku has deepened the use of its diplomatic and political assets. Thus, with a view to the realization of its national policy towards economic diversification, Azerbaijan is applying the conceptual approach of ["smart diversification"](#): ensuring economic security (i.e., economic diversification) through diplomacy

Conforming to this "smart diversification" approach, Azerbaijan is expanding its strategic political cooperation through tightening ties with a growing number of partners, such as GCC countries, as Baku sees them as potential sources of significant FDI, tourism, and know-how. Evolving bilateral ties between Azerbaijan and the UAE into a comprehensive strategic political partnership is perhaps the best example of this new strategic approach.

In line with the position of the other GCC countries, the UAE traditionally refrained from actively taking a side in the conflict over Karabakh, maintaining economic and trade relations with both countries since their independence. The non-involvement of the GCC countries in the geopolitical rivalries in South Caucasus in the aftermath of the Second Karabakh War, the absence of a historical or ideological motivation, and a background in fostering political rapprochement in various theaters serve as the basis for deepening bilateral cooperation between Abu-Dhabi and Baku. There is another strong factor, however: the synergy of interests related to the priorities of the countries' successive presidencies of the Conference of the Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC).

MBZ's official visit to Azerbaijan in January 2024 had been preceded by multiple events, meetings, delegations, and bilateral agreements signed in several sectors. Personal meetings between two leaders on multiple occasions over a short period of time, including at the Arab League summit in November 2022, Abu Dhabi Sustainability Week in February 2023, and the COP28 summit in December 2023,

where President Aliyev was invited as an honorable guest, are all indicators of ties being strengthened at the highest level.

Also, in December 2023, two important bilateral documents were signed. The first formalized the establishment of a [joint investment fund](#) valued at \$1 billion, which involved Azerbaijan Investment Holding, a Baku-based strategic sovereign wealth fund, and ADQ, an Abu Dhabi-based investment and holding company. This joint venture aims to invest in sectors of mutual priority and interest, such as agriculture, technology, pharmaceuticals, and energy infrastructure. The second important document concerns strengthening Azerbaijan's digital landscape and improving Azerbaijan's [digital infrastructure](#)

MBZ's first official visit to Azerbaijan took place against this background. Not only was he accompanied by a truly impressive list of senior UAE presidential court officials and ministers, but several historic bilateral documents were signed during the visit, starting with the aforementioned strategic partnership MoU that covers a wide range of fields including trade, economy, industry, agriculture, culture, and education.

Cooperation in Green Energy

The energy sector has a special role to play in the growing ties of cooperation between Azerbaijan and the UAE. This is contingent on the number of challenges and similarities both states share. Rich in fossil fuels and traditionally relying on oil and gas for a vast amount of state income, both states consider it necessary to diversify their economies. Azerbaijan has pledged to [reduce](#) greenhouse emission by up to 35 percent by 2030 and 40 percent by 2050 (in comparison with 1990 levels) and [increase](#) the share of renewable electricity generation to 30 percent by 2030. The UAE set a stricter target, with its [Net Zero by 2050](#) strategic initiative to achieve net-zero emissions by 2050. By accelerating the energy transition, both states have taken steps to diversify their economies and energy mixes. And the UAE has [achieved](#) great success in this area, having implemented ground-breaking energy efficiency and renewable energy projects to cut the country's reliance on oil and gas exports to around 30 percent of its total economic activity.

The green energy agenda and energy efficiency measures are part of Azerbaijan's economic diversification policy. Azerbaijan aims to become an important supplier of green energy through the development of the sector and the utilization of Azerbaijan's enormous offshore wind potential, currently estimated by the [World Bank](#) at 157,000 GW. Additionally, the potential of wind, solar, and hydropower plants planned to be developed in Azerbaijan's liberated areas, where the government is creating a green energy zone, is estimated at 10 GW. A large potential export market for Azerbaijan's green energy is the European Union, as indicated in the July 2022 MoU on a Strategic Partnership in the Field of Energy between Azerbaijan and the EU Commission—this has gained further impetus in

subsequent actions, beginning with the December 2022 Agreement on Strategic Partnership in the Field of Green Energy Development and Transmission between Azerbaijan, Georgia, Hungary, and Romania.

It is in this context that Azerbaijan is paying particular attention to cooperation in the energy sector with the UAE.

The UAE's Masdar and various relevant stakeholders in Azerbaijan are working on the development and investment in renewable energy sources in different directions. In 2022, the parties signed an implementation agreement that covers a number of offshore wind energy projects and green hydrogen production in the fields of renewable energy and energy efficiency in railways, as well as a MoU in the field of electricity generation from municipal solid waste. In addition, a MoU on cooperation in the field of renewable and clean energy in the Karabakh Economic Region and the East Zangezur Economic Region was signed. Masdar also cooperates with SOCAR to explore the potential for electrification of the latter's offshore oil and gas facilities in the Caspian Sea using offshore wind power. Masdar has signed three investment agreements on two solar projects and one dry wind project with a total capacity of 1 GW in Azerbaijan.

On 26 October 2023, the launch of the 230 MW Garadagh Solar Power Plant was attended by President Ilham Aliyev and four UAE government ministers. On the same day, three additional investment agreements were [signed](#) between the two countries. Based on the numerous contracts and MoUs signed, investment from the UAE will facilitate the production of 10 GW of green energy in Azerbaijan in an initial phase—a game-changing initiative that has the potential to transform the regional energy security landscape.

COP28-COP29 Presidencies

This year, Azerbaijan will host COP29 thanks to a [deal with Armenia](#) that broke a diplomatic deadlock. Unsurprisingly, MBZ's official visit to Baku also focused on Azerbaijan's COP29 presidency, which follow the UAE's successful COP28 presidency. "Consider that the entire experience of the United Arab Emirates is at your fingertips," MBZ said during the visit. "In every field, we are ready to share our experience with you, especially in hosting COP29."

Azerbaijan and the UAE continues to deepen cooperation within the framework of COP29 on the sidelines of the World Economic Forum in Davos as Minister of Economy of Azerbaijan Mikayil Jabbarov held a meeting with Abdulla bin Touq Al Marri, the UAE Minister of Economy and Co-Chair of the Azerbaijan-UAE Joint Intergovernmental Commission.

This was followed up on 13 February 2024 with the formal [launch](#) of the COP Presidencies

Troika in Dubai by the UAE, Azerbaijan, and Brazil (the host of COP30). On that occasion, COP29 President-Designate Mukhtar Babayev, Azerbaijan’s Minister for Ecology and Natural Resources, [stated](#) that “we are committed to leveraging our strength as a bridge builder between the developed and developing world as host of COP29 to accelerate efforts to keep 1.5 in reach. Key to that will be establishing a new climate finance goal that reflects the scale and urgency of the climate challenge. And equally important, unlocking those funds and getting them to the nations that need them the most.”

This reinforces the point that climate financing is a shared priority of the COP28 and COP29 presidencies. The central issue here is the scale, scope, and timeframe (plus, of course, the conditionality) of the disbursement of what the Independent High-Level Expert Group on Climate Finance has [indicated](#) (see also [here](#)) would need to be \$2.4 trillion of support a year by 2030 by the developed world to emerging markets and developing countries (exclusive of China) to effectuate the transition from a hydrocarbon-based global economy to a renewable energy-based global economy. At COP28, there was “[no progress](#)” on unblocking these financial flows despite the UAE Presidency’s best efforts. This critical yet unresolved issue is likely to be a central theme of COP29, where Azerbaijan’s presidency will lead talks on securing an agreement on what is being termed a New Collective Quantified Goal (NCQG) on climate finance.

An integral part of this debate is likely to remain the thorny question of the scale, scope, and timeframe of the role that natural gas should play in the transition toward cleaner energy sources. On this set of issues, Azerbaijan and the UAE are hardly alone: not only do many other hydrocarbon-exporting states require clarity on them, but so do all emerging markets and various other sub-categories of developing countries.

On this entire set of thorny issues, the ball, it seems, remains largely in the court of the developed world, which has not yet pledged—much less actually paid out—sufficient funds to cover the cost of a historic energy transition, based on current estimates. This is likely to begin to give credence to those voices that call into question the feasibility of this unprecedentedly ambitious multilateral endeavor.