

Pakistan-Azerbaijan Economic and Defence Cooperation

Dr Kamal Makili-Aliyev* and Khurram Abbas**

Abstract

Azerbaijan and Pakistan have a very unique political relationship that has surpassed territorial boundaries and geographical distance. It offers opportunities for cooperation in many areas, especially in the economic and defence sectors. Diplomatic relations, established since Azerbaijan's independence from the Soviet Union in 1991, have allowed these two countries to start developing cooperation very rapidly. Pakistan was the second country to recognise Azerbaijan's independence, and has not established diplomatic relations with Armenia.¹ Both countries have supported each other diplomatically on the Nagorno-Karabakh conflict and Kashmir dispute at all international forums. This article is an attempt to identify the prospects and potential of strengthening economic and security ties between Pakistan and Azerbaijan. It also tries to explore the reasons behind the low volume of trade between the two countries, and makes concrete recommendations on how this trade volume can be increased.

Key words: Pakistan, Azerbaijan, Economy, Security, Defence, Cooperation.

Introduction

Pakistan and Azerbaijan share common historic, cultural and religious values. The relationship between the two countries has covered economic, defence, political and diplomatic cooperation since Azerbaijan's independence. However, despite a historically cordial political and strategic relationship between the two countries, their bilateral economic relations remain tepid. Both countries began economic

* The author is a Research Fellow at the Center for Strategic Studies (SAM) under the President of the Republic of Azerbaijan.

** The author is a PhD scholar at the Centre for International Peace and Stability (CIPS), National University of Science and Technology (NUST), Pakistan. He is also working as Assistant Research Officer (ARO) at the Islamabad Policy Research Institute (IPRI) in Pakistan.

¹ Amb. Novruz Mammadov, "Azerbaijan's Relations with the Islamic World and the Countries of Asia," in *Azerbaijan in Global Politics: Crafting Foreign Policy*, ed. Alaxandros Petersen (Baku: Azerbaijan Diplomatic Academy: 2009), 160.

cooperation in 1995 by signing an Agreement under Economic Cooperation Organisation (ECO) on Trade and Economic Cooperation.² More than twenty years have passed since this Agreement, yet the volume of trade between the two countries was a mere U.S\$18.735 million in 2014-15.³ The two countries can substantially increase the volume of bilateral trade by offering expertise to each other in various sectors as per their economic strength.

Likewise, Azerbaijan and Pakistan have also been working towards strengthening cooperation in the security sector, crucial for both these states. Nagorno-Karabakh and Kashmir disputes have been the defining reasons due to which these respective countries have developed and continue to maintain large defence sectors in order to have an adequate response to the security concerns that these issues bring with them. Strong defence sectors also allow Pakistan and Azerbaijan to address the challenges presented by their geopolitical situations. Recognising the historical ties, similar cultural traits, commonalities in difficult security situations and generally the need for bilateral cooperation, the article is intended to cover economic and defence cooperation in order to address the prospects and challenges of these two sectors for further bilateral cooperation.

Pakistan-Azerbaijan Economic Cooperation

Pakistan's Economy

Pakistan's economy is resilient and diversified, with the potential of becoming the eighteenth largest economy of the world as predicted by Jim O'Neil, a British economist.⁴ Agriculture sector has remained the dominant sector since independence with the country having competitive advantage in exporting agricultural products including cotton, yarn and rice. However, diversified financial growth has changed the composition of the country's economy. Now, the share of the agriculture sector in Pakistan's economy is 20 per cent, manufacturing 20-25 per cent and services sector is 55-57 per cent of total economy.⁵ Likewise, livestock is a very important sector

² World Integrated Trade Solutions, *ECO Trade Agreement (ECOTA)*, (Washington, D.C.: The World Bank, 1995), <http://wits.worldbank.org/GPTAD/PDF/archive/ECO.pdf> (accessed March 31, 2016).

³ Majid Memon, (Research Officer, Central Asia Section, Ministry of Commerce, GoP), Interview by Khurram Abbas, October 16, 2015.

⁴ *Dawn* "Pakistan Can Become World's 18th Largest Economy by 2050," January 19, 2014.

⁵ Eatzaz Ahmad, "Concluding Address," in *Roadmap for Economic Growth of Pakistan*, ed. Mushir Anwar (Islamabad: Islamabad Policy Research Institute, 2015), 12.

adding 11.8 per cent to the GDP.⁶ Furthermore, non-knit men's suits, cement and refined petroleum are strong export items of Pakistan. Telecommunications have also been a flourishing industry in the country since 2004.

The Government of Pakistan announced its Investment Policy 2013⁷ which facilitates foreign investors with appropriate incentives. Pakistan's strategic location, low labour costs, availability of low-cost land, and policy to repatriate 100 per cent amount⁸, etc. has made it the most investment friendly country in the region.⁹ Pakistan's recent policy of regional integration through the China-Pakistan Economic Corridor (CPEC) and development of Land Port Authorities (LPAs) at Wagha, Chaman and Torkham¹⁰ due to its strategic location has increased the country's economic prospects. Although, Pakistan is facing energy deficiency, the Government is trying to increase its energy supply by exploring new horizons for importing oil and gas and entering into new agreements such as the Liquid Natural Gas (LNG) import agreement with Qatar in February 2016.¹¹ Moreover, the Iran-Pakistan (IP) gas pipeline, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline and the Central Asia South Asia Electricity Transmission and Trade (*CASA-1000*) Project would support energy generation and infrastructure. The National Power Policy 2013 and the Investment Policy 2013, particularly after the discovery of shale oil and gas reserves,¹² have made Pakistan a lucrative place for investment in the oil and gas sector.

⁶ Ministry of Finance, *Pakistan Economic Survey 2014-15* (Islamabad: Government of Pakistan, 2015), http://www.finance.gov.pk/survey/chapters_15/Overview_of_the_Economy.pdf (accessed March 31, 2015).

⁷ Board of Investment (BOI), *Foreign Direct Investment (FDI) Strategy 2013-17* (Islamabad: Government of Pakistan, 2013), <http://boi.gov.pk/UploadedDocs/Downloads/InvestmentStrategy.pdf> (accessed April 1, 2014).

⁸ Ibid.

⁹ *Express Tribune*, "Business Climate in Pakistan Is Better than 10 Regional Countries," January 14, 2016.

¹⁰ The World Trade Review, "Pakistan and WTO," *World Trade Review* 15, no. 16 (2015), <http://www.worldtradereview.com/news.asp?pType=N&iType=A&iID=231&siD=20&nID=55024> (accessed March 10, 2016).

¹¹ *Express Tribune*, "Pakistan, Qatar Sign 16 Billion U.S. Dollars LNG Deal," February 11, 2016.

¹² U.S. Energy Information Administration (EIA), *Annual Assessment Report 2013* (Washington, D.C.: U.S. Energy Information Administration, 2013), <http://www.eia.gov/analysis/studies/worldshalegas/pdf/fullreport.pdf?zscb=75960731> (accessed October 25, 2015). The U.S. EIA has estimated 51 trillion cubic feet shale gas reserves in Pakistan. It also claims that these reserves are far more than the shale gas reserves of the U.S. and Canada.

Azerbaijan's Economy

Since its independence in 1991, Azerbaijan has developed economic and trade relations with more than 150 countries.¹³ It has signed over thirty five bilateral agreements for the promotion and protection of foreign investment and avoidance of double taxation. Commercial agreements and documents have also been signed to create a stable, predictable and favourable legislative and regulatory framework for doing business in the country.¹⁴ Oil is considered to be the most important indigenous product of Azerbaijan. Its high economic growth during 2006-08 was attributed to its large and growing oil exports. However, some non-export sectors (e.g. construction, banking and real estate) also featured double-digit growth prior to the global financial crisis of 2008. In 2009, economic growth remained above 9.4 per cent even as oil prices moderated and growth in construction sector remained slow.¹⁵ In 2010, economic growth slowed down to 4.9 per cent,¹⁶ although the impact of the global financial crisis was less severe here than in many other countries in the region. Azerbaijan is ranked fortieth in the global ease of doing business index.¹⁷

The current global economic slowdown presents some challenges for Azerbaijan's economy as oil prices remain below their mid-2008 high,¹⁸ highlighting the country's reliance on energy exports. A new era of oil production was opened in 1994 when the 'Contract of the Century' was signed between the State Oil Company of Azerbaijan (SOCAR) and a consortium of eleven foreign oil companies from six countries for the development of three major oil fields in the Azerbaijan sector of the Caspian Sea. Oil exports through the Baku-Tbilisi-Ceyhan (BTC) pipeline remain a critical economic driver, while efforts to boost gas production are underway.

Azerbaijan has also made progress on instituting market-based economic reforms. Although the private sector's share in Azerbaijan's

¹³ Amb. Mahmud Mammadgulyev, "Azerbaijan's Foreign Economic Relations," *Azerbaijan in Global Politics: Crafting Foreign Policy* (Baku: Azerbaijan Diplomatic Academy, 2009) 207.

¹⁴ *Ibid.*, 208.

¹⁵ The World Bank, *GDP Growth (annual %) Azerbaijan*, The World Bank, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/AZ?display=graph> (accessed December 1, 2015).

¹⁶ *Ibid.*

¹⁷ The World Bank, *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, (Washington, D.C.: World Bank Group, 2016), <http://www.doingbusiness.org/data/exploreeconomies/~media/gjawnb/doing%20business/documents/profiles/country/AZE.pdf> (accessed December 6, 2015).

¹⁸ Macro Trends, *Crude Oil Price History Chart from 2008 to September 2015*, Macro Trends LLC, <http://www.macrotrends.net/1369/crude-oil-price-history-chart> (accessed January 31, 2016).

economy now exceeds more than 85 per cent,¹⁹ yet, long-term prospects will depend on world oil prices; ongoing construction of infrastructure; its strategic location in the new oil and gas pipelines of the region;²⁰ and the ability to manage its energy wealth to promote sustainable growth in non-energy sectors of the economy. Non-oil growth has been the main driver of Azerbaijan's Gross Domestic Product (GDP) since 2011. During 2003-13, Azerbaijan's economy grew 3.4 times, with the non-oil sector growing 2.7 times, indicative that Government efforts to diversify its economy have been bearing fruit.²¹

Pakistan-Azerbaijan Bilateral Economic Cooperation

Pakistan and Azerbaijan signed the Agreement on Trade and Economic Cooperation in October 1995. This Agreement expired in 1998. Since then, no substantial agreement has been made between the two countries on economic affairs. Lack of formal institutional arrangements in the trade sector hampers businessmen from initiating economic activities between the two countries. The only existing economic institutional arrangement between Pakistan and Azerbaijan is known as the Joint Ministerial Commission (JMC). Unfortunately, this single institution does not get appropriate consideration of officials from both sides. The fifth session of the Pakistan-Azerbaijan JMC was held from December 6-7, 2011 in Baku, Azerbaijan.

Likewise, due to the persistent low volume of bilateral trade, Pakistan's Foreign Office has reduced its commercial staff in the Baku Embassy. However, despite such impediments, the volume of trade between Pakistan and Azerbaijan increased from U.S.\$10.323 million in 2011-12 to an unprecedented U.S.\$37.45 million in 2013-14. Pakistan's exports to Azerbaijan increased from U.S.\$29.97 million in 2012-13 to U.S.\$37.43 million in 2013-14, while imports marginally increased from U.S.\$0.06 million to U.S.\$0.018 million during the same period. This period saw an

¹⁹ Ibid., 207.

²⁰ Shamil Midkhatovich Yenikeyeff, *Kazakhstan's Gas: Export Markets and Export Routes* (Oxford: Oxford Institute for Energy Studies, 2008); and EUR-Lex: Access to European Union Law, "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Second Strategic Energy Review: an EU energy security and solidarity action plan {SEC(2008) 2870} {SEC(2008) 2871} {SEC(2008) 2872}," <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52008DC0781> (accessed October 24, 2015). The most important proposed gas pipeline is the Trans-Caspian Gas Pipeline. It would export natural gas to European Union countries. Furthermore, the proposed Southern Gas Corridor has further increased Azerbaijan's importance for the European Union (EU).

²¹ Vusal Gasimli, *Resource-Rich Countries: Modernization and Diversification: The Case of Azerbaijan* (Germany: LAP LAMBERT Academic Publishing, 2013), 7.

increase in Pakistan's exports to Azerbaijan mainly due to the export of rice (U.S.\$23.405 million) and synthetic fabric (U.S.\$3.126 million). The volume of trade with Azerbaijan over the past twelve years is shown in Tables 1-3:

Table-1

Pakistan-Azerbaijan Trade 2003-15 (U.S.\$ Million)²²

Years	Exports	Imports	Total
2003-04	1.409	0.193	1.612
2004-05	2.077	1.040	3.117
2005-06	2.750	0.326	3.076
2006-07	6.500	7.800	14.300
2007-08	6.512	0.371	6.883
2008-09	7.774	0.240	8.014
2009-10	4.223	0.039	4.262
2010-11	14.623	0.001	14.624
2011-12	10.322	0.001	10.323
2012-13	29.97	0.06	30.03
2013-14	37.434	0.018	37.452
2014-15 (July-Dec)	17.805	0.93	18.735

Source: Data available at the Ministry of Commerce, Government of Pakistan.

Table-2

Major Export Items to Azerbaijan in 2013-14 (U.S.\$ Million)²³

Export Items	Volume
Rice	28.06
Fruit and fruit preparations	3.31
Oil Seeds and Oleaginous Fruits	1.99
Synthetic Fabrics	0.98

Source: Data available at the Ministry of Commerce, Government of Pakistan.

²² Mr. Majid Memon, interview by Khurram Abbas.

²³ Ibid.

Table-3
Major Import Items from Azerbaijan in 2013-14 (U.S.\$ Million)²⁴

Import Items	Volume
Fruit and Fruit preparations	0.006

Source: Data available at the Ministry of Commerce, Government of Pakistan.

Challenges to Bilateral Trade

There are various reasons for the low volume of trade cooperation between the two countries. First, Pakistani businessmen are facing extraordinary competition from Turkey, Iran and the Commonwealth of Independent States (CIS).²⁵ The major competitive advantage for CIS countries' businessmen is that trade amongst them is free of duties and only 18 per cent Value Added Tax (VAT)²⁶ is levied, while Pakistani companies have to pay import duty between 20 to 120 per cent coupled with VAT,²⁷ which further toughens the competition for Pakistani businessmen against the businessmen of CIS countries in Azerbaijan's market.

Secondly, transportation costs also adversely affect the prices of Pakistani products in Azerbaijan's market. Iranian and Turkish companies, due to their close proximity, enjoy competitive advantage in transportation cost and there is natural flow of trade among these countries. There are approximately 450 Turkish companies and six Turkish banks working in Azerbaijan, as well as many Iranian companies, which further improves the business environment and facilities for these countries.²⁸ In comparison, there are hardly a dozen Pakistani companies engaged in trading activities with Azerbaijan at small and medium level.²⁹ The development of the Silk Road and North-South routes is opening new opportunities for the development of Azerbaijan-Pakistan trade.

Thirdly, the National Bank of Pakistan (NBP) has had a branch in Baku (the capital of Azerbaijan) since 2005. However, it has not opened a

²⁴ Mr. Majid Memon, interview by Khurram Abbas.

²⁵ Member states of CIS include Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Uzbekistan.

²⁶ Value Added Tax (VAT) is a form of consumption tax which is imposed on a purchased item.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Ibid.

single Letter of Credit (LC)³⁰ since its establishment. A LC increases trust between a buyer and seller, and encourages trade activities, especially between parties of two different states. Therefore, NBP should initiate this process keeping in view demand and supply. Fourthly, another grey area is re-exporting of Pakistani goods by a third country, especially from Dubai and Iran to Azerbaijan. The Government of Pakistan is taking various steps to deal with this undocumented re-exporting issue, but needs to improve engagement and cooperation on this. Lastly, the non-availability of direct flights between Pakistan and Azerbaijan is adversely affecting commercial trade, especially for businessmen who face difficulties in travelling given the amount of time spent on indirect travel routes.

Future Scope of Bilateral Trade

As mentioned above, oil export revenues make a significant contribution to Azerbaijan's economy. However, the International Monetary Fund (IMF) predicts that oil prices are likely to remain relatively low until 2019 (between U.S.\$ 57 to U.S.\$ 72),³¹ therefore, Azerbaijan would be compelled to find new areas of economic production. The country announced its 'Azerbaijan in 2020: Looking to the Future' development plan in 2012.³² Under this strategy, Azerbaijan is trying to diversify its economy by developing its services, tourism, transport, renewable energy, food processing, capital goods and information technology sectors, amongst others. Pakistan is well experienced in the agricultural sector. Agricultural universities of Pakistan such as University of Agriculture, Faisalabad and PMAS-Arid Agriculture University, Rawalpindi are renowned agricultural institutions in Asia. One of these universities can open a campus in Baku for building capacity of local students in the field of agriculture. Moreover, products related to the agriculture sector such as rice, cotton products, ready-made garments and textile fabrics could be exported to Azerbaijan, which can also substantially increase the volume of trade between the two countries. Trade can also be started in products such as engineering and

³⁰ An (LC) is a guaranteed document from a bank which assures that a seller will receive complete payment from the buyer after completion of all delivery conditions. If the buyer is unable to make the complete payment, the bank makes the full or remaining payments.

³¹ International Energy Agency (IEA), *Oil Market Report* (Paris: International Energy Agency, 2015), <https://www.iea.org/media/omrreports/fullissues/2015-10-13.pdf> (accessed October 27, 2015).

³² *Development Concept 'Azerbaijan-2020: Outlook for the Future,'* Project Report, Website of President of Azerbaijan Republic, http://www.president.az/files/future_en.pdf (accessed April 1, 2015).

consumer goods, pharmaceuticals, sports goods, surgical instruments and tents.³³

Azerbaijan can offer its expertise in the oil and gas exploration sector. Seven companies, including the Azerbaijan International Operating Company (AIOC), AZ Petrol, Branobel, Caspian International Petroleum Company (CIPC), Nobel Oil Group, North Absheron Operating Company (NAOC) and State Oil Company of Azerbaijan Republic (SOCAR), are renowned in this sector and can invest in Pakistan. Investment in the petroleum sector of Pakistan is highly secure given its local laws under the 'Foreign Investment Protection Act 1976'.

The two governments can also facilitate trade activities and substantially boost trade links by granting the Most Favoured Nation (MFN)³⁴ status to each other. The political and strategic relationship between the two is also favourable, therefore, signing a Free Trade Agreement (FTA) or Preferential Trade Agreement (PTA) should not be difficult. These agreements are considered to be the most effective tools for greater reciprocal market access for the private sector.

Pakistan-Azerbaijan Defence Cooperation

Pakistan's Defence Sector

Formed in 1947 after Pakistan gained independence, its Armed Forces consist of the Army, Navy, Air Force, Marines, Paramilitary Forces and Strategic Plans Division forces. Since the 1960s, Pakistan has been in close cooperation with China in the defence sector. Due to recent reports, China became the largest military supplier of Pakistan. The United States is Pakistan's second largest supplier of arms.³⁵ It should be pointed out that Pakistan became a major non-NATO ally (MNNA) of the U.S. in 2004.³⁶

Pakistan's military is ranked 11th in the world, outnumbering the weaponry of Germany, Australia and Canada,³⁷ and according to the Global Firepower (GFP) data of 2015, Pakistan has 617,000 active frontline

³³ More than one million people became internally displaced persons (IDPs) due to the Armenian aggression in 1992-93. Majority of these IDPs are still living in tents.

³⁴ MFN status has various types of advantages including low tariffs, increased volume of import quotas and procedural protections.

³⁵ *Dawn.com*, "Pakistan in Tenth Place in List of World's Largest Arms Importers of 2015," February 22, 2016, <http://www.dawn.com/news/1241157> (accessed February 25, 2016).

³⁶ David Rohde, "U.S. Will Celebrate Pakistan As a 'Major Non-NATO Ally'," *New York Times*, March 19, 2004, <http://www.nytimes.com/2004/03/19/world/us-will-celebrate-pakistan-as-a-major-non-nato-ally.html> (accessed November 17, 2015).

³⁷ *Express Tribune*, "Pakistan Military Ranked 11th Strongest in World," October 5, 2015, <http://tribune.com.pk/story/967711/pakistani-military-ranked-11th-strongest-in-world/> (accessed November 17, 2015).

personnel, with another 515,000 troops in reserve. Like Azerbaijan, this is a considerable force if one takes into account the population of the country of around 199 million people.³⁸ Apart from this, Pakistan has 2,924 tanks, 2,828 units of armoured fighting vehicles, 465 self-propelled guns, 3,278 towed-artillery units and 134 multiple-launch rocket systems. Its ground systems are very effective in handling land-based operations. The country's navy consists of 74 vessels, including ten frigates, eight submarines, twelve coastal defence boats and three mine warfare systems. The combination of above and below water vessels provides Pakistan with a flexible defence strategy on the sea. Moreover, Pakistan has a sizeable Air Force with 914 aircraft units. These include 387 fighters/interceptors, 387 fixed-wing attack aircrafts, 278 transport aircrafts, 170 trainer aircrafts, 313 helicopters and 48 attack helicopters.³⁹

Apart from conventional forces, Pakistan is also a nuclear power. Nuclear Command and Control of Pakistan is the apex body responsible for maintenance and deployment of its nuclear weapons. It is also the advisory body on such decisions to the Prime Minister and President of the country.

Pakistan's defence industry is unified under the Ministry of Defence Production established in 1951. Since then, its defence industry has undergone considerable development and according to 2014 data, Pakistan has been able to achieve self-sufficiency in several areas of defence and reached an annual local production of defence articles worth U.S.\$1.5 billion. These include JF-17 Thunder fighter aircrafts, Mushak and Super Mushak aircrafts, Al-Khalid and Al-Zarrar tanks, as well as navy productions of Karachi Shipyard and Engineering Works.⁴⁰

Azerbaijan's Defence Sector

The framework of the security sector of Azerbaijan can be found in the 'Law on National Security of the Republic of Azerbaijan' adopted in 2004 (hereinafter the National Security Law). Analysis of Article 10 of this Law provides that:

State bodies and forces that ensure national security are institutions that are created by the state, functioning in the boundaries of current legislation with the purpose and

³⁸ Central Intelligence Agency, "The World Factbook: Pakistan," *CIA.gov*, <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html> (accessed March 11, 2016).

³⁹ Global Fire Power, "Pakistan Military Strength," *GlobalFirepower.com*, http://www.globalfirepower.com/country-military-strength-detail.asp?country_id=pakistan (accessed November 17, 2015).

⁴⁰ Baqir Sajjad Syed, "Pakistan's Indigenous Defence Production Reaches \$1.5bn," *Dawn*, December 16, 2014.

capability to maintain national security of the Republic of Azerbaijan. At the same time, the same article provides a non-exhaustive list of the executive bodies charged with duties to ensure national security of Azerbaijan. These are 1) Azerbaijan's Armed Forces and other military units created in accordance with current legislation; 2) Azerbaijan's special services agencies; 3) police, prosecutor's office, customs, tax office and other bodies charged with the maintenance of public order and; 4) other bodies that are charged with the security of industrial, energy, transportation, communications and information sectors that participate directly in the maintenance of national security.⁴¹

The Armed Forces, comprising land, air and naval forces, play a key role in the defence sector of Azerbaijan.⁴² Other military units also include: 1) Internal Troops (Ministry of Internal Affairs); 2) Border Troops (State Border Service); 3) National Security Troops (Ministry of National Security); 4) Troops of the Ministry of Justice; 5) Troops of the Ministry of Emergency Situations; and the 6) National Guard (Special State Guard Service).⁴³

According to the Global Firepower (GFP) 2015 data, Azerbaijan has 67,000 active frontline personnel and can add 300,000 reserve units (excluding other military units listed above). It has around 314 tanks, 1590 armoured fighting vehicles, 119 self-propelled guns, 240 towed-artillery and 191 multiple launch rocket systems. Its ground forces, given their balance and maneuverability, are capable of handling all kinds of security threats which originate mostly on land. Its naval forces comprise of forty seven vessels, of which there are fourteen coastal defence crafts, seven mine warfare units, four submarines and one frigate. Such a compact fleet accommodates the defence needs of Azerbaijan in the Caspian Sea. Azerbaijan's Air Force is also the strongest in the region of South Caucasus, with 121 aircrafts, including eighteen fighters/interceptors, 29 fixed-wing attack aircrafts, 62 transport aircrafts, 19 trainer aircrafts, 79 helicopters and 18 attack helicopters.⁴⁴

⁴¹ 2. Kamal Makili-Aliyev, "Azerbaijan," in *Security Sector Reforms in Countries of Visegrad and Southern Caucasus: Challenges and Opportunities* (Bratislava: Centre for European and North Atlantic Affairs, 2013), 27, citing the 'Law on National Security of the Republic of Azerbaijan, Parliament of the Republic of Azerbaijan, № 712-IIQ, 2004.'

⁴² This article only focuses on Azerbaijan's Armed Forces, other military units, and the defence industry.

⁴³ 2. Kamal Makili-Aliyev, "Azerbaijan," 27.

⁴⁴ Global Fire Power, "Azerbaijan Military Strength," *Global Firepower.com*, http://www.globalfirepower.com/country-military-strength-detail.asp?country_id=azerbaijan (accessed November 17, 2015).

This is a very large military for a country with a population of approximately 9.7 million.⁴⁵ In fact, the country's defence industry has grown and developed over the years since independence under the Ministry of Defence Industry established in 2005. The bulk of its industrial production are small arms, although, armoured vehicles are also manufactured locally. Azerbaijan's signature production is the Istiglal IST-14.5 anti-material sniper rifle; the Matador and Marauder mine-protected armoured vehicle, as well as Inam and Zafar pistols and UP-7.62 submachine guns.⁴⁶

Bilateral Cooperation in the Military and Defence Sector

Military and defence cooperation between Azerbaijan-Pakistan is signified by continuous dialogue in the form of high-level meetings, workgroups and other similar interactions between the respective bodies and institutions of both states. Here are a few recent examples:

In February 2014, Pakistan and Azerbaijan signed the Bilateral Military Cooperation Agreement. The agreement was signed during the fifth meeting of the Azerbaijan-Pakistan Working Group on Military Cooperation held in Islamabad. The Pakistani delegation was led by Major General Muhammad Rashid, Director General of Foreign Military Cooperation in the Pakistan Army and the respective Azerbaijani delegation was led by the head of the International Military Cooperation Department under the Defence Ministry, Major General Ramiz Najafov.⁴⁷ The same updated document was signed on April 1, 2015 during the Working Group meeting in Baku.⁴⁸

On September 11, 2014 during the first Azerbaijan International Defence Industry Exhibition - ADEX 2014, Azerbaijan's Defence Minister Zakir Hasanov met Chairman of the National Engineering and Scientific Commission, Muhammad Irfan Burney during his visit to Baku.⁴⁹ On

⁴⁵ Central Intelligence Agency, "The World Factbook: Azerbaijan," *CIA.gov*, <https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html> (accessed March 11, 2016).

⁴⁶ Ministry of Defence Industry (Baku: Republic of Azerbaijan), <http://www.mdi.gov.az/?/en/> (accessed November 17, 2015).

⁴⁷ Eynar Hajiyev, "Azerbaijan, Pakistan Sign Military Cooperation Agreement," *Sia.az*, February 14, 2014, <http://sia.az/en/news/politics/393530-azerbaijan-pakistan-sign-military-cooperation-agreement> (accessed November 17, 2015).

⁴⁸ Turan News Agency, "Azerbaijan and Pakistan Sign Protocol on Military Cooperation," *Contact.az*, April 1, 2015, http://www.contact.az/docs/2015/Politics/040100111199.en.htm#.Vkxy_fkrKM9 (accessed November 17, 2015).

⁴⁹ Azerbaijan State News Agency, "Azerbaijani Defence Minister Hails Military Cooperation with Pakistan," *Azertag.az*, September 11, 2014, http://azertag.az/en/xeber/Azerbaijani_Defence_Minister_hails_military_cooperation_with_Pakistan-794582 (accessed November 17, 2015).

November 18 of the same year, Zakir Hasanov also paid a visit to Pakistan. During the visit, Hasanov held several meetings with the leadership of Pakistan and the armed forces of the country. Defence cooperation and regional security were discussed during his visit.⁵⁰

When the President of Pakistan Mamnoon Hussain visited Azerbaijan in March 2015, military cooperation was stressed as a fundamental building block for improving bilateral relations and the opportunity to work together in the area of defence technology was taken up during the high-level negotiations.⁵¹ The President was accompanied by the Federal Minister of Defence Productions which is indicative of the importance given to defence industry cooperation. This stance towards military and technical cooperation as well as regional security was followed up in October 2015 during the visit of Rashad Mahmood, Chairman of the Joint Chiefs of Staff Committee of Pakistan to Azerbaijan at their Ministry of Defence.⁵²

Pakistan has also trained around a 100 units of military personnel in Azerbaijan over the past decade.⁵³ Creation of the Pakistan-Azerbaijan Business Forum, with a special focus on defence equipment, is another example of mutual defence cooperation.⁵⁴

Future Scope of Cooperation

As discussed, there are strong politico-military ties between Azerbaijan and Pakistan. However, the cooperation can and should extend beyond the already customary military personnel trainings, *ad hoc* common military exercises and mutual visits and discussions. Prospects of cooperation are already there. If we compare the military data on armed forces of both countries, we can see similarities in trends and postures such as in the composition of the forces and rationale behind them.

Both countries are dealing with unresolved territorial armed conflicts and a complicated regional security framework. The biggest differences are

⁵⁰ Ilkin Izzet, "Azerbaijan, Pakistan to Discuss Defence Cooperation," *Trend.az*, November 18, 2014, <http://en.trend.az/azerbaijan/politics/2334150.html> (accessed November 17, 2015).

⁵¹ Sara Rajabova, "Azerbaijan, Pakistan to Create New Collaboration Format," *AzerNews.az*, March 12, 2015, <http://www.azernews.az/azerbaijan/78983.html> (accessed November 17, 2015).

⁵² *News.Az*, "Azerbaijan, Pakistan Expand Military Cooperation," October 12, 2015, <http://news.az/articles/politics/101815> (accessed November 17, 2015).

⁵³ Azerbaijan Diplomatic Academy, "Azerbaijan and Pakistan," *Azerbaijan in the World-ADA* 3, no. 4 (2010), http://biweekly.ada.edu.az/vol_3_no_4/Azerbaijan_and_Pakistan_An_interview_with_Ambassador_Abdul_Hamid.htm (accessed December 4, 2015).

⁵⁴ Muhammad Asif Noor, "Pakistan-Azerbaijan Relations – Reaching a New Momentum, New Spring," *AzerNews.az*, April 9, 2015, <http://www.azernews.az/analysis/80123.html> (accessed December 4, 2015).

in the number of troops per capita. When it comes to Pakistan, its Armed Forces constitute roughly 0.25 per cent of the total population, while Azerbaijani Armed Forces stand at approximately 0.68 per cent. In case of Azerbaijan, this percentage is determined by the need to exert pressure on the occupying state of Armenia in military terms to make it more susceptible to negotiations on the fair resolution of the Nagorno-Karabakh conflict. In Pakistan's case, such a strategy is not appropriate since its conflict is with India, a state with a significantly larger military, overall budget and GDP, unlike Armenia. Hence, a more compact force in terms of troops per capita is a better defence strategy under its security situation. Not to mention the population difference between both countries and the logistics and maintenance of a force as large as Pakistan's Armed Forces. Azerbaijan, for example, has more multiple-launch rockets systems and patrol vessels than Pakistan. This is due to the tactical differences both countries face.

Despite these differences, Azerbaijan and Pakistan hold relatively similar weaponry and military vehicle systems. It is, therefore, logical that military cooperation can also include regular military exercises between the comparable services of both armed forces. Exchange of valuable strategic information as well as common approaches towards the territorial armed conflict postures can be a natural extension in improving bilateral relations in defence.

Since 2007, Azerbaijan has been expressing interest in importing the JF-17 multi-role fighters from Pakistan.⁵⁵ It is also interested in diversifying its portfolio of arms purchases from the latter.⁵⁶ It is, therefore, both strategically and economically important for Pakistan to seriously move forward on imports of military equipment (fighter aircraft, tanks or rockets) to Azerbaijan. Azerbaijan's Istiglal anti-material rifles and other small arms are also ideal for use in mountainous and tough terrains. Pakistan should consider including them in its basket given their competitive price, high-quality and efficiency.

⁵⁵ *Today.az*, "Azerbaijan to buy JF-17 Multirole Fighters from Pakistan," April 23, 2007, <http://today.az/news/business/39829.html> (accessed December 4, 2015).

⁵⁶ *Daily Times*, "Azerbaijan to Import Arms from Pakistan," July 10, 2014, <http://www.dailytimes.com.pk/national/10-Jul-2014/azerbaijan-to-import-arms-from-pakistan> (accessed April 4, 2016).

Recommendations

Economic Cooperation

On the Policy Front

Regional connectivity is an important focus for the Government of Pakistan. In this regard, Azerbaijan can be invited to use the Gwadar Deep Seaport for transportation of its export products to the Asia Pacific, South East Asia and South Asian region. As mentioned earlier, trade agreements between the two countries expired in 1998 and new agreements should be signed. In fact, both nations need to work on granting MFN status to each other. This step would be a milestone in economic relations.

A Joint Working Group for determining priority items for export-import operations is also essential as it would further improve bilateral cooperation. Azerbaijan also needs to grant subsidy on import duty to Pakistani products so that Pakistani businessmen can compete with Iranian and Turkish businessmen.

To develop better interaction between trade promotion organisations and to develop trade linkages, Trade Development Authority of Pakistan (TDAP) should sign a Memorandum of Understanding (MOU) with the Trade Promotion Organization (TPO) of Azerbaijan. It is also high time to hold a meeting of the Joint Ministerial Commission (JMC), either in Islamabad or Baku. Furthermore, regular biannual meetings of JMC should be ensured by both sides.

Pakistan should also propose a mechanism of cooperation with the Small and Medium Enterprise Development Agency of Azerbaijan (KOSIA-SMEDA), which is responsible for maintaining information about prices of various products. The information of prices on specific products could be conveyed to Pakistani businessmen at appropriate times.

On the Private Sector Front

Increased commercial and private sector interaction has its own significance. Therefore, arrangements for exchange programmes between businessmen and officials from the economic and commerce ministries, members from both Chambers of Commerce and Industry; Export and Investment Promotion Foundation (AZPROMO) of Azerbaijan and the Federation of Chamber of Commerce and Industry of Pakistan should be initiated. To familiarise the business community with each country's commercial environment, one-to-one meetings between businessmen, regular exchange of trade delegations of potential products should also be organised annually, including participation in industrial and commercial

exhibitions. Establishment of joint business forums and informative seminars about legal requirements and tariff structures can be useful as well as increase the interest of businessmen. Direct flights from Islamabad to Baku and vice versa will go a long way in facilitating investors and facilitate trade and tourism sectors. There is a need to establish Joint Business Councils (JBC) between the business communities of both countries at macro and micro level.

Furthermore, Pakistan should encourage investment from Azerbaijan in its construction sector. In this regard, Government of Pakistan should invite construction companies to analyse the scope of participation of Azerbaijan's companies in this area.

On the Diplomatic Front

The World Trade Organization (WTO) has not yet granted membership to Azerbaijan. Pakistan has always supported the latter's membership in the WTO. Pakistan can use its diplomatic channels for Azerbaijan's inclusion, which would further reduce import duties and be useful for exporting Pakistani products. The former should also re-appoint a permanent resident commercial attaché in Baku to harmonise trade cooperation.

Defence Cooperation

On the Policy Front

To move onto the next stage of military and defence cooperation, it would be valuable to reiterate future strategic military cooperation in a bilateral agreement which can solidify political will between the two countries. Annual regular meetings between Working Groups should now lead to a combined military and defence cooperation committee of equal participation to deal with all aspects of the security sectors' cooperation; and be able to implement strategic provisions of the proposed bilateral military cooperation agreement.

On the Capacity-Building Front

A series of regular military exercises between the two countries should be conducted which could be extended to include land, air and naval forces, as well as air defence and strategic planning. Both should consider enlarging the scale of mutual exchange of military personnel for training and military education.

On the Arms Trade and Manufacturing Front

The two should also extend cooperation in the area of arms trade and develop a framework of sales of small arms and heavy military equipment according to the needs of each state in order to address the specific needs of the security sector. This framework can include bartering of arms based on a 'preferred customer' programme, thus, reducing budgetary expenditures.

Azerbaijan and Pakistan already have successful experience⁵⁷ of similar projects with third states in the production of small and heavy arms. Thus, there is a great opportunity to consider common and combined production of military weaponry and/or equipment.

Conclusion

There is enormous scope for trade cooperation between the two countries, especially after the respective announcement of Azerbaijan's Development Strategy of 2020 and Pakistan's Investment Policy of 2013. However, despite the amicable political environment and policies, trade between the two countries has been restricted due to lack of interaction and information about each other. The lack of bilateral agreements and institutional arrangements is also an important reason for low level of economic cooperation. However, the aforementioned recommendations can improve the existing situation. Strengthening cooperation in the defence sector can also improve the volume of trade between the two in the years to come.

Azerbaijan-Pakistan military defence cooperation has already reached a prominent level of development. However, for two states with such a high level of political cooperation and unity, it is important to move forward on the next level of cooperation in the military and defence sphere. There is enough room for regular military exercises; synchronisation of information and experience exchange with regard to the management of armed conflicts; and enhancement in defence industry cooperation and military equipment sales.

There is a political will to move forward beyond *ad hoc* cooperation and regular working groups to more solid and protracted interaction in the defence sectors, so the next decade will ultimately show the growth of cooperation; and maybe even inter-operability of forces. Enhanced cooperation in the economic sectors will also positively affect military and defence collaboration. ■

⁵⁷ For example, Azerbaijan with South Africa and Pakistan with China.