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<b>Country</b>	<b>Azerbaijan</b>
<b>Title</b>	<b>Oil and Its Effects in Azerbaijan: Risks and Opportunities</b>
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Does oil have special properties which can damage the economy and democratic development of the oil producing states? Apparently, oil itself is a precious resource which if used efficiently can benefit populations of the oil-rich countries. Recent studies showed, however, that in most cases oil does hurt democracy, and resource-abundant states are among world's economic laggards.

Given that Azerbaijan is experiencing its second oil boom, it seems important to examine some of the risks and potentialities associated with natural-resource abundance. This paper starts with looking at the risks side, and then by outlining some of the policies the incumbent government can pursue to thwart oil's negative impact on democracy and economic prosperity in this energy rich post-communist country on the Caspian Sea.

First of all, oil is an energy resource and there is an endless global need for it raising an energy rich country's strategic importance and, thus, complicating democracy promotion efforts from the outside players. Second, oil has a profound impact on country's political structure resulting in the emergence of the "rentier state" - a state in which large amounts of rents empower the government and involve only a few in the generation of this wealth.

Studies have shown that oil-abundant states are more likely to be undemocratic. Oil revenues empower state elites by concentrating power and resources in the government allowing it to buy off the opposition groups. Extreme enrichment of certain government fraction enables it to apply pressure against regime change attempts through cooptation and repression. This explains why rentier states spend so much on internal security.

In addition, resource abundance has an impact on political regime survival making regime (whether democracy or authoritarianism) stable as non-tax revenues reduce redistributive conflict in society. From the economics perspective, oil-rich countries have less alternative resources whose profitability is comparable to that of oil's. That binds a country's economy to the revenues from a single resource creating some troubles for its future development.

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Nowadays, Azerbaijan with its million-dollars oil contracts and the inflow of foreign investment exhibits a clear cut example of a state whose export is extremely limited to energy resources. At present, many see oil as Azerbaijan's only chance to develop. Others emphasize the "evil" face of oil.

The problems mentioned before can be a real danger for young Azerbaijani state and economy, should preventive measures not be taken. Figures show that Azerbaijani economy depends exclusively on oil: oil revenues constitute 41% of country's GDP, and petroleum makes 78% of Azerbaijani export. It is noteworthy that oil revenues are managed predominantly by a state institution State Oil Company of Azerbaijan (SOCAR). Oil sector dominated by foreign investors is the only functioning sector while others including agriculture and tourism are significantly undeveloped.

World oil prices are volatile, so any sudden change in global demand or supply of energy resources can put Azerbaijan into trouble. The Azerbaijani government should launch effective wealth allocation and distribution policies to enable the economy develop in multiple directions. Economic diversification should be taken as a policy priority.

Oil industry in Azerbaijan is based on foreign investments and generally is less dependent on specialized professionals. Azerbaijani labour force mostly does the "black" job while most professionals are foreigners. It is widely held that specialization is strongly correlated with education. Weak educational system produces weak specialists. As a result, foreign specialists are superior in the country's energy industry. Specialists educated in foreign countries prefer foreign states for working because of the lack of career opportunities domestically.

According to CIA fact book, most of Azerbaijani labour force is employed in agriculture and services: agriculture 41%, industry (mainly oil) 7%, and services 52% (as of 2001). Considering the fact that the role of agriculture is not very significant in Azeri economy, the majority of work force is concentrated in services which actually do not require greater specialization on workers' behalf. As already mentioned, investments into education is also important. Improved non-oil sectors will eventually demand their own professionals.

Launched in 2006, the Baku-Tbilisi-Ceyhan pipeline will double GDP of the country in the near future. So, there is a big need for more capable and foresighted government to manage a large amount of revenues. All these should be done in a democratic manner. Otherwise, it is non-democracy and economic resource curse will double not the GDP.

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As senior executive of Exxon, Andre Madec says: “We don’t like to call it the oil curse, we prefer ‘governance curse’. We are private investors, and it is not our role to tell governments how to spend money”. He also puts that “Exxon wants oil revenues go to the people rather than accounts in Switzerland” as it reduces the risk of boycotts and bad publicity.

As seen from the speech of this oil TNC’s executive, government’s role is absolutely instrumental.

To conclude, it is still possible to avoid some of the dangers of the resource abundance so that petroleum would be blessing not a curse. For this to happen, more transparency in government spending should be ensured, and the media’s role in this respect is crucial. Also, spending should go through states budget and parliament scrutiny not SOCAR. It is necessary to carry out reforms in the non-transparent government oil administration. The creation of an independent council for the control over State Oil Fund can be useful. All government projects should be closely evaluated with the active participation of Parliament and other independent institutions. Government should provide the sufficient wealth for the development of education moving forth education reform.

Also, oil wealth should be distributed among other potentially strong sectors in order to achieve greater occupational specialization. It appears that the future development of Azerbaijan and its democracy prospects depend on the government’s political will. If the proper and rational policy is developed and carried out, some of the possible risks of the “oil curse” can be effectively prevented.