

State-Building in a Transition Period: The Case of Azerbaijan

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ABSTRACT

In the aftermath of the breakup of the Soviet empire in late 1991, Azerbaijan embarked on a course to shake off the remnants of communism, defend its survival and build a politically and economically viable state. This paper traces the varied political, economic and social challenges Azerbaijan faced in its transition from socialism to capitalism. The transition period in Azerbaijan has been protracted and was complicated by the conflict with Armenia over Nagorno-Karabakh as well as the inability of the political elite to instill democratic rules and values to the government institutions.

After more than a decade of independence, the new republic cannot be called a democracy, but there has been some measurable progress on both the economic and political fronts. Whether or not that progress can be sustained and exactly what kind of government will emerge as Azerbaijan completes its transition are matters of concern because of the geo-strategic importance of the country. While Azerbaijan has started down the path of modernization, its success as a democracy is by no means assured and its citizens continue to

suffer. The brightness or dimness of the future depends on the skills and objectives of the country's leadership as well as their willingness to combat and thwart corruption at all levels. Several recommendations are offered to speed up and improve the transition in Azerbaijan.

INTRODUCTION

In the aftermath of the breakup of the Soviet empire in late 1991, Azerbaijan embarked on a course to shake off the remnants of communism, defend its survival and build a politically and economically viable state. Enough time has now passed to review the efforts made by the government and society to transition to independence, stability and prosperity. Geopolitically, Azerbaijan is important and its success or failure with democracy will impact not only its citizens but also states and nations around the globe.

Azerbaijan's greatest strategic asset is its hydrocarbon resources. About 233 billion barrels worth of oil are estimated to be in the Caspian Sea reserves, making Azerbaijan the potential equivalent of another Saudi Arabia.¹ Given its position at the crossroads of Europe and Asia, Azerbaijan provides a vital transport and energy corridor in a globalize network of capitals, goods and services. This location is also critical because of the country's proximity to Russia and Iran. The adherence to democratic principles and the ongoing stability in Azerbaijan are significant for the Western powers. As such, the West with particular attention traces domestic political developments as well as international interactions.

Many outside observers as well as those within Azerbaijan pinned their hopes on the 2003 presidential elections for the promotion of democracy in the country. Has that, in fact, happened? Is the path Azerbaijan chose leading the country forward to democracy or does it harbor the risk of throwing the country back to the chaos of 1991? What is Azerbaijan doing to prevent the latter and build a strong state? These issues will be examined and recommendations offered to improve the process of nation building.

A MIRAGE OR A REAL SHIFT TO DEMOCRACY?

The independence Azerbaijan gained in the wake of the dissolution of the Soviet Union in 1991 brought with it many challenges. On one hand, the fledgling Azerbaijani nation needed to build an effective political entity that would ensure adequate functioning of institutions and provide most crucial "political goods"² for the society based on democratic principles. On the other hand, the country was engaged in the west in an armed conflict with Armenia whose troops were backed with Russia's military aid, and, therefore, preserving the territorial integrity became one of the major tasks for the new leadership. Each of these challenges played a significant role in the formation of Azerbaijan as a state.

The transition from socialism to capitalism requires certain measures to ensure that "systemic transition"³ is taking a normal course. In essence, systemic transition is a complex process encompassing *political transition* (creation of independent states, establishment of state identity, formation of foreign policy and establishment of democratic institutions and governance); *economic transition* (liberalization of prices, stabilization of government expenditures, the privatization of state-owned enterprises and the internationalization of the

economy); and *social transition* (development of civil society).⁴ Ideally, rule of law should thread the entire process to provide legitimacy. However, the transition period in Azerbaijan was protracted and became complicated because of the conflict with Armenia over Nagorno-Karabakh as well as the inability of the political elite to instill democratic rules and values to the government institutions.

POLITICAL TRANSITION

The inevitable uncertainty and chaos of the first years of independence (1991-1993) combined with the ongoing armed conflict with Armenia made life during this period very difficult for the citizens of Azerbaijan. The political turmoil, loss of territories, influx of hundreds of thousands of refugees and infrastructural damage caused by the war had a destructive impact on the overall economical and social situation. However, it was also during this time that the country witnessed the development of democracy and subsequent revival of self-governing ideas not seen since the first democratic republic in the Muslim Orient—the Democratic Republic of Azerbaijan—was established in 1918.⁵

In June 1992, “one of the freest elections in the post-Soviet sphere”⁶ took place when the leader of the Azerbaijani Popular Front (AFP), Aliyev Abulfaz Elchibey, was elected to office with 55 percent of the popular vote. At the same time the Soviet Supreme (the Soviet-era legislation body) was dissolved and replaced by a 50-member Parliament, *Milli Majlis*, which had been established as far back as November 1991. Despite the hopeful forecast, Elchibey was divested of his presidential powers, first by the Parliament, and then in a country-wide referendum in 1993 due to the enormous toll of the front and his failure to bring about economic reforms. While Elchibey’s dismissal was mourned, many celebrated the country’s commitment to the will of the majority and other democratic principles.

Elchibey’s successor, Heydar Aliyev (1993-2003), overwhelmingly garnered 98.8 percent of the vote and has since managed to establish political stability, initiate economic recovery and prevent fragmentation of the state.⁷ After achieving a cease-fire agreement with Armenia in May 1994, he attracted foreign investment in the oil sector. Since signing “The Contract of the Century” for petroleum in September 1994,⁸ the country has made significant progress towards nation building,⁹ which is becoming a priority for the ruling elite. However, critics note that much of the progress has come “at the cost of political liberties and democracy.”¹⁰ During the decade of Aliyev’s rule many have observed a shift from the AFP-pioneering democratic principles to more authoritarian rule.

After a November 1995 referendum, a significant stride was made in establishing an efficient institutional framework when a new Constitution of the Republic of Azerbaijan outlining the rights and responsibilities of the levels of government was adopted and subsequently, entered into force. The Constitution centralized the government while concentrating the majority—and what has been called an excessive amount—of power in the hands of executive branch, namely the President. The reason given for the concentration of power was to prevent some of the ethnically diverse regions from leveraging on the decision-making process. During the years of 1993-1995 while the country was torn in civil insurrection, several *coup d’etats* had been attempted and some of the outlying regions had tried to forge self-proclaimed entities, such as the Talish-Mugan Republic in the south.¹¹ Consolidating power in the executive branch eliminated these threats.

In 2002 the state-building elite secured even more power for itself. Several leaders initiated a quick referendum to alter constitutional provisions with regard to parliamentary representation and the procedure in case of the early death or incapacity of the president. Described often as a sharp blow to democracy, this nation-wide referendum was reported to be “thoroughly flawed—from preparation to final stages of execution.”¹² Some 40 changes to 23 articles of the constitution were said to be approved by 97 percent of 88 percent registered voters,¹³ including abolishing proportional representation of parties in parliament and transferring “acting president ad interim in case of incapacity of the president from the speaker of parliament to the prime minister.”¹⁴

The consequences of these changes to the parliamentary majority system had a damaging effect on Azerbaijan small parties, endangering the existence of their political activity and making the elections and the parliament itself less democratic.¹⁵ The constitutional provision regarding the transfer of presidential power was used in August 2003 when President Heydar Aliyev, who was terminally ill, transferred powers to his son, at that time a nominated prime minister.

Despite the setbacks in establishing transparency, the process of institution building in Azerbaijan is not over. Azerbaijan currently receives outright pressure from the Council of Europe to speed up democratization. The country became a member of the Council of Europe in 2001 and since then has been monitored on its progress in establishing effectively functioning democratic institutions. The latest report was delivered in January 2004, where the Council of Europe recommended the government make constitutional changes to enhance the principle of separation of power and endow Parliament with more authority to exercise oversight of the government’s activities.¹⁶ The report stated:

With regard to separation of power, the Assembly notes that the constitutional provisions regarding separation of powers seem to be inadequate and this fundamental principle appears not to be applied in practice. The parliament needs to reinforce its independence vis-à-vis the executive in order to exercise control over the government’s activities, especially in the field of respect for human rights. In a democratic system, the parliament must in particular be able to exercise its right to question members of the government and to receive precise answers as regards implementation of the laws and the use of government executive powers.¹⁷

The successful transition of the country to stability and democracy in many respects depends on the course and, specifically, the tactics employed by the state-building elite. The ruling elite during Heydar Aliyev’s times were primarily concerned with political and economic stabilization, sacrificing democracy where needed to achieve these goals. The current state-building elite headed by President Ilham Aliyev, while continuing the policies of the previous administration, gives more attention to promoting economic development and improving the well-being of the country, sometimes balancing democratic values and the necessity of keeping power tight. On March 17, 2004 the president pardoned and released 26 political prisoners identified by the Council of Europe, including former Prime Minister Surrat Huseynov, who had been accused of an abortive coup attempt in 1994. Still the international community continues its watchfulness and critique of the Azerbaijan government. The massive post-election arrests of the opposition who had gathered to protest the 2003 presidential election results and the ongoing pressure on the media are viewed as encroachments to democracy.

In reality, there is an ongoing competition within the ruling elite between the “young” wing reformers, often-foreign trained, and the “old guard” conservatives, who are viewed as “well entrenched and experienced functionaries who served under Heydar Aliyev during his tenure as communist party chief in the 1970s.”¹⁸ The struggle within the elite is centered on the control of a pyramidal distribution structure that allows substantial funds to be skimmed from the oil business.¹⁹

According to confidential review reports on the situation in the South Caucasus prepared for transnational corporations by international advisory and consulting centers such as Cambridge Energy Research Associates (CERA) and the Eurasia Group, the conservatives are described as an amorphous group of influential representatives from various clans concerned about the detriment effect of future reforms to their positions.²⁰

The analysts see Ilham Aliyev at the head of the block interested in carrying on reforms. As a young leader, Ilham Aliyev needs to stay in favor with the younger generation of reformers and position himself as pro-democracy in order to effectively govern the country. The price of his failure to meet the expectations of the population would be high—instability in Azerbaijan, perhaps spilling over into the rest of the region.²¹ In the regional context, as compared to the experiences of Georgia and other former Soviet states, the case can be made that certain, though deliberate, progress has been achieved in Azerbaijan. Due to the complex multi-layered system of political and social-economic relations in Azerbaijan, the prudence in implementing reforms, in many respects, could be a prerequisite for success more in Azerbaijan than in neighboring country.²²

One of the challenges in the reform process owes to the fact that much of Azerbaijan’s political system operates on a pyramidal web of patronage, nepotism and often-institutionalized corruption²³ where regional and clan influences remain strong.²⁴ In this regard the report prepared by the multi-national International Crisis Group indicates the following:

The president and his family sit at the apex of this pyramid. Regionalism provides a crucial under-pinning to the patterns of influence, although outsiders often have a difficult time tracing this, since some families have been in Baku for generations. Many clans are identified by region of origin.

Nevertheless, today the state authorities appreciate that corruption and weak public management undermine political and government institutions as well as negatively impact social-economic growth, development of market economy and the attraction of foreign investments. Thus, the government has launched a campaign against corruption and adopted a National Anti-Corruption Program to be implemented in January 2005.

The exposure to severe criticism along with ongoing pressure from international organizations about the corruption flourishing in the governmental structure led the Azerbaijan government to pass in early 2004 the Law against Corruption aimed at building the capacity of state bodies to detect and suppress corruption crimes. An Anti-Corruption Department has been established within the Attorney General’s Office,²⁵ consisting of officers transferred from the Ministry of National Security which long has been distinguished for its “purity” with regard to corruption.

ECONOMIC TRANSITION

Economic transition in Azerbaijan, as in the other former USSR republics, has involved transforming the Soviet-era command system economy, which was “based on state-owned industry, heavy subsidies from Moscow and the usurpation by the state of the market’s role in allocating resources and determining prices,” into a system defined by markets and private property.²⁶ The transition to the market economy in Azerbaijan was officially launched with the enactment of the Law on Basic Economic Development in 1991. Price liberalization begun in 1992 led to hyperinflation, which reached an annual rate of 1.664 percent in 1994. The early transition period (1991-1994) was marked by a drastic decline in national income—from \$35,006 million to \$1.031 millions, the falling of the gross national product (GNP) per capita from \$6675 to \$192, a decrease in industrial and agriculture output and acute unemployment.²⁷ On the whole, the hardships of economic transition during the first years of independence were caused by: the specialized rather than diversified economy, technologically backward capital stocks, the disruption of large interdependent trade links amongst former Soviet republics, near-universal state ownership of property, the absence of a financial system capable of carrying out economic functions, insufficient economic expertise to guide the transition, and a civil bureaucracy saturated with an autocratic and interventionist mentality.²⁸

Serious economic reforms started only in 1995 when the government introduced a comprehensive stabilization program supported by the International Monetary Fund (IMF) Systemic Transformation Facility.²⁹ Since late 1996, the recovery of the economy has been reinforced by the continuation of stabilization policies by the government as well as the National Bank of Azerbaijan.³⁰ For instance, in 1995-1996, stabilization of the national currency, the *manat*, was achieved, helping to curb inflation.

Along with the technical assistance provided by international financial institutions such as the IMF, the World Bank, the Asian Development Bank (ADB), and the European Bank for Reconstruction and Development (EBRD), the prominent force driving economic stabilization and growth³¹ has been oil revenues obtained from direct foreign investments³² into the oil sector.³³ In 2003, 40 percent of budget revenues and 90 percent of exports came from oil.³⁴ Today the energy sector accounts for more than 40 percent of the GNP and more than 60 percent of investment.³⁵ Due to oil revenues the draft budget for 2004 has been set at \$1.5 billion, almost 50 percent more than the budget of 2002.

In addition, in 2000, the government created the State Oil Fund of Azerbaijan (SOFAZ) under the authority of the president and managed by an expert committee. The purpose of SOFAZ is to ensure effective management of the country's assets, which are generated from implementation of agreements on oil/gas exploration, development, and production sharing.³⁶ By October 2003, \$800 million had been accumulated in the fund.³⁷ However, the absence of transparency in using fund monies has given rise to concerns about the potential for institutionalized corruption, the piling up of revenues from oil exploitation within the ruling elite, and mismanagement of resources. As in the process of political transition, corruption remains one of the major impediments to economic reform, especially in developing an industrial base and creation of jobs. The overall low salaries of many wage earners “legitimize bribe-taking at the lower level of the hierarchy.”³⁸ With bribery rampant at the lower levels, the ruling elite can operate their own extortion schemes with impunity.

In spite of the fact that energy resources constitute the main tool in economic development, focusing on a single economic sector endangers and hinders the development of other sectors of the economy. Currently, agriculture makes up only 14.1 percent in the gross domestic product (GDP) composition.³⁹ The present administration has declared the development of the non-oil sector and the creation of a favorable climate to attract foreign investment to this sector as a priority for building a stable economy in Azerbaijan. Thus, in November 2003, the president signed a decree, instructing the government to draft measures intended to develop the non-oil sectors of the economy, create jobs, make social spending more effective, improve socioeconomic conditions in rural areas, expedite agricultural reform, raise pensions and state-sector wages, and ensure transparency in using money from SOFAZ.⁴⁰

The transition to a market economy with an effective private sector depends in many respects on the outcomes of privatization. In Azerbaijan, privatization started in early 1993 and is still ongoing 11 years later. By the end of 2001, the government of Azerbaijan accomplished the privatization of more than 29,000 small enterprises. The auctioneering and privatization of 1,500 medium-sized businesses⁴¹ showed ground gained in that area, but privatization of large companies has occurred much more slowly.⁴²

Creating a reliable and modern banking system is another challenge the country's leadership faces in creating a market economy. The restructuring of Azerbaijan's banking sector is occurring very slowly⁴³ and "the dependence on foreign capital is likely to contribute to further resistance to financial liberalization."⁴⁴

SOCIAL TRANSITION

Support for democratization and the building of a strong civil society requires enormous efforts on the part of both government and people. Democracy is a way of life and a way of thinking into which every society must mature from within. It is a category predetermined by a stable social consensus and collective mutual understanding. Today Azerbaijan society is undergoing the inevitable but difficult process of transitioning to a democracy, and the country displays tendencies toward great fragmentation, widespread apathy to politics, scattered opposition, absence of satisfactory political dialogue, and cooperation between pro-governmental and opposition factions.

People are not on an equal footing in terms of financial resources and opportunities to realize their capabilities, talents and hopes. Refugees and internally displaced persons (IDPs) emerging from the armed conflict with Armenia have not been fully reintegrated into society. The majority of the population does not feel the progress of the last several years, while a "very small minority is growing disproportionately rich."⁴⁵

The relationship between the government and the opposition significantly deteriorated after the presidential elections in 2003 when the opposition did not protest the election results by legal or political means but rather chose to make trouble in the city. Authorities used police and special forces to suppress the demonstrations. About 1,000 people, including representatives of the opposition, journalists, and members of non-government organizations (NGOs) were arrested.⁴⁶ The Monitoring Committee of the Council of Europe noted in their report: "It [opposition] has missed the chance to demonstrate political maturity.... The

personal rivalries among political leaders as well as the lack of political strategy contributed to the prevailing climate of overall political mistrust in the country.”

Despite all the hardships of social transition, the citizens are actively searching for opportunities of self-expression and civic initiatives, establishing local community-based organizations and strengthening ties with international NGOs. For instance, there are roughly 2,000 local NGOs currently registered in Azerbaijan⁴⁷ focusing on the problems in the sphere of human rights, refugees, environmental degradation, and HIV/AIDS.

The atmosphere of mistrust towards the government poses a much greater challenge for the society. It seems that only rule of law can ensure the effective functioning of political institutions. An independent judicial system, a free market, basic human rights, a free press as well as national reconciliation could better secure the society and guarantee the stability of the state. Stanley Escudero, U.S. Ambassador to Azerbaijan from 1997 to 2000, noted that “The fabric of societies like this one are inherently fragile, and if one tries to push change too fast, you run the very strong risk of rending that fabric.”⁴⁸ It is difficult not to agree. Democracy may need a generation or more to ripen in Azerbaijan.

RECOMMENDATIONS AND CONCLUSION

Countries that have little or no experience with democratic governance, the challenges are immense. As governments transition towards democracy it does provide an opportunity to create new structures of government and systems of “good governance.” Regardless of how the process began, it is important to take several factors into account before plunging headlong into democratic activities. To begin with, one must consider the countries political and social cultures as well as previous attempts at democratization.

Undoubtedly, for the past 13 years Azerbaijan has made progress in establishing a relatively stabilized internal political and economic situation. Despite this progress, it is also true that Azerbaijan has exhibited the characteristics of a failed state for most of its recent independence. The failings include an: inefficient governmental infrastructure characterized by inadequate separation of power; a “mostly unfree” market economy;⁴⁹ the 10-year procrastinated privatization and banking sector reforms; non-transparent management of natural resources, in particular in the oil and gas sphere; the not-fully free elections, as well as the arrest of opposition and suppression of the media. Notwithstanding these occurrences, the transition to democracy is a gradual process that goes to the root of society, affecting its consciousness and political culture. Democracy is most likely to flourish with a strong and sustainable economy and an economically-independent and secure middle class. Azerbaijan has started down this path, but it has a long and painful way to go. In this situation, much will depend on the leadership of the country, namely its skills and objectives.

The following measures are recommended to speed the process:

- Implementation of programs aimed at economic development, especially of the non-energy sector should be made one of the first priorities on the domestic agenda at this stage of transition. There is great potential in the human and economic resources, unique natural⁵⁰ conditions, and historical heritage to promote, for example, such non-oil sectors of economy as tourism

and agriculture. Progress in these areas would facilitate the development of peripheral and remote areas of the country, promote small and medium-size business, create new jobs, as well as help restore the collapsed physical infrastructure (transportation, communication, power generation, and distribution). However, the management of natural wealth should be clearly transparent with monitoring mechanisms in public and private sectors.

- Revenues from the energy sector should provide the main budget item for the near future. In this regard, good governance of oil/gas resources and transparency of SOFAZ would guarantee *bona fide* distribution and use of these national products.
- As soon as possible, the final stages of privatization should be completed, namely the privatization of big businesses. This would reduce the risk of monopolization of certain sectors of economy as well as raise the competitive capacity of goods on the domestic market which, in its turn, would serve the interests of ordinary consumers.
- The government should exert all of its efforts to speeding up the negotiation process for membership with the World Trade Organization. This would further facilitate the internationalization of economy and provide opportunities for domestic products to find a foreign market.
- The government should create incentives for young specialists to be recruited in the governmental apparatus. This would take advantage of intellectual progress, a significant contribution to any changing society.
- As far as social reforms are concerned, the government should, first of all, implement an action plan to reintegrate the refugees and IDPs into society and not wait for international organizations to do this. Financial resources could be allocated from SOFAZ and directed to solving immediate problems and needs, such as housing and employment. Such effort would help reduce inequality and lend credibility to government.
- Government authorities should adopt a clear and more democratic policy towards their relationships with the religious community in order to avoid situations similar to the Nardaran events⁵¹ in 2002 and the more recent Juma mosque confrontation. In particular, the government should facilitate the registration of religious organizations by the State Committee on Religious Affairs through a more transparent and tolerant procedure.⁵² On the other hand, these strict procedures serve the interests of the bodies involved in the fight against terrorism.
- Concerning the effective functioning of government institutions, Azerbaijan should fulfill all commitments undertaken within the Council of Europe. The government should also promote political dialogue with the opposition, for example, through joint meetings and discussions as well as ensure allocation of more representation of opposition parties in the Parliament.

- The government should decisively implement the recently adopted Anti-Corruption Program and report to the public its first results.

These recommended measures, if implemented, would mitigate the difficulties and facilitate the process of democratization and stability in Azerbaijan. However, a continuous security threat is presented from the ongoing conflict with Armenia. As long as this “frozen” conflict exists and is ignored by the international community, the stability in Azerbaijan as well as in the whole region will be endangered.

FOOTNOTES

- ¹ This number includes proven, probable and possible reserves. See Richard Sokolsky, *The United States and the Persian Gulf: Reshaping Security Strategy for the Post-Containment Era* (Washington DC: National Defense University Press, 2003), 16.
- ² According to Robert Rotberg, “political goods are those intangible and hard to quantify claims that citizens make on the states,” e.g. human security, essential freedoms and human rights, social security measures. See Robert Rotberg, *When States Fail: Causes and Consequences* (Princeton University Press, 2004), 2.
- ³ Michael Bradshaw, *Geography and Transition in the Post-Soviet Republics* (Chichester: John Wiley and Sons Ltd, 1997), 3.
- ⁴ *Ibid.*, 3-4.
- ⁵ The Democratic Republic of Azerbaijan was established in 1918. After 23 months of existence, it was defeated by the Bolsheviks and forcibly joined the USSR in 1920.
- ⁶ Svante Cornell, “Democratization Falters in Azerbaijan,” *Journal of Democracy* 12.2 (2001), 1, National Endowment for Democracy, <http://www.cacianalyst.org/Publications/Cornell_JoD.htm>
- ⁷ Fariz Ismailzade, “Democratization Trends in Azerbaijan: Half Empty or Half Full?” *Russia and Eurasia Review*, Vol.1 no.12, November 19, 2002, 1. <http://www.jamestown.org/publications_details.php?volume_id=15&issue_id=610&article_id=4478>
- ⁸ This contract has already brought seven billion dollars to Azerbaijan’s oil sector. Executive Order of the President of Azerbaijan Republic on Celebration of 10th Anniversary of “Contract of Century.” <http://www.gateway.az/cgi-bin/cl2_gw/item.cgi?lang=en&item=20040720052456521>
- ⁹ Ismailzade, 1.
- ¹⁰ Cornell, 3.
- ¹¹ In 1994 and 1995 efforts to organize two coups were undertaken, but they were averted and their conspirators put in jail.
- ¹² “Many Azerbaijani observers witnessed multiple voting, stuffing of ballot boxes with prepared ballots and a failure to check identification. In one voting district in Baku, the capital, 125 voted during the polling hours, but 940 votes were reported at the end of the day, and similar cases were observed elsewhere.” “Azerbaijan: Western Criticism of Referendum Ignored; Azerbaijan: Democratic Deficiency,” *OxResearch*, September 9, 2002, 1.
- ¹³ *Ibid.*, 1.
- ¹⁴ “Functioning of Democratic Institutions in Azerbaijan,” Report of the Committee on the Honouring of Obligations and Commitments by Member States of the Council of Europe (Monitoring Committee), Doc. 10030, January 12, 2004, 8-9.
- ¹⁵ “Azerbaijan: Western Criticism of Referendum Ignored; Azerbaijan: Democratic Deficiency,” *OxResearch*, September 9, 2002, 1.
- ¹⁶ “Functioning of Democratic Institutions in Azerbaijan,” Report of the Committee on the Honouring of Obligations and Commitments by Member States of the Council of Europe (Monitoring Committee), Doc. 10030, January 12, 2004, 2.
- ¹⁷ *Ibid.*
- ¹⁸ Cornell, 3.
- ¹⁹ “Azerbaijan: Turning Over a New Leaf?” International Crisis Group, Europe Report no. 156, Baku/Brussels, May 13, 2004, 3.
- ²⁰ “Amerikanskije analitiki govoryat o borbe reformatorov s konservatorami” Echo news (in Russian), July 1, 2004, <<http://www.echo-az.com>>.

- ²¹ “Azerbaijan: Turning Over a New Leaf?” International Crisis Group, Europe Report no. 156, Baku/Brussels, May 13, 2004, 6.
- ²² “Amerikanskije analitiki govoryat o borbe reformatorov s konservatorami,” Echo news (in Russian), July 1, 2004.
- ²³ Transparency International ranked Azerbaijan 125th among 133 countries in its 2003 Corruption Perception Index, <<http://www.infoplease.com/ipa/A0781359.html>> .
- ²⁴ “Azerbaijan: Turning Over a New Leaf?” International Crisis Group, Europe Report no. 156, Baku/Brussels, May 13, 2004, 9.
- ²⁵ “Stambulskiy plan deystviy po borbe s korruptsией dlya Armenii, Azerbajdžana, Gruzii, Kirgizskoi Respubliki, Rossijskoi Federatsii, Tajikistana i Ukraini. Obzor zakonodatelnoi i institutsionalnoy bazi dlya borbi s korruptsией. Azerbajdžan. Obobshennije otsenki i rekomendatsii” (in Russian), Anti-Corruption Network for Transition Economies, June 18, 2004, <<http://www.oecd.org/dataoecd/36/35/32430928.pdf>>.
- ²⁶ Burnett Rubin and Jack Snyder, *Post-Soviet Political Order: Conflict and State Building* (London, New York: Routledge, 1998), 115.
- ²⁷ UN Human Development Report of 1998.
- ²⁸ Gertrude Schroeder, “Economic Transformation in the Post-Soviet Republics” in Bartłomiej Kaminski, ed., *Economic Transition of Russia and the New States of Eurasia* (1996), 12.
- ²⁹ Juhani Laurila, “Power Politics and Oil Determinants of Transition: the Case of Azerbaijan,” BOFIT online 10/1999, <<http://www.bofi.fi/bofit/fin/7online/abs/pdf/bon1099.pdf>>
- ³⁰ Ibid.
- ³¹ According to various EBRD Transition Reports, if in 1990-1994 average economic growth was minus 15.6, then in 1995-1999 a relative progress with plus 2.54 was observed in Azerbaijan. Jan Fidrmuc, “Economic Reform, Democracy and Growth During Post-Communist Transition,” William Davidson Institute Working Paper, no. 372, March 2001, <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=279819>.
- ³² Azerbaijan has concluded 23 production sharing agreements (PSA) with a wide range of international oil companies, such as BP Amoco, Unocal, Exxon, Lukoil, Delta Oil, Itochu. The combined total revenues are over \$60 billion. Sevindzh Abdullayeva and Viktor Shulman, “Azerbaijan to Mark 10th Anniversary of the First Major Oil Contract,” ITAR-TASS, Baku, July 20, 2004.
- ³³ Between 1995 and 2001 foreign investments in Azerbaijan’s oil sector totaled \$6.8 billion.
- ³⁴ Economist Intelligence Unit, Country Report Azerbaijan, August 2003, in “Azerbaijan: Turning Over a New Leaf?” International Crisis Group, Europe Report no. 156, Baku/Brussels, May 13, 2004, 4.
- ³⁵ French Embassy, Baku, Economic Mission, “Les hydrocarbures en Azerbaidžan,” April 2003, www.dree.org, in “Azerbaijan: Turning Over a New Leaf?” International Crisis Group, Europe Report no. 156, Baku/Brussels, May 13, 2004.
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- ³⁷ Grani.ru, October 31, 2003, in “Azerbaijan: Turning Over a New Leaf?” International Crisis Group, Europe Report no. 156, Baku/Brussels, May 13, 2004.
- ³⁸ Laurila, 22.
- ³⁹ CIA, the World Factbook, <<http://www.cia.gov/cia/publications/factbook/geos/aj.html>>.
- ⁴⁰ “Azerbaijani President Calls on Government to Draft Economic Development Programs,” RFE/RL, November 26, 2003, <<http://www.reliefweb.int/w/rwb.nsf/6686f45896f15dbc852567ae00530132/7a34a00f3f78ee61c1256dec005f4e2f?OpenDocument>>.
- ⁴¹ “Azerbaijan: Economic Development and Business Opportunities,” Address by Ambassador Hafiz Pashayev at the Ambassadors’ Roundtable, BISNIS, Ronald Reagan Building and International Trade Center, Washington, DC, May 1, 2002, <http://www.azembassy.com/archive/2002/statements/amb_DepOfCom_1may02.htm>.
- ⁴² “Azerbaijan – otsenka protsessy perehoda” (in Russian), EBRD Transition Report 2002, November 25, 2002, <<http://www.ebrd.com/pubs/tr/02/russian/azer.pdf>>.
- ⁴³ Ludmilla Asadullaeva, Michael Butler and Gerald Crawford, “Practical Problems in Converting to a Free Market Economic System: the Case of Azerbaijan,” a paper proposal submitted to WACRA 17th International Conference, Budapest, Hungary, July 2-5, 2000.
- ⁴⁴ Oksan Bayulgen, “External Capital and Political Structures: the Case of Azerbaijan,” <<http://condor.depaul.edu/~rrotenbe/aeer/v17n2/Bayulgen.pdf>> .
- ⁴⁵ Ibrahim Bayandurlu, “Bolshinstvo azerbajdžanskogo obshchestva pebivaet v politicheskoi agonii,” interview with Andreas Gross, reporter of the Monitoring Committee of the Parliamentary Assembly of the Council of Europe, Zerkalo news (in Russian), Baku July 14, 2004.
- ⁴⁶ Eighty six individuals were sentenced to three-month detention under preliminary investigation for attending and organizing massive disturbances and resisting government officials.

⁴⁷ “Non-governmental Sector in Azerbaijan,” Q&A with Dr. Israil Iskenderov, executive director of the Humanitarian and Social Support Center “UMID,” and Rana Yuzbashova, program officer of the Center of Legal and Economic Education (CLEE), < <http://www.advocacy.ge/magazine/Non-governmentalsectorinAzerbaijan.shtml>>

⁴⁸ David Case, “The Crude Doctrine,” *Mother Jones*, Jul/Aug 2004, 93.

⁴⁹ Economic Freedom Index.

⁵⁰ There are nine of the existing 11 climatic zones in Azerbaijan.

⁵¹ In the summer of 2002, the predominantly religious population of the sedate town of Nardaran started demanding the improvement of social and economic conditions which were deteriorating due to corruption and incompetent governance. For several months the town was cordoned off by the police and several religious leaders were arrested. The government justified its actions by citing the fight against radical Islam.

⁵² “Azerbaijan: Turning Over a New Leaf?” International Crisis Group, Europe Report no. 156, Baku/Brussels, May 13, 2004, ii.