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A strip of land situated between the Mediterranean and the Black Seas, the post-Soviet Caucasus embarked on a painful identity quest at the turn of the third millennium. This – still ongoing – quest involves several daunting choices: between Moscow, Washington and Brussels, between oil and democratic values, and between feudal realities and revolutionary ideals. Throughout the last decade, the Yerevan-based Caucasus Institute has been conducting in-depth research of the conflicting and often subtle trends in the regions' politics. This volume contains a selection of research papers published by the Caucasus Institute since 2001 in Armenian, Russian and English, which best represent the challenges faced by this varied region at this crucial stage of development.

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OIL AND DEMOCRATIC VALUES: AZERBAIJAN'S EXPERIENCE¹

By Togrul Jubarly²

The history of oil in Azerbaijan in modern times has been one of an uninterrupted story of the people, the state and political leaders trying to “barter” oil for other values: political, economic and social ones.

Following Azerbaijan's declaration of independence in 1991, oil and independence were the most popular catchphrase in the country. Oil appeared to be a guarantee of a solid, wealthy and independent future. Though the conflict with Armenia over Nagorno-Karabakh dampened the total euphoria, it seemed to be an easily surmountable problem against the background of the future painted in people's imagination. The oil that did not yet exist already induced a sense of self-worth among the public. The negotiations that foreign companies were holding with the government of Ayaz Mutalibov (1990-1992) and the statements of various political and economic voodoos contributed to all this.

The impending democratic wave swept away Mutalibov's government, but the Popular Front government successfully continued negotiations with foreign oil companies (1992-1993). A contract was close to being signed, and it seemed that it could become a cover for the continuation of the democratic reforms that had begun in the country. Meanwhile, never and nowhere has oil acted as support for democratization; the Popular Front government was soon gone. The signing of the first contract with foreign companies happened at the start of Heydar Aliyev's era.

This veteran politician, who came to power in the summer of 1993, immediately set himself the task of bringing order to the country, using heavy-handed methods that narrowed the field for the development of democracy.

Between 1994 and 1998, he was trying to make the participation of companies from different countries in oil contracts conditional on the political support of

1 This paper was published in Russian as: Jubarly, Toghrul. “Nef't i demokraticheskie tsennosti: opyt Azerbaidzhana.” *Diaspora, nef't i rosy: chem. zhivut strany Yuzhnogo Kavkaza* (“Oil and Democratic Values: Azerbaijan's Experience.” *Diaspora, Oil and Roses: What Makes the Countries of the South Caucasus Tick*). Ed. by Ivlian Khaindrava and Alexander Iskandaryan. – Yerevan: Heinrich Böll Foundation and Caucasus Media Institute, 2005 (in Russian). – Pp. 43-47.

2 At the time of writing, the author was on the expert team of the *Turan* news agency in Baku, and edited their monthly economics review.

Azerbaijan by their governments. This was an open barter (on top of the one that happened backstage), although one could say that by then many decisions, such as the construction of the two routes for early oil, had already been predetermined by more powerful countries. Nevertheless, Aliyev's artful politics of exploiting the geopolitical ambitions of major powers cannot be denied. Caspian countries have no access to the open seas or the world oil market, and the construction of pipeline infrastructure determined the growth of oil production on the Caspian shelf. The guarantees of the independence of these countries also hinge on this. For this reason, Heydar Aliyev was the most consistent defender of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, although at the time, there were also other projects on the table. His own personal gain, too, turned out to be enormous. The political barter went through.

The country was increasingly recognized in the outside world, and Aliyev's international reputation was growing. Against this background, it was rather easy for him to cope with the armed opposition, subjugate his surroundings, and put the strong democratic opposition into a decorative democratic framework that he designed himself for external consumption. Any attempt to go beyond this framework was swiftly nipped in the bud. The solution of national issues was gradually replaced by the solution of personal ones.

Aliyev isolated everyone, including individual members of his own clan, from oil. He knew that the new tycoons associated with the oil business may sooner or later lay claims to power. At the same time, he was not in a hurry to develop small and medium-sized business. That always causes social activity and fermentation which usually have a detrimental effect on authoritarianism. Total corruption became a systemic phenomenon and came to replace everything else.

The big names in world oil production that were inching closer to Baku back then were by no means missionaries of democracy importing democratic ideas to the country. Indeed, they brought along advanced technologies and new forms of work organization, but over the years, it became increasingly clear that all those things were intended primarily for the internal use of oil companies. By and large, they were totally indifferent to what country - an authoritarian, a monarchical or a democratic one - they were doing their business in. In addition, the participants of the first oil consortium were hidden behind a high palisade, known as a production sharing agreement.

The main benefit of such agreements to foreign investors is that even if the country owning the mineral wealth faces a most severe economic crisis, this can in no way affect the activities and revenues of oil companies. In this context, it would be

appropriate to recall that, whereas at the beginning of the oil epic, companies were still looking for contacts with the public, later - when Heydar Aliyev was at the helm - they came to appreciate all the advantages of working with a single partner.

The attempts to “swap” oil for a speedy resolution of the Karabakh conflict turned out to be less promising, though. In the summer of 1994, on the eve of the signing of the “Contract of the Century,” Azerbaijani President Heydar Aliyev met with US Secretary of State Warren Christopher on the sidelines of the OSCE summit in Turkey. Aliyev tried to condition the conclusion of oil contracts on US political support in the conflict with Armenia. Christopher’s response was unequivocal: oil was one thing, and the Karabakh problem was quite another. The exchange of oil for support in the conflict failed in subsequent years too, although Heydar Aliyev kept raising this issue in contacts with the concerned countries. The history of oil and the Karabakh settlement continued to develop on different levels. The option of building the Baku-Ceyhan pipeline via Armenia looked like the only possible direct “barter” (it was one of the options). However, Armenia categorically refused to link this issue to the resolution of the conflict, and the oil consortium was apparently not very happy about the route through mountainous Armenia.

There are many reasons why the existence of oil makes democratic reforms in a country very difficult. Oil is always associated with a dangerous “expectation syndrome” that regularly weakens the society. Often, oil significantly skews the structure of the economy. In recent years, oil and petroleum products have accounted for 90 percent of Azerbaijan’s exports. The “Dutch Disease” has already hit the country. It is very difficult to build democracy in an unbalanced economy. It seems fair to suppose that Azerbaijan’s noticeable lag in the development of information technologies is not accidental, because active engagement with the information space will inevitably push democratic processes forward.

From the very beginning, nations that have oil become objects of interest for large countries, which often clash with each other. Political risks grow. Oil provokes external threats that seriously hinder the democratic development of a nation. Against the background of external threats, the question of building a democratic society becomes premature. The Azerbaijani government skilfully used this argument.

Oil is also a well-known trap for the democratic opposition. Predominantly Western-oriented, it could not vociferously oppose the projects of Western oil companies. Aware of this, the latter, in turn, openly supported the existing regime right up to the latest presidential elections in Azerbaijan. Foreign oil companies did not hide their jubilation about the ascent of Ilham Aliyev to presidency. For oil compa-

nies, working with democratic governments is not an easy task, because they need to seek consensus among many parties and work in a more open manner.

Of course, for a while, oil may allow any government to treat democratic values with ill-concealed contempt. The external world and the government establish clientelist relations that allow ignoring one's own society.

Nevertheless, maintaining authoritarian rule by means of oil will become harder over time. The appetites of the corruption machine are excessive, and it is unlikely that it will be able to conclude a social contract with the society.

For society, though, this seems to be the best time for reasonably exchanging oil for its own future. The key objectives of the oil strategy have been fulfilled: mining has begun and is underway, and the oil pipelines are almost ready. Oil companies have already turned into an isolated island and nothing seems to threaten their interests.

The society can now deal with its own issues. The infinite number of models that oil-oriented Azerbaijan keeps trying on (for example, the Norwegian model), always turn out to be ill-fitting, like second-hand clothes, because the introduction of a ready model requires a clearly developed political system, democratic institutions, and experience with the free market.

The internal signals coming from the economy suggest that the country's one-sided oil-oriented development is no longer viable. It is destructive, and the government seems to be persistently pushed to accelerate the privatization process and the development of small- and medium-sized business. The first will increase the number of rich people, and the second can foster the emergence of a fairly wide middle class, the 'objective' basis for democracy.

It is well known that the Dutch disease that often accompanies oil is fairly easy to overcome both in democracies and in genuinely authoritarian regimes, for instance, in monarchies. In "half-way" countries like Azerbaijan that have lost their traditional values and have not yet become full-fledged democracies, the Dutch disease poses a bigger social and economic problem.

Both the danger of lopsided development of the country and the possibility to use the oil factor for the consolidation of authoritarian ambitions will disappear only with the establishment of a mature political system. On this difficult and long road, the final say belongs to the Azerbaijani society, which throughout its history, has been destined for liberal democracy.