

## Azerbaijan

# How to spend it

### A small country grows drunk on oil wealth

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WALK along the shore of the Caspian sea in Azerbaijan's capital, Baku, and you smell oil in the air. You can also see it, or rather its effects: in the marble balustrade along a wide promenade, in the floodlit fountains, in the Tiffany and Gucci boutiques, in the London black cabs (repainted purple) ordered by the government, and in a vast state flag atop the tallest flagpole in the world, flying over the site where the arena for next year's Eurovision song contest is being built.

An oil windfall since the main export pipeline began operations in 2006 has transformed an unloved Soviet city into a glitzy capital, often with locals evicted from their houses. The oil money has entrenched an autocratic and corrupt political system that is resistant to change.

Azerbaijan is run by Ilham Aliyev. He inherited the presidency from his late father, Heydar, a shrewd KGB general who had also run Azerbaijan in Soviet times. When the son took over in 2003 many saw him as a Moscow-educated “golden youth” who lacked his father's skills. But in the past few years he has consolidated power, suppressed opposition, eliminated his rivals and abolished presidential term limits. He has also overseen the country's rapid oil-driven growth. Although the wealth on display in central Baku does not extend even to the city's suburbs, ordinary Azeris have enjoyed rising incomes. Poverty has declined.

This may explain why the ripples from the Arab revolutions stopped at Baku's shores. In March a few hundred protesters were overpowered by police; 14 are still in jail. The government tried to address



some of the sources of discontent, even temporarily clamping down on petty corruption—until the mood calmed.

The West has neither the will nor the power to criticise Azerbaijan. For America, it provides a vital transit route to Afghanistan. For Europe, it is an important potential source of non-Russian gas. Although gas and geography buy Azerbaijan international clout, it is oil-backed intimidation that keeps the regime in place.

The opposition is toothless, but this does not mean that politics is dead, one official explains. Rather, it functions by balancing several oligarchic groups within the system. A key figure in mediating the clan interests is Ramiz Mehdiyev, the 73-year-old chief of staff, who served under Mr Aliyev senior and was entrusted by him to keep his son in power.

But while Mr Mehdiyev controls the interior ministry and civil servants, the oligarchs run the economy. One of the most powerful is Kemaleddin Heydarov, minister of emergencies with a flair for persuading pop stars to sing his compositions. He runs the customs. He and his son, a graduate of the London School of Economics who hobnobs with British royals, have amassed a business empire, including monopolies in fisheries and caviar, not to mention property and construction.

Much of the economy works in the shadows. The black economy can be guessed at by the gap between the volume of goods exported to Azerbaijan and the volume of the same goods recorded as imports. Gubad Ibadoglu, an economist who analysed the data from 2003-09, puts the figure at more than \$10 billion. But, as the International Crisis Group, a think-tank, wrote last year, corruption is not only a means of personal enrichment for the elite, but also a powerful tool of political control: everyone, from top to bottom, is complicit, and vulnerable to co-option.

As one state employee explains, everyone gets two salaries: an official one and unofficial one, in an envelope. The government keeps a record of all unofficial payments. “The crime is not stealing,” he says. “It is stealing and not reporting it.” The government could easily turn bribery into taxes. But as Khadija Ismail, an investigative journalist, argues, while envelopes make people grateful, taxes turn them into demanding citizens.

But this system depends on an ever-growing pot of money. From 2005-08 Azerbaijan's economy grew by about 25% a year. This year, with most investment in oil production completed, growth will be less than 1%. The oil money creates an illusion of development, but not jobs. Although oil production is strong and the country is not about to run out of money, it needs to reform in order to grow. For now, though, the government is too intoxicated with the smell of oil to think about the future.

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