

Article: *Azerbaijan: How to spend it?*

Source: [The Economist](#)

Topic: The article discusses economic growth of Azerbaijan in the last decade. The main driver of Azerbaijan's economy are natural resources. The article mainly discusses how economic growth is not followed by the political and institutional reforms.

Azerbaijan is a former state of the Soviet Union from which it gained independence in 1991.¹ It is one of the largest countries in the Caucasus region with the GDP per capita (PPP) 10,400 USD, placing it as a 115 country in the world.

Discussion points:

1. The recent economy growth is based on natural resources

One of the main observations in the article is the lack of institutional development during an economic boom. The growth rate of the economy ranged from an average yearly growth of 8% (2005-2008), to 1% in 2011-2012.

2. Azerbaijan's political institutions are weak

Azerbaijan does not have an elected government; its current president Ilham Aliyev inherited his presidency from his father. According to the EBRD economic review that we covered in class, the strength of political institutions is crucial for economic development of transition countries. This strength is built by elected governments, the quality of policies, and empowered local governments.

3. Economic institutions are not developed

The article argues that the economy of Azerbaijan is run by oligarchs. Oligarchy in the market occurs when supply of goods and services is created by only a few producers.² The negative consequences of oligarchy are limited supply and higher prices than a competitive market.

3.1. High levels of corruption

Azerbaijan suffers from high levels of corruption. According to Transparency International, the *Corruption Perception Index* is 28, which puts it on the 127th place (out of 177) in corruption rankings.³ Corruption distorts development of economic institutions.

4. There are no policies directed towards the human capital accumulation

The article also discusses the distorted labor costs in the economy. Wages (the price of labor) are not formed from demand and supply of jobs, but rather by unclear rules ("envelope wages").

¹ CIA The World Factbook (<https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html>, downloaded Feb 22nd, 2014).

² (Comment: Any Microeconomics textbook. Here you can use some economics online dictionaries).

³ Transparency International (<http://cpi.transparency.org/cpi2013/>, downloaded Feb 22nd, 2014)

Additional comments:

1. The role of private sector development in the economic growth.

The article does not address the role of entrepreneurship in Azerbaijan's economy. This is important in transition economies because it creates jobs and accumulates human capital. However, I expect that the share of entrepreneurship in the economy is small due to the presence of oligarchs (creating barriers of entry in industries), and the corruption (ease of establishing and doing business).