

BUSINESS MODEL vs ECONOMIC MODEL
WHICH WILL SUCCESSFULLY GUIDE
AZERBAIJAN INTO THE
GLOBAL ECONOMY?

Dr. Norm Bedford
Saint Mary's College of California
Moraga, Ca., 94575

Tel: 510-658-1212
Fax: 510-658-6616
Norm@normbedford.com

A MODEL FOR AZERBAIJAN TO ENTER THE GLOBAL ECONOMY

The economic model presumably being followed to some degree by Azerbaijan, as with many newly emerging economies, is to first establish conditions of monetary stability and transparency which then is expected to encourage investment and thus allow the economy to grow and prosper both in the short as well as the long run. However, such financial market liberalization sometimes proves to be difficult to accomplish and oftentimes unreliable. We are seeing conditions today in countries such as Indonesia where problems exist with this model. Indonesia is experiencing a financial crisis that resulted because financial market liberalization occurred before there were either appropriate state or collective agencies to monitor and regulate financial institutions, or local expertise to manage them. Many banks were established in a short period of time with inadequate experience in money management and lax banking supervision. The situation was aggravated by the availability of cheap money from abroad and a consequent dependence on this capital. Such money found its way into marginal investments as well as in the building of excess capacity. The result has been the inability to service bank loans which has bankrupted companies as well as banks. Investors have lost confidence in the economy and the previous large capital inflows have turned into major capital outflows.

Azerbaijan has initiated a number of IMF recommended reforms and has enacted strict monetary and budgetary policies. The reforms include financial market liberalization and a move toward a free market economy. . . . The economic model suggests that full and consistent implementation of

reforms along with privatization will improve the trade and investment climate. However, the central government of Azerbaijan dominates the economy and the President exercises strong control over economic decision making which is often unpredictable and inconsistent. Additionally, government ownership is still prevalent in the industrial sector and the country is slow to privatize. The situation in Azerbaijan is quite similar to what existed in Indonesia and other emerging economies that eventually resulted in a financial crisis in these countries. At this time, however, there is a slowdown of FDI (Foreign Direct Investment) into Azerbaijan and this was not the case in Indonesia which experienced significant FDI at the time of financial market liberalization.

Azerbaijan gained independence on August 30, 1991 and joined the CIS (Commonwealth of Independent States) on December 21, 1991. This newly achieved independence left the country with an inadequate infrastructure¹ and a low standard of living. The official annual per capita income in 1995 was approximately US\$297. Today it is US\$540. A continuing war with Armenia and the collapse of the state manufacturing system together with strict monetary and budgetary policies have kept the economy in a steady decline. The present high level of taxes has aggravated most every type of production.² Today, the manufacturing sector only represents approximately five per-cent of the GDP.³

¹ Azerbaijan's infrastructure is in a state of gross disrepair with no significant financing on the horizon to allow for needed improvements. Soviet-era factories and residential buildings are crumbling. Sub-standard construction and electrical work are a major hazard for residents. The Baku water supply is inadequate and requires major improvements. - U.S. Department of Commerce - NTDB (National Trade Data Bank, July 2, 1999

² <http://www-scf.usc.edu>

³ Azerbaijan Economic Trends, second quarter, page 29

Oil is the main contributor to the Azerbaijani economy. Agriculture follows and includes food products, tobacco and tea. The food industry represented approximately fifty-two per-cent of manufacturing production in 1998.⁴ On the other hand, machinery represented ten per-cent. Gas, silk, cotton textiles and carpets also contribute to the economic picture. In 1997 there was heightened optimism in Azerbaijan when geologists concluded the country had 200 billion barrels of crude oil. However, the estimates today (1999) are far lower at between thirty and fifty billion barrels. This reality has slowed down, and in most cases stopped, major construction projects. In the first half of 1999 the construction industry was down US\$146 million from the same period the previous year. The expatriate community has diminished to half what it was in 1997.⁵

Potential investors in Azerbaijan are concerned over the uncertainties of the political situation. Corrupt links between business and politics is very prevalent. President Aliev is in poor health with no apparent successors. Unstable regions surround the country. Dagestan to the north and Chechnya which borders it. Armenia to the west which controls 20% of Azerbaijan's most fertile territory and where border clashes occur daily. Iran to the south where approximately twenty-five million ethnic Azeris live in the northern section of the country. In the first seven months of 1999 FDI into Azerbaijan amounted to US\$369.5 million, down US\$155 million from the first seven months of 1988. US\$312.9 million was directed to oil and oil related sectors. The remaining US\$56.6 million was invested into non-oil sectors with over two-thirds of this money being derived from foreign assistance projects.⁶

⁴ *ibid*, page 31

⁵ <http://www-scf.usc.edu>

⁶ Daily News, September 28, 1999

A major dilemma facing Azerbaijan's future is the question of how the oil will be transported out of the country. After a long period of decline the extraction of oil is increasing. The United States argues for a pipeline from Baku to the Turkish port of Ceyhan. BP Amoco does not want to finance this expensive and technically complex line, particularly at a time when world oil prices are low, and favors a line through Iran which is less costly but entails more risk because of the potential hostility of the country. In the meantime, the BP Amoco led Azerbaijan International Operating Company (AIOC) and the State Oil Company of Azerbaijan (SOCAR) are to double the capacity of their pipeline from Baku to the Georgian Black Sea port of Supsa as an interim solution. This western route is capable of transporting 105,000 barrels per day which satisfies the present consortium daily production of 100,000 barrels from eight production wells in the Caspian Sea. This route competes with a northern route that runs through Chechnya to the Russian port of Novorossiisk. Russia has been attempting to persuade Azerbaijan to agree to this northern pipeline, however, the tariff at US\$2.20 per barrel versus the tariff of US\$0.17 for the western pipeline together with the constant shutdowns it has experienced over the past year make it much less attractive.⁷

On November 18, 1999 Turkey, Azerbaijan and Georgia signed a series of accords to build the pipeline crossing the former Soviet Republic of Georgia to Turkey's Mediterranean port of Ceyhan. The cost of the pipeline is estimated at US\$2.4billion but some experts predict it will most likely be between US\$3 to US\$3.6 billion. BP Amoco questions whether the pipeline is economically viable and believes that estimates of massive oil reserves in the region are overstated. However, the Ceyhan pipeline (often referred to as the MEP or Main Export Pipeline) is strongly supported by the U.S. Government which wants to reward its

⁷ Baku(Reuters), December 3, 1999.

ally Turkey and minimize the influence of Russia and Iran in the region. Natick Aliev, President of SOCAR, said at the signing, "We are forming a company for the construction of the pipeline that will seek out sources of financing." He acknowledged that third party guarantees would be required and that the World Bank, America Corporation for Private Investment Overseas and the US Ex-Im Bank have been approached.⁸

Azerbaijan desperately needs to sell more oil as it is the main source of hard revenue for the country. Presently the national budget is a mere US\$650 million. The country is strapped for cash. If the Baku-Ceyhan pipeline proceeds, and that is still an unknown, it will not be completed until 2003. According to David Woodward, Chairman of AIOC, "Caspian Sea oil is disadvantaged compared to the North Sea because it is further from the markets and the transport costs are higher." He noted that costs of transporting Azari oil must be reduced to compete. AIOC will do this by using the western (Supsa) line rather than the northern line. Mr. Woodward points out that there is no need for a new line until a larger volume of crude comes into production.⁹ Since there is a reasonable probability of this not occurring Azerbaijan would be prudent to begin the process of looking elsewhere to stimulate the economy.

Market forces are not operating freely in Azerbaijan. Oil is a major cause. Little has been done in the country to leverage its other vast resources toward core competencies that could give it a competitive advantage in meeting the needs of

⁸ Izvestia, October 27, 1999, p.6.

⁹ BP Amoco is the primary shareholder in the AIOC consortium (34.1367 per-cent), along with Unical (10.0484 per-cent), Azeri State Oil Company SOCAR (10.0 per-cent), LUKoil (10.0 per-cent), Statoil (8.5633 per-cent), Mobil-Exxon (8.0006 per-cent), Turkish Petroleum (6.75 per-cent), Pennzoil (4.8175 per-cent), Itachu (3.9205 per-cent), Ramco (2.0825 per-cent) and Pelta (1.68 per-cent). As such, BP Amoco is the primary decision maker regarding construction of the Main Export Pipeline. Although accords have now been signed to build the pipeline, a year of intense lobbying by Washington has brought the project no closer to being realized. The onus, at present, is on the Azeri government to find financing

domestic and export markets. The author is of the opinion that Azerbaijan must proceed to examine other avenues leading toward economic prosperity and that a business model is a likely candidate to benefit the country. The model takes on a business rather than the traditional economic approach to growing an economy. That is, it includes activities such as market analysis, forecasting, product or service choices, produce or purchase decisions (make or buy), resource identification, marketing and selling. It concludes with the formulation of a strategy for a sustained competitive advantage as well as the implementation and control of said strategy. This model is a pull through rather than a push through model. That is, it evaluates what market forces are in play and then leverages resources such as raw materials, labor and capital to meet the needs of the market. Nothing is put in place such as capital or labor and nothing is created such as plant facility or product until a demand exists.

In order to test the realities of a business model for Azerbaijan academic, political and business personalities were interviewed. According to Professor Huseyin Baginov, Rector, Qerb University in Baku, "There are many entrepreneurs in Azerbaijan that have the ability to pursue a business model but the following limit their abilities: 1) The continuing war with Armenia, 2) The complex legal system and 3) The political situation." He agrees that the traditional economic model does not work because there is no transparency and further agrees that there are enormous potential resources in the country. However, the large multinationals have removed many of the resources and the country will not see the benefit from further resource extraction until the companies have repaid their investment.

Professor Baginov believes that the entrepreneurs are frustrated by the situation and are leaving the country. When asked about the students in his business and MBA programs and were many of them not the future entrepreneurs and business

leaders of the country his response was, “Under the Soviet system a gun was put to the head of the students and they were forced to learn. Today, these students mainly learn to get a certificate which allows them to earn more money and perhaps get a job with a multinational.” He does not believe they are motivated for any other reason.¹⁰

Founder and Chancellor Hamlet Isaxali of Khazar University expressed considerable interest in the business model. Upon questioning him as to whether it was doable his response was, “Why not.” He did not believe that any entrepreneurs were leaving the country and indicated that there were many small businesses in Azerbaijan. When asked if he knew of an Azerbaijan business that was in the global market with a manufactured product he was unable to name one. Mohammed Nouriev, Dean at Khazar University admitted the reason there were no such businesses is that they would have to reveal their figures to customs. He indicated that as long as they sold local they could build ten tables and declare one. This is the problem. No one wants to pay taxes. There is no incentive to grow and export. Chancellor Isaxanli mentioned his strong and friendly relationship with the Minister of Economics. When the Chancellor was asked if the Minister would welcome the author’s time to develop a business model for the country his response was negative and he believed the Minister would go on to tell his own agenda for the country. A request was made of the Chancellor for any official statistics about the country that he might possess. His response was that such data is not to be relied on. He gave the example of one statistic that says no one in Azerbaijan smokes! He agreed with the Rector of Qerb University that the business and MBA students were at University so they might get a better job. When asked if he felt any of the students were there to develop a creative, entrepreneurial mind so they might start a company or, at minimum, assist an

existing company to develop a game plan for domestic and international markets his response was, “No.”¹¹

Izzet Rustamov, Deputy Prime Minister as well as Chancellor of Baku State University feels that the major restriction to development in the country is the lack of hard currency. Therefore, preference is given to foreign companies and noted on the day of the interview that it was the fifth anniversary of foreign investment in Azerbaijan’s oil industry. He acknowledged that in the future the country will look at how best to use local resources. When asked if there was presently a strategy to use local resources he responded that such a strategy can be seen in the reforms that are under way and that these reforms must be implemented prior to achieving a business model. He noted the reforms are being carried out very slowly, the reason being the state of war with Armenia and the refugee problem (one million refugees out of a population of seven and one-half million) that has been created. Dr. Rustamov also felt that Azerbaijan has gone through significant ideological changes over the past several years. It first tried to embrace the communist ideology and then blamed communism for its problems. It always cursed the western system. Now the country is going through privatization and this has presented its own set of problems.¹²

Shamseddin Hojiyev, Department Head of International Economic Relations at the Azerbaijan Economic Institute suggested the lack of adequate laws make the business model very difficult. “Production today is 26% of 1990 levels. Azerbaijan has lost its markets since the Soviets left. The relationship with Russia

¹⁰ Huseyin Baginov, interview by author, Baku, Azerbaijan, 16 September, 1999

¹¹ Hamlet Isaxanli, interview by author, Baku, Azerbaijan, 17 September, 1999

¹² Izzet A. Rustamov, interview by author, Baku, Azerbaijan, 20 September, 1999

is over. What must be done now is to develop small to medium size businesses but nobody wants to do this.”¹³

Dr. Lale Wiesner, Project manager for Azerbaijan Economic Trends being conducted by TACIS (Technical Assistance for the Commonwealth of Independent States), believes the Minister of Economics is looking beyond oil and that the business model could be of interest to the government. “Land reform is not working in the country,” according to Dr. Wiesner. “The District Chiefs are bleeding the small business owners.”¹⁴

Arnaud Govaert, Managing Director of the contracting company AA Services, is convinced that developing a business model would be a waste of time since no one is going to go into business to “add value”. “There are three agencies that are always extracting money from people: tax, customs and the Minister of Communications. There are also a couple of lesser agencies such as the Ministry of Tobacco and Alcohol.” Regarding whether the Main Export Pipeline will be built he did not feel the major oil companies are prepared to proceed because of unfavorable oil prices and political uncertainties. Also, two major drills in the Caspian have produced nothing.¹⁵

Oktay Ibrahimov, an advertising executive and Vice President of the Azerbaijan Chapter of the International Advertising Association says that Azerbaijan cannot work in a market economy. “The government leaders are a special class of people that have grown up under a Soviet bureaucracy. They can work no other way than how they presently operate. What is different today, however, is that they are being asked to answer questions on TV relating to what is being done to improve

¹³ Shamseddin Hojiyev, interview by author, Baku, Azerbaijan, 22 September, 1999

¹⁴ Dr. Lale Wiesner, interview by author, Baku, Azerbaijan, 29 September, 1999

¹⁵ Arnaud Govaert, interview by author, Baku, Azerbaijan, 27 September, 1999

the situation. This is the first step toward democratization, a market economy and people control.”¹⁶

The business, economic and MBA students at Qerb University, Khazar University, Baku State University and the Azerbaijan State Economic Institute are the future leaders of the country (in the opinion of the author) and their comments were sought regarding Azerbaijan’s entry into the world economy. The following are randomly selected comments from a population of approximately three hundred students, most likely representing the best and the brightest in the country.

Local businessmen do not invest in the country because of the lack of laws and human rights.

I would not invest in our country.

Investors are putting their money into Turkey.

There is no political stability.

The country is too corrupt for manufacturing enterprises.

Azerbaijan is a dictatorship and if you say what you think you are in trouble.

We do not have adequate technology and managers.

We do not have the faculty to teach management.

Privatization is only successful at high levels where, for example, farms are bought at a discount and taxes are not paid.

Manufacturing is too hard. The authorities interfere with this sector.

The author had the opportunity to deliver eight lectures to these students. They had an insatiable thirst for western knowledge. Their questions were penetrating and often political in nature. Only a couple of the students had given thought to having their own business. As the previously interviewed educators pointed out, the remainder had aspirations mostly of working for the government and a few for

¹⁶ Oktay Ibrahimov, interview by author, Baku, Azerbaijan, 1 October, 1999

multinationals. In general, they felt that it will take a long time for Azerbaijan to integrate into the world community and economy.

A BUSINESS MODEL FOR AZERBAIJAN?

The average monthly wage in the country reached \$US45.00 in 1999.

Approximately fifty per-cent of the population are rural and fifty per-cent urban.

One-third are less than fifteen years old and nine per-cent are over sixty years of age. Male life expectancy is just under sixty-eight years, an improvement from sixty-four years in 1995. Female life expectancy is seventy-four years. Official employment rates are not accurate and, therefore, not taken seriously.

Employment in the public sector has decreased from seventy-one per-cent in 1990 to forty-three per-cent in 1998. Employment in the private sector rose during this period from six per-cent to twenty-three per-cent. The service sector has shown strength over the past couple of years while employment in the industrial and construction sectors has declined sharply.¹⁷ A report recently released by the Azeri government outlines the difficult budget problems it is facing: 1) sourcing capital to stabilize the economy and develop the infrastructure, 2) the expenses being incurred relating to the growth of unemployment and the financial support of social programs and 3) the slow process of privatization. The report concludes with the recognition that “serious work” is required to address these items as well as improve the legal framework and reform the taxation system.¹⁸

Azerbaijan’s future must not rely solely on oil although the general impression of the author, after many interviews with public servants in particular, is that oil is heavily depended upon to shore up the budget and help tackle the problems faced by government. Some budget revenues are derived from taxing the multinationals

¹⁷ Azerbaijan Economi Trends, Second Quarter 1999, page 51

and from customs but oil is the largest contributor to the budget. Only a small portion comes from Azeri businesses. Business people generally agree that to survive in Azerbaijan one has to act illegally. The only alternative is to have political connections at the Presidential level. Most “added value” products are imported into the country as there is no incentive to manufacture locally. To a large extent the imports evade being taxed. Merchants are open about the fact that if they did import legally prices would be significantly higher and Azeris, for the most part, would be unable to afford the products. An example is a coffee maker with a price of \$US40.00 but if it was imported legally it would cost US\$70.00. At a US\$45.00 average monthly wage it is understood how such products are out of the reach of most citizens. Everyone needs to supplement their income just to survive. Professors who make only a few more dollars per month than the average salary often charge their students to enter a class, to take a test and to receive a grade. The Minister of Economics, who has an income of approximately US\$100.00 per month, leases his government supplied apartment in Baku for US\$600.00 per month and lives in his country house. This type of behavior is normal and a way of life. The country is one of the most corrupt in the world. It was reported in March, 1999 that more than one-hundred Turkish companies left Azerbaijan last year because of corruption among government officials and confusing tax policies.¹⁹

A two year project launched in September, 1999 offers the sort of stimulus needed within the economy to break away from its dependency on oil. The “Support for Small and Medium Enterprise Development in Azerbaijan” will lend assistance to start-up companies as well as to people with ideas and concepts. The program is funded through TACIS and will be administered by KOSIA-SMEDA, a business development agency in Baku. If the government can find its way to truly back this

¹⁸ <http://www.president.az/azerbaijan/az10/num>

program by defending legal rights and protecting material interests, it could most definitely grow smaller companies into more powerful economic entities.²⁰

Smooth privatization is also a requirement to implement a successful business model. Unfortunately, it has been painfully slow in Azerbaijan. In 1995 and 1996, books of four vouchers were given to every Azeri man, woman and child. Each voucher was used like currency to buy into various state-run enterprises, from bakeries to banks. The value of the voucher book soared to US\$100.00 in 1997 attracting a great deal of interest by foreign investors. The vouchers, along with cash, could be used to gain a foreign stake in an Azeri company. However, the slow process of privatization along with falling oil prices drove the voucher down to US\$10.00. Investors still await evidence of smooth privatization in the country. What they have seen, thus far, are projects like the privatization of the country's only cement manufacturer, Garada, which is a year behind schedule and considered to be in trouble. The reason is the inability to sort out which of the two companies in the running for the plant will actually become the owner. According to one privatization expert in Baku, "If this is the way future privatization will go, investors will lose all confidence. The problem appears to be a lack of understanding of what the rules are."²¹

Michel Comdessus, former managing Director of the International Monetary Fund, outlined in a recent speech to the Warsaw School of Economics that for privatization, as well as conditions for favorable FDI, to succeed the legal, financial and other reforms must be in place or, at least, be underway. Market discipline is of particular importance. "Ultimately, the development of all components of the private sector rests heavily on progress in creating favorable

¹⁹ Michael Wyzan, Radio Free Europe, Laxemberg, Austria, May 6, 1999

²⁰ Baku Sun, September 17, 1999

²¹ Azeri Business, September 10, 1999

conditions for investment: in other words progress on the broad reform agenda and a stable macro environment.” Mr. Comdessus draws upon ten years of transition experience and he is clear that it is today’s policies, rather than yesterday’s obstacles, that determines whether a country will succeed. These policies include not only legal and finance but also policies to ameliorate poverty, improve social conditions, reduce unemployment and raise living standards. A framework in which government, business and financial institutions deal with each other, and in a transparent manner, is essential. “If major progress could be made on these fronts, then we would begin to see an end to corruption and distrust of government.”²²

Nagi Bayramli, a graduate business student at Khazar University, has researched his country’s economy and makes the following observations:

In Azerbaijan it is more profitable to import rather than produce.

Tight monetary policy restricts the activity of banks.

Corruption is the main factor preventing business development.

Research indicates that manufacturers must give seventy to eighty per-cent of profits as a bribe.

Foreign investors are not ready to make investments in either the industrial or agricultural sectors because they consider them as unprofitable.

In 1998 State budget expenditures exceeded budget resources.

Calculations show that FDI is equal to the outflow of capital from Azerbaijan.²³

With FDI tapering off in many of the emerging economies only those countries that have sound policies like Mexico and Poland are finding active investors.

Multinationals realize that emerging markets consume scarce capital that can earn

²² Michel Comdessus, “Achievements and Prospects after Ten Years of Transition” (paper presented at The Warsaw School of Economics, Warsaw, Poland, 10 December 1999)

²³ Nagi Bayramli, “Some Aspects of the Financial and Economic Situation in Azerbaijan,” *Journal of Azerbaijani Studies* (1998): 24-38

much higher returns in the U.S. and Europe and, therefore, are reassessing the growth potential of emerging nations. World Bank President, James D.

Wolfensohn echoes the sentiment of Michel Condessus in saying that government and financial stability are of particular importance. He notes that Indonesia has begun to restructure its banks and improve supervision. However, reforming financial sectors alone isn't enough he contends. The collapses and failed rescues in Asia and Russia underscore the reality that factors such as judicial systems, social safety nets, and clean government "are equally important as money" in determining whether a country's economy is sound.²⁴

Presumably Azerbaijan is following an economic model, however, serious flaws exist. The government is inefficient and corrupt. Progress toward a market economy is slow and does not appear on track. Tax and legal reforms are not forthcoming. There is little evidence of this environment changing thus shattering the economic model but perhaps giving hope to the formulation of a business model. This first entails a marketing strategy to determine the needs of both the domestic and international markets and an analysis of available raw material, labor and capital resources to meet the needs of the market. Then, demand forecasts will be developed and manufacturing facilities established based on the demand requirements. Business strategies will also be crafted to give the manufacturers a sustained competitive advantage at home, as well as internationally. The major flaw with this model, unfortunately, is that no one wants to manufacture or "add value." Indeed, there are established manufacturers in Azerbaijan and some ten thousand small enterprises have been privatized.²⁵ The established manufacturers have matured in the system and realize "it is impossible to work without a bribe." In a report issued by the European Bank for Reconstruction and Development (EBRD), Azerbaijan is a "leader" in cases of private companies giving bribes

²⁴ Pete Engardio, "Fighting to Survive," Business Week, 8 February 1999

²⁵ United States Energy Information Administration, 25 November, 1999

(59.3 per-cent of companies offer money to officials).²⁶ A limited but relevant sample taken by the author shows this figure to be higher. The smaller enterprises, on the other hand, are mainly service oriented and survive by bribes and not declaring accurate figures.

Therefore, much of Azerbaijan's hope for economic growth in the future appears to rely on successful development in the Caspian. The country is still strapped financially, however, and most likely will be for several years until, and if, the oil starts flowing and additional pipelines are put in place. Both are still uncertain--the oil and the pipelines. On December 1, 1999 the Azerbaijan newspaper "Panorama" published an interview with Foreign Minister Vilayat Guliyev in which he said that Azerbaijan will proceed with the Baku-Ceyhan oil pipeline despite pressure from Russia and Iran. BP Amoco now endorses this pipeline as the company envisions reaching the required one billion barrels a day by using the line to transport oil from Kazakhstan and Turkmanistan. Is it a coincidence that Russia, who wishes that Azerbaijan consider construction of a Baku-Novorossiysk pipeline which has already been rejected by the Azeri Government, is now trying to draw Azerbaijan into fighting in the North Caucasus?²⁷

In the meantime Georgia is now demanding amendments to relieve it of any financial responsibility for damage to the Baku-Ceyhan pipeline on its territory and has also demanded financial compensation for the owners of land which the pipeline will transit. On January 11, 2000 Azerbaijan announced that Georgia's demands were unacceptable.²⁸

²⁶ Azadlyg, Baku, in Azeri, 25 November, 1999

²⁷ Interfax, Baku, 10 January, 2000

²⁸ Novosti, Baku, 11 January, 2000

On January 17, 2000 Velaet Guliev issued a statement saying Azerbaijan should “revise its attitude towards Iran.” He argued that the implementation of the Baku-Ceyhan project does not exclude construction of a fourth pipeline.²⁹ In a prior interview with the Russian newspaper ‘Nezavisimayagazeta’ the first vice-president of SOCAR (State Oil Company of the Azerbaijan Republic) and member of parliament, Ilham Aliev stated, “If tomorrow, someone proposes that we lay the fourth pipeline to Iran, we will vote for this.”

Azerbaijan’s economic growth is cloudy, at best. Neither the economic model nor the business model are possible, at least at this moment. Oil reserves are uncertain and the issue of transporting the oil out of the country seems to be taking on even greater political considerations. The financial system shows little transparency. Tax laws are confusing. Legal reforms are slow to be acted upon. The infrastructure is badly in need of repairs. Public enterprises are inefficient. On January, 1999 the IMF granted the country a needed US\$112 million and told Azerbaijan that it must streamline the public sector, restructure banks, improve the privatization process and reform public enterprises. This is a standard set of reforms for transition countries. However, oil producing countries in a transition stage are likely to be burdened with a corrupt and inefficient government.³⁰ Azerbaijan is no exception making the task of growing the economy very complex particularly since 1) the required institutions may not be in place and those that are often cannot be relied on and 2) recognized models such as the economic and business models cannot be applied.

The students are realistic in saying that it will take a long time for Azerbaijan to integrate into the world community and economy. And before doing so the country must survive its present budget problems. This is a daunting task.

²⁹ Turan, Baku, 14 January, 2000

³⁰ Michael Wyzan, Radio Free Europe, Laxenberg, Austria, May 6, 1999