

# Azerbaijan Descending into the Third World After a Decade of Independence

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Travelers to Baku are struck almost immediately by the pervasive bitterness and growing sense of deprivation that most citizens feel about their deteriorating lives. The short-lived euphoria of independence has been replaced by the somber realization that the so-called “transition period” could extend well beyond most people’s lifetimes. The promise of peace, freedom and prosperity, which seemed to come with the end of communism, has disappeared into the distance a mere ten years later. After the demise of the USSR, Azerbaijan has been relegated to the category of a third-world nation. Capitalism has won and the class struggle for power and wealth relapsed here as the driving force of history. The quintessence of profound popular wrath is that the country has moved backward rather than forward since the beginning of reforms. This is the principal outcome of the first decade of Azeri independence.

### The Social Brutality of Azeri Capitalism

As academic and intelligence circles are still preoccupied with lofty strategic and energy topics, there are also less visible consequences of the end of communism, those mundane, non-petroleum anxieties of downtrodden masses. Whereas the international financial institutions focus on macroeconomic reforms, the people who live in Azerbaijan are more concerned with keeping jobs and getting salaries that let them keep up with the rising cost of living.

Most Azeris live below the poverty line as graft infects the nation, from the traffic cops who demand bribes to relatives of the president widely believed to be fleecing the state to government officials who have built themselves palaces with fountains while ostensibly living on paltry civil service wages. These popular grievances are the universal driving force of history, generally disregarded by our foreign policy planning pundits until another upheaval goads them to inquire: “Who lost Azerbaijan?”

Perhaps the keenest measure of impoverishment in Azerbaijan can be taken from the scenes at places like Jafar Jabbarly Square across the railway terminal in central Baku. The square, like similar sites in all Azeri cities, has been transformed into a vast flea market. Here, the sellers of household bric-a-brac, of plumbing fixtures, of old books and music records, of plastic sandals, of anything with even vestigial monetary value, are not the illiterate underclass so much as the newly destitute middle class: engineers, teachers, lawyers, writers, musicians, artists, academics, war veterans and white-collar pensioners, some of them jobless, others seeking a few extra dollars to augment salaries and pensions rendered virtually worthless by the inception of free market reforms.

One of them, a Karabakh war veteran with a pension equivalent to about twenty-five US dollars a month, said he was trying to support a family of seven; another, a gray-haired academic salaried at fifty dollars a month at the National

Academy of Sciences, dispensed to me the usual praise of President Heydar Aliev, whose beaming portrait looked down from a concrete plinth as he spoke. But even taken on the evidence visible to all Azeris and the foreigners, what has developed under his presidency is a pitiable society of social and economic extremes, contrasting the record of Soviet equity in free health care, education, housing, sanitation, and guaranteed employment.

Today, in the teeming outskirts of the capital that is now home to almost half of the entire population of the country displaced by the Armenian occupation of Karabakh and the economic plague elsewhere, small children can be seen clamoring amid mountains of refuse at garbage dumps looking for scraps of food or other salvageable items for barter. Begging is common, everywhere, among tousel street urchins, mothers with infants clutched to their breast, widows in black cloaks and scarves, and toothless old men.

But another, new Azerbaijan, also exists conspicuously, unimaginable in the old Soviet times. Cruising the seafront boulevard at night are expensively groomed men and women in their open-topped sports cars, many of whom make purchases with wads of American dollars. In downtown Baku money can buy almost any luxury. Merchants offer Armani suits, Escada blouses, L’Oreal perfumes, Sony digital television sets and \$2,500 American-made, double-door refrigerators. At Baku’s thriving car market showrooms are filled bumper-to-bumper with luxury cars. Eager salesmen offer a brand new, gleaming Mercedes-Benz for \$72,000, along with new BMWs and Jaguars.

These “new Azeris” rarely give interviews, so where their money comes from is a matter for speculation. But less favored Azeris have little trouble providing theories. They say that the “transition” capitalism has created boundless opportunities for black-marketeering that were quickly monopolized by those with connections to the most powerful family in the land. One of the most lucrative enterprises has been oil smuggling, in tankers that run to Georgia, Turkey, Ukraine, Russia, and even to Armenia, earning millions of dollars in revenues outflanking the controls on Azerbaijan’s main oil sales.

The best vantage points for watching the “new Azeris” are the swank restaurants that line the main streets. There, in glitzy interiors with marbled fountains, and in alfresco settings around crystal-clear pools, diners can choose from thick menus that offer European and Caucasian specialties and relax to live music. By midnight, they return home to sprawling villas that brood behind steel gates guarded by men with AK-47 rifles.

In places like these, an outsider instantly realizes that Azerbaijan is a country of brutal and potentially explosive social divisions. Among its 8 million people, a favored few

have access to the most extravagant luxuries. In general, the “new Azeris” seem blithely indifferent to others’ suffering in a society where a vast majority of population has been reduced to penury by the decade of capitalism.

In this atmosphere of dread, the self-indulgence of those with favored positions recalls Bob Fosse’s 1972 film “Cabaret,” with its depiction of the decadence in the 1920’s Berlin that accompanied the rise of Hitler’s national-socialism. Much of the decadence in Baku is out of sight behind the walls of villas and palaces of the “new Azeris.” However, for any visitor spending a few weeks in Baku, it is this contrast in lifestyles between Aliiev’s elite and ordinary Azeris that seems to be the major characteristic of Azerbaijan, apart from the prevalent comments in Western media about the alleged Caspian oil wealth and strategic pipelines.

More troubling is the drastic decline in the ability of the government to maintain even minimal levels of public services and social welfare protection, not to mention the kinds of benefits that the pre-independence population enjoyed. Public education has broken down, health care has deteriorated, meager pensions have gone unpaid, and a relatively egalitarian social structure has been destroyed. In one of the most fundamental indications of decline, expenditures on food have sharply risen to above seventy percent of a family income on average, compared with below thirty percent before 1991.<sup>1</sup>

Ironically, in the “energy-rich” Azerbaijan, energy shortages have become worse, affecting homes, schools, hospitals, and workshops. Water supply is severely rationed. Only ten percent of Azeri cities have a sewage system. Poor diets and sanitation have helped speed the deterioration in public health with the relapse of epidemics long forgotten during the Soviet era.

Before independence, Azerbaijan was rightfully proud of its extensive educational system. Approximately ninety percent of the adult population had at least secondary and more than thirty percent had college education. Today, Azeri officials privately estimate that one-third of all school-age children do not attend classes because they are helping their parents to earn a living. Given the government’s minimal expenditure on education, the disincentives of unemployment and corruption, poorly paid teachers, decrepit and unheated schools, the system has broken down completely.

If, as the United Nations Development Program (UNDP) suggests, education, new training, and information technology are the sources of growth, Azerbaijan’s prospects are appalling. The higher educational system is equally chaotic with about 150 unregulated private institutions. Patronage and bribery ensure that only those with connections matriculate in the better colleges abroad through several Western government-paid programs. At Azeri universities, the quality of instruction is poor, the curricula obsolete, and student attendance is extremely low.

In his speech marking the eleventh anniversary of independence, President Aliiev trumpeted Azerbaijan’s economic achievements, citing that over the last six years, the gross domestic product (GDP) has increased by sixty-eight percent.<sup>2</sup> Of course, since independence, Azerbaijan has suffered such an economic collapse that even marginal increases in economic activity can generate eye-catching GDP growth. However, the recent report published by the European Bank for

Reconstruction and Development (EBRD) has estimated that the GDP of Azerbaijan in 2001 constituted only forty-four percent of the GDP of Azerbaijan SSR in 1991.<sup>3</sup>

According to a World Bank assessment, seventy-eight percent of Azerbaijan’s population lives on less than one dollar a day; the average income per capita (including the “new Azeris”) in 2000 was \$618 or \$1.7 a day.<sup>4</sup> A UNDP report indicates an almost eighty-percent poverty level of Azeri citizenry, marking one of the lowest standards of living in Europe, lower than in Bosnia, Albania, Armenia, and ahead only of Georgia and Moldova, at the time when stores are brimming with free-market abundance in anticipation of the promised oil boom.<sup>5</sup> The economic disaster in Azerbaijan is greater than in the worst years of the Great Depression in the United States. The gravity of human deprivation is exemplified by the fates of Azerbaijan’s second largest city of Ganja where, out of the total population of 300,000, only about 18,000 inhabitants officially have a job.<sup>6</sup>

The minimum monthly wage in Azerbaijan is 27,500 manat (US\$5.5). Laborers, if they find a job, are commonly paid 100,000 manat (\$20) a month. Average monthly salary is 250,000 manat (\$50). Teachers are paid 220,000 manat (\$44). In contrast, administrative assistants in foreign non-profit organizations earn about \$100, and those who work for profit-making foreign companies make more. The average monthly pension is 73,000 manat (\$15, compared to \$45 in Russia).<sup>7</sup>

The contrast of prices to these wages is distressing. In the new restaurants, a pizza costs 10,000 manat; a fish or meat entree can cost 15,000-20,000. One glass of beer, local or foreign, will cost 5,000. A hardback book can cost 25,000-50,000, and a paperback is 5,000-10,000. Newspapers are sold for 1000 manat. Most people do not have cars. They can afford the private jitney bus (which has replaced all regular city buses, streetcars, and trolleys), costing 1000 one way, or can buy the family’s daily bread costing 1000 manat for a loaf. They can afford food sold by villagers at the farmers’ market or on street corners, but are effectively excluded from the new supermarkets with their expensive vast array of goods.

Where is the oil-export revenue? Reports of the presidential family, members of “the clan” and inner circle, stashing away millions of petrodollars into personal foreign bank accounts are regularly released by international watchdog groups as well as the opposition press. There, not in Baku, is the repository of the many “signing bonuses,” “gifts” and “fees” to facilitate business operations, as well as of the outright bribes and kickbacks.

But the general public sees little of this. What is obvious to the people of Baku is the conspicuous consumption by the “new Azeris:” expensive clothes and casino gambling,<sup>8</sup> fancy cars and opulent villas with artificial waterfalls (while the water supply to general public is limited to between two and three hours a day), outrageous tuition paid by the elite for their offspring’s private education abroad. A top-of-the-line Mercedes is the ultimate status symbol. Those who drive them pay little and never yield to red traffic lights, let alone pedestrians; they park their vehicles on sidewalks blocking the fearful pedestrians in full sight of the indifferent police.

The whole picture of social inequality and blunt lawlessness is aptly described by Bakuvians with the Russian expres-

sion “*bespredel*” (unrestricted iniquity, pandemonium). Azerbaijan is not merely an autocratic state; it is a de facto oligarchy (or, strictly speaking, plutocracy) of the rich protected by an authoritarian regime. Remarkably, there is little of the anger or resentment one might expect. There is only resignation and sadness. “Things are terrible,” people say, then add, “we’ll have to see what happens.”

In these conditions, it is not surprising that Azerbaijan’s population is fleeing their independent motherland physically and abandoning it mentally, fairy tales of oil-boom prosperity notwithstanding. Azerbaijan has suffered proportionally the largest decline in population of all former Soviet republics. According to the 1999 census, Azerbaijan’s population currently numbers 8 million. Russian researcher A. Arsenyev has claimed that the official results were fabricated, and the country’s current population cannot possibly exceed 4 million.<sup>9</sup> Indeed, the leadership of Azerbaijan has a vested interest in downplaying the extent of the outmigration and the social discontent it implies.

The previous USSR census conducted in 1989 had counted the population of Azerbaijan at 7 million. In the course of Nagorno-Karabakh conflict of 1988-1994, the entire Armenian population of Azerbaijan, numbering about half a million, were driven out. A similar number of Russians, Jews and others left in the early 1990s. Arsenyev concludes that as a result of the flight of non-indigenous people, Azerbaijan has lost no less than 1.2 million people.

But in addition, following the radiant “Deal of the Century” signed in 1994, which pledged billions of dollars in foreign investment, millions of native Azeris have also left their country, moving mainly to Russia and Turkey. According to Russian statistics, the number of Azeris resident in Russia has reached 2.5 million. Specifically, the Azeri population in Moscow and its vicinity is now 1.2 million, compared with 21,000 in 1989. The Russian scholar estimates total emigration of Azeris in recent years at no less than 3 million. He thus deduces that, allowing for modest natural increase, Azerbaijan’s population has shrunk by half during the decade of independence.

Leaders of opposition parties charged the government with inflating the census figures to conceal this loss of men and, in smaller numbers, women (who prostitute themselves in the Persian Gulf emirates). Young men starting around age twenty are fleeing the republic. There are no official statistics on this problem since the government denies it exists, but everyone has a story of a relative or acquaintance working in Russia or Turkey, and fewer in Europe or America. They send money home (about \$2 billion annually, twice the size of state budget)<sup>10</sup> when they can, but have no plans to return until “things get better.” Privately, intellectuals worry about the future of Azeris as a nation: “The women are alone in the countryside; there are no men in some villages.”<sup>11</sup>

Armenia and Georgia also have lost a million people to Russia each. It is paradoxical to watch how, instead of moving away from their former colonial master after gaining national independence, millions of Caucasians are now moving into Russia, voting with their feet for economic reintegration with the power that their leaders are still blaming for all their travails and for conspiracy to undermine their independence. Among them are thousands of pauperized and disillusioned

intellectuals whom I saw ten years ago leading crowds and shouting anti-Russian slogans in central squares of Baku and denouncing in firebrand speeches the very Russia where they today seek refuge and relief.

Even more ironic is to observe by contrast the dramatic transformation of their antagonists (and our new “friends”) the formerly pro-Moscow local communist honchos and the omnipresent KGB types, who are nowadays mostly successful businessmen engaged in the “global economy.” Their leaders are calling for the expansion of NATO to cover Transcaucasia against “Russian imperialism” in almost the same clichés that they had been using a decade ago to denounce the “American imperialism.”

The aforementioned social woes are only the tip of the iceberg of horrendous problems facing this little republic with great oil-revenue ambitions. This iceberg of resentment can smash the Caspian oil concessions at any time regardless of the double-standard criteria by Western businessmen and politicians. Verily, the real life, ignored by policymakers, is more grotesque than any fiction, as we have learned from the September 11 tragedy.

### **Institutionalized Corruption**

“Never ask a “new Azeri” where he made his first million,” advised me an old friend at the foreign ministry in Baku. Ten years of chaos allowed many opportunists to get rich quick. Some did so honestly; but most cheated and swindled fellow citizens, bribed and purloined from the state or small investors. That era is coming to an end. Some former officials and “businessmen” who lined up their pockets are now in jail or exile, but many more of those formerly on the take are walking free. In this new brave world of Azerbaijan, why question too closely how some people, many of whom, the conflict of their official and commercial interests notwithstanding, are now ministers, ambassadors, generals, judges, party leaders, members of parliament, and other pillars of Azeri society, made their early fortunes?

Illegal business has infiltrated all levels of government and is inseparable from the state. The state has become privatized by clientalistic networks; it, along with the legislature and the political opposition, has become a means for realizing private interests. When corruption persists at the top, it percolates throughout society: people expect to pay and receive bribes, and that culture of corruption becomes institutionalized. Azeris are fond of saying that corruption is so endemic that the country would come to a stop without it. American foreign policy does not address this problem in Azerbaijan where it pervades every nook and cranny.<sup>12</sup>

Neither the Russian, nor Western understanding of corruption applies to the Azeri pattern of kleptocracy: it is not a chaotic profiteering, where anybody can grab anything, for it is tightly controlled. The institutionalization of corruption has evolved, as I found out in Azerbaijan, into two intertwined systems: 1) the distribution of bribes through the chain of superiors and 2) the buying of lucrative positions through payments to top officials.

In the first system, for example, a customs controller ordinarily gives seventy-five percent of his illicit profits to higher executives. His supervisor keeps twenty-five percent and passes the rest on to the next level, and so forth. The border guardsmen extort their cut directly from local smug-

glers in return for turning a blind eye. Captains at each of the border crossing points have to pay a flat monthly “tribute” of \$7,000 to their top brass in Baku who have appointed them.<sup>13</sup>

Shopkeepers pay regular cuts to local police “for protection” and payoffs to all inspecting officials, from fire marshals to tax collectors. With officials performing this function, there is no room for Russian-style racketeering. In his excellent report from Baku about the oil rush and total corruption there, American journalist Jeffrey Goldberg asked average Azeris a simple question: why, in spite of all that graft, there was no Mafia in Azerbaijan? A local businessman explained: “When corruption comes from the state, there is no need for Mafia, the state itself is the Mafia.”<sup>14</sup>

With the second system of corruption, all government jobs in Azerbaijan come with an unwritten price tag. (As well as many high-wage positions with international companies operating in Azerbaijan, which are obtained by locals for bribes).<sup>15</sup> The higher the official’s potential for bribe taking, the higher the price will be. Positions in law-enforcement bodies like the interior ministry, prosecutor’s office, and the judicial, tax and customs services, as well as most national and local executive positions, are all considered desirably ripe with possibilities for graft. If the head of customs directorate K. Geydarov has allegedly paid \$3 million for his appointment, he has done so with an intention to double or triple the original “investment” through systemic graft and extortion in his office (which brings us back to the first system above).<sup>16</sup>

When the demoted chief of Baku international airport police decided to carry overseas several suitcases with his “life savings” in cash, he simply paid \$800,000 to the new chief of airport police. In another case involving the Azeri law enforcement officers, a fugitive banker who fled the country with all the deposits of his investors, paid off in a Persian Gulf emirate \$11 million to the squad of Azeri agents that arrived on a special flight to arrest him, and his case was eventually closed. On the very top of Azerbaijan’s power pyramid (which, according to general public belief, is the final destination of all these “tributes”) in only one widely quoted case, the Chief of Presidential Staff Ramiz Mehtiev allegedly received \$6 million for exoneration of a group of rural bosses charged with a large-scale cotton-export fraud.

But all this malfeasance pales in comparison with the oil smuggling scheme being perpetrated on a national scale by the presidential family, which holds a virtual monopoly on the export, as well as domestic distribution, of petroleum production. President Aliev’s brother Jalal Aliev owns the national gas stations cartel called Azpetrol. Ilham Aliev, whom his father appointed vice-president of the State Oil Company of Azerbaijan Republic (SOCAR), controls every shipment of crude oil produced by the national monopoly. According to Georgian government statistics, every year SOCAR exports via the Georgian Black Sea ports of Batumi and Poti about 6.5 million tons more crude oil than is officially reported by Azeri government. These unreported shipments bring into the pockets of presidential clan around \$1 billion annually.<sup>17</sup>

The existence of such illicit shipments has been confirmed as a well-known fact by senior executives of all American oil companies operating in Azerbaijan in private conversations in Baku last year. They said that SOCAR has never been “independently audited,” that it manages the country’s

oil-related receipts through the opaque National Oil Fund created in 2001 and is accountable only to the president of the republic, instead of through the country’s central bank as required by law.

It is unclear whether the local graft suggests a correlation to the behavior of American corporate investors in the region, who are subject to the US Foreign Corrupt Practices Act of 1977. A recent study conducted by the EBRD confirms these allegations. According to the study, twenty-five percent of foreign firms doing business in Kazakhstan reported frequent solicitations for bribes and kickbacks. In Azerbaijan, eighty percent of companies reported systematic extortion and complained of incessant delays and unlawful charges requested to move business matters along. The EBRD study concluded that corruption incurs an unofficial “tax” of sorts on business ventures operating in Azerbaijan, averaging ten percent of companies’ annual revenue.<sup>18</sup>

I am unaware of any investigation by the US Department of Justice into such practices in the Caucasus, customary in dealings with local authorities. Such ingrained graft and cronyism permeates the whole political and social fabric of Caucasian nations, plaguing the nascent Caucasian democracies. Democracy means more than free elections; it cannot flourish in countries where no one hardly ever goes to jail for stealing from the public till or draining foreign aid. Corrupt governments, no matter what they say and how friendly to the United States they are, only invite popular unrest, often with nationalization of foreign oil concessions. Yet the Justice Department allows the Foreign Corrupt Practices Act to lie dormant in the case of Azerbaijan as we learn more that American investors were misled on the amount of Caspian oil reserves.

Take the case of British Bank, which has recently ceased its operations in Azerbaijan. The bank had deposits from local residents worth \$50 million and was the second largest after the International Bank of Azerbaijan and ranked first among foreign banks there.

Why would the bank close whilst Azerbaijan is experiencing an oil boom? This bank successfully works in Armenia, where no oil has been found. It becomes clear that British Bank stopped its activity in Azerbaijan because of bankruptcy. According to unofficial information, the reason for the British Bank’s stopping its activity in Azerbaijan was that the \$50 million worth of deposits belonging to top Azeri officials were withdrawn within two months upon the deterioration of President Aliev’s health, and the simultaneous outflow of capital made the bank bankrupt.

Several international surveys have shown that Azerbaijan has become one of the most corrupt nations in the world. Corruption level indices rendered for the last years by both Transparency International based in Berlin and Control Risks Group based in London have consistently ranked Azerbaijan as the third most corrupt country in the world after Cameroon and Angola, and first among the former Soviet republics.<sup>19</sup>

It remains mysterious, why President Aliev, who had a splendid record of anticorruption crusades when he was the communist boss of Azerbaijan, nowadays is not questioning the legitimacy of unconscionable fortunes, endorsing in fact the robber-baron breed of national bourgeoisie and kleptoc-

racy. Such countenance, under the subterfuge of privatization and free market reform, has raised doubts about his commitment to open society and social justice. Opposition leaders aver that, in addition to oil export, the most successful businesses, real estate and trade monopolies (such as caviar, cotton, tobacco) are controlled by his relatives with close ties to fiscal authorities, which let them make millions in return for hefty cuts.

The Azeri press boasts today of some of the “richest men in Europe” whose sources of self-enrichment in this impoverished country remain inconceivable. The bulk of personal lucre is drawn from access to national oil-export revenue and illegal dividends from privatization of state property. To understand the depth of despoliation, look no further than the ex-speaker of parliament Rasul Guliev, who allegedly depredated \$76 million through illegal proceeds in a state-owned oil refinery at his disposal, before jetting into a comfortable exile in New York in 1997.<sup>20</sup>

Another illustration for government-level embezzlement and the degree of impunity was presented by former foreign minister Hasan Hasanov who misappropriated a \$10 million Turkish credit meant for the establishment of Azeri legations abroad and used the funds to build his privately owned hotel and casino in Baku. After the criminal investigation directed by Prime Minister Artur Rasizade in 1998, the minister was merely sacked, but remained a member of parliament.

The only home-grown capitalist class able to reinvest into the national economy, thus creating new jobs, consists of the remnants of communist leadership, the ubiquitous KGB types, and the unbridled rural and industrial bosses, who have appropriated the most productive and profitable parts of the state property prior to its legal devolution officially aimed at creating equal starting terms for every citizen. Well organized in a vast patronage network that ensures them a stranglehold on power, they don’t conceal their opulence and brazenly flout the proclaimed ideals of democratic equality, stirring up the egalitarian instincts of bedeviled masses. That discontent, in turn, prevents the “new Azeris” from making serious investments at home beyond their lavish lifestyle, luxurious villas, and prestigious cars.

#### **Heydar Aliev: “L’Etat, c’est moi!”**

The United States’ aging, indispensable man in Baku, Heydar Aliev, who has failed to deliver on his fabulous promises to create, in his own words, a “Second Kuwait around Baku,”<sup>21</sup> essentially runs the country as his private syndicate blandished by luminaries and supplicants from abroad. Political power often tends to increase the longer it is held. Aliev has been Azerbaijan’s supreme ruler for the last thirty-three years since 1969, with a six-year break in 1987-1993.

After the death of Soviet communist Party Chairman Leonid Brejnev in 1982, the new Soviet leader Andropov made Aliev a Politburo member in Moscow, from where he was dismissed by Gorbachev in 1987. Some Politburo memoirists claim that the first Armenian pogroms in Sumgait and Baku in 1988 reflected this power struggle in the Kremlin and were orchestrated by Aliev’s old cadre hoping to restore his leadership in Azerbaijan instead of Gorbachev’s appointee A. R. Vezirov, who was “too honest for the organized corruption” in the republic.<sup>22</sup>

According to Aliev himself, he will run again for the

presidency in 2003, when he turns eighty years old (in a country where average life expectancy is sixty-three years). “I have held the post of the president of Azerbaijan for nine years, and God willing, I will hold it for a long time,” said Aliev, speaking in his native town of Nakhichevan.<sup>23</sup>

Political maneuvering within both the government and opposition blocs, however, is centered on one issue—the succession to Heydar Aliev. Given his age and declining health (he underwent heart surgery in 1999 in Cleveland), it is not believed that he will run again in 2003. Instead, his main concern seems to be to pave the way for his son Ilham to succeed him, something that has been discussed for several years.

As part of a careful process to legitimize him as the heir to the presidency, President Aliev proposed thirty-nine separate amendments to constitution and held a referendum on the proposed changes in August 2002. The government announced that ninety-seven percent of voters, who participated in the referendum, endorsed those changes. Opposition politicians claimed that the authorities resorted to massive manipulation of the referendum outcome.

The most important amendments provide for transfer of presidential duties to the prime minister if the president dies, steps down, or is incapacitated. (Under the 1995 constitution, in such circumstances the president’s duties devolved on the parliament speaker). The minimum number of votes a candidate must receive in the first round to be elected president is lowered from two-thirds of all votes cast to fifty percent plus one vote.

Local politicians unanimously construed that the rationale for the amendments is to enable Aliev to name his son as prime minister, a position in which he can succeed him as president. Under the constitution, it is the president who is empowered to appoint the premier, who is answerable to him, not to the legislature. Naming Ilham Aliev as prime minister would be one way to allow him to demonstrate his efficiency as an economic manager, at a time when increasing oil revenues could bring the long-hoped-for economic upswing.

It appears that the Alievs have gained a tacit endorsement from the Washington political establishment, where Aliev-junior pays regular “charm” calls. During his last visitation, as an American reporter noted, “He was guest of honor at a fancy dinner that pulled in [Secretary of Energy] Spencer Abraham, [Undersecretary of State] Richard Armitage and [Vice President] Dick Cheney. When I caught up with Mr. Aliev, he had lunched earlier that day with a group of high-profile has-beens including [Former Secretary of State] Madeleine Albright and [Former National Security Adviser] Brent Scowcroft.”<sup>24</sup>

But other observers have pointed to another innovation, namely the provision that the prime minister must not necessarily be a citizen of Azerbaijan, and suggested that this change was made in order to install the Russian oil tycoon Vagit Alekperov (an ethnic Azeri) as Azerbaijan’s prime minister and that Alekperov would work in tandem with Ilham Aliev as president as the latter’s *eminence grise*, but by the same token, the provision allowing foreign citizens to serve as prime minister could become a liability. If, for example, Heydar Aliev were to die suddenly, pro-Russian forces might seek to take advantage of the resulting chaos to engineer the return to Baku of either the former president Ayaz Mutalibov, or the

former KGB chairman Vagif Huseinov, both of whom have acquired Russian passports during their respective exiles in Moscow.

Today, Azerbaijan is neither a democracy nor a clear-cut authoritarian state of the sort found in Central Asian republics. An active and diverse opposition, a relatively free press, and a vibrant political life exist in Azerbaijan. Opposition leaders criticize the regime openly and harshly; they even organize demonstrations and rallies, something unthinkable in Central Asia. But opposition parties lack a comprehensive political platform that could stir Azeris out of their conditioned torpor and attract large numbers of supporters.

In addition, the country's political opposition is plagued by infighting, which has inhibited a coordinated pressure on the government. Voters get further disoriented by the practice of Azeri authorities to establish alternative eponymous "parties" under their own control to neutralize the "real" opposition parties, using renegade members of political forces against whom these countervailing parties are being established. As a result, presently two "Islamic," three "Popular Front," four "Democratic," and five "Communist" parties are functioning in Azerbaijan.

Most alarming is the widespread apathy and general aversion to politics in Azeri society. As the country modernizes, leaving its ideology of collectivism behind, for an overwhelming majority of the population, stability and survival are now more urgent concerns than the abstract concepts of democracy and liberation of Nagorno-Karabakh, which are generally seen as having brought nothing but lawlessness, war, and poverty. This is the real political climate in which the Aliyevs hope to smoothly pass the power from father to son despite the opposition's vitriol.

A significant number of people in Azerbaijan depend on patronage from the Aliyev regime for their privileged position and have a vested interest in retaining the regime in power in order to preserve their illegally privatized property and illicit incomes. That is the main reason for Ilham's strong support within the state structures and among the "new Azeris." They are largely conservative and profit from the status quo. The "new Azeris" will not lead the charge for reform, and although they compete and conflict, they have created what Italians call "*garantismo*," or an agreement by the major stakeholders of the regime to stick to the rules of self-preservation.

The opposition vehemently attacks any plans to create a "dynastic state" and smears Ilham, often unfairly, in every possible way. But the opposition has neither economic nor political leverage of significant public support to promote its agenda. A regime with oil revenue is less accountable to ordinary citizens; it does not have to collect their trifling taxes or meet their tedious demands. A portion of the petrodollars must be spent on the armed forces to keep the benighted masses in line, but the rest can be split among the political elite.

Azeri leadership seems to have spent much more time thinking about the external trappings of power and independence than about the responsibilities of good statesmanship. They argue that the Azeris whom they rule prefer the decisive leadership of a "strong man." Although some may actually believe that their actions help their people, they have

little objective information upon which to make this judgment. All of these "*apparatchiks*" had long lived in the secluded world of communist "*nomenklatura*," which afforded them minimal contact with ordinary citizens. They have become even more remote now, as the material disparity in society based on affluence has deepened. Even if the Azeri elite wished to reform and democratize, they would find it very difficult to convince a profoundly alienated population of their sincerity.

### The Fiction of Caspian Oil Boom

The subject of oil rush is inescapable when anyone talks about Azerbaijan. Our analysts and newsmen have shaped the country's profile in one stereotype formula: "energy-rich former Soviet republic on the Caspian Sea," which pops up unfortunately in every story. At the expense of other vital issues, they continue to dwell on minor details of Caspian oil contracts and proposed routes for export pipelines, closely following every twist in negotiations around them and superficially linking to petroleum output and even to a traversing pipeline the prosperity of entire nations in the Caucasus (such as Georgia), shortchanging the complexity of the region's economic woes.

As in other countries with valuable mineral resources, the prospect of billions of dollars in potential foreign investment has also raised popular expectations of Azeris. But the grandiose oil and gas projects are still in their "early stages" with their economic feasibility and size uncertain. The reality of the postcommunist decade has instead been an increase in corruption and a sharp drop in living standards once protected by a comprehensive socialist welfare net. Growing poverty has also rendered the population more susceptible to the appeal of Islamic radicalism. And ironically, Azeri leaders have taken the tactical laudations from Washington as proof that their own position will be protected from either internal unrest or outside attack.

Being preoccupied with the purported oil bonanza and endorsing the patently unprincipled leaders who all were only ten years ago zealously anti-American communist honchos, while ignoring the straits of a nation which, still reeling from the loss of social welfare and wallowing in poverty despite its alleged energy wealth, is a stupendously delusional policy for the US government. The United States runs the risk of dealing with a renegade Azerbaijan, should it opt for the oil industry nationalization remedies undertaken by Iran, Iraq, Syria, Libya, Algeria, Venezuela and other frustrated outcasts in the Third World. The destitute Azerbaijan cannot be an exception to this general rule.

Nonetheless, austere insights that challenge our big-oil policy in the region are not encouraged, and the voracious interlopers, known for particular diligence in trying to ferret out facts, even endanger their personal safety. The few skeptical studies that predicted in the mid-1990s the foreshortening of Caspian oil reserves, the emergence of personality cult and ruling kleptocracy, institutionalization of corruption and massive poverty, could not gain currency in foreign policy press, nor in Washington. If some scholars were more prescient than the corporate view, their ideas were filtered out in the bureaucratic process; and it was the corporate view that counted because, through the powerful oil lobby, that is what reaches the president and Congress.

America's honeymoon decade with Azerbaijan, induced by the anticipated oil bonanza, ended when the iridescent hydrocarbon bubble ballooned by sensationalist media burst with confusion. Instead of the politically bloated appraisal of 200 billion barrels in Caspian oil reserves valued at 4 trillion dollars, exuberantly postulated for the decade by the Department of State to entice American investors into the region and justify its own strategy there,<sup>25</sup> the talk today is about only 18 to 34 billion potential barrels of oil reckoned by the US Energy Information Administration, 14 billions of which are in Kazakhstan.<sup>26</sup>

It is hard to think of an industry that has a hype machine as phenomenal as the Caspian energy potential industry. A fresh piece of lingering mass-media hype was presented by *Newsweek* magazine: "It is apparently beyond the limits of journalistic restraint to tell the story of Caspian oil as anything but a breathless spy thriller... The Caspian Basin, at a conservative estimate, contains about 70 billion barrels of oil."<sup>27</sup>

Speaking on the same day, when this story appeared, in Almaty at the Eurasian Economic Summit, G.M.Gros-Pietro, chairman of Italy's ENI oil company, said that the Caspian contains only 7.8 billion barrels of oil.<sup>28</sup> ENI is the only Western company that has discovered a new oilfield in the Caspian Sea after the USSR, the in Kazakhstan, and the estimate given by its president deserves more confidence than a thrilling journalistic account.

Unfortunately, the current American oil-fixated approach to Azerbaijan is still remarkably quaint and naive. Think-tankers, along with the intelligence establishment, tend to overestimate the significance of certain aspects in Azerbaijan's prospects, such as the Nagorno-Karabakh conflict and the Caspian oil potential, and neglect the ineffable social distress, the factor of irrepressible forces of social discontent that ordinarily lead to uncontrollable bouts of popular uprising and can overturn the regional balance of power as swiftly as it happened in neighboring Iran, which has "suddenly" switched in 1979 from pro-Americanism to anti-Americanism.<sup>29</sup> They love to tell us in the prevailing trivial publications that an oil-boom panacea is right around the corner. Let us look around that corner, to see what is behind the facade of good fortune proudly exhibited to the world.

The "Deal of the Century" concessions, first of which was signed in 1994 at an ostentatious ceremony in Baku, began to crumble in 2001 when three of the twenty-one international contracts, signed during the oil rush of 1994-1998, were terminated after their exploratory wells failed to yield commercially viable quantities of oil or gas. Then the fourth company, Exxon-Mobil, announced that in 2003 it would end its agreement with Azerbaijan to develop the offshore Caspian oil fields.<sup>30</sup> That \$2 billion project was signed in 1997. The Russian oil giant Lukoil became the fifth to announce selling its shares in all Azerbaijan consortia, including its ten-percent stake in the 1994 first and largest consortium called Azerbaijan International Operating Company (AIOC).<sup>31</sup>

Of the remaining sixteen projects, only five are actually in the works. Of the pledged \$42 billion, no more than \$8 billion was invested in Azerbaijan in the past decade, eighty percent of which has gone directly to the oil sector.<sup>32</sup> By contrast, over the same period, the "energy-poor" Hungary

attracted \$20 billion in diversified foreign investment. The "new Azeris" meanwhile have managed to siphon off into private investments in Turkey alone about \$800 million, not to mention other countries, pleading at the same time for foreign aid and investment into their homeland.<sup>33</sup>

Of the five working international consortia, only one, the Azerbaijan International Operating Consortium (AIOC) led by British Petroleum, is currently producing considerable amount of crude oil, not only incomparable with the Persian Gulf levels, but also not enough to justify the construction of a new main export pipeline. Such major companies operating in Azerbaijan and Kazakhstan as Exxon-Mobil, Chevron-Texaco and Lukoil had been asked but declined to join the Baku-Tbilisi-Jeyhan (Mediterranean coast of Turkey) pipeline project so insistently promoted by the US and local governments.

After a decade of reveling in a much-publicized exuberance, questions are now being asked about the true extent of the Caspian reserves around Baku. The first question is why the USSR government, after 100 years of intensive depletion, shifted its emphasis from the Caspian Sea to the permafrost oil fields of Siberia? It is unlikely that Soviet engineers were unequal to the problems of extracting oil from the deep Caspian deposits: in fact, they were pioneers in offshore extraction beginning with the 1947 Neft Dashlary oil rigs constructed in the Caspian Sea. Long-term surveys conducted by the USSR petroleum research institutes examined the development of deep-water fields discovered by Soviet geologists, but proposals were always rejected on the grounds of poor potential returns and the high cost of extraction.<sup>34</sup>

There is no shortage of evidence to support their common sense. The US Energy Information Administration has put the proven Caspian oil reserves at somewhere between 18 and 34 billion barrels (of which about 5 billion is estimated in the Azerbaijan section of the sea), while the State Department, until the last year, had been maintaining its outlandish assessment that the Caspian contains 200 billion barrels of oil worth \$4 trillion in potential revenue. As I mentioned above, the chairman of Italy's ENI oil company, the only Western company that has actually discovered a new oilfield in the Caspian, went even further saying that the Caspian contains only 7.8 billion barrels of oil.

The combined Caspian potential dwarfs by comparison with the reserves of Saudi Arabia, which total 262 billion barrels, and Iraq's 112 billion barrels. Figures released by the AIOC predict that its peak production will reach 500,000 barrels per day (bpd) by 2005 (25 million tons a year) from the current level of 100,000 bpd.<sup>35</sup> The little Kuwait produces 2.14 bpd, its quota from the OPEC, and has enough oil to pump about 2 million bpd for 132 years. Russia produces 7.1 million bpd, Saudi Arabia 8.8 bpd, Iran 3.7 bpd, and Iraq 2.4 bpd.<sup>36</sup>

Moreover, extracting oil from under the Caspian Sea is very expensive. Heavy soil, deep seas, special rig equipment, and the complicated geological nature of the depleted deposits raise the price of Caspian offshore oil above the world average threefold. On top of that, compared to the Persian Gulf tanker terminals, the cost of moving crude oil from the landlocked Caspian Basin through the multinational pipeline system with multiple transit tariffs is to be added as well.

There is also a prospect of collapsing world oil prices, once the UN trade sanctions against Baghdad are removed with the fall of Saddam Hussein's regime there, and Western investment begins to pour into the neglected Iraqi oil sector. According to an estimate by the Center for Strategic and International Studies in Washington, a six-dollar fall in the price of a barrel of oil would slash Azeri oil revenue in half. If the price fell to thirteen dollars a barrel, most Caspian oil consortia would no longer be profitable.<sup>37</sup>

All post-Soviet Western geological explorations have as yet failed to find sufficiently large new deposits in the Caspian, except for the Kashagan oil field in Kazakhstan. Whatever the final size of reserves, it is now clear that much of the talk of Caspian oil was a spectacular bluff. The litmus test has been the reluctance to build the controversial new main export pipeline. Studies by two independent research groups in Washington have calculated that the Baku-Jeyhan pipeline would need \$200 million per year in subsidies from the US government to remain viable.<sup>38</sup>

After eight years of negotiations, at another ostentatious ceremony near Baku, the presidents of Azerbaijan, Georgia, and Turkey finally broke ground for the construction of Baku-Tbilisi-Jeyhan "pipeline to prosperity" on 18 September 2002. This 1,730-kilometer line is projected to have an annual capacity of 50 million metric tons of oil, whereas Azerbaijan officially produces only about 15 million tons a year: 9 million by the SOCAR, 5 million by the AIOC, and the rest by other consortia. The existing Baku-Supsa (Georgian Black Sea coast) pipeline is currently being filled only to one-quarter of its 18 million-ton annual capacity.<sup>39</sup> Where will the oil needed to fill the 50-million-ton Baku-Jeyhan line come from? Even AIOC's own projections for its peak production level come short of the minimum throughput of 1 million bpd needed for financial feasibility of this \$3 billion boondoggle. Whatever its economic payoff, the pipeline marks a deepening American influence in the region.

#### **The Rationale for Sustaining the Caspian Oil Mystification**

If the Caspian oil reserves are not so extensive, why is it so essential for the United States to be there?

The first reason is political. In our "Silk Road Strategy," the Caucasus represents an important geopolitical isthmus, linking the Black and Caspian Seas and providing with a "silk route" to Central Asia. Furthermore, Washington is trying to limit Russia's influence in the region while at the same time restricting the number of potential allies for Iran. American investment, attracted by the alleged energy resources, would extend financial backing to friendly local regimes and encourage them toward our strategic goals.

As for the government of Azerbaijan, it needs Western patrons in its confrontation with Armenia and fortitude *vis-à-vis* the overpowering Iran and Russia, so why dissuade the West by confessing that Azerbaijan's only alleged attraction is a deceit? Besides, the Azeri regime is fully aware of the obvious truism in international politics: the greater the oil reserves, the more tolerant the Western governments in overlooking a poor human rights record of any petroleum-based regime. A regime with less significant oil production provokes more international scrutiny of the status of local democracy.

Secondly, the interest of international oil companies in sustaining the Caspian oil phantom can be easily explained:

they are motivated by profit. All of the ventures are joint-stock companies, and shareholders of these companies derive their main profit not from increasing dividends based on successful commercial activity, but from the rising price of their shares on the stock exchange and oil futures on the mercantile exchange. The recent collapses of Enron, WorldCom and other giant American corporations revealed that share prices are dictated not by real economic indicators but by the aura of promise affirmed by Wall Street analysts.

This is the very essence of Western business investment in Azerbaijan. By participating in high-profile Caspian projects and issuing rosy reports of great resources, companies improve their stock image, generating an instant profit without pumping a single barrel of oil. In fact, to begin seriously extracting oil would be counterproductive given the danger that the true extent of oil reserves would then be exposed. The affair of Viktor Kozeny, a rogue Czech businessman, has brilliantly illuminated this ethos.<sup>40</sup>

For \$6.3 million, Kozeny obtained twenty-five percent of the 7.5 million vouchers issued by the Azeri government in 1997 for privatization of state property amongst its citizens. Then he raised \$450 million from an American investment group, which includes such dignitaries as the vaunted Wall Street hedge fund manager Leon Cooperman and former US Senate majority leader George Mitchell, with the intention of participating in the anticipated privatization of Azerbaijan's national oil company, SOCAR. The Azeri leadership subsequently ruled that SOCAR should remain state-owned.

Investors now say that they took part in the buying of vouchers after Kozeny's assurances that the Azeri government intended to privatize SOCAR by the end of 1998. Azeri officials deny that any promises were made. The would-be American investors are now suing Heydar Aliev, his son Ilham, and three Azeri privatization officials, in London and New York for \$100 million. Kozeny has claimed in the court that the Azeri president personally demanded hefty kickbacks in exchange for his favorable decision and insisted that he gave \$83 million to Heydar and Ilham Aliev along with three other top Azeri officials.<sup>41</sup>

Third motive: why do the Azeri authorities cheat on the contracts they are only too willing to sign, and how do they benefit from that? Aside from the tumid sense of self-importance that the Caspian oil bestows upon them, their objective is entirely pragmatic: the more foreign investment, the easier to perpetuate autocratic rule and keep popular discontent at bay with tales of a "Second Kuwait" prosperity lying ahead, not to mention the Western corporate slush funds and huge contract kickbacks for the ruling elite, which do not even enter the country and are directly deposited to personal bank accounts abroad. In a retort to estimates of the size of Azerbaijan's Caspian oil deposits by his Azeri counterpart, Aliev, Armenian President Robert Kocharian famously remarked at the World Economic Forum in Davos: "Is there any water in the Caspian, or is it only oil?"<sup>42</sup>

While the United States Department of Justice ignores Azerbaijan, the world's third most corrupt country, Swiss authorities are conducting an ongoing investigation into alleged bribery and the use of secret bank accounts, involving American oil conglomerates and officials in Kazakhstan. A story published in *The New Yorker* magazine exposed how our

Mobil and Chevron corporations paid tens of millions of dollars in commissions to top officials, including President Nursultan Nazarbaev, through shady deals during the government sale in 1996 of its twenty-percent stake in the Tengiz oil field.<sup>43</sup> After the Swiss prosecutors froze the bank accounts held by Nazarbaev, who insisted that he possessed no foreign bank account, his prime minister confirmed the existence of secret accounts registered under Nazarbaev's name, in which the president has accumulated about 1 billion dollars.<sup>44</sup>

Deals of the same scale have been signed by Azeri leaders many times over the past decade, but there is no account of the whereabouts of the vanished "signing bonuses," and the opposition's incessant demands for an audit have so far been flagrantly ignored both in Baku and in Washington. For instance, the huge bonus payments that oil companies paid to secure drilling rights for Azerbaijan's offshore deposits have been grossly underreported. The government told the International Monetary Fund (IMF) that it received \$285 million in bonus payments after auctioning the rights to a prime deep-water block in 1994, but the consortium companies claim they paid about \$400 million.<sup>45</sup>

Finally, as we live in the age and under the influence of mass media cheerleaders, let us point out the articulate lobby that has emerged and cultivated since 1991 the legend of Caspian bonanza in collaboration with our sensationalist press. It comprises a welter of numerous Washington think tanks, law firms, investment bankers (such as Kozeny), trade associations, pipeline construction companies, effusive journalists, television talking heads, big oil-controlled politicians, aspiring academics, retired diplomats who "consult" for oil corporations, hungry local officials and opposition leaders in Baku, agile Western expatriates there and unemployed Caucasian *émigrés* the West; they all profess in unison that Azerbaijan is sitting on an "enormous" sea of oil because they are all united in the desire to slice off pecuniary pieces from the promoted huge investment pie in the form of research funding, construction contracts, personal assignments, and consulting fees.

A *New York Times* story published 2 March 2000 mentioned one of the "consultants," a certain Edwin Graves, a sole practitioner who received \$70,000 every six months from oil corporations to push for the repeal of Section 907 of the Freedom Support Act of 1992, which had singled out Azerbaijan from receiving direct US assistance until it discontinues its economic blockade of Armenia. The same measure ending the ban on aid was attached to the Silk Road Strategy Act in 1999 by Senator Sam Brownback. Big oil financially supports scores of other political flunkies, influential celebrities and lobbyists, US-Azerbaijan "business councils," provides funding for academic studies and publications confirming the Caspian mythology, and withdraws high-priced advertising from those polemical periodicals, which sow the seeds of doubt and rock their Caspian boat.<sup>46</sup>

These lobbyists have the upper hand over the few timid opponents who are trying to filter through the hedges of establishment and alarm public opinion about the consequences for US national interest. If a veracious researcher dares to debunk the Caspian megalomania and calls into question the degree of competence of the established school of thought, this nimble crowd will fling charges of interfering with the

efforts to develop American business strategy in the region, disparaging his views with remarks ranging from "ill-conceived orientaling" to "unpatriotic conduct," especially after September 11.<sup>47</sup>

But the hard fact remains that, after 100 years of thorough extraction, there is not as much oil left under the Caspian Sea as investors want to believe. The reserves are sufficient to provide energy for the Caucasus, where supplies of electricity, gas, and fuel are niggardly rationed, including in the "energy-rich" Azerbaijan, which has turned into an importer of Russian natural gas and electricity, consuming more energy than it produces, but they are not commensurate to taking on the Silk Road Strategy Act, which is just another of America's futile and wasteful attempts to police and correct the region's ills.

Another side of this "strategy," pertaining to the presumed economic significance of the region, has become equally absurd since the sixteenth century when it lost its value as part of the Great Silk Route (transcontinental trade route that linked China to the Mediterranean for 1500 years) due to the great maritime explorations and the fact that the cheapest way to ship goods between Europe and Asia is by water, not land. Remaining since then on the periphery of the "global economy," By itself Transcaucasia does not constitute an area of vital national interest for the United States. For instance, the combined GDP of Armenia, Georgia, and Azerbaijan, at around \$10 billion, is minuscule in international terms compared with British Petroleum's turnover of \$148 billion for the year 2000.<sup>48</sup>

### **The Nagorno-Karabakh Imbroglia and Patriotic Bluster**

On 21 February 2001 the Azeri official press published what it claimed were the texts of three successive draft proposals for resolving the Nagorno-Karabakh conflict offered by the OSCE Minsk Group in July 1997, December 1997, and November 1998.<sup>49</sup> Article One of the would-be peace deal stipulated that the Nagorno-Karabakh Republic and Azerbaijan Republic shall form a "common state" to be governed by a "joint commission" comprising representatives of the two entities, both of which would bring their constitutions into conformity with the peace agreement. Public reaction in Baku to the publication of peace proposals was overwhelmingly negative, but although the uproar among opposition leaders for a reconquest war is growing (along with their hopes for a resulting dethronement of the incumbent president), the Azeri armed forces, with their massive draft dodging, are neither ready nor capable of launching a new offensive.

In fact, the pro-military bluster of some ministers, members of parliament and media outlets is part of Azerbaijan's negotiating strategy, designed to hurry the peace process along by demonstrating that President Aliiev is resisting domestic pressure for war. Discussion of the possibility of winning it back Nagorno-Karabakh militarily has become something of a national obsession. It is the rare public forum that does not showcase officials competing to prove their patriotic credentials by invoking force if Aliiev cannot win the region by negotiation. But such tactics—apart from being demonstrably ineffective—could seriously threaten the Azeri authorities.

Since 1988, when the Armenian enclave seceded from Azerbaijan, the recurring cycles of succession in Azeri leader-

ship culminated, as a rule, in piecemeal losses of the Azerbaijan SSR titular territory and the ensuing displacement by incited mobs of a next scapegoat from the presidential palace: Kamran Bagirov, Abdulrahman Vezirov, Ayez Mutalibov, Abulfaz Elchibey, plus several interim figureheads.

Heydar Aliev is too astute a Machiavellian statesman to let that vicious cycle repeat itself in his tenure. He could himself become a casualty of the social explosion of his fatigued people, as happened to his predecessors, but being wiser and unwilling to give the opposition such a chance, Aliev, immediately upon his return to power, reached an armistice agreement in 1994 with the Armenians (who had by then accomplished their strategic goals), and has so far managed to maintain it, averting any engagement in a self-destructive reconquest effort and cutting short expectations that he follow in the beaten path of his bellicose predecessors.

Aliev told a two-day parliament session on 23-24 February 2001 that all three drafts of the Minsk Group were unacceptable to Azerbaijan. At the same time, he defended his own efforts to reach a settlement, noting that he has met a total of ninety-eight times with the Minsk Group co-chairs, and discussed the conflict eighteen times with the United States president or secretary of state, sixteen times with the French president, twenty-eight times with the Russian president, and seventy-eight times with various Turkish leaders. Referring to the possibility of a military solution, Aliev said however, that Azerbaijan's armed forces are not strong enough.<sup>50</sup>

Aliev's policy of peaceful resolution of the conflict reflects, at the same time, the extreme unwillingness of general Azeri public, on both ends of social ladder, to galvanize warfare. Lacking martial traditions, ordinary Azeris have become openly cynical about their patriotic duty, having witnessed over the past decade the ravenous venality of politicians, generals and businessmen, none of whose offspring have served on the front-line, being employed instead in the profitable oil business and murky import-export operations.

The Azeri elite, in turn, emulate the paradigm evident at the pinnacle of power where Ilham Aliev, whom his father is grooming for presidency, acts as a supreme boss of the moneymaking national oil company instead of spearheading the national craving for Nagorno-Karabakh and the return of one million refugees home. Even academics, the main source of patriotic rhetoric in the early 1990s, have become subdued.

In April 2001, the American, French, and Russian co-chairmen of the OSCE Minsk Group conducted several rounds of shuttle talks at Key West (Florida) with the presidents of Armenia and Azerbaijan with no concrete result. Topics discussed included the withdrawal of Armenian forces from occupied territories, the lifting of the blockade of Armenia, the return to their homes of displaced persons and refugees, and the status of the unrecognized Nagorno-Karabakh Republic under a final peace settlement. In a written statement, the co-chairmen noted that they are preparing a "new comprehensive proposal that addresses all the problems."<sup>51</sup>

Observing the past decade of this peace process, one cannot refrain from pointing out that Transcaucasia is a region of wounded sensibilities and needs a special treatment from the great powers imposing their way of solving local

problems. Due to historic experience in the region, the traditional diplomatic cures, such as the "land for peace" formula or an international peacekeeping force, will not work here. Unlike Israel, all Caucasian nations have committed ethnic cleansings, which seem to be final in their national psyche. Unlike the former Yugoslavia where NATO peacekeepers are deployed, the republics of Transcaucasia are wedged between formidable regional powers: Russia, Iran and Turkey, each having special interests there, including territorial claims.

### **US Policy in Azerbaijan**

Washington wants to believe that the abstract Azerbaijan in its energy assessments and strategic designs has reached a certain level of stability, democracy and economic sufficiency. Just listen to our exuberant experts who return from their regular "fact-finding" trips to Baku, presumably for a reality check. After fretting a little about democracy and completely ignoring the social welfare, they start touting the country's strategic value and oil-boom progress, judging by the number of modern shops that have popped up in downtown Baku (unaffordable to ordinary Azeris save a few thousand who work for foreign companies), elegant restaurants, foreign cars, reconstructed turn-of-the century mansions, and new glass-covered high-rises.<sup>52</sup>

It is a perplexing task for an American orientalist to fathom the driving forces of Azeri society beyond the acclaimed anthropological studies, historical research, human rights issues, immediate political advice and economic analyses and consistently to caution the US government against the complications engendered by the oil-driven policy of double standards in a land of distinctive political culture.

The Department of State has elected a no-rebuke policy to overlook that Azerbaijan did not live up to its Big Brother's expectations. Washington is currently consumed, until the next obvious blunder, with a simplistic illusion of the increasing oil production as a panacea for all the maladies of Azerbaijan, misguided by the special interest of oil corporations. My scholarly obligation, however, is to remind that there is no stability without democracy and middle-class prosperity. Azerbaijan lacks both, and the United States shall lose much more than just oil when the Aliev era comes to a close with the natural demise of the eighty-year-old leader.

The cordial receptions for President Aliev at the White House elucidated the policy—stability over democracy in Azerbaijan—clearly adopted by both Bill Clinton and George W Bush, a policy of countenancing ethnic cleansing, human rights violations, electoral travesties, total corruption, international aid embezzlement, political oppression, autocratic rule and personality cult that Congress would never have tolerated in application to any European nation (Belarus, for instance).

The principal constraint for the US government concerning Azerbaijan for the past decade was Section 907 of the Freedom Support Act passed by Congress in 1992, which singled out this nation from any assistance program extended to former Soviet republics until Azerbaijan lifts its economic blockade of Armenia imposed as a contingency of the Karabakh war.<sup>53</sup>

The September 11 crisis and the US intervention in Afghanistan were instrumental in lifting the Azerbaijan embargo. President Bush finally signed on 25 January 2002 the long-anticipated waiver of Section 907, which barred direct US

government aid to Azerbaijan as long as that country persisted in its blockade of Armenia. The waiver was given in acknowledgment of Aliiev's support for the international antiterrorist coalition and enabled Azerbaijan to receive \$50 million in American aid in the year 2002.

With the waiver of section 907, a Pentagon delegation visited Baku in March 2002 and reached an agreement on the establishment of a joint military committee. The United States is now directly assisting Azerbaijan to enhance its naval capacity to secure its maritime borders. This move signifies for the first time that Washington has directly confronted Iran with the possibility of military support for Azerbaijan against Tehran's open desire to expand its territorial sector in the Caspian Sea and to use force to that end. Recently Iran deployed thirty-eight new warships there. In summer 2001, these warships forced two Azeri oil exploration vessels out of what Tehran considers to be Iranian territorial waters and compelled the cessation of the field's concession to British Petroleum.

Emulating Bush's 20 September 2001 speech to a joint session of Congress, Azeri officials have learned to use the international counterterrorist rhetoric to justify their stance on the Karabakh issue and to screen their political prisoners at home from international scrutiny, classifying the Nagorno-Karabakh Republic (NKR) as a "terrorist heaven" and seeking American support against Armenian irredentism.<sup>54</sup> They were not alone; all conflicting parties in the Caucasus started to label their adversaries as "terrorists" in the mode of the day hoping for American support: Georgian officials designated the breakaway Republic of Abkhazia a "renegade terrorist formation," while Russia branded its Chechen rebels "Islamic terrorists," etc.

Although Azerbaijan has been relegated to the category of a Third World nation, its people perceive their perils in a way different from other backward societies, raising many unexpected obstructions for American political and economic strategy. The basic psychological problem the United States is doomed to face in Azerbaijan for years ahead is that, due to socialist legacy, wide segments of the population are well educated and have seen the much better days of a welfare state. It is not easy to persuade them of the benefits of "free society" and foreign investment. The bulk of the population, those millions of people, who are not employed in the oil industry, do not know any English, and have neither the youth nor the right look for work in a shop that serves Westerners, cannot participate in this economy driven by foreign investment and foreign tastes.

The second exigency for a realistic American policy in Azerbaijan derives from the intrinsic Caucasian spirit of equality and social justice. Strong egalitarianism is in the blood of any Caucasian native, impeding the implantation of capitalist values. Unlike the surrounding big nations, none of the Caucasian peoples can endure any form of tyranny, special privileges and gaping social disparities for a long time. Unless a tangible recovery is extended to average Azeri families, the "stability" and "transition" prescriptions imposed by the West and the IMF, will eventually be rejected, and a radical, popular outrage is likely to be leveled at the oil concessions as the most salient symbols of inequality, corruption, frustration, and national humiliation.

Washington has substantial experience in dealings with such classic strongmen as Fulgencio Batista and the Shah of Iran, but the same historic experience shows that whatever short-term benefits a particular oil corporation or American diplomacy may gain for compromising our democratic principles, there is an inevitable public backlash that follows, as was the case in Cuba and Iran. Azerbaijan cannot be immune to this social law of history. We must also take into consideration the long history of outward display of fealty to regional patrons by Azeri satraps. Given their treacherous past, how constant will the United States' new "friends" in Baku be tomorrow, with the imperial resurgence of Russia and the rise of Islamic radicalism in Central Asia?

Azerbaijan may present our policymakers with a considerable quandary, following in the path of other outcasts lost in the Middle East. We have to learn from their lessons over and over again, that corrupt governments, no matter how loyal they are to us now, are not the best guarantees of stable democracy and free development, let alone the long-term US national interest. Before long, having pumped off handsome fortunes, these powerful "best friends" safely abscond to civilized and secure Europe, leaving Uncle Sam culpable in the shambles of their respective countries.

## NOTES

<sup>1</sup>Tofik Kocharli, "The Statistics of Our Subsistence," *Monitor*: monthly analytical survey (Baku), March 2002, 8.

<sup>2</sup>Heydar Aliiev, "Milli istiglalyyet yolunda" (On the road of national independence), *Azerbaijan* (Baku), 18 October 2002.

<sup>3</sup>*The Transition Report: November 2001* (London: EBRD, 2001), 36.

<sup>4</sup>*Social Assessments for Better Development: Case Studies from Albania, Azerbaijan and Moldova* (Washington: World Bank, 2002), 36.

<sup>5</sup>United Nations Development Program, *Human Development under Transition: Annual National Reports* (New York: United Nations, 2001), 87.

<sup>6</sup>Ridvan Sadirxanov, "Genceden iki mektub" (Two letters from Ganja), *Yeni Musavat* (Baku), 11 January 2002.

<sup>7</sup>*Azerbaijan*: weekly analytical-information bulletin (Baku), No.23, 6 June 2002.

<sup>8</sup>The first son Ilham Aliiev alone lost \$6 million in his 1996-1998 gambling season: Oktay Erdem, "Paving the Way for Dynastic Succession in Azerbaijan," *Turkish Daily News* (Ankara), 25 August 1999.

<sup>9</sup>Aleksandr Arsenyev, "Skolko ludey ostalos v Azerbajjane?" (How many people remain in Azerbaijan?), *Nezavisimaya gazeta* (Moscow), 1 December 1999.

<sup>10</sup>This amount equals the remittances sent home from France in 2000 by Moroccan workers, which further typifies Azerbaijan as a third-world country. "Foreign Labour Flows in Europe" [A table], *The Economist* (London), 2 November 2002, 11.

<sup>11</sup>Author interview with Dr. Elmira Zamanova, deputy director of the Institute of Philosophy, at the National Academy of Sciences in Baku, January 2002.

<sup>12</sup>The United Nations High Commission for Refugees, for instance, suspended its activities in Azerbaijan in the wake

of accusations by Chechen refugees that its local office staff in Baku demand bribes in return for the allocation of humanitarian aid and allowances. Elisabeth Fuller, "UNHCR Suspends Activities in Azerbaijan," *RFE/RL Newsline*, 28 March 2002, <[www.rferl.org/newsline](http://www.rferl.org/newsline)>.

<sup>13</sup>There is, naturally, no documentary proof, but this is the practice verbally described to me by many a dismissed officer. One of my relatives, a high-ranking border guard officer, was killed in a highway "traffic accident" after refusing to whack up with his superiors.

<sup>14</sup>Jeffrey Goldberg, "Getting Crude in Baku," *New York Times Magazine*, 4 October 1998, 69.

<sup>15</sup>Read just a few stories in Bakuvian newspapers: Imran Ismailov, "Vezifenin giymeti" (The price of office), *Adalet*, 4 December 2002; Aslan Zahidov, "Rushvetxorlug devam edir" (The bribery continues), *Azadliq*, 15 January 2002; Azad Sharifov, "Kak ustroitsa na inofirmu" (How to join a foreign company), *Exo*, 18 September 2002; Zardusht Alizade, "Bizim konsorsium" (Our consortium), *Muxalifet*, 19 November 2002.

<sup>16</sup>Documentary evidence compiled by the national security ministry investigations of this and the following instances of government corruption adduced in this article were presented by the ministry's renegade officer Ramin Nagiev (who lives in exile in Paris) in his confessions to the online publication *Virtualniy Monitor*. Ramin Nagiev, "Ne imeyu prava molchat" (I cannot remain silent), in four parts: 16 April 2002, 19 April 2002, 22 April 2002, and 18 May 2002, <[www.virtualmonitor.org](http://www.virtualmonitor.org)>.

<sup>17</sup>Gubad Ibadov, *Azerbaijan i Rossia: obschestva i gosudarstva* (Moscow: Letniy sad, 2001), 81-82.

<sup>18</sup>Evan Gillespie, "Caspian Graft Study," *Financial Times*, 22 November 2001.

<sup>19</sup>2002 *Corruption Perceptions Index* <[www.transparency.de](http://www.transparency.de)>; *Control Risks Group's Global Corruption Survey 2002* <[www.crg.com](http://www.crg.com)>.

<sup>20</sup>His government investigation report claimed that Rasul Guliev is not a political opponent of President Aliiev, but a convicted criminal who robbed his own country and thereby has managed to fund his opposition activities, and reproved the governments of "those countries that criticize corruption in Azerbaijan, but refuse to comply with repeated requests for his extradition." Mamed Fataliev, "Vor v izgnanii" (A thief in exile), *Bakinsky Rabochy*, 26 August 2000.

<sup>21</sup>Atilla Eroglu, "Ikinci Kuvayt" (The second Kuwait), *Cumhuriyet* (Istanbul), 1 July 1993.

<sup>22</sup>Nikolay Ivanovich Ryzhkov, *Perestroika: Istoria predatelstv* (Moscow: APN, 1992), 204-208; Egor Kuzmich Ligachev, *Kak eto bylo* (Novosibirsk: Sibirskaya kniga, 1995), 183-184.

<sup>23</sup>Quoted by *ITAR-TASS* news agency (Moscow), 12 April 2002, <[www.itar-tass.com/news.asp](http://www.itar-tass.com/news.asp)>.

<sup>24</sup>Claudia Rosett, "Potentate Jr.: An Interview with Azerbaijan's Dictator-in-training," *Wall Street Journal*, 6 November 2002.

<sup>25</sup>See the State Department's *Dispatch* magazine: Strobe Talbott, "America and Russia in a Changing World," October 1996, 14; Secretary Albright, "Testimony Before the Senate Foreign Relations Committee, 20 April 1999," May 1999, 12.

<sup>26</sup>United States Energy Information Administration,

"Caspian Sea Region" <[www.eia.doe.gov](http://www.eia.doe.gov)>.

<sup>27</sup>Owen Matthews, "The next move is check," *Newsweek*, 8 April 2002, 44-45.

<sup>28</sup>Evan Gillespie, "Eurasian Davos in Almaty," *Financial Times*, 9 April 2002.

<sup>29</sup>For striking similarities between the contemporary Azerbaijan and the pre-revolutionary Iran, showing how exactly Azerbaijan is following in the path of its greater neighbor, see my opinion piece Alec Rasizade, "The next Iran" *Washington Post*, 28 September 1998.

<sup>30</sup>"ExxonMobil withdraws from Azerbaijan," *Turan Information Agency* (Baku), 5 June 2002 <[www.turaninfo.com](http://www.turaninfo.com)>.

<sup>31</sup>"Lukoil to Sell Its Stake to Japan's Itochu," *Agence France-Presse*, 22 October 2002 <[www.afp.com](http://www.afp.com)>.

<sup>32</sup>"Azerbaijan Country Report," *The Economist* (London), 26 October 2002, 47.

<sup>33</sup>Oktay Erdem, "Azeri Capital Flight," *Turkish Daily News* (Ankara), 23 November 2001.

<sup>34</sup>Latif Agaev & Islam Veliev, *Kontrakt veka i problemy nefte-dobychi na Kaspii* (Baku: Akademia, 1997), 83-114.

<sup>35</sup>Selma Asadov, "The Caspian Update," *Oil and Gas Journal* (Houston), 24 October 2001, 34.

<sup>36</sup>"The World's Largest Crude Oil Producers in 2001" [A table], *The Economist* (London), 14 September 2002, 26.

<sup>37</sup>T. R. Reid, "Projecting the invasion's Impact," *Washington Post*, 22 November 2002.

<sup>38</sup>Stanley Kober, *The Great Game, Round 2: Washington's Misguided Support for the Baku-Ceyhan Oil Pipeline* (Cato Institute publication No.63: Washington, 2000), 14; *An Agenda for Renewal: US-Russian Relations* (Report by the Russian and Eurasian Program of the Carnegie Endowment for International Peace: Washington, 2000), 28.

<sup>39</sup>Rasim Agaev, "Neobxodim li nam noviy nefteprovod?" (Do we need another pipeline?) *Zerkalo* (Baku), 14 December 2002.

<sup>40</sup>"The incredible half-billion-dollar Azerbaijani oil swindle," *Fortune*, 6 March 2000, 78-85.

<sup>41</sup>Rauf Arifoglu, "Alievlere yeni bir zerbe," (Another blow at the Alievs), *Yeni Musavat* (Baku), 29 October 2002.

<sup>42</sup>Mireille Aznavour, "forum economique de Davos," (The Davos economic forum), *Le Monde* (Paris), 6 February 2001.

<sup>43</sup>Seymour Hersh, "The price of oil: What was Mobil up in Kazakhstan and Russia?" *New Yorker*, 9 July 2001, 48-65.

<sup>44</sup>Aldan Kusainov, "Kazakhstan prime minister admits to existence of secret government fund," *Eurasia Insight*, 5 April 2002, <[www.eurasianet.org/departments/insight](http://www.eurasianet.org/departments/insight)>.

<sup>45</sup>Ralph Nader, "Enron, Big Oil, and the New World Order," *Wall Street Journal*, 4 January 2002.

<sup>46</sup>For a lineup of former top government officials in the pay of oil corporations, including Lloyd Bentsen, James Baker, John Sununu, Brent Scowcroft, Zbigniew Brzezinski, Richard Armitage (who is now undersecretary of state) and other prominent personalities who chair several US-Azerbaijan lobby groups, see Dan Morgan and David Ottaay, "Former Top US Aides Seek Caspian Gusher," *Washington Post*, 6 July 1997.

<sup>47</sup>Quoted from comments by my anonymous referees.

<sup>48</sup>Given the limited space for historic validation of this disheartening truth, I would refer the reader to Anatole Lieven, "The (not so) Great Game" *National Interest* (Winter 1999/2000): 69-80.

<sup>49</sup>"Minsk gupunun teklifleri" (Minsk Group proposals), *Azerbaijan* (Baku), 21 February 2001.

<sup>50</sup>In an interview with the *Los Angeles Times* published on 3 April 2001, (Teresa Pais, "Gukasian: No Return to the Past") the NKR president Arkady Gukasian also said that he will not agree to a settlement that creates a confederation with Azerbaijan, and all options other than independence or unification with Armenia will be rejected by Stepanakert and could lead to a resumption of war.

<sup>51</sup>"Peace Talks on nagorno-Karabakh Area" *OSCE Newsletter* (Vienna), May 2001, 8.

<sup>52</sup>Read, for example, Thomas Goltz, *Azerbaijan Diary* (Armonk: Sharpe, 1998); his "Letter from Baku" in the *National Interest* (Summer 1997): 37-45; and similar success stories in almost every issue of *Azerbaijan International* magazine published in California.

<sup>53</sup>The clause reads: "United States assistance under this or any other act... may not be provided to the government of Azerbaijan until the President determines and so reports to Congress, that the government of Azerbaijan is taking demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno-Karabakh."

<sup>54</sup>See a host of Bakuvian periodicals, both government and opposition, among them: Novruz Vekilov, "ASALA Garabagda mesken salir" (ASALA settles in the Karabakh), *Xalq*, 27 September 2001; Arzu Abdullaeva, "Stepanakertde terrorchu dushergesi," (A terrorist camp in Stepanakert), *Azadliq*, 11 October 2001; Narmina Bagirova, "Ermeni terroru," (Armenian terror), *Ulus*, 23 October 2001.