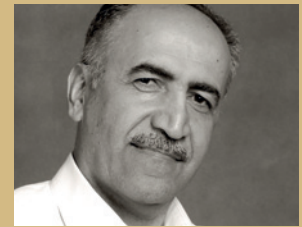


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120 Zeichen zu lang

Interview

“We must have zero tolerance for corruption”

Ingilab Ahmadov on the economic crisis in Azerbaijan, shortcomings in reform efforts and the need to pursue economic diversification

Falling oil prices and the resulting economic recession have hit Azerbaijan hard. How do you assess the current situation?

The oil price dropping by more than in half in just one year had an even greater impact on the Azerbaijani economy than could have been expected. A drastic depreciation of the national currency in relation to the world's leading currencies, the fiscal deficit, serious problems with the balance of payments, the loss of numerous jobs and a sharp reduction of public investments has generated social tensions. Social inequality is one of the big challenges for Azerbaijan, and during the crisis, this became more visible.

In the early stages of the crisis, President Ilham Aliyev admitted that he was taken by surprise as well. Why did the government fail to pursue economic resilience during the boom years?

As Russian economist Yegor Gaidar stated: “When everything is good, no one wants to change anything.” Reforms are always painful. The financial surplus and the high profitability of oil revenues in the 2000s provided a distorted picture of the country's actual economic situation. The seemingly positive economic environment actually delayed reforms and did not provide motivation for enhancing economic competitiveness in relation to trade partners.

It is worth mentioning that oil dependence started to decline in this period. However, this economic development was not grounded in a strong foundation and the newly created business areas generated only short-term gains. The excessively strong national currency made the sale of any imported goods on the domestic market much more profitable. As a result, local production was rendered completely unprofitable.

The weakness of the macroeconomic framework, its inability to absorb large volumes of currency, delayed institutional reforms and rampant corruption did nothing to facilitate the development of the non-oil sector.

You mention the high levels of corruption. In which sense is this related to a lack of reforms and economic diversification?

Unfortunately, almost all post-Soviet countries are known to demonstrate high levels of corruption. The fundamental reason for this in resource-rich countries is the temptation of rent-seeking opportunities.

Indeed, the tendency among government officials to launch their own businesses intensified. Economic monopolization reached maximum levels and genuine entrepreneurs faced an increasingly limited access to practically all market segments. The key function of governance, that is, to develop and enforce a regulatory framework for commercial activity, did not take hold. The

separation of the state and commercial functions were blurred. In that sense, the revenue windfall from the sale of raw materials had an adverse impact not only on the economy but also on governance and decision-making institutions.

Although the government always claimed to focus on economic diversification, it did not take tangible steps in this direction during the boom years. The realization of economic diversification, if combined with the elimination of monopolies present in most market segments and the restoration of competition poses a real threat to the excessive incomes flowing into government officials' businesses. Such a prospect does not bode well for those currently in charge of the business sector.

But it is clear that if we want to build sustainable development that is based on a competitive free market model that draws investors, we must demonstrate zero tolerance for corruption. Otherwise, we will “step on the same rake” once again.

President Aliyev signed the “Strategic Roadmap of Economic Development” in late 2016, once again declaring economic diversification a priority. How promising are these announcements?

Usually, times of crisis prompt reforms, because challenges create opportunities. Government efforts to create an environment facilitative of entrepreneurship in Azerbaijan are welcome! The roadmap was the first comprehensive plan aiming to reduce dependency on oil income. Whereas economic diversification was desirable during the growth of the 2000s, it has become a vital objective for the government now that recession has hit.

However, the roadmap does not explicitly identify any planned policies, specify whether the government plans to promote non-oil exports or create import-substituting businesses and, finally, it does not state how principles of competitiveness may be restored. Without clarity on these issues, it will be difficult to achieve tangible and systemic results.

Government efforts targeting economic diversification focus on three sectors in particular: tourism, logistics/transportation and agriculture. However, as demonstrated in other countries, increasing investment in non-resource sectors is not enough. Building a robust and credible system of governance that operates in a predictable business environment featuring fair competition and safeguarded property rights is essential.

Unfortunately, Azerbaijan faces considerable challenges in these areas. Institutional reforms are required if the country is to effectively remove barriers to markets and financial resources, cultivate fair competition and ensure property rights protections. The half-hearted nature of institutional reforms is the weakest point in the Strategic Roadmap.