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How Globalisation Shapes Public Policy? A Case of Azerbaijan

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Abstract:

Is globalisation a constructive or destructive force for public policy development in the countries of transition? The problem is investigated through an example of oil-rich Azerbaijan. This paper first presents the current situation in the country, defines links between globalisation and public policy and describes empirical research and its main findings. The paper then explores the circumstances that have prompted such a development and concludes with the possible policy implications.

Keywords: Azerbaijan, Globalisation, Public Policy, Corruption

JEL Classification: D73, F50, H0

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List of Acronymes

- BTC – Baku-Tbilisi-Cheyhan Pipeline
CEF – Centre for Economic Reforms
CPI – Corruption Perception Index
GDP – Gross National Product
GNI – Gross National Income
HDI – Human Development Index
NGO – Non-governmental Organisation
MNC – Multinational Companies
SME – Small and Medium-sized Enterprises
RCA – Revealed Comparative Advantage
USD – United States Dollar
WB – World Bank
WDI – World Development Indicators
WTO – World Trade Organisation

Introduction

As the influential British magazine “The Economist” reports, Azerbaijan is the most intensively developing emerging economy of the world and a cutting edge of global capitalism (GDP growth forecasts, 2006), which makes it truly distinctive part of the globe. However, according to the World Development Indicators, in 2005 Azerbaijan was ranked just as 143rd among 208 nations by GNI per capita. Obviously, there is a frustrating gap between FDIs and export driven economic growth and globalisation on the one hand and conducted public policy on the other. Quite possibly increasing globalisation reinforces authoritarian tendencies and creates obstacles for better public policy and political changes in Azerbaijan. Western oil MNCs, as the locomotives of globalisation, now are able to reach deepwater oilfields of Azerbaijan untouched by the Soviets due to poor technology. Nevertheless, they tap the minds of poor and neglected population as well, who see no difference between globalisation, oil companies and corrupted governmental institutions. Based on Transparency International evaluations, Azerbaijan holds 137th position among the world's least corrupt countries (Corruption Perceptions Index 2005).

The question of depth of shaping public policy in Azerbaijan by globalisation also fits the frame of the great globalisation debate. The sceptics would argue that those scenarios, which really determine the policy-making in this country, are nationalism, regionalism and especially geopolitics, but not globalisation (defined later). In spite of the fact that social scientists have profoundly studied the region, research on the topic of my paper is particularly scarce. While study tries to fill the gap, I largely rely on different scholars findings. Sirgy, Lee, Miller, and Littlefield tried to study the impact of globalisation on a country’s quality of life; Daniel Heradstveit argues that the elite of Azerbaijan in order to attract FDIs and to get global support concerning its territorial disputes with Armenia unwillingly adopted

fundamentals of liberal democracy; while Oskan Bayulgen insists that globalisation in this country can be totally explained by oil-related foreign investments.

Definitions and Empirical Analysis

Since in the presented paper I primarily focus on brief and critical analysis of globalisation and its implications for the decision-making process in Azerbaijan, my definition of public policy and globalisation processes in this country is the first issue that follows. To my opinion public policy is a decision-making method and practice of governmental entities (no matter how corrupt they are) to achieve societal goals and increase prosperity of its citizens. While globalisation in Azerbaijan is diffusion of goods (primarily export of oil), capital (primarily FDIs in oil sector), technology (primarily new methods oil exploitation), and people (primarily emigrants not employed in oil industry) across national borders. Evidently, globalisation in Azerbaijan is largely explained by energetic reservoirs located on the seashores of the Caspian Sea, which at the same time generate most of incomes to the state budget. Therefore, applied public policy is defined by foreign trade that is indispensable part of globalisation. I also assume that there is an opposite causative relationship, yet this link is beyond of the scope of my research. However, in order to address directly the main thesis of the paper, I decided to introduce the terms of “glopublic policy” and “glopublicity” while referring to public policy determined by globalisation in Azerbaijan. To simplify analysis of glopublicity I evaluate different socio-economic variables as the proxy for existing level of globalisation and public policy, many of which are by their nature profoundly interconnected.

To evaluate the level of globalisation in Azerbaijan I decided to compare it with other Caucasus countries Armenia and Georgia using three proxy indicators of globalisation: 1. merchandise trade as the per cent of GDP; 2. amount of web-sites about the country and its

capital city; 3. and fixed line and mobile phone subscribers per 1000 people. The first indicator is generally considered as a valuable sign of globalisation. (Sirgy, Lee, Miller, & Littlefield, 2004). Based on WB data in 2004 Azerbaijan, Armenia and Georgia held 84, 66 and 48 per cent merchandise trade to GDP respectfully. To calculate the second indicator I applied Internet search engine Google. I used names of the country and its capital as the key words of search to determine how many websites in some form are devoted to those countries in different parts of the globe. The results showed that for Azerbaijan there are approximately 4450000, for Armenia – 3900000, and for Georgia – 4400000 websites. In the third indicator I again referred to WB online database based on which 333, 260 and 337 persons are subscribers per thousand people to fixed line and mobile phones in Azerbaijan, Armenia and Georgia. Then I subtracted each country's value to maximum value of this indicator and summarised the three data. My calculations indicate that globalisation score of Azerbaijan, Armenia and Georgia are 2.98, 2.42, and 2.55 respectively. In other words, based on my research Azerbaijan is at least the most globalised country across the region (refer to appendix).

One of the issues that created obstacles to my research is the lack of transparent and unbiased statistics in Azerbaijan on globalisation, and especially public policy issues. For instance, official figures say that in 2004, unemployment rate was 1.2 per cent, but simultaneously about half of population lived below of the poverty line (Azerbaijan Data Profile, 2005). The explanations of the situation may be the overstaffed, but underpaid servants in public sector. Nevertheless, it is hard to believe that the figure is real, particularly if I consider situation of neighbouring countries where unemployment level mostly is the same, but official figures are 12-17 times higher. In addition, it is almost impossible to obtain reliable information on different dimensions of public policy and governmental programs that are directed to equalising of conditions and opportunities in Azerbaijan. Considering the

above mentioned difficulties with the reliable information I preferred to apply the rankings and evaluations of three influential international organisations as the proxy for public policy and the socio-economic consequences of decision-making during the last years in this country.

The main problem with United Nations' indicator of HDI is the fact that it considers high school enrolment and literacy rates as a significant achievement of Azerbaijan's education policy, while I think it does not reflect the poor quality of the offered education (HDI, 2005). I attribute the greater importance to index of Economic Freedom of Heritage Foundation, which is widely considered as a sophisticated indicator of nation's development not only in economic activities, but also by human rights, rule of law and democracy. Azerbaijan ranks as 123rd and shares position with the Gambia (CPI, 2005). The worst part of the situation is the fact that it rolled back by 16 places just in a year - almost the worst performance around the globe. And the third indicator is the Transparency International's CPI (2005). After gaining the necessary data, I applied the same procedures beforehand used with globalisation and calculated final scores for all three countries of Caucasus. I received the following scores: Azerbaijan – 2.25, Armenia – 3.00, and Georgia – 2.48. The results show that contrary to globalisation, Azerbaijan is far behind of Armenia and Georgia by quality of governance and socio-economic development – two elements that represent input and output of public policy. In other words, based on my study Azerbaijan has at least the worst public policy across the region (refer to appendix).

Theoretical Explanations of the Findings

Relying on the empirical analysis and findings of my previous section, I suspiciously assume that globalisation has a negative effect on development in Azerbaijan. Therefore, this section is devoted to theoretical analysis of globalisation. To support my thesis, I present most

relevant explanations (economic, sociological and political) that may justify the impeding influence of globalisation over socio-economic development in this country. Once again I have to emphasise that the higher level globalisation in Azerbaijan in comparison with its neighbours is largely caused by oil, however, factually globalisation and its effects on public policy are (should be) far more complicated relationships that cannot be comprehensively evaluated through my paper.

The first justification of the phenomena might be overdependence on oil sector. In spite of the fact, that Azerbaijan's foreign trade approximately tripled in the last decade, oil and oil products account for the majority of its incomes from the export. The oil finances of country are mainly controlled through a State Oil Fund. However, I did not find any proved sign that Oil Fund manages better than otherwise smaller governmental institutions and enterprises or even competitive private sector companies would do. Furthermore, I think that the fund in some sense consists of Soviet kind aspiration towards centralised and easily administrative flows of money backed with strong emotional and unwarranted pathos. Simultaneously, I am not surprised that since independence Azerbaijan failed to diversify its economy, which for more than a century completely relied on petroleum, but rather I observe the problem in diversifying gains from economic independence to its population, even in conditions when vulnerability to external shocks has been predominantly high. It seems that local elites, who are in charge of decision-making, are well suited to existed patterns of socio-economic life and have no will and aspiration for progressive transformations.

I link the previous explanation of the corrupt oil sector to another failure regarding international public policy. Azerbaijan is the only country in the region which did not manage to become a member of WTO, membership of which would allow local producers (out of oil sector) to enter the foreign markets more freely (The WTO's 149 members, 2006). As the empirical study of Centre of Economic Reforms on Azerbaijan's current and potential

comparative advantage shows the use of oil-related revenues in several other sectors of economy would generate comparative advantage and “create jobs and reduce poverty by converting black gold to human gold” (2004, p. 3). The research also emphasise that Azerbaijan has a possibility to export not just crude oil, but value added and hence income generated finished oil goods and petrochemicals. Furthermore, according to calculated Balassa RCA indices the country is able to develop comparative advantage in tobacco, apple, nuts, tea, vegetables, oil seed, raw cotton, and pharmaceutical plants growing (p. 13). Considering the constitution of the labour force employment, further verifies my argument. After simple calculations, I conclude that the best policy here would be the development of agriculture and agricultural enterprises. The process will not only facilitate the improvement of conditions in existed firms and for self-employed people, but also will contribute to establishment of new SMEs entities that will saturate local needs and probably compete on regional and international markets, where demand on listed food is stably high.

Another reason that has connection with globalisation and probably hinders progress is the prioritisation of security and military sector and establishing authoritarian order. International organisations, which stay at the grassroots of globalisation, can do nothing with existing territorial and ethnical conflict with Armenia. Hence the elites’ arguments are clear – 16 per cent of country’s territory is occupied and the region overall is not the most peaceful place in the world. Nevertheless, it is hard to believe that Azeri officials are not aware of the devastating results of war and are seriously considering military actions, and any other country even hypothetically intends to conquer Azerbaijan in the foresight future. As history, and particularly recent past of Caucasus, shows war never leads to final solution, nonetheless it can lead to malevolent victory. Though, as President of Azerbaijan Ilham Aliyev recently declared his country plans to raise the military budget to at least 1 billion USD in 2007. (Radio Liberty, Sep 8 2005). While Azerbaijan still remains among the least developed

countries of the world, from the point of public policy I view it abnormal to direct scarce resources on a huge military expenses, when they can be used to improve educational, social, health, development and other policies.

Last but not least justification of negative consequences of globalisation on development consists of complicated “pay and play” relations between government elites and society. The incomes from the export allow Azerbaijan to persuade policy towards subsidisation and control of domestic prices on “socially sensitive products such as petrol, gas and electricity.” (Managing Globalisation in Azerbaijan, 2003). At the first sight, such a policy should increase prosperity of population because the amount of money they do not pay for subsidised products can be directed towards other important needs. But on the other hand, I think that this kind effort from the government is just a mean to relieve pressures for tough accountability from tax-payers (nation of Azerbaijan) and hence subsidisation of prices impedes the development of better public policy and overall may have negative effect on development. The sequence of my argument leads to the concept of democracy in Azerbaijan. Financially strong state apparatus not only does not encourage, but also oppresses the social and cultural changes that tend to produce democracy and participation. “A state governed by a closed elite, its rule enforced by brutality, legitimated by corrupt elections and perpetuated by nepotism” – that is how Sabine Freizer in her article describes Azerbaijan (Freizer, 2003). A lot of studies indicate the authoritarianism may be positively related to high economic growth rates on the first stages, but in the long run there is a strong correlation between development, quality of life and the growth of democratic institutions (Fukuyama, 2006). The above listed justifications, to my view, are the most salient arguments which generally can explain why globalisation harmfully shapes public policy. Though, there should be some other features that may have negative correlations with conducted policy but have hidden character, at least for my research.

Conclusion

In this paper I questioned negative applications of globalisation on public policy process in Azerbaijan. In order to refer directly and analyse the thesis of this research I introduced term glopublic policy. I designed my indexes of globalisation and public policy based on different indicators of development. After calculations I found out that while Azerbaijan is the most globalised nation in Caucasus it has the worst public policy across the region. To explain revealed negative correlation, I presented several (but not all) theoretical explanations that might serve as the barriers of development. The main objective of the paper was the depiction of harmful consequences of Globalisation when governmental institutions are corrupt. Nevertheless, I think that globalisation can and should be used as a strongest mean of development. However, the construction of the BTC pipeline will farther facilitate to FDIs, foreign trade and export receptions, and if Azerbaijan wants to enjoy fully the benefits of Globalisation, its citizens, civil society, NGOs, business entities and international donors should intensify pressure on the elites for transformations. In order to unequivocally clarify exact causative relationships of the thesis of this paper further investigation and research should be conducted.

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Appendix

Table 1. Index of Globalisation

| | <i>Merchandise trade as the per cent of GDP</i> | <i>Ranking</i> | <i>Amount of web-sites about the country and its capital</i> | <i>Ranking</i> | <i>Fixed line and mobile phone subscribers per 1000 people</i> | <i>Ranking</i> | <i>Total (sum of rankings)</i> |
|------------|---|----------------|--|----------------|--|----------------|--------------------------------|
| Azerbaijan | 84 | 1.00 | 4450000 | 1.00 | 333 | 0.98 | 2.98 |
| Armenia | 66 | 0.78 | 3900000 | 0.87 | 260 | 0.77 | 2.42 |
| Georgia | 48 | 0.57 | 4400000 | 0.98 | 337 | 1.00 | 2.55 |

Source: WB online database (<http://devdata.worldbank.org/data-query/>);
www.google.com; own calculations

Table 2. Index of Public Policy

| | <i>Human Development Index</i> | <i>Ranking</i> | <i>Index of Economic Freedom</i> | <i>Ranking</i> | <i>Corruption Perception Index</i> | <i>Ranking</i> | <i>Total (sum of rankings)</i> |
|------------|--------------------------------|----------------|----------------------------------|----------------|------------------------------------|----------------|--------------------------------|
| Azerbaijan | 0.70 | 0.96 | 3.51 | 0.54 | 2.2 | 0.75 | 2.25 |
| Armenia | 0.76 | 1.00 | 2.26 | 1.00 | 2.9 | 1.00 | 3.00 |
| Georgia | 0.73 | 0.96 | 2.98 | 0.73 | 2.3 | 0.79 | 2.48 |

Source: WB online database (<http://devdata.worldbank.org/data-query/>);
2006 Index of Economic Freedom
(<http://www.heritage.org/research/features/index/>); Human Development
Report 2005 ([http://hdr.undp.org/statistics/data/country_](http://hdr.undp.org/statistics/data/country_fact_sheets/cty_fs_AZE.html)
[fact_sheets/cty_fs_AZE.html](http://hdr.undp.org/statistics/data/country_fact_sheets/cty_fs_AZE.html)); Own calculations