
Analysis : Azerbaijan looks to stash cash

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WASHINGTON, Oct. 25 In a world of record-high energy prices, several former Soviet states flush with cash from hydrocarbon exports, notably Russia and Kazakhstan, have begun to invest their surplus energy revenue abroad, primarily in their energy-poor neighbors. Current estimates allocate Azerbaijan 0.6 percent of global proven oil reserves while Baku's rapidly expanding energy infrastructure in 2006 shipped 50 percent more than in 2005.

Azerbaijan's \$21 billion economy, expanding at more than triple the rate of China's, can now be added to that select category of former Soviet states so flush with cash that it can afford to consider foreign investment. Like its massive energy-rich colleagues, Baku has begun to acquire assets in neighboring states. Azerbaijan's hydrocarbon production is on a steep increase, having grown by 45 percent from 2005 to 2006, while it is expected to grow another 30 percent between 2006 and 2007. While at \$60 a barrel, Azerbaijan's revenue stream was estimated at around \$230 billion; currently, world energy prices are hovering at nearly \$90 a barrel, producing more cash than the economy can absorb, in a pattern similar to the Organization of Petroleum Exporting Countries' windfall in 1973 following the oil embargo imposed after the Arab-Israeli war.

According to the U.S.-Azerbaijan Chamber of Commerce, the economy of Azerbaijan is the fastest growing in the world with a growth rate in 2005 of 26 percent, while it exceeded 30 percent in 2006. For 2007 the International Monetary Fund in February predicted Azerbaijan's growth would be 29 percent, down from 31 percent in 2006.

Speaking last month to journalists, President Ilham Aliyev said Azerbaijani investments had reached several billion dollars.

"For instance, the State Oil Company of Azerbaijan has started investing in the economies of Georgia, Turkey, and East European countries," he said, adding SOCAR "has a high credit rating, which allows the company to draw any funding both for its activity in Azerbaijan and for investment projects abroad."

Profit was not the sole consideration of the Azeri government, however, as Aliyev said Baku should invest primarily in countries that are "friendly to Azerbaijan." SOCAR is also considering investing in Romania.

Aliyev had even more positive data for his parliamentarians, telling a Cabinet meeting that Azeri gold and foreign exchange are now \$6.3 billion, adding Azerbaijan's 2008 consolidated budget will be \$12 billion. As a measure of how far the Azeri economy has come in a short time, in 2002 Azerbaijan's government budget was \$1.5 billion. Since 2004, Azerbaijan's state budget quadrupled.

The massive influx of oil revenues has not been an unalloyed blessing for the Azeri economy, however. According to Azer Amiraslanov, the deputy chairman of the Majlis permanent parliamentary commission on economic policy, inflation in Azerbaijan next year is projected to hit 13 percent, but he downplayed its potential impact.

"The level of inflation is not the major problem. It is important to have inflation within a regulated level, which can be achieved through pursuing the right macroeconomic policy."

Azeri inflation is being fueled not only by increased energy prices but also by a rise in grain prices, a commodity Azerbaijan imports mainly from Russia, Ukraine and Kazakhstan.

Baku is also diverting revenue to some dubious projects such as an expanded defense budget that, according to Deputy Economic Development Minister Mikayil Jabbarov, in 2006 accounted for 15 percent of all government spending, exceeding \$1 billion, an extraordinary amount for a nation of 8.1 million citizens. A further factor influencing any "trickledown" effect of energy revenues to the Azeri population is the country's rampant corruption.

Complicating Azerbaijan's gold rush is its geographical location, bounded as it is by its fellow Caspian petroleum neighbors Russia and Iran. Baku's prosperity is based on a carefully calculated reading of the foreign policies of its giant petro-state neighbors to the north and the south. Despite Azerbaijan's ardent desire for closer relations with NATO and Washington, the recent Caspian Sea Littoral States Summit apparently decoupled Baku from its earlier efforts to secure U.S. and NATO backing for its efforts at safeguarding its independence by acknowledging that Iran and Russia remain primary foci in its foreign policy -- this despite massive Western investment in its energy export infrastructure in the form of the Baku-Supsa and Baku-Tbilisi-Ceyhan pipelines, both free of Russian or Iranian control. Should Russia and the United States come to a major disagreement over Iran's nuclear and energy policies, it seems certain Azeri prosperity will suffer. Azerbaijan's prosperity will only continue as long as it mollifies Washington, Moscow and Tehran, a complicated balancing act at best.

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