BRENTHURST DISCUSSION PAPER

LESSONS FOR AFRICA FROM CENTRAL ASIA'S SINGLE-COMMODITY DEPENDENCE

Greg Mills & Terence McNamee

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MOST AFRICAN countries with export dependence on single commodities have performed badly over the past 50 years. Perhaps the only significant exception where human development and political stability have steadily improved is Botswana. Failures elsewhere in Africa can be attributed mainly to the insidious involvement of governments and political elites, acting out of self-interest rather than in their nation's interest, in the scramble for spoils. Large cash inflows to these countries have also served to disincentivise economic competitiveness and inhibit diversification.

The oil-rich states of Kazakhstan and Azerbaijan have suffered an astonishingly difficult political history. Corruption in both ex-Soviet Republics is a major problem. Neither country has made significant progress in economic diversification; indeed Azerbaijan is much less diversified today than it was twenty years ago. Nevertheless, as the analysis below reveals, both countries have on the whole managed their economic dependence on oil and gas exports far more effectively than African states, despite the ruinous social and political legacy each inherited at independence in the early 1990s.

KAZAKHSTAN: A STEPPE IN THE RIGHT DIRECTION?

No state in Central Asia throws up more contrasts and contradictions than Kazakhstan.

Stretching from the Caspian Sea to China's north western border, Kazakhstan is larger than Western Europe and contains nearly as many nationalities (130, according to the government). In the south, endless bleak plains give way to mountain ranges with peaks topping 7 000 metres. In parts of the north, the temperature can range from highs of 40 degrees Celsius in summer to minus 30 in winter.

Since 2006 Kazakhstan has struggled internationally to shake off an image that has become so insidiously synonymous with the country that no meeting with a government official is complete without reference to it: Borat. The British comedian Sacha Baron Cohen's outrageous creation, who travels across America in a milk float in search of Pamela Anderson and the meaning of life, bears no physical or cultural likeness to ordinary Kazakhs.

Nevertheless, some of Kazakhstan's recent moves are grist to the mill for those taken in by Baron Cohen's absurd caricature.

In December 1997 the country's president, Nursultan Nazarbayev, moved the capital from cosmopolitan Almaty 1 000 kms northwards to Akmola on the barren steppe.

The official reason for the move was 'earthquake safety', a decision apparently akin to Peter the Great moving the Russian capital from Moscow to St Petersburg in the 18th century. But there was a problem with the name. Akmola meant 'white grave', which prompted scorn by Kazakhs. Thus Nazarbayev ordered that the name be changed to Astana, which means 'capital'. This led Kazakhs to joke, 'Meet my wife, her name is wife. And my dog, dog,' a line that could have been lifted straight from Borat's shtick.

Twelve years on Astana is a confection of wide boulevards, glittering new buildings by globally-renowned architects, giant flags and phallic monuments. The original plans for the city were drawn up by the late Japanese architect Kisho Kurokawa, but some have questioned whether his vision hasn't been sacrificed on the altar of megalomania. Old Soviet buildings are swiftly being replaced by Dubai replicas – too swiftly, perhaps, given some of the shoddy craftsmanship visible upon closer inspection.

Astana is an eerily quiet, soulless place. Like other designer capitals, not many people can be found walking the streets, especially in its bitterly cold winter. The insides of the buildings are nearly as spectacular as the exteriors, but there is a bewildering lack of activity and lots of vacant offices.

The man ultimately in charge of everything, President Nazarbayev, is bestowed with that singularly undemocratic moniker: president for life. What counts for the political opposition claims that Nazarbayev is intent on suppressing an independent-minded civil society and banning religious movements. Widespread corruption cushions a tiny elite clustered around the president's family. Kazakhstan ranked a disconcerting 145th out of 180 states on Transparency International's corruption perception index.

The government's attempt to rebrand Kazakhstan through initiatives like its sponsorship of cycling's Team Astana and Lance Armstrong's Tour de France comeback in 2009 has softened its international image. Yet there remains more than a hint of scepticism about an ex-Soviet Republic under the sway of an ex-communist strongman who has made military pacts with Russia including leasing the Baikonur Cosmodrome until 2050, from which most Soviet space projects were launched including Yuri Gagarin's April 1961 first manned spaceflight.

The former capital, Almaty, boasts top-flight hotels, swanky restaurants and eye-catching new developments in the stunning mountains that ring the city – but also a growing underclass. One-thousand dollar shoes are on sale for the Range Rover set on Almaty's swanky Tolibi area, but most will seek cheap Chinese clothes fresh from the Silk Road at the nearby sprawling Barakholka market.

Unrestrained international borrowing fuelled a real estate bubble in Kazakhstan, forcing two of its top four banks into effective insolvency. External banking debts now total $32 billion in a $132 billion economy. The divide between the country's growing underclass and the super-rich is widening.

Pessimists and critics cite these factors as evidence of Kazakshtan's precarious, even faintly ridiculous situation. Such judgments are not only glib but, for the most part, wrong.

The depth and scale of Kazakhstan's economic and social reforms in the midst of an oil-boom are impressive. They have helped the economy to grow 10 per cent a year since 2000 and per capita incomes to increase threefold to $10,000. Inflation has been kept under tight control, enabling the government to pay off its debt early to the International Monetary Fund, and see the number of its 16 million population living in extreme poverty fall to just 10 per cent. Forty billion dollars from oil revenue has been funnelled into the special national 'rainy day' oil fund.

The president has given higher education and skills a boost through the Bolashak ('The Future') scheme which fully sponsors 3 000 Kazak students to attend universities overseas, with the proviso they return home to work for five years.

Kazakhstan became the first country of the former Soviet Union to receive an international investment-grade credit rating in September 2002. Business-minded reforms will see corporate tax drop from 20 per cent in 2009 to 15 per cent by 2011. Personal tax is a flat 10 per cent, and the pension system is regarded as the region's best. All this is in line with Nazarbayev's ambition to make Kazakhstan one of the world's top 50 competitive economies by 2030.

The management of the country's bountiful natural resources has been largely exemplary. In 2006, Kazakhstan produced 65 million tons of crude oil and over 10 million tons of gas condensate; it aims to produce 150 million tons by 2015. In 1991 the output was just 15 million tons. Three major fields, Tengiz, Karachaganak and Kashagan, are the source of this growth.

The oil and gas sector has attracted the bulk of the total inward stock of $60 billion in foreign direct investment (at the end of 2008) and accounts for nearly 60 per cent of the country's industrial output. Estimates put Kazakhstan's 'other' reserves in uranium, chrome, lead and zinc as the second-largest worldwide, third in manganese, and fifth in copper, with substantial reserves in gold, iron, coal and diamonds as well. This mineral wealth is complemented with substantial barley production, and the country is the world's sixth-largest exporter of wheat.

Kazakhstan is moving ahead with the $900 million 'Gateway to China' rail project, and setting world records for engineering excellence in pipeline construction in the Kazak-China natural gas link.

The government has made important strides in identifying regulatory weaknesses and aggressively pursuing banking corruption, such as the decision to charge ex-Alliance Bank chief executive, Zhomart Yertayev, in September 2009 for his alleged role in embezzling a staggering $1.1 billion.

For a country recently so enmeshed in a rigidly centralised economy, the commercial savvy evident within key planning departments is striking. Officials largely accept that the real estate bubble at the root of the current recession was not only about poor regulation, but also down to the absence of alternative investment opportunities for an economy sloshing with local and foreign cash. This related, in part, to the immaturity of capital and equity markets.

Doubtless the greatest contradiction in the Kazakhstan picture is the president himself. Despite all the authoritarian impulses and excesses, it is hard to imagine a more effective leader to steer the country through the perilous economic and political transition of the past two decades.

As the American author Steve Le Vine has observed,[1] whatever Kazakhstan's drawbacks, 'There was a measure of personal freedom and qualitative distance from its Central Asian neighbours – Uzbekistan's systematic torture, Tajikistan's civil war, Turkmenistan's descent as a failed state, Kyrgystan's perpetual disorder.' Nazarbayev deserves the lion's share of the credit.

Walking a fine line between Russian imperialism and national demands, and juggling liberal reforms with the need to secure political stability, Nazarbayev has built a seemingly robust and genuine sense of national identity out of the remnants of 70 years of totalitarianism. Stuck between, in the words of the head of parliament's international relations committee, Oralbai Abdykarimov, 'the northern Russian bear and southern Chinese snake,' the president has affirmed that Kazakhstan will never be colonised again.

The ruling Nur Otan ('Fatherland's Ray of Light') party has all the seats in the Majlis (parliament). Senator Adbykarimov acknowledges that Kazakhstan, for all the vigorous intra-party debate about the future of the country, 'is not able to say that we are a democratic country. But for the period to establish our state [after the end of the Soviet Union], strong presidential power was necessary.' Complaining that the West 'wants too much from us given our history', the deputy head (to Nazarbayev) in Nur Otan, Darkhan Kaletayev has said that in 20 years Kazakhstan will be a democracy. 'We need a change of generations to get there.'

Even the transfer of the capital to Astana reveals more than meets the eye. The move is perceived by many commentators as an adroit manoeuvre to guarantee Kazakh sovereignty against any Russian ambitions on that part of the country's territory, which is home to a majority Russian-speaking population. Time will tell whether the President's express intent to forge a renascent Kazakh identity, which accedes neither to Western or Russian influences but is instead 'Eurasian', succeeds. The evident patriotism among the country's youth suggests that it's working, although that might have at least as much to do with the president's huge popular appeal.

Nazarbayev is also determined to steer Kazakhstan on a resolutely secular course, mindful of the dangers of radicalisation in a population split roughly 70:30 between Kazakhs and Russians, and 50:50 between Muslims and Orthodox Christians. In 1998 he saw fit to ban the Saudi Arabian-based Wahhabi Islamic religious movement.

Kazakhstan's journey out of its dark Soviet past will be long and, inevitably, imperfect. To understand its present shortcomings one needs to look deeper than the idiosyncrasies and authoritarian instincts of its leadership. Kazakhstan's (mostly ruinous) Soviet inheritance exerted a heavy burden. Combine that with the challenge of managing a single-commodity economy in a fragile, newly-independent state, and only then can its failings and achievements be placed in context.

In 1954 Soviet premier Nikita Khrushchev launched his 'Virgin Lands' farming campaign to turn the steppe's pastoral lands into a major grain-producing region, ploughing 40 million hectares of unfarmed land. Much of this happened around Akmola, renamed Tselinograd in 1961. Slavonic immigrants from Ukraine and Russia came in large numbers, and grain production in Kazakhstan rose more than threefold to 14 million tons a year. But these lands were unsuited for wheat, and deep ploughing resulted in severe soil erosion.

The environmental consequences of this campaign pale against the story of the disappearing Aral Sea to Kazakhstan's south on the border with Uzbekistan. In 1960 this was the fourth-largest inland sea in the world. After Soviet authorities diverted its two major river sources to irrigate the deserts of Central Asia for cotton ('white gold') production, the level of the Aral Sea fell sharply, by more than 20 cm per year in the 1960s. By 2004 its surface area was just one-quarter of its original size, and it was split into two parts, south and north. Not only did the rich catches of freshwater carp, sturgeon and other types of fish disappear along with an increase in salinity, but the receding waters created large salt plains infused with chemicals leftover from intensive fertiliser and pesticide use, whipped into toxic dust storms.

A large island in the southern part of the sea, Vozrozhdenie, embodies an even more sinister legacy. Used as the open-air test site 'Aralsk-7' for chemical and biological weapons, the area, although closed in 1991, is now ten times its original size and joins the mainland of Uzbekistan. Its clean-up has become the focus of regional and US co-operation. Another similar blight concerns the Semipalatinsk 'Polygon' nuclear testing site, founded near the city of Semey in 1947 by Stalin's security chief, Lavrenti Beria, who 'callously and inaccurately' described the area as uninhabited. Polygon hosted 456 nuclear tests, 116 of them atmospheric, with a cumulative effect estimated at 2 500 times the 1945 Hiroshima bomb. The appalling health and psychological costs to people are impossible to quantify precisely, as is the toll on the local environment, but there is no doubt that future generations will be affected.

Still more difficult to quantify is the mental inheritance – ideas and practices – of nearly four centuries of Russian and, from 1917, Soviet domination.

Some Kazakhs still crave the orderliness, focus and discipline offered by the Soviet Union, but most believe that the stifling of personal freedoms smothered innovation and creativity. The layers of bureaucracy folded into the old system made everything move in slow motion – except fear, which reverberated incessantly through the population.

Just 30 kms outside Astana is the memorial to the ALZHIR (the Russian initials for 'Camp for the Wives of Motherland Betrayers') concentration camp on its original site. Some 20 000 wives, mothers, sisters, daughters and children of men cited under the infamous 'Article 58' for 'anti-Soviet' or 'anti-revolutionary' behaviour were brought to this bleak spot, 70 to a railway wagon, for failing to 'enunciate' their men-folk. One of 500 such Gulag ('Main Camp Administration') camps across the Soviet Union, 'Spot #26' is a heartrending place, where mothers were separated from children over three, their offspring sent away to unspeakable conditions in orphanages. Even today, the adjacent town of Malinkova is a sad, decaying Soviet remnant, with crumbling apartment blocks, fading murals extolling citizens to bold acts, children playing on muddy side-tracks and broken-down playgrounds.

For the inhabitants of Spot 26, it did not end with the conclusion of their 5–8 year sentences. Under 'Document 39', the prisoners and their children were denied housing, education and jobs after their release until all were rehabilitated in the post-Stalin reforms in 1956. Outside the entrance statues of a man and women face each other across the courtyard, the women looking out ahead in 'hope and fight' 'mourning their men' while 'dreaming of freedom', the man's head bowed, according to the guide, 'in despair and impotence' aware of his inevitable fate.

The government fervently believes that, with time and political acts including the opening of the 'arch of sorrow' memorial and museum on the ALZHIR site, the Soviet legacy can be overcome. During the inauguration of the facility in 2007, President Nazarbayez delivered a stirring peroration in which he asserted that there was no crime greater than that carried out by the Soviet Union on its own people. Forty million Soviet citizens died at Stalin's hands, 3.5 million under Article 58. This was not the only Soviet excess on Kazakhstan: an estimated 6.6 million Kazakhs died through violence and famine from 1926–39, while the Slavic (Russian) component increased substantially through targeted immigration.

It is with one eye on this tortured past that Kazakhstan's current leader and his chief advisers are attempting to forge a stable society, which distributes its benefits across the spectrum of national groups and professions. To do this the government realises that Kazakhstan's single-commodity dependence has serious drawbacks, and therefore it needs to diversify the economy to reduce vulnerability and create jobs.

This is difficult when the cash from oil and gas prices pushes the value of the Kazakh 'tenge' currency high to the point of institutionalising un-competitiveness. Oil income and what foreign investors cite as a 'short-term nomadic outlook' have combined also to limit personal incentives to find alternatives, while Kazakhstan's geographic location far from any port makes transport a costly component of any product – not helped by customs' corruption and delinquency.

The prime minister, Karim Masimov, is an experienced banker who has assembled an impressive team to manage this process and attract foreign direct investment, although they are realistic enough to admit that this will only come once the fog of economic crisis evaporates. The focus of his team is to diversify, reducing the volatility and vulnerability of single-commodity dependence by avoiding Dutch disease, facilitating intra-government co-operation, and setting up the right structures and projects to encourage foreign investment. Hence the spotlight on areas of competitive advantage: transportation and logistics, energy, agriculture, metallurgy, and downstream oil, gas and mineral beneficiation including fertilisers and chemicals. The lack of skills, low productivity and, yes, corruption is readily accepted as a major constraint on future growth.

To this end the government has set up an investment body, Samruk-Kazyna National Welfare Fund, a state holding company established in October 2008. This entity, run by the president's son-in-law, Timur Kulibayev, owns and manages Kazakhstan's national companies — including the oil and gas major KasMunaiGas, the uranium company KazAtomProm and Kazakhstan's Electricity Grid Operating Company. Loosely based on Singapore's model of Temasek Holdings and its Government Investment Corporation, Samruk-Kazyna's role is also to instigate investment across a range of sectors.

The government has borrowed from Chile (for its pension scheme), Singapore, the United Arab Emirates and others in planning its economic growth, but it recognises that the transferability of other international experience has its limits. Success demands more than grand visions and dollops of money, but rests fundamentally on implementation and execution.

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In 2010 European eyes will be fixed on Kazakhstan as never before, when it takes over the chairmanship of the Organisation for Security and Economic Co-operation in Europe. One or two jokes about Borat are inevitable, but they shouldn't cause undue concern in Astana. The country has made impressive steps forward in difficult circumstances. Saddled with a brutal imperial past and sandwiched between assertive global powers, Kazakhstan has fared better than most if not all other ex-Soviet republics.

The future stability and prosperity of Kazakhstan requires further reforms and a greater willingness on the part of the ruling elite to act in the interests of all its citizens. Yet it is probably true to say that today, in 2009, most Kazakhs have never had it so good.

AZERBAIJAN: OILING THE DEVELOPMENT WHEELS

At the 'Refresh Bar' near Baku's bustling Fountain Square were three Nigerians, two oil engineers and one young bar-tender, a pharmacy student at the city's university. All were long-term residents.

The Nigerians' unlikely presence in Azerbaijan, so far from home, was compelling proof that globalisation offers opportunities. So does oil. A decade of soaring oil production and economic growth has drawn expatriate professionals – Britons, Americans and, yes, Africans – to the former Soviet republic, and set it on a unique development path.

On paper, however, Azerbaijan should be a basket case.

A Soviet inheritance including a stupefying bureaucracy and autarkic mindset, economic domination by a single corruption-inducing commodity, and location in a tough, volatile region, with neighbours including restive Iran to the south, resurgent nationalistic Russia to the north and arch-enemy (with whom it waged war in the early 1990s) Armenia to the west. If it was in Africa, state failure would almost be a given. At the crossroads between Central Asia and the Caucasus, Azerbaijan is in the premier division of conflict potential.

Yet this same country was the top reformer in the World Bank's 2008 'Doing Business' ranking, moving up from 97th to 33rd place. In January 2008 it opened an investor one-stop-shop that halved the time, cost and number of procedures to open a business. The government has cut personal income tax several times, and from January 2010 will reduce corporate tax to 20 per cent.

Azerbaijan's modern history is entwined with oil. Written evidence of oil finds date back to the late 16th century. Even before this time flaring gas and pools of oil had fuelled, quite literally, the practices of the Zoroastrians, the Persian fire-worshipping faith, who built temples where natural gas jetted through the porous rocks. At Atashgah, 30 kms from Baku, one of the rare fire-temples is retained as a museum in among jutting oil derricks endlessly grinding out their black gold. With surplus oil even today spilling on the surface from reservoirs scarcely hidden below, no wonder visitors, including one 15th century Turkish traveller, noted 'Baku is the place where fire burns eternally'.

The absence of investment and poor extraction techniques meant that Russians, the rulers of the Central Asian territory, were buying 250 000 gallons from the United States by 1870. The ordering of the auction of Azeri oil land by Tsar Alexander II in December 1872 was the act that transformed the industry. The strikes and the surge of foreigners which followed quickly grew Baku's population from 14 500 to 80 000 in a decade. Of vital importance were the technological advances spurred by the arrival of Robert Nobel (of dynamite family fame) in 1873, ushering in other powerful interests including the Rothschild family, whose investment enabled the construction of the Baku-Batumi railway to ship oil directly from the Georgian Black Sea port, and a later pipeline over the same route.

By 1901, Baku produced half of the world's oil supply. Nobel's company alone was satisfying nine per cent of global demand.

It all ended, at least temporarily, with the Bolshevik Revolution, the first stirrings of which were led in Baku in 1903 by a young Georgian union organiser Iosef Besarionis dze Jughashvili – later better known as 'Josef Stalin'. Following the revolution, foreign concessions were seized and by the end of the First World War Baku, once the source of nearly one-fifth of Russia's hard currency, was producing just one-third of its pre-war volume. Lenin attempted to woo investors and their much-needed cash back through his 1921 New Economic Policy, but the industry remained in state hands until the collapse of the Soviet Union.

International attempts to patch up commercial and Soviet disagreements foundered, and it was left to select middlemen to provide a conduit for technology and money to refurbish the fields. By 1930 Baku's production rose to 13.9 million tons, the third-highest total in the world, though just 10 per cent of US production at the time. Stalin's development of Baku saw the fields produce 17.4 million tons in 1942, critical to the Soviet war machine. Drilling under the Caspian Sea involved pioneering new extractive techniques and the construction of the world's first offshore oil platform in 1949, known as 'Oily Rocks'.

By the 1990s, the oil regions of Central Asia were run down – politically, economically and socially. Azerbaijan relied on the United Nations and other donors to feed ten per cent of its people, 800 000 citizens. The fortunes of the city, where the Bolsheviks had once installed electric street cars, had slumped though they were about to rise again dramatically.

'What seemed to be many trees pleasantly dotting the landscape were, upon closer inspection', writes the author Steve Le Vine, 'hundreds of old, black-caked oil rigs – the carcasses of once-thriving oil fields now pocked with pools of crude, like Oklahoma or East Texas in the 1920s.' And on the ground Baku looked 'much like any other Soviet city with its dreary apartment blocks and massive Communist Party buildings.' Ten per cent of oil production was lost to spillage, creating pools around the city. The region's heavy industry had exacted a heavy toll on the environment: in the city of Sumgait, for example, 32 chemical and metals plants sent some 120 000 tons of waste into the air annually. Sumgait's infant mortality rate was three times that of the developed world.'

Nearly as bad for one's health was the country's politics, run by self-interested clans at least as much as centralised authorities. The disintegration of the Soviet Union paralleled events in Azerbaijan – restive elements had to be put down by Soviet troops internally in the late 1980s, while war broke out with neighbouring Armenia, again turning ethnic Armenians against Azeris and vice versa in the country.

On 26 December 1991 the Soviet Union collapsed and the biggest oil scramble of the 20th century ensued for stakes in Caspian Sea oil as 'American and European industrial titans struggled for power and raw economic dominance', according to Le Vine. The area also regained geopolitical importance as Western nations saw an opportunity to reduce their dependence on Middle Eastern oil and to simultaneously keep the Russians in check.

But this became the Wild West of oil. It was unclear who was in charge and who held the negotiating rights – a perfect setting for dubious middle-men and retreaded apparatchniks who all jostled for access and commissions.

Not that much had changed over the century. Many fortunes were won and lost on sweating competitors and playing politics. The lure of gigantic rewards was matched by the grandiosity of schemes and underhand tactics.

Those cutting Central Asian deals towards the end of the 20th century seemed to take their lead from the activities of the granddaddy of oil brokers, Calouste Gulbenkian, the original 'Mr Five Percent', in the Middle East a century earlier. As Gulbenkian put it: 'Oilmen are like cats. One never knows when listening to them whether they are fighting or making love.' Or as his son, Nubar, observed, 'In the oil business, not even one's best friends are to be trusted.'

Maybe such is to be expected in a region with the third-largest oil supplies after the Persian Gulf and Siberia. Chubka (literally 'hat'), the local term for corruption, is still rife in Azerbaijan, as evidenced in its position at 158 out of 180 states on Transparency International's Corruption Perceptions' Index. The country's democratic and judicial systems are widely acknowledged as imperfect, at best. But there is evidence that things are moving in the right direction.

For one, most of the oil wealth is no longer bled off to subsidise the follies of others, such as the global power ambitions of the Soviet Union. With a five-fold increase in oil production to 45 million tons in the fifteen years from 1993, economic growth was an astounding 30.5 per cent in 2006, 23 per cent in 2007 and a shade under 12 per cent last year. Economists project, in tougher times, around four per cent in 2009. This has exerted upward pressure on per capita incomes for Azerbaijan's 8 million citizens: from \$1 500 at the turn of the century, to \$9 000 by 2009.

This has left Azerbaijan highly vulnerable to 'Dutch disease', inflating the value of the local manat currency making imports cheap and exports very costly. Prices in Baku are eye-wateringly expensive.

The challenge for Azerbaijan is the same as for most African countries: Diversify at a time when China can produce most things cheaper. As the Minister of Industry and Oil, Natiq Aliyev, observes, 'Our economy has been created on oil and gas. Now, our task is to develop a non-oil industry.'

The mandate of the Azerbaijan Investment Company (AIC) in Baku reflects how serious the government is about diversifying its economy: the AIC is prohibited from promoting the oil and gas sector, which provides over 90 per cent of export earnings. Set up in 2006, AIC is focused on funding schemes with international partners from the new shipping terminal on the Caspian, to dairy and poultry farms and glass manufacturing. It is particularly interested in taking advantage of Azerbaijan's nine climatic regions (of the 11 world-wide, with only Arctic and tropical areas obviously absent), trying to explore opportunities in agriculture. 'In the Soviet era,' one local analyst notes, 'Azerbaijan supplied the country with tea, cotton, citrus and vegetables. But these were farmed with old technology, which poisoned the land, and were driven by local demand. Now we have to get our produce in supermarkets and not bazaars, and use modern sustainable technology.'

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The problem for post-independence Azerbaijan, like other Soviet states, is that apart from oil it produced little that the rest of the world wanted to buy. Soviet icons like the Lada and Volga cars – 'a tank in a tuxedo' – did not do it for Western and, it turned out, few other consumers. They had to make different things, or make things differently and more efficiently.

AIC is not waiting for investors to come to it with bright ideas. It is actively pursuing joint ventures with Israeli and other Middle Eastern farmers who can bring capital,

technology, farming know-how and, critically, knowledge of markets. It aims to build long-term relationships.

Azerbaijan is also translating its regional location into a logistics business. The $4 billion 1 774km pipeline built by a Western consortium from Baku to Turkey's Mediterranean port of Ceyhan became operational in May 2006, designed to transport up to 50 million tons of crude oil annually, carrying Caspian oil to global markets. The South Caucasus pipeline became operational at the end of 2006, offering gas to the European market from the Shah Deniz. The mooted $10 billion Nabucco pipeline would join Central Asia's gas supplies with the European market, while the EU-sponsored Silk Road project links China through the southern caucuses and Azerbaijan with continental Europe by means of a €200 million rail link built through Georgia.

It is unclear when Azerbaijan's oil will run out. Some say 20 years, others argue it will last for 70 years. Whatever the case, it believes that its future lies in its role as a logistics hub for criss-crossing traffic between Russia, Iran, China and Europe, the contemporary Silk Road's traffic roundabout. Such ambition is not only underpinned by geography; Azeris pride themselves on being born traders.

One spin-off from improved infrastructure is access to international tourism, but that is easier said than done. The byzantine visa regime will, Azeris admit, have to become more visitor-friendly like its neighbour Georgia's. The shifty, Soviet-style officials at Baku's Heydar Aliyev International Airport create an uneasy first impression.

Azerbaijan faces stark challenges in differentiating itself in a tough, conflict-prone region. Its foreign policy walks a tightrope between East and West, balancing relations with powerful neighbours frequently at odds with one another. The country may be moving closer to Europe, through engagement with NATO and the European Union, yet it knows that it can only push so far in that direction; Russia's war with Georgia in 2008 was a salutary reminder, if any were needed, that full membership in 'Europe' is not a realistic option for states in Moscow's backyard. Moreover, Russia is indispensable to any resolution of its intractable conflict with Armenia – a strong Russian ally – over the Nagorno-Karabakh region. Azerbaijan lost nearly one-fifth of its territory in the early 1990s, resulting in some 600 000 internal refugees.

Azerbaijan is a resolutely secular state, with admirable tolerance for the small number of different faiths existing alongside the dominant Muslim culture. Consequently, it is keen to distance itself, religiously and politically, from Iran. But with tens of millions of Azeris living within the borders of its powerful southern neighbour, it is not a relationship it can afford to jeopardise.

Nor can Azerbaijan's leaders ignore the spectre of radicalisation. The fear is that the country's youth could fall under the sway of the mullahs from the south if the widening gap between rich and poor is not addressed. Nearly one-quarter of Azeris struggle below the poverty line while a small Gucci elite in their black Lexuses, Mercs and SUVs prowl and park badly on the Avenue of Oilers in Baku's Icheri Sheher (Old City). Education is under resourced and the skill base is poor, especially among young people. In the words of one government official, they represent an 'empty shell' lacking direction in a post-Soviet world. As evidenced elsewhere in the world, such young people may seek solace in religion and more radical social options.

The greatest overall challenge for Azerbaijan is to ensure that the second oil boom does not end in tears like the first one, but rather helps to create a more sustainable, resilient nation. As Professor Samad Seyidov, head of the parliament's international relations committee, argues, 'the way to achieve this is through economic growth plus democratic development, building values and international links so that no-one can occupy or kill you.'

Two of our Nigerian friends were in Baku because of oil. Their homeland had, in the forty years of its oil business, seen government increase its role in the economy, agricultural output plummet, and capacity utilisation in manufacturing decline from 75 per cent (in 1975) to 40 per cent. Unlike Africa's oil producers, Azerbaijan is now investing and not just consuming its oil income.

ENDNOTE

1 See Steve Le Vine, The Oil and the Glory: The Pursuit of Empire and Fortune on the Caspian Sea. New York: Random House, 2007.