International Journal of Applied Social Science
(An International Double Blind Peer Reviewed / Refereed Research Journal of Social Science)
Volume 12 (11 & 12), November & December (2025) : 985-990
Received : 18.10.2025; Revised : 04.11.2025; Accepted : 18.11.2025

RESEARCH ARTICLE
ISSN : 2394-1405 (Print)
DOI : https://doi-ds.org/doilink/01.2026-28475966/IJASS/12.11&12/985-990

Hydrocarbons: Blessing or Curse for Azerbaijan – A Political Perspective

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ABSTRACT

Since regaining independence in 1991, Azerbaijan has transformed into a petroleum-driven state whose political stability and regime consolidation are deeply intertwined with the exploitation of hydrocarbon resources. This article examines whether hydrocarbons have served as a political blessing or curse for Azerbaijan by analysing the evolution of its political institutions, governance model, and state–society relations through the lens of rentierism and resource curse theory. Drawing on scholarly works, policy reports, and historical case studies, it argues that Azerbaijan's oil and gas wealth has enabled state-building, geopolitical influence, and economic modernization while simultaneously entrenching authoritarianism, corruption, and elite patronage. Hydrocarbons have thus constituted both the foundation of state stability and the principal barrier to democratization, creating a paradox of prosperity without pluralism.

Keywords: Azerbaijan, Hydrocarbons, Rentier State, Authoritarianism, Resource Curse, Political Economy, State-Building, Governance

INTRODUCTION

Hydrocarbons have defined the modern trajectory of Azerbaijan more than any other single factor. Since the late nineteenth century, when Baku emerged as one of the world's earliest oil boom cities, petroleum has shaped the country's economic fortunes, urban landscape, and political institutions (Cornell, 2011). Under Tsarist Russia, the city was a magnet for international capital, producing more than half of the global oil output by 1901. During the Soviet era, Azerbaijan remained a key node in the USSR's energy sector until production shifted to Siberia in the 1970s (Altstadt, 2017). Following independence in 1991, the newly sovereign state faced economic collapse, political turmoil, and a violent war over Nagorno-Karabakh. The turning point came with the signing of the "Contract of the Century" in 1994, which brought in Western energy corporations and billions in foreign direct investment (De Waal, 2012). This landmark agreement revitalized the hydrocarbon sector, reinserted Azerbaijan into the global energy market, and laid the fiscal foundation for regime consolidation under President Heydar Aliyev.

The central question explored here is whether hydrocarbons have been a *blessing* or a *curse* for Azerbaijan from a political standpoint. Theoretically, this question situates Azerbaijan within the broader debates on the *resource curse* (Auty, 2001; Sachs and Warner, 2001) and *rentier state* models (Beblawi&Luciani, 1987). Resource curse theory posits that states dependent on natural resource revenues tend to experience slower economic growth, authoritarianism, and institutional decay, as easy rents undermine incentives for productive governance and citizen accountability (Karl, 2007; Ross, 2012). The rentier state framework, meanwhile, emphasizes how externally derived rents—particularly from hydrocarbons—allow regimes to maintain political stability without developing taxation systems or pluralistic

How to cite this Article: Patel, Vishal (2025). Hydrocarbons: Blessing or Curse for Azerbaijan – A Political Perspective. *Internat. J. Appl. Soc. Sci.,* **12** (11 & 12) : 985-990.

institutions.

In Azerbaijan's case, oil and gas have served both as engines of modernization and instruments of political control. While hydrocarbon revenues enabled rapid economic recovery, infrastructure expansion, and international prestige, they also entrenched a patrimonial political order centred on elite patronage, coercive stability, and limited political competition (Aliyev, 2015). This duality captures the paradox of Azerbaijan's post-Soviet transformation: hydrocarbons provided the means for building a strong state but also locked it into a path of authoritarian resilience.

Theoretical Framework: Resource Curse and Rentier State Paradigms:

The political impact of hydrocarbon wealth in Azerbaijan can best be analysed through the intersection of *resource curse* and *rentier state* theories. The resource curse hypothesis, first articulated in the 1980s and 1990s, argues that countries rich in natural resources often experience poorer governance outcomes than resource-poor states (Auty, 2001; Sachs and Warner, 2001). Thomas Karl (2007) attributes this paradox to "institutional petrification," where resource rents reduce the pressure to reform and diversify, creating inflexible, elite-driven political systems.

The rentier state model, formulated by Beblawi and Luciani (1987), complements this theory by emphasizing the fiscal and social consequences of rent dependence. In rentier states, the government derives substantial revenues from external rents (such as oil exports) rather than domestic taxation. Consequently, the state becomes "fiscally autonomous" (Ross, 2012), allowing elites to maintain legitimacy through distributive spending rather than participatory governance. Citizens, reliant on state patronage, are less likely to demand accountability, while rulers use rent flows to consolidate coercive and bureaucratic control.

Azerbaijan exemplifies this model within the post-Soviet context. Its hydrocarbon revenues have allowed successive regimes—particularly under Heydar and IlhamAliyev—to maintain political stability, co-opt opposition, and finance state-building without meaningful democratization (Cornell, 2011; De Waal, 2012). Yet, unlike classical rentier monarchies of the Gulf, Azerbaijan combines rentierism with a façade of electoralism and formal republican institutions. This "hybrid rentierism" (Aliyev, 2015) sustains authoritarian rule under the guise of modernization and economic success.

Historical Evolution of Hydrocarbon Politics:

Tsarist and Soviet Legacies:

The historical roots of Azerbaijan's oil economy reach back to the late imperial period. During the late nineteenth century, Baku became one of the largest oil-producing centers in the world, attracting major European investors, including the Nobel Brothers and Rothschilds (Cornell, 2011). The oil boom not only transformed Baku's demography and infrastructure but also established a political economy dependent on external capital and state mediation.

Under Soviet rule, the oil industry was nationalized and incorporated into the USSR's centrally planned economy. Azerbaijan contributed significantly to Soviet industrialization, especially during World War II when Baku's oil supplied much of the Red Army's fuel (Altstadt, 2017). However, the sector's overexploitation led to declining production by the 1970s, prompting Moscow to shift investment toward Siberia. As a result, Azerbaijan entered the post-Soviet period with aging infrastructure and declining output but considerable human expertise in petroleum engineering and management.

The "Contract of the Century" and Post-Soviet Transition:

Independence brought both opportunity and instability. In the early 1990s, Azerbaijan faced internal fragmentation, war with Armenia, and economic collapse. The turning point came when President Heydar Aliyev secured domestic control and signed the 1994 "Contract of the Century," a 30-year production-sharing agreement between the State Oil Company of the Azerbaijan Republic (SOCAR) and an international consortium led by BP (De Waal, 2012). This agreement injected roughly $8 billion in foreign investment into the Azerbaijani energy sector, marking the beginning of the country's integration into the global oil economy.

The 1994 deal was followed by major infrastructure projects, notably the Baku–Tbilisi–Ceyhan (BTC) pipeline, completed in 2006, which provided a direct export route to Western markets independent of Russian control. These developments elevated Azerbaijan's geopolitical importance, providing both economic leverage and diplomatic capital (Cornell, 2011).

Yet, these same developments also established hydrocarbons as the structural foundation of political power. The state became the central arbiter of oil rents, controlling licensing, contracts, and revenue flows. This concentration of economic authority enabled the Aliyev regime to consolidate power, suppress dissent, and build a centralized administrative apparatus financed by oil wealth.

Hydrocarbons and the Consolidation of Political Power:

The Role of the State Oil Fund (SOFAZ):

In 1999, Azerbaijan established the State Oil Fund of the Republic of Azerbaijan (SOFAZ), officially designed to ensure macroeconomic stability, transparency, and intergenerational equity. International financial institutions, including the IMF and World Bank, initially praised SOFAZ for its governance model and fiscal discipline (IMF, 2017; World Bank, 2020). However, in practice, SOFAZ has served as a key political instrument for the ruling elite.

Oil revenues managed through SOFAZ have funded massive urban development projects in Baku, including luxury housing, infrastructure modernization, and symbolic monuments like the Flame Towers—visible representations of national wealth and presidential authority (Cornell, 2011). The fund also finances social spending programs that bolster the regime's legitimacy, particularly in rural areas where state subsidies remain vital. Such distributive policies exemplify the rentier logic of political co-optation, where citizens' economic dependence on the state substitutes for participatory accountability (Ross, 2012; Aliyev, 2015).

While SOFAZ maintains a formal transparency regime, scholars and watchdogs have criticized its opaque governance and close integration with the presidency. According to the IMF (2017), between 2005 and 2014, oil revenues accounted for over 60% of government income and 90% of exports. This dependency has entrenched a fiscal model in which the state functions less as a regulator and more as a rent distributor—a hallmark of rentier authoritarianism (Beblawi and Luciani, 1987).

Patronage Networks and Elite Control:

The political consolidation of the Aliyev regime rests on a system of elite patronage financed by hydrocarbons. Control over SOCAR and SOFAZ allows the presidency to distribute rents strategically among loyalists, thereby maintaining internal cohesion within the ruling elite. SOCAR, in particular, functions as both a corporate entity and a political actor, sponsoring social projects, cultural events, and even international sports competitions to enhance Azerbaijan's image abroad (Aliyev, 2015).

This rentier network extends into the bureaucracy and business sectors, ensuring that political loyalty is rewarded with access to contracts, licenses, and financial incentives. Conversely, dissent is punished through economic marginalization or legal persecution. As a result, hydrocarbons have created not only material wealth but also the structural foundations of authoritarian resilience—a system in which economic and political survival are intertwined.

Electoral Authoritarianism and Control of Opposition:

Azerbaijan's formal political institutions—parliament, elections, and judiciary—exist largely as instruments of regime maintenance. Elections are regularly held but lack genuine competition, as opposition parties face repression and media censorship. The availability of hydrocarbon rents enables the government to maintain this facade of electoralism while suppressing dissent through patronage and coercion (Freedom House, 2023).

The regime's capacity to provide public goods and economic stability, especially during periods of high oil prices, has helped sustain its legitimacy despite democratic deficits. However, as scholars like Karl (2007) and Ross (2012) warn, this stability is contingent on continued rent flows. Once oil prices fall, the regime's distributive capacity—and hence its legitimacy—faces serious challenges.

The Politics of Transparency and International Image:

In the early 2000s, Azerbaijan sought to improve its international standing by joining the Extractive Industries Transparency Initiative (EITI), an international framework promoting accountability in resource governance. Initially, Azerbaijan was hailed as a model participant and the first post-Soviet country to achieve "compliant" status (EITI, 2013). However, growing repression of civil society and restrictions on independent NGOs led to increasing tensions with the EITI Board, culminating in Azerbaijan's suspension in 2017 (EITI, 2017).

This episode illustrates the regime's ambivalent approach to transparency: willing to embrace international norms rhetorically while simultaneously undermining them domestically. The withdrawal from EITI underscored the limits of international engagement in altering entrenched rentier structures.

Furthermore, investigative reports such as the "Azerbaijani Laundromat" scandal revealed how billions of dollars were funnelled through European banks to influence foreign politicians and whitewash Azerbaijan's human rights record (Organized Crime and Corruption Reporting Project [OCCRP], 2017). These revelations highlight how oil wealth has not only financed domestic control but also been weaponized to project soft power abroad.

The Paradox of Stability and Fragility:

The Azerbaijani case vividly demonstrates the paradox of hydrocarbon-based governance: oil revenues have produced both stability and vulnerability. Throughout the 2000s, the country experienced robust economic growth—averaging more than 10 percent annually between 2005 and 2009—largely due to high oil prices and the full operation of the Baku–Tbilisi–Ceyhan pipeline (World Bank, 2020). The influx of hydrocarbon revenues allowed the regime to pursue expansive infrastructure projects, modernize Baku's urban landscape, and increase public sector salaries. These measures strengthened the Aliyev government's legitimacy and presented Azerbaijan internationally as a model of "modern authoritarian development" (De Waal, 2012).

However, the same rentier stability concealed deep structural weaknesses. The economy became heavily dependent on global energy markets, with oil and gas accounting for nearly 90 percent of export revenues and 60 percent of state income (IMF, 2017). When global oil prices collapsed in 2014–2015, Azerbaijan faced a severe macroeconomic crisis. The national currency, the Manat, was devalued twice in one year, losing almost half its value. Inflation surged, unemployment rose, and small-scale protests erupted across provincial regions (Cornell, 2011; IMF, 2017).

The crisis exposed the fragility of Azerbaijan's rentier state model. As Karl (2007) observes, petro-states often achieve "stability through stagnation," maintaining political order as long as rents flow steadily but lacking resilience when those rents decline. The Azerbaijani government responded to the downturn by tightening political control rather than reforming the economic structure. Crackdowns on independent journalists, NGOs, and opposition figures intensified after 2015, as the regime sought to suppress potential sources of dissent (Freedom House, 2023).

The 2015 episode thus reaffirmed the political vulnerability of rentierism: stability in Azerbaijan is contingent on external commodity prices, not institutional adaptability. As Ross (2012) argues, oil wealth "buys peace but not reform," and when revenues fall, the social contract between ruler and ruled begins to erode.

Hydrocarbons and Authoritarian Resilience:

Despite these challenges, Azerbaijan has demonstrated a remarkable capacity for regime endurance. This durability is primarily attributable to the adaptive use of hydrocarbon rents to maintain elite cohesion, manage dissent, and project legitimacy.

Elite Management and Regime Adaptation:

The Azerbaijani political system operates through a carefully managed equilibrium of elite interests. The distribution of oil rents through state agencies and public contracts allows the presidency to prevent the emergence of rival centres of power. Elites are co-opted through lucrative business opportunities tied to SOCAR, construction firms, and government contracts financed by oil funds (Aliyev, 2015). This elite-based rent distribution prevents internal fragmentation and preserves loyalty within the ruling coalition.

Moreover, IlhamAliyev's government has strategically utilized hydrocarbons to bolster regime legitimacy through modernization and international visibility. Large-scale events such as the 2015 European Games, the 2017 Islamic Solidarity Games, and sponsorship of Formula 1 races in Baku were all financed by oil revenues and aimed at showcasing Azerbaijan as a prosperous, modern state. These "spectacles of wealth" serve both domestic and international political purposes—reinforcing the image of stability at home and asserting Azerbaijan's soft power abroad (De Waal, 2012).

Hydrocarbon Rents and Political Legitimacy:

The durability of Azerbaijan's authoritarianism also rests on a social contract grounded in economic performance. As long as oil revenues fund public sector wages, infrastructure development, and social programs, the population tolerates political restrictions in exchange for stability and material security. This "authoritarian bargain" (Desai, Olofsgård and Yousef, 2009) is a defining feature of Azerbaijan's rentier governance.

However, this legitimacy is inherently fragile. Public dissatisfaction tends to rise during periods of economic contraction, as seen in 2015–2016. The government's ability to renew the social contract is thus directly dependent on its fiscal capacity to redistribute oil rents. The sustainability of this model remains uncertain in the long term, especially as hydrocarbon reserves decline and global energy markets shift toward renewables (World Bank, 2020).

Geopolitical Dimensions of Hydrocarbon Politics:

Beyond domestic governance, Azerbaijan's hydrocarbon wealth has also shaped its foreign policy and regional positioning. Baku has leveraged its energy resources to pursue a multi-vector foreign policy, balancing relations among competing powers—Russia, Turkey, the European Union, and the United States—while maintaining strategic autonomy.

Energy as Foreign Policy Leverage:

The completion of the BTC pipeline and the Southern Gas Corridor (SGC) have made Azerbaijan a crucial energy corridor connecting the Caspian basin to European markets. This role grants Baku geopolitical leverage, allowing it to attract Western investment while avoiding overdependence on Moscow (Cornell, 2011). The energy partnership with Turkey, in particular, has deepened Azerbaijan's regional integration and strengthened its strategic influence in the South Caucasus.

Azerbaijan's energy wealth also underpins its military capacity. The modernization of the Azerbaijani Armed Forces during the 2000s and 2010s—funded largely by oil revenues—enabled the state to assert itself militarily in the 2020 Nagorno-Karabakh war. Analysts note that hydrocarbon rents were crucial in financing advanced weaponry and defence cooperation with Turkey and Israel (De Waal, 2021). In this sense, hydrocarbons have been both a geopolitical asset and a political instrument of state power.

Energy Diplomacy and International Image Management:

At the same time, the government has used energy diplomacy to deflect criticism over human rights and democracy. Through lucrative energy contracts and lobbying efforts—often referred to as "caviar diplomacy"—Azerbaijan has cultivated favourable relations with European policymakers (OCCRP, 2017). These practices illustrate how hydrocarbons function not only as economic rents but also as political currency in international relations.

Nonetheless, this diplomacy has limits. The country's suspension from the EITI in 2017 and ongoing criticism from the European Parliament over democratic backsliding demonstrate that energy wealth cannot permanently insulate the regime from international scrutiny (EITI, 2017; Freedom House, 2023).

Discussion: Rethinking the Political Consequences of Hydrocarbon Wealth:

The Azerbaijani experience complicates simplistic interpretations of the resource curse. While hydrocarbons have undeniably fostered authoritarianism, they have also underpinned state-building, regional power projection, and social stability. This duality suggests that the political consequences of hydrocarbons depend not only on the existence of resource rents but on how they are institutionalized and distributed.

A Hybrid Rentier Model:

Unlike classical rentier monarchies, Azerbaijan maintains republican institutions, formal elections, and a façade of pluralism. Yet, beneath these institutions lies a system of personalist rule sustained by rent flows. Scholars describe this configuration as a hybrid rentier model—combining authoritarian control with selective modernization (Aliyev, 2015).

This hybridity explains why Azerbaijan has avoided the large-scale instability seen in some other resource-rich states. The regime's blend of coercion, distributive politics, and international engagement has allowed it to maintain order while avoiding genuine democratization. As Ross (2012) emphasizes, oil-dependent regimes often achieve "resilient authoritarianism" by adapting rentier logic to changing political circumstances.

Institutional Entrenchment and Path Dependence:

From a political economy perspective, hydrocarbons have locked Azerbaijan into a path-dependent trajectory. The state's fiscal and political systems are structured around rent extraction and distribution, leaving little room for institutional innovation. This "lock-in effect" (Karl, 2007) explains the persistence of authoritarianism despite economic modernization. Even attempts at diversification—such as investments in the non-oil sector and tourism—remain heavily state-driven and dependent on oil-funded subsidies (World Bank, 2020).

Moreover, rentierism has shaped the very nature of state–society relations. The absence of taxation as a central mechanism of revenue collection means that citizens have limited leverage over the state. As Tilly (1990) famously argued, "war made the state, and the state made war" through taxation and bargaining. In rentier states like Azerbaijan, this fiscal contract is replaced by unilateral distribution, weakening the foundations of democratic accountability.

Conclusion:

Hydrocarbons have been both a blessing and a curse for Azerbaijan's political development. On one hand, oil and gas revenues have enabled the state to overcome post-Soviet collapse, consolidate territorial integrity, modernize infrastructure, and enhance its regional influence. The Aliyev regime has successfully used hydrocarbon rents to construct a stable and internationally visible state apparatus. On the other hand, this stability has come at the cost of institutional pluralism, democratic participation, and long-term economic sustainability.

Azerbaijan exemplifies what Karl (2007) calls "the paradox of plenty": oil wealth that empowers the state but impoverishes governance. The hydrocarbon sector has entrenched an authoritarian political economy in which power is concentrated, dissent marginalized, and legitimacy purchased through redistribution. The state's dependence on volatile oil prices exposes its fragility, while its limited diversification constrains future resilience.

The political future of Azerbaijan thus hinges on whether it can transition from rentierism to institutionalism—transforming hydrocarbon rents into durable political capacity rather than authoritarian stability. As global energy markets evolve and renewable technologies advance, the challenge for Azerbaijan is not merely economic diversification but political transformation. Unless governance structures evolve to reduce dependence on hydrocarbons, the blessing of oil may ultimately prove to be a long-term curse.

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