

## **Azerbaijan and the World Trade Organization**

On the 23rd of June 1997, Azerbaijan formally submitted an application to join the World Trade Organization (WTO) in Geneva, Switzerland (Kavass, 2008, 347). Almost 23 years later, Azerbaijan still has not become a full-fledged member of the WTO and remains in the accession process. The WTO currently has 164 members, comprising the vast majority of nations in the world today, which makes Azerbaijan a bit of an anomaly (WTO IN BRIEF, 2018). According to the WTO, the average length of time from application to membership is about 10 years and 2 months (Bratanov, 2017). Azerbaijan's accession process has more than doubled this, and there appears to be no end date in sight. Despite its apparent desire to join the WTO, why has Azerbaijan still not become a full-fledged member? This research presents the case that weak institutions, which lack sufficient development, transparency, accountability and capabilities, are largely to blame for this. Furthermore, the analysis of Azerbaijan's institutions suggests competing economic ideologies between Azerbaijani officials and the WTO.

### **Azerbaijan: A Brief Background**

The Republic of Azerbaijan is a country situated in the South Caucasus bordering Russia to the north, Iran to the south, Armenia and Georgia to the west and the Caspian Sea to the east. Additionally, the Nakhchivan Autonomous Republic, an exclave region of Azerbaijan, borders Turkey, as well as Iran and Armenia. Azerbaijan formally became independent from the Soviet Union on October 18th, 1991, with a population of 7.5 million that rose to 10 million by the year 2019 (Population, 2019). Its territory is 86,600 square kilometers. It is the largest and most populated state of the three South Caucasian states, which include Georgia and Armenia (Central Intelligence Agency, 2020).

Azerbaijan possesses vast oil and gas resources, which are drilled and extracted from the Caspian Sea. The production of oil in Baku, the capital of Azerbaijan, began well before the Bolsheviks captured Azerbaijan in 1920. Historical accounts of life in the region as far back as the 19th century mention the importance of oil. In 1846, the first oil well in Azerbaijan was drilled in Bibi-Heybat, and by the early 1900s, Azerbaijan was producing over half of the world's oil supply. After the capture of Azerbaijan in 1920 by the Bolsheviks, all the oil wells and factories were confiscated and put under the control of the Soviet Union. The oil in Azerbaijan was crucial to the Soviet Union's efforts in World War 2 (Babayev, 2002). In modern-day Azerbaijan, the current framework for the production and sale of oil was launched in 1994 with the signing of the Contract of the Century, which was initiated by then-President Heydar Aliyev. Through this act, which

involved 11 international oil companies, Azerbaijan began selling oil in international markets (Oil sector, 2020). The GDP of Azerbaijan began to sharply increase by the mid-2000s and peaked in 2014 (Macrotrends, 2020).

Since its independence, Azerbaijan's main policy aims have been to become an energy source for Europe and a transit hub between Europe and Asia. This first aim has been pursued through gas and oil pipeline projects; notably, the Baku-Tbilisi-Ceyhan pipeline (Cornell & Ismailzade, 2005). The pursuit of the second aim is also underway as Azerbaijan is being considered as a part of the Trans-Caspian Middle-Corridor (MFA Turkey, 2020). Additionally, according to a WTO accession newsletter (2018), membership to the WTO is considered a critical component in order for Azerbaijan to realize these aims, and especially in regard to its role as a transit and logistics hub linking Asian and European markets.

### **The WTO Accession Process and Azerbaijan**

The World Trade Organization was established in 1995 and has 164 members, accounting for 98% of the world's trade (WTO IN BRIEF, 2018). It is the preeminent institution of the multilateral trade system, which aims to remove trade barriers and tariffs between countries. According to the WTO, by ensuring that trade is predictable, free and transparent, everyone benefits as the welfare of people improves across the globe and the interdependence between nations promotes conflict resolution rather than armed conflicts (WTO IN BRIEF, 2018). In order to join the WTO there is an accession process that can take anywhere between a few days to a decade, depending on the amount of reform a state must undergo (Allee & Scalera, 2012). In June 1997, Azerbaijan applied to join the WTO but still has not become a member. While the accession process has not formally ended, there is still a long way to go. (Kavass, 2008).

According to Kavass (2008, 278-379), there are two major tasks that any country in the accession process must successfully complete in order to become a member of the WTO. Firstly, the acceding country must comprehensively answer a vast number of questions concerning its economy and its trade regime. These questions call for detailed statistics, data and extensive lists as well as highly in-depth answers to a multitude of questions ranging from customs procedures, regulations and judicial activities to laws and legislative measures. It is not unusual for this step to take years to complete. Secondly, the acceding country must also reform its laws and regulations pertaining to trade so that they can be brought into harmony with the norms and standards of the WTO. Although these two tasks do not encapsulate the entire process, with respect to Azerbaijan, both of these tasks have proved incredibly challenging. The extensive gathering of information has proved exceptionally difficult for Azerbaijan, and the result is that many of the answers are incomplete or unsatisfactory, which prolongs the process and raises questions about the transparency of Azerbaijan's institutions (Kavass, 2008, 380). Additionally, Azerbaijan has struggled to adopt the necessary laws and regulations that would put them in compliance with WTO laws and norms. These reforms are not only technically challenging, but they also pose political problems for Azerbaijani leadership. Even when reforms are enacted, their enforcement and implementation

have often not been adequately carried out (Kavass, 2008, 380-381). After over 20 years of being in the accession process, Azerbaijan cannot claim to be ignorant of the expectations of the WTO. Azerbaijan's failure to join the WTO is largely due to the failures of its institutions to fulfill the necessary requirements in order to become a full-fledged member. Azerbaijan's weak institutions are largely to blame, but as will be seen later, there is also evidence that suggests diverging economic philosophies between the WTO and Azerbaijani leadership are also holding back the accession process.

### **Historical Legacy of the Soviet Union: Weak Foundations**

The historical legacy of the Soviet Union's rule over Azerbaijan is a major factor influencing the character of modern-day Azerbaijan. As a part of the Soviet Union, Azerbaijan's economy developed within the larger framework of the Soviet Union, meaning its economy was not designed to be self-sufficient, but rather to help meet the needs of the Soviet Union as a whole. Consequently, Azerbaijan became isolated from regional markets, and its economy developed in an unbalanced manner. At the time of its independence, it was still highly dependent on Russia for materials, markets and food (Rasizade, 1997). This is especially apparent in Azerbaijan's institutions, as well. The institutions that Azerbaijan inherited were directly created by the Kremlin. They were ineffective and had a predominantly demonstrative character (Chubarov, 2001, 58-60). Accordingly, institutions for proper taxation, both extractive and re-distributive, and legal checks and balances were non-existent, along with an absence of independent socio-economic groups. This weak and authoritarian institutional framework was inherited by most of the post-Soviet countries, including Azerbaijan. It should be emphasized that the Soviet legacy was especially harmful to countries rich with energy resources (gas and oil) such as Azerbaijan. Countries endowed with these permanent sources of income and weak institutional structures lack the ability to properly allocate and regulate their incomes in order to develop their economies.

While the role of natural resources in the development of Azerbaijan's institutions and political economy will be developed in detail later on, it bears mentioning now that the effective management of natural resources largely depends on the efficacy of the public institutions engaged in the allocation of the revenues. Proper allocation of revenues can lead to investments that diversify the economy (Devlin, 2010, 131). From its inception as a post-Soviet state, Azerbaijan did not inherit a solid institutional framework from the Soviet Union. Azerbaijan's main economic contributions to the Soviet Union was the oil industry, which resulted in low levels of development in other spheres of the economy, such as agriculture (Bayulgen, 1999).

This Soviet legacy deprived Azerbaijan of an effective taxation system which in turn created a large shadow economy and systemic corruption in independent Azerbaijan (Bhatty, 2002). According to Medina and Schnieder (2019), in Azerbaijan, 53.4% of the economy is classified as a part of the shadow economy and therefore cannot be properly taxed. With this ineffective taxation system, oil revenues are necessary and enable the government to keep the economy going (Bayulgen, 1999). Thus, the legacy of poor industrial and institutional capabilities inherited from

the Soviet Union makes Azerbaijan's accession into the WTO even more challenging, as many facets of its current institutional and economic structure would have to be totally dismantled or reorganized, threatening the viability of its domestic market in the face of foreign companies introducing more competitive products.

The weak institutions inherited from the Soviet Union are undoubtedly a major factor holding Azerbaijan back from joining the WTO today. However, there are many other post-Soviet countries that have successfully joined the WTO. So while this inheritance is a piece of the puzzle, in order to more fully understand what makes Azerbaijan's institutions particularly weak it is necessary to dig deeper by examining the political economy of Azerbaijan. The political economy of Azerbaijan is best approached through the framework of the resource curse.

### **Azerbaijan and the Resource Curse**

Broadly defined, the resource curse describes the negative impacts that an abundance of natural resources can have on the economic and political development of a country, especially as the country begins to export these resources. The term resource curse in its current academic meaning is widely attributed to Richard Auty (1993) and has since been taken up and developed by many other scholars to address a myriad of political, economic, institutional and social issues that plague resource-rich countries. Sachs and Warner (2001), for example, have shown that resource-rich countries tend to have lower economic growth rates than countries that have less natural resources, and that this trend holds even across geographical differences. It is well-known that the oil and gas industries have played a fundamental role in the economic and political life of Azerbaijan. In a report on the challenges of fiscal policy for oil-exporting countries (Sturm et al., 2009, 11). The European Central Bank presented four explanations of the resource curse, constituting four related yet distinct bodies of literature. These four main explanations will be discussed below in respect to the economic and political developments of Azerbaijan.

The first and perhaps the most well-known explanation is known as the 'Dutch Disease.' It derives its name from the observations of economists made about the changes that the Netherlands' economy underwent after large oil reserves were discovered there. In short, the symptoms of Dutch Disease are twofold: the appreciation of a country's currency caused by the high demand for their natural resources along with a reorganization of investment and capital in the economy towards the resource sector and away from other productive sectors. This leads to lowered exports in other industries, as these industries become less competitive, and inflation in the cost of non-tradable goods and services (Sturm et al., 2009, 11). This bias in economic development effectively makes the economy lop-sided and highly dependent on revenues from the resource sector. In a study of the Azerbaijani economy through the lens of Dutch Disease, F. Hasanov (2013) concluded that it is, "reasonable in explaining a relative de-industrialization in the non-oil tradable sector and an expansion in the non-tradable sector" (475). In the case of Azerbaijan, the Dutch Disease hypothesis helps explain many economic developments, including the relative weakness of non-

oil factors of production, expansions in non-tradable sectors of the economy, like services and government spending, and appreciations in the real exchange rate (Hasanov, 2013). An overview of Azerbaijan's economy prepared for the European Union also supports the Dutch Disease hypothesis: from 2000 to 2009 the share of agriculture in GDP dropped from 15.9% to 6.4%, manufacturing dropped from 5.3% to 4.1% and the share related to the oil and gas sector rose from 27.6% to 44.8% (Aliyev, Valiyev, & Rustamova, 2011, 3).

Before continuing, it should be noted that many scholars acknowledge that an abundance of natural resources is not necessarily a curse. J. Devlin (2010) challenges the assumption that oil windfalls necessarily determine the growth rate and development of an economy, and instead, she stresses the importance of fiscal policy in managing oil revenues. In other words, the allocation and management of the revenues, and not the resource itself, is the cause of Dutch Disease. Proper fiscal policy presents the remedy (Devlin, 2010, 127). The remaining explanations of the resource curse highlight the challenge of fiscal policy in Azerbaijan from both an economic and a political perspective. The key here is that implementing and enacting fiscal policy reforms necessitates strong institutions, which are both accountable and transparent. The following three explanations highlight the weaknesses of Azerbaijan's public institutions.

The second explanation of the resource curse, according to the European Central Bank, focuses on how wealth derived from natural resources reduces the incentives of policymakers to diversify the economy (Strum et al., 2009, 11). In a review of Azerbaijan's trade and economic statistics, O'Lear (2007) remarks that, while oil revenues dominate the economy and increase the wealth of the state, "that wealth appears to have been captured by a powerful elite, rather than being channeled into the development of other sectors or being devoted to improving the quality of life of the majority of the population" (220). Many other analyses of Azerbaijan's oil revenues also point to their capture by the political elites who use them to pursue their own interests and further consolidate their power. Oil revenues enrich the political leadership and play an important role in stifling opposition and financing the vast networks of client-patron relationships that prop up the regime (Guliyev, 2012; Almaz, 2015). Others show how the low hanging fruit, as it were, of oil revenues has contributed to the strong centralization and stabilization of the government, but has hindered further market reform policies, including liberalization and privatization (Aliyev, 2008). After gaining independence from the Soviet Union, instability prevailed in Azerbaijan's social and political life and so the establishment of order was regarded as the most important task to accomplish (Acemoglu & Robinson, 2006; Aliyev, 2008). In this respect, oil revenues were critical early on in establishing and consolidating the state, but since then they have de-incentivized any further reforms toward a more open economy or a more democratic government.

From a political perspective, the lowered incentives of policymakers to diversify the economy in Azerbaijan may be the result of the political establishment's unwillingness to relinquish power. By maintaining tight control over the oil revenues and their spending in the economy, the political elite can also maintain their control over the domestic sphere by employing a large public sector and allocating oil rents to loyalists in the form of government contracts and investments (Guliyev, 2012, 121-125). Economic liberalization and privatization could benefit different societal groups by

empowering new economically powerful sections of society. As Aliyev (2008, 175) remarks, it could also harm those loyalists within the network of client-patron relationships who have a vested interest in maintaining the status quo. From this perspective, it is clear not only how resource wealth has not incentivized to the formation of strong public institutions, but also, how strong public institutions, which require transparency and accountability, may pose a threat to those in positions of power.

The third explanation of the resource curse, according to the European Central Bank, is the highly volatile nature of natural resource revenues and the inability to cope with price fluctuations (Sturm et al., 2009, 11). N. Huseynov (2017) has shown that fluctuations in world oil prices directly affect the incomes of Azerbaijanis and the levels of investment made in public spending in sectors such as education and healthcare. This inherent vulnerability leaves the Azerbaijani economy exposed to fluctuations in the world market. Additionally, this further complicates the ability of Azerbaijan to commit substantial and long-term investment into its non-oil sectors. This dependency on gas and oil income for institutions to be effective leaves them exposed to exogenous shocks and renders them weak, especially at times when strong institutions are most needed.

The fourth explanation of the resource curse, according to the European Central Bank, focuses specifically on the effects of resource revenues on institutional quality (Sturm et al., 2009, 11). Almaz (2015) evaluates the quality and nature of Azerbaijan's institutions through the framework of a rentier state, which highlights the effects that Azerbaijan's gas and oil revenues have on its politics and institutions. He concludes that the weak system of taxation and tax enforcement in Azerbaijan is a powerful hindrance to holding the government accountable and developing more democratic institutions. Additionally, the state spends a large amount of its GDP on security measures both to protect its resource revenues and to maintain the authority and legitimacy of the government. Above all, this lack of accountability and weakness of civil society results in a lack of transparency in the institutions of Azerbaijan, which in turn causes institutions to be ineffective. Despite attempts to demonstrate transparency in response to international pressures, Azerbaijan still has a long way to go (Öge, 2014).

As a result of these poor institutions and the lack of transparency, corruption, as previously mentioned, has remained a major issue in Azerbaijan and has had a profoundly negative effect on the economy. Even the founder of Azerbaijan, Heydar Aliyev, identified corruption as a "common disease" in an interview, adding that the country would simply become ungovernable if those who accepted bribes were expelled from the government (Politika TV, 2019). This level of corruption is identified as "state capture," as it compromises decision-making by subordinating the interests and welfare of the state to the interests of powerful groups or even individuals (Bhatty, 2002).

The historical inheritance of weak institutions in Azerbaijan, coupled with their further development in the framework of a rentier state, has seriously weakened their effectiveness and their ability to meet the demands of the WTO accession process. As detailed above, transparency and accountability is a major problem that plagues Azerbaijan's public institutions. This has indeed made the information finding task extremely difficult for Azerbaijani officials and has hampered

the effectiveness of Azerbaijan's institutions to implement the laws and regulations which are needed. Kavass (2008, 381) notes that existing systems of standardization and regulation in Azerbaijan are in need of a total overhaul and fail to meet the requirement of the WTO Agreement on Sanitary and Phytosanitary Measures. In order for regulations and standards to be consistently enforced and carried out, strong, accountable institutions are necessary.

Azerbaijan's failure to implement the required laws may also be a result of poor institutions. Of course, the technically challenging legislation that needs to be formalized will be impossible to implement without the institutional capacity to do, but there are also other challenges. Azerbaijan's current trade regime, like just about every other aspect of Azerbaijan's political economy, is dominated by the oil and gas sectors. According to the World Bank's statistics, about 84% of Azerbaijan's exports are in raw goods, which is almost entirely made up of oil and natural gas (World Bank, 2018). Azerbaijan's current trade regime is predominantly governed by political considerations and goals, which runs entirely contrary to the WTO's free trade philosophy.

### **Azerbaijan's Trade Policy as a Reflection of Foreign Policy Goals and Economic Ideology**

A brief review of Azerbaijan's current trade laws and regulations shows that there is an evident lack of transparency and formal consistency. According to Kavass (2008), Azerbaijan's oil sector, in terms of both exports and inputs, is largely governed by "special production-sharing agreements with international oil companies," and the result of this is "at least three-quarters of Azerbaijan's foreign trade has become subject to special regimes and is not regulated by general laws" (344). Because of this, reviewing the current trade policies and revising trade laws and regulations to be more in line with the WTO would prove to be a monumental task. Additionally, this situation further highlights the institutional weaknesses prevalent in Azerbaijan, as public institutions hardly play a role in regulating and governing trade. The revenues generated by oil and natural gas are then used to subsidize uncompetitive domestic markets that are protected by high tariffs. This is especially true regarding Azerbaijan's agricultural sector. While only accounting for around 5% of the GDP, the agricultural sector employs up to 40% of the population (Cornell, 2011). Liberalizing the economy by enacting the reforms called for by the WTO would seriously threaten these weak domestic sectors. This line of reasoning has been expressed by Azerbaijan's current president Ilham Aliyev, who has stated that keeping the country out of the WTO and imposing high tariffs on foreign imports protects domestic manufacturers against foreign competition (Fatullayev, 2019). The rationale for Azerbaijan's trade policies and resistance to economic reforms is elucidated by its approach to foreign policy.

Azerbaijan's foreign policy is best characterized as a "balanced foreign policy" approach and has been formalized as the Non-Aligned Movement (NAM) (Strakes, 2015). Many accounts of Azerbaijan's balanced foreign policy approach point to the historical circumstances that defined the Azerbaijani state after re-establishing its independence in the early 1990s. Since its inception, Azerbaijan has found itself in a perilous geopolitical position. A post-Soviet state in the South Caucasus, it is located very close to regional powers with vying interests such as Russia, Iran and

Turkey, and holds a geopolitically unique position between the East and the West which attracts international powers such as the US and the EU (Makili-Aliyev, 2013). Azerbaijan's balanced foreign policy approach allows it to navigate the patchwork of competing interests in the region and play them to its advantage, while also representing its own interests and maintaining its integrity and independence as a state (Makili-Aliyev, 2013). Azerbaijan, wary of its history, remains cautious not to fall under the control of other powers. In 2011, Azerbaijan formalized its balanced foreign policy approach by becoming a member of the Non-Aligned Movement (NAM) (Strakes, 2015).

Azerbaijan's energy resources have been key to ensuring its independence from foreign powers and pursuing its foreign policy interests. This is bolstered by the fact that Azerbaijan's trading relationships, which are dominated by the energy sector, constitute an essential aspect of their foreign policy. Azerbaijan's oil and gas reserves are its "most important foreign policy tool" according to many scholars (Kuchins et al., 2016, 5). The energy sector brings in foreign investment and allows Azerbaijan to form strategic partnerships that strengthen its position in the region and on the world stage. In one specific study, the completion of the Baku-Tbilisi-Ceyhan pipeline is shown to be a significant foreign policy achievement (Cornell & Ismailzade, 2005). This pipeline brings oil and gas from Azerbaijan directly to European markets. By becoming a direct supplier to European markets, Azerbaijan strengthens the power of the state while maintaining its independence from regional powers like Russia and Iran. Not only does Azerbaijan reap economic benefits that go directly to the state, but it also cements a strategic relationship with the European community as an energy provider (Cornell & Ismailzade, 2005). The legacy of this pipeline can be seen in Azerbaijan's current trade relations. According to the World Bank statistics (2018 World Bank, 2018), Azerbaijan's top exporting partner is Italy, which purchases about one-third of Azerbaijan's oil and gas exports. Additionally, in relation to Azerbaijan's most important foreign policy issue, the Nagorno-Karabakh issue, the BTC pipeline was specifically designed to bypass Armenia (Cornell, 2011). By economically isolating Armenia further, Azerbaijan aimed to gain more leverage over Armenia in the Nagorno-Karabakh conflict. On top of this, revenues from the energy sector have contributed to Azerbaijan's increasing amounts of spending on its military, which is the most modern and powerful in the South Caucasus region (Kuchins et al., 2016). Policies that pursue trade according to foreign policy goals are in direct conflict with the principles of the WTO, especially the principle of trade without discrimination. This principle is explicitly stated by the WTO as the most favored nation concept (MFN), which states that every member of the WTO must treat all others as equal trading partners without discrimination. In theory, this extends trade benefits to all countries and makes every member a 'most favored nation' (World Trade Organization, n.d.). If Azerbaijan adopted this principle, there would be many consequences for its current trade regime, and perhaps most importantly, it could no longer use trade policy to gain leverage over Armenia or pursue other foreign policy goals.

Before concluding, it is worthwhile to emphasize the importance of the Nagorno-Karabakh conflict in determining Azerbaijan's foreign and trade policies. The Nagorno-Karabakh conflict, according to many scholars, plays a defining and essential role in Azerbaijan's foreign policy. The still contested area of land within Azerbaijani territory presents an existential security threat to the state

and its claims to territorial integrity. According to some scholars, “the over-riding objective of Azerbaijan’s foreign policy has been to secure a solution to the longstanding conflict over Nagorno-Karabakh on Azerbaijan’s terms” (Fuller, 2013, 1; Kuchins et al., 2016). The result of this is that Azerbaijan’s foreign policy goals are built around forming constructive relationships with states and international organizations that can help it achieve this objective while, at the same time, stifling other players who may try to derail a settlement on Azerbaijan’s terms (Fuller, 2013). As underscored above, trade regimes defined exclusively by foreign policy goals are essentially incompatible with the norms and procedures of the WTO.

This approach to foreign policy and trade, which principally views these spheres as domains through which the state can pursue its interests and strengthen itself, helps shed light on additional reasons why Azerbaijan still has a long way to go to become a full-fledged member of the WTO. From an institutional perspective, the result of this trade regime has created a situation in which the institutions necessary to regulate and enact trade law reforms hardly exist or are wholly inadequate. Furthermore, the adoption of the required law reforms still face political opposition. Market reforms such as liberalization, privatization and free trade are antithetical to the nature of Azerbaijan's political and economic ideologies (Kavass, 2008, 380). For the most part, Azerbaijan has resisted market liberalization and regional customs unions in order to protect domestic markets from foreign competition and prevent foreign interests from having any control or influence in the economy (Cornell, 2011). This is especially true regarding Azerbaijan’s agricultural and manufacturing sectors. Additionally, Azerbaijan’s strategic use of the energy sector as a tool that allows it to maintain strong centralized control over the domestic sphere and as an instrument of foreign policy would most likely be weakened as a result. In sum, from the viewpoint of Azerbaijani leadership, market and trade liberalization reforms could expose many vulnerabilities in the domestic economy, threaten their centralized control over the state and compromise their most important foreign policy tool.

## **Conclusion**

This research attempted to answer the question of why Azerbaijan is still not a member of the World Trade Organization by taking into consideration historical and contemporary elements, applying the frameworks of the resource curse and the rentier state and utilizing two schools of thought in political economy, namely realism and liberalism. In this case, Azerbaijan’s economic and trade policies, which aim to strengthen the power of the state, reflect a realist ideology, whereas the WTO’s mission to create an institutionalized free trade regime reflects a liberal economic ideology. Consequently, it was found that the central problem preventing Azerbaijan from joining the WTO is its poorly developed public institutions. These institutions failed not only to provide the WTO with necessary data and information but they also lacked the capabilities to enact and implement certain reforms required by the WTO. These deficiencies are most clearly seen in two aspects of the WTO accession process: firstly, the fact finding, data collecting and question answering part, and secondly, in the enacting and implementing of reforms, regulations and

standards. These kinds of failures reveal the weaknesses inside the institutional mechanisms and demonstrate that after nearly 23 years of being in the accession process, Azerbaijan seems to be lacking the political will necessary to reform and rebuild its institutions. Undoubtedly a complex network of interests is invested in maintaining the status quo, which is suggested by the staggering levels of corruption. Perhaps more importantly however, as pointed out in this study, diverging economic ideologies may also be an obstacle to generating the political will required to reform and rebuild Azerbaijan's institutions in accord with WTO standards.

Our study points to two main causes for Azerbaijan's underdeveloped institutions. From a historical perspective, it is the Soviet political system, which was regulated from the center (Moscow) and prevented the establishment of independently operating public institutions in member-states. On a contemporary level, after gaining independence, the oil and gas revenues were sufficient to maintain economic stability in the country and this allowed the government to neglect the development of public institutions. Additionally, the oil and gas revenues played a significant role in negatively influencing the institutional development, or lack thereof, of Azerbaijan's public institutions. Furthermore, this poor state of development can be seen across other sectors of Azerbaijan's economy.

Dysfunctional public institutions were found to be the underlying cause behind Azerbaijan's failure to join the WTO, however, the study also suggests new avenues for research and calls for a deeper consideration of why Azerbaijan's institutions remain so underdeveloped. Clearly, over the past two decades, the Azerbaijani elite could have improved the public institutions and joined the WTO, however, our study suggests that the political will to do so has been sorely lacking and that this is partly the result of diverging economic ideologies. This research generates more questions for further research concerning how political will translates into institutional reform and what roles ideologies play in reform efforts. For further research, we suggest the framework proposed by Aliyev (2008) called the "Three I" model, which presents a more holistic model on how major policy reforms are achieved by focusing on the interconnected nature of institutions, interests and ideologies (p. 179).

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*About the authors*

**Scout Burchill** is currently working on his master's thesis at Boğaziçi University in Istanbul, Turkey. Originally from Boston, Massachusetts, he graduated from St. John's College in Santa Fe, New Mexico and is now based in Istanbul, Turkey.

**Anar Imanzade** is currently working on his master's thesis at Boğaziçi University in Istanbul, Turkey. He studied Political Science and graduated from Baku State University. He is now based in Baku, Azerbaijan.

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