

Our Trip to Azerbaijan

【Why and how we visited Azerbaijan】

We, 13 members of Shimada Sonjuku, two friends, and myself, namely the team of 15, visited Azerbaijan for the period of July 14th through 20th. This is a part of our important subject of the second year of the Sonjuku.

Many of our friends ask “why” Azerbaijan. One of the objectives of the sonjuku subject, “explore the world” is to visit and study countries or areas of “off the beaten grasses” and Azerbaijan certainly fulfills this criterion since not many Japanese visit nor even know the country. But the more important motivation for us to have chosen Azerbaijan is that Azerbaijan is an extremely interesting country for us to visit for reasons which you will see as you read this essay.

We were inspired to visit Azerbaijan sometime in summer last year by Ms.AkikoYamanaka, who is a research fellow at Cambridge University and was a vice political minister of foreign affairs for several years in early 2000s of the LDP cabinet. She visited Azerbaijan a couple of times during her service and recommended us to visit. She also kindly introduced Ambassador of Azerbaijan stationed in Tokyo, Mr. Gursel Ismailzade.

We consulted ambassador about our trip a few times. Ambassador Gursel Ismailzade invited us to his residence embassy for a cozy reception with Azerbaijan wines, and introduced Mr.Rovshan Mirzayev as an officer to take care of our trip. Mr.Mirzayev since then consulted with Mr.Yu Yamada, a member of Sonjuku who has taken care of all the details of our trip, and helped us subsequently mainly to set up appointments with important government related organizations and people in Baku.

Another member of the Sonjuku, Mr. Takaya Mitani introduced his friend, Ms.Mai Nomura, a senior researcher of CEU (Central European University) Business School located mainly in Budapest, who kindly introduced many important business people and policy planners in Azerbaijan for us to interview or have meetings.

Moreover, our friend Mr.Motohisa Furukawa, former minister of economic and fiscal policies of DPS(Democratic Party of Japan) cabinet, kindly contacted for us in the last

minute the ministry of foreign affairs to ask Japanese Embassy in Baku to take care of us. Responding to our request, Ambassador Tsuguo Takahashi himself responded quickly and offered opportunities: give us a briefing session at the day of our arrival and dinner session to wrap up our visit in the evening before the departure date. With the help and support of all these people, our visit of Azerbaijan became possible and highly meaningful.

【Brief introduction of historical background of Azerbaijan】

《Ancient history》

Before reporting our daily activity of visiting important organizations and meetings with important people, and introducing the content of our discussions, let me spend some space to explain briefly historical backgrounds of Azerbaijan.

Azerbaijan has a long history of civilization extending for a few thousand years, which has been consisting of experiences of being ruled by neighboring major powers for every few hundreds of years, which has left strong imprints on ethnic compositions, religions, cultures and traditions of the nation and people of Azerbaijan. And particularly in the modern history of the last century or two,

Azerbaijan was under the control of Soviet Union and more recently under the strong influence of Russia while always having suffered from menace and threats of neighboring large and small countries. Therefore, it is crucial to know the historical background and its dynamics to understand the contemporary Azerbaijan.

The area of current Azerbaijan is said to have been controlled by Qafqaz. Albania Kingdom during a few hundred years since around BC 6 century. From AD 3 to 7 century, the area was ruled by the Persian dynasty. From 7 to 10 century, it was controlled by the Arabs. Since 11th century, Turks moved into the area, and Turks' dynasty was established which reined the area until 13th century when the Mongolians took over the dominance.

From 16th through 19th century, the area was rained by Iranian dynasty which was dominated by the Shiah sect. As a consequence of the war between Russia and Iran for 1813 to 1828, the current Azerbaijan area was annexed to Russia, and the massive population was left to live in the current Iran area. Today, Azerbaijan population living

in Iran is said to amount to as many as 20 millions, or more than twice the current Azerbaijan population.

«Modern history»

In 1918, following the collapse of Russian Empire due to Bolshevik revolution, nationalist leaders of Azerbaijan declared the independence of Azerbaijan People's Republic. However, this did not last long. Following the Bolshevik October revolution in 1917, Lenin who led Bolshevik declared that they captured the power to control the country. In spite of the fact that the newly established Soviet Union was faced with many difficult issues both domestically and internationally, the central Soviet concentrated in Leningrad area sent the Red Army swiftly to Azerbaijan and controlled the area by force by establishing Soviet government in Baku, which led to the establishment Azerbaijan Soviet Socialist Republic in 1920.

Soviet Union did more or less the same thing to the rest of 14 countries around Russia and established Soviet government in each of them. This is done quickly and effectively within a couple of years even though newly created Soviet Union was troubled and weak faced with hardship domestically by social turmoil and economic confusion, and internationally suffering from invasions of major powers like Germany, Britain, France and even Japan.

This swift re-organization of surrounding countries under the command of the central Soviet Union may reveal the greedy ferocity built in the blood of Russian nation. But why Soviet Russia could have done this possibly in its weakest era of its history? One eminent historian suggested that it may have to do with the peculiar ideology of Bolshevik which justified "terrorism" as legitimate power. If this is indeed the case, the tradition may be succeeded as late as President Vladimir Putin as seen, for instance, in his way of handling Chechen war.

In 1922, Azerbaijan joined by Georgia and Armenia constituted together Qafqaz Socialist Federation of Soviet Republic and participated to the establishment of comprehensive Soviet Union. Later, in 1936, following the dissolution of the Qafqaz Socialist Federation, Azerbaijan joined Soviet Union as Azerbaijan Soviet Socialist Republic.

«Duglag-Qarabag Conflict and War»

In the wake of the dissolution of Qafqaz Socialist Federation, the innate confrontation between Armenians and Azerbaijanians began to surface gradually, which grew to be visible since around the 1960s. In 1988, the Armenians whose demand to Moscow to admit the independence of the region within Azerbaijan called Qarabag where Armenians are densely populated as a country of Armenians was turned down by Moscow revolted against the decision. This violent movement called forth repercussion on the part of Azerbaijan to counteract. In 1989, Soviet Union sent the troop to control the turmoil while designating the area under the direct control of Soviet Union. This action gave rise to radical demonstrations now in Baku and some of them attacked Armenians. The Soviet troop suppressed this violent action and in the turmoil some 120 Azerbaijan citizens were killed. This happening was to be remembered vividly in the minds of Azerbaijanians. The bodies of those who lost lives then are kept calmly with their portraits in the memorial cemetery in the center of Baku now.

After this tragedy, Azerbaijan People's Front has gained increasing support even of the Communist party of the region, and they declared the independence of Azerbaijan Republic in September 1991. Azerbaijan decided to abolish the autonomy region status of Qarabag in November 1991. To retaliate, Armenian nationalists in Qarabag declared in January 1992 independence of this region, which led from the violent conflict to develop into war between Azerbaijan and Armenia.

Russian Republic which was emerging in the process of the dissolution of Soviet Union toward the end of 1991, sent the troop to this area to support Armenian military. With the help of Russian army, Armenia fought fiercely against Azerbaijan army and eventually won the war in May 1994 and succeeded to obtain the Qarabag and circumscribing area, which amounts to as broad as 20 % of total land of Azerbaijan, under their control.

The aftermath of this Qarabag war has been even more serious. In addition to thousands of casualties of the war, many Azerbaijan inhabitants used to living in the area lost their houses, tried to move out of the area and became refugees. They are estimated to amount to even a million. Many of these refugees and their families still need government and social support. And many more population suffer from mental scars or wounds in their minds which would not be erased or healed. The Qarabag war remains in the minds of people as a profound trauma.

The Qarabaq war has shaken Azerbaijan politics destructively in the early days of the establishment of independent country. President Ayaz Mütəllibov who had been an elite leader of the preceding Communist party and known as pro-Russia politician and declared independence of the country in September 1991 was criticized harshly by opposition forces such as People's Front for having failed to avoid the massacre of Azerbaijanians in February 1992 and was toppled down by a coup d'état in May 1992 in the midst of the Qarabaq war. Mr. Abulfaz Elçibay, a popular scholar and has been a leader of Azerbaijan People's Front who succeeded President's office took a hardline to continue fighting and made his stance clear against Russia and Iran and pro-Turky eventually was caught up in an impasse under comprehensive pressures of Russia and had to resign the President.

【President Heydar Aliyev and His Contributions】

«The Role and Background of President Heydar Aliyev»

These events suggest that a country like Azerbaijan, just like as many other ex-national Republics, could not have survived well going apparently against Russia, which continues to exercise an overwhelming ruling influence in these countries even after the dissolution of Soviet Union. Mr. Heydar Aliyev emerged as an ideal person to fill this gap and to save the Republic of Azerbaijan from the difficult impasse.

Mr. Heydar Aliyev made his career in Azerbaijan KGB, and in 1967 took the chair of Azerbaijan KGB. In 1969, he was elected to the position of the first secretary of the central committee of Azerbaijan Communist Party, and worked energetically as a top leader of Azerbaijan political community particularly to dissipate corruption and to vitalize economy. Since his competence as a leader was highly evaluated, he was picked up in the central political community of Soviet Union in 1982. He became chairman of Cabinet Ministerial committee, the first representative of Prime Minister of Soviet Russia as well as a member of Political Bureau of Central Committee of the Communist Party of Soviet Union. This is the first and highest achievement ever made as a Muslim. He, however, retired from the central political community of Soviet Union in 1987 with conflict with Mr. Michael Gorbachev, then secretary general of Communist party, on the issue of campaign to abolish corruptions.

Mr. Heydar Aliyev, who was spending time quietly in his home land "Naxcivan," was strongly recommended by his supporters to come back as a leader of his home country and became chairman of the Supreme Convention of Naxcivan Autonomy Republic and at the same time assumed deputy chairman of the Supreme Convention of Azerbaijan Republic now declared independence from Soviet Union. And in 1993, when the country was in a chaotic confusion in the tragedy of Daglug Qarabag war, he was elected by the national election as president of Azerbaijan Republic to succeed the previous president, Abulfaz Elchibey who was ousted because of inability to get the way out of the impasse.

He later was elected again as president by overwhelming votes in the election of October 1998. He served as president for two terms, 10 years until he retired in 2003. He suffered from sickness since around 1999 and retired in 2003 appointing his son, Ilham, as prime minister. In the election of October 2003, Ilham Aliyev won with overwhelming votes and became president. Mr. Heydar Aliyev died in December 2003. Mr. Heydar Aliyev is remembered as a charismatic leader and the de facto founding father of the current Azerbaijan Republic in the minds of people, as symbolized by many posters, large portraits, statutes, and buildings, parks and roads with his name everywhere in the country.

«Achievements and Some Problems»

President Heydar Aliyev made the way to cease the war of Daglug Qarabaq attaining the cease-fire agreement in May 1994, worked carefully to maintain political stability by skillfully suppressing opposition forces and made them in effect powerless, worked hard to introduce foreign direct investment particularly in oil and gas exploration and production and in construction of oil and gas pipelines, and to seek development of economic relations with Europe and United States as partners and markets. He organized an international group, GUAM, consisting of Georgia, Ukraine, Azerbaijan, and Moldova, which attempts to work together to cultivate economic relations with Western partners.

His efforts to develop relations with Western partners obviously are not welcomed or comfortable from the viewpoint of Moscow. This sensitive and skillful steering of the country and diplomacy in the mutually incompatible geopolitical arena between the East and West could be done perhaps only by Mr. Heydar Aliyev, who has enough knowledge and experience of politics of Soviet Russia, while having keen and strong patriotism to

his own nation. It may be fair to say that he really has laid down the building blocks on a basis for the subsequent remarkable economic growth of Azerbaijan for the subsequent decade living through a difficult and complex geopolitical environment.

On the other hand, he has been seen with skepticism or criticized by Western critiques as monopolizing critical posts of government and industries by his family members and very close friends, reluctance to promote democratization, indifference or even infringement of human rights particularly to people of oppositions. He may be viewed as one of the typical “development dictator” as you can see in many countries in South America, Asia, Middle East and Africa. But the lump-sum word, “development dictator” may be too simple to understand this unique leader of Azerbaijan in its critical historic stage.

«Oil Industry Development Strategy»

Let me spend some space to explain what he did to invite foreign investors to develop oil and gas industry of Azerbaijan in the mid-1990s since this is the critical corner stone for the subsequent economic development of Azerbaijan and at the same time symbolic events to understand his leadership in the complex and difficult geopolitics in which Azerbaijan is located.

Azerbaijan has been historically an outstanding supplier of oil. Indeed the word “Azerbaijan” literally means the land of fire. It is not surprising therefore that the historic sacred site of the Zoroastrianism exists near Baku. In early 20th century, Azerbaijan is said to have produced half of oil supplied in the world. In a few decades around the turn of the century, many oil developers gathered together in Baku area and developed oil industry. They are called “oil barons.” Among them were Nobel brothers and Rothschild family.

In the wake of Bolshevik revolution, Azerbaijan was controlled by Soviet Union. Oil barons were either seized or driven away and their facilities were either destroyed or requested by the Russian communist government. During the reign of Soviet Union, oil resources of Baku were mined greedily without decent planning and control. After the 1970s, the oil resources which could be mined by Russian traditional ways began to be dried and production of Baku diminished miserably. There were still abundant potential resources particularly under Caspian Sea, but only Western oil majors had the

technology to develop them.

After the dissolution of Soviet Union, oil majors of the US and Europe began to focus on the rich potential resources in this area, and they started to compete to obtain rights to dig the oil.

Mr. Abulfaz Elchibey, the second president of Azerbaijan since the independence was pursuing nationalist approach to lead the country who was keen to develop relations with the US, Western Europe, and Turkey while stubbornly rejecting Russia and Iran. In the business of developing oil resources, he tried to promote large scale projects working with oil majors of the US and Western European countries.

Russia, which seeks to maintain the hegemony in ex-Soviet Union regions, did not tolerate such an anti-Russia policy of Azerbaijan led by President Abulfaz Elchibey. Russia therefore retaliated and punished Azerbaijan by supporting Armenian nationalists who demanded independence of Nagorno-Karabagh area and deprived that area from the control of Azerbaijan.

«Epochal Agreement and Pipeline Issues»

To arbitrate the conflict, Russia proposed several conditions to Azerbaijan. One of them was to stop and overhaul the major contracts of Azerbaijan with Western oil majors which were about to be signed and force to include Russia among the contractors. In 1994, the major contracts including Russia, which are often referred to as the “Centennial Contract,” have been agreed and the collective development under the umbrella of multinational consortium led chiefly by SOCAR (State Oil Company of Azerbaijan) and BP (British Petroleum) of main oil wells in the claimed territory of Azerbaijan in Caspian Sea has started. This epochal agreement had been prepared by President Heydar Aliyev toward the end of his term and also his life.

Now the question was where to build the pipeline to transport the Caspian oil. There have been two old pipelines from Baku to the shore of the Black sea, the Russian territory. These pipelines were old and narrow and had other bottlenecks. Oil majors sought to build a new pipeline. A few alternative routes have been considered. One was to go through Iran and the other was to go through Russia. On both plans, the US strongly opposed for geopolitical reasons. Finally, the pipeline which starts at Baku, goes through

Tbilis, Georgia, and reach Ceyhan, Turkey was realized by the strong push of the US. This pipeline is usually referred to as BTC pipeline. The BTC pipeline was completed finally in May 2006. Because of extraordinary assertion and stickiness of American president Bill Clinton, this pipeline is often called “Clinton pipeline”

【President Ilham Aliyev, His Success and Challenges】

《Economic Growth》

With the completion of BTC pipeline and bulky export of oil started, Azerbaijan started to enjoy rapid economic growth. For example, the Azerbaijan economy grew in terms of nominal GDP since 2006 as follows: 2006 34.5%, 2007 25.0%, 2008 10.8%, 2009 9.3%, 2010 5.0%, 2011 0.1%, 2012 2.2%, 2013 5.8%. Very large fluctuations of the figures are in part reflecting changes of oil production, and also changes market prices of oil. In spite of such fluctuations, the GDP of Azerbaijan is said to have tripled during the last decade.

This rapid and remarkable economic growth significantly changed the outlook of Azerbaijan, particularly of its capital city Baku and its neighborhood. The city looks a typical gorgeous modern city of a well developed economy. This remarkable achievement apparently strengthened the political position of President Ilham Aliyev, who succeeded the president's office from his father. Knowing the great contribution of his father to his state and his charismatic popularity, Mr. Ilham Aliyev has tried to succeed as much as possible the basic policy direction of his father, played up the image and influence of his father as much as possible as exemplified by posters, large portraits, statues and public buildings and infrastructures named Heydar Aliyev.

《Diversification of Industrial Structure》

President Ilham Aliyev, however, is faced with a major economic challenge which was not a pressing issue at the era of his father's reign. That is the sustainability of Azerbaijan economy, particularly, after the era of abundant supplies of oil and gas. Oil production is estimated to continue the current pace for several more years, and will diminish slowly. Although it will depend on technology development and the conditions of international demand, many experts predict that within a few decades, Azerbaijan would not be able to depend upon oil as it used.

Luckily the current efforts of developing Caspian natural gas resources and construction of gas pipelines to the Mediterranean area will begin to provide fruits to Azerbaijan as early as 2018. Since then Azerbaijan would be able to enjoy good revenues from gas export. But the expected annual revenue from gas is considerably lower than oil, and gas resource will not be limitless either. Therefore, Azerbaijan economy will not be able to depend upon revenues from oil and gas as it used to within a few or several decades.

To prepare for such time in the future, President Ilham Aliyev and his staff and brains are working hard now to try to diversify its industrial structure by which Azerbaijan could earn money not only from oil and gas but also from many other newly developed industries. Many experts and research organizations apparently provide policy plans for industrial diversification in such areas as agriculture, ICT, tourism, transportation, aerospace projects and education. They seem to spend oil money strategically to develop and foster such industries. President Ilham Aliyev takes initiative to concentrate nation's efforts to develop such industries by even designating selected industry for each year. If their efforts will be realized and designated industries develop powerful enough within reasonable time horizon, this will be a model for a mono-culture resource rich economy to transform to a developed economy with diverse industrial structure with a more stable earning power. This is in fact one of our major focus of interest during our visit to Azerbaijan.

«Issues of Democracy»

President Heydar Aliyev and his son President Ilham Aliyev exercised remarkable leadership to have saved their country from geopolitical hardship and certainly succeeded to bring about remarkable merits of economic growth. This is a noteworthy achievement for the country of this size, difficult geopolitical environment, and the level of economic development.

In the process of attaining such achievements, the leadership had to be strong and the power needed to be stable. From outside of Azerbaijan, the way to secure and maintain or perpetuate the power of the leadership is often viewed problematical or even criticized. For example, in the recent election in which President Ilham Aliyev was elected by securing the amazingly overwhelming votes for his third term, some Western observers cast doubts whether the election was conducted fairly. American ambassador reportedly

commented that Azerbaijan would face a similar experience as Ukraine in the future, which called forth harsh negative reactions domestically. This issue of the balance between rapid development and democracy was another major interest of ours to visit Azerbaijan.

【The Trip of Shimada Sonjuku to Azerbaijan】

《July 14, 2014》

In the late evening, almost midnight, of July 14th, we departed Tokyo Narita airport by Air Turkey plane to fly to Istanbul, which took more than 12 hours. The seat was not completely flat but was not so bad to sleep. Nevertheless this long flight was tiring enough. We waited about 4 hours at the airport of Istanbul to fly to Azerbaijan. The flight from Istanbul to Baku took another three hours. We finally arrived at Baku in the afternoon of July 15th. Since I was quite tired during these flights, I found later that I lost my glasses and an i-pod, which I usually use a lot. Our members were all well.

【July 15.】

《Arrival》

The airport of Baku was not crowded. We were welcomed by nice looking ladies, Ms. Sabina Bagirova, Director of Greenwich Travel Club , and Ms. Aysu Yusifzada, who is an interpreter and a guide. They guided us to a big bus. To our surprise, the front head of the bus was decorated by a sheet with big letters “Shimada Sonjuku.” This was suggested by Yu Yamada, the member of the sonjuku who arranged the trip.

We drove the bus toward the center of the city where our hotel, JM Marriot, was located. The scenes of the city were impressive. Side by side with classic buildings, there often stand fancy and ultra modern buildings. When we passed an impressive white building, Aysu pointed saying, “That is Heydar Aliyev” center,” the name of the former president. Indeed, there were many buildings and roads which are named Heydar Aliyev, in addition to many big portraits on the walls. Aysu told us that the city of Baku was known as “black” town only up to 20~30 years ago because of the soot and grim derived from oil digging and refining. Currently, however, the city was almost shining with bright new buildings and cleaned old buildings.

Our hotel, JM Marriot is located at the side road of Caspian Sea, and faced with another fancy hotel, Hilton, across a wide square which also is faced with the classic dignified building of the city office. From my room of 13th floor facing the Caspian Sea, I was able to see the whole central area of the city which looks well developed and fancy. Perhaps this scene represents the best and most developed area of Azerbaijan. Since we have many appointments during our 5 day stay here, we had no opportunity to look at much poorer areas of country side.

«Japanese Embassy»

Having settled in the hotel, we soon visited the Japanese embassy in the midst of the city. The embassy office was in the building which also accommodates Israel embassy. We were welcomed by Ambassador Tsuguo Takahashi and a visiting researcher, Mr. Toshihiro Katagiri. Ambassador Tsuguo Takahashi was trained as a Russia specialist in Japanese ministry of foreign affairs and has been a Consul General of Khabarovsk until September last year.

They gave us briefings on many basic aspects of Azerbaijan, including its geopolitical issues influenced by its geographical location, current domestic political situation, the results and comments on the presidential election of last year, oil and gas production and pipeline problems, attempts of the government for diversification of the industrial structure, attempts to identify certain years as promoting certain designated industries such as 2014 as the year of industrial development, 2013 as IT and space industries, 2012 as tourism, etc., problems of agriculture, problems of income differentials across regions and occupational groups, Azerbaijan's position on issues of Ukraine, namely its support to territorial integration, and weakness of manufacturing industry. Information on these topics has been highly useful for us to understand the country.

During the discussion following their presentation, we asked them to provide basic data of economic growth of Azerbaijan because economic data available for us tend to be diverse and we wanted to know a reliable data set which the Japanese embassy utilize, and the composition of the national assembly. They kindly have been offering to us a wrap up session in the final evening of our stay in Azerbaijan, at the residence of Ambassador Tsuguo Takahashi.

【July 16.】

《 Venture business leader》

In the morning of July 16, we met Mr. Farid Ismayilzade, CEO of Golden Pay, a fast growing venture company of e-commerce. This meeting was arranged by Ms. Mai Nomura.

Mr. Ismayilzade was born 1984 in Baku, looks quite matured for his age of 30. He finished high-school at age of 15. He studied international politics in a Turkey university in Ankara, but was tired of it and changed his subject to study IT. He then joined San Jose university in California and worked in Silicon Valley. He also was deeply involved in ISEC, international students activities, and became vice president of ISEC in NY.

When he met minister of ICT of Azerbaijan who visited California, the minister strongly recommended him to return to Azerbaijan to promote ICT industry in Azerbaijan. In fall of 2006, he returned Azerbaijan because of family reason. He saw that people were interested in IT but only to the extent to enjoy Face Book and not really make use of IT for their merit of business. He finally returned home in Feb 2007 to start IT based business. He started up his company, “Goldpay.” His e-commerce business grew twice or three times every year. Currently his company earns 70 million MNT(Monat) every month. He plans to IPO in October 2014.

Asked if the Japanese investor could buy shares of his company, he replied that for the time being, he would only like to sell the shares to Azerbaijan investors since he wants to give an impact to Azerbaijan society and give people confidence that they can change the society by their own talents and efforts. He realizes that a large part of Azerbaijan industry is controlled and dominated by state related people. He understands the reasons for it and even acknowledges certain legitimate roles for it. He, however, does not care this. Because he is pioneering to develop market opportunities in a “blue Ocean” of ICT industries.

《SOCAR》

Later in the morning, we visited the headquarters of SOCAR, state owned oil company of Azerbaijan. Deputy vice president, Mr. Vitality Baylarbayov welcomed us. This meeting was arranged with the help of Azerbaijan embassy in Japan.

He gave us systematic and somewhat detailed explanations about the history of oil industry of Azerbaijan for the last century and more closely the rapid development of the recent years, comparing with experiences of Russian, African and North European oil productions.

Asked why Azerbaijan oil is sold almost solely to Italy in Europe and at rather extraordinarily high prices relative to the international standard, he emphasized that the quality of Azerbaijan oil is of light and high quality, and Italy appreciates Azerbaijan offer of a large bulk for a long period so that they pay a high price in addition to the facts that oil prices in Italy are higher than many countries if not Japan.

He then went on to explain the role of SOFAZ, state oil fund of Azerbaijan. Approximately 80 to 85 percent of oil revenues go to SOFAZ so that the money can be used for various important purposes particularly to diversify Azerbaijan industrial structure to prepare for the future when net revenues from oil and gas will satiate or even to decline which already partially takes place now.

Asked about the cost of running the organization of SOCAR, he mentioned that the company has been streamlining the cost structure symbolically as symbolized by major reductions of its employees, say, 80 000 in 2012 down to 65 000 in 2014. On the question of the presence of China, while he acknowledges Chinese students in the Oil Academy, but also points to increasing presence of Vietnamese, and also the important contribution of Itoh-Chu trading company as a cooperative investor.

«ADA University»

ADA University stands for Azerbaijan Diplomatic Academy University. This was built originally in 2006 as Azerbaijan Diplomatic Academy for the purpose of training diplomats and international specialists to meet the rapidly expanding demand for capable diplomats with the rapid development of international roles of Azerbaijan, which now has 90 embassies in the world.

With further development of Azerbaijan particularly of its economy, the need for capable human talents has been increasing ever more. To meet such a need, this academy has been expanded in 2014 to be an university encompassing not only the field of diplomacy

but also business, IT, engineering and education. The need for establishing a future oriented excellent university was seen urgent also partly because of the deterioration of the quality and quality of higher education in Azerbaijan as well in the wake of the chaotic situation following Perestroika in Soviet Union. The government set aside a large budget to construct the campus of this university in three stages which will be completed in 2018.

On the part of the brand new campus, we were welcomed by Vice Rector, Mr. Fariz Ismailzade, Mr. Huseyov and an economist Mr. Jamilov Rustam. Mr. Ismailzade took initiative to explain many important topics systematically and persuasively. In explaining why Azerbaijan needs to foster capable human resources, he described major issues Azerbaijan faced where able talents are keenly needed to tackle and solve the issues. First, Azerbaijan economy badly needs to be diversified in such areas as IT, tourism, agriculture, transportation. Second, Azerbaijan is surrounded by major powers as Russia and Iran and confronted with Armenia. Conflicts and problems in Ukraine and Georgia are only next to them. Third, the country is rapidly transforming to the direction of civil society and democracy. Fourth, Azerbaijan's international roles have been and will be growing as exemplified by its contribution as UN security council member for 2011 to 2013 as the first ex-Soviet Union state. It is expanding investments to many countries such as Georgia, Serbia, Moldova, Ukraine, Turkey. Fifth, Azerbaijan tries to build a peaceful and harmonious multi-national and religious society unlike many of neighboring countries. All these challenges need capable human resources to tackle and solve.

He turned on to a senior American advisor who used to be a high rank government officer and also an executive of a major oil company to give us additional comments. This person (Jack is his first name) emphasized the ongoing dramatic changes in the global landscape of geopolitics arising chiefly due to the development of rail roads which combine eventually China and London running through Eurasian Continent. Azerbaijan is located at exactly at the central pivoting point of this rail road's network. The development of transportation network of Azerbaijan has this great meaning both economically and politically. This is almost a contemporary development of the ancient "silk roads" which provides cheaper and faster ground transportation than long-used sea route transportation.

I asked several questions to stimulate and further discussions: pipe line issues,

particularly why Russia seems to permit BTC pipe line which is apparently against the interest of Russia, democracy in Azerbaijan and election issues, the influence of the tragic event of Duglag-Qarabag in the minds of people.

On the question of the pipelines, Mr.Fariz Ismailzade explained in detail from the destructive economic chaos in Azerbaijan in the wake of Perestroika of Soviet Union. Since Soviet Union designated each union state to specialize in its monoculture economy and planned to take advantage of the inter-dependence of them to run the total economy of Soviet Union, the collapse of the Soviet Union meant that each union state loses all but their own monoculture product. Destructive uncertainty overwhelmed the union state economy, and Azerbaijan was just one of them and suffered from a long lasting desperate depression and hyper inflation. President Heydar Aliev tried hard to stabilize the economy, and the most important strategy was to develop oil industry by inviting investments of Western major oil companies.

The contracts President Aliev reached with these companies were severely condemned by Russia. However, President Aliev seriously and skillfully steered out of this difficulty and finally completed the BTC pipe line. This miraculous achievement could have been attained largely because Soviet Union has been going through uncontrollable confusion for several years in the wake of Perestroika and probably not strong enough to stop, distract or disturb the project. The project could perhaps not have been accomplished in other timings.

My question of democracy relates to the comment of the American ambassador who reportedly have said that Azerbaijan may well have an issue like Ukraine in the future which stirred an anger among Azerbaijan people. Mr. Ismailzade emphasized that for Azerbaijan people who still suffers from the aftermath of civil war and economic chaos, issues like reduction of poverty and unemployment, development of infra-structure are much more important. Although democracy is important, but it takes time until people put it high priority.

Azerbaijan introduced recently on line IT services to many public office services as a means to reduce corruption and nepotism. This is a small but basic step forward to promote democracy. This is because through on line services, people can get the results within a very short period of time like half an hour for simply job or at most a couple of days for a complicated task so that the room for corruption or nepotism to sneak in is

extremely limited.

Responding to a follow-up question as to how it works in the case of police service, he explained the case of traffic rule violation. Police fining is made completely transparent without losing police incentives because 25 percent of all fines are spent to increase police wages. A very clever idea! He added that important for Azerbaijan to learn to change the business climate and people's mind set for business oriented.

On the question of the trauma of the tragic war of Nagorno-Karabagh, he acknowledged the trauma remained as non-amendable wounds in minds of people. Many people lost fathers, brothers and sons in the war against Russian and Armenian troops. Further more, almost a million people lost houses and strived to live without foods, and suffered from illness. But they knew that they had to look forward to live for the future. Under the geopolitical circumstances of being surrounded by major powers and hostile countries, this is the reality. They admitted the reality and worked hard to build the future. That is how Azerbaijan people are.

«Discussion on industrial diversification»

We then went on to discuss issues of industrial diversification. Mr. Fariz Ismailzade explained the current plans and efforts for industrial diversification in five areas. They are tourism, agriculture, IT sector, transportation and education.

On tourism, he emphasized that taking the year of 2012 alone, five 5-star hotels have been opened including Hilton and Jumeirah, in which we are staying. In 2014, 5-star ski resort will open. Tourism institute has been established to train specialized high-skill personnels. Plan to change the Visa regime to make it close to that of Dubai.

On agriculture, Azerbaijan thinks agriculture is extremely important industry both in terms of food security and the single largest industry to absorb employment. Currently agriculture provides 40% of employment opportunities. The government provides necessary subsidies to replace old and worn out ware houses and farming machines which have been operative since Soviet Union era.

On IT industry, Azerbaijan needs to learn from forerunners like SAMSUNG and SONY which develop their business here. We set up IT university to train engineers and other

necessary human resources. We build IT techno parks and data centers to develop IT industry and society.

On transportation, we want to make Azerbaijan as a global transportation hub. The construction of railroads at missing links we discussed earlier is steadily progressing. Azerbaijan will be once again an important pivoting point of the current and future “silk road.” To meet the challenge we work hard to build railroads at our missing links and also develop ports for more efficient and high load shipping transportation across Caspian sea.

Finally, education. The matter of importance is to obtain and secure highly qualified teachers. We try as much as possible to invite excellent visiting professors from all over the world. Also inviting back young Azerbaijan scholars who obtained Ph.D. from center of excellence in the US and Europe.

All these are the building blocs for Azerbaijan strategy for diversifying industrial structure to perpetuate economic growth and well being of Azerbaijan. The explanation of Mr. Fariz Ismailzade has been extra-ordinarily systematic, articulate and convincing. We learned a great deal from our discussions at ADA University.

【July 17, Thursday】

《The Central Bank of the Republic of Azerbaijan》

The office we visited was the research and development division of the central bank. Mr. Armadov Vulgar Ramin welcomed us. This meeting was arranged by Ms. Mai Nomura. When we sat around a large table of a conference room, Mr. Ramin started his speech explaining about the basic structure of Azerbaijan economy, saying out of approx. 70 billion USD GDP, 40 % is from oil and 54% from non-oil sector. Out of the non-oil sector contribution, 20% is tangible such as manufacturing goods, and 80% is from non-tangible activities such as construction and services. Government budget is 1/3 of GDP. Azerbaijan currency MNT is pegged to USD. Azerbaijan has 11 billion USD reserve. SOFAZ, the state oil fund has about 35~36 billion MNT. Interest rate is high: consumer loans are with 20~25%, while corporate sector's interest rate is 7~8 %. High interest rate reflects high capital cost as well as paucity of attractive investment opportunities.

Paucity of attractive investment opportunities relate to low productivity of economic activities. Supply chain is not well organized. Highly skilled and intellectual specialists cannot find good opportunities to work. We need to develop efficiency of non-oil sector. The country aims at 2020 as a target year for development. Perhaps, people have a mind set to depend on oil resources. Countries which have shown remarkable growth often have no such resources such as Japan and Singapore. Arabs do not grow well perhaps because of their oil resources.

We suffered from hyper inflation for several years around the end of 1990s. Due to the devastation of the war, supply of goods dropped while demand was high and inflation was accelerated. Many people went to Soviet Union to work and send the remittance back home, which also kept the level of demand high.

Asked why stock exchange here is inactive, say market is open only 30~40 minutes a day, he pointed to the fact that government financial institutions have a large share, and also transparency in securities market needs a long way to go. Also, only 60 % of people have bank accounts meaning 40% of people do not use banks. His frank discussion gave explanations and also left an impression with us that there are many more areas which we do not understand or have no adequate information. Casual conversations at other places and with different people tend to suggest that financial sector is highly closed and non-transparent partly because it is dominated by ties of influential families and nepotism preferences, the question we need to explore further.

《Center for Economic and Social Development》

Chairman of the center, Mr. Vulgar Bayramov, and research economist, Mr. Vugar Rashimov kindly visited us at our hotel. In fact it was more convenient for them. This meeting was also arranged by Ms. Mai Nomura. Mr. Bayramov started his presentation as to explain how many research activities the CESD is promoting working with many international organizations. He then proceeded to describe the status quo of Azerbaijan economy emphasizing that the economy has been growing well due largely to good pace of oil production and sales, which is reflected in relative small amount of debt to the national economy.

Then he pointed to 5 challenges that Azerbaijan is faced. The first challenge is how to reduce unemployment or increase employment opportunities. The most powerful sector,

namely oil and gas, in fact does not absorb employment much.

Second challenge is liberalization of Azerbaijan economy. Since the end of 20th century, Azerbaijan kept applying for joining WTO, but so far unsuccessful. Trade liberalization has a good impact on Azerbaijan industry in a sense that it drives Azerbaijan industry more efficient and competitive.

Third challenge is geographical positioning. Azerbaijan is always caught in the middle of the fight between Moscow and European Union. Issues of Georgia, Ukraine, and Moldova always cast shadows of possible problems of Azerbaijan.

Fourth challenge is the problem of Nagorno-Karabagh. Because of this occupied area by Armenia, Azerbaijan has the same region but not a single market. This complexity discourages foreign direct investments into Azerbaijan.

Fifth is the problem of forecasting for the future. Oil production will continue to be high for several years but will begin to decline from, say 2017. Natural gas, on the other hand, will increase production since 2018. The gas production is assessed to continue good pace for some years, but the revenue from gas is much smaller than oil. Therefore, we need to obtain stable income by diversifying the industrial structure.

Asked why interest rate is high in Azerbaijan, he said that profit rates of Azerbaijan companies are high and also added that Azerbaijan banks are rated not quite high enough to borrow money from foreign funds that may also bring interest rates high.

He emphasized the need to diversify industrial structure by fostering such industries as agriculture, tourism, IT and transportation in order to maintain stable national income flows when revenues from oil and gas production will satiate and diminish in the future. This concern and strategic directions seem to be well shared in various sections of policy experts.

«Ata Bank and Bank Technique OJSC»

Two experts kindly visited our hotel to share information from the two commercial banks. From Ata Bank, Mr. Sanan Mahmudov, Director of marketing department, and from Bank Technique OJSC, Mr. Aashad Karimov, head of strategic planning.

Mr. Karimov started discussion by explaining the menu of operation of his bank, and Mr. Mahmudov emphasized that reduction of unpaid loans is important. They agree that diversifying industrial structure is important. They also pointed to an important issue of regional differentials. Due to urbanization, 90% of employment is concentrated in the greater Baku area.

Such regional cities like Sheki, Janza, and Gabela remain undeveloped for a decade. President Aliev emphasized in his speech that banks should focus more on small and medium size enterprises and provide them with credit loans. The central bank is changing also to reduce risky credits.

Commercial banks have to live up with rapid technological changes such as proliferation of e-commerce and electro banking. Oil and gas resources will deplete in the future, and we need to get rid of “oil curse,” which oil rich countries are trapped. Government established entrepreneurial fund several years ago which spends money on new ideas and targeted industry. We hear that much of potentials is not exploited in agriculture and many other industries.

Geographical stratification is also important. City like Baku should be the center for financial services like Singapore or Dubai. Visa regime also needs to change. 20% of our land is occupied by Armenians. We need to be more careful as to who to give Visas. Asked whether foreign entrepreneurs should work with local partner or not, both of them answered that it is imperative to work with local partners for various reasons.

«Center for Strategic Studies under the President of Azerbaijan»

We were welcomed by chairman of the center, Mr. Farhad Mamadov, and several of his staff. He first explained main functions of the center, namely, thinking(analysis) and doing(policy making). The center focuses on five main areas, namely, macro economic analysis, globalization, economic systems, foreign trade, and domestic issues.

He started his remark quoting “Abenomics” consisting of three arrows, evaluating that it has been successful in the sense that inflation is beginning and 2% economic growth seems to be achieved. Likewise, Azerbaijan has met the first challenge of attaining economic growth. It succeeded in the sense it attained historically fastest growth for the

last decade which is second fastest in the world owing much to oil and gas production. Second challenge was to bypass “middle income trap,” which was attained, and the third challenge is to bypass “Japanese style trap” to suffer from “lost decades,” which Azerbaijan succeeded.

The real challenge for Azerbaijan is to diversify its industrial structure. The 2011 GDP tells us that the growth rate of non-oil sector outperformed the oil sector i.e: 10% vs 1%. The real challenge is to overcome the curse of resource rich country.

There are four main areas we target to get rid of the curse of oil richness. Great circles: There are 3 main great circles in the world, Trans-Atlantic, ex-Soviet Union, and South and East Asia including China. We achieved a partial victory by completing BTC pipeline. In view of the fact that China wishes to connect London directly by such rail road. To do so, we need to build a major port at the coast of Caspian Sea.

2. ICT and Space: We launched the first satellite in 2013 and plan to launch telecom satellite in 2016 and 2017. Japanese companies are interested in this project. This project consists of 3 states: constructing, projecting and controlling satellite. This is a value chain of creating ideas, financing and constructing and after caring utilizing foreign partners.

3. Agriculture: Azerbaijan is undergoing a rapid shift of demographic structure from rural to urban. Food security is the basic need. Economic security depends on food security. Agriculture is also a chain of value creation: developing seeds, fertilizer, agricultural production and to distribution.

4. Construction: construction is very important to prepare infra-structure for inviting foreign direct investment.

Other staff members joined discussion in emphasizing the importance of international networking of industries and global free market arrangements such as TPP.

【July 18 Friday: 】

《AZPROMO》

When we visit the office, many officials showed up and finally Mr. Rufat Mamadov, President, came in. He took the initiative to explain and then Mr. Ilham Aliyev, Deputy Executive Director of AIC(Azerbaijan Investment Company) explained about the business of and Mr.Kamran Eyyubov, Specialist of business support, Sumgait Chemical Industrial Park, LLC explained about the Sumgayit Chemical Industrial Park. AZPROMO is promoting industrial growth, trade and productivity increase. This is a sort of Azerbaijan counterpart of Japanese JETRO, Japan External Trade Promoting Organization.

First, Mr. Mamadov explained using the well prepared power point pictures and the hard copy hand-outs the 23 year history of Azerbaijan and emphasized recent economic growth which accompanied significant change of business climate and development of private sector. He also explained the problem of Nagorno Karabav, the development of oil pipe lines and the plan for gas pipe lines, railway network which connects to inter continental traffic system.

He emphasized the remarkable changes of Azerbaijan in the last decade which is praised by the World Bank as “the most reformist economy.” Ten years ago, almost all of the industries were state owned, while 80% are private nowadays. You need to spend only 2 days to get Visas, 10 to 15 minutes to register your company, you can pay taxes on line etc. He said that equal treatment is provided to foreign investor to get permission and registration. The government provides the vision for 2020 as a target for people to work for. Acknowledging the importance of industrial diversification, he hinted such industries as examples such as agriculture and food processing, IT network to connect all the households, space technology and industry of satellite production and launching, chemical and mechanical engineering and waste management.

Then, deputy president of AIC(Azerbaijan Investment Co) explained about the activities of AIC. AIC was established 8 years ago to promote industrial growth by means of investing public funds to targeted industries and companies which have good potentials for growth and technological innovations. His explanation was followed by Mr. Mr.Kamran Eyyubov, a specialist of business support of Sumgait chemical industrial park, who introduced industrial activities promoted in the chemical park. Asked as to what kind of chemical products they promote, he answered that products near the end of the production chain which are in a highly competitive global market.

Having listened their presentations, some of the sonjuku members and myself asked questions. Being skeptical about the share of non-oil sector in GDP I asked the exact figure, they answered 57%. If it is indeed as much as 57%, one wonders why many experts in the country stresses the importance of industrial diversification. Others asked about the portfolio strategy of AIC, penetration of Chinese investment, the development of leasing business etc. This session was quite informative and useful.

«SOFAZ, State Oil Fund of Azerbaijan»

This meeting was scheduled in the last minute prior to our departure of the trip, and turned out to be the most informative and useful session. In a relatively narrow conference room of SOFAZ, several officials welcomed us, and finally Mr. Shahmar Movsumov, CEO joined us and started his talk.

Having introduced briefly about the face sheet information of Azerbaijan, he picked the issue of “natural resource curse” to explain the reason for establishing SOFAZ. He pointed to the fact that countries endowed with rich natural resources often lag behind other countries. Countries with no resources tend to grow fast as Japan. This paradox is called “natural resource curse.” This is also often described as “Dutch disease.” High competitiveness of the economy tends to appreciate the local currency which enriches lives of people while erodes exportability of the local products. Resource rich countries tend not develop.

President Heydar Aliyev knows this effect, and ordered to set up a commission to study the natural resource curse and means to avoid the curse. We studied the cases of various countries. Study of such examples suggested that we set up separate funds to use the revenue arising from the resources to avoid the undesirable macro economic consequences. In 1995, the State Fund was established with an endowment of 270 million USD. In 15 years it grew to be 110 billion USD, and currently the reserve is 38 billion USD and the rest is invested.

SOFAZ is run under highly strict rules and systems of governance which keeps transparency. Out of the revenue, a fairly large portion is carved out and transferred to the state budget which is used for various projects for national importance. For example, a such project like BTC pipe line, social projects to provide settlements for

refugees, scholarship to send 2000 students every year to 300 best universities in the world, project to build Baku-Tbilis rail-road which is scheduled to be completed by the end of 2014. When all the portions are completed, Asians can go to Paris directly by trains.

The stock of 58 billion USD can be invested, but 80% of portfolio should be invested to equities of fixed income. Our portfolio is quite conservative. The state does not wish to get big returns. What we make sure is that we always get positive returns even though returns were modest. Transparency is most important. The public can see all the information by home pages. Now 45 countries join this initiative to disclose information to investors. Our objectives are three: 1. macro economic stability, 2. inter-generational equity, 3 foster human capital.

Findings of our international research told us that such resource rich countries as Norway, Canada, NZ and Australia were successful, and most of middle east countries were failures. Japan is a good example of successful resourceless country.

When Mr. Shahmar Movsumov, visited Singapore, he asked if Singapore national fund discloses the critical information, they answered that they do not. If they do not disclose, no one knows what is going on. They apparently do not have obligation to the public for their transparency. In the case of Norway, when they committed a large loss, it was disclosed and the national assembly held hearings. In the process, however, public did not quite upset. They are mature and know what the market is all about. Currently, we have a portfolio of 80 percent for fixed income assets. It used to be 100 percent. As people become more matured and understand the real world, we may reduce the portion lower step by step.

On the question of transportation, on the shore of Caspian sea we are building a large port for ferries to connect to the other shore. Between Germany and Turkey, there exist 30km of vacancy of missing link. For East-West great railroads to be completed this missing link must be fulfilled. By the end of this year, we plan to test the whole path, and hope to start regular operation from 2015. In fact there exist 180km of unfinished links.

Education abroad is extremely important. We select best 300 universities of the world. Our young and energetic education minister set up education fund and launched new

education program by which we finance excellent foreign professors and encourage to promote Azerbaijan studies. The education minister issued the decree in 2013 on 10 year education strategy by which, for example, to change the current 11 years of elementary to high school system to 12 years. The strategy to innovate basic five aspects: 1. contents, 2. teachers, 3. management, particularly who bears responsibility, 4. infra structure of schools, 5. finance. In 15 years, SOFAZ will have revenue of 200 billion USD and can use 150 billion USD.

«Dinner Reception Offered by Ambassador Tsuguo Takahashi»

In the evening of July 18, we were invited to the residence of Japanese Ambassador Mr. Tsuguo Takahashi. His residence is a nice and gorgeous mansion in a cozy and tranquil residential area. He kindly offered us nice Japanese food which his skilled chef prepared for us. Since we have been missing Japanese food for a week, this was particularly delicious.

Ambassador Takahashi asked his staff to present the “home work” they prepared for us responding to our request a few days ago: comprehensive data on Azerbaijan economy and recent developments of politics. Information on these questions was highly useful.

While enjoying dinner we discussed many subjects. Among them was how to understand and evaluate Russia. Since Ambassador Tsuguo Takahashi and some of his staff have been trained in a so-called “Russian School” of Japan’s ministry of foreign affairs and had much experience of serving in Japanese offices of foreign affairs in Russia, discussion was quite enlightening and suggestive.

【July 19, Saturday: Sight Seeing】

«Upland Park and Alley of Martyrs»

The sun is shining strongly and it was already quite hot even though it was a morning. We arrived at Upland Park which is on a hill overlooking the bay of Baku. The scenery was beautiful. There was an alley on a part of the hill along which those Azerbaijan citizens who lost their lives by fighting bravely against Russian troop which invaded into Azerbaijan to suppress peoples’ demonstrations during the Duglag-Qarabag conflict in 1990. On the back wall of each coffin, photo portraits of those who died are held, which

solicit our imagination of the sad and bitter experience of the difficult times of this country shortly after the leaders declared independence.

«Icheri Sheher»

We walked through paths surrounded by very old walls and buildings which were built as early as 12th century. Some buildings were built during the rein of Persian dynasty and others were built under the influence of Ottoman empire. These valuable historic remains concentrate within the dual walls in the center of Baku city, and were registered as the World Heritage in 2000.

«Maiden Tower»

During our walk, we stopped by an old cylinder shaped stone tower. This is the famous “Maiden Tower” built also in the 12 century. This tower is famous for the story that a princess who was forced to marry lost her hopes to live and threw herself to Caspian sea from the top of the tower.

«The Palace of Shirvanshahs and Baths»

The ancient building complex built for a palace which has been renovated historically under the influences of Zoroastrians, Persians and Ottoman Empire and was registered as the first World Heritage of Azerbaijan. The trace of baths are carefully retained.

«The Ateshgyakh Fire-Worshippers»

As we approached the Baku airport toward the evening, we stopped by a temple of Zoroastrianism. The Zoroastrians who build this temple were expelled by the invasion of Moslems and escaped as far as West end of India. The Zoroastrianism which merged with influence of Hindu came back again later to this area. They returned to this area as a caravan and rebuild the temple. Currently, the remains do no longer work as a temple, but the fire itself continue to blaze with an uninterrupted supply of natural gas coming out of the ground.

【Some Observations】

«Development Dictatorship?»

Azerbaijan is a country which seems to be governed by a typical development dictatorship. Development dictatorship is seen many cases of developing countries which is successful in achieving rapid economic development while the government is led by somewhat of a dictator who does not care sufficiently democratic governance.

Azerbaijan recently materialized a phenomenal economic growth under the rein of President Ilham Aliyev although it almost solely depending upon its oil resources. This is no doubt a successful case for development. On the other hand, the current president is a son of his predecessor, President Heydar Aliyev and this succession of power appears from outside a kind of hereditary although President Ilham Aliyev was elected by “democratic” election.

However, in view of the fact that the hardship the state had faced such as the Duglag-Qarabag war and its aftermath, the strong and skillful leadership of President Heydar was necessary and welcomed by the population, his rein may not be simply lump summed as “dictatorship.” Since he knew much about the internal power games of Moscow as an experienced leader of KGB, he was able to avoid the fatal trouble that his predecessor President Abulfaz Elcibey was trapped in dealing with the ferocious political intent of Russia. President Heydar Aliyev also had an outstanding wisdom and implementing capability as to how to develop the country as seen in his way to handle international negotiations to settle oil developing project and to build a long pipe line to connect Azerbaijan to Western markets.

President Ilham Aliyev also has an excellent leadership not only to fully make use of the political asset of his father but also promote a comprehensive economic strategy to materialize economic growth and plans to try to perpetuate the continuous development of the country targeting toward the age after the abundant supplies of oil and gas resources. In this sense, the succession of political power from his father may not simply termed as hereditary.

Western observers and critiques cast skepticism about the “democracy” of the country. The fact that the overwhelming majority votes such as more than 90% is always secured by the president in the election may give rise to the question as to the fairness of the election, population is accepting it rather than troubled by painful internal struggles for

“democracy” as seen in neighboring countries. This is understandable particularly in view of the trauma of Duglag-Qarabag war of only 20 years ago which many people must be suffering still now. In this sense, the comment of Mr.Shahmar Movsumov that it takes time to realize democracy has a deep meaning.

«Oil and Gas Strategy»

President Heydar Aliyev prepared the ground on which the major oil international contract of 1994 was agreed by Azerbaijan,the US, European, and Russian oil majors in the last year of his life. This oil contract finally settled, if not completely, complicated and annoying geopolitical issues as symbolized by Duglag-Qarabag conflict and warfare which trapped Azerbaijan for several years since its declared independence.

While President Heydar Aliyev accepted the strong demand of Moscow to include Russian oil major to join the international consortium on the one hand, his son President Ilham Aliyev on the other hand somehow carried out to complete the long BTC oil pipeline which bypass Russia and goes through Gergia and Turkey to reach the shore of Mediterranean sea.

This routing of the pipeline is amazing particularly in view of the greedy and intimidating threat of Russia because this obviously has no merit to Russia and may well disturb the political and economic interest of Russia particularly in the sense of giving merit to antagonistic Georgia. Azerbaijan also promotes the pro-Western campaign as symbolized to join GUAM activities. Interesting is why Russia has been silent on such choices and actions of Azerbaijan. Is it because of skillful diplomatic steering father and son presidents of Aliyev? Or is it because of the timing of these actions when Russia was not quite able to step in? Or is it made possible by some implicit agreement or deals with Russia? Whatever the reasons, the choices and strategy pursued by presidents Aliyev undoubtedly contributed to the national interest of Azerbaijan greatly.

«Diversification of Industry»

In view of the fact that oil and gas resources will not be eternal, rather it will deplete perhaps in a few decades and will dry up eventually, diversifying industrial structure so that the Azerbaijan economy will not be so heavily dependent upon oil and gas resources before they begin to deplete significantly is imperative.

It appears the President Ilham Aliyev and his staff experts do understand this issue and work hard to diversify the industrial structure. Under the leadership of the president, government organizations and policy makers write up plans for industrial diversification. Many of such plans have much in common. Let me mention their common ideas.

Agriculture is viewed as an important sector partly because it provides many employment opportunities and the food security is critical for the country. Question is how to improve productivity and quality of agriculture by innovating kinds and quality of products, improving soil, developing fertilizer, modernizing cultivating machines, building more efficient transport and sales network etc.

Tourism is a critical industry. The long history, rich multi-cultural traditions, beautiful sceneries, multi-lingual talents of people can be great tourism resources when good hotels, efficient international and domestic transportation systems, convenient VISA system, and professional tourism services are provided.

Transportation has a strategic importance particularly if Azerbaijan can fully take advantage of its geographical positioning as a pivoting point of contemporary silk road connecting China to Europe on the ground. If this cross-continental route of railroads and shipping is completed going through Azerbaijan, this will bring about a huge income and merits to Azerbaijan. IT and Space industries are also strategically important because they have extensive spillover effects encompassing a broad range of related industries.

We have been at times under an impression that the data of status quo of these industries are rather diverse depending upon organizations or experts. Having the correct and common information on the reality is the first step to build and promote any strategy for develop such industries. Several experts gave a common comment that Azerbaijan tends to suffer from the “Dutch disease” of resource rich country, namely the weak incentive to work. Overcoming such a symptom is a real challenge.

Once the diversification of industries are successfully accomplished, Azerbaijan will present a great role model for mono-culture type resource rich developing economies of the world.

«Japan' s Relations with Azerbaijan»

From the viewpoint of Japan, Azerbaijan is an extremely interesting and important country. Interesting in the sense of its skillful diplomatic steering to survive and develop under highly difficult geo-political environment and managing to live peacefully with highly heterogeneous population within the country, and important in the sense that Japan can develop a friendly and helpful international network to support with each other in addition to secure supplies of oil and gas from Azerbaijan. To build such relations, Japan needs to understand Azerbaijan much more so that we can foster good and trustful relations with each other.