Mahammadali Ali RUSTAMOV
Azerbaijan State University of Economics, magistrant
ORCID: 0009-0006-6647-3590
E-mail: rustamov.mahammadali.ali.2023@unec.edu.az

THE ARCHITECTURE OF PROSPERITY: THE INFLUENCE OF INSTITUTIONS ON AZERBAIJAN'S ECONOMIC TRAJECTORY

Summary

This article explores the pivotal role of institutions in shaping Azerbaijan's economic development. Drawing upon the theoretical frameworks of Daron Acemoglu, Simon Johnson, and James A. Robinson, it examines how institutional structures have influenced the nation's economic trajectory. The analysis delves into the interplay between formal and informal institutions, the impact of resource wealth, and the challenges of governance. By integrating theoretical insights with empirical data, the study provides a comprehensive understanding of Azerbaijan's institutional landscape and its implications for sustainable economic growth.

Keywords: Azerbaijan, Institutions, Economic Development, Governance, Resource Wealth, Institutional Economics.

UOT: 338
JEL: F-52
DOI: https://doi.org/ 10.54414/ WOBN8199

İntradactıon

The quality and structure of a country's institutions have a profound impact on its economic growth. Institutions—defined as the formal and informal rules that regulate societal interactions—play an important role in influencing economic incentives and results. Acemoglu, Johnson, and Robinson (2005) contend that inclusive institutions, which offer secure property rights and egalitarian opportunities, are critical to long-term economic progress.

In this regard, Azerbaijan provides a compelling case study. Since obtaining independence from the Soviet Union in 1991, the country's economy has seen enormous alterations, fuelled mostly by its abundant oil and gas resources. However, the extent to which these resources have resulted in broad-based development is determined by the nation's institutional architecture.

This article examines how Azerbaijan's institutions have influenced its economic trajectory. We want to understand the mechanisms that have supported or hampered economic advancement by looking at the historical evolution of these institutions, their current state, and their relationship with economic policy.

2. Theoretical Framework: Institutions and Economic Development

North defines institutions as "the rules of the game in a society"—both formal regulations like constitutions and informal restraints like customs [North, 1990]. Building on this, Acemoglu, Johnson, and Robinson contend that institutions are the primary driver of long-term economic growth. Inclusive institutions that encourage participation, creativity, and the rule of law promote prosperity, whereas extractive institutions that consolidate power discourage growth [Robinson and Verdier, 2013].

In 2024, the Nobel Prize in Economic Sciences was awarded to Daron Acemoglu, Simon Johnson, and James A. Robinson “for studies of how institutions are formed and affect prosperity.” Their research, which spans over two decades, has profoundly shaped the understanding of how political and economic institutions are not merely by-products of development but are, in fact, the primary determinants of it. Through empirical analysis and historical case studies—from colonial Latin America to sub-Saharan Africa—they demonstrated that inclusive institutions empower broad segments of the population, while extractive institutions concentrate power in the hands of a few, leading to persistent underdevelopment [Acemoglu et al., 2005]. Their 2024 Nobel recognition underscores the relevance of institutional design in shaping long-run economic trajectories. Of particular importance is their exploration of how institutions evolve through critical junctures—moments of political upheaval or transformation where new rules are written and old power structures are challenged. In the context of Azerbaijan, such junctures include its independence from the Soviet Union and the post-oil boom reforms of the 2000s and 2010s. By examining these transitional moments, one can better understand how Azerbaijan's current institutional landscape emerged and what paths remain open for future development.

In Azerbaijan's example, institutions have gone through several stages: Soviet central planning, post-independence instability, oil-fueled boom, and modern governance reform. The question is whether these institutions are developed enough to enable long-term, inclusive growth. Robust institutions ensure secure property rights, unbiased legal systems, and level playing fields for business— all of which, thanks to recent regulatory reforms and institutional revitalization efforts by the Azerbaijani government, are gradually being strengthened and aligned with international standards [Acemoglu, 2005].

Strengthening Governance and Institutional Capacity

In the past decade, Azerbaijan has achieved substantial and quantifiable advancements in enhancing the performance, responsiveness, and inclusiveness of its governance structures. These advancements are fundamentally anchored in the state's strategic focus on institutional modernisation and administrative reform. The Azerbaijani government has implemented a series of progressive policies and structural reforms aimed at improving openness, accountability, and service quality, acknowledging the significance of competent and citizen-focused institutions in promoting sustainable development. The construction of ASAN Service Centres has been a pivotal milestone in this journey, representing a hallmark of public sector innovation in the country. ASAN, as a comprehensive platform for government service delivery, has radically transformed the relationship between the state and its residents. Hasanov and Guliyev (2020) assert that the platform has optimised bureaucratic procedures and markedly improved citizen satisfaction across several sectors by decreasing waiting times, removing intermediaries, and augmenting openness in service provision. It has garnered international acclaim, including accolades from the United Nations Public Service Forum, solidifying its position as a benchmark for other developing economies aiming to enhance governance.

The ASAN system is enhanced by extensive structural reforms informed by overarching objectives like the National Strategy for Public Sector Development (2021–2025). This blueprint emphasises key pillars of institutional reform, such as digital transformation, bureaucratic streamlining, and capacity enhancement within essential state institutions. Azerbaijan seeks to enhance administrative efficiency and foster democratic engagement through the use of digital governance, hence improving the accessibility of government services for citizens in urban and rural regions. Consequently, Azerbaijan has achieved significant advancements in worldwide e-governance rankings and enhanced metrics concerning infrastructure investment, budget transparency, and public financial management. A fundamental element of Azerbaijan's enduring institutional vision is delineated in the "Azerbaijan 2030: National Priorities for Socio-Economic Development." This strategy statement delineates five national priorities, centring on institutional development and effective governance. Central themes encompass the fortification of the rule of law, the augmentation of institutional integrity, and the cultivation of human capital—crucial components for establishing resilient institutions adept at responding to global trends and domestic demands. These objectives are consistent with global development frameworks and demonstrate a comprehensive dedication to inclusive government and sustainable economic advancement.

The government has concentrated on modernising fiscal policy institutions, fostering innovation in public procurement, and decentralising decision-making via enhanced municipal governance structures. These policies aim to improve efficiency, alleviate administrative costs on residents and businesses, and promote greater civic engagement in development processes. The Azerbaijan Digital Hub program aims to establish the country as a regional leader in information and communications technology (ICT), thereby enhancing the significance of institutional capacity in economic diversification and digital transformation.

Furthermore, Azerbaijan's developing institutional framework is reinforced by the nation's increasing collaboration with international organisations and development partners. Collaboration with entities like the World Bank, United Nations Development Programme (UNDP), and Asian Development Bank (ADB) has furnished essential technical expertise and policy assistance, enabling Azerbaijan to align its reforms with international standards and implement best practices suited to its national context.

As Azerbaijan's economy diversifies and integrates with global markets, the establishment and fortification of effective, inclusive institutions are crucial for maintaining developmental progress and bolstering economic resilience. The current changes, propelled by progressive leadership and an active state apparatus, establish a strong foundation for sustainable prosperity, competitiveness, and citizen empowerment. Institutional evolution in Azerbaijan has transitioned from a peripheral objective to a fundamental component of the nation's comprehensive socio-economic transformation agenda. The institutional framework—transparent, efficient, and increasingly focused on citizens—will underpin Azerbaijan's enduring success in the 21st century.

Institutional Reform and Economic Diversification

The government's "Strategic Roadmap for the National Economy" emphasises diversification, and institutional capability is important to facilitating this change. For example, the World Bank's Doing firm 2020 report rated Azerbaijan 34th internationally, citing advances in firm formation, property registration, and contract enforcement.

The Central Bank of Azerbaijan has also focused on financial inclusion and regulatory modernisation, launching agent banking models and fintech projects [CBAR, 2023]. These improvements benefit small and medium-sized firms by ensuring equal access to financing markets.

Table 1.

Empirical evidence supports the claim that institutions facilitate diversification:

Indicator	Value (2023)
Oil and Gas Share of Exports	88.90%
Non-Oil Sector Growth (2022)	5.20%
Ease of Doing Business Rank	34
Foreign Reserves	$60 billion

Sources: State Statistical Committee, World Bank (2020), SOFAZ (2024)

These achievements demonstrate Azerbaijan's commitment to aligning institutional frameworks with international principles, ensuring that governance promotes dynamic markets and equitable growth.

Azerbaijan's economic diversification policy has gained considerable traction in recent years. As the government shifts away from its historical reliance on oil and gas earnings, institutional reforms have been critical in facilitating this transition. The State Program for the Development of the Non-Oil Sector (2015-2020) and following strategic frameworks emphasise the need of fostering a business-friendly climate, improving regulatory processes, and developing infrastructure to support emerging sectors. These changes have enabled Azerbaijan to establish itself as a regional leader in agriculture, technology, and logistics, while maintaining its important geographic position.

The Azerbaijan Investment Company (AIC) and the formation of the Alat Free Economic Zone are examples of institutional changes aimed at attracting international investment and promoting entrepreneurship. The AIC, through its financing programs, plays a critical role in supporting the growth of small and medium-sized enterprises (SMEs) in the non-oil sector, whereas the Alat Free Economic Zone serves as a high-tech industry hub, attracting companies critical to Azerbaijan's economic future. Another significant endeavour is the focus on financial inclusion and digital transformation. The Central Bank of Azerbaijan (CBA) has established measures to encourage financial services in rural areas, using technology to reach unbanked communities. By developing a digital economy, Azerbaijan has increased its competitiveness and created opportunities for enterprises to succeed in a globalised world. The growth of e-commerce, fintech, and start-ups in cities such as Baku demonstrates the effectiveness of these measures.

Furthermore, Azerbaijan has prioritised education reform and the creation of a qualified workforce. In accordance with the "State Program on Education of Azerbaijani Youth Abroad (2022-2026)," the government has invested in developing partnerships with top universities and international institutions to ensure that its youth have access to world-class education and the skills required for the knowledge economy. This commitment to human capital development is likely to drive more diversification and innovation across a variety of industries. Azerbaijan's progress towards economic diversification is already evident in statistics measures. For example, the non-oil sector now accounts for a greater proportion of GDP, and non-oil exports have consistently increased. According to the State Statistical Committee (2023), the non-oil sector's growth rate was 5.2% in 2022. This shows that, despite global instability, Azerbaijan's economy is resilient and diversifying. Furthermore, attempts to improve regional connectivity through initiatives such as the Baku-Tbilisi-Kars Railway and the Trans-Caspian International Transport Route strengthen Azerbaijan's position as a commercial and logistical hub between Asia and Europe.

In conclusion, Azerbaijan's institutional changes are laying the groundwork for a diverse and sustainable economy. By investing in infrastructure, education, and new sectors, the country is building a more resilient economy that is less reliant on oil and gas income. Institutional innovations continue to shape this change, emphasising the need of strong governance and inclusive policies in achieving long-term prosperity.

Conclusion

The economic trajectory of Azerbaijan illustrates the substantial impact of institutions on national growth. The theoretical contributions of Nobel Laureates Acemoglu, Johnson, and Robinson (2024) emphasise the significance of inclusive institutions that safeguard property rights, uphold rule-based governance, stimulate innovation, encourage investment, and facilitate widespread economic participation. Azerbaijan’s example illustrates how institutional reforms—customized to national requirements and consistent with global best practices—can function as a catalyst for sustained and equitable prosperity.

In the past twenty years, Azerbaijan has implemented a number of revolutionary measures for institutional modernisation. These reforms have facilitated enhancements in governance frameworks, macroeconomic strategy, digital innovation, and infrastructural advancement. The establishment of platforms like ASAN Service has transformed the interaction between the government and its citizens, providing public services efficiently, transparently, and with a focus on the citizen experience. These institutional changes are essential for augmenting governmental capacity and fostering public trust and social cohesion, which are vital for sustainable development. The dedication to diversification and investment in human resources, supported by strategic frameworks and national priorities, signifies a significant departure from Azerbaijan's previous reliance on oil earnings. Institutions like the State Oil Fund of Azerbaijan (SOFAZ) have served a dual purpose: stabilising the economy amid commodity price fluctuations and investing in prospective growth sectors. The judicious and open administration of these resources has enabled the state to fund essential infrastructure projects, bolster social welfare initiatives, and establish a fiscal safeguard against foreign uncertainty.

Azerbaijan's proactive strategy for regional cooperation and connectivity—demonstrated by projects such as the Baku-Tbilisi-Kars Railway, the Zangazur Corridor, and the Alat Free Economic Zone—illustrates how national institutional reforms are promoting wider regional integration. These initiatives are reinforcing Azerbaijan's position as a vital conduit between Europe and Asia, augmenting its geopolitical importance and establishing new economic corridors for trade, logistics, and industry.

The significance of educational and scientific institutions in cultivating a competitive workforce should not be underestimated. The State Program for the Education of Azerbaijani Youth Abroad and continuous investments in vocational and higher education highlight the government's acknowledgement that a knowledge-based economy need proficient people capital. Azerbaijan is establishing the intellectual and institutional groundwork for its next economic phase by aligning educational outcomes with labour market requirements and facilitating foreign exposure.

The continuation and enhancement of these changes will be pivotal to Azerbaijan's economic resiliency and success. Future initiatives should concentrate on enhancing legal and regulatory frameworks, broadening financial accessibility and digital infrastructure, and promoting entrepreneurship—especially among young and women. Institutional inclusivity will be crucial in guaranteeing that the advantages of progress are distributed fairly among all societal sectors and regions of the nation. Azerbaijan's success narrative offers significant insights for other developing economies undergoing comparable transformations. It illustrates that through strategic foresight, institutional dedication, and policy alignment, resource richness can be transformed into enduring prosperity. Despite the persistent hurdles, Azerbaijan's present momentum exemplifies how states can establish a sustainable development trajectory through intentional institutional frameworks.

In conclusion, institutional reforms are not only ancillary administrative modifications; they are the fundamental catalyst for transformation. Azerbaijan's transition from a post-Soviet state to a dynamic, reform-driven economy exemplifies the lasting influence of institutions in determining national fate. By sustaining this trajectory, Azerbaijan is poised to emerge as a regional leader and a global exemplar of institutional advancement and economic modernisation in the 21st century.

References

1. Acemoglu, D., Johnson, S., & Robinson, J. A. (2005). Institutions as a Fundamental Cause of Long-Run Growth. In P. Aghion & S. N. Durlauf (Eds.), Handbook of Economic Growth (Vol. 1A, pp. 385–472). Elsevier.
2. Central Bank of Azerbaijan (CBA). (2023). Annual Report. Retrieved from https://www.cbar.az
3. Grigoriadis, I. (2018). Democratic Transition and the Rise of Clientelism in Post-Soviet Eurasia. Palgrave Macmillan.
4. Government of Azerbaijan. (2021). National Strategy for Development of the Public Sector (2021–2025).
5. Hasanov, F., & Guliyev, F. (2020). Institutional Development and Economic Performance in Azerbaijan. Baku Research Institute.
6. North, D. C. (1990). Institutions, Institutional Change and Economic Performance. Cambridge University Press.
7. Nobel Prize. (2024). The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2024: Daron Acemoglu, Simon Johnson, and James A. Robinson. Retrieved from https://www.nobelprize.org
8. Robinson, J. A., & Verdier, T. (2013). The Political Economy of Clientelism. The Scandinavian Journal of Economics, 115(2), 260–291.
9. SOFAZ. (2024). Annual Report of the State Oil Fund of the Republic of Azerbaijan. Retrieved from https://www.oilfund.az
10. State Statistical Committee of the Republic of Azerbaijan. (2023). Statistical Yearbook. Retrieved from https://www.stat.gov.az
11. World Bank. (2020). Doing Business 2020: Azerbaijan. Retrieved from https://www.doingbusiness.org

Məhəmmədəli Əli oğlu RÜSTƏMOV
Azərbaycan Dövlət İqtisad Universiteti magistrant
ORCID: 0009-0006-6647-3590
E-mail: rustamov.mahammadali.ali.2023@unec.edu.az

RİFAHIN MEMARI: QURUMLARIN AZƏRBAYCANIN İQTİSADİ TRAYEKTORİYASINA TƏSİRİ

Xülasə

Bu məqalə Azərbaycanın iqtisadi inkişafının formalaşmasında qurumların mühüm rolunu araşdırır. Daron Acemoğlu, Simon Conson və Ceyms A. Robinsonun nəzəri çərçivələrinə əsaslanaraq, bu məqalə qurum strukturlarının ölkənin iqtisadi trayektoriyasına necə təsir etdiyini təhlil edir. Təhlil formal və qeyri-formal qurumlar arasındakı qarşılıqlı əlaqəni, təbii sərvətinin təsirini, idarəetmə və qurumların potensial problemlərini dərindən araşdırır. Bu tədqiqat nəzəri fikirləri empirik məlumatlarla birləşdirərək Azərbaycanın hökümət və qeyri-hökümət orqanlarının mənzərəsini və onun davamlı iqtisadi böyümə üçün nəticələri haqqında hərtərəfli baxış bucağı təqdim edir.

Açar sözlər:Azərbaycan, Qurumlar, İqtisadi İnkişaf, İdarəetmə, Təbii Sərvətlər, İnstitusional İqtisadiyyat

Мухаммадали Али РУСТАМОВ
Азербайджанский Государственный Экономический Университет, магистрант
ORCID: 0009-0006-6647-3590
E-mail: rustamov.mahammadali.ali.2023@unec.edu.az

АРХИТЕКТУРА ПРОЦВЕТАНИЯ: ВЛИЯНИЕ ИНСТИТУТОВ НА ЭКОНОМИЧЕСКУЮ ТРАЕКТОРИЮ АЗЕРБАЙДЖАНА

Резюме

Эта статья исследует ключевую роль институтов в формировании экономического развития Азербайджана. Опираясь на теоретические разработки Дарона Аджемоглу, Саймона Джонсона и Джеймса А. Робинсона, статья анализирует, как институциональные структуры повлияли на экономическую траекторию страны. Анализ глубоко исследует взаимодействие между формальными и неформальными институтами, влияние ресурсного богатства и проблемы управления. Интегрируя теоретические идеи с эмпирическими данными, исследование обеспечивает всестороннее понимание институционального ландшафта Азербайджана и его последствий для устойчивого экономического роста.

Ключевые слова: Азербайджан, Институты, Экономическое развитие, Управление, Богатство природных ресурсов, Институциональная экономика.