

## The Main Structure and Directions of Diversification of the Economy of Azerbaijan

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*The economy of the Republic of Azerbaijan relies heavily on its natural resources, the main resource, it should be noted, is oil. The economic crisis that began in recent years, the fall in oil prices and the devaluation of the manat affected the economic processes in Azerbaijan. In 2012, the head of state signed a decree approving the Azerbaijan 2020: A Look into the Future Development Concept. After conducting a brief SWOT analysis of the economy of Azerbaijan, we understand that a deliberate policy to strengthen the oil sector for the development of the non-oil sector is a priority and direction for diversifying the national economy.*

*The main strategic view of the further development of the economy of Azerbaijan is the effective use of existing resources to achieve sustainable economic growth and high social well-being, creating conditions for the protection and defense of human rights and freedoms, and their active civic participation in the public life of the country.*

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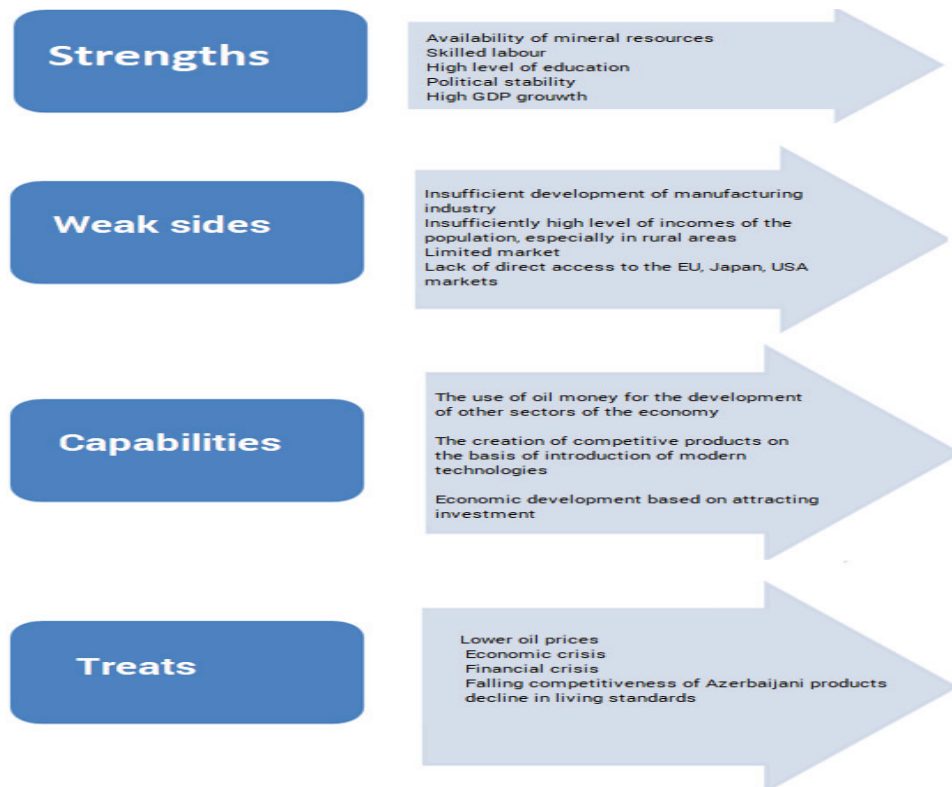
The economy of the Republic of Azerbaijan relies heavily on its natural resources, the main resource, it should be noted, is oil. The economic crisis that began in recent years, the fall in oil prices and the devaluation of the manat affected the economic processes in Azerbaijan. The second devaluation of the national currency - manat by 47.6% at the end of 2015, President of the Republic of Azerbaijan Ilham Aliyev referred to the program step, noting the main tasks facing the structures responsible for the development of a number of sectors of the Azerbaijani economy [www.president.az, 2018]. Considering the current state of the country's economy, it is worth noting that several years ago Azerbaijan began to form a single plan for the development of the non-oil sector, which will reduce the country's dependence on hydrocarbon resources.

In 2012, the head of state signed a decree approving the Azerbaijan 2020: A Look into the Future Development Concept [Концепция развития «Азербайджан 2020: взгляд в будущее», 2012]. The concept, which covers the period up to 2020, envisages strengthening the development of economic processes in the country's regions, improving

competitiveness, improving transport infrastructure, logistics, transit, transition to an information society, developing human capital, developing culture, institutional reforms and environmental protection. After conducting a brief SWOT analysis of the economy of Azerbaijan, we understand that a deliberate policy to strengthen the oil sector for the development of the non-oil sector is a priority and direction for diversifying the national economy.

According to this analysis, the prospects for the development of the Azerbaijani economy for its further development should be identified 6 main reasons that form the structure and action plan for their successful implementation.

- 1) Macroeconomic and political stability in the country;
- 2) Acceptable investment climate;
- 3) Availability of foreign exchange reserves to ensure financial independence in the country;
- 4) The presence of its own socio-economic model for the development of the non-oil sector;
- 5) The ability to expand the transit of Azerbaijani products to the world market;
- 6) Recognition of Azerbaijan as a reliable partner among the leading economic powers.



### **SWOT Analysis of Azerbaijan's economy**

These conditions allow us to develop an appropriate structure and further action plan for their effective use and functioning of the entire structure. The diversification of the economy of Azerbaijan has 5 main dimensions [Mehdiyev, 2005]:

- GDP diversification will mainly focus on the non-oil sector;
- Export diversification will be based on updating the share of innovative goods and services;
- Diversification of partners, based on the economies of developed countries;
- Diversification of institutional security, including natural capital, physical capital, human and institutional;
- Diversification of the regional economy.

According to the Concept "Azerbaijan 2020: A Look into the Future", the main directions of economic diversification were formed.

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The main goal of diversification of the national economy, as the head of state Ilham Aliyev noted, is the entry of Azerbaijan by 2020 into the number of countries with "high average income", eliminating dependence on hydrocarbon exports, strengthening its position and further progress among the countries with "high human development" classifications of the United Nations Development Program for Human Development.

Regarding economic development, the main goal is to preserve the status of Azerbaijan as a leader in the region and turn it into a country with a high competitiveness of the participant in the system of international economic relations. The Development Concept "Azerbaijan - 2020: A Look into the Future" is based on the economic model of export orientation and provides that increasing competitiveness and improving the structure of the economy will contribute to the growth of non-oil exports. The promotion and expansion of innovation, along with the rapid development of the non-oil industry, will create a fertile ground for the formation of a knowledge-based economy in the country.

The formation of a highly competitive economy is a priority for diversifying the economy of Azerbaijan. As noted earlier, the socio-economic model of Azerbaijan has a specific character. Azerbaijan seeks to form an economic model based on effective government regulation and mature market relations.

As experience shows, an effective economic system with global competitiveness can exist only in the conditions of market relations based on free competition and entrepreneurial activity. As noted in the concept, in the conditions of completion of the transition period and the formation of mature market relations in Azerbaijan, the functions of state regulation and management will be carried out mainly in the field of maintaining macro-economic stability, improving the business atmosphere and ensuring free competition in the country, creating favorable conditions for local and foreign investment, improving the

structure of the economy, the implementation of investment and large-scale infrastructure projects, effective organization of social protection of the population. In order to further increase the competitiveness of the economic system, a gradual transition from passive to active tax policy will be ensured, and measures taken to optimize tax rates will help create a favorable environment for business activities.

The improvement of the existing structure of oil production and the development of the non-oil sector is characterized as a direction in the construction, reconstruction and modernization of the systems for the production, transportation and processing of oil and gas. As part of the development of the economy, on the basis of the respective entities, it is also planned to build a complex consisting of oil, gas and petrochemical plants. The formation of the complex will make it possible to attract the necessary investments, comply with environmental standards, establish a technological chain before the production of final products, increase the competitiveness of finished products, and expand the volume and range of exports in this area.

In the period covered by the concept, in order to accelerate the use of alternative energy sources, it is planned to carry out work aimed at implementing incentive measures, developing the institutional environment, strengthening scientific and technological potential, continuing training of specialists and educating energy consumers. In 2009, the State Agency for Alternative and Renewable Energy Sources of Azerbaijan was created, which was actively engaged in the project on “Promoting the development of sustainable energy in Azerbaijan” in cooperation with UNDP. According to this agency, Azerbaijan has a wind power potential of about 4.5 thousand megawatts, biomass - 1.5 thousand megawatts, geothermal and geothermal energy - 800 megawatts, small hydroelectric power stations - 350 megawatts.[ [www.stat.gov.az](http://www.stat.gov.az)]

The development of regions through the creation of industrial enterprises, characterized by production based on local raw materials, the offer is not completed. There is a great potential for the development and construction of enterprises for the production of steel, oil and gas processing and petrochemical complexes. The main feature of the development of innovative technologies in industrial enterprises is the creation of industrial towns in the regions. From this point of view, the period covered by the concept sets the goal of creating a special economic zone, and organizing industrial towns for each economic region, taking into account their economic potential (including industrial towns for processing petrochemical products in Sumgait, recycling household waste in Balakhani and producing metal (aluminum) products in Ganja).

The formation of transport infrastructure will allow Azerbaijan to build trade relations with many countries both in the region and with distant countries.

Effective use of the strategic geographical location of the country allows you to create logistics in the regions of the Republic. The developed transport network and services make it possible to increase the attractiveness of the country as an industrial and investment center. The basis of this direction is the formation of the structure of the mechanism of management of local and foreign transportation. In this regard, it is planned to implement generalized measures reflecting a unified strategic approach for road, rail, water, air

and metro. In order to increase the competitiveness of the country in the international transport corridors Europe-Caucasus-Asia and North-South, measures will be taken to reduce the costs associated with cargo transportation through Azerbaijan, reduce the time spent on export-import operations and transit, simplify procedures. Discussion in Baku in January 2016 on the creation of the North-South project will allow to increase cargo transportation and passenger transportation from Russia to India through Azerbaijan. North-South is a multi-modal route for transporting passengers and cargo, with a total length of 7,200 kilometers from St. Petersburg to the port of Mumbai (Bombay). It was created to attract transit cargo flows from India, Iran and other countries of the Persian Gulf to the Russian territory (through the Caspian Sea) and further to Northern and Western Europe. The significance and possibilities of the corridor can be judged by the commodity market, which it can cover. According to forecasts, this figure is estimated at more than 20 million tons per year. In 2016, it is planned to complete the first phase of construction work, which provides for the construction of a railway eight kilometers long from Azerbaijani Astara to Iran's border, where a bridge across the Astara River will also be built.

In the coming years, the construction of the International Sea Trade Port in Alat will be completed, the fleet will be renewed and expanded, the transport and logistics center will be built, the Baku-BeyukKesik and Baku-Yalama railways will be restored and modernized, and the railway will be put into operation Baku-Tbilisi-Kars. At the same time, the necessary reconstruction will be carried out on the main ways of railway transport, the transportation fleet will be updated, the transition to the thrust system with alternating current will be provided on all routes.

The third, one of the important directions, is the use of information and communication technologies for the transition to an information society. The transition to the information community, through the development of ICT, the development of electronic services, the development of the activities of the National Center for Electronic Security, are the main ways to regulate this area. Using the capabilities of an artificial satellite allows you to increase annual income, thereby developing the non-oil sector. According to the data of the Ministry of Communications and High Technologies, starting from 2007 the income growth of the information and communication sector reaches 25-30% per year.

The fourth direction of diversification of the national economy is the development of human capital and social spheres. The main aspects of this direction are health issues, the formation of a modern education system and the improvement of the social protection system. The dynamic increase in the share of allocated[Abbasov,2005]

- on health care funds in gross domestic product and formation
- mechanisms to ensure rational and targeted use
- allocated funds

To enhance the material and technical base health are carried out construction, overhaul and reconstruction of medical institutions, equipping them with modern medical equipment, at the same time systematically continuing health care reforms. In accordance with the sustainable course of President IlhamAliyev, from the 2015 budget, 708.0 million

manat were allocated to health care spending or 6.4 percent more compared to 2014, 161.0 was spent on financing 13 state programs and activities in the health sector million manat. As a result of the approved “State Program on Improving Maternal and Child Health for 2014–2020,” maternal and infant mortality rates in the republic have decreased. So, if the coefficient of maternal death for every 100 thousand live births in 2006 was 34.2, then in 2013 this figure was 14.5. And the infant mortality rate per 1,000 live births in the respective years decreased from 11.9 to 10.8. Great work is underway on social protection and improving the living conditions of refugees. As the Minister of Finance Samir Sharifov noted at a meeting of the Cabinet of Ministers dedicated to the results of socio-economic development in 2015, 378.0 million manat was spent from the consolidated and state budgets as a whole to enhance social protection and improve the living conditions of refugees and internally displaced persons. The number of current and capital expenditures of the state budget - 228.0 million manat, from the budget of the State Oil Fund - 150.0 million manat.

Despite the economic and financial difficulties that our country faced in 2015,

Azerbaijan is not going to curtail projects in the development of the economic potential of the country’s regions, in particular, the agricultural sector of the economy, the use of human capital and intellectual property.

To achieve the above directions, Azerbaijan is developing and considering mechanisms for

the effective regulation and functioning of this structure. These mechanisms include the following:

- Improvement and formation of tax and customs mechanisms;
- Use of export support system;
- Increasing the capacity of the agricultural sector;
- Support for small and medium-sized businesses, through lending and the active participation of commercial banks;
- Stimulation of venture production;
- Development of production and services.

Thus, it should be noted that Azerbaijan is trying to create a structure to strengthen the economy by using oil and gas fields, exporting oil and improving petrochemical products to transform and transform the country from a raw material exporter to an exporter of finished petrochemical products, transportation services. Technology information and communication sector to create a strong, competitive economy.

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## **აზერბაიჯანის ეკონომიკის ძირითადი სტრუქტურა და მისი დივერსიფიკაციის მიმართულებები**

### ***ზუმრუდ ნაჰაფოვა***

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აზერბაიჯანის რესპუბლიკის ეკონომიკა დიდწილად ეყრდნობა მის ბუნებრივ რესურსებს. უნდა აღინიშნოს, რომ მისი მთავარი რესურსი არის ნავთობი. ბოლო წლების განმავლობაში დაწყებული ეკონომიკური კრიზისი, ნავთობის ფასების ვარდნა და მანათის დევალვაცია გავლენას ახდენდა აზერბაიჯანის ეკონომიკაზე. 2012 წელს სახელმწიფოს მეთაურმა ხელი მოაწერა ბრძანებულებას, რომლითაც დამტკიცდა პროგრამა „აზერბაიჯანი 2020“. შეიცვალა მომავლის განვითარების კონცეფცია. აზერბაიჯანის ეკონომიკის მოკლე SWOT ანალიზის ჩატარების შემდეგ ჩვენ გვესმის, რომ აუცილებელია ეროვნული ეკონომიკის დივერსიფიკაცია და ნავთობის სექტორის გაძლიერება არანავთობის სექტორის განვითარების მიზნით.

აზერბაიჯანის ეკონომიკის შემდგომი განვითარების მთავარი სტრატეგიული ხედვა არის არსებული რესურსების ეფექტიანი გამოყენება მდგრადი ეკონომიკური ზრდისა და მაღალი სოციალური კეთილდღეობის მისაღწევად.

უკანასკნელი წლების ეკონომიკურმა კრიზისმა, ფასების ვარდნამ ნავთობზე და მანათის დევალვაციამ, მკვეთრად უარყოფითი ზეგავლენა მოახდინა აზერბაიჯანის ეკონომიკაზე. შექმნილი სიტუაციიდან გამოსვლის მიზნით აზერბაიჯანის რესპუბლიკის პრეზიდენტმა ილჰამ ალიევმა მიიღო პროგრამა, რომელიც ითვალისწინებს ქვეყნის რეგიონებში ეკონომიკური პროცესების განვითარების გაძლიერებას, კონკურენტუნარიანობის ამაღლებას, სატრანსპორტო ინფრასტრუქტურის გაუმჯობესებას, ლოჯისტიკას, ტრანზიტს, ინფორმაციულ საზოგადოებაში გადასვლას, ადამიან-კაპიტალისა და კულტურის განვითარებას, ინსტიტუციონალურ რეფორმებს და გარემოს დაცვას.