

Non-oil Sector as a Competitive Factor of Azerbaijan's Economic Development

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The main task at the current stage is to accelerate the diversification of the economy, maintain high rates of development of the non-oil sector in future years, regardless of the level of oil revenues, increase competitiveness and expand export opportunities. The Development Concept "Azerbaijan-2021: a look into the future" is based on an export-oriented economic model 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 innovative activities, along with the rapid development of the non-oil industry, will create a favorable ground for the formation of a knowledge-based economy in the country.

Keywords: non-oil sector, foreign direct investment, GDP, tourism services sector, Azerbaijan

Introduction. Currently, Azerbaijan is one of the international centers of crossing important transport and communication routes from Asia to Europe. It has significant reserves of hydrocarbon raw materials, which makes the Republic a place of concentration of interests of various countries and regional associations and has a diverse impact on the activities of foreign companies. After gaining state independence (1991), a generally balanced structural economic policy was carried out in Azerbaijan, the main direction of which was to create a new model of development based on various forms of ownership and the formation of a competitive economy adapted to the conditions of globalization. The fuel and energy complex (FEC) is the basis of the country's economy, and its industries (especially oil and gas) occupy a significant place in the economic potential of the Republic (they account for about 23 % of foreign investment, 53 % of GDP). Therefore, the development of oil and gas fields in combination with the provision of rational energy consumption allowed us to give a new impetus to the structural balance of the economy and the development of non-oil industries.

In modern conditions, industrial and social infrastructure, transport communications are being created anew in Azerbaijan, the latest technologies and production lines are being purchased, new branches in the service sector are being created, the country is increasingly entering foreign commodity markets. At the same time, in order to become an active participant in the modern global economy and a subject of the new information society, it is necessary to diversify the entire economic system of the country and create modern industries that use innovative technologies. All of the above points to the high relevance of the issues that have become the subject of a study devoted to the study of the structural features and problems of the development of the Azerbaijani economy. Currently, the prospects for the development of resource spheres (including the Republic of Azerbaijan) are becoming increasingly important both for the world community as a whole and for individual countries, since the demands of a modern economy based on the production of high-tech products, technologies and services require the development of new competitive sectors of the economy to meet their needs.

Modern conditions dictate the need to reduce the dependence of the Republic of Azerbaijan on raw materials. The main task of the Azerbaijani economy is to prevent lagging behind the countries of the world in the process of development. First of all, this requires eliminating the existing dependence on hydrocarbon resources in the economy, maintaining such an important issue as preventing the threat of becoming a raw material appendage and a technological "outsider" of the world economy in the medium and long term. In the last decade, the factor of hydrocarbon exports has been the main driving force of economic growth, but the main task at the current stage is to achieve advanced development of the non-oil sector, increase the efficiency and competitiveness of the economy, and ensure its progress on an innovative basis. Building up the

non-oil sector Azerbaijan's current economic policy is primarily aimed at diversifying the economy, reducing dependence on the oil sector, and dynamic and sustainable development of the non-oil sector. Thus, according to the State Statistics Committee of the Republic of Azerbaijan, mineral fuel accounts for 92.7% of the country's total exports and today there is a clear upward trend. The predominant volumes are exports of mineral fuel, oil and its products (US \$ 20.2 or 56.04% of the value volumes of mineral exports), the main consumers of which were Italy, Indonesia, Thailand, Germany, Israel, France, India, Russia and the United States. However, Azerbaijan been strenuously increasing the non-oil sector for the past few years. Thanks to this, the country has avoided the "Dutch syndrome". The Republic of Azerbaijan is pursuing a policy of reorientation from the oil industry to the service sector. The share of the oil sector in GDP reached 56.6% (32.6 billion manats), having increased by 3% over the year. In Azerbaijan, in 2013, the volume of services amounted to 36.6% of GDP (17.4 billion manats). At the same time, the growth rate of services production (7.2%) was ahead of the indicator for the production of goods by 2.3% [5]. The results of the diversification policy are reflected in the development of the non-oil sector. Thus, the non-oil sector increased by 7.8% in 2012, and by 9.4% in 2013. In 2012, the growth in the non-oil industry was more than 11%, in agriculture-5.8%, in construction-20%, in ICT-11.8%, in the tourism sector-22.6%. According to the results of 5 months of 2013, the growth of the non-oil gross domestic product amounted to 10.5%, the non-oil industry about 9%. The main priority sectors in the non-oil sector in Azerbaijan are ICT, tourism, transport, energy, especially renewable and alternative, processing of agricultural products. International financial institutions emphasize the importance of the agricultural and tourism industries. Thus, 44% of the employed population of the country work in these areas (taking into account related industries). For this reason, consistent state programs are being implemented for the development of agriculture in the country, reforms are being carried out, and the latest technologies are being attracted. According to the official data, the production of agricultural products in the country in 2019 increased by 34% compared to 2010. And over the past three years, the growth rate of total agricultural products has averaged 2.5%.

The role of the tourism sector in the economy of Azerbaijan

The tourism sector is one of the most important sectors in the economy of Azerbaijan. The volume of tourist services provided in the country grew 3.2 times faster than the country's GDP (5.7% in 2015). By the end of 2018, it amounted to 1067.9 million manats, which was 18.2% higher than the previous year (891 million manats). According to the State Statistics Committee of Azerbaijan, the share of tourist services in GDP in 2018 was 2.05%. and 0.99% in 2021. The increasing role of the tourism sector of Azerbaijan is due to the development of international trade in services. Azerbaijan ranks 65th in the world in terms of turnover of services. The country's turnover is 94 and 48 times less than that of the United States and Germany, respectively. The role of Azerbaijan in the global turnover of services is only 0.15%. However, there is a positive growth of this indicator (in 2002 it was 0.05%), which is associated with an increase in the country's share in world exports of services. For large countries, the foreign trade turnover in the service sector is hundreds of billions of dollars. Thus, the volume of exports of services to the United States exceeds the same indicator of Azerbaijan by almost 150 times, the UK-by 66 times. Azerbaijan ranked 76th in the world in terms of services exports, however, we note a positive trend towards the growth of this indicator (in 2013, Azerbaijan's services exports increased by more than 1.5 times and amounted to 4.2 billion US dollars). The United States is the leader in the import of services, its volume exceeds Azerbaijan's imports by 61 times.

Germany is in second place, which imports services 40 times more than Azerbaijan. Nevertheless, the import of services of the analyzed country increased by 7 times compared to 2002, reaching now 7.2 billion US dollars and continues to grow. It should be noted that the country's import

of services exceeds exports by \$ 2.9 billion, which means that the country is a net importer of services. According to the report of the UN Conference on Trade and Development, if in 2002 the export of transport services of Azerbaijan accounted for more than half of all exports, today its share is only a fifth of all exports. At the same time, the volume of exported tourist services has increased significantly over the past 10 years (in 2002, tourism accounted for only 14% of all exports of services, and in 2012 – about 57%). The import of tourist services also increased significantly: in 2012, the indicator amounted to 8% of all imports of services of Azerbaijan, and in 2018 – more than 34%. It should be noted that the share of tourism in the export and import of services in Azerbaijan is higher than the global average (the share of the tourism sector in the world export of services is 25%, and in the import of services – 23%). For example, in the United States, the export of tourist services accounts for about 25% of all exported services, and imports account for 20%, in Germany 14 and 28%, respectively. Only in China, the share of imported services exceeds the same indicator of Azerbaijan: about 26% of all imports are accounted for by tourism. However, if in absolute terms the indicators of Azerbaijan are comparable with the leading countries, then in relative terms they are significantly inferior. It can be argued that there is a reorientation of export and import items of services to the tourism industry in Azerbaijan, in addition, the share of the tourism sector in GDP is growing.

Investments in economic sectors

As for foreign investments, Azerbaijan pursues an open-door policy: foreign investors do not need special permits, they use all the opportunities created for local investors. The results of the investment policy aimed at the development of the non-oil sector and, in general, at the diversification of the economy can also be judged by the sectoral structure of investments. Thus, of the \$ 120 billion invested in the Azerbaijani economy over the years of independence, more than \$ 70 billion is accounted for by the non-oil sector. One of the directions of the formation of tourism in Azerbaijan is the creation of conditions for the development of tourist services, i.e. food, accommodation, transport, excursion programs. Thus, there are opportunities for the development of related industries. In this regard, a sharp increase in investments in the non-oil sectors of Azerbaijan has been recorded in recent years (table 1)

Foreign direct investment by economic sector

	2021 y, mln manat	Growth rate compared to the previous year, %
Total	15338.5	118
Industry	5615.4	103
Agriculture	583.5	131.4
Construction	456.3	198.9
Trade	540.8	173
Transport and warehousing	2591.7	101.4
Information and communication	325.3	103.1
Finance and insurance	76.9	195.4
Real estate	1408.2	146.8
Education	787.6	102.6

Table 1

In total, 5.8 billion manats (28.3% of GDP) were invested in the Azerbaijani economy in the first half of 2021, which exceeds the level of the previous year by 18.3%. Almost 4/5 of investments in

fixed assets were financed from internal sources. According to the State Statistics Committee, in 2012, direct investments in the oil sector of Azerbaijan increased by 24% and amounted to 40.5% (484.8 million manats) of all investments, and 59.5% of financial injections were directed to other sectors of the economy. The main amount of funding was spent by Bp Exploration (Shah Deniz) and the Azerbaijan International Operating Company (AMOC), which is developing the Azeri Chirag-Guneshli block of fields

By the beginning of July, the growth of the Azerbaijani economy reached 2.1 percent, while the growth of the non-oil sector amounted to 5.1 percent. In addition, the growth in the non-oil industry amounted to 16.6 percent, in crop production-8.9 percent, in animal husbandry-2.4 percent, in the information and communication services sector-5.5 percent, in retail trade-1.7 percent.

In January – June 2021, Azerbaijan’s exports reached \$ 8.8 billion, an increase of \$ 1.1 billion, or 15 percent, compared to the same period last year

Foreign investments are considered as a means of importing modern technologies, increasing the competitiveness of the Azerbaijani economy. At the present stage, with the noted trends of increasing investment, the state needs to determine clear prospects where they should be directed first of all. In our opinion, Azerbaijan’s sectoral non-oil priorities for foreign companies are as follows:

- chemical industry;
- metallurgical complex;
- branches of the light and food industry;
- agriculture;
- construction industry;
- pharmaceutical industry;
- there is a real potential for cooperation with foreign investors in the field of information technology, tourism, telecommunications, education and environmental projects.

For a stable inflow of foreign investments into the economy of Azerbaijan, it is necessary to strengthen the confidence of foreign investors in the country, improve its image on the world financial markets, develop a system of stimulating investors in the non-oil sector of the economy, adopt international standards of investment cooperation. According to the author, the inflow of investments into the non-oil sector of the economy will largely depend on the development of the financial market, the leasing market, the stability of the banking system and the securities market to mobilize internal and external resources.

At the same time, it is necessary to reduce the volume of Azerbaijani capital exported from the Republic. According to Turkish statistics, 64 companies were created here in just 4 months of 2017, in particular, 24 joint-stock companies with the participation of Azerbaijani investors. The Azerbaijani partners have invested more than \$ 5 million in the authorized capital of these companies.

Currently, there are 1,700 companies operating in Turkey with a predominance of capital of Azerbaijani origin.

If over the past 15 years investments in the Azerbaijani economy have amounted to \$ 100 billion, then 60% of them are in the non-oil sector. In 2013, investments in the oil sector of Azerbaijan amounted to 4.824 billion manats (6.16 billion US dollars). In the total volume of investments in the country’s economy, they amounted to 27%. Compared to 2012, investments in the oil sector increased by 24.2%. The increase in investments in this sector is due to the introduction of a tax of 1.6%, or 209.8 million manats [7].

Azerbaijan’s economic development strategy

Taking into account the scale of the tasks ahead and in order to form a new strategic view of the economy, the Development Concept “Azerbaijan-2021: a view into the future” is being developed

in the country. This program document reflects all the above-mentioned political and economic measures, the implementation of which will allow achieving the goal set by the President of Azerbaijan – to double the volume of GDP over the next 10 years and achieve this growth at the expense of the non-oil sector of the economy. The concept provides for the development of tourism infrastructure, the expansion of the scope of tourism services that meet international standards, the growth of the competitiveness of this industry and an increase in its share in GDP. In order to develop tourism, it is planned to improve legislation and standards in this area, take the necessary measures to fully use the tourist potential of the Caspian Sea, stimulate tourism activity in the regions, strengthen information and propaganda work by creating appropriate tourist routes taking into account national, historical, cultural, socio-economic and natural features. At the same time, it provides for the promotion of various types of tourism [7]

Results

This study defines the role of the non-oil sector in foreign economic cooperation, assesses the possibilities of Azerbaijan's accession to the WTO; identifies promising areas of economic cooperation between Azerbaijan. Attracting foreign investors to the competitive non-oil sectors of the Azerbaijani economy remains one of the central tasks in the field of appropriate use of export potential. It is necessary to add that the strategic priority areas for foreign investment are:

- investments in the processing of agricultural products;
- in the creation of highly efficient infrastructure, in particular in the field of energy, telecommunications, water and gas supply systems;
- in industries serving the oil and gas sector.

An additional incentive for the inflow of foreign investment is the creation of a free trade zone in the CIS countries, where advanced technologies and innovations can be applied in the non-oil sector. This idea can also be developed within the framework of GUAM, since, in our opinion, collective economic projects in this area can be more profitable. The creation of a free trade zone can be an incentive to increase capital inflows from both partner countries and third countries.

Conclusion and recommendations

Today, the Azerbaijani economy is entering a new stage of development. For a number of objective reasons, the factors that provided high growth rates in the past are no longer able to perform the same functions in the future. The obvious reality is that competition on world markets is becoming more and more acute, and relatively cheap imports are pressing on the domestic market. To maintain a steady pace of development, it is necessary to use new growth factors that will lead to the transformation of the socio-economic model that meets the needs of the modern world economy. More than half of GDP is generated by the non-oil sector, and in the near future dependence on oil will disappear completely. The priority areas should include tourism and tourism-related industries that need state support. There are grounds to assert that tourism in the Republic is a very important part of its economic potential. This circumstance should be taken into account when developing and implementing a promising concept for the development of the Azerbaijani economy, since This will contribute to strengthening the orientation towards the development of the non-oil sector, especially social infrastructure sectors; directing the resources of the Republic to the development of regions; meeting the needs of the population of foreign countries in tourist services, which will become a tangible source of income for the Republic, will increase the role of Azerbaijan as a transit country.

The study argues that an important task of the country's innovative development is the training of qualified personnel-engineers, scientists, IT specialists, technologists for all branches of the 21 national economy. To solve this problem, it is necessary to apply new methods of education that

will be able to preserve and expand the intellectual elite and thereby ensure the transition of the country to the stage of innovative development. As for the policy of joining the WTO, according to the author, it should be based primarily on the national interests of the country. Thus, the WTO regulation sphere is beginning to include issues of states' activities within the framework of regional trade agreements. Therefore, it is necessary to develop regional and bilateral trade agreements, which should be considered not as a substitute for the multilateral trading system, but as complementary elements of it.

Currently, Azerbaijan is one of the international centers of crossing important transport and communication routes from Asia to Europe. It has significant reserves of hydrocarbon raw materials, which makes the Republic a place of concentration of interests of various countries and regional associations and has a diverse impact on the activities of foreign companies. After gaining state independence (1991), Azerbaijan carried out a generally balanced structural economic policy, the main direction of which was to create a new model of development based on various forms of ownership and the formation of a competitive economy adapted to the conditions of globalization. The fuel and energy complex (FEC) is the basis of the country's economy, and its industries (especially oil and gas) occupy a significant place in the economic potential of the Republic (they account for about 23 % of foreign investment, 53 % of GDP). Therefore, the development of oil and gas fields in combination with the provision of rational energy consumption allowed us to give a new impetus to the structural balance of the economy and the development of non-oil industries. In modern conditions, industrial and social infrastructure, transport communications are being created anew in Azerbaijan, the latest technologies and production lines are being purchased, new branches in the service sector are being created, the country is increasingly entering foreign commodity markets.

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