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The Azerbaijani Economy and the Development of Non-Oil Sector



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ABSTRACT

The social and political processes which started in 1980s, resulted with the collapse of the USSR, and all republics of the union became independent. One of the first countries to achieve independence in those years was Azerbaijan. On 18 October 1991 Azerbaijan declared itself independent.

Azerbaijan has enormous natural resources which caused the development of the economy. Azerbaijan's most significant asset is the oil and gas capital. The oil industry has played a great role in the economic growth of the Republic of Azerbaijan in the years of independence. The energy carriers own the major part of exports which shows how important the energy sector is in the economy of Azerbaijan. For this purpose it is necessary to use energy resources relevantly. The state budget was massively increased at the cost of revenue generated from the rapid growth of the oil industry. The growth of the oil industry produced great potential in the regions of the country for the non-oil sector and for economic development. The paper findings are assertive that the dropping of oil prices and the production of oil have increased the economic share of the non-oil field. Several state projects on the non-oil sector of the economy have been realized in these regions since 2003, including service sector, transport, social infrastructure, and tourism. Nevertheless, several more steps are to be taken to provide sustainable economic growth as well as reduce the significant regional gaps between the capital city region and peripheral regions. At this stage, it is important to develop manufacturing areas and service sectors in Azerbaijan's regions, the production of which would be geared to meeting food requirements as well as valuable and exported products.

The main goal of this study is to identify priorities and prospects for non-oil sector growth, taking into account the current economic situation and the implementation of state socio-economic development programs in the Republic of Azerbaijan. The research is based on methods which are statistical, quantitative, and empirical. References include works which are done by professors and specialized authors on this subject, as well as official documents and data from relevant state agencies. The conclusion of the study is based on the creation of economic areas and future goals of Azerbaijan's economy.

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Chapter One

Introduction about Azerbaijan

1.1. General View

Salam, welcome to the “Land of Fire”. Yes, this is how we call our country. Azerbaijan or “Azərbaycan” how we spell it in our language or officially the Republic of Azerbaijan locates the eastern Transcaucasian region. Occupying a region that parallels the southern flanks of the Caucasus Mountains, it is surrounded by Russia on the North, the Caspian Sea on the East, Iran on the South, Armenia on the West and Georgia on the Northwest. The exclave of The Nakhchivan Autonomous Republic is located southwest of Azerbaijan proper, bounded by Armenia, Iran, and Turkey. Azerbaijan includes within its borders the predominantly Armenian enclave of Nargorno-Karabakh which was the focus of intense conflict between Azerbaijan and Armenia since 1988. Personally, I come from that part of Azerbaijan.



Figure 1.1: Where is Azerbaijan located?

Source: Wikipedia-Maps

Azerbaijan covers total area of 86,600 Km² (33,400 sq mi) and 1.6 % of water. Azerbaijan’s capital is the ancient city of Baku which is the largest city in the country and whose harbor is the busiest on the Caspian Sea. Azerbaijani language is the official language but Russian and Turkish are also widely spoken due to, respectively, Russia's rule for about 70 years and the similarity between the Turkic language family. The population of Azerbaijan reached 10 million just on April, 2019 and currently has about 10.14 million inhabitants. The government type of Azerbaijan is a semi-presidential republic where the president is the head of state, and the prime minister is the head of government.

1.2. History

Azerbaijan's history as a state began about 5,000 years ago. In late 4,000-early 3,000 BC the first state bodies on Azerbaijan's territory emerged. Manna, Iskim, Skit, Scyth and states as powerful as Caucasian Albania (not to confuse with the current Albania because those are different from each other) and Atropatena existed in 1000 BC. These states played a major role in strengthening the culture of government, in the history of the country's economic culture, and in the creation of a uniform nation.

Azerbaijan was ruled by the kingdom of Iranian Sasanids in the 3rd century AD, and Arab Khalifat in the 7th century. The invaders had numerous Iranians and Arabs populating the land. The important development in Azerbaijan's history took place with the advent of Islamic religion in the 7th century. Islam greatly facilitated the creation of a uniform government, language, customs and so on among Turkic and not Turkic peoples on Azerbaijan territory.

New political development was witnessed in Azerbaijan: the states of Sadzhids, Shirvanshahs, Salarids, Ravvadids and Sheddadids were founded on Azerbaijan lands united by Islam. This was the beginning of the Azerbaijani Renaissance. Late 15th-early 16th could be seen as the latest landmark in Azerbaijan's history. The famous statesman Shakh Ismail Khatai succeeded in uniting all Northern and Southern Azerbaijani lands under his rule. As a result Sefevid state with the capital was established in the city of Tabriz which later became one of the most powerful empires in the Middle East.

Nadir-shakh, a prominent Azerbaijani leader who came to power after the collapse of the Sefevid state, widened the borders of the former empire even further. The ruler of Azerbaijan conquered even Northern India in 1739, including Delhi. Yet the kingdom collapsed after Nadir's death. Thus Azerbaijan split into smaller states in the second half of the 18th century-khanates and sultanates. Iran was under the control of Gadzhars, a family of Azerbaijan, in the late 18th century. They started following the policy of bringing all territories of the former Nadir-shakh empire and khanates of Azerbaijan under centralized control.

Thus began the epoch of long wars between Gadzhars and Russia which sought to conquer the southern Caucasus. As a result, Azerbaijan was split between the two empires on the basis of Gulistan (1813) and Turkamanchai (1828) treaties: Northern Azerbaijan was attached to Russia, and its southern portion-to Iran.

This time marks the beginning of the genocide of Azerbaijanis from the neighboring Armenians. In Northern Azerbaijan the fight for independence was very serious. The independence movement won, thanks to Turkey's assistance, and in 1918 the first democratic republic in the East in Northern Azerbaijan-the Democratic Republic of Azerbaijan (ADR) was established.

However, its life was brief. The establishment of the Azerbaijan Soviet Socialist Republic (Azerbaijan SSR) on the territory of the ADR was declared on 28 April 1920. Azerbaijan,

Georgia and Armenia established the Transcaucasian Federal Soviet Socialist Republic in December 1922. This became a part of the USSR in 1922 and the TSFSR was disbanded in 1936, and the SSR of Azerbaijan entered the USSR as an autonomous republic that existed until 1991. Azerbaijan became an independent state on 30th August 1991.

However, Azerbaijan's modern history includes another important article: Armenia-Azerbaijan dispute over the occupation of the Autonomous Republic of Nagorno-Karabakh. Having declared itself (on 8 October 1991) an independent democratic state, Azerbaijan has lost its 6 regions, including the Autonomous Region of Nagorno-Karabakh, after the fierce military action. The States signed a cease-fire deal in 1994.

1.3. Geography

Azerbaijan is located in the South Caucasus region of Eurasia, straddling Western Asia and Eastern Europe. The geographic coordinates of Azerbaijan are 40.14 north latitude and 47.57 east longitude. The geography of Azerbaijan encompasses a vast array of landscapes, from wetlands to high mountains, deserts to lush valleys. Azerbaijan is dominated by three physical features: the Caspian Sea, whose shoreline forms a natural border to the East; the Greater Caucasus mountains to the North; and the vast flatlands at the center of the region. The total length of land frontiers of Azerbaijan is 2,648 km. The coastline stretches for 800 km, and the widest area of the Caspian Sea region of Azerbaijan is 456 km in length. Azerbaijan's territory stretches for 400 km from north to south, and for 500 km from west to east. The three mountain ranges are the Greater and Lesser Caucasus, and the Talysh Mountains, comprising around 40% of the country together. Azerbaijan's highest peak is Mount Bazarduzu (4,466 m), while the lowest point is at the Caspian Sea (-28 m) where the capital city Baku is located. Baku is situated 28 meters below sea level, making it the lowest lying national capital and the largest town below the sea level in the world. Baku sits alongside the Bay of Baku on the southern coast of the Absheron Peninsula.

The Caspian Sea – the largest inland body of water in the world – extends along the eastern frontier of Azerbaijan. Also though the Caspian Sea is considered as a sea, it is also the world's largest lake. It was linked to other seas (like the Mediterranean) long ago, but it was split by plate tectonics approximately 5 million years ago. Several types of fish are present in the Caspian Sea, and the shores contain important wetlands, where various bird species live. The surface waters are the primary sources of water. Yet of the 8,350 dams, only 24 are greater than 100 km in length. In the east of the country all the rivers flow into the Caspian Sea. The biggest lake is Sarysu (67 km²), and the longest river is the transboundary Kur river (1,515 km). The four largest islands in the Caspian Sea of Azerbaijan have a total area of more than 30 square kilometers. About half of all Earth's mud volcanoes are found in Azerbaijan.

The Caucasus Mountains are part of a broader network that stretches from Europe to Asia, and indeed the Caucasus Mountains watershed forms the official boundary between Europe and Asia.

Significant quantities of snow and rain occur in the Caucasus Mountains, this precipitation being the source of much of the region's drinking water. These special circumstances and the geographical situation in Azerbaijan decide the natural conditions which significantly distinguish it from other countries at the same latitude in terms of general geographic specifications and more precisely in terms of climate.

1.4. Demography

Azerbaijan has approximately a population of 10.14 million in 2020 which makes it the world's 90th most populous country. Azerbaijan's population density is 113.9 people per km² which ranks 71st in the world. Slightly more than half of Azerbaijan's population lives in urban areas and the country has 77 cities. Urban residents constituted 53.1% of the total population, with a rural population of 46.9%. Abşeron Peninsula, on the west coast of the Caspian Sea, is the most densely populated area. Baku, the largest city and capital with 2.15 million inhabitants and a 4 million metro population in Azerbaijan and Transcaucasia's most important industrial city, is situated on this peninsula, as are other industrial towns like Sumgayit. Azerbaijan is divided into 9 regions and 1 autonomous republic. Those nine regions are divided to 59 districts and 11 cities while Nakhchivan Autonomous Republic consists of 7 districts and 1 city. All the districts are further divided into municipalities. Absheron is the smallest region even though it holds the highest number of population where Baku and Sumgayit are located. Baku is a large and beautiful city, situated on natural terraces that run down to the Caspian Sea gulf. The town has a picturesque 3.2 kilometer long boulevard and many historical sites. Sumgayit is the next-largest city in Absheron region with 325,000 inhabitants. The second biggest city of the country – Ganja was situated in the Ganja-Gazakh region has approximately 390,000 inhabitants. Aran is the largest region in Azerbaijan with about population of 1.9 millions.



The regions of Azerbaijan

Source: Azerbaijan.com

Azerbaijan has a population which is growing and young. Azerbaijan's birth and death rates are both only slightly below the global average. However, life expectancy is about the same as the global average, around 73 years old. More than one-fifth of the population is below 15, while roughly half of the population is below 30.

According to the latest statistics, Azerbaijan's ethnic composition is considered as more than 91% Azerbaijanis, 2% Lezgians, 1.3% Armenians (with almost all living in the problematic Nagorno-Karabakh region), 1.3% Russians, 1.2% Talysh, 0.5% Avars, 0.3% Tatars, 0.3% Tats, 0.25% Ukrainians and some other few minorities.

The population is roughly 95% Muslim. In Azerbaijan 85% of muslims are Shia Muslims and 15% are Sunni Muslims. Azerbaijan has the second-largest percentage of Shia population behind Iran. Azerbaijan is a secular state which grants freedom of religion. According to the statistics that are conducted from the Gallup poll, just 21% of Azerbaijanis find religion a significant part of their lives, making it one of the least religious countries on earth. The rest of the population adheres to other faiths or are non-religious, but they are not officially represented. The Armenian Apostolic Church (in Nagorno-Karabakh), the Russian Orthodox Church, and various other Christian sects are other mainstream religions or beliefs that many in the country observe.

The official language of the country is the Azerbaijani language. The Azerbaijani language is a member of the Southwestern (Oghuz) branch of the Turkish languages of the West Oghuz group. The history of literature dates back to 15th century. The Arabic script was used until the 20th century; 1939 saw the introduction of the Cyrillic alphabet. In 1992 the Azerbaijani government changed its official orthography from the Cyrillic script to the Roman alphabet. Turkish-speaking Azerbaijanis (Azeris) make up some nine-tenths of the population of the country; the remaining population contains only small minority groups including Lezgians, Avars, Tats (Caucasian), Russians, and Armenians. Ethnic Azerbaijanis combine in themselves very dominant Turkish strain that arrived in Azerbaijan, particularly during the 11th century Oghuz Seljuq migrations, with mixtures of older inhabitants such as Iranians and others who lived in Transcaucasia from ancient times. Currently, the number of Azerbaijanis worldwide is estimated at around 30-35 million citizens, of whom only 10 are in Azerbaijan and another 13 million in Iran.



Political map of Azerbaijan
 Source: emapsworld.com

Azerbaijan has a very impressive literacy rate which is 99.8 per cent for the entire population. The literacy rate is 99.89% for males and 99.74% for females.

Azerbaijan's Politics takes place within a semi-presidential system, with Azerbaijan's President as head of state, and Azerbaijan's Prime Minister as head of government. The President of the State exercises executive authority. Legislative authority lies with the government as well as the parliament. The judiciary is nominally independent of the executive and legislative branches. The Azerbaijan legal structure specifies the Republic of Azerbaijan constitution. Azerbaijan is a democratic, secular, unitary republic, in compliance with the Constitution. Azerbaijan's legal structure is founded upon civil law. As until 1991 the country was a Soviet Union republic, its legal past was also strongly influenced by socialist rule. However, following the dissolution of the Soviet Union, on 18 October 1991 Azerbaijan became independent by enacting the constitutional act of national independence. Through introducing democratic reforms, Azerbaijan began changing the legal system. That was followed by the adoption of the first Constitution in 1995 that is the cornerstone of modern country's legislative structure. The Constitution establishes the presidential republic structure with a division of powers among the government's legislative, executive, and judicial branches so as to prevent misuse of authority.

Azerbaijan's Supreme Court is a supreme judicial body on civil, criminal and on other cases related to the operation of general and specialized tribunals. Azerbaijan's Constitutional Court is the highest body of procedural justice in matters ascribed by the Constitution to its jurisdiction, with power to interpret and enforce Azerbaijan's Constitution. The president directly nominates judges at the lower level. The president also appoints judges to the Constitutional Court and the Supreme Court with Congressional approval. Prosecutors are named by the president with Congressional approval. The justice minister organizes prosecutors into district, regional, and republic offices.

The National Assembly (Azerbaijani: Milli Məclis), also transliterated as Milli Majlis, is Azerbaijan's legislative branch of government. The unicameral National Assembly has 125 Deputies: 100 members are originally elected in single-seat districts for five years and 25 are elected by proportional representation; however, all 125 deputies are returned from single-member constituencies at the latest election. Milli Majlis was the Muslim world's first secular republican Parliament.

Azerbaijan joined the United Nations in 1992, and became officially a member of the Commonwealth of Independent States (CIS) in 1993.

1.5. The Economy and Industries

Azerbaijan is an industrial and agrarian developing country. Two conventional industries: petroleum and natural gas - have greatly increased focus on heavy industry, but engineering, light industry, and food processing are now of rising significance. Azerbaijan began a move into a market economy in the early 1990's. Many retail rates have been liberalized and some state-owned companies have been privatized. Nevertheless, land privatization continued gradually.

Until the beginning of the 20th century Azerbaijan was the world's leading producer of petroleum which was also the birthplace of oil refining. For example, in 1901, Azerbaijan produced 11.4 million tons of oil, more than the U.S.; it accounted for over half of world production. However, as the 20th century progressed, the position of Azerbaijan in oil production declined as the industry grew in other USSR regions and elsewhere in the world. Political turmoil in Azerbaijan, ethnic strife in the region, Russian claims on the Caspian fields and conflicts over the location of new pipelines complicated the development of the large oil fields under the Caspian Sea throughout the 1990's. Certain natural resources in Azerbaijan include natural gas, iodobromide waters, lead, zinc, iron and copper ores, nepheline syenites used in the manufacture of aluminum, common salt, and a wide variety of building materials, including marl, calcareous and marble.

According to statistics obtained from the "World Economic Outlook Database-October 2019" of the International Monetary Fund (IMF), in the current price, Azerbaijan's GDP amounted to 47,171 billion USD in nominal term and 187,260 billion USD in PPP, respectively 86th and 72nd in the world. The study also reported that per capita income was 4,689 USD in nominal term, and 18,616 USD in PPP, which is 102nd and 73rd respectively in the world ranking. Azerbaijan's GDP increased by 2.7 per cent in 2019 and is forecast to marginally decrease to stay at 2.1 per cent by 2020 according to IMF. The country has benefited from high oil prices and increased gas production, although there has been progress in its non-oil and gas sectors too. Other assets include a large sovereign fund, a surplus of gas in the Caspian Sea, increased exports to Turkey and Europe, acting as a regional link between China and Europe, and a favorable general business climate.

According to COFACE's latest economic reports, Azerbaijan's economic challenges include heavy dependence on hydrocarbons, decreasing oil production (25% lower over the past six years), and a poor banking system that refuses to give loans in local currencies to avoid exchange rate risk. Public investment focuses primarily on projects such as the Caspian Shah Deniz gas field and the Trans Anatolian TANAP pipeline, while economic diversification is also promoted in industries such as cotton, tourism, fruit and vehicles.

Throughout the latter part of the 20th century the agriculture of Azerbaijan grew considerably. About half of the total area of the country is ideal for farming and some two-fifths of this is under cultivation. Out of its 10 million of population, Azerbaijan has a workforce of 5.07 million according to the World Bank data. The economy is focused on gas and oil, steel, iron, coal, petrochemical, and textile products.

Agriculture accounted for 5.2 per cent of GDP, contributing 35.8 per cent of the country's employment (World Bank). Wheat, barley, corn, fruit (wine grapes), potatoes, cotton, tea, silk and tobacco are the primary crops. In addition, the country produces many potentially important crops including indigenous crops. Soon, a new online and mobile platform of government will enable farmers in Azerbaijan to sell their goods.

Industry accounts for 52.2 per cent of GDP, employing 14.4 per cent of the country's population (World Bank). Azerbaijan manufactures cement, machinery, cotton, and beef, in addition to oil products and their derivatives. The Government of Azerbaijan aims to more than double the amount of GDP per capita in the country through non-oil industries in the large-scale Azerbaijan-2020: outlook for the future growth sector.

Services constitute 42.6 per cent of GDP and employs 49.6 per cent of the entire population. Business industries that thrive include finance, manufacturing, and real estate. Located in 9 out of 11 global climate zones, Azerbaijan has a special geographical location and privileged potential for tourism. In 2019, 2.9 million tourists visited the country (the data from State Border Service), an 11 per cent rise over 2018. The country's extensive salt springs are increasingly turned into flourishing health spa resorts. The Azerbaijan government has made establishment of Azerbaijan a top priority as a prestigious tourist destination. Making tourism a major, if not the single largest, contributor to Azerbaijan's economy is a national strategy.

As for the unemployment rate, it stayed steady in 2019 at 5.0 per cent, with the same projections for the coming years (IMF). An increased minimum wage was discussed as a Poverty Reduction Strategy. The corruption issue remains unsolved and can serve as an impediment to the growth of the country, while Azerbaijan has considerably improved its ranking in the Transparency International's Corruption Perceptions Index 2019, from 152 to 126 out of 180 countries.

The GDP growth rates recorded in Azerbaijan in recent years have made the country one of the world's fastest growing economies. Yet Azerbaijan's banking sector still has to tap the enormous growth potential that ought to be attainable due to the continued strong economic growth. Despite of this the banking sector remains limited compared to the scale of the Azerbaijani economy. Since 2002, significant phases of banking sector reform have started to take place. Considering the country's entry of large oil revenues as a logical outcome of a successful oil policy, and in this basis, as banks were prepared to effectively shift their financial capital to the strategic goals, development strategies are being applied.

A recent oil and gas boom helped boost the situation in the science and technology sectors of Azerbaijan in the 21st century and the government initiated a campaign aimed at modernizing and innovating sectors. The government forecasts that there will be development and comparability of revenues from the information technology and communications industry with those from oil production. Azerbaijan has a broad and steadily rising Internet market, largely uninfluenced by the 2007–2008 financial crisis, rapid growth is expected for at least another five years.

The country has also made headway in the growth of its telecoms market. As well as being an operator through its position at Aztelekom, the Ministry of Communications & Information Technologies (MCIT) is both a policy-maker and regulator. Public pay telephones are used for local calls and allow a token to be bought from the telephone exchange or from certain stores and

kiosks. Tokens make an indefinite-length call. Five GSM networks exist: Azercell, Bakcell, Azerfon (Nar Mobile), Aztrank, Catel mobile network operators, and one CDMA (Code Division Multiple Access).

Azerbaijani Manat is Azerbaijani currency, called “manat”, subdivided into 100 kapik. The Manat is released by the Central Bank of Azerbaijan, Azerbaijan's monetary authority. The abbreviation for ISO 4217 is AZN. The Latinised symbol for manat is (₼). The manat is kept in a floating exchange-rate system mainly operated against the US dollar. The latest exchange rate for Azerbaijani manat per 1 USD is AZN 1.70 (12 April 2020).

There is a dynamic relationship between Azerbaijan's trade balance, inflation, which is calculated by the consumer price index and its currency value. By allowing the manat's value to "float" The Central Bank of Azerbaijan has the decisive power to monitor its value in relation to other currencies.

1.6. Azerbaijan in Numbers

General View

Index	Measure	World Bank
Total Area	86,600 km ²	112nd
Water	1.6%	
Population (2018)	10,139,585	2nd
Population Density	115/ km ²	99th
Gini Index (2013)	26.6	153th
Human Development Index (2018)	0.754	87th
Fire Power Index	0.09463	64th
Ease of Doing Business	34.00	34th
GDP Growth (Q3, 2019-2020)	2.8%	

Source: The State Statistical Committee of the Republic of Azerbaijan

Membership: UN (since 1992), WCO (since 1992), WTO (since 2017), ADB (since 1999), IDB (since 1992), BSEC (since 1992), CIS (since 1993), CE (since 2001), GUAM (since 1996), OSCE (since 1992).

Trade Organizations: ECO (since 1992), WTO (since 2017), WFTU (since 2015), GCTU (since 2005), IFAD (since 1994), IFC (1995), ITUC (2000), IDB (since 1992).

GDP

Index	Measure	Reference
GDP (Purchasing Power	187.260 billion USD	October 2019

Parity), Current Price		World rank-72nd
GDP Nominal, Current Price	74.171 billion USD	October 2019 World rank-86th
GDP per Capita Nominal, Current Price	4,689 USD	October 2019 World rank-102nd
GDP per Capita, PPP	18,616 USD	October 2019 World rank-73rd
GDP Composition by end use	Household consumption: 57.6% Government consumption: 11.5% Investment in fixed capital: 23.6% Investment in inventories: 0.5% Exports of goods & services: 48.7% Imports of goods & services: - 42.0%	2017

GDP Composition Sector Wise	Agriculture: 6.1% Industry: 53.5% Services: 40.4%	2017
Private Consumption	7.223 Billion USD	September - 2019
Government Consumption	2251.80 Million USD	2019 Q3
Real Private Consumption	12. 278.500 AZN	September - 2019
Investment	749.2 Million USD	December - 2019
Real Government Consumption	3,257.838 AZN	2019 Q4, Base year FY: December 2012
Nominal GDP	12.1 Billion USD	September - 2019
Real GDP	102.200 Billion USD	2019 Q4, Base year FY 2012
Real Investment	5.451,000.000	2017
Producer Price Index	91.300	February - 2020

Source – International Monetary Fund, World Bank, Economy Indicators

Trade

Index	Measure	Reference
Import of Goods	3,077,246,000 USD	2019 Q3
Exports of Goods	5,085,411,000 USD	2019 Q3
Balance of Goods	2,008,165,000 USD	2019 Q3
Exports of Goods & Services	8,035,400,000 AZN	2016 Q4
Real Export of Goods & Services	13,610,000,000 AZN	2019 Q4, Base year FY 2014

Real Net Exports	19.459 Billion USD	2018
Import of Goods & Services	7,366,200,000 AZN	2016 Q4
Real Imports of Goods & Services	12,700,000,000 AZN	2019 Q4, Base year FY 2014
Net Exports	14.3 Billion USD	2017
Current Account Balance	941,524,019 USD	2019 Q3

Source: World Bank

Government

Index	Measure	Reference
Gross External Debt	8.9 Billion USD	2019 Q3
Foreign Outstanding Public Debt	8.8 Million USD	2019 Q3

Source: World Bank

Business

Index	Measure	Reference
Industrial Production	91.000	February 2020, Base year 2014=100
Capacity Utilization	73.1%	2019 Q4
Business Confidence	47%	2019 Q4
Change in Inventory	- 641,20 Million AZN	2019 Q4
Real Change in Inventory	- 735,1 Million AZN	2019 Q4, Base year 2014

Source: World Bank

Transportation

	Measurement	Reference
Total Roads	25,000 km	June 2019
National Highways	191 km	June 2019
State Highways	225 km	June 2019
Urban Roads	872 km	June 2019
Rural Roads	4,750 km	June 2019
District Roads	915 km	June 2019
Total Railways Route	2,944 km	June 2019
Total Running Tracks	2,932 km	June 2019
Electrified Railways Route	1,272 km	June 2019
Electrified Running Tracks	1,320 km	June 2019
Number of Railways Stations	176	June 2019

Total Number of Airports	15	December 2019
International Airports	6	December 2019
Domestic Airports	5	December 2019
Custom Airports	6	December 2019
Total Coastline Span	713 km	December 2019
Major Ports	1	December 2019
Minor Ports	0	December 2019
Total Number of Ports	1	December 2019

Source: Azerbaijan Railways, Port of Baku, State Road Transportation Agency of Azerbaijan

Communication

	Measurement	Reference
Total Telephone Subscribers	11 million	June 2019
Mobile Subscribers	10,8 million	June 2019

Fixed Line Subscribers	17,179	June 2019
Teledensity	73,67%	June 2019
Urban Teledensity	145.36%	June 2019
Rural Teledensity	51.15%	June 2019
Internet Users	7,991,630	June 2019
Broadband Users	6,853,450	June 2019
Internet Penetration	80%	June 2019
World Share of Internet Users	0.2%	June 2019
Private Television Channels	23	June 2019
Private FM radio Stations	33	June 2019

Source: Aztelekom, The Ministry of Transport, Communications and High Technologies of the Republic of Azerbaijan

Chapter Two

The Transition Periods in Azerbaijan Economy

In ancient and medieval times the most important trading ties were realized across the Mediterranean and Black Seas. The caravan routes were extended from China and India to the Mediterranean and Black Seas, and passed through Azerbaijan, in particular the Great Silk Way. Also crossed Azerbaijan was the well-known caravan route that linked Eastern Europe and South Caucasus, Iran, and Central Asia through the Darband pass. Therefore, the above mentioned trade caravan routes from ancient times attracted the other countries. In the area Azerbaijan has played the role of "Golden Bridge."

This geopolitical position has created significant problems throughout history. Thus, according to the Gulustan and Turkmenchay contracts, Azerbaijan was, relevantly, divided between Russia and Iran in 1813 and 1828. Therefore the regions of Azerbaijan started to be called Southern and Northern Azerbaijan. The Democratic Republic of Azerbaijan was founded on 28 May 1918 after the Bolshevik Revolution. However, in 27 April 1920 Azerbaijan was occupied by Russian forces. In 1922 Azerbaijan became a member of the U.S.S.R. and from 1936 it was called "Soviet Socialist Republic of Azerbaijan". Finally in 1991, following the dissolution of the Soviet Union, northern Azerbaijan, which was the province of the USSR, proclaimed independence.

In the 1980s, Michael Gorbachev's "glasnost policy" brought about the dissolution of the USSR and Azerbaijan regained independence in 1991. "Milli Majlis" was proclaimed National Independence Day by the Parliament of the Republic of Azerbaijan on October 18. Via independence Azerbaijan got rid of Soviet imperialism, totalitarian Soviet rule and egalitarian communist ideology.

There is no international army in Azerbaijan's territories. Furthermore, autonomous government agencies solve the citizens' problems in the region. Political freedom obviously plays a much more important role in the development of the national economy.

Great Silk Route, the oil and gas pipelines also cross Azerbaijan, which bring Central Asian energy resources into the world market. Azerbaijan's important geographical location plays a bigger role between Asia and Europe. After independence Azerbaijan became a member of the Organization of the United Nations and continued to develop friendly ties with foreign countries.

Situated at the crossroads of Europe and Asia, Azerbaijan has the potential to be a powerful contact hub in the world. Azerbaijan is therefore very involved in the creation of a corridor in Europe-Caucasus-Asia. The natural resources are one of the most critical things due to understanding the economic growth. Azerbaijan has many significant natural resources, such as lead, zinc, copper, iron, gunpowder, cobalt, marble, lime, mineral water, salt mine, rock salt and so on. Of Azerbaijan's most significant natural resources are oil and gas. The oil reserves can be found in the Caspian Sea, Absheron Peninsula, and Kur River, Gobustan, and Ganja Coastline. Oil sales are an integral part of the budget for Azerbaijan.

Since the independence Azerbaijan's economic growth consists of three significant phases. The era before independence will be studied below and so the transition period.

2.1. Azerbaijan before the Independence

2.1.1. Soviet Union and the Collapse of the USSR

After the 18th century, the Soviet nations have existed in three distinct socio-economic periods, symbolized by Peter the Great, Lenin and Gorbachev. The first transformation period was followed by the 1917 movement, with the Peter the Great. Originally, the revolution occurred in 1905, in 1917, crushing the Tsarist Empire. The revolt was also supported by the Bolsheviks, and the Russians opposed democracy and free economy. Socialism, a central planning-based economic paradigm has started to be applied in the Soviet Union. Thus, through totalitarian dictatorship and central planning system, Russians started to govern themselves and 1/6 of the world's population. The nationality was also established in line with the Leninist ideology.

From 1985 Soviet Union entered into a new age. And the Marxist-Leninist ideology crashed in those times. Humanity's natural creation and dialectical philosophy damaged socialism, dismissing the Marxist-Leninist ideology as a revolutionary scheme.

Even during the time of industrialization in the Soviet Union was the socialist program successful. Unreasonable jobs, no more manufacturing of machinery, no more importation of the latest technology, lack of organization caused economic stagnation.

2.1.2. Azerbaijan in Soviet Union

During the Soviet era the management system of Azerbaijan's economy was developed based on the U.S.S.R. The industrial structures were developed in line with Soviet Union demands. The countries were trained in Soviet Union according to the central planning. The driving force of Azerbaijan's economy in this context was oil. The enormous amount of export to Russia and Ukraine was realized and the main part was oil products, machine building, weaving, and wine-making. The enormous amount of import was focused on the oil products, which come as crude material from the countries listed above.

The specialists believed that Azerbaijan is one of the two countries poised for independence during the Soviet Union's last years. Sure this was focused not only on the country's oil wealth but also on the country's economy's growth perspective. Plus Azerbaijan's budget receipts were higher than discretionary expenses. The national revenue generated was more than the national income used.

During the Soviet era Azerbaijan achieved some stage of growth, if the economic indicators were considered. But Azerbaijan's loss was higher than the gain achieved. Because of the central planning, the country's economic conditions are therefore not recognized. Several goods and

industrial materials were sold for a low price to the union countries and imported as a finished product again at a high price. Azerbaijan did not have ownership rights on its own land, so the central government received revenues from the crude, cotton, tobacco and wine industries.

Inside the Soviet economy Azerbaijan has achieved a high point. This was not, however, measured relevantly. In the last 20 years of the Soviet era Azerbaijan's economy was not stable. For example, in 1960-1970 the average rate of economic growth was 5.2 per cent, while in 1970-1980 it increased to 7.4 per cent. This figure decreased dramatically from 1980 through 1990.

Although the above analyzes are taken into account, it can be seen that the fall of the USSR was not a political but an economic one. The union government, which consisted of the different nations, created problems in terms of understanding socio-economic growth. The Soviet Union's current position was behind developed countries and even some developing ones. The key problems of the planned economy that remain in the Soviet Union are listed below:

1. The economic system did not meet the needs of production.
2. In terms of regional and sectorial division the output capacity was not the same.
3. The goods have been of poor quality. In addition, the quantity of the goods was twice less in comparison with the other union states. In Azerbaijan at the beginning of the 1990s, domestic output reached just 50 per cent of demand.
4. Despite of the meaningless economic system at the end of the 1980s the production was about 30-40 percent higher than the import. That can, in fact, be clarified as a positive indicator. That was undesirable though due to the country's landscape and geographic structure. Thus 55-60 per cent of exports belonged to crude and intermediate materials. In general, 45-50 percent of exports and imports with Russia were realized and this pattern caused the economy to lag in the years to come.

2.2. First Period after the Independence (1991-1994)

The changes that occurred during the first years of independence should be analyzed so as to recognize the post-independence era of economic growth. In this subchapter, therefore, the first years of independence and the processes that took place in those years will be clarified.

The era 1989-1991 was the years Azerbaijan planned to gain independence. The biggest struggle in this time was the problems that made the independence barrier. The period from 1991 to 1994 could be considered a first since independence period. The Azerbaijan declared independence on 18 October 1991 and more than 28 years passed on that occurrence. 18th October takes a very important position in Azerbaijan's economic cycle. Maintaining the independence was definitely more difficult than attaining it. The mechanisms that happened after independence confirmed it. As a result of the fall of the USSR and Azerbaijan lost the popular market, the economic system based on specialization and division of labor ended. Output was suspended based on old central

planning due to the crude material, semi-products, equipment supply, industry, finance, and management. Between the former union states the economic ties were broken and production decreased. The issue of the Armenian war and Chechnya forced the trade routes to close.

There were some major problems in the late 1980s. But, because of the irrelevant management, those issues were not solved. As a result of this the stagnation time in Azerbaijan was observed. Deep crises were triggered by political turmoil and the transition to a market economy. Some years have seen high unemployment and hyperinflation in the region. High inflation and uncertain socio-political climate deterred economic growth, in particular industrial and agricultural production.

Declining production and high inflation rates caused the economic downturn and socio-economic tensions to grow. Azerbaijan faced Armenian military aggression and lost 20 percent of its territory until May 12, when the cease-fire was signed.

The lack of the related economic reforms, the budgetary spending for the Karabakh war, the loss of 20 percent of the territory of the country, the refugees more than 1 million people and the lack of foreign investment and weak privatization implementation caused deep crises in the economy of Azerbaijan. The policy was not defined in line with the transition to the market economy and the economic decisions during that time were not insignificant.

The war with Armenia, Russia's export embargo on Azerbaijan and the inactivity of two oil pipeline and military threats have had a negative impact on the crisis. 1992 saw the worst condition in the economy in Azerbaijan. In 1992-1994, GDP dropped twice and was the 48 per cent of the 1991 prediction. The GDP decreased 13-20 per cent annually from 1990 to 1994 and in 1994 it was \$1629.3 million dollars. GDP dropped 53 percent, while manufacturing, agriculture, consumption, and tax extraction dropped 62 percent, 44 percent, 75 percent, and 45 percent, respectively, compared to 1990. False economic policies have exacerbated financial and foreign-trade problems.

Inflation rose in 1992-1994, to four-digit numbers. The monetary policy flaws have triggered an economic crisis. The loans were issued in accordance with the bank managers' wishes.

The economic recession culminated in the downturn in productivity, the price rise and the state budget deficits. The tax collection failures have resulted in budget discharging. The inefficient use of the loans compounded the economic crisis. The devaluation of the national currency was another negative of the global crisis.

2.2.1. The First Period Reforms

In June 1991, the "Law on Private Property" was adopted. In early 1992 the market liberalization was realized. The value-added tax began to be introduced in January 1992. The "Law on Foreign Investment" was enacted in April and the legislation on national banks was enacted in August 1992. For the local economy, Manat became a national currency.

In the economy the downturn was due to the raging war in 1993-1994. In January 1993 the "Law on the Privatization of Small Organizations" came into effect. In 1994 Manat became the only legitimate Azerbaijani currency. As a result of signing the cease-fire with Armenia, the transition to a market economy has accelerated. "Execution-Bankruptcy Law" was enforced in June, and the banks' restructuring processes were begun. Banking, privatization, international trade liberalization and some institutional reforms were carried out during the period 1995-2000.

2.3. Second Period after the Independence (1995-2003)

Heydar Aliyev, who had 30 years of experience in political management, came to power in summer 1993 via the elections. After he came to government some reforms were observed. The reforms were done in line with the law system after he took on the government post.

This time the system was planned in conjunction with the economic reforms and new economic models. In order to establish a free market system, several significant laws have been passed. These laws included privatization, private ownership growth, economic structure reconstruction, customs, tax and finance structures, trade liberalization, land and agricultural reforms, social welfare improvement, and education and health structures improvement.

The efforts to build a free market economy, the moves toward international trade liberalization and the exchange rate lowered the inflation rate, and decreased budget deficits.

The privatization of the small organizations ended, the service sector was given to the private owners, the privatization of the medium and large organizations began, macroeconomic stability was achieved, and the reforms gave collective farms to the private owners. In addition, with the exception of land tax, for 5 years no tax was received from the agricultural sector. 93.2 per cent of the plan's agricultural assets have been privatized. In 1997, a rise of 7 per cent was reported in agricultural and cattle breeding products.

The development of international economic and financial structures in Azerbaijan was introduced to attract foreign investment. The social, political and economic reforms completed after the second half of 1993 in Azerbaijan created peace and economic growth. Several major steps have been taken to reorganize the banking and finance structures. Steps toward a free market economy strengthened ties between Azerbaijan and international organizations.

In this time the "Contract of the Century," which contains several oil deals, was signed. As a result of the signing of the "Contract of the Century" through the adoption of the Constitution of the Republic of Azerbaijan on 12 November 1995, the huge amount of investments started to enter the economy of Azerbaijan.

One of the most important steps towards reforming the economic system has been the adoption of the Republic of Azerbaijan's first constitution. The new constitution considered the establishment of public government, recognition of citizens' and state rights and responsibilities, as well as the development of a free economy based on the democratic principles.

The constitution established the legal basis for the incorporation of private property with the world economy. In terms of this, 1995 is seen as the start of economic regulation.

Consequently, it is time for changes, having achieved cease-fire in the frontline and domestic peace strategy. Since 1994 strict economic controls have been put into effect. The inflation rate decreased, and as a result of cooperation with the International Monetary Fund (IMF), the GDP rate started to increase. The downturn in the economy of Azerbaijan ended in the year 1996. Results were produced with the new economic models. While GDP increased 26.3 percent in the last 5 years, people's welfare increased twice, private sector share increased from 29 percent in the economy to 68 percent.

From 1994 to 2000, around \$3.4 billion was invested in the economy of Azerbaijan by the companies that participated in the oil agreements. The total amount of foreign investment from 1994 to 2000 was \$15.9 billion. 22.8% of the amount was diverted to finance, while 53.6% was invested in the oil industry. The remainder (about 20.9%) was diverted to other fields.

Together with the oil investments, Azerbaijan has become the fastest growing economy among the former USSR countries. In 1998 and 1999, the GDP growth was 10 per cent and 7.2 per cent respectively. Growth factors were the revenues from the oil, manufacturing and agriculture industries.

The GDP was 2 times lower in 2000 compared to 1990 estimates. In addition, production in industry and agriculture was 3.3 and 2.4 times lower than 1990 estimates, respectively. The overall expenditure volume declined until 1996. Nevertheless, it rose until 2000 and was 55 per cent higher than the 1989 estimates.

On the other hand, new monetary and exchange-rate policies dissuaded the price increase, and new currency manat became stable against foreign currency. In reality, in 1994 inflation grew by 17.63 per cent. Inflation, however, fell to 1.8 per cent in 2000.

Foreign direct investment played a key role in Azerbaijan's economic recovery. The most significant portion of direct foreign investment has been spent on the oil production market. From 1995 to 1998, the volume of foreign investments was raised by 59.1 per cent. In 1998, the share of stable investment in GDP was 40.6 per cent, which is twice as high as the 1995 figures. Yet only 0.5 per cent of foreign investment was spent on the Agriculture market, which was the country's second-largest source of jobs. International investors have discouraged funding for the manufacturing sector. As a result, the sector's production shrank sharply.

Azerbaijan has formed economic ties with 122 countries since 2000, and total trade ties amounted to over \$2.9 billion. The number was 2.2 times that of the 1993 estimates.

Another important element in Azerbaijan's economy has been the seizure of Azerbaijan territory by Armenian armed forces. As a result, Azerbaijan lost 20 percent of its territory, resulting in the nation losing one-fifth of its production capacity and 300,000 jobs. In addition, 12 per cent of the population immigrated. Around 290,000 family members, or 1,000,000 people, left their

ancestral homelands (my family is one of them). The total occupied land area was 22700 square km. The Nakhchivan borderlines were also affected by the Armenian armed forces attack, at the same time as the Mountainous Karabakh. 17,100 km² of Azerbaijan lands (around 20 per cent) are currently under occupation. In addition, 87 villages, 7 administrative districts, 11 towns, 1.3 million ha of sown area left 600,000 large and small cattle, 7,000 agricultural organizations, 850 educational organizations, 650 health centers, as well as 120,000 housing units in the occupied lands.

In addition, there were 160 bridges, 2300 kilometers of irrigation channels, 1,500 kilometers of electricity lines, 2,500 transformers, 23,000 kilometers of water channels, 2,000 kilometers of gas pipelines, 20 kilometers of sewer lines, 160 water tanks, 34 kilometers of gas distribution, communications stations for 35,000 consumers, 4 airports, and Baku-Aghdam and Baku-Nakhchivan-Yerevan railways in the area. There were 800 health centers, hospitals and polyclinics, 179 cultural houses, 825 libraries, 6 parks, 47 music and art colleges, 3 theatres, 3 galleries, and more than 300 historic memorials in the city. More than 180 industrial organizations have existed in the occupied territories of Azerbaijan, such as food industry, engineering industry, and electrical industry. And for those organizations, more than 18,000 people worked. The region's environment and land resources were very convenient for agriculture. Therefore there were 320 collective farms in Mountainous Karabakh, more than 90 private farms, municipal farms and some agricultural associations. This area received 24% of wheat production, 41% of grape production, 46% of potato production, 18% of meat production and 34% of the daily animal products. In addition 649,000 hectares of land is suitable for the planting. The iron, mercury, copper, marble, granite, gold, and mineral waters are abundant in the occupied lands. Azerbaijan deprived of 39.6 thousand tons of gold reserves in 3 gold mines for that cause. The area that had been settled was rich in animals and plants.

Approximately 20,000 people of Azerbaijan were killed, 5,000 people were missing and 1,050 became invalid as a result of the Armenian barbarism since 1988. 210,000 students were deprived of employment, and 23,000 people lost their jobs in educational establishments. It damaged 100 km of highways, power, water, gas lines and other infrastructures.

The land connection with the Nakhchivan Autonomous Republic through the inside of the country was cut, and Armenian forces surrounded this area. In addition, 130 km of railroad was breached. Therefore the only connection is possible in terms of passenger and freight transport through Iran.

Until the invasion, large amounts of cargo from Europe to Asia and vice versa were moved from the territory of Azerbaijan. Around 300 wagons passed in a month from the Azerbaijan area. After the invasion, Azerbaijan inevitably deprived of transit revenue.

In the Mountainous Karabakh region, 150,000 civilian homes, 7,000 industrial and agricultural institutions and 4,400 educational, cultural, health and public institutions have been lost. It can be said that in the Karabakh war, Azerbaijan lost more than \$100 billion.

In other parts of Azerbaijan, in metro, sea, and highways, Armenian terrorists continued their acts of terror. As a result, more than 2000 people have been killed, and 10,000 wounded. Terror activities led to millions of dollars in just two metro stations.

In the occupied lands, drug plants are bred and transported to Iran, Russia and other nations. Armenian armed forces are controlling 128 km of territory from Horadiz (Fizuli) to Nakhchivan and thus the region's drug plant traffic increased. Armenian invaders exploit the gold mines in Kalbajar and Zangilan territories. The raw materials from the above-mentioned mines are transported to the Armenian district of Vardenis Gold Mine at Zod. It sells the prepared goods to Russia and other countries. The income from the above mines is the 51% of the Armenian budget. The occupied lands are also tainted. The radioactive waste is shipped to the Karabakh Mountainous Region. Additionally the area's flora and fauna was killed in the city. In the occupied area, 8-10 per cent of forest wealth is destroyed according to estimates. The economic loss is estimated at around \$30billion. 500 m³ of polluted waters flow to the Caspian Basin via Armenia and Georgia.

The war with Armenia also wounded foreign ties with Azerbaijan during the economic transition period. The key problems faced by the refugees are schooling, health, and employment. The refugees now reside in the 70 separate Azerbaijani towns and districts. "The State Commission for Refugees and IDPs" and the international and domestic organizations are responsible for the refugees and IDPs' problems. Education is the most significant issue. Thus the parents can't provide the school uniform and healthy food for their children. As a result the children were unable to access the educational facilities. The schools that are set up in refugee camps lack the basic capabilities. Both colleges are in fact part of all other colleges. The death rate in the refugee camps, particularly infant mortality, has increased in recent years. In tent camps and refugee dormitories diseases such as tuberculosis, jaundice, and malaria have increased. The people also suffer from the rheumatism and skin diseases.

Low nutrition among the people living in the tent camps also caused the illness. Over the last 25 years, the number of people with disabilities has risen among the refugees. Such events are found with the neonates. The children who were raised at home faced several issues, according to the researches. Despite of the question of unemployment, the people could not access the health facilities. The Heydar Aliyev Fund and the Republic of Azerbaijan State Oil Fund committed \$10 billion to dismantle the tent camps and develop the refugees' social welfare.

2.3.1. The Second Period Reforms

The economic stability had been reached since Heydar Aliyev came to power. After assistance from IMF and other international organizations, Azerbaijan's economy re-entered the era of economic growth.

Laws	Dates
The Law on Unfair Competition	January, 1995
IMF Stabilization Program	April, 1995
The Law on the Privatization of the Small-sized Enterprises	September, 1995
The Amendments on National Bank	June, 1996.
The Law on the Land Reform	August, 1996
The Law on Public Procurement	February, 1997
Executive Bankruptcy Law	June, 1997
Customs Law	June, 1997
The Law on Telecommunication	July, 1997
The Law on Electro-energy	1998
Bail Law	August, 1998
Securities Law	September, 1998
Employment Law	February, 1999
The Decree on the Establishment of the Oil Fund	December, 1999
The Abolishment of the Estate Committee	December, 1999
The Law on the Establishment of the Estate Department	February, 2000
New Privatization Law	May, 2000
The Tax Code	June, 2000

In this step of the transition process, three essential things were expected to be realized:

1. Usage of country's natural resources.
2. Establishing the necessary economic framework according to the values of the liberal-democratic market.
3. Global and Local alignment with the world economy.

The advancements made in this time can be described as follows;

1. In Economy, the equilibrium was achieved.
2. The essential developments were achieved with the country's natural resource activation.
3. The new socio-economic situation has been generated by land privatization.
4. The political economy, strengthened international ties and foreign investment brought the improvements to the economic growth.

In March 2001, President Heydar Aliyev signed the "State Program on Poverty Reduction and Economic Growth" to boost people's welfare through economic development and the production of new jobs. On 2 July 2001 the International Monetary Fund's Board of Directors approved the "Government Plan on Poverty Reduction and Economic Growth."

In Azerbaijan there are several obligatory explanations for reducing poverty. The income of 40-50 per cent of people was less than \$1 dollar a day, those years, according to World Bank statistics. In addition, according to another study, minimum living standards required \$86 dollars per month. The average salary was \$64.4 dollars a month. These statistics indicate that most

people were below the point of poverty (around 40-45 per cent). The number of people under poverty rates fell to 5.4 percent in 2017 as a result of the productive economic programs.

In April and May 2002 President Heydar Aliyev met with local and international businessmen. Through the tax, customs and licensing decree he signed in August and September 2002, he assisted local and foreign investors. Via these regulations the new age was introduced. The newly developed investment climate has begun to attract the international investors' attention.

As a result of the meetings between the president and the businessmen, the number of taxes decreased and the projects were made to boost the small and medium-sized enterprises.

2.4. The Third Period after the Independence (From 2003 onwards)

The period after 2003 is considered after the Independence as a third period. Ilham Aliyev, President Heydar Aliyev's son, came to power in 2003, and continued the positive economic and political reforms of his father. The key goals of this time are;

1. Contribution to global development and foreign policy strengthening;
2. Reconstruction of the energy sector through the programs in accordance with the second phase privatization,
3. The Strengthening of Economic Policy Social Paths,
4. Keeping social welfare healthier,
5. The Economy Diversification.

The government of Azerbaijan intended to improve social security through the establishment of ties with international organizations. Hence the main objective of the economic policies implemented during this time was the growth of the non-oil market.

Oil refining, chemical manufacturing, petrochemical industry, and electricity industry are increasing the economic value of the oil. If conditions are correct, Azerbaijan has the potential to build global market for oil products. The foreign investors have recently invested such kinds of strategic industries. The processes of modernization and restoration are carried out in the manufacturing field.

The electricity sector increases the productivity of the oil and gas goods being used. This area attracted considerably more foreign investment. The key goal of the economic growth plan is to achieve the new stage of development according to the current market ties. This strategy takes into account; the conversion of the Caspian Sea's oil and gas wealth to economic growth, the advancement of the country's transport system and human capital.

The Economic Growth Policy initiated in 1994 continued till 2015. The GDP per capita went almost to \$6,000 in 2015. On 11 February 2004 President Ilham Aliyev accepted the "State

Program on the Socio-economic Development of Regions". Three separate phases covered the socio-economic development program; 2004-2008, 2009-2013 and 2014-2018. The plan aimed at reviving the non-oil sector as well as the agricultural sector through the assessment of the regions' economic potential. The government had intended to increase education and social security for this.

In line with the growth of the non-oil sector in recent years several important milestones have been achieved. While non-oil sector growth is observed in the country's regions.

2.5. General Assessment of the Transition Period

Azerbaijan's alternative was the unification of Azerbaijan's economy with the global economy, and the transition to a free market economy. On the other hand, Azerbaijan made progress in terms of financing its life and growth. Of Azerbaijan belong all natural resources, investment and economic potential. The country has a currency with foreign recognition, Manat. Manat is on the road to being South Caucasus's biggest currency. The macroeconomic progress made during the transitional period can be described as follows;

- GDP increased 4 times or 400%
- Industrial production increased 30%
- Agriculture and livestock production increased 61%
- Investment volume increased 18.8 times
- International trade exchange increased 5.5 times
- Budget revenue increased 8.6 times.

In addition, during this time 17 short-term and long-term State programs were approved. The most significant in terms of regional and sectorial growth, was the recently approved regional socio-economic program.

While natural resources belonged to Azerbaijan, in terms of economic aspects there were some problems. The nature of these problems should be analyzed as the strengthening of democracy and the transition to free market economy.

At the start of the transformation process the major improvements were understood. It was approved by the unstable foreign-exchange regime. The amount limits, applicable in international trade, have been abolished. The economic stability has, on the other hand, been maintained in the last 25 years. The Manat is stable in value. In addition, inflation and expenditure are getting very small, and GDP is stabilizing.

Organizations such as the World Bank, the International Monetary Fund, the United Nations Development Program and the Asian Development Bank have endorsed the government's

macroeconomic region security strategy. Such Organizations also stress that the nation continues to have privilege and illegality.

The human development index stabilized as of 1996, according to the Human Development Index, published by the United Nations. Since 1990 the UN Human Development Index has been issued. This index shows people's welfare over GDP. The Human Development Index (HDI) is composed of three essential human characteristics.

- Long and stable healthy life (measured by average life expectancy)
- Quality of education (measured by ratio of people to their level of education; primary, secondary and high school, university)
- Living standards (Purchasing Power Parity / PPP, calculated by income)

This index is not however the detailed human development indicator. For example, the index of human development does not include income and gender inequality, and ensuring political freedoms. Until 2009 the rating is divided into three categories. According to the previous division;

Places of Countries	Human Development Index
1-63	High Human Development
64-146	Medium Human Development
146-	Low Human Development

As of 2009 the category "Very High Human Development" has been added to the table.

Places of Countries	Human Development Index
1-49	Very High Human Development
50-105	High Human Development
106-143	Medium Human Development
144-	Low Human Development

The human development index in Azerbaijan is equivalent to 0.754 according to the 2018 Human Development Report. For this result, Azerbaijan occupies 87th position out of 189 countries and territories and joins the group of "High Human Development".

In 2005, "Converting Black Gold into Human Gold Project" was scheduled to begin integration with the UN Development Program. On 27 September 2004, President Ilham Aliyev approved the plan on "Converting Black Gold into Human Gold". The project listed above has been signed between the Azerbaijan Republic Ministry of Economic Development and the United Nations Development Program. The project included making sustainable development possible by investing in the education system.

The political stability to achieve macro-economic stability in any country should be given. After Heydar Aliyev came to power, political stability was established, and continued during Ilham

Aliyev's presidency. Public policies and economic reforms, as well as the Baku-Tbilisi-Ceyhan pipeline service, resulted in the economic growth.

The transition period was ended as a result of the macro-economic stability of the last two decades, successful oil strategies, reviving economic potential, radical economic reforms and processes of reconstruction. President Ilham Aliyev stressed that the transition period is over and that Azerbaijan is entering a new era of growth.

Chapter Three

Macro-Economic Analysis of Azerbaijan Economy

During the transition era Azerbaijan's economy made more accomplishments relative to the other former Soviet republics. The presence of the rich natural resources caught foreign investors' attention. Some of the most significant factors stipulating economic growth were foreign investment. In terms of the macro-economy, economic progress persisted in the stable climate. The growth rate of the global economy in 2019 was equivalent to 2.7 per cent, according to estimates from the International Monetary Fund. In comparison, the global growth rate was 3.7 per cent in 2018, 0.5 per cent higher than the 2019 calculations. Some of the reasons why the growth rate decreased are mentioned as follows;

- Low commodity prices in world markets
- The adverse consequences of the tariff hikes imposed earlier in 2019 in the US and China
- The further downward revision since October partially reflects a change from softer momentum in the second half of 2018 – particularly in Germany following the adoption of new emission standards for automobiles and in Italy, where worries about sovereign and financial threats have weighed on domestic demand
- The deterioration of the financial-market sentiment and the recession in Turkey is now estimated to be greater than anticipated.

For all developing countries, the growth rate for 2018 was equivalent to 4.5 per cent. The acceleration of the growth rate in these countries is linked to the growth of US demands and investments and the recovery of the Eurozone economy. The growth rate decreased by 0.1 per cent in 2019 and is estimated to be 4.7 per cent in 2020. In 2020, the growth rate on the world economy will be increased by 3.3 per cent according to statistics from the International Monetary Fund. In the other side, there will be a rise of 3.4 per cent in 2021. The growth rate will be 2.5 per cent and 2.6 per cent, respectively in 2020 and in 2021, according to World Bank projections. The growth rate in Developing Countries in 2020-2021 is expected to be 4.4 percent and 4.6 percent respectively, according to International Monetary Fund estimates. Those estimates in Developed Countries will be 3.3 per cent and 3.4 per cent respectively. The Government's socio-economic development policy sparked rapid growth, economic diversification, entrepreneurship, and regional development.

The Macroeconomic Forecast for 2020-2024 of Azerbaijan Republic

Indicators	Measurement Unit	Report		Predictions				
		2018	2019	2020	2021	2022	2023	2024
The Real Sector								
GDP (market price)	billion USD	46.94	47.17	48.04	49.04	51.52	54.15	57.13
Real Growth Rate	%	0.97	2.7	2.11	2.15	2.21	2.35	2.42
Deflator	%	0.6	0.9	0.7	1.1	1.4	1.6	1.8
Oil sector, GDP (market prices)	billion USD	18.10	17.43	16.87	15.99	16.12	15.87	15.75

Real Growth Rate	%	0.5	0.4	-0,3	-1,1	-1,3	-0,9	0.5
Deflator	%	0,6	0.8	0.3	0,2	-0.4	0,1	0,3
Share (in GDP)	%	38,5	36,9	35,1	32,6	31,3	29,3	27,6
Non-Oil sector, GDP (market prices)	billion USD	28.84	29.74	31.17	33.05	35.4	38.28	41.38
Real Growth Rate	%	4,8	5,0	5,9	3,4	4,6	7,2	9,5
Deflator	%	1,4	1,5	1,7	2,1	3,3	4,1	6,5
Share (in GDP)	%	61,5	63,1	64,9	67,4	68,7	70,7	72,4

Source: The State Statistics Committee of Azerbaijan Republic

3.1. Gross Domestic Product

In the first years of independence, the decline was observed in the national income due to the lack of a modern tax system, international exchange restrictions and war. Approximately 60 per cent decline in Azerbaijan's economy from 1991 to 1995 was observed. Significant lags in GDP levels were observed in those years. In 1995 Azerbaijan began cooperation with the International Monetary Fund and the World Bank. The partnership involved fiscal restructuring and privatization programs. Since 1996 the economic downturn has been replaced by growth. In the transitional period, Azerbaijani economy was one of the fastest growing economies in the former republics of the USSR. Because of the huge amount of foreign investment, the most important growth was observed in the hydrocarbon market.

Gross Domestic Product

Years	Million Manat	Million U.S. Dollar	Per Capita	
			manat	\$
1995	2133.8	2415.2	282.1	319.3
1996	2732.6	3180.8	357.5	416.1
1997	3158.3	3960.7	409.2	513.2
1998	3440.6	4446.4	441.5	570.6
1999	3775.1	4583.7	480.1	582.9
2000	4718.1	5272.8	595.1	665.1
2001	5315.6	5707.7	665.2	714.3
2002	6062.5	6235.9	752.9	774.4
2003	7146.5	7276	880.8	896.8
2004	8530.2	8680.4	1042	1060.3
2005	12522.5	13238.7	1513.9	1600.4
2006	18746.2	20983	2241.1	2508.5
2007	28360.5	33050.3	3351.8	3906.1
2008	38005.7	46258.2	4439.9	5403.9
2009	34060.8	42575.7	3917.3	4874.1
2010	42465.0	52909.3	4753.0	5922.0

2011	52082.0	65951.6	5752.9	7285.0
2012	54743.7	69683.9	5966.1	7594.3
2013	58182.0	74164.4	6258.3	7977.4
2014	58977.8	75188.4	6264.1	7985.9
2015	54352,1	51471.7	5661.2	5361.2
2016	60425.2	37830.1	6597.2	3880.7
2017	70337.8	41380.3	7050.1	4147.1
2018	79797.3	46490.7	8026.1	4721.2
2019	81681,0	47140.5	7971.8	4689.3

Source: The State Statistics Committee of Azerbaijan Republic

Azerbaijan's Gross Domestic Product Growth was 11.8 per cent in 1995. The GDP rate began to rise as of 1996. In 1998, Azerbaijan was affected by the Russian crisis. Nevertheless, the economy later increased by 10%. The reasons for the increase were the increasing oil prices and related foreign investments in terms of the oil contracts. In 1999 the stability was observed in Azerbaijan's economy. Nevertheless, the investment volumes in the oil and gas sectors increased dramatically.

Azerbaijan was in the first place in 2000, in terms of economic development in states of the United Nations. Economic growth of 10 per cent was achieved in 2001-2002. This growth is focused mainly on the manufacturing and construction industries. The value-added growth in these sectors was 61 per cent and 17.7 per cent respectively. Domestic production volume went up from 60.1 per cent in 2003 to 63.1 per cent. The service sector amount declined from 31.9 per cent to 30 per cent.

Production growth was observed across all industries in 2008. As a result, 5.8 per cent growth rate of GDP in 1997 increased to 24 per cent in 1998-2008. As a result of oil sales Azerbaijan's GDP hit \$75 billion in 2014. Gross Domestic Product per capita dropped sharply in the first half of the 1990s, owing to global crises. In 1990-1993, living standards deteriorated 7-fold. Since 1995 the GDP has continued to grow. The GDP in 2014 ultimately reached \$7,986. The increase in income allowed the buying power to be strengthened and the real sector grew.

On 20th February 2003, the president approved the "State Program on Poverty Reduction and Economic Development". The "State Program on Poverty Reduction" focused on enhancing macroeconomic stability, rising incomes, growing investment in health and education systems, ensuring social security, and raising living standards. The Government aims to solve the question of unemployment through;

- Social policy and human resources development
- Regional policy
- Structural Improvement

- Development of existing potential

After the "State Program on Poverty Reduction and Economic Development" which covers the period from 2003 to 2005, the Azerbaijan government adopted a new plan that covers the period from 2006 to 2015. The poverty rate was 44.7% when the first plan was implemented in 2003. This figure dropped to 11.5 per cent in 2010, however. The "2006-2015" program is known as the "Long-term Sustainable Human Development Strategy" and aims to reduce poverty by 5-6%.

Over the past 10 years the minimum wages and living costs have risen. The national minimum wage cap is defined according to the following:

Monthly Minimum wages (AZN)

Years	Minimum wages (AZN)
2004	25
2005	52
2006	58
2007	64
2008	70
2009	84
2010	87
2011	93
2012	93
2013	105
2014	105
2015	105
2016	105
2017	116
2018	130
2019	143

Source: Trading Economics

The government aimed to increase people's economic wellbeing, and to minimize poverty by raising the minimum wage. The minimum wages rose by 200 per cent between 2001 and 2015. Private property related practices and private projects have a significant role in people's incomes.

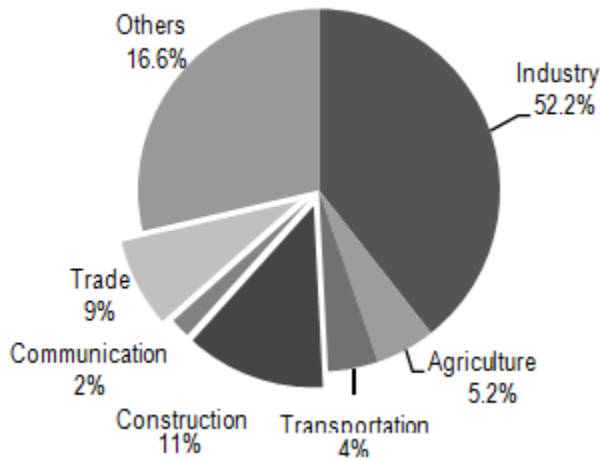
The salaries are second among the revenues. The average monthly salary was \$14 dollars in 1995 and \$50 dollars in 2000, according to the statistics. The minimum wage in 2003 was \$78 and this figure was 21.4 per cent higher than the 2002 estimates. In terms of average monthly income Azerbaijan is ahead of Armenia and Georgia. However the country in this region remains behind Russia and Kazakhstan. When we find the minimum cost of living, in 2011 Azerbaijan (\$136) took second position among the CIS countries after Russia (\$217). The government plans to increase monthly average wages in the upcoming years as well. In addition the average monthly wage is forecast to 151.00 AZN by the end of 2020, according to Trading Economics global macro models and analysts expectations. In the long-term, the Azerbaijan Net Minimum Wages

is projected to trend around 159.00 AZN/Month in 2021, according to the econometric models. The salaries of people employed in manufacturing, electricity, construction, and finance are higher than the salaries of others.

Implementing strict monetary and expenditure policies with International Monetary Fund guidelines has adverse effects on citizens. In addition, the reduction of subsidies offered in electricity, coal, and bread caused some transitional problems. Subsidies above were only eligible for refugees and IDPs. The income level in Baku, on the other hand, was twice that of the regions.

As a consequence of the reforms implementation, there have been major shifts in the sectorial distribution of GDP and the output of the private sector in economy. In 1995, the private sector's GDP share was 34 per cent. This figure increased more than a twice and reached to 85 per cent in 2019. Branches of industry and agriculture have more share of GDP. As a result of the investments the amount of oil production in GDP increased. In addition, major milestones were made in the transport and manufacturing industries.

Sectorial Distribution of GDP in 2019 (%)



Source: The State Statistics Committee of Azerbaijan Republic

Azerbaijan required a high rate of economic growth to complete industrialization, to modernize the agricultural sector and to attain maximum capacity to operate. The high rate of economic growth demanded the reforms. Hence the problem solving should be viewed as a long-term aim. Revenue management control is the first challenge for a fast growth rate.

3.2. Inflation

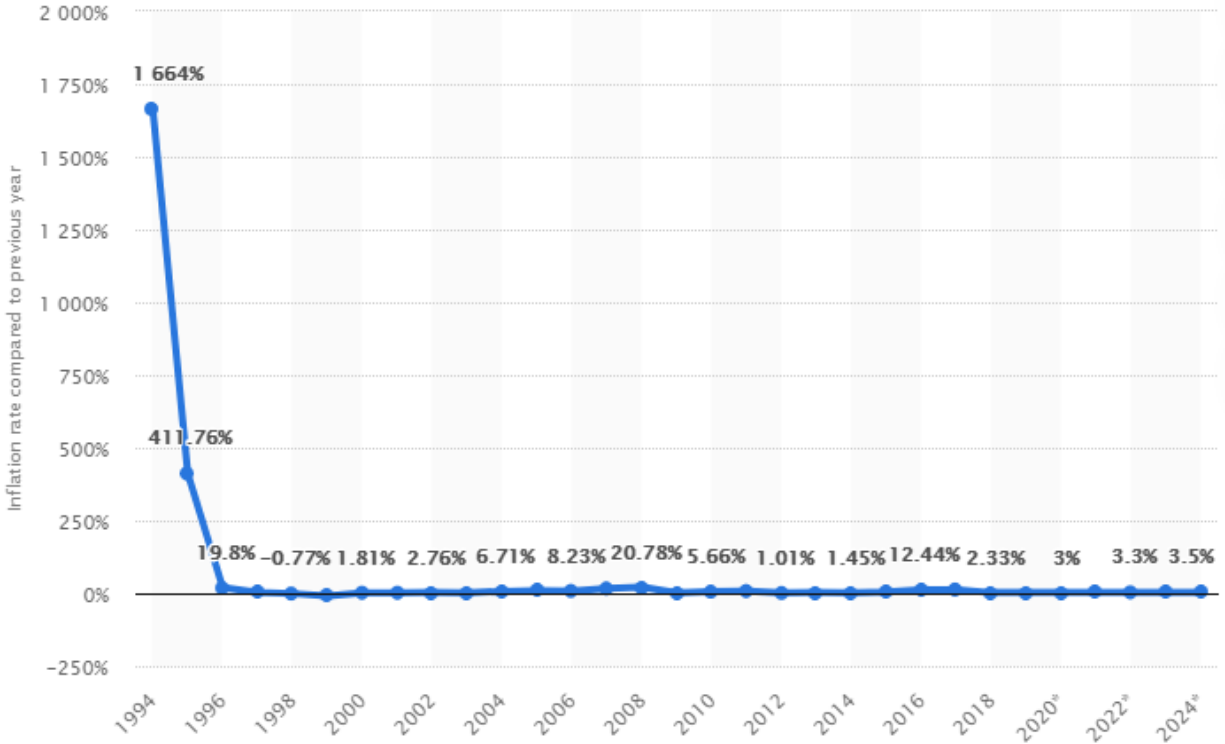
The citizens of Azerbaijan have been familiar with the idea of inflation from the first years of the last decade of the 20th century. Company closures caused the overall supply to decrease. As a result, the inflation rate went up. The goods needed absolute availability, which people had before. Hence the rate of inflation in 1990-1991 was lower than the expectations of the years to come. As a result of abolishing price controls, the price inflation was increased, and government spending was in line with the war. The lack of indicators in line with the money supply until 1994, the constant application of money emissions to meet budget deficits triggered hyperinflation through Manat's devaluation. Furthermore, the closing of the northern railway line, in line with the war between Russia and Chechnya, triggered import reductions and this was another factor in line with the increase in inflation rate. On the other hand, the approaches used by multinational foreign trade organizations have caused inflation gains. Despite the National Bank's intervention, Azerbaijan Manat was devalued against the US dollar, and consumer desires were redirected to import. The last two have played a significant role in keeping with rising inflation.

Briefly, the inflation rose to four digits as a result of the economic difficulties that existed from the former USSR as well as the war in the first years of independence. In 1994, the rate of inflation was 1,763.5 percent. The inflation rate was reported as 511.8 given the achievement of cease-fire in May 1994 and the reduction of inflation as a result of the reforms. Azerbaijan's economy started to get rid of the high inflation rate from 1996, owing to tight monetary policy. As a result, the government introduced a stabilization policy after the cease-fire deal ended high inflation rates. As a result the inflation in 1997 was one-digit.

Price reductions were observed during 1998-1999. In 1999, rates fell by around 8.5 per cent. The price rise began to be observed again from 2000 as a result of the softening of tight monetary policy in 1999. As a result of the price rise in 2005, inflation hit 12.4 per cent.

1/3 of the 2008 inflation was the product of rising national currency volumes. Inflation is explained by the increase of oil and euro in the region. The supply factors, a rise of 30 percent in people's wages and investment played a major role in inflation, which occurred in 2008. In addition, the rise in government spending also affected inflation. In 2008, the prices of raw materials production increased by 10.9%.

Inflation rate in Azerbaijan from 1994 to 2024 (compared to the previous year)



Source: The Statista (2020)

In 2007, inflation was triggered by conventional factors such as increasing demanding, utility reforms, and increasing prices of import goods (sugar, wheat, and so on) on the world market. Similar to the previous year, the inflation rate was 16.7 per cent. Meat, non-food goods and services rates rose by 16.2 percent, 10.5 percent and 25.3 percent, respectively. The inflation rate was 15.4 per cent lower than foreign organizations' forecasts (20-22 per cent). The average annual inflation rate fell to 1.5 per cent in 2009. It was 10 times less than the average of the preceding year. Maintaining the low level average annual inflation has led all social measures to increase. Inflation rate in 2010 was influenced by the surplus of food and demand dynamics. The annual inflation was 7.9 percent, with an average annual inflation that year being 5.7 percent. Average annual inflation is generated by rising food prices at 3.9%, non-food prices at 0.6% and service prices at 1.2% respectively. The monthly seasonal deflation observed in May-July, was followed by August price rise. The key factor in line with the non-food sector price increase was the forest fires which occurred in Russia. The prices of the imported building materials thus increased in line with the fires that period.

In 2011 inflation was entirely influenced by external factors. Inflation that year was 7.9 per cent. As in the previous year, inflation in 2011 was influenced by the rising food prices. Generally speaking, the country's average annual inflation has been lower than all the developing CIS and

oil exporters in the last years. The average annual inflation in 2012 was 1.1 per cent, which was the lowest figure in this decade. Inflation in food prices was reported at 7.9 per cent. Price stability was maintained and the average annual inflation in 2013 was 2.4 per cent. The services' prices in the inflation rate in 2013 were higher than in previous years. The price stability was again maintained in 2014 as a result of the policy introduced, and low level inflation was observed. In Azerbaijan, the price of goods was lower compared with the trading partners and this positively affected competitiveness. The average annual inflation rate dropped to 1.4 per cent in 2014. Inflation in food products was observed 0.4 percent, in non-food products 0.8 percent and in service prices 0.2 percent.

Azerbaijan suffered a double devaluation in 2015 after oil price slumped the previous year that's why the inflation rate increased after 2014 and reached double-digit levels again with an average of 12.64 per cent during the years of 2016-2017. Prices for consumer goods and tariffs for services in Azerbaijan increased by 12.9 percent in 2017 compared to 2016. During the period, prices for food products grew 16.4 percent, prices for non-food items grew 11.6 percent, and the cost of paid services increased by 9.3 percent. The real GDP grew by 1.4 percent, and the non-energy economy grew by 1.8 percent in 2018, reflecting greater volatility in most economic sectors, thanks to major policy reforms. Inflation in consumer prices decelerated sharply in 2018, dropping to 1.6 per cent from 7.9 per cent in 2017, according to the reads from the "World Bank" report.

In the last two years, inflation rate decreased by about 10 per cent in comparison with the years of 2016-2017 and resulted 2.33 per cent in 2018 and 2.8 per cent in 2019. In January-October 2019, prices of consumer goods and services in Azerbaijan rose. The figure illustrates the growth of 2.6 per cent compared to the same period in 2018, says the State Statistics Committee of Azerbaijan. According to the survey, food, drink and tobacco prices increased by 3.7 per cent, non-food items by 1.2 per cent, paid services offered to the population increased by 2.2 per cent in the period of January-October 2019. Market goods and services prices rose by 0.4 per cent in October 2019 compared to September of the same year. These included food, beverage and tobacco prices-0.2%, non-food goods-0.1%, paid services-0.9% respectively. In October, however, the cost of repairing, renting cleaning and clothes, fixing household appliances, vehicles, restaurants and cafes dropped. Additionally, prices of rental homes, rail and international air transport rates also dropped. Prices for other paying facilities had not improved substantially. In the meantime, the "World Bank" predicts that Azerbaijan's inflation rate will be 3.2 per cent in 2020, and 3.3 per cent in 2021. Based on Azerbaijan's government medium-term projections, the country's inflation rate is projected to hit 4.6 per cent by 2020, 4.5 per cent by 2021, 4.1 per cent by 2022, and 3.9 per cent by 2023. The average annual inflation rate in Azerbaijan measures a large rise or fall in prices which consumers pay for a standard basket of goods.

Rising world market oil prices, increasing the cost of production in the trading partner countries and the strong euro were the most important factors in line with the price rise. The major

inflation factor was the problems that existed at the Russian borders, as well as the elimination of the discounts on value-added taxes in line with wheat imports. The country's economy's inflation climate is likely in terms of price increase. The rising in energy goods prices would speed it up for the countries such as Azerbaijan but as it goes down the government has to focus more on the development of other industries. The unofficial price rise, lack of real statistical data will have a negative effect on the budget in the future. The price rise will have a detrimental impact on people's socio-economic status. As the prices go up in the country, the poverty rate increases as well.

During the transition period the inflation had a systemic character in Azerbaijan. Throughout the complex growth phase, it is very difficult to balance supply and demand. In Azerbaijan, the inflation rate of 10-15 per cent is considered natural, if controlled.

3.3. Employment

During the transition and stagnation time in Azerbaijan the great number of able-bodied people was unemployed. There were more than 1,000,000 refugees in Azerbaijan as a result of the Armenian invasion and this was one of the most important factors that raised the unemployment rate. The foreign turnover of the opportunity for jobs in Azerbaijan created some problems. In Azerbaijan job turnover is very high which affects the Azerbaijan demographic situation. The skilled workers, on the other hand, are not being used in relevant jobs, so they leave the country. People who are unemployed go to neighboring countries such as Russia and Turkey. The young and middle-aged men are mostly leaving the country. Such sort of brain drain can be seen in recent years. The government began carrying out social reforms to provide for their return to the country from 2005.

The 60 per cent of people who left Armenia and occupied lands were considered economically active citizens, but significant numbers were unemployed. The government has passed several significant legislations to reduce the unemployment rate. The Government's key efforts in this direction are the development of new workplaces, the creation of the appropriate labor structure and social security measures. Private sector growth caused joblessness reduction.

The overall level of workers is very slowly increased. The employment rate of people was 53.4 per cent in 1998, 56.9 per cent in 2001 and more than 80 per cent in 2016.

The job structure within the industries is continuously shifting. The employment level is decreasing in manufacturing and the construction sector, while the employment rate is rising in the service sector. Until 1998, the ratio of people employed in the agricultural sector remained constant and started to rise after that year. Jobs rates in the transportation, electronics, tourism, and construction sectors have increased. The employment distribution is illustrated in table below.

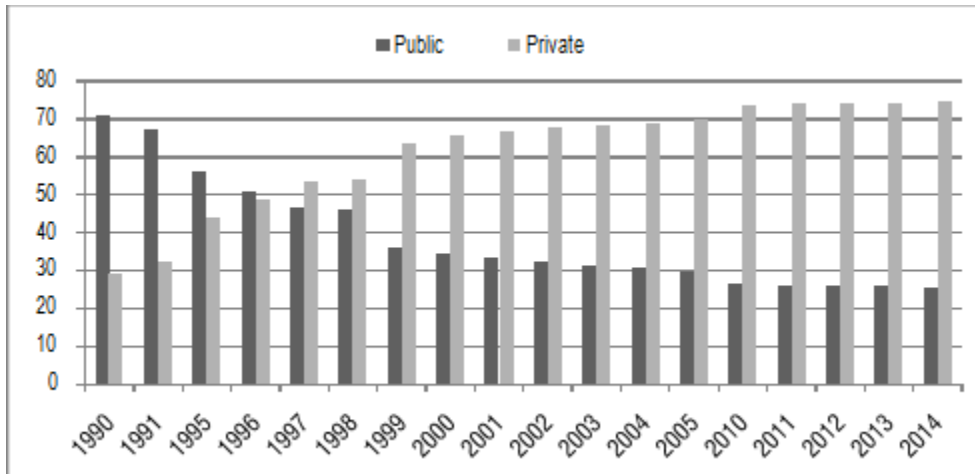
The Sectorial Distribution of Employment (thousand people)

	2005	2010	2015	2016	2017	2018
Economy – Total	4062,3	4329,1	4671.6	4759,9	4822,1	4879,3
Agriculture, Forestry, and Fishing	1573,6	1655,0	1698.4	1729.6	1752.9	1769.3
Mining Industry	42,3	41,5	39.1	38.1	37.9	40.3
Processing industry	198,4	208,9	229,8	242,2	249,1	254,8
Electric energy, gas and steam production, distribution and supply	27,9	30,6	27,1	27,3	27,5	27,5
Water supply, Waste treatment and processing	23,9	25,2	25,4	30,6	30,8	41,1
Construction	211,9	287,5	336,4	343,8	347,9	354,5
Trade; repair of motor Vehicles	634,8	626,7	693.7	699.6	705.9	706.1
Transportation and storage	174,6	179,1	197,1	198,4	201,0	203,2
The placement of the tourists and public catering	25,1	46,9	61,5	68,4	73,5	78,2
Information and Communication	32,3	55,8	60,3	61,2	61,7	62,8
Finance and Insurance	18,1	24,4	33,0	27,1	26,9	27,4
Operations linked to real Estate	82,1	69,6	89,7	88,0	88,8	90,8
Scientific and technical Activities	43,4	45,6	59,6	68,4	73,5	47,3
Administrative and subsidiary Activities	38,7	46,5	55,2	57,1	58,0	59,5
Public administration and defense, social security	256,6	279,1	287.3	285,4	284,2	281,5
Education	345,1	349,8	373,5	374,8	377,8	380,2
Health and social services	188,8	170,3	180,8	185,6	189,0	190,0
Entertainment and art	52,4	59,6	69,6	77,4	80,6	81,5
Other sectors	92,3	127,0	154,1	156,9	155,1	156,3

Source: The State Statistics Committee of Azerbaijan Republic

The monthly average income for the jobs is high in line with the oil and gas industry. In the health sector the lowest average monthly income is seen. Since 1990 the number of people working for the public sector has declined. Therefore, the public sector's share of jobs was 70%, but this figure fell to 25% in 2018 according to the statistics.

The share of the public and private sector in employment (%)



Source: The State Statistics Committee of Azerbaijan Republic

According to statistics taken from the State Statistical Committee, as of 1 July 2019 Azerbaijan's economically active population consisted of 5,167,900 people, of whom some 4,915,200 were working. As announced, a rise in the number of both the economically active and the employed population was observed compared with July 1, 2018. The number of economically active persons during the 2018 reporting period amounted to 5,108,900, of which some 4,856,500 were workers. The economically active people make up 51.05 per cent of Azerbaijan's total population. The vast majority of the unemployed are middle-aged men. As of 1 June 2019, there were 1,590,700 people working for hire, including 898,000 employed in the economy's public sector and 692,700 employed in the private sector. Of these, the oil sector employed 35,000 people, and the non-oil sector employed 1,555,700. Until July 1 the number of unemployed people registered with job service agencies rose by 19,200 people compared to last year's same period, reaching 55,800. Of these, women make up 34.6 per cent. The average jobless compensation payout size was 221.2 manats as it was 287.2 manats in the previous year.

If the statistics represent the real numbers, then the unemployment rate is lower than the rate of developed countries. But personally I don't agree with these numbers and from my point of view, the real level of unemployment is quiet more than the figures seen in statistics. However, officially, the unemployment is slightly rising year by year. In 2019, the unemployment rate in Azerbaijan amounted to approximately 5.4 per cent as it was 5.22 per cent in 2018.

There are many explanations for the joblessness. Socio-economic condition, transition from one socio-economic structure to another, and possible war are the key factors in line with the unemployment. Particularly notice should be taken of the number of unemployed people whose workplaces were closed as a result of incorrect management. At the other hand, technological progress has led middle-aged people to get unemployed. In reality, in market economies, this kind of problem is emerging.

Unemployment is one of the main problems in Azerbaijan which awaits its solution. The percentage of population who live below the national poverty line was 5.4 per cent in 2017. According to World Bank figures these people's average income was \$1.20 dollars per day.



Source: CEIC Data

The topic of unemployment is also one of the most significant concerns for the Azerbaijani government. The development of industries and the economy in regions and offers to in open 600.00 new workplaces can be an example for this concern.

3.4. Privatization

Upon independence Azerbaijan agreed to follow free economy. First of all, in 1993, the government of Azerbaijan adopted the Privatization Law, but it began to be applied after 1995.

One of the most important steps towards the implementation of the free economy was the enactment by Azerbaijani Parliament on 7 January 1993 of the "Law on the Privatization of State Property." The values of the economy of Azerbaijan should be focused on state land, private property and municipal property according to the above mentioned legislation.

The cornerstone of the market economy was established in 1993 through the implementation of the "Law on the Privatization of State Property," after which the first sale process began. But the plan was not approved by the Parliament of Azerbaijan Republic. The Parliament approved the "The State Program on Privatization" in 1995, following the long-term discussions. Privatization was the government's policy, with International Monetary Fund and World Bank recommendations. Systematic privatization and economic liberalization have facilitated the

transition from the command to the free market economy. In the first phase, the 2.3 per cent of state property was privatized at the output stage. In the first step of the privatization plan, the privatization of the commercial organizations such as restaurants, cafes, hairdressing salons, shops and tailor's shops should be realized. There is no privatization of the organizations in line with the oil, gas, telecommunications and cultural centers and mines. With the approval of the President or the Prime Minister of the Republic of Azerbaijan, however, these organizations may be privatized.

The privatization was accomplished by the State Property Committee formed in 1992. Just apartments and taxis were privatized from 1993 to 1996. Under the President's decree of 8 February 1997, 7.183.803 of the 8 million privatization vouchers were issued to the citizens by the State. Such privatization vouchers were given out without charge to the citizens. Through these vouchers, people can engage in privatizations and foreigners can engage with the so-called "option" privatization vouchers.

Finally in 2000 was the first privatization plan, which included 1995-1998, concluded. During the first step of privatization, the vast number of small and medium-sized companies is privatized. By the end of 1997, about 15,000 small businesses were privatized.

In 10 August of 2000 began the second privatization plan, leading to problems with the privatization's first phase. Therefore the second privatization plan was initiated with two years delay to be realized. During the second phase of the privatization program, the sale of the small and large companies was planned. The President of the Republic of Azerbaijan, Mr Heydar Aliyev, initiated privatization at the beginning of 2001. That year 100 major companies were privatized in the manufacturing, oil, and chemical industries. Within the second privatization process approximately 450 major companies were included.

In the second step of the privatization plan, the companies and businesses that should be privatized are divided into 3 groups; small, medium and large businesses. The employees were given 15 percent of the small enterprises and 85 percent sold in the voucher auctions. Medium and large companies were first transferred to the joint stock company and then privatized. Such companies; 50 percent of their shares is privatized through voucher auctions, 15 percent of their shares is privatized by offering vouchers to workers, 10 percent is privatized by auctions in return for cash money. The other 25 per cent of the shares were privatized by donation to the investment fund based on the government.

In the second phase of the program, the privatization of the communications, transport, chemical industry and energy sectors was realized. 40700 small businesses were privatized from the first date of privatization until 2005. In addition, 1537 state-owned corporations and 356 medium-sized and large enterprises are turned into joint-stock corporations. As a result over 150,000 thousand people became owner of private land. Consists of the country's overall economy after the second privatization program are as following:

- State property: 56.9% (4.913.639 hectares)
- Municipal property: 23.5% (2.032.744 hectares)
- Private property: 19.6% (1.695.123 hectares)

The small and medium-sized businesses that were privatized during the first phase of the program are emerging in the economy at present. By the beginning of 2005 about 47,000 small and medium-sized companies existed in Azerbaijan. One of the Government's goals was to help small and medium-sized enterprises. National Fund for Entrepreneurship Support was founded to assist financially resourced small and medium-sized companies.

The privatization was achieved even more rapidly in the Autonomous Republic of Nakhchivan, Baku, Ganja, Minghachevir, Sumgayit, Absheron, Barda, Goygol, Khachmaz, Sheki, Goychay, Masalli, Qusar, Ucar, Qax and Balakan.

Roughly 361,900 buildings were privatized from the first date of the privatization until 2005 and this figure was 59.5 percent of the planned buildings. One of the key priorities of the "State Program on Socio-economic Development of Regions of Azerbaijan Republic" (11 February 2004) was to accelerate the privatization of governmental-owned enterprises and organizations.

While the privatization of medium and large companies was considered by the second phase of the privatization program, the completion of the privatization of small businesses was even more important.

Nearly all small businesses were privatized as a result of the reforms. Considerable steps have been taken in the economy. The gross value of all small companies privatized was 6.5 per cent of GDP. The same success was not reached, however, during the privatization of big companies. From the beginning of the reformation era, approximately 1065 medium and large enterprises were privatized after transformation into the joint stock companies through the auctions.

Compared to the small and medium-sized companies, the privatization process of the large corporations was sluggish. The international investors' contributions, which later entered the privatization processes, are rising day by day.

Regardless of the gains, privatization and institutional changes are only slowly being understood. Sadly the reforms (privatization) begun since 1995 have not been successful. For some sectors of the economy some changes triggered the economic downturn. In addition, another problem was the unemployment that occurred after the privatization.

At the other hand, a further frustration was the privatization process, which is realized through the vouchers. Although of only the joint stock firms, the people could not actively participate. At the beginning the joint stock companies were created. Nonetheless, lack of regulatory oversight caused these companies problems. As a result, citizens began selling vouchers for privatization. Joint stock companies numbered 100,000. Nevertheless, in Azerbaijan recently there are just

about 50,000 joint-stock firms. The sum of money in the state budget was adversely impacted by sector privatization.

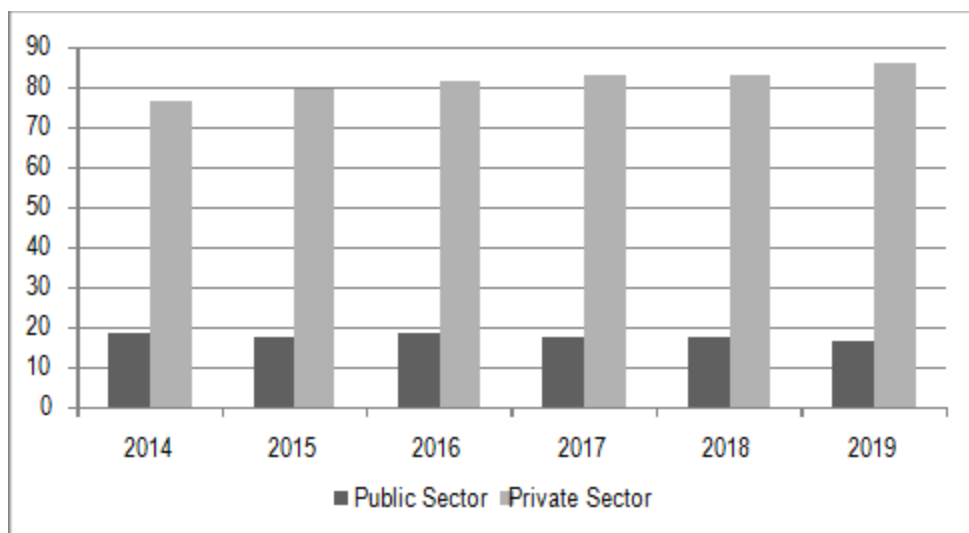
3.4.1. The Public and Private Sector

The private sector is the basement of the economy as a result of the privatization of the state property and the creation of private companies through the private initiatives of the citizens. In many sectors of the economy, particularly agriculture, the private sector is much more involved. As a result of the reforms the private sector's share as a macroeconomic measure increased. The share of the private sector in GDP was 46 per cent in 1997, 68 per cent in 2000 and 79 per cent in 2015 respectively. According to the statistics obtained in 2019 the share of the private sector in Azerbaijan's GDP has reached 84 percent and 76 per cent of the employed population work in the private sector. The private sector accounts for 91.4 percent or 130,000 enterprises or organizations out of 142,000 enterprises or organizations across the country. This illustrates that the state's position in GDP is slowly dwindling.

The taxes collected from the private sector play a significant part in shaping the state budget. In addition, the privatization of state property is the most important factor in keeping with the economic growth of the private sector.

Nowadays, the private sector takes part of about 60 percent of industrial development, 99 percent of forestry, 80 per cent of the transport sector and 75 per cent of the communication industry. Yet state monopoly played a significant role in the strategic sectors. State monopoly, which is the legacy of the former USSR, inhibits the growth of the economy. The only way to get rid of the state monopoly is to privatize the major companies. But this cycle in Azerbaijan is realized quite slowly. Personally, I think monopoly is a true problem and a pain for the development of Azerbaijan and for millions of Azerbaijanis.

The Predominance of the Private Sector in GDP during 2014-2019 (%)



Source: The State Statistics Committee of Azerbaijan Republic

In recent years, too, the role of the private sector in GDP has been growing. The private sector plays a significant role when all the information is considered. State enterprises are inactive in modern (especially industrial) Azerbaijani economy. In addition, certain private sector businesses will not be regarded as a private enterprise. For example, most of the anonymous companies (joint-stock companies) are regarded as state-owned companies. The private sector, on the other hand, is formal in energy production.

3.5. State Budget

Azerbaijan's defense spending increased owing to the Karabakh Conflict. Hence the state budget balance sheet from 1993 was out of order. The budget deficits, which were very high in the early last decade of the 20th century, have begun to decline after 1995. In 1994, the budget deficit stood at 9.4 per cent of GDP. That number, however, changed in the coming years and became 2.4 per cent in 1999 and 1 per cent in 2000. The budget deficit turned to decrease as of 2001 and was replaced in 2007-2008 by budget surplus. The budget deficit is increased at the same time as the budget revenues. The share of the expenditures on social protection and security is rising year by year.

The share of revenue derives from the oil resources mentioned below: the share of the State Oil Company of Azerbaijan Republic (SOCAR) in the budget was 36.5 per cent in 2002 and 31 per cent in 2003. If the State Oil Fund transfers are included, the share of revenues generated from the oil sector in the budget was 39.1 per cent. The number was 47.9 per cent in 2009 (38.6 per cent for SOCAR and 9.3 per cent for SOFAZ - State Oil Fund of Azerbaijan Republic).

The oil plays a significant role in keeping with the increase in budget revenues. Statistics show that oil sales fell within the sales from the budget. Since 2010, the share of revenues coming

from oil exports has increased. The oil transfer from the Oil Fund was at peak point in 2012 (54 per cent).

According to the statistics obtained from the Ministry of Finance of Azerbaijan Republic, in 2019, the revenues of the state budget of Azerbaijan Republic amounted to 23,168.5 million manats, while the expenses were 25,190.1 million manats. 7,316.0 million manats or 31.9 per cent of the state budget revenues accounted through the receipts from the Ministry of Taxes, 11,364.3 million manats or 49.6 per cent through the transfers from SOFAZ, 3,451.6 million manats or 15.1 per cent through the receipts from State Customs Committee and 785.6 million manats or 3.4 per cent through other incomes.

Excluding transfers from the State Oil Fund to the state budget, state budget revenues amounted to 11,553.2 million manats, which is 3.3 and 10.9 per cent more than the numbers in 2018 and in 2017 respectively. The oil sector consisted of 59.8 per cent or 13,854.8 million manats of the state budgets while the rest which is 40.2 per cent or 9,313.7 million manats falls to the share of the non-oil sector in 2019. The revenues from the oil sector are 2.7 per cent and from the non-oil sector are 4.7 per cent higher in comparison with the numbers of 2018. It should be noted that the revenues of the state budget for 2018 amounted to 20,127.0 million manats, expenses 21,047.0 million manats. The 2019 budget concentrated primarily on spending on salaries, education, and defense. Azerbaijani government is trying to increase the wages year by year by visible amount. The government intends to discourage corruption and bribery to do so.

Since 2014 oil price has started to decline. The state budget of Azerbaijan is adversely affected as a result of the collapse of the oil price on the world market. For 2020, the state budget of Azerbaijan is predicted based on an estimated oil price of \$55 per barrel and GDP growth of 3 per cent of next year. But unfortunately the oil price keeps decreasing so fast day by day in 2020. "Azeri LT CIF" which is the official name of the Azerbaijani oil on the world markets even saw the minimum price in the history on the 1st of April, 2020 with \$16.53 per barrel.

The budget deficit of Azerbaijan is estimated to widen to 2.8 billion manats (\$1.6 billion) in 2020, or 3.3 per cent of GDP. The revenues are expected to amount about 24.1 billion manats while the expenses approximately 26.9 billion manats. The country, where oil and gas account for about 95 per cent of exports and 75 per cent of government revenue, plans to produce 37.712 million tons of oil in 2020, slightly less than the 37.752 million tons of 2019, and 37.820 billion cubic meters (bcm) of gas, up from 35.183 bcm of the year 2019.

State budget revenues and expenditures (million manats)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 (Prog)
Total Revenues	11403,0	15700,7	17281,5	19496,3	18400,6	19438	16822	16255	20127	23168	24069
Including:											

Income tax of physical person	590,2	715,7	813,0	859,7	980,3	982,0	957	935	997,6	1014,8	1020,2
Income tax of legal entity	1429,9	2134,0	2252,0	2374,8	2302,7	2211	1806	1753	2405,2	2525,7	2537,1
Land tax	35,3	35,3	30,6	33,1	35,4	48	50	51	53	57	60
Property tax	101,8	103,9	105,1	125,1	141,3	148	174,2	165	178	187	193
Value-added	2082,5	2222,7	2366,9	2710,0	3119,6	3456	3336	3124	3750	3891	3936
Excise tax	514,9	480,2	531,5	593,3	797,3	684,0	637	493	672	725	741
The Mining tax	130,1	129,8	125,8	121,5	116,2	116	107	105	117	121	125
Taxes in line with the foreign relations	291,8	433,1	592,5	675,2	684,7	684,7	1120	1065	1324	1436	1512
Other taxes	90,3	140,6	157,6	161,5	192,7	180	458	460	572	614	621
Other receipts	6136,2	9305,4	10306,5	11842,1	10030,4	9559	7010	6873	13542,2	16387,9	17197,6
Total costs	11765,9	15397,5	17416,5	19143,5	18709,0	21100	18495	16900	21047	25190	26879
Including:											
Economy	4889,9	6803,2	6960,7	8207,5	7598,7	7598,7	3554,2	3321	7592,7	8322,7	8402,1
Socio-cultural Ceremonies	2901,4	3447,2	4072,9	4081,8	4484,4	4484,4	4564	431	4471,4	4879,5	4952,1
From them:											
Education	1180,8	1268,5	1453,2	1437,7	1553,9	1711	1713	1682	1685	1907	2014
Health	429,2	493,4	609,4	618,9	665,3	777	744,8	725	769	910	945
Social security and social defense	1123,0	1495,4	1769,5	1750,3	1971,2	2040	1896,5	1674	2029	2346	2479
The activities in culture, art, information and physical education	168,4	189,9	240,8	274,9	294,0	348,3	652,7	483,5	345,6	812,6	820,3
Science	92,8	106,1	116,7	117,0	124,2	124,0	131,7	119,5	121,2	142,9	159,4
Judiciary, law enforcement and prosecution	668,5	710,3	929,2	1049,3	1103,6	1240,2	1138,7	1096	1234,2	1437,1	1675,4
Legislation and execution, local governments	303,0	281,9	342,3	349,3	449,7	2047,6	542,3	498,2	2040,6	2341,8	2435,7
Other expenditures	2910,3	4048,8	4994,7	5338,6	4948,4	4498,7	4328,7	3785,5	4459,8	7789,7	8813,9

Source: Ministry of Finance of the Republic of Azerbaijan

3.6. Monetary Policy

Manat became the official currency of the Republic of Azerbaijan in 1992, after the adoption of the "Law on the Circulation of the National Currency" The Republic of Azerbaijan's national currency was jointly used along with the Russian currency ruble. The government has announced that the economy will be redirected to a free market system and Manat will carry out the privatization.

By 1994 onwards Manat was the country's only currency. In 1996, Manat started to be regarded as a result of the adoption of the "Law on the Currency Regulation" and the introduction of monetary and loan policies. In the first years Manat was devalued against the US dollar. No other wave was observed in the country's national currency as a result of the economic reforms and strict monetary policies which were introduced since 1995. Because of the high inflation rate in the neighboring countries, Azerbaijan Manat was revalued against them.

The rise was observed in foreign currency imports in 1997-1998 as a result of the Central Bank's policies and signed oil contracts supporting those policies. Azerbaijani Manat was also priced against the US Dollar. The fall in export revenues was observed in 1998 in line with the awkward usage of the Manat and Russian economic crisis. However, the Manat's value has been reduced, and since 1999 its profitability has been rising in the efficient monetary markets. The value of the national currency increased from 1999, after the softening of the strict monetary policies began. The fluctuating exchange rate started to be introduced in 1999, and the Manat devalued about 7 per cent against the U.S. dollar. It gives export of the local commodity a competitive advantage. Thus Manat was strengthened in 1999 by financial stability, strict monetary policy, and devaluation.

Due to Manat's devaluation the export products were consumed at low prices in the region, and high prices in foreign countries. In addition, the quality of the manufactured goods based on the raw materials imported was increased. In other words, the export revenue went to the countries whose currencies were priced against Azerbaijan Manat due to the expense of importing.

Manat was revalued in 2004, having been devalued against foreign currencies in 2000-2003. The key reasons for Manat's revaluation; the circulating money supply increased by 31 per cent, affecting currencies entering the country. The rise was in line with oil and gas resource growth, and as a result, the revenues increased.

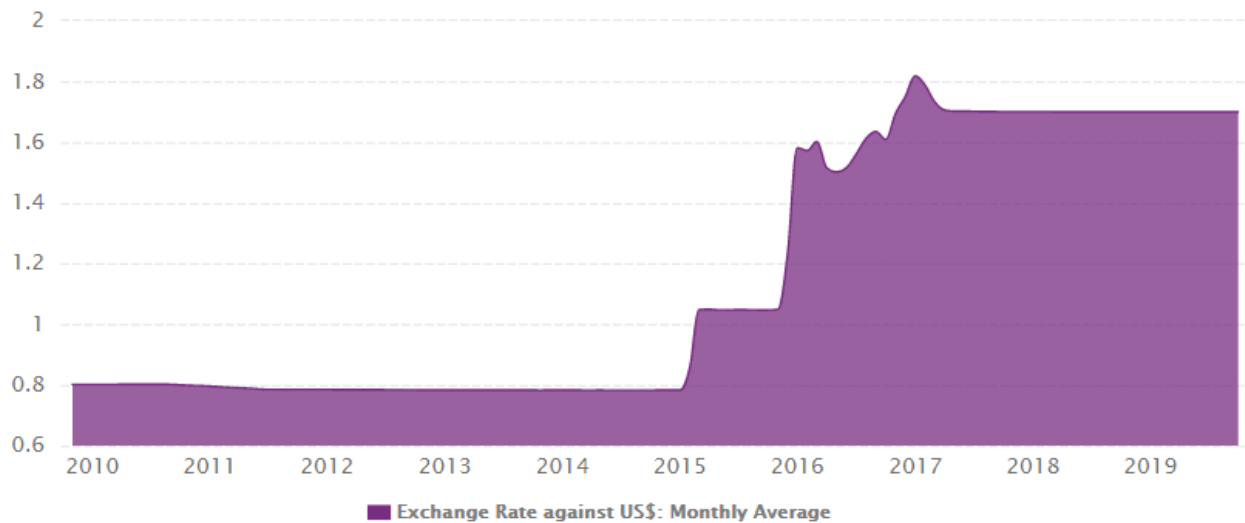
The value of Azerbaijan's national currency -Manat is listed daily in Baku Interbank Currency Exchange.

The actual and nominal currency values vary tremendously. Currency Exchanges and Banks are able to buy and sell currencies (+,-) with 5 manat variations.

According to 2004 estimates the currency reserves were \$876.86 million dollars. \$62.6 million was expended on the Central Bank's funds to pay out loans to the International Monetary Fund. The increase in purchasing-based currency reserves shapes the domestic exchange markets.

Azerbaijan has ample reserve currency. Nevertheless, more than half of the reserves were invested to maintain Manat's value as a result of the devaluation that was followed by a decline in oil prices. It should be remembered that, prior to the devaluation, the Central Bank of Azerbaijan reserves were \$14 billion dollars. In 2015 the Central Bank's reserves stood at \$7 billion. This number is equal to the importation of the 3 month product and service. According to the statistical data obtained from the Central Bank of Azerbaijan (CBA), as of 30 December 2019, currency reserves amounted to more than \$6.2 billion, having risen by \$632 million compared with the figure at the end of December 2018. The money supply at the end of 2019 amounted to more than 12.1 billion manats or \$7.1 billion dollars which is 39.5 per cent higher than in 2018.

Exchange Rate of Azerbaijani Manat against USD in 2010-2020



Source: CEIC Data

In addition, the denomination process has been carried out since 1 January 2006. The Manat's nominal value was reduced 5000 times, and New Azerbaijan Manat was created. The New Azerbaijan Manat was published into circulation, and it continued until January 1, 2007. In terms of the physical characteristics and meaning New Azerbaijan Manat was similar to Euro. Hence the cycle burst the country's dollar supremacy because the dollar performed the most important part of the cash transactions, and this restricted the Manat circulation market.

This condition has however changed in line with the extreme decline in 2015 oil prices. The equivalent of \$1 dollar rose from 0.79 AZN to 1.05 AZN on February 2015 as a result of the first devaluation of the national currency because of the decline in oil prices from \$ 120/barrel to \$ 60/barrel. The second devaluation was realized on December 2015, and \$1 equivalent increased from AZN 1.05 to AZN 1.55. The explanation for this was simple because there was a decline in global oil prices again which was to \$27 per barrel. Following the second devaluation, manat depreciation accelerated, and the exchange rate reached 1.92 AZN / USD on 1 February 2017. Thus, the manat rate has fallen by 144 percent, taking into account the first devaluation

(21.02.2015), and by 83 percent following the second devaluation. The equilibrium of the OPEC and non-member countries on the global oil market has been restored from the beginning of 2017, and the increase in prices began that is why the value of manat increased a bit since that time.

On today's date which is the 22nd of April, \$1 dollar equals to 1.70 AZN. As I am writing this chapter on April, 2020, we are seeing an extreme decrease in the global oil prices almost every day so the next devaluation can be seen in the upcoming weeks. Azerbaijani oil price has decreased again on the world markets as today's date. The price of a barrel of Azeri Light crude oil fell \$5.49 to stand at \$15.81. The record low of Azeri LT CIF was registered on April 1 this year with \$16.53 per barrel, and the all-time high was recorded in July 2008 (\$149.66).

There are enough cash reserves in Azerbaijan and that is very important. National resources however do not only include state land, but also citizens' properties. The world's existence is not only calculated by its cash-reserves. This is calculated by the people who work in it, by the social services. Azerbaijan has serious issues from that point of view. Population income level is very low, social stratification is extreme and there is no middle class in the country. In order to address this issue, the revenue received in the Oil Fund as well as the international loans should be used relevantly.

3.7. Foreign Trade

International trade liberalization to achieve economic integration without any major restrictions could lead to a decrease in domestic production and the internal market could depend entirely on imports. Yet the government wanted to improve domestic production. Nevertheless, the government's measures in line with domestic output increase faced opposition from foreign firms and organizations such as the International Monetary Fund and the World Bank. The new Customs Code of Azerbaijan Republic was promulgated in April, 2001. The government has tried to increase the custom taxes on the goods, which in Azerbaijan have a potential production capacity. However, due to foreign contracts, it was expected to be increased. Many goods' custom prices have been extended to 15 per cent, so this won't meet standards.

In the first years of independence (1994-1999) Azerbaijan's foreign trade balance showed a deficit. The increase in oil exports however caused the deficit to be abolished.

The overall amount of foreign exchange increased as a result of the economic policy, which started to be introduced after independence was achieved. The overall foreign trade volume rose 16.4 per cent in 1997, 50 per cent in 2000, and 500 per cent in 2004 in comparison with 1993. Compared with 2004, international trade grew 37 per cent in 2005 (30 per cent import; 40 per cent export).

Owing to Manat's extreme value, the export revenues decreased. Import rise, large investments in the hydrocarbon industry, caused the foreign trade deficit to rise to \$470.3 million. In 1999, the foreign-trade deficit was \$106.2 million. Since 2000 the export numbers have increased,

except for 2003. The key explanation for that was the implementation of the new international oil contract process.

The export has played a major role in GDP since 2000, when oil exports started to increase. Oil plays an important exporting role. The export share of oil and oil products was 64.8 per cent in 1998, 84 per cent in 2001 and 95 per cent in 2008. The most important part of this comes from crude oil exports. The price of oil exported from Azerbaijan rose in line with the rise in the world market. On the other hand, the amount of oil exported increased as well. As a result of everything mentioned above, however, Azerbaijan became dependent on the oil prices. Many important export products include food and metal.

Oil and oil products predominance in the exported goods would result in an increase as a result of the oil production. This can be a problem, like dependency on one field. To address this issue, the oil revenues should be diverted to non-oil field.

Export structure is different than import structure. Since 1996 the rise was also observed in imports. Private sector share in Azerbaijan's foreign trade; import 72.93 per cent, export 49.15 per cent. It should also be noted that, due to the growth of domestic demand, the decrease would be observed in the imports.

The absence of domestic production as well as Manat's devaluation against the U.S. dollar in 1997-2000 and 2015 made the import far less appealing. The value of merchandise exports from Azerbaijan amounted to \$ 19.6 billion in 2019 with an increase by 0.909 per cent compared to 2018. Goods exports grew up by \$ 176 million in 2019. In comparison the value of merchandise exports from Azerbaijan was about \$19.4 billion in 2018. Instead the value of merchandise imports to Azerbaijan amounted to \$ 13.6 billion in 2019. Merchandise imports to Azerbaijan rose by 19.1 per cent compared to 2018. Goods imports went up by \$ 2.18 billion in 2019 while the value of merchandise imports to Azerbaijan was equal to \$11.4 billion in 2018. According to CEIC, the total imports of Azerbaijan were approximately \$1.1 billion on February 2020, compared with a value of \$720.8 million in the previous month. According to the monthly statistics, an all-time high of \$1.4 billion was seen on April 2019 while a record low of \$75.9 million was on January 2000.

Foreign Trade of Azerbaijan (Million Manat)

Years	Import	Import Increase (%)	Export	Export Increase (%)
1991	1881.2	-	2120.9	-
1992	939.8	-50.04	1483.9	-30.03
1993	628.8	-33.09	724.6	-51.17
1994	777.9	23.71	652.7	-9.92
1995	667.6	-14.17	637.1	-2.39
1996	960.6	43.88	631.2	-0.92
1997	794.3	-17.32	781.3	23.78
1998	1076.4	35.51	606.2	-22.41
1999	1035.8	-3.77	929.6	53.34
2000	1172.0	13.15	1745.2	87.73

2001	1431.1	22.10	2314.2	32.60
2002	1665.5	16.38	2167.4	-6.34
2003	2626.4	57.69	2591.7	19.57
2004	3504.6	33.43	3614.4	39.46
2005	4 211.2	120.1	4 347.2	20.2
2006	5 266.7	125.0	6 372.2	46.5
2007	5 713.5	8.4	6 058.2	-5.2
2008	7 169.5	25.5	47 756	788
2009	6 119.70	-108.5	14 698	-307
2010	6600.61	107	21360.2	145.3
2011	9755.96	147	26570.8	124.3
2012	9652.87	-98.9	23907.9	-89
2013	10712.50	110.9	23975.4	100
2014	9187.69	-85	21828.6	-91
2015	9221,4	100	11 424,5	- 47
2016	14402,4	156	22747,7	199
2017	14905,6	104	26020,2	114,4
2018	19480,3	130	33080,3	127,1
2019	23203,8	119	33380,5	100,9

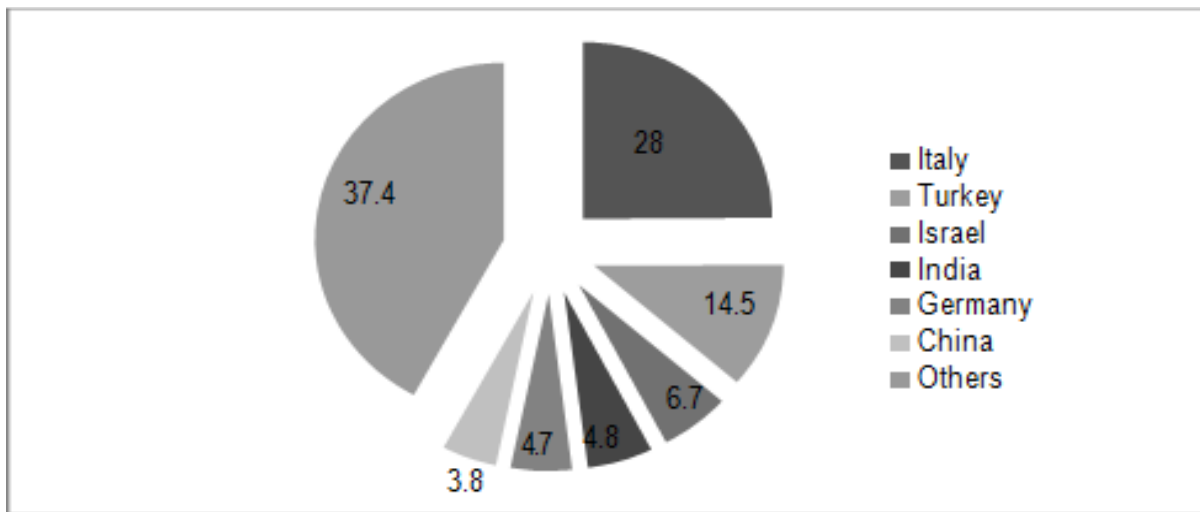
Source: The State Statistics Committee of Azerbaijan Republic

In order to import goods and services Azerbaijan needs a foreign currency and makes it constantly. Nevertheless, the oil revenues compensated for the lack of economic changes, slow industrialization, and trade deficits. The condition is not good for the country and even it is the disease. In order to get rid of the epidemic, the structural changes such as increase in the pace of industrialization decrease in imports and increase in exports should be realized.

3.7.1. The Main Partner Countries in Foreign Trade

Azerbaijan has trade relations with more than 150 countries. According to the latest statistics obtained at the end of 2019, Russia, Turkey, China, Switzerland, the US, Germany, Ukraine, Iran, Canada and Italy make up 70 per cent of the total imports. Instead, about 82 per cent of exports are supported by Italy, Turkey, Israel, India, Germany, China, Russia, Spain, Czech Republic, Georgia, France and the United Kingdom. From a continental view, 60.1 per cent of Azerbaijan exports by value were shipped to European countries while 38.2 per cent were sold to Asian importers. Smaller percentages went to Africa (0.5 per cent), Oceania (0.2 per cent) mainly Australia, then Latin America (0.03 per cent) excluding Mexico but including the Caribbean.

Main Countries in Export (2019)



Source: The State Statistics Committee of Azerbaijan Republic

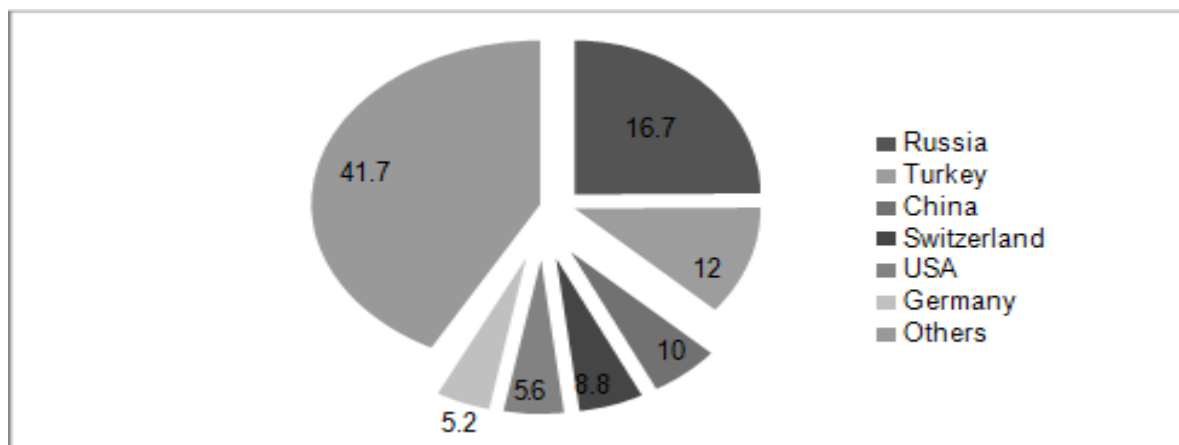
Trade accounts for about 92 per cent of GDP in Azerbaijan (World Bank, 2018). Yet its foreign trade still relies heavily on the countries of the former Soviet bloc, especially Russia. Oil and gas constitute a major part of exports in the region. Capital goods are an important part of the country's imports, from machinery and automobiles to electrical equipment. Its oil and gas reserves in particular provide the country with a degree of trust for the upcoming years, but economic diversification remains a major issue to be addressed. Many issues include the promotion of greater economic collaboration and transparency, and the reduction of monopoly control. Italy, Turkey and Israel are the main export destinations of Azerbaijan while Russia, Turkey, China and Switzerland are the main import partners (Trend Economy data, 2019). As far as international exchange is concerned, Azerbaijan appears to exchange more with the western countries. There are also some changes to the foreign trade priorities in the region. It should be noted that Azerbaijan is building trade ties with highly developed countries and developing ones. Export missions are mainly focused on supporting the brand of "Made in Azerbaijan".

The EU is the largest trading partner of Azerbaijan, accounting for about 41.7 per cent of the overall trade of Azerbaijan. The EU continues to be Azerbaijan's main export and import market, with 54.3 per cent share of exports from Azerbaijan and 20.3 per cent share of imports to Azerbaijan. EU imports from Azerbaijan consist mainly of minerals (fuels), petroleum and natural gas products, agricultural products, chemical products, machinery and base metals while the main EU exports to Azerbaijan are dominated by machinery, precious metals and their articles, chemicals, base metals and their articles, transportation equipment, foodstuffs, beverages and tobacco, optical and photographic devices, miscellaneous products, and plastics, rubber and their products.

The top export destination of commodities from Azerbaijan in 2019 was Italy because of the oil transportation through the port of Trieste. In 2019, Italy played the most significant role in Azerbaijan export with a share of 28% in total which was about \$5.63 billion dollars. Italy has been Azerbaijan's main trading partner for importing crude oil and petroleum products. Since 2003, 51.9 per cent of Azerbaijani exports have been directed to Italy. Italy primarily exports pipes to Azerbaijan for the oil sector and besides these tobacco, leather and furniture market play an important role between these countries. Azerbaijan exported 50 per cent of its oil to Italy in 2005. In the construction of the Baku-Tbilisi-Ceyhan oil pipeline, the owner of a 5 per cent stake in the Contract of the Century, an Italian company Eni-Agip, was involved. A number of other companies in Italy have also engaged in the contract-based development of the pipeline. Eni-Agip is also involved in the Shahdeniz project and on the Kyurdashy oil field. It was agreed on June 2013 that the Trans-Adriatic Pipeline (TAP) would go from Azerbaijan to southern Italy via Turkey and Greece.

Owing to the low quality of its products, export goods from Iran are not one of Azerbaijan's favorites. Iran nevertheless plays a significant role in Azerbaijan's international trade. Iran once was in the first place with an export market share of 38 per cent in Azerbaijan's foreign trade. In 2002, Iran's import and export weight in Azerbaijan stood at 3.5 per cent and 1.4 per cent respectively. In 2015 the gross trade turnover between these countries amounted to \$900 million. Economic relations between Iran and Azerbaijan have stepped up since the lifting of US economic sanctions. Iran's share of Azerbaijan's import was 3.31 per cent in 2019. The Russian goods achieved price advancement on the Azerbaijan market as a result of the financial crisis in the Russian Federation in 1998, and the devaluation. In 2018, trade turnover with Russia reached USD 2.5 billion, 19.1 per cent higher than in 2017 (Central Bank statistics). Turkey with a share of 14.5 per cent in the total export amount which is approximately \$2.86 billion takes the second places just after Italy.

Main Countries in Import (2019)



Source: The State Statistics Committee of Azerbaijan Republic

3.7.2. Foreign Trade Relations with CIS Countries

The Commonwealth of Independent States or CIS is an intergovernmental body composed in Eurasia of post-Soviet nations. The Commonwealth of Independent States contains nine Member States. These states are: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Uzbekistan. This organization fosters cooperation in economic, military, and political aspects throughout the member states. The organization has some control over trade, finance, defense, and law making as well. The nations must also work closely to deter cross-border violence. The CIS, also known as the Commonwealth of Russia, was first established in 1922 through the USSR's Treaty and Declaration of Independence. In 1991 the signing of the Belavezha Agreements disbanded the Soviet Union and replaced it with the CIS. The CIS oversees three different organizations: the Eurasian Economic Union, the Union State, and the Collective Security Treaty Organization. Eight of the nine participants signed up for membership in the CIS Free Trade Area in 2012. Azerbaijan is the only full CIS member state not to participate in the free trade area. The overall region has an area of more than 8 million square miles, and a population of almost 240 million. The founding member states include Belarus, Kazakhstan, Kyrgyzstan, Armenia, Russia and Uzbekistan. Turkmenistan is a member associate state. It signed the CIS accession deal in 1991, but did not ratify the charter. While it was a founding member, it was never a full member and in 2005 it was named as an associate member state.

After independence, Azerbaijan preferred to develop trade ties with the countries out of CIS. There were some trade ties between Azerbaijan and the former union nations, however. Russia's reliance on global issues has generated some artificial problems for the realization of the independent economic policy and the national economy's development. The CIS countries' weight in Azerbaijan's export was 27.7 per cent in 1998 and 22.6 per cent in 1999. This measure hit 20.9 per cent in 2000. The sum of the foreign exchange was realized in 1991-1993 with the CIS countries. From 1994 the rate of foreign trade with the CIS countries began to decrease slowly. Imports from the CIS countries accounted for 80 per cent of total imports in 1991. In 1999, this figure was 31.4 per cent, in 2000 32 percent and in 2015 23.9 percent. Azerbaijan's exports to the CIS countries accounted for 22.7 percent in 1999, 13.5 percent in 2000 and 9.3 percent in 2015. With the CIS countries and Russia the decline in imports is slower than exports. Ukrainian imports decreased significantly.

Azerbaijan developed free trade regimes with all member states except Armenia, compiling legal structure for free investment. According to the Action Plan, Azerbaijan participates in the implementation of the CIS Economic Development Strategy till 2020 and the details about the achieved initiatives are provided to the CIS Executive Committee. In addition, the Review contains relevant information about the market environment in Azerbaijan, investor rights, free economic zones, manufacturing and SciTech parks. The Report on Azerbaijan's foreign policy has been revised periodically, the last summary of which was released on CIS's official website

in 2017. The study on the condition of small and medium-sized enterprise in the Republic of Azerbaijan was prepared by the Ministry of Economy in April 2019 and submitted to the executive committee of the CIS. During 2019, the Ministry of Economy representatives participated in working group meetings on the preparation of the Economic Development Strategy for the period up to 2030 and the Future Development Concept.

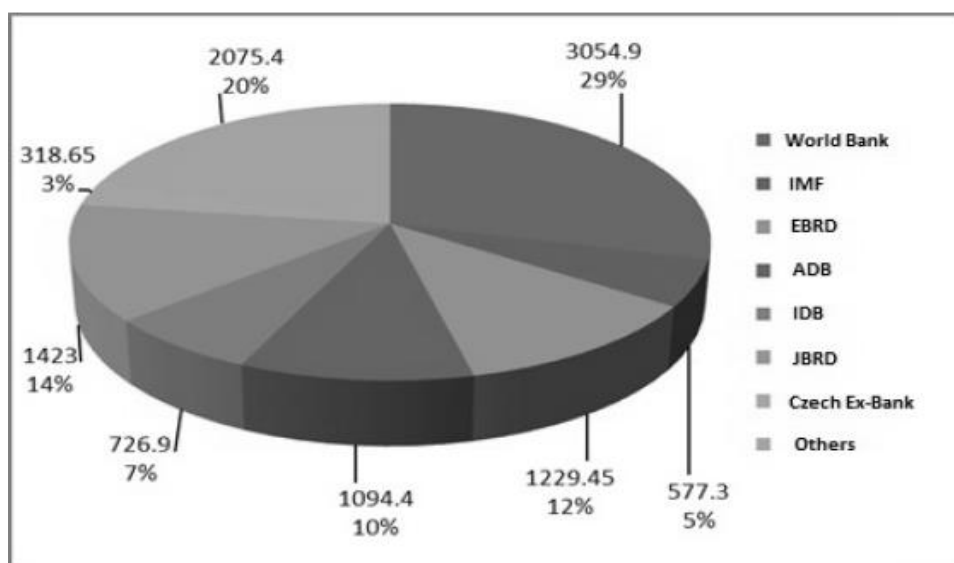
3.8. Foreign Debt

The amount of foreign debt and the external debt-to-GDP ratio have steadily risen by years. That emerged at the beginning of the transition period and it is observed that there is no annual direct investment with a view to entering financial markets. The use of foreign funds to finance state deficits, for example, may be interpreted from the growth rate of foreign debt against GDP. Given the fall in foreign investment in 1999, the increase in foreign debt indicates that international borrowing funds the annual deficit. Compared with the increasingly rising foreign debt, gradually growing export revenues induced growth in the foreign debt-to-trade ration.

The ratio of international debt / export grew from 7.3 per cent in 1993 to 77.1 per cent in 1999. In 2000, the figure was 66 per cent, in 2001 54 per cent and in 2002 63 per cent. In this case, the decline in the export rate does not find the collapse to have wandered the foreign debt of the country, but a restricted maneuver that could cause the debt owed to change there.

The external debt-to-GDP ratio in 1993 was 4 per cent. A rise of 18.6 per cent for 2004 will continue to grow, which should be troubling. On the other hand, the lack of financing from outside sources has caused external debt to rise. Given the rise in debt, increasing investments in oil production and exports did not cause any problems with repaying borrowed loans to emerge.

The structure of donors of signed loan agreements as of 1 January 2018, mln. USD dollar

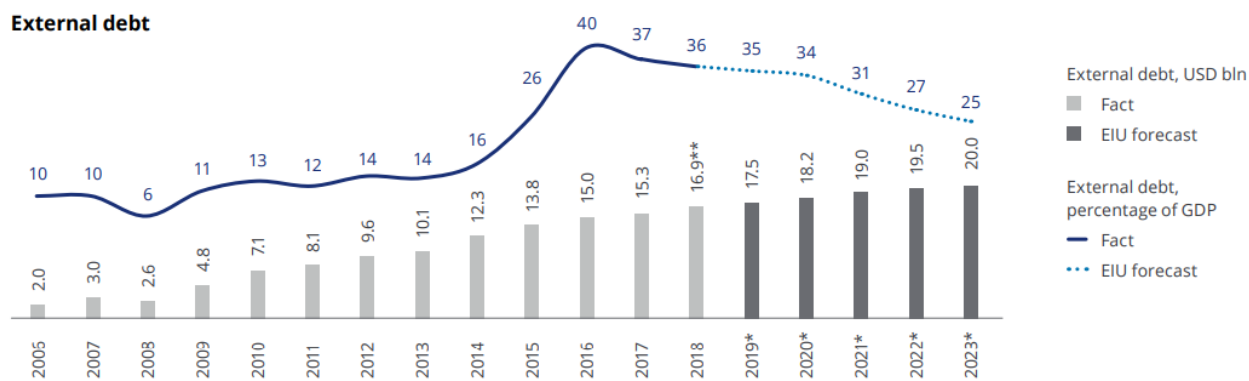


Source: The State Statistics Committee of Azerbaijan Republic

In addition to controlling international sources of finance in Azerbaijan, the borrowing policy attaches great importance. Azerbaijan's international public debt on January, 2019 was \$8,800 million or 14,960 million manats. The external debt of Azerbaijan reached \$9.1 billion on December 2019. The Gross Domestic Product (GDP) external public debt ratio was declared 17.2 per cent on January 2020 by the government. This includes debt figures from government direct liabilities and contingent liabilities on loans secured under the state guarantee. In his January 13, 2020 statement for the conclusion of the year 2019, President of Azerbaijan Ilham Aliyev declared: “At present out foreign public debt is rated very low, about 17%, and will reach to a lower number this year. At the same time we are financially strong enough to reduce the foreign debt even less. As I noted above, we earned \$6.4 billion of extra-budgetary resources last year. This year’s oil price is at approximately \$65 while some \$55 has been included in the budget. We incurred oil prices in a very conservative manner, i.e. at the low level ... I’m confident that we’ll have big influx of additional currency. In other words, high interest-bearing debts may be replaced by low interest-bearing debts and hold talks with creditors to guarantee clearing debts ahead of schedule”.

Most credits (33 per cent) were allocated in the energy sector in 2008. The transport sector is allocated to 9 per cent, the social sector 8 per cent and agriculture and land restoration 6 per cent.

Azerbaijan's external debt and its dynamics to GDP ratio



Source: EIU, Central Bank of the Republic of Azerbaijan

*EIU forecast

**Including USD 8.9 bln of sovereign debt as of 31 December, 2018

Source: The Economist Intelligence Unit; Central Bank of the Republic of Azerbaijan

Budget and foreign-currency reserves are increasing from year to year as a result of the expansion. Currency reserves of the Central Bank of Azerbaijan (CBA) amounted to over \$6.2 billion as of December 30, 2019, having increased by \$632 million, compared to the figure at the end of December 2018. Meanwhile the State Oil Fund amounts to approximately \$30 billion. All

of these projects implemented would allow balancing of domestic sources. Just one fact should be emphasized that, for the building of the Baku-Tbilisi-Kars railway, the Azerbaijan government has allocated \$200 million loan to the Georgian government. The fact shows Azerbaijan is a regional leader.

It should be noted that without entry into the world market and foreign debts, no country can be created. Therefore all countries around the world have international debts. The rapid integration of countries and international organizations into the world economic system produced shared obligations and debts. And the world economic system's superpowers received long-term loans from foreign organizations for the completion of major projects. Rising foreign debt can be harmful to growth if it crosses 30 per cent of GDP. It should be noted for comparison that developed countries' foreign debts are 40-60 per cent of their GDPs. This number is just 17.2 per cent in Azerbaijan. So this is not a danger to Azerbaijan. For example, Russia's foreign debt is \$450 billion on March 2020, and that's 29 per cent of GDP. Other Southern Caucasus Republic's foreign debt, Georgia has \$10.4 billion net external debt which is about 64.4 per cent of its GDP, and that should be considered an immense sum.

The Government Debt to GDP in developed countries is seen as follows: France - 98.1%, Germany - 59%, USA - 107%, UK - 80.8%, Norway - 40.6%, Italy - 135% and Japan - 238%. It can be noted that Azerbaijan's foreign debt is less than the debts of previously listed countries. The huge sum of sales from petrol reached Azerbaijan. The government frequently accepts loans from international organizations, as well as from foreign governments. The nonsensical condition is that infrastructure programs are invested in oil revenues and loans.

When considering the contract recently concluded between Azerbaijan and the International Monetary Fund, Azerbaijan's foreign debt per capita is about \$880 dollars. The number, however, was only \$283.9 in 2008. Loans are invested on infrastructure programs (85 per cent) and economic reforms growth (15 per cent). International Monetary Fund and World Bank loans are considered to accelerate the economic reforms. Loans from the International Monetary Fund, World Bank, European Bank for Reconstruction and Development, and Agency for International Cooperation in Japan are allocated for investment projects. Most of the lending is allocated to the energy market. There are also questions about the clear use of the loans.

Azerbaijan and Turkey have reached agreement on the contested debt issues. There are however some problems in debt issues between Azerbaijan and Turkmenistan. Georgia's debts to Azerbaijan are about \$6.291 million as of April 1, 2020. To cover foreign loans, 3 per cent of the budget is allocated. The ratio is lower than other CIS countries indicators. International debt was 6.4 per cent of GDP at the end of 2008. If the Oil Fund's funds find that the country's financial resources are covered. Foreign debt is risky, according to international norms, if only foreign debt is 40 per cent of GDP. If foreign debts exceeded 200-250 per cent of exports, it would also be dangerous for the economy. In fact, the most important portion of international debt requires 10 years.

Therefore foreign countries are providing Azerbaijan with financial assistance. The major countries helping the refugees are Japan, Germany, Switzerland, Turkey, Italy and Finland. Azerbaijan and Japan cooperate at a high level. After the Karabakh war Japan supported the Azerbaijani refugee issues. Japan has committed \$11,470 million by international organizations to Azerbaijan's refugee. Via "Grassroots and Human Security" grant program via their Azerbaijan embassy, the Japanese government initiated eight projects amounting to 480 thousand dollars.

Upon the freedom, strategic cooperation with Germany and Azerbaijan resumed. Germany ranks third in terms of assistance after the USA and Japan. In addition to economic cooperation, ties between Germany and Azerbaijan exist in the field of ecology and medicine.

3.9. Corruption and Government Transparency in Azerbaijan

3.9.1. Business and Corruption

The economy of Azerbaijan is beginning to undergo transformation and restructuring. Relatively modest taxation and government spending, in addition to its openness to foreign markets, have been central to the move towards greater economic freedom. Azerbaijan, however, continues to be a difficult market for doing business, not least because of the pervasive degree of corruption that has prevented many potential investors from entering the market. Similarly, according to the US State Department in 2013, non-transparent and arbitrary legislation, corrupt government bureaucracy, poor legal structures, and a private sector dominated by politically linked monopoly interests have severely hindered the country's foreign direct investment. This is reinforced by the Global Competitiveness Study 2013-2014 of the World Economic Forum which outlines that government officials' favoritism when deciding on policies and contracts is an obstacle to doing business in the country and that public funds are often diverted due to corruption to well-connected people, businesses or groups. Despite the adequate definition of property rights regulations in Azerbaijan, according to the Bertelsmann Foundation 2012, the efficacy of regulations and property rights registration procedures is significantly undermined by the intervention of high-level officials with the intention of soliciting bribes. The same source states that many instances are reported where the Azerbaijani state has confiscated private companies and handed them over to new owners for political reasons.

In Azerbaijan, as top officials routinely invest in strategic industries, government and business leaders are closely interlinked. The 2013-2014 Global Competitiveness Study states that Azerbaijan performs badly in relations with public authorities, lawmakers and other businesses in relation to the ethical behavior of businesses. In addition, government representatives regulate firms and powerful elites regard state enterprises as private property. This is further strengthened by Freedom House 2013, which states that corrupt high-level officials dominate a large part of the economy, which greatly restricts the equality of investment opportunities between companies. The intermingling of political and business interests is exemplified in the 2013 US

State Department study, which explains how the Azerbaijan State Caspian Shipping Company (CASPAR) and the national airline (AZAL) have effectively blocked the entry of foreign companies into their respective markets by using their mirror regulatory authorities to establish foreign investment barriers in their respective markets.

There are few institutional bribery controls in the country and rapid growth in the energy sector has created tremendous opportunities to institutionalize corruption. According to the Global Corruption Barometer 2013 by Transparency International, corruption in the corporate and private sectors is considered to be relatively prevalent, with more than one third of all respondents assessing the sector as "highly corrupt". In the Global Competitiveness Study 2013-2014, business executives surveyed described corruption as the most problematic factor for setting up business in Azerbaijan. The US State Department reported in 2013 that foreign companies operating in Azerbaijan are facing restricted market access and discrimination as they join those sectors. Procedures related to the acquisition of business licenses and credits are used as regulatory hurdles in order to discourage competition in strategic sectors and to produce bribes. In order to help reduce the costs and risks of corruption while doing business in Azerbaijan, businesses are advised to use a specific public procurement due diligence instrument for these purposes. Furthermore, it is recommended that companies establish and enforce integrity programs and conduct comprehensive due diligence prior to committing funds or when they are already operating in the region.

Transparency Azerbaijan, a national division of the International Transparency Organization, has illustrated the 2019 Corruption Perceptions Index (CPI). Report represents that Azerbaijan is ranked 126th out of 180 countries with 30 points in the 2019 CPI. However, in 2018, Azerbaijan ranked 152th out of 180 countries with 25 points. The Corruption Perceptions Index ranks 180 countries and territories by their perceived levels of public sector corruption, according to experts and business people.

Statistics of the last five years have been as follows:

Years	CPI point	Number in the global ranking	Number of countries in CPI
2019	30	126	180
2018	25	152	180
2017	31	122	180
2016	30	123	176
2015	29	119	168

Source: Transparency International (report.az)

3.9.2. Regulatory Environment

In the Azerbaijan bureaucracy, corruption is institutionalized. In exchange for disproportionate benefits, businesses are often met with a highly bureaucratic regulatory climate, providing endless opportunities to demand bribes. According to the US State Department in 2013, the country has been working on developing its regulatory structure over the past few years, but reports of corruption, lack of accountability and politically related economic monopolies remain among the biggest barriers to companies operating in Azerbaijan. In addition, according to the US Department of State 2013, the publication and enforcement in Azerbaijan of the adopted anti-corruption laws and regulations is either substantially delayed or not executed at all.

As a result of a non-transparent regulatory environment, businesses operating in Azerbaijan may face serious challenges in obtaining the requisite business licenses, including ongoing demands from public officials for bribes. Companies surveyed in the Global Competitiveness Study 2013-2014 of the World Economic Forum identify bloated government bureaucracy and tax legislation to be among the country's most troublesome factors for doing business. More positively, the US Department of State announced in 2013 that the government had developed a new business registration system based on the concept of a one-stop shop under the Ministry of Taxation, which would enable businesses to register within three days. Doing Business 2013 states, however, that it takes 11 days for businesses to register land, which is longer than the government originally intended. As tax officials have a reputation for being notoriously corrupt, the tax administration also poses challenges for companies in Azerbaijan. The Foreign Investment Security Law permits foreign direct investment in most industries. The restricted areas include those related to national security and defense and other main fields, such as energy and communications, are closely monitored by the government.

Several pieces of anti-corruption legislation have been passed by Azerbaijan, including laws restricting gifts to civil servants and ministerial ties with private companies. However, the laws and regulations in place to tackle corruption are not efficiently implemented, with the most prevalent corruption in the legislative, tax and dispute resolution processes, according to the US State Department in 2013. The consistency, efficiency and openness of governance issues, as well as the corruption of the regulatory system and inadequate enforcement of contracts, significantly hinder the ability of many companies in Azerbaijan to do business. In the Global Competitiveness Study 2013-2014, business executives surveyed study that the judiciary is not independent of the political pressures of members of the government, people or businesses that could adversely affect the amount of time needed for appeals and dispute resolution procedures. The International Arbitration Law of 2000 permits the operation of international arbitration of commercial disputes in Azerbaijan as well as in any foreign jurisdiction mutually decided by the parties. Azerbaijan is a member of the International Centre for the Settlement of Investment Disputes (ICSID) and is a signatory to many international conventions governing the mutual recognition and implementation of global arbitration, including the New York Convention of 1958.

3.9.3. Corruption and Progress in Azerbaijan's Oil and Gas Sector

The phenomenal development of the market economy of Azerbaijan can be explained by the rapidly rising production and export of oil and gas. More than 70% of Azerbaijan's exports and 60 per cent of its GDP are accounted for by the oil and gas sector. In the field, the state holds tremendous interests, and there are strong ties between the oil and gas sector and government agencies. Despite the government's steps to tackle corruption and accountability problems, allegations of corruption and illegal activities in the oil sector continue. For example, according to the US State Department in 2011, the oil and gas industry, despite the fact that Azerbaijan was called the first participating country to completely comply with the principles and requirements of the Extractive Industries Transparency Initiative (EITI) in 2009, is considered by many to be one of the greatest sources of corruption within the country.

In 1999, in order to collect and manage oil revenues, Azerbaijan established the State Oil Fund (SOFAZ). To endorse investments in infrastructure, education, poverty reduction and other social programs, SOFAZ contributes to the state budget. International and local non-governmental organizations say that SOFAZ is under the influence of the Presidential Bureau and that there has been widespread bribery and misappropriation of the fund's money by top politicians and officials. For example, in the presidential election year, the government spent a large amount of SOFAZ money on paying pensions and raising civil service wages. In addition, SOFAZ has been accused by local NGOs of financing growth in the oil sector rather than improving other sectors in the region.

3.10. Environment and Ecology

With a total area of 86,600 square kilometers of Azerbaijan agricultural area consists of 50%, urban areas 25%. Azerbaijan also boasts a diverse flora. The number of identified plants is well over 1,400. The forests occupy 12 per cent of Azerbaijan's land. 950 000 hectares of forest are deemed the land of the government. In total the nation has 127 million m³ of wood reserves. The government banned industrial and other forest cutting. Such activities impede, care for and plant tree striving for forest growth. The forests of the country are built out of the leaves of sheds and pine trees. Southern area flora is in grave danger. Thus the problems that occur in the area due to a lack of natural gas are important for the protection of the forest.

Illegal tree cutting is going in two ways; 1) heat, and 2) trade. In the Lerik, Guba, Balakan and Khanlar areas, most of the trees were cut down. As part of the restoration cycle 4,600 hectares of new trees were planted in 2009. These areas are mainly found in the regions of Gobustan, Gilaziand and Garadagh. In addition, some works are being carried out to plant trees in 500 hectares of area. The Ministry of Ecology and Natural Resources finds that forests are severely endangered by the lack of natural gas supplies. So it is expected to be that in future the process of deforestation will be intensified.

Azerbaijan's most significant natural resources are the oil and gas. Country also has rich mineral resources including iron, aluminum, zinc, copper, arsenic, molybdenum, marble, and volcanic

sludge. Azerbaijan is a country with Transcaucasia's highest rate of pollution problem. Complicated environmental situation created as a result of industrial activities in the last 100-150 years. The country's water supplies are adequate but these reservoirs are also contaminated. The proportion of heavy metals exceeds the proportion of usual drinking water by 10-15 per cent. Given the country's severe water crisis, 29 per cent of water is lost during distribution.

Given the decline in industrial production, air pollution is still high. Transportation vehicles are one of the major sources of air pollution. The hazardous pollutants in the environment, around 41 per cent of the total amount of waste an increase from road transports. Most of the cars manufactured in Russia have higher emission levels and do not care about pollution standards and norms. The toxic substances have breached the country's ecological balance, according to 2015 records. The weight of toxic waste among the industrial cities is listed below; 4 million tons in Sumgayit, 340,000 tons in the capital Baku and 37,000 tons in the other locations. In the manufacturing processes radioactive waste is known to be very harmful to the organism.

The quality of the soil has declined due to inadequate irrigation. Also relevant are economic problems which have arisen in the Caspian Sea. There have been more and more high-pollution incidents of seawater of recent years. The polluted rivers flow into the Caspian Sea. The Volga River accounts for 70-75 per cent of sea pollution. In fact, neglect of the houses' central sewage system also exacerbated the pollution. Certain factors cause emissions in the Caspian Sea include oil production and waste from other industrial installations.

Another environmental concern is the increase in Caspian Sea levels. As a result, major fishing region is in jeopardy. From 1977 to 1995, 50,000 hectares of land were left submerged as a result of sea level rise. It is expected to be over thousands of hectares in the future if sea level continues to increase the flooded area. The lowering of the Caspian Sea level, the biggest loss of 70-75 per cent of Azerbaijan's manufacturing capacity isolated to the coast. Problems related to soil pollution have increased in the country since the 1970s. Severe pollution occurs in the Absheron Peninsula Area. Cleaned land may be used for agricultural purposes, parks establishment and other useful purposes.

Chapter Four

Caspian Energy Resources and Economic Importance

Oil is Azerbaijan's most treasured asset. With the start of production over the past 150 years, oil is considered to be the main source of income for the country and the main source of export products, currently playing an important role in the economy.

Medium and long-term prospects for the growth of the country rely directly on reinforcing the oil sector. The proceeds from oil sales play a crucial role in solving some of the social and economic problems.

With regard to contracts signed by the discovery and development of Azerbaijan's energy resources, there has been an excellent potential for a historic moment, both politically and in terms of economic freedom. The oil contracts signed facilitate the influx of foreign capital into the country, while at the same time through foreign assistance and loans from international financial organizations.

4.1. Potential of Oil and Natural Gas

The Caspian field (Azerbaijan, Turkmenistan, Kazakhstan, Russia and Iran) has confirmed 10 billion barrel petroleum reserves. The oil reserves are estimated at 233 billion barrels. The Caspian region has proven natural gas reserves estimated at 170 Tcf (trillion cubic feet). Estimated country natural gas reserves, including Uzbekistan, are 293 Tcf. It should be noted that; with the Caspian region's hydrocarbon deposits, it is also very different from the projections with respect to Azerbaijan's oil and natural gas capacity.

Written contracts covering Azerbaijan's regions have 6-8 billion barrels (1 billion tons) of oil reserves, according to the Ministry of Energy. Just 730 million tons of oil reserves are in Azeri-Chirag-Guneshli. The information given above is based, we may say, on 0.7 per cent of the world's oil reserves.

Under the Mondros Armistice Agreement, the Turkish troops had to withdraw from Baku and the Allied troops had to reach the town. On November 17th, 1918, the Allies troop under General Thompson's command entered Baku and formed an organization called "British Petroleum Management," exporting 114 million rubles worth of oil from Azerbaijan via Batumi which is one of the ports of the Black Sea.

The economic and strategic importance of oil became more vivid after the war. Countries started to feel the need for massive quantities of oil to boost their national strength and realize economic growth. In the spring of 1919 Azerbaijani authorities sought to restore the gravely damaged oil industry after the Allied troops left Baku.

Because of the balance of the political situation in Azerbaijan in 1919 and the return of the oil industry to its former owners some increase occurred in the production of oil. Owing to the nationalization of the oil industry, the oil industry saw a further decline over the next 2 years. Thus, 70% of what was produced in 1919 was oil production in 1921.

At the other hand the conferences in Genoa and Hague were held in 1922. While the conference's stated motives were financial, in fact the real goal was just petrol and, most importantly, oil from Baku. The goal of these conferences was not to recognize Azerbaijan's independence, but rather to divide its oil resources among the countries behind which are hiding big oil terrorists. The only thing the conferences had talked about was oil. The fate of Azerbaijan was decided as a result of the Genoa and Hague conferences; Azerbaijanis sacrificed their young freedom for oil's sake and one Turkish nation was cleaned out for gasoline.

The underlying explanation for the rapid decline in Azerbaijan's oil production can be explained by the political changes in Russia and Azerbaijan. During the Soviet Union era, Azerbaijan was deprived of the benefit of its own oil and fulfilled a large portion of the Union's oil needs. Due to the unbalanced growth of oil industry investment to boost oil production and export, other industrial sectors' capital dropped. Under the Soviet Union reign the years from 1920-45 are known as the second period of oil. During this time, while the oil and gas industry significantly improved, the material and technological infrastructure significantly advanced. Between the years of 1945-90 is called the third phase of oil production in Azerbaijan.

In 1918, 165 autonomous oil companies were nationalized in compliance with the decision taken at Moscow by the Bolshevik government. In the same year the Independent Azerbaijan Democratic Republic was declared (1918-1920), the government agreed to cancel the nationalization of the oil industry giving back to the owners of those companies. Unfortunately, on 28 April 1920, the Russian Army invaded the Democratic Republic of Azerbaijan, preventing the resolution of the oil crisis. Following Russian Red Army invasion of Azerbaijan, the oil industry in Azerbaijan was renationalized. From 30 April 1920 onwards, oil from Baku was transported to Russia.

Oil production had started to decline since the invasion. As in 1921, it produced just 2,411 million tons of oil. In that time, nationalization of the oil industry and political change played an important part. In 1928, the already growing output of oil reached 11.6 million tonnes.

There was a great rivalry between Standard Oil in America and Shell companies in the UK during this time. Taking advantage of this rivalry, Azerbaijan sold oil through Turkey to foreign countries, and purchased products in exchange for the Soviet Union. While Lenin gave Azerbaijan some freedom in foreign trade and it caused complaints from some quarters, he supported the continuation of foreign trade provided that information about every action would be given. Slowly rising exports of Baku oil exceeded 1 million 650 thousand tons in 1925, the figure was 50 times higher than the 1921 exports.

In spite of the great efforts made to grow Azerbaijan's oil production and processing industry after the First World War, great progress in petrochemical, oil industry and mechanical engineering was achieved, but significant declines in oil output occurred. Despite this fact, Azerbaijan received 57 per cent of U.S.S.R. oil output in 1930. This figure increased to 71 per cent in 1940.

Azerbaijani oil in World War II - During World War II Adolf Hitler, who read, talked and knew a lot about the history of major oil fields around the world, tried to capture the oil fields in the Caucasus, particularly in Baku, according to a plan called "Edelweiss". In the way of a self-sufficient and thus invincible German Empire he regarded the oil in the Caucasus as the fundamental factor.

England, France and the USA were the focal points of the Baku oil fields. The previous mentioned states had plans to attack Baku to block Germany's access to Baku's oil fields and weaken the Soviet Union. However, after Hitler's invasion of Holland, France, and Belgium on June 22, 1940, Baku oil fields stopped being the main target. Thanks to the oil from Azerbaijan, the Soviet Union won World War II by beating Germany.

Azerbaijan's oil played a major role in the Soviet Union's growth and 20 million tons of oil were sent to the front during the Second World War. That's why Azerbaijan's oil had a significant effect on winning the war. The production of oil in Azerbaijan during the Second World War was like this: 25.4 in 1941, 15.8 in 1942, 12.6 in 1943, 11.8 in 1944 and 10.4 million tons in 1945. Since 1923 the steadily growing output of oil exceeded the record level in 1941.

During this time, 75 per cent of the oil produced in the Soviet Union accounted for oil extracted in Baku and the surrounding area. Given that Azerbaijan met remarkable part of the oil needs of the USSR during the War, Azerbaijan's geo-strategic significance becomes much clearer. The Second World War era caused grave damage to Azerbaijan's oil production process since oil wells had been destroyed in oil transport. The first oil production from the well discovery in the Caspian Sea "Oil Rocks" began on 7 November 1949.

In addition, Baku oil and industry has made a major contribution to the discovery and development of oil fields in Tatarstan, Bashkiria and Kazakhstan. For this reason new oil fields found in the Soviet Union have been called "Second Baku," "Third Baku," "Fourth Baku". In particular, the start of oil production in Siberian fields as well as along the Volga, Tatarstan, Bashkiria, Western Siberia, Kazakhstan led to a major decrease in the production of Baku oil after the 1950s.

Azerbaijan's share of Soviet oil production declined from 39.1% in 1950 to 12.9% in 1960 and to 6% in 1970, 3% in 1975, 2.40% in 1980 and 1.7% in 1990. The reduction can be explained through following factors during that period. First of all, continued production in offshore fields caused the reserves to dwindle, and even newly discovered fields could not avoid this cycle. At the same time, oil production was costly in specified areas. Second, as described above, very large oil fields have been found in western Siberia, western Kazakhstan and elsewhere.

Offshore oil accounted for 66 per cent of total output in Azerbaijan in 1985. In the 1970s and early 1980s, the technological capabilities of the "Kaspmorneftegaz" company were inadequate for exploring oil and natural gas reserves in the Caspian Sea region of Azerbaijan at a depth of more than 60 metres. "Gunesli" with large reserves was discovered with the aid of Gipromorneftegaz, and it brought more work into other fields.

As the other republics in the Soviet Union, Azerbaijan was governed and directed with the central planning, so it was unable to use its own resources above ground and below ground to fulfill its needs, depending on the central government. The sum of money paid out for the oil to Azerbaijan was 3-4 times lower than the mineral water level. At first, 35 rubles, then 65 rubles, and in 1991, 120 rubles were paid, the cost of one ton of oil was 131 rubles. However, in the last years of the Soviet period, 85 per cent of the central government's expenditures were devoted to oil in western Siberia, the Urals and the Volga.

By the end of the 19th century there began a great rivalry among the regional forces, world powers, and oil firms. Russia was afraid of losing its control on the oil market and boycotted a deal between American Standard Oil, the Rothschilds and the Nobels signed in 1895. The region's competitiveness, the ethnic tensions have been increasingly inflamed by bureaucracy and relatively less developed legal and business efficiency.

In the 19th century, technology development allowed the use of higher-level oil reserves, and this also increased power in the region. The contest based primarily around the Caucasus and the Caspian Sea. The crude oil extracted from the area in the 20th century played an important role in both world wars. The defense of the Caucasus oil fields was the allies' main task.

In the eve of World War II, Hitler's scouts were mainly pursuing oil in the Caucasus. The Soviet oil mined in the Caucasus, after the Germany-Russia Agreement in 1939, constituted one third of Germany's oil imports. Germany organized regular attacks in 1942 to capture influence in the region's natural resources.

It is clear that Azerbaijan has been unable to make much use of its own natural resources and has met the large proportion of the region's needs. In order to increase oil production and exports, investments in the oil industry have increased, while the capital invested in other industrial sectors has been gradually decreasing.

Upon the fall of the USSR, almost all of the world's attention turned to the independence-gaining Turkish nations. While these countries had rich oil and gas reserves, they did not have the financial and technological resources to use the oil and gas reserves alone.

The production and development of Azerbaijan's oil in the Caspian Sea was gathered in four fields including Gunesli, Chirag, Azeri and Kepez. However, declines occurred not only in the production, but also in the future reserves that could be produced due to the use of simple technology. If oil production in 1980 was 14.7 million tons, this figure slowly decreased and dropped to 12.5 million tons in 1990, 9.2 million tons in 1995 and 9.1 million tons in 1996. This decline in oil production resulted from the decrease in productivity arising from the use of old technologies and faults in oil drilling equipment renovations. In September 1992 the State Oil Company of Azerbaijan Republic (SOCAR) was formed by combining Azerineft and Azneftkimya to exploit Azerbaijan's rich oil reserves.

Increasing the production of oil and developing available resources will only be feasible with the use of advanced technologies and the discovery of new ventures. The economic strength and

technology of Azerbaijan were inadequate for the use and growth of available resources. These problems made the alliance of Azerbaijan with big companies indispensable.

The onshore and offshore oil is extracted in the region. The onshore oil is exported to Absheron Peninsula. Offshore reserves were primarily the subject of Azerbaijan's oil agreements. Azerbaijan has targeted using its oil wealth for the economy of the country through the agreements signed with the major oil companies. To this end, 23 international oil agreements have been signed in Azerbaijan with the participation of 33 companies from 19 different countries, including onshore fields since September 20, 1994. Contracts for production sharing span a period of 25-30 years. The overall expenditure value is more than \$60 billion.

In total, 400 companies are active in the implementation of oil projects including 72 local ones. The company's operations vary from construction facilities to environmental ones. The partnership between local and foreign companies enables the use of new technology, resources, and management strategies that play a major role in the transition from central management to market economy.

In Azerbaijan 75,000 people work in the oil field. People who work in the oil industry get higher pay than those who work in other industries.

The economic benefits of collaborations with international oil companies usually are as follows:

- It has given Azerbaijan the opportunity to renovate the oil production assets through modern research, oil extraction, use and entry of transport technologies into the country, as well as to set up businesses to help the oil and gas industry grow.
- Increasing oil production has contributed to a substantial increase in revenues from the budget as a result of the contracts signed.
- Azerbaijan has provided global workforce and access to the international market for raw materials, as well as the ability to take advantage of its privilege in the field of raw materials as a source of income to boost the economy of the country.
- When the growing output of oil and natural gas fosters jobs, Azerbaijan will be introducing new infrastructure projects. The oil and gas contracts have been negotiated in such a way as to guarantee jobs for local labor force. By opening new workplaces, it has helped to minimize unemployment.
- With the signed contracts, in particular with "Contract of the Century," Azerbaijan has proved to the world that investors can work and create partnerships on an equal footing.

Besides the above, concerns are frequently expressed about the oil contracts which include certain conditions against Azerbaijan's national interests. It is not only the oil production listed in the contracts, but also the provision of large volume orders for the products and services of local manufacturers, the opening of several new workplaces is reflected, hence the necessary supplies and services are mainly brought from abroad for the existing contracts. And in terms of orders,

local manufacturers' amount of products and services remains well behind as opposed to international orders.

The "Contract of the Century: Azeri-Chirag-Gunesli Fields Agreement," which is critical in terms of the country's oil reserves and "Shah Deniz," which plays an essential role in terms of natural gas reserves, will be discussed below. Many contracts would also be discussed in greater depth later.

4.2. The Contracts

4.2.1. The Contract of the Century: "AZERI-CHIRAG-GUNESLI" Fields Agreement

"The Contract of the Century," which is the most important among the others, has given the sector a new breath that lags behind during the Soviet period and has great economic significance for Azerbaijan.

The contract covering ACG fields is the most important historical event rooted in the independence of Azerbaijan and the attempts to change its status. The talks between Azerbaijan and western companies during the Soviet Union started in a very difficult situation.

The liberalization period that undermined the Soviet economy attracted western companies due to the discovery of rich mineral resources in the offshore region of Azerbaijan-Chirag-Gunesli and well-developed Azerbaijani oil industry.

The government of Azerbaijan agreed to welcome Western capital to the country to execute the projects because of the faults in the required equipment to discover, build and consume reserves. Projects for the country were opened to tender in January 1991. This tender included BP, Statoil, Amoco, Unocal, among other firms.

In 1991, several international firms, including Amoco, BP, McDermott, Pennzoil, Ramco, Unocal, Turkish Petroleum Corporation (TPIC) and Statoil, began working with Azerbaijan to develop research on Chirag and Guneshli fields located in the Caspian Sea sector in Azerbaijan for three years.

The companies wishing to work in oil fields in the Caspian Sea formed a consortium in 1992, and signed contracts. Provided SOCAR will purchase 30% of the plant, Azerbaijan International Oil Consortium-AIOC led by Abulfaz Elchibey signed an oil sector development agreement.

The talks had to begin in London in June, 1993, according to the agreement. Nevertheless, Azerbaijan's negotiations did not produce results due to the change of government. Suret Huseynov removed Abulfaz Elchibey from power without completing the negotiations. The new president of Azerbaijan, Heydar Aliyev, revoked this deal the same year. Meanwhile, Elchibey's immediate overthrow brought about negotiations with Heydar Aliyev among the companies around the table. The talks resumed on 4 February. SOCAR officially announced it to consortium partners in April 1994 that the Russian company Lukoil would purchase 10 per cent

stake. The consortium companies have taken into account the impact Russia might have on the future. In the future, Russia could pose obstacles to the passage of heavy cargo ships from the Caspian Sea's inland waters because of the control in the Volga River. As a result of these negotiations, Russia was also accepted into the partnership in Baku, Istanbul and Houston, and the contract was reviewed again, granting Russia 10 percent share of SOCAR. On September 20, 1994, following negotiations that lasted about 3 years, the Contract of the Century was signed between SOCAR and the consortium in Gulustan Palace granting AIOC the right to explore and extract oil in those areas, namely "The joint use and sharing of oil in Azerbaijan, Chirag, Guneshli located in the Azerbaijani sector of the Caspian Sea".

As a result the contract was signed amid several impacts and a crucial move in favor of Azerbaijan was taken.

Under contract terms, Azerbaijan is securing ownership rights in the three oil fields.

The contract entered into force on December 12, 1994, having been addressed on December 2, 1994 by Milli Majlis of Azerbaijan.

This project, also known as a mega-project, has a total investment value of up to \$11 billion and is projected to be 5.4 billion barrels (730 million tons) of gross producible oil reserves and 96 billion m³ of natural gas reserves. In addition, the fields hold 6 million tons of reserves of condensates. The estimated numbers listed above sometimes shift. The deal spans a 30 year term. Guneshli field is 82 km away, Chirag field is 94 km away and Azeri field is 113 km from the coast.

Consortium founded Azerbaijan International Operating Company (AIOC) in December 1994. Building structure of Azerbaijan's oil industry according to Western standards and taking these steps into account is the crucial part of AIOC's plan, whose main task is to monitor the work on a daily basis.

During the negotiation of the contract the issues faced covered the topics explaining that under some circumstances companies could cancel the contract. These are: the start of the war in Nagorno-Karabakh, the rapid deterioration of economic and political relations between Russia and Azerbaijan, the internal turmoil in Azerbaijan, the inability of the Azerbaijani government to have a secure export line, and any confusion that occurred in the Caspian Sea status system.

Japan wasn't in the consortium in the early years but it entered later. The Japanese company "Itochu", which had not previously participated in the deal, later bought a 2.45 per cent stake from "McDermott International" selling all of its shares and joined the consortium "ACG". The Japanese corporation subsequently bought 1.5 per cent of AMOCO's 5 per cent stake, thus reaching 3.9 per cent.

EXXON bought 3% of the shares of AMOCO, while UNOCAL bought 0.5% of the stock. Earlier SOCAR's share was agreed to be 30%, which delivered 10% of it to Russian Lukoil prior to the contract, and in April 1995, after signing the contract, it gave 5% to EXXON and 5% to

TPIC on the same date. While it wanted to give Iran a 5 per cent share, due to pressure from the West, this initiative failed to be realized.

"The Contract about the Agreement on Carrying out the Operations Together" was signed between consortium members and as a result of this contract was formed Azerbaijan International Operating Company. This company, which was founded beyond SOCAR with the participation of 11 companies from other countries, serves the field use.

In the Contract of the Century, the final version of the current distribution is as follows:

BP (operator) - 34.13%

Unocal - 10.3%

SOCAR - 10%

INPEX - 10%

Statoil - 8.56%

ExxonMobil - 8%

TPAO - 6.75%

Devon - 5.62%

Itochu - 3.72%

AmeradaHess - 2.72%

"The Contract of the Century" is more like "Production Sharing Arrangement," so if we look at the share distribution, it's clear that the United States has the largest share. American businesses have a combined share of 40 percent. The US produces about 340 million tons and imports 600 million tons of oil in a year and that is why the US needs to import new oil supplies. The Caspian Sea is among the regions in the economic interest of the United States in this regard. English businesses have a combined share of 19 per cent. After American and English firms, the largest stake in the group belongs to the Russian and Azerbaijani firms.

For the Republic of Azerbaijan, the task of "The Contract of the Century" must be the fulfillment by the consortium of 90 per cent of the investments, which are necessary for the use of the fields. Azerbaijan retains the right to management and control to oil and natural gas resources. There is no question that significant quantities of investments will be made rapidly and beneficially on offshore oil reserves, new technology should also be acquired, as well as the most experienced oil companies from foreign countries should be drawn to the fields and connected with them. Because there is a need to make massive amounts of investment in drilling and manufacturing facilities and constructing supply networks for the pipelines in the land with the intention of using the fields.

With "the Contract of the Century" on energy resources, which is not only an important factor in the domestic economy but also a critical key in the foreign market, Azerbaijan has taken the first step towards successful integration into the global economy.

All the activities envisaged were carried out in the fields of Azeri-Chirag-Gunesli which was the first oil project, the areas were supplied with the new oil production technology, the base of the

oil industry was greatly modernized. The construction of the offshore platform "Chirag 1" was complete and the first oil well was drilled, the underwater pipelines were laid from the platform to the Sangachal coastal terminal and the oil rocks compressor station. A coastal terminal was installed in Sangachal, maintenance activities in the Baku-Novorossiski oil pipeline were carried out and this pipeline began operating on November 12, 1997.

The oil-producing activities in the fields whose names are seen in "The Contract of The Century" after the production in Chirag-1 consist of 3 phases. The first process began in Central Azeri area in August of 2001. The second step started in July of 2002 with the activities in the fields of West and East Azeri. The contract for the start of the third phase was signed on 20 October 2004. Development in the field of Guneshli was expected to start in the contract. In the third phase the first oil output was expected in 2011. Oil production in 2011 was 400,000 barrels per day. After several years, oil production will grow to 1 million barrels per day under "The Contract of the Century".

4.2.2. "SHAHDENIZ" Field Contract

The Shahdeniz field contract was signed on 4 July 1996 and approved on 4 October 1997, entered into force on 17 October 1997. The contract signed in the form of the "Production Sharing Agreement" has a term of 30 years. According to this contract the Shahdeniz consortium has been assigned the responsibility. Usage of the field was allocated to BP Exploration Ltd. Shahdeniz field situated in the Caspian Sea region of South-East Azerbaijan which is 70 km from Baku. The field covers an 800 sq km area.

In late October 1996, BP Exploration started operations. The investment in the project is valued at \$4.1 billion.

In the field of Shahdeniz, nearly one trillion m³ of gas resources exist. 400 billion m³ of natural gas has been authorized. It is estimated that it would produce 60 billion m³ of gas per year. So the area of Shahdeniz has increased Azerbaijan's natural gas capacity by around 1 trillion m³.

The conditions to join the project consortium, the key indicators of which are listed above, have turned the contract into a political war zone. After the Karabakh field deal, newspaper "Liberation" gave details that a new agreement would be signed within six months, and it would be joined by the French oil firm "Elf Aquitaine". Aliyev's official working visit to France in December 1993 had a significant impact on France's accession to the new oil deal.

This was also reported that Lukoil and another Russian corporation, Yukos, would join the consortium as partners. However, concerns emerged over Iran's involvement. A contract was signed between Aliyev and Rovshengani at the Ashgabad meeting of the economic alliance organization held in May 1996 to give 10 per cent of Azerbaijan's 20 per cent share in Shahdeniz to Iran. Hence, Iran's certain adverse effect on Caspian Sea oil issues has been removed. On the other hand, Washington did not authorize U.S. companies to participate in the contract in the event of Iran's participation, although they were permitted to join the consortium earlier.

Consequently, when OIEC took part in the consortium as an Iranian firm, no other American company took part there.

In Shahdeniz the distribution between the companies is as follows:

England BP - 25.5%

Norway Statoil Alliance - 25.5%

Azerbaijan SOCAR - 10%

Russia Lukoil - 10%

France TotalFinaElf - 10%

Iran OIEC - 10%

Turkey TPIC - 9%

Shahdeniz field allowed Azerbaijan to be among the producer and exporter of natural gas countries. That's why the negotiations on the pipeline to export natural gas started to be made before the Baku-Tbilisi-Ceyhan pipeline had been determined.

In 2004 four contracts were concluded in connection with the selling of the gas from Shahdeniz. The first deal to supply 6.3 billion m³ of gas was signed with "Botas". One deal was concluded with Azerbaijan, and two with Georgia. According to them, 1.5 billion m³ of natural gas will be supplied to Azerbaijan per year, and 800 million m³ to Georgia per year.

During the official visit of Ilham Aliyev to England in December 2004, a loan agreement was signed with the European Bank for Reconstruction and Development (EBRD) in connection with the 10 per cent share which Azerbaijan wanted to support. EBRD, which was to fund the share of Azerbaijan in the Shahdeniz project, has given SOCAR 170 million dollars of loan according to the loan agreement.

International financial institutions' investment to export Shahdeniz gas to the world has thus become a significant step forward in the project's realization.

Every month 100 million dollars are invested inside the Shahdeniz project. Shahdeniz is one of the 10 largest oil-gas projects in the world. In late 2006, natural gas started to be exported from the region.

4.2.3. OTHER CONTRACTS

4.2.3.1. The contracts on offshore fields

1. "Lenkeran-Deniz" – "Talish-Deniz" Fields Contracts

Date of the contract: January 13, 1997

Date of approval: June 13, 1997

The companies involved: TotalFinalElf (35%, operator), Wintershall (30%), SOCAR (25%), OIEC Iran (10%)

Estimated resources: 700 million barrels of oil

Investment volume: 2 billion dollars

Status: the first well checked in 2001

2. Yalama-D222 Field Contracts

Date of the contract: July 4,1997

Date of approval: November 4, 1997

The companies involved: Lukoil (80%, operator), SOCAR (20%)

Estimated resources: 750 million barrels of oil

Investment volume: 4 billion dollars

Status: 2-D and 3-D seismic studies conducted

3. Absheron Field Contract

Date of the contract: August 1,1997

Date of approval: November 11,1997

The companies involved: SOCAR (50%), Chevron (30%, operator), TotalFinalElf(20%)

Estimated resources: 13 billion barrels of oil, 100 tcf of natural gas

Investment volume: 3.5 billion dollars

Status: The drilling of the first well in 2001 did not yield a positive result. The second well was drilled in 2004. 70 barrels of oil are estimated per day.

4. Oghuz Field Contract

Date of the contract: August 1, 1997

Date of approval: November 5,1997

The companies involved: ExxonMobil (50%, operator), SOCAR (50%)

Estimated resources: 290 million barrels of oil and 685 tcf (trillion cubic feet) of natural gas

Investment volume: 2 billion dollars

Status: The well was drilled in April of 2001. ExxonMobil left the project in April of 2002.

5. Nakhchivan Field Contract

Date of the contract: August 1, 1997

Date of approval: November 14, 1997

The companies involved: ExxonMobil (50%, operator), SOCAR (50%)

Estimated resources: 750million barrel of oil

Investment volume: 2 billion dollars

Status: ExxonMobil drilled a well successfully. Activities will go on.

6. Kurdashi–Arazdashi–Kirgan Offshore Fields Contract

Date of the contract: June 2,1998

Date of approval: July 7,1998

The companies involved: SOCAR (50%), Agip(25%, operator), Mitsui(15%), TPIC (5%), Repsol (5%)

Estimated resources: 730 million barrels of oil

Investment volume: 2.5 billion dollars

Status: 2 wells were drilled. None succeeded.

7. Inam Field Contract

Date of the contract: July 21,1998

Date of approval: December 1,1998

The companies involved: SOCAR (50%), BP (25%, operator), RoyalDutch/Shell (25%)

Estimated resources: 2.2 billion barrels of oil

Investment volume: 2 billion dollars

Status: In the first evaluation of BP, the drilling was cut short. New drilling was planned until 2005.

8. Araz-Alov-Shark Fields Contract

Date of the contract: July 21,1998

Date of approval: December 18, 1998

The companies involved: SOCAR (40%), BP (15%, operator), Statoil (15%), ExxonMobil (15%) TPIC (10%), Alberta Energy(5%)

Estimated resources: 4 billion barrels of oil

Investment volume: 10 billion dollars

Status: In December, 2001 the contract was suspended due to the lack of compatibility in Iran and Azerbaijan Caspian Sea borders.

9. Yanan Tava – Ateshgah – Mugan Offshore Field Contract

Date of the contract: December 25, 1998

Date of approval: June 11,1999

The companies involved: SOCAR (50%), JAOC consortium (50%)

Shares of JAOC internal companies are like this: Japex (22.5% operator), Inpex (12.5%), Telikoku (7.5%), Itochu (7.5%)

Estimated resources: 600 million barrels of oil

Investment volume: 2.3 billion dollars

Status: Seismic work is being conducted

10. Lerik-Cenab-Savalan-Dalga Fields Contract

Date of the contract: April 27, 1999

The companies involved: SOCAR (50%), ExxonMobil (30% operator), Not assigned (20%)

Estimated resources: 1 billion barrels of oil

Investment volume: 3 billion dollars

Status: Searches are carried out in the blocks of D-43, D-44 and D-73 .

11. Zafar–Mashal Fields Contract

Date of the contract: April 27, 1999

Date of approval: April 21, 2000

The companies involved: SOCAR (50%), ExxonMobil(30%, operator), Conoco (20%)

Estimated resources: 1-2 billion barrels of oil, 1.8 tcf of natural gas

Investment volume: 3 billion dollars

Status: Searches were carried out in the blocks D-9, D-38. Recent drilling operation was conducted in September, 2004.

4.2.3.2. [Contracts on Onshore Fields](#)

1. Kemaleddin–Mishovdag Fields Contract

Date of the contract: It was signed as Joint Venture in 1992 and became PSA in 2000.

The companies involved: National Energy (85%), SOCAR (15%)

Estimated resources: 200 million barrels of oil

Investment volume: 50 million dollars

Status: In 2004, production capacity was scheduled to increase from 2700 bpd to 3200 bpd.

2. Anshad Oil Contract

Date of the contract: It was signed as Joint Venture in 1993 and became PSA in 2000

The companies involved: SOCAR (51%), Atilla Dogan (31.5%), Land and General Berhard(17.5%)

Estimated resources: 219 million barrels of oil (Neftchala, Killi, Babazanan Fields)

Status: 4 wells were drilled in 1998-1999. The oil production volume was about 77000 bpd. The average natural gas production volume was 1.1 mcf per day in 2004.

3. AzGeroil Contract

Date of the contract: It was signed as Joint Venture in 1993 and became PSA in 2000

The companies involved: SOCAR (51%), Grunewald (49%)

Estimated resources: 140 million barrels of oil (Rehmani, Balakhanı, Sabunchu Fields)

Status: The average production volume is 1000 bbl/d since 1999.

4. South-West Gobustan Field Contract

Date of the contract: 2 June 1998

Date of approval: November 1998

The companies involved: SOCAR (20%) CNPC of China (62.83%) Arawak Energy of Canada (37.17%)

Estimated resources: 180-200 million barrels of oil

Investment volume: 900 million dollars

Status: 2-D seismic searches continue.

5. Zıgh-Hovsan Fields Contract

Date of the contract: June 5,2000

Date of approval: June, 2001

The companies involved: SOCAR (20%), Lukoil(50%)

Estimated resources: 66-150 million barrels of oil

Investment volume: 250 million dollars

Status: The fields have been rehabilitated. Due to ecological reasons, the start date of the contract was postponed.

6. Kursengi–Karabaghli Fields Contract

Date of the contract: December 15,1998

Date of approval: April 16, 1999

The companies involved: SOCAR (50%), CNPC(30%), Amerada Delta-Hess (20%)

Estimated resources: 730 million barrels of oil

Investment volume: 1 billion dollars

Status: In order to increase the production, 10 new wells were drilled. The oil production is 6600 bbl/d since 2004.

7. Muradkhanlı-Jafarlii-Zardab Fields Contract

Date of the contract: July 21, 1998

Date of approval: November 20, 1998

The companies involved: SOCAR (50%), Ramco (50%, operator)

Estimated resources: 730 million barrels of oil

Investment volume: 1 billion dollars

Status: The first oil in Muradkhanlı was drilled in April, 2001.

8. Padar-Harami Fields Contract

Date of the contract: April 27, 1998

Date of approval: June 9, 2000

The companies involved: Nations Energy (85%, operator), SOCAR (15%)

Estimated resources: 580-750 million barrels of oil

Investment volume: 140 million dollars

Status: Seismic searches continue.

9. Shirvan–Kurovdagh Fields Contract

Date of the contract: It was signed as JV in 1997 and became PSA in 2000.

The companies involved: SOCAR (49%), Caspian Energy Group (UK) (51%)

Estimated resources: 650 million barrels of oil (Kurovdagh Field)

Status: The rehabilitation of the wells continues since 1997. In 2004 the average oil production volume was 57000 bpd, natural gas production volume became 1.5 mcf/d.

10. Western Absheron (Karadagh-Kepzz-Umbaki) Fields Contract

Date of the contract: August 10, 1994

The companies involved: BMB (100%)

Estimated resources: 200 million barrels

Investment volume: 700 million dollars

Status: With the request of suspending BMB's activities, SOCAR took over the right of privilege of the fields in December 1999.

11. Pirsaat Fields Contract

Date of the contract: June 5, 2003

The companies involved: SOCAR (25%), Sheng Lee Oil (50%), Middle East (25%)

Estimated resources: 7 million tons

Investment volume: 147 million dollars

Status: Reproduction was planned in the field with the drilling of 7 new wells and reconstruction of 27 wells.

12. Qarachukur Field Contract

Date of the contract: June 18, 2004

The companies involved: SOCAR (25%)

Investment volume: 2.3 billion dollars

Status: Seismic studies are conducted.

13. Lerik-Cenab-Savalan-Dalga Fields Contract

Date of the contract: April 27, 1999

The companies involved: SOCAR (50%), ExxonMobil (30% operator), Not assigned (20%)

Estimated resources: 1 billion barrels of oil

Investment volume: 3 billion dollars

Status: Searches are carried out in the blocks of D-43, D-44 and D-73.

14. Zafar-Meshel Fields Contract

Date of the contract: April 27, 1999

Date of approval: April 21, 2000

The companies involved: SOCAR (50%), ExxonMobil (30%, operator), Conoco (20%)

Estimated resources: 1-2 billion barrels of oil, 1.8 tcf of natural gas

Investment volume: 3 billion dollars

Status: Searches are conducted in the blocks of D-9, D-38. The last drilling operation was done in September of 2004.

4.3. Oil and Natural Gas Production

It is estimated that 1.4 billion tons of oil and 445 billion m³ of natural gas have been mined in Azerbaijan-the most experienced nation in the Caspian Sea-over the past 100 years. In 1941,

with 23.4 million tons, the highest oil output in Azerbaijan was reported since production began until 2005.

While oil production in Azerbaijan declined with the beginning of the transition period, the contracts signed became the turning point in production and it started to rise again after the activities. With the start of the oil extraction from the first well in the Chirag field in November 1997, the declining oil output till 1997 began to rise from 1998. Except for 1999 the production of natural gas showed a decline.

The Caspian Sea portion of total oil output was 82.3 per cent, but this ratio dropped to 89 per cent in 1999 and between the duration of 2000-2004. As a result, the Caspian Sea portion of oil production has risen over the years. This ratio has reached 90 per cent since 2005.

Comparing the amount of oil production in 2002 with the year of 1990, we can find that there were 2.5 million tons more. The rate of production is equivalent to the amount of oil produced in Azerbaijan in 1979. The continuing volatility in oil production since the late 1960s therefore ended and grew again. Oil production in 2003 was 15.3 percent and in 2004 it was 15.5 million tons with a 1.3 percent increase.

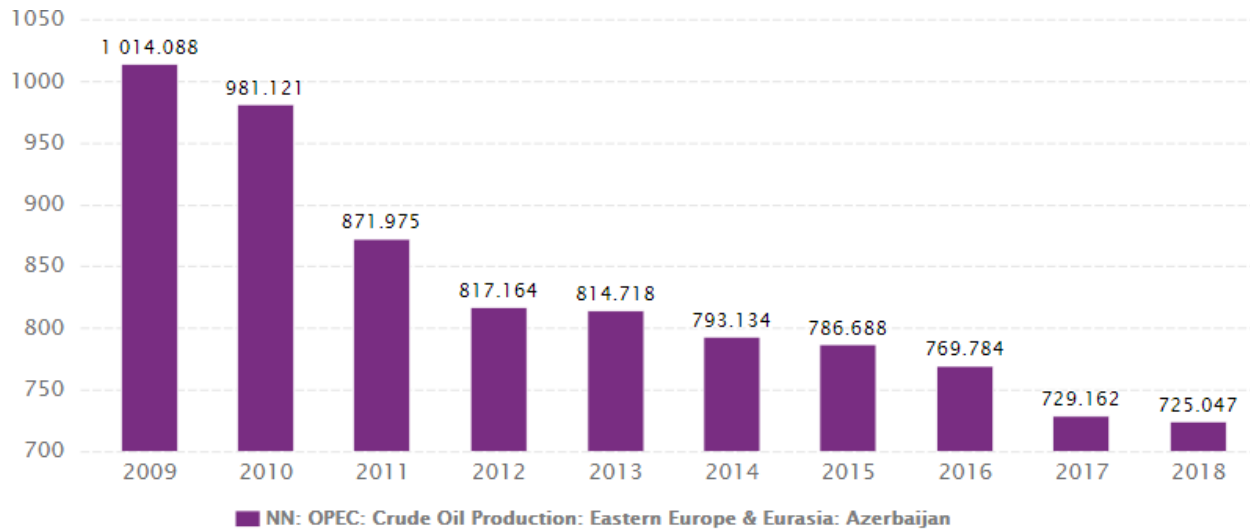
50 million 838 thousand tons of oil were extracted in 2010. There was a drop in the amount of oil output in 2014 compared to 2010 since it has fallen to 42 million tons. According to the official statistics obtained in 2016 Azerbaijan owned 7,000,000,000 barrels of proven oil reserves, ranking 20th in the world and representing approximately 0.4 per cent of the world estimated oil reserves of 1,650,585,140,000 barrels. Azerbaijan proved that it has reserves that are the equivalent of 199.8 times its annual use which assumes that there will be about 200 years of oil remaining without Net Exports (at current demand rates and without unproven reserves). Azerbaijan produced 843,546.25 barrels of oil per day in 2016 which ranked 24th in the world with 4.4 per cent of its total proven reserves per year.

Azerbaijan's daily oil production volume fell by 3.6 per cent year-on-year to 764,000 barrels in 2019. The country had recorded 792,600 barrels of oil per day in 2018. The decline in oil production is linked to the contribution of Azerbaijan to the Organization of the Petroleum Exporting Countries (OPEC). In December 2018, the 15-member OPEC cartel signed an agreement to cut its production by 800,000 bpd while non-OPEC countries agreed to contribute a 400,000 bpd reduction. Following the 6th OPEC and Non-OPEC Ministerial Meeting held in Vienna on 2 July 2019, the deal was extended until the end of the first quarter of 2020 to limit the oil supply. OPEC will be shouldering 372,000 bpd and non-OPEC producers an additional 131,000 bpd following the agreements on December 6, 2019, OPEC reported. As of January 2020, Azerbaijan sustained the daily output at 769,000 barrels to meet OPEC requirements.

SOCAR produced 1.9 million tons of oil during the first quarter of 2020, 1.8 billion cubic meters of gas on its own-exploited fields. National production of natural gas increased by 10 per cent compared to the first quarter of the previous year and amounted to 10 billion cubic meters; oil

production was 9.3 million tons. Despite some production growth, operated by SOCAR, the controlled decline in overall oil production in the country continued in the first quarter of 2020.

Average daily Oil Production in 2009-2018. (Barrels per day)



Source: CEIC Data

As can be seen from the above table, the highest average production of oil was recorded in 2009 and 2010.

In Azerbaijan natural gas production began in 1902. The highest output of natural gas in the country was carried out in 1981 with 17 billion m³ after the start date of the project. In the 1980s the annual production of natural gas reached 14 billion m³. However it dropped to the volume of output in the 1960s as a result of a substantial decline in production after 1990.

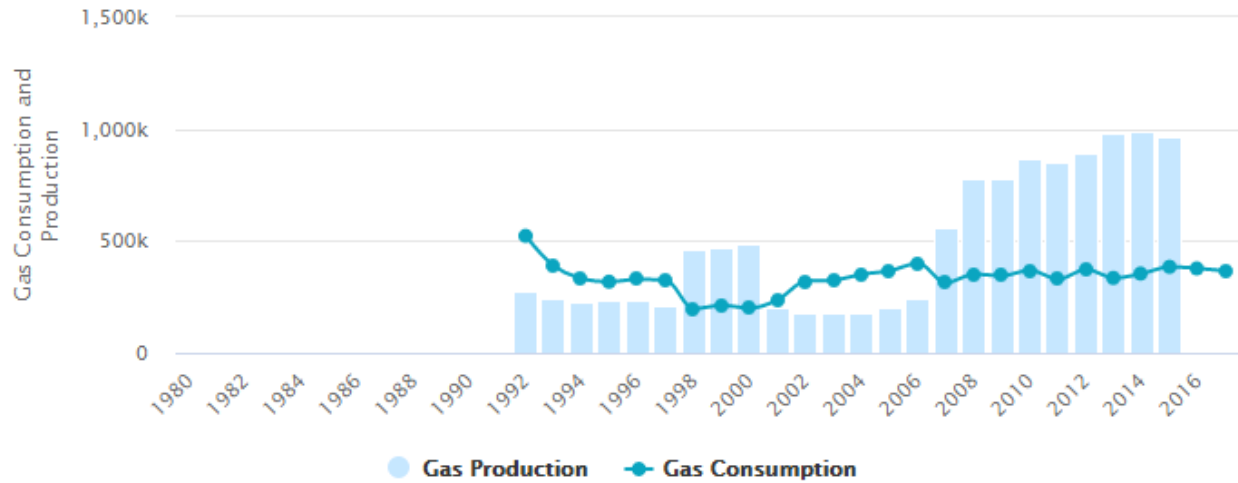
Azerbaijan has 2 big pipelines. They are line Baku and line Novo-Baku. Baku line's daily capacity is 230,000 barrels and Novo-Baku is 200,000 barrels. Approximately \$700 million is required to rebuild and repair both low-production and old technology lines. The US Trade and Development Agency has given alternately \$500,000 and \$400,000 in financial support for feasibility studies of modernizing petrochemical plants in Baku line and Sumgait. 96 per cent of the Caspian Sea's natural gas production is achieved.

The amount of natural gas output dropped 16.3 per cent in 1995-2001. It reported a 7.4 per cent decline to 5.150 billion m³ in 2002. With the continuing downturn in the production of natural gas in 2003-2004, it was 5 billion m³ in 2004 with a decrease of 3.1 per cent compared to the previous year.

The natural gas output meets just 40 per cent of the country's domestic demand which meant that the production of natural gas struggled to meet domestic demand. For this reason, the importation of natural gas became a necessity. Since 2006, Azerbaijan's natural gas output has

reached the level of 20 billion m³ year by year, allowing Azerbaijan not only to pay for its own domestic market demand but also to export natural gas to Turkey, Georgia and Russia.

Natural Gas Production and Consumption of Azerbaijan (million cubic feet - MMcf)



Source: Worldometers

As we see from the graph above, the production of natural gas has risen dramatically in recent years. If only 5 billion m³ of natural gas were produced in 2005 it reached 29.5 billion m³ in 2014. The primary explanation for the rise in the output of natural gas can be explained by the replacement of the technological equipment and the start of production in new gas wells.

As a result of the fall in natural gas output to 5-6 billion m³, while Azerbaijan had previously exported gas to Armenia and Georgia, it started importing gas from Turkmenistan and Iran in 1990. But the import of natural gas stopped in 1995. A contract to import gas from Russia was signed in 2000 and natural gas was begun to be supplied for the trial in November of the same year.

The sales of natural gas do not play a significant role in the amount of trade between Azerbaijan and Russia. In 2005 Azerbaijan imported 5.5 billion m³ of gas from Russia. Azerbaijan paid 256 million 412 thousand dollars for the imported gas. The sum charged was \$330 million for the same quantity of gas expected to be purchased in 2005. Azerbaijan has stopped its gas imports from abroad since 2006, and has become a gas exporter. Turkey, Georgia and Russia in particular have been Azerbaijan's principal gas consumer.

According to the official statistics obtained in 2017 Azerbaijan owned 35 trillion cubic feet (Tcf) of proven gas reserves, ranking 25th in the world which accounts for roughly 1 per cent of the world's estimated 6,923 Tcf natural gas reserves. Azerbaijan proved that it has reserves that are equal to 95.8 times its annual use which illustrates that it has about 96 years left of gas (at current rates of consumption and without unproven reserves). Azerbaijan exports 26% of its natural gas production.

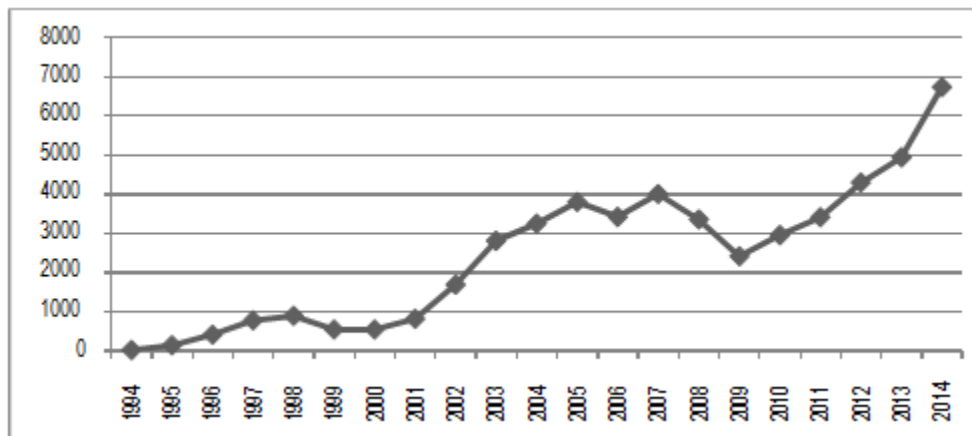
Gas production is reached about 35 billion 183 million cubic meters in 2019. This reflects an improvement of 16.8 per cent compared to 2018 figure. Azerbaijan will actively increase its gas output in 2020-2023 according to forecasts. Output is projected to hit 37 billion 820.3 million cubic meters in 2020 (an increase of 7.5 percent compared to 2019), 42 billion 833 million cubic meters in 2021 (an increase of 13.2 million compared to 2020), 45 billion 579.6 million cubic meters in 2022 (an increase of 6.4 million), and 47 billion 436.4 million cubic meters in 2023 (an increase of 4.1 per cent). As a result, gas production in Azerbaijan will increase by 34.8 per cent in 2023 compared with 2019.

The annual volume of natural gas output in Azerbaijan between the years of 2010-2020 is calculated about 60 billion m³, 15-20 billion m³ of which will satisfy domestic demand. There are a variety of alternative ventures for exporting the rest of the gas like Nabucco.

4.4. Foreign Investments in Oil and Natural Gas Sector

In accordance with this, Azerbaijan's oil wealth and foreign capital have played an important role in developing the economy of Azerbaijan since the mid-1990s.

Foreign Investment made in Oil Sector (million \$)



Source: SOCAR Publications

Between the years of 1994-2000, \$3.34 million of investment was made in the oil industry. Since 2001, international investment in the oil sector has risen significantly. As a result, it is observed that by the end of 2015, the money placed into the oil sector exceeded \$80 billion.

The total volume of the investment concluded by 23 contracts on the energy resources production is approximately 80 billion dollars.

4.5. Oil Export Level and Incomes

Oil and oil products take the lead in the export of Azerbaijan with a rate of 85-90 per cent. With the introduction of BTC, the quantity of oil in export increased even more towards the end of 2005.

Until 2004, Azerbaijan's export volume of oil via Baku-Novorossoysk and Baku-Supsa became 25 million tons immediately after the BTC pipeline began operating in October 2005. Oil exports in Azerbaijan were 35 million tons in 2014, which was less than in 2009. As in 2009, gross oil exports in Azerbaijan amounted to 44 million tonnes.

In 2010, crude oil exports in Azerbaijan amounted to 1 billion barrels per day and are expected to cross 20 billion barrels per day in 20 years.

In 1995, Azerbaijan imported 579 million m³, in 2000 274 million m³, in 2001 3337 million m³, in 2002 3935.3 million m³ (216 million dollars), and in 2004 5.5 billion m³ of natural gas. Natural gas export also began with the start of production in Shahdeniz field in 2006.

Since the export goods were primarily oil and oil goods, the economy of Azerbaijan was dependent on oil prices. In 1997, oil-related indirect taxes accounted for 57 per cent of total taxes. Oil-related taxes accounted for approximately 50 per cent of overall revenue in 1996-1997, making up the largest rising part of budget revenue. When oil prices fell in 1997-1998, it negatively impacted state revenues and overall economic strength.

While Azerbaijan earned three-fourths of revenues from oil and oil products in 1997, the country faced significant amounts of revenue losses due to the fall in oil prices. The reduction in oil prices, which is an integral part of export and tax revenues, raised the budget deficit. In 1999, the sales rose again as a result of increasing oil prices in the middle of the year and start of production in new fields. Owing to the rise in oil prices there was also a decline in oil production in the second half of 1999. Such increase had a beneficial impact on the economy and oil revenues.

In 2000, on the one hand, the price of each ton of exported crude oil increased by 90 dollars relative to 1999, due to the rise in oil prices on the world market, on the other hand, the amount of exported crude oil increased by 850 thousand tons. In 2000, crude oil was sold at \$1097.4 million, which was \$6061.1 million higher than in 1999. Therefore, the rise in oil prices had a plus effect on budget revenues because oil-related revenues make up more than half of the revenues from the budget.

In 2002 the export of oil and oil products from Azerbaijan was \$1,927.4 million. Exporting crude oil was 8,793.6 tons (\$1,159.5 million). In exchange, mineral fuel, gasoline, and oil products were imported at \$292.6 million (17.5 per cent of total imports).

The probability of U.S. invasion of Iraq increased in 2002 and the price of a barrel of oil increased to 32 dollars which caused the rise of Azerbaijan's oil revenue. The price of a barrel of oil had been estimated to be 19 dollars in the 2002 budget. Taking into account the fact that a

dollar rise in barrel price gave Azerbaijan \$18-20 million in revenue and as a result of the escalation of oil prices Azerbaijan received over \$100 million. The price of a barrel of oil was described in the 2003 state budget as 19.5 dollars.

In 2008, the world market sales price of oil reached the highest after 1994, but as a result of the recession that started in the U.S. and spread around the world, in the first quarter of 2009, a barrel of oil was sold for 35-45 U.S. dollars on the global markets, forcing the Azerbaijani government to abandon large-scale projects.

The reasons for the increase in those years: Many analysts explain why prices increased rapidly with increasing demand for oil. The amount of oil decreased in some countries such as Mexico, the North Sea. At the same time, oil exports were stopped in many countries. Very few supplies could only satisfy domestic demand. Britain, which in previous years was known as an oil exporter, had been importing oil. As the US and China grew economically, their oil needs also escalated. The global economy has had to meet the oil needs of major countries such as China and India. Moreover, the fall in US oil and gas wealth increased demand for oil. Despite all these factors, the price of oil has gone up on the world market.

The events in the Middle East have influenced the increase in world oil prices. The war time and all the conflicts in Iraq, the instability of the oil-producing companies there and terrorist attacks that may occur at any moment bring about oil shortages that cause the price of oil to rise according to market economy laws.

OPEC's development of an oil-sector monopoly is another aspect that contributes to price rises.

The effect of the price increase on the budget: Similar to the price rise on the international market, the price inflation of Azerbaijan's oil affects the export of the country in a positive way.

Budget revenues for Azerbaijan are not just for customs and taxes. The increase in Azerbaijan's oil revenue, which is sold on world markets, also affects the growth of budget revenue. While in the 2003-2004 budgets the value of oil per barrel on world markets was estimated to be 20 dollars, the cost of oil on foreign markets was far higher than this amount. A barrel of oil exported by Azerbaijan was costing more than \$38.

In such a situation, the allocated portion of oil revenues to the budget appeared to be smaller. Because oil revenues are one of the key sources in the formulation of the state budget, the government would need to adjust the price of a barrel of oil by again taking into account budget estimates. The cost of oil on the world market was high enough when the 2008 budget was prepared and it was expected to rise further. But again the oil price in the 2009 budget project was described as 60-70 dollars. Based on the calculations provided by foreign firms, taking into account the world experience, it would be more accurate to find the real cost of oil when planning a budget. Azerbaijan makes an extra income of 1 million 400 thousand dollars due to a rise in a barrel of oil cost by a pound. Since the extra revenue received as a result of the price increase goes into the oil fund, its spending should also be controlled.

While Azerbaijan made over \$120 billion of profit after the operation, \$70-75 billion of it was spent in the form of transfer to the oil fund and budget. Against the backdrop of a significant fall in oil prices on world markets, the economy of Azerbaijan faced a loss of 20-25 billion dollars which was a very rigorous situation.

Since the beginning of 2020, the oil prices started to decrease sharply again. The global oil price fell to lows of \$25 a barrel a last week, from more than \$65 at the start of the year, and remains below \$30 a barrel. Not surprisingly, Azerbaijani oil saw the lowest price of its history on this year as well. On May when a deal between the OPEC oil cartel and Russia to hold back oil production is set to end, the world's oversupply of oil is expected to balloon. The failure of the agreement helps Saudi Arabia, the de facto leader of OPEC, to chase Russia to boost oil production in a bid to grab a greater market share. The oil price war is estimated to boost the world's oil production by more than 2.5 m barrels of oil per day, which will outstrip global demand by 6 m barrels of oil per day. So, this will also affect the oil production in Azerbaijan.

Managing oil revenues: It is important to make use of the wealth gained from oil. The key issue in Azerbaijan's history in this regard is the rise of "Crony Capitalism," as well as the prevalence of high-level corruption and bribery. Oil-money flows into the country overburden proper reforms to be carried out. The ease of collecting oil revenues contributes to a relaxation of government spending policy, and the immediate shift in oil prices will lead to a rise in long-term foreign debt and interest payments that impact the state budget.

Consequently, it is an unavoidable necessity for the government, which directs the economy of the country, to pay attention to the division with a resource division mechanism that will be able to continue oil revenues in a way that creates growth (between the oil & non-oil trade sectors and the non-external trade sectors). Diversion of revenues and income from oil into productive areas is one of the main challenges in an economy where financial institutions and markets are not fully developed. The solution to this problem shows the need for the State's planning position in the economy.

The foreign exchange which Azerbaijan will benefit from oil exports should be directed to other areas, in particular to the creation of export fields and those which replace imports. If Azerbaijan is currently forced to sell only energy and raw materials to the world market, in the future it should not confine itself to these. In addition, lessons should be drawn from "bitter" oil exporting countries experiences by studying them deeply. Further investments should be made with oil revenues. More specifically, investment-oriented policy is more necessary. The government will still perform the social functions, however.

In 2008 the long-term plan was established to handle Azerbaijan's oil and natural gas revenues. This policy reflects government plans for the growth of the energy sector and infrastructure, which arose at a time when high oil and gas revenues were obtained to ensure the economy's transition without loss. The strategic plan approved by the president of the country requires the management of the revenues from oil and natural gas to be received in 2005-2020. 25 per cent of the income generated would not be invested but instead covered.

It is estimated that over 30 years Azerbaijan will earn revenues of 240-265 billion dollars from oil and natural gas. In 2010-2017, revenues coming from the fields of Azeri, Chirag and Guneshli hit the peak. Over this time, the country gained about \$5-6 billion per year and as a result \$35-42 billion. Following the use of the sector of Shahdeniz, revenues that could be collected would become more than \$7 billion.

In 2009-2014, oil and natural gas sales hit the highest level according to State Oil Fund estimates. The country's oil and natural gas revenues will range from \$15-35 billion over the course of the next 20 years.

According to research conducted by Azerbaijan's State Oil Company, if a barrel of oil price is \$35, the country's oil revenue will be \$104 billion by 2024. But the Azerbaijani oil which is called "Azeri Light" crude was sold below \$20 in April of this year.

4.6. The Pipelines

The pipelines carry on economic significance. One of the key issues related to the use of energy resources is the construction of the required transport line to move the resources to the global market. The key economic move would be to own transportation lines outside Russia.

Until 1880 Azerbaijani oil was transported with freight by ships to foreign countries such as Dagestan, Georgia and Iran. Then, Baku oil started to be transported via the 720 km long Grozny pipelines to Russia, Georgia and other countries. They were sections of Baku-Novorossiysk and of Baku-Supsa. The discovery of the Caspian crude, and Baku-Tbilisi-Ceyhan became attractive after Azerbaijan's independence.

During the days when Azerbaijan's oil became the topic of worldwide debate, while 7-8 pipelines appeared on the agenda, the number of pipelines was reduced to 3, namely Baku-Novorossiysk, Baku-Supsa and Baku-Tbilisi-Ceyhan, in the report produced by the International Oil Consortium of Azerbaijan to transport the oil.

Pipelines that carry oil and gas from Baku port



Source: Enacademic

4.6.1. BAKU-NOVOROSSIYSK Oil Pipeline

During the times, when the problem of transporting the first oil through which the pipelines were being debated, Russia indicated that there was already a pipeline between Baku-Novorossiysk port which could be the only fast and cheap route. Only Russia had come to an understanding with Chechnya because the pipeline was going to move there. A contract was then signed between Azerbaijan, Russia and Chechnya concerning the Baku-Grozny-Tikhorotesk Novorossiysk pipeline.

The initial oil export was determined via Baku-Grozny-Novorossiysk, with the contract signed between AIOC and Russia's Trans Oil company on January 16, 1996.

The oil has been exported via this line since November 1997. On December 12, 1997, the first of the tankers carrying the oil, shipped through the pipeline to Russia's Novorossiysk port from Baku, passed via Istanbul Strait.

2.5 million tons of Azerbaijani oil is exported each year through the Baku-Novorossiysk oil pipeline. SOCAR charges Russia \$15.67 per ton. It is greater than the amount paid through the Baku-Supsa pipeline for every ton of crude.

4.6.2. BAKU-SUPSA Oil Pipeline

Along with the Baku-Novorossiysk pipeline, the other terminal agreed to sell the generated Baku oil on the international markets on October 9, 1995 is the Western pipeline from Baku to Georgia's Supsa port. With the involvement of Aliyev and Shevernadze, On March 8, 1996 a contract was signed between AIOC, Georgian government and SOCAR specifying the transport

of the initial oil from Azerbaijan to Georgia. In the contract it was agreed to transport the oil extracted from Azeri, Chirag and Guneshli fields to the international markets.

Baku-Supsa line was installed, as the Chechnya problem placed Baku-Novorossiysk pipeline at risk. This line started service as scheduled in 1999.

Since 2004, 10 million tons of oil has been exported from the pipeline which was used to export oil right after its inception.

4.6.3. BAKU-TBILISI-CEYHAN Oil Pipeline

Operating Baku-Novorossiysk and Baku-Supsa would not suffice in the event of an increase in oil demand, so several alternatives appeared on the subject of the main pipeline for exporting to Western markets. Among these alternatives Baku-Tbilisi-Ceyhan was chosen.

1768 km long Baku-Tbilisi-Ceyhan pipeline passes from the port of Sangachal near Baku via overland passage to the Georgian capital, Tbilisi and enters Anatolia after between 42 degrees 49 minutes north of the Turkish border and 43 degrees 18 minutes east co-ordinates. 443 km of route crosses Azerbaijan, 249 km from Georgia, 1076 km from Turkey. The line joins the Ceyhan-built terminal after going along the boundaries of the cities of Ardahan, Kars, Erzurum, Erzincan, Sivas, Kayseri, Kahraman Maras, Osmaniye and Adana.

The transportation of Kazakh oil and Turkmenistan's natural gas along the same route, along with Azerbaijan, is being considered for a long time. That is why the Transcaucasus route, which is thought to be laid under the Caspian Sea, will be used to move Kazakh oil and Turkmen natural gas to Baku, then via the Baku-Tbilisi-Ceyhan pipeline from here to Turkey.

The foundation ceremony of the Baku-Tbilisi-Ceyhan pipeline was held on 18 September 2002 with the participation of the presidents of Azerbaijan, Turkey and Georgia.

"Exim Bank", an export and import bank of the United States, agreed to grant 160 million dollars of long-term credit to export American equipment and services in order to construct the oil pipeline between Baku-Tbilisi and Ceyhan. This decision was taken after the details about the project had been submitted to Congress. Eventually, an important phase in the realization of the Baku-Tbilisi -Ceyhan pipeline was taken on 3 February 2004. On that very date, the project's financial package was finalized along with the popular and important financial institutions of the world.

With the decree of March 10, 2004-" To perpetuate the memory of the national leader, Heydar Aliyev" signed by Ilham Aliyev, it was agreed to name Baku-Tbilisi-Ceyhan main export pipeline after Heydar Aliyev.

Along with the expense of oil filling the pipeline, \$3.6 billion was spent on the BTC oil pipeline.

Since its establishment in 2006, the effect of the BTC oil pipeline on Azerbaijan's economy has begun to reveal itself in a positive way.

In the first year that the BTC pipeline started operating 25 million tons of oil is transported, since 2007, 45-50 million tons of oil is transported to the port of Ceyhan annually.

Ceyhan crude oil export terminal has a volume of 120 million tons per year and considering the volume of approximately 71 million tons of Iraq-Turkey crude oil pipeline, the volume of 49 million tons per year is sufficient to meet the capacity of the BTC to be transported.

The effect of oil on economic growth and independence will be more clearly observed as a result of the implementation of the BTC pipeline and the transportation of Kazakh oil via this line to the world markets along with the oil that will be generated in Azerbaijan. Discussions on transporting the oil from Kazakhstan through this pipeline are constantly on the agenda. All the documents were prepared for transporting oil with the Kazakh side. The company "Chevron Texaco" plans to transport 12 million tons of oil from Kazakhstan via Baku-Tbilisi-Ceyhan. Companies "Absolute" (France), "ENI" (Italy), "Inpex" (Japan) and "ConocoPHILIPS" (USA) wish to export oil from the "Kashagan" field in the Caspian Sea section of Kazakh to the world market through BTC.

4.6.4. BAKU-TBILISI-ERZURUM Natural Gas Pipeline

After the discovery of the rich gas fields in Shahdeniz located 100 km away from the coast in the Caspian Sea sector of Azerbaijan, discussions began on how to export the natural gas. In the telephone talks between Aliyev and Turkmenbashi, in return for the agreement on Azerbaijan's 5 billion m³ of natural gas export via Transcaspian line, the company's extension of the contract term to participate in Transcaspian project jeopardized the realization of the line. Beyond that, Turkmenistan's annual sale to Russia of 50 billion m³ of natural gas was another reason for Turkmenistan losing interest in the Transcaspian pipeline. All these prompted Azerbaijan to try out new ways of selling its natural gas.

A contract was concluded between Turkey and Azerbaijan in Ankara on the export of natural gas during Aliyev's visit to Turkey in March 2001. According to it, it was expected to export 23.2 billion cubic meters of natural gas over a 5-year period including 2 billion cubic meters in 2004, 3 billion cubic meters in 2005, 5 billion cubic meters in 2006, 6.6 billion cubic meters in 2007-2008, but due to some market conflicts and technological issues in later years some delays resulted. While under the contract it was agreed to start export in 2004, in the course of the events, the construction of the Baku-Tbilisi-Erzurum natural gas pipeline was later begun in 2004 with the goal of transporting Shahdeniz natural gas to Turkey. It was assumed that this very pipeline was similar to the BTC oil pipeline. The 12 meter distance measurement between 2 pipelines will allow time to be saved and financial costs to be reduced in the project's realization.

In 2004, BP began construction of the South Caucasus natural gas pipeline in connection with the "Shahdeniz" field gas export. The construction was completed in the 4th quarter of 2005, and the export of natural gas produced began in the winter of 2006.

With a signed agreement 1 billion cubic meter of natural gas will be exported to Greece and Europe for the first year. The volume of exports will be raised to 14.3 billion m³. Construction of the pipeline between Greece and Turkey has started within that system. Joining Greece to the project through the purchase of natural gas would lead to deepening ties between Greece and its strategic ally in the project "Shahdeniz" which is Turkey. Greece's participation in the project would create a balance in its strategy towards Azerbaijan and Armenia.

The effect of energy supplies on economic growth will be seen more clearly in the event of activation of the Transcaspian natural gas pipeline.

Unlike Iran and Iraq, Azerbaijan has small oil and natural gas reserves. These tools will therefore help Azerbaijan's integration into Europe and the adoption of the neighborhood policy of the European Union. The realization of oil and natural gas projects would undoubtedly offer an impetus to other countries' economic growth in the region.

4.6.5. TANAP Project and its Perspective

Following the successful implementation of the petroleum strategy, Azerbaijan started to identify strategic export policy objectives. Azerbaijan is currently the only country in the region which exports gas to the international markets (Turkey, Russia, Georgia). For this reason, Southern Gas Corridor is regarded by the EU as "the provider and participant". In this path Azerbaijan intends to be the country with a significant and strategic exporter with natural gas. It aims to participate in every ring of the value chain from Shahdeniz area to end at the European customer.

Gas is a strategic commodity and with SOCAR, Azerbaijan can achieve a significant geostrategic and financial role if used effectively. Day after day the control of potential future partnerships takes on considerable significance. Azerbaijan will be able to preserve its interests with the growth of the South Caucasus Pipeline Project by regulating the amount of gas from its source to the end user. This arrangement, however, will not provide a country which aims to popularize gas exports. Such a move SOCAR has taken can be clarified with 2 explanations. The first is the transport of Shahdeniz gas to Europe in the near future and the second is to increase the output of oil in Azerbaijan to 50 billion cubic meters per annum along with the gas that will be generated after 2025 by new discoveries. In the case of implementation of these ventures, the implementation of the previously mentioned strategy has become a necessity for SOCAR in order to retain its position in the lower rows of the value chain in Turkish territory. Trans Anatolian Pipeline (TANAP) "suddenly came up" for the first time in October 2011 during Turkey's transit discussions in Azerbaijan and was guaranteed by the Intergovernmental Agreement (IGA) "an additional item" on October 25, 2011. Later the Memorandum of Understanding (MOU) was signed for TANAP on 24 December 2011 and a separate IGA on 26 June 2012. As both parties have agreed, adding to the text the condition of 6 billion cubic meters of gas exports to the Turkish market through TANAP was important for SOCAR. TANAP can't be performed without 6 billion cubic meters of gas, since the pipeline with a capacity of 56

inches and 31 billion cubic meters can be economically efficient with just 10 billion cubic meters of starting volume. That is why the portion of the "transit" title approved by the Turkish Parliament on 25 October 2011 and the Gas Transit Agreement (GTA) signed between SOCAR and BOTAS on the same date has the authority to apply in an informal sense for a TANAP project. TANAP receives funding from the Azerbaijani and Turkey governments. TANAP is also seconded with Trans Adriatic Pipeline (TAP) from England, the USA, the EU and even Nabucco. Both TANAP and BOTAS are backed by BP for specific approaches. There are 4 stages in the decision-making process on TANAP and the commencement of its construction. Those four phases are listed separately below.

The Agreement, signed in Izmir on 25 October 2011 between Turkey and Azerbaijan, provides for both transit transportation of natural gas to be obtained from the Caspian Sea-Shahdeniz field in Azerbaijan via Turkey to the world markets and for Turkey to purchase it.

In the contract signed after the conference, with the participation of the president of Turkey Erdogan and Azerbaijan's President Aliyev in Izmir-Aliaga, various alternatives were taken into account regarding the transit of natural gas to Europe. The first of the previously mentioned alternatives was for Turkey's national natural gas transmission scheme, and the second alternative was to construct an exceptional pipeline. The Government contract laid the groundwork for the TANAP road.

Trans-Anatolian Natural Gas Pipeline was first announced in the Third Black Sea Energy and Economic Forum organized in Istanbul on 17 November 2011 as a project by SOCAR. In the statement made by the president of SOCAR, he declared that the activity on the Trans-Anatolian Pipeline Project stretching from the eastern borders of Turkey to the western frontiers had begun in order to transport the natural gas potential of Azerbaijan to the lucrative long-term markets of Turkey and Europe.

A memorandum of understanding on the 'Trans-Anatolian Natural Gas Pipeline' was signed on 26 December 2011 between the Ministry of Energy and Natural Resources of the Republic of Turkey and the Ministry of Industry and Energy of Azerbaijan in Ankara, nearly 2 months after the pre-agreement.

Consensus was reached on the urgent commencement of the work towards the exceptional pipeline called Trans-Anatolian and the formation of a joint consortium of companies appointed by the two countries.

SOCAR, BOTAS and TPIC were agreed to take part as the first partners in the consortium that will be formed for the construction of the pipeline. It was also considered that other foreign oil and gas companies could join the consortium during the Agreement span.

Thus, the contract signed on 26 October 2011 was made more definite with the Memorandum of Understanding.

In order to construct the new exceptional pipeline for transporting Azerbaijan's Shahdeniz-2 gas to Turkey and Europe under the name of Trans-Anatolian, the historic cooperation between Azerbaijan and Turkey began with the 3 agreements concluded in Istanbul on 27 June 2012. These consist of the project's intergovernmental agreement, the host country agreement, and the pipeline.

The latest TANAP Intergovernmental Agreement was signed in Istanbul on 27 June 2012 and it envisages exporting the natural gas to be obtained from Shahdeniz-2 field, which is one of the world's most active reserve gas fields, to Europe via Turkey.

The TANAP pipeline, which passes through Georgia, aims to sell and transport natural gas from Azerbaijan through Turkey. The line's entry point is Turkgozu on the Turkish border, the exit points will be Eskishehir and Trakya areas. Greece's and Bulgaria's borders will become Turkey's entry point for Europe. This section of the new line has not been completely determined, and it is also thought to hit Greece on the one hand, while Bulgaria on the other.

The Trans-Anatolian Natural Gas Pipeline - TANAP



Source: Wikipedia

The investment made on the Trans Anatolian Natural Gas Pipeline Project is estimated to amount to \$7 billion. The project's first stage, whose annual capacity was expected to exceed 31 billion cubic meters, was calculated to be completed in 6 years.

SOCAR from Azerbaijan, BOTAS and TPIC from Turkey participate as the first partners in the consortium formed for TANAP. In the consortium BOTAS of Turkey owned 20 per cent share, while SOCAR of Azerbaijan owned 80 per cent share. Azerbaijan sold 12 per cent of its stake to BP in 2015, making the economy more global and contributing to this initiative the world's energy giant. At the moment, the project's shares of Azerbaijan, Turkey and BP are 58%, 30%, 12% respectively.

The construction of the 1,841-kilometer (1,144 mi)-long pipeline started in March 2015 and opened in June 2018. Finally, The TANAP was inaugurated on 12 June 2018 at the Eskisehir compressor-measuring station. The ceremony was attended by Turkish President Erdoğan, Azerbaijani President Aliyev, Ukrainian President Petro Poroshenko, Serbian President Aleksandar Vučić, and Bulgarian Prime Minister Boyko Borisov, as well as SOCAR head Abdullayev, Turkish Energy and Natural Resources Minister Berat Albayrak, and BP Bob Dudley's chief executive officer. At the Turkish-Greek border, Trans-Anatolian Pipeline (TANAP) and Trans-Adriatic Pipeline (TAP) were joined on 21 November 2018 along the shores of the Maritsa River. As a result of joining these two pipelines, Azerbaijani natural gas can be transported from the Shah Deniz-2 field to Italy via Azerbaijan, Georgia, Turkey, Greece, Albania and the Adriatic Sea.

The project is to be carried out in 4 phases.

1. The operation stage of the pipeline

The first of the 4 stages planned for the project was undertaken with the first natural gas flow in 2018. Shahdeniz gas was delivered to Turkey in the first stage following its passage through Georgia. Turkey purchased 6 billion cubic meters of natural gas in the first stage of the pipeline's operation in 2018.

2. The stage of the first increase in the pipeline's capacity

The line's capacity is considered to hit 16 billion cubic meters annually in the second stage which is in this year, 2020. 6 billion cubic meters of the 16 billion cubic meters of natural gas to be produced by the Shahdeniz-2 consortium will be sold to Turkey at this point, while the 10 billion cubic meter portion will be shipped to Europe.

3. The stage of the second increase in the pipeline's capacity

In the third point, in 2023, the line's annual capacity is expected to exceed 23 billion cubic meters.

4. The final stage

Finally, the pipeline's annual capacity is expected to be 31 billion cubic meters in the final stage. In the following phases, the TANAP project's natural gas production is targeted at reaching 50 billion cubic meters due to resource shifts and the natural gas needs.

The economic results of TANAP

4 Alternate proposals on the shipping of Shahdeniz-2 oil to European markets were put on the agenda. They were projects such as "Great Nabucco", "Trans- Adriatic", ITGI (Turkey-Greece-Italy), and SEEP (South-East Europe). European Union and US-supported project was Fantastic Nabucco. Nevertheless the financial difficulties related to the project, some uncertainty, the opposition of some countries due to the strategic consequences it might have, as well as the situation of some countries refusing to express opinions about whether or not they supported the

project, prevented its realization. Even the leading source supplier country-the role of Azerbaijan was indefinite for both economic and strategic reasons. Following the recent agreement on TANAP between Turkey and Azerbaijan, the Nabucco consortium was forced to revisit Great Nabucco as Nabucco West Project. The Nabucco West Project was shortened as a result of the conversion of the Turkish portion of Great Nabucco, which was intended as 3440 kilometers, to TANAP. The Nabucco West Natural Gas Pipeline has a planned duration of 1300 kilometres. Azerbaijan has acknowledged the Nabucco consortium's constructive approach to TANAP, and proposed Nabucco West Project as an extension to TANAP to export Shahdeniz-2 natural gas to European markets.

As for Azerbaijan, this initiative brings tremendous economic opportunities in exporting natural gas production to new markets. According to the new TANAP circumstances, 68 per cent of which belongs to Azerbaijan, it would be like Azerbaijan is transporting its own gas across the territory of Turkey since Azerbaijan wanted to gain the revenue from natural gas exports to the European markets themselves. Thus, one more economic barrier in the way of the long-term negative strategy of Azerbaijan towards Great Nabucco was removed. In other terms, Azerbaijan will get revenue from both the sale and transport of Shahdeniz -2 gas to European markets.

In terms of new job prospects in Turkey, the work on implementing this project takes on considerable significance. Azerbaijan and Turkey laid the cornerstone, with collaboration, of a massive refinery project in Petkim. In a view of the two main ventures, the amount of investment made in Turkey by the SOCAR of Azerbaijan would hit \$17 billion. It means Azerbaijan will be the biggest country investing in Turkey's industry and SOCAR will be the largest business. Following the pipelines of Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum, with the TANAP and refinery project agreements in Petkim, Azerbaijan would be an important strategic and economic partner in the direction of Turkey as both an energy corridor and the main energy supplier.

If this project is carried out with varying economic significance, part of this line's natural gas (6-10 billion cubic meters) will be sold on the Turkish market, while a large portion (10-25 billion cubic meters) will be exported to European countries. Considering Turkey's exit points, the Trans Anatolian line will feed the Turkish National Transmission Line and this line is seen as an important one for improving Western region's energy supply.

In addition to the economic reasons for splitting Great Nabucco project into TANAP and Nabucco West, some strategic outcomes of it are at stake. TANAP assumes significant strategic significance both for the countries of the world including Turkey and Azerbaijan as well as for the countries of Europe.

Though TAP ends in Italy, the transit route and geographic position allow it to join Southeastern Europe's energy grid. Croatia, Montenegro, Bosnia and Herzegovina and Albania are preparing to link TAP to the Ionian Adriatic Pipeline (IAP), a two-way pipeline to be constructed in the western Balkans from Fier in Albania via Montenegro and Bosnia and Herzegovina to Split in

Croatia. IAP is scheduled to join TAP in Fier, and it will connect into Croatia's current gas transmission grid in Split.

The natural gas capacity of Azerbaijan in the Shahdeniz region is 1.2 trillion cubic meters and more than around 2.6 trillion cubic meters in other sources. Given the potential beyond Shahdeniz in the other natural gas fields, gas production in Azerbaijan is projected to reach 50 billion cubic meters between the years of 2020-2025. These assumptions put Azerbaijan to the status of a remarkable supplier of natural gas for exporting large quantities of gas via Nabucco West into the European markets.

Implementation of the project with Azerbaijan and Turkey's financial and technological capabilities has made it a project to be realized between Azerbaijan and Turkey. TANAP means Turkey and Azerbaijan will jointly appear on the European energy transportation market.

TANAP, along with Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum, has strengthened Turkey's role as a critical energy corridor in delivering the Caspian Sea's energy resources to the Western markets.

Chapter Five

Development of Non-Oil Sector in Azerbaijan: Tendencies and Opportunities

5.1. Sustainable Development in Terms of Energy prices

5.1.1. The Role of Energy in Sustainable Development

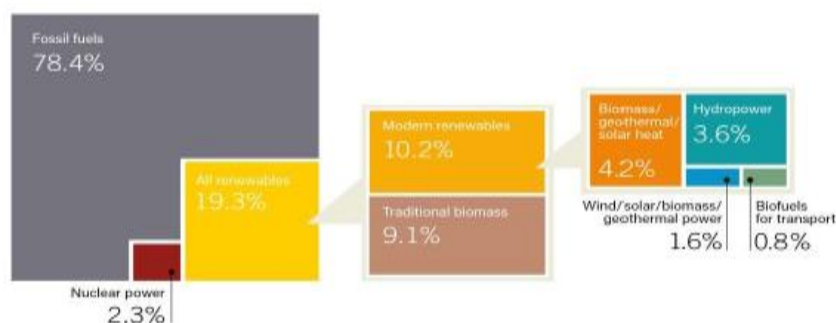
In the modern world, energy is the basis for the creation of basic industries which determine the social production progress. The rate of energy production in all the developed countries has outperformed the pace of growth of other industries. Lack of energy supply restricts socioeconomic activities, limits industrial development and adversely affects the quality of life. Increased food production, increased industrial output, efficient transportation, health care, adequate shelter and other services demonstrate improvements in living standards. This will entail a greater consumption of energy. And with increasing living standards, industrialization and a host of other socioeconomic factors, projected energy needs will continue to grow larger.

Energy is linked to the degree of productivity as the very source of production in manufacturing, agriculture, trade and even in the office activities. One metric or benchmark for calculating a person's standard of living is per capita energy consumption. A particular characteristic of the electric power industry is that its goods can't accumulate for subsequent use and thus consumption corresponds to electricity output both in size (of course, taking into account losses) and in time.

It is no longer possible to live a life without electric energy. The electricity industry has infiltrated every field of human activity: industry and agriculture, science and space, our way of life. Such a wide range is due to its unique characteristics: the ability to convert into nearly all other forms of energy (thermal, mechanical, sound, light, etc.); the ability to move fairly quickly in large quantities to large distances; the immense flow rates of electromagnetic processes through the ability to break energy and the shape of its parameter.

The electric power industry engages in the manufacture, transportation and distribution of electrical energy through power lines. Energy is produced at various types of power plants, along with electrical, thermal energy is also generated at some stations. Electricity is generated in Azerbaijan at three main types of power plants: thermal (TPP), hydraulic (HPP), and nuclear (NPP). The energy generation structure by station types is shown below.

The share of various power plants in Azerbaijan for 2018



Source: Renewables Global Status Report

At power plants, electricity is generated: thermal, hydraulic, nuclear, solar, geothermal, wind ... There's a huge amount of electricity being generated and consumed in our country. Two major types of power plants produce it almost entirely: thermal and hydroelectric.

Primary energy supply has been cheap and plentiful for much of the twentieth century, however due to the minimal focus on maximizing the usage of more energy-efficient end-use technologies the energy system as a whole has grown with little regard for optimization, as little focus has been put on maximizing end-use technologies. The energy system consists of the energy supply sector and energy end-use technologies, with the aim of providing energy services. If the end-use technologies are not powerful, either, the system will not be successful.

Azerbaijan's energy production is focused on the big country's use of hydrocarbon resources, even if the renewable energy creation is one of the strategic priorities of the government, the legal and institutional climate is still not appealing to potential investors. However, because the exploitation of this field's potential is significant, the Government of Azerbaijan has taken the first steps by establishing the Agency for Alternative and Renewable Energy Sources (ABEMDA).

Other than that, it acknowledges Azerbaijan as a nation rich in renewable and alternative energy sources. ABEMDA is preparing to bring forward plans for the transformation of several parts of this capacity and intends to increase the ratio of renewable and alternative energy sources to 20 per cent in general energy output by 2020.

Azerbaijan's contribution to the Paris Climate Change Agreement, taking into account national decisions, is to reduce by 2030 35 per cent of gas waste generating heat impact compared to stock point, and also 39 per cent in the electricity sector. At the same time, the share of conventional and renewable energy resources falls by 25 per cent.

In spring 2011, ABEMDA and the United Nations Development Program (UNDP) initiated a new project on "Promoting the Development of Sustainable Energy in Azerbaijan". This project was carried out by the European Commission with €500,000 and the Government of Norway with \$790,000. This project aims to assist the Republic of Azerbaijan with the intention of coming from the tops of the middle obstacles by making the adjustments and findings in the existing legal and public sense. Implementing this initiative would be a big step towards attaining the country's Millennium Development Goals.

Renewable and significant projects related to the use of energy resources were introduced in the Nakhchivan Autonomous Republic too. In this case, the usage was proposed of a new solar power plant located near the town of Babek's Hal-Hal village and begun in 2018. Construction of the 20 MV solar power plant was done under the agreement signed between the Nakhchivan Autonomous Republic's State Energy Agency and Soltech N.V. Undertaking Belgium.

The State Agency regularly coordinated activities and told the media about the country's use of conventional and renewable energy sources. The press has provided an opportunity for educating experts of the Agency; particular attention has been given to the ability of the government to clarify the green energy policy and raise society awareness.

5.1.2. Impact of Oil Prices Change on Economy

Today's energy system is highly dependent on the use of fossil fuels (coal, oil, and gas), which together account for 80 per cent of world primary energy use. The major global energy network features the following:

- Worldwide overall energy revenues amount to some US\$ 1 trillion per annum (3% of the world's gross domestic product).
- Fossil-fuel subsidies are in the range of US\$ 150 billion annually.
- The sales of 'new energies' amount to 20 billion US dollars a year.

One of the most important energy-related economic problems relates to the relationship between energy prices and energy use. The price of energy affects consumer preferences and behaviors. High energy prices will result in high energy bills, which in effect have adverse implications for industry, jobs and welfare. High energy prices, on the other hand, may also stimulate the discovery and creation of additional resources, generate opportunities for improvements in innovation and quality and attract new investment. Development of the energy system can't take place without investments in infrastructure for plants, equipment and energy systems.

The oil crisis of the 1970s underlined the value of energy conservation and eventually led to a significant decoupling of energy consumption and gross domestic product. As a result, more goods can be produced with less energy, and therefore, less energy is needed to provide the necessary energy services. A major challenge will be finding ways to meet the increasing demand for energy services in developing countries to promote desired economic growth without incurring the negative effects associated with current energy consumption patterns. For this to be done, substantial investment would be required to supply the two to fourfold rise in global primary energy expected over this century in the World Energy Assessment.

In the United States, rock oil production hit 10 million a day in 2014 and in comparison it was 5 million a day in 2007, while the export of parts of its exports by the Saudi Arabia-led OPEC members, the surplus output on the final oil market, has dropped Turkey from \$115/barrel today to less than \$35/barrel. The economies of many countries are affected by such a decline.

The price of oil, which rose to the level of \$140 before the global crisis of 2008, fell to the level of \$40 with the recession but with the increase in production, it rose again above \$120.00. Increased prices often result in new and cheaper production. Searches in North America and Northern Europe, especially in the US, which owns the world's largest and most energy-

consuming economies, have begun to integrate different alternatives into the energy supply, such as new oil supplies and rock gas. Firstly, we have seen a decline in the prices of natural gas. Oil prices were expected to fall to around \$90 in 2014. Yet the \$60 fall in price was a phenomenon no one could foresee.

Compensation for these hard moves that occur at prices may take a while. The decline can proceed. Therefore, declining demand, as at rising prices, would contribute to increased supply. Reports from energy providers suggest that this is where supply shortages are coming in. Looking at the cost of extracting oil or rock gas, it can be said that creating a permanent balance below \$55-60 would not be easy. Of course, the political and economic trends and the impact of the associated policies on oil prices are one of the issues that should not be ignored.

As with every commodity, stock or bond, one of the key factors is the law of supply and demand, which causes prices to adjust. Prices decline when supply exceeds demand, and vice versa. OPEC, the Association of Petroleum Exporting Countries, which has a significant effect on the volatility in oil prices, primarily regulates world oil supply. The aim of the organization is to maintain a stable price of oil. OPEC pledged to keep prices above USD 100 per barrel in the near future, but the price began to decline by mid-2014. Yet OPEC itself has been the principal explanation for cheap oil. OPEC declined to cut demand, which caused prices to fall.

OPEC as a producer has an immense effect on the price of oil, but on the other hand the price depends on demand. Prices are also influenced by demand from the largest oil importers, such as Europe, China, India and Japan. For example, the drop in oil prices in these regions may be due to lower demand, coupled with stable OPEC supply. Excessive oil supply can cause them to plunge sharply.

Production costs, too, cause prices to rise or fall. Although oil production in the Middle East is relatively inexpensive, its extraction is much more costly, for example, in Canada or the UK. As soon as the supply of cheap oil is completely spent, oil prices can rise if only oil remains in expensive producing regions.

This is another factor which causes oil price fluctuations. As with most commodities, seasonal weather shifts have an effect on oil demand. It is used more in winter for heating and people drive more and use more fuel in the summer. Although markets know when to expect these times of increased demand, each year the price of oil rises and levels up with the beginning of the season. Extreme weather events (hurricanes, tornadoes, thunderstorms) may have a physical impact on manufacturing facilities and infrastructure, declining oil supply and causing price rises.

Political instability also can cause price fluctuations in oil-rich areas. For example, the price per barrel of oil reached a record high of \$140 in July 2008 due to market worries and fears about wars in Afghanistan and Iraq. Another example is that if an oil-rich region is politically unstable, supplier markets respond with increasing oil prices so supplies remain available to the person

who offered the highest price. In this case, even at a constant level of output, only understanding the shortage of supply may increase prices.

Furthermore, it is important to remember that the oil is quoted and priced in US dollars globally. The fall in the US dollar generally increases demand for oil and its quality. The strengthening of the US dollar, on the contrary, decreases real incomes in exporting countries, rising oil demand and its price.

Economists disagree about the effect of rising oil prices on the economy. From one viewpoint, the higher energy transporters' rate raises the production and transportation costs of all. With value growth slowing out production, business profits are dropping, and the stock market is experiencing a decline.

From the point of view of consumers, the increase in fuel prices is alarming many who, seeing the loss of their buying power, are rising their expenditure on products not of prime need, which has a negative impact on business revenues. This also has negative implications for economic growth and stock prices. The counter-argument to that view is based on the reasons for the price increase. High demand is the most likely cause of the development. A strong economy is increasing energy demand which increases its price.

On the whole, this means good news for oil importers such as Germany, China, India, Japan and bad news for exporters such as OPEC, Latin America and Azerbaijan when it comes to the effects of declining oil prices on the economy. Fuel importers are benefiting from declining prices, while fuel import costs are declining which reduces the deficit in the current account. The decline in oil prices, in addition, has the opposite effect for oil exporters: it decreases the expense of their exports and contributes to a decrease in the trade surplus.

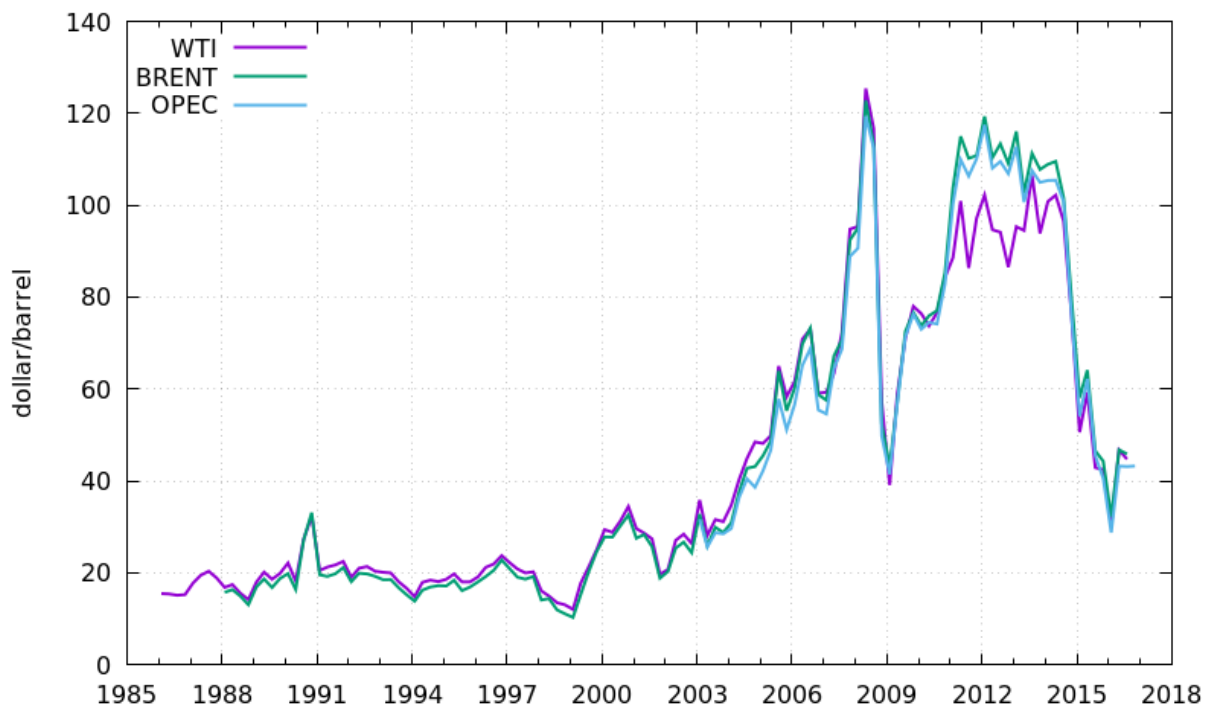
The decline in oil prices lets customers lower living costs and save money that can be used on more costly shopping. In most cases, this means a decrease in transport costs, leading to lower living costs and a lower rate of inflation. Declining oil prices is in reality a free tax cut. Theoretically, the fall in oil prices could lead to higher spending on other goods and services, as well as to real GDP growth.

But it can also cause deflation and a drop in consumer trust, and they tend to save money instead of spending. In this situation, a decline in prices rather than rising consumption leads to a drop in the rates of inflation and the possible start of deflation, which can be incredibly difficult to get out of. The downside of low oil prices is that it can delay investment in alternative "greener" sources of energy, such as electric cars, for example. The decline in oil prices could reverse the decrease in car use and lead to increased traffic congestion and the negative environmental effects of gasoline use.

In general, when we speak about the law of supply and demand, we assume that OPEC will always prefer the market volume and in the near future increase production. However, we also anticipate a healthy rise in demand, along with negative impact on non-US output in the US and non-OPEC countries, due to the continuing significant costs of cutting investments. We don't

think neither that Iran's lifting of sanctions would lead to a major drop in oil prices. After decades of insufficient investment in oil field production and manufacturing infrastructure, Iran will need to attract billions of foreign investment to restore hydrocarbon exports to pre-sanction rates. And global investors are more likely to be highly cautious before investing due to the legal and other problems that could threaten these investments.

**Average annual OPEC crude oil price from 1985 to 2018
(in U.S. dollars per barrel)**



Source: Statista

The average price for oil in the 1980's was \$36 per barrel, about the same as in 2004. By 2008 oil prices soared to \$97. After the US mortgage lending crisis, followed by the bankruptcy of the largest financial institutions which triggered a rapid downturn in economic activity and the crash in quotations on equity and commodity markets in 2008, oil prices dropped to \$70 in 2008–09. As a result, 0.6 per cent of the world economy contracted in 2009, impacting foreign trade, which declined by 11 per cent after 8 per cent growth in 2004-2008. Under the impact of robust fiscal and monetary stimulus initiatives taken by governments around the world, however, the global economy and markets have largely improved in 2010–2011.

One of the main effects of the falling oil prices is the destruction of economies which depend heavily on oil. In a recent ranking of Venezuelan debt efficiency, the country has been downgraded by more than 40 percent due to a fall in oil prices. This is because the country's foreign exchange and international reserves were very small. In addition, Venezuela is now suffering economic recessions and this is because it is incapable of delivering basic services such as health care programs and paying off its government employees. Russia is another nation that is seriously impacted by a low price of oil.

Like Venezuela, the Russian economy depends on oil; the value of the Russian currency has depreciated as a result. The default rates were very high, which means investing in Russian bonds or debts was extremely risky at Russia's latest credit ranking. This is proof that mainly due to oil and partly due to the economic sanctions imposed on Russia by the European Union because the Russian economy is going through a recession.

Low-priced oil not only hurts the economies of states relying on oil production and export, but it also hurts countries like the United Kingdom and the United States. The British energy market, in particular the oil industry, is undergoing some decreases, for example, and this has contributed to the folding of most jobs, leading to an increase in unemployment. High unemployment levels are not good for an economy, and this is especially because it has the potential to lower a given state's GDP growth. There is also a decline in US oil production, with the US shale industry seeing a decrease in its production. This is because shale oil companies do away with drilling rigs from the Texas and North Dakota margins. This means the economy is failing, and it can trigger belt tightening and job cuts. Another negative impact of low oil prices is reducing creativity. Scientists will reduce their work because of low-priced oil, thereby failing to come up with other creative ways of relying on oil, or coming up with other steps about how to lower the oil prices. It is important to understand that innovation has contributed to the growth of the leading economies including the United States, Germany, France, the United Kingdom, Japan, China and so on. There are high chances that these countries will not come up with better creative resolutions without innovation that can help their economies develop. In addition, low-priced oil prices have a negative effect not only on oil-industry firms but also on other industries such as transportation, retail, and manufacturing.

The macroeconomic situation in the raw material exporting countries is especially vulnerable to price volatility of this raw material: economic activity is decreasing and external and fiscal balances are weakening as prices of raw materials decline, and vice versa, an economic boom is observed when prices of raw materials peak. On the other hand, the rise in oil prices for all other countries in the world raises the cost of production and reduces business income, thereby impacting economic activity. A negative correlation between oil prices and world GDP growth was observed during the 1960s-1980s.

However, the energy intensity of output in developing countries has substantially decreased in the last 20 years, which has reduced the share of oil in the GDP of these countries and consequently the effect of the oil shock on the aggregate supply. Hence, we see that after the

1980s, the link between oil prices and world GDP growth changed its meaning. The IMF provides another reason in its latest report: the increase in oil prices over the past two decades was attributed to the rapid growth of emerging economies, which has continuously driven high oil prices. That is, in this case, raw material pricing is influenced by world economic growth, and not vice versa.

Generally speaking, the effect of oil prices on the CIS economy depends first of all on its composition and in general it would be different for countries earning substantial revenue from oil exports and their importing countries relative to their GDP. There is a flow of income from buyers, importers to manufacturers, oil exporters in times of high energy prices. On a global scale, such a step toward income should not lead to a global GDP transition. However, there is a common argument that oil exporters prefer to save more and spend less, owing to a higher tendency to spend on oil consumers than producers. As a result, growing oil prices could slow domestic demand and, eventually, slow global GDP growth. Another group of researchers is of the opinion that oil producers use their savings to invest in other countries, leading to lower interest rates and higher asset prices and thus stimulating production. Hence, the impact of GDP slowdown cannot be unambiguous from the second-group researchers' point of view.

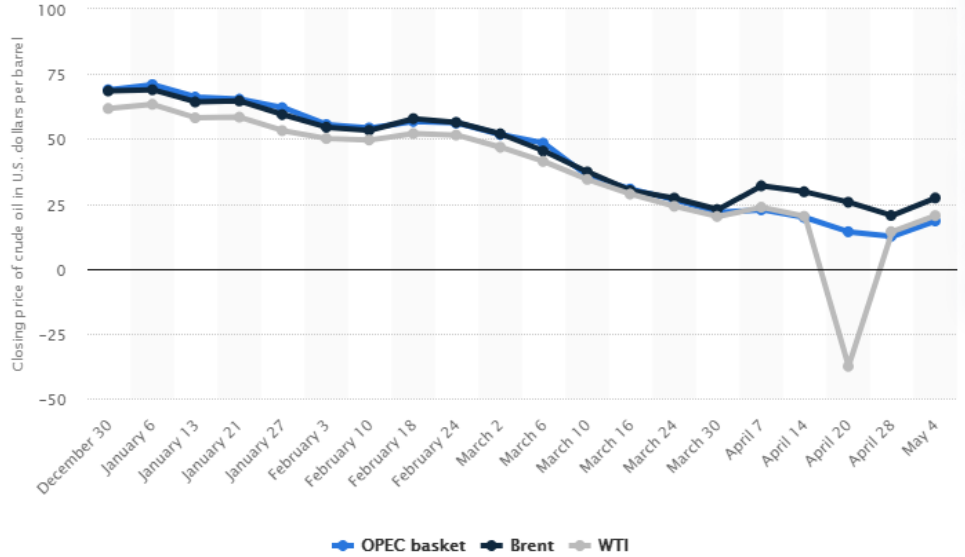
In either case, high oil prices pose certain difficulties in enforcing macroeconomic policies for governments in both exporting and oil-importing countries, as both must attain several, sometimes overlapping objectives at the same time, including smoothing demand, ensuring equal income for different generations, and ensuring capital spending to ensure economic development. As a rule, therefore, in a time of high energy prices, in the face of uncertainty about export earnings, these countries' governments tend to accumulate buffer stocks in the form of central banks' state oil funds and foreign exchange reserves. On the contrary, oil importers show a deterioration in foreign trade balances, which exerts pressure on exchange rate depreciation and eventually leads to a decline in revenues. The effect of oil price growth on inflation generally depends on the macroeconomic policies pursued in the country, as well as on workers' ability to demand compensation for lower wages in the form of wage growth, and corporate willingness to save profits. Each of these factors will lead to the wage-price spiral unwinding as households and companies are forced to cut their spending amid rising wages, leading to deflation.

A clear and more or less established fact is the growth of economic uncertainty and volatility which affects the real economy through investment decisions. If the increase in oil prices gets longer-term, the economy moves to new equilibrium rates. Thus, long-term trade changes for oil-exporting countries lead to higher investment contributing to GDP growth. Oil importing countries will not transition to lower rates of economic development, with lower levels of both public and private spending involved.

The supply-side policies of the countries of the US, Saudi Arabia or OPEC (Oil Exporting Countries) tend to be prominent in the latest hard movements. Oil prices have depreciated by about 65 per cent since the beginning of 2020 and it is expected that oil prices will stay weak for

some time to come. One of the most critical market developments in 2020 was a dramatic drop in oil prices in April. Consumer demand declined due to fears of an ongoing spread of the corona virus pandemic and its impact on the economy, which in turn led to a disagreement in early March between two of the largest oil producers, Russia and Saudi Arabia. As of May 4, the OPEC basket stood at \$18.36 per barrel, compared with \$27.2 for Brent oil and \$20.39 for WTI oil. Bilateral talks between global oil producers ended on 13 April with agreements to cut petroleum production and expectations that this could help stabilize the oil price in the weeks to come. Nevertheless, with storage facilities and oil tankers quickly filling up, concerns have risen particularly in the U.S. about what to do with extracted oil, contributing to the WTI benchmark dropping into negative prices on April 20th for the first time in history. Brent prices also reported a first, tumbling below US\$ 20 per barrel in the following day. Among outside of the energy market, recognizing the causes of fluctuating oil prices can also be frustrating. Nevertheless, given the fact that oil is much more difficult than any other to evaluate commodity, there are many common factors that influence its price around the world.

Weekly Brent, OPEC basket, and WTI crude oil prices from December 30, 2019 to May 4, 2020 (in U.S. dollars per barrel)



Source: Statista

Brent crude oil prices will average \$33.04 per barrel in 2020, and \$45.62 per barrel in 2021 according to the latest estimate from the monthly Short-Term Energy Outlook of the US Energy Information Administration (EIA). This is a decrease from an average of \$64.36 per barrel in 2019 and represents a downward change of \$3.58 per barrel over the previous forecast for 2020. In its latest update of the World Economic Outlook, the International Monetary Fund expects a marginally less extreme downturn and more moderate recovery with Brent oil prices plummeting to \$36.9 per barrel in 2020, and then rebounding to \$39.5 in 2021. Unforeseen incidents, for example, political turmoil, natural disasters, corona virus etc., will inevitably lead to more severe swings and higher world oil market prices.

The uncertainty seen on the global oil market is hampering the development of Azerbaijan's economic growth. The analyst says the fall in oil prices over the past few weeks shows that oil market equilibrium has still not been restored. For this reason, oil countries like Russia and Kazakhstan, as well as the key factor that supports the economic growth of Azerbaijan, cannot increase the circulation volume of currency.

5.1.3. Cointegration of oil prices and economic variables for Azerbaijan and other oil Industrial countries like Kazakhstan

In the region of the former Soviet Union, Azerbaijan, Kazakhstan and Russia are three great oil exporting nations. These countries are distinguished by a strong commercial and fiscal dependence on oil. The quantity of oil in exports in Kazakhstan and Russia ranges from 60% to 80%, 70% prevails in Azerbaijan. Such countries experienced an unprecedented inflow of petrodollars when oil prices were high, leading to the critical strengthening of their national currencies and creation of substantial foreign reserves. Nevertheless, when the adverse oil price shock reached the oil market, the petrodollar influx decreased, causing the national currencies to be pressurized.

During times of high oil prices, these countries' governments earned a large amount of oil income, one portion of which was deposited in the wealth funds and the other was diverted to the budget and spent on increasing public employee salaries and wages and improving infrastructure. In 2013, the oil income additive to the budgets in Azerbaijan and Kazakhstan overlapped by 50% and in Russia, the budget contribution was almost 50%. When the oil prices started to collapse, some countries' governments started to reduce their spending and cancel fairly low priority programs.

High dependence on oil revenues and high oil price volatility demands powerful economic policy and management in Azerbaijan, Kazakhstan and Russia. The probability of developing experienced economics to enhance governance and policy depends on understanding the rule oil price shocks connect and affect the economy with other economic variables. Many studies contribute to the study of the relationship between oil price fluctuations and macroeconomic variables in oil-exporting countries.

"In the September macroeconomic study, the Central Bank of the Azerbaijan Federation openly accuses Azerbaijan and Kazakhstan of violating the agreement to restrict the output of OPEC + oil. However, it is entirely uncertain on what data the Azerbaijan Department is depending on, making such claims. This measure shows the Azerbaijan Federation's prejudiced stance towards its neighbors," said Ilham Shaban, president of the Center for Petroleum Research.

Kazakhstan's energy minister Kanat Bozumbayev, made a remark, suggesting that Kazakhstan met its obligations in August 2019. The country was expected to produce 1.68 million barrels, and 1.643 million barrels were produced.

Azerbaijan is usually the most controlled country that has never breached an oil production reduction agreement. According to the Azerbaijani Ministry of Energy, the daily oil production amounted to 771,000 barrels in Azerbaijan in December 2019. Crude oil accounted for some 680,000 of that amount, while 91,000 barrels - condensate. About 457,000 barrels of crude oil were exported daily, 84,000 barrels of condensate, 19,900 barrels of oil products, the report said. As part of the agreement on the protection of daily oil production in the amount of 776,000 barrels dated 7 December 2018, Azerbaijan totally fulfilled its promise to reduce production by 20,000 barrels per day. In December, Azerbaijan's energy ministry submitted regular oil output data to the OPEC Joint Ministerial Monitoring Committee's technical commission. A decision was taken at the 7th OPEC and non-OPEC Ministerial Meeting on 6 December 2019 to further increase the daily output of oil by 500,000 more barrels. Azerbaijan's pledge to minimize the amount of oil production is set at 27,000 barrels, in line with the current "Declaration on Cooperation". As of January 2020 Azerbaijan must produce 769,000 barrels of oil per day. It turns out the agreement was not broken by either Azerbaijan or Kazakhstan, the experts said.

Ilham Shaban is perplexed at why neighboring republics are accused by the Central Bank of the Azerbaijan Federation of non-compliance with the OPEC + oil output limitation agreement. "Azerbaijan is well aware that if there is a rise in oil production in Kazakhstan due to the launch of the Kashagan field last year, then, unfortunately, there is a substantial decline in Azerbaijan.

Today there is a steady increase in the country which will continue in the next year. The increase in the production was related to the Shah Deniz 2 project launched in the second half of 2018, and more than a million tons of condensate was extracted in one year, which is comparable to 8 million barrels of oil.

At the same time, as Nezavisimaya Gazeta writes referring to the Azerbaijan Central Bank's macroeconomic report, oil exporters will not be able to balance the world market due to increased production in the US, Kazakhstan, Azerbaijan and other undisciplined countries that are in violation of OPEC+.

Recall that the oil exporting countries' agreement on raising demand officially functioned until the end of March 2018. Azerbaijan has been actively involved in the drafting of this agreement, as its budget and the economy as a whole are critically dependent on oil prices. Pursuant to OPEC+ deal, countries in that cartel were supposed to reduce the production of oil by 1.2 million barrels a day. And the countries outside OPEC agreed to slash production by 558,000 barrels of oil.

OPEC predicts an average daily output of 700,000 barrels of oil in Azerbaijan by 2020, local media reported citing OPEC's Monthly Oil Market Report released on 16 April 2020. "Azeri production is expected to decline by 90,000 to an average of 700,000 barrels per day (bpd) by 2020, due to the scheduled maintenance of the Chirag oil field and Shah Deniz gas-condensate field and considering the agreed voluntary adjustment." Azerbaijan's liquid production in February dropped by 20,000 bpd per month to an average of 780,000 bpd, down 50,000 bpd year-on-year, according to the data given in the survey. Crude oil production decreased by

11,000 bpd to an average of 66,000 bpd, while NGLs (natural gas liquids) and condensates decreased by 8,000 bpd to an average of 120,000 bpd.

As announced recently, on April 12, 2020, during a video conference, the OPEC and non-OPEC countries agreed an agreement to collectively reduce daily oil production in three stages from May 1, 2020 to April 2022. Along with it, the fall in OPEC + countries will hit 9.7 million bpd at the first level (in May-June 2020). As part of the agreements, Azerbaijan undertook to reduce the output of oil excluding condensate from the October 2018 indicator-718,000 bpd. From May to June 2020, Azerbaijan will raise its oil production by 23% or 164,000 bpd-to 554,000 bpd, in July-December 2020-by 18% or 131,000 bpd-to 587,000 bpd, from January 2021 to April 2022-by 14% or 98,000 bpd-to 620,000 bpd.

Earlier, citing BP's Vice President for Communications, External Affairs and Strategy in Azerbaijan, Georgia and Turkey, Bakhtiyar Aslanbeyli, it was reported that BP plans to shut down Alfa platforms in Chirag and Shahdeniz fields in the Azeri-Chirag-Guneshli (ACG) block during the second half of 2020.

Remember that crude oil prices plummeted in March 2020, experiencing their biggest monthly fall since the 2008 global financial crisis. The COVID-19 pandemic's effects were the main driving factor, resulting in worldwide unparalleled oil demand shock and major sell-offs on global oil markets in the midst of a large crude surplus. It should be noted that on April 15, the price of Azeri LT developed at the oil field of Azeri-Chirag-Deepwater Gunashli (ACG) was \$20.26 per barrel, which is \$2.32 less than on April 14. At the same time, on April 15, the price of Azeri LT FOB Ceyhan was \$19.16 per barrel, which is \$2.31 less than that of April 14.

Since 1997 Azerbaijan has been manufacturing Azeri LT and exporting to the Georgian port of Batumi via the Baku-Tbilisi-Ceyhan (BTC) and Baku-Supsa Western Export Pipeline as well as by rail. Azerbaijan also sells its URALS oil from Novorossiysk's Russian Black Sea port, supplying through the Baku-Novorossiysk oil pipeline. The price of URALS shipping from the port on April 15 amounted to \$15.78 per barrel, down \$2.68 from April 14. The cost of a barrel of Brent Dated oil produced in the North Sea amounted to \$18.08 per barrel, suggesting a \$2.58 decrease.

Following the economic shock of 1990-1995, the economies of nearly all the countries that joined the CIS recovered but this cycle was uneven. From 1990 to 2019, only Azerbaijan and Kazakhstan were able to more than double the real gross domestic product (GDP), while economic activity increased 2.6 and 2.03 times, respectively, in these countries.

All the countries that joined the Commonwealth, including Georgia, were faced with a major decline in economic activity during the fall of the USSR and the subsequent transition phase of the economies. The height of the downturn came in 1995, when the economic loss in real terms was on average 48 per cent compared to 1990.

The first started to recover Armenia and Georgia's economies, the second-Ukraine, the economy of which only began to expand in 2000. The economies of most of the CIS countries exceeded

and surpassed the 1990 rates from 2003 to 2007. Tajikistan (by 2013) and Georgia (by 2017) were the last to recover, while Ukraine and Moldova's economies didn't completely recover from the recession.

Nevertheless, beginning in 2010 (even given the fact that oil prices remained at a very high level for most of this period), the actual rate of GDP growth in Azerbaijan has slightly deviated from the potential.

The downturn in the economy in 2016 is attributed both to the oil factor and to the economic potential dynamics (the rise of declining oil prices was a negative factor in 2015-2016). Around the same time, because of the business cycle factor, which can be attributed to the devaluation of the national currency and the subsequent tight monetary policy of the authorities, the economy has not experienced a more severe decline.

According to experts from the Moody's International Rating Agency, Kazakhstan ('negative' Baa3) and Azerbaijan ('negative' Ba1) are experiencing similar difficulties in connection with the drop in oil prices from the highs recorded in mid-2014 which involves a sharp recession in the economy, double-digit inflation, a decline in the amount of foreign exchange reserves and an aggravation of the banking sector situation. According to Moody's more resilient in material Kazakhstan than Azerbaijan in adapting to lower oil prices, Kazakhstan's high diversification of economy, stronger state institutions and a lower level of debt compared to the situation in Azerbaijan are causing higher resistance to those factors.

Moody's findings are set out in the recently published comparative analysis of the economies of the two CIS countries exporting oil, entitled Azerbaijan and Kazakhstan. Comparative analyzes of differences in the level of economic stability, the degree of growth of state institutions and the extent of the debt burden cause differences in creditworthiness. "The growth levels of the economy and the filling of both countries' budgets depend largely on hydrocarbon export earnings, but Azerbaijan is more vulnerable to lower oil prices, as its GDP is 3.5 times smaller than Kazakh, and the level of income is half that. In addition, Kazakhstan has made more progress in improving its business environment and eliminating other institutional barriers to development.

Therefore, the level of growth of state institutions in Kazakhstan is higher than in Azerbaijan, allowing for a more successful response. Kazakhstan has higher performance metrics for public administration, the quality of its statistical data is higher, which improves the transparency and efficiency of decisions, and is more advanced in reforms, which will improve the institutional framework over the medium term. In addition, a smoother transition to a floating exchange rate and a quicker monetary policy reaction to avert rising inflation allowed Kazakhstan to cope better with the fall in oil prices.

Because of its continuing territorial dispute with Armenia (B1 is "stable") due to Nagorno-Karabakh Azerbaijan is more vulnerable to geopolitical risks. Inside its 'multi-vector' foreign policy strategy, Kazakhstan maintains good relations with Azerbaijan and China, as well as with

Japan, the United States and the European Union. His relationship with Azerbaijan is strong, especially in the areas of defense.

Banks are under pressure from both countries. The outlook for both countries' banking systems is pessimistic, as the proportion of problem loans is 25 per cent of the total loan amount issued in Azerbaijan and 37 per cent in Kazakhstan. However, the risks are reduced as a result of the recent measures taken by both countries to strengthen their banking systems, as well as the small size of both sectors: in 2019, the total volume of bank assets amounted to 53 per cent of Azerbaijan's GDP and 60 per cent of Kazakh GDP.

Finally, the public debt of Azerbaijan is higher but both countries have ample financial resources. The debt-to-GDP ratio of the nation rose by nearly 30 per cent in the last few years due to direct funding for the banking sector. Kazakhstan's debt to GDP increased by less than 10 per cent during that period. However, a substantial amount of savings and high credit capital availability help a high degree of fiscal sustainability in both countries.

It is evident from the foregoing that the economy of all three countries is currently highly dependent on oil in commerce. That can't be viewed as a positive thing. First, if we pay attention, we see that, from an economic point of view, the availability of oil opens new opportunities for every nation. Yet while the oil industry is growing rapidly, other sectors are experiencing a decline. Even these countries suffer greatly when oil prices drop economy because these countries have the opposite relationship on the price of oil and economy. In those 3 nations, these cases raise the risk of "Dutch Disease". If the requisite steps are not taken, after a certain time this issue will eventually reach an unresolved stage. Any of the mentioned "Dutch Disease" symptoms are being observed in some degree in the economies of the countries listed. Those signs may include:

- Strengthening of the national currency is mainly due to revenues (foreign currency) from oil production and exports;
- Rapid growth of crude oil output, unilateral development as a result of a decline in the output potential of the non-oil industry;
- Growing reliance on state budget revenues on oil;
- Raising the possibility that the budget may come up against a fall in world oil prices;

At the same time, it should not be overlooked that oil-producing countries are constantly exposed to pressure from other countries. Some countries today are seeking to slow down the growth of the country's advanced production oil.

5.2. Research Methodology

Azerbaijan's economy suffered a significant recession after gaining independence in 1991, which lasted until the end of the 1990s. The challenges of the transitional period, the deterioration of

previous industrial relations, the crisis in the agrarian sector, the decline of GDP in all economic areas as well as the occupation of approximately 20% of the territory by the neighboring Armenian armed forces and financial support for refugees comprising 15 % of the population and other problems have adversely affected the economy of Azerbaijan. Industrial and agricultural areas were exposed to roughly \$15 billion in damage. Azerbaijan's GDP decreased by 55 per cent in 1990-1994 compared to 52 per cent by industry and 44 per cent by agriculture respectively. Industrial output was also experiencing crisis in many regions of Azerbaijan. Oil products and cotton fiber dominated exports in 1994 (57 per cent). The share of food products and domestic goods in exports was 24%, while engineering, chemical, petrochemical and metallurgical industries shared 19% together. Import consisted primarily of material and technological items (63%), while food and domestic goods were behind. Although 10,000 small enterprises, 80,000 commercial facilities, over 100 commercial banks, 3.5 thousand cooperative entities, 850 farms and a large number of joint enterprises presented the non-oil sector, their overall output was lower, and not sufficient to meet the population's requirements.

Renovation, reconstruction and technical reorganization were needed in Azerbaijan and its regions because mainly in the 60-70s the material basis of heavy industry and agrarian sector was established. Instead of previous equipment and services, it was important to use and implement environmentally friendly and modern technologies. The achievement of those changes depended on foreign investment involvement.

Pursuing the "open doors" scheme, Azerbaijan has steadily achieved positive structural reforms and an upsurge in manufacturing and services. The Liberal Model elements were added. Azerbaijan has implemented property rules, privatization rules, banks, foreign investment rights and laws etc. Efficient monetary and fiscal policy has led to keeping the economic situation stable. The inflation rate was reduced to the lowest level (1.5 percent) due to the creation of the currency market, the liberalization of foreign trade and economic relations and the cooperation with the IMF and World Bank. Since 1996, the national currency rate has been maintained in relation to the US dollar, and this successful policy continues to be observed at present even if the national currency has seen two devaluations in the last few years. Substantial reforms relating to the distribution and use of land resources among villagers and the use of market economy mechanisms in the agricultural sector opened up great opportunities for agricultural production and through farming enterprises.

Economic growth has also allowed the Government to pursue effective regional policy. The most important policy-relevant interventions were the implementation of three state programs (2004-2008, 2009-2013, 2014-2018) on regional socio-economic growth. The aim of implementing these programs was to elevate the living conditions and economic potential of the areas, particularly non-capital (peripheral) regions, by improving social infrastructure, building various facilities, commissioning industrial enterprises and service items.

5.3. Implementation of State Programs

5.3.1. Results of Implementation of the first State Program (2003-2008)

Compared to previous periods, the implementation of two State Programs has positively affected the peripheral regions' economy and their industrial output.

A variety of works on building new facilities in the regions have been completed. The aluminum plant in the city of Ganja was rebuilt in Ganja-Gazakh province. A gold manufacturing factory was commissioned for the first time in Gadabay which was later also specialized on cuprum refining. The manufacture of water and gas counters was organized in Ganja. Bentonite-producing enterprise in Gazakh was commissioned. Construction of nine power stations, including seven modular and heat stations in non-capital regions – Nakhchivan, Astara, Sheki, Khachmaz and Sumgayit – ended in 2004-2008. The supply of natural gas has been recovered in the regions of Nakhchivan, Aghjabadi, Beylagan, while the regions of Lerik and Yardimli and the settlement of Horadiz received this form of fuel first. Seventy-five boiling houses were constructed and seventy-two more reconstructed in the area.

Considerable work has been carried out on the development and extensive rehabilitation of highways in conjunction with the first state program. Thus, the overall length of developed or restored highways reached 1000 km, 600 km of which were of state significance. In addition, 69 new bridges were constructed, and 34 more were repaired. Nakhchivan, Ganja, Lankaran and Zagatala cities commissioned the latest, modern airports.

In the economic area of Aran which is the largest specialized plant in the Caucasus, sugar production plant was commissioned for the first time. Before becoming a sugar-importing country Azerbaijan began exporting this commodity. The new manufacturing enterprises were constructed in the Aran area, including lift plants in Sabirabad, science-intensive electrical engineering enterprises, and a computer-producing mill in Minghachevir, milk and butter mills in Salyan, pomegranate-producing objects in Goychay, and other social objects.

In Sheki-Zagatala region silk production in Sheki region has been reorganized and expanded. Modular-type station in Sheki town was commissioned. Plant tinned products in Gabala, and hazel-nut processing enterprise played a significant role in this region's growth. Mills of motor vehicles and electrical products were the principal manufacturing objects in the Mountainous Shirvan region. In the Lankaran-Astara region a tinned production plant, a textile factory, and a dairy product plant were established. The Nakhchivan area hosted the production of non-ferrous metals, asphalt, concrete, marble and also automotive. In addition, tens of new food-industry companies were commissioned here.

The first State Program also reached the Absheron area where work on restoration was carried out mainly in Great Baku urban settlements. In order to increase the population's energy supply, the three power stations with high performance were installed in the agglomeration area.

Measures have also been carried out on the territory to enhance the environmental conditions. Balakhani Solid Waste Plant has been built. Transport infrastructure has also been upgraded.

As part of the first state plan, the technical and financial support to farmers and agribusinesses was also expressed by the agricultural activity indicators. In 2003-2008, agricultural and food industry production grew substantially, including 21.4 per cent by wheat, 40.1 per cent by potato, 17.4 per cent by vegetable, 78.1 per cent by grape, 30.6 per cent by cattle meat, 18.3 per cent by milk, 47.9 per cent by egg and 22.3 per cent by wool. In addition, a number of industrial and agricultural buildings, medical, educational and other facilities, including sport-related facilities such as Olympic complexes (more than 15) were developed according to the Plan. Approximately 1600 new educational items were built, including 636 new secondary schools, and 192 more were significantly restored. In Lankaran, Gazakh, Zagatala, Barda, Gabala, Ganja, Nakhchivan, Julfa, Babak, Shirvan, Sumgait, Khachmaz, Sabirabad, treatment and diagnostic centers, as well as physiotherapy objects and clinics were established. Previously administered paying services under the Ministry of Health Care were liquidated in all treatment and prophylactic items and started to be made for free.

In the country over 766 thousand workplaces were established during the introduction of the steps, of which 547.5 thousand were permanent. The number of enterprises produced exceeded 27.5 thousand, of which 40 per cent fell to non-capital regions. In order to facilitate investment conditions, develop entrepreneurship and the non-oil sector and accelerate the process of creating new workplaces, the highest tax rate for physical persons has been reduced to 35%, taxes on profits and social assignments have been reduced to 22%, taxes have been reduced to 9% and agricultural producers have been released from tax except taxes on lands. License terms have been extended to include economic activities.

As an integral part of agricultural policy, the new stock company “Agrileasing” which later introduced the rendering of 20 types of services in agri-business was established. The company brought about 7,000 agricultural machinery appliances, more than 20 suits of technological equipment, about 230,000 tons of mineral fertilizer, 7 types and 290,000 tons of pesticide.

The two major projects of international importance were put into reality in the years of implementation of the Program. The Baku-Tbilisi-Ceyhan oil pipeline was commissioned, along with the Baku-Tbilisi-Erzurum gas pipeline. Modern highways were constructed in various directions as well.

During the years of implementation of the first program on socioeconomic development of regions (2004-2008), the country's GDP has grown 2.6 times while GDP per capita has been increased 5 times. According to this plan, the building of companies and facilities and the development of new workplaces relating to the non-oil sector in Azerbaijan has been increased by 6.2 times and its share of total investment has been increased by 69%. Industrial production increased by 2.5 times, while agricultural output increased by 25.2%. In the years of program implementation, the country's non-oil sector has grown 1.8-fold. Private sector share hit 84.5 per

cent. Population incomes increased fourfold in 2008, while their average salaries increased fourfold. The poverty rate was 13.2 per cent, while it was 45 per cent five years earlier.

The introduction of the region's first State Program on Socio-economic Growth was primarily aimed at restoring the industrial base. The steps concerned gave impetus to the growth of the non-oil sector in Azerbaijan. Experts assessed the realization of this intended plan as being extremely important for the nation. The following programs were expected to increase the economic potential produced further and to develop the tertiary sector.

5.3.2. Implementation of the Second State Program (2009-2013)

Within the framework of the second program, the works and initiatives carried out in conjunction with the first program on social and economic growth of the regions were continued. The goal of this program was to manage the sustainable development of the non-oil sector, create new businesses and workplaces, increase the volume and quality of domestic services and social infrastructure, improve the state of entrepreneurship, increase the employment rate and reduce poverty.

In 2010, Granite and Marble Plant in Baku, Elevator Plant in Sangachal, a car plant with a capacity of 5,000 cars per year in Nakhchivan, a concrete plant and the hydroelectric plant 'Bilav' in Ordubad, a building materials plant in Nakhchivan, a tinned food plant, tea and ice cream factories in Lankaran, milk and tobacco manufacturing plants in Zagatala, a salt factory in Absheron, wine mill and the Goytapa water reservoir in Jalilabad, a cannery in Bilasuvar, a mineral water mill in Aghstafa, a cooling store in Salyan, a piano factory, a fruit and vegetable storehouse and a bus terminal in Gabala, 7 modern sports centres, as well as hundreds of hotels and leisure centres, and medical facilities in Baku, Ganja, Mingachevir, Gabala, Balakan, Jalilabad, Bilasuvar and other regions of the country were commissioned. Meanwhile, the commissioning of the Ogu0z-Gabala-Baku water pipeline allowed the availability of clean water in Baku, the population of which has primarily used water from the Kura River for decades.

In 2011, a building materials factory, a number of four- and five-star hotels, a metro station and also the Treatment and Diagnostics Center in Baku, a cement mill in Nakhchivan, 2 clothing factories in Absheron, a wine and juice company in Agshu, two large dairy and milk factories in Aghjabadi, a lemonade maker, two major sports centers and the International Airport in Gabala, mixed forage factory in Imishli, winery and hotel in Sheki, maize and glucose-producing enterprises in Oghuz, cold stores in Goychay, Samukh and Beylagan, grain store complex in Gobustan, gas compressor station in Astara, dairy factory in Tovuz, 2 sanatorium complexes in Naftalan, treatment and diagnostic center in Khizi and other educational, economic, sport, entertainment, communication and transportation enterprises and facilities were put into operation. A variety of regions have also extended the length of highways and fibre-optical cables.

In 2012, a metalworking factory and a plant for the processing and burning of solid waste, as well as a number of four- and five-star hotels, stadiums, educational, sports and concert

complexes in the Great Baku area, 'Azguntech' plant specializing in renewable energy production and Sumgait Technological Park in Sumgait, Bakeries and Flour Mills in Sheki, Barda and Jalilabad, 'Garabagh Brolier' Factory, a cold store and hydropower station in Fizuli, a grain store in Imishli, a cannery in Gazakh, a hospital, a hydropower station and 2 hotels in Gusar, a dairy mill in Tartar, a bus terminal and a regional information center in Yevlakh as well as educational facilities, leisure centers and hotels, chess colleges, sports complexes, transport and communication facilities were instructed.

In 2013, a ship repair center, a shipbuilding yard, a gas turbine heating plant in Baku, Arpachay water hydropower plant in Sharur, a mill of steel pipes, a large agricultural and industrial complex, and 'Gilan' Textile Park in Sumgait, 'Janub' Power Station in Shirvan, a service warehouse, 'Milla' dairy and ice cream plant in Absheron, a livestock complex and a central hospital in Aghjabadi, cold storage facilities in Gadabay and Balakan, an equestrian sport center in Aghstafa, a cement plant in Gazakh, a grape-processing and agrarian complex in Gabala, a ceramic plate-producing company in Hajigabul, a garment and hydropower plant in Ismayilli, Valvalachay-Takhtakorpu road, watershed and hydropower station in Shabran, Yevlakh airport as well as art schools, Olympic complexes and sports centers, hotels, bridges, medical centers, stores, bakeries, highways, telephone stations, fiber optical main cable lines, etc. were put into use in the Azerbaijani regions.

The Second Program on national socio-economic growth was the continuation of the previous one. In the framework of the second plan, some ongoing initiatives and building activities were completed.

Throughout their implementation, i.e. in 2003-2013, investments in Azerbaijan's economic and social spheres amounted to 101.8 billion manats, including 51.2 per cent by state-owned sector and 48.8 per cent by private entities. Fixed capital came to 9.3 billion manats. 54.5 per cent of the overall spending was spent on production, and 45.5 percent on utilities. Owing to international sources, 32.5 percent of total investment in a fixed capital was available in 2003-2013, and the remainder at the cost of internal capacity was 67.5 percent. The rise in financial capacity is reflected in the fact that 26.8% of funding was handled in 2013 at the expense of domestic sources, while 62.5% in 2003. In the country's non-capital regions, 75 per cent of the new jobs were generated in the first half of 2013. In the Caucasus, Azerbaijan contributes 4/5 of the federal budgets. Investments from domestic sources rose 14.6 times in 2004-2013, while the corresponding rise by the non-oil sector was 12.9 times that.

37.1 billion manats, or 36.5% of the investment, went to the oil sector while 64.7 billion or 63.5% went to the non-oil sector. During this time 176.1 thousand new apartments were built. In these ten years, hospitals with a capacity of 7274 cots were constructed, as well as medical buildings with a capacity of 7922 patients a year. General schools with a total capacity of 461.200 seats were submitted for use.

In 2003-2013 Azerbaijan's GDP grew 3.2 times while the non-oil sector grew 2.6 times, industry 2.7 times, agriculture 1.5 times (including grain production 44%), investment 6.5 times,

population income 6.5 times and wages 5.5 times. 35 Five-star hotels have been commissioned over the last 10 years. 900 thousand of the more than 1.2 million new workplaces created between 2003 and 2013 have been permanent, while 55.6 thousand have been created, 5% have been unemployed. The poverty rate dropped to 5.3%.

On 27.02.2014, the President of Azerbaijan gave the order in 2014-2018 for the implementation of the Third State Program on the social and economic growth of the regions. This Third System is being introduced. As with the previous program, it consists of classes of socio-economic initiatives listed as 'of state importance' and 'of national importance' and by the name of 10 economic regions.

System executors are the relevant central and local administrative district bodies. In this phase, the Ministry of Economy and Industry oversees the implementation of activities of all governmental organizations and entities. To carry out the expected steps, the State Investment Plan must be established by each year.

5.3.3. Implementation of the Third State Program (2014-2018) and Final Results

“The third state program was focused on the socio-economic growth of the regions like the previous two state programs. The program which was implemented five years ago was over-fulfilled. All the targets that we have set for ourselves in the last five years have been met. The third curriculum is vitally important. This program has allowed us to give momentum to the reforms undertaken in the regions, to the research that has been carried out over these years” said Ilham Aliyev, the President of the Republic of Azerbaijan in the conference which was held on January 29, 2019 dedicated to results of implementation of the Third State Program on socio-economic development of regions in 2014-2018. The conclusion of the conference about the results of the state programs is summarized below.

The Azerbaijani economy has grown at a record pace on a global scale when we examine and see the numbers over the last 15 years. The GDP of Azerbaijan expanded 3.3-fold and that is a worldwide record number. Industrial production grew 2.6 times. Our exports have went up 4.7-fold, foreign exchange reserves 24-fold and are now \$45bn. It illustrates that despite major investments in Azerbaijan's regions, in the oil and gas sector and in Baku's growth the government managed to increase our foreign exchange reserves 24 times which helps Azerbaijan to be highly positive about the future. Today the economy of Azerbaijan is sustainable.

This successful strategy has resulted in substantial investment in our country. In 15 years the investment that has been spent in Azerbaijan was around \$250 billion, and half of it is foreign investment. So for foreign investors Azerbaijan is a very attractive country. Azerbaijan's investment climate attracts the foreign investors.

I would like to draw an attention to yet another reality. Azerbaijan was first listed in 2006, when it was in 98th position, in the Doing Business Report of the World Bank and Azerbaijan ranks 25th in the world according to the latest study as a result of the structural reforms carried out and the improved investment environment. In other words, it gives us reason to say that they will

continue to invest heavily in Azerbaijan, both local and foreign investors. This investment will continue to build jobs and new businesses and grow our country with trust.

2 million new jobs have been generated over the last 15 years with the implementation of the three state programs. The population went up by 1.6 million people and that is an outstanding predictor, as well. The larger the population, the faster our nation grows. Yet, of course, the government will continue to structure the work in such a way that economic development and job creation outpace population growth, so that employment is available to the rising population. Job creation was an important part of the socio-economic development programs for the regions and, as it is already noted, 2 million jobs were created. A large proportion of this falls on the regions. Agriculture grew by 1.7 times. Surely, the growth will continue faster in the future.

In short, all economic indicators show that for the last 15 years, Azerbaijan has grown successfully and confidently. Expanded economic opportunities helped the country to pay great attention to social issues. I want to voice a couple of numbers. Wages have been raised seven times in the last 15 years, and pensions nine times. More than 3,200 schools have been overhauled or rebuilt in the last 15 years, 640 medical institutions have been developed and reconstructed, and 44 Olympic centers have been founded in the regions. This again demonstrates that the approach is socially focused, and that the government channels the profits mainly into the social sphere.

Internally displaced persons' issues have always been the subject of concern and this is still the case. More than 100 settlements have been established and made available to the IDPs in recent years. 6,650 apartments were built for martyr families, war veterans and those with disabilities in the war, and this cycle continues. Houses will be given to citizens of that group. To put it another way, Azerbaijan is a country that pays much attention to the social sphere. The government has succeeded in balancing the values of a market economy with those of social justice in our country and this underpins the productive growth of Azerbaijan.

Over the course of 15 years Azerbaijan has taken substantial steps to change the business climate and given tremendous support for entrepreneurial growth. The size of the loans issued on favorable terms to entrepreneurs alone exceeds 2 billion manats and it is gratifying that the State budget allocated just a billion of that amount. The remainder, which surpassed a billion manats, was given from earlier loans already repaid. Consequently, the government has generated very significant financial resources and it helps to relieve the pressure from the state budget and provide entrepreneurs with additional financial resources at favorable terms.

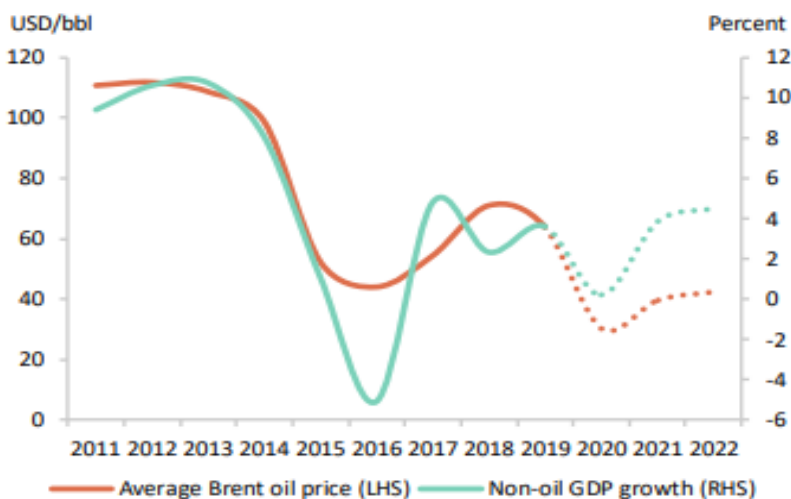
The industrialization cycle is actively moving forward. Lately the development of industrial estates has been gaining traction. This cycle is actually ongoing in many towns and we have 67 residents living in industrial parks. Forty of those already work. Founding agricultural estates can also be viewed as a very positive development. The plan makes provision for the creation of 51 agricultural estates and of these, 17 already work. The opening of the remaining agricultural estates would build employment in the regions and further increase production and exports of the agricultural products.

5.4. Current Situation and Problems Related to Non-Oil Sector of Inregions

Azerbaijan's non-oil sector has expanded rapidly in the last years. The year 2019 was accompanied by the continuation of reforms in the economy of the country, further improvement of the business and investment climate, and large-scale measures to improve the welfare of the population significantly. Multifaceted reforms were introduced to diversify the economy, accelerate the region's socio-economic growth, promote the non-oil private sector and increase non-oil exports and help small and medium-sized enterprises.

Noting the economic successes achieved in 2019, it was noted by the officials that economic growth generally has a positive momentum. Real GDP growth in 2019 was 2.2 per cent and 3.5 per cent in the non-oil market, according to statistics. Non-oil industrial production rose by 13.9 per cent, and non-oil exports reached \$1.9 billion. In the non-oil sector, the real growth rate of investment in fixed assets was 3.5 per cent last year. The share of non-oil sector investments in overall investment rose from 65.2 percent in 2018 to 69.7 percent in 2019.

Azerbaijan / Non-oil GDP growth and oil price in 2011-2022



Source: State Statistical Committee and World Bank estimates

At the same time important steps have been taken to reinforce the population's social protection. As a result, the nominal income growth rate surpassed the average annual inflation (2.6 per cent) by 7.4 per cent. The growth rate of the average monthly wage was 16.4 per cent, far above the growth rate of the income of the population, owing both to wage rises and labor market legalization. It was also declared that the scale of the "shadow economy" is increasing as a result of fiscal reforms. Tax receipts reached a historic high in 2019 - 7,672.6 million manats. Overpayments to the state budget have been cut by 721.4 million manats over the last two years.

Last year, 109.1 per cent of the non-oil tax revenue projection was exceeded, which is the highest figure ever achieved. Non-oil tax receipts rose to 5,432.3 million manats from 458.3 million manats, or 9.1 per cent. The share of this sector's revenues in overall tax revenues was 70.8%, while the share of non-oil tax revenues in the private sector was 76.4%. It was noted that the non-oil sector's share of voluntary tax revenues exceeded 91.1%. Non-oil sector sales were up to 16.4 per cent for VAT, 4.7 times for excise tax and 12.6 per cent for income tax. Revenues in the regions were noted to rise 11.9 per cent reaching to 795.4 million manats. The officials said that moving 50 per cent of the taxes from the related state budgets to the regions provides additional fiscal opportunities to reduce their reliance on subsidies and increase the tax base on the ground.

Within the context of personal income tax exemptions this dynamic was formed. To regulate the labor market, the wages of employees working in the non-oil private sector were exempted from income tax last year for up to 8,000 manats. As a result, workers were left at the mercy of more than 300 million manats. The success of this law is clearly expressed in the labor contract dynamics. The number of private-sector jobs contracts rose by around 99,000 in 2019 (18.3 per cent). Thanks to this reform, the salary fund has also increased as a result of wage increases.

Labor relations reforms have had a positive effect on mandatory state social security and unemployment compensation revenues. In 2019, revenue from mandatory state social insurance contributions increased to 2.931.3 million by 26 per cent. Unemployment insurance receipts rose to 105 million manats by 39.1 per cent. Revenue growth has reinforced the pension system's financial sustainability, and the share of budget transfers in SSPF revenues is expected to fall from 38.1 percent in 2017 to 29.6 percent in 2020. It was declared that the total number of active taxpayers increased by 12.3 per cent to 496,000 as of 1 January 2020, including the number of active VAT payers increased by 37.5 per cent over the same period last year and exceeded 24.8 thousand.

Touching on the transparency of non-oil turnover, growth in this sector amounted to 12.4 per cent in 2019. At the same time in certain industries more complex indicators have been observed. The manufacturing sector thus increased by 21%, the retail trade sector by 37.6%, the catering sector by 24.2% and the agricultural sector by 19.4%. As a result of growing control over the production of excisable goods as well as the launch of new companies, the production of alcoholic drinks increased by 39.3 per cent and the production of tobacco products by 15.4 times. As a result of steps taken to broaden the country's non-cash purchases, the country's share of non-cash payments in plastic card transactions rose by 3.7 per cent over the previous year in 2019.

With regard to the targets facing the country's economy in 2020 and the medium term, the strategic task ahead is to ensure that economic growth does not lag behind the world's average economic growth in the medium term, and to achieve that the pace of economic growth surpasses global growth in the long term. To this end, the government has set a range of targets. These include significantly expanding exports of non-oil goods and services, speeding up the

development of the non-oil refining industry, expanding access to business bank loans, increasing the economic efficiency of public investment, ensuring the dominant role of private investment, and making small and medium-sized enterprises a key force for economic growth and minimizing the level of the "shadow economy".

Exports from Azerbaijan amounted to 3.2 billion US dollars in January-February 2020, a rise of 97 million US dollars or 3.1 per cent compared to the same period in 2019. Exports in the non-oil field during that time amounted to \$296 million. In January-February 2020, exports in the non-oil sector increased by \$14.2 million or 5 per cent compared to the same time in 2019. Non-oil goods worth \$88 million were exported to Russia in January-February of this year, \$75.3 million to Turkey, \$34.9 million to Georgia, \$28.8 million to Switzerland and \$7.6 million to China. In the January-February 2020 list of non-oil goods exported, cottonseed oil (\$29.2 million) was on the top of the list, gold (not used in coinage, in other unprocessed forms-\$ 27.3 million) was in the second place and the third was tomatoes (\$24.7million).

Overall, exports of fruits and vegetables in the first two months of 2020 amounted to 75.6 million, exports of plastics and rubber goods-29.9 million, aluminum and iron goods-15.5 million, cotton fiber-30.4 million, exports of products to the chemical industry 13.9 million, electricity 17.8 million, ferrous metals and their products 8.3 million, cotton yarn 6.3 million, 2.1 million US dollars of sugar, alcoholic and non-alcoholic drinks.

Exports in the non-oil sector ascended to \$155 million in February 2020. In February 2020, exports in the non-oil market rose by \$11 million or 8 per cent compared to February 2018. Most of the non-oil and gas products were exported to Turkey (\$42.2 million), Russia (\$39.8 million), Georgia (\$26.4 million), Switzerland (\$11.8 million) and Iran (\$4.2 million) in February this year.

In February 2020, cottonseed oil exports (\$19.5 million) were the first in the non-oil market, computer parts and their blocks (\$11.5 million) were second, and tomatoes (\$11.5 million) were the third. SOCAR's Department of Marketing and Economic Operations tops the list of state-owned companies active in non-oil export operations and producing over \$100,000. The "Export Analysis" also includes the export services. Azercosmos has been confirmed to have exported services (satellite telecommunications services and optical satellite services) worth \$8.4 million to 22 countries in January-February 2020. Sales from service exports from Azercosmos accounted for 90 per cent of its overall revenue. In January-February 2020, the major countries in which Azercosmos exports services are the United States, the United Kingdom, France, the UAE and Germany.

However, as mentioned earlier, there seems to be an urgent and serious problem with increasing the role of non-capital regions in this process. The attainment of desirable results is heavily dependent on encouraging local business activities through financial support, providing favorable economic conditions and protection, removing bureaucratic impediments, and increasing foreign investment in non-capital regions (where rural population is majority). Non-oil sector goods have to be of export value. It is noteworthy here that in Azerbaijan's trade ties,

the non-oil market is mainly identified with non-oil manufacturing and agricultural products. Non-oil sector is not highly dependent on foreign demand compared to oil industry, due to some factors. Real growth in this sector is mainly influenced by investment, changes in domestic demand, as well as structural and institutional changes taking place within the country.

However, Azerbaijan's non-oil sector is still focused on non-industrial enterprises such as utilities, crediting, construction, communication and agribusiness, whereas the commissioning of large industrial production manufacturing enterprises is typical of Baku. In peripheral areas, given the promotional activity in recent years and the introduction of certain tax concessions in the early 2000's, foreign investment is still lower. Regional growth in Azerbaijan therefore still depends considerably on government assistance. The problem remains urgent to grow mining and processing industries that can be recovered on the basis of rich mineral resources and semi-finished goods. Many foreign companies engaged in metallurgy today are mainly of medium and comparatively smaller sizes, using scrap metals rather than raw material. This pattern may hinder the development of joint ventures engaged in mineral resource extraction in Azerbaijan's regions. The important role of government assistance seems appropriate in this instance.

As for local entrepreneurs who are generally more involved in the tertiary sector than in manufacturing, it should be noted that concessional loans issued under the Ministry of Economy and Industry of Azerbaijan by the National Fund for Entrepreneurship Support (NFES) are mainly used by businessmen in non-capital regions. Since 2003 this government agency has been implementing funding of the related projects on the basis of the business plans submitted. NFES also promotes the importation of the technical equipment needed.

With regard to the financial potential of Azerbaijan's private sector in terms of the reliability of guarantee, service and investment, it is worth remembering two moments. On the one hand, allocating state financial resources for tourism purposes and lower banking rates for private and foreign banks can seem more appealing to small and medium-sized enterprise. However, the low share of the private sector in large tourism projects can be related to the financial incapacity of small and medium-sized enterprises not enabling such projects to be introduced. Private companies actually engage weakly in the implementation of major ventures. There is more to this issue in the tourism sector.

As for manufacturing in the regions of Azerbaijan, it should be noted first that in recent years, the gaps between Baku and the non-capital regions have not diminished much as we can see from the figure below

Output production by economic regions of Azerbaijan, at current prices, in thsd.manats

Indicator	2018	2017	2016	2015	2014
Baku city (thsd. manat)	62499899.3	55790659.3	47466438.8	40355421.5	44684811.1
Absheron economic region (thsd. manat)	3062549.6	2300401.9	1921485.3	1578651.8	1534693.9
Ganja-Gazakh economic region (thsd. manat)	3724210.3	3699753.8	3005077.5	2757384.7	2689163.4
Shaki-Zagatala economic region (thsd. manat)	1639436.7	1541089.5	1229896.4	1131378.2	1025418.4
Lankaran economic region (thsd. manat)	1887207.7	1872584.0	1646042.2	1456909.7	1343654.4
Guba-Khachmaz economic region (thsd. manat)	1723679.5	1611383.7	1352893.8	1214382.9	1246662.5
Aran economic region (thsd. manat)	6926286.5	6459199.0	5093214.7	4890535.3	4848136.8
Yukhari Karabakh economic region (thsd. manat)	541686.7	598990.2	477192.5	377129.8	416405.8
Kalbajar-Lachin economic region (thsd. manat)	78134.5	73761.1	66573.7	70122.6	69343.4
Dakhlik Shirvan economic region (thsd. manat)	883300.6	798775.0	656560.5	589198.9	549890.1
The Nakhchivan Autonomous Republic (thsd. manat)	3527384.5	3438966.7	3293591.8	3024635.9	2851359.5

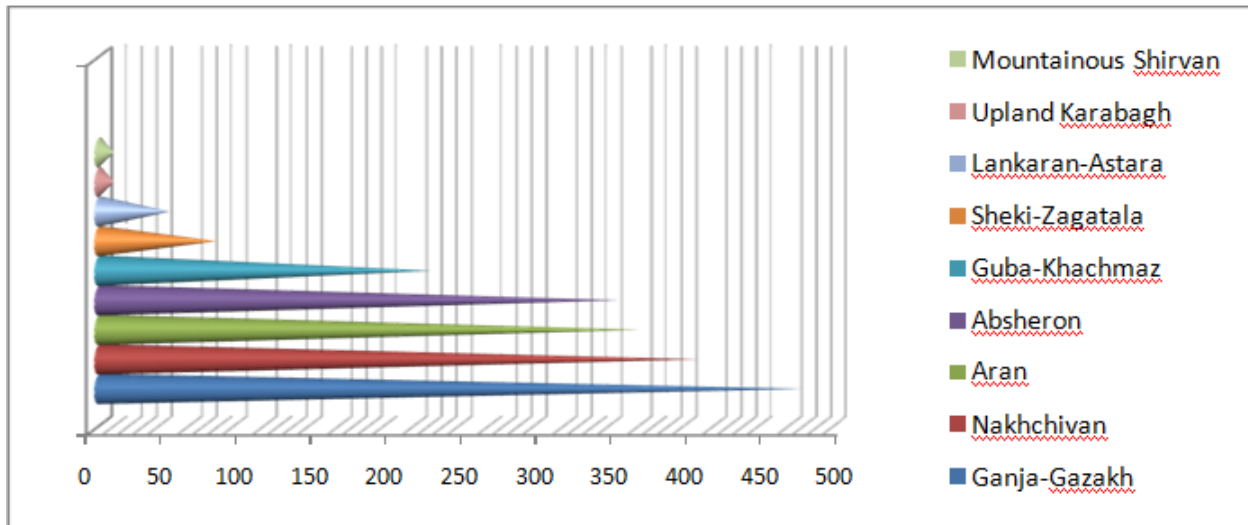
Source: Azerbaijan Statistical Information Service (ASIS)

One of the priorities of Azerbaijan's economic policy is the production of manufacturing of higher output in the regions (except Baku and Absheron). Low product quality has been characteristic of local producers operations, with the exception of the food industry. Production of environmentally friendly goods has become widespread in the country in recent years. The regions located outside Absheron share considerable part of this development. Meanwhile the growth of exported food and tinned products is increasing, based on modern and friendly technology. Despite production growth in rural areas, significant quantities of fruit and vegetables (from Turkey, Iran, Georgia and other countries) are still being imported under high domestic requirements. Production increase also influenced Azerbaijan's heavy industry (machinery, textiles, and apparel industries), as noted earlier. Local private companies' industrial ability, except for a few, is not high in comparison to the country's economic potential despite being able to organize qualitative output.

Construction is an important integral part of the Azerbaijani non-oil sector and its regions. In recent years, growth in this sector has been rising at high levels, including by both the state and private sectors. Construction activities cover all areas except the disputed territories (Karabakh). But in Baku city the construction sector is well developed, especially in comparison with other

cities. Baku has designed hundreds of private homes, administrative objects, financial centers, bridges and underground highways, leisure centers, multistory hotels. The town has undergone major changes in its urban planning and architecture. The capital city contributes 80 per cent of all investment in manufacturing facilities construction.

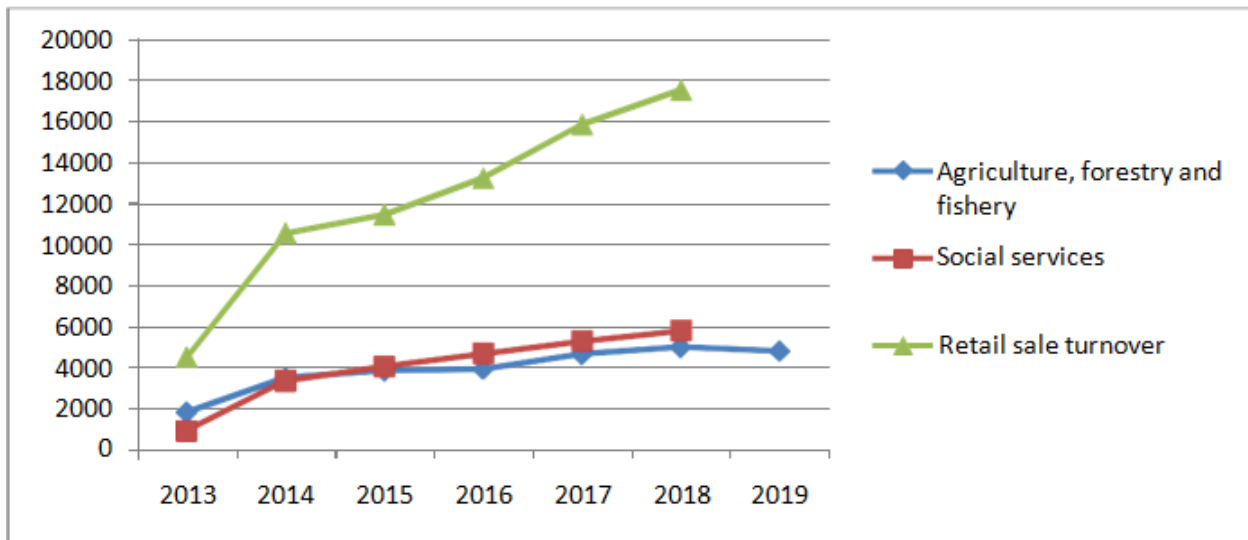
Investment in Construction of Manufacturing Facilities by Non-Capital Regions of Azerbaijan (in Million Manat)



Source: Construction in Azerbaijan.

One of the pressing issues of non-oil sector in Azerbaijan is the connection with agricultural development. Agricultural production is growing but there is higher real potential in this sector than the current output. For a long time, the rural economic regions' relatively poor agrarian sector was unable to completely satisfy internal demand for many foodstuffs. This shortcoming is characteristic for Azerbaijan in the current period as well although in the last few years farming activities saw significant growth.

Dynamics of GDP of some Economic Branches (at Million Manat)

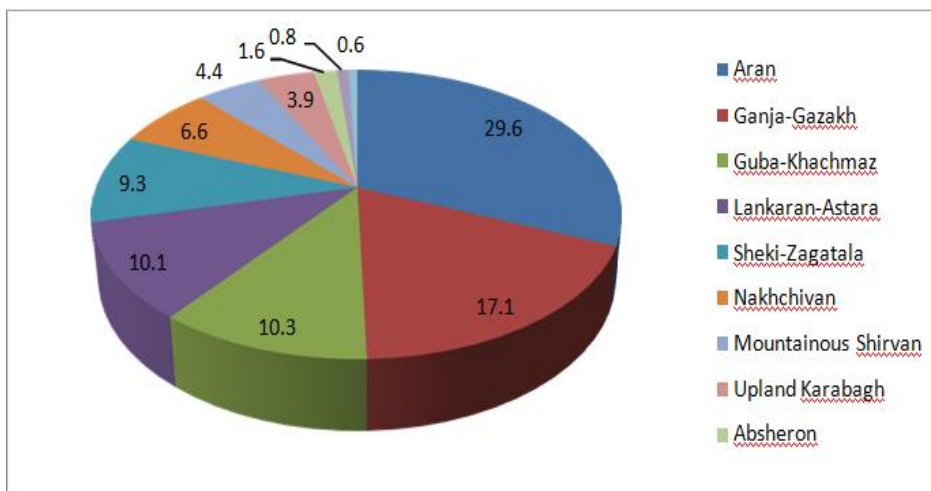


Source: Statistical indicators of Azerbaijan. 2019. Baku.

Because of its larger territory, the Aran region contributes 30 per cent of agricultural GDP compared to other regions. The jurisdiction includes low plains suitable for use and irrigation. Because of the existence of channel system and the collector-drainage network, the region has more developed irrigation system. The main crops produced are cereals, mainly wheat, vegetables, fruit, grape, sugar-beet, watermelon, melon, soybeans, cotton and etc.

In Ganja-Gazakh main crops are grape, potato, wheat, fruit, vegetables and etc. while Guba-Khachmaz and Lankaran-Astara are specialized in fruit and vegetable production, too. Traditionally located to the south, Lankaran-Astara has been recognized as a subtropical fruit (lemon and orange) and tea area. Sheki-Zagatala specializes in tobacco, maize, and sunflower products. The territory of Nakhchivan is favorable for the production of fruits from the sugar-beet, grape and gardening.

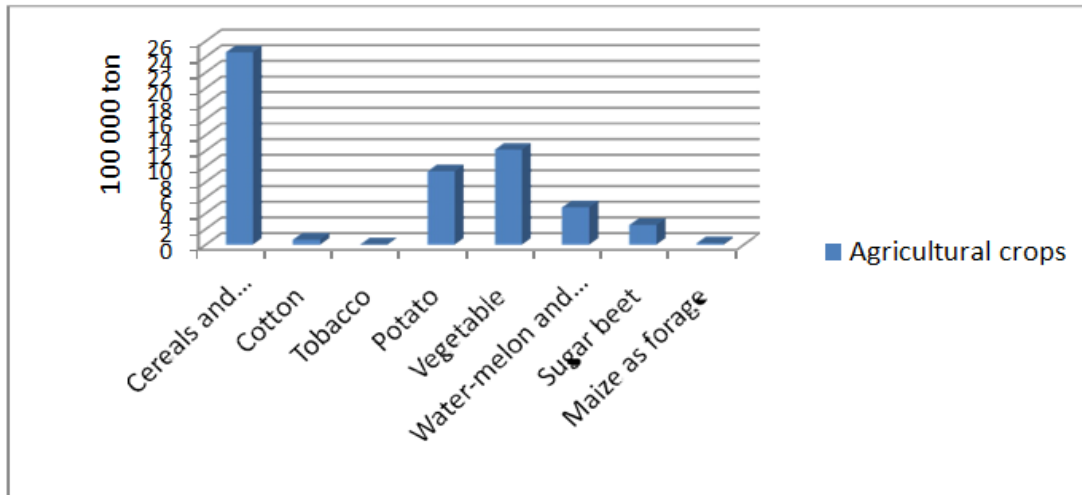
Percentage of Economic Regions of Azerbaijan within GDP of Agriculture in 2019



Sources: Agriculture in Azerbaijan. 2019. Baku.; Regions of Azerbaijan. 2019. Baku.

In recent years, wheat, fruits, vegetables and potato are grown almost in all regions as more developed and required goods. Cattle and sheep breeding operations, as well as poultry and other areas, represent livestock production. Animal industries share 48.3 per cent of all agricultural products and meet substantial part of the livestock products requirements of Azerbaijan's population. Distribution of plant growing products can be seen in the figure below.

Production of Main Agricultural Crops in 2018



Source: Regions of Azerbaijan. 2018. Baku.

With regard to the food industry, it should be noted that the main emphasis was placed on agro-industry production in the implementation of the State programs, whereas domestic demand for more important foodstuffs such as meal, meat, butter, cheese, sugar and others is still not fully satisfied due to some factors. But Azerbaijan's agricultural production continues to be grown at high levels.

In the branches of social infrastructure considerable progress has been made. Most of the works in the regions located off Baku were carried out. Tens of secondary schools, medical objects, cultural buildings, sports and health centers, libraries, service facilities, highways were built or substantially rebuilt in the regions of Azerbaijan in accordance with the three State Programs mentioned. Currently the country has developed transport infrastructure because of the measures implemented. There are various types of transport available in the region, including sea, air, rail,

and motor transport, as well as metro. In addition, the volume of social services payments has continued to grow since 2005.

Knowledge and communication technologies are among priority areas of the country's non-oil divisions. According to the World Economic Forum survey, 'Global Information Technology 2019,' Azerbaijan ranks 70th among 144 countries by the 'Networked Readiness Index' and by the share of internet users ranks first among the CIS and Central Asian countries.

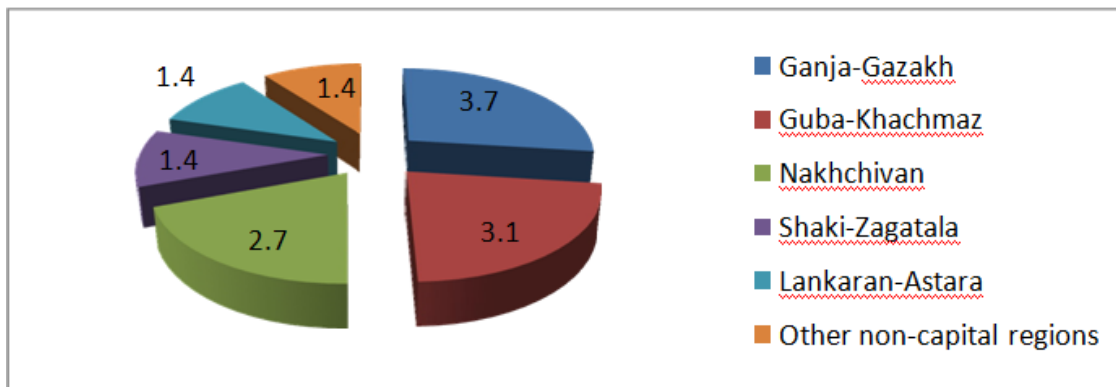
Goods transportation rose in 2012-2018 from 128.3 million tons to 210.9 million tons, or 64%. In the same period, passenger travel grew from 1000.3 million to 1617.3 million people, or 62%. The 'State Program on Reconstruction and Creation of Highway Network in the Republic of Azerbaijan' (2006-2015) shows that 87 per cent of automobile roads in the country have become either useless or partially useless. Highways are longer, more qualitative, and more stable year by year, due to the building and rehabilitation of highways in the regions. 26.2 per cent of all roads are asphalted and concreted, 13 per cent are black-covered, 46.7 per cent are gravel-covered and 1.1 per cent is ground-covered.

Tourism is considered one of the most important fields among the non-oil sector branches of the regions. Some experts and researchers cite tourism as the second priority area in Azerbaijan after the fuel industry. Due to their beautiful nature and attractive landscapes, the peripheral regions have considerable tourism potential but the proportion of these regions within the total tourism income indicator is too small. Foreign tourists visiting Azerbaijan usually stay in the city of Baku and do not make a trip to other locations within the country. This is, on the one hand, partly related to the existing insufficiency in advertising activities. Second, the capital has turned to the international center of cultural, entertainment, and sporting activities and events, which play a significant role in attracting large numbers of foreign tourists.

The development of a diversified tourism infrastructure in Azerbaijan has in recent years increased the interest of foreign tourists in the region. In Azerbaijan there are many opportunities for tourism including agricultural, health, economic, cultural, financial, commercial, sport and other forms of tourism. The successful hosting of international events has also transformed Azerbaijan into a country recognizable by all in the world, and a country that many foreigners wish to visit. Simplification of the visa system also plays an important role in tourism growth in Azerbaijan. Citizens of a number of countries currently receive visas right at Azerbaijani airports, while other tourists can visit the country by obtaining tourist visas online. Azerbaijan aims to develop the tourism sector further to facilitate the sustainable development of the non-oil industry.

The tourist flow to Azerbaijan increased by 11.4 per cent in 2019 compared to 2018, up to 3.17 million tourists, according to the statistics obtained from the State Tourism Agency. Around the same time, there were 224,000 visitors from Europe, which is 14.7 per cent more than in 2018. Ganja-Gazakh, Guba-Khachmaz, Nakhchivan, Sheki-Zagatala and are the following regions after Baku. Baku shared 86 per cent of revenue from hotels and other accommodation facilities. Figure below shows the shares of other regions within the remaining 14 per cent.

Incomes of Hotels and other Facilities of Accommodation in 2019



Source: Statistics of Azerbaijan's tourism. 2019. Baku.

Long-term Poverty Reduction and Sustainable Development Strategy are being implemented successfully in Azerbaijan. The relevant Joint Declaration was signed between the government of Azerbaijan and the Bank for Asia Development, the European Bank for Reconstruction and Development, the International Monetary Fund, the United Nations Development Program and the World Bank. With respect to the provincial regions, it is noteworthy that the government's financial resources are being used significantly to develop the non-oil sector, services, and infrastructure.

5.5. Perspectives and Recommendations

Azerbaijan has considerable potential for future development of the non-oil industry. Its regions are rich in natural development potential, including mineral resources, attractive landscapes and tourism-significant mineral water resources, as well as fertile soil cover and usable territories.

There are great opportunities in Azerbaijan to develop national mining industry based on Lesser Caucasus mineral resources, and also the Greater Caucasus. Usable minerals include copper, zinc, tin, cobalt, gold, molybdenum, mercury, and also building materials such as dolomite, marble, calcareous and others. Ganja-Gazakh, Kalbajar-Lachin (now under Armenian conquest) and Nakhchivan regions are also rich in the minerals mentioned. As mentioned above, production of iron ore, copper, and gold has already been restored at the cost of domestic investment in Dashkasan and Gadabay. Most building materials are still being manufactured at Absheron at present. The areas of mineral production may be increased in the following years, and requirements for raw material in the metallurgical plants may be met at the expense of the Lesser Caucasus mineral resources. In Dashkasan or Nakhchivan raw material production may also be of export significance.

At present, Azerbaijan is still dependent on the export of energy carriers and is prone to importing daily products and consumer goods. As foreign experience indicates, it may not be necessarily effective to adapt companies to business relationships and arbitrarily expand the

private sector. The economic system needs structural changes and the management of economic motivation. Stimulating the growth of private-sector small, medium, and large industrial enterprises by differentiated taxes tends to be more effective than using unified taxes.

On 6 March 2007, Azerbaijan's President signed a decree on 'Creating Special Economic Zones' in the region. Implementing this law in practice may contribute to accelerating the economic development of regions. Most of Azerbaijan's regions share a border with foreign countries. In this regard, the creation of special economic zones and territories with concessive business activities offers great opportunities. Considering foreign-country practice, special areas with preferential economies can be created in Pre-Caspian territories, some Caspian Sea islands, Ganja-Gazakh, Lankaran-Astara, Nakhchivan and other areas. Foreign investment in the regions of the country will develop in this respect.

In addition, higher literacy rates, favorable demographic trends, sufficient population structure and a higher proportion of the youth and middle-age population are characteristic of Azerbaijani regions. These are positive economic development factors. Most peripheral administrative regions have improved infrastructure and communications following the implementation of relevant state programs.

Favorable natural conditions and high labor resources will allow Azerbaijan to reinforce its agricultural sector, focused on large-scale production of environmentally friendly goods. Significant growth in the agrarian sector can be possible in the future if processing industry investment is handled effectively, agricultural production is increased in the regions, and the supply of new appliances and technology to local businesses is carried at an appropriate pace. Within the agricultural product, the share of animal products must be increased by expanding the forage base, and by expanding modern cattle-breeding activities. Most regions' activities and facilities are heavily dependent upon government funding. To establish large regional budgets and their complete reliance on state funds, it is important to build a strong private sector of economic regions.

In reality, the tourism potential of regions must be utilized to a higher degree. Many hotels, lodging centers and other resting facilities in the regions artificially inflate resting rates, keeping visitors away in warm season. Many Azerbaijanis prefer to rest in neighboring Georgia and Turkey in this relation. In addition, the question of three-star hotel deficiencies in tourism areas still exists as before. Tourism activities therefore need to be controlled by the government by economic ways to control them.

Azerbaijan continues to hold various internationally important events related to business, sport, science and culture. Any of these activities take place in peripheral regions (Gabala, Ganja, Guba, etc.), giving them the chance to raise tourism revenue. The new flight has recently opened between Moscow and Gabala. In the future these activities can be extended in relation to other major cities. Increasing tourism potential should be one of overall future priorities. Meanwhile the growth of local entrepreneurship in the private sector will be great. Domestic manufacturing goods must be made more competitive by stimulating steps.

Thus, it can be expected that the competitiveness of the Azerbaijani economy will rise with the rapid growth of the non-oil market, and that reliance on imported products will be reduced in future.

Investing and successfully expanding the non-oil sector would stimulate the growth of export-oriented production, build new permanent workplaces, ensure local specialists with adequate employment, and allow local consumers to meet food requirements at the expense of local products, increase farming activities and development of a solid, autonomous municipal budget in Azerbaijan's regions and major cities.

Chapter Six

Conclusion

Although oil industry played an influential role in improving Azerbaijan's economic and social capacity, national economy reliance on oil factor is likely to become less weak in the future. It is evidenced by mounting investment in the country's non-oil industries. Political and social stability and monetary policy allowing minimum inflation and national currency stability to be sustained, increased tourism revenue, widespread knowledge communications in the country's economic regions, increased number of workplaces due to the rapid growth of the tertiary sector and other favorable conditions for more development in the non-oil market. Macroeconomic stability, enhancement of business regulations, regulation of ties between public administration and industry, as well as import and export operations, the emergence of the free market and the introduction of three state programs on the socioeconomic development of regions and other factors contributed to the growth of foreign investment in the economy of the country. All of these factors are very critical for Azerbaijan, as the risk of dropping oil prices is considered an adverse factor for the country's state budget and export.

Non-oil sector growth is an integral part of "Azerbaijan 2020: View to the Future," signed on December 29, 2012 by the President of Azerbaijan. To grow the non-oil market, the use of natural and economic resources, as well as their output, must be increased, as seen in this Conception. It is planned to motivate the expansion of the use of alternative (renewable) energy sources, the development of institutional condition, the strengthening of scientific and technical potential, the continuation of the training of qualified personnel and the enlightenment of energy consumers. There must be an active involvement not only of state agencies but also of the private sector in these processes, and timely enforcement of energy tariffs. It is also expected to build a network of manufacturing, social and business infrastructure, and also to use new advanced methods of management in the economy.

As the priority activity within the non-oil sector strategy, particular attention must be given to the development of specialized and complex "industrial cities" in the regions as regards investment. The commissioning of production of aluminum, the Ganja plant and the Balakhani waste-processing mill have already been completed. In addition to non-traditional non-oil industries such as chemicals, metallurgy, machinery, electrical equipment, electricity, food and other industries, it is also expected that new sustainable manufacturing activities will be funded.

According to the definition, it is important to stimulate the attraction of domestic and foreign investment in the non-oil sector with the involvement and cooperation of both government and private sectors. The law and criteria must be redeveloped with the goal of expanding tourism activities. It is planned to increase the share of tourism in GDP and the competitiveness of the tourism infrastructure, particularly in the regions and Pre-Caspian territories. Agricultural crop production and processing will be expanded as the priority field in terms of non-oil and food security growth by increasing the capacity of processing facilities in the agrarian sector. The practices aimed at stimulating the development of environmentally friendly goods protection of genetic capital, sapling, seed-growing, pedigree cattle breeding and enhancement of cattle

species should be expanded as well. Related costs are to be expended on increasing "human resources" and the non-oil market, upgrading existing facilities, acquiring new technologies.

The "State Program on the Social and Economic Development of Regions 2019-2023" is a highly anticipated national strategy for Azerbaijan in the continuation of progress on socio-economic areas over the next period of time. Especially projects that focus on sustainable ecological systems, preservation natural resources, transport growth and energy facilities play an important part in the long-term sustainable development of the country. The incorporation of DRR together with the Sustainable Development Agenda 2030 goals into all government agencies will likely improve these initiatives and promote the strengthening of future planned projects' resilience. Adapting to climate change and implementing disaster risk management approaches would be necessary if the "2019-2023" state plan is to be effectively implemented.

Adjustment according to the guidelines resulting from the research climate change impacts and the implementation of a proper DRR strategy would help the emergence of Azerbaijan into a new and more stable era of increased resilience and growth. Implementation of a robust risk management system and greater civil security will ensure an enhanced degree of environmental health during Azerbaijan's future socio-economic growth. The rural and regional areas could become the focus of attention in the context of the implementation of the state program, particularly within the framework of a resilient development agenda. In addition, Azerbaijan's social and economic growth, and the larger South Caucasus region will be driven further by allowing more effective use of the country's existing resources. Such change would occur as the international standards are implemented and incorporated into the state system. Consequently, the successful implementation of the "State Program on the Social and Economic Development of Regions 2019-2023" would result in the durable continuity of sustainable development of Azerbaijan in the long term. This success would possibly have other positive outcomes linked to the resilient socio-economic development strategies in the Republic of Azerbaijan.

The survival of the national economy is of great importance to Azerbaijan for its incorporation into the world economy. To ensure the social and economic development of the Republic of Azerbaijan in modern times, effective integration of the country's economy into the world trade system through the expansion and development of foreign economic relations is a prerequisite. Detailed study of the economic potential and growth dynamics of Azerbaijan will assess the benefits of improving our country's integration into the global economy.

The most important outcome of Azerbaijan's oil policy, consisting of National Leader Heydar Aliyev, is its transformation into a national energy policy and a successful integration strategy. The initiatives adopted under President Ilham Aliyev's leadership over the last 10 years are an improvement in productivity in the use of transit capacity which is the second important component of the national economy's sustainability. That's demonstrated by Baku-Tbilisi-Ceyhan, Baku-Tbilisi-Erzurum, Baku-Tbilisi-Gars, TANAP, TAP and other transnational ventures. As a result of the fall of the Nabucco Project from the agenda, the TANAP project, one of the most important parts of the Southern Gas Corridor, emerged. Within the scope of Turkey

and Azerbaijan's energy cooperation Azerbaijan carries the gas to Turkey and Europe, the two countries were realized with their own sources.

TANAP will be combined with TAP pipeline after passing through the territory of Turkey to form the European leg of the SGC (Southern Gas Corridor). Azerbaijani coal, along with TAP, would for the first time have entered European markets. Turkey is not rich in terms of natural resources, it decreases reliance on international energy sources and it has begun pursuing a foreign policy with a view to that diversity. TANAP has emerged as gas in the world, sources and routes to meet supplier nation Azerbaijan as the gas needs of Turkey in the search for diversification and protection of the gas supply. TANAP is a regional project in Anatolia, since it is a transit project. It is also a project with an international aspect because it helps the SGC to pass on their lives. The TANAP project offers both countries economic and political benefits. TANAP improves so much the geopolitical roles of Turkey and Azerbaijan.

In modern times, it is important to shape Azerbaijan's geo-economic development strategy. Such a strategy should cover the main growth determinants, as well as the assessment of Azerbaijan's DTS status and the option of integration vector that meets national and international interests. Created on the basis of a decree signed by the Head of State, the "Digital Trade Hub of Azerbaijan" not only serves to expand the non-oil sector's export opportunities, but also pursues the goal of further strengthening the Republic of Azerbaijan's position as a digital trading hub of regional importance.

Research findings show that there are optimistic developments in the economy of Azerbaijan which are the base of long-term economic development. Examples of these trends can be state budget stability, increased labor productivity, adequate labor force availability, strategic currency reserves and low public debt compared to gross domestic product.

The work shows that to adopt steps for sustainable and healthy development of Azerbaijan in the future the following directions should be achieved:

- Support long-term investment in the non-oil and agricultural industries;
- Recognition as one of the key economic indices of labor productivity;
- Major improvement of the competitive climate with a view to strengthening the regulatory system to reduce monopolies in the production and trade sectors;
- Acceleration of science-education-healthcare framework modernization;
- Strengthening State policy cooperation in the fields of macroeconomic, monetary, education, innovation, jobs and social protection;

The study findings can be used in the preparation of legislation, policies, initiatives and plans to strengthen the national strategy for sustainable development. However, the implementation of the research-derived recommendations will lead to increased economic growth and productivity.

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Acronyms and Abbreviations

IMF- International Monetary Fund

WCO- World Customs Organization

WFTU- World federation of Trade Unions

ADB- Asian Development Bank

CIS - The Commonwealth of Independent States

MCIT – The Ministry of Communications and Information Technologies

UN – United Nations

WTO – World Trade Organization

IDB – Inter-American Development Bank

BSEC – The Black Sea Economic Cooperation

CE - Common Era

GUAM - Regional International Organization for Democracy and Economic Development

OSCE - The Organization for Security and Co-operation in Europe

ECO - The Economic Cooperation Organization

GCTU - The General Confederation of Trade Unions

IFAD - The International Fund for Agricultural Development

IFC - The International Finance Corporation

ITUC - The International Trade Union Confederation

WB - World Bank

SOCAR - The State Oil Company of Azerbaijan Republic

SOFAZ - The State Oil Fund of the Republic of Azerbaijan

CBA - The Central Bank of Azerbaijan

TAP - Trans-Adriatic Pipeline

BTC - Baku-Tbilisi-Ceyhan

TPIC - Turkish Petroleum International Company

BP - British Petroleum

OIEC - Oil Industries Engineering and Construction

EBRD - European Bank for Reconstruction and Development

CNPC - The China National Petroleum Corporation
DTS - The Defense Travel System
OPEC - The Organization of the Petroleum Exporting Countries
IGA - The Intergovernmental Agreement
MOU - The Memorandum of Understanding
GTA - The Gas Transit Agreement
TANAP - The Trans-Anatolian Natural Gas Pipeline
ITGI - Interconnector Turkey-Greece-Italy
SEEP - The South-Eastern European Platform
IAP - The Ionian Adriatic Pipeline
MDGs - The Millennium Development Goals
ABEMDA - The Agency for Alternative and Renewable Energy Sources
UNDP - The United Nations Development Program
EIA - Energy Information Administration
ASIS - Azerbaijan Statistical Information Service
SGC - Southern Gas Corridor