

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

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Abstract

In the years of independence, the oil industry played great role in the economic development of the Republic of Azerbaijan. The state budget has been enlarged significantly at the expense of revenues gained due to rapid development of oil sector. The development of oil industry has created great potential for non-oil sector and economic development in the country's regions. Since 2003, a number of state projects on non-oil sector of economy, including service sector, transport, social infrastructure and tourism, have been realized in these regions. However, many measures are to be conducted further in order to provide sustainable economic development as well as eliminate the sharp differences between the region of capital city and peripheral regions in terms of development. At this stage, it is important to develop manufacturing areas and service sector in the regions of Azerbaijan, production of which would be oriented on meeting requirements for foodstuffs as well as valuable and exported products. The objective of this study is to define priorities and prospects of development of non-oil sector, with taking into consideration the existing economic situation and the realization of State Programs on socioeconomic development in Azerbaijan Republic. The study is based on statistical, comparative and empirical methods. References include author's works on the problem as well as the official documents and data of relevant state agencies. Conclusions of the study are reflected on recommendations given by the author concerning development of economic areas and the future priorities of the regions of Azerbaijan.

Keywords: non-oil, economic, region, potential, development, program, facility, state program

1. Introduction

Azerbaijan has been known as the “republic of oil” during the Soviet period due to its huge fuel reserves. In 70-80s, production of oil has gradually fallen in the country in connection with its exhaustion in the surface layers. After gaining of independence, oil factor again started to play the influential role in the economic development of Azerbaijan (History of Azerbaijan 2008). In 1994, the government of Azerbaijan concluded a contract, called ‘Contract of Century’ with oil companies of the world’s developed countries. This great project allowed Azerbaijan to expand its financial potential in the following years. The increase of financial opportunities of the country as well as the following growth of foreign investment in Azerbaijani economy gave an impetus to the rapid development of national economy since the 2000s.

The rapid development of Azerbaijani economy is characterized with two interconnected undesirable peculiarities. The first feature is the considerable dependency of governmental budget and activities from oil-related businesses and the relevant revenues. The second factor is the too weak manufacturing output of the Azerbaijan – the peripheral (non-capital) areas where economic activities are based mainly on farming businesses, domestic trade of local significance (based on the demand for daily products and some consumer goods) and relatively less service output. Small part of these peripheral regions has been developing recreational businesses, but actually this activity did not bring so far huge economic dividends for them. The problem of big difference between the Absheron area (where the capital city Baku area is situated) and other regions in terms of level of economic development and particularly industrial output is obvious, and finds its reflection on official statistical data. The too great potential and the role of Baku in Azerbaijani economy shows itself in the fact that this city shares over 90% of the national industrial output and considerable part of foreign investments for a long time as well as in fact, about half of the population of the country due to its overgrowth (Karimov 2011, p.268).

In contrast with Absheron-located Baku, peripheral regions are not rich in oil reserves and do not take benefit significantly from their fuel industry. Moreover, most of foreign companies are continuing to develop their businesses and investing activities in the capital city (Ahmadov, Hajiiev, 2014).

Industry of Azerbaijan consists mainly of oil and gas production. Most of the industrial products (94.4%) fall to the share of mining and processing industries, including the oil, chemical and food industries, and also metallurgy, engineering machinery and production of electrical equipment. In this regard, improving structure of manufacturing industry and developing of other areas of non-oil sector (trade and services, construction, communication technologies, transport and agriculture) would allow reduce the dependency from oil industry, and escape undesirable economic shocks in the next future. These urgent problems were reflected in works carried out in 2000es (Abbasov 2010; Valiyev 2004; Aras et al. 2010).

2. Research Methodology

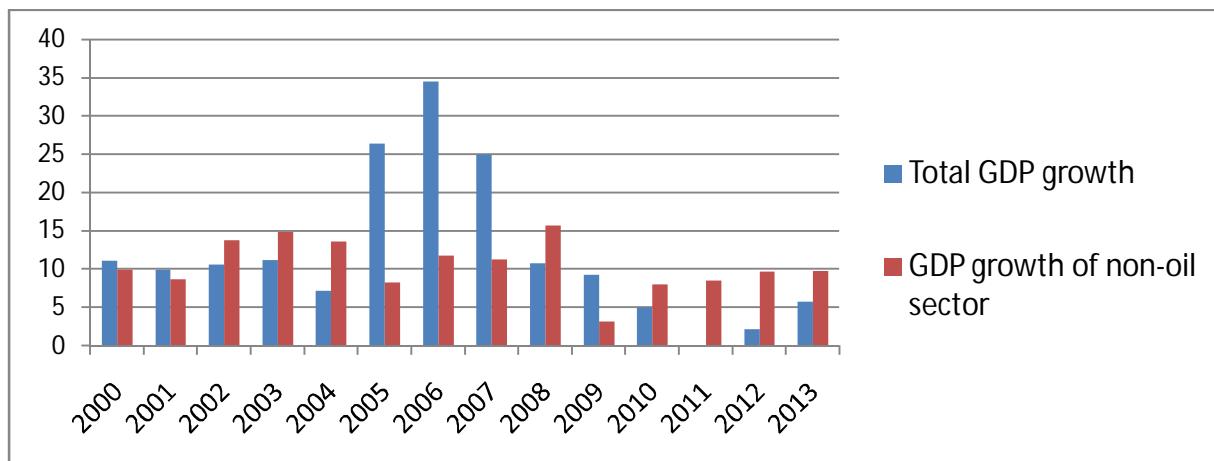
After gaining of independence in 1991, Azerbaijan's economy experienced definite recession which continued till the end of the 90es. The challenges of transitional period, disruptions of previous industrial relations, crisis in agrarian sector, fall of GDP in all areas of economy as well as the occupation of about 20% of the territory by the neighboring Armenian military forces, and financial support to refugees that made up 15% of the population, and other problems have negatively affected Azerbaijani economy. Industrial and agricultural areas have been exposed to damage of about \$ 15 billion. In 1990-1994, GDP of Azerbaijan has reduced by 55% whereas respectively 52% by industry and 44% by agriculture. The industrial production in many regions of the country also experienced crisis. In 1994, export has been dominated by oil products and cotton fiber (57%). The share of food products and domestic goods within export was 24%, while engineering, chemical industry, petrochemical industry and metallurgy together shared 19%. Import consists of mainly material- and technical products (63%) whereas foodstuff and domestic goods were behind. Although the non-oil sector was presented by 10 thousand small enterprises, 80 thousand commercial facilities, over 100 commercial banks, 3,5 thousand cooperative entities, 850 farms and large number of joint companies, their overall output was less, and not enough for meeting the requirements of the population.

In Azerbaijan and its regions, renovation, reconstruction and technical reorganization were being required because the material basis of heavy industry and agrarian sector has been created mainly in the 60-70s. The use and application of environmentally safe and modern technology were needed instead of previous appliances and facilities. The achievement of these changes was depending on the involvement of foreign investments.

Pursuing the policy of "open doors", Azerbaijan gradually has achieved desirable changes in economy and the up-rise in industry and services. Elements of liberal model have been applied. Azerbaijan has adopted laws on property, privatization, banks, protection of foreign investment, etc. Successful monetary and fiscal policy contributed to keep stability of economic situation. Due to the creation of currency market, the liberalization of foreign trade and economic relations and the cooperation with IMF and World Bank, the inflation rate has been reduced to the least level (1,5%). National currency rate was kept in relation to American dollar since 1996, and this successful policy is continuing to be observed at present time. Substantial reforms concerning distribution and use of land resources among villagers, and use of mechanisms of market economy in agrarian sector opened great opportunities for agricultural production and rising farming businesses.

The economic advancement allowed the government to pursue successful regional policy, too. The most important measures of state importance were the realization of two State Programs (2004-2008 and 2009-2013) on social-economic development of the regions, (State Program ... 2014), followed later by the implementation of the third Program (2014-2018). The aim in implementation of these Programs was the elevation of living condition and economic potential of the areas, particularly non-capital (peripheral) regions through improvement of social infrastructure, construction of different facilities, commissioning of industrial enterprises and service objects.

Azerbaijani economy has experienced high pace of development which found its reflection by annual growths of GDP (see Figure 2).

Figure 2: Dynamics of real growth of Total GDP and GDP of Non-Oil Sector

Source: Data of Ministry of Economic Development and Central Bank of Azerbaijan Republic

As is seen from Figure 1, Azerbaijani economy experienced highest growth in 2005-2007 whereas in the following years economic growth has been slowed. This took place in connection with the fall of prices of oil in the world market. Another tendency is that growth rate of non-oil sector exceeded GDP growth rates in 2002-2004, and then decreased on the background of rapid growth of incomes oil sector. By the way, this period, i.e. from 2005 to 2008 was characterized with increasing of socioeconomic measurements in the regions of the country. However, despite the fall of oil prices and the relevant investment into oil industry, the increase in financial potential of Azerbaijan that took place mainly due to oil sector, positively affected to the non-oil fields of economy in the condition of investment policy in this sector. In 2005-2010, oil industry of Azerbaijan has grown highly but after 2010 the more considerable growth has been observed in non-oil sector of the country. The real growth of GDP was at least 8% in 2010-2012, and about 10% in 2013. The share of non-oil sector in the state budget was 1,6 billion manat in 2006, 4 billion manat in 2011, and 4,4 billion manat in 2012. In 2003-2011, 62% of total investments have fallen to the share of non-oil areas. In 2011, the share of non-oil sector made 11% within the export in contrast to 2% in 2010. For the first time, reaching 53% within GDP, the non-oil sector exceeded the oil sector in 2013.

3. Implementation of State Programs on Socioeconomic Development of Regions

3.1. Results of Implementation of the First State Program (2003-2008)

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

A number of works on creating of new facilities have been finished in the regions. In Ganja-Gazakh region, the aluminum plant in Ganja city has been reconstructed. For the first time, a factory of manufacture of gold was commissioned in Gadabay which later was specialized also on the refining of cuprum. Manufacturing of counters of water and gas was organized in Ganja. Bentonite-producing enterprise was been commissioned in Gazakh.

In 2004-2008, the construction of 9 power stations, including 7 modular and heat stations in non-capital regions – Nakhchivan, Astara, Sheki, Khachmaz and Sumgayit came to the end. Supplying of natural gas has been recovered in the Nakhchivan, Aghjabadi, Beylagan regions while the Lerik and Yardimli regions and Horadiz settlement were firstly provided with this kind of fuel. 75 boiling-houses were built and 72 more were reconstructed in the regions.

Considerable works on the construction and substantial reconstruction of highways were implemented in accordance with the first State Program. Thus, the total length of constructed or reconstructed highways exceeded 1000 km, of which 600 km were of state importance. Moreover, 69 new bridges were commissioned and 34 others were reconstructed. The new modern airports were commissioned in Nakhchivan, Ganja, Lankaran and Zagatala cities.

For the first time, plant of sugar production has been commissioned in the Aran economic region which is the largest specialized plant in the Caucasus.

Previously being a sugar-importing country, Azerbaijan started to export this product. The new manufacturing enterprises were commissioned in the Aran region, including plant of lift in Sabirabad, science-intensive enterprise of electrical engineering, and a computer-producing mill in Minghachevir, milk- and butter mills in Salyan, pomegranate-producing object in Goychay as well as other social objects.

In Sheki-Zagatala region, production of silk was reorganized and expanded in Sheki region. Modular-type station was commissioned in Sheki city. Plant of tinned products in Gabala, and enterprise of processing hazel-nut played significant role in the development of this region. In Mountainous Shirvan region, mills of motor vehicles and electrical products were the main manufacturing objects. A plant of tinned production, a textile factory, and a plant of dairy products were built in the Lankaran-Astararegion. Production of non-ferrous metals, asphalt, concrete, marble and also automobile, was organized in the Nakhchivan region. Moreover, tens of new enterprises of food industry were commissioned here.

The first State Program touched also Absheron region where reconstruction works have been conducted mainly in urban settlements of Great Baku. The three power stations with high output were built in the territory of agglomeration in order to enhance energy supply of the population. Measures on improving environmental condition were also carried in the territory. Balakhani Plant of solid wastes has been built. Transport infrastructure has been modernized as well.

The technical and financial support to farmers and agribusinesses as a part of the first state Program found its reflection also by the indicators on agricultural activities. In 2003-2008, the production of agriculture and food industry were considerably grown, including 21,4% by wheat, 40,1% by potato, 17,4% by vegetable, 78,1% by grape, 30,6% by meat of cattle, 18,3% by milk, 47,9% by egg and 22,3% by wool (Pashayev et al. 2010, p.405). Moreover, a number of industrial and agricultural buildings, medical, educational and other service facilities, including sport-related facilities such as Olympic complexes (over 15) were constructed in accordance with Program. About 1600 new educational objects, including 636 new secondary schools were built and 192 others were substantially reconstructed. Centers of treatment and diagnostics as well as objects of physiotherapy, and clinics were built in Lankaran, Gazakh, Zagatala, Barda, Gabala, Ganja, Nakhchivan, Julfa, Babak, Shirvan, Sumgait, Khachmaz, Sabirabad. The previously-conducted paying services in all treatment and prophylactic objects under the Ministry of Health Care were liquidated and started to be rendered free of charge.

During the implementation of measures over 766 thousand workplaces have been created in the country, of which 547,5 thousands were permanent. The number of created enterprises exceeded 27,5 thousand, 40% of which fell to the share of non-capital regions. In order to facilitate investment condition, develop entrepreneurship and non-oil sector and accelerate process of creating new workplaces, highest taxes rate for physical persons were decreased to 35%, taxes by profit and social assignments were reduced to 22%, the kinds of tax were lowered to 9, and agricultural producers were liberated from taxes with the exception of taxes on lands. Terms of licenses were extended by economic activities.

As an integral part of the policy on agriculture, the new ‘Agrileasing’ stock company was created which later has implemented rendering 20 kinds of services in agribusiness. The company brought about 7 thousand appliances of agricultural machinery, over 20 suits of technological equipment, about 230 thousand ton of mineral fertilizer, 7 kinds and 290 thousand tons of pesticide.

In the years of implementation of the Program, the two big projects of international importance were put into reality. Baku-Tbilisi-Jeyhan oil pipeline and Baku-Tbilisi-Erzurum gas pipeline were commissioned. Modern highways by various directions were constructed as well.

In the years of implementation of the first Program (2004-2008) on socioeconomic development of regions, GDP of the country has grown by 2,6 times while GDP per capita has been increased 5 times. In accordance with this Program, the construction of enterprises and facilities, and the creation of new workplaces concerning Azerbaijan’s non-oil sector has been increased by 6,2 times, and its share within total investment made up 69%. The industrial production has been increased by 2,5 times whereas the growth in agriculture made 25,2%. In the years of implementation of Program, non-oil sector of the country has risen by 1,8 times. The share of private sector reached 84,5%. In 2008, incomes of the population have been increased by 4 times whereas their average salaries have risen by 4 times. The poverty rate made up 13,2% whereas 5 years ago it was at 45%.

The implementation of the first State Program on socioeconomic development of the regions was aimed mainly to reestablishment of industrial base. The relevant measures gave an impetus to the development of Azerbaijan's non-oil sector. The realization of this intended plan was evaluated by experts as extremely important for the country (Nuriyev 2011). The following programs were expected to increase more the created industrial potential and to improve the tertiary sector.

3.2. Implementation of the Second State Program (2009-2013) and its Continuation

The works and measures carried out in accordance with the first Program on social and economic development of the regions were continued within framework of the second Program. This Program were aimed to allow managing sustainable development of non-oil sector, creating new enterprises and workplaces, increasing volume and quality of domestic services and social infrastructure, improving the condition of entrepreneurship, the growth of employment rate and reducing poverty.

In 2010, Granite and Marble Plant in Baku, Elevator Plant in Sangachal, a car plant with output of 5000 cars a year in Nakhchivan, a concrete plant and 'Bilav' hydroelectric power plant in Ordubad, a plant of building materials in Nakhchivan, a plant of tinned products, factories of tea and ice cream in Lankaran, milk- and tobacco-processing factories in Zagatala, a salt factory in Absheron, a wine-mill and the Goytapa water reservoir in Jalilabad, a cannery in Bilasuvar, a mill of mineral water in Aghstafa, a refrigerating storehouse in Salyan, a piano mill, a storehouse for fruits and vegetables, and a bus terminal in Gabala, 7 modern sport centers as well as tens of hotels and recreation centers, and medical objects in Baku, Ganja, Mingachevir, Gabala, Balakan, Jalilabad, Bilasuvar and other regions of the country were commissioned. In the meantime, the commissioning of Oguz-Gabala-Baku water pipeline facilitated supply of pure water in Baku, population of which for decades have used mainly water of the Kura River.

In 2011, a plant of building materials, a number of four- and five-star hotels, a metro station, and also Center of Treatment and Diagnostics in Baku, a cement mill in Nakhchivan, 2 apparel factories in Absheron, a juice- and wine-producing enterprise in Agshu, two large factories of milk and dairy products in Aghjabadi, a lemonade mill, 2 large sport centers and the International airport in Gabala, a factory of mixed forage in Imishli, a winery and a hotel in Sheki, maize-processing and glucose-producing enterprises in Oghuz, cold stores in Goychay, Samukh and Beylagan, a storehouse complex for grain products in Gobustan, a gas compressor station in Astara, a dairy mill in Tovuz, 2 sanatorium complexes in Naftalan, a treatment- and diagnostics center in Khizi, and other enterprises and facilities of health care, culture, sport, recreation, communication and transport were submitted into use. Length of highways and fiber-optical lines were expanded in a number of regions as well.

In 2012, a metalwork factory and a plant on sorting and burning of solid wastes, and also a number of four- and five-star hotels, stadiums, educational, sport and concert complexes in the territory of Great Baku, 'Azguntech' Plant specialized for production of renewable energy in Sumgait, a heavy engineering mill and an exact processing plants in the new created Sumgait Technological Park, bakeries and flour mills in Sheki, Barda and Jalilabad, 'Garabagh Brolier' Plant, a cold store and a hydropower station in Fizuli, a storehouse for grain products 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 Informational Center in Yevlakh as well as educational objects, recreation centers and hotels, chess schools, sport complexes, transport- and communication facilities were commissioned.

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

The Second Program on socioeconomic development of regions was the continuation of the previous one. Some ongoing measures and construction works of the first program were completed within framework of the second program.

During the implementation of them, i.e. in 2003-2013, the amount of investments in economic and social spheres of Azerbaijan made up 101,8 billion manat, including 51,2% by state-owned sector and 48,8% by private entities. Fixed capital was funded at 9,3 billion manat. Of the total investment, 54,5% were spent for manufacturing, and 45,5% for services. In 2003-2013, 32,5% of total investing into a fixed capital was available due to foreign sources, and the rest 67,5% at the expense of internal potential. The increase of financial potential shows itself on the fact that in 2013, 26,8% funding was managed at the expense of domestic sources whereas in 2003 this figure has made 62,5%. In the first half of 2013, 75% of the new jobs were created in the non-capital regions of the country. Azerbaijan shares 4/5 part of the state budgets in the Caucasus. In 2004-2013, investments of domestic sources has risen by 14,6 times whereas the corresponding growth by non-oil sector was 12,9 times as much.

37,1 billion manat or 36,5% of investment has gone for oil sector while 64,7 billion or 63,5% were spent for non-oil sector. 176,1 thousand of new apartments were built in this period. Hospitals with capacity of 7274 cots as well as medical buildings with capacity of 7922 patients a year were constructed in these ten years. General educational schools with total capacity of 461,2 thousand seats were submitted into use.

In 2003-2013, GDP of Azerbaijan has grown by 3,2 times while non-oil sector has risen by 2,6 times, industry by 2,7 times, agriculture by 1,5 times (including production of grain by 44%), investments by 6,5 times, incomes of the population by 6,5 times and salaries by 5,5 times. 35 five-star hotels were commissioned in the last 10 years. 900 thousand out of over 1,2 million new workplaces created from 2003 to 2013, were permanent while the number of created enterprises made up 55,6 thousand, unemployment rate were at 5%. Poverty rate declined to 5,3%.

In 27.02.2014, the President of Azerbaijan has given the order on realization of State Program on social and economic development of the regions in 2014-2018. The implementation of this third Program is underway. As the previous program, it consists of the groups of socioeconomic measures classified as 'of state importance', 'of regional importance' and by the name of each 10 economic regions.

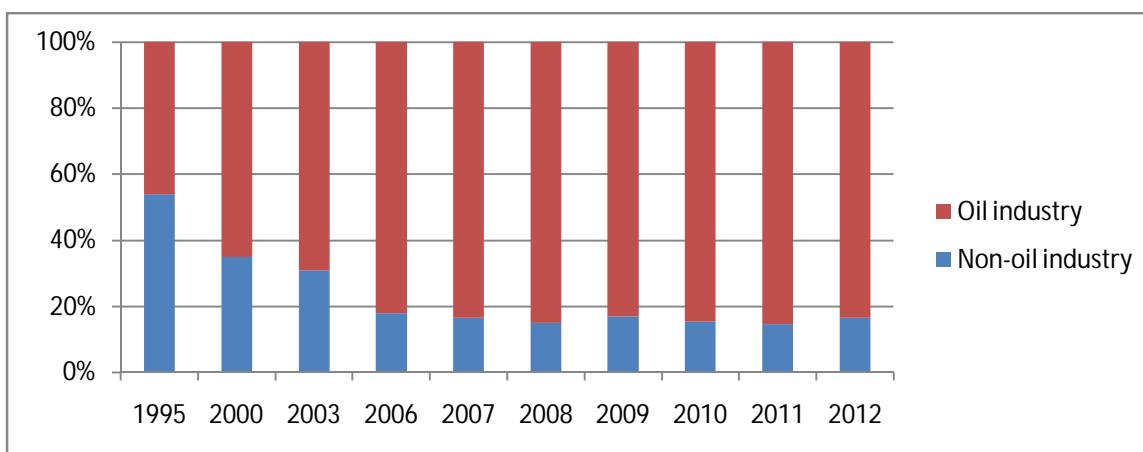
The executors of the Program are the relevant central and local bodies of administrative areas. The Ministry of Economy and Industry coordinates the implementation of activities of all government organizations and entities in this process. State Investment Program is to be developed by each year in order to carry out intended measures.

4. Current Situation and Problems Inregions' Non-Oil Sector

Non-oil sector of Azerbaijan has been rapidly growing in recent years. However, as it is mentioned earlier, the increase of role of non-capital regions in this process seems an urgent and serious problem. The share of non-oil industries in total secondary sector has not changed considerably in recent years (Figure 3). Meanwhile, the share of non-oil industry reached up to 20% in the middle of 2014.

Reaching of desirable results depends considerably on the motivation of activities of local businesses through financial support, and the provision of favorable economic condition and security, elimination of bureaucratic impediments and expansion of foreign investment in the non-capital regions (where rural population is majority).

Figure 3: The Change of Structure of Industry of Azerbaijan

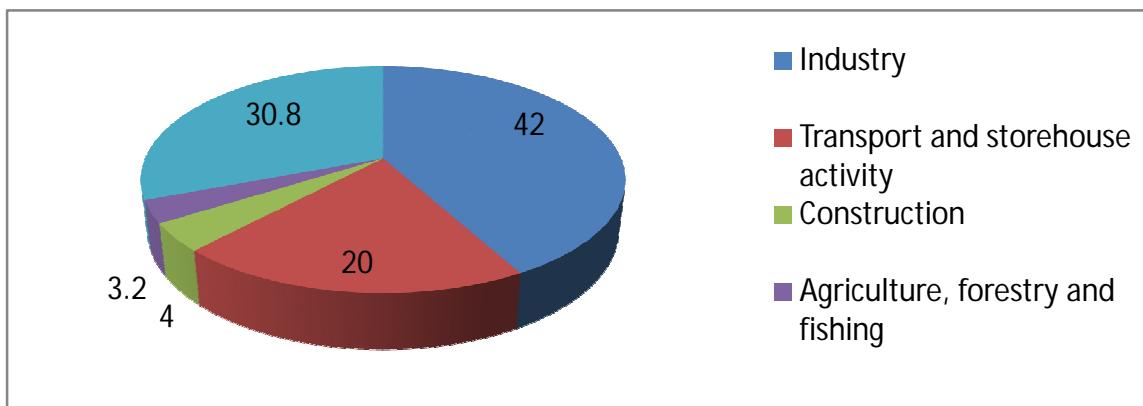


Source: Data of State Statistical Committee of Azerbaijan Republic (www.azstat.org).

Products of the non-oil sector must be of export importance. It is notable here that in trade relations of Azerbaijan, non-oil sector is represented mainly with products of non-oil manufacturing and agriculture. Due to some factors, non-oil sector is not highly depending on foreign demand compared to oil industry. Real growth in this sector is influenced chiefly from investment, change of domestic demand, and also structural and institutional change that take place in the country.

However, non-oil sector of Azerbaijan still bases on the non-industrial businesses such as services, crediting activity, construction, communication and agribusiness, while the commissioning of manufacturing enterprises with large industrial output is typical mainly for Baku. In peripheral regions, foreign investment is still lower despite the advertising activity in recent years and the application of some tax discounts in the beginning of the 2000s (Karimov 2004). Therefore, regional development in Azerbaijan yet considerably depends on governmental assistance. The problem continues to be urgent for the development of mining and processing industries that may be recovered based on rich mineral resources and half-finished products. Today, many foreign companies engaged in metallurgy are mainly of medium and relatively less sizes, which use scrap metals rather than raw material. This tendency may impede the creation of joint companies engaged in the extraction of mineral resources in the regions of Azerbaijan. In this occasion, the influential role of governmental assistance seems necessary.

Figure 4: The Percentage of Economic Branches within Investment into a Fixed Capital in 2013.

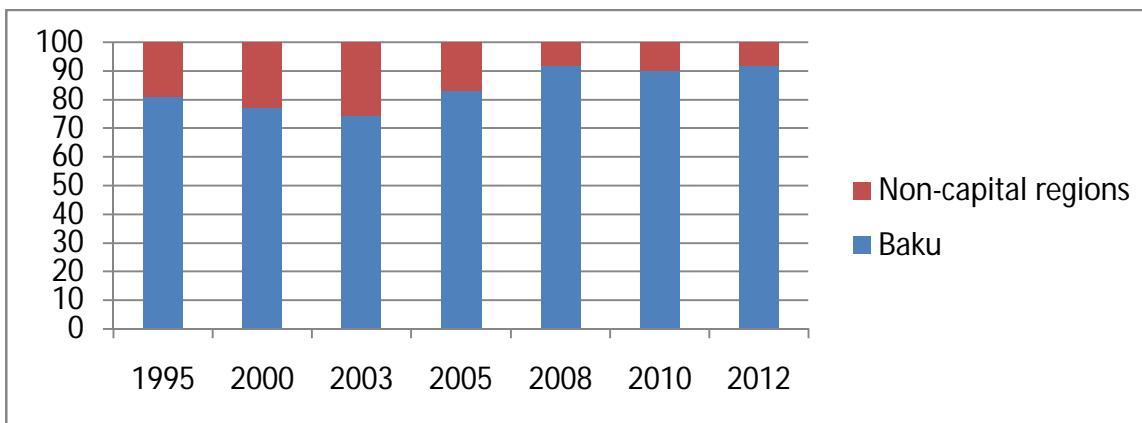


Source: Regions of Azerbaijan.2014. Baku.

As for local entrepreneurs which are traditionally more interested in tertiary sector rather than manufacturing, it should be noted that concessional loans given by National Fund for Entrepreneurship Support (NFES) under the Ministry of Economy and Industry of Azerbaijan are used mainly by the businessmen in the non-capital regions. Since 2003, funding of the relevant projects is being implemented by this governmental agency on the basis of submitted business plans. NFES also promotes to importing of required technical appliances.

Concerning financial potential of the private sector of Azerbaijan in terms of reliability of ensuring, service and investment, two moments are worth to be noted. On the one hand, allocating of financial resources by the state with tourism purposes, and lower banking rates in relation to private and foreign banks may seem to be more attractive for small and medium entrepreneurship. But, the low share of private sector in the large tourism projects may be connected with financial inability of small and medium industries that do not allow implement these projects. Currently, private companies are very weakly participating in realization of big projects. This problem is faced more in the tourism sector (Dargahov, Karimov 2014, p. 166).

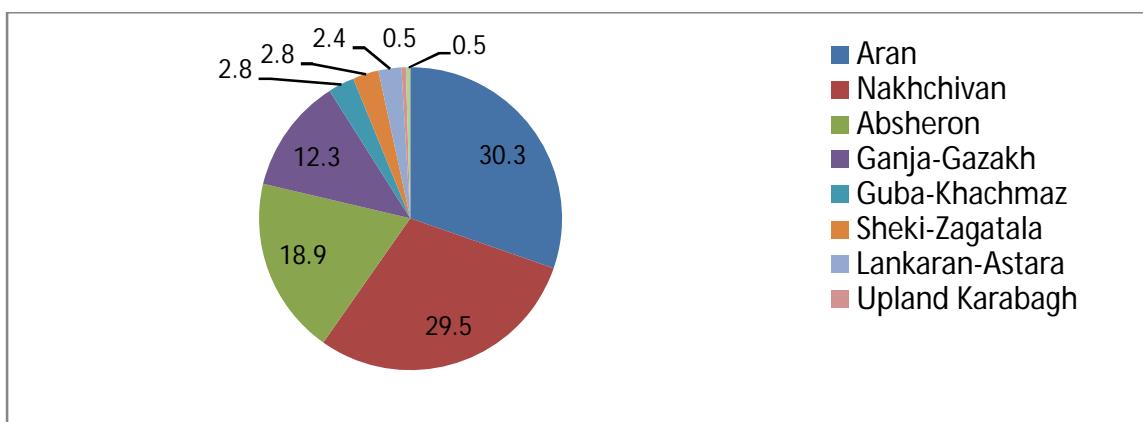
As for *manufacturing* in the regions of Azerbaijan, firstly it should be noted that the differences between Baku and the non-capital regions did not become much lesser in recent years (Figure 5).

Figure 5: The Change of Percentage of Non-Capital Regions in Industrial Production

Source: Industry of Azerbaijan. 2013. Yearbook of Azerbaijan Statistical Committee. Baku.

As seen from Figure 5, the share of Baku exceeded 90% within overall industrial production by the country in recent years.

Among non-capital regions, the two economic regions considerably prevail over the rest for industrial production (Figure 6).

Figure 6: The Percentage of Non-Capital Regions within the Industrial Production

Source: Regions of Azerbaijan. 2014. Baku.

Annual industrial output in larger volume belongs to Aran (821,5 million manat) and Nakhchivan (799,5 million manat), followed for this indicator by Absheron (5128,0 million manat) and Ganja-Gazakh (3328,0 million manat) regions. The higher absolute indicators on industrial product are significantly related to the development of power industry.

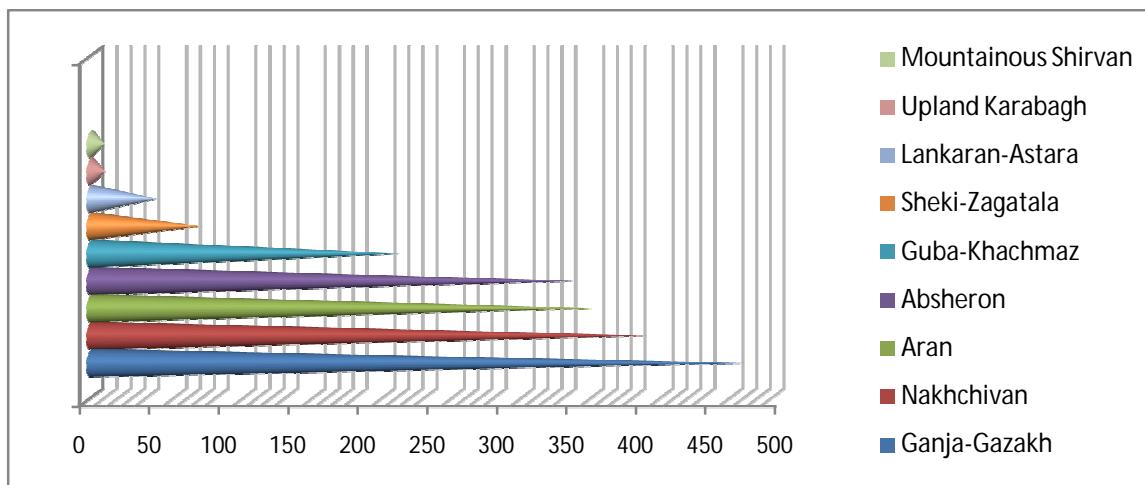
The development of manufacturing of higher output in the regions (with the exception of Baku and Absheron) is one of priorities of Azerbaijan's economic policy. The low quality of products has been being typical for activity of local producers for a long time, with the exception of food industry. In the recent years, the production of environmentally safe products is widespread in the country. Considerable part of this production is shared by the regions located out of Absheron. In the meantime, the growth of exported food and tinned products, based on modern and friendly technology is increasing. Despite the growth of production in rural regions, significant part of fruits and vegetables is still being imported (from Turkey, Iran, Georgia and other countries) in the condition of high domestic requirement. The improvement of production touched also the heavy industry of Azerbaijan (machinery, textile and apparel industries) as was noted before. Industrial capacity of local private companies with the exception of a few ones is not big in relation to economic potential of the country despite that they may organize qualitative production.

Construction is an important integral part of non-oil sector of Azerbaijan and its regions. Production in this sector is being increased in recent years with high rates, including by both state- and private sectors.

Construction works encompass all regions with the exception of occupied territories (Karabakh). But the construction sector is well-developed in Baku city, in particular compared to other cities. Hundreds of private dwelling houses, administrative objects, financial centers, bridges and underground highways, recreation centers, multistory hotels have been built in Baku. The city experienced considerable changes in its urban planning and architecture.

In 2013, 6517892, 6 manat out of 8162962,5 thousand manat allocated in the country for the construction of manufacturing facilities were shared by Baku. In other word, the capital city shares 80% of all investment into the construction of manufacturing facilities.

Figure 7: Investment in Construction of Manufacturing Facilities by Non-Capital Regions of Azerbaijan (at Million Manat)

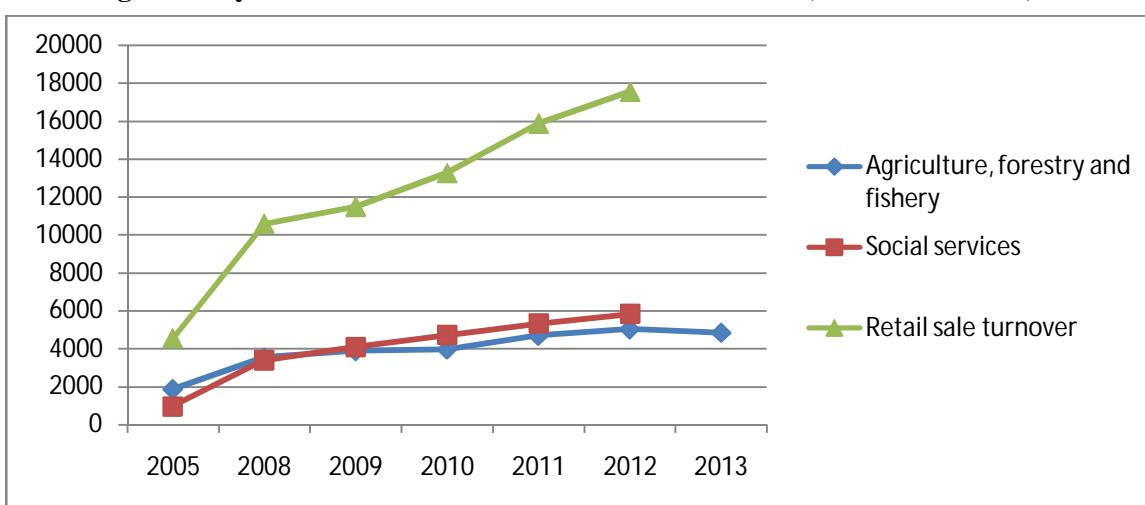


Source: Construction in Azerbaijan. 2014. Baku.

In 2013, the highest GDP growth among economic branches of Azerbaijan has been fixed in construction (23%), and also in tourism (16%), informational and communicational technologies (11%) and trade (10%).

One of urgent issues of Azerbaijan's non-oil sector is the related with *agricultural* production. Agricultural production is increasing but the real potential in this sector is higher than the current output. For a long period, relatively weak agrarian sector of the rural economic regions has been unable to completely meet internal demand for many foods. This shortcoming is characteristic for Azerbaijan also at the current period although farming activities saw considerable growth in the first half of 2014.

Figure 8: Dynamics of GDP of some Economic Branches (at Million Manat)

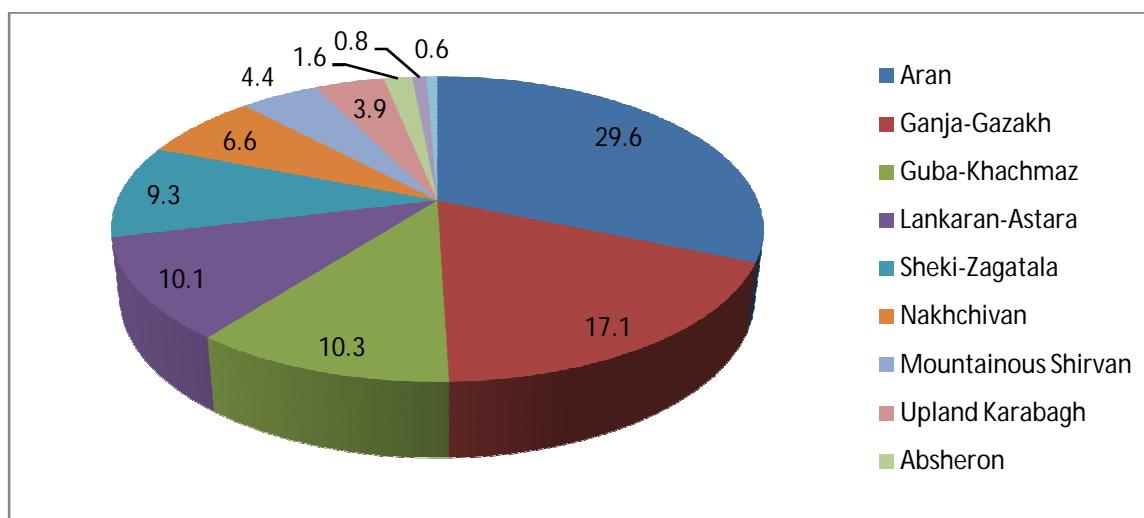


Source: Statistical indicators of Azerbaijan. 2014. Baku.

The Aran region contributes 30% of GDP of agriculture due to its larger territory compared to other regions (Figure 9). Its territory encompasses low plains which are suitable for use and irrigation. The region has more developed irrigation system due to existence of channel system and collector-drainage network. The main produced agricultural crops are cereals, mainly wheat, vegetable, fruit, grape, sugar-beet, watermelon, melon, soybeans, cotton, etc.

In Ganja-Gazakh, main agricultural crops include grape, potato, wheat, fruit, vegetable, etc. Guba-Khachmaz and Lankaran-Astara are specialized in production of fruits and also vegetables. Situated to the south, Lankaran-Astara traditionally has been known as a territory of subtropical fruits (lemon and orange) and tea. Sheki-Zagatala is specialized on tobacco, maize and sunflower. Nakhchivan's territory is favorable for production of sugar-beet, grape and gardening fruits.

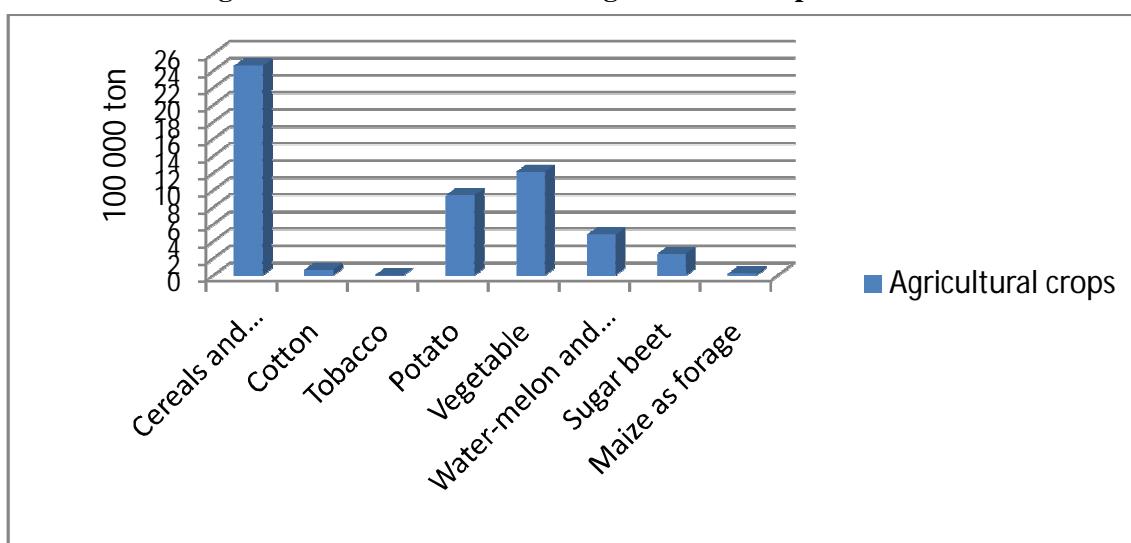
Figure 9: Percentage of Economic Regions of Azerbaijan within GDP of Agriculture in 2013



Sources: Agriculture in Azerbaijan. 2014. Baku.; Regions of Azerbaijan. 2014. Baku.

Wheat, fruits, vegetables and potato as more-produced and necessary products are grown almost in all regions in recent years. Livestock production is represented with cattle- and sheep-breeding activities, and also businesses of poultry and other fields. Animal industries share 48,3% of all agricultural products, and they meets considerable part of requirements of Azerbaijan's population for livestock products. The distribution of products of plant growing is seen in Figure 10.

Figure 10: Production of Main Agricultural Crops in 2011



Source: Regions of Azerbaijan. 2012. Baku.

Concerning food industry, it should be noted that the main emphasis in the implementation of the first two State programs was laid on the production in agroindustry whereas the domestic demand for more significant foodstuffs such as meal, meat, butter, cheese, sugar and others still is not completely satisfied due to some factors. However, the agricultural output of Azerbaijan is continuing to be developed with high rates. In 2005-2012, agricultural products has grown by 2,7 times although the share of agriculture, forestry and fishery in GDP were reduced from 9% to 5,5% in 2005-2011.

Considerable advancement has been reached in the branches of *social infrastructure*. Most of works were implemented in the regions located off Baku (Sardarov 2010). In accordance with the mentioned two State Programs, tens of secondary schools, medical objects, cultural buildings, sport and health centers, libraries, service facilities, highways were built or substantially reconstructed in the regions of Azerbaijan. Due to the implemented measures, the country currently has developed transport infrastructure. Different types of transport, including sea-, air-, railway- and motor transports as well as metro are available in the country. Moreover, the volume of paying social services continues to grow since 2005 (Figure 8).

Informational and communicational technologies are among priority fields among non-oil branches of the country. According to the report of the World Economic Forum, ‘Global information technologies 2013’, Azerbaijan holds 56th place among 144 countries by ‘Networked Readiness Index’, and the first place among the CIS and Central Asian countries by the share of internet users. The country occupies 8th position among 144 countries for ‘index of progress on governmental support of ICT’, 9th place by ‘expected place of ICT in prospects of government’, and the 20th place by the access to internet.

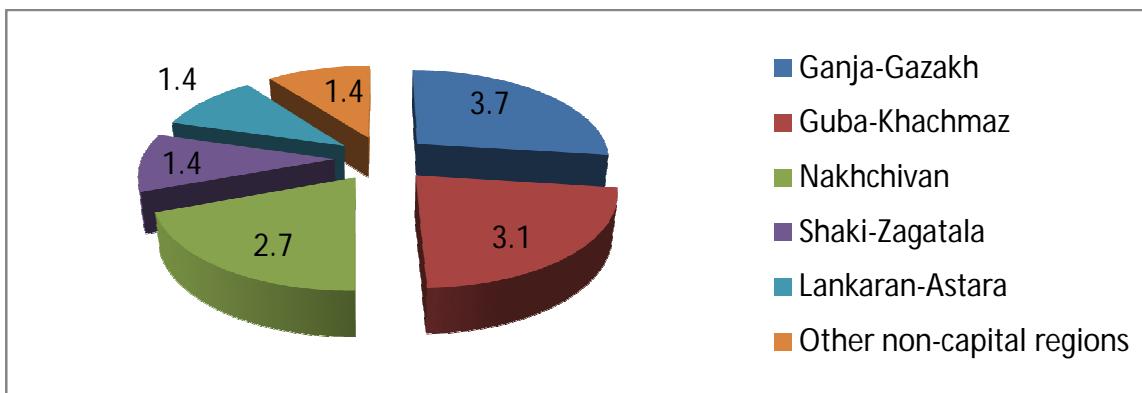
In 2005-2011, *transportation* of goods increased from 128,3 million ton to 210,9 million ton, or by 64%. In the same period, transportation of passengers has risen from 1000,3 million up to 1617,3 million persons, or by 62%. It is shown in the ‘State Program on Renovation and Development of Highway Network in Azerbaijan Republic’ (2006-2015) that 87% of automobile roads became nearly useless or partially useless in the country. Due to the building and reconstruction of highways in the regions, highways are longer, more qualitative and secure year by year. 26,2% of all automobile roads are asphalted and concreted, 13% of highways are coated with black coverage, 46,7% are covered with gravel, and 1,1% are the soil roads (Gasimova 2013, p.137).

Among the branches of non-oil sector of the regions, *tourism* is considered as one of most important fields. Some experts and researchers name tourism as the second priority area after fuel industry in Azerbaijan (Imrani, Zeynalova, 2014, p. 217). The peripheral regions have considerable tourism potential due to their beautiful nature and attractive landscapes but the share of these regions within the total indicator of tourism income is too less. Foreign tourists visiting Azerbaijan usually are staying in Baku city and are not making a trip to other places within the country. On the one hand, this is partly related to the relevant insufficiency in advertising activities. Secondly, the capital has turned to the international center of cultural, entertainment and sport activities and events, which play considerable role in attracting foreign tourists in large number.

The payments from the state budget still have higher share within the total costs, including in Ganja-Gazakh – 58,2%; in Daglig Shirvan – 77,6%; in Aran – 81,2%; in Sheki-Zagatala – 56,2%; in Guba-Khachmaz – 72,6%; and in Lankaran-Astara – 75,5%. The absolute indicator of payments from the governmental budget is higher in Ganja-Gazakh. The Ministry of Culture and Tourism of Azerbaijan allocated 143,6 million manat from governmental budget for the reconstruction of historical monuments in the regions (Dargahov, Karimov 2014, p.170).

In 2013, the hotels and hotel-type facilities were occupied by 666,3 thousand persons, of which 31,5% (209,9 thousand persons) fell to the share of the peripheral regions. The following regions after Baku are Nakhchivan (59,9 thousand), Guba-Khachmaz (32,9 thousand), Sheki-Zagatala (31,9 thousand) and Ganja-Gazakh (30,0 thousand). (Statistics of Azerbaijan’s tourism 2013).

86% of incomes of hotels and other facilities of accommodation were shared by Baku. The shares of other regions within the rest 14% are shown Figure 11

Figure 11: Incomes of Hotels and other Facilities of Accommodation in 2012

Source: Statistics of Azerbaijan's tourism. 2013. Yearly bulletin. Baku.

Long-term Strategy on the Reduction of Poverty and Sustainable Development till 2015 is successfully being implemented in Azerbaijan. The relevant Joint Declaration has been signed between Azerbaijani government and Asia Development Bank, European Reconstruction and Development Bank, International Monetary Fund, United Nation Development Program and World Bank. Concerning the provincial regions, it is notable that financial resources of the government are being used considerably in order to develop the non-oil sector, services and infrastructure.

5. Conclusion and Focus on Priorities

Although oil industry played an influential role in strengthening of economic and social potential of Azerbaijan, dependency of the national economy from oil factor is likely to become less weak in the future. This is confirmed by increasing of investment in non-oil industries of the country. Political and social stability, and monetary policy that enable keeping inflation at minimal rate and the stability of the national currency, the increase of tourism incomes, widespread of informational communications in the economic regions of the country, increase in number of workplaces due to rapid development of tertiary sector and other factors create favorable condition for further advancement in non-oil sector. Macroeconomic stability, the improvement of legislation on business, regulation of relations between public administration and business activities, and also import and export operations, the presence of the free market as well as the implementation of two state programs on socioeconomic development of regions, and other factors contributed to the growth of foreign investment in the country's economy. All these are very important for Azerbaijan because the possibility of fall of oil prices is regarded as an adverse factor for the state budget and export of the country.

The development of non-oil sector is an integral part of "Azerbaijan 2020: view to the future", signed by President of Azerbaijan in December 29, 2012. As shown in this Conception, in order to develop non-oil sector, the use of natural and economic resources as well as its efficiency must be expanded. The motivation for expanding of use of alternative (renewable) sources of energy, the development of institutional condition, the strengthening of scientific and technical potential, the continuation of training of qualified personnel, and the enlightening of consumers of energy is planned. Active participation of not only state agencies but also private sector in these processes, and the prompt regulation of energy tariffs must be provided. Creation of network of manufacturing, social and market infrastructure, and also use of new advanced forms of management in economy is planned as well.

As the priority activity within the policy on non-oil sector, particular attention in terms of investing is to be given to the creation of specialized and complex "industrial cities" in the regions. The commissioning of aluminum-producing plant in Ganja and waste-processing mill in Balakhani already has been carried out. Besides with non-traditional branches of non-oil industry such as chemical, metallurgy, machinery, electric appliances, light, food and other industries, the new competitive manufacturing activities also is expected to be supported (Priorities of development ... 2013).

According to the Conception, attracting of domestic and foreign investment in non-oil sector with participation and cooperation of governmental and private sectors must be stimulated. The legislature and the norms will be redeveloped in order to extend tourism activities.

The increasing of share of tourism in GDP and competitiveness of tourism infrastructure particularly in the regions and Pre-Caspian territories is planned. The production and processing of agricultural crops will be expanded as the priority area in terms of development of non-oil and food security through increasing output of processing facilities in agrarian sector. In order to stimulate the production of ecologically safe products, activities like protection of genetic resources, sapling, seed-growing, pedigree cattle-breeding and improving species of cattle is to be extended.

Being adopted and implemented, the State Investment Program for 2008-2011 has been put into reality in accordance with the "Long-term Strategy for the Management of Oil- and Gas Profits." The related costs are to be spent to develop "human capital" and the non-oil sector, the improvement of the existing infrastructure, the acquisition of new technologies.

6. Perspectives and Recommendations

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

There are big opportunities to develop national mining industry in Azerbaijan based on mineral resources of the Lesser Caucasus, and also Greater Caucasus. Usable minerals include copper, zinc, tin, cobalt, gold, molybdenum, mercury, and also materials for construction sector such as dolomite, marble, limestone and others. Ganja-Gazakh, Kalbajar-Lachin (presently is under conquer of Armenia) and also Nakhchivan regions are rich in the mentioned minerals. As mentioned above, production of iron ore, copper and gold has already been restored in Dashkasan and Gadabay at the expense of domestic investment. Currently, the majority of building materials still is being produced in Absheron. The following years, the areas of production of minerals may be expanded, and requirements for raw material in the metallurgical plants may be satisfied at the expense of mineral resources of the Lesser Caucasus. Production of raw materials even may be of export importance in Dashkasan or Nakhchivan.

Currently, Azerbaijan still depends on the export of energy carriers, and has propensity to import daily products and consumer goods. As the international experience shows, adaptation of enterprises to market relations, and the unilateral extension of private sector may not be completely efficient. Structural changes in the economic system and the managing of economic motivation are needed. Stimulating development of small, medium and large industrial enterprises of private sector through differentiated taxes seems more efficient compared to using unified taxes.

On March 6, 2007, the President of Azerbaijan signed a decree on 'the creation of special economic zones' in the country. The practical implementation of this law may contribute to acceleration of the economic development of regions. Most of regions of Azerbaijan share a border with foreign countries. In this regard, there are great opportunities for the creation of special economic zones and territories with concessive business activities. Considering practice of foreign countries, special areas with preferential economies may be created in Pre-Caspian territories, some islands of the Caspian Sea, the territory of Ganja-Gazakh, Lankaran-Astara, Nakhchivan, and other areas. In this connection, foreign investment in the country's regions can grow.

Moreover, higher literacy rate, favorable demographic condition, sufficient structure of the population, and higher share of young and middle-age population are typical for the regions of Azerbaijan. These are positive factors in terms of economic development. Most peripheral administrative regions have improved infrastructure and communications after the realization of relevant state programs.

Favorable natural condition and large labor resources can enable Azerbaijan to strengthen its agricultural sector, based on production of environmentally clean products in large volume. The considerable growth in agrarian sector can be available in the future if investing of processing industry will be efficiently managed, agricultural production in the regions will be increased, and supply of the local businesses with modern appliances and technology will be carried in sufficient level. The share of animal products must be increased within agricultural product through extension of forage base, and the enlargement of modern cattle-breeding activities. Activities and facilities of most regions significantly depend on governmental funding. Creation of strong private sector of economic regions is required in order to create large regional budgets, and reduce their complete dependency on state funds.

Touristic potential of regions must be used at higher level in practice. Most hotels, centers of accommodation and other resting facilities in the regions artificially inflate prices for resting, pushing tourists away in warm season. In this connection, many citizens of Azerbaijan prefer to rest in neighboring Georgia and Turkey. Moreover, the problem of deficiency of three-star hotels in tourism areas exists as before. Therefore, tourism activities must be regulated by the government through economic ways of influencing.

Azerbaijan continues holding various events of international significance on business, sport, science and culture. Some of these events are held in peripheral regions (Gabala, Ganja, Guba, etc.), which give them opportunity of increasing of tourism incomes. The new flight between Moscow and Gabala recently has been opened. Such activities may be expanded in the future in relation to other large cities. Increase of tourism potential should be one of priorities in the future in general. In the meantime, it would be better if local entrepreneurship will be expanded in private sector. Competitiveness of domestic industrial products must be increased by stimulating measures.

Thus, it can be expected that with rapid development of non-oil sector, competitiveness of Azerbaijani economy will grow, and dependency from imported goods will be reduced in the future.

Investing and the successful enlargement of the non-oil sector will stimulate the development of export-oriented production, the creation of new permanent workplaces, ensuring of local specialists with appropriate jobs, and allow meet the requirements of local consumers to foodstuff at the expense of local products, increase farming activities, and formation of strong self-sufficient municipal budget in the regions and large cities of Azerbaijan.

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