

IMPORTANCE OF NON-OIL SECTOR IN AZERBAIJAN ECONOMY

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ABSTRACT

Development of Azerbaijan's economy is one of the state's top priorities. Diversification of the economy is important for sustainable development. For the last 30 years, important work has been done to develop the non-oil sector in Azerbaijan economy, which is based on the oil factor. This article examines the development trends of the non-oil sector and its future prospects. Based on the statistics of recent years, the development trends of the non-oil sector are identified and which areas need more development. This article shows the pace of development of the Azerbaijan economy over the past decade and discusses the contribution of the non-oil sector. There is a dependence from natural resources and non-oil sector development should be accepted as a not disputable solution. More recently, the development rate of non-oil sector slowed down in 2020 due to the global pandemic but the overall rate seems promising in terms of diversification of national economy.

Keywords: Azerbaijan economy; Non-oil sector; Resource dependence; Development policy

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INTRODUCTION

The development of the non-oil sector and its special weight in the country's competitive economy is one of the most important tasks set by the Republic of Azerbaijan in the near future. After Azerbaijan regained independence, the country's infrastructure and economy were in a state of disrepair and undesirable, and factors such as political panic and the fragility of the foundations of the newly independent state did not allow the country to build a more planned and systematic economy. That is why, initial years of independence is called as the "recession period" during which the economic collapse happened (Aliyev and Suleymanov, 2015). In this context, the Treaty of the Century, signed in 1994, saved Azerbaijan from a difficult situation and gained economic independence by providing the country with the main source of funding for its existence as a state. However, these factors are as irrelevant today as they were in the early 1990s; While continuing to develop the oil sector, making the economy simply dependent on oil and relying solely on the oil factor does not promise macroeconomic interests and sustainable progress for future development. The period after 2005 when huge natural resource revenues entered to the economy get a name of "oil boom" (Aliyev, 2014; Aliyev and Gasimov, 2018). During oil boom, numerous studies investigated "Dutch Disease" and "Resource Curse" symptoms in Azerbaijan economy (Gahramanov and Fan, 2002; Gasimov, 2014; Hasanov, 2013; Niftiyev, 2020a, 2020b). Oil revenues were the main source of maintaining fiscal sustainability (Aslanli, 2015).

However, the non-oil sector is one of the key areas ensuring the sustainable, dynamic development of the Azerbaijani economy. It is not advisable to base the country's financial resources and socio-economic development on a single factor and the economy depends on only one factor, and it poses an imminent crisis in the near future. In this regard, as a result of ensuring the dynamic development of the non-oil industry, the dependence on the oil factor in the national economy will be significantly reduced. The consistent development of the oil sector plays a key role in the development of the non-oil sector as well, and the transfer of revenues from this sector to other (non-oil) sectors in the country's economy creates the basis for its sustainable development (Şəkərəliyev, 2009).

This article examines the role of the non-oil sector in the development of the Azerbaijani economy. The main argument of the author is that the diversification of economy is the most important factor which will contribute to the future of development of Azerbaijan, and without it, Azerbaijan would not able to hold its economic leader position in the South Caucasus.

1. NON-OIL SECTOR AS A MAIN CONTRIBUTOR TO NATIONAL ECONOMY

Agriculture, tourism, information and communication technologies, processing industry are the main priority areas in the development of the non-oil sector in Azerbaijan. International financial institutions emphasize the importance of agriculture and tourism among these areas. Thus, about 44% of the country's employed population works in agriculture. For this reason, the country is implementing a series of state programs aimed at agricultural development, reforms and the involvement of new technologies. At present, non-oil products produced in Azerbaijan, including electrical machines and equipment, their parts, chemical products, construction materials, finished textiles, etc. are exported to different regions. Billions of dollars have been allocated to support small and medium-sized enterprises, provide preferential state loans to

those engaged in these activities, provide subsidies to agriculture, and rebuild transport and communication infrastructure across the country to diversify the economy and create a basis for the development of the non-oil sector. funds were spent. These spending soon began to bear fruit and led to a major recovery in the non-oil sector of the economy (Atakişiyev, 2012).

In 2015, 7670.3 mln. manat and increased by 8.5% compared to the same period of the previous year. During this period, the share of non-oil products in the country's total industrial output increased by 6.4 percentage points or 29.3% compared to the same period last year, while the non-oil sector accounted for 2.5% of industrial growth. made a positive contribution in terms of interest. The most stimulating effect on the growth of industry in the sub-sectors of the non-oil refining industry is the installation of machinery and other equipment, as well as repair (1.5 percentage points), chemical industry (0.4 percentage points), food production (0.3 percentage points), production of finished metal products. (0.3 percentage points) and production of other electronic equipment with computers (0.3 percentage points). The total share of the mining industry in the production of non-oil products was 1.8% or 131.4 mln. manat, the share of processing industry 71.5% or 5498.0 mln. manat, electricity, gas and steam production, distribution and supply 25.8% or 1997.0 mln. manat, water supply, waste treatment 4.0% or 244.9 mln. manat.

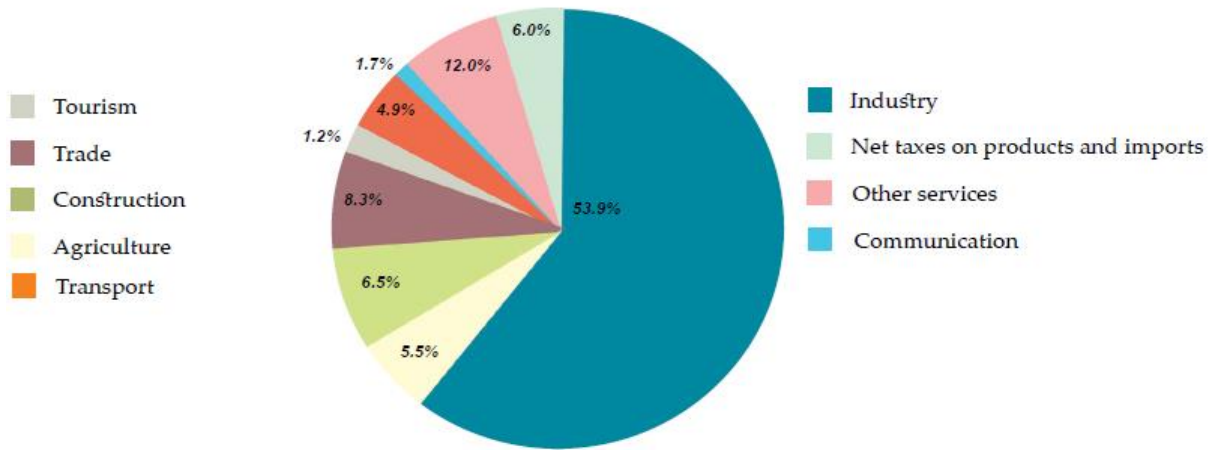
In 2015, the country's non-oil sector amounted to 37.8 billion. In general, more than 60% of it fell to the share of social services, trade, repair of vehicles and construction. The value added created in the non-oil sector of the country's economy in the mentioned year increased by 1.2% compared to the same period of the previous year. The share of value added in the non-oil sector in the country's GDP increased by 7.5 percentage points compared to the same period last year and amounted to 70.3%. In 2015, the non-oil sector made a positive contribution to the 1.2 percent increase in value added in the economy by 0.8 percentage points. In most areas of non-oil industry and economy, as well as agriculture, forestry and fishing (6.7%), trade and repair of vehicles (11%), tourist accommodation, catering (15.0%), information and communication (6.9%) %, social, etc. The growth rate of value added in services (1.8%) was higher than in the corresponding period of the previous year (Əlixanov, 2017).

During 2016, the growth rate of total output in the non-oil industry increased by 1.5 percentage points compared to the same period in 2015. The growth rate was due to the growth of many leading industries (food production, construction materials, chemical industry, machinery and others). installation and repair of equipment, production of finished metal products, production of computer, electronics and optics products, etc.) were affected by high growth rates. In 2015, 55.2% of total investments in fixed assets in the national economy or 8896.3 mln. manat was directed to the non-oil sector. 7.8% of investments in fixed assets and 14.2% of investments in the non-oil sector or 1239.2 mln. manat was used to contribute to the development of the non-oil industry.

Ensuring sustainable and balanced development of the national economy, improving the material and social welfare of the population, accelerating the progress of society in most areas, diversifying the economy to form a qualitatively new model of development, purposeful development of the non-oil sector and expanding its export opportunities is one of the main tasks set at this stage. At present, the development of the non-oil industry is the most important priority of the government's economic policy. Despite the dominance of the country's non-oil sector in GDP, the oil and gas factor still maintains its absolute dominance in exports.

Fluctuations and instability in world oil prices, especially the sharp decline in oil prices since 2017, have created serious and fateful problems for the country's economy. Dependence on oil in exports has limited the overall role of the non-oil sector in foreign exchange inflows into our country.

Figure 1: Structure of GDP by non-oil sector in Azerbaijan (2020)



Source: Azerbaijan State Statistical Committee, 2020

https://www.stat.gov.az/source/system_nat_accounts/?lang=en y.php?page=1&lang=en

As we can see from the graph above, overall share of non-oil sector, specifically industry sector, was consisted of 53.9 % in 2020, which also marked the global pandemic and worldwide economic crisis as well.

Table 1: GDP growth by sectors (2018-2020)

	2018	2019	2020
Real GDP growth, at constant market prices	1.5	2.2	-4.3
Private consumption	3.0	3.8	-5.1
Government consumption	1.5	7.9	4.0
Gross Fixed Capital Investment	-0.2	-3.1	-6.5
Exports, goods and services	1.0	1.5	-8.1
Imports, goods and services	1.5	2.2	-10.5
Real GDP growth, at constant factor prices	1.5	2.2	-4.4
Agriculture	4.6	7.3	1.9
Industry	-0.7	0.4	-5.2
Services	5.1	4.3	-4.4

Source: Azerbaijan State Statistical Committee, 2020

https://www.stat.gov.az/source/system_nat_accounts/?lang=en y.php?page=1&lang=en

It is observed that real GDP growth in agriculture, industry and service sector in 2019, but due to global pandemic, the overall growth slowed down in 2020 according to National Statistical Committee which can be observed from the graph above.

2. MAIN PROBLEMS AND FUTURE PERSPECTIVES OF NON-OIL SECTOR IN AZERBAIJAN

In general, there have been many problems in the development of the non-oil sector in the country's economy, and these problems can be characterized as follows:

- maintaining the position of the oil and energy sector as a major driving force in the national economy for a long time;
- undesirable delays in the implementation of measures taken in the field of general development of the non-oil sector;
- the existence of differences in the regional development of the country and the central tendency of the development trajectory of non-oil enterprises;
- inability of the internal management system and, in general, the level of professionalism of management to meet the requirements of today's world;
- low share of non-oil sector industries, share of export potential of enterprises in the balance of payments, foreign and international trade, etc. (Mehdiyev, 2013).

An appropriate and appropriate action plan should be developed and implemented to achieve sustainable and consistent development in the non-oil sector of the national economy of Azerbaijan and to eliminate the existing problems in this area, as well as to ensure the differential development of individual sectors. Attracting foreign and domestic investments in the non-oil sector, creating conditions for the use of modern technological equipment in production and stimulating the application of intensive, advanced methods in production, bringing the net quality of products or services to international standards and norms, expanding access to world financial markets, improvement of the legislative and legal framework, allocation of soft loans in order to improve the provision of financial security to business entities, etc. Important measures and reforms such as are playing an important role in solving the existing problems in the non-oil sector. At present, all these measures are carried out in a planned and expedient manner with the control and assistance of the state (İsmayıl et al, 2013, p.34).

Ensuring the sustainable development of Azerbaijan leads to the intensification of its economic development. Our country's economy manifests itself in two ways: the development of the oil sector and the development of the non-oil sector. As we know, as Azerbaijan is an oil country, the main part of development is directed to the oil sector. The main goal here is to lay the foundation for the development of the non-oil sector through oil policy. This policy is the basis of the President's well-thought-out and purposeful socio-economic policy. The main goal of this policy is to form the basis of a diversified economy of Azerbaijan. Sustainable development of the country's economy plays a key role in economic diversification. This was achieved by a decree signed by the President on December 6, 2016. This has found itself in the Strategic Roadmap. One of the key goals here was to ensure the development of the non-oil sector. As a result of multifaceted and fundamental reforms, the non-oil sector is developing in Azerbaijan, export opportunities are expanding significantly, and dependence on imports is substantially reduced.

Changes in the era of global integration, financial crises and volatility of oil prices, the tendency to fall in price, the need to create a new system to prevent global pressure on economic development and so on. Taking all this into account, it accelerated the development and implementation of a strategic road map. For this reason, a Strategic Roadmap was adopted to

ensure the sustainable development of the national economy. It should be noted that the Strategic Roadmap for the National Economic Perspective consists of several periods. The periods here are divided into short, medium and long. By implementing them effectively, we ensure the successful implementation of development programs. In general, the Strategic Road Map includes three periods. These include:

- Including in 2020
- Including in 2025
- The years after 2025

It should be noted that the successful implementation of strategic roadmaps under the direction of the President contributes to macroeconomic stability, development of the non-oil sector, reduction of imports, exports, improvement of financial balance, formation of business environment, infrastructure improvement, social welfare.

As noted in the strategic roadmap for the development of the non-oil sector, the dynamic development and competitiveness of the non-oil sector, inclusiveness, as well as a significant increase in welfare, investment, the formation of a free economic competitive environment, free access to economic markets, free enterprise. It will create more conditions for expanding opportunities and streamlining the development of human capital in the non-oil sectors. As a result, it will further strengthen Azerbaijan's position on the development of non-oil sector indicators in the world economy. With the development of the non-oil sector, the social base is raised, and our country's accession to the group of high-income countries is accelerated in this way.

According to experts, this development concept develops 360-degree diagnostics of the non-oil economy and develops an action plan, as well as covers each of the outcome indicators, creating conditions for strengthening global trends in each area, diversifying the economy.

The Strategic Roadmap, based on expert assessments, takes into account the current state of the non-oil economy in Azerbaijan, as well as each of the global or local trends.

It should be noted that all the goals of this development program are to create new jobs, provide employment, reduce poverty by rehabilitating every citizen from housing, education and health services, utilities and all targeted social assistance. will be created. The non-oil sector plays a crucial role in creating new jobs. The development of the non-oil sector makes a positive contribution to both economic and social development.

Ensuring the development of the non-oil sector as a requirement of today is always in the center of attention. The development of the country's regions, the creation of regional infrastructure and other projects are being implemented. Ensures the development of the road sector as part of the non-oil sector within the State Program of Regional Socio-Economic Development. Roads are being reconstructed, modern bridges are being built and tunnels are being built. Four airports with international status in our regions, and a total of 6 airports have been opened for the use of our citizens (Strategic Road Map, 2016).

Today, the rapid development of the non-oil sector leads to the development of the economy as a whole. It accounts for more than 70 percent of GDP. The main goal of Azerbaijan is to diversify exports and expand the list of non-oil products for export. Real success is being achieved in each of these areas. Let's look at the structure of gross domestic product. Consider the distribution percentages for all sectors as follows:

The Azerbaijani state sees economic development in the development of the non-oil sector and implements reforms in areas that determine the sustainable development of the country's economy. Thanks to the purposeful policy, the development of the non-oil sector in Azerbaijan in recent years has exceeded the growth dynamics of the oil sector. An effective business environment has been created to continue this growth. One of the main conditions is to increase state support for the non-oil sector and focus on the sustainable development of our stable economy. The development of the non-oil sector means an increase in the welfare of the country's population, an increase in the minimum subsistence level. For this reason, the state is very interested in the development of the non-oil sector.

The main directions of increasing the competitiveness of non-oil sector in Azerbaijan in the near future are as follows:

- Intensification of marketing research and scientific research on the identified priority areas of development of the non-oil sector;
- Accelerate reforms to improve and restructure the structure of regional, sectoral, technological and reproduction of industry and industries;
- Expansion of production of competitive and science-intensive products in order to expand the export potential of the country;
- Improving the scientific and technical potential of field institutes and universities, strengthening university-industry relations and state support of high equipment and technologies at the world level;
- Prevention of unfair competition within the industry by the state and support for the promotion of a fair competition environment;
- Strengthening the establishment of industrial and industrial clusters, technology parks and industrial districts;
- Continuation of the policy of state stimulation of the development of high-tech and science-intensive production system.

CONCLUSION

The economic policy of the state, as well as the structural policy of the industry should be aimed at encouraging the creation of new industrial complexes, industrial clusters, improving interregional economic relations, technical modernization of production, minimizing interregional disproportions.

The development directions of the non-oil sector must be in line with the development trends in the global world economy, a high standard of living and socio-economic development of the country's population must be ensured, as well as structural changes in the economy. For the more stable and successful integration of Azerbaijan into the world economy, along with the increase in the share of foreign trade turnover, the structure of foreign trade turnover must be diversified in order to expand the production of competitive products.

The article examines the current state and level of development of the non-oil sector, the importance of economic diversification and other important issues, and compares the strategy planned by the state for the coming years with previous years. As a result, the main problems hindering the development of the sector are revealed: the lack of a full transition to monopolies and market relations in the economy, the obvious monopoly in certain sectors, the strengthening

of monopolies in agriculture and industry in the name of diversification, etc. Factors such as do not allow to reduce the share of oil in the budget. These problems must be eliminated, otherwise economic diversification will not reach the desired level and the non-oil sector will not be able to develop.

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