THE NECESSITY OF ECONOMIC DIVERSIFICATION OF AZERBAIJAN: EVALUATION OF DEVELOPMENT IN TOURISM, AGRICULTURE, AND LOGISTICS AND TRANSPORT SECTOR

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Abstract

The present thesis investigates the necessity of economic diversification and evaluates the role of three main non-oil economic sectors, namely tourism, agriculture, and logistics and transport sectors in attaining this goal. Since the fall of Soviet Union, Azerbaijan was able to transform itself from a failing economy to middle income state short period of time thanks to windfall revenues accumulated through the exports of hydrocarbon resources. However, this blessing suddenly turned to curse because of fluctuations in global oil crisis, putting the economy in vulnerable situation. As a result, it became inevitable for Azerbaijan to consider diversification policies in order to decrease the dependency from single natural resource revenue source. Tourism, agriculture, and logistics and transport sectors of economy became some of the targets to address the problem in short term. By comparing the target indicators for 2020 and the most recent actual indicators of 2019, the research comes to the understanding that although there are some drawbacks in attaining the goals, the results can be considered satisfactory in terms of factual targets. Furthermore, global pandemic and war with neighboring Armenia also caused many problems for recently recovering economy, but these can be turned into opportunities in near future if utilized properly.

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1) Introduction

This section gives a brief background of the research topic shortly discussing the rationale behind conducting study covering the issue. Further, the contribution of the study related research question is introduced and in the end the structure of the thesis is presented.

After the dissolution of the USSR and regaining the independence in 1991, Azerbaijan found itself in the middle of critical economic recession followed by war with neighboring Armenia. The country urgently needed to maintain political and economic stability to further focus on sustainable development. In fact, during 1991 - 1994, the country faced GDP decrease of about 66.1% followed by enormous inflation rate of 1662.2% in 1994 (Aliyev and Suleymanov, 2015). Once the political situation stabilized, the then president of Azerbaijan Haydar Aliyev saw a chance to move the country to new chapter and signed several Production Sharing Agreement with notable international petroleum companies for the extraction of Caspian oil and gas and achieve export opportunities of hydrocarbon resources to Europe, which is regarded as the Contract of Century (Guliyev, 2018). As a result, the economy started to flourish with the windfall of revenues flowing to the state budget, which quickly transformed Azerbaijan from a failing economy to middle income state (Tanase, 2016). Within a decade, Azerbaijan was already on the top global GDP growth chart (Ibid). Decreased poverty rate from 70% in 1990s to 5% in 2000s, more than a million job opportunities have been created, followed by record GDP growth rate with 36.4% in 2006 making Azerbaijan the fastest growing economy in the world (Allahveranov and Huseynov, 2013). Inflation rate on the other hand did not exceed 8% during 2000s (Ibid).

Despite of all positive notes on the wonders of oil revenues in the economy, these blessing suddenly turned into curse starting from the 2nd quarter of 2014, when global oil prices plummeted and the country was not ready to address such commodity price shock. Considering hydrocarbon industry consisted 40% of the GDP, 66% of state budget revenues and about 80% of the whole export profile, apparently the possible shock was foreseeable by the government (CESD, 2014). As a result, exchange rate of local currency manat (AZN) was devalued two times in single year, 2015, by Central Bank, in order to transform from fixed exchange regime to managed floating regime (Zotin et al, 2018). Overall, the local currency lost its value for more than 100%. Azerbaijan encountered negative growth rate of -3.1% for the first time in 2016 since the agreement of Contract of Century (Tradingeconomics.com).

All the hazards caused by centralized revenue source from oil and gas exports bring up the argument of necessity of diversification of Azerbaijani economy, which is one of the central questions of the research. Resource curse and Dutch Disease are the main terms from a theoretical point of view to describe the situation of Azerbaijan, which faces natural resource dilemma. According to these theories, the inflow of huge amount of revenues to the economy thanks to natural resource exports make the government appreciate the local currency, which in turn increases the production costs non-commodity based tradable sectors, therefore making final products less competitive in global markets (Rocha, 2010). The theories also imply that a resource dependent economy is not a sustainable economic development path to follow in medium and long terms. For this reason, this research is going to discuss several views in economic literature regarding the experience of Azerbaijan with resource curse and Dutch disease. Furthermore, the current situation and perspectives of main non-oil economic paths, namely tourism, agriculture, and logistics and transport sectors of economy are discussed based on literature to build strong arguments on growing importance of economic diversification. By further discussing target indicators put ahead by Strategic Roadmaps for mentioned sectors and available results achieved so far, this research also briefly evaluates the potential role of these sectors by keeping in mind current global and regional realities.

Therefore, the central research questions of this thesis are:

"Why Azerbaijan needs to diversify its economy? Have Azerbaijan been able to achieve short term goals on Strategic Roadmaps for tourism, agriculture, and logistics and transport sectors, and how the results help to imply the possibility of achieving long-term goals considering current realities?"

The purpose of the thesis is necessary for two main reasons: firstly, while there have been certain research on the economy of Azerbaijan covering oil-boom period and its impacts on economic development, to my best knowledge there has not been done such extensive research discussing post-recession period focusing on necessity of diversification by evaluating three main non-oil directions of economy; secondly, there has not been a study on evaluation of target indicators put forward for these three non-oil economic directions, comparing most recent available results and short term targets for 2020 and brief implication of current situation in these sectors for long term goals considering current global and regional realities.

The thesis consists of 6 sections: in the first section, which is already discussed, is introducing the purpose of the research by giving short background on economic situation in Azerbaijan, put forward central research questions and explain its importance. Second section presents extensive literature review covering necessary terms to understand the theories used in the thesis, as well as discussing the current situation and importance of tourism, agriculture, and logistics and transport sectors for the economy, while also giving certain perspectives by different authors. Third section focuses on the providing arguments for answering the first research question of the thesis, importance of economic diversification for Azerbaijan. Fourth section, on the other hand, compares the targets indicators for tourism, agriculture, and logistics and transport with the most recent statistics, followed by discussion of results considering current realities in the fifth section. Finally, 6th and last section briefly discusses the main findings, further outlook and recommendations.

2) Natural Resource Dependent Economy and Main Non-oil economic directions

This section discusses main theories involved in the thesis by providing different point of views in economic literature. Basically being the literature review part of the research, several views on resource curse, Dutch Disease, the logic behind economic diversification in resource dependent countries, as well as current situation and perspectives of tourism, agriculture, and logistics and transport sector of Azerbaijani economy are presented.

2.1) Resource Curse

"Resource curse" as a term was put forward by Richard Auty in 1993, describing it as "the adverse consequences of a country's wealth produced from its natural resources on its well-being" (Vahabi, 2017). Based on the explanation of a "curse of natural resources", it is argued that overdependence from excess of natural resources has negative economic, political and social impact for growth (Ahmadov, 2014). To get more precise definition of the term, Ahrend further argues that if the country's at least 10% of GDP and 40% of export portfolio are derived from a single resource, it can be considered as a resource-based economy (2005). Overall, the theory describes that the dependence on mineral and hydrocarbon resources lead to poor economic efficiency, increasing level of corruption and government mismanagement (John, 2010). Particularly talking about less developed countries, the rich resources can be referred as more like a "curse" than a "blessing (Ibid). According to the study conducted by Sachs and Warner, based on the empirical evidences there is a negative association between natural resource based exports growth rates (1995). More on the similar topic, Auty also by the conduct of macroeconomic analysis came to the conclusion that resource rich countries experience 2-3 times higher growth in per capita income that resource poor countries between 1960 - 1990 (2001). Stevens (2015) on his research about "resource curse" explains four major characteristics: 1) rich natural resources cause high level of income inequality and make it difficult to tackle with poverty, 2) godsend revenues from the resources filling the pockets of the people who are in control cause social unrest, 3) the latter starts to cause the corruption, especially in the elite and leaders, which causes in undermining the democratic institutions, gives less stimulus to further economic and political reforms and more incentives to repressive regime establishment, 4) abundance of mineral resources also cause the revenue flow to certain centers or to capital, which creates imbalances in the development rates among regions of the country. On addition to these characteristics, Rosser (2006) also categorizes several indicators of the "curse", such as overvaluation in exchange rates, domestic clashes among different classes of the society for the control of revenue streams, irrational public spendings by the governments for gaining social popularity in order to solidify the power.

Despite of many studies on the negative effects of the resource dependence, there have been also a combination of empirical studies, which in fact indicates that the effectiveness of natural resource concentrated growth are not definite and the consequences can actually be either positive or negative (Polterovich et al., 2010). For example, Maloney (2007) discussing about the role of resource production in economic development, argues that there is no or a little evidence of negative impacts of resource endowments based on studies conducted for a long-term data. He supports his arguments by giving an example of the several developed countries, where he claims to be the byproducts of large historical resource extractions (ibid). On addition to this, Davis (1995) mentions that between 1970 - 1991 most resource depended states in 22 developing countries had the same rate of economic development as their non-resource rich counterparts. Furthermore, countries like Malaysia, Indonesia, Chile and Botswana, in spite of relying on large resources, demonstrated likelihood of sound growth in terms of development path (Lahn et al., 2015).

Further discussing on the possible reasons on how rich resources have been “curse” for some countries, but “blessing” for others, it is proposed that human capital and effective institutions had quite a role in this matter (Gelb, 2007). Similarly, Acemoglu and Robinson (2012) say in “Why Nations Fail” that adequate and transparent government institutions have a tendency of promoting the foundation of a friendly business climate, reassuring foreign investment and entrepreneurship. Notwithstanding the institutional reforms on property rights and corruption were a driving force behind excessive success of Dubai’s economic diversification, some other studies show that countries like Chile and Indonesia, despite of dictatorships and less effective institutions could start effective economic diversification back in 1970s (Gelb, 2007). The McKinsey study from 2013 also connects the disruptive growth of resource-rich markets to successful extractive industry management: “*If resource-driven countries, particularly those with low average incomes, use their resources sectors as a platform for broader economic development, this could transform their prospects. We estimate that they could lift almost half the world’s poor out of poverty (*Dobbs et al., 2013).

It is claimed that due to the high volatility in hydrocarbon markets, oil rich countries are the most impacted by the “paradox of plenty”, as they are subject to abrupt spikes in commodity prices (Karl, 2011). It is necessary to highlight that the variance coefficient of global oil prices is 0.7, which means to be difficult to forecast (Gelb, 2010). Many OPEC countries have faced a downward trajectory in GNP per capita over the last few decades (2008). Marius Clemens (2008) in his research on the topic of “Azerbaijan Between the Resource Curse and Foreign Direct Investments”, mentions five major determinants of for the resource curse: 1) crowding out effect - when certain thriving sectors pull the resources and production from other sectors, 2) political instability - resource revenues are favored over taxes as a results of lack of accountability and transparent institutions, 3) bad decision making - extensive and rapid exhaustion of resource revenues, 4) low level of education - governments spend less on human capital development relying on windfall resource profits, 5) corruption - bureaucratic power tend to control the revenue allocation, spending, and etc. Following these explanations, the author makes a point that in Azerbaijan, as a result of crowding out effect, there is a high differences between Foreign Direct Investment (FDI) invested in oil and non-oil sectors (Ibid). While literacy rate is on par with higher-income states at the level of 97.8 percent in primary and secondary education, the Clemens highlight corruption as a major issue in Azerbaijan (Ibid). According to Transparency International, the country's stance in corruption perception index is 129th out of 180 countries (Transparency.org, 2020). Clemens further pointing out to the World Bank report mentions that companies operating in Azerbaijan paid on average 2.65 per cent of the revenues to tax inspectors and other bureaucratic officials in 2005 as an unofficial arrangement to "get thing done" (2008, p33).

Despite of some reforms to tackle the corruption, the numbers talk by itself. Azerbaijan, as mentioned above is on 129th ranking in Corruption Perceptions Index with 30 points out of 100 (Transparency.org, 2020). Moreover, Azerbaijan's non-oil sector falls behind oil sector as a result of inadequate government spendings (Gojayev, 2010). The author further mentions that while 38 per cent of population are employed in agricultural sector, only 3 percent of all investments were directed towards this sector, which indicates overall non - oil sectors of the economy are isolated and underdeveloped (Ibid). Given the tendency in Azerbaijan towards rent seeking and corruption already back in 1990s, the IMF report of 1998 suggested Azerbaijan not to repeat the same mistakes of Nigeria and Algeria and not to stop adapting to the pressure to invest petrol money in public projects with a slight multiplier effect (Rosenberg & Saavalainen, 1998). Based on the discussion on the most of the literatures, it can be figured out that Azerbaijan has been vulnerable to corruption and non-transparency as a result of overreliance on oil and gas resources, which negatively affected many aspects of the non-oil industries and their production capabilities.

2.2) Dutch Disease

The analysis of resource-based transition economies is very appealing, given that a few things are taken into account from a literature standpoint. Firstly, the measurement of the economic growth can be deceptive and may not accurately represent the extent of economic advances (Hasanov and Huseynov, 2013). For example, many studies show that the resource based economies face a credit boom when the global commodity prices goes up regardless of their level of financial growth, which follows by more likely not to face the real exchange rate appreciation and rising rents in non-tradable sectors, resulting in ruining non-resource tradable sectors and leading to well-known “Dutch Disease Syndrome” (Ibid).

“The Dutch Disease” was first explained in The Economist journal back in 1977, where the author was explaining the effects of discovery natural gas resources in the North Sea and its implication on Dutch economy (Barder, 2006). As a result of the discovery natural gas resources, the manufacturing sector of Netherlands started to decline and a gas export boom took place (Gylfason, 2001). The Dutch Disease gives a point of the systematic shift from the traditional sector, such as agriculture and manufacturing, to the thriving sector, oil and gas in this case that occur in the aftermath of a favorable shock (e.g. increase in the commodity prices in the economy) (Brahmbhatt et al. 2010). The significant earning from the resource exports start to appreciate the local currency, which result in negative impact on the compatibility of traditional sectors (Taguchi, 2016). Following that the cost of production in those sectors start to increase, after which in the competitive markets they start to lose their market share, decrease the production and ultimately stop operations (Pereira, 2013).

Although "Dutch Disease" as a term has been first used not long ago, in the historical literature we can come across similar issues such as how government favored industries can damage other industries in the economy, as mentioned on "Wealth of Nations" (1776) by Adam Smith:

"But the great encouragement, which a bounty of thirty shillings the ton gives to the buss fishery, is necessarily a discouragement to the boat fishery; which, having no such bounty, cannot bring its cured fish to market upon the same terms as the buss fishery. The boat-fishery, accordingly, which before the establishment of the buss bounty, was very considerable, and is said to have employed a number of seamen, not inferior to what the buss fishery employs at present, is now gone almost entirely to decay. ... the herring buss bounty serves no ... good purpose. It has ruined the boat fishery, which is, by far, the best adapted for the supply of the home market.

When the undertakers of fisheries, after such liberal bounties have been bestowed upon them, continue to sell their commodity at the same, or even at a higher price than they were accustomed to do before, it might be expected that their profits should be very great; and it is not improbable that those of some individuals may have been so. In general, however, I have every reason to believe, they have been quite otherwise. The usual effect of such bounties is to encourage rash undertakers to adventure in a business, which they do not understand, and what they lose by their own negligence and ignorance, more than compensates all that they can gain by the utmost liberality of government".

The economic literature is divided on whether Azerbaijan got infected by the Dutch Disease (Flegel, 2016). According to Suleimanov (2010), Azerbaijan has successfully bypassed the problems that could be resulted by large oil revenues, specifically analyzing the issue from the point of view of "Dutch Disease". On the other hand, while historical experience of oil rich countries show that they suffered from huge debt accumulation and spendings fuelled by oil revenues, it has not been the case in Azerbaijan (Malik, 2010). However, international organizations as UNDP (Hopkins, 2007) and World Bank (2009) urged Azerbaijani government to take necessary steps to overcome the symptoms of Dutch Disease. Ibadoghlu (2008) further argued that non-diversified economy is going to be a major concern for the economy of Azerbaijan. Examining the economy of Azerbaijan between 2001 - 2007 in terms of Dutch Disease, Hasanov (2013) highlighted that non-tradable sector was developing faster than non-oil tradable sector, whilst non-oil tradable sector never experienced a negative boom, which can be concluded that the sector has suffered from "relative de-industrialization". Moreover, Hasanov (2013) also discovered the similar pattern in government expenditures of Azerbaijan as a symptom of Dutch Disease, where there have been large spendings on non-tradable sector, while in non-oil tradable and oil tradable sectors employment decreased. Some other authors as Gurbanov (2013) and Gasimov (2014) oppositely argue that Azerbaijan has never faced the Dutch Disease and in fact manufacturing sector has flourished compared to the level of industry back in 1990s, when the country just gained the independence. All in all, from the reviewed literature we can make sure that the growth in non-tradable sector of the Azerbaijani economy is a strong indicator of Dutch Disease, however, its effects on non-oil tradable sector such as manufacturing is the topic for further debates.

2.3) The logic behind economic diversification

While for the most of the resource-rich economies "sowing the oil" was an original goal, only few states have been able to stop diverting factors of production away from non-resource sectors helping to diversify their economies (Gelb, 2009). According to further studies, there are clear links between economic diversification and long-term development (Shediac et al., 2008). The authors assessing the efficacy of economic diversification examine the spread of country's GDP across different economic sectors via calculation of "concentration ratio" and a "diversification quotient" in the process (Ibid). The results show that lower economic diversification and higher diversification quotient are indicators of a more diverse economy and there is a positive relationship between weak economic diversification and low levels of productivity and competitiveness (Ibid). The authors to support their ideas give more arguments such as reliance of single commodity market and its impacts on labor and capital competitiveness (Ibid). While assessing economic diversification it is crucial to pay attention to horizontal and vertical diversification strategies (UN ECLAC, 2017). If in horizontal strategies the economy focuses on diversifying the export of primary goods, in vertical strategies the economy should focus on the creation of new utilization methods for existing and future innovative goods through the value-added options such as processing (Ibid). Economic growth, thus GDP is increased by the expansion of the variety of goods and services, as the broad empirical study demonstrates the connection between higher level of GDP and more diverse economies (UN ESCAP, 2014). Another factor that is heavily affected by the degree of diversification is the rate of medium and long-term competition in the global market, which indicates that the countries with more diverse production and export capabilities have more opportunity to deliver less common goods that creates more demand in global market, followed by more sales and benefits (Ibid). Effective investments in non-oil rooted tradable sectors of economies have been a common feature of the sustainable economic growth paths of countries such as Chile, Malaysia, and Indonesia – which were previously over-reliant on single commodity exports (Gelb, 2009).

In the case of Azerbaijan, lack of success in diversifying a limited focused economy, less steps to ensure sustainable development and improvement of competition in non-resource industries may cause huge problems for the country once oil and gas resources ran out (Frank et al., 2010). The authors also add that current oil-dependent economy has resulted in systematic corruption, delays in regulatory financial reforms, low level of non oil tradable market which further necessitates the urgent economic diversification (Ibid). Indeed, it is projected that Azerbaijan will face a dramatic fall in hydrocarbon production level after 2024 (Gurbanov et al., 2024). According to the World Bank study (2014) investment inflows to extractive sectors are usually capital intensive, which also do not generate many jobs and have a low effect on overall industry development. The same study is supported by Jamilov and Oskooee (2014), alarm Azerbaijan about the possible long term dangerous consequences resulted by long run negative slope in non-oil trade balance and indicate that oil sector only accounts for 2% of total jobs in the country while massive amount of investments are accounted for this industry.

As discussed, soon with the decline in oil production Azerbaijan is in the risk of facing dangerous consequences of resource dependence. Fluctuating oil prices has already caused recession in the economy during 2015, which was clear signal to the government to stop relying heavily on single revenue source and start to improve a variety of export and non-export focused sectors of the economy. For this reason, there is also a necessity to create or improve existing infrastructure to stimulate non-resource capital flow to the budget.

2.4) Tourism in Azerbaijan

Azerbaijan has a strong potential for the development of tourism sector: rich natural resources, moderate climate, historical templates and sites, good geographical position, hospitable society, tasty and rich cuisine are some of the factors that are making the country very favorable touristic destination. However, this sector has not been the priority for development for many years and had lack of attention from the government given the high inflow of hydrocarbon revenues to the country. Despite of this, since the end of 1990s there have been adopted a number of regulatory and legislative acts for the development of tourism, including “The Law of the Republic of Azerbaijan On Tourism" (1999), "Tourism Development in the Republic of Azerbaijan in 2002-2005" (2002), State Programs on the Development of Tourism in the Republic of Azerbaijan in 2010-2014, "Azerbaijan 2020: Look into the Future" Development Concept (2012), The Strategic Roadmap for the Development of Specialized Tourism (2016) (Hajiyeva and Teymurova, 2019). As a result, the number of visitors by 2017 increased 3.5 times compared to 2005. The number of outgoing tourists also increased by 3.8 times in 2017 compared to 2005, meaning the sustainable growth in this sector has been attained (Ibid). Further making analysis on the role of the human capital in this sphere, the author came to the conclusion that there is a strong correlation between tourism graduates from higher education, income per capita, life expectancy and human resources employed in this sector (Ibid).

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total number of hotels and similar establishments, unit	285	320	370	452	499	508	514	530	535	536	548	563	596
Capacity, bed	24 706	25 483	28 286	30 571	30 793	31 979	32 834	33 951	35 652	37 278	40 042	41 611	46 693
Number of rooms, unit	11 403	11 829	12 789	13 964	14 158	14 815	15 898	16 559	17 363	17 953	19 919	20 778	22 192

Table 1: *Main indicators of hotel and similar establishments, per unit and bed; Source: AzStat, 2019*

Table 1 shows that there has been an increase in the number of hotels, hotel rooms and beds in Baku from 2006 and 2018, worth to mention that the indicators have almost doubled in 10 years (Hashimli, 2019). However, the author argues that with the current tendency of growth in visiting tourists, in near future there might not be enough places to accommodate the tourists (Ibid). For this reason, keeping in mind this sector is one of the priorities of development spheres, tourism industry demands more advanced tourism infrastructure. The author also brings up other weaknesses that should be addressed in order to sustain continuous growth in tourism: 1) tourism structures are mainly concentrated in Baku, that may cause overcrowding and dissatisfaction by locals; 2) lack of direct flights from different international regions to Azerbaijan and high ticket prices that limits budget tourism; 3) lack of differentiation in structured classification of hotels and artificial inflation of prices in warm seasons; 4) visa requirement for many countries (Ibid).

In order to address some problems, Azerbaijan has established Tourism Board, which can be marked as a new stage of development in tourism sector, aiming to promote and brand marketing of Azerbaijan under the campaign "Take Another Look" to double incoming tourist flow by 2023 (Hashimli, 2019).

According to World Travel & Tourism Council report of 2017 Azerbaijan has showed the highest growth globally in tourist spending (Clayton, 2018). Although highest flow of tourists was experienced from neighboring countries as Russia, Turkey, Iran and Georgia, the highest increase in tourist flow was experienced from Middle East, thanks to softening visa requirements and promotion of "halal tourism" (Ibid). According to government figures, from 2015 to 2017 Emirati visitors grew from roughly 2,000 to 102,000; Iraqis from 2,000 to 65,000; Saudis from 700 to 33,000 (Ibid). However, there have been adverse impacts of tourist flow, as local population started to oppose the presence of visitors if it had negative impact on nature and some cultural differences. In fact, while main part of population favored the incoming tourists from Europe, Turkey and Russia, the Arabs had the lowest approval rate with 91.5 percent against (Jafarov, 2019). This is due to many reasons including rising property prices resulted from lack of transparency in sales of lands and houses to Arabs, decreasing inclusiveness in Baku, rising level of prostitution and the encroachment of religious sectarianism threatening religious balance in the country (Ibid). However, not all agree with that, arguing that while there might be bad occurrences, but still overall there are more good tourists than bad, and more Arab tourists mean more foreign capital inflow to the country, as some of them are wealthy businessmen looking for investment opportunities (Clayton, 2018).

Baku Research Institute (2020) on the other hand, argues that the tourism sector has very limited prospects in Azerbaijan due to lack of infrastructure and comparative advantage compared to neighboring Georgia and Armenia. In fact, government has invested a lot on luxury tourism rather than budget tourism (Ibid). The higher value of local currency AZN is also another influencing factor, which makes the neighbors in more favorable position in terms of touristic destination (Ibid). Nevertheless, tourism could be used to decrease unemployment level and help to diversify income sources in rural areas of Azerbaijan (Ibid).

2.5) Agriculture in Azerbaijan

The second biggest sector of the economy in Azerbaijan after oil industry is agriculture, which is also considered traditional area of occupation once majority rural populated country. Therefore, the sustainable and balanced development of this sector is the main basis for improving the welfare of population (Aliyev, 2018). After the oil boom, the agricultural

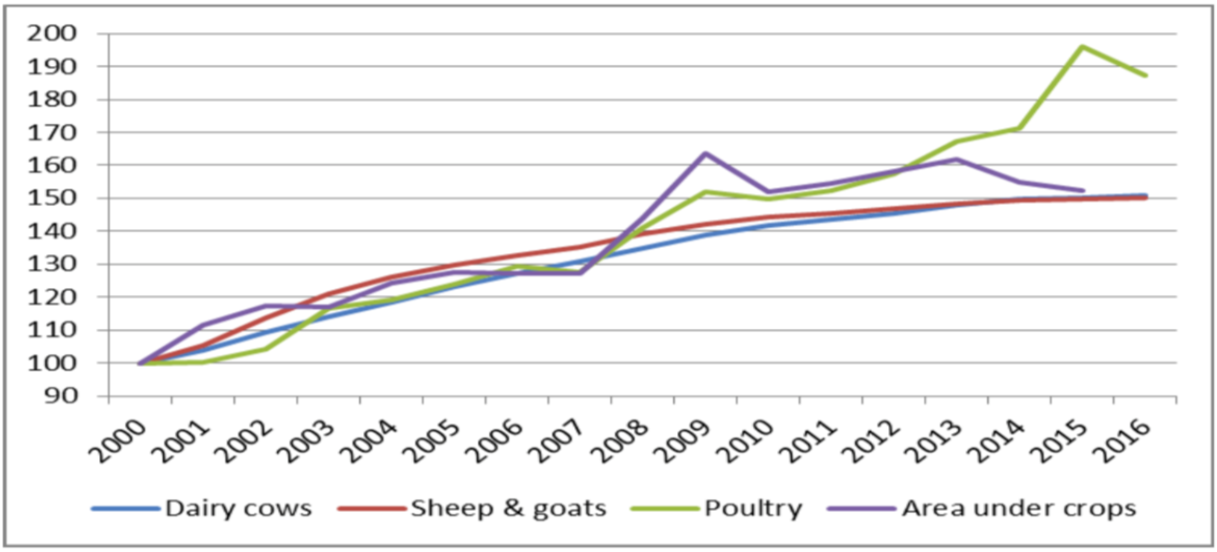

Figure 1: *Development in number of livestock and area under crops; Source: AzStat, 2019*

areas that were subject to overwhelmingly to farming and animal husbandry also become the target for development, thanks to incoming investments from oil revenues (Ibid). As a result, back in 1970-80s agriculture in Azerbaijan achieved a new milestone, when it contributed to 45 percent of GDP and 40 percent of overall employment rate (Ibid).

After regaining independence in 1990s, as all other sectors of economy, agriculture also faced sharp declining. It resulted the country to turn into net-importer of agricultural and food products (Van Berkum, 2018). Declining oil revenues aspired the government to improve business and regulative environment for agriculture aiming to produce competitive products, as well as strengthen food security of the country (Ibid). As shown in table 2, there has been major growth in the areas under crop, as well as main types of the livestock since 2000 (Ibid). More precisely, crop areas increased over 50 percent, similarly as the number of sheep, goats and dairy cows, whilst poultry increase by 90 percent (Ibid). The author also notes that the rising number of population is another indicator of economic potential demand for food, which can also raise domestic food market potential. Despite rising level of production and demand, there is a real challenge of compliance of the food quality and safety with international standards, which government with the help of FAO established a Food Safety Agency, aiming to get international certificated on quality and other standards for local production (Ibid).

There is also an interesting discussion on another aspect of agricultural development in Azerbaijan, which is catching up with the best agro-practices and innovation for commercialization and modernization. In fact, government tries to keep the farmers busy with ineffective subsidies based on land usage in order to keep socio-political stability and prevent any actions that may ruin small farms and trigger higher unemployment rate in the wake of modernization steps (Sadigov, 2018). This type of subsidies also does not require capital-intensive work and encourage extensive farming rather than intensive (Ibid). As a result it also cause farmers to use old methods of farming and encourage them to cultivate as much land as possible to get relevant government subsidies (Ibid). Taking into consideration small and medium farmers comprise about 30-40 percent of the whole labor force in Azerbaijan, in near future it is unlikely that aggressive steps will be taken for innovation purposes (Ibid). Despite of this, some medium farms in addition to big ones are acting based on market principles by adapting to new innovations to get higher commercial success (Ibid).

Sustainability of agricultural sector is another topic of discussion in agriculture, where the authors bring up three aspects of sustainability that were claimed by many researchers: 1) economic; 2) social; and 3) environmental aspects (Gulaliyev et al, 2019). Assessing the level of sustainability in these three aspects, the authors used the quantitative methodology developed by OECD on a scale between 0 and 1, 1 or higher being fully sustainable (Ibid). Thus, from social aspect Azerbaijan showed to have high sustainability level with the indicator equaling to 0.86568 (Ibid). For environmental aspect of sustainability the indicator equals to 0.59272, which is medium (Ibid). However, sustainability from economic aspect had the lowest result with 0.00154 (Ibid). Overall level of sustainability considering these three aspects is 0.48665, which authors' claim is not a satisfactory result, and in future may cause certain inequalities between rural and urban areas of the country (Ibid).

Baku Research Institute (2020) doing a research on possible diversification routes for the economy claims that agricultural sector should be a priority for development. They come to this conclusion by basic comparative advantage reasoning, meaning taking into consideration several factors agriculture is the easiest and less costly sphere to develop and gain from (Ibid). Firstly, there is a lot of land suitable for agriculture, there is water and climate is also very favorable (Ibid). Secondly, Azerbaijan does not have highly developed educational infrastructure, especially in applied fields like engineering, ICT, chemistry and etc. (Ibid). Moreover, considering opportunity cost of developing other spheres is very high, and there is a outflow of human capital from the country looking for better opportunities, in short term agriculture seems to be the best option for government to go for in order to sustain the economy in the absence of oil revenues (Ibid).

2.6) Logistics and Transport in Azerbaijan

Having the geographical advantage of Azerbaijan being located at the crossroads of Europe and Asia connecting significant land, water and air transit corridors, can play an important role in its sustainable development, if properly used (Ziyadov, 2012). In fact, Azerbaijan is the only country in Eurasia connecting Europe to Asia bypassing Iran and Russia, and such geopolitical importance boosted the level of investment project by the European Union and China to increase trade volumes and mobility for transit purposes.

Azerbaijan is eager to receive transit trade and import-export operations thanks to its favorable position in North-South and East-West corridor (Yusifov et al, 2019). In order to meet the requirements of preferred transit corridor, a number infrastructure projects, including new port and railways installations have already been completed (Ibid). Furthermore, government tries to take a number of initiatives to increase the volume of trade and transit goods through the created of intermodal and multimodal logistics conditions, as well as increase private sector participation in further development projects (Ibid).

Having a vital location for Europe-Caucasus-Asia (TRACECA) Transport Corridor, it is not surprising that Baku hosts the Permanent Secretariat of TRACECA, the program that was launched in 1993 (Sze, 2009). Being signed by 12 nations in a multilateral agreement, known as Baku Declaration, the project encourages the development of transport corridor from Central Asia to Europe passing through Caucasus, as well as economic integration, rehabilitation and improving new transport infrastructure fostering stability and trust between countries (Ibid). The project was specifically drafted to be a branch of Silk Way Road and linking Europe to Central Asia bypassing Russia's Trans-Siberian line (Ibid). Furthermore, Azerbaijan is the key route of several parts of TRACECA Corridor, including CAREC Corridor 2 linking Baku, Azerbaijan to Batumi, Georgia, as well as CAREC Corridor 2-a and CAREC Corridor 2-b (Mediterranean-East Asia) (See Figure 1) (Ibid).

Figure 2: *Map of TRACECA Routes through Caucasus; Source: Sze, 2009*

Besides TRACECA, there are also some other international transit corridors giving more chances for utilization the favorable location to obtain sustainable and diversified development of Azerbaijan. One of them is South-West corridor routing India – Persian Gulf – Iran – Azerbaijan – Georgia – Ukraine – Europe (Yusifov et al, 2019). The main aim of the corridor is to connect India to Europe and back, which reduces the duration of cargo transportation to 7 days from alternative available route with 35-37 days of delivery time (Ibid). Another one is North-South Corridor, connecting Baltic Sea to India, connecting

Scandinavian countries to India and vice versa (Ibid). While the shipment of cargo through maritime route transiting via Indian Ocean, Suez Canal, finally from Mediterranean to Baltic and Helsinki takes 45-60 days, with North-South Corridor it only lasts for 20-25 days (Ibid).

While talking about significant position of the country in major transit routes, it should be noted that in order to meet the growing demand and creating favorable infrastructure, the government has heavily invested in railways, highways, port and logistics centers. In terms of infrastructure two major projects: Port of Baku in Alat and Baku-Tbilisi-Kars (BTK) railway should be highlighted as a big milestone to further increase the significance of Azerbaijan in transit routes (raillynews.com, 2020). BTK railway has already become operational since 2017, making Trans-Caspian route of particular importance for transporting Chinese goods to Europe. Additionally, this is the least costly route for China (Ibid).

Port of Baku, on the other hand, located 65 kilometers south of Baku in Alat settlement, is the linking point for both North-South and East-West transit corridor, making it strategically important project that has 3 continuous development phases (See Annex 1) (Port of Baku). The 1st phase was completed in May 2018 with a total state financing worth USD 500 million (Ibid). While in first phase the port's ability of handling cargo is 15 million tons of general cargo with 100,000 TEU (Twenty Feet Unit), after full implementation of the project it is estimated to increase up 25 million tons of general cargo with 1 million TEU (Ibid). Furthermore, Alat Free Trade Zone, where Port of Baku is planned operate within, will be ready for providing operations for future investors by July, 2022, which will further shape the role of Azerbaijan as a regional and international transit route (AFEZ).

According to Baku Research Institute (2020), however, the role of Azerbaijan as a transport corridor is exaggerated, claiming disadvantageous position of the country in transit routes. The authors mention that most of the major part of international trade is conducted by sea routes, and air and land routes have smaller share, which none of these significantly passes through Azerbaijan (Ibid).

3) Immediate Need for Economic Diversification

This section tries to answer the first research question about the need for economic diversification in Azerbaijan. Firstly, the necessity of hydrocarbon resources together with benefits and drawbacks for Azerbaijani economy will be discussed. The discussion will be followed by post-oil crisis situation in the country, with deeper analysis on why dependence on oil resources are not only dangerous in short term, but also long term concluding the necessity of economic diversification for sustainable economic development.

3.1) The Role of Hydrocarbon Resources on Azerbaijani Economy

Azerbaijan, war-torn and weak country back in the beginning of 1990s has been able to transform itself to a developing middle-income country during last two decades thanks to rich hydrocarbon resources and huge investments to this sector by global energy companies. After the famous "Contract of the Century", new Azerbaijan International Operating Company was established, which was headed by British Petroleum (BP) with 35.78 percent of shares). Later on, Azerbaijan started to get increasing amount of revenue from oil agreements, which is starting to get replaced by gas exports. As a result of the "Contract of the Century" the average GDP growth of Azerbaijan was around 14.74 percent between 1997 and 2008, which was peaked in 2005 and 2006 by 26.4 percent and 35.5 percent that was considered as a world record of respective years (World Bank, 2017). During the times of recession the average GDP growth accounted around 6.3 percent that was the years between 2008 and 2012 (World Bank, 2017). The highest GDP recorded in country's history was USD 75.2 billion in 2014, which was 25 times higher than the GDP rate in 1994, the year "Contract of Century" signed. (See Table 1) (World Bank, 2017). Furthermore, the poverty rate decreased from 50 percent in 2000 to 5.3 percent in 2013 thanks to social programs and services conducted by the government with the revenue from

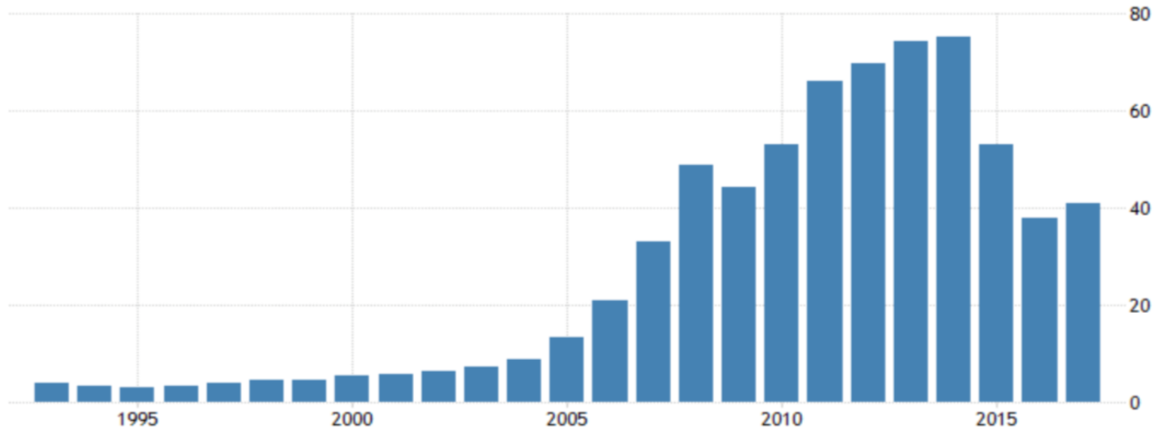

Figure 3: *GDP of Azerbaijan in USD billions 1995-2017; Source: Tradingeconomics.com*

oil exports (World Bank, 2013). Unemployment rate decreased from 11.3 percent to 5.4 percent starting from early 2000s to 2004, and in Human Development Index ranking Azerbaijan increased from 101st place in 1994 to 76th place in 2004 (Berthemet, 2005). State Oil Fund of Azerbaijan Republic (SOFAZ), which is sovereign wealth fund of the country, increased its total assets from USD 271 million in its establishment date 2001 to USD 39 billion in 2018 (Reuters, 2018). On the other hand, SOFAZ has made approximately USD 83 billion contributions to the state budget between 2001 and 2016 (Gurbanov et al, 2017). Additionally, the investment spending by government was increased by 1000 percent between 2003 and 2017 (Bayramov, 2008). It should be noted that in 2014, production sharing agreements, which is regarded as a continuation of the "Contract of Century" was signed between State Oil Company of Azerbaijan Republic (SOCAR) and foreign companies, which was a start a new era of exploitation of Caspian oil resources.

There can be seen clear and strong link between the economic success of Azerbaijan and development in oil sector of the economy: in 2005 Baku-Tbilisi-Ceyhan (BTC) oil pipeline project was finished, which gave a direct access of Azerbaijani oil to global market, and the rise in oil prices in midst 2000s was extra add up to increasing oil revenues. On addition to this, BTC pipeline increased the export capability of Caspian oil up to 1 million barrels per day, which was significant success at that time (European Commission, 2006). The boom in oil exports resulted increase in oil rents in GDP, accounting to as much as 50 percent share of GDP between 2000 and 2013, which also made 90 percent of all export profile of the country. We can see the similar trends in some other oil-exporting countries like Algeria and Venezuela: according to Financial Times (2019) in Algeria hydrocarbon revenues accounted for 95 percent of foreign currency receipt and 40 percent of total budget, while according to the report by OPEC (2018) in Venezuela as the oil export accounted to 98 percent of total exports and as a result of hyperinflation caused by over-reliance people started bartering.

To calculate the level of economic diversification and competitiveness of industrial sector of the country, Industrial Organization theory offers some standard analytical methods, which includes Ogive Index and Herfindahl-Hirschmann Index (HHI), considered as the most important methods used by this theory (UNFCC, 2014). Ogive Index measures how economic activities are distributed across industries, while HHI assesses economic diversity and the level of market concentration (Ibid). In both cases, when the rate is closer to zero, means much better diversity of the country. In the case of Azerbaijan, both indexes demonstrate country's lack of capability to build less centralized and more diverse economy (Bayramov, 2014, Table 4 and 5).

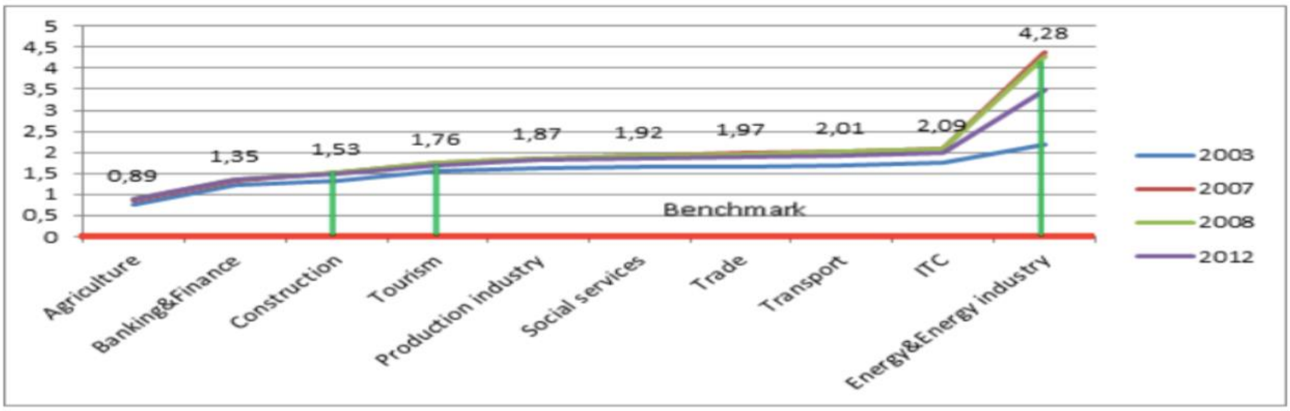

Figure 4: *Azerbaijan's Ogive Index of GDP Diversification, Source: Bayramov, 2014*

Following the increasing oil revenues to the economy, Azerbaijan has faced the appreciation of real exchange rate of its currency. In fact, it has been calculated that 1 percent increase in global oil prices causes 0.7 percent increase in real effective exchange rate of Azerbaijani Manat (AZN) between 2000 and 2007 (Hasanov, 2010). Using ARDL Error Correction Model and the Johansen Co-Integration approach, it has also been estimated that 1 percent increase in the local currency leads to 0.61 percent decrease in long run and 3.24 percent in short run in non-resource tradable industry output, which means currency appreciation was heavily damaging non-oil sector (Hasanov and Huseynov, 2013). Following the post oil crisis in 2015, the debates on benefits and drawbacks, overall concentration on single revenue source of Azerbaijani economy have been intensified.

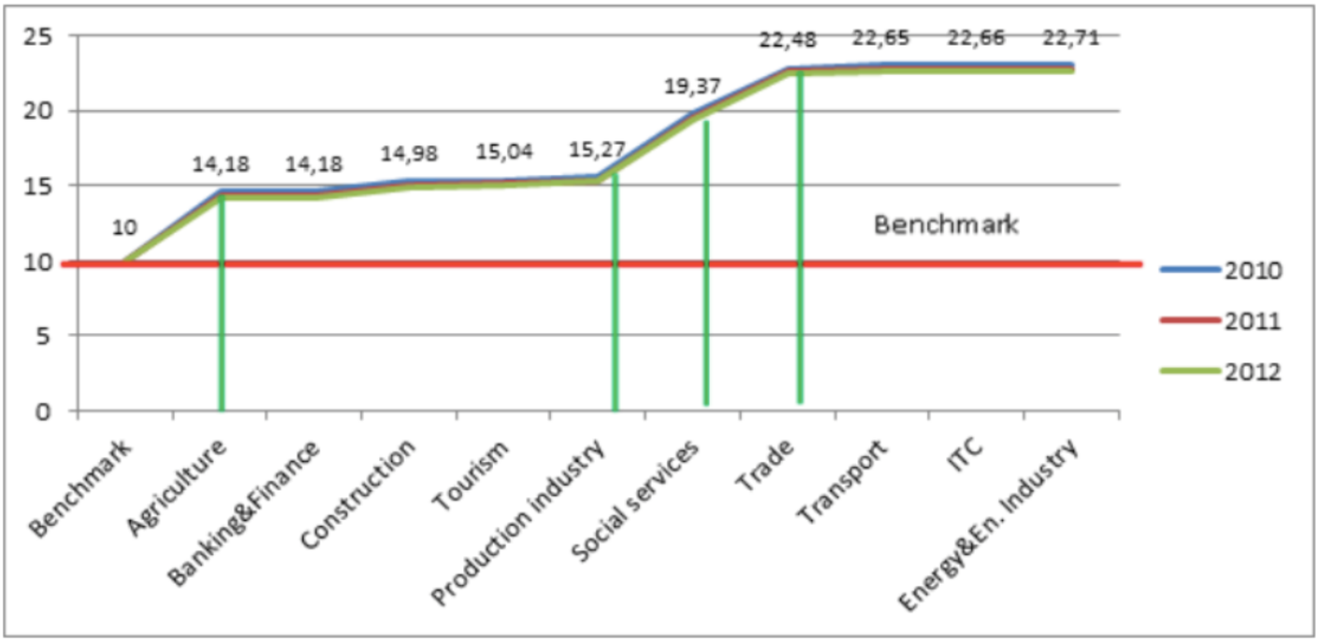

Figure 5: *Azerbaijan's HHI Index of Sectorial Employment, Source: Bayramov, 2014*

3.2) The shortcomings after 2015 oil price shock

Starting from the third quarter of 2014 global oil prices started to decrease sharply, when Brent oil price became as low as USD 29 in 2016, averaging USD 50 since the beginning of 2015, while it averaged around USD 110 from 2011 to 2014 (See Table 6) (Bank of Canada, 2017). According to the same source, during 2001 and 2013 years consumption and production level grew closer, averaging 1.4 percent annual growth rate. However, starting from late 2014 up until 2017, being the longest such term ever recorded, supply started to even grow faster with an average 2.7 percent, while the growth in consumption remained same as before long term trend (Ibid). Only after the second quarter of 2017, the demand level began to drop to the same level of production.

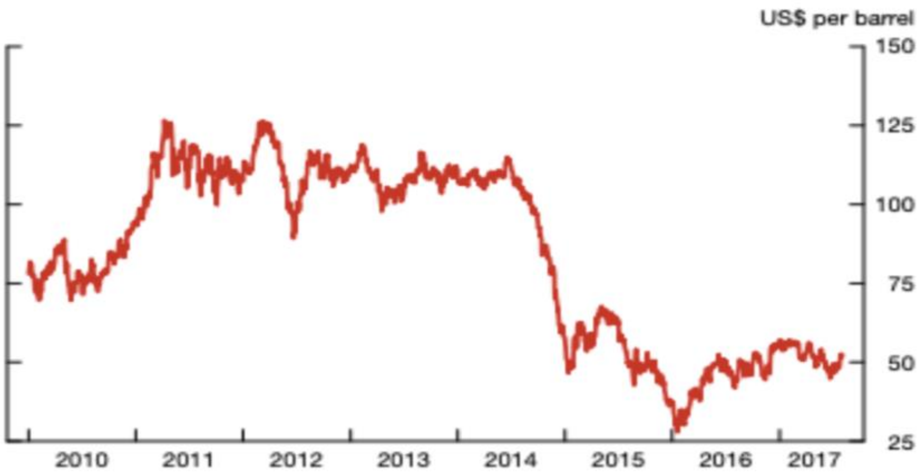

Figure 6: *Brent Crude Oil Prices Data 2010-2017; Source: Intercontinental Exchange*

Taking into consideration the significance of oil production and export to Azerbaijan, the economy was shocked heavily by the significant drop in the prices, when the country's balance of payments also declined affecting current account balance negatively. For this reason, Central Bank was forced to devalue the national currency AZN twice in 2015 before maintaining floating but controlled exchange rate. While before oil crisis the exchange rate

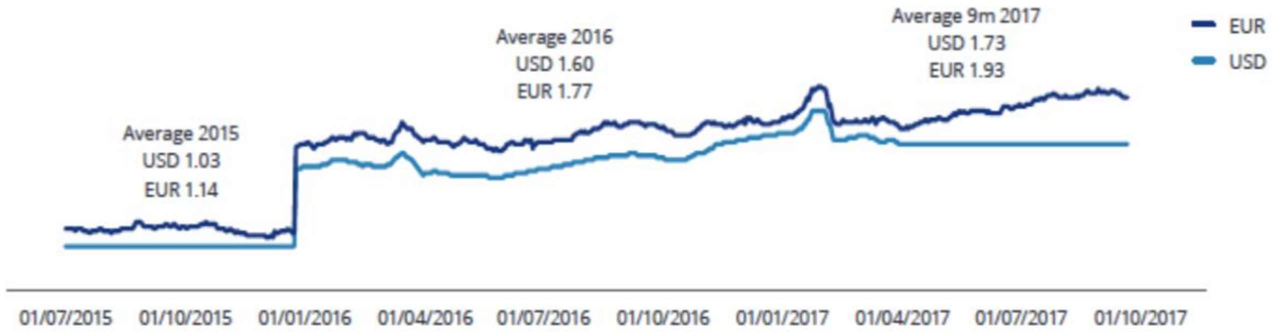

Figure 7: *AZN vs USD/EURO Exchange Rate Ratio, 2015-2017; Source: CBA*

of AZN to the USD for 0.78 AZN, in the beginning of 2015 it firstly devalued to 1.05 AZN, followed by second devaluation at the end of 2015 with 1.55 AZN per USD (See Table 7) (Zotin et al., 2018). Central Bank of Azerbaijan (CBA) later on had to switch free floating regime from the fixed one (Ibid). Affected by the sharp decline in oil prices, the country also had to decrease its oil production level from 1 million barrels per day in early 2010s to 800,000 barrels per day by 2015 (Ibid). Moreover, annual GDP growth fell by 1.1 percent in 2015, further seeing record low of -3.9 percent in the third quarter of 2016 (see Table 8) (Tradingeconomics.com, 2019).

It should not be surprising that two big devaluations of AZN caused major increase in inflation rate of the country, which was importing many goods and services from abroad. As a result, while country faced 1.51 percent and 4.13 percent inflation rate in 2014 and 2015, this number increased to 12.56 percent in 2016 and 13 percent in 2017, showing exchange rate effect (Statista.com, 2019). While the intended purpose of devaluation was to increase the export capabilities and competitiveness of the market, it showed backlash with the quick dollarization when the massive crowd, as well as companies started to buy dollars followed by deterioration of balance sheets of the banks. The main and largest state bank of the country, International Bank of Azerbaijan (IBA) had to be restructured when it was required to issue USD 1 billion worth of 7 year Eurobond, on addition to issuing 7

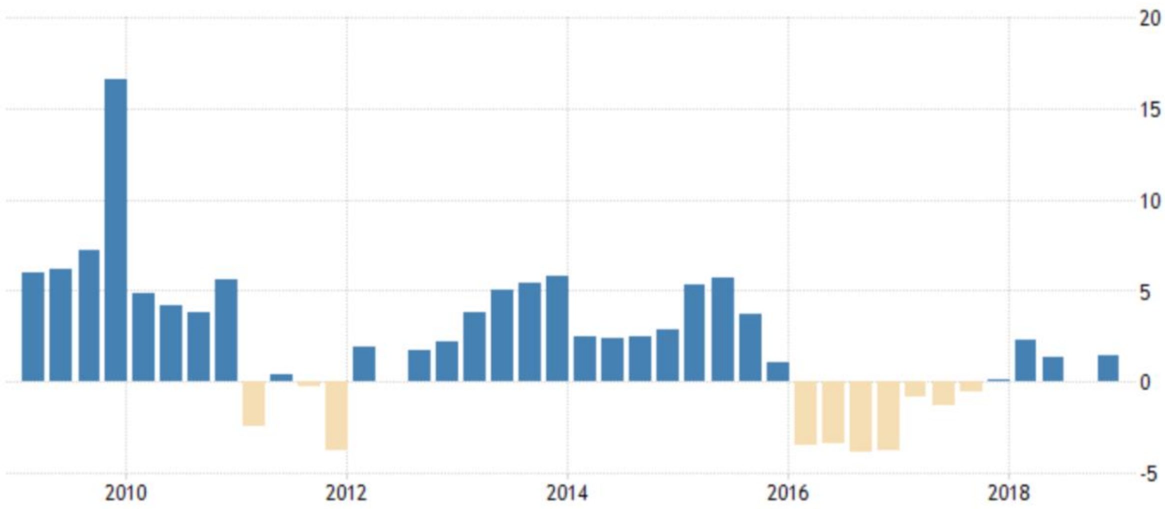

Figure 8: *GDP Growth Rate of Azerbaijan 2010-2018; Source: Tradingeconomics.com*

Eurobond with total worth of USD 2.27 billion by Ministry of Finance (Deloitte, 2017). Furthermore, only in 2015 State Oil Fund transferred USD 3.5 billion to the Central Bank In order to help combatting dwindling foreign reserves and bolstering national currency (Euroasianet, 2016).

All above-mentioned turbulences caused by strong dependency hydrocarbon resources of the economy, makes it unavoidable task for Azerbaijan to diversify its economy. Although the government has implemented a number of steps, including macro-prudential limits in foreign currency lending, increasing foreign currency reserves, stimulating non-cash payment systems, the establishment of Financial Markets Supervisory Authority to supervise banking and insurance sector (IMF, 2016), it could only serve the short-term solution of the recession, overlooking the main problem. Further steps were also made in bringing new appointments to key government posts and ministries dealing with tax reforms, agriculture, education, energy etc. (World Bank, 2019). Starting from the late 2017, oil prices started to get stabilize aiding the recovery of fragile economic situation in the economy, however, based on the fact we can say that our first hypothesis is proven correct, as the economy is still heavily depended on the oil revenues and diversification of the economy is inescapable for not facing such confrontation again.

4) Evaluation of development in Tourism, Agriculture and Logistics/Transport sectors based on target indicators in Strategic Road Maps.

This section presents comparative statistical analysis of tourism, agriculture and logistics/transport sector of the economy year-by-year basis based on the data provided by State Statistical Committee of Azerbaijan. For each sector of economy the target indicators of Strategic Roadmap will be presented, and taking into consideration the availability of the data the progress of 2015 – 2019 years will be discussed. At the end of the chapter, the results and limitations to analysis will be discussed.

4.1) Strategic Roadmaps for the National Economy

Strategic Road Map has been approved by the decree of President of Azerbaijan Republic on 6th of December 2016, aiming to ensure economic competitiveness, inclusion and improved social welfare to sustain stable economic growth. It covers 11 sectors of the economy and consists of 12 documents. The main idea for the development of all sectors is to maintain free competitive environment, market access, sustainable investment flows and human capital development (Musayev, 2017). Additionally each road maps cover three main target periods: short term vision for 2015 – 2020; long term vision for 2025; and aspirational vision for post 2025.

In each document of Strategic Road Maps for different sectors of economy, there are two main target indicators where the year of 2015 has been taken as a benchmark:

- to increase the contribution of mentioned economic sectors to the GDP in real terms;
- to increase employment.

In order to achieve these target indicators, there are also included intermediate targets, which differ by sectors of economy. Taking into consideration the level of the current development of Azerbaijan and competitiveness of its products in global markets, tourism, agriculture, and logistics/transport are the most potential sectors with higher competitive advantage in comparison with other sectors for diversification of economy, where Azerbaijan can get maximum revenue with minimum costs (Baku Research Institute, 2020).

4.2) Tourism

The vision for 2020 in Tourism sector in Strategic Road Map has been indicated as follows:

> *Azerbaijan's strategic vision for 2020 is to develop Baku into a major touristic destination, realize tourism potential for the entire country, establish favorable environment and infrastructure for the development of tourism industry, as well as increasing level of satisfaction among tourists.*

Moreover, the long term vision for 2025 aims to achieve key goals in terms of branding and marketing campaigns, airline and ground linkage, infrastructure, touristic attractions, tourism education and ease of doing business, keeping in mind the targets of 2020 to be achieved. The aspirational vision for post 2025, being even more ambitious, aims to make Azerbaijan be among top 20 touristic destinations.

The target indicators for short-term vision 2020 are as follows:

- Increase in contribution to GDP by AZN 465 million;
- Add total of 36,600 jobs (25,000 of which direct jobs).

Below are some intermediate targets for achieving target indicators:

- Increase the number overnights spent by foreign tourists in hotels and hotel like facilities of Baku from estimated 0.8 million in 2015 to a minimum of 3.65 million in 2020;

- Increase average stay per tourist from 2 to 3 days;
- Increase the number of foreign tourists accommodated in hotels and hotel like facilities of Baku from estimated 0.5 million in 2015 to 0.9 million in 2020.

On Table 9, the share of tourism in GDP has been presented covering years of 2015 – 2019. As it can be observed, the share of tourism in GDP from the point of percentage remained almost same with 4.5 percent. However, from factual point of view the contribution to the GDP has been increased. The tricky part of the issue is the consideration of devaluation of local currency AZN in 2015. Therefore, if we consider the increase in terms of AZN, the number increased from AZN 2,488 million in 2015 to AZN 3,675 million in 2019. On the other hand, from USD point of view, we can see vice versa: decrease from USD 2,388 million in 2015 to USD 2,162 million in 2019. For this reason in order to avoid complication caused by changes in currency exchange rates, we can also make comparison between the years 2016 and 2019, as the exchange rate during these

Share of Tourism in GDP (2015 - 2019)					
	2015	*2016*	*2017*	*2018*	*2019*
Total GDP in bln USD	53,070	37,870	40,870	47,110	48,050
Total GDP in bln AZN	54,380	60,430	70,340	80,090	81,680
Share of Tourism in %	4,50	4,50	4,50	4,30	4,50
Share of Tourism in mln USD	2,388	1,700	1,840	2,025	2,162
Share of Tourism in mln AZN	2,488	2,719	3,165	3,443	3,675
Number of employees in Tourism industry (2015 - 2019)					
	2015	*2016*	*2017*	*2018*	*2019*
Employees	49,449	43,477	46,837	53,222	58,972

Table 2: *Statistics of target indicators for Tourism; Source: AzStat, 2020 and Tradingeconomics.com.*

years has been stable, which was 1.7 AZN for 1 USD on average. On this case, we can see increase from USD 1,700 million in 2015 to USD 2,162 million in 2019, which is USD 462 million growth. On the same table, it can also be observed that the number of employees in tourism industry has increased from approximately 49,500 to 59,000, which is about 10,000 additional jobs.

Table 10, on the other hand, shows the indicators of intermediate targets aimed for achieving main target indicators. Talking about the number of overnights spent in hotel and hotel like facilities, we can see increase in overall country numbers and Baku specific numbers: increase from approximately 959,000 in 2015 to 2,241,000 in 2019 and increase from 825,500 in 2015 to 1,726,000 in 2019, respectively. It is an interesting observation that the percent of overnights spent in Baku relative to overall number of overnights has not been changed drastically over the years, averaging 77 percent.

Number of overnights in hotels/hotel like facilities by foreigners (2015 - 2019)					
	2015	*2016*	*2017*	*2018*	*2019*
Number of Overnights (overall)	958,939	1,406,264	1,704,454	2,050,010	2,240,873
Number of Overnights (Baku)	825,509	1,039,479	1,357,566	1,521,893	1,725,564
Number of average nights per tourist on country level (2015 - 2019)					
	2015	*2016*	*2017*	*2018*	*2019*
Number of overnights (total)	1,664,056	2,125,266	2,590,641	3,002,959	3,345,285
Number of tourists accommodated in hotel/hotel like facilities (total)	838,145	1,122,068	1,414,708	1,749,475	1,919,765
Average number of nights per tourist (total)	1.99	1.89	1.83	1.72	1.74
Number of overnights (foreigners)	959,939	1,406,264	1,704,454	2,050,010	2,240,873
Number of tourists accommodated in hotel/hotel like facilities (foreigners)	495,648	776,784	981,232	1,234,392	1,316,739
Average number of nights per foreign tourist	1.94	1.81	1.74	1.66	1.70
Number of accommodated tourists in hotel/hotel like facilities of Baku (2015 - 2019)					
	2015	*2016*	*2017*	*2018*	*2019*
Number of accommodated tourists	422,564	582,592	776,379	955,105	1,045, 435

Table 3: *Statistics of intermediate indicators for Tourism; Source: AzStat, 2020*

Regarding the number of average days spent by tourists, it is a bit unclear whether by tourists it is meant all tourists, or foreign tourists only. Additionally, as there is no statistics about number of days spent in Azerbaijan, there is a need to use the number of overnights, which can also be a good indication on how many days on average have been spent in the country. Therefore, on the same table two analysis: analysis for total number of tourists and separately analysis for foreign tourists have been presented, where average number of overnights have been calculated per tourist by dividing number of overnights to number of accommodated tourists. The calculation shows that the average number of overnights spent by tourists in total have decreased 1.99 in 2015 to 1.74 in 2019, whilst number of both overnights and accommodated tourists has increased. The same applies to foreign tourists as well: while the number of average overnights spent has decreased from 1.94 in 2015 to 1.70 in 2019, the overall number of overnights and the number of tourists have increased. Additionally, the number of accommodated foreign tourists in hotel and hotel like facilities of Baku has increased from approximately 423,000 in 2015 to approximately 1,045,000 in 2019, which is nearly 150 percent increase.

4.3) Agriculture

The strategic vision for 2020 in Agricultural sector in Strategic Road Map has been stated as follows:

> *Strategic targets have been set as vision for agricultural production and processing by 2020 to create enabling environment for the competitive agriculture and agro-processing sector, which improves food security and contributes to solution of social problems in rural areas, and economic diversification.*

Furthermore, strategic long-term vision for 2025 aims to create competitive agricultural business environment through transitioning from long term traditional farming to market oriented, competitive and value added intensive farming. Aspirational vision for post 2025 period on the other hand, put forward environmentally friendly and technologically advanced agricultural sector that is highly industrialized and efficiently integrated to global value chain system.

The target indicators for 2020 in agricultural sectors are:

- To increase in contribution to GDP by AZN 1,235 million;
- To add 20,000 formal jobs to the sector.

Below are some intermediate indicators that will be discussed in this chapter:

- To increase meat and milk production by 30 percent and 20 percent respectively;
- To increase cotton production by at least 4 times;
- To increase cocoon production by at least 1000 times;
- To increase total size of crop fields by 5 percent.

In table 11, we can see the share of agriculture in GDP, both in factual and percentage terms. Unlike in tourism sector, we can see that the share of GDP in percentage terms has decreased from 6.2 percent in 2015 to 5.7 percent in 2019. In fact, from 2016 to 2019 the share of agriculture in GDP seems to be more or less the same, averaging 5.6 percent, not considering slight decrease in 2018 with 5.2 percent. However, we can see increase in factual terms from AZN 3,360 million in 2015 to AZN 4,660 million in 2019. Considering the problem with exchange rate as a result of devaluation in 2015, in USD term there has been decrease from USD 3,290 million in 2015 to USD 2,740 million in 2019. However, taking into consideration stable exchange rate starting from 2016, we can observe USD

620 million, or in AZN term AZN 1,054 million growth, keeping in mind 1 USD = 1,70 AZN exchange rate.

Share of Agriculture in GDP (2015 - 2019)					
	2015	*2016*	*2017*	*2018*	*2019*
Total GDP in bln USD	53,070	37,870	40,870	47,110	48,050
Total GDP in bln AZN	54,380	60,430	70,340	80,090	81,680
Share of Agriculture in %	6,20	5,60	5,60	5,20	5,70
Share of Agriculture in mln USD	3,290	2,120	2,290	2,450	2,740
Share of Agriculture in mln AZN	3,360	3,370	3,940	4,170	4,660
Average number of Employees (2015 - 2019)					
	2015	*2016*	*2017*	*2018*	*2019*
Agricultural enterprises	15,000	15,000	17,000	18,000	21,000
Private owned farms	7,773	7,127	4,718	4,871	4,717
Total	22,773	22,127	21,718	22,871	25,717

Table 4: *Statistics of target indicators for Agriculture; Source: AzStat, 2020 and Tradingeconomics.com.*

Talking about employment in agricultural sector of the country, there should be indicated some important points. Agriculture in Azerbaijan has the highest share of the employed population (see Table 12), although most of these jobs are informal, or not official. So looking at this statistics, we can see that despite the share of employment in agriculture has decreased in percent, the factual number of employed people in this sector has increased. However, concerning target indicators of Strategic Road Map, the formal employment has to be taken into consideration. If we look at the official statistics on table 9, we can see two types of ownership in agriculture, which are enterprises and private, or family owned farms that are officially registered, and the number of workers for each ownership has been indicated. While total number of employees increased from about 23,000 in 2015 to 26,000 in 2019, which is 3,000 increase.

1.5. Məşğul əhalinin iqtisadi fəaliyyət növləri üzrə bölgüsü
1.5. Distribution of employed population on types of economic activity

İllər *Years*	Cəmi *Total*	o cümlədən *including*					
		sənaye *industry*	kənd təsərrüfatı, meşə təsərrüfatı və balıqçılıq *agriculture, forestry and fishing*	tikinti *construction*	nəqliyyat və anbar təsərrüfatı *transportation and storage*	informasiya və rabitə *information and communication*	digər sahələr *other sectors*
				min nəfər *thsd. person*			
2003	3 972,6	279,7	1 546,1	202,8	170,8	30,3	1 742,9
2013	4 521,2	324,4	1 677,4	325,5	183,8	58,1	1 952,0
2014	4 602,9	324,2	1 691,7	334,1	185,1	59,2	2 008,6
2015	4 671,6	321,4	1 698,4	336,4	197,1	60,3	2 058,0
2016	4 759,9	338,2	1 729,6	343,8	198,4	61,2	2088,7
2017	4 822,1	345,3	1 752,9	347,9	201,0	61,7	2 113,3
2018	4 879,3	359,5	1 770,8	354,5	203,2	62,8	2 128,5
2019	4 938,5	363,7	1 777,7	366,2	205,8	63,2	2 161,9
				faiz *per cent*			
2003	100,0	7,1	38,9	5,1	4,3	0,8	43,8
2013	100,0	7,1	37,1	7,2	4,1	1,3	43,2
2014	100,0	7,0	36,7	7,3	4,0	1,3	43,7
2015	100,0	6,8	36,4	7,2	4,2	1,3	44,1
2016	100,0	7,1	36,3	7,2	4,2	1,3	43,9
2017	100,0	7,2	36,4	7,2	4,2	1,3	43,7
2018	100,0	7,4	36,3	7,3	4,2	1,3	43,5
2019	100,0	7,4	36,0	7,4	4,2	1,3	43,7

Table 5: *Distribution of employed population; Source: AzStat, 2020.*

Table 13 shows the statistics of actions for achieving intermediate targets for agriculture. The progress in all indicators is obvious:

- production level of meat increased from 299 thousand tons in 2015 to 336 thousand tons in 2019 (12% growth);
- production level of milk increased from 1,925 thousand tons in 2015 to 2150 thousand tons in 2019 (12% growth);

Production level of Meat, Milk, Cotton and Cocoon (2015 - 2019)					
	2015	*2016*	*2017*	*2018*	*2019*
Meat (in slaughtered weight, thsd. tons)	299	302	317	326	336
Milk (thsd. tons)	1,925	2,010	2,024	2,080	2,150
Cotton (tons)	35,192	89,442	207,525	233,592	295,279
Cocoon (tons)	0,236	71	245	513	644
Size of Crop Fields (2015 - 2019)					
	2015	*2016*	*2017*	*2018*	*2019*
Total in thsd. ha	1,585	1,628	1,665	1,738	1,717

Table 6: *Statistics of intermediate targets for Agriculture; Source: Azstat, 2020*

- cotton production increased from 35,192 tons to 295,279 tons (8.4 times growth);
- cocoon production increased from 0,236 tons to 644 tons (2,720 times growth);
- the size of crop fields increased from 1,585 thousand hectares to 1,717 thousand hectares (8.3% growth).

Overall, the results show that while there is about 8 percent growth needed for meat and milk production relative to 2015, the targets for cotton, cocoon and size of crop fields are overachieved.

4.4) Logistics and Transport

Before starting to present and analyze the data for logistics and transport sector of economy, it should be noted that this sector is mentioned as “logistics and trade” in Strategic Road Map, which can be a misleading factor. In order to clarify the issue and the definition of “trade” in the road map, it is worth to highlight the nature of strategy, so by “trade” it is not meant external or internal trade of products, commodities and services, or trade deals with other countries, but establishing good and favorable infrastructure for the trade routes connecting Asia to Europe and/or South to North.

Therefore, the short-term strategy for 2020 is stated as follows:

Azerbaijan's strategic vision for the period by 2020 in logistics and trade sector is to achieve creation of added value over the regional transit freights in addition to attracting these freights by strengthening efforts to make competitive transit routes through the country, putting into operation Free Trade Zone in the territory of Baku International Sea Trade Port in Alyat region, and increasing the capture of trade volume and higher added value from the transits to diversify the economy.

Moreover, long-term strategy for 2025 aims to make Azerbaijan turn into an important hub through improvement of logistical and trade infrastructure, driven by regulatory incentives. Aspirational view for post 2025 aims to turn Azerbaijan into regional hub through strong connectivity with other countries by having developed and efficiently operating logistics center.

The target indicators for logistics and transport are:

- To increase the contribution to GDP by AZN 605 million;
- To add 18,900 new jobs in the sector.

In order to achieve these indicators below targets are identified:

- Increase transit share of Black Sea – Central Asia route by 40 percent, Europe – Central Asia route by 25 percent and China – Europe route by 3 percent;
- Put into operation a Free Trade Zone with logistics and port services;
- Establish 5 or 6 logistic centers around Azerbaijan.

As shown on table 14, none of the targets, neither GDP, nor increased employment level have been achieved by 2019. In fact, the share of Logistics and Transport in GDP has decreased from 1.6 percent to 1.3 percent, while the number has increased in real terms.

Share of Transport in GDP (2015 - 2019)					
	2015	*2016*	*2017*	*2018*	*2019*
Total GDP in bln USD	53,07	37,87	40,87	47,11	48,05
Total GDP in bln AZN	54,38	60,43	70,34	80,09	81,68
in %	1,60	1,42	1,32	1,26	1,30
in mln USD	849	538	539	594	625
in mln AZN	868	860	929	1,012	1,055
Average number of employees in Transport industry (2015 - 2019)					
	2015	*2016*	*2017*	*2018*	*2019*
Employees (in thousands)	127,3	123,8	126,1	126,8	130,8

Table 7: *Statistics of target indicators for Transport; Source: AzStat, 2020 and Tradingeconomics.com.*

Discussing about the intermediate targets, it should be noted that there have been generated any exact data and statistics for separate routes as indicated above, while there are only statistics about the overall volume of transit goods by the means transport. Taking into consideration for East – West route sea transportation is used, the volume of transported goods by sea has been extracted from the dataset of Statistical committee for analyzing. Therefore on table 15, we can see that the volume of transported transit goods has actually increased about 23 percent in 2019 compared to 2015. The overall volume of transited goods has also decreased, which is a disappointing indication considering the high ambitions indicated on Strategic Roadmap.

Transported transit goods in thousand tons (2015 - 2019)					
	2015	2016	2017	2018	2019
By sea	5567	4208	6840	6300	4281
Total	9494	7997	10186	9345	8077

Table 8: *Statistics of intermediate targets for Tranport; Source: Azstat, 2020*

Furthermore, talking about the rest of the intermediate target it should be mentioned that although Port of Baku in Alat settlement has put into operation on 2018, the Free Trade Zone will be operational and invertor ready only by July 2022 (AFEZ). In terms of logistic centers around Azerbaijan, there have been plans and still plans to establish several dry ports and logistic centers around the country, but till now only one of them, namely "Absheron Logistics Center" near Baku has been established.

5) Discussion of results

This section of the thesis discusses the statistical findings of previous sections, as well as evaluates the further perspective of development of the analyzed sectors by considering current global and regional realities with the input by interviewees.

5.1) Tourism

The overall results on tourism sector are satisfactory, although not fully fulfilled. Looking at the target indicators we can see that already in 2019, contribution to GDP has increased nearly 1 billion AZN, which is a significant increased compared to 2015. On the other hand however, the number of jobs did not increase as expected, with only about 10,000 compared to target of 36,600.

It is also interesting fact that the intermediate indicators are not fully reached either: while the number of accommodated tourists in hotel/hotel like facilities in Baku are overachieved by 2019, the rest of the indicators remain below the target.

Overall, the outlook for the tourism in Azerbaijan is positive because of many factors. Following 1st European Games, Eurovision and Islamic Games, the government still keeps to attract more and more tourists from all over the world by hosting more multinational events, especially distinguished sport events as Formula 1 and UEFA EURO 2020, hosting them in Baku.

The end of the hostilities with neighboring Armenia and liberation of majority of occupied territories in Karabakh region also created new opportunities, thanks to maintaining highly possible stable situation in the region as a result of peace deal and increasing the number of touristic destinations. President Ilham Aliyev also did not wait too long to announce Shusha, the natural citadel city in Karabakh, as a cultural capital of

Azerbaijan and immediately starting restoration/rehabilitation process of the city to make it another center of tourist destination in the country. Farhad Huseynov, Communications Specialist in Azerbaijan Tourism Board (ATB), already one hotel in Shusha is opened, and for better connectivity in terms of transport, 2 airport constructions on the region are on the way (Personal Interview).

Despite of all positive factors, we should not forget the current pandemic, which mostly affects this sector of the country. Although no major studies on the impacts of pandemic to tourism in the country have been conducted, it is not a secret that this industry has suffered a lot, both in terms of internal and foreign tourism. Farhad Huseynov indicated that because of such unfortunate occasion, it is hardly that short term targets will be achieved, but ATB in order to keep up with new realities has launched several phases to be back on business, which at initial stages aims to promote domestic tourism encouraging citizens to explore hidden jams of Azerbaijan, and at later stages to get ready for opening up the country to foreign tourists. ATB has already started to brand marketing campaigns in broader geography, including south east Asia, north and western Europe.

5.2) Agriculture

The positive conclusion can also be applied to agriculture. The target increase to GDP has already been met in 2019, whilst the target for number of formal jobs has not been met yet with an increase of just about 3,000 jobs. However, looking at the distribution of employed population it can clearly be seen that there has been increase of about 79,000 jobs in agriculture, which assumedly include both formal and informal employment.

The positive tendency is also observed in intermediate indicators, with specifically significant increase in cotton and cocoon production, overachieving the targets before the deadline, which also applies to the size of crop fields. It should also be noted the productivity per person has also increased as gross output per capita increased from 584 AZN in 2016 to 791 AZN in 2019 (AzStat, 2020).

Different to tourism we cannot assume that the agriculture has been badly affected by pandemic. However, finished war and liberation of territories brought Azerbaijan vast area of land useful for agriculture. According to the report of the Ministry of Ecology and Natural Resources (2020), there are total of 1,550 million hectares of land area, 188,000 hectares of which is suitable for cropping purposes, and the rest for cattle breeding, considering the mountainous relief of Karabakh. It will also significantly increase the employment opportunities in the agricultural sector. However, taking into consideration the dangerous and large minefields in the region, it is unknown when agricultural activities will be able to get started.

5.3) Logistics and Transport

Unlike in tourism and agriculture, in this sector of the economy negative tendency is observed. Although government has invested enormous amount of capital for the development of favorable infrastructure for increasing the role of Azerbaijan in transit routes, it does not seem to have pay off so far. However, based on the literature and current realities it can also be observed that the government understands there are still more favorable routes than Azerbaijan connecting East to West, or South to North, nevertheless the plan government pursues is to add value to this transit routes by creating complex and modern infrastructure in order to make Azerbaijan as a hub. Alat Free Trade Zone is the major project and milestone per say for realizing this plan. In order to implement this project, Azerbaijan uses the experience of Jabal-Ali port with its Free Trade Zone, which accommodates about 7,000 companies and generating USD 87 billion turnover with 23 percent GDP contribution (Bridge, 2018). Once Senior Project Manager at the Port of

Baku, expert and PhD Candidate on the topic of New Silk Road and Geopolitics of Azerbaijan Rustam Mammadov, evaluating the transit role of Azerbaijan as a hub, estimates that Free Trade Zone together with port services and all infrastructure in place, can generate significant amount revenue for the budget, while considering the fact that ongoing global pandemic and war in 2020 made delays in the implementation of the infrastructure projects, as the government provides substantial size of funding for realization of these projects (Personal Interview). He also mentions that besides having advantages of stability, connectivity and time of the transit routes through Azerbaijan, FTZ will also add up new dimension to the route as a special economic regime and value added services (Ibid).

It is worth to mention that one of the outcome of the peace deal following the war with Armenia is that Armenia agreed to give Azerbaijan transit corridor through its land (aka Zangezur Corridor), connecting mainland Azerbaijan to its exclave Nakhchivan, which borders with Turkey (see Annex 2). Once implemented, this corridor will give Azerbaijan direct access to Turkey bypassing Georgia being even shorter route to South Europe and Mediterranean both in terms of time and length. The government has already started infrastructure projects, building roads and railways in order to realize the corridor as soon as possible.

6) Conclusion

The thesis discussed the natural resource dependent economy of Azerbaijan, which from one hand became blessing for economic development, on the other hand turned to curse as a result of fluctuations in oil prices. Being more precise, windfall of oil revenues almost ceased the competitiveness of non-oil tradable sector, making the economy highly dependent on single source revenue. In order to understand the situation Azerbaijan faces, Resource Curse and Dutch Disease were discussed to explain the economic condition from theoretical point of view. Further, the role of three main and highly potential non-oil sectors of economy; tourism, agriculture, and logistics and transport sectors of economy have been presented as main directions of economic diversification. It was made clear that after the turbulences of oil crisis, it is time to put efforts to decentralize the economy by focusing on the development of these sectors with higher comparative advantage. Azerbaijan missed the breakfast, but still got the chance to have brunch. Further by comparing the short term targets for 2020 and actual figures for the three economic sectors, the thesis was able to evaluate the current situation with the most recent available statistics: while agriculture and tourism showed positive results in terms of contribution to GDP by getting higher volume by 2019, the logistics and transport sector lagged behind. However, in terms of official employment opportunities the results for all three sectors were unsatisfactory. Additionally, it is also disappointing that the share of these sectors in GDP in terms of percentage remained almost same.

Looking separately at each sector considering current realities the discussion shows that: in agriculture, there is less possibility of negative effects caused by global pandemic, and more opportunities for development as a result of liberation majority of occupied areas; in tourism, there is undeniably huge negative effects caused by global pandemic because of closed borders and limited travel opportunities, and more opportunities evolved as a result of liberation significantly important historical and cultural sites; and last but not least, in logistics and transport sector, less funding opportunities because of difficult year for the government as a sponsor of major projects, but also brighter perspectives once Free Trade Zone and Zangezur corridor are put into operation.

The thesis had two main significance for research, firstly it showed the turbulences the economy faced as a result of dependence on one major source of revenue proving the point of urgency of economic diversification in the context of three major non-oil sectors of economy, and secondly it evaluated potential by comparing the targets and results achieved for these sectors followed by discussing further perspectives by considering current realities.

The main limitation of the research was the absence of necessary figures for the year of 2020, so that if available by this thesis the author could make the definite conclusion whether the target indicators of 2020 had been achieved, or not. Furthermore, the main policy recommendation is to make in depth and up to date analysis of each non oil economic sectors to not assume, but actually come up certain detailed plans on how to maximize the potential of these sectors by learning from past mistakes and adapting new realities.

The author also believes that besides discussed economic sectors, if not in short term, but in long term Azerbaijan can also benefit by advancing in other sectors, such as R&D capacity, ICT, renewable energy, and many other sectors.

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Interview Questions 1

Interviewed: Mr. Rustam Mammadov
Contact: rmammadov@portofbaku.com / rustammammadov@hotmail.com

Question 1: Considering the aim of Azerbaijan to become a hub connecting Asia and Europe, what have been the main achievements of Port of Baku in this sense?

Firstly, Port of Baku in Alat, which is the 1st phase of development project has been put into operation that includes RoRo berths, general cargo terminal, ferry terminal and a heavy lift berth for project cargo. Additionally, throughout the development of the 1st phase new requirements of the market and modern solutions to new challenges have been considered, that were not actually planned beforehand. It includes bigger warehouses and open yards for different kinds of cargo, new portal cranes meeting environmental and modern ground handling standards.
Furthermore, human capital aspect of development has also been taken into consideration with ongoing trainings of the staff and study visits across the world, including in China, Netherlands, Italy etc. in order to learn the best practices. Moreover, partnership with different universities and sponsorship of related study programs are aimed to attract highly skilled professionals to the port.
Finally new quality standards have been acquired and green port initiative is under implementation to achieve sustainable goals. All in all, a lot has been done in recent years and I believe there are yet more to come.

Question 2: What is the main source of fund for the development of Port infrastructure and what are the commitments of Port authority?

It is not a secret that the main sponsor of the development of Port of Baku is the government of Azerbaijan, as the state has an idea to turn the country into one of the main transit route connecting East to West to become a hub. On the other hand the role international players, as EU and China should also be highlighted that play significant role in technical assistance and capacity building. Of course, Port authority in return should maintain the effective allocation of funds in order to get efficient results in terms of operations and sustainable growth.

Question 3: What are the main advantages of Port of Baku in terms trade between Europe and China? How can we compare the role of Azerbaijan with traditional routes from economic and logistic point of view?

There are three main advantages that can be considered in this regard: connectivity, stability and time. It is a straight road providing new rail and road connections on East-West transport corridor. Recently ended war with peace deal is also promising factor in terms of stability of the route. And comparing to traditional sea route passing through oceans and seas, it has a great advantage of delivering goods in short period of time. I should also note the future add value services to be provided by Alat Free Trade Zone, which will be a new dimension for the route.

Question 4: Could you please elaborate the role of China in the development project of Port and will it have a significant power to dictate terms and conditions in future?

The role of China in development projects as an initiator of One Belt One Road initiative is undeniable and it is a vital part of the New Silk Road. Therefore, China is very involved in a technical assistance project providing important ground handling equipment, staff training activities etc. However, when we talk about New Silk Road, it is more about pleasing individual clients than states, which makes it more about benefits rather than bargaining power. For this reason, I believe considering the freedom and flexibility in the global market, it is going to be beneficial project and initiative for everyone involved, in other words, it is not a zero-sum game.

Question 5: How do you the the future of Port of Baku after 2025?

Before talking about future, we should consider unprecedented events happening nowadays. While in globally we face pandemic, in Azerbaijan we also had a war in 2020. In terms of project funding these issues may cause drawbacks for financing further phases of Port of Baku and putting into operation Alat FTZ. So while a couple years ago the future was predictable, now the realities are not the same anymore, as a result inauguration of FTZ is delayed. However, I strongly believe by 2025, Azerbaijan will be able to put FTZ into operation, and we will be able to see a significant increase in revenue flow into the budget, considering high domestic and foreign interests in investment opportunities of this project.

Interview Questions 2

Interviewed: Mr. Farhad Huseynov
Contact: farhad.huseynov@tourismboard.az

1) Could you please elaborate on the role of Tourism Board in the development of this sector? What are the mission, vision and the goals of this organization?

The Azerbaijan Tourism Board (ATB) is the national promotion body under the State Tourism Agency of the Republic of Azerbaijan. Established in 2018, its main objectives are to support the growth of Azerbaijan's tourism industry and encourage visitors to explore the country's rich cultural offering and experience its ancient heritage. Azerbaijan is being positioned as a new travel experience, full of distinctive flavours, colours, monumental heritage and natural beauties. New tourism products, attractions and activities are being developed around all the regions and promoted in core markets through the global marketing campaign "Take another look" launched by ATB in 2018. This brand positioning and identity was created to serve as an invitation for travellers to discover hidden gems and curated experiences in Azerbaijan. We aim to create the best experiences for visitors using a holistic approach to connect all the actors across the tourism industry.

Azerbaijan is blessed with climatic diversity and unique natural resources, from lush green forests and snowy vistas to moon-like desert landscapes and tranquil waters of the Caspian Sea. All of this topped with amazing architecture, enticing activities, a wide variety of adventure experiences and genuine hospitality of local people makes the country an ideal place for international tourism. Hence, our main objective is to bring Azerbaijan to the global stage of in-demand tourism destinations with quality tourism and unique experiences that are available to everyone. What is important to us is to keep the economic and social advantages of tourism and preserve natural, historical, cultural and social environment from any negative impacts.

2) What are the main directions of tourism the organization targeted to improve? What countries are the main focuses for attracting tourists, and whether promotion campaigns by Tourism Board achieved to increase the number of tourists from target geography? Any further plans to diversify target groups?

Tourism has taken off over the last decade, making a substantial contribution to the country's economy. We are keen to continue the momentum and grow the industry by encouraging new partnerships and introducing Azerbaijan to new countries. We seek to attract a wide range of tourists by ensuring a diversity of experiences and accommodation to cater to their needs and standards. As part of ATB's strategy as the national tourism body of the country, we launched the 'Take Another Look' campaign in November of 2018 to present a new portrait of the country. The campaign invites visitors to 'Take another look' or a more in-depth look at Azerbaijan and immerse themselves in truly genuine cultural experiences. We want guests to dig deeper into the country's rich history and cultural heritage and to discover its pleasant surprises and hidden gems throughout the year. We welcomed over 150 nationalities in 2019, hitting an all-time record of 3.2 mln tourists (an increase of 11.4%) and look forward to see a steady growth of the numbers in the post pandemic world.
We always emphasize the importance of sustainable growth of Azerbaijan's tourism industry. With all the investment into the industry and state support to this sphere,

Azerbaijan was able to create modern infrastructure in line with the highest international standards. In this regard, our destination is not behind (in some cases is even ahead) of many popular touristic destinations worldwide. Over the coming years, certainly, we will focus on further developing new tourism products and experiences, as well as perfecting the infrastructure to cater to all the needs of our visitors.

In post-pandemic era, as ATB, we plan to attend several trade shows and open representative offices in new markets, including Israel, Turkey and the DACH region. Our aim is to expand the activities to new markets in Southeast Asia, the Middle East, Central Asia, and Western and Northern Europe as well.

3) How COVID-19 pandemic affected touristic flow to Azerbaijan? What actions have been taken to mitigate the negative effect of pandemic? What are the plans for post-pandemic period?

The COVID-19 pandemic caused a crisis in the tourism industry. And anti-crisis measures require a re-evaluation of the ongoing processes and the whole concept of how the things are done. With this in mind, ATB is transforming its projects and activities in line with the most recent trends, behavioral changes and paradigm shift in the global tourism industry. With pandemic news breaking out, our agenda comprised of ensuring the health and safety of both local and foreign travellers, using digital opportunities to stay connected with the world, working with local industry partners even more closely and of course, developing sustainable tourism products. We were quick to review our strategy and the plan on moving forward, re-shifting our priorities to adapt to the changing needs and behavioral patterns of travelers.

In terms of recovery, ATB was quick to prepare a four-phase plan, where the first phase was the lockdown and the phase 2 signified the launch of the domestic tourism campaign. Phase 3 will follow the reopening of borders to international tourists and see marketing campaigns resume. And phase 4 will signal a return to the "new normal," when tourists explore the country again.

Our first step was to launch the SAHMAN (Sanitation and Hygiene Methods and Norms) programme which is designed for local industry players to improve hygiene and sanitation across accommodation, F&B and touristic transportation providers. Run jointly with PwC which leads the audit and certification process, the program aims at helping to guide a safe and manageable pathway for the industry.

As mentioned previously, we had been working on how to best aid our local partners in terms of developing educated and skilled human resources. With this purpose in mind, we introduced the Tourism Training and Certification Centre that aims at contributing to the improvement the quality of services within various sectors of our industry, as well as increasing awareness about tourism in general and employment rate within the industry. Of course, this was very timely since we are witnessing loss of skilled labour force not only in Azerbaijan's tourism industry, but globally. The TTCC proved to be very useful in keeping tourism employees engaged, as well as contributing to skill-building.

Due to the restrictions on international travel in force, we witnessed an increasing demand for domestic travel among the citizens and residents of Azerbaijan. To address this, we have launched a domestic tourism campaign called "Macəra Yaxındadır" ("Adventure is

Near") to support the industry in these challenging times and encourage locals to explore the previously undiscovered beauties that Azerbaijan has to offer.

Keeping in touch and continuing educating partners around the world about Azerbaijan and its tourism potential has been one of our main priorities last year. We designed an e-learning platform - Azerbaijan 101 for travel agents and representatives across the global tourism industry. Those seeking to gain in-depth knowledge about Azerbaijan's offerings across health and wellness, gastronomy, wine tours, cultural heritage and more can find a collection of online training and engagement tools here.

To keep up with the new travel demands and our vision of developing unique travel experience, we have also been working on developing new sustainable and eco-friendly tourism products. We at the Azerbaijan Tourism Board always strive to reinforce the unique features of Azerbaijan and support them through various projects and initiatives, ranging from designing and producing eco-friendly local souvenirs to developing unique heritage routes to niche tourism products that promote eco-tourism opportunities.

Among other initiatives that were launched last year and are currently in the pipeline, I can mention the projects on improving the existing rural accommodation facilities (guesthouses, etc.) to cater to the needs of travelers and contribute to social development of local communities, creation of a B2B/B2C integrated domestic booking platform that connects accommodation, tour/experience providers and travelers, as well as the program on assessment and marking of hiking routes in Azerbaijan.

Certainly, with the vaccines chipping in, the global situation with the pandemic will improve gradually, but we understand that this year will be full of challenges – it will be the year of transition. Therefore, our plan is to gradually resume global marketing and communications once international travel restrictions are eased and people are free to travel again. Much focus will be given to developing domestic tourism and providing the best travel experiences to local residents since a lot of us are yet to discover many wonderful parts of Azerbaijan.

Undoubtedly, we will continue to use webinars and other digital tools until face-to-face communication and destination promotion at international trade shows and other events become possible again. Rest assured that Azerbaijan will emerge as a tourism destination on the global stage stronger than ever before and we will be ready to welcome visitors from all over the globe to our beautiful country.

4) On the wake of destabilized geopolitical situation on late 2020 and war with neighboring Armenia, what disadvantages and/or opportunities emerged for tourism sector? In your opinion, how did the reputation of the country change in terms of secure touristic destination?

The 44-day war in 2020 resulted in the triumphant victory of Azerbaijan and liberation of the occupied lands – this is a glorious day in the history of the country. In fact, the end of the hostilities and occupation has opened a new page in the history of Azerbaijan and the region itself – it brought peace, regional cooperation and future prosperity. Visitors can rest assured that Azerbaijan, being one of the safest destinations in the world, is even safer now as the occupation of Azerbaijani lands by Armenia has ended and now there are new, unique opportunities awaiting travelers here.

With the liberation of the Karabakh region and the start of the revitalization process, new opportunities for the country's tourism are arising. We have already developed a strategy covering tourism development stages in Karabakh - with its great tourism potential, Karabakh will develop into a globally competitive, sustainable and attractive tourism destination. Currently, 1 new hotel in Shusha has already opened, while others are under construction. Karabakh will have great connectivity not only by land, but also by air, thanks to 2 new international airports being constructed in the region. The region's rich cultural heritage, historic landmarks, unmatchable nature, cuisine and many other attractions make Karabakh a perfect undiscovered tourism destination. We have already started promoting the great tourism potential of Karabakh internationally – ATM Dubai fair held earlier in May was a great success. We are sure that Shusha and other cities in Karabakh will soon host many international events and festivals, such as Khari Bulbul festival held just recently, which will attract many tourists to come and discover this beautiful region.

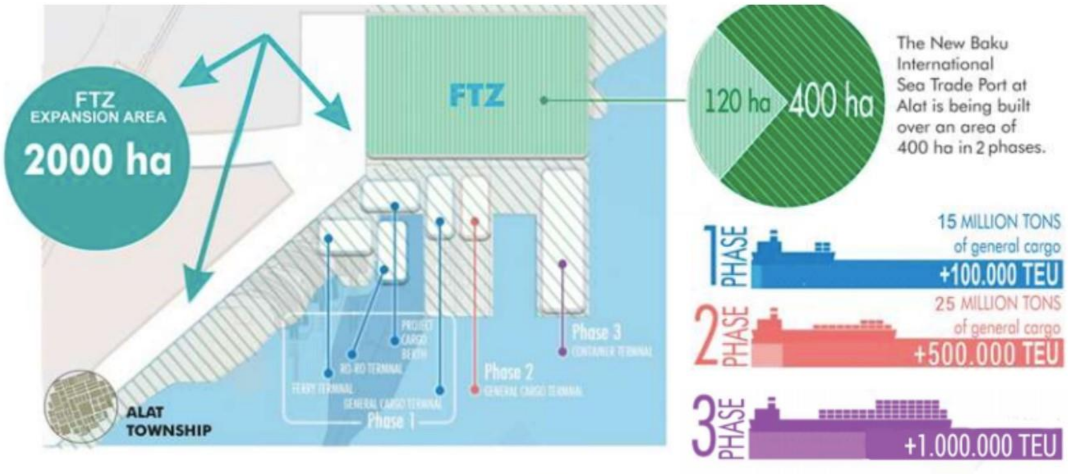
5) How Tourism Board contributes to realization of Strategic Roadmap for Tourism? Is Azerbaijan moving forward to become on top 20 touristic destinations for post-2025 period? Please elaborate.

Being a state-owned organization under the State Tourism Agency, the Azerbaijan Tourism Board closely cooperates with all state bodies and other public and private stakeholders to ensure the development of the tourism industry in Azerbaijan in line with the Strategic Roadmap for Tourism. The government of the Republic of Azerbaijan pays great attention to the growth of tourism sphere. As a non-petroleum sector, tourism industry is recognized as one of the priority fields for diversification of the national economy and multifaceted activities are carried out to increase the proportion of tourism in the GDP of the country. Our strategy focuses on the promotion of Azerbaijan as a tourism destination on the rise internationally, as well as ensuring that the available tourism infrastructure, services and products cater to the needs of every type of traveller.

We also strive to create favorable environment for attracting FDI – our strategy concentrates on expansion and efficient use of tourism resources, infrastructure, incentives, international standards, human resources and innovative solutions. Considering that the tourism sector is one of the priority fields of the national economy, there are myriad of investment opportunities concerning various tourism-related projects, from establishment of new accommodation facilities to development of new touristic attractions.

Certainly, due to the pandemic and its negative impact on the tourism industry, we might not be able to achieve all the goals set (e.g. 5 mln tourists by 2023), but our efforts focus on promoting Azerbaijan as a tourism destination on international arena and attracting more visitors to come and take another look at Azerbaijan and its tourism offering. Azerbaijan is not a mass tourism destination and we do not aspire to present it as such – instead, Azerbaijan is introduced as a tourism destination offering unique, authentic cultural immersion and this feature makes it stand out among other destinations.

ANNEX(ES)



Annex 1: Development Phases of Port of Baku; Source: Aliyev, 2018

Annex 2: Zangezur Corridor (Red line); Source: Jam-news.net