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Steering Through the Storm: Azerbaijan's Journey Towards Promoting Non-Oil Sectors and
Diversification Efforts in the Face of Global Crises and the COVID-19 Pandemic

Thesis



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Abstract

In the interconnected landscape of today's global economy, some nations' fortunes are closely tied to their natural resources and their effective management. This is particularly true for countries like Azerbaijan, blessed with abundant oil reserves. While these resources catalyze growth, they also expose vulnerabilities as the nation's economy fluctuates with the tides of the global oil market. However, the COVID-19 pandemic, causing severe disruptions worldwide, has necessitated a reevaluation of the sustainability of such single-commodity economies. Hence, a comprehensive understanding of the pandemic's implications and the historical context of Azerbaijan's economic dependency on oil presents an imperative starting for our analysis. By studying critical periods to understand the government's strategies in reducing its dependency and its efforts towards economic sustainability and diversification, focusing on non-oil sectors.

Keywords: oil dependency, economic diversification, non-oil sector, natural resource management, resource curse, dutch disease, sustainable development, Azerbaijan

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Before applying for this course, my knowledge of the program was limited, and I was skeptical about what this course would entail. The program triggered my longstanding questions, such as why some nations are rich and successful, and others are not. In a fast-paced world, it's challenging to find the time to ponder such profound questions, let alone derive conclusive answers. But this program did not end up giving answers; instead, it gave me enough time and space to ask more questions and deepen my critical thinking about these complex matters. The past three years have equipped me with tools to explore these questions, and I soon realized there are no easy-cut answers when it comes to a country's development. This course has gone beyond its scope and has influenced my life, readings, and daily conversations. This experience granted me the invaluable opportunity to pause, reflect, and challenge what I thought I knew.

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1. Introduction

The COVID-19 pandemic that emerged in late 2019 has sparked a chain reaction of unprecedented global challenges impacting public health, economies, political structures, and social norms. Necessary containment measures, such as lockdowns and travel bans, while critical for public safety, have disrupted international trade, supply chains, and overall economic activity, prompting a significant worldwide economic downturn. The aftermath of these disruptions remains visible, with countries worldwide still grappling with political and economic fallout (Bashir, Ma & Shahzad, 2020; Khan, Khan & Shafiq, 2021). This economic shockwave is particularly profound in the oil industry, where demand plunged due to scaled-back industrial activity, grounded airlines, and reduced transportation needs. The concurrent price war among leading oil producers further intensified this drop in oil prices, aggravating the challenges for nations heavily reliant on oil revenues, like Azerbaijan (Hanieh, 2021; Le, Le & Le, 2021).

The crisis spotlighted the inherent vulnerabilities of economies heavily dependent on a single commodity and underscored the crucial need for economic diversification as a buffer against external shocks. Countries relying on one major export faced a considerable revenue decline, impacting their capacity to fund public services, social programs, and economic stimulus packages. In the aftermath of the Covid-19 pandemic, countries have begun to reconsider their economic strategies, focusing more on self-reliance and resilience (Thangavel, Pathak & Chandra, 2022; Zagashvili, 2021). As a result, countries are striving to reduce their dependence on imported goods and services, promote domestic industries, and develop more sustainable and self-reliant economic models. This shift is driven by the recognition that interconnected global markets can pose risks during times of crisis (Akyildirim et al., 2022).

The outlined challenges manifested starkly in Azerbaijan's economy, leading to a 4.3% contraction in its GDP and elevated unemployment rates. The crisis has magnified the risks of Azerbaijan's mono-product economy, prompting an acceleration in economic reform efforts. The government, recognizing the risks associated with oil dependency, had initiated economic reform

efforts even before the pandemic. Yet, with the economic pressures brought about by the pandemic, the urgency of these reforms has accelerated. The government has since implemented initiatives aimed at economic diversification and sustainable growth, emphasizing the need to pivot away from a singular reliance on oil revenues for national prosperity (Aydin, 2022).

1.1 Background

Understanding the role of oil in Azerbaijan's economic narrative requires a journey back to the early 20th century. The Russian Empire, during the 18th and 19th centuries, identified the potential of oil and began investing in the Baku oil fields, leading to a surge of interest from investors and scientists (Hastings, 2020, p.17). Azerbaijan soon became an early pioneer in industrialized oil production, earning a key position on the global oil landscape with robust exports. At its peak, Baku, the nation's capital, was responsible for half the world's oil production. As a part of the Russian Empire and later the Soviet Union, Baku stood as the birthplace of the modern Russian oil industry, under the stringent control of Moscow-based Soviet authorities. The Baku oil sector was significant for the Soviet Union, contributing materials, methods, and technology, and competing with the American oil industry. The early onset of oil exploitation set the stage for an economic model that would come to rely on oil exports heavily (Hastings, 2020, p.3; Mir-Babayev et al., 2015, pp.238, 253).

Exploration and exploitation of oil continued in the post-Soviet period. The late 1990s and early 2000s saw a dramatic upswing in foreign investments, primarily directed at the oil industry. Major players like BP, Total, and the national oil company SOCAR, established in 1992, emerged as central to oil production. Following the influx of foreign investment post-2004, Baku produced 71% of the nation's output by 2011, reinforcing Azerbaijan's significance in the global oil market. The construction of the Baku-Tbilisi-Ceyhan pipeline further solidified this position (Hastings, 2020, p.4; Mir-Babayev et al., 2015, p.328; Vassiliou, 2018, p.61). By the second decade of the 21st century, the profound influence of oil and gas on Azerbaijan's economy was evident, with these resources constituting about 90% of exports and over half of the GDP, demonstrating how heavily the country relies on its abundant hydrocarbon reserves (AZE, 2021).

1.2 Research Aim and Question

Despite Azerbaijan's ongoing efforts toward economic diversification, the country's oil dependency appears to be a significant constraint. The COVID-19 pandemic has further highlighted this problem, with the country's economy hit hard by declining oil prices amidst global lockdowns. However, amid key economic shocks—like the 2007-2008 financial crisis, the 2014-2015 oil price crash, and the COVID-19 pandemic—Azerbaijan has maintained a resilient and strategic drive toward economic diversification. This study aims to investigate how these key economic shocks and crises have influenced Azerbaijan's efforts to boost non-oil sectors. It wants to scrutinize what strategies the government followed in mitigating economic impacts and fostering a shift towards a more diversified, sustainable economy.

This thesis delves into the complex relationship between oil dependency, economic diversification, and non-oil performance focusing specifically on the context of three critical times in Azerbaijan. In doing so, this study sheds light on the impending challenges and potential opportunities that Azerbaijan faces as it grapples with its oil-dependent economic history in a rapidly changing global economy. This thesis may offer a holistic evaluation that promotes a deeper comprehension of how other resource-rich countries can steer toward sustainable development and economic stability in critical times. This exploration contributes valuable insights to the discourse surrounding natural resource dependence, economic diversification, and long-term sustainability, with Azerbaijan as a case study.

The study will be guided by the following research question: "How have Azerbaijan's strategies towards promoting non-oil sectors and economic diversification evolved in response to the global crises, including the COVID-19 pandemic?"

The sub-questions guiding the research are:

- How did the key economic shocks influence Azerbaijan's economy and its efforts toward non-oil sectors and economic diversification?
- What strategies did the Azerbaijani government adopt in response to key economic shocks to promote non-oil sectors and diversify the economy?

1.3 Definition of Concepts / Conceptual Framework

Before delving into other sections of the paper, it is important to define some key concepts that will be reiterated throughout the paper.

Dependency

The concept of 'dependency,' although essential for comprehending the lack of national economic diversity, remains somewhat vague and its criticisms often center on the general capitalist system. While its implications hold validity in certain instances, they cannot be universally applicable, which hampers its efficacy as an analytical tool. Comprehending the economic dynamics in resource-abundant countries like Azerbaijan necessitates an understanding of dependency. In this context, dependency embodies an economy's overwhelming reliance on a single sector or resource - in Azerbaijan's case, oil. Such a disproportionate dependency can hinder diversification efforts, leaving the economy susceptible to the whims of global market volatilities and external shocks (Lall, 1975). This vulnerability was starkly exposed during the Covid-19 pandemic. An extreme dependence on oil revenues may trigger the 'resource curse,' a phenomenon elaborated upon in the theoretical framework section.

Economic Diversification / Sustainable Development

Economic diversification and sustainable development are intertwined concepts that essentially seek a balanced, resilient economy that can withstand external adversities. These two concepts may appear to be different concepts but there are compatible aspects that can help to understand what this thesis aims to explore. Economic diversification refers to strategic allocation of investments in different sectors and is primarily an economic concept. Sustainable development is a more holistic approach that encompasses social, economic, political, and environmental aspects. It does not focus solely on economic aspects, but rather provides a more comprehensive understanding when needed. In the case of Azerbaijan, where the economy has been heavily oil-dependent, the urgency of these notions is amplified. The Covid-19 pandemic has underscored the necessity of both sustainable development and economic diversification for maintaining fiscal resilience (World Commission on Environment and Development, 1987; Zhang, 2007).

1.4 Outline of the Thesis

This thesis unfolds six cohesive chapters, each building on the previous one to understand the topic comprehensively. It begins with an introductory chapter that sets the context of Azerbaijan's oil dependency and outlines the research question's importance. The second chapter offers an exhaustive review of pertinent literature, framing the theoretical foundations to be expanded upon in the third chapter. The third chapter hones in on the theoretical dimensions, drawing key themes from diverse literature sources to enrich our understanding of Azerbaijan's economic diversification efforts. Chapter four elucidates the research methodology, detailing the procedural steps of our qualitative analysis based on established methods. It further justifies the chosen approach, discusses its relevance, and outlines the ethical considerations and limitations. Chapter Five then presents an in-depth analysis of the previously established themes of oil dependency and economic diversification. Finally, the sixth chapter draws conclusions from the findings, presents implications, and suggests potential avenues for further research, encapsulating the entirety of the study.

2. Literature Review

2.1 Oil's Role in History and Its Importance Today

Throughout history, oil has always been a driver to contribute to many aspects of the social, economic, and political fabric of nations. Tracing the history of oil usage takes us back thousands of years when early civilizations utilized this resource for an array of applications spanning from lighting, and lubrication to medicinal purposes. The beginning of the modern oil industry in the mid-19th century, marked by the drilling of the first commercial oil well in Pennsylvania, USA, revolutionized various sectors, beginning with the Industrial Revolution. Subsequent oil discoveries in diverse regions such as the Middle East, Russia, and Africa bolstered the expansion of the global oil market. The proliferation of new oil-rich areas caught the attention of colonial powers, further reinforcing the significance of oil as a burgeoning energy source for military applications. From that point forward, oil has evolved into a fundamental commodity in the global economy, propelling industrialization, molding geopolitical dynamics, and catalyzing societal transformations. In the present day, oil continues to be a pivotal resource, essential for energy production, transportation, and various industrial processes (Haiko & Biletsky, 2019; Hastings, 2020, p.1; Mir-Babayev et al., 2015, p.7; Smil, 2017; Vassiliou, 2018, p.3).

2.2 Oil's Contribution to Developing Countries

Oil has served as a critical cornerstone in the developmental trajectory of numerous nations, acting as both a vital energy source and a robust revenue generator. For countries rich in petroleum resources, its exploitation has led to significant financial endowments, playing a key role in funding infrastructure and social services, and stimulating economic growth. Furthermore, access to cheap and plentiful energy has been a pivotal accelerator for the growth of various industries, propelling these nations' overall economic development. Beyond economic implications, oil's influence pervades the geopolitical realm. Countries blessed with ample oil reserves have wielded substantial global power and influence, underscoring oil's instrumental role in determining the world's balance of power (ed. Auty & World Institute for Development Economics Research, 2001; Lynn Karl, 2004).

2.3 Positive and Negative Effects with Case Studies

Nations endowed with oil reserves hold the potential to stimulate their economies through strategic resource exploitation. The availability of cheap and abundant energy has enhanced the growth of diverse industries and sectors, thereby contributing to significant economic progression. However, the economic advantages of the oil sector come with inherent drawbacks. The terms "oil dependency" and "resource curse" have become universal in describing the pitfalls of over-reliance on oil revenues. Oil-dependent economies' fragility is starkly revealed during global oil-related crises and financial crises (Lynn Karl, 2004). Notable instances include the 1973 oil embargo, the 1979 Iranian Revolution, the 1990 Gulf War, the 2008 financial crisis, and most recently, the Covid-19 pandemic. These crises have often resulted from geopolitical tensions, market speculations, or disruptions in oil supply chains, leading to sudden fluctuations in oil prices. Global economies' interconnectedness exacerbates these crises' impact, as countries dependent on oil exports or imports face economic instability, reduced growth prospects, and social upheaval (Acar, 2017, chap.4; Hanieh, 2021; Hynes et al., 2021).

Literature provides an extensive study of the experiences of oil-rich nations, drawing insights from their challenges and opportunities. Countries like Venezuela, despite possessing substantial oil reserves and holding a top spot among oil producers, illustrate the perils of inefficient resource management. Rather than promoting sustainable economic growth and societal welfare, the mismanagement of Venezuela's oil wealth has fostered severe economic fluctuations, rampant corruption, and political instability, leaving the nation trapped in poverty, disparity, and strife (Hammond, 2011; Kumar, Toshniwal & Gupta, 2016; Ross, 2013). Nigeria's experience echoes a similar narrative. As another significant global oil producer, Nigeria's potential to exploit its oil wealth for steady economic development and societal well-being has been markedly poor, hindering its capacity to leverage its resources. The nation's past is marked by economic instability, endemic corruption, and political upheaval. The challenges presented by oil dependency are not confined to economic constraints but also to political and sociological spheres. The failure to achieve effective resource management strategies is a complex issue that cannot be generalized, as different nations encounter distinct challenges and circumstances that influence their ability to utilize resources effectively. Consequently, each case demands in-depth understanding and analysis. However, it is not uncommon for countries with failed management

of abundant oil revenues to exhibit patterns of corruption and political instability, which can, in turn, undermine efforts towards economic diversification and sustainable growth. This multifaceted dynamic underscores the crucial need for understanding and researching effective and ethical resource management strategies (Idemudia, 2013; ed. Le Billon & Williams, 2017, chap.1; Mosley, 2017, chap.1).

In contrast, certain nations have exemplified the potential advantages of astute oil resource management. Norway provides a compelling case, having successfully capitalized on its oil and gas reserves discovered in the 1960s. The country transitioned from a modest, agriculture-based economy to one thriving on oil. The country is renowned for strategically handling oil revenues and a solid dedication to sustainability. The creation of a sovereign wealth fund that makes diverse global investments not only secures Norway's long-term financial stability but also upholds intergenerational equity, ensuring that future generations benefit from today's resource wealth (Acar, 2017; ed. Le Billon & Williams, 2017, chap.2; Lie, 2018). The United Arab Emirates (UAE) presents a similar model of resource management and economic diversification. Initially reliant on oil, the UAE has significantly expanded its economic base, investing in tourism, aviation, real estate, and renewable energy. Dubai, one of the UAE's cities, has successfully positioned itself as a global business hub, exemplifying its successful diversification efforts. Moreover, the UAE's proactively endeavors to diminish its carbon footprint and investing heavily in clean energy innovations underscore its pledge to sustainable growth (Shadab, 2020; Shayah, 2015).

Although the aforementioned examples have their own unique circumstances that cannot be generalized to other nations, they demonstrate that abundant resources can be a double-edged sword for nations that possess them. These case studies are prominent in resource curse literature and provide a great starting point for understanding the topic.

2.4 Case Study: Azerbaijan's Oil Dependency History and Economic Development

As mentioned in the background, Azerbaijan's oil dependency has a deep-rooted history. The country was one of the few adopters of industrialized oil production and since then economic growth has been circled around oil which is also its economy tied to the boom-and-bust cycles of global oil prices. After the dissolution of the Soviet Union, Azerbaijan's economy underwent a significant transformation and highlighted improving oil production to promote substantial growth and modernization. In the late 1990s and early new century, the country experiences an influx of foreign investments in the oil sector. The creation and inception of the Baku-Tbilisi-Ceyhan pipeline provided the economy to thrive and allowed them to access the global arena (Mir-Babayev et al., 2015). By the 2010s, oil represented most of Azerbaijan's exports and more than half of its GDP (Majidli & Guliyev, 2020). As a result, Azerbaijan has become a significant player in the global energy market. However, this reliance on the oil sector carries inherent risks. As pointed out by Hasanov (2018), the economy's heavy dependence on oil revenues makes it highly susceptible to oil price volatility. Before the Covid-19 pandemic, Azerbaijan was already grappling with the challenges of an oil-dependency economy. The 2014 oil price fall, which brought about a severe economic crisis and depreciation of the local currency, the Manat, made this vulnerability clear (Hasanov, Mammadov & Al-Musehel, 2018; Valiyev, 2020). This crisis underscored the need for economic diversification and the reduction of dependence on oil revenues. Azerbaijan's economic reliance on oil exports and the subsequent need for diversification was examined thoroughly in a study by Valiyev (2020). The research underlined the pivotal role the oil sector has played in propelling Azerbaijan's economic advancement and modernization. Simultaneously, it shed light on the associated challenges of economic dependence and financial sustainability (Valiyev, 2020). Therefore, this study underscores the crucial task of balancing the exploitation of oil resources for economic growth while also ensuring the economy's resilience and sustainability via diversification.

2.5 The COVID-19 pandemic and its effects

Recent global events like the COVID-19 pandemic have magnified the economic vulnerabilities of countries whose prosperity is anchored to their natural resources. The pandemic's sweeping

effects reshaped both the global economy and oil markets. Lockdown measures and reduced travel drastically cut oil demand, leading to an oversupply and subsequent oil price crash. This sudden downturn intensified the struggles of oil-dependent economies, as many grappled with budget deficits and increased economic hardship. It also exposed frailties in global supply chains, nudging nations to mitigate their dependence on international trade while enhancing domestic industries and fostering self-sufficiency. Specifically, the sharp fall in global oil demand and consequent oil price plunge amplified economic strain for Azerbaijan, leading to diminished government revenues and rising unemployment (Aydin, 2022; Thangavel, Pathak & Chandra, 2022; Zagashvili, 2021).

Numerous academics have scrutinized the policy reactions of oil-dependent nations to the pandemic, including fiscal measures, the establishment of social safety nets, and strategies for economic recovery (Fischer, 2020; Malleret, 2020, chap.1). Scholars have also delved into the impact of the pandemic on the global energy transition, as well as the role of oil-reliant nations in this shift (Hepburn et al., 2020; Yergin, 2020). While some argue that the Covid-19 crisis provides an opportune moment for nations to expedite their shift towards renewable energy and sustainable economic systems (Barbier, 2016), others warn of short-term economic stresses and fiscal limitations potentially constraining these countries' capacity to invest in sustainable development initiatives (Cohen & Paltsev, 2020; EIA, 2020). Sustainability, in its most comprehensive sense, covers not just environmental factors, but also economic and social dimensions. For Azerbaijan, a nation heavily dependent on oil, these implications are profound. Economically, the task of transitioning from an oil-centric economy to a diversified, sustainable one is a formidable challenge. Socially, the dominance of the oil industry threatens to exacerbate income inequality and obstruct inclusive growth. Environmentally, an economy reliant on oil poses significant hurdles to Azerbaijan's commitments under the Paris Agreement and the United Nations' Sustainable Development Goals. Thus, Azerbaijan's journey towards sustainability is intricately tied to its dependence on oil.

All things considered, the recent crises have highlighted the critical necessity of economic sustainability and diversification for oil-dependent nations. As the global landscape continues to evolve, heightened by a growing consciousness of climate change and the demand for sustainable

energy sources, there is an escalating call for economic models that lessen reliance on fossil fuels (Bashir, Ma & Shahzad, 2020; Khan, Khan & Shafiq, 2021). Consequently, oil-dependent countries are reevaluating their development strategies to ensure enduring financial stability and resilience. By broadening their economic bases and channeling investments into sustainable sectors, these nations can reduce their susceptibility to economic disruptions, contribute to global initiatives combating climate change, and augment their overall economic robustness.

Acknowledging these challenges, the Azerbaijani government has initiated several economic reforms designed to invigorate non-oil sectors, improve the business environment, and nurture innovation and entrepreneurship. These endeavors aim to mold a more diversified, robust, and resilient economy less vulnerable to oil price volatility. Nevertheless, the effectiveness of these reforms in an economy anchored mainly on oil remains a point of active debate and is central to this study.

3. Theoretical Framework

This section introduces and analyzes crucial theories and concepts integral to this study, which form the interpretive lens through which the oil-dependent economy of Azerbaijan is examined. Key paradigms like the Resource Curse Theory and Dutch Disease offer an understanding of the complexities linked with a significant dependence on oil resources. In contrast, the Economic Diversification and Sustainable Development Theory are deployed to discuss plausible strategies capable of mitigating oil dependency's adverse effects and steering the nation toward a more balanced and sustainable economic framework. Furthermore, this analytical framework scrutinizes the impact of recent global crises, including the far-reaching socio-economic implications of the COVID-19 pandemic. Within this context, we will probe the pandemic's influence on the relevant theories and their applicability to Azerbaijan.

Each of these theoretical frameworks forms the foundational bedrock of the study and provides unique perspectives on various facets of Azerbaijan's economy. By exploring the interplay of these theories and their relevance to Azerbaijan's context, the analytical framework will establish the necessary groundwork that guides subsequent investigations.

3.1 The Resource Curse Theory

The Resource Curse Theory is a fundamental concept in the examination of oil-dependent economies. It proposes that countries rich in natural resources, such as oil, frequently face slower economic growth, heightened corruption, and political instability compared to less resource-abundant counterparts (Auty & Furlonge, 2019; Ross, 2013; Sachs & Warner, 1995). This theory suggests that resource-abundant countries are often plagued by multiple adverse effects: reduced competitiveness of other economic sectors, an affliction known as Dutch Disease, excessive dependence on fluctuating international commodity markets, and political instability and corruption. The COVID-19 pandemic has further complicated these scenarios. However, the resource curse is not inevitable, and several scholars have pointed to factors that can mitigate its adverse effects, such as solid institutions, appropriate fiscal policies, and economic diversification (Collier & Goderis, 2008; Mehlum, Moene & Torvik, 2006). The discourse surrounding the Resource Curse Theory offers a valuable framework to comprehend the potential risks and rewards inherent in oil dependency, underscoring the need for effective economic reforms and sustainable development strategies. This theory, extensively studied and debated in economic literature, forms a fundamental cornerstone of our comprehension of economic dynamics in oil-rich nations. As a resource-rich, post-Soviet country, the Resource Curse Theory holds particular relevance for Azerbaijan. Since its independence, Azerbaijan has grappled with the challenge of diversifying its economy beyond oil. The wealth procured from oil exports has not translated into comprehensive economic development. Simultaneously, there are persistent concerns about political corruption linked to oil revenue (Moisé, 2020).

3.2 Dutch Disease

The Dutch Disease, a critical concept often found in studies of countries blessed with abundant non-renewable natural resources, is a key contributor to the Resource Curse Theory. This phenomenon is characterized by two main effects. Initially, there is a notable rise in the exploitation of natural resources, resulting in a surge in the country's resource sector - often termed the "booming sector". This boom subsequently triggers a growth in revenues from this

sector. Concurrently, non-resource sectors like manufacturing and agriculture witness a downturn. The flourishing sector often incites a real appreciation of the domestic currency, rendering the non-resource sector's exports pricier and less competitive in the international market. Consequently, this pushes the economy towards mono-sectoral dependency (Brahmbhatt, Canuto & Vostroknutova, 2010; Corden, 1984; Torvik, 2001). Within the context of Azerbaijan, the Dutch Disease poses substantial challenges. A thriving oil sector has triggered a relative decline in other sectors due to the real appreciation of the Manat, Azerbaijan's currency. This model provides a crucial theoretical foundation to explain the potential impacts of oil dependency on Azerbaijan's broader economy (Hasanov, 2013). The COVID-19 pandemic has starkly revealed the weaknesses inherent in economies suffering from Dutch Disease. As global oil prices experienced a sharp decline, the heavy dependence on oil revenues swiftly turned into a substantial liability. This predicament emphasizes the critical role that economic diversification plays in countering the impacts of Dutch Disease.

3.3 Economic Diversification

The concept of Economic Diversification is a tactical approach pursued by countries striving to diminish their reliance on a single sector or resource. This strategy fosters the growth and expansion of various economic sectors, lessening dependence on one dominant industry, such as oil in resource-rich nations. A diversified economy promotes balance and resilience, making it less vulnerable to external shocks and market fluctuations. For oil-dependent economies, such as Azerbaijan, the relevance of economic diversification is particularly pronounced. Diversification is envisaged as a key countermeasure to mitigate the unfavorable implications of the Resource Curse Theory, Dutch Disease (Gelb, 2010; Lashitew, Ross & Werker, 2021). Through economic diversification, Azerbaijan can lessen its susceptibility to global oil price fluxes, encourage sustainable development, and cushion the impacts of potential economic upheavals. Although economic diversification has many benefits, it is a complex and long-term process that requires strong political will, strategic vision, and significant investment across various industries. The COVID-19 pandemic and the associated global economic disruptions have injected additional urgency into the diversification discourse. The pandemic's impact is anticipated to significantly inform economic diversification strategies in upcoming years (Ahmadova, Hamidova & Hajiyeva, 2021).

3.4 Sustainable Development

Sustainable development constitutes an interdisciplinary paradigm that aims to balance economic progress, environmental stewardship, and social inclusion. It signifies a transformative approach to economic growth, promoting a model that goes beyond pure economic measures and incorporates broader social and environmental aspects. The United Nations portrays sustainable development as the mode of "...development that meets the needs of the present without compromising the ability of future generations to meet their own needs." (Secretary-General & Development, 1987, p.37). This notion is inherently associated with economic diversification in the context of oil-dependent economies. It recommends a transition from fossil fuel dependence towards renewable energy sources and diversification of the economy into sectors that promise sustainable expansion. In the context of Azerbaijan, the pursuit of sustainable development is imperative to offset the environmental and social implications of an over-dependence on oil extraction. Such consequences may include potential harm to ecosystems, pollution, and inequitable wealth distribution (Elliott, 2013; Lélé, 1991; Paul, 2008). By adopting principles of sustainable development, Azerbaijan can strive towards an economically balanced, environmentally protective, and socially equitable state. The COVID-19 pandemic has amplified the significance of sustainable development. The crisis laid bare the repercussions of neglecting environmental concerns and underscored the interlinkages between human health, economic activity, and environmental safeguarding. Consequently, the pandemic serves as a pivotal moment for Azerbaijan to expedite its shift towards a model of sustainable development.

3.5 Interrelations and Critiques

The interconnected nature of these theories creates a rich and complex framework for analysis, fostering a multi-layered understanding of the potential pitfalls associated with oil dependency. Acknowledging these interrelations is critical for a holistic understanding of Azerbaijan's economic dynamics.

The Resource Curse Theory and Dutch Disease can be seen as two sides of the same coin. The resource curse theory proposes that resource-rich nations may face various economic, political,

and social challenges, while the Dutch Disease model pinpoints a specific economic mechanism where an increase in revenues from natural resources can lead to a decline in the manufacturing sector. Both theories underline the perils of over-reliance on resource revenues and point to the necessity of economic diversification. While these theories offer crucial insights, they have also faced various critiques. Certain scholars contend that theories like the resource curse and Dutch Disease may overgeneralize intricate economic realities and downplay the significance of political, institutional, and historical factors. For instance, not all resource-rich nations experience the resource curse, indicating that other factors like governance quality, institutional robustness, and policy decisions play a pivotal role in shaping a country's developmental trajectory (Auty & Furlonge, 2019; Brahmabhatt, Canuto & Vostroknutova, 2010; Corden, 1984; Ross, 2013; Sachs & Warner, 1995; Torvik, 2001).

Economic Diversification and Sustainable Development can be viewed as potential solutions to the challenges posed by the resource curse theory and Dutch Disease. Economic diversification aims to broaden the economic base and reduce dependency on oil revenues, thereby mitigating the risks associated with Dutch Disease and the Resource Curse. Sustainable development complements this by advocating for a balanced approach that meets the present needs without compromising the ability of future generations to meet their own needs. Similarly, the focus on economic diversification and sustainable development has faced criticism for overlooking the practical difficulties in implementing these strategies. Transitioning towards a diversified economy within an oil-dependent context is no small task. It necessitates considerable investment in education, infrastructure, and institutional capacity, an undertaking that can seem particularly daunting when faced with the vested interests and rent-seeking behavior synonymous with oil dependency. Still, critics of economic diversification theory maintain that diversification is not a universal solution to economic challenges. They posit that diversification mandates careful deliberation of a nation's unique economic, social, and political contexts. Moreover, the pursuit of sustainable development within an oil-dependent context presents its own set of challenges, particularly in terms of harmonizing immediate economic interests with long-term sustainability objectives (Ahmadova, Hamidova & Hajiyeva, 2021; Elliott, 2013; Gelb, 2010; Lashitew, Ross & Werker, 2021; Lélé, 1991; Paul, 2008).

The sustainability implications of oil dependency have also been widely discussed in the literature. Bridge (2009) postulates that the environmental repercussions of oil extraction and utilization, coupled with the economic complexities of transitioning to a diversified economy, often constitute significant barriers for oil-dependent economies in their pursuit of sustainable practices. On a similar note, (Ewers, 2016; Mayer, 2022) posits that entrenched oil dependency can stifle the growth of renewable energy sectors, thereby erecting considerable obstacles to the implementation of sustainable initiatives. This underscores the intricacies and challenges of mitigating oil dependency and steering economies towards more sustainable pathways.

In summary, these theories form a complex web of interactions and overlaps, each informing and influencing the other. Recognizing these interconnections is crucial for a comprehensive understanding of the challenges and opportunities facing Azerbaijan in its pursuit of sustainable economic development. The pandemic has exposed and exacerbated the vulnerabilities inherent in oil-dependent economies, emphasizing the significance of economic diversification and sustainable development. At the same time, it has illustrated the potential pitfalls of rent-seeking behavior and the risks associated with resource dependency.

4. Methodology

This section outlines the methodological strategy that will be utilized in this study, devised specifically to address our central research question: How have Azerbaijan's strategies towards promoting non-oil sectors and economic diversification evolved in response to the global crises, including the COVID-19 pandemic?

4.1 Research Design

The research process of this thesis follows a qualitative methodology using the case study design which is particularly suited for this research due to its capacity to encapsulate the multifarious dynamics of Azerbaijan, a country wrestling with the fallout of its oil dependency amid the volatile landscape left in the wake of the Covid-19 pandemic. Qualitative research, with its intrinsic nature of exploring phenomena in their natural settings, provides the context and complexity of behaviors, which would otherwise be lost in quantitative research. A case study, an integral part of qualitative research, is employed here due to its ability to facilitate an in-depth, multi-faceted exploration of intricate issues in their real-life contexts (Robson & McCartan, 2016, chap.7). As such, this research design allows for a comprehensive exploration of the intricate and context-bound factors driving economic initiatives and sustainability endeavors. Moreover, it also helps in understanding the interplay between oil dependency, economic structure, and sustainability and diversification efforts within the socio-economic, historical, and political contexts of Azerbaijan. Also, it is important to mention that although there are many numerical appearances in my analysis, this paper is not aimed to derive with quantitative analytical conclusion which has not been stated in the data collection materials. These numbers primarily support my thematic analysis and highlight changes during the crises.

4.2 Data Collection

This study's principal data collection approach hinges on the comprehensive examination of official Azerbaijani government reports, supplemented by documentation from globally respected institutions such as the World Bank and, lastly, newspapers. These sources have been judiciously

selected based on their direct relevance to the research question, their proven reliability, and the profound insight they contribute both in terms of breadth and depth.

The process of selecting these sources was both systematic and exhaustive, ensuring the collection of all relevant information pertaining to the research question. The use of a diverse set of data sources aids in bolstering the validity of the research through data triangulation, enhancing the robustness of the conclusions drawn. This meticulous approach to data collection guarantees a comprehensive understanding of the research question regarding Azerbaijan's oil relations. It thereby offers a holistic perspective on the research topic, crucial for an accurate and in-depth analysis.

4.3 Data Analysis

The analytical process employed for the data collected is driven by the established theoretical framework and applies a systematic thematic analysis method. Thematic analysis, a versatile and commonly used tool in qualitative research, excels at identifying, analyzing, and reporting patterns or themes within the data. It facilitates the organization and categorization of data into specific themes, which are subsequently leveraged to construct a comprehensive and nuanced account of the data. I began my thematic analysis with data familiarization through iterative readings, focusing on critical periods of my analysis like 2007-2008, 2014 and COVID-19 and noting initial ideas. This led me to form preliminary codes and key words that identified specific aspects of the data, which led to potential themes related to my question which are Oil Dependence, Economic Diversification, Sustainable Development / Sustainable Economic Growth and Non-oil Sectors took shape. These themes were examined and refined for accurate data representation, culminating in their final definition and naming. This thorough method ensures the research findings are solidly based on and true to the data (Robson & McCartan, 2016, chap.18). The process was conducted abductively, using an explorative approach. With the referenced theories as a guide, I navigated through various themes already before analyzing, allowing flexibility for potential new themes to emerge during the process. This necessitated an iterative, back-and-forth procedure. Additionally, to be transparent of structure of the analysis part; predominant emphasis in the analysis is placed on the COVID-19 era as it is a recent phenomenon that initially inspired the ideas central to this thesis. The periods of 2007-2008 and

2014, while significant for this analysis, are mainly explored to shed light on the historical role and strategies of the government and setting the stage for an understanding of the events leading to the COVID era. Therefore, a large proportion of the analysis is focused on COVID period.

4.4 Research Ethics

This research strictly adheres to all relevant Lund University ethical guidelines, even though it primarily relies on primary and secondary data. These ethical considerations encompass the correct citation of all sources to acknowledge the intellectual property rights of the original authors, ensuring that the data is presented accurately without distortion, maintaining objectivity in data interpretation and fair representation and transparency.

4.5 Limitations

While this methodology affords a robust framework for delving into the research question, it simultaneously acknowledges its inherent limitations. The dependency on primary and secondary data may circumscribe the scope and profundity of the study, given that the available data might not encompass all facets of the research question. Furthermore, secondary sources may bear intrinsic biases, which could impact the interpretation of the outcomes. The case study methodology, while teeming with detail and providing insights specific to the context, hampers the generalizability of the results to other oil-dependent nations.

4.6 Positionality

My positionality, crucial for understanding context and potential biases, shapes this study, influenced by my 13 years living in Azerbaijan. This on-the-ground experience affords me a nuanced understanding of the country's cultural, economic, and political dynamics, notably the complexities of oil dependency and economic reform. Being familiar with local language and norms aids in interpreting data with cultural competence. However, potential biases from personal experiences and beliefs are acknowledged, as they may influence assumptions, data interpretation, and source selection.

To mitigate these potential biases, I have employed reflexivity throughout the research process. Reflexivity involves ongoing self-awareness, critical self-reflection and questioning on my own biases, beliefs, and assumptions, and how these might influence the research and continuously checking that my interpretations of the data are grounded in the data itself rather than in my preconceptions. Positively, my lived experiences in Azerbaijan enrich the research, providing a contextual understanding and cultural competence, thereby bolstering the validity of the findings. Conversely, these experiences may introduce biases, potentially coloring data interpretation and challenging objectivity. Through reflexivity and transparency, I aim to offset these biases, thereby bolstering research credibility. I aim to uphold the research's integrity and credibility by being conscious of these factors and maintaining transparency.

This research methodology, which blends a qualitative case study approach with systematic thematic analysis, offers a solid framework for exploring the impact of oil dependency on the trajectory and effectiveness of economic reforms and sustainability efforts in Azerbaijan during important times. Despite its limitations, this study aims to generate insightful, credible, and ethically sound findings that will contribute to the broader understanding of the complexities of oil dependency and economic diversification efforts.

5. Analysis

5.1 Thesis statement

Amid key economic shocks—like the 2007-2008 financial crisis, the 2014-2015 oil price crash, and the COVID-19 pandemic—Azerbaijan has maintained a resilient and strategic drive towards economic diversification. This study investigates how these crises have influenced Azerbaijan's efforts to boost non-oil sectors. It scrutinizes the effectiveness of government strategies in mitigating economic impacts and fostering a shift towards a more diversified, sustainable economy.

As mentioned earlier there are key dates in Azerbaijan's history that shaped the country's economic and political strategy for diversifying its economy and promoting sustainability efforts. Although there have been many breakdowns in the last 30 years of the nation's history there are two important dates that were prominent before pandemic.

5.2 2007-2008

Azerbaijan developed symptoms of Dutch disease after introducing a new currency in 2006 due to its booming oil and gas industry. High oil prices led to a strong dollar exchange rate, rapid inflation, and wage increases (21% in 2006, 45% in 2007). Increased foreign currency inflow, including foreign direct investment, spurred imports and consumption of non-tradable goods and services. As a result, manufacturing and agriculture exports became less competitive, while oil and gas exports expanded. Job creation could not keep pace with economic transformation during the oil boom. A significant portion of the labor force (one-third) remained in agriculture, while oil—the most productive sector—employed only 1%. The employment share in other low-productivity sectors like trade remained stagnant between 1991 and 2017. Despite three-quarters of the workers being in non-oil sectors, labor productivity's contribution to economic growth has been minimal.

In 2006, Azerbaijan's economic growth peaked at 34.5% due to a surge in the oil and gas sector, the highest global rate that year according to the World Bank. But there was clearly no prospect of sustaining that level of growth after the global financial crisis triggered a global economic slowdown. The 2008 financial crisis drastically impacted this progress, dropping GDP growth to 0.1% by 2011. The downturn in oil prices, regional growth, currency devaluation, and oil and gas production contraction reversed much of the oil boom's benefits (ed. Hampel-Milagrosa & Asian Development Bank, 2020).

5.3 Azerbaijan 2020: The Vision of the Future

The oil and gas sector has been a major driver of Azerbaijan's economic growth, with the government investing heavily in this sector. However, this has made the country vulnerable to fluctuations in global oil prices. Despite the oil sector's significant contribution to the economy, the country's financial sector assets only represented 31% of the GDP, with banks accounting for 93% of these assets. Economic decline has revealed the vulnerabilities of the country's banking system to crises (Conrad, 2012). After the 2007-2008 global financial crisis, Azerbaijan attempted to diversify its economy beyond hydrocarbons with the "Azerbaijan 2020: The Vision of the Future" concept initiated in December 2012 and spanning until 2020, is a comprehensive national policy led by the Azerbaijan Government. Although this policy presents a multi-sectoral approach to address several critical domains, but for my thesis topic it is underscoring the pursuit of sustainable economic growth primarily through non-oil sector development encompassing agriculture, manufacturing, services, and tourism (Baghirov, 2019; Economy Ministry, 2019a). Minister of Economic Development Shahin Mustafayev said macroeconomic achievements meeting that the amount of foreign investments in Azerbaijan was \$20 billion in 2011, a 61% increase from 2010, and \$15.7 billion was invested in the non-oil sector. This trend signifies a potential shift towards economic diversification (Reuters, 2012). However, the policy was unable to withstand the effects of unexpected oil shocks in 2014 and 2015 (Baghirov, 2019).

5.4 2014-2016

The 59.2% oil price plunge in 2014 severely impacted Azerbaijan's economy. GDP per capita shrunk from \$7,891 in 2014 to \$3,880 in 2016, the lowest since 2007. Signs of recovery were visible in 2017 (World Bank, 2021). Due to falling oil prices, Azerbaijan's Central Bank implemented a managed floating exchange rate and twice devalued the national currency in 2015, by about 80% against the dollar in 2015, leading to a 3.8% economic contraction in 2016. These measures led to reduced import consumption and enhanced domestic production competitiveness, improving the trade balance (Baghirov, 2019; ed. Hampel-Milagrosa & Asian Development Bank, 2020). However, the government's currency interventions to preserve the manat's rate required spending 15% of foreign currency reserves and have weakened the country's budgetary outlook. According to the statistics for 2015 show that the state budget was heavily dependent on oil revenues, making up 71.3% in 2015 (Babayeva, 2016).

At that time Western sanctions on Russia worried what impact Western sanctions on Russia might have domestically but the Azerbaijani government saw a silver lining. Russia's interest in Azerbaijan's agricultural products and oil facility equipment, which cannot be sourced from the West, provides diversification opportunities for Azerbaijan's oil-reliant economy (Aliyev, 2015). Although non-oil GDP growth dropped from 10% in 2013 to 1.1% in 2015, there has been a noteworthy increase in the contribution of agriculture to GDP from 5.4% in 2011-2012 to 6.4% in 2015-2016 (ed. Hampel-Milagrosa & Asian Development Bank, 2020; Zulfugarli, 2020). The head of the Center for Analysis of Economic Reforms and Communications in Azerbaijan noted the challenges of economic diversification during high oil dependency periods. However, the years following 2014 have seen reduced oil reliance, marking a promising shift (Aliyev, 2015). To address these challenges, the government of Azerbaijan has been making concerted efforts to diversify the economy and reduce its dependence on the oil sector.

Following the post-oil price collapse, Azerbaijan's government took measures including proposals for gas and electricity market reforms, energy efficiency and renewable energy laws. The government is working to create a favorable investment climate to attract new investors to this field and increase the share of renewable energy sources to 30 percent in its overall energy balance by 2030. They also nearly completed the country's first specific energy strategy, aiming

to secure a sustainable energy future and diversify the economy (International Energy Agency, 2021; Jafarova, 2019).

In addition to energy efforts, Azerbaijan is positioning itself as an essential link in the fast delivery of high-value goods between China and Europe, with a long-term plan to establish manufacturing centers near markets (Shahbazov, 2018). Parallel to its industrial efforts, Azerbaijan is striving to become a cultural hub, hosting significant regional and global events. This includes the Eurovision singing competition, FIFA U-17 Women's World Cup, European Games, European Grand Prix Formula One race, and the 42nd Chess Olympiad, with future ambitions to host the Summer Olympics (Rookwood, 2022). The tourism sector is another area where Azerbaijan is significantly investing reaching \$884 million revenue in 2016. The country aims to reform its visa regime to make it more accessible and attractive to tourists worldwide, thus boosting tourist inflow and contributing to the economy. The acceleration of these economic diversification strategies can be attributed to the economic downturn caused by the drop in oil prices, which underscored the necessity for Azerbaijan to lessen its reliance on oil revenues (ed. Hampel-Milagrosa & Asian Development Bank, 2020, p.37; Rookwood, 2022).

5.5 The Strategic Road Map

The 2014 oil price drop exposed Azerbaijan's economic vulnerabilities then the government adopted "Strategic Roadmaps" to focus on diversification and formulate a new development strategy (Baghirov, 2019; ed. Hampel-Milagrosa & Asian Development Bank, 2020). Established by President Ilham Aliyev in December 2016, the Strategic Road Maps plan aims to decrease reliance on oil and stimulate economic growth via foreign direct investment and domestic private investment in non-oil sectors. The initiative comprises 12 road maps detailing strategies for inclusive economic development from 2016-2020, goals up to 2025, and long-term objectives beyond 2025. The short-term objective focuses on achieving macroeconomic stabilization and resilience against future oil price shocks. Long-term goals involve diversifying the economy, enhancing competitiveness, and integrating Azerbaijan more deeply into the regional and global economy. Four core targets underpin the Strategic Road Maps: strengthening fiscal sustainability and adopting a sustainable monetary policy, facilitating privatization and reforms for state-owned

enterprises, developing human capital, and fostering a favorable business climate. To achieve these objectives, an estimated 5 billion AZN (\$2.9 billion) is required. The Road Maps emphasize that the private sector will be the primary driver of economic development, with public investments used to stimulate private entrepreneurship. The strategy underscores quality, diversified growth, rather than focusing merely on the growth rate (ed. Hampel-Milagrosa & Asian Development Bank, 2020). Azerbaijan acknowledges human capital's significance for sustainable growth and global integration. Despite improvements in primary and secondary education participation, challenges persist, including inadequate government spending on education, poor quality secondary and vocational education, low tertiary enrollment, and skill deficits. The Strategic Roadmaps target human capital development, emphasizing quality education and research investments to enhance labor productivity. Vocational education and training have been emphasized as vital for skills development. To address the skill-qualification mismatch and boost non-oil labor productivity, the government is reforming education and embedding human capital development in the Strategic Roadmaps. The focus is on improving skills, especially for youth employment, and rebranding vocational education to attract more applicants for skills certification. These strategies will positively returns in the long term which will be further highlighted more in pandemic period (ed. Hampel-Milagrosa & Asian Development Bank, 2020, chap.3).

In summary, although the economic significance of Azerbaijan's state-owned enterprises (SOEs) has declined since 1995, they remain important economic players. The SOEs, notably the State Oil Company of the Republic of Azerbaijan (SOCAR), contribute significantly to GDP and employment but rely on budget subsidies linked to oil prices. The oil price drop in 2014 highlighted the need to boost SOEs' efficiency and sustainability. The government recognizes the necessity of shifting from state-led to private-led economic growth. It has initiated a comprehensive reform agenda for SOEs to improve efficiency and prepare nonstrategic ones for privatization (ed. Hampel-Milagrosa & Asian Development Bank, 2020). Notable reforms include enhancing centralized financial control and transparency of SOEs, setting up a database on SOEs, and improving the sector's regulatory and legal framework. These measures aim to stimulate a strong corporate governance culture in SOEs and boost their performance. The government has implemented measures to improve SOEs' efficiency and accountability to drive

economic growth and diversification. Initial progress is evident, but more needs to be done to address regulatory, institutional, and operational gaps in the SOE sector. (ed. Hampel-Milagrosa & Asian Development Bank, 2020)

5.6 COVID-19 (2019-2022)

2019

The year 2019 was an important year to make comparison and assessment of the government efforts and strategies before pandemic. As per 2019 records, the non-oil sector grew by 3.5% from the previous year, with marked expansions in the non-oil industry (14.5%) and the information and communication sector (15.9%). Notably, over two-thirds of total investments were made in the non-oil sector, underlining the shift in investment focus. Driven by reforms aimed at non-oil sector development, non-oil export revenues saw a significant increase. Consequently, between January and November 2019, a positive foreign trade balance of \$5,271 million was reported, with non-oil exports experiencing a 16.3% uptick (Economy Ministry, 2019a). Within this sector, industry saw a 14.5% growth in added value, with a total production increase of 14.3%. This was further emphasized by a 23.0% rise in capital investments in the non-oil industry, reflecting growing investor confidence (Economy Ministry, 2019b). Efforts to stimulate economic activity and support export-oriented production led to the issuance of 421 investment promotion documents to 355 enterprises from 2016 to 2019. Additionally, the Entrepreneurship Development Fund granted 40.3 million manats in 2019 to support 1527 small and medium-sized projects, leading to the creation of 5363 new businesses (Economy Ministry, 2019c).

The role of the State Oil Fund of Azerbaijan (SOFAZ) in managing the country's hydrocarbon revenues is critical. Founded following the 1994 "Contract of the Century" with 11 international oil companies, SOFAZ is an autonomous entity, separate from the government and central bank. It serves to transform finite hydrocarbon reserves into perpetually income-generating financial assets, embodying intergenerational equality of Azerbaijan's oil wealth. SOFAZ's three-fold objectives are to support macroeconomic stability and stimulate the non-oil sector, finance large-scale national projects aiding socio-economic development, and ensure preservation of oil

revenues for future generations. This aligns with Azerbaijan's National Oil Strategy, with Ilham Aliyev playing a pivotal role in its realization (SOFAZ, 2019a). SOFAZ continues to operate amidst the reforms in the non-oil sector. In 2019, Azerbaijan progressed towards a balanced regional development, augmenting non-oil exports, improving the business investment environment, and stimulating the private and agricultural sectors. SOFAZ has a strategic investment approach focused on maximizing risk-adjusted returns over the long term. The portfolio, reviewed annually, has allocations in debt obligations, equities, real estate, and gold. By the end of 2019, most investments were in fixed income and money market securities. 2019's global economy, however, grew at its slowest since the 2008-2009 financial crisis. Then, 2020's oil market outlook was disrupted by the COVID-19 pandemic, causing a decline in global economic activity and oil demand. Disagreements on production cuts led to a supply excess, plummeting prices. A revised agreement helped stabilize the market, but the average oil price still significantly declined (SOFAZ, 2019a).

2020

The year 2020 witnessed a significant impact on the global oil market due to the COVID-19 pandemic, with widespread lockdowns causing Brent oil prices to fall below USD 20 per barrel. However, thanks to the intervention of OPEC+ and a slight resurgence in oil demand, among other factors, the market regained some balance and the average price at the end of the year was USD 41 per barrel. The economic shockwaves of these events led to an average GDP contraction of 4.8% in resource-exporting countries. In a broader perspective, the global GDP experienced a decline of 3.3% in 2020. Developed countries reported a 4.7% decline, while newly industrialized and developing countries suffered a 2.2% decrease. If China's economic growth was removed from the equation, this latter figure would further drop to -5.0% (SOFAZ, 2020).

The Azerbaijani economy in 2020 took a significant hit due to the COVID-19 pandemic, prompting the government to implement an action plan to safeguard jobs and invigorate the economy. Despite these challenging circumstances, the GDP experienced a relatively moderate decrease of 4.3% compared to 2019. While certain sectors, notably tourism, faced substantial losses, the non-oil sector was more resilient, experiencing limited losses and even recording growth in some areas. The majority of investments during this period were domestically sourced

and predominantly directed towards the non-oil sector, accounting for 65.5% of total investments (Economy Ministry, 2020a). The non-oil sector continued to play a significant role in the Azerbaijani economy in 2020, contributing 70.1% of the additional GDP value. This sector saw growth of 12%, driven primarily by the processing and energy sectors (Economy Ministry, 2020b). The industrial sector represented 33.7% of Azerbaijan's GDP in 2020, with a significant contribution from oil and gas. Although the oil and gas industry saw a decline of 6.9%, the non-oil industry grew by 12.5%, with manufacturing experiencing an impressive 18.0% rise (Economy Ministry, 2020c).

2021

In 2021, despite the persisting effects of COVID-19, economic recovery in Azerbaijan began to gain momentum. This recovery was propelled by improved international conditions, increased support for entrepreneurship, and a swift vaccination rollout. Notably, growth was observed in both the oil and non-oil sectors. The non-oil sector experienced an increase in value-add by 7.2%, making up 62.2% of the GDP surpassing the oil and gas sector's contribution. Concurrently, fixed capital investments reached 16,127 million manats, with a majority (73.1%) being domestic and the remainder (26.9%) being foreign. Among these investments, 35.8% were channeled towards the oil sector and 64.2% to the non-oil sector (Economy Ministry, 2021a).

Despite the pandemic's challenges, the rapid rollout of vaccinations and various support measures facilitated economic activity in the non-oil sector. As a testament to the improved production in the non-oil industry, non-oil gas exports increased by a remarkable 44.1% in 2021, while the growth of consumer goods imports decreased (Economy Ministry, 2021b). A key focus for Azerbaijan has been the diversification of the non-oil sector. This includes the development of competitive non-oil products, agricultural growth, the advancement of the digital economy, and the revival of tourism following the easing of pandemic-related restrictions. Comparisons with the previous year reveal a substantial shift in Azerbaijan's economic landscape from a traditional focus on the oil and gas sector towards a more diversified, non-oil sector.

This trend underscores the importance and effectiveness of recent economic policies in promoting non-oil industries, reducing dependence on fossil fuels, and enhancing economic

resilience. Within the industrial sector, non-oil activities showed a significant increase of 18.9%, suggesting a vibrant and dynamic facet of the economy. The sustained growth of the non-oil sector signifies a promising shift in Azerbaijan's economic trajectory (Economy Ministry, 2021c).

In 2021, despite the many global challenges, SOFAZ proved to be a strong financial pillar for the country. As per the budget of 2021, SOFAZ transferred AZN 7,309 million to the state budget, demonstrating its significant contribution to Azerbaijan's economy. In addition to supporting the national budget, the Fund allocated AZN 3.4 million to the "State Program on Raising Competitiveness of Higher Education in Azerbaijan in 2019-2023," underscoring its commitment to education and the cultivation of human capital. Indeed, SOFAZ perceives human capital as a crucial catalyst for innovation and sustainable economic growth in Azerbaijan (SOFAZ, 2021a, 2021b).

2022

In 2022, Azerbaijan experienced a surge in tourism and public facilities, significantly contributing to the non-oil sector's GDP, which rose by 9.1% to total 69.8 billion manats. This growth not only underscores the sector's resiliency but also signals the successful efforts in diversifying non-oil industries, improving agriculture, expanding digital commerce, and boosting tourism. By the first quarter of 2022, the non-oil sector had seen further growth of 5.7%, with manufacturing and energy production showing particular strength. The Information and Communications Technology (ICT) sector has also experienced a robust expansion, growing by 14.8% in the wake of pandemic-induced digital transformations. Significantly, the non-state sector now accounts for 82.4% of the non-oil sector's income, highlighting the crucial role of private entrepreneurship in economic development (Economy Ministry, 2022a).

By 2022, Azerbaijan's GDP had grown by 4.6% compared to the previous year, led primarily by the non-oil sector, which grew by 9.1%, despite a 2.7% decrease in the oil sector. The non-oil industry's production volume saw an increase of 7.1%, while the oil and gas industry's volume fell slightly by 2.5% compared to last year. These figures demonstrate a decisive and encouraging shift towards non-oil industries, aligning with global trends of diversification and sustainability (Economy Ministry, 2022b).

In the same year, under President Ilham Aliyev's leadership, Azerbaijan allocated 208.1 million manats for socio-economic projects. This strategic move aimed to stimulate entrepreneurship and enhance business investments. To foster private investment, 50 incentive documents were issued, leading to an anticipated investment of 664.6 million manats and the creation of 2323 jobs. Tax exemptions on technology imports further signaled the state's support for innovation and digital economy, amounting to 18.54 million US dollars. Beyond economic initiatives, Azerbaijan also invested in environmental programs. Efforts included planting 1.5 million trees and afforestation of 1373.9 hectares, underlining the country's commitment to sustainability. As part of a state program, 4.3 million young fish were also released into water bodies, showcasing a comprehensive effort to environmental preservation. The intertwined emphasis on economic growth and environmental sustainability positions Azerbaijan as a forward-thinking nation, strategically poised for future success (Azerbaijan Government, 2019; Economy Ministry, 2022c).

6. Conclusion

The analysis shows that since independence the Azerbaijan government has been striving to reduce its oil dependency although its economic fabric intricately intertwined with oil. Azerbaijan has made remarkable progress through often difficult times, transitioning from a collapsed economy after independence, and the economy underwent a significant transformation achieved substantial growth and modernization. The Azerbaijan government is recognizing of the risks associated with oil dependency and the economic outlook strongly linked to oil, for this reason the government had initiated economic reform efforts even before the pandemic. The country has been investing in a high level of human development and strong economic growth paths. Despite the economic shocks, the country's economy is on the path to recovery, with the government actively implementing bold macroeconomic and fiscal reforms, and a program of economic diversification under Azerbaijan 2020: The Vision of the Future and The Strategic Road Map. The government has invested in initiatives aimed at developing a more sustainable and diversified economy, with a focus on non-oil sectors underscore this shift. During the pandemic,

although it was imperative to see improvements of non-oil sectors and the last three years have shown the importance of non-oil sector and became prominent to pivot away from reliance on oil revenues for national prosperity. Additionally, Azerbaijan is making good progress on human capital reforms which is both important and necessary for country's long-term development. For Azerbaijan, curtailing this dependency and transitioning towards a diversified economy is not a small task. However, repeated global crises have highlighted the vulnerabilities inherent in this economic model, emphasizing the necessity of such a transition to ensure economic resilience during global crisis.

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