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**Economic Diversification of the Republic of Azerbaijan, the Role of
the Middle Corridor as a Means to Decrease the Dependency of the
Azerbaijani Economy on Oil Production**

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Abstract

The Middle Corridor project plays a crucial role at reconstruction of trade routes and enhancing the connection between two continents, Europe and Asia. It has particular importance to Azerbaijan in terms of economic diversification, economic growth, and political visibility especially in a period when instability, freight price increases, and lack of security is observed on the Russia's Northern Corridor. This paper analyzes the problem of oil dependency of Azerbaijan's economy, introduces policy alternatives to tackle the problem, and explores how implementation of the Middle Corridor project in Azerbaijan will contribute to the development of non-oil sector. By analyzing the political and socio-economic impact that impede the implementation of the project, this paper examines the dire need for coordinated efforts to mitigate the effects of impediments with the purpose of achieving sustainable economic growth in the long-term.

Keywords: *Middle Corridor, economic diversification, non-oil sector, sustainable economic growth.*

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CHAPTER 1. INTRODUCTION

Azerbaijan is one of the few oil-dependent countries worldwide. Situated at the crossroads of Eastern Europe and Western Asia, Azerbaijan has a rich history and diverse cultural heritage. Its economy is largely concentrated around its abundant oil and gas resources. According to an article by Ingilab Ahmadov, 47.8% of Azerbaijan's total GDP has been shaped by the output generated in oil and gas sector in 2022, revenues gained in oil sector has contributed to 52.7% of the government budget, and lastly oil products constituted 92.5% of total exports in 2022. (Ahmadov, 2023) These figures alone show the magnitude of importance of oil and gas sector to the Azerbaijan's economy, and its dependence on the oil production. Such dependence is attributed to the interplay of historical, legal, political, social, and economic factors.

The development of oil production industry in Azerbaijan dates back to 1846, when oil was extracted in Bibiheybat oil field. (Ministry of Energy of Azerbaijan, 2020) It was then followed by the increased oil production in the country, expansion of oil infrastructure and attraction of foreign investors engaged in production, refining and sales of crude oil and oil products. Soon the government started implementation of initiatives for oil export with the construction and commissioning of Baku-Batumi railway in 1883 followed with the construction of Baku-Batumi pipeline in 1907. (Ministry of Energy of Azerbaijan, 2020) All these initiatives facilitated expansion of oil and gas sector in Azerbaijan, which then become a building block of our economy.

In 1991, following the collapse of the Soviet Union, newly independent state – Azerbaijan started facing various challenges as a result of transitioning process from a centrally planned economy to a market economy. To ease the process and attract foreign

investment Azerbaijani government enacted legal reforms that facilitated the development of oil and gas resources. Instrumental in the expansion and exploration of the country's oil reserves became production-sharing agreements (PSAs) with international oil companies. (Mustafayev, 2015) Such legal framework in Azerbaijan sought to reap benefits of the country's oil wealth and overcome the challenges of the new economic system simultaneously.

From a political perspective, oil has been a supreme force impacting power dynamics and governance structures in Azerbaijan. The domination over revenues from oil production has enabled concentration of the power within the ruling elite contributing to the maintenance of political stability and influence over political outcomes. This concentration of power has concurrently raised distress about transparency, authoritarian dispositions, and corruption. (Guliyev, 2013) The control over oil resources has also shaped governance structure in the country, with state owned entities (SOEs) being key players in the oil market or industry. The State Oil Company of Azerbaijan Republic (SOCAR), national oil company and major player in the country's oil industry, for example, has enabled the government to exert control over oil production, exploration, and distribution. According to Heidi Kjærnet, the company is not only a partner to the international oil companies in all PSAs in Azerbaijan but also a central actor in petroleum policy formation. (Kjærnet, 2009)

Oil wealth has also played a great role in the country's domestic and foreign policy objectives. Domestically, oil revenues were used to fund infrastructure projects, social programs, or public services. Various schools, clinics and recreational opportunities were funded by SOCAR's revenues, the major oil producer in Azerbaijan. (Kjærnet, 2009) Internationally, oil diplomacy has become a building block in running diplomatic

negotiations and alliances, and establishing relations with neighboring countries and major international actors that are particularly interested in the entry of the Azerbaijani oil to the world markets. (Giorgi, 2016) Nevertheless, the country's dependence on oil revenues has created strong vulnerability to external influences, especially influences of the parties interested in Azerbaijan's energy resources.

Heightened revenues from oil production have also had significant social implications for Azerbaijan. While contributing to the boost of economic development, oil industry has exacerbated inequality in the country by inducing disparities between urban and rural areas. Urban areas, particularly the capital city of Baku, are benefiting from rapid development and welfare fueled by oil revenues, promoting the accumulation of wealth and opportunities in particular centers while leaving population of rural areas marginalized. Additionally, since oil industry is one of the major job suppliers in the country, over-reliance on jobs promoted by oil sector has formed dependence and vulnerability among employees, especially during economic crises or oil price fluctuations. (Ahmadov, 2016)

The factors that contributed to the heavy dependence of Azerbaijani economy on the oil and gas sector is its benefits such as energy security, accumulation of financial resources, increased opportunities for the realization of infrastructure projects, and its positive impact on the state social and political affairs. According to Ingilab Ahmadov, the countries specializing in oil production tend to reduce tax burden and grow less reliant on the taxpayers. (Ahmadov, 2023) However, dependence on oil production creates various challenges to the Azerbaijani economy due to vulnerability to volatility in oil prices and introduction of new competition. Azerbaijan faces particularly challenging phases during the times of sharp decline in oil production volumes due to over-reliance on oil revenues

causing decreases in the state's tax revenue. Other difficulties caused by the over-reliance are the hindered economic diversification in the country and increased constraints in long-term economic sustainability.

As mentioned earlier, since there is great vulnerability to volatility in oil prices Azerbaijan's economy has greatly suffered from the sharp decrease in global oil prices in 2014 facilitating the government to shift its strategic development goals into escalating alternative sources of growth beyond oil production. The first initiative our government implemented was to cut on spendings financed by revenues earned from oil production and trade in order to limit the amount/margin of oil revenues contributed to the government budget. (Hampel-Milagrosa et al., 2020) This policy was followed by several other fiscal and monetary policies, strategies to attract foreign direct investment (FDI) and decrees by the President of Azerbaijan on government's national plan.

The most recent initiative aimed at economic diversification is the Middle Corridor project that is aimed at reviving trade routes and strengthening connectivity between Europe and Asia. The main purpose of this project is to develop efficient transportation network, which includes roads, railways, and ports, and to encourage movement of goods, services, and people across the region. The corridor enhances connectivity between Europe and Asia facilitating new opportunities and markets for businesses, enhancing regional cooperation and cross-border trade, and fostering economic integration. The project also necessitates the states along the route to develop infrastructure by investing into the construction of ports, logistics hubs, industrial zones, and multimodal transportation facilities. For a number of states along the route the Middle Corridor project presents an opportunity to diversify away from the traditional sectors or commodities by expanding

other sectors such as manufacturing, logistics, and service. Another major role of the corridor in the development of the states along its route is facilitation of job creation and economic development leading to increased income and social stability. In terms of Azerbaijan, the project can be elevated as potential means to reduce our economy's heavy dependence on oil production by enhancing economic diversification and promoting regional trade. It also enhances the country's strategic geographic position as a bridge between two continents, Europe and Asia, facilitates investment into transportation infrastructure along the corridor such as Baku-Tbilisi-Ceyhan oil pipeline project, the Southern Gas Corridor, Baku-Tbilisi-Kars railway, and Baku International Sea Trade Port, and strengthens cooperation between the countries engaged into the Middle Corridor project. (Valiyev, 2023)

When it comes to the question of the benefits infrastructure investments have on regional economic development, according to Muram Margvelashvili, Associate Professor of Illia University and Energy Director of "World Experience for Georgia", those investments boost economic activity of the countries and facilitate their growth. In addition to economic growth opportunities, Middle Corridor provides benefits to the business environment, as stated by Margvelashvili, through the "political stability, common standards, unified tariffs, and cooperation between countries". (Shahin, 2024) Lastly, he mentions the opportunities the Corridor creates for the import and export of the locally produced goods and the political visibility of the countries in the region. (Shahin, 2024)

Moreover, the Corridor contributes to the country's economic diversification strategy by promoting non-oil spheres such as agriculture, manufacturing, technology, tourism, etc. It also creates access to new markets for the local businesses and entrepreneurs

and encourages creation of new jobs along the route, particularly in rural and underdeveloped areas.

As addressed by the President of the Republic of Azerbaijan, H.E. Mr. Ilham Aliyev at the “Karabakh: Back Home After 30 Years. Accomplishments and Challenges” Forum, the Middle Corridor project is expected to contribute to the reconstruction of direct connection between Azerbaijani mainland and Nakhchivan region, rehabilitation of newly liberated territories and cooperation between Azerbaijan and Armenia by means of a transit route through the Zangezur region and Armenia’s territory. (Kazimbeyli, 2023)

In addition to the benefits brought about by the Corridor, it is crucial to note the growing relevance and importance of the project in terms of the transportation of goods between Europe and Asia as a result of the conflict between Russia and Ukraine along with the increasing instability in the Red Sea because of the Houthi attacks. According to Muram Margvelashvili, all these conflicts caused the freight prices to increase and hindered supply of the goods to the EU increasing the competitiveness of the Middle Corridor and the security of transportation. (Shahin, 2024)

The purpose of this research paper is to comprehensively examine the possibilities of economic diversification in Azerbaijan in order to reduce dependency of the country’s economy on oil production, with a particular focus on the Middle Corridor project as a tool for the implementation of the national strategy for economic diversification. This paper intends to provide an in-depth understanding of the significance and scope of the heightened dependency of Azerbaijan’s economy on oil revenues, including study of the historical, legal, political, social, and economic context of the problem. Next, it introduces the concept of economic diversification as a current policy or initiative to decrease over-

reliance on oil revenues and the extent of its impact on the long-term economic sustainability. This encompasses analysis of the prospective role of the Middle Corridor project as a part of the strategy for economic diversification, including the assessment of the project's objectives, scope, and future impact on the development of infrastructure, regional integration, and diversification of the trade. Finally, the paper aims to present policy options highlighting the preferred one to foster economic diversification Azerbaijan by leveraging the Middle Corridor project.

1.1. Methodology

The study's methodology crafted a comprehensive approach by incorporating qualitative and quantitative data analysis. A mix of qualitative techniques (e.g., critical essays, in-depth interviews, and rigorous analysis of content) and quantitative analysis (including statistical data and official reports) was used. The data collection involved both primary and secondary data collection approaches. In primary data collection, interview method is used to get information on the Middle Corridor project and its impact to the economic diversification in Azerbaijan.

Input from various participants was obtained by taking qualitative accounts into consideration and providing relevant quantitative data to boost the respondents' understanding and implications by contextualizing and validating their ideas. This is used to develop a broad discourse on the role of the Middle Corridor in Azerbaijan's economic diversification drive.

The secondary data collection consisted of annotated materials such as academic jobs, governmental documents, and trustworthy media. Through preliminary exploration, the observations revealed that the oil industry in Azerbaijan had an incorrect trajectory, the

impetus to economic diversification, and the Middle Corridor's role as a tool in solving the problem of oil dependence. This was where incorporating a varied range of secondary sources, which exponentially improved the comprehensiveness of the research's contextual understanding, builds a solid framework for further analysis.

As part of primary data collection, comprehensive interviews of key stakeholders from the Departments for Regulation of Transport Sector and Technological Development of the Ministry of Digital Development and Transport of the Republic of Azerbaijan and Innovation and Digital Development Agency under the Ministry were carried out. The intentional choice of the interviewees was to build sufficient qualitative data, which was used to provide further comprehensive details on the intricacies surrounding the area of transport regulation and the effectiveness of Middle Corridor in bringing about economic diversity.

The study considered a sample size of four participants, which was deemed sufficient to provide valuable insights and experience on the project under study. A purposeful sampling was deployed in selecting the sample size, where knowledgeable and experienced experts were intentionally picked to ensure that the information gathered is both informative and valuable.

The qualitative data analysis deployed by this research was primarily anchored on thematic analysis for qualitative data. The method identifies trends and emerging themes within the qualitative data set, then goes through a refining and grouping process of coding to highlight essential facts and details on the Middle Corridor's influence on Azerbaijan's economy.

In order to derive informed conclusions on the scale of the oil dependency problem quantitative data was used. This data was gathered from official state reports, statistics base, and official websites, analyzed, and presented in a graphical form to draw a bigger picture on the problem.

Even though the study under review rigorously applied specific methods, the general conclusions regarding the effectiveness of the intervention program still need to be expanded on the breadth and depth of their findings. The research, thus, relies on the qualitative data obtained from the in-depth interviews carried out with a set of stakeholders representing the Ministry of Digital Development and Transport of the Republic of Azerbaijan. Though these interviews are successful tools for studying the perspectives and experiences of these top actors, the interviews still need to fully dwell upon the diverse views emanating from the Azerbaijan economy. Moreover, the qualitative nature of the data opens up the possibility of a bias toward interpretation since a theme is an arbitrary category, and the studies have to be observed from the investigator's perspective.

The research was based on strong ethical and integrity rigors. Adherence to ethical principles like informed consent, confidentiality protection, and anonymity guarantees the structural integrity of the moral support that underpins the research project. The research provided an environment, which thrived on trust and respect and was marked by a collaborative culture. The information the study utilized was publicly available, helping in reducing privacy issues that would increase conflicts when it comes to access to proprietary or confidential data. Likewise, the research was limited to the Middle Corridor project and innovation and entrepreneurship and does not examine other potential sectors or strategies

that could play a role in the country`s plans to reduce its dependence on petroleum production.

CHAPTER 2: PROBLEM DESCRIPTION

In this chapter we are going to enlighten how being heavily dependent on the oil and gas industry creates challenges for the Azerbaijan's economy today.

Crude oil price has been one of the most influential numbers in the World's economy for at least the last century. Despite all changes in the global economic, political, and social environment since its first integration into the Global economy, this valuable substance still dictates over the majority of other important commodities. It is not only a source of energy that is used in fueling vehicles, planes, electricity, or heating, but it is also used in the production of a variety of consumer and industrial goods. Although the world economy has suffered several financial crises because of fluctuations in the oil prices time by time, it still enjoys plenty of benefits offered by the oil production industry as a result of years of investment and development initiatives contributed to the industry. In fact, the oil and gas industry is one of the largest industries in the world. Exploration and production of oil make up a large share of the global economy. Just to stress the significance of this industry, we can say that the energy sector, which involves mainly oil production, employs nearly 40 million people across the globe and has generated approximately \$4.3 trillion of global revenues in 2023. (R. Brown, 2023)

While macroeconomic indicators of oil industry actors vary from country to country, it is common for developing oil-producing countries to be dependent on the oil production, and Azerbaijan's economy is no exception.

After gaining independence in 1991, Azerbaijan experienced a decline in the oil sector along with all other areas of economy. Despite having sufficient oil and gas reserves and professional experts in this field, Azerbaijan had a weak financial and technical base for

extracting, processing, exporting, and selling these resources during those years. To overcome this situation, the Azerbaijani government established a new oil strategy, resulting in the signing of the "Production Sharing Agreement," also known as the "Contract of the Century," for the period covering 1994-2024 years between the State Oil Company of Azerbaijan and a group of oil companies from different countries on September 20, 1994. (Presidential Library, n.d.)

According to this contract, foreign companies were obliged to extract 511 million tons of oil from Azerbaijan's three main oil fields over 30 years and deliver half of the extracted oil to Azerbaijan. At the same time, 55 billion cubic meters of gas extracted from these fields had to be delivered entirely to Azerbaijan without division. In terms of the 1994-year value of Azerbaijani manat, Azerbaijan's benefit from this contract was determined to be 34 billion dollars, and the bonus amount each company would pay was also specified. (Presidential Library, n.d.)

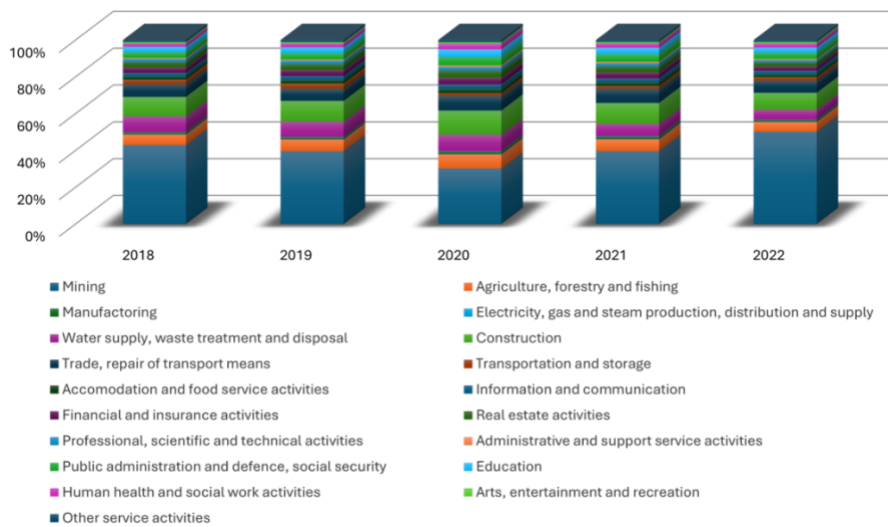
Indeed, it was as if Azerbaijan, a country that had just gained independence, was finding a solution to all socio-economic, financial, and other challenges, rescuing its almost collapsing economy. Thus, within this contract's framework and as a result of many subsequent activities, the country began to develop. However, this development was heavily reliant on oil production since great investments, both local and foreign, were contributed to this sector and the most revenues were coming from oil production. This made Azerbaijan's economy dependent of oil and gas sector, thereby vulnerable to volatilities in political, economic, and social environment in oil importing and exporting countries.

2.1. Oil and gas industry as a major part of the Azerbaijan’s economy

According to the most recent figures U.S. Energy Information Administration provided, Azerbaijan is the world’s 25th largest oil producer and has produced 603,000 barrels of oil per day in 2023. It is stated that production and export of crude oil and natural gas make up a significant share of Azerbaijan’s economy and state revenues. (Azerbaijan: Executive Summary, 2021)

To visualize the numbers indicated in the above statement let us have a close look at the data of oil and gas industry in Azerbaijan.

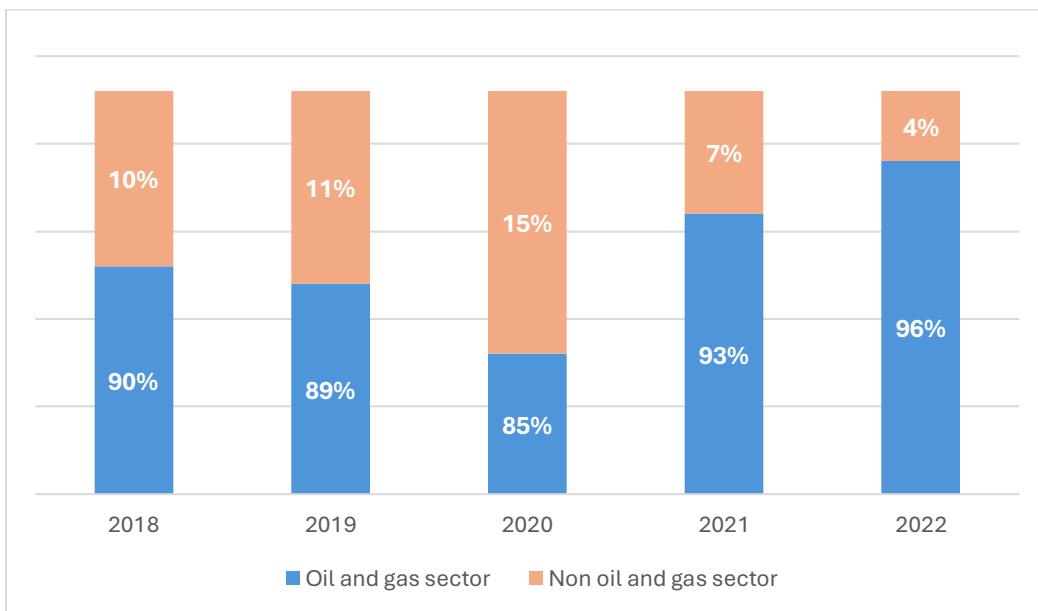
It is evident from the Graph 1 below, which depicts the share of GDP attributable to the production of goods and services in various sectors of the economy between 2018 and 2022, that throughout this period the mining sector consistently held the largest share each year. Statistics from the five-year period also reveals that among the nineteen different economic activity sectors the average share of the mining sector alone is 40.6%, while the remaining 59.4% was distributed among the other eighteen sectors.



Graph 1. Production of the GDP by types of economic activity, percentages

As it is illustrated in the graph above, during the year of 2020 the share of GDP from the mining industry decreased, which can be attributed to the weakening of this sector due to the global Covid-19 pandemic, similar to its impact on all other sectors. In 2022, however, half of Azerbaijan's produced GDP is attributed to the mining industry, with 96% of it coming specifically from the oil and gas sector. While these figures clearly demonstrate the dominance of the oil and gas sector in Azerbaijan's economy, before delving into other important numbers, let us shed some light on the concept of GDP. According to books on economics, Gross Domestic Product (GDP) is the total market value of all goods and services produced within a country's economy in a year.

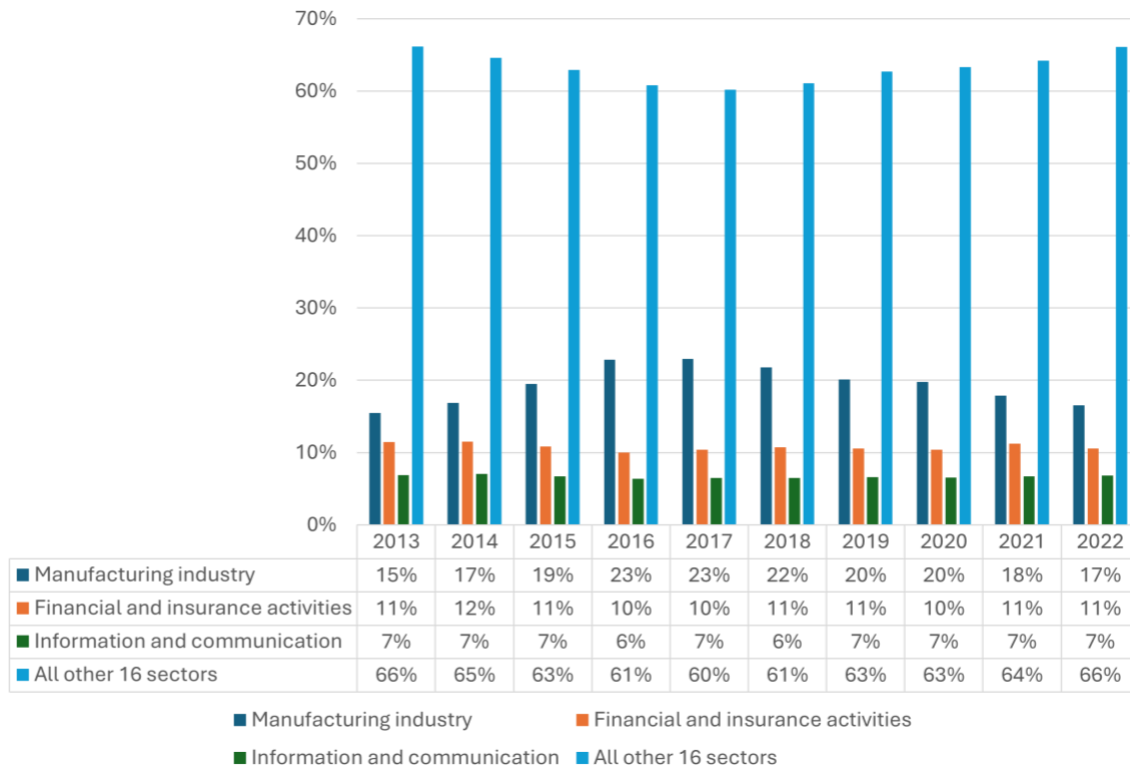
A closer look at the GDP between 2018 and 2022 reveals that on average, 90.6% of the mining sector is constituted by the oil and gas sector, while the remaining 9.4% is attributed to non-oil and gas sectors (Graph 1a). (Budagov et al., 2023)



Graph 1a. The percentage share of oil and gas and non-oil and gas production within the mining industry

Taking into account the significance of the average annual salary as an important economic indicator in the country, if we look at the average salary indicator in different

sectors of Azerbaijan's economy over the years, we can see that over the past 10 years the mining industry has been the one with the highest average salaries across 19 different sectors of the economy as depicted below in the Graph 2. (Budagov et al., 2023)



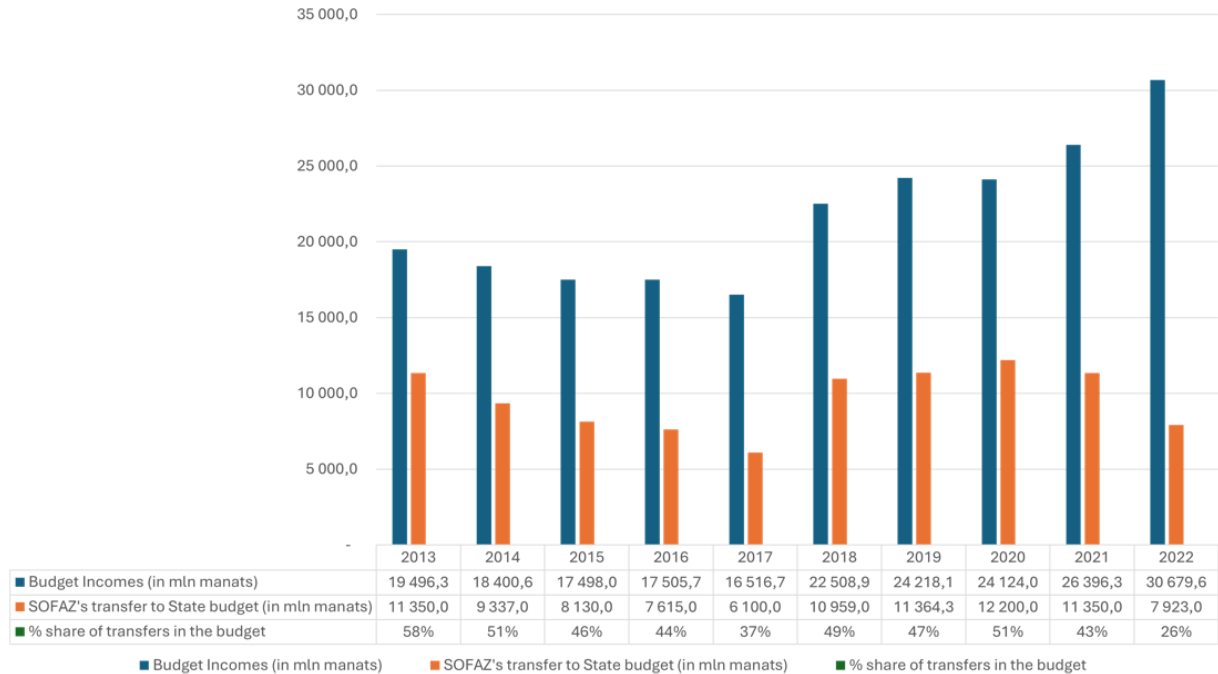
Graph 2. Average salary over the years in different sectors of economy

According to another piece of data provided by the State Statistics Committee, only 1.8% of the 1,734,200 employed people who earn their living through wages, work in the oil and gas sector. Consequently, this leads to a significant portion of the income being divided among a smaller segment of the population. This situation contributes to income inequality in the economy, where income is unevenly distributed, and household expenditures are not proportional. In other words, only 1.8% of all actively employed individuals in the country consume a full 15% of the earned salaries. The positive aspect of this issue is that as salaries

rise, so do budget revenues, which primarily consist of Personal Income Tax (PIT). (*Labour Market / State Statistics Committee of the Republic of Azerbaijan, 2024*)

Budget is a system consisting of revenues and expenditures, and it is a rather complex concept. In global practice, state budgets primarily consist of taxes, customs duties, investments, and income from securities in the form of interest and dividends. However, in countries that produce and export commodities such as oil and gas, this tendency is somewhat different. In such countries, national income funds are established under government control to ensure the effective utilization of funds generated from the sale of commodities. These funds transfer a certain portion of the income to the state budget. The main portion of budget revenues consists of such transfers, and budget plans are prepared based on these revenues, aligning expenditures for the next year accordingly. In other words, the bulk of the income transferred by national oil companies is allocated to finance the state budget. In the Republic of Azerbaijan, this function is carried out by the State Oil Fund of the Republic of Azerbaijan (SOFAZ). SOFAZ was established in 1999 by the decree of the President of the Republic of Azerbaijan to ensure the accumulation and efficient management of currency and other assets obtained from the realization of agreements concluded in the field of exploration and exploitation of oil and gas reserves for the benefit of current and future generations after the commencement of the "Contract of the Century." The Fund does not incur any obligations to any state institution, does not possess any rights or duties, and is accountable only to the President of the Republic of Azerbaijan and is responsible to him. (*Executive Order № 434 - "Azərbaycan Respublikasının Dövlət Neft Fondu Haqqında Əsasnamənin Təsdiq Edilməsi Barədə"*, 2000)

The relationship between SOFAZ transfers and the state budget of Azerbaijan is illustrated and discussed in the following two graphs.



Graph 3. State budget revenues over the years and the share of SOFAZ transfers in revenues¹

¹ “Law of the Republic of Azerbaijan on ‘Azərbaycan Respublikasının 2013-cü il dövlət büdcəsinin icrası haqqında.” 2014. E-QANUN. May 16, 2014. Retrieved from <https://e-qanun.az/framework/27841>.

“Law of the Republic of Azerbaijan on ‘Azərbaycan Respublikasının 2014-cü il dövlət büdcəsinin icrası haqqında.” 2015. Official Website of President of Azerbaijan Republic. June 9, 2015. Retrieved from <https://president.az/az/articles/view/15527>.

“Law of the Republic of Azerbaijan on ‘Azərbaycan Respublikasının 2015-ci il dövlət büdcəsinin icrası haqqında.” 2016. E-QANUN. May 31, 2016. Retrieved from <https://e-qanun.az/framework/33023>.

“Law of the Republic of Azerbaijan on ‘Azərbaycan Respublikasının 2016-cı il dövlət büdcəsinin icrası haqqında.” 2017. E-QANUN. May 31, 2017. Retrieved from <https://e-qanun.az/framework/35811>.

“Law of the Republic of Azerbaijan on ‘Azərbaycan Respublikasının 2017-ci il dövlət büdcəsinin icrası haqqında.” 2018. E-QANUN. May 31, 2018. Retrieved from <https://e-qanun.az/framework/39153>.

“Law of the Republic of Azerbaijan on ‘Azərbaycan Respublikasının 2018-ci il dövlət büdcəsinin icrası haqqında.” 2019. E-QANUN. June 27, 2019. Retrieved from <https://e-qanun.az/framework/42844>.

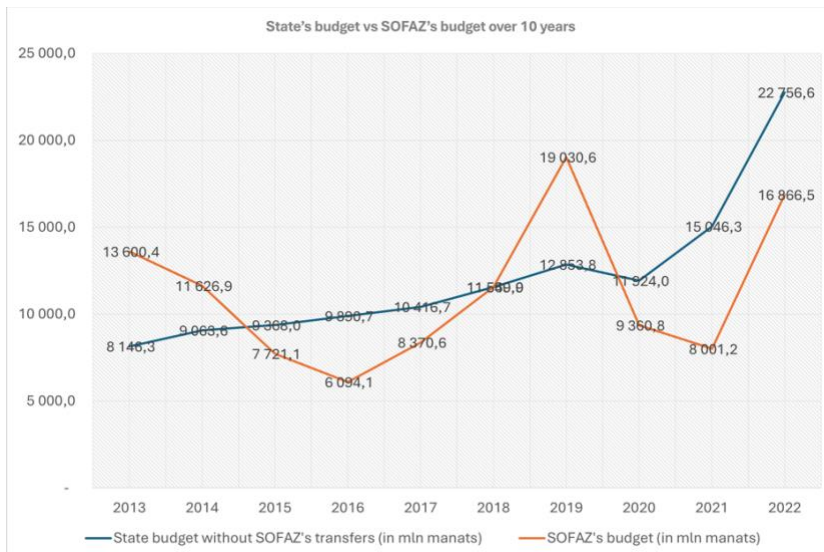
“Law of the Republic of Azerbaijan on ‘Azərbaycan Respublikasının 2019-cu il dövlət büdcəsinin icrası haqqında.” 2020. E-QANUN. June 19, 2020. Retrieved from <https://e-qanun.az/framework/45413>.

“Law of the Republic of Azerbaijan ‘Azərbaycan Respublikasının 2020-ci il dövlət büdcəsinin icrası haqqında.” 2021. Official Website of President of Azerbaijan Republic. June 25, 2021. Retrieved from <https://president.az/az/articles/view/52311>.

“Law of the Republic of Azerbaijan on ‘Azərbaycan Respublikasının 2021-ci il dövlət büdcəsinin icrası haqqında.” 2022. E-QANUN. June 28, 2022. Retrieved from <https://e-qanun.az/framework/49955>.

“Decree on the implementation of the law of the Republic of Azerbaijan on ‘Azərbaycan Respublikasının 2022-ci il dövlət büdcəsinin icrası haqqında.” 2023. E-QANUN. June 19, 2023. Retrieved from <https://e-qanun.az/framework/54437>.

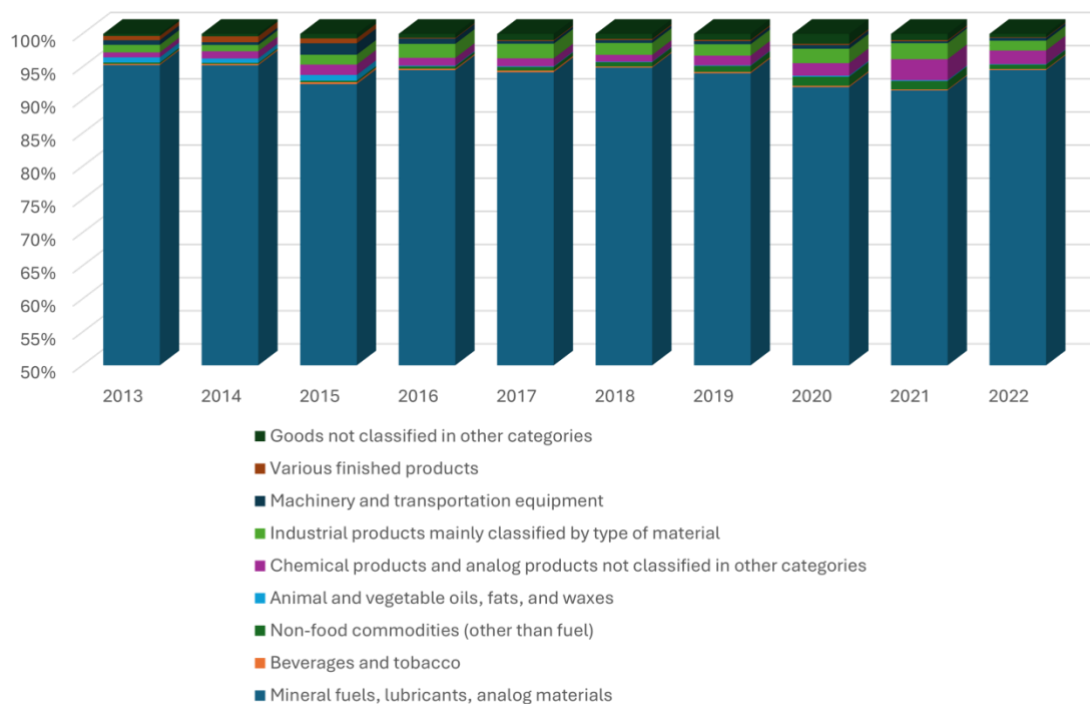
Graph 3 above illustrates the revenues of the state budget of the Republic of Azerbaijan during the period from 2013 to 2022, as well as the share of SOFAZ transfers in those revenues. As evident, during the first four years of the examined period, the volume of SOFAZ transfers in the composition of revenues averaged around 50%. However, in 2017, due to the economic shock of the years 2015-2016, during which SOFAZ's assets decreased, so did its transfers to the budget. Furthermore, in the following years, except for the year of 2020, when the global Covid-19 pandemic adversely affected the world economy including the economy of Azerbaijan, the SOFAZ-budget relationship has followed a decreasing trend with less SOFAZ transfers being contributed to the state budget. Graph 4, on the other hand, compares the revenues of the state budget of the Republic of Azerbaijan (excluding transfers) with the budget revenues of SOFAZ over the same ten-year period. It is clear from this comparison that the revenues of the Oil Fund are usually close to the revenues of the state budget, and in some years, the former even exceeds the latter.



Graph 4. State's budget vs SOFAZ's budget over the years²

² "Budget information." n.d. State Oil Fund of the Republic of Azerbaijan. Retrieved from <https://www.oilfund.az/en/report-and-statistics/budget-information>.

Next, let us explore the significance of oil and gas sector in the trade relationship of Azerbaijan with other countries worldwide. Oil and gas products have a great share in Azerbaijan's exports since Azerbaijan has a comparative, and arguably, even an absolute advantage in trading oil and oil products. Looking at Azerbaijan's export revenues over the past 10 years, it is evident that the majority of Azerbaijan's export earnings (an average of 90.6%) between 2013 and 2022 have come from mineral fuels, lubricants, and related materials. Moreover, over the past decade, 99% of Azerbaijan's export earnings have been comprised of oil and its extraction. (Graph 5, State Statistics Committee of Azerbaijan)



Graph 5. Export revenues structure of Azerbaijan Republic (by economic fields, in %)

Following the above discussion, we can make a conclusion that Azerbaijan's economy is highly dependent on oil production, since, as indicated in a UNDP report on commodity dependence, when the share of a certain exported commodity in the total export earnings exceeds 50%, the exports of a country are defined to be extremely dependent on that

certain commodity. According to this report, commodity dependence is defined as the share of primary commodity export revenues to total export revenues. (“Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty,” 2015)

This strong relationship between oil production and Azerbaijan’s GDP is discussed in research carried out by Marina Osintseva from Industrial University of Tyumen, where the author concludes that Azerbaijan’s GDP is influenced the most by the oil production by carrying out a statistical research based on GDP indicators and oil production growth rates. (Osintseva, 2021)

2.2. Economic shocks in Azerbaijan caused by oil dependency

If a country’s source of income heavily relies on introducing a certain product to the global market and trading it, then that country becomes subject to all the negative and positive fluctuations occurring in the market. Unless the country is a price dictator in the market, it has to adapt to and accept all the alterations or shifts occurring in the market.

Commodity prices should be formed based on the laws of supply and demand that we all know. However, in the case of oil products, which arguably have no concrete substitutes, these laws work differently. For example, when the price of oil decreases in the global market, the supply is forced to increase instead of decreasing to fill the expected budget revenues. This trend in oil market is explained by Marina Osintseva in her article in the following manner: "Contrary to the expectations saying that in times of downturns, as global oil prices fall, nations will reduce oil exports, we observe the reverse picture – changed role of the price factor. We explain this with the keeping income-balance strategy, where the oil price parameter is a tool to choose ideal production." (Osintseva, 2021)

The most significant risk for any commodity traded in the world market is sharp price volatility – no matter downwards or upwards, fluctuating prices always pose a risk.

As mentioned earlier, countries forecast their budget expenditures and revenues at least one year in advance. They first estimate their revenues and then determine their expenditures based on those revenues. If a country is overly dependent on revenues from oil sales, it will then determine a price based on oil prices in previous years and estimate its revenues. It will then determine the composition and direction of its expenditures. However, imagine that after an entire budget system is approved, salaries are determined, financial resources are allocated to certain spheres, suddenly the estimated income starts to decrease (unless there are successful Futures contracts³) because the price of the major product the country is exporting has dropped, and so did the anticipated revenues from its sales. This situation leads to economic shocks and disrupts market conditions, resulting in a decrease in people's incomes and a decline in social welfare in the country. Constant volatility of oil prices, especially in developing countries dependent on oil exports, leads to macroeconomic instability and difficulties in macroeconomic management. Such countries are particularly sensitive to price fluctuations and experience deeper economic shocks. This relationship between commodity price and economic growth is examined and explained in the report by UNDP in the following way: “The uncertainty generated from commodity price fluctuations hampers economic growth and is associated with increases in poverty. Indeed, the correlation between changes in commodity prices and economic growth is striking. Examining economic

³ A futures contract is an agreement that allows its owner to buy or sell a specific commodity, asset, or security at a predetermined price on a predetermined future date. This contract binds its buyer to purchase or acquire and the seller to provide and deliver the underlying asset at the expiration of the contract. (Hayes, 2024)

growth rates for developing economies against the annual rate of change of commodity prices for the period 1995–2009 finds an 87 percent correlation between the two variables.” (“Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty,” 2015)

The relationship of oil prices and economic growth in oil-dependent countries is also analyzed in the Osintseva’s study conducted on oil-exporting countries such as OPEC (Organization of Petroleum Exporting Countries), Azerbaijan, Russia, Kazakhstan, Norway, and others, where she concludes that economic growth in these countries is largely dependent on increases in oil prices and changes in oil production rates. When prices decrease, contrary to the law of supply and demand, these countries do not reduce supply; instead, they try to increase it even further. (Osintseva, 2021)

Sharp fluctuations in global oil prices are not solely influenced by supply and demand factors in the competitive market but are also significantly impacted by different other factors. These factors that drive price volatility in commodity markets might be business cycles in key markets, seasonal fluctuations, or conflict in producing countries (geopolitical risks, price speculation and exchange rate fluctuations). Since advanced economies are the primary consumers of the commodities when these economies experience downturns, prices of commodities fall or investors and funds that use commodity derivatives (futures and options) can amplify the price effects of real changes in supply and demand.

Many economic studies have already established a connection between the oil market and geopolitical risks. For instance, Li et al. examine the impact of severe geopolitical risks on predicting oil fluctuations, and they discover that extreme geopolitical risks provide valuable insights into short-term oil fluctuations. (Truong et al., 2024) Similarly, Wang and

Sun (2017) find that wars and political tensions exert a considerable influence on oil prices due to their potential to disrupt oil supplies. (Wang & Sun, 2017)

One of the biggest influencers of the oil prices worldwide is the Organization of the Petroleum Exporting Countries (OPEC). According to the United States Energy Information Administration, OPEC is an organization that sets production targets among its members to manage oil production. OPEC member countries produce about 40% of the world's crude oil. (What Drives Crude Oil Prices: Supply OPEC, n.d.) Additionally, OPEC's oil exports represent about 60% of the total petroleum traded internationally. (What Drives Crude Oil Prices: Supply OPEC, n.d.) The Energy Information Agency also reports that more than 80% of the world's proven crude oil reserves lie within the boundaries of the OPEC countries. (What Drives Crude Oil Prices: Supply OPEC, n.d.) This indicator alone is sufficient to imagine the magnitude of the OPEC's influence on the global oil market and even the world economy. Since its establishment in 1960, OPEC has usually used its power over prices and aggregate supply in response to geopolitical events as a "weapon." If we look at history, virtually all price shocks in the global oil market have been related to changes in OPEC's production volume. The most recent and impactful one, which significantly affected the Azerbaijani economy as well, was OPEC's sharp increase in production volume starting from the end of 2014. It was OPEC's response to the U.S. energy revolution which, through the combination of hydraulic fracturing and horizontal drilling, unlocked vast reserves of "tight oil" in shale rock formations. Tight oil production surges reached over four million barrels a day starting mid-2014 by December 2015, exceeding the individual production of every OPEC member except Saudi Arabia. (Sergie, 2017) The decision adopted by OPEC in November 2014 squeezed the economies of oil-exporting countries, causing the price of oil

to plummet to its lowest level in a decade, decreasing by 39.3% compared to the beginning of the year. The average price in 2015 was 47% lower compared to 2014. Against this backdrop the U.S. decides to reduce its daily oil production by 400,000 barrels. (Financial Pressures Hit US Shale Oil Output, 2015) It is also stated in the “*Financial Times*” magazine that: “The collapse of oil prices has turned the attention of producers towards survival. As they conserve cash, US crude oil production volumes are finally heading lower. The government has revealed domestic output peaked in April and forecasts that US production will be down by 400,000 barrels per day next year.” (Financial Pressures Hit US Shale Oil Output, 2015)

The decrease in Azerbaijan's and SOFAZ's budget revenues from 2015 to 2017 depicted in Graph 4, and the reduction in transfers from SOFAZ to the state budget in 2016 and 2017 depicted in Graph 3 were precisely the result of the aforementioned global geopolitical instability.

Thus, in 2015, the Azerbaijani economy faced the negative effects of processes occurring in the global economy, world energy markets and partner countries. According to Elman Rustamov, former head of the Central Bank of Azerbaijan (CBAR), in the Annual Report for 2015, Azerbaijani economy had been adversely affected by global and regional economic fluctuations. He mentioned that foreign currency revenues had suffered significant depletion due to oil price decreases, Azerbaijan endured current account deficit in 2015 along with 5-times decrease in foreign trade balance surplus, and the country bore decreases in currency inflows. (“Annual Report - 2015,” n.d.)

	2014 (mln \$)	2015 (mln \$)
Current operations and capital account	10423,60	-266.4
Foreign trade balance	18927,60	5812.4
Balance of services	-6089.6	-4228.8
Primary income balance	-2581.7	-2027.8
-Repatriation of investment income	-2599.4	-1781.6
Secondary incomes balance	174.2	221.7
Capital account	-6.9	-43.9
Financial account	-3419,00	-9025.2
<i>Net financial assets</i>	11692.2	13720.8
- Foreign direct investments	2208.8	3259.7
- Portfolio investments	429.50	380.3
- Other investments	9053.9	10080.8
<i>Net financial liabilities</i>	8273.1	4695.6
- Direct investments attracted to Azerbaijan	8049.2	7483.1
- Repatriation of attracted investments	-3635.7	-3437.4
- Oil bonus	17.0	2.0
- Portfolio investments	1750.9	772.6
- Other investments	2091.7	-124.7
Balancing items	-2810.3	-2037.4
Overall balance of payments (Changes in the country's re	4194.2	-11329.0

Current account balance of Azerbaijan for the years of 2014 and 2015 ("Annual Report - 2015," n.d.)

The emergence of a deficit in Azerbaijan's current account balance, accumulation of budget expenditures, and psychological impact of devaluations in neighboring countries increased demand for foreign currency and reduced demand for the national currency. Considering the significant pressure on the currency market and the exchange rate of the Manat, the Board of Directors of the Central Bank decided on February 21, 2015, to fix the exchange rate of the US dollar at 1.05 AZN. Following the February devaluation and transition to the new operation mechanism, the currency market and the exchange rate of the Manat began to adapt to the \$50-55 oil price range. However, by the end of July, the rapid decrease in oil prices increased pressure on the currency market, raising expectations of changes in the exchange rate. Additionally, the ongoing devaluations in partner countries further strengthened the negative impact on the national economy's international competitiveness. These all made necessary the adaptation of the currency market and the exchange rate to the new oil prices. At the same time, the depreciation of the Manat has led to an increase in the prices of imported goods, resulting in a corresponding decrease in the income of the population.

The decision taken by the Central Bank regarding the currency exchange rate was aimed at creating additional stimuli for the diversification of the national economy, strengthening its international competitiveness, and further enhancing its export potential with the strategic goal of ensuring the stability of the balance of payments and the country's international payment capacity. However, the rapid decline in oil prices in the second half of the year led to a slight depreciation of the Azerbaijani Manat against the US Dollar. Taking into account the current macroeconomic situation, the balancing of the balance of payments, the critical preservation of the country's foreign exchange reserves, and the assurance of the international competitiveness of the national economy, the Central Bank decided on December 21, 2015, to transition to a "floating exchange rate" regime. This decision aimed to ensure the formation of the Manat's exchange rate at a new level in line with the conditions of the currency market and significantly reduced the Central Bank's interventions in the foreign exchange market. Under this regime, despite continuous increases in the value of the US Dollar, from the second quarter of 2017 the Manat's value has been managed to remain stable at a rate of 1.70. Thus, the example provided above serves as an indicator of the severe economic consequences of the dependence on oil and demonstrates the shock effect of the price volatility created in the international market's political backdrop on the Azerbaijani economy, along with the deteriorating key macroeconomic indicators.

2.3. Problem's current extent

Increase in oil prices does not always positively affect oil-dependent economies as contrary to the general public's perceptions. Here steps in the concept known as the "resource curse", which describes a paradox where countries abundant in natural resources are prone to have inferior long-term economic performance in comparison to ones with scarce natural

resources. (Kakanov et al., 2018) The fluctuation in the prices of oil and other commodities is a factor significantly contributing to the negative effects of the resource curse. Sharp commodity price increases may lead, specifically, to the phenomenon known as the "Dutch disease," which is some type of a resource curse characterized by the appreciation of the currency of oil-exporting countries. (Kakanov et al., 2018) Increased export revenues lead to an increased demand for the national currency and consequently to its appreciation in case of flexible exchange rates. When the exchange rates are fixed, increased commodity and budget revenues along with decreased interest rates cause increases in wages and inflation. Real appreciation of a currency undermines the competitiveness of non-commodity exports and the profitability of the manufacturing industry, which in turn leads to a state of economy known as deindustrialization. (Kakanov et al., 2018)

Under the economic model for the Dutch disease, the condition where high revenues generated by a resource boom flow into the domestic economy is called "spending effect." (Kakanov et al., 2018) If the government allows revenue from oil sales to flow into the domestic economy, it is highly likely that the national currency would appreciate, and the price of the dollar would decrease. In the long term, under *ceteris paribus*, this would encourage imports, discourage exports, and result in a deficit in the country's current balance.

To address the spending effect, countries often establish commodity funds, the objective of which is to invest in raw materials, agricultural products, or other types of commodities, or in entities engaged in the production of such commodities. (What Are Commodity Funds?, n.d.) In oil-rich countries, usually oil funds are established. The primary goal of these funds is to accumulate revenue from oil production and release it into circulation

when necessary. Primarily, oil funds allocate their resources into numerous foreign assets and financial markets to diversify their revenue streams.

Apart from economic problems, oil dependency creates environmental challenges to the country, especially, when environmental sustainability is a top priority in the state agenda. According to a report by S. Eichberger and S. Michael, despite the fact that Azerbaijan has achieved remarkable economic growth due to its oil and gas sector over past 30 years, oil production is significantly contributing to the pollution of land, soil, and air and the development of human capital. (Eichberger & Michael, 2022)

Oil as a non-renewable source of energy.

As is widely recognized, oil is a non-renewable resource, and among the consumed natural resources in the world, oil ranks first in terms of production volume, followed by gas and coal. (Energy Institute, 2023) According to the data provided by British Petroleum (BP) and illustrated on the website, it is estimated that there are approximately 1.73 trillion barrels of oil reserves in the world, with Venezuela (303.8 billion barrels), Saudi Arabia (297.5 billion barrels), and Canada (168.1 billion barrels) leading the top three. However, OPEC claims that this figure is half a trillion barrels less and that 80.4% of the world's oil reserves are concentrated in OPEC member countries. Although the given numbers and indicators may vary, one thing is certain: oil and gas will eventually run out. (Chen, 2022)

According to BP calculations, as stated on the website, Central and South America's reserves will last for 150 years, while Middle Eastern countries and North America's oil reserves are expected to last approximately 80 and 30 years, respectively. (Chen, 2022) According to statistics provided by Worldometer, there are 39 years left until the depletion of the world's oil reserves and 154 years until the depletion of gas reserves. This indicator is

arguably another alarm for all oil-exporting countries to diversify their economies. (Worldometer, n.d.) When it comes to the oil reserves of Azerbaijan, according to the World Bank blogs, it may be depleted in approximately 25 years. (Eichberger & Michael, 2022)

2.4. Current approach to the problem

Economic dependency on particular commodity requires governments to develop initiatives with the purpose of diversifying their economies. What is economic diversification? Bringing together a number of definitions of this concept, we can say that Economic diversification is the process of shifting an economy away from a single income source toward multiple sources from a growing range of sectors and markets. (Economic Diversification, n.d.) As stated on a webpage of the United Nations Climate Change website, “Traditionally, economic diversification has been applied as a strategy to encourage positive economic growth and development.” (Economic Diversification, n.d.) Consequently, for resource-rich, developing economies, the immediate imperative is to diversify export-oriented sectors, but for the benefit of long-term sustainability, they have to look at the larger picture.

To reduce this dependency, the Azerbaijani government has implemented several initiatives in the last decade. The most significant and systematic among them is the decree signed by the President of Azerbaijan on February 2, 2021, (#2469) approving the "National Priorities for Socio-Economic Development of Azerbaijan for 2030", which sets out Azerbaijan's long-term development direction, defines key routes for socio-economic development in the country and respective national priorities. (Order of the President of the Republic of Azerbaijan on Approval of “Azerbaijan 2030: National Priorities for Socio-Economic Development” » Official Website of President of Azerbaijan Republic, 2021)

The Article 1.1 of this decree suggests the following: "New 'driving forces' must be found for continuous economic growth, deepening of the national economy, and full realization of export potential in goods and services. While the oil sector is one of the pillars of socio-economic development, the focus should shift towards non-oil economy for development." (Order of the President of the Republic of Azerbaijan on Approval of "Azerbaijan 2030: National Priorities for Socio-Economic Development" » Official Website of President of Azerbaijan Republic, 2021)

Therefore, it can be concluded that this decree underscores the importance of diversifying the economy and reducing dependence on oil by emphasizing the need for developing new sectors and increase the export potential of non-oil goods and services.

Economic growth should rely on innovative and efficient private initiatives, and collaboration between the state and the private sector should be strengthened. Activity in the private sector, possessing innovation, should be further encouraged, and the share of the private sector in financing the non-oil sector should be increased. In Article 1.2 under the heading of "Resilience to Internal and External Influences," it is stated that "Only a diversified economy can be resilient. The main objective is to increase the share of the non-oil sector in the economy." (Order of the President of the Republic of Azerbaijan on Approval of "Azerbaijan 2030: National Priorities for Socio-Economic Development" Official Website of President of Azerbaijan Republic, 2021)

In addition to the aforementioned decree, the decree of the President of the Republic of Azerbaijan dated July 22, 2022, (#3378) on the approval of the "Strategy for Socio-Economic Development of the Republic of Azerbaijan for 2022-2026" covers strategic frameworks for various directions of economic diversification such as sustainably growing

competitive economy, dynamic, inclusive and socially just society, competitive human capital and environment for innovation, the “Great Return” (“Böyük Qayıdış”) to the liberated territories, clean environment and "country of green growth". (Executive order no. 3378, 2022) In our paper, we pay sufficient attention to the provisions of this decree, which are included in the strategic framework for a more competitive economy. These provisions include ensuring continuous and high economic growth through the diversification of the economy and increasing non-oil exports in Azerbaijan from 2022 to 2026, ensuring the rule of law for a strong and competitive business environment, implementing effective judicial reforms, strengthening the effectiveness, stability, and transparency of the state support mechanisms for entrepreneurship, promoting direct foreign investment (FDI) in the non-oil/gas sector, privatizing state-owned assets, creating a regulatory framework for the expansion of digital technologies, increasing productivity through the application of modern technologies in the agricultural, industrial, and service sectors, as well as creating new jobs, ensuring macroeconomic stability and resilience in the country for sustainable economic growth, strengthening stability in all segments of the financial sector, enhancing the role of all segments of the financial sector in the economy, and planning for the expansion of exports and the diversification of non-oil exports. (Executive order no. 3378, 2022) As we can see, the economic parts of this strategic plan virtually encompass plans for economic diversification in all its aspects.

If we look at the recent economic indicators, it seems that this policy has already started to work to some extent. The effects of the strategy can be observed through the data presented in the summary of the State Budget Execution for the first half of 2023 by the Chamber of Accounts of the Republic of Azerbaijan. It is noted that Azerbaijan's state budget

structure for the first 6 months of 2023 compared to 2022 decreased by 23.2% in terms of the share of oil and gas sector, amounting to around 24.1 billion manats, while the non-oil and gas sector increased by 13% to reach 36.2 billion manats. (“Dövlət Büdcəsinin İcrası Barədə Yarimillik Məlumatı Xülasə”, 2023) It is evident from the figures that non-oil and gas sectors have significantly contributed to the economic growth in the country. Additionally, the influx of foreign currency into the State Budget, the decrease in demand for foreign currency in currency auctions has led to lower execution of SOFAZ transfers. The reason for the 0.8% shortfall in state budget revenues during the respective period is due to lower SOFAZ transfers in June. (“Dövlət Büdcəsinin İcrası Barədə Yarimillik Məlumatı Xülasə”, 2023) The positive impact of high oil prices on tax revenues seems to be one of the factors contributing to the underperformance of SOFAZ transfers, with more than half of these transfers remaining unrealized.

Hence, while the work done in this direction seems to be yielding results, the predominance of revenues from the oil sector in the composition of tax revenues necessitates more continuous, stable, and purposeful efforts towards economic diversification.

CHAPTER 3: POLICY OPTIONS

3.1. Enhancing Regional Connectivity through the Middle Corridor

Project

A self-sustaining country like Azerbaijan depends on a single natural resource for its economic prosperity; mostly, it attends to the diversification of its economy and tries to decrease its dependence on oil production, seeking ways to do that. The economic map of Azerbaijan has been greatly reshaped by the capture of the oil market, which is practically exploited almost exclusively for export purposes.

The transport sector had its historical landmarks in Azerbaijan, as it used to be a part of the ancient Silk Road to facilitate trade between the East and the West. At present, Azerbaijan is proving that the country is still as critical a transit hub in the east-west trade route as it was before the collapse of the Soviet Union. It is worth mentioning, as it was revealed by Statista Research Department (2023), that the transportation sector of the country experienced massive capital investments in 2022 with a record level of over 46 billion Azerbaijani manats, which is 61 percent higher in comparison to the previous year. This investment surge proves Azerbaijan's desire to increase its transport facilities' efficiency to meet the ever-changing requirements of international trade and ensure domestic commuting. Importantly, the country's urban population is growing at 57.2 percent. The 57.2% implies the significance of a huge transport system, largely applicable in the city where local and inland passenger transport is now an integral aspect of daily life (Statista Research Department, 2023).

Azerbaijan's integration into China's Belt and Road Initiative (BRI) also reflects its role in the world's logistics system as one of the vital actors. The New Silk Road initiative intends to develop a wide network of railways, energy pipelines, and highways connecting Asia to Europe, with Azerbaijan excellently sitting between these two continents (Bertelsmann & Stiftung, 2024). Azerbaijan aims to take advantage of its geographical benefits by making strategic investments and partnerships to improve its transportation network and encourage international trade. For example, the construction of Alat Port and the improvement of the Baku-Tbilisi-Kars railway line are the Trans-Caspian International Transport Route (TITR) initiatives that are instrumental in the growth of the container traffic of the region and the facilitation of international freight and oil trade (Hajizadeh, 2021).

According to interviews with the Department for Regulation of Transport Sector of the Ministry of Digital Development and Transport of the Republic of Azerbaijan, Azerbaijani government has already invested in the development of the transportation infrastructure in the country with the purpose of economic diversification. Among the initiatives are the building of highways and railways, utilizing of new international airports, expansion of sea and air fleets, establishment of Baku International Sea Trade Port and Alat Free Economic Zone, and utilization of Baku-Tbilisi-Kars railway line. In achieving development of non-oil sectors, the interviewees highlighted the importance of the Middle Corridor project as a means to transform Azerbaijan into a transit hub and increase freight traffic.

The Middle Corridor project, dubbed the Trans-Caspian International Transport Route (TITR), is multi-multilateral in scope and goal-oriented to join the rail freight transport containerized transport networks of China and the European Union via Central Asia, the

Caucasus, Turkey, and Eastern Europe. It provides a multi-modal transport solution, which is the maritime link between all ports situated across the Caspian Sea and the Black Sea, and these are connected to railways of China, Kazakhstan, Azerbaijan, Georgia, Turkey, Ukraine, and Poland (Vasa & Barkanyi, 2023). Unlike other transcontinental communications lines, the Middle Corridor is a self-sufficient body that could become an engine for restructuring the economies of Central Asia, the Caucasus, and Turkey.

The Ministry of Digital Development and Transport is currently carrying out close cooperation with the countries along the corridor in order to promote the Middle Corridor and achieve cooperation and coordination along the route. Special attention is paid to establishing close relations with the Chinese railways and promoting cargo transportation along the Middle Corridor. With this purpose the Ministry is working on the project of signing the "Memorandum of Understanding on the Development of Trans-Caspian International Transport Routes for China-Europe Railway Express". The interviewees have also mentioned cooperation initiatives taken by the Azerbaijani government in order to increase competitiveness of the Middle Corridor. Among them are the Road Map for eliminating bottlenecks along the Middle Corridor signed by the governments of Azerbaijan, Kazakhstan, and Turkey, and a joint venture established together with the railways of Kazakhstan and Georgia.

Middle Corridor project is innovative for Azerbaijan to make its regional connection and make oil production less dependent. Through the investment into the infrastructure of efficient transportation, including roads, railways, and ports, the route targets the aggravation of the trade between Europe and Asia in the form of transport of goods, services, and people (Bayırbağ & Schindler, 2022). Despite historical challenges associated with rail transport

along this corridor, recent infrastructure developments, such as the Baku-Tbilisi-Kars railway and the Alat port in Azerbaijan, have significantly enhanced connectivity and trade prospects. Also, the recovery of container transportation through the TITR to Italy proves the functioning nature of this transit network and its long-term potential. The Trans-Caspian International Transport Route and Xinjiang COSCO Shipping Container Lines CO., Ltd. jointly work on a Tomato paste transportation from Xinjiang (PRC) to the port of Naples (Italy) along the TITR route. Thus, the fact shows Azerbaijan Railways' role in promoting international trade and connectivity between Asia and Europe with the vision of the country's economic diversification away from just oil revenues (Middle Corridor, 2024).

Enhancing regional connectivity through the Middle Corridor project offers several advantages for Azerbaijan's economic diversification efforts: Apart from establishing alternative trade routes between Europe and Asia, the Middle Corridor contributes to an orchestration of strategies that help alleviate Azerbaijan's overreliance on the more traditional oil-oriented trade routes (Georgiev et al., 2017). The diversification mitigates the risks in the oil market, which is fortune vulnerable to fluctuating oil prices, and acts as a new market for Azerbaijani goods and services. The Middle Corridor enhances regional integration and increases the interaction among the countries involved. For example, Azerbaijan may create joint infrastructure projects and unified trade agreements with its neighboring countries, which will help the government of Azerbaijan utilize the unique benefits offered by the regional economic acumen.

Moreover, during the interviews it was discovered that the importance of the Middle Corridor has significantly increased as a result of global crises such as the observed challenges in the Northern Route due to sanctions imposed as a result of the ongoing conflict

between Russia and Ukraine, and transportation problems caused by a ship grounding in the Suez Canal in 2021, which is expected to result in serious losses in the supply chain.

To leverage the Middle Corridor project for economic diversification, a comprehensive policy framework should be introduced to improve the transportation infrastructure in the Middle Corridor with a mental emphasis on strategic investment, technical innovation, and regulatory reform. There is a need to make focused investments in key infrastructure equipped with projects aiming to improve the capacity and efficiency of transportation networks. This covers the railway modernization, the development of port facilities, and the enlargement of road networks to handle boosted traffic volumes. Furthermore, the project reforms that will remove bureaucratic obstacles, simplify the permitting process, and enforce transparency will enhance private sector participation and foreign investment in infrastructure projects. Beyond this, adopting technology advancements like digitalization, automation, and smart logistics solutions can make supply chain operations more efficient and transport networks resilient.

More specifically, the Azerbaijan government should consider the following policy options rationale:

- Stimulate the growth of non-road transport systems, integrating options such as the rail-road-sea-road combination to maximize the efficiency and possibilities of "the Middle Corridor" shipping. Invest in delivering modernized transport infrastructure and equipment to ensure they are effectively interoperable and logistically efficient.
- Set aside enough funds to perform the vital infrastructure under time constraints, including roads, railways, ports, and logistics hubs along the Middle Corridor. To raise funds for the projects, PPPs and EIPs could be improved.

- Impose regulations aimed at streamlining customs formalities, removing administrative hurdles, and amending the rules and regulations to support trade and commerce across the Middle Corridor (Azizov, 2023). Developing special economic zones and trade centers that facilitate investment and business activities can also strengthen trade and productivity.
- Ensure the institutional capabilities of concerned state agencies, transport and cargo operators, and logistic services providers are enhanced to competently handle and operate the Middle Corridor structure (Abilov & Hajiyev, 2021). Establish training and technical assistance programs tailored to suit skills and expertise needs in procurement, logistics management, customs procedures, and trade facilitation.

The Middle Corridor project is a great example of a diversifier starting new sectors in the Azerbaijani economy. Through improving regional linkages, strengthening trade binding, and investing in infrastructure development, Azerbaijan will be able to minimize its principal resource, the oil, and have growth under a diversified economy. On the contrary, the large-scale use of the Middle Corridor with all of its profit depends on the joint work of the government of Azerbaijan, the private sector of all the stakeholders involved in the route, and the partners at the international level. By implementing value-added policy measures and smart investments, Azerbaijan may firmly hold a leading position in the rapidly emerging pan-Eurasian transport system and tap unforeseen prospects for growth and progress.

The Rationale Behind Prioritizing the Proposed Policies

Transportation infrastructure development is classified as a policy option due to its coherence with major economic objectives in Azerbaijan and the government's available resources. Azerbaijan possesses a strategically advantageous position as an important trade

link between Asia and Europe, playing a vital role in regional and global trade. By investing in transportation infrastructure, Azerbaijan can use its geographical advantage to trigger economic growth, attract foreign investment, and deepen international trade ties.

Furthermore, the trend of modernization in transportation infrastructure is critical for dealing with issues relating to urbanization, population growth, and environment conservation. An efficient transportation system ensures the speedy movement of goods and people, propels economic growth, underscores employment provision, and advances societal connection. Therefore, transportation infrastructure coincides with the economic diversification principle of Azerbaijan, which aims to reduce the dependence on oil exports and promote the development of other economic sectors such as manufacturing, tourism, and logistics. Considering this, transportation development is not only the most plausible but also a vital issue for implementing an effective economic policy and improving the living standards of the Azerbaijani people.

Integration with Middle Corridor Project

The proposed transportation infrastructure development policies for the Middle Corridor project entail a special chance to reduce oil dependence and stretch it to its full potential. The Middle Corridor project aims to set up a multimodal transportation route between Asia and Europe which is to be realized via the territory of Azerbaijan, Georgia, and Turkey to diversify trade routes and decrease dependence on traditional sea routes (Middle Corridor 2024). By adjusting transportation infrastructure development policies per the purpose of the zone to be developed, Azerbaijan can capture synergies and boost its transformation capabilities. As an illustration, transportation expenses can be reduced, and

effective circulation of items, including non-oil commodities, can be achieved by strategic outlays in railway modernization and port expansion on the Middle Corridor route.

The reforms focused on transparency and simplifying customs procedures, expediting the movement of goods, and enabling greater regional economic integration. For example, the Middle Corridor project shows that Azerbaijan can effectively achieve both the policy of transport infrastructure development and the oil independence target if the global logistic network is used well.

Policy Implications for Other Countries

Besides the advanced regional states, the transport infrastructure development directions along the Middle Corridor project implicitly influence regional cooperation and economic integration. These policies enhance the level of connectivity while at the same time tearing down trade barriers, which results in increased trade possibilities and prosperous mutual economies in the involved countries. Not only does a better transportation network promote linkage and boost trust among neighboring countries, but it also lays the foundation for deeper regional cooperation and stability. Moreover, the success of transport infrastructure development within the Middle Corridor project can be a model for similar activities in other areas, thus encouraging countries to invest in important infrastructure projects and be open to cross-border cooperation (Alkaramov, 2023). Hence, by developing these policies, Azerbaijan can create a more integrated and stable world economy.

3.2. Promoting Innovation and Entrepreneurship in Non-Oil Sectors

Azerbaijan, which used to be utterly dependent on its oil sector, actually now recognizes the implementation of diversifying an economy that can lower oil revenue function. Besides, two more factors should be included in the agenda: primarily institutional

support and a network covering the whole region (OECD, 2019). The Middle Corridor project could be a launchpad for the first one. And a range of innovations should be created within non-oil sectors. This segment shall focus on how Azerbaijan would set the stage for encouraging innovation and entrepreneurship as the foundation of economic growth driven by diversification and sustainability.

Innovation and Entrepreneurship can be vital factors of change in the process of economic development and economic diversification. They help to establish new industries, new goods, and services. Some countries easily update their services and economy to innovation and market trends, and they stay away from shocking economic events and focus on development instead (OECD, 2019). Bearing that in mind, fostering innovation & entrepreneurship is the only way for Azerbaijan to unleash the magnitude of its intellectual capability, to emerge an economy that is robust & dynamic.

Promoting innovation and entrepreneurship in non-oil sectors offers several key benefits for Azerbaijan's economic diversification efforts:

- Azerbaijan may diversify its economy away from the oil sector by developing new industries and creating new businesses not centered on oil revenues. Thus, saving the country from a heavy reliance on a single source of income and building a well-balanced and resilient economy.
- Upcoming entrepreneurs and inventive startups create job opportunities and spur long-term economic growth in ICT, manufacturing, and services (Georgiev et al., 2017).

- Providing financial support for innovation and startup activities increases Azerbaijan's competitiveness worldwide. It creates innovative, high-end industries and places Azerbaijan at the top of the innovation and creativity center.

The interviews with a representative of the Innovation and Digital Development Agency under the Ministry of Digital Development and Transport revealed the challenges and initiatives in the innovation and entrepreneurship direction in Azerbaijan. The main challenges are the lack of a comprehensive strategy to regulate this sphere, limited financing mechanisms, inefficient banking system, lack of research hubs leading to limited research capabilities, development of startups with high operating costs, and sociological and behavioral tendencies in Azerbaijan. To create advantageous ecosystem for innovation and entrepreneurship support programs are developed for the universities, indirect financing is provided to startups through incubators and techno parks, a regulatory framework is developed in cooperation with the Central Bank to manage and monitor the ecosystem, and excellence centers and knowledge hubs are established to educate mentors, provide trainings for investors and ecosystem players, and to train entrepreneurs. Despite all these initiatives, the challenges still remain unaddressed.

To promote innovation and entrepreneurship in non-oil sectors and address all the challenges listed above, the Azerbaijan government should consider the following policy Options:

- Develop a comprehensive strategy document for regulating entrepreneurship and innovations in Azerbaijan. This document shall clearly define regulatory frameworks, financing mechanisms, and infrastructural reforms. The objective of

this document is to establish a strong business landscape, which creates opportunities for sustainable economic growth in non-oil sector.

- Effectuate the environment by allowing entrepreneurship and providing services such as incubators, accelerators, and mentorship programs to entrepreneurs ready to launch their businesses. Promote the efforts that lead to the joint work of colleges, research centers, and the private sector to commercialize research and innovation results.
- Settle the lack of comprehended world funding for startups and SMEs through programs like venture capital funds, networks of investor angels, and government programs that provide free loans (Vasa & Barkanyi, 2023). Foster the creation of financial tools from lenders and credit companies by designing financial offerings tailored to startup and SME needs.
- Invest in education and training projects to ensure skills and knowledge are competent for innovations and entrepreneurship. Develop a learning ground that is a lifelong learning culture and creativity, wherein STEM education (science, technology, engineering, and mathematics), digital literacy, and entrepreneurship education are among the main components (Azizov, 2023). These components of the education system should be found at all levels.
- Simplify and rationalize regulatory procedures for business registration, license, and taxation so that technical barriers to the entry of startups and SMEs into the market may not prevent them (Kaya et al., 2024). Develop a friendly legal environment that promotes creativity, safeguards intellectual property rights

where appropriate, and supports entrepreneurship and market entry for inventive businesses.

The process of diversification of the economy of non-oil sectors of Azerbaijan implies the promotion of innovative breakthroughs and the creation of an entrepreneurial environment. Creating a robust, creative culture, entrepreneurial talent involvement, and an enabling environment for startups and SMEs can secure a mix of new non-oil sources of growth, abundant job opportunities in the nation, and a reduction in revenue dependency on oil. Nonetheless, realizing the total perspective of innovation and entrepreneurship necessitates tongue-in-cheek teamwork from the public, non-public, academia, and civil society. Through the introduction of systematic policymaking and strategic capital, Azerbaijan can become an increasingly knowledge-based economy and a major player in its region regarding technology enterprises.

CHAPTER 4: EVALUATION OF POLICY ALTERNATIVES

This chapter focuses on the assessment of the policies proposed in the previous chapter. The assessment will be carried out based on five following criteria: effectiveness, efficiency, equity, feasibility/implementability and flexibility/improvability. Upon the results of evaluation, a preferred policy will be chosen for the purpose of decreasing dependency of the Azerbaijani economy on oil production.

Enhancing Regional Connectivity through the Middle Corridor Project

In terms of effectiveness, this policy alternative will be highly effective to diversify the country's economy away from oil and gas industry through focusing on extensive infrastructure enhancement, regulatory adjustments, and innovation in technology and transportation. Extensive infrastructure developments will strengthen capacity and efficiency of trade. Regulatory adjustments will facilitate simplifications in bureaucratic processes leading to promotion of smooth trade affairs and attraction of foreign investors in the non-oil sectors. Technological advancements, on the other hand, such as automation, digitalization or smart logistics is expected to provide for expansion of supply chain and escalation of its efficiency and resilience. However, there are some potential challenges associated with the effectiveness of this policy alternative. First challenge is the dependence of the success of the abovementioned initiatives on persistent political engagement and successful stakeholder coordination. Second challenge is an operational one regarding the budget and timeline of the project. Since it is a large-scale project, there may be observed delays and budget overruns.

In terms of next criteria – efficiency, the policy alternative is expected to generate long-term large-scale benefits by enhancing the efficiency of transportation network in

Azerbaijan by implementing strategic investments and technological solutions. The first factors that come to mind when talking about efficiency is time and cost. This policy proposal promotes streamlining customs and administrative procedures leading to decreased costs and transit times. Another opportunity Middle Corridor provides is multimodal transportation, which allows for optimization of logistics network and incentivizing buyers and sellers. Additionally, the government may consider application of public-private partnerships (PPP) and attraction of external investments to utilize resources and efficiency of private sector.

When it comes to the question of equity, the policy alternative will provide equitable economic growth leveraged by development opportunities beyond traditional oil and gas sector and enhanced infrastructure across multiple regions. The Middle Corridor project will facilitate establishment of particular economic zones or trade centers leading to development and revival of non-oil sectors, creation of jobs, development of people's skills and knowledge across different non-oil sectors. However, there is a risk regarding equitable economic growth associated with concentration of benefits in urban areas or hands of big entities leading to heightened social or regional disparities.

Feasibility of this policy alternative depends on the comprehensive planning, substantial financing, stakeholder coordination, and robust political will. In fact, some actions have already been taken in terms of Middle Corridor project and logistics infrastructure development in Azerbaijan proving the initial feasibility of the policy proposal. The project further requires international partnerships and financing to increase the feasibility. The challenges in terms of feasibility are significant initial costs, complexity of stakeholder coordination, and considerable time consumption.

Finally, in terms of flexibility/improvability, the Middle Corridor project is expected to be flexible and adapt to the new opportunities and changes in transportation ecosystem. This flexibility will be facilitated by the utilization of technological innovations and prompt adaptations of regulatory framework to new challenges and/or opportunities. For the purpose of sustained flexibility/improvability of the policy alternative, continuous monitoring and assessments are required to allow for timely identification and implementation of necessary adjustments.

Promoting Innovation and Entrepreneurship in Non-Oil Sectors

In terms of the first criteria – effectiveness, the policy alternative is expected to contribute to the promotion of innovation and entrepreneurship in Azerbaijan serving as an alternative source of revenue to the state budget through creation of supportive ecosystem for startups and small- and middle-size enterprises (SMEs). The policy elements aimed at creation of accelerators, incubators, and mentorship programs will positively impact the current entrepreneurial ecosystem in Azerbaijan. The elements aimed at fostering collaboration between universities, research centers, and private sector players shall facilitate commercialization of research and innovation. Finally, the policy elements aimed at creation of an advantageous environment for startups to acquire support through venture capital, angel investors, and government programs shall elevate financial challenges of startups and SMEs. All in all, these measures will incentivize people to engage in entrepreneurial activities and, in the long term, contribute to the development of non-oil sectors and increase in their share of revenues contributed to the state budget. However, there are potential challenges creating concerns about the effectiveness of the policy proposal. The first one is the dependence on the willingness of stakeholders to engage in supporting startups and SMEs. The second

challenge revolves around the time period the policy is going to take to provide measurable benefits. Since such policies usually take significant amount of time to succeed, this one is also no exception.

In terms of efficiency, the policy alternative is expected to promote streamlining of regulatory procedures by simplifying business registrations, licensing and taxation procedures leading to decreased bureaucratic barriers and easier market entry. Another factor leading to operational efficiency is financial tools that will be available for entrepreneurs. One of the most significant challenges, however, is associated with implementation of regulatory adjustments, specifically development of robust administrative framework and constant monitoring.

In terms of the next criteria – equity, again, equitable economic growth is expected as a result of incentivized entrepreneurial activities, advantageous innovation ecosystem and diversified economy. Furthermore, this policy alternative is intended to provide inclusive and accessible educational programs to expand people’s knowledge and skills ensuring social parity.

The initial feasibility of the policy alternative is already proven since some actions have already been taken by respective government agencies in this direction. To further analyze the feasibility of the policy alternative, several factors should be taken into account, including financial, administrative, and regulatory. From financial perspective, implementation of the policy will require significant investments, both monetary and non-monetary. The funding of the project will require the government to appropriate budgetary resources. Therefore, from financial perspective, the policy proposal is expected to be implementable. From the administrative perspective, the feasibility of the policy depends on

the coordination of efforts between government agencies, research centers, educational institutions, and private sector players. Lastly, from the regulatory perspective, achievement of desired regulatory framework necessitates comprehensive legislative adjustments and development of strong enforcement mechanisms. All in all, the policy proposal’s feasibility may be achieved in the longer run.

In terms of the last criteria – flexibility –, since the policy alternative is focused on technological innovations and development of startups, it is expected to be adaptable to constantly changing environment with emerging risks and opportunities. However, flexibility requires continuous monitoring, as mentioned in the analysis of the first policy proposal, and control mechanisms to be aware of market changes, mitigate risks, and benefit from opportunities.

Criteria/ Alternatives	Enhancing Regional Connectivity through the Middle Corridor Project	Promoting Innovation and Entrepreneurship in Non-Oil Sectors
<i>Effectiveness (0.3)</i>	5	5
<i>Efficiency (0.1)</i>	4	1
<i>Equity (0.1)</i>	2	4
<i>Feasibility (0.3)</i>	5	4
<i>Flexibility (0.2)</i>	5	5
Total	4.6	4.2

To evaluate the policy alternatives presented in the previous chapter the evaluation criteria were given weights as shown in the above table and each alternative was evaluated on the scale of one to five against these criteria. In terms of effectiveness criteria, both policy programs are scored five since each of them solve the issue of oil dependency by diversifying

the economy in two spheres: transportation and innovation and entrepreneurship. In terms of efficiency the second policy option is scored less than the first one since innovation and entrepreneurship require significant financing overweighing the benefits, while transportation solution is expected to provide immediate benefits covering its costs. In terms of equity, however, the second policy option is scored higher since transportation solution through Middle Corridor project may cause social disparity by contributing to development of areas along the route only, while the second policy – innovation and entrepreneurship – provides opportunities for all layers of society to gain knowledge and skills in this sphere and initiate a startup. In terms of feasibility, both policy alternatives may face challenges in budget, time, and regulatory constraints. However, the second policy program is less feasible since its success is highly dependent on the development of a new strategy for innovation and entrepreneurship, regulatory reforms in taxation and coordination of private and public entities. Both policy alternatives are successful in terms of flexibility since both, transportation transformation and promotion of technological innovations will allow flexibility to adapt to new opportunities and/or challenges in the ecosystem.

Upon comprehensive assessment of the proposed two policy alternatives the one focused on the elevation of the Middle Corridor project is scored the highest and therefore, chosen as preferred solution to the problem of oil dependency in Azerbaijan. This policy is expected to yield more efficient results in the lesser term by improving transportation infrastructure and regulatory framework.

All in all, this paper focused on identification and analysis of the problem of oil dependency in Azerbaijan, exploration of current regulatory framework around the problem, development of policy alternatives to address the problem, evaluation of those policies

against five predefined criteria and selection of the preferred one. The policy proposals were developed in two distinct directions, one aimed at development of transportation infrastructure with integration of the Middle Corridor, while the other was focused on innovations and building an entrepreneurial ecosystem for startups and SMEs. As a result of policy evaluation in this chapter, enhancement of regional connectivity has been selected as the preferred policy for diversifying the Azerbaijani economy away from oil and gas industry and enhancing development of various other sectors contributing to the GDP of Azerbaijan.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

The main objective of the capstone project was to analyze the problem of oil dependency of the Azerbaijani economy from historical, legal, political, social, and economic contexts, identify and evaluate past and current policy programs implemented to elevate the problem, develop new policy alternatives taking into account the current programs being implemented and best practice, evaluate policy proposals in terms of their effectiveness, efficiency, equity, feasibility, and flexibility, and present the preferred policy alternative according to the results of policy assessment. The research reveals the historical background of the problem, which dates back to the Soviet era followed by modernization. After the collapse of the Soviet Union, Azerbaijan was experiencing economic downturn due to lack of financial and technical resources. “Contract of Century”, signed in 1994, has become the root for economic growth and economy’s dependency on oil production in Azerbaijan. Since then, oil revenues have become the major contributor to the state budget. From the legal perspective, the problem of oil dependency is framed by production sharing agreements (PSAs) that laid down a legal framework for attraction of foreign investment into national oil industry. Consequently, the requirements and stability of those agreements have become important in sustaining economic prosperity in the country, strengthening the dependency of the national economy on oil production. Oil industry has also influenced political environment in Azerbaijan with oil prices and revenues affecting political stability. Therefore, oil revenues are a significant focus point of the government, especially in its political and economic activities. The research results reveal that oil dependency has not left the social environment in Azerbaijan unaffected. First, it led to limited diversification in the job market necessitating the public to be specialized in this industry. Second, oil production

has significant environmental implications by greatly contributing to the pollution in the country. Finally, the problem is evaluated from the economic perspective. This evaluation shows high share of oil revenues in the country's GDP making the economy vulnerable to oil price fluctuations and other challenges occurring in the global oil market. It is indicated in the second chapter of this paper that Azerbaijan has suffered from budget deficits and economic declines throughout the period of diminishing oil prices, providing an example for the economic implications of oil dependence. The government of Azerbaijan has implemented a number of policy programs to address the issue and diversify the economy away from oil production. The most recent one is the "National Priorities for Socio-Economic Development of Azerbaijan for 2030", which is aimed at reviving non-oil sectors of economy. However, these initiatives have not been showcasing successful results making the economy's dependence on oil and gas industry a national challenge of top priority.

With the purpose of tackling the challenge of oil dependency two substantial policy programs focusing on development of distinct spheres have been proposed in the previous chapters. These policy alternatives are developed based on the analysis of the current policies being implemented in the country, interviews with the key stakeholder – the Ministry of Digital Development and Transport of the Republic of Azerbaijan, and best practice solutions. The first alternative suggests developing transportation sphere with the integration of the Middle Corridor project to stimulate regional connectivity, contribute to development of non-oil sectors of economy such as manufacturing, trade, and transportation, and facilitate job creation in urban and rural areas. The second policy alternative focuses on entrepreneurship and innovations. It advocates development of a clear strategy document that regulates the entrepreneurial ecosystem, promotion of partnership with research centers,

universities and private sectors, provision of funding mechanisms, establishment of learning centers to develop skillful cadre, and simplification of regulatory framework to incentivize innovative entrepreneurs.

Upon development of these policy alternatives, policy assessment has been conducted based on aforementioned five criteria. The assessment suggests the first policy alternative (development of transportation sector) to be selected as the preferred one due to its high performance on all dimensions. While the second policy is as well expected to generate successful results, those results are to be achieved in the longer term. Furthermore, development of strategy document and simplification of regulatory requirements require tight stakeholder engagement and willingness putting their realization under question.

All in all, this paper focused on analysis of the current state of oil dependency in Azerbaijan from various perspectives, the past policies implemented in order to address the challenge and their results, current policies being implemented and their progress, and proposal of new policy alternatives considering current environment for their implementation and best practice solutions. As a result, enhancement of regional connectivity through the Middle Corridor project has been decided to be more effective and promising in diversification of economy and increase of share of revenues from non-oil sector in state budget.

Recommendations

To address the challenges oil dependency creates for the Azerbaijani government a set of actions is compiled based on the leading practices, relevant experience in the countries along the route of the “Middle Corridor” project and policy recommendations in the third chapter of this paper:

1. Support of long-term public private partnerships (PPPs) and attraction of Consulting services-providers to employ best practice and access necessary expertise and resources.
2. Support for implementation of the National Priorities and Strategy for Socio-Economic Development of Azerbaijan.
3. Utilization of multimodal transportation options available to Azerbaijan (road, rail, sea) in compliance with international standards and with a focus on reduction of GHG and other air pollutants.
4. Strengthening of the capacity of private and public actors with the purpose of transport and logistics facilitation in the following areas: digitalization of transportation, cargo tracking, and logistics system aimed to improve warehouse capabilities, vehicle safety, and road maintenance standards.
5. Incentivizing the adoption and sustainable adherence to internationally recognized customs, transportation, and logistics standards.
6. Identification and support of practices, technologies, and strategies to modernize and transform Azerbaijan's transport and logistics sectors to be climate-resilient and reduce their environmental impact.

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APPENDIX

Interview questions for the Department for Regulation of Transport Sector:

1. Can you please give brief information about the recent works done for development of the transport corridors passing from the territory of the Republic of Azerbaijan and improving their competitiveness? What do you think about the role of these works in the development of Azerbaijan's economy?
2. To which areas Ministry is taking measures to attract investors and what do you think about the role of these measures in diversification of the economy?
3. In your opinion, which perspectives exist for the development of the transport sector in Azerbaijan, and what should be done, and which obstacles must be overcome to turn these prospects into a revenue-generating mechanism?
4. (Relates to the answer to question 3) How do you think these works can support the transport sector's competition with other income-generating sectors and the diversification of Azerbaijan's economy?
5. In general, can you talk about the future plans of your department or the Ministry in general that can contribute to the development of the economy of Azerbaijan?
6. Can you talk about the economic efficiency of the Middle Corridor Project?
7. What are the prospects for turning this project into a competitive and profitable field?
8. Please tell us about the limited aspects of this project.
9. Do you think that the Middle Corridor will have any role in the development of the regions, if not only for the capital?

Interview questions for the Technological Development Department:

1. Which one from the areas such as wireless technologies, broadband internet, postal services, radio, and television in Azerbaijan would bring more efficiency and become a competitive sector in the economy if developed further?
2. What perspectives exist for the development of the ICT sector in Azerbaijan, and what measures need to be taken and what obstacles need to be removed to turn these perspectives into a revenue-generating mechanism?
3. (Related to the answer to question 2) In your opinion, how can these measures support the ICT sector in competing with other revenue-generating sectors and contribute to the diversification of the Azerbaijani economy?
4. To which areas ministry is taking measures to attract investors and what do you think about the role of these measures in diversification of the economy?
5. Generally, can you talk about the future plans of your department or the Ministry as a whole that could contribute to the development of the Azerbaijani economy?

Interview questions for the Innovation and Digital Development Agency:

1. What is the current state with the innovation and entrepreneurship ecosystem in Azerbaijan?
2. What are the challenges faced in its development?
3. What policies have the Azerbaijani government implemented to further develop the ecosystem?
4. What are the areas for improvement in the current ecosystem for the innovation and entrepreneurship?