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## Azerbaijan's Reforms and Economic Progress



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## **Introduction:**

Azerbaijan, officially situated at the crossroads of Eastern Europe and West Asia, is a transcontinental country. It forms part of the South Caucasus region, bordering Caspian Sea to the east, Russia (Republic of Dagestan) to the north, Georgia to the northwest, and Armenia, Turkey, and Iran to the west and south, respectively. Baku is the capital and largest city of Azerbaijan, holding prominent importance in country.



The economy is predominantly driven by the industrial sector, with diversified activities supplementing the historic reliance on oil exploitation. Azerbaijan was once the world's leading oil producer in the early 20<sup>th</sup> century. In recent times, the country has achieved notable economic growth through comprehensive reforms following its independence from the Soviet Union.

Azerbaijan has adopted various successful reforms and policies, resulted in the achievement of high growth rates, increase in employment and reduction of poverty.

This article aims to offer a concise overview of the reforms implemented by the leadership of the Republic of Azerbaijan to achieve socio-economic objectives. Furthermore, it will examine the economic development in Azerbaijan in the context of these implemented reforms.

## Socio-Economic Reforms:

In the early years of gaining independence, President Heydar Aliyev of Azerbaijan implemented a series of legislative, taxation, and banking reforms aimed at swiftly enhancing the country's economy. These initiatives not only succeeded in improving economic conditions and the living standards of the population but also swiftly restored stability within the nation.



Azerbaijan strategically undertook significant measures to foster socio-economic development, exemplified by the signing of the "Contract of the Century." This groundbreaking agreement not only shaped Azerbaijan's oil strategy but also had a global impact. Rapid development ensued in the oil sector, and the funds generated were instrumental in the advancement of the non-oil sector. Following the success of the "Contract of the Century," Azerbaijan commenced oil extraction from the first well in the "Chirag" field in November 1997, simultaneously initiating gas extraction from the "Shahdeniz" field.

The "Program of State Support to Small and Medium Entrepreneurship in the Republic of Azerbaijan (1997-2000)" was implemented alongside various other legislative measures to establish a business-friendly and competitive environment in the economy.



Recognizing the significance of information and communication technologies (ICT), President Heydar Aliyev outlined the "National ICT Strategy for the Development of Azerbaijan (2003-2012)" in 2003. Subsequently, in 2014, a specific directive from the President Ilham Aliyev of the Republic of Azerbaijan established the "National Strategy for the Development of the Information Society in the Republic of Azerbaijan for 2014-2020."

In 2016, President Ilham Aliyev issued a decree titled "On the Formation of the National Coordinating Council for Sustainable Development of the Republic of Azerbaijan," aiming to attain the sustainable development goals set for the country until 2030.

By enacting the "Azerbaijan 2020: Vision of the Future" concept through a Presidential decree, Azerbaijan successfully realized economic growth and expedited the advancement of the non-oil sector. The primary objective of this initiative was to secure sustainable socio-economic development and enhance the well-being of the population.

In 2021, the "Center for Analysis and Coordination of the Fourth Industrial Revolution," operating under the Ministry of Economy of the Republic of Azerbaijan, was instituted as a public legal entity by Presidential decree. Additionally, the President issued directives for diverse development projects, including the implementation of the 'Smart City' and 'Smart Village' concepts.

In May 2021, President Ilham Aliyev took a new initiative through the issuance of an order titled "On Measures to Establish a Green Energy Zone in the Liberated Territories of the Republic of Azerbaijan," creating more employment opportunities.

Over the period of time, the reforms and policies introduced by both President Heydar Aliyev and President Ilham Aliyev have propelled Azerbaijan towards a new era of economic and socio-economic development. The adoption and execution of state policies, encompassing economic, social, legal, and sustainable aspects, have significantly bolstered the non-oil sector, upgraded infrastructure, increased employment opportunities, alleviated poverty, attracted more investments, and created new avenues for businesses.

### **Economic Development in Azerbaijan:**

Since gaining independence in 1991, Azerbaijan has experienced significant economic development and transformations. The country's once stable economy took a hit with

the dissolution of the Soviet Union, leading to a sharp decline in its gross domestic product (GDP).



Despite facing

economic challenges in 2001, including a 49% poverty rate, Azerbaijan managed to achieve upper-middle-class status. By 2013, the nation showcased an impressive gross national income (GNI) per capita of \$7,350 and a GDP of \$7,912.5, accompanied by a substantial reduction in the poverty rate from 49% in 2001 to 5% in 2013. Notably, Azerbaijan achieved "high human development" status on the Human Development Index (HDI) in 2010.



Over the period of implementing state programs from 2004 to 2018, Azerbaijan witnessed a remarkable economic growth, with the GDP increased by 3.3 times. Notably, the non-oil sector experienced a substantial growth of 2.8 times during this period. The agricultural and industrial sectors also saw significant increases of 2.6 and 1.7 times, respectively. This robust economic expansion led to the creation of more than 2 million new jobs, with 1.5 million of them being permanent. Additionally, over 100,000 institutions were established. As a result of these achievements, unemployment and poverty rates dropped to 5% and 5.1%, respectively.

In 2019, Azerbaijan's economy witnessed a sharp contraction of 4.3% attributed to the impact of the COVID-19 pandemic compared to the situation in 2020. Azerbaijan swiftly implemented a range of comprehensive measures and strategies, including support for entrepreneurship and the ongoing vaccination process, leading to the recovery of economic activities. These initiatives proved successful, resulting in a 2.1% increase in GDP in 2021 compared to 2020.

The global recognition of Azerbaijan's leadership strategies and reforms came from prominent international organizations and economic institutions. In 2020, the World Bank and the International Finance Corporation acknowledged Azerbaijan as one of the 20 most reformist nations.

Presently, Azerbaijan has successfully developed a new economic model, strengthening political and trade relations between Europe and Asia. The country plays a pivotal role in the implementation of significant projects, particularly in the advancement of the Caucasus transportation corridor.

## Major Development Projects in Azerbaijan:

In recent years, Azerbaijan has emerged as a key international hub for trade and transportation in the region, attributed to the successful implementation and advancement of various international projects. Noteworthy among these initiatives are the Alat International Sea Port located in the Caspian Sea and the Baku-Tbilisi-Kars railways project, both representing significant milestones in Azerbaijan's developmental history. President Ilham Aliyev's introduction of the "Made in Azerbaijan" decree and the signing of multiple agreements underscore the country's commitment to promoting non-oil sector exports on the global stage.

Azerbaijan has achieved notable success in the completion of mega energy projects within the Southern Gas Corridor, encompassing initiatives such as Trans-Anatolian Natural Gas Pipeline (TANAP) and "Trans Adriatic Pipeline" (TAP). These projects,

spanning 3500 km, are instrumental in supplying gas to numerous European nations.

Additionally, the Azerbaijani government has entered into various memorandum of understanding, exemplified by



agreements for the exploration and development of hydrocarbon resources in the "Dostluq field" in the Caspian Sea in collaboration with Turkmenistan.



## **Conclusion:**

Azerbaijan's journey since gaining independence in 1991 has been marked by remarkable economic development and transformation. Overcoming the challenges of a collapsed economy post-Soviet Union dissolution, the nation has not only recovered but thrived, achieving upper-middle-income status and "high human development". The strategic focus on diversifying the economy, particularly through the implementation of socio-economic development reforms and policies, has yielded substantial growth and job creation. Furthermore, Azerbaijan has positioned itself as a key player in the geopolitical landscape, strengthening political and trade relations between Europe and Asia. The nation's pivotal role in projects like the Caucasus transportation corridor reflects its commitment to regional development and connectivity. Azerbaijan's abundant natural resources, economic potential, tourist attractions, and effective leadership contribute to its status as a prosperous and developed nation in the World.