

THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN

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INTRODUCTION

Actuality of the study. Azerbaijan is the oldest oil production region in the world, which has been underway for more than 150 years. Oil resources are estimated at 3.5 billion tons, concentrated in favourable geological and geophysical conditions, oil is of high quality. Potentially oil-bearing up to 60% of the territory of Azerbaijan, only a part of them has been explored in details.

However, the economic performance of oil production in the Republic of Azerbaijan is worse than in other areas started by the later oil fields of the former USSR. The depletion of old deposits is accompanied by a gradual drop in the production well rates, which in itself greatly increases the cost of the oil production process and is a permanent factor in the deterioration of the economy.

The period after 1991 and, in particular, its first half, is characterized by a violation of the established system of functioning of the oil industry, the fragmentation of the once single oil market, centrally managed by the USSR Ministry of Oil and Gas, the abolition of state control over the exploitation of mineral resources, and a general decline in economic activity.

Already from the beginning of the 1980s, the experts prevailed over the lack of economic efficiency and the inexpediency of investing in the development of oil fields in Azerbaijan, which, for the conditions of the planned economy of the USSR, was generally correct. But the most important question about whether the negative assessment of Azerbaijani oil remains in force in the conditions of market relations and Azerbaijan's independent withdrawal to the world market remains unanswered and even not delivered.

Meanwhile, the initial data for such an assessment is extremely difficult and ambiguous. In the last years of the Soviet period, the oil reserves of Azerbaijan were considered on a large scale, worked out. But the discovery of new Azeri geological deposits. Chirag, Gunashli, Shah-Deniz, Karabakh and the West's common interest in Caspian oil create a radically new situation in the region.

Changed the opportunities for attracting foreign sources of lending to investment funds. The main limitations in such situations are usually considered to

be the lack of investor interest and the volatility of market demand for the products in question. But, according to the latest agreements with an international consortium formed by twenty major oil companies of 13 countries, it is intended to produce 510 million tons of oil within 35 years, for which they will need 15-20 billion dollars of capital investment. In these absolutely new and unique conditions, it became extremely urgent to create a scientific basis for the effective solution of these enormous problems of economic importance and to thoroughly study the potential for large-scale development of the oil complex as the basis of the Azerbaijani economy for a fairly long term. For all the stated and many smaller considerations, the urgency of the dissertation research of the complex of these questions seems to the author indisputable.

Purpose of the study. The purpose of the research is to scientifically and methodologically substantiate the economically effective large-scale sustainable development of the oil industry and reinvest the received oil revenues in the development of a number of other priority sectors and activities, which together will form the basis for a powerful advancement of the economy of the country.

To achieve this goal, the I have solved the following tasks: assessment of the objective historical role of the oil industry of Azerbaijan as the main, system-forming factor of the entire socio-economic development of this republic; development of methodological principles of effective investment policy and a comprehensive assessment of its effectiveness, taking into account the specifics of the oil industry; development of principles and proposals for effective cross-sectoral cash flow management, implemented in the interests of the economy and based on the distribution of oil revenues; the development of the foundations of an economic mechanism for attracting and mutual relations of foreign capital of international oil companies; formulation of the idea and justification of the composition of the oil cluster of interrelated industries and technological areas.

In general, the research carried out solves the problem of developing methods for the economic justification of the effective development of the oil complex of Azerbaijan. The idea of work: the previous views on the inefficiency of

further development of the production of Azerbaijani oil are incorrect and do not meet the modern requirements. The development of oil production can and should become a system-forming basis for the long-term development of the Azerbaijani economy as a whole.

The object of the research is the oil industry and other economic sectors of Azerbaijan.

The subject of the research is analysis of post-oil era for Azerbaijan's economy, approaches on new economic strategy.

The information base of the research is the legislative, regulatory, legal documents of the republic, technical and economic and statistical data on the oil and gas industries, state archives of Russia and Azerbaijan, reports of oil producers since 1871, the actual data of the PZHAR and materials of contracts with foreign oil companies, works of Russian and Azerbaijani academics M.I. Agoshkova and A.Kh.Mirzadzhan-zade, professors A.Alikhanov, M.P.Astafyeva, A.Astakhov, B.Y.Akhundov, M.H.Gazeyev, E.M. L.Goldman, A.Con Oplyanika, M.A.Komarov, E.S.Melekhin, P.S.Sapozhnikov, A. B. Shevchuk, V. Shchelkachev, H.B. Jusif-zade, E.M.Rustamov, S.A.Orujov, A.B.Suleymanov. B.A.Hajiyev. Z.S.Abdullayev and others.

The geopolitical and economic processes taking place in the post-Soviet period throughout the Caucasus-Caspian region, including around Azerbaijan, attracted the attention of Western international experts. At the same time, the focus of these works is focused on issues related to energy projects implemented in the region, while the main directions and priorities of the foreign policy of the Republic of Azerbaijan, with rare exceptions, remain in the shadow. Thus, the English scientist Edmund Herzig in his article "Azerbaijan's foreign policy, its impact on regional cooperation" analyses the country's foreign policy from the standpoint of the energy interests of the West. In turn, the American researcher Jason E. Straix, in his analytical article published in the Swedish magazine *Kavkaz & Globalization*, examines in some detail the impact of hierarchical global structures on Azerbaijan's foreign policy in the coming century.

Methodology of the study. The study used methods of system analysis, statistical methods, construction of forecast models, the study of dynamic series, the construction of clusters, and ultimately the methodological development of the financial and economic mechanism.

The validity and reliability of scientific provisions, conclusions and recommendations is confirmed: using a very large and representative (over the entire 150-year period of the industry's existence), carefully verified and documented by state and corporate statistics; carefully developed and laid the basis of the whole thesis by the system concept of research and the methodology that implements it.

The results of the research might be used to regulate the investment process of the republic's oil industry.

Scientific novelty. The recommendations and analytical developments set out in this work might be potentially used in developing decisions on the relationship between the state and investors. An approach that takes into account the individual economic features of the deposits is proposed and is designed to make today's unprofitable oil production facilities interesting for investment.

CHAPTER I: OIL IN THE ECONOMY OF AZERBAIJAN: HISTORICAL DEVELOPMENTS

1.1. The development and monopolization of the oil industry by early 19-20th century (1847-2000)

The history of the development of the oil industry in Azerbaijan is divided into several stages and they are remarkable for their unique achievements.

The first stage begins with the extraction of oil from wells drilled in 1847 by mechanical means, and continues until 1920. For the first time oil of industrial importance was obtained in 1847-1848 from wells drilled mechanically in Bibi-Eybat, and later in Balakhani fields, and this year the progress of the oil sector in Azerbaijan begins.

At the beginning of the 20th century for the first time in the world was extracted oil from a well drilled manually in the sea - 30 meters from the shore (in Bibi-Heybat).

In 1859 the first oil installation was built in Baku. In 1863, Javad Melikov built a kerosene plant in Baku, where refrigerators were first used in the world for refining. In 1867, 15 oil refineries operated in Baku.

As the technology and technology of drilling wells are mechanically developed, a number of new oilfields (Binagadi, Pirallahi, Surakhani and others) are opened, the volume of oil production is increasing, the development of the oil industry infrastructure and oil processing begins, the oil production, refining and marketing firms are being established. Azerbaijan is forming a national bourgeoisie, Baku is becoming one of the industrial centers of the world. In 1871, for the first time on the Absheron peninsula, the industrial development of the Balakhany-Sabunchu-Ramany deposit began. In 1872, with the aim of regulating relations in the oil industry, two laws are adopted: "On the excise tax from oilfields and petroleum products" and "On the auction sale to individuals of oil-bearing areas in the hands of tenants." December 31, 1872 in the first auction for the sale of

oil fields were put up for auction 15 sites in Balakhany and two sites in Bibi-Heybat.

At that time, state-owned unused land plots were leased for a period of 24 years for oil exploration and exploitation of open oil sites. The tenant had the right to independently export the oil extracted by him and set its selling price. The net profit acquired by the lessee due to the sale of oil was 14-15%. In the seventies of the XIX century the volume of purely national investment in the oil industry was only 4%. By the end of the XIX century, out of 167 entrepreneurs operating in the oil industry, 49 people (24.8%) were Azerbaijanis. At that time, the activity of national "oil millionaires" (Haji Zeynallabdin Taghiyev, Isa Bey Gadzhinsky, Murtuza Mukhtarov, Shamsi Asadullaev, Seid Mirbabaev and others) was very important in the development of the oil industry. In 1874 the first joint-stock oil company, the Baku Oil Company, was established in Baku. In 1873, Robert Nobel, a Swede by nationality, arrives in Baku, who is witnessing an economic boom related to oil. In 1876, the Nobel brothers established an oil company in Baku for the extraction and processing of oil. At that time a number of oilfields, oil refineries, a tanker built for the first time in the Caspian Sea for oil transportation, numerous barges, railways, hotels and other objects belonged to the Nobel brothers. In 1876, after the excise tax on petroleum products was abolished, new oil refineries were built and put into operation. In 1878, the first 12 km pipeline in Russia was built, which connects the Balakhani field with the Baku oil refinery. In 1898, the total length of oil pipelines connecting oilfields with oil refineries in Baku was 230 km. These pipelines transported 1 million tons of oil per year.

In 1883 the Baku-Batumi railway was put into operation. This railway was of great importance for the oil and oil products' exports to European countries. In 1883, Rothschild starts financial and credit operations in Baku and begins to deal with the sale of oil. In 1886 the Caspian-Black Sea oil company Rothschild was established. In 1890, 42% of the Baku oil exports were under the control of the Rothschild Bank. In 1901, Azerbaijan produced 11 million tons of oil, which accounted for more than 50% of world oil production. In 1880, the famous

scientist-chemist D.I. Mendeleev proposes to lay the Baku-Batumi oil pipeline to ensure the access of Baku oil to the world markets. The construction of this pipeline with a length of 833 kilometres and a diameter of 200 mm begins in 1897 and ends in 1907.[20, p.68]

Before the nationalization of the oil industry, 109 joint-stock companies functioned in Azerbaijan, of which 72 belonged to Russian capital (240 million rubles), and 37 to British capital (100 million pounds sterling). The amount of capital invested in the oil industry by the Nobel brothers was 30 million rubles. One of the most wealthy entrepreneurs of the oil industry and philanthropist Isabay Hajinsky invested £ 1.25 million in the oil industry of the company Hajicheleken. On the eve of the nationalization of the oil industry, 270 oil companies, 49 medium and small oil drilling companies, 25 oil refiners, more than 100 mechanical shops, repair shops and other facilities operated in Azerbaijan. In the last years of this stage in the oil industry, a difficult situation arose (as a result of the war, the revolutionary movement) and oil production fell sharply.

The second stage begins in 1920 after the nationalization of the oil industry in Azerbaijan and covers the period before the discovery of the field "Oil Rocks" on the high seas in 1949. In 1921, the volume of oil production is reduced to 2.4 million tons. In connection with the expansion of exploration and prospecting works, a number of new deposits were discovered and put into operation in Azerbaijan (in particular, the Gala, Buzovna Mashtaga and others deposits) and already in 1941 the volume of oil production was brought to 23.6 million tons, which was 76% of oil production in the then USSR. In this regard, S.A. Vezirov (head of the Azneftekombinat), R.G. Ismayilov (head of the Azneftzavod Association), B.G. Babazade (chief geologist of Azizbekovneft) and R.Rahimov (drilling master) of steel the first oilmen, awarded the title of Hero of Socialist Labor. During the war (1941-1945), due to the relocation of oil equipment and oil specialists to the eastern regions of the USSR (Tatarstan, Turkmenia, Bashkiria, etc.), oil production in Azerbaijan is reduced to 11.1 million tons.

On November 7, 1949, well No. 1 (from the Gal strata unit) was put into operation on Petroleum Stones with a production volume of 100 tons per day, and thus, the basis of oil production in the sea was laid. The first geologist of this field was Aga Gurban Aliev.

The third stage begins with the commissioning in 1950 of the Neft Dashlari deposit, which became the basis for the development of the offshore oil industry in Azerbaijan, and continues until 1969. At this stage, marine exploration works are expanding, a number of new oil and gas fields are being opened and put into operation (Peschany Island (Gum) - the Sea, Sangachal - Duvanni - the Sea, Isere-Zire Island, Bagar, Bulla, Darwin Bank, Gryazevoy, etc.), the technology and technology of drilling operations (including prospecting and exploration drilling) is being developed for the construction of hydraulic oil structures.

At this stage, a number of new oil and gas condensate fields on land (Kiurovdag, Mishovdag, Kursengi, Garabagly, Galmaz, Garadagh and others) were opened and commissioned.

During this period, the development and operation of the "Oil Rocks" and other deposits were especially intensive. For the first time, sea fishing was built on trestle piles on the open sea in the world. As a result of the application of integrated engineering and scientific and technical measures, considerable investments were made here, thanks to the saving of metals, the cost of each ton of oil decreased.

The Caspian and the North Caucasus remained the centre of the Soviet oil industry until the Second World War. Growing production suited the needs of Russia's industrialization. Controlling oil production in Baku, cutting the Soviet Union from production in this region was Germany's main strategic task during the war. Oil production in the Caspian again began to grow after the war, and in 1951 reached a record level of 850,000 barrels per day. After the war the oil production again began to grow and in 1951 reached 850,000 barrels per day (a record level).

At the same time, the Soviet planning bodies began to develop exploration work in the Volga-Ural region, which began to develop in the thirties. Deposits in

the region were often located close to transport infrastructure, and their geology was not particularly difficult. Large-scale investments in the region quickly paid off, which contributed to a serious increase in oil production in the USSR. Additional tons of oil went to meet the needs of new plants that were built in the period from the 1930s to the 1950s. Omsk plant was opened in 1955 and later turned into one of the largest oil refineries in the world.

Moscow sought to maximize foreign exchange earnings from oil exports and actively struggled to increase its share in the world market. In the early 1960s, the Soviet Union ousted Venezuela from the second place in the world's oil production. The release of large volumes of cheap Soviet oil to the market forced many Western oil companies to lower prices for oil produced in the Middle East, thereby reducing payments for the use of subsoil to the governments of the countries of the Middle East. This decrease in revenues was one of the reasons for the establishment of OPEC.

After achieving phenomenal production from the fields of the West Siberian Basin, the Soviet oil industry began to show signs of decline. The West Siberian deposits were relatively cheap to develop and yielded significant gains at their own expense, and the Soviet planning authorities gave priority to maximizing short-term, rather than long-term oil recovery. Production associations sought to extract as much oil as possible from the fields in order to fulfil the production plan, without taking into account the impact of developmental impacts on the state of the fields, too many wells were drilled and too much water was pumped.

The fourth stage begins in 1969 and coincides with the first period of Azerbaijan's leadership of our national leader Heydar Aliyev, when the oil and gas industry of Azerbaijan, like all branches of the national economy of the republic, embarked on the path of dynamic development. [18, p.102] During this period in the history of the oil and gas industry in Azerbaijan, especially in the history of the development of oil production at sea, a new era begins. In 1970 the production association "Kaspmorneft" was established. The Ministry of Petroleum Industry of the USSR, taking into account the experience of Azerbaijani oil companies in the

field of work in the Caspian Sea, geological exploration, drilling, development, operational and other works in all sectors of the Caspian Sea (from this year the Caspian was divided into sectors) entrusted to the Azerbaijani oil industry workers.

By the mid-1970s, Moscow had already realized that a decline in production was brewing. The first decline, caused by the chronic underfunding of exploration in Western Siberia, began in 1977, but the authorities managed to stop it due to very large investments in drilling. The second fall occurred between 1982 and 1986. And this time the crisis was overcome through increased funding. [11, p.96]

Until this time, the technical means used in the Caspian Sea, allowed to work only in sea areas up to 40 meters deep. By that time, almost all oil and gas fields up to 40 meters deep in the perspective sectors of the Azerbaijani sector of the Caspian Sea had already been opened. Prospects for increasing the volume of oil and gas production in the sea were associated with oil and gas deposits located in great depths. In 1970-1980 more than 400 cranes-ships, ship-turbine locomotives, seismic, passenger and other vessels of 75 kinds were brought to Azerbaijan on the personal initiative and due to the persistent efforts of the national leader Heydar Aliyev. Crane-vessel "Azerbaijan" with a carrying capacity of 2500 tons began to work in the Caspian. In addition, during the first time semi-submersible drilling rigs of the Khazar type were purchased to carry out geological exploration work in the sea areas up to 70 meters deep, and later - Shelf systems, which allow working at sea depths of up to 200 meters, resulting in There was an opportunity to open rich oil and gas deposits in the sea. As a result, compared to the same indicators of the 1960s, 8 new oil and gas fields were discovered, the volume of oil reserves doubled, and the volume of gas reserves - 3 times. In 1975, the total production of oil and gas was brought to 27.1 million tons (equivalent fuel). In the 1980s, the number of floating drilling rigs was brought to 11, and as a result of their introduction, new deposits were discovered that had rich oil reserves in the depth of 80-350 meters, which now constitute the bulk of Azerbaijani oil (Gunashli-Chirag, Azeri and other fields). At this time in Azerbaijan, in Baku,

construction of a plant of deepwater marine bases, which has no analogue in the whole world, began. To this end, the government of the then Soviet Union was allocated 450 million US dollars. The receipt of the permission of the Union Government for the construction of this plant (originally its construction was envisaged in Astrakhan) was the result of the strong will and courage of Mr. Heydar Aliyev.

The fifth stage is characterized by the collapse of the USSR and covers the era of independence and the new history of Azerbaijan.

The collapse of the economy caused a sharp drop in demand for oil within the country, and export capacity remained limited, and therefore the companies were forced to continue to sell a large share of oil in the domestic market, often to non-creditworthy consumers. The financial difficulties of the companies provoked a sharp decline in the volume of new exploration work, drilling volumes and even the volume of capital repairs of existing wells.

As a result of the destruction of economic ties, the uncertainty of legal and economic mechanisms, the liberalization of prices in industry with fixed prices for oil, the decline in production in the industry has acquired a clearly protracted character. In 1992, the industry continued to reduce average daily oil production, the volume of operating equipment decreased, the stock of wells with uncompleted construction increased, and those that were in idleness or repair; a mass character took the downtime of drilling and construction crews because of shortages of material resources and equipment.

1.2. Development of the Azerbaijani Oil Industry in the Soviet Period

After the revolution of 1917, Soviet power was established in Baku. According to the Decree of the Baku Council of People's Commissars of June 1, 1918, the oil industry, as well as the Caspian merchant fleet, were nationalized. About 400 private oil companies were nationalized in Baku. Bolsheviks for 4 months of 1918 were exported to Russia 1.3 million tons of oil without any compensation. When the Musavat government came to power in 1918, the

nationalization process was curtailed (decree of October 6, 1918) and all the property was taken back to its former owners. However, the frequent change of owners, the restriction of oil export opportunities, led to a serious decline in the oil industry. The production of 1919 was 3.7 million tons of oil, which was only half of the production in 1916.

The very importance of Baku oil for Soviet Russia was predetermined by the seizure of Baku in April 1920 by units of the Red Army. As a result, the government of the Azerbaijan Democratic Republic, which existed for almost two years, fell, and Soviet power was established. Only from April 30 to May 2, 1920, that is, just after the establishment of Soviet power in Baku, twelve steamships with 1.3 million poods of oil were sent to Russia, and in May of the same year the amount of oil supplied increased to 15 million puds, and in June to 21.2 million poods of oil and oil products. The oil industry was completely nationalized.

In 1921, oil production in Baku reached its lowest level of 2.4 million tons. The Soviet government, well aware of the importance of Azerbaijani oil, actively carried out measures to restore and develop the oil industry. As a result of works carried out in the 1920s and 1930s, in 1940, oil production in Azerbaijan reached 22.2 million tons, accounting for 71.5% of all oil production in the USSR. During this period, new oil fields were discovered, drying of the Bibi-Eybat Bay (1927) was completed, work was completed on the construction of the Baku-Batumi oil pipeline (1925) and the world's first drilling of an oil well at sea.

During the World War II, Azerbaijani oil played a decisive role in the victory over fascist Germany. Considering the increased demand for oil, the Baku oil workers in 1941 reached a record level of oil production - 23.482 million tons. Never before in Baku, so much oil was extracted and so far this record has not been surpassed. Thousands of oilmen went to fight at the front, their places in the fisheries were occupied by women. In 1942, 25,000 women worked in the oil industry, which was 33% of all workers. By 1944, their number had reached 60%.

German troops were approaching Baku. Hitler even set a date for the capture of the city - September 25, 1942. In these conditions, preparations for

evacuation began. By the autumn of 1942, 764 wells were drowned and prepared for destruction, and 81 sets of drilling equipment were sent to Turkmenistan together with personnel. At that time, Baku provided the front with oil, restoring and exploiting old wells. Given that the Germans blocked traditional transportation routes, it was decided to export oil through Central Asia. For the first time in world practice, railway tanks with oil afloat were towed by sea from Baku to Krasnovodsk. By decision of the State Defense Committee in October 1942, about 11,000 oil specialists and a large number of oil equipment were evacuated from Baku to Tatarstan, Bashkortostan and other regions of Russia. Most of them were transported to the vicinity of the city of Kuibyshev (Tatarstan), where oil production was deployed with the help of the Baku oil workers and equipment. Later, these places were christened "Second Baku".

Since the end of 1943, when the danger around Baku has passed, the oil industry has begun to recover. But as a result of the weakening of the industrial potential of Azerbaijan, the level of oil production fell, reaching 11.5 million tons in 1945. Only since 1947 oil production began to grow again. [40]

In the late 1940s, the construction of the "Oil Rocks" began. On November 14, 1948, the first landing of oil workers was landed on a group of rocks in the open sea, 42 km to the south-east from Apsheron Peninsula, called "Gara Dashlar" ("Black Stones"). It was headed by Nikolay Baibakov. Sabit Orudzhev and author of the idea that there is oil, geologist Aghakurban Aliyev, was in the structure of the landing. All of them later became living legends. After the construction of the house on piles and the power station, the team of M.Kaverochkin began drilling the first well on June 24, 1949. November 7, 1949, this well at a depth of 1100 meters zafontanirovala oil with a daily rate of 100 tons. In honor of this event, it was decided to rename the "Black Stones" in the "Oil Rocks". And on February 18, 1951, a solemn shipment of the first oil tanker to the shore took place. It was decided to create an artificial island with the area of 7 thousand hectares around the Oil Stones. From the islands of Zhiloy and Urunos, ships brought half a million cubic meters of rock blocks, sand. Wreckers, moorings and shelters for ships were

built around it. And in 1952, for the first time in world practice, the construction of an overpass began, which connected artificial islands. There was a time when the length of the overpasses connecting countless platforms exceeded 300 km. [22, p.61]

Grandiose construction has been unfolding on the Oil Rocks since 1958. In the open sea, 110 km from Baku, power stations, five- and even nine-storey buildings of hostels, hospitals, the House of Culture, a bread factory, a lemonade shop (its products were even "exported" to the shore) were built, and a park with trees was built. Since 1949, there have been drilled 1940 wells, produced more than 160 million tons of oil and 12 billion cubic meters of gas. Currently, Petroleum Stones is the easternmost locality of the country. Here and now more than 2000 people work.

In 1964-1968, the level of oil production rose to a stable level and amounted to about 21 million tons per year. From 1969 to 1985, the amount of oil produced began to decline from year to year, resulting in, for five years, oil production remained at around 13 million tons per year. The reasons for the drop in the level of oil production in the 1960s were the depletion of oil deposits on land and the high cost of oil produced at sea, as well as the discovery of large oil deposits in Western Siberia, Kazakhstan and other regions of the Soviet Union. All these factors led to a decrease in the share of Azerbaijan in the total oil production of the USSR (in 1950 - 39.1%, by 1960 - 12%, in 1970-1980, respectively, from 5.7 to 2.4%). As a result, Moscow has ceased to give due attention to the oil industry of Azerbaijan.

However, despite all of the above, during this period several large offshore oil and gas fields were commissioned on the Caspian shelf, oil refineries and machine-building plants were built. In 1971, the country was solemnly marked the production of the first billion tons of oil since the beginning of industrial development in Azerbaijan. In 1981, a record amount of gas was produced - 15 billion cubic meters.

The next decline in oil production began in 1990. The main reasons for this were the general decline in the economy of the USSR in the 1980s and the disruption of economic ties between the subjects of the former Soviet Union after gaining independence.

A special place in the history of the oil industry of the USSR in the recent past and in our days is the theme of the role of the Baku oil industry in the victory of the Soviet people in the World War II. And this is natural. Undoubtedly, one of the main reasons for the unleashing of the world conflagration was the claims of fascist Germany and its allies to the acquisition of energy resources, primarily the oil-bearing areas in Europe. In 1945, the German Minister of Arms and Military Industry Speer admitted during interrogation that "the need for oil was undoubtedly the main motive in deciding on the invasion of Russia" 1. The main initiator of the Second World War - Germany, perhaps, like no other country was interested in owning oil resources. The extravagant plans of the Hitlerite leadership with its claims to world domination could not but cause the desire to replenish its meager oil resource by subjugating other countries. Meanwhile, in 1939, oil production in the Reich was only 805 thousand tons. To conduct a modern war in large areas this amount of oil was clearly not enough. Even the occupation of a number of European countries in 1939-1940. and the acquisition there of oil products, the takeover of Romania's oil fields by the Union of Germany with an annual oil production of 5.5 million tons could not satisfy the growing appetite of the aggressor.

It should be recognized that during the period of relative improvement of Soviet-German relations after the conclusion of the Non-Aggression Pact in 1939, Germany showed great interest in the supply of oil and oil products from the USSR. During this period, it became the main importer of Soviet oil and petroleum products. With the outbreak of the war against the USSR for Germany, the rapid mastery of the Baku oil district became a strategic goal. For the Soviet Union, the use of Baku oil to repel aggression was of the same strategic importance. [27, p.450]

In modern scientific literature, not only the cause of the Germans' advances to the Caucasus in the summer and autumn of 1942 is hushed up, but also the German command's correction to the plans of the entire military campaign of 1942. Meanwhile, it is no secret that the main task of the German command during this period of the war was the seizure of oil regions of the Caucasus, and first of all - the Baku oil district. Faced with difficulties in overcoming the Greater Caucasus Range, German divisions rushed to the Volga. The goal was to sharply limit the supply of central regions of the USSR and Soviet troops with oil and petroleum products, delivered along the Caspian Sea and further along the Volga. For this, the Germans decided to seize Stalingrad. Therefore, the defense of the Caucasus and the Battle of Stalingrad had a vital, perhaps fateful, role for the USSR. No matter how significant the military assistance was from the allies of the USSR, no matter how significant supplies were in the USSR of food and uniforms, the Allies were not able to provide the USSR with the necessary amount of petroleum fuel. With regard to oil and oil products, the Soviet Union could rely mainly only on its own forces. And in these years, under the most difficult conditions, the oil workers of Azerbaijan steadfastly fulfilled the tasks facing them.

Already in 1941, a record amount of oil was produced in Baku - 23.5 million tons. Neither before nor after, the oil industry of Azerbaijan has reached such an index. The plan for oil refining was fulfilled by 122.8%. The plan for the production of gasoline - by 118%. In 1942, in connection with the occupation of the North Caucasus, oil production in Maikop and Grozny stopped. In addition, the railway line that connects Baku to the Center was cut. Despite this, the delivery of oil from Baku did not stop. Oil products from Baku were transported along the Caspian Sea and further through Central Asia and Kazakhstan. [25, P.188]

Particular attention was paid to the production of petroleum products directly for the needs of the active army. With the exception of a brief period in 1942, the production of aviation gasoline and other materials for the front was continuously increasing. The Baku plants regularly exceeded their production plans for processed oil. In 1943 the oil refining industry of Azerbaijan fulfilled the

plan for the production of aviation gasoline by 134%, naphtha - by 127.9%, kerosene - by 101.7%, diesel fuel - by 139.6%, aviation oils - by 105.7% The fleet fuel - by 162% 1. And in subsequent years, the production of all types of oil products related to the supply of the army was growing continuously. "Baku is the fuel," as E.B. Muradaliyev, - set in motion Soviet tanks, planes, cars, bringing more and more victories over fascism. "

The merits of the Baku oil workers in the general victory of the Soviet people over fascism are obvious. In this regard, the lamentations of many authors in Azerbaijan seem justified, that Baku was not awarded the title of city of the hero. But everyone familiar with the history of the Great Patriotic War is clear: if there were no Baku oil, the victory would look problematic.

To be fair, it should be noted that during the war years there was a regular decline in the production of Baku oil. In 1942 only 15.7 million tons of oil were produced³. In 1943 it was 12.7 million tons. In 1944, it was 11.8 million tons. In 1945 it was 11.5 million tons. Thus, during all the war years in Azerbaijan there was a steady decline in oil production. And although about 70% of the production in 1941-1945. In the USSR, oil fell to Baku's share, during the war there was a decrease in the share of oil produced in Azerbaijan in the overall balance of oil production in the country. All this affected the development of the oil industry of Azerbaijan in the postwar years.

Speaking about the reasons for the decline in oil production in Azerbaijan during the war years, the researchers explain this by a number of reasons. Azerbaijani authors on this occasion among one of the main reasons called the transfer during the war to the east of the country, to the area of the so-called "second Baku" oil equipment and engineering personnel. In this regard, drastically reduced drilling, which affected the overall performance of oil production. Sultanov writes: [48]"The creation of the second Baku during the Second World War due to the destruction of the Baku oilfields and the deprivation of their engineering and technical personnel was a gross error of the State Defense Committee of the USSR. This ill-considered action in the spirit of the communist

"Give!" Was inflicted huge damage to the Baku oil fields, which, along with other factors, led to a sharp drop in production in Baku, which in turn led to a reduction in the maneuverability of the troops, and this, of course, led to additional human victims on all fronts. The transfer of equipment and personnel of oil workers from Baku to Siberia contributed to the destruction of the oil infrastructure of Azerbaijan. As a result of the loss of oil production in Baku in the war years amounted to two dozen million tons.

There is no doubt that the development of new oil fields in the east of the country, accompanied by the redeployment of some equipment and personnel to the east, affected the development of the oil industry of Azerbaijan. Indeed, the scale of drilling around Baku has significantly decreased. The measures to shut down the work on part of the wells during the immediate threat of the seizure of Baku by Germans in the summer and autumn of 1942 also occurred. Perhaps the development of the "second Baku" was launched somewhat prematurely: during the war years, too little oil was produced in new fields. But to call into question the need for the complex of works on the development of new oil fields, there are no grounds.

The postwar history of the oil industry of the USSR has convincingly proved this. The main reason for the decline in oil production in Azerbaijan during the war years should be sought in another. Earlier it was noted that in the 1920-1930-ies. The pursuit of high planned indicators was accompanied by violations of technological production rules. This led to the use of wasteful methods of extracting oil. In the difficult conditions of war, this trend has been further developed. The depletion of the upper layers of oil, the narrowing of exploration and drilling operations, was the main reason for the decline in oil production.

The entire 20th century for Azerbaijan passed under the sign of oil. With all the temptations and false hopes that the country's orientation toward this is generating, ultimately, it is narrow and does not reproduce the direction of economic development. During this time Azerbaijan managed to survive two oil

booms: one at the beginning of the century, the other in the mid-90s. One is part of the Russian Empire, the other is already an independent state.

Unfortunately, Azerbaijan, which was part of Russia, could not take advantage of its historic chance. The development of capitalism broke off as soon as it began, and something new was presented to the world-the socialist revolution. Perhaps, as some historians now say, the huge empire that has lost its tempo, the patriarchal one in its essence, simply did not find another way of self-preservation. The grandiose social revolution that the Bolsheviks carried out, offering the society an eternally tempting idea of total social equality, preserved and expanded the former space of the empire. However, Azerbaijan remembered from these time 23 months of its own independence, which was taken away by the Bolsheviks, but the loss of which was almost inevitable - because of the same ruthless struggle for the oil-rich region.

The picture of oil production for a hundred years, since 1863, is curious in that it adequately reflects historical breakdowns. Oil is still abundant, and the natural decline in its production is not yet a decisive factor. (table 1)

During the years of Soviet power, skillfully combining the slave labor of millions of people and the slogans of universal equality, the industrial sector received a powerful development. In a different way, it could not be, because the USSR was in deep isolation. Oil, electrification and heavy industry became the main slogans of socialist society. Baku was almost the only oil reservoir of the Soviets at that time. Successfully developed new deposits, created training and research centers. At the sea, huge areas were reclaimed, such as Ilich Bay, which is still in operation. The significance of Baku was fully revealed during the years of the Second World War, when 75 million tons of oil were produced in Azerbaijan, 80 percent of all-Union petrol, 90 percent of naphtha, and 96 percent of oils. In Azerbaijan they like to tell that in 1944 in Moscow it was decided to deport all Azerbaijanis to Central Asia and only the then first secretary of the Communist Party of Azerbaijan, M. Bagirov, was able to prevent this violent act. However, there is no document confirming this. Most likely, this could not be, at least, for

two reasons. Such deportation could lead to the destruction of the oil industry. Although the interlayer of oil workers was sufficiently internationalized, its skeleton was composed of Azerbaijanis. In addition, a year later the Azerbaijanis were needed to try to expand the USSR to southern Azerbaijan under the pretext of supporting the national liberation movement and the possible unification of the two Azerbaijanis, which, however, failed for a number of reasons, primarily external ones. Moreover, there is a curious document of that time - Bagirova's letter to Stalin, dated 1945, where he asks permission to use 80,000 Azerbaijanis from South Azerbaijan in the oil industry.

Table 1

Annual oil production in Azerbaijan (1863-1962), thousand tons

Years	Extraction, thousand tons	Years	Extraction, thousand tons
1863	5,6	1928	7567
1873	64,2	1941	25341
1885	1879	1945	14194
1890	3442	1950	18422
1901	10840	1959	12707
1913	7538	1960	18733
1919	3494	1961	18007
1920	2591	1962	18900

Source: socar.az

The share of Azerbaijan in oil production in the USSR in the pre-war and post-war years, as we have seen, was very, very significant. But when after the war began to actively develop new deposits in Tatarstan, Bashkiria, Eastern Siberia, the importance of Baku began to decline. By the early 1990s, Azerbaijani oil accounted for only 2 percent of total production in the USSR.

1.3. Scientific and technical potential of the oil industry of Azerbaijan

The socio-economic crisis, which affected all spheres of the life of the Republic of Azerbaijan in the first years of independence, set difficult tasks for resolving the current situation. The solution of these problems required the mobilization of the country's economic and intellectual potential. In the conditions of a rapid economic decline, political instability and the lack of the necessary financial resources, which created a threat to the young statehood, the rational use

of the country's main natural resources - oil resources - became more important, by attracting foreign investors.

The oil industry, which occupied an important historical place in the social and economic life of Azerbaijan, in conditions of cooperation with foreign capital, could become that basic base on which it was possible to bring the economic potential of the country into motion, to achieve stabilization and further development of production in various spheres. At the same time, cooperation with leading foreign companies would help to integrate into the world economic system and improve international positions, which the Republic of Azerbaijan badly needed.

The historical experience accumulated in the oil industry since the 19th century shows that close and mutually beneficial cooperation with foreign oil companies opens up favorable prospects for the introduction of advanced technologies and the revival of the country's economy.

The beginning of the transition to an industrial mode of production in the 70s of the XIX century was accompanied by an increase in the inflow of foreign capital, which determined the dynamic development of the oil industry. As a result of the acceleration of the use of new technologies, a technical revolution in this industry was completed in a short time. The leading role in these processes belonged to the Swedish subject brothers Nobel and the Parisian banker A. Rothschild. Thanks to their efforts, Baku oil entered the world markets and took a strong position for many years. The laying of the first oil pipeline, the use of tank-wagons, the construction and application of the world's first tankers are inextricably linked with the name of the Nobel brothers.

By the beginning of the 20th century, Baku had become a major industrial center. Industrial infrastructure of the city, including oil refineries, mechanical and ship repair plants, transport and communication system, etc. was created with the active participation of foreign capital. The oil industry and the associated infrastructure in the future had a significant impact on the development of the economic potential of the entire republic.

It is not by chance that at the present stage the oil strategy is an integral part of Azerbaijan's domestic and foreign policy aimed at solving social, economic and international problems. The basis of this strategy was the signing on September 20, 1994 of a contract between the State Oil Company of Azerbaijan (SOCAR) and a consortium of large foreign oil companies on the joint development of the offshore fields Azeri, Chirag and the deepwater part of the Guneshli field in the Azerbaijani sector of the Caspian Sea and distribution produced oil by equity participation. Together with SOCAR, the consortium included ten large companies from six countries: Amoco, Yunokal, Penzoil, McDermott (USA), British Petroleum, Remko (Great Britain), LUKoil (Russia), "Statoil" (Norway), "TPAO" (Turkey) and "Delta" (Saudi Arabia). By the number of participants of large companies representing the world's leading countries, in terms of investment and geopolitical significance this agreement was called the "Contract of the Century". [23, p.96]

Thus, having overcome all internal and external pressures, after more than three years of intense negotiations, the Republic of Azerbaijan achieved the signing of an oil contract and began to implement it consistently. The course, conducted by President G.Aliyev, was based on the principle of "open doors" and "balanced policies". As the composition of the oil consortium shows, Azerbaijan has been a supporter of mutually beneficial cooperation with all interested states that have their strategic interests in the region. This policy was aimed at creating a favorable cooperation base, taking into account the economic and geopolitical interests of different countries and Azerbaijan itself.

A year after the signing of the contract, Exxon (USA) joined it, and in 1996 - the famous Japanese firm Itochu, which acquired a stake from the American McDermott, and, finally, Amerada Hess (USA).

In the years that followed, there were also some changes in the composition of the consortium participants: at the end of 2002, the Russian company LUKoil withdrew from the above contract. A 10% stake in LUKoil was acquired by the Japanese INPEX corporation (INPEX). Despite the fact that opinions were

expressed about the political background of the withdrawal of the leading Russian oil company from the Contract of the Century, this was most likely a commercial transaction. First, LUKoil, having sold its stake in the contract for 1.2 billion US dollars, received several times more than the invested amount. Secondly, the Russian company continued to participate in other projects in the Azerbaijani sector of the Caspian Sea, including the skeleton of the departure of the Russian firm, which was most likely a commercial deal and Samnir is already operating a major project on the Shahdeniz gas field.

The economic efficiency of the contract for Azerbaijan is characterized by the fact that 80% of profitable oil will be given to the republic itself. At the same time, associated gas produced with oil in the amount of 55 billion cubic meters will be transferred to Azerbaijan free of charge. In general, the profit of Azerbaijan for 30 years at the then prices were estimated at 34 billion US dollars.

Today, significant progress has already been made in the implementation of the first oil contract. It should be noted that as a result of deeper research, the volume of projected reserves increased from 511 million tons of oil to 925 million tons of oil and 280 billion cubic meters of gas.⁶ According to experts, this is not the limit. At the same time, the amount of Azerbaijan's profit from the contract area increases. According to the new calculations, at the price of \$ 50 per barrel, Azerbaijan will have to receive at least \$ 140 billion by the end of the agreement (by 2024) .⁷ And prices continued to grow and in recent years held at a level of over \$ 100, which means a twofold increase in Azerbaijan's profits. [49]

The oil strategy promoted the re-equipping of local enterprises with modern Western technologies, the creation of a more powerful and mobile infrastructure. The Baku plant of deepwater foundations has been modernized, platforms and floating drilling rigs have been built, some of which do not have analogues in their technical parameters, not only in the Caspian, but throughout the world. A new modern oil terminal in Sangachal with a capacity of more than 100 thousand tons was commissioned.

Earning early oil in November 1997 under the "Contract of the Century" was a turning point in the implementation of the oil strategy of Azerbaijan. The gradual increase in production allowed to completely prevent the crisis in the oil industry and favored its dynamic development. If in 1995 the level of production decreased to 9.2 million tons, then since 1998, production has been steadily growing. So, in 2005 the volume of extraction reached 22.2 million tons. And in 2006 it amounted to 32.2 million tons and thus exceeded the record oil production in Azerbaijan (23.5 million tons), which was installed in 1941.8 In 2012, 43 million tons of oil was produced in the country.

The choice of the route and the construction of pipelines to transport energy resources were of special importance for Azerbaijan, which does not have a direct access to world markets. It is known that an important role in the economic profitability of open fields and the strengthening of the sovereignty of any state is played by free access to international markets, the existence of export oil and gas pipelines. Therefore, to create this infrastructure, Azerbaijan had to solve many problems in a politically unstable region and achieve agreement with neighboring states. After successful negotiations in 1996, Azerbaijan signed agreements with Russia and Georgia for the transportation of early oil from the Azeri-Chirag-Gunashli fields. With the completion of reconstruction and construction works in October 1997, the northern oil pipeline was commissioned and began shipping Azeri oil to Novorossiysk. Subsequently, in April 1999, the western route - the Baku-Supsa oil pipeline connecting the Caspian Sea with the Black Sea through Georgia - was put into operation.

It should be noted that the combination of interests of the countries of the region and close cooperation was an integral part of Azerbaijan's oil strategy. It was dominated by a comprehensive, balanced approach that takes into account the full range of economic and political factors. It is indicative that the transit tariff for the Baku-Novorossiysk oil pipeline is \$ 15.67 per ton, and on the Baku-Supsa route these expenses are reduced to \$ 3.14 per ton of oil. 10 Meanwhile, Azerbaijani oil is transported via the western pipeline to world markets in pure

form and is sold more expensive, unlike the route Baku-Novorossiysk, where its quality is reduced as a result of mixing with other brands. Nevertheless, Azerbaijan continued cooperation with Russia in this field. But on May 5, 2013, Russian Prime Minister V. Medvedev signed an order to end the agreement on the transit of Azerbaijani oil through the territory of the Russian Federation from January 1, 2014, justifying its decision by the unprofitability of the northern pipeline.

Along with the named oil transportation routes, the construction of the main export pipeline (MEP), as stipulated in the "Contract of the Century", was an important element of Azerbaijan. When choosing the main route in Baku, they proceeded from objective conditions that take into account their own interests and global economic and geopolitical tendencies aimed at globalization and mutual integration. The process of determining the MA route and its implementation has gone through a complicated and long-lasting path. Along with economic factors, the clash in the region of the geopolitical interests of the United States, Europe, Russia, Turkey and Iran determined the conduct of Azerbaijan as a consistent, determined, and balanced policy. From this point of view, the declaration signed in October 1998 in Ankara between Azerbaijan, Turkey and Georgia on the construction of the main export pipeline Baku-Tbilisi-Ceyhan (BTC) was an important step in the implementation of the large project. The accession of the United States and Kazakhstan to this document has given an additional impetus to the implementation of these tasks. A year later, on November 18, 1999 in Istanbul, during the OSCE summit, the Presidents of Azerbaijan, Georgia and Turkey signed an agreement on the transportation of crude oil via the main export pipeline Baku-Tbilisi-Ceyhan. Consequently, the final route of the main export route pipeline. [32, p.95]

At a time when in some countries, including Azerbaijan, some circles continued disputes about the economic feasibility of the BTC pipeline, attributing to him only geopolitical nature, on September 18, 2002, the foundation of the MA, estimated at \$ 3 billion was laid near Baku.¹³ However, in the future, the construction of the BTC, designed to transport 50 million tons of oil per year, cost

more than \$ 4 billion. Although the initial terms of putting the pipeline into operation were postponed, on May 28, 2006, the Ceyhan terminal finally accepted Azeri oil.

In parallel with the BTC pipeline, by the end of 2006 the Baku-Tbilisi-Erzurum gas pipeline started operating, which ensures the delivery of gas from the Shahdeniz field to Turkey. The first shipment of gas was delivered to the Sangachal terminal in November 2006.¹⁸ In 2007, Turkey began to receive gas via this pipeline. The significance of this event is determined by the fact that with the introduction of "Shah Deniz" into operation Azerbaijan also becomes an exporter of gas.

Currently, the projects of the Trans-Anatolian (TANAP) and Trans-Adriatic gas pipelines (TAP) are being implemented, designed to export Azerbaijani gas to European markets. This will contribute to strengthening Azerbaijan's role in ensuring Europe's energy security.

Thus, successfully solving the issues of diversifying routes for the transportation of energy resources, Azerbaijan ensured greater reliability and security of the transportation system, as well as the continuity of supply to consumers, contributing to the strengthening of energy stability in the world.

The consistent implementation of the oil strategy stimulated the attraction of foreign capital to the country's economy. Even the global financial crisis and the sharp decline in oil prices in the late 1990s did not ease the interest of foreign investors in Azerbaijan. The priority was the oil industry. Currently, of the 33 signed oil contracts, 18 are under implementation. The volume of capital investments for all contracts in the case of their successful results was expected to be about \$ 60 billion.¹⁹ Despite the termination of some contracts, the process of implementing many projects is gaining momentum.

One of the notable features of the oil strategy is that it contributes to the development of other sectors of the economy, favoring the investment of the necessary capital in different spheres. It is not accidental that, following the implementation of the oil strategy, the flow of investment into the non-oil sector of

the country's economy increased. At present, this is clearly manifested in the dynamic development of the construction sector, the service sector, communications and communications, transport, etc.

It can be concluded that the oil strategy plays a leading role in the socio-economic and political life of Azerbaijan, strengthens its geostrategic positions. First of all, it should be noted its positive aspects for the country's economy. Joint development of oil fields with foreign companies allowed to prevent the deepening of the crisis and laid the foundation for the social and economic development of the republic. The funds raised have played a decisive role not only in creating, but also in increasing the foreign exchange resources now accumulated in the State Oil Fund, whose reserves by January 1, 2013 amounted to more than \$ 34 billion.²⁰ Part of the fund is used to finance global social and economic projects countries, including for investing in the development of the non-oil sector. Azerbaijan's participation in the construction of the BTC export pipeline was also financed by the Oil Fund. Along with the overall economic growth, new jobs are being created, the qualifications of specialists are increasing, and the human resources are being strengthened. The country is developing advanced foreign experience in the exploitation of deep-sea deposits, consistently introduces new technologies in various fields of activity, that is, broad prospects are opening up, ensuring a qualitative upgrade of the scientific and production-technical base of the economy.

Successful cooperation with transnational companies facilitated the process of Azerbaijan's integration into the world economic system, strengthened the confidence of foreign states towards it. During the implementation of the oil strategy, Azerbaijan managed to show itself as a full-fledged owner of its natural resources and enter into an equal and mutually beneficial cooperation with foreign partners, achieved coordination of principles on the legal status of the Caspian Sea with Russia and Kazakhstan, which increased its international prestige and strengthened its political positions.

Thus, the oil strategy, based on the rational use of energy resources and the distribution of profits, created the conditions for economic development, including

the non-oil sector. She made a significant contribution to the reduction of unemployment, the solution of many social issues, the establishment of a stable political system, integration into the international political and economic spheres, thereby contributing to the formation and strengthening of the statehood of Azerbaijan in the late XX - early XXI century.

CHAPTER II: POST-OIL ERA IN AZERBAIJAN

2.1. Features of the non-oil sectors of Azerbaijan

The leading role in the economic development of Azerbaijan is played by the oil sector. Despite this, in the general economic growth, the non-oil sector has come to the forefront in recent years. According to official statistics and macroeconomic indicators for 2004-2013, the growth of the non-oil sector was more than 2.2 times. The strategy, designed to channel oil profits to diversify the economy, has justified itself. Like any country that has gone through the transition period, Azerbaijan also used its natural resources to build a strong economy, but with the proceeds from the sale of these resources, succeeded in diversifying the economy and minimizing its dependence on oil. As a result of this strategy, there continues to be a consistent growth trend in construction, tourism, agriculture, transport, information, and communication technologies. As an indicator of this trend, we can cite the creation over the last 8 years of more than 1 million new jobs, most of which are accounted for by the non-oil sector.

International financial institutions emphasize the importance of the agricultural and tourism industries. Thus, 44% of the employed population of the country is working in this area. For this reason, for the improvement of agriculture in the nation, reliable state programs are being executed, changes are being actualized, and new technologies are being utilized. Nearly collaborating with Azerbaijan, the Asian Development Bank likewise thinks about agribusiness and tourism to be the main development directions in the country's non-oil sector. The bank trusts that financing agricultural producers and keeping up tax concessions for them help build up the agrarian area, which has extraordinary potential in Azerbaijan. Along these lines, the rich traveler capability of Azerbaijan and the fast improvement of tourism infrastructure in the nation guarantee huge incomes for the nation toward this path.

To date, the non-oil sector products produced in Azerbaijan, including electrical machinery and equipment, spare parts, chemical products, building materials, ready-made textile products, etc., are exported to various regions.

According to the decrees and confirmed development programs, the presidents of the country to diversify the economy and create a basis for the development of the non-oil sector to support small and medium-sized businesses, allocate preferential government loans to persons engaged in this activity, subsidies for agriculture, reconstruction of the transport and communication infrastructure across the country in billions of US dollars. These costs soon came to fruition and became the cause of great revival in the non-oil sector of the economy. According to the relevant decrees and decisions of the head of state, to implement measures to diversify the economy, the State Program for Socio-Economic Development in the 2009-2013-ies of the economic regions of the Republic of Azerbaijan was adopted, the State Program for Poverty Reduction and Sustainable Development in the Republic of Azerbaijan in 2008, 2015 "," State program on reliable provision of agricultural products to the population of the Republic of Azerbaijan in 2008-2015 "and other programs. These programs are successfully implemented.

The implementation of the Decree of the President of the Republic of Azerbaijan No.80 dated April 14, 2009, "The State Program for the Social and Economic Development of the Regions of the Republic of Azerbaijan in 2009-2013" plays an important role in ensuring macroeconomic stability, expanding entrepreneurial activity, creating new enterprises and new jobs , further raising the level of social services, improving the well-being of the population and reducing poverty. [45]

As a result of the purposeful policy of the President of the Republic of Azerbaijan in the field of socio-economic development of the country, in 2011, 5,1 thousand enterprises were created, 94,1 thousand new jobs, incl. 72,4 thousand permanent. In general, after the adoption of the program, 14.7 thousand enterprises began to work in the country, 240.7 thousand new jobs were opened, including. 179.6 thousand permanent jobs.

The modern economic policy of Azerbaijan is aimed primarily at diversifying the economy, reducing dependence on the oil sector, and dynamically and sustainably developing the non-oil sector. So, according to the State Statistics

Committee of the Republic of Azerbaijan, the share of mineral fuel accounts for 92.7% of the total exports of the country and today there is clearly a tendency to increase. The prevailing volumes are exports of mineral, oil and products of its distillation (USD 20.2 or 56.04% of the value of mineral exports), whose main consumers are Italy, Indonesia, Thailand, Germany, Israel, France, India, Russia and USA.

However, Azerbaijan has been stepping up its non-oil sector in the last few years.

The Republic of Azerbaijan is pursuing a policy of reorientation from the oil industry to the services sector. The share of the oil sector in GDP reached 56.6% (32.6 billion manat), an increase of 3% over the year. In Azerbaijan in 2013, the volume of services was 36.6% of GDP (17.4 billion manat). At the same time, the growth rate of production of services (7.2%) outpaced the indicator for the production of goods by 2.3%.

The results of the diversification policy are reflected in the development of the non-oil sector. Thus, the non-oil sector increased in 2012 by 7.8%, in 2013 - by 9.4%. In 2012, in the non-oil industry, growth was more than 11%, in agriculture - 5.8%, in construction - 20%, ICT - 11.8%, tourism - 22.6%. By the results of 5 months of 2013 the growth of non-oil gross domestic product amounted to 10.5%, non-oil industry about 9%.

The main priority sectors in the development of the non-oil sector in Azerbaijan are ICT, tourism, transport, energy, especially renewable and alternative, processing of agricultural products. International financial institutions emphasize the importance of the agricultural and tourism industries. Thus, 44% of the employed population of the country are working in these areas (taking into account related industries). According to the official data, production of agricultural products in the country in 2011 increased by 34% compared to 2003. And over the past three years, the growth rate of common agricultural products averaged 2.5%.

Human capital is one of the most important factors for diversifying the economy and increasing its competitiveness. Therefore, within the framework of the policy of turning "black gold" into "human gold" and the corresponding state program, hundreds of young Azerbaijanis are sent to study in the world's leading universities. [15,p.269]

Taking into account the scale of the forthcoming tasks and with the aim of forming a new strategic view on the economy, the country develops the Development Concept "Azerbaijan 2020: A Look into the Future". This policy document reflects all the aforementioned political and economic measures, the implementation of which will achieve the goal set by the President of Azerbaijan - to double the GDP in the next 10 years and achieve this growth through the non-oil sector of the economy.

Today, the Azerbaijani economy enters a new stage of development. For a number of objective reasons, factors that have provided high growth rates in the past are no longer capable of performing the same functions in the future. The obvious reality is that competition in world markets is increasingly exacerbated, and relatively low-cost imports are pressing on the domestic market. To maintain sustainable development rates, it is necessary to use new growth factors that will lead to the transformation of the socio-economic model that meets the needs of the modern world economy. The greater part of GDP is formed by the non-oil sector, and in the near future the dependence on oil will disappear altogether.

The priority areas should include tourism and tourism-related industries that need state support. There are reasons to assert that tourism in the republic is a very important part of its economic potential. This circumstance should be taken into account in the development and implementation of the perspective concept of the development of the economy of Azerbaijan. this will contribute to strengthening the orientation towards the development of the non-oil sector, especially the social infrastructure sectors; the direction of the republic's resources on the development of regions; meeting the needs of the population of foreign countries in tourism

services, which will become a tangible source of income of the republic, will increase the role of Azerbaijan as a transit country.

Meanwhile, today the main goal of the country's economic policy is the withdrawal of the Azerbaijani economy from raw dependence and the development of the non-oil sector. This is the focus of the reforms carried out in the country over the past few years. It is no coincidence that at present the bulk of the country's GDP is formed at the expense of the non-oil sector. If in 2006-2008 the share of the non-oil sector in the country's GDP was only 40 percent, today this figure reaches almost 70 percent. [45]

Although the very process of economic diversification is extremely difficult, but with the current instability in the global economy is a timely step. And this is only the beginning of the way to modernize the country's economic system.

So, development priorities of non-oil industry and agriculture are chosen as priorities for development of Azerbaijan's economy in 2017. And the results of the first half of 2017 are quite impressive.

"The non-oil economy grew by 1.7 percent in six months. This is a very good indicator," Azerbaijani President Ilham Aliyev said in his speech at the Cabinet meeting on the results of the socio-economic development of the country in the first half of 2017 and forthcoming tasks.

At the same time, the non-oil industry grew by 4.4 percent, agriculture - by 2.2 percent. And the country's currency reserves for the reporting period grew by about three billion dollars - up to 40.6 billion dollars.

As for the indicators of foreign trade turnover, they also show growth. As a result of six months of this year, exports increased by 36 percent, including non-oil exports - by 27 percent, imports decreased by 15 percent. By the end of the year, we can expect an even greater increase in the trade surplus thanks to non-oil exports. As the state support measures aimed at developing entrepreneurship in the country and the withdrawal of Azerbaijani products to the world markets bring their fruits.

Expecting tangible dividends from these events in the long term, we are already witnessing a change in the structure of exports of domestic products. In this connection, one can expect the transformation of non-oil industry and agriculture into the main source of economic growth and export.

In his speech at the meeting of the Cabinet of Ministers, President Ilham Aliyev outlined the potential spheres that contribute to the inflow of currency into the country. And these signals are much more significant and are designed to receive real dividends.

First of all, Azerbaijan will become an active exporter of agricultural products. Hazelnuts, almonds, tobacco, cotton, tea, silk, corn, olives, sugar cane, grapes and products from them will provide great opportunities for entering international export markets. Moreover, as the head of state noted, they are also natural riches of Azerbaijan, which are deprived many countries of the world, and this can also be used for the benefit of the country. Let's notice, that, besides traditional commodity markets, in the countries of Europe, Persian gulf and Asia too there is an interest to the Azerbaijan production.

Industrial production of Azerbaijan is no less in demand on international markets. The customs statistics of exports for individual goods of industrial production serves as evidence of the growing export of domestic non-oil industrial products, the Azerbaijani President said.

Thus, for the first half of 2017 gold exports grew by 64 percent, electricity by 300 percent, aluminum by 30 percent, plastic goods by 22 percent, equipment, mechanical devices by 50 percent, copper by 67 percent, copper concentrate ore - by 100 percent, tar oil - by 56 percent, bentonite clay by 255 percent, textiles by 73 percent, stone, gypsum, cement by 3 percent, chemical products by eight percent, led by 123 percent.

The fact that about 80 percent of Azerbaijan's GDP is formed at the expense of the private sector attracts foreign investors to the country. Today, large investments are already being made in the non-oil sector-in agriculture, in the creation of new industrial branches. Over six months of this year, the country's

economy invested five billion dollars of investment, and most of it - foreign investment. Nevertheless, President Ilham Aliyev noted the importance of domestic investments from the private sector.

According to the head of state, the creation of industrial parks, industrial zones, agro-parks and large-scale farms due to foreign and domestic investments will greatly increase the country's export potential.

The role of the construction sector, transport, ICT and tourism is no less important for the development of the country's non-oil potential. Increase in revenues to the state budget from these sectors will reduce dependence on oil and gas revenues. [2, p.208]

Thus, the main goal of the reforms being carried out in Azerbaijan is to make the economy competitive so that it is characterized by such indicator as export to the world market of products with high added value. This ensures the inflow of foreign exchange earnings, strengthens the economy, reliably protects the national currency from devaluation, creates conditions for the creation of highly skilled jobs.

And most importantly, the speech of President Ilham Aliyev once again confirmed the clearly defined direction of public administration, which allows correctly to focus tasks, allocate resources and give sufficient incentives for development.

2.2. Methods and organizational forms of attracting foreign investment in the non-oil sector

Attraction of foreign investments in the state economy on a large scale pursues the long-term strategic goals of creating a civilized, socially-oriented society characterized by a high quality of life of the population, based on an economy that assumes not only the joint efficient functioning of various forms of ownership, but also the internationalization of the market of goods and labor and capital.

Investments are monetary funds, targeted bank deposits, shares, shares and other securities, technologies, machinery, equipment, licenses, including trademarks, loans, any other property or property rights, intellectual values invested in objects of entrepreneurial and other activities in order to generate profit and achieve a positive social effect.

To attract foreign investors in each country, the following measures are mandatory:

- a number of tax benefits for profit; exemption from taxes and duties of materials, components, equipment imported for the development of production; accounting for the taxation of exchange rate changes;
- exemption from payment of customs duties, value-added tax for the import of goods that are a foreign investor's contribution to the authorized capital during the period of its formation, exemption from export customs duties of own production;
- replacement of taxes, fees and mandatory payments with the distribution of production products between the investor and the subjects;
- the definition of the basics of economic activity of free economic zones and the provision of incentives in the zones of export production. [31]

With regard to foreign investments, Azerbaijan pursues an open door policy: foreign investors do not need any special permits, they use all the opportunities created for local investors. The results of the investment policy aimed at developing the non-oil sector and, in general, diversifying the economy, can also be judged by the sectoral structure of investments. Thus, out of 120 billion dollars invested in the economy of Azerbaijan for the years of independence, more than \$ 70 billion accounted for the non-oil sector.

One of the tendencies of the formation of tourism in Azerbaijan is the creation of conditions for the development of tourist services, i. food, accommodation, transport, sightseeing programs. Thus, there are opportunities for the development of related industries. In this regard, in recent years, a sharp increase in investments in the non-oil sectors of Azerbaijan was recorded (see

table). If in the past 15 years, investments in the Azerbaijani economy amounted to 100 billion dollars, 60% of them are in the non-oil sector.

Investments in the non-oil sector exceeded the level of the previous year by 18%, amounting to 76.2% of the total volume of investments in fixed assets.

For 2017 characterized by high growth rates of investment in hospitality, construction, communications and processing industry. In 2018, state investments in the transport sector, tourism, irrigation, energy, ecology, information and communication technologies were registered.

For example, in 2017 the construction sector received 96% more investment than the previous year, and this figure reached 456 million manat. 16% of all direct foreign investments were directed to transport and storage facilities, which amounted to 2.5 billion. Almost 50% increased foreign direct investment in real estate compared to 2015.

The share of tourism in general investments in the economy of the country is constantly increasing, in 2017 it was 1.6%, or 209.8 million manat.

In the implementation of a comprehensive incentive program for domestic and foreign investment, an important place is played by the creation and improvement of the legislative framework for investment activities. carrying out the necessary organizational arrangements. The main of which are:

- stability of the legislation on financial, currency, tax, tariff and non-tariff regulation of investments;
- advance informing of entrepreneurs about planned changes in legal norms;
- development of procedures and mechanisms that protect investors from illegal actions by the management bodies.

Our country faces a complex and rather delicate task: to attract foreign capital to the country, and, without depriving it of its own incentives, to direct it with measures of economic regulation to achieve public goals. Foreign investment can have a significant impact on the development of the economy. With the achievement of macroeconomic stability, activation of international investment

cooperation, it is possible to expect an increase in the inflow of foreign investment into the development of the economy.

Investments internal and external represent a complex multi-stage mechanism that can enormously increase the economic potential of the state, therefore the success achieved in this area will largely predetermine the implementation of all economic reforms as a whole. [33]

Attraction of foreign investments takes the following forms:

- own resources and on-farm reserves (for example, profit, depreciation, insurance savings and others);
- borrowed funds (bonded loans, budget and bank loans);
- borrowed funds (sale of any securities, as well as share contributions);
- budgetary appropriations, but necessarily investment;
- direct deposits of funds (capital) (in the form of patents, equipment, licenses, etc.);
- funds from charity;
- contributions of money of the country's population.

Obviously, the motivation for exporting capital is the desire to maximize profits. High competition in the markets, especially in highly developed countries, leads investors to seek new directions for financial expansion. According to most Western experts, the main factors that lead to attracting foreign investment are:

- The ubiquitous strategy for the development of TNCs and MNEs, which takes into account both the scale and capacity of markets, the possibility of rationalizing production activities and the technological requirements of production.
- Prospects for the growth of the country's economy, which accepts foreign investment, as well as the socio-political state of the country.
- Payback period of attracted foreign investments, which depends on investment risk. [33]

The listed factors in some states take the following forms.

For example, the following factors are attributed to the first factor: a large market for the sale of products, the opportunity to increase this market through a free trade zone with different countries, the economic and geographical situation that provides export opportunities, the non-competitiveness of national producers, which ensures the profit from the sale of goods in country.

The second of the factors has such prerequisites: positive indicators of economic growth, gradual reform of the country's economy, reducing inflation, improving the system of banks, modernizing telecommunications, legal regulation of foreign investment and fixed ownership, privatization of state enterprises through foreign investment.

The third factor: due to the decrease in the cost of production, it becomes possible to realize a profit rate above the average.

The mechanism for attracting foreign investment involves the development, first of all, of the legislative base of the country that attracts these investments, without a specifically institutionalized relationship between the state and a foreign investor, there are too high risks for investment and one can not be completely sure, not just in making a profit, but even in fully recovering it. Therefore, the state forms a special state policy to attract foreign investment, which should be implemented consistently and without departing from the plan.

At the first stage of this policy, it is necessary to analyze some macroeconomic indicators, primarily the volume and structure of GDP, the volume and structure of investments, the level of savings on the basis of which it is necessary to determine the volume of foreign investments needed by the country, taking into account certain criteria for the economic and debt security of this country. Further, it is necessary to determine the priorities for foreign investment, as well as the principles for increasing them. Then, taking into account the current trends in the international export of capital, it is necessary to determine particularly attractive forms of attracting foreign capital.

Specific prerequisites are laid in national legislation of the country and in the organizational and economic mechanism of state regulation of foreign

investments. The above sequence of implementation of the mechanism for attracting foreign investment makes it possible to build an effective and comprehensive model, in order to attract foreign investment.

When forming the above mechanism, Western investors follow the rule of four "C": business reputation + credit history, cash flow, collateral, equity. Those. the foreign investor studies, first of all, these indicators and already, if they are acceptable in addition and more thoroughly studies other indicators on the basis of which it is possible to draw a conclusion.

What are the problems of attracting foreign investment:

- First, the decline in investment activity, which is ahead of the overall production decline. This problem leads to the undermining of the conditions of simple and extended reproduction, then there is a sharp lag in the capital-intensive industries, as well as a decrease in technical production.

- Secondly, the share of total savings decreases with the use of GDP. The general accumulation in the whole of the national economy characterizes the net purchase by residents of goods and services that are produced or imported for this period but not yet consumed.

- Third, huge amounts of underinvestment lead to the emergence of reproductive problems - there is a significant mass that is devalued by the crisis, morally and physically worn out production facilities.

- Fourth, the technological structure of capital investment does not accelerate the process of renewal of capital. The share of equipment costs tends to decrease.

- Fifth, the differentiation of different regions of the country in terms of their investment attractiveness is deepening.

- Sixth, high investment risks due to too high prices in comparison with inflation and too low a rate of profitability, which make foreign investments for the real sector of the economy inaccessible. [19, p.504]

In addition to the development and export capacities of the traditional production areas of the non-oil industry (metallurgy, machinery, electrical

engineering, light industry, food industry, etc.), the creation of new competitive production areas will also be supported. Attraction of domestic and foreign investment to non-oil stimulating mechanisms will be used to intensify the privatization, investment cooperation between the public and private sectors will be pursued to develop the non-oil sector.

Investment activity is the main component of long-term economic policy, which is thought to be in line with the requirements of globalization, modern integration, raising the effectiveness of socio-economic outcomes of the country's production areas, the service sector and raising the macroeconomic indicators of the national economy. The directions of investment in non-oil industry include:

- Creation of new facilities and the development of enterprises operating in accordance with modern requirements;
- Expansion of certain businesses or existing businesses to increase their productive capacities;
- technically-technologically armament of the enterprise or separate structural divisions, shops by raising the technical-economical level of production;
- modernization of the enterprise's key production assets;
- investment financing of the entity's working capital;
- investments in an enterprise through securities (stocks, bonds, certificates);
- investments in the production of new and original products;
- investments in the production of new types of products within existing production areas;
- Investments aimed at the development of intellectual values (discoveries, know-how, inventions, scientific researches).

The investment scenario envisages improving the logistics of traditional sectors of the non-oil industry, developing competitive products, improving the infrastructure system,

This scenario will increase investment opportunities in chemical, mechanical, metallurgy, food, light and other industries. Improving the quality of

the equipment produced in the country and adapting to the requirements of the modern market will be made through substantial investments. This tendency has been previously driven by foreign imports will allow gradual production of many goods in Azerbaijan.

Taking into account the priorities of the development of the non-oil sector, the main purpose of the investment stimulus strategy is to stimulate the flow of import-replacing and export-oriented foreign investments in accordance with the needs of the non-oil area improvement of the nation's economy, increase the volume of non-oil exports and access to new markets.

To achieve this goal, it is important to:

- Continuous development of business and investment environment in the non-oil sector;
- identifying key areas for attracting foreign investment in the non-oil sector;
- Increasing the structure and improving the structure of foreign investments, which is a high added value to the non-oil sector of the country's economy;
- Developing a creative (copyrighted) economy that enhances the attractiveness of the investment environment;
- Implementing incentive mechanisms to intensify foreign investment in the non-oil sector and to develop investment cooperation between the public and private sectors;
- Intensification of investment attractiveness through the financial market;
- Involvement of foreign investments into the priority sectors of the non-oil sector for the diversification of the economy and the creation of clusters;
- Further simplification and continuous improvement of foreign trade procedures for promoting non-oil export;
- Creating new effective mechanisms for increasing government support for exporters;

- Further expanding the scope of information and consulting services to increase the export capacity of entrepreneurship entities;
- Branding, promotion of goods and services in foreign markets;
- Enhancing export geography and product diversification through non-oil export promotion to foreign markets;
- Further improvement of institutional framework for investment and export promotion.

Implementing measures to improve the effective business environment, promote the country's investment image, and stimulate foreign investment will have a significant impact on achieving the following targets in the medium and long term:

- Azerbaijan will be among the top 30 most competitive countries in terms of business climate and economy competitiveness;
- incentive mechanisms will be introduced to intensify domestic and foreign investment in the country's non-oil sector;
- Direct foreign investments will be attracted to expand the production infrastructure that serves the development of the non-oil sector and meets the modern requirements;
- Non-oil exports will be increased to \$ 1,000 per capita;
- investment in public and private sector will be developed to develop the non-oil sector;
- new technologies, know-how, and knowledge will be attracted to foreign investment through the production of import-substituting products, highly competitively and potentially exporting capacities;
- With the introduction of incentive mechanisms for the development of non-oil fields, the state support to entrepreneurs in increasing access to international markets and increasing competitiveness in foreign markets will be enhanced;
- The quality of the workforce will be improved, highly skilled and competitive staffing will be formed;

- export geography will be expanded through stimulation of non-oil exports to foreign markets and goods diversification will be ensured.

Further improvement of the investment climate in the country is one of the main tasks to ensure the required volume and quality of investments. This is done by:

- personal property protection and corporate governance improvement;
- Creating a more favorable competitive environment for all investors regardless of ownership;
- increasing the role of the state in order to ensure a stable normative-legal regime;
- Further improvement of the regulatory and legal framework for investment activity;
- improvement of the system of informing the investors about the enterprises for the purpose of selection and analysis of investment objects;
- Increasing assistance to the development process of modern institutional infrastructure that ensures efficient transformation of savings into investments;
- Improving business information, bringing accounting and statistics into international standards. [47, p.4]

In terms of protecting the economic interests of foreign investors, it is possible to concentrate on the advantages of the Azerbaijani economy in two groups: Group 1 factors are the advantages of all emerging economies, including Azerbaijan. The 2nd group advantages are the advantages that directly belong to Azerbaijan. The advantages of developing countries, including Azerbaijan, are as follows:

1) As the developing country, development potential is much higher than in developed countries. More and more development means getting more income. This principle encourages transnational companies around the world to invest in more developing countries.

2) Local firms are weakly developed, and domestic competition is not strong.

3) Developing countries have the opportunity to earn higher returns for high risk.

4) In emerging markets, foreign investors are less likely to face bureaucratic barriers than domestic investors.

The advantages of direct Azerbaijan are as follows:

1) In addition to having a favorable geographical location, Azerbaijan has an advanced international transport network (air, water, rail and road, oil and gas pipelines). This facilitates the creation of intense relationships with external ones;

2) has a rich natural-economic potential (rich mineral resources, productive land, favorable natural-climatic conditions, abundant and cheap labor force, etc.);

3) There are a number of industrial enterprises, production facilities and infrastructure facilities with a modern technical and economic base;

4) has a strong scientific and technical potential and qualified personnel reserve;

5) establishment of an organizational and management mechanism for the adoption and implementation of a number of important laws and legal and regulatory acts on attraction and protection of foreign investments, liberalization and development of foreign economic relations;

6) Establishment of enterprises dealing with economic activity jointly with a number of influential foreign companies around the world;

7) interstate economic agreements with the world's leading countries, accession to international treaties and agreements, accession to international and regional economic associations and organizations, etc. It is necessary to speed up attracting foreign investments and eliminate restrictions impeding business development by using these advantages of our country.

One of the important means here is the process of privatization. As you know, foreign companies can also participate in the privatization process in our country. Privatization legislation provides for transparent and clear mechanisms for the participation of foreign companies in this process. Despite the ongoing reforms aimed at improving the investment environment in Azerbaijan, and the progress

already achieved, much remains to be done in the area of attracting investments in the non-oil sector. The main element of the programs successfully implemented in the sphere of improving the investment environment is the organization of a dialogue between the state and the private sector. The issues of activation of the investment process and increase of its efficiency are of great importance for the future of the Republic of Azerbaijan.

Investors from Turkey, the United States of America, France, Great Britain, China, Iran, Switzerland, the Netherlands and other countries that, having acquired at least 51 percent of the shares of enterprises, invested in them large investments . Opening by orders of the President of the Republic of Azerbaijan for privatization of new spheres, including companies operating in such areas attractive to foreign investors, such as metallurgy, chemistry, power engineering, machine building, transport, communications and others, gave a powerful impetus to the inflow of foreign investments. In order to increase the investments attracted to the country's economy, cooperation with international organizations and financial institutions - the UN, the World Trade Organization, the European Union, the CIS, GUAM, ECO, the Black Sea Economic Cooperation Organization, the World Bank, the International Monetary Fund, the European Bank for Reconstruction and development, the Asian Development Bank, the Islamic Development Bank, the Black Sea Trade and Development Bank, the KfW bank, the International Finance Corporation. [38, P.266]

The development of the non-oil sector has been reflected in various state programs as one of the priority areas.

CHAPTER III: REINVESTMENT OF OIL PROFITS TO OTHER SECTORS OF THE ECONOMY OF AZERBAIJAN

3.1. Estimation of inflows of oil revenues to the economy of Azerbaijan

The sharp drop in oil prices in recent years has had a significant impact on the economy of Azerbaijan. As a result of the decline in oil revenues, the double devaluation of the national currency, job cuts, the local market left many foreign companies, inflation began. The economy of the country was in a fever for two years, the Central Bank of Azerbaijan spent 10 billion dollars to contain the national currency, which is why it almost lost its currency reserves. However, since the end of last year and this year there has been relative stabilization in the oil market, oil is trading at around \$ 50-55 per barrel. This stabilization also affected the rate of manat, for the last month it stopped at the level of 1.70 AZN per 1 US dollar.

The cost of 1 barrel of oil BTC FOB Ceyhan in the world market in April 2017 was 53.83 dollars, Ural oil in April was sold at a price of 51.75 dollars per barrel. In April, the cost of 1 barrel of crude oil brand Brent in the world market was 52.54 dollars. [49]

It should be noted that the Azerbaijani oil transported via the Baku-Tbilisi-Ceyhan pipeline is sold under the BTC FOB Ceyhan brand. The oil exported via the Baku-Novorossiysk pipeline is sold under the Ural brand in connection with the mixing with oil of other varieties.

As the President of Azerbaijan Ilham Aliyev stated, for Azerbaijan the optimal price for oil will be the price of 60-70 dollars per barrel. "I do not want to give any forecasts. But I think that \$ 60-70 per barrel will be an excellent price for companies, investors, governments, and I hope sooner or later to see this," President Ilham Aliyev said.

Nevertheless, low oil prices are an opportune moment for the beginning of reforms. Now in Azerbaijan, reforms in the financial sector have begun, new thinking suggests a new approach to economic reforms, the production of non-oil

products of export orientation.

The bulk of the oil and gas produced in Azerbaijan falls on the Azeri-Chirag-Gunashli (ACG) oil and gas fields and the Shah Deniz gas condensate field being developed by the State Oil Company of Azerbaijan (SOCAR) jointly with foreign partners. Every year, the volume of oil production in Azerbaijan is declining. Oil production in Azerbaijan in January-March 2017 amounted to 9.464 million tons, compared to January-March 2016 oil production fell by 9.9%.

In January, extraction was 3.37 million tons, in February 2.93 million tons, in March 3.16 million tons. The Azerbaijani government predicted oil production in 2017 at the level of 40 million tons. In 2016, oil production amounted to 41 million tons, which is 1.45 less than in 2015. At the same time, the Ministry of Energy of Azerbaijan reported that the forecast for oil production for 2017 laid down production in the range of 35-42 thousand barrels per day.

The reduction in production is affected not only by the agreement that Azerbaijan made with OPEC, but also the suspension of production by Azneft enterprises as a result of bad weather conditions at sea. This year, twice because of the storm was carried out the evacuation of oil from offshore production platforms.

In December last year, at a meeting of ministers of OPEC countries and countries outside the cartel, an agreement was signed on an agreed reduction in oil production. The reduction in production for the OPEC countries will be about 1.2 million barrels per day, which corresponds to a production level of 32.5 million barrels per day. Countries that are not part of OPEC will reduce oil production by 558,000 barrels per day. [51]

According to the agreement, Azerbaijan undertook to reduce its own oil production by 35,000 barrels per day. The agreement was concluded for the first half of 2017 and provides for the possibility of extending its terms. As Azeri Energy Minister Natig Aliyev said, "Azerbaijan considers it expedient to extend the agreement on reducing oil production by OPEC and non-OPEC countries by the end of 2017. This will favorably affect the stabilization of oil prices at the level of 60-70 dollars. "

On May 24, the meeting of the OPEC Monitoring Committee will take place, on the basis of whose report decisions will be taken to extend the agreement to reduce oil production by OPEC and non-OPEC countries or any other decision in this regard. According to the Ministry of Energy under the agreement, in March, daily oil production in Azerbaijan amounted to 733.3 thousand barrels, of which 40 thousand barrels fell on condensate. Every day 596 thousand barrels of oil, 40 thousand barrels of condensate and 23 thousand barrels of oil products were exported. The department stressed that Azerbaijan fully fulfills its obligations to reduce production by 35,000 barrels per day. It should be noted that in January of this year Azerbaijan produced 793.9 thousand barrels of oil per day, in February - 776.4 thousand barrels per day.

From January 1, 2017, the decision of OPEC adopted at the end of November 2016 to reduce oil production by 1.2 million barrels of oil a day came into effect. In addition, 558,000 barrels were pledged to cut oil production outside of OPEC. These agreements will be in effect during the first half of the next year, after which they can be revised.

In 2016, oil prices ranged from \$ 20 per barrel at the beginning of the year to about \$ 50 in December. It is expected that in 2017 such sharp jumps will be avoided, although estimates of the cost of a barrel of black gold vary significantly. So, the US Energy Information Administration believes that Brent prices will hold at around \$ 52 per barrel, while the price for other varieties will fluctuate in the corridor of \$ 1 per barrel around the base. The World Bank gives a slightly different estimate - \$ 55, but this is the case if OPEC members and their partners fulfill their obligations. The largest companies engaged in the extraction of shale oil, have already stated that they can easily increase production, thereby compensating for the reduction in OPEC. For example, at a price of \$ 50, an increase in production could be 15% per year, and at a price of \$ 60, production could grow by 25%. The volatility that the market is experiencing in anticipation of new data on the volume of production in 2017, manifested itself in December.

Experts emphasize that in the history of OPEC there have not been cases of

100% implementation of agreements, because members of the cartel are not a homogeneous group. And if Saudi Arabia hopes to increase revenues from oil sales by 46% (to \$ 128 billion) next year, then countries such as Libya, Nigeria and Iraq are trying to keep at least the current level of sales. Analysts "Merrill Lynch" and "Goldman Sachs" believe that oil prices next year will rise to around \$ 60 due to a decrease in global investment in oil production amid low prices in 2014-2016. Thus, we should expect that in 2017 the oil markets, especially at the beginning of the year, will be influenced by a number of political factors, and above all, depend on the first steps of the new US Administration.

Brent's short-term outlook remains negative, but at this stage it can already be said that a correction will soon come on the market. First, there is a hope that stocks in the United States will begin to decline, even the drop in gasoline volumes will already make prices more attractive. Secondly, closer to the meeting, which will be held on May 25, the cartel is likely to give preliminary comments and statements on the subject of the prolongation of the transaction. Third, the quotes have reached an important point - the 50 mark, the loss of which will be prevented by the continuing hopes for the effectiveness of OPEC + actions.

The international rating agency Fitch Ratings has calculated what oil prices will allow oil-producing countries to balance state budgets. In this case, they predict that the barrel of Brent oil will cost an average of \$ 52.5. The results were very disappointing, although Azerbaijan's position looks many times better than that of other oil-producing countries. In a better position was Kuwait, which will suit the average annual price of Brent at \$ 45 per barrel. "Fiscal reforms and exchange rate adjustments generally support budget improvement compared to 2015, but do not completely solve the problem," comments Fitch.

The cost of oil, in which the budget of countries will not be scarce: \$ 139 - Nigeria; \$ 84 - Angola; \$ 82 - Oman; \$ 75 - Saudi Arabia; \$ 74 - Russia; \$ 72 - Kazakhstan; \$ 71 - Gabon; \$ 66 - Azerbaijan and Iraq; \$ 61 - Abu Dhabi and the UAE; \$ 60 - Republic of the Congo; \$ 52 - Qatar; \$ 51 - Bahrain; \$ 45 - Kuwait.

[49]

As you know, after the creation of the Oil Fund in the country, profits from the sale of profitable oil are accumulated in it. According to the latest data for the first quarter of this year, the revenues to the State Oil Fund of Azerbaijan from the sale of profitable oil from the Azeri-Chirag-Guneshli (ACG) block amounted to 1 billion 620 million dollars, which is 42.5% more than for the same period in 2016. In general, from 2001 to April 1, 2017, \$ 123 billion 729 million was received from the sale of Azerbaijan's profitable oil from the ACG block to SOFAR.

In 2016, SOFAZ's revenues from the sale of profitable oil from ACG amounted to \$ 5.1 billion. Earlier, the head of the Oil Fund, Shahmar Movsumov, said that over the next 15-20 years SOFAZ's revenues from oil and gas contracts will amount to about \$ 100 billion. But it is predicted that with an average oil price of \$ 40 per barrel, Azerbaijan can get \$ 5 billion.

A new era in the development of oil production in Azerbaijan began in 1994, when the "Contract of the Century" was signed, between our country and 11 largest oil companies from 8 countries. The contract calls for the joint development of three oil fields - Azeri, Chirag, Guneshli - in the Azerbaijani sector of the Caspian Sea. Most of the oil produced in the country falls on these deposits. On December 23, 2016, SOCAR and BP, which is the operator of the Azerbaijan International Operating Company (AIOC), signed the principles of the agreement on the development of the ACG block until 2050.

However, oil production is not limited to these three deposits, today there are about 50 oil and gas fields in the country, the Oil Company is constantly exploratory drilling, in search of promising structures. The French company TOTAL planned in September 2017 to start drilling operations at the Absheron gas field. The start of production is planned in 2019. The Umid field and the promising Babek structure in the Azerbaijani sector of the Caspian are also being developed. Next year, the Canadian company Zenith Energy Ltd will start drilling operations at the Azerbaijani oil fields Muradkhanli-Jafarli-Zardab.

The Muradkhanli field is the largest field onshore in Azerbaijan. The plans of the Canadian company include expanding its activities in the country.

Azerbaijan is interested in more intensive exploration and search for new oil and gas fields, which will attract additional investments to the country. To date, proven oil reserves are 2 billion tons, gas 2.5 billion cubic meters.

As in Norway, the "future generations fund" (SOFAR - State Oil Fund of the Republic of Azerbaijan) operates in the Republic of Azerbaijan in the National Bath. At this point, the correspondence ends and the so-called adaptation of the Norwegian concept begins. This adaptation has the following nuances:

Azerbaijan has implemented a linear one, with its pluses and minuses. As you know, the main disadvantages here are suppression of initiative, bureaucracy, excessive workload on the head. On the other hand, such a system is distinguished by high responsibility of performers, speed of decision making and bringing it to performers, mobilization capabilities, etc.

Foreign management companies have been involved in managing the fund's resources, however, the Government has recently withdrawn their services from their services.

The fund's funds were invested only 5% in securities. The main part is formed by currency accounts in banks or management companies. As you know, such investments may indicate weak management of the fund. And this is an important problem. The fact is that everything in the same Norway has no problems with entering the markets. The country is known to Europeans, its companies are known, its representatives are in many authoritative European structures. The culture of countries is identical, which significantly simplifies mutual understanding.

The development of this public network makes Norway's money attractive. The money of Azerbaijan must prove its attractiveness. In other words, the Government of Azerbaijan should convince the issuers of the stability of their investments, good intentions, etc. At present, the fund prefers to keep its assets in foreign most reliable banks (65% in US dollars, 30% in euros and 5% in British pounds) that provide Azerbaijan with a small but stable income. Dispose of part of the fund (not more than 40% of assets) are also called foreign financial structures.

Funds can be invested in the country, and in Norway only abroad.

This difference has the deepest problems. The fact is that investment within the country is a direct departure from the original concept. However, such a deviation is not subjective, but has objective reasons.

The anti-crisis program of the Azerbaijani government consists of the following items: reduction of consumer prices; struggle against monopoly; financial monitoring, including support to national banks, control over loans and interest rates; continued investment in the real economy; support of social obligations; reorientation of industrial enterprises to the domestic market; ensuring food security.

Azerbaijan, apart from the energy sector, has two other strong positions, which can become a powerful magnet for foreign investment. Ego - agriculture and tourism industry. Today these two promising sectors of the national economy lack funding, including because foreign companies' direct funds primarily to the oil and gas sector. The rise in the cost of manat also does not help to increase the attractiveness of industries. However, the situation may change with the intensification of the redistributive functions of the budget and, accordingly, of the Fund.

To date, these funds are used to develop the infrastructure, not only transport, but also one that increases the human capital of the country: the development of school and higher education, the country's medical system. In today's world this is very important. The low quality of human capital can sometimes be the main factor restraining investment. It is necessary to eliminate it whenever possible. This is exactly what the Government of the Republic is doing. [14, p.189]

In this application of the fund's resources, its key importance lies in the mechanism of using foreign investment. However, such use cannot be unrelated to the many problems that have already been examined. These problems are as conceptual as the problems of the general management of the fund, since the economy and there is a relationship of all its elements. This means that the

management of the fund cannot blindly copy the foreign experience. The emerging economy of Azerbaijan will become too narrow, if the Norwegian scheme is applied, because there are already strong competitors in the world market to Azerbaijani farmers and tour operators. Without the fund's resources, these sectors will remain without support. That is why the fund can combine the main directions of various strategies. At the same time, it must have a dominant strategy. This should be the strategy of the United Arab Emirates.

3.2. The principles of distribution and use of profits derived from oil production

Rational management of oil revenues implies the accumulation of savings in the form of financial assets. This will avoid an excessively rapid increase in public spending and a decrease in the competitiveness of sectors of the economy that are not related to oil production. The government of the country is aware of the difficulties and risks associated with improper management of oil revenues. Many countries have used the proceeds from the exploitation of natural resources to improve the standard of living of their citizens, to fight poverty, increase productivity and diversify the economy, developing industries that are not related to oil production. However, there are numerous empirical evidence that in countries that focus on oil production, the economy grows very slowly, industry and human capital are poorly developed, and productivity is low. An important factor that explains this situation is the abundance of "easy money" from oil production, which creates opportunities for their inefficient spending and corruption. Therefore, Azerbaijan faces a choice between the rate of growth of oil revenues at present and the rate of decline in living standards in the future. To solve this problem by accumulating savings in the form of financial in Azerbaijan, an oil fund was created.

This fund provides the necessary financial mechanism to separate purely commercial solutions of extracting companies relative to the rates of extraction of

oil from the costs incurred by the state. The oil fund will prevent the adverse impact of an excessively rapid increase in oil revenues, as well as implement measures to ensure financial stability and provide social support to the poorest segments of the population.

Many countries, whose economies depend on natural resources, used special funds to manage revenues derived from non-renewable natural resources. The purpose of creating such funds is the transfer of income to future generations or stabilization of the economy from fluctuations in prices in world commodity markets.

Reduction of energy costs for GDP production is possible mainly due to the use of new highly efficient technologies and optimization of management systems of economic development processes. The success of Azerbaijan's state policy in achieving this goal of sustainable development is also confirmed by a comparative analysis of the situation in this area in the countries of the Caspian region. The results of the analysis shown in the Table show that according to the World Bank, in comparison with 2001, the increase in energy efficiency in the Republic of Azerbaijan was 329 percent, which is the highest indicator for this region. In other countries of the region, the changes were minor, or not at all. The greatest effect after Azerbaijan was demonstrated by Turkmenistan, where, according to the World Bank, the efficiency of energy use for this period increased by 169 percent. But even after that, energy efficiency in Azerbaijan is several times higher than in all countries of the region.

Table 3

Azerbaijan and other Caspian countries: the energy spent (kg of oil equivalent) for the production of GDP at a cost of US \$ 1,000 (taking into account purchasing power parity (PPP))

States	Energy (kg of oil equivalent), spent for the production of GDP of \$ 1,000		Increase of efficiency, use of energy, \ in comparison with 2010,%
	Data as of 2010	Data as of 2016	
Azerbaijan	291,3	89,8	330
Iran	167,4	185,7	-
Kazakhstan	211,8	214,0	-
Russia	251,9	216,2	121
Turkmenistan	621,2	370,1	169

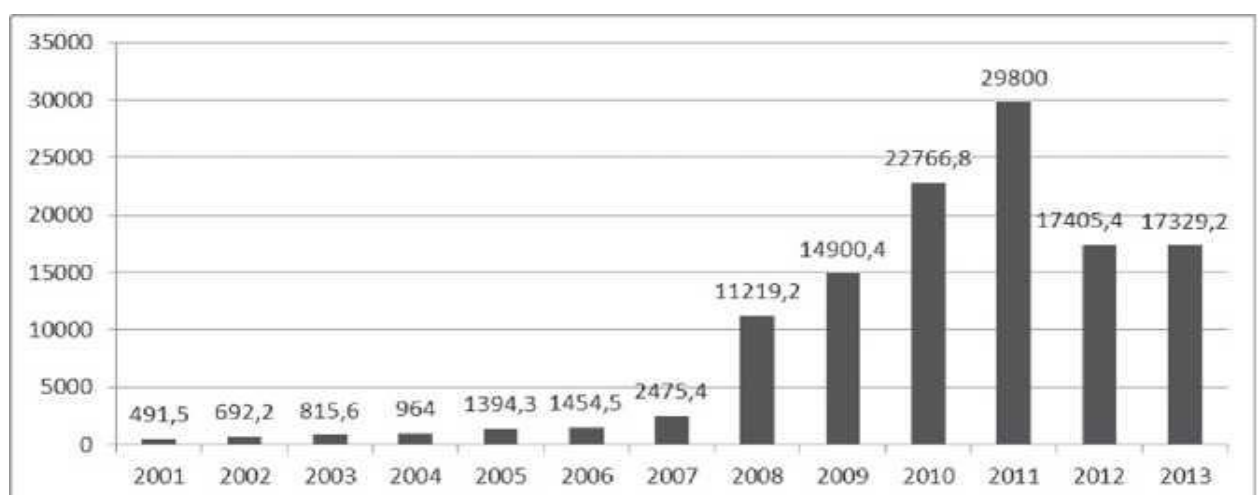
Source: www.worldbank.org/indicator/, 2016.

The management of the oil fund is delegated to the executive director, although he must consult with the supervisory board and is directly responsible to the president of Azerbaijan, who annually approves the investment strategy of the oil fund.

The investment policy of the fund follows a strategy that minimizes risk, so the choice of financial instruments should be limited to government obligations or deposits.

Figure 1.

State Oil Fund of the Republic of Azerbaijan [49]



Source: stat.gov.az

Assets of the oil fund are initially accumulated in a special account with the National Bank of Azerbaijan, and then placed in financial institutions that have high credit ratings. The Fund should support some level of liquidity and diversification of its assets: only up to 60% of investments can be long-term and no more than 20% of assets can be invested in one bath. Preference should be given to instruments with fixed income. [19, p.39]

In the absence of such measures, Azerbaijan would be in danger of suffering from "Dutch disease". International experience has shown that in countries where oil and gas exports are growing rapidly, there is often a reduction in industrial production and agriculture, caused by unfavorable changes in the exchange rate.

The term "Dutch disease" (or Dutch Decease) arose in the early 1980s. At that time in the Netherlands, natural gas fields in the North Sea were developed, as a result of which the country's exports increased sharply and the trade balance became sharply positive. This effect was expressed in the increase of aggregate demand, the growth of domestic prices, the strengthening of the national currency rate, then - in increasing imports, deteriorating the external balance of payments, as well as changing the price structure in the economy.

World experience shows that the consequences of the oil boom for the public and private sectors can be quite negative. In many developing countries, the dependence of the economy on mineral exports has been associated with boom-bust cycles in tax revenues and high variability in the macroeconomic environment, squeezing the private sector out of industries that require significant costs. Tax revenues from oil and gas increase employment in the public sector and increase the level of investment in the infrastructure of the economy. After falling oil prices, the government is forced to reduce investments and even lay off workers in the public sector, which leads to economic instability, both for private and public sectors of the economy.

In addition, as a result, there are unfavorable fluctuations in the real

exchange rate, which is one of the manifestations of "Dutch disease". Non-oil production is tending to decline, and the private sector is generally declining to the construction sector, and infrastructure industries are developed only through projects implemented by the state. Both factors - increasing employment in the public sector and reducing the private sector make the economy more vulnerable to fluctuations in oil prices. An analysis of the impact of the mineral extraction boom in many countries has shown that, in addition to the Dutch disease, there is usually a lack of development of the private sector, which leads to unfavorable consequences in the economy and does not allow it to develop effectively.

The innovative policy in the field of public administration in our country has led to the fact that the successes of the Republic of Azerbaijan in achieving sustainable development goals are comparable, and in some cases exceed the results achieved in the G7 countries. Figure 2 presents a comparative assessment of some indicators of the sustainable development of the Republic of Azerbaijan in comparison with the G7 countries. The analysis is based on World Bank data as of June 8, 2016. As can be seen from the figure, the indicators of the Republic of Azerbaijan on this indicator of sustainable development are 15 percent higher than the average indicators of the G-7 countries, as well as its members such as Canada, USA, France and Japan.

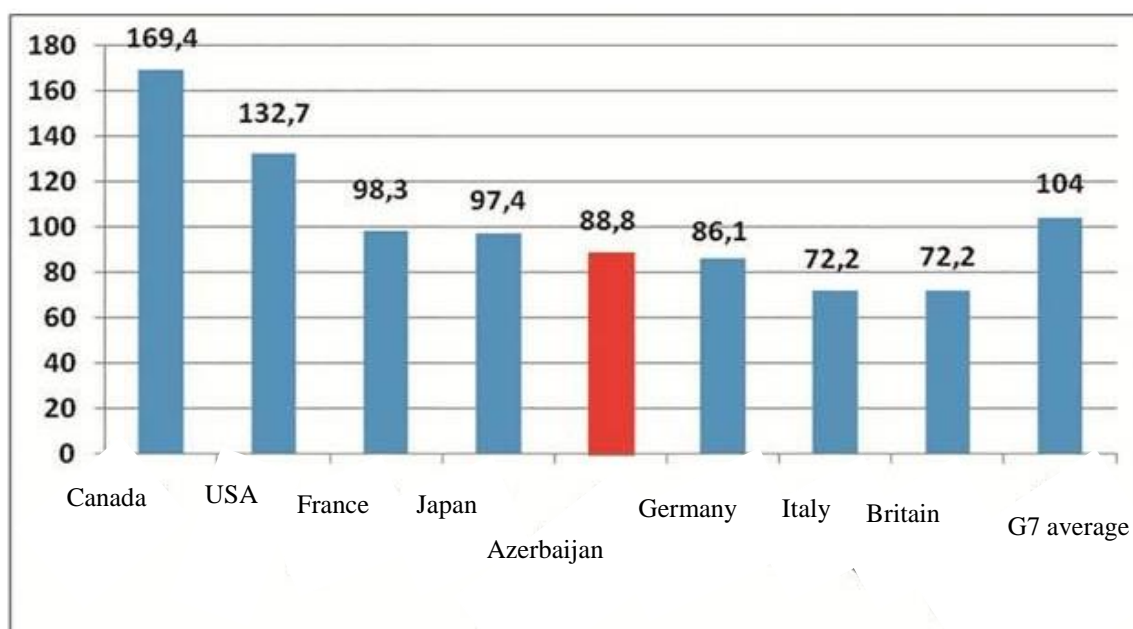


Figure 2. Energy (kg of oil equivalent) spent on production of GDP at a cost of \$ 1000, taking into account purchasing power parity: G7 countries and the Republic of Azerbaijan.

Source: www.worldbank.org/indicator/, 2016.

It could be assumed that such a rapid growth of the indicators of sustainable development of the Republic of Azerbaijan can be based on the characteristics of the country's economy, in particular, the oil factor. In this case, one would expect that similar trends should be observed in other countries, oil and gas exporters.

3.3. Prospects for the development of the priority sectors of the Azerbaijani economy

The oil sector plays a leading role in the rapid economic development registered in Azerbaijan over the past eight years. Despite this, in the general economic growth, the non-oil sector has come to the forefront in recent years. According to official statistics and macroeconomic indicators over the past 8 years, the non-oil sector grew by more than 2.2 times. The strategy, designed to channel oil profits to diversify the economy, has justified itself. Like any country that has gone through the transition period, Azerbaijan also used its natural resources to build a strong economy, but with the proceeds from the sale of these resources, succeeded in diversifying the economy and minimizing its dependence on oil. As a result of this strategy, there continues to be a consistent growth trend in construction, tourism, agriculture, transport, information, and communication technologies. As an indicator of this trend, we can cite the creation over the last 8 years of more than 1 million new jobs, most of which are accounted for by the non-oil sector. [7, p.80]

To date, the non-oil sector products produced in Azerbaijan, including electrical machinery and equipment, spare parts, chemical products, building materials, ready-made textile products, etc., are exported to various regions. According to the decrees and confirmed development programs, the presidents of the country to diversify the economy and create a basis for the development of the non-oil sector to support small and medium-sized businesses, allocate preferential state loans to persons engaged in this activity, subsidies for agriculture,

reconstruction of the transport and communication infrastructure across the country, in billions of US dollars. These costs soon came to fruition and became the cause of great revival in the non-oil sector of the economy. According to the relevant decrees and decisions of the head of state, to implement measures to diversify the economy, the State Program for Socio-Economic Development in the 2009-2013-ies of the economic regions of the Republic of Azerbaijan was adopted, the State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan in 2008, 2015 ", " State program on reliable provision of agricultural products to the population of the Republic of Azerbaijan in 2008-2015 "and other programs. These programs are successfully implemented. [23, p.184]

According to official data of the Ministry of Economic Development, industrial production in Azerbaijan has grown 2.7 times over the past eight years, agricultural production 1.3 times, construction sector 3.2 times, transport services 2.3 times , the volume of services in the communications and information sector - 6.4 times. An analysis of the results of 2005-2011 shows that during this period, along with general economic development, sustainable development of the non-oil sector was recorded, and a relatively stable growth rate of non-oil sector GDP was recorded. According to the information of the Ministry of Economic Development, the Ministry of Taxes, the State Statistics Committee of the Republic of Azerbaijan, and the International Monetary Fund (IMF) recorded a 6.2% growth in the non-oil sector in 2009, and in 2010 - 7.9% %, which is very sensational indicators during the global economic crisis. In 2010, only in the oil sector of production of industrial products was recorded growth of 1.7%, when in the non-oil sector growth was 6.6%. In general, in the development of the non-oil sector, the implementation of measures envisaged by the "State Program on Social and Economic Development of the Regions of the Republic of Azerbaijan in 2009-2013", including the construction of production and service enterprises, is given a large place. According to official statistics, since 2003, to date, 1927 production facilities have been put into use in the country. Since 2011, 40 industrial enterprises have already been put into operation, about 100 new enterprises are

being built. For today in the regions of the country there are construction of more than 200 enterprises, including more than 70 industrial ones, it is expected to commission 75 enterprises for production and processing. The construction of the latter is carried out through concessional loans from the National Fund for Entrepreneurship Support (NFES) under the Government of the Republic of Azerbaijan. [4, p.138]

The growth trend of the non-oil sector continued in 2011. In that year, GDP growth in the non-oil sector amounted to 9.5%. For 11 months the total GDP was 45.5 billion manat, of which 21.5 billion manat (47%) falls on the share of GDP of the non-oil sector. As a result, for the first time in recent years, the GDP volumes of the oil and non-oil sectors were equal. In 2011, the volume of tax revenues to the state treasury amounted to 5,457,100,000 manat, of which about 2.9 billion accounts for the non-oil sector, which is 22% higher than in 2010. In the report of the International Monetary Fund, it was said that in 2011 the non-oil economy in Azerbaijan continued to maintain a high growth rate, and for the coming period the economic prospects are generally positive. According to the fund, 9.5% of growth in the non-oil sector, carried out mainly through the construction industry and services, can be fully compensated for the decline in 2011 by 10% oil production for technical reasons. According to the report, the economic prospects in Azerbaijan are basically balanced, and the IMF's Baku mission expects to limit the immediate impact of the economic crisis in the Eurozone on the economy of Azerbaijan.

The IMF forecasts growth of the non-oil sector in Azerbaijan in 2012 by 6%. According to the forecasts of the Ministry of Economic Development of Azerbaijan in 2012, economic growth will mainly be provided by the non-oil sector, and the growth rate of this sector will be 8.5%. For the next 3 years, the GDP growth of the non-oil sector will be an average of 8%. The successful policy of diversifying the economy implemented in Azerbaijan will lead to a reduction in the share of the oil sector in GDP in 2015 to 29.3%. As a result, the share of the non-oil sector in GDP by 2015 will grow from the current 44.4% to 61.3% (it

should be noted that according to the figures for 2010, the share of the non-oil sector in GDP was 48.5%). In accordance with the task set by the head of state to the government, which has grown since 2004 by more than 300% of GDP, in the next 10 years should increase by 2 times. But this growth should be realized mainly due to the non-oil sector. The World Bank forecasts say that the development of Azerbaijan's economy in near and medium-term prospects should be carried out at the expense of the non-oil sector.

The trend of sustainable development, observed in the non-oil sector of Azerbaijan in recent years, is taken into account by international rating agencies as a basis for raising the country's rating. In April 2012, the international rating agency Moody's Investors Service raised Azerbaijan's independent rating from Ba1 to Baa3. One of the reasons for the increase in the rating also indicates the rapid development of the non-oil sector. The Agency notes that the Government of the country actively supports the private sector through the Entrepreneurship Support Fund. Thus, in 2010 alone, more than 100 companies received soft loans worth \$ 125 million. Also in December 2011 another authoritative international rating agency Standard & Poor's raised one-year long-term sovereign credit rating of Azerbaijan in foreign and domestic currencies, thereby raising it to the level of "BBB-" and conferring investment rating to Azerbaijan. In addition, the agency raised the short-term sovereign credit rating of Azerbaijan in foreign and domestic currencies by one step, thereby raising it from the "B" level to the "A-3" level. One of the main factors that served the above changes was the sustainable development of the non-oil sector. The next result of the strategy aimed at economic diversification, the development of the non-oil sector is the fact that Azerbaijan ranked 55th among the participating countries in the ranking of the World Economic Forum's competitiveness in Davos, while the first among the CIS countries. [17, p.63]

Thus, Azerbaijan is successfully using its rich oil and gas fields to achieve long-term and sustainable economic development. The strategy of transforming "black gold" into a leading force for the development of the non-oil sector - human

capital - continues to bear fruit, and, by using oil and gas revenues, building in the future an independent, strong, competitive economy independent of these incomes.

As noted above, an important task is to select the sectors that will ensure the greatest effect of investment in their innovation capital. This will make it possible to rationally distribute the funds of state funds, in which the revenues from oil and gas exports accumulate, and ensure the economy of Azerbaijan the highest growth rates.

When choosing the sectors in which it is advisable to invest the fund, it is necessary to take into account a number of factors:

- The share of value added in the output of the industry (profitability);
- the share of the industry in the total output of products;
- industry share in GDP;
- efficiency of investments in the innovation capital of the industry; export potential of the industry and foreign trade activity (up to the branch in the total volume of exports);
- competitiveness of products, etc.

The last two factors are especially important, as Azerbaijan is increasingly integrating into the world economy every year. In addition, in the long term, Russia can join the World Trade Organization (WTO), which will require the abolition of protective measures (including the abolition of import quotas) that protect the interests of Russian producers. When the supply of foreign products to the Russian market increases, the situation for many Russian enterprises can become catastrophic. Importers can defeat Russian enterprises in the process of free competition. Therefore, state support measures are needed to increase the competitiveness of products of such sectors as agriculture, food industry, light industry, etc.

At the same time, the potential of a number of sectors of the economy of Azerbaijan is high, therefore additional investments in these industries will allow to create products of a quality in no way inferior to the tailor. And the revenues

that Azerbaijan will receive from the realization of this (new) product can be used to modernize the industries that currently produce products that are not competitive in the world market. In addition, accession to the WTO is related to the opening of new markets for Azerbaijan. With the condition of improving the quality of Russian products, this will significantly increase the volume of exports.

Analysis of the relationship between the costs of scientific research and the output of industries shows that the most knowledge-intensive industries are: processing industry; financial activities; mining industry; production and distribution of electricity gas and water.

Among the listed industries, it is possible to single out the branches "Machine-building and metalworking" and "Chemical and petrochemical industry", which relate to the processing industries, innovations in which can have a significant impact on the efficiency of production in other industries.

As for the industries that are not related to the extraction of natural resources, the following sectors have significant shares in the above-listed indicators: "Transport and Communication", "Agriculture", "Manufacturing Industry". In terms of export share among the processing branches, the industry "Chemical and petrochemical industry" is leading. [8, p.155]

When choosing sectors, it is necessary to take into account the difference in output elasticities to the costs of R & D and the elasticities of intermediate consumption among consumers of products to the costs of scientific research in individual sectors. Accounting for the effect of the spread of innovation leads to significantly higher values of changes in GDP and other indicators.

Industries "Mining industry", "Construction" have the largest shares in GDP, output and are highly profitable, since they serve almost all branches of the national economy. "Mining industry" occupies a leading position among all industries. It has rather large shares in the output, GDP, has a high share of added value in the output, and is also the leader among all sectors of the national economy of Azerbaijan in terms of export share. It should be noted here that a significant share in the total export from Azerbaijan is the export of natural

resources.

Currently, the government of Azerbaijan has several options for a program for further socio-economic development of the country. All of them envisage the continuation of a tight monetary and fiscal policy, without which it is impossible to create a basis for economic development. However, there are differences on some aspects, including the principles of investment policy. In particular, there is some concern about the reaction of the economy and its segments to the expected flows of foreign investment, the ability to master them without choking.

According to forecasts, based on already signed and ratified by the parliament contracts and interstate agreements, total investments in the Azerbaijani economy for 1995-2014, The development of such huge capital investments will require a large-scale increase in the capacity of the construction industry, the production of electricity, gas supply, the inclusion in this process of the basic industries of the republic - oil machine building, chemical and petrochemical industry, metallurgy etc.

But the biggest problem is the reaction of the financial and banking system to such huge flows of foreign investment. Apparently, it is necessary to develop an effective investment policy of the state that ensures the harmonious development of all interconnected segments of the economy. The growth of investment volumes should be accompanied by their adequate placement, which simultaneously allows solving the tasks of macroeconomics, regional development, social sphere and foreign economic activities in a word, contributing to the achievement of the strategic objectives of the development of Azerbaijan. [14, p.32]

The Azerbaijani government continued its policy of further development of extracting and processing industries and rural economy, considering this direction as the most important in accelerating the development of the economy, and the steady growth of the national income.

In the scheme using the oil fund, the state from a part of the funds received from oil and gas production forms an oil fund, the means of which are used in the following directions:

- accumulation of incomes for future generations by buying assets in financial markets;
- Providing, on an interest-free basis, stabilization loans to the government in the event of a budget deficit associated with changes in market conditions on world energy markets;
- financing investments in infrastructure and socially significant projects on a non-return basis;
- crediting development projects in economic sectors that are not connected with oil and gas production, which are of great importance for the country and high economic efficiency;
- social support for the poorest sections of the population; payment of dividends to the population.

To ensure a more significant growth in the incomes of the population, it is necessary to direct funds to finance investments in infrastructural and socially significant projects on an irrevocable basis, as well as to credit development projects in sectors of the economy that are not associated with oil and gas production of great importance for the country and high economic efficiency.

Calculations show that with the growth of the share of funds channeled into the project, the growth rates of the non-oil sector and the economy increase. In the early period there will be a slight decrease in incomes of the population in comparison with the variant without the formation of an oil fund. In order to prevent this, it is advisable to direct funds to the social support of the population. In addition, to ensure future generations of income from the oil fund and maintain a steady growth in the economy, the proportion of funds sent to infrastructure and socially significant projects and development projects should not exceed 20-25%.

CONCLUSION

Along with the achieved results, during the transformation of the economy, the realities of recent years testify to the persistence of a number of structural problems and imbalances in the Azerbaijan Republic that hamper the strengthening of stability and the quality of economic growth. The non-rationality of the existing structure of industrial production in terms of long-term sustainable growth economy is obvious and requires the acceleration of the processes of industrial modernization and its restructuring.

The energy policy of Azerbaijan is mainly focused on the extraction and export of hydrocarbons, since oil and gas transportation matters are of particular importance. Azerbaijan has a geo-economic advantage in the development of international corridors for the transportation of oil and gas from the Caspian region to Western Europe. Ensuring the safety of the fuel and energy complex is also the most important factor for the sustainable development of Azerbaijan.

The oil and gas industry of the Republic of Azerbaijan ensures the receipt of a significant share of financial resources in the state budget, creating the necessary conditions for the sustainable social and economic development of the republic. The transition to sustainable development requires the modernization of the economy of the Republic of Azerbaijan in the following key areas:

- concentration of resources and funds on priority innovative projects using competitive technologies in the oil and gas production, oil and gas processing, chemical industries and oil engineering industries;
- formation of a cluster of innovative enterprises that ensure the formation of a competitive production structure in non-fuel-energy industries.

Azerbaijan's international economic relations are largely connected with the implementation of international oil projects of the Caspian region. Azerbaijan, attracting foreign investments, seeks to use such cooperation for rational use of natural resources, to increase the efficiency of the fuel and energy complex for sustainable social and economic development, integration with Russia and other CIS countries.

To assess the effectiveness of the implementation of Azerbaijan's energy strategy, a system of indicators has been developed, including a set of indicators for sustainable development that take into account the specifics of the economies of countries with a predominant share of the fuel and energy complex in the economy.

The analysis of the state of the Azerbaijani economy showed that one of the main problems is the relatively low living standards of the population. To increase it, it is advisable to use the incomes received from the export of oil and gas. They should be used both to maintain general macroeconomic stability, and to develop the consumer sector of the economy and the sphere of social services.

It is shown that the country has a solid base for financing development. These are the means of the state oil fund, through which it is possible to eliminate adverse social factors, implement measures to ensure financial stability, create prerequisites for sustainable economic development of the country.

Sustainable development assumes an innovative quality of growth, it is closely related to the level of human development, so the costs of research should be accompanied by appropriate investments in human capital. The increase in expenditures on the social sphere makes it possible to substantially increase labor productivity, real wages and the level of consumption of households. It is advisable to implement state investments in innovative capital of the following sectors of the economy: "Chemical Industry", "Oil Engineering", "Food Industry", "Construction Materials Industry", "Agriculture and Forestry", "Construction".

On the basis of the analysis, rational proportions of the distribution of the funds of the oil fund are determined in the following areas: financing investments in infrastructure and socially significant projects on an irretrievable basis, lending to development projects in economic sectors not related to oil and gas production, and for elimination of material and financial barriers to innovation development, improvement of the material base of R & D.

However, most experts are convinced that in order to avoid problems with falling oil prices and with this fall of manat, it is necessary to start developing own

production. In any case, we have revenues, since we are still selling oil. Yes, now we produce it less and it costs less, so our dollar revenues have decreased, but this does not mean that there are no oil dollars. We just have large foreign exchange costs, we buy most of the products from abroad. If we provide ourselves with products and stop buying them abroad, the financial condition of the country will improve, and let the dollars bring us only oil.

With the fall in oil prices, our currency will suffer, but the government will no longer spend money to support the manat, as it was in 2015, there will be no such scenario. But even after 5-10 years, our economy will depend on oil revenues. Because in 10 years the revenues from oil, gas and petrochemical products will amount to about \$ 8 billion, and revenues from the non-oil sector will at best be 3 billion. The post-oil era will begin when revenues from the non-oil sector exceed revenues from the oil sector.

It should be taken into account that we have about 40 billion foreign exchange reserves, this will be enough for at least 5 years. And the price of oil will rise in a couple of years, and during this time we will be able to develop other industries. But if the price for a barrel drops sharply, the banking system will collapse and there will be a maximum of 10 banks.

Oil is what brings real money to Azerbaijan, and our government with the help of these funds contains the country. If the role of the non-oil sector in the economy of the country occupies 70%, then why does the state budget rely on oil money? Let them take another segment of the economy and, on the basis of this, form a budget. If this does not happen, then everything that is reported is just an empty sound. In reality, oil plays an important role in the economy, and it takes 75% of the state budget.

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Summary

Dissertation is called "Post-oil era for Azerbaijan economy, approaches on the new economic strategy". From this point of view, the thesis focuses on the development periods of the oil sector, the importance of the non-oil sector in modern times and the direction of investment in the non-oil sector.

The development of the oil sector as an independent country for Azerbaijan and investment in the oil and gas sector were of great importance during the early years of independence. Because, when Azerbaijan gained independence, its economy was almost destroyed by economic and financial crisis. Therefore, Azerbaijan has focused on the development of oil wealth and the gas sector. But because of the wealth of oil, the country was looking for new ways to develop and finance. To do this, Azerbaijan is trying to reduce oil dependence and invigorate the improvement of the non-oil segment. At present, oil is only 30 percent of the gross domestic product, and wants to reduce dependence on it. Even though this has not been achieved yet, the recent development of the non-oil sector has shown that steps taken in this direction are correct. Programs aimed at the economic development of the regions have recently been acknowledged that this strategy is properly chosen.

XÜLASƏ

Dissertasiya “Azərbaycan iqtisadiyyatında neftdən sonrakı dövr, yeni iqtisadi strategiyaya yanaşmalar” adlanır. Bu baxımdan dissertasiyada neft sektorunun inkişaf dövrləri, qeyri-neft sektorunun müasir zamanda əhəmiyyət daşması və qeyri-neft sektoruna investisiyaların istiqamətləndirilməsi müzakirə edilir.

Azərbaycan üçün müstəqil ölkə kimi neft sektorunun inkişafı və neft-qaz sahəsinə sərmayənin yatırılması müstəqilliyin ilk illərində çox böyük əhəmiyyətə malik idi. Çünki Azərbaycan müstəqillik qazandığı vaxtda iqtisadiyyatı, demək olar ki, iqtisadi və maliyyə böhranı səbəbindən məhv edilmişdi. Buna görə də Azərbaycan malik olduğu neft sərvətinin və qaz sektorunun inkişafına əsas diqqətini yönəltdi. Lakin neft tükənən sərvət olduğu üçün ölkə yeni inkişaf yolları, maliyyə mənbəyi axtarmalı idi. Bunun üçün hazırda Azərbaycan çalışır ki, neftdən asılılığı azaltsın və qeyri-neft sektorunun inkişafına təkan versin. Hazırda neft ümumi daxili məhsulun yalnız 30 faizini təşkil edir. Buna hələ nail ola bilməsə də, qeyri-neft sektorunun son zamanlarda inkişafı bu istiqamətdə atılan addımların doğru olduğunu söyləyir. Son dövrlərdə regionların iqtisadi inkişafına yönəlmiş proqramlar bu istiqamətdə aparılan strategiyanın düzgün seçildiyini təsdiqləyir.