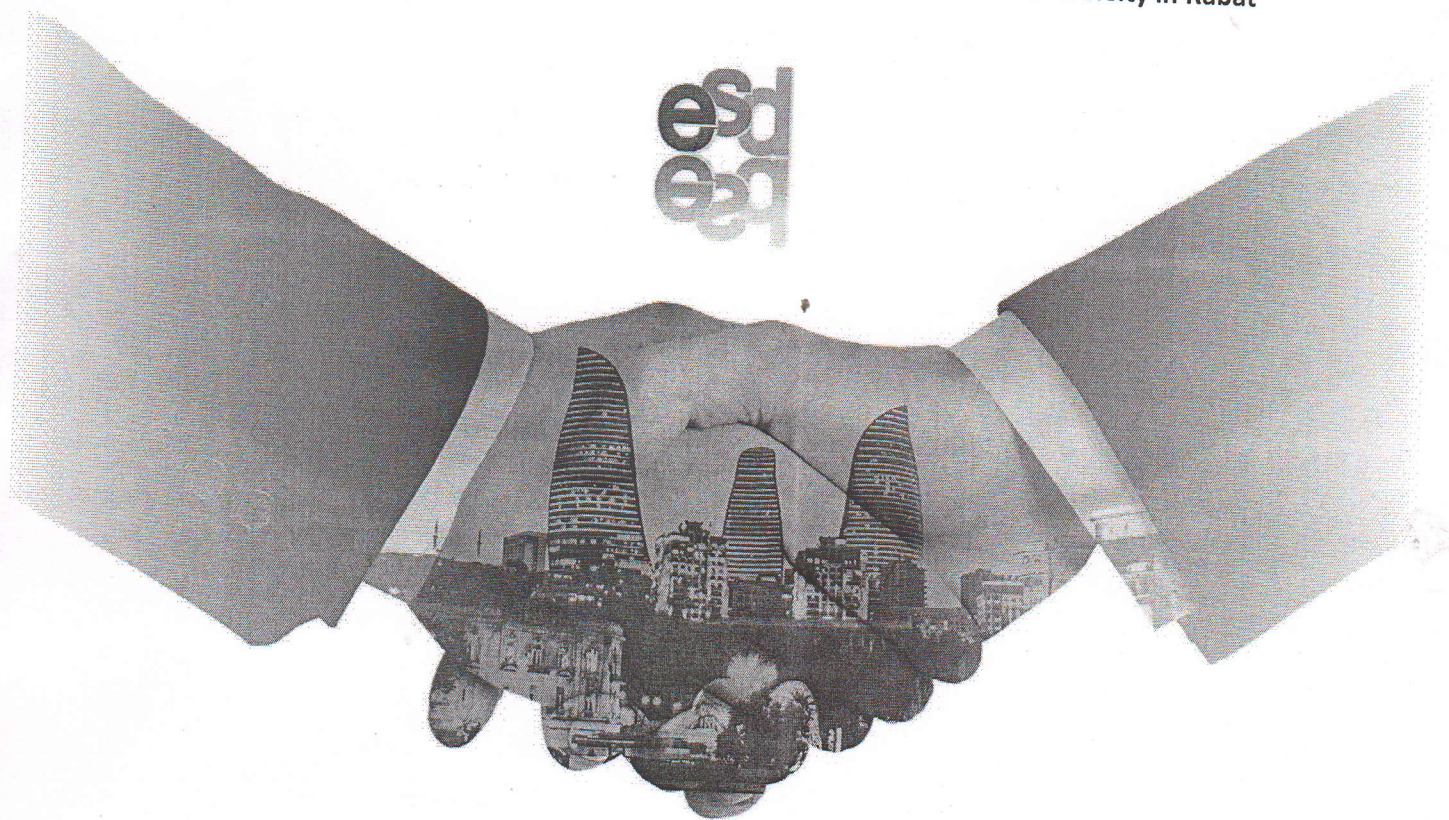


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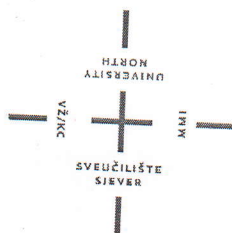
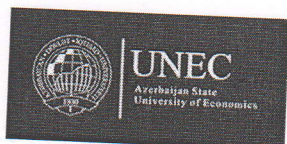
Economic and Social Development

37th International Scientific Conference on Economic and Social Development –
"Socio Economic Problems of Sustainable Development"

Book of Proceedings

Editors:

Muslim Ibrahimov, Ana Aleksic, Darko Dukic



ISSN 1849-6903



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Baku, 14-15 February 2019

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Title ■ Economic and Social Development (Book of Proceedings), 37th International Scientific Conference on Economic and Social Development – "Socio Economic Problems of Sustainable Development"

Editors ■ Muslim Ibrahimov, Ana Aleksic, Darko Dukic

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Publisher ■ Design ■ Print ■ Varazdin Development and Entrepreneurship Agency, Varazdin, Croatia / Azerbaijan State University of Economics (UNEC), Baku, Azerbaijan / University North, Koprivnica, Croatia / Faculty of Management University of Warsaw, Warsaw, Poland / Faculty of Law, Economics and Social Sciences Sale - Mohammed V University in Rabat, Morocco

Printing ■ 100 CD

ISSN 1849-6903

The Book is open access and double-blind peer reviewed.

Our past Books are indexed and abstracted by ProQuest, EconBIZ, CPCI (WoS) and EconLit databases and available for download in a PDF format from the Economic and Social Development Conference website: <http://www.esd-conference.com>

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STRUCTURAL ANALYSIS OF NON-OIL SECTOR FIELDS IN THE REGIONS OF THE REPUBLIC OF AZERBAIJAN

Ilhama Mahamadnabi Mahmudova

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ABSTRACT

As a result of the transition of the economy of the Republic of Azerbaijan to the post-oil stage in modern condition, its future development is largely connected with the socio-economic development of the regions. In its' turn, the great potential of the non-oil sector development and socio-economic development of our country are focused on the regions of the country. At present, the regions of Azerbaijan are on the threshold of being a leading power in the development of the national economy of our country. The development and diversification of the non-oil sector in the regions of Azerbaijan will generally create the basis for the country's economy in order to reduce dependence on oil revenues, increase the level of employment in the country and its transition to the sustainable development conception. The SWOT analysis of the sustainable, competitive and diversified conditions of the regions based on concrete materials have been revealed, evaluated and assessed on the basis of priorities of the non-oil sector in the regions. Over the past 15 years, the development and diversification of the non-oil sector in the regions has been implemented on three regional development programs adopted in the country. For this purpose, large financial support was provided for the development of the non-oil sector in the regions from the state budget, as well as from other financial sources, extensive tax, customs, loan concessions and subsidies. Sustainable development in the regions caused to the consistent growth of economic and social indicators, balanced development of the balancing growth rate, on the one hand, and improving level of development on the other hand. Taking into consideration, the adoption of "Strategic Road Map on Major Sectors of the National Economy and economy" will provide the competitiveness, inclusiveness and further improvement of social well-being of the economy on the basis of national economic development and sustainable economic development of the regions. The directions of improving the conceptual framework for the development of targeted state programs in different spheres and directions are being developed on the basis of structural analysis of non-oil fields in the regions of Azerbaijan. As a result of the carried out research, specific proposals and recommendations have been put forward for the development of the non-oil sector, diversification and stimulation of increasing export potential in the regions of Azerbaijan.

Keywords: *strutural analysis, regions, non-oil sector, sustainable development, diversification, national economy, transition, regulation, export*

1. INTRODUCTION

An effective and sustainable development of the economic structure, including the economic structure of the regions, is essential for the balanced development of the national economy. It should be taken into account that the grēat progress made by Western European countries in economic growth is linked to the successful changes in the structure of the country and the regional economy, because these changes have given the overall dynamism to the production process in the country and has led to some other positive changes. Generally, social division of labor is a continuous process, where the main branch structure of the economy is formed. It is complex and dynamic, subject to quantitative and qualitative changes by the affect of scientific-technical progress, cyclical development of the economy and other factors.

On such a basis it is worth mentioning that the regional structure of the economy is considered in two aspects:

- Placement of economic fields in the territory of the country;
- region system with its internal structures in the territory of the republic.

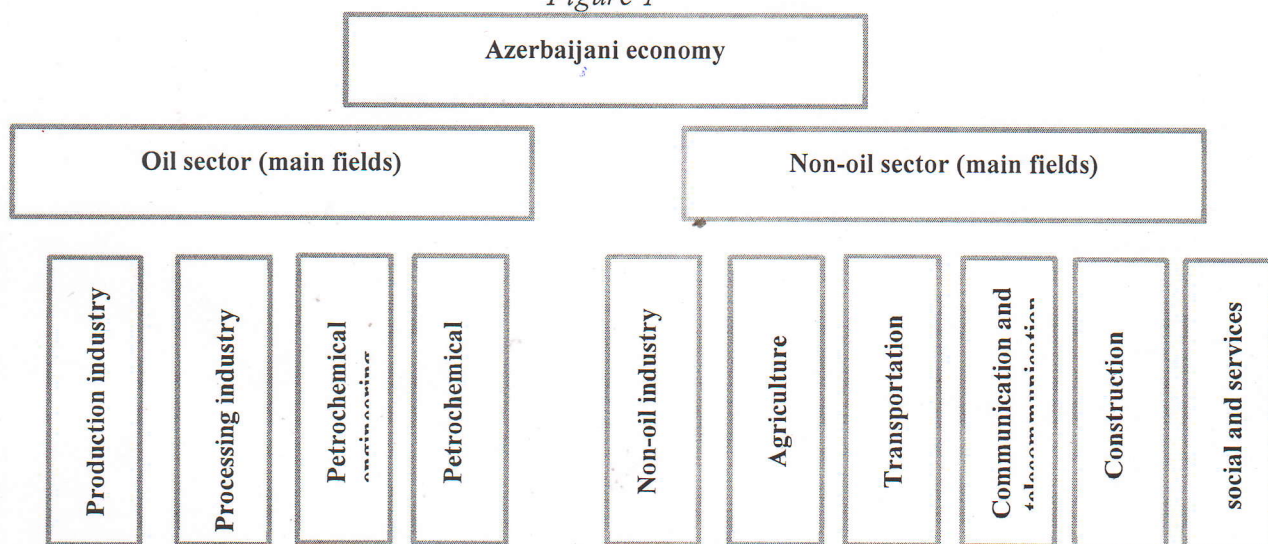
It should be specially mentioned another issue that the formation of an efficient regional economic system depends primarily on the efficient use of all available natural and socioeconomic resources in the region. All this happens on the same ground that national economies are constantly changing and exposed to transformation processes. The strongest effect on the processes is the scientific-technical progress. Scientific and technical progress changes the character of production, creates new economic fields and spheres, and affects the character of mutual relations in the national economy. For this reason, the structure of the national economy is constantly changing, which, in turn, implies continuing structural monitoring and the need to compare the real economic structure with its future development perspectives. The structure of the specific national economy is shaped by the influence of many factors: geographical, cultural, social, economic. It should be noted that one of the most important tasks for the regions is to achieve mutual development of economic fields, production and social infrastructure, complex solution of social and economic development issues. Territory of each region is the most important ground and a condition for productive forces deployment, as well as for the creation and functioning of production areas using mineral and raw materials, labor and natural resources.

2. THE REASONS FOR THE PROBLEM OF NON-OIL SECTOR DEVELOPMENT IN THE REPUBLIC OF AZERBAIJAN

The Azerbaijani economy has been under the strong influence of the oil factor for almost two centuries. It is known that most of the national production of the country, including the products exported from the country, is made up of oil and oil products. This situation necessitates the increase in the overall weight of export products produced in the country at the same time the share of other industries in the total weight of export products. Therefore, the modern economic policy of the Republic of Azerbaijan is primarily aimed at diversifying the economy, reducing dependence on the oil sector, and achieving dynamic development of the non-oil sector. According to the State Statistics Committee of Azerbaijan, 92.7% of the exported products are exportation of oil and oil products. At the same time, 75% of all industrial products produced in the country is on the account of state budget and 50% is on the account of oil sector. [5]. According to UNCTAD estimates, Azerbaijan's economy is among the countries with dependence on energy resources [9]. 93% of state budget funds come from the capital city and 7% come from regions [5]. That's why when analyzing the structure of the economy of Azerbaijan in the main economic spheres, assessments are generally carried out on the basis of the division of the economy into two important sectors. I oil sector and II non-oil sector. The reason for such a situation was inherited from the Russian Empire and Soviet era. Azerbaijani economy has developed disproportionally on fields and regions [4]. The solution of elimination of issues of these problems, in parallel, brought about the simultaneous solution of these two problems. These are the issues of eliminating the inter-regional and inter-sectoral disproportion development levels in the national economy. The radical changes taking place in the socio-political and socio-economic life of the Republic of Azerbaijan during the years of independence also covered the economy of the regions of the republic. It was accompanied by quality changes in the economy of the country, including the regions during transition to the market economy. However, not all of these issues were resolved immediately. The most serious problem was that most of the country's industrial potential was mainly concentrated in Baku, and then partly in Sumgayit, Ganja and Mingachevir.

Such a situation creates a serious impediment to the development of the national economy as a whole and to regional aspects. As a result of Armenian aggression, the problems were aggravated by the destruction of the cities and villages of the republic, the occupation of those territories, the deportation of the Azerbaijanis and the damage to the national economy.

Figure 1



Source: Made by author.

Under such conditions, there is a need to identify the current economic development opportunities of the Azerbaijani economy, weak and strong sides, challenges and threats to develop the country's economy, including the non-oil sector of the regional economy.

Table 1: SWOT analysis of modern state of Azerbaijani economy.

Strong sides	<p>Macroeconomic</p> <ul style="list-style-type: none"> • Availability of mineral resources • Specialized workforce; • High level education • Political stability • GDP growth rate at high pace <p>Sectoral and Regional</p> <ul style="list-style-type: none"> - Having a favorable natural climate and fertile geographical position in agriculture and livestock areas. - Having a natural, historical and cultural wealth that benefits the development of tourism. - Fertile condition for the production of agrarian and livestock products as a raw material for the food industry.
Weak sides	<ul style="list-style-type: none"> • weak development of the processing industry in the non-oil sector; • Low level of rural income; • Market limitations; • absence of direct access to EU, US, Japanese markets;
Opportunities	<ul style="list-style-type: none"> • The possibility of using oil revenues in other areas; • Production of competitive products with the application of modern technologies; • The development of the economy by attracting investments
Dangers	<ul style="list-style-type: none"> • Oil price decline; • Economic crisis • Financial crisis • Decrease in competitiveness of Azerbaijani products • decrease in the level of life of the country's population

Source: Made by author

As seen, in the context of the current state of the economy of the republic it is required to diversified development of the economy of Azerbaijan in certain directions:

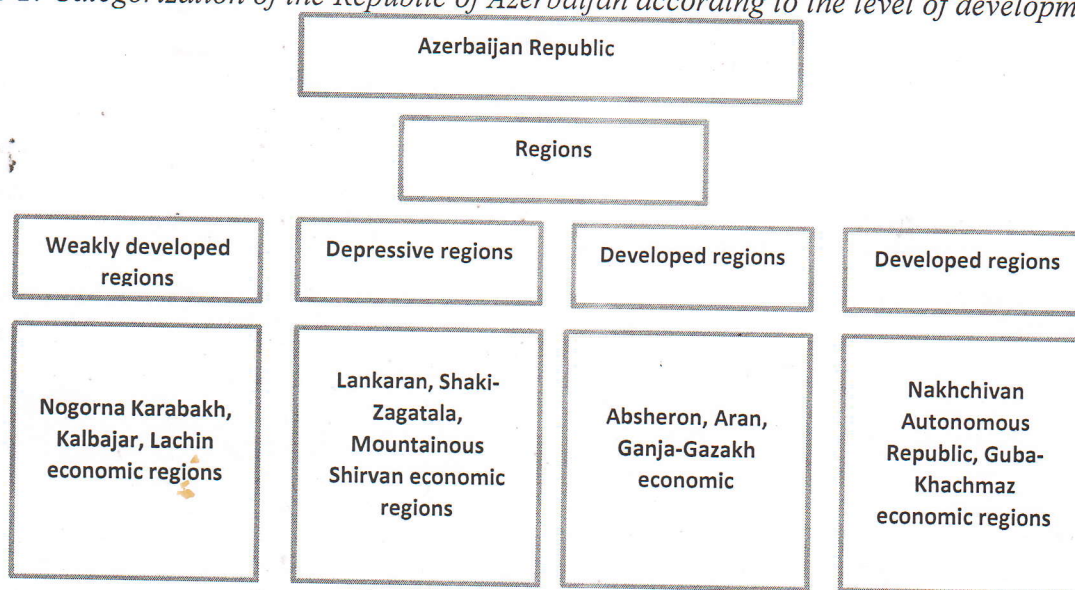
- Diversification of GDP should be based on non-oil sector;
- Diversification of export should be based on the export of innovative products;
- Diversification of institutional security should be based on natural, physical, human and institutional capital;
- The process of diversifying the regional economy should be further deepened, and the potential for disproportionation between oil and non-oil sectors should be sought in the regional economy.

Accordingly, it should be noted that the main trends of the "Azerbaijan 2020: Look Into the Future, Concept of Development" include the non-oil sector, in particular, has been specifically identified as one of the strategic aspects of the non-oil sector development of the regional economy.

3. THE REASON FOR THE NECESSITY OF THE DEVELOPMENT OF THE NON-OIL SECTOR IN THE REGIONAL ECONOMY

The territory of the Republic of Azerbaijan is currently divided into the following economic regions. Absheron economic region; Aran economic region; Highland Shirvan economic region; Guba-Khachmaz economic region; Lankaran economic region; Nakhchivan Autonomous Republic; Shaki-Zagatala economic region; Upper Karabakh economic region; Kalbajar-Lachin economic region.

Figure 2: Categorization of the Republic of Azerbaijan according to the level of development



Source: made by author.

Based on the assessment of the current state of the regions of the Republic of Azerbaijan, they can be divided into the following categories:

- Developed regions - Absheron, Aran, Ganja-Gazakh economic regions;
- Developing regions - Nakhchivan Autonomous Republic, Guba-Khachmaz;
- Poorly developed regions - Lankaran, Shaki-Zagatala, Mountainous Shirvan;
- Depressive regions - Nagorno-Karabakh, Kalbajar-Lachin economic regions.

It should be noted once again that special attention was paid to the non-oil sector development in the Republic of Azerbaijan since the early 2000s. The goal here is to further develop the national economy in the context of eliminating economic issues and interregional disproportions in the republic. In order to achieve these goals, many programs have been developed and implemented, containing the strategic priorities of the state policy in the Republic of Azerbaijan. Accordingly, it would be expedient to make assessments on the non-oil sector development issues in the regions of the Republic of Azerbaijan within the State Program.

4. SOLUTION DIRECTIONS OF NON-OIL SECTOR DEVELOPMENT ISSUES IN THE REGIONS OF THE REPUBLIC OF AZERBAIJAN WITHIN STATE PROGRAMS

Many State-funded State Programs have been developed and implemented to ensure macroeconomic balance and sustainable development in the early years of independence. The following State Programs may be specially mentioned for the sample: [6]:

- State Program for the Support of Small and Medium Entrepreneurship in the Republic of Azerbaijan" (1997-2000)";
- State Program for Development of Small and Medium Entrepreneurship in the Republic of Azerbaijan (2002-2005)";
- "State Program for the Development of Machine Building industry in the Republic of Azerbaijan (2002-2005)";
- "State Program of Agrarian Sector in the Republic of Azerbaijan (2002-2006)";
- "Demographic development conception of Azerbaijan Republic";
- "State Program on Tourism Development in the Republic of Azerbaijan in 2002-2005";
- "State Program on Poverty Reduction and Economic Development in the Republic of Azerbaijan (2003-2005)";
- "State programs of socio-economic development of the regions of the Republic of Azerbaijan (2004-2018)" (I State Program 2004-2008; II State Program 2009-2013; III State Program 2014-2018).
- On March 16, 2016, according to the decree of the President of the Republic of Azerbaijan, 12 strategic roadmaps on the national economy and 11 sectors of the economy can be elaborated on the approval of the "Main Directions of the Strategic Road Map on Major Sectors of the National Economy and Economy" [1].

The above-mentioned State Programs generally reflect the regional development aspects of the non-oil sector of the national economy. The main objective of the regional development strategy, developed and successfully implemented in the Republic of Azerbaijan, is to restore the balance between regional and economic development levels effectively using oil and gas revenues and to achieve a number of socio-economic problems. The problem of development of the non-oil sector, which has more prospects for development in the regions of the republic, has been raised. From this point of view, it should be noted that the main objective of the State Program on Socio-Economic Development of the Republic of Azerbaijan (2004-2008), approved by the Decree of the President of the Republic of Azerbaijan dated on February 11, 2004, is the sustainable development of the non-oil sector, provision of balanced development of the regions of the country, improvement of communal services and social infrastructure in the regions, employment, living standards, etc. Within the framework of implementation of the program, the following results are considered in 2004-2008. In the first regional development program, the provisions of the Optimization of the Specialization in the Republic of Azerbaijan and the deployment of productive forces were reflected. 714 state measures were implemented on this basis 668 events were dedicated to socio-economic development of nine regions of the

Republic of Azerbaijan. Funds were allocated for the implementation of important infrastructure projects. As a result of the implementation of a number of relevant measures, the package of projects for the balancing of the development of the country's territory and the development of the non-oil sector in the regions was formed. At this stage 26641 new enterprises were opened, 547600 jobs were created - permanent jobs were created [2]. Then, the State Program on Socio-Economic Development of the Regions of the Republic of Azerbaijan for 2009-2013 was approved by the Decree of the President of the Republic of Azerbaijan No 80 of April 14, 2009 for the continuation of the measures taken since 2004. As a result of the successful implementation of the "State Program on Socio-Economic Development of the Regions of the Republic of Azerbaijan in 2009-2013", a high level of macroeconomic indicators has been achieved in the country and successful results have been achieved in improving the living standards of the population in socio-economic development. More than 240 decrees were signed on accelerating socioeconomic development of cities and districts included in all economic regions during implementation of both state economic programs in the Republic of Azerbaijan. Execution of these programs for the non-oil sector was 2.6 times higher in this sector [10]. The Second State Program (2009-2013) envisaged the development of the agrarian sector of the country, production, social and market infrastructure in regions, and the elimination of unemployment in specific territorial structures of the national economy. At this stage 1066 large-scale projects were implemented, of which 968 were covered by economic regions. The remaining 40 projects covered Baku and the surrounding districts [8]. The State Program's Action Plan envisages implementation of 1066 measures throughout the country, including 58 of the country's significance, 40 in Baku and 968 in economic regions, which have been fully realized in the current period. As a result of carried out measures, the regions of the Republic of Azerbaijan were provided with continuous energy and drinking water. At the same time, construction and rehabilitation of roads and other infrastructure facilities were carried out. Environmental conditions in the regions have been significantly improved, and many social objects have been put into use in education, health and tourism. Only 5,400 enterprises, 117,000 new jobs and 93,000 new jobs were created within the program in 2012. Totally 20,000 new enterprises were created in Azerbaijan in 2009 and 360,000 jobs were created in the regions. Unemployment reduced by 5.2%, poverty by 6%. For the next four years, the State Program on Socio-Economic Development of the Regions of the Republic of Azerbaijan for 2014-2018 was approved by President of the Republic of Azerbaijan Ilham Aliyev's Decree of February 27, 2014. The initial version of the State Program was prepared by the Ministry of Economic Development in line with the offers submitted by the relevant agencies to the Ministry of Economic Development on the basis of an official appeal submitted to local and central executive authorities in September 2012; The state program on socio-economic development of the next regions will be adopted in 2019 [11]. Accordingly, it would be expedient to review some of the processes in the non-oil sector in the regions of the Republic over the last 15 years.

5. REGIONAL ASPECTS OF CHANGES AND PROCESSES IN THE NON-OIL SECTOR OF THE AZERBAIJANI ECONOMY

The main priorities in the development of the non-oil sector in the country are the development of the agrarian sector in ICT, tourism, transport and energy (in particular, alternative energy production). 44% of the population of the Republic operates in these areas. Over the last 15 years, 60% of 100 billion investment in the country has been invested in the non-oil sector [7].

Table following on the next page

Table 2: Investments in main capital on oil and non-oil sectors

Years	Total	Including			
		Oil sector		Non-oil sector	
		Total	Special weight %	Total	Special weight %
2003	3786366.7	2771092.1	73.2	1.015274.6	26.8
2004	4922755.9	3.7081384	75.3	1.214617.5	24.7
2005	5.769876.3	3756167.6	65.2	2.013708.7	34.8
2006	6234483.7	3408512,5	54.7	2825971.2	45.3
2007	7.471.189.9	3.529.865.3	47.2	3.941324.6	52.8
2008	9.944.153.8	2.922.414.7	29.4	7.021739.1	70.6
2009	7.724944.8	2.058349.8	26.6	566595.0	73.4
2010	9.905665.8	29584901,7	29,9	6.947.174.1	76.1
2011	12799061,3	3070236,0	24.0	9728825,3	76,0
2012	15407274,4	3854.477,8	25.0	11.552796.6	75.0
2013	17.850.815.7	5.094617.8	28.5	12756197,9	71.5
2014	17.618.601.1	5.959.403.1	33.8	11.659.198.0	66.2.
2015	15.957028.2	7.137.136.8	44.7	8.819.819.4	55.3
2016	15.772725.0	8648028.6	54.8	71124797.2	45.2
2017	17.430.339.5	843.950.6	48.7	8946.388.9	51.3.

Source: <https://www.stat.gov.az>.

As seen from the table, In the last 15 years, more exactly, since 2003, investments in the main capital of both sectors of the Azerbaijani economy have grown almost every year. Starting from 2007, non-oil capital investment in capital investments has become more than the oil sector. Such a trend is still going on. This means that productivity in the non-oil sector can be solved by solving the problems of economic development. At the same time, it should be noted that, as a result of the state programs implemented in the last 15 years, the country's gross domestic product increased by 0.1 percent to 70135.1 million manat in 2017. The most important point is that 62.8% of the GDP was produced in the non-oil sectors of the economy and 37.2% in the oil and gas sector. During this period, the value added in the oil sector of the economy decreased by 5.0 percent, in the non-oil sector - by 2.7 percent, including transport and warehousing - by 8.5 percent, information and communications - by 6.6 percent, 5.9% in catering, 4.2% in agriculture, forestry and fishing, trade; 2.5 per cent in the field of repair of vehicles, 1.5 per cent in social and other services. At the same time, production of non-oil products increased by 3.7 percent compared to the same period of the previous year, and added value added in this area rose by 3.8 percent. 40.1 percent industrial production of GDP, 10.4 percent in trade and transport, 9.5 percent in construction, 6.8 percent in transport and storage, 5.6 percent in agriculture, forestry and fishing, 2.3 percent the share of tourists and public catering, 1.6 per cent for information and communication, and 16.4 per cent for other sectors, while net taxes on product and import accounted for 7.3 per cent of GDP [12]. Naturally, special attention was paid to the regional aspects of non-oil sector development in the republic. On such a basis, it should be taken into account that in the contemporary period, the regional structure of the economy of the Republic of Azerbaijan is assessed in the context of the analysis of key indicators of economic regions by sectors. The regional structure of the republic's economy has grown to some extent about a century of historical development. During these years, the main driving force of the process was the solution of the problem of economic zoning of the country. From the 20s to the 90s of the XX century, the concept of regional governance was first developed based on Soviet management requirements, then new established, young and independent economic management requirements and criteria of the Republic of Azerbaijan. The development of non-oil production sphere has become a priority for the creation of new jobs in this concept, in particular, in order to make the country more efficient use of regional

resources. The intensive stage of the implementation of this approach is intensified even during the implementation of regional development concepts. The opinion is confirmed by the quantitative indicator of newly opened enterprises in the Republic of Azerbaijan, including in the regions in 2003-2017 (see Table 3.)

Table 3: Information about newly opened enterprises (on years)

İqtisadi rayonlar	2004	2005	2006	2007	2008	2004-2008	2009	2010	2011	2012	2013	2009-2013	2014	2015	2016	2017	2014-2017	2004-2017
Ölkə üzrə cəmi, o cümlədən	4921	5516	5123	5145	6867	27572	5314	4296	5137	5417	7879	28043	9130	6266	8012	11934	35342	90957
Bakı	2916	3326	3040	3144	4236	16662	3482	2608	3159	3252	4293	16794	4720	3373	5089	6840	20022	53478
Regionlar üzrə cəmi, o cümlədən	2005	2190	2083	2001	2631	10910	1832	1688	1978	2165	3586	11249	4410	2893	2923	5094	15320	37479
Abşeron	320	287	242	268	448	1565	302	296	390	391	514	1893	690	508	594	1204	2996	6454
Gəncə-Qazax	311	246	251	246	404	1458	267	229	274	309	552	1631	637	338	348	436	1759	4848
Şəki-Zaqatala	144	196	195	152	192	879	172	188	186	249	413	1208	493	190	218	309	1210	3297
Lənkəran	200	204	198	265	215	1082	175	228	268	256	591	1518	622	679	368	287	1956	4556
Quba-Xaçmaz	84	119	149	142	150	644	116	98	127	106	204	651	359	121	233	621	1334	2629
Aran	440	562	498	539	943	2982	614	477	527	690	991	3299	1117	744	917	1821	4599	10880
Yuxarı Qarabağ	144	105	81	109	116	555	73	55	90	82	133	433	126	109	61	172	468	1456
Kelbəcər-Laçın	61	43	31	23		158	8			1	4	13	8	9	123	185	758	1503
Dağlıq Şirvan	35	102	72	47	95	351	56	60	74	60	144	394	298	152	3	5	25	196
Naxçıvan	266	326	366	210	68	1236	49	57	42	21	40	209	60	43	58	54	215	1660

Source: Regional development: results of successful policy//Ministry of Economy of the Republic of Azerbaijan//<https://www.economy.gov.az/>

37479 new enterprises were launched in the regions of the Republic of Azerbaijan in the process of implementation of the State Program on the development of the regions, the old enterprises are modernized with the new equipment.

6. RESULT

Non-oil sectors in the regions of the Republic of Azerbaijan: Production and processing of agricultural products (non-oil, food, light industry, food industry, agrarian industry), are carried out in the directions of especially non-oil; construction industry enterprises; construction of objects of socio-economic infrastructure (roads, housing, education, cultural-educational, healthcare etc.); in some areas. All these measures, in parallel, once again confirm the development of human capital in the republic and the social orientation of state policy.

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