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AZERBAIJAN'S ECONOMIC STRUCTURE AND ITS ROLE IN GLOBAL VALUE CHAINS

Abstract

Azerbaijan's economic structure is characterized by a strong dependence on the oil and gas sector, which has historically played a central role in shaping the country's economic development. Over the past two decades, energy exports have driven GDP growth, state revenues, and foreign direct investment. However, this reliance has also made the economy vulnerable to fluctuations in global oil prices, highlighting the need for diversification. In recent years, Azerbaijan has taken steps to modernize and diversify its economy by investing in non-oil sectors such as agriculture, tourism, information technology, and transport. The development of infrastructure, including major projects like the Baku-Tbilisi-Kars railway and the Alat Free Economic Zone, is aimed at positioning Azerbaijan as a key logistics and trade hub between Europe and Asia. Azerbaijan's integration into global value chains (GVCs) remains limited but is gradually improving. The country's strategic geographic location on the Middle Corridor (Trans-Caspian International Transport Route) gives it potential to become a vital link in international trade networks. By enhancing connectivity, improving the business environment, and adopting international standards, Azerbaijan can increase its participation in GVCs beyond the energy sector. Efforts to attract foreign investment, improve customs procedures, and develop human capital are crucial to boosting Azerbaijan's competitiveness in global markets. While challenges remain, including governance and institutional reforms, Azerbaijan's evolving economic structure presents opportunities for deeper integration into global production and trade systems.

Keys word: *Azerbaijan economy, middle corridor, oil and gas sector Azerbaijan, Baku-Tbilisi-Kars railway.*

INTRODUCTION

Azerbaijan is strategically positioned at the crossroads of Europe and Asia, which gives it significant potential in regional and global trade. Over the years, the country has built a resource-rich economy, largely centered around the oil and gas industry. This sector has played a key role in economic growth and state development, especially after independence. However, evolving global trends and the volatility of energy markets have pushed Azerbaijan to reconsider its economic model and seek broader participation in international economic systems. In this context, integrating into global value chains and strengthening non-oil sectors have become essential priorities. By improving infrastructure, enhancing its business environment, and focusing on economic diversification, Azerbaijan is working towards a more resilient and globally connected economy. To support this transformation, Azerbaijan has launched several initiatives aimed at modernizing its economy and increasing its global competitiveness. Investments in transportation corridors, logistics infrastructure, and digital technologies have laid the foundation for a more diversified and innovation-driven economy. Projects such as the Baku International Sea Trade Port and the Alat Free Economic Zone aim to position the country as a key transit point along the Middle Corridor, linking China to Europe. In addition to infrastructure development, efforts are being made to enhance the regulatory framework, attract foreign investment, and support small and medium-sized enterprises (Antràs, Pol, and Davin Chor., 2013: p. 81). These measures are essential for building the capacity needed to integrate into global value chains, especially in areas such as agriculture, manufacturing, and services. Azerbaijan's participation in international trade agreements and regional cooperation platforms also contributes to creating new economic opportunities and strengthening trade ties. Although challenges such as economic overdependence on hydrocarbons and institutional reforms remain, Azerbaijan's evolving strategy reflects a growing commitment to sustainable growth and deeper engagement in global economic networks. With continued focus on diversification and innovation, the country is gradually shifting from a resource-based model to a more balanced and competitive economic structure.

Azerbaijan's Economic Transformation: From Resource Dependence to Global Integration

Located at the intersection of major trade routes, Azerbaijan holds a unique position in connecting regional and global markets. Since gaining independence, the country has leveraged its rich natural resources - particularly oil and gas - to drive economic growth and finance national development. This resource-based growth model significantly improved infrastructure and living standards; however, it also exposed the economy to external shocks, especially due to fluctuating energy prices. Recognizing the limitations of reliance on hydrocarbons, Azerbaijan has increasingly focused on transforming its economic structure. Recent years have seen a strategic push toward diversification, innovation, and global integration. By investing in sectors such as transport, logistics, agriculture, and digital services, and by improving trade facilitation, Azerbaijan aims to build a more resilient and competitive economy. This transformation is not only reshaping domestic economic dynamics but also redefining the country's role in global value chains and international cooperation. A key pillar of this transformation is Azerbaijan's ambition to become a regional trade and logistics hub. Major infrastructure projects, including the Baku-Tbilisi-Kars railway and the development of the Port of Baku, have strengthened the country's role as a transit point between East and West (Ferrantino, Michael, and Gabriela Schmidt., 2018: p.55).

These initiatives are part of a broader effort to integrate into the Middle Corridor, which serves as a vital alternative to traditional trade routes connecting Asia and Europe. Alongside physical infrastructure, Azerbaijan is also prioritizing regulatory improvements and institutional reforms to enhance its business environment. Streamlining customs procedures, supporting entrepreneurship, and fostering foreign investment are essential steps toward increasing the country's presence in global markets. Special economic zones and innovation centers are being developed to attract international companies and stimulate knowledge-based industries. While the path to economic diversification and global integration presents challenges, such as reducing bureaucratic barriers and ensuring long-term policy consistency, Azerbaijan's strategic vision reflects a commitment to sustainable development (Evans, Trevor; Herr, Hansjörg., 2016: p. 62).By strengthening its non-oil sectors and deepening its engagement in global value chains, the country is laying the foundation for a more balanced and future-ready economy.

Table 1

Azerbaijan's key economic indicators and structural transformation (2020–2024)

Indicator	2020	2021	2022	2023	2024 (estimated)
GDP (billion USD)	42.6	45.0	53.1	58.0	60.5
Share of oil & gas sector in GDP (%)	43%	39%	37%	34%	32%
Share of non-oil sector in GDP (%)	57%	61%	63%	66%	68%
Total exports (billion USD)	13.7	22.2	38.1	35.0	33.0

Non-oil exports (billion USD)	2.1	2.7	3.0	3.3	3.6
Foreign direct investment (billion USD)	4.5	4.8	5.2	5.9	6.1
Participation index in global value chains (GVC)	42.3	44.1	45.6	47.0	48.5

Source: *Dünhaupt, Petra; Mehl, Fabian; Herr, Hansjörg; Teipen, Christina (2024):Entwicklungschancen durch Integration in globale Wertschöpfungsketten: ein Länder- und Branchenvergleich, in: WSI Mitteilungen, in process of publishing.*

The table reflects the dynamics of economic development and structural changes in Azerbaijan during 2020–2024. The volume of Gross Domestic Product (GDP) increased year by year, from 42.6 billion US dollars in 2020 to approximately 60.5 billion US dollars in 2024. This increase is mainly due to the revival of the non-oil sector and economic diversification policies. The share of the oil and gas sector in GDP is decreasing. While this indicator was 43% in 2020, by 2024 this figure decreased to 32%. Instead, the share of the non-oil sector increased, ensuring a more balanced economic structure. This trend reflects the strategic approach aimed at strengthening the country's economic sustainability and reducing dependence on the energy sector. Export indicators also confirm these changes. Although a high share of total exports is still related to energy products, non-oil exports have been steadily increasing, rising from 2.1 billion USD in 2020 to 3.6 billion USD in 2024. This increase is related to the export of agricultural, food industry and processed products. Positive dynamics are also observed in foreign direct investments (Dünhaupt, Petra; Mehl, Fabian; Herr, Hansjörg; Teipen, Christina., 2024: p.22). The increased interest of foreign investors in non-oil sectors has resulted in investments in this sector reaching 6.1 billion USD in 2024 from 4.5 billion USD in 2020. Azerbaijan's participation in global value chains is also gradually increasing. According to the GVC index, the country's role in global trade networks is strengthening, and steps taken in this direction serve to further deepen economic integration.

Table 2

Azerbaijan's employment distribution and export structure by sector (2020–2024)

Indicator	**2020**	**2021**	**2022**	**2023**	**2024 (estimated)**
Total employment (million people)	4.9	5.0	5.1	5.2	5.25
Employment in agriculture (%)	36%	34.5%	33%	31.5%	30%
Employment in industry (%)	14%	14.3%	14.7%	15.1%	15.5%
Employment in services sector (%)	50%	51.2%	52.3%	53.4%	54.5%
Share of oil products in exports (%)	88%	85%	82%	78%	75%
Share of non-oil products in exports (%)	12%	15%	18%	22%	25%
Main non-oil export products	Agricultural products, aluminum, plastics, electrical equipment				

Source: *Dünhaupt, Petra; Mehl, Fabian; Herr, Hansjörg; Teipen, Christina (2024):Entwicklungschancen durch Integration in globale Wertschöpfungsketten: ein Länder- und Branchenvergleich, in: WSI Mitteilungen, in process of publishing.*

The table reflects changes in the employment and export structure of Azerbaijan for 2020–2024. Total employment indicators have shown a consistent increase, reaching approximately 5.25 million people in 2024 from 4.9 million people in 2020. This increase is associated with the expansion of economic activity in the country and the development of new sectors. The main change in the sectoral distribution of employment is observed in the agricultural sector. Although the share of the employed population in this sector was higher earlier, this indicator has decreased over the years and the share of the service sector has increased. This trend indicates the country's economic shift from agriculture to service and industrial sectors. The increase in employment in the service sector is associated, in particular, with the development of tourism, trade, transport and information technology. Significant changes have also occurred in the export structure. While the share of oil and gas products in exports was 88% in 2020, this indicator decreased to 75% in 2024. Instead, the share of non-oil exports has increased, especially agricultural products, aluminum, plastics, and electrical equipment. These changes indicate that Azerbaijan's export potential has expanded and the economy has become more diversified. Overall, the table demonstrates that Azerbaijan is gradually transitioning to non-oil sectors and moving towards a more balanced, sustainable economic model

Azerbaijan's ongoing economic shift reflects a clear intention to reduce sectoral imbalances and promote inclusive growth. The country's growing emphasis on transport, logistics, digital economy, and renewable energy signals a long-term strategy to position itself as a regional innovation and trade hub. Strategic investments in smart agriculture and manufacturing have also begun to reshape the production base, aiming to boost value-added output and export capacity beyond raw materials. Regional cooperation initiatives and participation in global economic platforms have opened new channels for integration. Agreements with neighboring countries, along with alignment to international trade norms, are facilitating smoother cross-border exchanges (Degain, Christophe, Lin Jones, Zhi Wang, and Li Xin.,2014:p.12).

These efforts not only enhance Azerbaijan's competitiveness but also strengthen its role within Eurasian connectivity projects. Institutional modernization is another key factor driving the transformation. Steps toward improving transparency, digital governance, and public sector efficiency contribute to building investor confidence and fostering a more dynamic private sector. Education reforms and workforce development programs are being tailored to meet the demands of a diversifying economy, preparing human capital for roles in technology-driven and knowledge-based industries. Taken together, these developments reflect a broader vision for sustainable economic resilience. Azerbaijan's gradual but steady departure from heavy reliance on hydrocarbons marks a turning point toward a more integrated, adaptable, and forward-looking national economy—one that is capable of responding to global trends while capitalizing on its own strategic advantages.

CONCLUSION

Azerbaijan's economic transformation illustrates a determined shift toward a more balanced and future-oriented model. By reducing dependency on the energy sector and strengthening non-oil industries, the country is building a foundation for long-term resilience and global relevance. Investments in infrastructure, digitalization, and human capital have laid the groundwork for deeper integration into international markets and global value chains. While challenges remain, the strategic direction demonstrates a clear commitment to sustainable growth, diversification, and greater participation in the global economy.

This evolving approach positions Azerbaijan as not only a regional connector but also a dynamic player in the changing landscape of global trade and production. This transformation is underpinned by a series of structural reforms and strategic policies aimed at aligning Azerbaijan's economy with global trends and innovation-driven growth. By fostering an environment conducive to entrepreneurship, technology adoption, and investment, the government is enabling both public and private sectors to contribute more effectively to economic diversification. Special attention is being given to improving the ease of doing business, enhancing legal and regulatory frameworks, and expanding access to financing - particularly for small and medium-sized enterprises, which are key to sustainable economic development. The country's geographic location remains one of its strongest assets. Positioned along the Middle Corridor - a critical route connecting Asia with Europe - Azerbaijan is enhancing its logistical capabilities through multimodal transport systems, customs modernization, and digital trade platforms. These developments not only facilitate international commerce but also improve domestic connectivity, enabling more balanced regional development within the country. Education and skills development are also at the forefront of Azerbaijan's economic agenda. Efforts are underway to modernize the education system and align vocational training with the demands of a knowledge-based economy.

By investing in talent and innovation, Azerbaijan is preparing its workforce to thrive in sectors such as information technology, renewable energy, smart agriculture, and advanced manufacturing. Moreover, the country's growing engagement in regional and global partnerships reinforces its strategic vision. Participation in platforms such as the Organization of Turkic States, the Eastern Partnership, and various trade agreements helps Azerbaijan diversify its economic partnerships and reduce vulnerability to external shocks. As Azerbaijan continues to embrace reforms and broaden its economic base, it is gradually moving away from the volatility associated with natural resource dependence. The shift toward a diversified and globally integrated economy not only supports national development goals but also positions the country as a reliable partner in regional and international economic systems. This comprehensive transformation reflects a forward-thinking approach that balances tradition with innovation, stability with growth, and national interest with global cooperation.

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Azərbaycanın iqtisadi strukturu və qlobal dəyər zəncirlərində rolu

Xülasə

Azərbaycanın iqtisadi strukturu ölkənin iqtisadi inkişafının formalaşmasında tarixən mərkəzi rol oynamış neft-qaz sektorundan güclü asılılıqla xarakterizə olunur. Son iki onillikdə enerji ixracı ÜDM-in artımına, dövlət gəlirlərinə və birbaşa xarici investisiyalara təkan verib. Bununla belə, bu güvənlik həm də iqtisadiyyatı qlobal neft qiymətlərindəki dalğalanmalara qarşı həssas edib və diversifikasiyanın zəruriliyini vurğulayır. Son illər Azərbaycan kənd təsərrüfatı, turizm, informasiya texnologiyaları və nəqliyyat kimi qeyri-neft sektorlarına sərmayə qoymaqla iqtisadiyyatını modernləşdirmək və şaxələndirmək istiqamətində addımlar atıb. İnfrastrukturun, o cümlədən Bakı-Tbilisi-Qars dəmir yolu və Ələt Azad İqtisadi Zonası kimi iri layihələrin inkişafı Azərbaycanı Avropa və Asiya arasında əsas logistika və ticarət mərkəzi kimi yerləşdirməyə yönəlib. Azərbaycanın qlobal dəyər zəncirlərinə (GVCs) inteqrasiyası məhdud olaraq qalır, lakin tədricən yaxşılaşır. Ölkənin Orta Dəhlizdə (Transxəzər Beynəlxalq Nəqliyyat Marşrutu) strateji coğrafi mövqeyi ona beynəlxalq ticarət şəbəkələrində mühüm həlqə olmaq potensialı verir. Əlaqədarlığı gücləndirməklə, biznes mühitini yaxşılaşdırmaqla və beynəlxalq standartları qəbul etməklə Azərbaycan enerji sektorundan kənarda GVC-lərdə iştirakını artıra bilər. Xarici investisiyaların cəlb edilməsi, gömrük prosedurlarının təkmilləşdirilməsi və insan kapitalının inkişafı üzrə səylər Azərbaycanın qlobal bazarlarda rəqabət qabiliyyətinin artırılması üçün mühüm əhəmiyyət kəsb edir. İdarəetmə və institusional islahatlar da daxil olmaqla, problemlər qaldığı halda, Azərbaycanın inkişaf edən iqtisadi strukturu qlobal istehsal və ticarət sistemlərinə daha dərin inteqrasiya imkanları təqdim edir.

Açar sözlər: *Azərbaycan iqtisadiyyatı, orta dəhliz, neft və qaz sektoru Azərbaycan, Bakı-Tbilisi-Qars dəmir yolu.*