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## Macroeconomics

### ‘Made in Azerbaijan’: Dominion of export-led growth strategy

Energy-oriented economies, having suffered from the realities of the post-oil era, are rushing to increase engagement in the non-oil sector and push back against the oil influence on the economy. And the time has shown that the only way forward for the sustainable economic growth is to accelerate the doing business in the non-oil sector and expansion into the wider export markets.



Last year, the authorities of Azerbaijan have launched large-scale reforms and

adopted a roadmap program that prioritizes 12 sectors with strategic goals set before the economy to create a new development model basing on short-term (until 2020), medium-term (until 2025) and long-term measures (post 2025). The key insight of the economic reforms that allows to achieve the sustainable development and pervade the budgets, are exports.

Azerbaijan has started promoting the ‘Made in Azerbaijan’ brand in foreign markets since 2016, and already recorded about 10-percent growth in the exports in January-March 2017. But the potential is more than the current figures show. Today’s most important goals of the export-led growth strategy is to properly promote ‘Made in Azerbaijan’ brand, ensure access to new export markets and enter traditional export markets with a wider range of products.

From a development perspective, the goal of the export-led growth strategy is to promote the growth of the manufacturing sector and therefore transform the economy from an energy one to an industrial-agricultural base. In the extreme, along with the import substitution strategy it could lead to complete self sufficiency and turning into a net exporter.

As of today, 92 trademarks of Azerbaijan are protected under the ‘Made in Azerbaijan’ brand, while the country’s total outputs nears 250 kinds

of products in food, light, heavy and construction industries. The brand is highly successful in regional and world markets, and Azerbaijan's local output meets all the necessary standards.

The CIS countries especially Russia, Kazakhstan, Georgia and Belarus are the traditional export markets for Azerbaijani goods, including alcoholic and non-alcoholic beverages, fruit, vegetables, nuts, tea, conserve, cotton, oil, sugar, salt and etc. In a bid to expand the export map, the country seeks to broaden the range of products sold under the 'Made in Azerbaijan' brand through the high-quality products that have so far been used only in domestic market.

The countries of Western Europe, Far East, including Japan and China, African states and Gulf countries are the target markets, according to the Azerbaijani Economy Ministry. The country has been sending trade missions to various countries since November 2016 to increase its exports.

The export promotion efforts also include the encouragement of export oriented companies. Thus changing the economic policy from inward looking to outward looking promises Azerbaijan not only huge foreign exchange earnings but also increase in productivity and growth inside the country.

## Government to continue encouraging entrepreneurship

Azerbaijani Presidential Aide on



Economic Reforms Natig Amirov, in his article published on the 'Azerbaijan' newspaper, said

that looking at socio-economic indicators for 1995-2003 one can see the positive results of the economic reforms. "In 1995-2003, country's GDP increased by 90.1 percent, state budget revenues -3.9 times, the currency reserves - 85 times, industrial production - 22.4 percent, agricultural production - 52.8 percent, trade turnover - 4 times, the average monthly wages of those involved in economy increased 6.2 times, inflation was reduced to 2-3 percent. During this period, about \$20 billion were invested in the national economy," he clarified.

"The economic reforms have been continued in 2003-2014, Azerbaijan's economy has become one of the most rapidly growing economies in the world. In a short period of time, Azerbaijan turned into a country with an upper-middle income, the socio-economic infrastructure was completely renewed and the county was placed the 37th place in the world in terms of global competitiveness," he said. Amirov mentioned that over these years, the country's economy grew by

6 times, while per capita income increased more than 5 times.

He went on to say that in 2004-2013, Azerbaijan carried out two five-year state programs dedicated to economic diversification, development of non-oil sector and regions of the country, improvement of social services and infrastructure.

As a result of the taken measures, more than 1.2 million jobs were created in the country, 900,000 of which were permanent, 55,600 enterprises were established. The unemployment rate fell to 5 percent, while the poverty level dropped to 5.3 percent, he said. More than \$130 billion were invested in the economy of Azerbaijan and the foreign trade turnover grew 6.4 times, while non-oil exports increased by 4.5 times. During this period, 19,400 entrepreneurs received preferential loans worth more than 1.2 billion manats. These loans helped to create 113,000 new jobs, he said, further elaborating that the state continues to support entrepreneurs and creates necessary conditions for the development of a healthy business climate in the country.

He mentioned that in this regard, it is planned to create the Agency of Small and Medium Enterprises and the Guarantee Credit Fund in 2017-2018. Similar agencies already operate in Europe, the UK, the USA, China, Singapore and other countries, stimulating the development of small

and medium-sized businesses, according to him.

Over the past 10 years, Azerbaijan's economy has grown by 300 percent. Poverty and unemployment have been sharply diminished, with measures of both now standing at 5 percent. Indeed, the World Economic Forum has again ranked Azerbaijan at 40th in the world for competitiveness, and first in the CIS (Commonwealth of Independent States) region.

## Industry

### **Sumgait Chemical Industrial Park attracts investments worth \$1.2B**

Economy Minister Shahin Mustafayev has revealed that investments in the Sumgait Chemical Industrial Park (SCIP) reached \$1.2 billion as of today. He announced about this at an event dedicated to presenting a certificate to one more resident of the SCIP.

“Ten residents have been registered in the Sumgait Chemical Industrial Park alone. Of these, I would like to mention Azertexnolayn CJSC that has already started production,” Mustafayev said, adding that 52 percent of the company's products are being exported. Mustafayev noted that five more enterprises will start operating in the Park in 2017, which will be engaged in production of import-substituting and export-oriented products.

The Park, which was established to promote industrial production, employment, sustainable



development of non-oil sector, and business support in Azerbaijan currently covers an area of 295.5 hectares. All residents are exempted from property, land, corporate income taxes, as well as VAT for imported equipment.

The minister further added that next industrial zone will be created in Azerbaijan's Hajigabul region. "Currently, a number of projects are being implemented in the Neftchala industrial zone," said the minister. The construction work is underway on creation of the Masalli industrial zone, he said, adding that the selection of regions for new industrial zones continues. The economy minister further said preparations are ongoing for start of the work of enterprises in the Balakhani Industrial Park as well. "I believe five companies will start functioning in the Balakhani Industrial Park in May-June 2017," Mustafayev said. "As for other industrial parks – a shipyard is already operating in the Garadagh Park and foundation of two plants, construction of which will begin soon, has already been laid in the Pirallahi Industrial Park. I believe one of these plants will start functioning in 2018."

Mustafayev noted that the creation of industrial zones will significantly affect the development of non-oil sector of the country.

Main objective of the establishment such parks in the country are the creation of favorable conditions in the country for further development of industrial production, provision of support to entrepreneurs, and increasing employment of population in the sphere. Farid Jafarov, director general of SOCAR Polymer company, which is one of the SCIP residents, said that a new polypropylene production plant is planned to be commissioned in the Park in the first quarter of 2018, while a polyethylene production plant in the third quarter of 2018.

The construction of the biaxially oriented polypropylene film production plant is estimated at \$32 million, he said addressing the event. The total cost of SOCAR Polymer's project is \$750 million, 60 percent of which is financed through Gazprombank JSC. The products of the SOCAR Polymer will be used for the production of high pressure gas, sewage and water pipes, packaging, textiles, stationery, automotive components, electronic and electrical appliances, and medical industry.

Thirty percent of the plant's output will be directed to domestic market, while 70 percent – for export to Turkey, Europe and CIS countries.

## Agriculture

### Agriculture minister: Domestic production meets demand in strategic products



Azerbaijan's agricultural sector has entered a new stage of development, said Heydar Asadov, the Agriculture Minister. Asadov went on to say that thanks to the successful reforms carried out in the agro sector Azerbaijan has managed to completely ensure domestic demand in some strategic goods through local production, decrease its dependence on the foreign countries in the food security and develop its regions through increasing the volume of production of export-oriented goods.

The issuance of various state subsidies for farmers, who are engaged in agriculture, led to the significant improvements in this sector, according to Asadov.

The minister stressed that it is important to establish international bilateral and multilateral cooperation at the highest level for the development of agriculture and ensuring food security.

Recalling a favorable investment climate, good potential in the agrarian sector of Azerbaijan, national

legislation protecting investors' rights as well as stability prevailing in the country, the minister called on entrepreneurs to invest in the agricultural sector.

In the first quarter of 2017, the non-oil sector of Azerbaijan's economy grew by 2.4 percent. The trade turnover increased by 15 percent, exports saw a nearly 50 percent growth and imports fell by 17 percent. The exports of agricultural products increased by 44 percent.

Development of the non-oil sector is a priority area in Azerbaijan. The government efforts to stimulate non-oil exports, in particular through its 'Made in Azerbaijan' promotion, are expected to catalyze growth in agriculture.

The country currently ranks the 57th among 113 countries of the world according to the Global Food Security Index 2016, while the highest scores are recorded on such indicators as the presence of food safety net programs, low level of food loss, food safety, access to financing for farmers.

### Azerbaijan increases lending to agriculture

Azerbaijan is keen to diversify its oil-dependent economy and regards developing of the non-oil sector as a mean to liberalize economy. Agriculture remains as one of the priority sectors, where intensive

reforms are being carried out. “Over the past ten years, agricultural lending in Azerbaijan has increased more than five times,” said Deputy Minister of Agriculture Seyfaddin Talibov. These funds are not enough to meet the growing demand for credit resources, he believes.

“In general, agriculture is considered to be the most risky [for lending] sector. Throughout the world, credit institutions do not consider this sphere attractive for investment. The same situation is observed in Azerbaijan. This sphere is mainly financed by the state. Foreign donors are not so much interested in investing in the agricultural sector,” Talibov said.

The Agriculture Ministry is in negotiations with foreign donors for realization of works reflected in the profile road map. Talibov believes that such mutual negotiations will strengthen the potential of the Ministry and more thoroughly and comprehensively approach the tasks set in the framework of the road map.

The strategic road maps of the national economy of Azerbaijan were approved by the head of state at the end of the last year. It is planned to establish an agricultural insurance fund in 2018 within the framework of the implementation of the strategic road map for the production and processing of agricultural products.

The possibility of creating an insurance fund to expand the coverage of agricultural insurance will be explored. It is planned to study an international experience in this field and prepare reports including an analysis of the potential impact of creating a fund on producer insurance and development of the agricultural sector as a whole.

The main objectives of the road map are to strengthen the stability of food security, simplify access to financial resources, improve the quality of profile education, develop consulting and information services, simplify the entry of producers into markets, develop market infrastructure, improve the business environment in the agricultural sector and other issues.

## Transport

### Azerbaijan, Georgia, Kazakhstan, Ukraine may create joint venture within TITR

Azerbaijan, Georgia, Kazakhstan and



Ukraine can create a joint venture to introduce the principle of a "single window" in the processing of cargoes traveling along the Trans-Caspian international transport route (TITR). This proposal came from the heads of the railways of Azerbaijan Javid Gurbanov, Georgia Mamuka Bakhtadze, and Kazakhstan

Kanat Alpysbaev at a meeting with the Prime Minister of Ukraine Vladimir Groysman in Kiev.

Commenting on the possibility of creating such a joint venture, Groysman noted that Ukraine welcomes various forms of interaction. "Our association will produce a good result for our states," he said. Ukraine, within the framework of developing its transit potential, is ready to join the creation of new transport corridors and connect to existing routes, including in the direction of South-West from Central Asia via Georgia and Azerbaijan towards Europe. Groysman stressed that cooperation in the transport sphere with the GUAM member countries and Ukraine's partners in Central Asia is a priority shared by both the government of Ukraine and the governments of the partner countries.

"We have a full understanding at the level of the heads of government," Groysman added. In this context, he recalled that a special Logistics Committee had been set up in Ukraine's Cabinet of Ministers to deal with transport issues and improve cooperation. The head of the Ukrainian government instructed Deputy Prime Minister Vladimir Kistion to work out a roadmap for joint work and reach concrete decisions.

At the meeting the heads of the railways of the four countries reached

an agreement to continue work over expanding the geography of cooperation within the framework of TITR to enter the EU countries, according to the Azerbaijan Railways. Following the meeting, the sides signed a protocol. The trans-Caspian international transport route runs through China, Kazakhstan, Azerbaijan, Georgia and further through Turkey and Ukraine to Europe. The route was launched with the establishment of its Coordinating Committee in October 2013.

In October 2016, Azerbaijan, Kazakhstan and Georgia signed an agreement on the establishment of the International Association of TITR, whose office is located in Astana. Its activities are aimed at attracting transit and foreign trade cargo, as well as on the development of integrated logistics products via TITR.

## **Tourism**

### **More travelers choose Azerbaijan**

A sharp jump in tourists flow to Azerbaijan cannot but rejoice both the economy and the inhabitants of the country. Hotels, restaurants, recreation areas, and shopping centers filled up with foreigners and this shows the interest of tourists in a newly chosen destination. In the last two years Azerbaijan has received most part of all tourists from Arab countries, who enjoy the mixed style of the capital,

feeling themselves simultaneously on the East and Europe.

Given the wonderful climate of Azerbaijan, its culture, cuisine, nature, attractions, and diversity, the number of tourists from



Arab countries into the country increased significantly. The tourists mainly choose the most popular destinations – Baku, Gabala, Quba and many other cities. The government takes a series of necessary measures to make the country a favorite tourist destination. “The introduction of a simplified visa system for the countries of the Persian Gulf, China, Korea, Japan, Malaysia, and Singapore has positively affected the flow of tourists. There is a growth in tourist flow from the Muslim countries.

Today, the country can accommodate about 40,000 tourists in its 535 hotels, which include a series of luxury hotels – Excelsior, Hilton, Four Seasons, Fairmont, JW Marriott, Kempinski – as well as several budget hotels for cost-conscious travelers. Some 25 hostels and 92 apartments for tourists operate in Baku, adding that all these facilities are private. However, the growth of tourism in Azerbaijan and increasing number of tourists has encouraged construction of new hotels across the country. Gahramanov said that 140,000 bedrooms are not enough and their number should be increased.

Application of halal standards in hotels is voluntary for the countries.

Tourism in Azerbaijan has a thousand-year tradition. To make sure it is enough to remember the Great Silk Road, which contributed to not only commercial, but also cultural exchange. A special surge of interest in the country located on the Caspian Sea shore, however, arose during the era of hydrocarbon resources.

Azerbaijan has shown high growth rates in Europe on three main creation used in hotel business efficiency. It was mentioned in the article entitled "Europe's hotel industry has shown growth in the first quarter of 2017" published on the portal [publituris.pt](http://publituris.pt) of Portugal. The hotel business is measured by the booking, the room rate, revenues, and price criteria.

With one of the world's most improved economies in 2017 and rising 13 spots in the World Economic Forum's global ranking, Azerbaijan's capital saw massive improvements in hotel performance in the first quarter of the year, according to the STR analytic company. Exchange rate fluctuations made the destination cheaper for many international visitors, the portal said. STR analysts note the performance growth is particularly impressive considering the market experienced significant supply growth of 18.1 percent in 2015 and 6.8 percent in 2016.

## **Announcement of Trade Fairs and Conventions**

### **Caspian Oil&Gas 2017 will take place from 31 May – to 3 June 2017**

Caspian Oil&Gas 2017, the 24<sup>th</sup> International Caspian Oil and Gas exhibition, the largest energy sector event in the Caspian region, will take place from 31 May – to 3 June 2017 at Baku Expo Center. As a recognised international platform and the key event in the region's oil and gas industry, the exhibition has been bringing together senior level directors every year to discuss key oil and gas projects in the Caspian region and ensure energy security.



The annual participation of Mr. Ilham Aliyev, the President of the Republic of Azerbaijan, in the exhibition's opening ceremony testifies to its high status. The Ministry of Energy of the Republic of Azerbaijan and the State Oil Company of the Republic of Azerbaijan (SOCAR) both show invaluable support for Caspian Oil&Gas.

Companies from China, Georgia, Germany, Iran, Russia, The Netherlands, Turkey, Uzbekistan, etc. will take part in this year's exhibition. The companies which participating in the exhibition will demonstrate

innovative technologies in oil production and transportation of energy resources, provision of oil and gas storage systems, services, existing and future oil and gas projects in the region, and much more. The national pavilions will be performed by Italy and Germany. Issues of further development for Azerbaijan's oil and gas industry in today's realities, Azerbaijan's role in maintaining energy supplies to Europe, ensuring environmental and industrial safety, and other subjects will be covered at the international Caspian Oil and Gas Conference, which will take place from 1-2 June at the JW Marriott Absheron Baku.

The exhibition and conference provide suppliers with the opportunity to talk to customers and colleagues, to present technologies and services in action, to acquire useful business contacts, and to get new information and technologies, expanding the opportunities for international collaboration in the oil and gas sector. The organisers of the exhibition and conference are ITE Group and its partner Iteca Caspian.

The event's status is consolidated by its line-up of sponsors. Traditionally exhibition's General Sponsor is SOCAR, the Gold Sponsor is BP, and the Silver Sponsor is TP Azerbaijan. For more information on Caspian Oil & Gas Conference please visit the fair's information site: [www.caspianoilgas.az](http://www.caspianoilgas.az)