

# Azerbaijan

A hydrocarbon-rich economy combined with a strong, progressive, forward-thinking government has served to transform Azerbaijan into a successful post-Soviet state, writes Neil Watson

Azerbaijan is always a surprise for first-time visitors. Located on the crossroads of East and West, and Europe and Asia, in a challenging geopolitical situation – Russia is on the northern border and Iran is at the south – the country is an oasis of stability and tolerance. Young people on the streets of the capital city of Baku are dressed in the latest Western fashions, all the finest designer stores are present and substandard Soviet-era housing is making way for state-of-the-art apartment blocks, hotels, shopping malls and iconic architecture. Recent additions to the stunning collection of new buildings include the Zaha Hadid-designed Heydar Aliyev Centre, and the Crystal Hall – which hosted the 2012 Eurovision Song Contest. A brand new 65,000-seater stadium is being built for when Baku hosts the inaugural European Games in 2015.

Despite being nominally a Muslim-majority country, Azerbaijan is officially secular. All of the main religions are represented, including a Jewish community of 9,000 that has worshipped unhindered since the seventh century. Baku is also home to a Lutheran church,

built by German settlers in the 19th century, and Azerbaijan's support for Catholicism was recently acknowledged by the Pope, who conferred the Medalla Sede Vacante award upon Azerbaijani President Ilham Aliyev.

## Facing West

Azerbaijan has been a Western-facing nation since the first oil boom of the late 19th century, when the Nobel Brothers, Rothschilds and Royal Dutch Shell, among other companies, introduced modern mechanised oil extraction and transportation methods to the country. By the turn of the 20th century, Azerbaijan was producing more than half of the world's oil. This resulted in Baku becoming one of the most cosmopolitan cities of the Russian Empire, and French, Swedish and Russian architects were given the opportunity to construct some impressive office and residential blocks, many of which can still be seen today. In the aftermath of World War I, the Azerbaijan Democratic Republic of 1918-20 was established, which was the first democratic, secular republic in the Muslim world. Among other achievements, this

government extended the franchise to all women over the age of 18 years, predating the UK and US, and inaugurated Baku State University.

During World War II, oil remained the principal export of the country, and Azerbaijan provided 70% of the fuel that Soviet forces consumed in their battle against the Nazis. But it was not until 1991, and the regaining of Azerbaijani independence, that the country really began to benefit from its own resources. Once internal stability had been achieved, in addition to a ceasefire in the conflict with neighbouring Armenia, former president Heydar Aliyev signed an agreement in 1994 with a BP-led consortium, known as the *Contract of the Century*, which comprised 20 production-sharing agreements worth some \$60bn. This led to development of the Azeri–Chirag–Guneshli fields and the construction of the massive Sangachal Terminal, one of the largest gas-processing and oil-production plants in the world. This was followed by the 1,768km-long Baku–Tbilisi–Ceyhan oil pipeline and the Baku–Tbilisi–Erzurum gas pipeline, among other key projects.

These agreements have fuelled the rapid development of the country, which now accounts for around 80% of the South Caucasus economy. In 2006, GDP growth was 34.6%, the highest in the world, and this continued into the first quarter of 2007, when it reached 41.7%. Growth has subsequently slowed, but it is still anticipated that GDP growth in 2014 will amount to 6.7%. The economic downturn in recent years had a negligible impact on the Azerbaijani economy. Since 2001, poverty levels have dropped from over 50% to just 6%.

UK businesses and the Azerbaijani economy are inextricably intertwined. During the first quarter of 2013, the UK was responsible for 44.1% of foreign direct investments (FDI), maintaining its position as the country's largest FDI contributor. It is estimated that, over the past 20 years, BP has invested around \$40bn in Azerbaijan. Around 300 British businesses are active in the country, employing around 5,000 British expats.

This growth is set to continue. In December 2013, UK foreign secretary William Hague visited the country with other dignitaries from Georgia, Italy, Albania and the EU to witness the signing of a 2,000km-long pipeline



## Country file

**Population size:** 9.5 million

**Geographical area:** 86,600 sq km

**GDP growth (2013):** 5.8%

**Median age:** 29.8 years

**Type of govt:** Republic with universal suffrage.

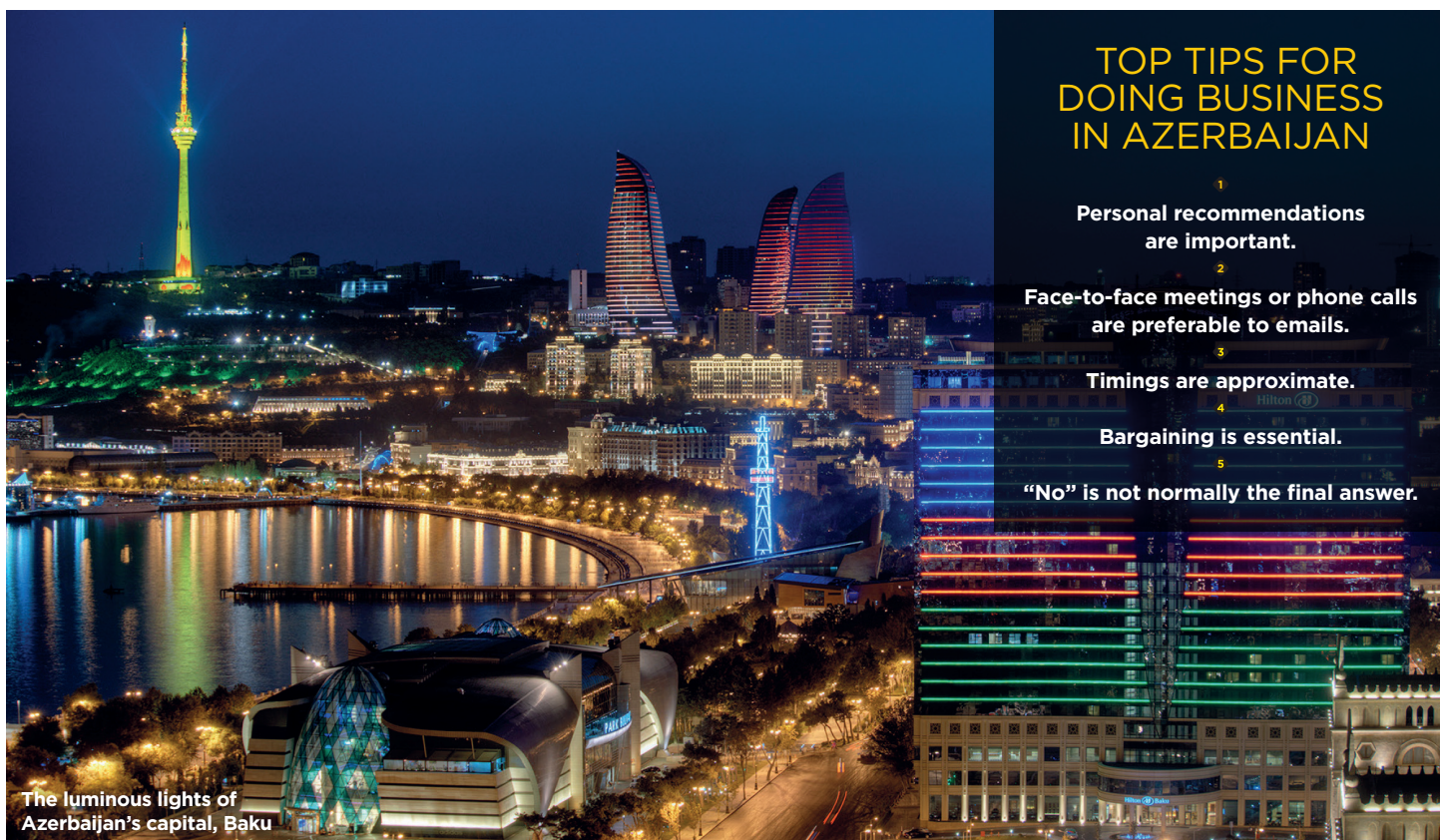
President is head of state, elected every five years

**Official language:** Azerbaijani (Russian and English also widely used)

**Capital city:** Baku

**Currency:** Azerbaijani new manat (AZN)

**Currency rate against the euro:** €0.93



The luminous lights of Azerbaijan's capital, Baku

## TOP TIPS FOR DOING BUSINESS IN AZERBAIJAN

1  
Personal recommendations are important.

2  
Face-to-face meetings or phone calls are preferable to emails.

3  
Timings are approximate.

4  
Bargaining is essential.

5  
"No" is not normally the final answer.

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deal worth \$45bn. This will see further development of the Shah Deniz gas field and the construction of the Trans-Adriatic Pipeline and Trans-Anatolian Pipelines, bringing Azerbaijani gas to Turkey, and then into Greece, Albania and Italy. This contribution towards the Southern Corridor of pipelines will represent a very real alternative to Russian dominance over European energy supplies.

### Beyond hydrocarbons

The Azerbaijani government recognised that hydrocarbon resources are finite and work needed to be undertaken to develop the non-oil sector. Therefore, in 2006, the state-owned Azerbaijan Investment Company was founded to focus on opportunities beyond hydrocarbons. The Azerbaijan Export and Investment Promotion Foundation has also been launched to develop the agricultural, alternative energy, financial services, tourism, chemical, information communications technology (ICT) and waste management sectors. Most recently, President Aliyev has signed the *Azerbaijan 2020: A Look into the Future* action plan, the objective of which is to double per capita GDP by 2020, partially achieved by an average annual growth rate of 7% in the non-oil sector.

Currently, the non-oil sector accounts for 53% of the economy. This represents a real plethora of opportunities for

Western investors. Last year was the Year of ICT in Azerbaijan, and it also saw the lift-off of AzerSpace-1, the country's first communications satellite. The ICT sector achieved 10.5% growth during the first half of 2013. Azerbaijan is spearheading realisation of the Trans-Eurasian Information Superhighway project, which will link China to Western Europe. Special economic zones are also being introduced – these are subject to significant tax incentives and are aimed at stimulating the construction of manufacturing facilities, particularly in the ICT sector.

Another industry that is ripe for development by Western investors is agriculture. This sector currently employs 60% of the country's workforce, yet it only accounts for 6% of GDP. There are great opportunities in exporting high-value organic fruits and vegetables, and the Azerbaijani government is advocating the creation of public-private partnerships to stimulate agricultural innovation.

Another area with huge potential for investment is infrastructure. Azerbaijan is located on the Silk Road, and the Baku–Tbilisi–Kars railway, currently under construction, is set to transform it into a freight hub. Phase 1 of the new Baku Shipyard has recently been inaugurated, covering 62ha, and it is expected that this will undertake up to 100 repairs and conversions per annum, using around 25,000 tonnes of steel.

### Tackling corruption

Of course, after 70 years in the iron grip of the Soviet Union, it takes time to shake off that legacy, and corruption remains a concern, but there is strong political will to combat this curse. The anti-corruption department of the Azerbaijani Prosecutor's Office has been very active during the past two years, and the country's anti-corruption laws are aligned with international conventions against organised crime.

Azerbaijan is open for business – the World Bank and European Bank for Reconstruction and Development are major investors. In 2013, the country achieved 39th position in the World Economic Forum's Global Competitiveness Index. To date, it has signed more than 40 bilateral and double taxation treaties with other countries. Its one-stop shop business registration procedure is renowned for its simplicity. It is a partner to the EU, and it has received US support for its accession to the World Trade Organization. Now is the time to invest in this burgeoning economy. ♥



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