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## The non-oil sector of the Republic of Azerbaijan's economy: Prospects and directions for development within the framework of contemporary economic policy

**Abstract.** This study aimed to evaluate the critical variables and techniques that facilitate the sustainable development of Azerbaijan's non-oil economic sector. The contribution of the non-oil sector to Azerbaijan's economic development amid global transformations and economic concerns was examined. The focus was on diversifying the economy and reducing dependence on oil revenues, which is a major step towards sustainable economic growth. The study found that the development of sectors such as agriculture, industry, and services, contributes to the creation of new sources of income and ensures economic stability. The advancement of the non-oil sector is crucial for job creation, bolstering small and medium-sized firms, and enhancing the living conditions of the populace, particularly in rural and isolated regions.

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The study stressed that agriculture and tourism can benefit substantially from the introduction of innovative technologies and infrastructure modernisation. The non-oil sector's contribution to the economy is evident in the enhancement of transport and logistics infrastructure, facilitating the increase of export potential. The development of quality services in areas such as healthcare, education, and tourism, also contributes to improving the social well-being of citizens and enhancing the country's international competitiveness. The findings of the study showed that further development of the non-oil sector requires active investment, improvement of the business climate, and removal of administrative barriers. Diversification of the economy, development of innovative solutions, and infrastructure modernisation are the key factors contributing to Azerbaijan's sustainable economic growth in the long term

■ **Keywords:** diversification; investments; transport infrastructure; service industry; education system

## ■ INTRODUCTION

The advancement of the non-oil sector in the Republic of Azerbaijan's economy is a primary objective of the current official economic policy. In the context of changing world energy markets and instability of oil prices, the country, which has vast hydrocarbon reserves, has faced the challenge of diversifying its sources of income to ensure sustainable economic growth. This is particularly relevant considering the global economic changes and transformation of world economies, which are gradually breaking away from the dominance of commodity-based industries. The non-oil sector, which includes agriculture, tourism, information technology, transport, manufacturing, and other areas, holds immense potential for long-term economic growth and reducing dependence on the oil industry (Danylyshyn & Koval, 2022). However, despite major efforts on the part of the government, the development of these sectors faces a series of challenges. These include a lack of investment, limited infrastructure support, low labour productivity, and the necessity of modernising legislation and increasing the level of professional training.

The development of Azerbaijan's non-oil sector is not only an urgent economic task, but also a strategic priority aimed at ensuring the sustainability and stability of the economy in the face of global changes. Z. Nadjafova (2019) contended that economic diversification via the advancement of many industries may serve as a pivotal element for sustainable economic growth in Azerbaijan. The researcher noted that the agricultural sector holds immense potential for exports, which can substantially reduce dependence on oil revenues. N.A.A. Mohammed *et al.* (2021) stressed the need to integrate innovative technologies into non-oil sectors such as information and communication technologies (ICT) and industry. In their opinion, the development of these sectors will increase the country's competitiveness in the global market and improve the investment climate. B. Surya *et al.* (2021) analysed the role of small and medium sized enterprises (SMEs) in diversifying the economy and concluded that supporting entrepreneurship through access to finance and tax reforms can accelerate the development of non-oil industries. U. Aydin (2019) emphasised the need to improve transport and energy infrastructure, which will considerably increase the production capacity and export potential of the country. M. Raid *et al.* (2024) investigated the role of state regulation in stimulating the non-oil sector. Tax incentives and state support programmes can become a catalyst for the active growth of key industries.

E. Koberg & A. Longoni (2019) focused on the importance of international cooperation and Azerbaijan's integration into global supply chains. The authors argued that

this would enable the country to enter new export markets and reduce economic risks associated with oil price volatility. F. Yang (2019) examined the function of the financial sector in economic diversification. The development of non-oil sectors requires the active involvement of the banking system, which should provide affordable loans and financial instruments for entrepreneurs. M. Ahmad *et al.* (2021) underscored the importance of environmental sustainability within economic diversification, arguing that the advancement of non-oil industries must be paired with the implementation of environmental norms. S. Rahim *et al.* (2021) argued that the country should invest in the development of human capital, which will increase labour productivity and innovation in key industries. E. Ahmadova *et al.* (2021) considered the role of international investors in the diversification of Azerbaijan's economy. She contended that enticing foreign direct investment by establishing special economic zones and enhancing the business environment can expedite the expansion of non-oil sectors.

Notwithstanding the significant focus on the advancement of Azerbaijan's non-oil sector, several areas remain inadequately examined. The research on the services industry and its impact on the country's socio-economic growth is insufficient. A more thorough analysis of the transport sector and the impact of its activities on international transit projects is also required. The issue of improving the capacity of the higher education system is also poorly explored. This study aimed to evaluate the primary developmental areas of Azerbaijan's non-oil sector, emphasising the effects of digitisation and sustainable practices. The study aimed to investigate the critical elements of services sector development in the country, analyse the transport sector and its management through public-private partnerships, and explore enhancements to the higher education system in light of international practices.

## ■ MATERIALS AND METHODS

The study was based on the collection, processing, and analysis of data obtained from various official sources (State Statistical Committee..., 2024), as well as international reports and databases (Economic growth: The rate..., 2024). The data used covered the period from 2014 to 2023, which enabled a long-term analysis of trends and changes in the country's gross domestic product (GDP) structure. One of the key methods applied in this study was the analysis of statistical data. The analysis of Azerbaijan's GDP involved a division into oil and non-oil sectors, elucidating the contribution of each sector to

the national economy throughout the examined period. To comprehend the alterations in Azerbaijan's economic structure, both the absolute growth rates of the non-oil sector and its proportion of the overall GDP were examined. The structure of investment in the economy was also examined, with a particular focus on comparing the shares of the oil and non-oil sectors.

The comparison method helped to contrast the dynamics of the non-oil sector with other developing countries, which allowed highlighting key trends and specific features of Azerbaijan's economic growth. This method was also employed to analyse the international practices of attracting investment in the non-oil sector, which allowed assessing the prospects and challenges faced by Azerbaijan on the path towards economic diversification. To visualise the findings, graphs and tables were used to visualise the changes in Azerbaijan's economic structure, investment volumes, and the sectors' share in GDP. An essential element of the analysis was the comparison of non-oil sector indicators with analogous data for the oil sector, which helped to identify notable trends and key factors contributing to sustainable economic growth.

The examination of policies and programmes enacted by the Azerbaijani government to bolster agriculture, tourism, and industry encompassed an inquiry into the nation's Sustainable development cooperation framework 2021-2025 (2021). These sections delineate the goals and objectives through 2025, centred on economic diversification and diminishing reliance on the oil sector. The qualitative analysis method was employed to examine the social dimensions of non-oil sector development. This facilitated the evaluation of the sector's influence on employment generation, the advancement of SMEs, and the enhancement of living conditions, particularly in rural and isolated regions. The experience of Azerbaijan was compared with the experience of other countries that underwent the economic diversification process, such as the USA, China, and Germany. This helped to draw conclusions regarding the applicability of successful international practices in the context of Azerbaijan and to identify possible areas for improving the diversification strategy. As a result of using these research methods, it was possible to perform a comprehensive analysis of the state and prospects of the non-oil sector of the economy of Azerbaijan and offer recommendations for its further development.

## ■ RESULTS

The non-oil sector is becoming an indispensable component of sustainable economic growth for countries with considerable reserves of natural resources. The role of the non-oil sector in the economy of Azerbaijan cannot be overestimated. It represents a significant reserve for diversifying the country's economic base, reducing its dependence on oil revenues, and ensuring long-term stability. The primary aim of the non-oil sector is to diminish the economy's reliance on oil price volatility. The energy industry, while generating large revenues, makes the country vulnerable to external economic shocks and fluctuations in world markets. The advancement of non-oil sectors, including agriculture, industry, and services, can generate new revenue streams and enhance economic resilience. Diversification promotes a more equitable

allocation of resources and fosters sustainable economic development.

The challenge of diversifying Azerbaijan's economy involves not only establishing new revenue streams but also enhancing the export capacity of the non-oil sector (Musayeva *et al.*, 2024). The country has already made steps towards liberalising the economy and attracting foreign investors, but the question persists as to what extent these efforts contribute to increasing the competitiveness of non-oil industries in the international arena. Sustainable growth requires not only attracting investment, but also creating an innovative environment that will enable the development of high-tech sectors and improve the business environment. The topic of non-oil sector development is closely linked to the notions of economic diversification and sustainable development. Diversification entails altering the economic structure to diminish reliance on a single sector, hence enhancing resilience against external shocks, such as commodity price volatility (Karimli *et al.*, 2022). This strategy in Azerbaijan seeks to establish conditions for sustained growth by fostering SMEs, enhancing the technological advancement of industries, and integrating the nation into global supply chains.

The non-oil sector plays a key role in creating jobs and supporting SMEs. Agriculture, tourism, services, and manufacturing are major sources of employment for the local population. The development of these sectors contributes to improving living standards and reducing unemployment, especially in rural and remote areas. Supporting local businesses through the creation of a favourable business environment and infrastructure development helps to develop new enterprises and stimulate local economic activity. The non-oil sector also contributes to sustainable economic development through the introduction of innovative technologies and improved infrastructure. Agriculture, for example, can benefit from modern agro-technology to improve productivity and climate resilience. Information technology and digitalisation offer fresh opportunities for business development and the creation of more efficient business processes. Investments in these areas contribute to modernising the economy, improving the quality of goods and services, and increasing competitiveness in international markets (Adeosun & Gbadamosi, 2021).

The growth of the non-oil industry is correlated with enhanced infrastructure, which is essential for broadening export options. Transport and logistics infrastructure, encompassing highways, ports, and trains, is crucial for the effective transportation of products and services to global markets. The development of tourism infrastructure attracts foreign tourists and contributes to the growth of tourism revenues (Al-Abri *et al.*, 2019). Infrastructure development in the non-oil sector helps to strengthen economic ties with other countries and expand export potential. The non-oil sector also contributes to social development and improving the quality of life. Services, including healthcare, education, and tourism, play a significant role in meeting the social needs of the population. The development of quality services and increased access to education and medical care contribute to the general well-being of citizens. Tourism not only generates income but also promotes cultural exchange and understanding, strengthening ties between regions and countries (Ajudua *et al.*, 2021). Still, to ensure

sustainable development of the country, investments in other economic sectors and the development of human

capital are also required. Figure 1 illustrates the volume of Azerbaijan's non-oil economy from 2014 to 2023.

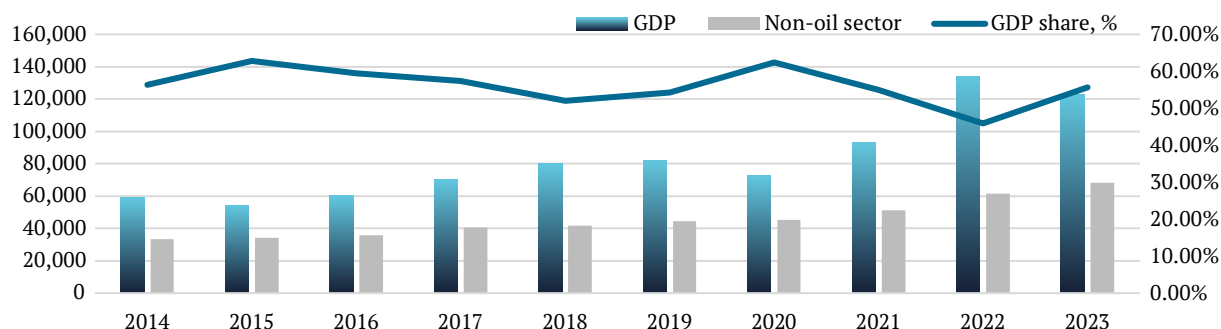


Figure 1. 1. Volume of non-oil sector in Azerbaijan, 2014-2023, AZN million

Note: USD 1 = AZN 1.70

Source: compiled by the authors based on data from the State Statistical Committee of the Republic of Azerbaijan e-versions of publications (2024)

Figure 1 shows successful efforts to increase the non-oil sector, although fluctuations in its share show that the economy is still vulnerable to external shocks and dependence on world oil prices. This emphasises the importance of continuing policies aimed at sustaining and developing non-oil sectors to ensure sustainable economic growth. One of the major challenges facing the non-oil sector in Azerbaijan is the lack of economic diversification. The country is still dependent on energy exports, which creates risks for economic stability in case of changes in global oil prices. The low level of technological modernisation and innovation also hampers the development of such sectors as agriculture and manufacturing. Another challenge is the limited access to capital for SMEs, which form the backbone

of the non-oil sector. Lack of government programmes to support entrepreneurship and affordable financing limits growth opportunities. Bureaucratic barriers, low legal protection of businesses, and administrative obstacles also complicate investment attraction. These factors require a systematic approach to reforms aimed at improving the business climate and modernising key sectors of the economy. Azerbaijan has taken steps to attract investment in the non-oil sector in an effort to reduce dependence on energy exports. The government is actively promoting areas such as tourism, agribusiness, and transport logistics, offering tax incentives and creating special economic zones to attract foreign investors. Figure 2 shows investment in Azerbaijan's economy, including in the non-oil sector.

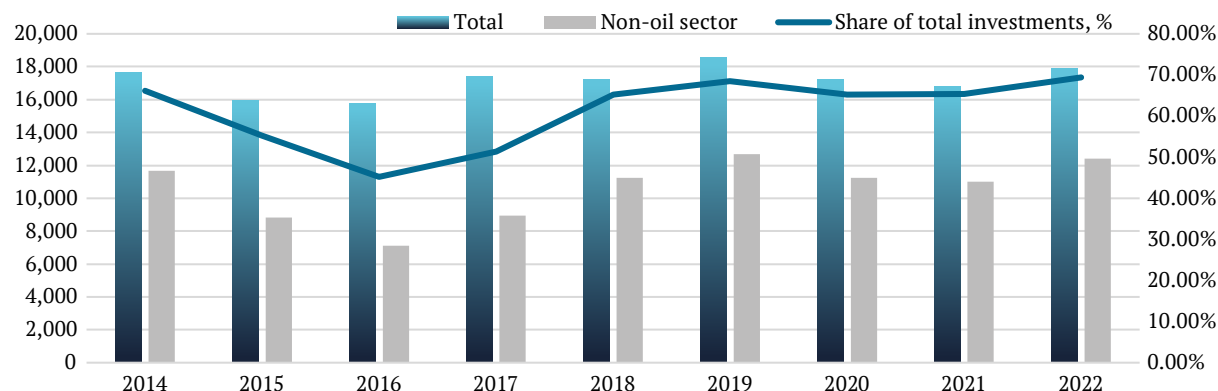


Figure 2. 1. Investments in the economy of Azerbaijan, 2014-2020, AZN million

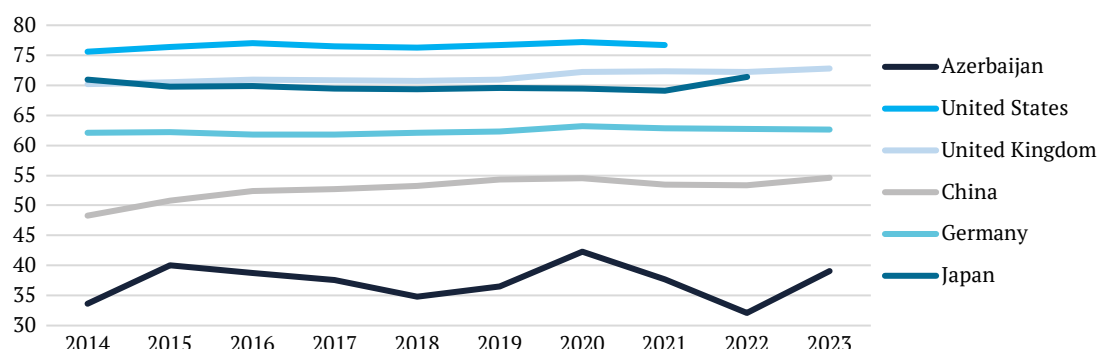
Source: compiled by the authors based on data from the State Statistical Committee of the Republic of Azerbaijan e-versions of publications (2024)

Figure 2 shows that although investment in the non-oil sector experienced temporary downturns, it has been steadily increasing. The growing share of the non-oil sector in the total investment structure suggests that Azerbaijan continues its successful policy of economic diversification, reducing dependence on oil revenues and increasing investment in other sectors. Competitive development of the service sector is a vital aspect in the diversification of the economy and contributes to its

socio-economic development. Services, including health-care, education, tourism, and financial services, play a key role in creating jobs, improving the quality of life, and supporting consumer demand growth. The development of a competitive environment in this sphere stimulates innovation and improvement of the quality of services, which attracts investment and enhances economic growth (Salunke *et al.*, 2019). Prospects for competitive development of the service sector in Azerbaijan include

expansion of services based on modern technologies, improvement of infrastructure, and raising the level of employees' qualification. These initiatives will enhance the internal market and render the country more appealing

to international investors, facilitating its inclusion into the global economy. Figure 3 illustrates the proportion of services within the GDP of Azerbaijan and many other nations globally.



**Figure 3.** Share of services in GDP of various countries, 2014-2023, %

**Source:** compiled by the authors based on Economic growth: The rate of growth of real GDP (2024)

The proportion of services in GDP fluctuates based on a country's economic development level. In developed economies, such as the US and the UK, services dominate, while in developing economies, such as Azerbaijan and China, the share of services is increasing but is still lower. This emphasises the differences in the extent to which the services sector is developed and the necessity for developing countries to continue to invest in its development to reach a higher level of economic diversification. Public-private partnerships (PPPs) in transport and logistics services play a key role in developing infrastructure and optimising logistics processes, especially in countries seeking to improve their transport network and competitiveness (Ramsey & El Asmar, 2020). Azerbaijan, being located at a strategically important crossroads between Europe and Asia, is actively developing its transport and logistics services through the PPP mechanism. However, to achieve effective results and sustainable development, it is necessary to accommodate both internal aspects and international practices.

The Government of Azerbaijan is diligently soliciting private investment to modernise and enhance transport infrastructure, encompassing the construction and rehabilitation of ports, highways, and trains. Examples of successful projects include the reconstruction of the Baku-Tbilisi-Kars railway and the development of a new container terminal at the port of Baku. However, the PPP projects often face problems of lack of transparency and legal ambiguity, which can complicate the attraction of private investors. Lack of coordination between public and private partners sometimes leads to delays in project implementation and increases project costs. The need to improve the regulatory framework and increase the confidence of private investors stays relevant.

Private enterprise in the transport sector is developing gradually in Azerbaijan, but this process requires increased attention and support. The key areas include attracting private investment to modernise infrastructure, expand services, and improve the quality of transport solutions. Active development of private companies in the maritime and aviation sectors is observed, as well as the introduction of innovative solutions and technologies in railway transport.

Joint management of state-owned transport companies involving private investors is an effective mechanism for improving the performance of transport infrastructure. PPPs allow combining the resources and expertise of the public and private sectors, which contributes to more efficient management, reduces the financial burden on the state budget, and accelerates project implementation.

International practices show that PPPs in transport and logistics can be successful if there is a clear legal and institutional framework, transparency in the processes and effective coordination between public and private partners. Singapore's PPPs in transport infrastructure projects serve as a model for many countries. Singaporean authorities have successfully attracted private investment to build and manage key transport facilities such as new terminals and subways. Transparent tender procedures and clear contractual terms favour efficient partnerships and high-quality services. In the Netherlands, PPPs have been used extensively for the development of port and transport infrastructure. A project to expand the port infrastructure in Rotterdam was implemented involving private investors, increasing throughput capacity, and improving logistics services. The modernisation of ports and the development of logistics centres through private investment has enabled the Netherlands to sustain its leadership in international logistics.

Australia also demonstrates successful examples of PPPs in the transport sector. The project to build a new airport in Sydney was implemented through private investors, which helped not only to modernise the infrastructure, but also to reduce the financial burden on the state budget. In the UK, PPPs are successfully applied in the railway sector. An example is the High Speed 1 project, where private companies jointly with the state took part in the modernisation of a high-speed railway, which greatly improved transport services and increased capacity. China is actively using PPPs to develop its extensive transport network. Examples encompass the development of high-speed railroads and the enhancement of port facilities. Private investment and governmental assistance in China are facilitating the development of contemporary transport corridors that are essential to international logistics (Hakim *et al.*, 2022).

The establishment of transport companies based on public-private partnership in Azerbaijan can have a considerable impact on international transport transit projects passing through the country. Azerbaijan is strategically located at the intersection of several key transport corridors such as the Trans-Caspian International Transport Route (TMTM), also known as the Silk Road, and North-South. Through PPPs, transport companies can upgrade and optimise existing infrastructure, improving the quality of transport services, and accelerating integration into international logistics chains. One major aspect of private companies' involvement in transport projects is their ability to attract latest technologies and innovations, which helps to improve Azerbaijan's transit capacity and increase its competitiveness in international markets. For example, private operators can introduce advanced logistics management systems, automation of port and railway processes, which will reduce cargo transit times and increase the reliability of transit through the country.

Private companies involved in the management of transport infrastructure such as the Baku International Sea Trade Port, railway networks and airports can substantially improve the capacity of these facilities and their integration into global routes. For example, the Trans-Caspian route, which connects China to Europe via Central Asia and the Caucasus, passes through Azerbaijan and its Caspian ports. The establishment of joint transport companies on a PPP basis will accelerate cargo handling at the ports, reduce bureaucratic hurdles, and increase the competitiveness of Azerbaijani ports compared to other transit corridors.

In the case of national private transport companies based on state-owned railway, maritime, and air transport enterprises, the effect on international transport projects could be even more pronounced. Private companies operating in a highly competitive environment will seek to improve efficiency and reduce costs. This will lead to an improvement in the quality of services provided and, consequently, increase the attractiveness of Azerbaijan as a transit hub. Reducing dependence on exclusive state management will allow private companies to adapt more quickly to changes in global markets and respond more quickly to demand from international operators and exporters. Furthermore, private transport companies integrated into international logistics networks will be able to offer comprehensive cargo transport solutions, which will increase Azerbaijan's competitiveness as a transit route compared to alternative routes.

The liberated lands of Karabakh present Azerbaijan with distinctive prospects for economic advancement, with the expansion of the non-oil sector being a pivotal strategy for their rehabilitation. This strategy fosters sustainable regional growth by diversifying the economy and diminishing reliance on oil. The non-oil sector's function in the development of these regions is to attract investment, provide employment, restore agricultural and industrial infrastructure, and integrate the area into national and international supply networks. The non-oil sector's agriculture, tourism, construction, and light industry have the potential to drive Karabakh's restoration. In post-conflict reconstruction, there is an urgent need to develop infrastructure, which involves the construction of roads, power grids, water supply facilities, and other key

facilities. This will boost the construction industry, which will not only generate jobs but also create the foundation for further economic growth.

The key potential of the liberated territories of Karabakh lies in the revival of the agricultural sector, which has historically been an important part of the region's economy. Due to its fertile lands, the restoration of agriculture can ensure Azerbaijan's food security and export opportunities for the country. Another major area of focus is the development of tourism. Karabakh has unique natural and historical sights, which creates opportunities for ecotourism, cultural tourism, and outdoor recreation (Guliyeva, 2021). The construction of hotels, the development of infrastructure for tourism, and the creation of cultural facilities will not only revitalise the economy of the region, but will also attract international investors and tourists, which will also contribute to the growth of income of the local population.

Particular emphasis is placed on the enhancement of transport infrastructure in the freed regions, with the Zangezur transit corridor being the principal initiative in this domain. This corridor connects the western areas of Azerbaijan to the Nakhichevan Autonomous Republic and subsequently to Turkey, thereby creating new transportation options for Azerbaijan and the entire region (Rehimov, 2024). The establishment of this corridor will incorporate Karabakh into global transport networks, enhancing logistics and market access in Europe and Asia. The Zangezur transport corridor holds strategic significance for Azerbaijan, as it has the potential to become a crucial component of the Trans-Caspian international transport route and the North-South corridor. Upon effective completion of this project, Karabakh could evolve into a logistics hub connecting the West and the East. This will draw more investments in transport infrastructure, including the development of new roads, railway lines, airports, and other facilities, thereby establishing circumstances for the expansion of the non-oil industry.

The development of the non-oil sector in the liberated areas of Karabakh and the potential of the Zangezur transport corridor are pivotal to the region's rebuilding. This approach will not only ensure economic growth and job creation but will also strengthen Azerbaijan's geopolitical position in the international arena, opening new opportunities for transit and integration into the global economy. SMEs play an essential role in the non-oil sector of the economy, providing diversification of production, job creation, and support for innovative solutions. The national government actively promotes SME support programmes, offering access to financing, tax incentives, and educational initiatives (Abdelatif & Mahieddine, 2024). The key areas for SME development are agriculture, tourism, light industry, information technology, and transport. Opportunities for SME growth are also related to the expansion of export markets and involvement in international supply chains, which creates new prospects for strengthening economic sustainability and independence from the oil sector.

The improvement of the digital economy in Azerbaijan is a vital component of the strategy to diversify the economy and diminish reliance on the oil sector. The government is actively introducing technology in various spheres, including industry, agriculture, tourism, and

public administration. Particular emphasis is placed on the advancement of ICT infrastructure, the enhancement of digital services, and the encouragement of start-ups in the innovation sector (Abdullayev *et al.*, 2022). These

measures contribute to productivity growth, increase employment in high-tech sectors, and improve the country's competitiveness in the global market. Table 1 summarises the key indicators of the ICT sector.

**Table 2.** Principal metrics of the ICT sector in Azerbaijan, 2014-2023, AZN million

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Output in the ICT sector	1,577.5	1,589.2	1,555.9	1,688.0	1,826.8	2,083.2	2,158.2	2,249.7	2,514.8	2,988.8
Value added in the ICT sector	963.3	970.7	958.7	1,038.1	1,112.0	1,293.3	1,600.9	1,663.8	1,822.2	2,144.9
Share of ICT value added in GDP, %	1.6	1.8	1.6	1.5	1.4	1.6	2.2	1.8	1.4	1.7
Investments by the ICT enterprises	147.2	338.4	198.2	170.2	183.7	294.7	177.2	135.0	392.7	385.8
Imports of ICT goods	214.4	268.6	371.1	565.1	883.8	901.6	1,055.9	1,083.2	998.7	1,510.2
Computers and computer equipment	74.6	60.0	99.2	168.4	315.8	198.1	287.0	299.8	345.0	417.8
Telecommunication equipment	92.5	99.8	160.5	244.0	328.6	458.2	503.8	543.8	384.9	777.3
Electronic equipment	19.6	34.0	74.9	99.8	145.9	177.4	176.3	190.5	205.2	245.0
Other ICT goods	27.7	74.8	36.5	52.9	93.5	67.9	88.8	49.1	63.6	70.1

**Source:** compiled by the authors based on data from the State Statistical Committee of the Republic of Azerbaijan e-versions of publications (2024)

Table 1 reflects the stable development of Azerbaijan's ICT sector from 2014 to 2023. Production in the sector shows gradual growth. The value added of the ICT sector is also growing, which indicates an increase in the sector's contribution to the country's economy. However, the share of ICT value added in GDP stays at around 1.4-2.2%, suggesting the necessity of further development of the sector

to increase its significance. At the same time, enterprise investment in ICT varies substantially by year, peaking in 2022 and 2023. Imports of ICT goods, especially telecommunication and computer equipment, shows a considerable increase, reflecting the strong reliance on foreign technology to support the sector's growth. Table 2 shows the ranking of countries in the 2023 Innovation Index.

**Table 2.** Country rankings by Global Innovation Index (GII) 2023

Countries	Total GII	Institutions	Human capital and research	Infrastructure	Market development	Business development	Knowledge and technological outcomes	Creative outcomes
Switzerland	1	2	6	4	7	5	1	1
Sweden	2	18	3	2	10	1	3	8
The USA	3	16	12	25	1	2	2	12
The United Kingdom	4	24	8	6	3	13	7	2
Singapore	5	1	2	8	6	3	10	18
Finland	6	3	5	1	12	4	4	16
The Netherlands	7	6	13	14	15	8	8	9
Germany	8	22	4	23	14	16	9	7
Denmark	9	5	9	3	21	12	12	10
South Korea	10	32	1	11	23	9	11	5
France	11	27	17	22	9	17	16	6
China	12	43	22	27	13	20	6	14
Japan	13	21	18	13	8	11	13	25
Israel	14	40	20	36	11	6	5	33
Canada	15	14	10	30	4	18	19	22
Azerbaijan	89	42	87	95	85	64	114	100

**Source:** compiled by the authors based on GII 2023 results. The GII unveils the world's innovation leaders, gauging the innovation performance of 132 economies (2023)

Table 2 shows Azerbaijan's considerable underperformance compared to the world leaders. The country takes 89<sup>th</sup> place in the overall ranking, which suggests the necessity of further improvements in innovation. Despite its relatively prominent position in the "Institutions" indicator, other key areas require major progress. The weakest

indicators for Azerbaijan are "Knowledge and technological outcomes" (114<sup>th</sup>) and "Creative outcomes" (100<sup>th</sup>), indicating the necessity of investments in education, research activities, and innovation infrastructure to improve the country's position in the global innovation environment. The creative potential significantly contributes to the

diversification of Azerbaijan's economy, particularly with the advancement of the non-oil sector. It stimulates innovation in areas such as information technology, tourism, and agriculture, creating new products, services, and solutions, which contributes to the country's competitiveness in the global market. The development of creative industries, such as design, architecture, media, and arts, not only supports Azerbaijan's cultural heritage, but also attracts investment, promotes the growth of entrepreneurship, and shapes the country's modern image (Abdullayev et al., 2024).

Inbound tourism significantly contributes to the advancement of Azerbaijan's economy, positively influencing several essential sectors. The arrival of international tourists results in heightened incomes for both the populace and the service industry. Tourists visiting the country stimulate demand for hotels, restaurants, travel agencies, and transport services, which creates more jobs and contributes to increased employment. For example, the growth of tourist flow directly affects the hotel industry, where increased hotel occupancy rates lead to the expansion of hotel infrastructure, the creation of new jobs, and improved quality of services (Sustainable development..., 2021).

Transport companies also benefit from the increased tourist flow. Foreign visitors actively use both internal and international transport services, from air travel to local transport. This creates demand for expansion and modernisation of transport infrastructure – improving roads, railways, seaports, and airports, which then positively affects the entire transport and logistics chain (Kanwal et al., 2020). Travel agencies and companies providing excursion services are actively developing due to the increased interest in the natural and cultural attractions of Azerbaijan, such as Baku, Gobustan, Sheki, and the Karabakh Mountains. This expansion enhances internal tourism and increases service exports, hence augmenting foreign cash inflows into the economy.

Nonetheless, despite the favourable outcomes, there are specific issues in the advancement of the tourism business. One of them is the insufficient tourism infrastructure in the regions outside Baku. Local hotels, transport routes, and service companies often face problems of lack of investment and professional staff. In rural and remote areas, tourists may struggle to find comfortable accommodation, quality transport, or informative tourism services, which limits their desire to visit such places. Furthermore, the quality of customer care and service levels in many companies are still at a low level compared to international standards. This requires greater efforts to train staff, develop hotel chains, and introduce strict quality standards. To increase the country's attractiveness in the international arena, it is also necessary to promote Azerbaijan more actively as a tourist destination at the global level through marketing campaigns, participation in international exhibitions, and the development of national brands.

Enhancing the higher education system in Azerbaijan is crucial for augmenting the nation's competitiveness on the global stage and fostering sustained economic development. Higher education is pivotal in the cultivation of human capital, particularly in the context of economic diversification intended to diminish reliance on the oil sector and promote non-oil sectors. Furthermore, the quality of customer service and the level of servicing in many

companies is still at a low level compared to international standards. This requires extra efforts to train staff, develop hotel networks, and introduce strict quality standards. Azerbaijan's higher education faces challenges aligning with labour market needs, despite modernisation efforts. Universities often fail to equip graduates with competitive skills, and there's a disconnect between academic research and economic requirements. This necessitates stronger university-business collaboration and market-oriented educational programmes. International examples offer valuable insights: Germany and Finland demonstrate effective university-industry collaboration, China successfully attracts global talent, while North American institutions excel at developing globally relevant skills.

Investments in research and development (R&D) are one of the most important factors affecting the economy. They ensure long-term economic growth, promote technological progress and enhance competitiveness. Investments in R&D are becoming a strategic direction for both countries and businesses. Investments in R&D stimulate economic growth by creating new products, services and production processes. This increases labour productivity, reduces production costs, and allows businesses to adapt to changes in market conditions. Companies that actively invest in research and development gain competitive advantages, become leaders in their industries, and ensure their long-term development. R&D development contributes to the creation of new jobs, especially in high-tech industries. The process of developing and implementing innovations requires qualified specialists, such as engineers, scientists, programmers, and designers. This helps to increase employment and creates opportunities for professional development. In addition, a high level of investment in R&D allows countries to attract international companies looking for opportunities for cooperation in the field of technology. Innovations created through R&D help countries integrate into global markets, increasing exports and strengthening the national economy. For example, the development of new technologies in renewable energy, biotechnology, or artificial intelligence allows countries to take leading positions in global markets. This, in turn, contributes to the growth of incomes and the improvement of living standards.

The prospects for the development of the higher education system in Azerbaijan are related to further integration of international practices, strengthening of practical orientation of educational programmes, and active application of digital technologies. Increasing academic mobility, improving scientific research, and developing partnerships with foreign universities will also be crucial steps in improving the education system, which will contribute to the development of human capital and strengthening the country's economy. Despite significant progress, Azerbaijan's non-oil sector still has numerous problems that must be resolved to guarantee sustainable growth. The potential for continued advancement in this sector is linked to economic diversification, the enhancement of SMEs, the elevation of service and infrastructure quality, and the attraction of investment in transportation, education, and tourism. The effective execution of these sectors can enhance the nation's economy and diminish its reliance on oil earnings.

## ■ DISCUSSION

The findings of the study suggest that in the context of global change and economic uncertainty, the non-oil sector is becoming an essential component of sustainable economic growth for countries with large reserves of natural resources. In this context, the role of the non-oil sector in the economy of Azerbaijan can hardly be overestimated. This sector represents a considerable reserve for diversifying the country's economic base, reducing dependence on oil revenues and ensuring long-term stability. L. Charfeddine & K. Barkat (2020) focused on analysing the impact of economic diversification on reducing dependence on oil revenues. The findings showed that countries with high diversification of the economy were better equipped to manage economic shocks and fluctuations in the world markets. The current study and the researcher's study emphasise the significance of economic diversification in reducing dependence on energy resources. The studies also highlight the prominence of developing non-oil sectors to ensure economic stability.

The principal aim of the non-oil sector is to diminish Azerbaijan's economic reliance on oil price volatility. The oil industry, although generating large revenues, makes the country vulnerable to external economic shocks and fluctuations in world markets (Ismayil-Zada, 2023). The expansion of non-oil sectors, including agriculture, industry, and services, generates new income streams and enhances economic resilience. Diversification contributes to a more balanced allocation of resources and promotes sustainable economic growth. S.M. Albert *et al.* (2020) focused on the challenges and prospects of the non-oil sector. The findings revealed the key problems such as insufficient diversification of the economy, low level of technological modernisation, and limitations in access to capital. The researcher noted that these problems hinder the development of the sector and require a comprehensive approach to address them. The current study also identified comparable problems: insufficient diversification and low level of modernisation. This shows the convergence in recognising the principal issues that impede the advancement of the non-oil economy.

F. Alam *et al.* (2023) proposed recommendations to address the problems identified in the non-oil sector, including reforming the business climate and improving the investment climate. His recommendations include measures to increase the availability of capital, stimulate innovation and improve the business environment. The current study also indicated areas for improving the business and investment climate, demonstrating commonalities in approach. Both studies emphasised the necessity of reforms and improvements to stimulate the development of the non-oil sector. The non-oil sector plays a key role in creating jobs and supporting SMEs. Agriculture, tourism, services, and manufacturing are major sources of employment for the local population. The development of these sectors helps to improve living standards and reduce unemployment, especially in rural and remote areas. Supporting local businesses by creating a favourable business environment and infrastructure development helps to develop new businesses and stimulate local economic activity (Sadikhov, 2024). A. Oluwatoyin *et al.* (2020) investigated the role of SMEs in the development of the non-oil sector. Researchers found

that supporting small businesses and creating favourable environment for entrepreneurship helped to increase employment and improve economic activity. I.E. Ajayi & K.A. Omotunde (2022) also observed great success in developing local enterprises and improving the business climate. The current study also emphasised the significance of SMEs in creating jobs and sustaining economic activity. However, the current study also considered the impact on infrastructure and services, whereas the cited studies focused mainly on entrepreneurial activity and its impact on jobs.

The non-oil sector also contributes to sustainable economic development through the introduction of innovative technologies and improved infrastructure. Agriculture, for example, can benefit from modern agricultural technologies to increase productivity and climate resilience. Information technology and digitalisation offer fresh opportunities for business development and the creation of more efficient business processes. Investments in these areas contribute to modernising the economy, improving the quality of goods and services and increasing competitiveness in international markets. S.Q. Al-Khalidi Al-Maliki (2021) investigated the adoption of innovative technologies in the non-oil sector. The findings showed that the use of latest technologies in agriculture and industry helped to increase productivity and competitiveness. The researcher also noted that modernisation of business processes considerably affected the sustainability of the economy. The current study highlighted the role of innovative technologies and digitalisation in modernising the non-energy sector, demonstrating similarities in approach. However, the current study emphasised not only technology but also social development and infrastructure, unlike S.Q. Al-Khalidi Al-Maliki (2021) study.

The development of the non-oil sector is also linked to improved infrastructure, which is key to expanding export opportunities. Transport and logistics infrastructure, including roads, ports, and railways, play a major role in ensuring the efficient supply of goods and services to international markets (Kim *et al.*, 2025). The development of tourism infrastructure attracts foreign tourists and contributes to the growth of tourism revenues. C. Wang *et al.* (2020) investigated the impact of infrastructure development on economic development. His study found that improving transport and logistics infrastructure greatly contributes to the expansion of export opportunities and tourism income. A. Banerjee *et al.* (2020) observed that upgrading transport networks and developing logistics centres lead to increased exports and attract tourists, which further stimulates economic growth. The present analysis highlighted the significance of infrastructure development in maintaining economic growth and improving export prospects. The similarity between the studies lies in the emphasis on the value of infrastructure in improving the business climate and stimulating economic development.

The non-oil sector furthermore contributes to social advancement and enhances the quality of living. The services industry, encompassing healthcare, education, and tourism, is crucial in addressing the social requirements of the populace. The development of quality services and increased accessibility to education and medical care contribute to the overall well-being of citizens. Tourism not only generates income but also promotes cultural exchange

and understanding, strengthening ties between regions and countries (Mayis *et al.*, 2021). J.C.F. De Guimarães *et al.* (2020) focused on social development and improving the quality of life. His study showed that the development of the service sector in areas such as healthcare and education greatly improve the standard of living of the population. S. Eslami *et al.* (2019) noted that tourism development promotes cultural exchange and strengthens social ties, which positively affects the social structure. The present study also examined the influence of the non-oil industry on social development and quality of life, aligning with the researchers' conclusions. The studies highlight the significance of the service sector in enhancing living standards and reinforcing social connections, hence underscoring the importance of these elements for comprehensive development. While the oil sector is pivotal to Azerbaijan's economic advancement, facilitating diversification, employment generation, enhanced infrastructure, and augmented export revenues, investment in alternative economic sectors and human capital development is essential for the nation's sustainable progress. Data analysis suggests that despite the stable growth of the non-oil sector, there are challenges such as insufficient diversification of the economy, low level of technological modernisation, and limited access to capital for SMEs.

## ■ CONCLUSIONS

This study investigated the contribution of the non-oil sector to the economic development of the Republic of Azerbaijan and assessed its importance in economic diversification and sustainable growth. The emphasis was on the imperative to diminish the country's economic reliance on oil exports, a principal priority for securing long-term security amid global transformations and economic volatility. The research indicated that the non-oil sector significantly influences Azerbaijan's economy by fostering job creation, enhancing resilience to external economic shocks, and diminishing reliance on oil price volatility. Sectors such as agriculture, industry, and services become the primary drivers for growth and stable development. The development of these sectors was found to contribute to a more balanced distribution of resources, greater economic stability, and improved living standards, especially in rural and remote areas. This study's principal finding was that the consistent expansion of the non-oil sector from 2014 to

2023 signifies favourable progress in the diversification of the nation's economy. The non-oil sector has shown steady growth, indicating progress in areas such as agriculture, tourism, and information technology. The introduction of innovative technologies and digitalisation offers further opportunities to improve competitiveness and create more efficient business processes.

The role of investment in the non-resource sector was assessed. The study showed that the volume of investment in non-resource industries is gradually increasing, which indicates the interest of both the state and private investors in the development of these industries. This trend, among other things, has been supported by the creation of special economic zones and programmes aimed at attracting foreign investors in areas such as agribusiness, tourism, and transport logistics. The study paid special attention to infrastructure development and its impact on a country's export opportunities. The enhancement of transport and logistics infrastructure, including highways, ports, and railway systems, is crucial for optimising the supply of goods to global markets. Specifically, the development of tourism infrastructure helps to attract foreign tourists and increase revenues from this sector, which contributes to economic growth and diversification of the economy.

The education system is crucial for the advancement of Azerbaijan's non-oil sector, facilitating the preparation of skilled professionals for essential economic sectors, including agriculture, industry, and services. The study found that the modernisation of the educational system, the introduction of professional training programmes, and the improvement of the qualification level of specialists contribute to an increase in labour productivity. A constraint of this study was the absence of pertinent data regarding the agricultural and industrial sectors, along with the influence of external factors such as global economic shocks. Subsequent research should concentrate on a comprehensive examination of the enduring effects of the rehabilitated regions and the significance of innovation in the advancement of non-oil industries.

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## ■ CONFLICT OF INTEREST

None.

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## **Ненафтовий сектор економіки Азербайджанської Республіки: перспективи та напрямки розвитку в рамках сучасної економічної політики**

■ **Анотація.** Дослідження мало на меті оцінити критичні змінні і методи, які сприяють сталому розвитку ненафтового сектору економіки Азербайджану. Було проаналізовано внесок ненафтового сектору в економічний розвиток Азербайджану на тлі глобальних трансформацій та економічних проблем. Основна увага була приділена диверсифікації економіки та зменшенню залежності від нафтових доходів, що є важливим кроком на шляху до сталого економічного зростання. Дослідження показало, що розвиток таких секторів, як сільське господарство, промисловість і сфера послуг, сприяє створенню нових джерел доходу і забезпечує економічну стабільність. Розвиток ненафтового сектору має вирішальне значення для створення робочих місць, підтримки малих і середніх фірм та покращення умов життя населення, особливо в сільській місцевості та ізольованих регіонах. У дослідженні підкреслюється, що сільське господарство і туризм можуть отримати значну вигоду від впровадження інноваційних технологій та модернізації інфраструктури. Внесок ненафтового сектору в економіку проявляється у покращенні транспортної та логістичної інфраструктури, що сприяє збільшенню експортного потенціалу. Розвиток якісних послуг у таких сферах, як охорона здоров'я, освіта та туризм, також сприяє покращенню соціального добробуту громадян та підвищенню міжнародної конкурентоспроможності країни. Результати дослідження показали, що подальший розвиток ненафтового сектору потребує активних інвестицій, покращення бізнес-клімату та усунення адміністративних бар'єрів. Диверсифікація економіки, розвиток інноваційних рішень та модернізація інфраструктури є ключовими факторами, що сприятимуть сталому економічному зростанню Азербайджану в довгостроковій перспективі

■ **Ключові слова:** диверсифікація; інвестиції; транспортна інфраструктура; сфера послуг; система освіти