

**Paper:** “The prospects of Azerbaijan’s economy in the 21<sup>st</sup> century: an increasing role in energy security issues and EU-oriented foreign economic policy”

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**JEL subject codes:** F500, F530, F590;

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**The prospects of Azerbaijan's economy in the 21<sup>st</sup> century: an increasing role in energy security issues and EU-oriented foreign economic policy**

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April 16, 2009

**Abstract**

This paper provides a brief overview about current and potential economic prospects for Azerbaijan and examines its increasing role in energy security of Europe. Azerbaijan is explained as one of the oil & gas producing and exporting countries of the world. In particular, I tried to research overall strategic cooperation between the European Union and Azerbaijan. The EU's main programs and projects, those include Azerbaijan also, and their potential economic effects for this South Caucasus country were explained and analyzed. Special attention was given to Azerbaijan's EU-oriented foreign economic policy and the EU's potential role in achieving the main goals of this policy.

## **The prospects of Azerbaijan's economy in the 21<sup>st</sup> century: an increasing role in energy security issues and EU-oriented foreign economic policy**

After getting its independence in 1991 Azerbaijan has become one of the actors in the world energy market which characterized by different wavering situations. On the one hand, it was not quite easy to get involved in this arena where the processes and game rules are managed by more giant players. On the other hand, the current circumstances in international relations and the stable increase of the importance of the energy security issue made this market act in dependence on political processes together with real market conditions.

However, being one of the ancient oil countries Azerbaijan could effectively use its natural energy resources (oil and gas) for all-round development of this newly independent country. In the early 1990s, a well-considered and future-oriented national energy strategy was adopted and it made it possible to attract world leading trans-national companies to the oil sector of Azerbaijan. In 1994, the signing of a production sharing agreement on the joint development of three reserves (Azeri, Chyrag, and Guneshli) on the offshore of the Caspian Sea among the Government of Azerbaijan and twelve famous oil companies representing seven leading countries (US, Great Britain, Japan, Russia, Norway, Saudi Arabia, and Turkey) played an unexampled role in the future implementation of the energy strategy. Then, this agreement was called the "Contract of the Century" due to its great historical, political and international importance. The creation of the State Oil Fund of Azerbaijan also was one of the important elements of the national energy strategy.

The settlement of the oil and gas transportation issue was also very important and in this direction Azerbaijan was faced with more political and economical problems. Because Azerbaijan needed new oil and gas pipelines to export its energy resources to the European markets, and undoubtedly, construction of new pipelines had political aspects together with economical and financial. Fortunately, the Baku-Tbilisi-

Ceyhan main oil (potential capacity – 1 million barrel oil daily) and Baku-Tbilisi-Erzurum gas pipelines were built, as a result of the balanced foreign policy and deep cooperation with the US and European Union as well as international financial organizations. These two pipelines have a great importance not only for Azerbaijan, but they also offer some opportunities to Central Asian countries such as alternative ways to export mineral resources to the European markets. Being a part of the “Great Silk Way”, these pipelines are intended to supply energy resources of the EU countries and strengthen cooperation among the EU, Caucasus and Central Asia regions.

At the beginning of 2009, Azerbaijan has officially declared that they are planning to at least double their gas production in the coming five years and are very interested in participation in the Nabucco gas pipeline which could cost up to 13 billion USD. We can argue the Nabucco gas pipeline will raise Azerbaijan’s role in the energy security issue of the European countries, as there are concerns that there will not be enough gas for this project.

During his visit to Azerbaijan in November 2008, the EU’s Energy Commissioner Andris Piebalgs underlined that Azerbaijan is a strategic partner of the EU and reaffirmed the EU’s commitment to close and strengthened EU-Azerbaijan relations and to enhancing its energy partnership. “Recent events in the Caucasus have shown once again that this is a critical time for energy issues in the region and that EU-Azerbaijan energy cooperation should be strengthened now more than ever”, he mentioned.

It’s clear that, since 1991, Azerbaijan has chosen a way of integration to the international community as well as the world economy. One of the main elements of reaching this goal is to develop mutual relations between Azerbaijan and European Union. In this regard, the Partnership and Cooperation Agreement between Azerbaijan and EU was signed in 1996 and entered into force 1999.

Trade relations and overall ties with EU are expanding annually. More than 50% of Azerbaijan's foreign trade falls to EU's share and almost all Azerbaijan's oil export goes to European markets.

Azerbaijan's cooperation with EU has successfully developed and has just entered the new phase. Together with other Southern Caucasus countries Azerbaijan was included in the European Neighbourhood Policy (ENP) in 2004. The five-year ENP Action Plan for Azerbaijan was adopted in 2006. This document focuses especially on democratization, human rights, socio-economic reforms, poverty reduction, energy, conflicts and sectoral issues.

Azerbaijan wants to become a more modern, democratic, economically and politically strong partner country, and it hopes ENP will make its contribution to getting these goals. By the way, the EU Commission's proposals for a new Eastern Partnership again show how the Caucasus region is important for EU and how, of course, this partnership will offer more prospects for closed political and economic relations.

At the same time, Azerbaijan's economic strategy, which includes EU-oriented foreign economic policy, has already given great results which could be proved by a number of macro-economic indicators. Despite of the world economic crisis and significant fall in oil prices, the GDP Growth of Azerbaijan was about 11% in 2008. It should be stressed that, this indicator was about 26%, 35% and 24% accordingly in 2005, 2006 and 2007. GDP per capital was almost 6000 USD in 2008. But we have to emphasize these were not achieved due to development of oil sector only. Azerbaijan attaches special importance to development of non-oil sector as well. The share of non-oil sector in GDP in 2008 was about 50%. At the same time, share of private sector in GDP is 81%.

Azerbaijan's State Budget for 2009 is approved at almost 16 billion USD. Now Azerbaijan has only 13% population who live under the poverty level, however this figure was about 49% in 2003.

We are confident that, further strengthening of EU-Azerbaijan relations will play a very important role in achieving Azerbaijan's goals for the 21<sup>st</sup> century, as listed below:

- becoming more integrated in the world and European markets;
- bringing the country in line with European economic and social standards;
- construction of economically and politically strong society;
- diversifying national economy and development of non-oil sector (manufacturing industries, services, agriculture, infrastructure, etc.);
- improvement of life standards (poverty reduction);
- development of regions;
- creation of knowledge based economy;
- development of information technologies, etc.

There is no doubt that, successfully realization of the afore-mentioned goals will raise Azerbaijan's future participation in the maintenance of European energy security in forthcoming years.