



Center for  
European  
Governance  
& Economy



# Azerbaijan Investment Brief

1<sup>st</sup> Eastern Partnership Investment Forum:  
10 Years after Prague

10-11 July 2019  
Batumi, Georgia

#strongertogether  
#eapinvest

## GENERAL INFORMATION FOR 2017



**Population**  
9.828 Millions



**Land area**  
(n) 86 600 km<sup>2</sup>



**GDP**  
40 749 Millions current US\$



**GDP growth**  
0.2 %

## INTERNATIONAL MERCHANDISE TRADE

### Total merchandise trade

(millions of US\$)

	2005	2010	2015	2017
Merchandise exports	7 649	26 476	16 592	15 476
Merchandise imports	4 350	6 746	9 217	8 782
Merchandise trade balance	3 299	19 730	7 376	6 694

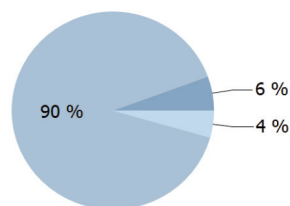
**+18.1 %**

Merchandise exports  
growth rate in 2017

### Export structure by product group in 2017

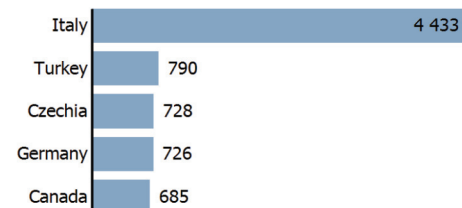
(as % of total exports)

- All food items
- Fuels
- Other



### Top 5 partners in 2017

(exports, millions of US\$)



## INTERNATIONAL TRADE IN SERVICES

### Total trade in services

(millions of US\$)

	2005	2010	2015	2017
Services exports	741	2 494	4 444	4 688
Services imports	2 659	3 929	8 673	8 068
Services trade balance	-1 917	-1 436	-4 229	-3 379

### Services exports by main category

(as % of total services)

	2005	2010	2015	2017
Transport	32.3	25.8	34.2	20.7
Travel	10.5	26.4	52.0	64.2
Other services	49.4	32.6	12.3	12.9

## ECONOMIC TRENDS

### Economic indicators

(millions of US\$ unless otherwise specified)

	2005	2010	2015	2017
GDP, current	13 245	52 906	53 076	40 749
GDP per capita, current US\$	1 551	5 857	5 519	4 146
Real GDP growth, y-on-y, %	27.96	4.79	1.05	0.11
Current account balance, % of GDP	1.26	28.43	-0.42	4.19
Exchange rate (/US\$)	0.945	0.803	1.025	1.721

**+0.1 %**

Gross domestic product  
growth rate in 2017

## FDI AND EXTERNAL FINANCIAL RESOURCES

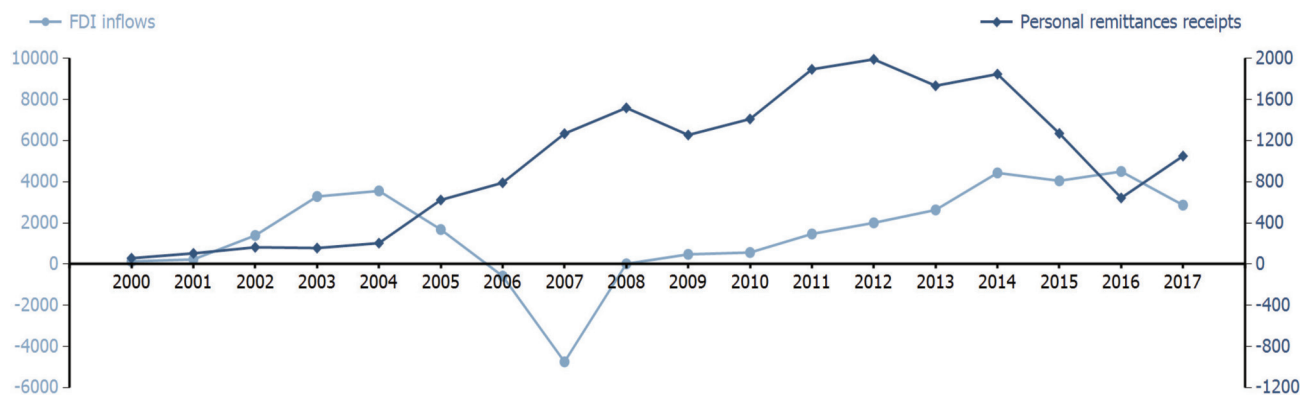
### Financial flows

(millions of US\$ unless otherwise specified)

	2005	2010	2015	2017
FDI inflows	1 679.92	563.00	4 047.70	2 867.00
FDI outflows	1 220.77	232.00	3 259.77	2 564.00
Personal remittances, % of GDP	4.71	2.67	2.39	2.61

### Financial flows trends

(millions of US\$)



## TRADE IN GOODS AND SERVICES

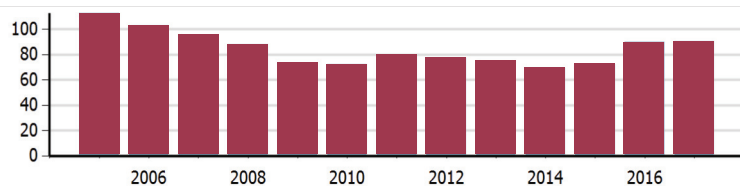
### Trade balance indicators <sup>2</sup>

(as % and index)

	2005	2010	2015	2017
Balance, % of GDP	10.03	33.86	2.98	6.71
Balance, % of imports	19.52	175.03	8.58	15.99
Normalized balance	0.089	0.467	0.041	0.074

### Trade openness <sup>2</sup>

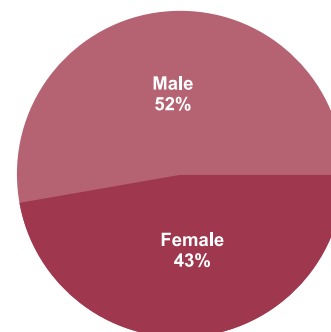
(sum of imports and exports as % of GDP)



## LABOUR FORCE

### Labour force by gender in 2017

(as % of total labour force, all sectors)



## AGRICULTURE

### Agriculture Sector Highlights

Contribution to GDP: 5.6% (2017)

Output: \$2.3 billion (2017)

Azerbaijan has a comparative advantage in agriculture due to its fertile soil and ecological diversity, with the potential to produce specialized crops such as cotton, tea, and tobacco. The sector is large in terms of employment (37% of the total workforce) but still accounts for a relatively small share of GDP. Foreign investment is needed, especially in terms of mechanization, consolidation, food processing, and packaging. The government recently designated agriculture one of four primary sectors for diversifying the non-oil sector of the economy (agro.gov.az).

Output in Azerbaijan's agriculture sector is led by livestock products, which accounted for 54% of total agriculture output in 2017. Main products include eggs (1.7 billion units), milk (202 million tons), meat (317,000 tons), and wool (16,000 tons). Crop production, which accounted for 46% of agriculture output in 2017, is led by cereals (2.9 million tons), fruits and vegetables (1.4 million tons) and potatoes (914,000 tons). Tobacco (321,300 tons) and tea (1,015 tons) accounted for smaller portions (agro.gov.az).



Azerbaijan trades agriculture products with the EU under the Partnership and Cooperation Agreement signed in 1999. The agreement eliminated import quotas, although bilateral tariffs are still in force. In 2017, the two sides launched negotiations on a new comprehensive trade agreement. In the agriculture sector, the largest Azerbaijani export to the EU is vegetables, whereas the largest import is processed foods (ec.europa.eu).  
Incentives and Enabling Infrastructure

The government supports agriculture investment through tax exemptions and subsidies for machinery, pesticides, and fertilizers. Investment incentives have also been implemented under the country's Law on Protection of Foreign Investment, namely guarantees against changes in legislation for up to 10 years



and guarantees for the repatriation of profits. There are no customs duties or restrictions on exports in the agriculture sector (except for cotton, which is deemed a strategic commodity) (pwc.com/az).

### Partnership Opportunities and PPPs

Foreign investment is sought in the following subsectors: fruit and vegetable production, livestock production, tea production, alcoholic and non-alcoholic beverages, food processing, cold storage, greenhouses, grain storehouses, meat slaughtering, and packaging and labeling, among others (azpromo.az).

## ENERGY

### Energy Sector Highlights

Contribution to GDP: 46.7% (oil and gas, refined petroleum, electricity) (2017)

Exports: Net exports of 43.1 mtoe (90% of total exports) (2016)

Output: \$19 billion, 57.3 mtoe (2017)

Azerbaijan has some of the world's richest oil and gas reserves, with hydrocarbons accounting for a large portion of GDP and the vast majority of exports. In 2017, Azerbaijan's Azeri-Chirag-Guneshli oilfield produced roughly 856,000 barrels per day. Oil exports are transited through three pipelines: the Baku-Tbilisi-Ceyhan Pipeline (BTC), the Baku-Novorossiysk Pipeline, and the Baku-Supsa Pipeline. The country also produces refined



diesel and petrol for domestic and export markets (iea.org). The domestic energy market consumed 14.2 mtoe in 2016 (roughly one-quarter of total production). Domestic consumption is met through a mix of natural gas, oil, hydroelectric power, and biofuels, with natural gas accounting for 67% of the total energy mix. The majority of natural gas and electricity consumption is by households, with the industrial sector accounting for a smaller portion. The transportation sector is the largest driver of oil consumption. In 2016, total electricity consumption was 21.6 TWh (iea.org).

The country is expanding natural gas production through the Shah Deniz project (a key component of the EU's South Gas Corridor initiative). Key stakeholders in the Shah Deniz project include BP (28.8% stake), TPAO (19%), Petronas (15.5%), SOCAR (10%), Lukoil (10%), Naftiran Intertrade Co. (10%), and SGC Upstream (6.7%). The project, which is currently in its first phase, is able to produce 9 billion cubic meters (bcm) per year. Completion of the second phase (scheduled for 2019) will add a further 16 bcm to total output.



Azerbaijan participates in the Southern Gas Corridor (SGC) initiative, part of the EU's Trans-European Networks-Energy initiative. The SGC includes construction of the Trans-Anatolian Gas Pipeline (TANAP) and the Trans-Adriatic Pipeline (TAP), both of which aim to increase the amount of Azerbaijani gas provided to the EU market (ec.europa.eu). The EU also promotes increased competition and transparency in Azerbaijan's electricity market, although Azerbaijan is not a member of the European Energy Community (energy-community.org).

The government is making renewable energy a priority, setting a target of 20% renewables in electricity generation by 2020 (up from 12% in 2012). The government is drafting a Law on Renewable Energy to accelerate development of renewables

and attract foreign investment in the sector (www.eu4energy.iea.org).

### Partnership Opportunities and PPPs

The government is currently seeking private investment to support development in the oil and gas sectors as well as in the renewable and energy efficiency subsectors.

## MANUFACTURING

### Manufacturing Sector Highlights

Contribution to GDP: 13.8% (2017)

Output: \$5.6 billion (including processed food and refined petroleum, 2017)

Azerbaijan's manufacturing sector is relatively small but has a great deal of growth potential. The largest manufacturing subsectors (not including processed food and refined petroleum) include construction materials (AZN 674 million in 2017), chemicals (AZN 514 million), metallurgy (AZN 499 million), and rubber and plastic products (AZN 304 million).

The government incentivizes foreign investment in manufacturing under the country's Law on Protection of Foreign Investment, namely guarantees against changes in legislation for up to 10 years and guarantees for the repatriation of profits. There are no customs duties or restrictions on exports in the manufacturing sector (except for non-ferrous metals, which are deemed a strategic commodity) (pwc.com/az). Azerbaijan has also established Special Economic Zones (SEZs) and industrial parks to incentivize manufacturing activity. Enterprises registered in the SEZs are exempted from VAT on industrial imports for up to seven years (pwc.com/az). Specific activities priori-



tized by the SEZ infrastructure include petrochemical processing and aluminum manufacturing (president.az).

## INFRASTRUCTURE

### Sector Highlights

Contribution to GDP: 16.3% (transportation and construction, 2017)

Output: \$6.6 billion (transportation and construction, 2017)

Key trends in Azerbaijan's infrastructure sector are related to transit and tourism infrastructure. The country's position as a bridge between Europe and the Caspian Sea region makes it a nexus for multi-national infrastructure initiatives. It participates in notable rail and road projects under both the EU-led Trans-European Networks-Transport (TEN-T) and the Chinese-led Belt and Road Initiative (BRI). Both initiatives aim to improve connectivity between Europe and Asia through channels traversing the South Caucasus and Black Sea regions. It is also the middle point in the North-South Transport Corridor linking Russia to South Asia via Iran. The transportation and construction sectors are buoyed by the energy sector, which has a continuous need for expanded and upgraded infrastructure.



The Baku is an important point on Europe-Asia trade routes. The government is currently constructing a new port, Baku International Sea Trade Port, outside the city in the town of Alat. The 117-hectare port is currently in the first of three stages of construction. Following the third and final stage of construction, the port will be able to handle 25 million tons of freight annually (this is a significant expansion; in 2018, the existing port of Baku handled 3.8 million tons of freight). The government also plans to create an FEZ adjacent to the port (portseurope.com).



Azerbaijan also has a growing tourism market, with business travelers accounting for most foreign visitors. Azerbaijan features international hotel chains including Four Seasons, Fairmont, Marriott, Sheraton, Hilton, Holiday Inn, Park Inn, and Hyatt. In the first quarter of 2018, international arrivals to the country were as follows: Russia (27.4%), Georgia (22.1%), Iran (15.8%), Turkey (11.6%), United Arab Emirates (4.7), Ukraine (1.9%), and Iraq (1.8%). There has been a significant increase in the number of visitors from the Gulf countries (except Iran) (pwc.com/az).

Under the TEN-T framework, the EU is supporting six infrastructure projects in Azerbaijan with a total long-term investment of €2.1 billion (coming from public and private sources). Key projects are aimed at railways, highways and logistics hubs, including the East-West Railway (€328 million) connecting Baku to the western part of the country (ec.europa.eu). The European Bank for Reconstruction and Development (EBRD) also supports infrastructure development in the country. Sustainable infrastructure currently accounts for 77% of the EBRD's total investment portfolio of 1.4 billion (ebrd.com).

## TRADE REGIMES

The EU is the country's largest trading partner, accounting for 41.7% of total trade and 54.3 % of exports. In the manufacturing sector, the largest Azerbaijani exports to the EU are chemicals, machinery, and base metals, whereas the largest imports are machinery, chemicals, and transport equipment (ec.europa.eu).

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