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The Importance of Azerbaijan's Energy Revenues in its Exports Volume and the Effects on the National Economy

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Abstract

Large energy reserves have been a major contributor to the Azerbaijan economy, and affected the country's exports volume, and have become a main determinant of the country's economic structure. Azerbaijan is a country that has major oil and gas based economy with the completion of the Baku-Tbilisi-Ceyhan Oil Pipeline in 2005 and Baku-Tbilisi-Erzurum Gas Pipeline in 2007. First export oil was pumped into Baku-Tbilisi-Ceyhan in May 2005, and the oil reached Ceyhan in May 2006. On the other hand, first export gas was pumped into Baku-Tbilisi-Erzurum in March 2007. The importance of country energy source revenues on Azerbaijan's export volume and the effects on national economy has increased with the completion of these pipelines year after year. Azeri export's reliance on energy source revenues keeps dominant position in Azerbaijan's exports despite efforts to diversify Azerbaijan's economy away from oil. Finally, crude oil made 86 percent and oil products made 6 percent, so oil and oil products made 92 percent of Azerbaijan's export in 2011. Non-oil products made up only 8 percent of the country's export last year. Thus, non-oil sector contribution to Azerbaijani export was lower than Georgian export in 2011. This means that increasing of total export volume of Azerbaijan is not sustainable.

JEL Classifications: Q40, Q43, Q49

Key words: Oil, Azerbaijan Economy, National Budget, Inflation

1. Introduction

After declaring independence on October 18, 1991 Azerbaijan has signed some important reforms in order to provide liberalization of its economy and pass free market economy. For realizing economic objectives almost the country's most important resources were oil and natural gas reserves which settled in Caspian Sea. Therefore, in order to achieve economic targets Caspian energy resources must have been used in the most effective way and it was so. After 1994, from the political and social aspects for restructuring, growth, development and independence Azerbaijan has benefited from Caspian energy resources. Some important projects were decided related to the production of energy sources and its export to the world market. Caspian basin countries which gained independence Azerbaijan and Kazakhstan felt need to use petrol reserves and Turkmenistan used its gas resources as soon as possible in order to maintain the realization of modification in their economy and for the purpose to alleviate the problems of transition period. But since the existing pipelines were arranged according to the division of

labor between republics of Soviet Union within the framework of planned economy, their possibilities for export purposes were limited. After collapsing of the Soviet Union, the importance of Caspian Sea has increased by declaring independence of non-Russian coastal Countries- Azerbaijan, Kazakhstan and Turkmenistan. In terms of reconstruction, growth, and integration to the world economy the development of Caspian Sea energy resources for these countries is of great importance. Especially, for the development of resources foreign investment is needed. In this regard, the three states invited the western companies for investment and extraction of energy resources in the region. Azerbaijan and Kazakhstan wished rapid flow of oil revenues to their countries. Oil has wide usage than other resources. In the cost of petroleum products, expenditures for oil extraction, transport, and its distribution play an important role. Abandonment of one-sided oil-based economy by the way of preparing methods of the efficient usage of income from energy resources the development of non-oil sector and by the provision of stability, rapid growth and increase income is very important for Azerbaijan and other Caspian Basin Turkish republics.

2. Overview to Azerbaijan Economy after the Independence

During the early years of Independence the problems such as war between Azerbaijan and Armenia , Russian embargo on transportation and stopping usage of 2 major oil pipelines due to the war in Chechnya, administrative weakness, disruption in the legal layout, separation in the ethnic formation led to the period of economic crisis. After independence, 1991-1994 was the period of problems and social, political, economic issues entered a period of crisis. GDP has reduced 30 % in 1994 in compare with 1990. Fas increasing inflation reached its highest level 1764 % in 1994. During 1991-1994 about all important macroeconomic variables are affected .During the transition to the free market economy in the early years of independence some objective reasons such as the war with Armenia , occupation of Nagorna Karabach and its surrounded regions , the economic influence of the war are reflected in the macro economy. But this period came to an end with the coming to power of Haydar Aliev. His coming to power was important in terms of stability for economic decision making and implementation. For the purpose of production Azeri-Chirag-Guneshli deposits “The Contract of The Century” was signed in 1994 after stability. For the production of Shah Deniz Deposit which contained approximately 1.5 trillion cubic meters of natural gas reserve a contract was signed in 1996. According to the decisions on export of energy resources oil export was started with Baku-Tbilisi – Ceyhan pipeline in 2006 and natural gas export began with the construction of Baku- Tbilisi-Erzurum pipeline in 2007. Thus, on one hand in order to realize the projects foreign investments were entered to the country, on the other hand, the country gained significant income from the export of energy sources. In the country lots of medium and long term programs were accepted and put into practice. 20 years after independence the stability has been provided in the economy as macroeconomic indicators. The country has stable currency, the rate of inflation is under the control, the budget deficit and the external debt ratio are low; GDP rate is satisfying and steadily increasing. After the production and export of Caspian deposits since 2006 Azerbaijan has begun to take one o the 1st places in the world with the increasing rate of GDP. Economic growth in the 8-years period covering the years 2003-2011 is 80%. During 1994 -2011, a total investment volume in the country is approximately 80 billion dollars. Increasing of financial strength has led to the growth of the volume of domestic investment. In the last 4 years budget expenditures are increased by 15 times. As a result of the reforms in order to reduce the level of poverty in the

country, the level of poverty has dropped to 7 % at the beginning of 2011 which was 49 % in 2003.

Years	2000	2008	2009	2010	2011
Total GDP (million \$)	5272.8	48851	43019	50002	49116
Per capita GDP - PPP (million \$)	665.1	5095	4808	5533	5342
Foreign trade volume(million \$)	2917.3	54919	20777	35134	35630
Export (million \$)	1745.2	47756	14658	28164	28102
Import (million \$)	1172.1	7163	6119	6970	7528
Population (thousand men)	8081	8802.5	8947.3	9036.4	9192.7
Official number of unemployed	43739	50963	55945	56343	53862
Budget revenues (million AZN)	714.6	910.2	1509.5	11405.2	15700.2
Budget expenditures(million AZN)	764	931.8	1502.1	11765.7	15396.7

Table 1. Basic socio-economic indicators of Azerbaijan, Source: Azerbaijan Statistics Committee 2011

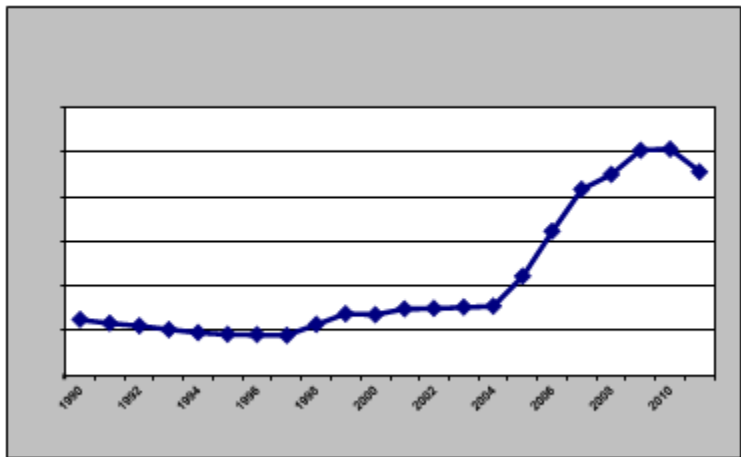
3. Importance of Caspian Energy Resource on Economy

3.1 Azerbaijan Energy Resources

Since 1994, oil and natural gas agreements which were signed between Azerbaijan and international companies and joint activities on these areas have allowed to bring modern technologies to the country and re-establishment of the infrastructure in the energy sector. On one hand, oil consumption has increased, on the other hand, since the alternative energy source have not found yet, all these factors increased the importance of oil. So it seems that the most powerful energy source of the 20th century keeps its importance in the 21st century. According to some calculations the worlds' dependency on oil imports by 2010 could be 65%, by 2020 80 %. For the export of oil the main pipeline is Baku-Tbilisi-Ceyhan, whereas for the export of natural gas to the world market the main pipeline is Baku-Tbilisi-Erzurum. Thus, by reconstruction of the economy, development and integration with globalized world, Azerbaijan, as one of the most important pillar has reached transmission lines allowing the export of energy sources. The most oil production was in 1941, which were 23.4 million tons till 2005 from the first date of production of oil. After the independence, reconstructing and entering the modification period reduced the oil production. But new steps and activities according to the "Agreement of The Century" increased the oil production. By the commencement of first oil production of Chirag deposit in November 1997, the petrol production increased in 1998. Oil production was 15.3 million tons in 2003, 15.5 million tons in 2004, 22.2 million tons in 2005 and 32.3 million tons in 2006. With the amount of oil production in 2006 Azerbaijan put behind the oil production record of 1941 which was 23.4 million tons. The amount of oil production was 41.7 million tons in 2007. In 2009 the oil production reached its highest level with 56 million tons and in 2011 it was 46 million tons. The production of natural gas is started in 1902. During the Soviet Union period the natural gas sector has lagged behind the oil industry. From the beginning of natural gas production the maximum amount of production was 17 billion cubic meters in 1981. In 1980 years the annual production of natural gas was 14 billion cubic meters. Since 1990 the production decreased to the level of production of 1960 years of the last century. Till 2007 the produced natural gas could only meet 40 % of needs for the country. As a result of decline natural gas production up to 5-6 billion cubic meters, since 1990 Azerbaijan was obliged to

import Natural gas from Turkmenistan and Iran. Although before Azerbaijan exported natural gas Armenia and Georgia. But Azerbaijan ceased import of natural gas from these countries in 1995. In 200 an agreement was signed with Russia on import of natural gas. The import of Natural gas from Russia continued till the end of 2006. The demand met by domestic production of natural gas in Azerbaijan in 2007 after the exploitation of Shah-Deniz deposits. Compared with the previous years the natural gas production increases 81% and was 11 billion cubic meters in 2007. The production volume increased up to 15 billion cubic meters by rising of the production in 2008.

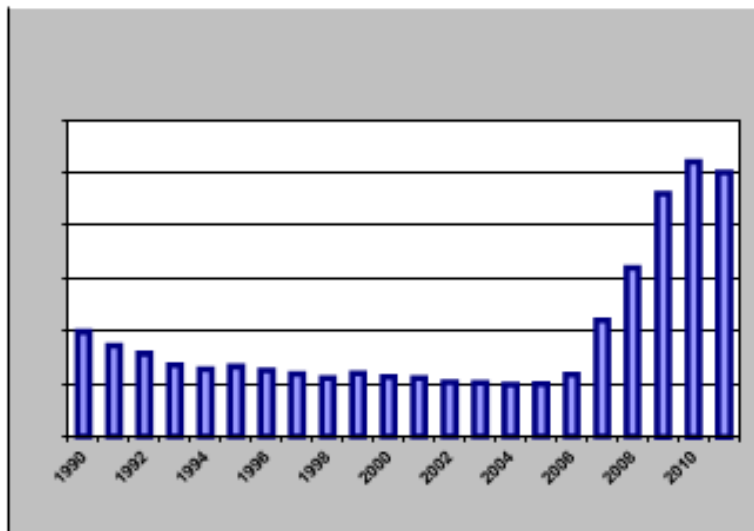
According to the calculations, until 2015 approximately 30 billion cubic meters natural gas will be taken from the Shah-Deniz deposit in a year. Since 2007 the Baku-Tbilisi- Erzurum natural gas pipeline project has been started with the export of natural gas. After the beginning of oil production and its export in Azeri-Chirag- Guneshli deposits as well as natural gas production and its export in Shah Deniz deposit Azerbaijan reached the opportunity of economic growth, restructuring and integration to the world economy. After some time, Azerbaijan was a competitor of Russia, North Africa and other natural gas producers on the export of natural gas to the European countries and Turkey. Importance of natural gas to meet energy needs of the world is increasing day by day and it takes one of the major places in electricity generation. By 2020, it is predicted that the amount of natural gas used to get electricity generation is expected to reach 33 % of total natural gas consumption. The natural gas is preferred due to less harmful effects to the environment. Turkey will play a bridge role in the transportation of natural gas from central Asian countries to the European markets. Total oil reserves are Caspian Sea is approximately 200-223 billion barrels. Only 17-49 billion barrels of total reserves have been discovered. The remainder 186 barrel is approximate.



Graphic 1: Oil production in Azerbaijan (million tons). Source: (SOCAR, 2012)

The vast majority of total reserves fall to Kazakhstan's part. Azerbaijan is in the second place in terms of discovered reserves, considering the estimated reserves of Turkmenistan the total reserves of Turkmenistan seems to be equal to Azerbaijan reserves. As a result of exploitation and research these figures change day by day. According to the data of ministry of energy of Azerbaijan in the regions considered in the agreement consist of 6-8 billion barrels of oil reserves. Only Azeri-Chirag-Guneshli deposits' oil reserves are 730 billion tones. In accordance with the above data Azerbaijan possess 0.7 % of world's natural oil reserves. According to some

calculations it is predicted that the oil reserves of Azerbaijan is likely to run out in 60-67 year. After the complete exploitation of ACHG deposits, in the next 5 years, a significant increase in oil production will be realized in Azerbaijan. With the beginning of 3rd phase on ACHG deposits, daily production of these deposits increased from 140 thousand barrels to 1 million barrels. The volume of the reserves of Natural Gas of Caspian Region seems to be higher than the volume of Oil reserves of the Caspian Sea. In terms of natural gas Caspian Basin countries possess approximately 40-45 % of natural gas reserves if Russia and Iran is considered. Azerbaijan oil was reached to the port of Ceyhan on May 28, 2006. Baku-Tbilisi-Ceyhan pipeline considered to be imaginary project that cannot be realized. But the project started with Istanbul Memorandum of Understanding and was officially opened on July 13, 2006. The export to the western markets started on June 2, 2006. The most critical route in the formation of east-west corridor was realized. It disabled Russia and straits, but increased Turkey's geopolitical and geostrategic importance and provided political stability in the Caucasus. 9.4 million tons oil was exported in 2006 and in 2007- 28 million tons of oil was exported by the BTC pipeline. In 2009 daily export volume reached 8 million barrel, in other words 50 million tons. In the following years although reducing is observed, this volume was approximately 40- 50 million tones. Starting from 2011, oil exports began to decrease. With full capacity of transportation BTC pipeline transmitted about 1.3% of the world oil. Together with the increase of oil exports the internal investments are also rising. The total volume of the investments agreed with more than 30 contracts is about 80 billion dollars.



Graphic 2: Natural gas production in Azerbaijan (billion cubic meters. Resource: (SOCAR, 2012).

The construction of Baku-Tbilisi-Erzurum pipeline for the transportation of natural gas from Shah Deniz deposit started in 2004. Completion of the construction in the 4th quarter of 2005 and beginning the exportation of natural gas in winter of 2006 are planned. For filling the BTE pipeline in the first stage the natural gas extracted from Azeri deposit. By this pipeline the natural gas was exported in 2007. Georgian part of the Baku-Tbilisi-Erzurum pipeline project started in 2006. But due to the delayed construction in Turkey natural gas of Shah-Deniz deposit reached Erzurum on July 3, 2007. Thus, Turkey has started to supply Azerbaijan natural gas much cheaper than Russia. The section of this pipeline is 442,248 and 280 kilometers respectively in Azerbaijan, Georgia and Turkey. This pipeline has the capacity to carry 30 billion

cubic meters of natural gas per year. And it possesses the same terrain with BTC oil pipeline. The initial capacity of this pipeline (which is 2.3 billion dollars) could be increased by adding pressure stations. Under the Stage -1 project the reserve of Shah-Deniz deposits is calculated 178 billion cubic meters. It is planned to increase the amount of production from 2011. BTE will carry 8 billion cubic meters of Azeri natural gas to Turkey and 800 million cubic meters to Georgia. Large portion of the natural gas will be shipped to European countries via Turkey and Greece. In the natural gas and oil industry approximately 80 thousand people are employed in Azerbaijan. This figure will be higher in case of taking into consideration of sub-sectors.

3.2 Increase in export revenues in Azerbaijan

Azerbaijan got three ¼ of exports revenues from oil and oil products in 1997. But in 1998, Azerbaijan was subjected to the significant loss of income due to the low oil prices. Reduction of oil-derived taxes increased the budget deficit. This development took place in the foreign trade balance is related with the increase of the country's oil export as a result of oil production and export phase within the framework of international agreements in relation to the Caspian energy sources. Increasing foreign trade directly related with the contracts that was made over petrol reservation and application of that contract. The share of oil and oil products in export was 64.8% in 1998, 75.9 % in 1999, 84 % in 2000, 91.23 % in 2001, 81.23% in 2002 and 82% in 2004. This increase was mainly due to the export of crude oil. On one hand, the unit price of crude oil is increased; on the other hand export amount is increased. The share of the oil revenues in exports continued to rise in 2005. In 2011 this ratio increased over 90 % with the beginning of exports from BTC towards the end of 2006. According to the calculations by State Oil Company of Azerbaijan Republic oil revenues will be 180 billion dollars by 2024 in case of per barrel price of oil is 50 dollars. Since the main exports of Azerbaijan are oil and natural gas, Azerbaijan's economy has become dependent on energy prices. The exports of petroleum and petroleum products, and natural gas are gradually increased in Azerbaijan. And it is a sign of important problem for Azerbaijan economy as dependence only one sector. As can be seen in Table 2 in Azerbaijan's exports of crude oil and petroleum products is about 80-85% of the share. Since 2008, this share increased to over 90%. The reason behind it is the falling oil prices together with the global crisis of 2008. In order to minimize the impact of the decline in oil prices Azerbaijan has increased its exports of crude oil and petroleum products.

Products exported	2003	2005	2006	2007	2008	2010
Crude petrol	70,07	51,04	60,40	53,05	92,49	86,53
Oil products	15,35	25,07	23,63	27,55	4,30	6,02
Black metals and products made from them	1,09	1,02	1,03	1,27	0,48	0,53
Alcoholic and non-alcoholic beverages	0,16	0,22	0,30	0,35	0,04	0,07
Chemical industry products	1,97	3,03	3,03	1,54	0,23	0,22
Cotton	1,29	0,93	0,61	0,52	0,03	0,02
Tobacco and tobacco products	0,33	0,59	0,31	0,12	0,01	0,03
Non-ferrous metals	1,04	0,00	0,00	0,00	0,00	0,00
Tea	0,15	0,00	0,00	0,00	0,00	0,00
Fruit and vegetable	0,00	3,97	2,07	2,70	0,45	0,73
Vegetable and animal oil	0,00	1,57	0,99	1,37	0,26	0,88
Aluminum and products made of it	0,00	1,23	1,12	1,51	0,26	0,01
Other products	8,56	11,32	6,51	10,02	1,45	4,95
Total	100,01	99,99	100,00	100,00	100,00	99,99

Table 2. Azerbaijan export structure (%) source: data of Azerbaijan State Institute of statistics, 2011

3.3 Increase in Budgets Revenues in Azerbaijan

Weight exports of petroleum and petroleum products in the state budget have also become highly dependent on oil prices. In 1997 oil taxes constituted 57 % of total taxes. Oil revenues in 1996 and 1997 constituted 50 % of budget revenues. Decline of oil prices in 1997-1998 impacted state revenues and overall economic strength negatively. Oil revenues in the budget income are as follows: the share of oil revenues in budget revenues by SOCAR (State Oil Company of Azerbaijan Republic) were 36.5 % in 2002. But this proportion was 31 % in 2003. However, the State Oil Fund (SOFAR) transfers are taken into consideration the share of the oil industry in the budget revenues was 39.1 %. In 2004 this rate was 40.9 % (31.6 was from SOCAR and 9.3% was from SOFAR). In recent years oil factor plays a major role in the increasing of budget revenues. In the years 2005-2012 the share of oil revenues in the budget revenues continued to increase. Direct transfers from oil revenues to state budget were approximately 50-65 %. In 2012 it is decided to transfer 9 billion AZN to budget expenditure from Azerbaijan State Oil Fund. In the last 3 years 80 % of budget formed with the revenues from oil and natural gas and it forced the government to support non-oil sectors. But it seems Dutch Disease risk is continued in the country.

In 2005 the revenues from energy sources constituted 51.4 % of budget revenues. But this number increased up to 75 % in 2012. About ¾ of budget revenues constitute the revenues from natural gas and oil. And it shows the increasing of dependence on a single sector which is a serious problem for the economy. The need of to spend the profit of State Oil Fund on agriculture will not enough for government to run away from the Dutch Disease. To solve this problem will be possible with the implementation of policies to the development of export-oriented industrial areas.

Years	Budget revenue, million Manat	Budget expenditures, million Manat	Budget deficit	GDP	Budget deficit / GDP, %
2000	715.5	763.8	-48.3	4718.2	-1.024
2001	783.8	806.6	-22.8	5315.6	-0.429
2002	910.2	931.7	-21.5	6062.5	-0.355
2003	1225.5	1234	-8.5	7146.5	-0.119
2004	1481.2	1501	-19.8	8530.2	-0.232
2005	2055.2	2140.7	-85.5	12522.5	-0.683
2006	3881.2	3789.7	91.5	18037.1	0.5073
2007	6006.6	6059.5	-52.9	26815.1	-0.197
2008	10762	10680	82	40137.2	0.2043
2009	10325.9	10567.9	-242	35578.7	-0.7
2010	11403	11765.9	-362	42465.1	0.5
2011	15700.7	15396	+304	50 069	0.9
2012	16438	17072	-634	50 080	0.9

Table 3 State Budget of Azerbaijan (AZN) Source: data of Azerbaijan State Statistics Agency, 2012.

3.4 Developments in Foreign Economic Relations

After the collapse of USSR, Azerbaijan as an independent country integrated to the world economy. Activities related with the production and export of Caspian energy sources according to “The agreement of the Century” played an important role. These activities were important for the development and reconstruction of country’s economy as well as were the key factor in the international economic and political relations. Thus, Azerbaijan has been in progress in the integration to the world economy. In 2011, Azerbaijan has established trade relations with over 150 countries.. But since the companies are failed to compete with world markets integration no-energy sectors into the world economy were limited. One of the new issues systems of foreign economic relations of Azerbaijan is membership in international economic organizations, and some credits taken from them. In realization of the economic development of Azerbaijan, in the integration into the world economy and in the attracting foreign investment to base on the energy is incorrect. Petroleum and petroleum products poses approximately 90% of the country's annual exports. If production-technological- products brought into the country within the framework of the oil contracts are not considered agricultural products represent close to half portion of import. In fact, the natural-climatic and soil condition in Azerbaijan allows increasing the production of agricultural products in the country, apart from meeting the domestic demand, has the opportunity to produce for export. For this reason, to attract foreign capital to the non-oil sectors is necessary.

4. State Oil Fund of Azerbaijan

State Oil Fund of the Republic of Azerbaijan was founded by the decision of President Aliyev in February 29, 1999. Oil revenues from energy sources are collected in the state oil fund (SOF). To ensure a fair distribution of oil and natural gas revenues between generations is the basis of the Fund's philosophy. The main objective of the Fund is to ensure foreign exchange and other financial resources which gained from the activities of SOF and implementation of the agreements on exploration and export of energy sources and manage them in the most economical way. In addition to protect the country’s economy from the negative affect of increasing foreign exchange revenues, (appreciation of the national currency unit of the country and the loss of competitiveness of domestic production and etc.) to maintain macroeconomic stability and to balance fiscal stability are in the main objectives of the fund. Management rules of the fund are prepared together with IMF experts. Azerbaijani government and the International Monetary Fund (IMF) are meeting about from time to time to discuss more efficient utilization of oil revenues. Started its activities from January-2001, the State Oil Fund, provides information on income and expenditure in per quarter. From 2001 to 2011 totally 70 billion manats were transferred to the Fund. 411 million manats of these revenues are from the management of fund resources. Until the beginning of 2012 state oil fund has allocated 906 million manats in order to finance the projects related to Karabach idps , 27 billion manats for the transfers to country’s budget,779 million manats for the construction of water pipeline from Oguz-Qebele region to Baku, approximately 716 million manats for Reconstruction of the Samur-Absheron irrigation system project , about 227 million manats to finance the Baku-Tbilisi-Kars railway project, 40 million manats for State Program on education of Azerbaijani youth in foreign countries in 2007-2015 , about 20 million manats for expenditure for the management of the State Oil Fund. In the beginning of 2012 total reserves accumulated in the

State Oil Fund is 40 billion dollars. The fund resources are placed in the developed countries, financial intuitions, valuable papers belonging to the banks, deposits and other money market instruments. According to the calculations of local and foreign experts as well as State Oil Fund experts, after 2025 oil revenues in Azerbaijan will decrease significantly. And this increases the risk of Dutch Disease. The Dutch Disease stands for the situation in the deindustrialization of a nation's economy by discovery of a natural resource raises the value of that nation's currency, making manufactured goods less competitive with other nations, increasing imports and decreasing exports. These calculations make Azerbaijan to take serious measures. Azerbaijan government has focused on the strategy to save economy from being dependent on the oil sector since 2005. In the strategy accepted for long-term utilization of oil revenue, special attention has been given to regional development. On the other hand, in order to enhance the quality of human capital allocation of resources to education and research spending is planned.

5. Conclusion

Azerbaijan which gained independence in 1991 was the largest oil supplier of Soviet Union. . In the early years on independence Azerbaijan made large investments on oil fields under the agreements with major companies and entered among oil and gas producing countries by increasing the sale of oil through pipelines. In The last five years the economic growth has been increased. The state oil company established in the early years of independence has begun one of the major companies of the world. This company has representative offices and commercial activities in 15 countries and investments in the foreign countries are continuing successfully. Especially, investments to Turkey in the field of petrochemical, commercial and strategic co-operation agreements, the third planned pipeline for transportation of Azerbaijani gas to Europe in addition to the existing BTC and BTE pipelines show the current position of economic relations between Azerbaijan and Turkey. After making agreements on exploitation of energy resources in Caspian Sea basic routes for export of energy resources gained importance. To export oil reserves BTC pipeline is decided and for the export of natural gas BTE pipeline is decided. BTC oil pipeline and BTE natural gas pipeline projects are very important in terms of regional co-operation. The South Caucasus countries Azerbaijan and Georgia benefited from economic and strategic gains of these projects while follower of the occupation and expansionist policy, Armenia, stayed outside from the project. With the beginning of oil and natural gas resources the country's economy began to benefit from the revenues of energy sources. Azerbaijan plays a major role in the export of Caspian reserves to the world market. With the Baku-Supsa, Baku-Novorossiysk and Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Erzurum natural gas pipeline Azerbaijan is the starting point of strategically and economically important projects .The export of Turkmenistan's natural gas and Kazakhstan's oil toward Caspian Sea and by BTE and BTC pipeline also allows Azerbaijan to become more important from the economic and strategic point of view, as playing the energy export corridor role. Countries based their economies on natural resources lose their independence in both internal and external relations. For that reason, the power gained from oil sector should be directed to the other sectors and human resources Thus, dependence on a single sector in the economy will be prevented. Balanced development of the economy beyond oil and natural gas will provide a real economic and political independence for Azerbaijan. In 2011, oil industry covered about 74 % of total GDP. The rate of growth in non-oil sectors was as follows: non-oil industry, 8.5% construction, 24% communication, 48.3 % transport, 0.9 agricultural sector, and 9.3 % non-oil

sector. However, 30 % of GDP produced by tradable sectors, these sectors contribution of non-oil GDP growth rate is by 2%. After 1997 the stability in the economic sense and its sustainability is shown. Azerbaijan, with oil revenues, gained financial power and it made possible the significant investments in the region. Thus, the project agreed with Turkey and Georgia on the construction of Baku-Tbilisi- Kars railway is an obvious example of this. The total length of the line will be 258 kilometers and it's expected to cost 800 million dollars. This line will be capable of transporting a load of 10-15 million tons to 20 million tons. Azerbaijan and Turkey has financed themselves in the construction of the line while Georgia has borrowed 500 million dollars for the financing of line. SOCAR investment in Turkey has begun with purchasing Petkim which is the largest petrochemical plant of Turkey. SOCAR announced over 17 billion dollars investment strategy until 2018 to the Petkim. Petrochemical refinery site constitutes the largest share of the investments in Petkim. Dependence on crude materials will come to an end and thus even the company will become the naphtha exports. In 2009-2012 it is expected to gain at least 80 million dollars just from the oil exports.

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