

THE ROLE OF INFRASTRUCTURE INVESTMENTS IN THE ECONOMIC DEVELOPMENT OF AZERBAIJAN

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Abstract

Infrastructure is the foundation of every country's economic development, serving as the foundation upon which growth and prosperity are built. In the example of Azerbaijan, a country with a rich cultural heritage and rich natural resources, strategic investments in infrastructure have played an important role in accelerating economic progress and improving the quality of life of its citizens. Azerbaijan has taken important steps in the development of its infrastructure to support sustainable development and attract investments in modern transport networks, social infrastructure projects and other areas.

Keywords: Azerbaijan, infrastructure, investment, social, transport, oil, development.

Introduction

The term "infrastructure" has recently become entrenched within the lexicon of the Azerbaijani language. Originating in military science in early 20th-century Europe, it derives from the Latin roots "infra," meaning "under" or "below," and "structure," denoting construction or arrangement. Despite its pervasive usage, a universally accepted definition remains elusive. Some conceptualize infrastructure as a service domain catering to both production and societal needs, while others restrict its scope solely to industrial services. Alternatively, it is construed as an amalgamation of domains facilitating societal activities. In our interpretation, infrastructure comprises diverse economic sectors, entities, organizations, and legal and physical entities collectively aimed at attaining overarching objectives. Integral to any system, whether economic, political, or military, infrastructure constitutes an essential component, encompassing various elements ensuring the system's functionality. The establishment of infrastructural domains correlates with the advent of social division of labor, progressively expanding and deepening its reach.

Since the 1980s, a growing number of economists have demonstrated heightened interest in assessing the economic ramifications, trajectory, and potency of infrastructure investment. While the correlation between augmented infrastructure capacity and economic expansion is widely acknowledged, the extent and magnitude of this positive influence on economic growth are subject to debate. The perspectives among economists regarding the essence of infrastructure are far from unequivocal. Over time, diverse scholars have approached infrastructure from varying angles, resulting in a multitude of viewpoints regarding its intrinsic nature and attributes.

The establishment, evolution, and enhancement of new infrastructures aimed at addressing socio-economic development objectives within a nation should be tailored to advancements and market dynamics. Infrastructure within each country has been shaped in response to societal demands and evolving needs. Infrastructures embody a spectrum of sectors and facilities

that furnish services to other domains by virtue of their distinctive attributes [4, s.18]. Infrastructure is categorized into production, social, communal-household, and market infrastructures. This classification encompasses secondary and sometimes tertiary subgroups or components within each infrastructure category, rendering it a comprehensive typology in the domain of infrastructure studies [6, s.8]. In delineating the "infrastructure" domain, it is imperative to delineate social infrastructure distinctively, subsequently distinguishing between production and institutional infrastructures. Social infrastructure encompasses activities such as commerce, public catering, domestic services catering to the populace, housing and communal services, transportation, communication, among others. These pursuits are directed towards satisfying individual needs within society, facilitating life endeavors, fostering intellectual development, and promoting elevated social and political engagement. Social infrastructure is construed as a composite assembly of tangible entities serving societal functions [5, s.10]. Within the domain of infrastructure, particular emphasis is placed on market infrastructure, delineating it as a conglomerate of distinct yet interlinked markets and managerial frameworks. This composite entity serves to facilitate the unimpeded flow of goods and services from producers to consumers [1, s.19].

The developmental trajectory of infrastructure sectors in Azerbaijan has been characterized by periods of uneven progress. Historical discrimination dating back to the Soviet era has perpetuated disparities in infrastructure development, resulting in Azerbaijan lagging behind neighboring republics for centuries. However, recent years have witnessed a gradual improvement in both the scale and territorial distribution of infrastructure projects. Since the 1990s, Azerbaijan has asserted its political sovereignty and pursued economic independence, facilitating the ongoing comprehensive development of various infrastructure domains.

The commencement of a new phase in Azerbaijan's infrastructure development has been catalyzed by the involvement of foreign corporations in the extraction of oil and gas reserves from the Caspian Sea. This

endeavor has spurred the establishment of the "Silk Road," facilitating the nation's integration into the global market, alongside the concurrent development of numerous regional and local infrastructural projects interconnected with it. Notably, the implementation of communication technology services and sophisticated management methodologies has been prominent, marking a significant progression. Consequently, there has been a pronounced surge in investment within the realm of infrastructure at an accelerated pace.

The significance of foreign and joint enterprises in Azerbaijan's infrastructure development is burgeoning, with an expanding utilization of their business acumen, technical advancements, and notably, investment potentials.

The socio-economic development paradigm of Azerbaijan, as conceptualized by Heydar Aliyev and subsequently advanced by his successor President Ilham Aliyev, has facilitated remarkable modernization within a brief timeframe, propelling the nation into a formidable global player. Central to this strategic trajectory was the formulation and execution of a national oil strategy, a visionary initiative pioneered by Heydar Aliyev. Recognizing the transformative potential of Azerbaijan's natural resources, particularly its oil and gas reserves, Aliyev envisaged leveraging these assets to rapidly bolster the country's economy and enhance the populace's financial well-being. The inception of the "Contract of the Century" marked a pivotal juncture, catalyzing substantial foreign investments and galvanizing efforts to diversify the economy. Crucially, a key imperative emerged: to judiciously channel the escalating revenues from oil and gas towards nurturing a robust non-oil sector, thus fostering a more balanced and sustainable economic landscape.

The decrees and directives issued by the head of state, Ilham Aliyev, aimed at advancing the socio-economic development of the regions of the republic, are

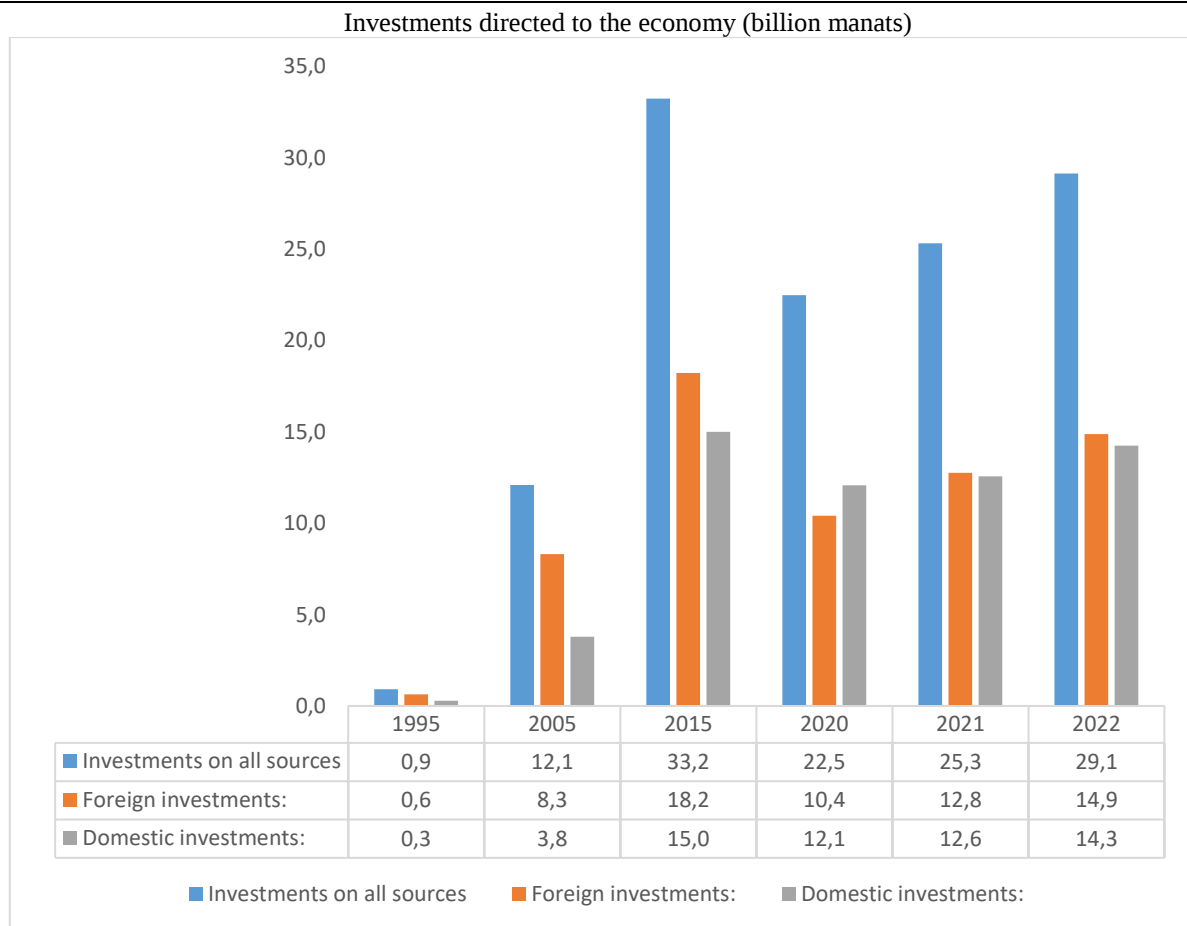
geared towards fostering the continuous expansion of the non-oil sector within the nation, promoting economic diversification, and enhancing the overall welfare of the populace. A primary objective of the policy framework in this domain is the establishment of an enabling business and investment climate, fostering the attraction of both domestic and foreign capital, and perpetually augmenting the contribution of the non-oil sector to the gross domestic product.

Contents of the study

Presently, the strategic allocation of capital for economic advancement within our nation is governed by the legislation titled "On Investment Activity of the Republic of Azerbaijan." Investments encompass a spectrum of resources including financial capital, material assets, and intellectual property, channeled towards domestic and international business ventures with the overarching objective of generating returns and enhancing productivity [3, s.14]

The centrality of the state in investment activity underscores its pivotal role in facilitating investment initiatives and, concurrently, participating directly in such endeavors. Particularly in locales characterized by low income levels, private entities often exhibit reluctance to engage in investment ventures, thereby necessitating state intervention as the principal investment actor. These locales typically encompass social spheres aimed at enhancing populace welfare, encompassing domains such as education, culture, environmental conservation, and allied sectors. [2, 53-58]

In recent years, there has been a notable surge in the significance attributed to infrastructure investments concerning economic development within Azerbaijan. This trend is particularly pronounced in the allocation of investment resources towards the Karabakh and East-Zangezur economic regions.



Source: prepared by the author based on data from the statistics committee. [9]

In scrutinizing the diagram, it becomes evident that foreign investments channeled into the Azerbaijani economy surpass domestic investments across all periods, save for 2020. Notably, investments directed towards the economy have exhibited a consistent upward trajectory since 1995 and 2005, albeit with fluctuations. For instance, while the economy received $\text{A}18,2$ million in investments in 2015, this figure dwindled to $\text{A}10,4$ million by 2020. Nevertheless, between 2020 and 2022, there was a notable surge of 42.84%, culminating in investments amounting to $\text{A}14,9$ million. This pattern of oscillating growth persisted similarly in the case of domestic investments.

Moreover, investments targeting the advancement of transportation, the oil sector, and social infrastructure in Azerbaijan significantly contribute to its economic development.

The prioritization of modern transport infrastructure development throughout Azerbaijan underscores a

concerted effort aimed at enhancing the country's connectivity and transit capabilities. In recent years, substantial investments have been directed towards the establishment of comprehensive road and transport networks, emblematic of the state's robust political and financial backing. This support stems from Azerbaijan's strategic position as an attractive hub for international transit transport, bolstered by its socio-political stability, geographical location with access to both land and water routes, and abundant economic resources. Notably, the convergence of East-West and North-South corridors within Azerbaijani territory has garnered significant attention for its potential to streamline global transit operations. While over 10 countries have joined efforts to establish these corridors, Azerbaijan stands out as the sole contributor to both initiatives, thus amplifying their functional efficacy.

Investments in the transport sector, million manats

	2000	2010	2020	2021	2022
Total	41,9	2 090,0	1 969,8	2 800,0	4 513,6
Railway transport	3,9	3,4	1,2	0,4	0,1
Other road transport	2,6	162,9	266,8	109,2	108,6
Water transport	1,0	13,2	53,3	40,3	31,5
Air transport	9,0	214,1	109,7	147,1	89,3
Warehousing and auxiliary transport activities	25,4	1 696,4	1 538,8	2 503,0	4 284,1

Source: prepared by the author based on data from the statistics committee. [9]

Numerous initiatives aimed at advancing the transport sector have been undertaken in Azerbaijan, accompanied by significant investment inflows. As delineated in Table 1, the trajectory of investment allocation to the transport sector exhibited a pronounced upward trend from 2000 to 2022, propelled by economic growth. Notably, the investment quantum surged nearly a hundredfold during this period, escalating from 41.9 million manats in 2000 to 4513.6 million manats in 2022. Although investment levels remained relatively steady from 2010 to 2020, a marked upswing ensued from 2021 onwards, attributable to extensive reconstruction endeavors in Karabakh and the East-Zangezur economic regions.

The surge in investments predominantly targeted the establishment of production infrastructure, particularly evident in the substantial allocation towards warehouse creation. In 2022, this segment accounted for 94.9% of total investments, mirroring a consistent trend observed from 2000 to 2021. This strategic emphasis underscores the concerted efforts towards bolstering production infrastructure, particularly in regions undergoing redevelopment efforts.

Transport corridors, in which Azerbaijan actively participates, are poised to catalyze the country's transition into a regional hub, substantially amplifying its role as a transit nation and augmenting its revenue streams. The East-West transport corridor, traversing Azerbaijan from East to West and linking Europe, the Caucasus, and Central Asia, represents a highly advantageous route characterized by economic viability and robust infrastructure. Leveraging the potential of this corridor effectively holds the promise of bolstering economic and trade ties among the diverse array of nations spanning this expansive geography, thereby furnishing a supplementary momentum to regional development at large. At the state level, Azerbaijan exhibits a notable political resolve to enhance the functionality of this corridor, including endeavors towards reviving the ancient Silk Road. Noteworthy international events hosted within the republic have served as platforms for deliberating various aspects pertinent to the restoration of the historic Silk Road.

Since its inauguration, the Baku-Tbilisi-Kars railway has garnered significant international attention despite its relatively brief operational history. This railway network has not only facilitated transportation within the participating nations but has also attracted the interest of Kazakhstan. Uzbekistan has indicated its intent to leverage the capabilities of this corridor, while Afghanistan has demonstrated substantial interest in utilizing the "Lapis Lazuli" transport route, which traverses Azerbaijan en route to Europe. Consequently, cargo originating from Turkmenistan will be conveyed to European destinations via the Baku-Tbilisi-Kars railway.

The inauguration of the New Baku International Sea Trade Port in Alat represents a substantial advancement in the transit capabilities of the region. Azerbaijan's investment in this port underscores its pivotal role in bolstering the transportation and logistical infrastructure within the area. Situated advantageously, the Alat

port is poised to address transportation security concerns in Azerbaijan, while also positioning Baku as a prominent and contemporary hub for logistics and transportation within the Caspian basin. Moreover, it is anticipated to foster deeper collaboration among the Caspian littoral nations and facilitate the realization of the North-South and East-West transport corridors. Consequently, the establishment of the port offers propitious prospects for robust collaboration and commerce.

The transportation infrastructure within our republic, with aspirations to emerge as an indispensable transit hub within Eurasia, is currently undergoing comprehensive revitalization efforts. The emphasis is notably placed on the advancement of railway transportation systems. Substantial investments have been allocated in recent years towards bolstering the physical and technological foundations of this sector, alongside the execution of several ambitious projects.

National Leader Heydar Aliyev outlined an oil strategy aimed at catalyzing the transformation of independent Azerbaijan into a modern, resilient economic powerhouse. This strategic blueprint, devised to serve as the cornerstone for comprehensive political and economic reforms, encompassed key initiatives such as the engagement of foreign investors in the exploitation of Azerbaijan's oil reserves, the diversification of transportation channels for crude oil, the efficient administration of oil-derived revenues, and the ushering of Azerbaijan into a new era of progress and prosperity.

Under the auspices of National Leader Heydar Aliyev, a seminal agreement, the "Contract of the Century," was inked on September 20, 1994, marking a pivotal milestone in the annals of Azerbaijan's 20th-century history due to its profound political, economic, and strategic ramifications. This accord pertained to the joint exploitation and production allocation of the "Azeri," "Chirag," and "Guneshli" oil fields situated within the Azerbaijani territorial waters of the Caspian Sea. Participating in this historic pact were 11 international oil corporations representing seven nations across the globe, including Azerbaijan, the United States, the United Kingdom, Russia, Turkey, Norway, and Saudi Arabia. The agreement, valued at \$7.4 billion, witnessed the involvement of renowned entities such as Amoco, BP, McDermott, UNOCAL, SOCAR, Lukoil, Statoil, Turkish Petrol, Pennzoil, Ramco, and Delta. Following the accord's ratification by the Azerbaijani Parliament on December 12, 1994, operational mechanisms such as the Steering Committee, the Azerbaijan International Operating Company (AIOC), and the Advisory Council were promptly established to oversee the contractual arrangements and operational endeavors [8].

On September 14, 2017, a new accord was ratified in Baku for the collaborative exploitation of the "Azeri," "Chirag" fields, and the deeper strata of the "Guneshli" field within the Azerbaijani sector of the Caspian Sea, along with the equitable distribution of production output. This event heralded a new phase in the development of the expansive oil field block known as "Azeri-Chirag-Guneshli". The agreement was en-

dorsed by representatives from the Azerbaijani government, SOCAR, BP, Chevron, IMPEX, Statoil, ExxonMobil, TP, ITOCHU, and ONGC Videsh. Subsequent to this accord, in 2019, an understanding was reached regarding the establishment of an additional production platform within the contractual domain of the "Azeri-Chirag-Guneshli" field block. As per the revised production sharing arrangement, which has been extended until the culmination of 2049, BP retains its role as the project operator, while SOCAR's ownership stake has been augmented from 11 percent to 25 percent, with 75 percent of the resultant oil profits accruing to Azerbaijan [7].

By the conclusion of the third quarter of 2023, Azerbaijan had executed 38 production sharing agreements (PSAs) with foreign oil corporations. The execution of the "Contract of the New Century" marked the inception of a novel phase in Azerbaijan's oil strategy. This milestone heralds the advent of a distinct epoch in modern Azerbaijani history, offering supplementary assurances for the nation's political and economic stability, fostering fresh investment opportunities, stimulating GDP expansion, generating employment opportunities, and ameliorating social welfare.

On October 18, 2018, the inaugural ceremony of the "Star" oil refinery was convened in Izmir, Turkey, with the attendance of Presidents Ilham Aliyev of Azerbaijan and Recep Tayyip Erdogan of Turkey. Boasting a collective oil refining capacity of 11 million tons, the "Star" facility possesses the capability to yield varying quantities of diesel fuel, aviation fuel, light naphtha, and assorted refined products. Proficient in catering to a substantial portion of Turkey's aviation fuel requisites, the refinery stands as a significant asset to the nation's energy infrastructure.

Investing exclusively in the Caspian basin area is deemed imperative for several reasons. Firstly, the region is renowned for its abundant oil resources, attracting the interest of the world's most developed nations since the early 20th century. Furthermore, our recently independent republic has grappled with economic downturn across all sectors, including the oil industry. The reconstruction of dilapidated establishments necessitates substantial financial resources, rendering their revitalization economically unfeasible. Hence, garnering initial profits for the state becomes pivotal in fostering overall economic prosperity.

In the context of fostering political and economic stability within a region, there emerges a significant imperative to garner increased attention from major global powers. This necessity was underscored by Heydar Aliyev's adept and forward-thinking approach, which strategically elevated the prominence of the oil factor—central to both regional and national interests—in Azerbaijan. Notably, in October 1994, an international accord was concluded to facilitate the collaborative exploitation of the Azeri, Chirag, and Guneshli oil fields situated in the Caspian region of Azerbaijan, aiming to augment oil production. This agreement culminated in the establishment of an international consortium, which, in turn, entered into the landmark "Agreement of the Century" with the State Oil Company of Azerbaijan Republic (SOCAR) for a duration of 30 years.

Among the signatories to this pivotal contract were prominent entities such as Amoco, Unikal, Pennzoil, McDermott from the United States, BP and Remco from the United Kingdom, Lukoil from Russia, Delta from Saudi Arabia, and the Turkish Petroleum Corporation (TPAO), thereby solidifying Azerbaijan's position at the nexus of global relations.

Following the signing of the Azeri-Chirag-Gunashli Project Production Sharing Agreement (PSA) in September 1994, Azerbaijan experienced a notable surge in global attention, particularly directed towards its abundant national resources, notably the Caspian oil reserves. This agreement marked a pivotal moment in the nation's economic trajectory, fostering a conducive environment for foreign direct investment. Over the period spanning from 1995 to 2008, the country witnessed a substantial influx of foreign capital, totaling 125.5 billion USD according to the national economy's DSK data. Remarkably, the lion's share of these investments, amounting to 96% or 120.6 billion USD, transpired between 2000 and 2017. Specifically, within the aforementioned timeframe, foreign investments in Azerbaijan amounted to 29.2 billion USD, underscoring the nation's growing allure as a destination for international investment.

The decrees and directives endorsed by the head of state, Ilham Aliyev, aimed at the expedited advancement of the socio-economic landscape across the regions of the nation, epitomize an ongoing commitment to fortifying the non-oil sector, fostering economic diversification, and enhancing the quality of life for the populace. These initiatives, delineated within the framework of the Second State Program for the Socio-Economic Advancement of Regional Territories, underscore a strategic imperative to sustainably develop regional areas, overhaul social infrastructure, and mitigate the nation's reliance on oil-centric economic paradigms through the expansion of non-oil industries. Furthermore, this program engenders favorable conditions for entrepreneurial endeavors, signifying President Ilham Aliyev's astute comprehension of economic dynamics, coupled with a judicious acknowledgment of the pivotal role played by entrepreneurs in driving socio-economic prosperity, thereby accentuating his unwavering support for their endeavors.

One of the principal objectives of the policy framework in this domain revolves around fostering a conducive business and investment climate, aimed at enticing both domestic and foreign capital inflows, while consistently augmenting the contribution of the non-oil sector to the overall gross domestic product (GDP). The establishment of the State Investment Company in 2006 represented a significant milestone in centralizing state-directed investment policy and bolstering the investment appeal of the nation. The primary mandate of this entity is to facilitate investment promotion within the national economy and address prevailing challenges within this sphere. Concurrently, the company engages in collaborative ventures with foreign investors, thereby fostering enhanced levels of trust and confidence. Notably, Azerbaijan presently stands as a global frontrunner in investment allure, a fact which elicits considerable national pride.

During the first quarter of 2023, a total allocation of 546 million manats was directed towards state investment expenditures, facilitating the financing of significant investment endeavors. Within this allocation, a sum of 78 million manats was specifically allocated to the construction and renovation of various socio-cultural amenities, encompassing education, healthcare, culture, and sports infrastructure, among others. Additionally, a designated portion amounting to 9.4 million manats was earmarked for the construction of residential accommodations and analogous social amenities aimed at benefiting war-disabled individuals and families of martyrs. Furthermore, an allocation of 5.5 million manats was dedicated to the construction and enhancement of sports complexes and related facilities across different regions, indicative of a concerted effort towards societal development and welfare initiatives.

During his address at the plenary session of the parliament convened on December 5, Prime Minister Ali Asadov articulated that a significant allocation of 890.4 million manats from the 2024 state budget, earmarked originally for investment expenses, will be channeled towards the funding of social and infrastructure initiatives. This redirection of funds underscores a strategic shift in governmental priorities towards bolstering social welfare and enhancing essential infrastructure development. Asadov's announcement highlights a deliberate policy maneuver aimed at addressing pressing socio-economic needs, reflecting a pragmatic approach towards resource allocation within the context of national development objectives.

The Yasamal Residential Complex initiative, spearheaded by the State Agency for Housing Construction, aims to ameliorate housing accessibility for the populace through favorable conditions. As part of a public-private partnership, the "ENGINET" company emerged as a private investor following its success in the investment competition administered by "MIDA" LLC, an entity operating under the Agency, in June 2017. Tasked with the deployment of communication, television, and internet infrastructure within the Yasamal Residential Complex premises, as well as the provision of corresponding telecommunication services to

its inhabitants, "ENGINET" fulfilled its obligations within the stipulated framework.

Result

In conclusion, infrastructure investments stand as the cornerstone of Azerbaijan's economic development strategy, fostering growth, stability, and prosperity. Infrastructure investments aimed at the economy play a crucial role in enhancing Azerbaijan's global standing, consolidating its position as a robust and forward-thinking state.

The notable socio-economic advancements in Azerbaijan underscore the significance of President Ilham Aliyev's strategic decisions and state initiatives, positioning him as a proficient inheritor of the legacy of National Leader Heydar Aliyev. President Aliyev's commitment to national progress is evident through the effective execution of primary state programs. These endeavors not only foster socio-economic advancement but also demonstrate the government's persistent dedication to addressing the needs and aspirations of the Azerbaijani populace.

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