

How Does the Natural Resource Sector Create Non-Oil Export Growth?

written by Rovshan Aghayev

The government set a goal of increasing per capita non-oil and gas exports in the next 10 years (by 2025) to \$450 from \$170 in 2015 under the [Roadmap](#) plan for economic development, adopted in 2016. The pandemic that engulfed the nations of the world in 2020, followed by the outbreak of the Russo-Ukrainian war in 2022, caused disruptions in the entire global supply chain, a sharp fall in production, and unprecedented inflation, which all worked in favor of Azerbaijan meeting this goal. On the one hand, the emergence of a production deficit in world markets created demand for some non-oil commodities from Azerbaijan, in particular chemical and metallurgical products. On the other hand, global inflation dramatically increased export values.

For example, according to data from the [State Statistics Committee](#), in 2022, a 9% increase (out of 14% total growth) in non-oil exports was essentially made possible by higher prices, while the real growth rate was about 5%. If we have a look at the [foreign trade](#) figures, it becomes obvious that the price index for certain commodity groups was higher last year. For example, the annual price growth in goods of animal origin amounted to 18%, ready-made foodstuffs 24% and textile products 16%. One more obvious fact: If in the first 5 years (2015-2020), when the goal was set, non-oil exports increased by 15% (\$245 million), in the last 2 years (2020-2022) this growth [reached](#) 65% (\$1,2 billion). Undoubtedly, it would be far from objective to emphasize that the 65% increase had been due to the price factor in general. Our assessment shows that the share of the price factor in this increase is about 40%.

But what factors, other than the export expansion at the aforementioned level, played a decisive role? In fact, the goal of ramping up the non-oil sector and expanding non-oil export potential is to get the economy out of resource dependence. High dependence on natural resources presents risks not only in terms of one-sided and uneven development of the economy and unequal distribution of national wealth. It is also due to the fact that high dependence on natural resources constitutes a constant threat to economic stability. The world markets for natural resources are highly volatile, and sharp fluctuations in crude oil prices over the past 20 years clearly show that. Instability on the stock exchanges, especially those associated with natural resources, led to a prolonged global economic crisis in the 1970s and 1980s.

The risk of dependence of non-oil exports on natural resources is that the volume of exports is also dominated by volatility, depending on the prices of commodity exchanges. For example, as compared to the same period of the previous year, in the 1st quarter of this year, there was nearly a 2,5-fold drop per ton in the value of urea exports from Azerbaijan.

Goods based on natural resources but classified in the non-oil sector according to statistical data accounted for 25% (about \$320 million) of the \$1,2 billion increase in 2020-2022 non-oil exports from Azerbaijan. Those goods based on natural resources are urea, polyethylene and electricity, whereas the commodities concerned are gold, oil and gas. The volume of exports of such goods increased from \$327 million in 2020 to \$608 million in 2022, accounting for 15% and 20%, respectively, of all non-oil exports.

A stronger trend is observed this year. According to the most recent [customs](#) statistics, Q1 non-oil exports went up \$185 million from a year ago. The \$248 million from electricity exports were decisive in this growth. During the same period, nearly 97% of domestic electricity production was generated from natural gas. Non-fuel sources account for 3% of

electricity production. Fresh fruit and vegetable exports in that same timeframe plummeted by \$10 million and cotton exports by \$44 million.

One of the most serious negative consequences of the low non-oil export potential is that without this potential growth, sustainable economic growth will not be achieved in Azerbaijan. This is probably because oil production falls rapidly, whereas natural gas production cannot compensate for this decline. Consequently, an opportunity for economic growth on the basis of the country's natural resources is lost. For example, in 2022, the oil sector recorded a decline of 2,7%. This took place against the background of a 5,5% decrease in oil production, despite a 6,6% YoY increase in gas production. 2023 also shows a similar trend. The oil sector recorded a decline of roughly 4% in the first quarter of the year: a similar situation with crude oil production plunging by 7,5% and natural gas production increasing by 3%. The Azerbaijani government does not expect an increase in the country's crude oil production in the next five years.

In such conditions the non-oil sector should be able to retain its potential as a driver of economic growth. But this potential should not come at the expense of unstable non-commercial sectors (tourism, construction), but build on the processing industry, which has the capacity to produce sustainable growth through exports. Moreover, our estimates for the 2023 first quarter show that the three quarters of economic growth in the non-oil sector recorded at 4,9%, is linked to tourism, construction and trade, and the contribution of the processing industry to this growth is minimal. Large-scale construction, especially in the liberated territories, has so far remained a driving force of non-oil growth. Note that the construction boom in these territories may last a maximum of only 5 years. Because infrastructure projects requiring huge investments are expected to be mostly completed during this time period.

One of the most significant challenges associated with exports of the non-oil sector is that the latter is formed by products with low added value. Virtually all non-oil exports are raw materials and intermediate goods with low and medium-low tech groups. Many interesting insights on this issue can be found in the book *Turkey at the Crossroads: Freedom or Misery* by Selçuk R. Şirin, a Professor at New York University. The scholar believes that a country that wants sustainable growth through exports should build a brand rather than seeking access to global markets with a wide range of products. Türkiye has many products, but no brand. For example, Nutella, a brand of sweetened hazelnut cocoa spread and manufactured by the Italian company Ferrero, contains 13% hazelnut. Türkiye is one of the main suppliers of hazelnuts to Ferrero, which sells one million tons of Nutella a day. Şirin notes that Türkiye accounts for 85% of the global supply of hazelnuts, but the amount of its annual profits from their export is limited to a maximum of \$3 billion. These export earnings are generated by 3,5 million exporters. While *Ferrero*, which employs only 22.000 people, and imports and labels hazelnuts from Türkiye, has an annual revenue of over \$11 billion. According to him, development without branding leads a country into a middle-income trap, especially for agrarian products.[\[1\]](#) This assertion also applies to Azerbaijan's non-oil sector, which, similar to Türkiye's hazelnut industry, is trapped.

Note:

[\[1\]](#) Selçuk R. Şirin, *Yol Ayrımındaki Türkiye: Ya Özgürlük Ya Sefalet*, 2015.