

EXPLORING ECONOMIC EXPANSION IN AZERBAIJAN'S NATIONAL ECONOMY

Umudvar Q.Aliyev¹, Gunay U.Guliyeva²

¹Department of Economic and Technological Sciences, International Center for Masters and Doctoral Studies. Azerbaijan State University of Economics (UNEC). Baku, Azerbaijan. E-mail: umudvar.aliyev@unec.edu.az; ORCID ID: <https://orcid.org/0000-0002-5483-8306>

²Department of Business Management, UNEC Business School. Azerbaijan State University of Economics (UNEC). Baku, Azerbaijan. E-mail: gunayguliyeva@unec.edu.az; ORCID ID: <https://orcid.org/0000-0002-6782-0770>

<https://doi.org/10.30546/jestp.2025.82.01.039>

Received: November 22, 2024; accepted May 16, 2025; published online July 31, 2025

ABSTRACT

Economic expansion, a broader concept than economic growth, integrates geographical scope, global connectivity, and qualitative development, yet remains underexplored compared to GDP-centric analyses. This study investigates economic expansion in Azerbaijan, a small state with a population of 10.25 million and land area of 86,600 km², focusing on two dimensions: the restoration of territorial sovereignty following the 2020 liberation of regions occupied by Armenia (1991–2020) and the broadening of economic activity through international partnerships. Drawing on a mixed-method approach—combining a literature review of classical and contemporary theories (e.g., Schumpeter, 1939; Romer, 1990; Stern, 2006) with a case study of Azerbaijan using data from 1990–2024 (e.g., State Statistical Committee, World Bank)—we analyze how Azerbaijan leverages its strategic position and resources to expand its national economy. Findings reveal that oil-driven initiatives, such as the "Contract of the Century" (1994), catalyzed initial expansion, with GDP peaking at \$72 billion in 2014, while post-liberation reconstruction (\$10 billion invested) and green energy goals (30% renewable capacity by 2030) signal diversification. Contrasting Azerbaijan with larger states like the U.S., we highlight its unique reliance on sovereignty, regional cooperation, and investments (e.g., \$20 billion in Turkey) rather than geopolitical dominance. Challenges, including oil dependency and food import reliance (\$2 billion annually), persist, but liberated territories offer new potential. This study underscores Azerbaijan's model of expansion, blending resource wealth with structural transformation, and offers insights for small-state economies navigating global integration and sustainability.

Keywords: national economy, economic expansion, geographical location of economic activity, economic place, factors of economic expansion

JEL Classification: O47. R11, R53

INTRODUCTION

In economics, as greater attention has been devoted to economic growth and its quantitative and qualitative indicators, economic expansion has remained a somewhat overshadowed. It is true that some economic literature, albeit briefly, has touched upon the problems of economic expansion. For instance, in Gregory Mankiw's book *Principles of Economics*, "economic expansion" is examined as one of the problems in macroeconomics (Gregory Mankiw, *Principles of Economics*, 3rd edition, macroeconomics section, 2007).

In recent Russian economic literature, attempts have been made to investigate the concept of 'economic expansion' and its various qualitative indicators. While in many cases economic expansion is equated with economic growth, in our view, economic growth encompasses broader factors. Economic expansion is not only the primary driver of economic growth but also shapes overall economic development, the degree of integration into the global economy, a country's position in international cooperation, and its contributions to the development of the world economy and individual nations. For instance, ten European countries serve as reliable partners in energy supply, while our country emerges as an internationally significant transportation corridor. Additionally, it influences the role in addressing global challenges, such as allocating \$2 billion for climate financing, among other impacts. The article explores 'economic expansion' from two perspectives: achieving economic expansion through the full restoration of the geographical space of the existing national economy and the broadening of the geographical scope of economic activity. During the period of occupation, our national economy lacked complete geographical-territorial coverage. As a result, the opportunities to utilize our national wealth in alignment with our national interests were constrained. The liberation of our territories from Armenian occupation has fully restored our sovereignty, significantly enhancing opportunities to leverage the national economy's economic expansion and align it with our national interests. This restoration of sovereignty has not only expanded the geographical scope of economic activity but also revealed new sources of economic growth. The implementation of innovative projects in the liberated territories—such as the development of modern socio-economic infrastructure, the establishment of contemporary industrial parks, and similar initiatives—has created conditions for identifying factors that diverge from traditional drivers of economic expansion. Intensive restoration and construction efforts, supported by over \$10 billion in state funds, have accelerated the reintegration of the regional economy into the national framework.

Large countries, unlike smaller states, possess the capacity to expand their economies by leveraging both geographical and economic dimensions. For example, U.S. President Donald Trump's pre-election rhetoric and post-inauguration actions suggest a strategy for driving U.S. economic expansion through the broadening of both its geographical and economic spheres. Trump has proposed incorporating Greenland—home to 25 of the world's most valuable elements—into the U.S., speculated about Canada becoming the 51st state (stating, 'Canada should join the U.S. to lower taxes'), suggested U.S. governance of the Gaza Strip, and emphasized territorial expansion, all underscoring his focus on economic growth potential. Additionally, Trump pursued policies aimed at bolstering economic expansion, including raising customs duties, pressuring Russia with economic sanctions alongside European allies, and seeking to displace Russia in Europe's energy market. His administration also tightened control over the Panama Canal, reevaluated U.S. foreign aid (approximately \$50 billion)—suspending it for three months—withdrawed from the World Health Organization and halted its funding, declined participation in the UN's Climate Financing Program despite the U.S. accounting for 17% of global pollution, and reduced government spending to enhance efficiency. These measures collectively reflect a concerted effort to achieve economic growth.

One of the primary drivers of economic growth for large countries is the export of capital. By investing capital in nations rich in natural resources and inexpensive labor, these countries generate significant income. For instance, colonial powers like France and the Netherlands derive substantial profits by exploiting smaller states, extracting their resources, and utilizing low-cost labor. Meanwhile, the citizens of these exploited countries often endure hunger and poverty, relying heavily on aid from international organizations.

LITERATURE REVIEW

Economic expansion, distinct from the narrower notion of economic growth, is increasingly viewed as a multifaceted process that goes beyond mere GDP increases, encompassing long-term enhancements in production potential through innovation, social inclusivity, environmental sustainability, and structural transformations (World Economic Forum [WEF], 2025). This review synthesizes theoretical frameworks, contemporary perspectives, and emerging challenges surrounding economic expansion, drawing from classical and modern economic scholarship. Classical theories provide a starting point, with neoclassical models like Solow's (1956) identifying capital accumulation, labor growth, and technological progress as key drivers of economic potential, though often framed quantitatively. Schumpeter (1939) shifted this perspective by introducing "creative destruction," where economic expansion arises from disruptive innovations that reshape industries, highlighting

qualitative changes driven by technologies such as ICT and biotechnology (Archibugi, 2017). Endogenous growth theories, advanced by Lucas (1988) and Romer (1990), further emphasize internal factors like human capital and knowledge creation, arguing that investments in education and research generate externalities that sustain expansion, moving beyond exogenous inputs. Acemoglu and Robinson (2019) add that inclusive institutions are vital, enabling equitable participation and robust governance to foster expansion, unlike extractive systems that hinder progress.

Contemporary scholarship reimagines economic expansion as a holistic concept integrating social, environmental, and technological dimensions. Brynjolfsson and McAfee (2014) underscore the transformative role of digital technologies—AI, automation, and e-commerce—in reshaping economic systems and enabling new market dynamics (Krugman, 1979). The WEF's Davos 2025 Forum projects AI could boost global growth by 0.8 percentage points, though uneven adoption risks widening disparities (The Guardian, 2025). Sustainability is equally critical, with Stern (2006) advocating for climate change mitigation and green technologies to enhance long-term resilience, aligning with the "green economy" paradigm that sees ecological sustainability as a driver of expansion (IEA, 2024; WEF, 2025). Sen's capability approach (as cited in the document) broadens this further, suggesting expansion should prioritize human well-being—education, health, and freedoms—over GDP alone. Yet, challenges persist. Kotz (2008, 2019) critiques neoliberal capitalism's reliance on rising profits, stagnant wages, and debt, noting unsustainable patterns exposed by crises like 2008 and COVID-19, which highlight the need for structural reforms and diversification (Abdelkawy, 2024). Piketty (as cited in the document) warns that unchecked capital accumulation fuels inequality, threatening the social foundation of expansion.

Policy responses are essential to address these issues. North (as cited in the document) and Chygryn et al. (2018) emphasize strong institutions and fiscal decentralization, while strategic investments in human capital, innovation, and green infrastructure are recommended to balance economic, social, and environmental goals (Romer, 1990; Stern, 2006). The Davos 2025 discussions call for collaboration among governments, international organizations, and the private sector to tackle inequalities and enhance resilience (WEF, 2025). Ultimately, economic expansion offers a comprehensive framework for 21st-century progress, integrating innovation, sustainability, and inclusivity. Theoretical insights from Schumpeter, Romer, and Acemoglu, alongside modern analyses of digital transformation and green economics, reveal its dynamic nature. Achieving sustainable, equitable expansion demands addressing neoliberal contradictions, global shocks, and institutional weaknesses through forward-thinking policies, with AI, green technologies, and inclusive governance shaping a resilient future.

A growing body of research has examined the dynamics of economic expansion in Azerbaijan, focusing on various structural and policy-related dimensions. Rahimov (2024) investigates the relationship between the Producer Price Index (PPI) and Consumer Price Index (CPI) through wavelet analysis, shedding light on inflation dynamics and their broader implications for economic performance. His findings suggest that fluctuations in producer prices can be a significant early indicator of consumer price trends, which in turn influence economic stability and growth.

Infrastructure development is also highlighted as a key growth driver. Mahmudov (2023), using the ARDL bounds testing approach, demonstrates that improvements in transportation infrastructure have a statistically significant impact on GDP growth. His study underscores the necessity of targeted investments in logistics and connectivity to unlock regional economic potential.

Moreover, labor market issues are increasingly recognized as influential factors. Huseynova (2023) explores the correlation between the gender pay gap and GDP growth in Azerbaijan, revealing that gender-based income disparities can hinder inclusive economic progress. Her work supports the argument for inclusive labor policies as a catalyst for broader economic expansion. Babayev (2020) addresses diversification challenges in Azerbaijan's non-oil export sector. His study reveals structural weaknesses and emphasizes the need for coherent industrial policies to enhance export competitiveness and reduce dependency on oil revenues—a critical step toward sustainable growth.

Together, these studies offer a multi-dimensional view of Azerbaijan's economic development, providing a foundation for understanding both the opportunities and constraints shaping its growth trajectory.

METHODOLOGY

This study adopts a mixed-method approach to investigate the perspectives of economic expansion within the context of Azerbaijan's national economy, emphasizing its distinction from economic growth and its implications for small states. The analysis integrates qualitative and quantitative methods to provide a comprehensive understanding of economic expansion, drawing on both theoretical frameworks and empirical data.

First, a qualitative review of economic literature was conducted to establish a theoretical foundation for economic expansion. Key sources include classical economic theories (e.g., Solow, 1956; Schumpeter, 1939), endogenous growth models (e.g., Lucas, 1988; Romer, 1990), and contemporary perspectives on sustainability and technology (e.g., Stern, 2006; Brynjolfsson & McAfee, 2014). These works were selected based on their relevance to the study's focus on innovation, geographical scope, and structural transformation as drivers of expansion, as opposed to the

narrower GDP-centric focus of growth. The review also incorporates Azerbaijan-specific studies (e.g., Aliyev, 2019; Aliyev & Quliyeva, 2024) to contextualize global theories within the national framework.

Second, a case study approach was employed to analyze Azerbaijan's economic expansion, focusing on two dimensions: the restoration of geographical space post-occupation and the broadening of economic activity through international integration. Data were sourced from official reports, including the State Statistical Committee of Azerbaijan (e.g., GDP, population, sectoral contributions), the World Bank (e.g., oil rents), and government programs (e.g., Azerbaijan 2030). Historical data spanning 1990–2024 were examined to assess economic trends during and after the occupation, with particular attention to pivotal events such as the "Contract of the Century" (1994) and the Second Karabakh War (2020). Qualitative insights from international forums (e.g., COP29, Davos 2025) and media reports (e.g., Republic Newspaper, 2024) supplemented the analysis, highlighting Azerbaijan's evolving global role.

Quantitative data were analyzed descriptively to identify patterns in GDP growth, trade balances, and sectoral shifts (e.g., non-oil sector growth to 70% of GDP by 2024). Key metrics, such as foreign trade turnover (\$42.814 billion in 2024) and investment flows (e.g., \$20 billion in Turkey), were evaluated to measure the expansion of economic activity. Comparative analysis was used to contrast Azerbaijan's strategies with those of large states (e.g., U.S. policies under Trump), focusing on differences in scale, resource leverage, and geopolitical influence. Limitations include the reliance on secondary data, which may lack granularity for liberated territories, and the qualitative nature of some international examples, which are illustrative rather than exhaustive.

This methodology enables a holistic exploration of economic expansion, bridging theoretical insights with empirical evidence to elucidate Azerbaijan's unique trajectory and its broader implications for small-state economies.

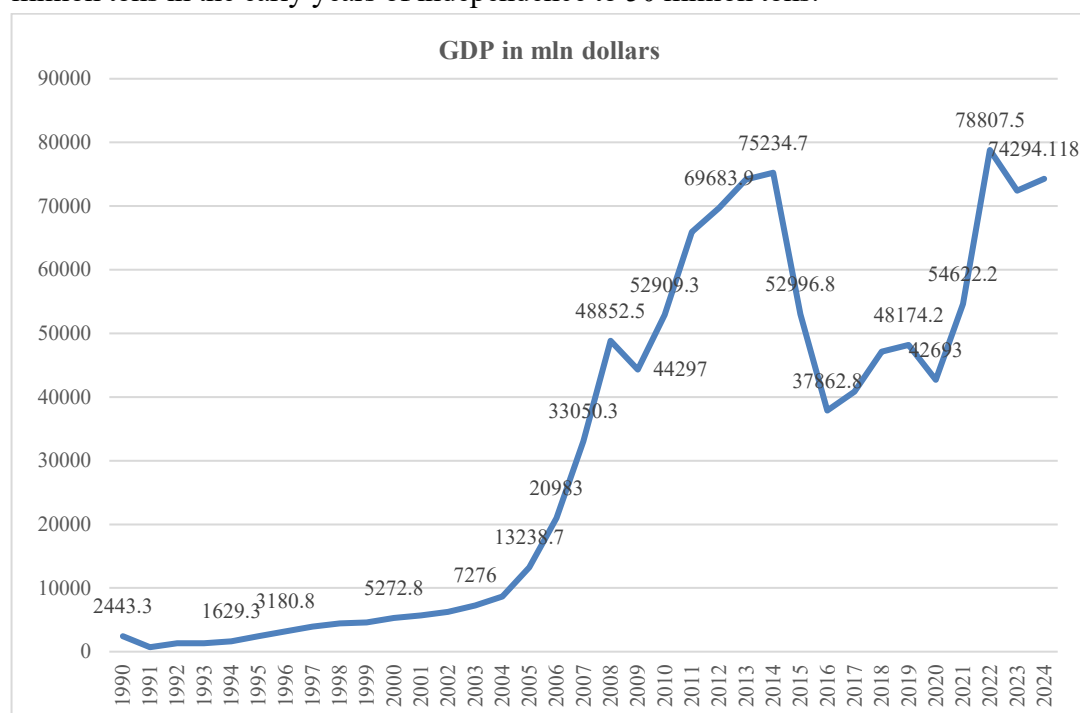
SOURCES OF ECONOMIC EXPANSION IN THE AZERBAIJANI ECONOMY

We seek to examine the transformations in Azerbaijan's economy across various historical periods, focusing on economic growth—a topic that has received relatively limited attention in the scientific literature on the Azerbaijani economy. In contrast to economic growth, the sources of economic expansion are comparatively constrained. Drawing on economic literature and acknowledging the prevailing limited frameworks for analyzing economic growth, this study investigates the dynamics of economic growth during the occupation of Azerbaijani territories by the Republic of Armenia and following their complete liberation. In doing so, we also evaluate the factors influencing economic growth. Our analysis aims to elucidate the disparities in

economic growth potential between large and small states. Furthermore, this study explores economic expansion in the context of an expanding economic space—a concept broader in scope than mere geographical space—highlighting the changes that accompany such development.

Azerbaijan is not classified as a large country, either by population (10.25 million, ranked 86th globally, 2024) or land area (86,600 square kilometers, ranked 112th worldwide). Consequently, the drivers of economic growth in Azerbaijan diverge significantly from those observed in larger nations. While many countries, particularly in Europe, have experienced a decline in natural population growth, Azerbaijan's population continues to rise steadily. Between 2010 and 2024, Azerbaijan's population increased by 1.25 million people. As this cohort reaches working age, the employed population expands—supported by stable unemployment rates and strong labor demand—while enhancements in their skill levels emerge as a significant factor influencing economic growth. Natural population growth, shifts in employment levels, and the development of human capital, particularly through improvements in the skill levels of the workforce, constitute critical drivers of economic expansion that warrant careful consideration. It is noteworthy that countries adopt distinct approaches to measuring employment and unemployment levels. For instance, in the United States, individuals who are capable of working but are not actively seeking employment—often relying on social assistance from government programs and other sources, numbering in the millions—are excluded from the official unemployment count. Consequently, this exclusion results in a lower reported unemployment rate. In contrast, several countries, including Azerbaijan, define unemployment differently. After accounting for working-age individuals (aged 16–65) who are employed or otherwise occupied—such as those with restricted freedom, serving in the military, pursuing full-time education, receiving pensions despite being of working age, or falling into similar categories—the remaining population is classified as unemployed. During the first 20–25 years of Azerbaijan's independence, the country's severely constrained financial resources impeded economic growth. It was only through the influx of foreign investment, coupled with the resolution of other challenges, that economic growth became feasible. For an extended period, foreign investment significantly outweighed domestic investment in the economy. Conversely, given the limited financial capacity of entrepreneurial ventures, a substantial share of domestic investment originated from state sources. The occupation of Azerbaijani territories by Armenia reduced the country's geographical boundaries by approximately 20%. This contraction excluded significant assets—such as fertile land, natural forests, water reserves, subterranean and surface resources, and labor reserves—from economic circulation. Consequently, Azerbaijan's limited financial resources were necessarily redirected toward military and defense expenditures. Although the reduction of

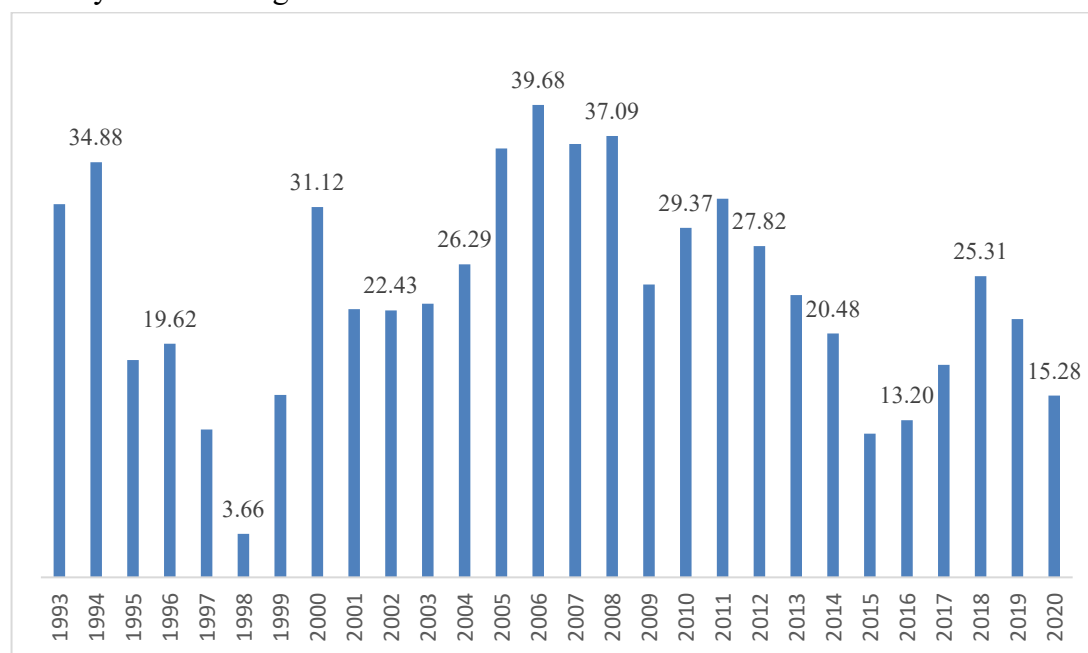
geographical space constituted a primary constraint on economic growth—given that the integration of resources into the economic cycle and their efficient utilization are key drivers of growth—Azerbaijan nonetheless achieved economic progress during this period. This resilience persisted despite the occupation of 20% of its territory and the exclusion of 160,000 hectares of land from agricultural use due to climate change. Despite these challenges, Azerbaijan swiftly attracted foreign investment to alternative resources, most notably the oil sector, which serves as the cornerstone of the national economy. This strategic shift not only expanded the scope of economic activity but also facilitated the diversification of foreign economic relations. On September 24, 1994, the 'Contract of the Century' oil agreements secured an unprecedented \$8 billion in foreign investment for the Azerbaijani economy. Despite the occupation of 20% of Azerbaijan's territory, which constrained its geographical scope, these contracts catalyzed economic growth. Over time, macroeconomic stability was established, and the initiation of oil production and transportation—enabled by partnerships with foreign companies—resulted in substantial growth rates. By 2014, Azerbaijan's GDP reached a peak of \$72 billion. The national currency maintained stability against foreign exchange rates, bolstered by elevated global crude oil prices, which also swelled the reserves of the State Oil Fund of Azerbaijan (established in 1999). Real incomes of the population rose, while annual oil production surged from 10–12 million tons in the early years of independence to 50 million tons.



Graph 1. GDP of Azerbaijan (1990-2024)

Source. State Statistical Committee

This expansion was driven by the adoption of technological innovations from Western countries, which represent key intensive factors of economic growth in the oil sector. Initially, drilling in the Caspian Sea reached depths of 500 meters—exceeding the Soviet-era limit of 150 meters—and current capabilities now extend to 1,000 meters. Amid this period of economic growth, Azerbaijan faced pressures from major powers, notably the United States, which advocated for an oil export pipeline route through Armenian territory. Nevertheless, Azerbaijan’s resolute position facilitated the construction of the Baku-Tbilisi-Kars pipeline, which avoids the Republic of Armenia by traversing Georgia. This pipeline commenced operations on June 13, 2006. Complementing this, the Baku-Tbilisi-Ceyhan (BTC) main export pipeline transports crude oil from the Azeri-Chirag-Gunashli and Shah Deniz fields in the Azerbaijani sector of the Caspian Sea to the Ceyhan port in Turkey, enabling onward distribution to European markets via the Mediterranean Sea. Since its inception, the BTC pipeline has also facilitated the transit of crude oil from Turkmenistan, and, as of October 2013, BTC Co. has expanded its operations to include a portion of the crude oil extracted from Kazakhstan’s Tengiz field. This infrastructure continues to underpin Azerbaijan’s integration into European markets and its cooperation with European nations. Additionally, the South Caucasus Pipeline plays a vital role in bolstering the country’s economic growth.



Graph 2. Oil rents (% of GDP)

Source. World Bank data

During the Russia-Ukraine war and the economic sanctions imposed on Russia by Western countries, European demand for Azerbaijan's natural gas has surged. Following the discovery of the Shah Deniz gas-condensate field in 1999, plans were made to transport natural gas from this project to Turkey via the Baku-Tbilisi-Erzurum pipeline. The second phase of the Shah Deniz development expands this effort, channeling gas to Turkey and Southern European countries through the upgraded South Caucasus Gas Pipeline, the Trans-Anatolian Natural Gas Pipeline (TANAP), and the Trans-Adriatic Pipeline (TAP). In the near future, natural gas exports to Europe are projected to reach 27 billion cubic meters.

Azerbaijan's economic growth significantly contributes to its transformation into an eco-friendly nation and a hub for 'green energy.' The country possesses considerable potential for developing alternative and renewable energy sources. The government has established ambitious targets, including raising the share of installed renewable energy capacity to 30% by 2030 and designating Karabakh and Eastern Zangezur as 'green energy' zones (Republic Newspaper, <https://respublika-news.az>, November 29, 2024). Practical steps are already being taken to export green energy, a sector viewed as highly promising. Notably, construction has commenced on underwater cables beneath the Black Sea to facilitate the export of green energy to European countries. Azerbaijan has invested approximately \$20 billion in the Turkish economy. While its economy heavily relies on oil, this dependence renders it vulnerable to fluctuations in global oil prices. For example, in 2015, when crude oil prices plummeted on the world market—dropping from roughly \$150 per barrel to \$15–\$20—Azerbaijan's economy faced significant repercussions. The national currency, the manat, lost half its value due to devaluations in February and November of that year. Oil revenues sharply declined, leading to reductions in both nominal and real GDP. In oil-dependent nations like Azerbaijan, economic growth and contraction are closely tied to volatility in global oil prices.

Economic growth can also be achieved through the intensive utilization of existing economic potential and the expansion of the geographic scope of economic activity—specifically, by broadening foreign economic relations and diversifying the economy. The expansion of the geographic scope of economic activity occurs through the development of bilateral intergovernmental relations, such as cooperation with European countries, or through participation in various integration frameworks. These include the Turkic Council, joint energy projects involving Azerbaijan, Kazakhstan, and Uzbekistan, as well as organizations like the Islamic Development Bank, the Organization of Islamic Cooperation, and the Economic Cooperation Organization. Azerbaijan functions as both a capital-importing and capital-exporting nation. State entities and private entrepreneurs from Azerbaijan have invested in businesses across countries including Russia, Georgia, Belarus, and various European nations. Notably,

Azerbaijan ranks among Turkey's largest investors. Enterprises operating abroad with Azerbaijani capital play a vital role in bolstering the country's economic growth. A prominent example is the 'Star' oil refinery in İzmir, Turkey, inaugurated in October 2018 and fully funded by Azerbaijani capital. The State Oil Company of Azerbaijan (SOCAR Turkey Energy AS) holds a 60% stake, with the remaining 40% owned by Azerbaijan's Ministry of Economy. This facility processes Azerbaijani crude oil and serves as the primary supplier of raw materials for Turkey's Petkim chemical production plant.

Through these investments in Turkey's economy, Azerbaijan gains value by transforming its crude oil into finished products. The 'Star' refinery boasts an annual processing capacity of 10 million tons of crude oil. Projections indicate that Azerbaijan will generate \$864 million in revenue during the refinery's first five years of operation and an additional \$614 million over the subsequent ten years. Although situated beyond Azerbaijan's geographical borders, the refinery remains integral to its economic sphere, exemplifying the expansion of its economic influence.

A key aspect of expanding the scope of economic activity in pursuit of economic growth is the establishment of international transport corridors. A critical condition for achieving this, even for landlocked countries, is securing access to open seas. Notable examples of such corridors include the Bosphorus Strait, the Panama Canal, and the Gulf of Oman. Azerbaijan benefits from advantageous conditions—both in terms of transit time and tariffs—for cargo movement along the East-West and North-South routes. Goods can be transported from the Baku International Sea Trade Port to Turkey via the Baku-Tbilisi-Kars railway, which revitalizes the historic Silk Road, and onward to Europe, or in the reverse direction. This route offers economic advantages for producers and consumers, including lower transportation costs, reduced transit times, and enhanced safety.

Azerbaijan maintains cooperative ties with 176 countries worldwide. Its reputation as a dependable partner has fostered mutual interest in strengthening these relationships. The dynamics of foreign trade further demonstrate that these partnerships serve the interests of all involved parties. In 2023, Azerbaijan's foreign trade turnover totaled \$44.868 billion, with exports accounting for 61.5% and imports 38.5%, yielding a positive trade balance of \$10.298 billion. Notably, non-oil and gas exports grew by 9.8% in real terms compared to previous years, reaching \$3.348 billion (People's Newspaper, March 16, 2024).

Global political tensions have disrupted supply chains, adversely affecting international trade. In 2024, Azerbaijan's foreign trade turnover totaled \$ 47396,4 million, comprising \$ 26338,4 million in exports and \$ 21058,0 million in imports. This resulted in a positive trade balance of \$ 5280,4 million.

Despite the negative positions of certain countries—namely France, Armenia, and the Netherlands—toward Azerbaijan, numerous foreign nations, particularly in Europe, have expressed keen interest in strengthening economic ties with Azerbaijan. This sentiment has been affirmed by Azerbaijani officials at various international forums. Such interest was evident at the COP29 event (UN Climate Change Conference) hosted by Azerbaijan in November 2024 and the Davos Economic Forum in January 2025. During the Davos Forum, Ukrainian President Volodymyr Zelensky declared that Ukraine had ceased transporting Russian gas to Europe and was prepared to facilitate the transit of Azerbaijani gas to Moldova and other European countries through its infrastructure. These developments underscore Azerbaijan's rising international prominence and its reputation as a dependable global partner

RESULT AND DISCUSSION

In contrast to large states—where some economically advanced nations leverage their strengths to exert pressure on others—Azerbaijan has directed its economic growth toward a broader set of priorities. These include strengthening national security, shifting from a resource-dependent economy to one driven by efficiency, and progressively reducing reliance on oil. Notably, the share of oil and oil products in exports has decreased from 90% to 70%, and crude oil from 80% to 60%. Additional goals encompass fostering sustainable development of the national economy, creating a competitive economic framework, raising living standards for its citizens, addressing ecological challenges, and extending financial assistance to underdeveloped smaller states.

National security has consistently been a top priority for Azerbaijan. The country's abundant natural resources and strategic geographical position have long attracted the attention of major powers. Throughout its history, Azerbaijan has faced threats from larger states, notably Russia and Iran, resulting in repeated occupations of its territory. Surrounded by adversarial neighbors such as Armenia and Iran, Azerbaijan could not fully develop its national economy without first securing its sovereignty and safety. Establishing a robust defense system capable of countering military aggression has been a fundamental requirement for achieving this security. Azerbaijan's economic growth has generated substantial foreign currency reserves—approximately \$70 billion—bolstering its capacity to build a defense infrastructure resilient against foreign military threats. This capability was demonstrated during the Second Karabakh War, which began on September 27, 2020, and concluded with victory after 44 days, as well as in the 23-hour anti-terror operation in September 2023 that restored the country's sovereignty. Defense expenditures from the state budget are critical to ensuring Azerbaijan's national security. In the 2025 state budget of the Republic of Azerbaijan, defense spending remains a priority, with approximately 8.5 billion manat allocated for this purpose.

Since regaining independence, Azerbaijan has implemented substantial economic reforms to counter external pressures and achieve macroeconomic stability—a vital prerequisite for economic sovereignty. From 1995 onward, the country's GDP began to grow, hyperinflation subsided, and unemployment rates, which had peaked at 49%, started to decline. The national currency, the manat, introduced in the early years of independence, gradually stabilized against foreign currencies, contributing to a noticeable rise in household incomes. Despite these early improvements, significant breakthroughs in economic development remained elusive during the initial phase, and both economic security and macroeconomic stability fell short of desired levels. The turning point came with the signing of the 'Contract of the Century' in 1994 and the subsequent launch of oil production and exports to global markets in 2006–2007. This period ushered in rapid economic growth, with annual rates reaching 27–30%, which solidified macroeconomic stability and underpinned Azerbaijan's economic security. Rising global oil prices propelled GDP growth, reduced unemployment to its lowest levels—driven by job creation and the successful implementation of State Programs for the Socio-Economic Development of Regions, which cultivated a supportive environment for entrepreneurship—and kept inflation in check. The manat even strengthened against foreign currencies, reaching an exchange rate of 1 USD = 0.78–0.79 manat until early 2015, while household incomes surged significantly. However, the economy's heavy reliance on oil made it vulnerable to a sharp drop in crude oil prices beginning in 2015. This triggered a contraction in GDP and a depreciation of the manat, resulting in two devaluations within the year, pushing the exchange rate to 1 USD = 1.50 manat. The decline persisted until 2017, when the rate stabilized at 1 USD = 1.70 manat.

In 2017, Azerbaijan embarked on a transformative phase of economic reforms that marked a pivotal moment in stabilizing its economy. The manat's exchange rate stabilized, GDP resumed growth, foreign exchange revenues rose, and a strategic policy to lessen the economy's reliance on oil gained traction. Consequently, the contribution of non-oil sectors to GDP expanded to 70%, reflecting a significant shift toward diversification. In 2024, Azerbaijan's GDP reached 126.3 billion manat, reflecting a 4.1% increase from the previous year. GDP per capita rose to 12,382.5 manat. Of this total, approximately 85 billion manat—roughly two-thirds—was generated by non-oil sectors. Agriculture, forestry, and fishing contributed 5.7% to GDP. (Source: State Statistical Committee of Azerbaijan, <https://stat.gov.az>)

Food security is a vital element of economic security and a key priority in Azerbaijan's economic policy. Currently, 70–80% of the population's demand for essential agricultural goods—including crops and livestock products such as grains, meat, dairy, poultry, eggs, and vegetables—is satisfied through imports. Annually, the country allocates roughly \$2 billion to import wheat, flour, and related products.

The integration of the agricultural sector in Azerbaijan's recently liberated territories is poised to play a pivotal role in tackling these challenges. Expanding both the geographical and economic scope of agricultural activity enhances the prospects for achieving food security. The liberated regions offer fertile lands, abundant forests, natural meadows, mountain rivers ideal for high-quality fishery production, and opportunities to cultivate ecologically pure products. These resources will facilitate the reintegration of the region into the national economy, strengthening and diversifying it. This development is expected to reduce reliance on imported agricultural goods, thereby bolstering food security.

Economic expansion drives structural transformations within Azerbaijan's national economy. As the economy's structure strengthens, the composition of exports is also poised to improve. In line with Azerbaijan's commitments at COP28 and COP29 (UN Climate Change Conferences) to reduce carbon emissions by 40–60% over the next 10–15 years, the country is pursuing a policy to green its economy. This shift will bring about qualitative improvements, notably by expanding green energy production—an area where Azerbaijan holds significant potential. This policy will not only satisfy a substantial share of energy needs across diverse economic sectors but also position Azerbaijan as a dependable supplier of green energy to European countries. (Preliminary memoranda of understanding have already been signed with several European nations.)

CONCLUSION

Azerbaijan's economic expansion integrates geographical restoration, international connectivity, and sustainability, distinguishing it from growth-centric models. Oil initially fueled expansion, with the "Contract of the Century" and pipelines driving GDP and reserves. Post-2020 liberation and diversification—via non-oil sectors, green energy, and transport corridors—signal a shift toward resilience. Unlike large states' exploitative strategies, Azerbaijan leverages its modest scale for security, efficiency, and cooperation, aiding smaller states with financial support. Challenges like oil dependency and food imports persist, but liberated territories and green policies offer solutions. Future research should explore the long-term sustainability of these efforts, balancing resource wealth with structural transformation.

REFERENCES:

Abdelkawy, N. A. (2024). Diversification and the resource curse: An econometric analysis of GCC countries. *Economies*. <https://www.scopus.com/record/display.uri?eid=2-s2.0-85208592088&origin=scopusAI>

Acemoglu, D. (2009). *Introduction to modern economic growth*. Princeton University Press.

- Acemoglu, D., & Robinson, J. (2019). *The narrow corridor: States, societies, and the fate of liberty*. Penguin Books.
- Aliyev, U. Q. (2018, April 20–22). The ancient Silk Road on steel highways. In *Materials of the International Conference* (pp. not specified). Istanbul, Turkey.
- Aliyev, U. Q. (2019, December 20). Economic growth. In *Materials of the Republic Scientific Conference* (Vol. 1, pp. 42–46). Baku, Azerbaijan: UNEC.
- Aliyev, U. Q., & Quliyeva, G. U. (2024, May 23–25). The impact of global climate change on the formation of "green economy." In *Materials of the VI International Scientific Conference on Economics and Management* (pp. not specified). Baku, Azerbaijan.
- Archibugi, D. (2017). Blade Runner economics: Will innovation lead the economic recovery? *Research Policy*. <https://www.scopus.com/record/display.uri?eid=2-s2.0-85005915298&origin=scopusAI>
- Azerbaijan 2030: National priorities for social and economic development state program*. (2021). Government of Azerbaijan.
- Babayev, B. (2020). Growth patterns and diversification issues of the non-oil export sector in Azerbaijan. *Economic Sciences: Theory and Practice*, 77(2). <https://www.ecosciences.edu.az/view.php?lang=en&menu=18>
- Brynjolfsson, E., & McAfee, A. (2014). *The second machine age: Work, progress, and prosperity in a time of brilliant technologies*. W. W. Norton & Company.
- Chygryn, O., Petrushenko, Y., Vysochyna, A., & Vorontsova, A. (2018). Assessment of fiscal decentralization influence on social and economic development. *Montenegrin Journal of Economics*. <https://www.scopus.com/record/display.uri?eid=2-s2.0-85061301266&origin=scopusAI>
- International Energy Agency. (2024). [Details unspecified in the document; assumed as a referenced report on renewable energy].
- Huseynova, Z. (2023). The correlation between gender pay gap and GDP growth in Azerbaijan economy. *Economic Sciences: Theory and Practice*, 80(1). <https://www.ecosciences.edu.az/view.php?lang=en&menu=18>
- Kotz, D. M. (2008). Contradictions of economic growth in the neoliberal era: Accumulation and crisis in the contemporary U.S. economy. *Review of Radical Political Economics*. <https://www.scopus.com/record/display.uri?eid=2-s2.0-43149121991&origin=scopusAI>

- Kotz, D. M. (2019). The rate of profit, aggregate demand, and the long economic expansion in the United States since 2009. *Review of Radical Political Economics*. <https://www.scopus.com/record/display.uri?eid=2-s2.0-85069532754&origin=scopusAI>
- Krugman, P. (1979). A model of innovation, technology transfer, and the world distribution of income. *Journal of Political Economy*, 87(2), 253–266.
- Lucas, R. E. (1988). On the mechanics of economic development. *Journal of Monetary Economics*, 22(1), 3–42.
- Mahmudov, N. (2023). Effects of transportation infrastructure on economic growth in Azerbaijan: ARDL bounds testing approach. *Economic Sciences: Theory and Practice*, 80(1). <https://www.ecosciences.edu.az/view.php?lang=en&menu=18>
- Mankiw, N. G. (2007). *Principles of economics: Macroeconomics section* (4th ed.). Thomson South-Western.
- Rahimov, V. (2024). Relationship between PPI and CPI in Azerbaijan: A wavelet approach. *Economic Sciences: Theory and Practice*, 81(1). <https://www.ecosciences.edu.az/view.php?lang=en&menu=18>
- Romer, P. M. (1990). Endogenous technological change. *Journal of Political Economy*, 98(5, Part 2), S71–S102.
- Schumpeter, J. A. (1939). *Business cycles: A theoretical, historical, and statistical analysis of the capitalist process*. McGraw-Hill.
- Solow, R. M. (1956). A contribution to the theory of economic growth. *Quarterly Journal of Economics*, 70(1), 65–94.
- Stern, N. (2006). *The economics of climate change: The Stern review*. Cambridge University Press.
- The Guardian. (2025). Davos 2025: AI and economic growth. Retrieved from <https://www.theguardian.com/business/live/2025/davos-ai-economy>
- World Economic Forum. (2025). *Davos 2025: The future of economic expansion*. Geneva, Switzerland.