

Azerbaijan

In Line To Prosper

Azerbaijan may not be the most well known nation on the Caspian Sea, but its economic importance in the region is growing. This country, at the crossroads of Eurasia and the Middle East, managed to strike gold with its oil and gas wealth, attracting large energy corporations to its shores. In the 13 years since independence from the former Soviet Union, Azerbaijan has greatly improved its business climate, but President Ilham Aliyev now seeks to bring rural, diversified, and non-energy enterprises in line with the prosperous oil sector.

Where there's a well, there's a way

It was not an easy start for the Republic of Azerbaijan. Having declared its independence from the former Soviet Union in 1991, a period of economic and political chaos ensued that was adversely affected by the territorial war in the enclave of Nagorno-Karabakh. However, in 1994 two major milestones were achieved by the then President Heydar Aliyev. Stability was restored by a ceasefire with Armenia that despite unresolved issues is still in force today. But more importantly, Aliyev's economic reforms received a major boost when he signed what came to be known as the "Deal of the Century", a \$7.4-billion, 30-year contract between the State Oil Company of Azerbaijan (SOCAR) and a consortium of 13 major oil corporations. Joint exploitation of the Azeri, Chirag, and Guneshli wells in Azerbaijan's sector of the Caspian Sea fuelled the country's economy, which in cooperation with the IMF saw GDP growth shoot up and inflation brought down significantly.

Especially with global demand and oil prices having soared to record heights, Azerbaijan's oil sector has remained a sizeable 54 percent contributor of its GDP. Growth for 2006 was 34.5 percent. But this has also meant symptoms of "Dutch Disease" becoming more prevalent, notably in the 16 percent inflation recorded by the National Bank of Azerbaijan in 2007's first quarter. The current government of President Ilham Aliyev has therefore vigorously turned its Economic Reform Plan into a quest for diversification, focusing on several non-energy sectors with promising opportunities.

One of these is the historically important agriculture sector. Uniquely, nine of the eleven existing climatic conditions are present in Azerbaijan, and this has created outstanding conditions for a wide variety

of produce. Another blossoming sector with the country's evident cash influx is property. Construction is moving apace with the country's growth and the capital, Baku, is already



President Ilham Aliyev

being dubbed "Mini-Dubai" by some, although architects, entrepreneurs, and politicians alike are keen to retain some of Baku's fabled splendor. The financial sector is infant yet prosperous with petrodollars strengthening the manat, the national currency, but the banking system awaits the imminent privatization of the International Bank of Azerbaijan (IBA), one of the two dominant state-owned banks. Tourism is also high on the list of priorities, as the country's cultural landscape is rich and hospitable.

All indicators show Azerbaijan is ready for its second economic boom. It shows the will and leadership to create a better climate for business and citizens on a national level, improved ties with neighbors in the Caspian region, and increased exposure towards the global scene. President Ilham Aliyev recently said that successful mega-projects such as the Baku-Tbilisi-Ceyhan oil pipeline, Baku-Tbilisi-Erzurum gas pipeline, and the Baku-Tbilisi-Kars railway line are of special significance not only regionally but to all of Eurasia. "Global partnership has turned the Black and Caspian Sea region into a zone of equitable cooperation, and accelerated the process of integration into the world economy." ■

Economy Bears Fruits

In its 2005 White Paper, the American Chamber of Commerce in Azerbaijan (AmCham) made the following observation: "In order to achieve broad, equitable growth, and reduce poverty, Azerbaijan must focus attention and resources on revitalizing the agricultural economy." AmCham, whose members represent a broad cross-section of Azerbaijan's international business community, recommended the country's rich soils, agricultural plains, and varied climatic conditions present an ideal opportunity to turn subsistence farming into a thriving agricultural processing and exporting industry.

Vegetables, fruit, cotton, and tobacco growing are the sector's mainstays. However, the problem in utilizing its full potential is that up until recently crucial infrastructure such as refrigerated warehouses, transportation infrastructure and up-to-date processing plants were largely lacking. Agriculture therefore needs the private sector to boost its true potential. "We believe in free trade and commercial relations with partners around the world," President Aliyev writes in the 2007 Investment Guide published by the US-Azerbaijan Chamber of Commerce (USACC). "The USACC is a major player in helping establish such connections and cooperation."

With government initiatives aimed at gaining World Trade Organization membership, the target is to bring Azeri products and processing up to international quality standards. The leader in this field is Azersun Holding, a manufacturing company with a strategic focus on food products. Since 1991, the company has opened state of the art enterprises equipped with the latest technology and began branding with the label 'Made in Azerbaijan'. Especially Azeri Pomegranate juice is famous abroad and Azersun is driving export efforts to the US, European, and Russian markets.

Today, with personnel of 4,000, Azersun Holding has become a provider to both the local community and the national economy. The company's CEO and President Abdoolbari Goozal, explains that since its first edible oil, tea, cardboard, canned food, and sugar factories opened, consumer trust in the quality of local products has risen. "Today our goal is to use know-how and technology of developed countries such as the United States in the improvement of our agriculture industry."

This is manifest in collaborations with US-based Valmont Industries Inc. "In 2007 we succeeded in sowing 740 acres of land and in 2008 we plan to sow various crops on 1,700 acres," says Mr Goozal. "Our aim, together with Valmont, is to direct 7,400 acres of land into agriculture." Azersun sees itself in a good position to import US products in the future, as well as exporting Azeri products such as pomegranate juice to the US. "Azerbaijan has globalization as one of its major priorities, and one day our country will be an active participant of this process." ■

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Advancing on Caspian Advice

A word of advice: when doing business in Azerbaijan, consult an Azeri firm. Professional knowledge of the Caspian business culture is of course key to successfully running an enterprise in this region, and consultancies with a wider scope will get you closer to your goal. Consider Khagani Bashirov's VES Consultancy. Set up on the cusp of the country's independence, Bashirov's company has gained intimate experience in the needs of foreign enterprises wishing to set up shop on Azeri soil or sea.

"At first we did very simple things like helping companies register themselves," says VES Consultancy's Chairman. "Later we enriched our services with legal advice, accountancy, financial, and administrative guidance." One of its most comprehensive products is a legal database of Azerbaijani legislation in multiple languages including English, a vital tool even for some clients of VES which are state-owned organizations. It has also proven a valuable partner for European companies wanting to move into the Kazakh, Georgian, and Russian markets. VES's aim is to exteriorize Azerbaijani business, forging links between Caspian companies and Europe and vice versa. To this end VES Consultancy has set up offices in mul-

iple cities including Paris, London, Luxembourg, Geneva, and Cyprus.

"The power and priority of our services is that we bridge East and West, we know the mentality of the people from Azerbaijan, Russia, Kazakhstan, and at the same time we know how to deliver the message for the European mentality," explains Bashirov. "Azerbaijan is in the center of the region and I want to see it grow as a leader in the next five years." Over the last

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few years Bashirov has also developed many companies in the region and Europe. Besides his holding group's activities in oil related interests, such as Camelot Oil & Gas Development and filling stations under the Caspian Management Systems group, great focus has been put on the non-oil sector. Through General Construction Corporation the group has become a leader in construction projects, involved in industry, agriculture, housing, tourism, and sport projects. Recent developments include Olympic complexes, a Paper Development Project, as well as a business center and hotel in Baku.

"Azerbaijan is a very beautiful and safe country, and I believe the development of tourism and bio-agriculture is very interesting," admits Bashirov. "I invite interested parties to come and make the environment more beautiful and competitive."

International collaborations indeed work beneficially for both sides. Mr Faik Rzayev, Founder and General Director of engineering and consultancy firm Encotec, says its ongoing relationship with BP has provided the energy corporation with support and insight into the Caspian markets, and in return Encotec has gained confidence and credibility to take on even more complex contracts. "We offer multidisciplinary services that cover a comprehensive range of engineering activities in the oil and gas industries as well as procurement and project management. Through undertaking the knowledge and experience of other companies we became experts in international standard requirements," says Rzayev. Consequently, Encotec was voted 'BP Company of the Year' in 2006. "We may not yet be leaders in terms of turnover, but in quality we are value for money."

On the world stage

In the end it all comes down to understanding the culture. Azerbaijan's Minister of Tourism and Culture Abulfaz Garayev points out that the best way to improve the perception of Azerbaijan, a secular Islamic state, is through enhancing its tourism profile on the world stage. This holds true for most of the countries in the region, in terms of both business and casual visitors. "We have to strengthen the potential of cultural diversity and the heritage of Islamic countries," says Minister Garayev. "People will experience the hospitality,

respect traditions, religions, and origins of our people. This country is situated between East and West, North and South, between Islam and the European mentality. It is very unique and has a special culture."

Having observed the potential tourism offers in creating employment and generating revenue for the economy, Azerbaijan has pulled together its resources to develop the necessary infrastructures to reach high quality standards. Minister Garayev shares that participating in over 20 international expositions each year is starting to attain the desired effect. Up to 25 hotels are being built annually in Azerbaijan, a ski resort in the southern region of Gusal is in the works, and an ecological entertainment destination is being created on the island of Nargi. In order to best service the sector an Institute of Tourism has been opened to further education in the field in special agreement with Austria's IMC University of Applied Sciences. "For the first time our students will receive a double diploma from the University of Azerbaijan and IMC in Austria. This will allow our graduates to work everywhere and gain better knowledge and experience." Garayev insists the state is taking responsibility for the tourism sector, funding museums, the national Opera, theatres, and music festivals to boost the country's cultural profile. "Azerbaijan is a destination of many diverse activities and possibilities. Culture, heritage, and tourism are considered one and the same." ■

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