



International Journal of Tourism and Hospitality

Publisher's Home Page: <https://www.svedbergopen.com/>



Research Paper

Open Access

Diversification Policy in Azerbaijan: An Overview of the Tourism Sector

Elnur Jamalkhanov^{1*}

¹Azerbaijan State Agricultural University, Baku, Azerbaijan. E-mail: elnurjamalkhanov@gmail.com

Article Info

Volume 2, Issue 2, January 2022

Received : 09 July 2021

Accepted : 15 December 2021

Published : 05 January 2022

doi: [10.51483/IJTH.2.1.2022.1-7](https://doi.org/10.51483/IJTH.2.1.2022.1-7)

Abstract

The slump in the oil prices in mid-2014 has led to an economic recession in Azerbaijan affecting the local currency, budget revenues, foreign exchange rate, and balance of payments. Following the outcomes of the global oil shocks, the country had to build a recovery path in order to ensure sustainable economic growth. Since that time, the government has stressed a need for economic diversification and focused on the development of the non-oil sector. Tourism is considered one of the main sectors with large potential. Therefore, an analysis of this sector will provide an opportunity to access its potential in terms of contribution.

Keywords: Azerbaijan, Diversification, Tourism, Economic growth

© 2022 Elnur Jamalkhanov. This is an open access article under the CC BY license (<https://creativecommons.org/licenses/by/4.0/>), which permits unrestricted use, distribution, and reproduction in any medium, provided you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license, and indicate if changes were made.

1. Introduction

The development of Azerbaijan's hydrocarbon resources has driven economic growth as oil exports fuelled Azerbaijan's transition to an upper-middle-income country. Although the process of transition reflected significant economic growth, the country became vulnerable to external shocks. The vulnerability of the Azerbaijani economy was revealed during the acute fall of crude oil prices in world markets in mid-2014.

Taking into account the aforementioned, the government has focused on the implementation of a diversification policy in order to lessen the degree of dependency on resources. That is, the government has implemented some measures to boost its investments through targeted policies to maintain sectors with high potentials, such as agriculture, tourism, communications, and renewable energy (USAID, 2020). In a meantime, the attraction of foreign investments to these fields may support the sustainable development of sectors assisting the effective implementation of a diversification policy. The consequences of the oil shock and the necessity for transition to a more diversified economy were studied by Bayramov and Abbas (Bayramov and Abbas, 2017). The study revealed that the failure in the achievement of a diversified economy may be related to poor diversification of infrastructure investment. A more detailed analysis of factors hampering economic diversification in Azerbaijan illustrates that strategic approach along with poor involvement of social actors in the process and labor intensity of many priority areas appear to be major obstacles affecting the development of the non-oil sector (Strategic Roadmap for the Development of Specialized Tourism Industry in the Republic of Azerbaijan, 2021).

One of the major policy directives aimed at the future socioeconomic development applied by the government of Azerbaijan is the Strategic Roadmap on National Economy accepted in 2016. In this regard, special task force groups were appointed in 11 directions of economic diversification. The main priority reflected the development of the non-oil

* Corresponding author: Elnur Jamalkhanov. Azerbaijan State Agricultural University, Baku, Azerbaijan. E-mail: elnurjamalkhanov@gmail.com

sector through reforms in agriculture, tourism and hospitality, logistics, and telecommunication and information technologies (Heinrich Boll Stiftung, 2020).

Being one of the sectors with a considerable potential for development, the tourism sector has to be properly developed in order to attract a sufficient number of visitors to make a significant contribution to economic growth. At the same time, it has to be mentioned that the spread of COVID-19 has seriously harmed the country's tourism industry. As a part of the recovery path, the government has to provide sufficient financing to recover and maintain the development of industry, specifically expanding and improving tourism infrastructure (Asian Development Bank, 2020).

Azerbaijan has a favorable geographic location and is rich in ancient history, cultural sites, and fascinating nature. That is, in the framework of the implementation of efficient policies and initiatives, the sector might be considered as one of the major contributors to the GDP. The existence of high skilled personnel and further simplification of the traveling opportunities for foreign and domestic tourists may assist in the foregoing issue.

The development of the tourism sector remains one of the major and budding opportunities for economic development and further sustainability of the Azerbaijani economy (CESD Press, 2019). Improved legislation covering tourism and its management systems, developed legislative framework, and incentives for the creation of tourism facilities and recreation zones will ensure the sustainable development of the sector (Lashitew *et al.*, 2020).

2. Assessment of a Diversification

The diversification of the economy became one of the main priorities for the government of Azerbaijan since the economic recession took place on the background of the mid-2014 oil shock. The drop in oil gas prices has led to financial difficulties in many resource-rich countries and triggered a renewed push for diversification (Ross, 2019). A recent outbreak of COVID-19, in its turn, has identified an urgent need for a diversified economy.

Diversification of the economy tends to be more actual for resource-rich countries due to their vulnerability to external shocks has indicated that without economic and export diversification resource-dependent countries will be considered vulnerable to various external shocks (Esanov, 2012). In resource-rich countries, the process of diversification implies moving the production base away from the extractive sector via maintenance of manufacturing and other non-oil sectors (Bayramov *et al.*, 2019).

Resource dependence (the share of resources in exports or GDP) is usually negatively associated with competitive capabilities (e.g., stock of infrastructure per person), while resource abundance (resource rents per person) has positive associations with some competitive capabilities (Lashitew *et al.*, 2020).

There are several approaches towards the measurement of diversification, however, some scholars indicate that the Herfindahl-Hirschman Index (HHI) reflects the most effective indicator of measurement of diversification. The index is calculated in accordance with the following formula:

$$HHI = \sum_{i=1}^N s_i^2$$

While measuring the level of diversification, it has to be noted that the country is in a better position to diversify its production base if it has a well-developed physical infrastructure and viable institutions.

3. Development of Tourism Sector in Azerbaijan

It goes without a doubt that the tourism industry is sensitive to macroeconomic conditions, which is why it is vulnerable to economic recessions. In the case of Azerbaijan, tourism growth has been—affected by swings in the manat as well (Strategic Roadmap for the Development of Specialized Tourism Industry in the Republic of Azerbaijan, 2021).

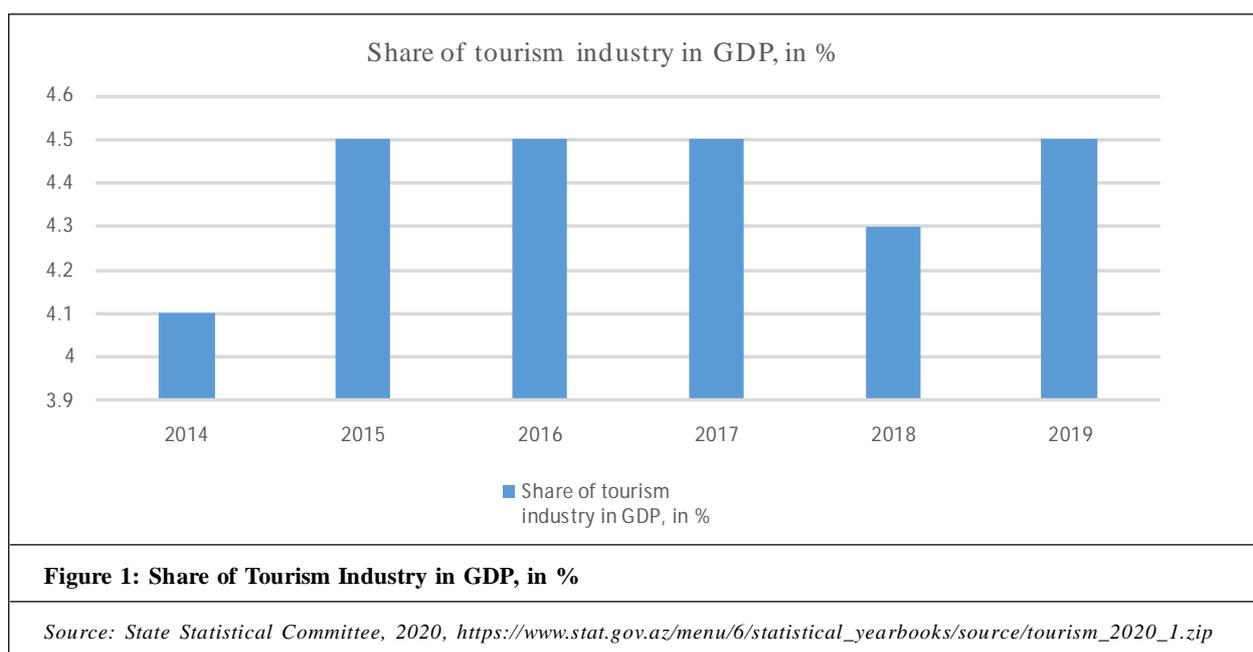
Despite a considerable boost in tourism since 2008, the sector has to be improved in order to attract more visitors and increase the contribution to economic growth. A new state program devoted to the development of tourism covered the period between 2010-2014. The newly implemented program aimed to establish a modern tourism industry that meets the highest economic, social, and environmental requirements. At the same time, it could ensure the tourism becomes one of the major sectors contributing to economic growth. Moreover, it is worth mentioning that one of the major changes that occurred over the considered period was the amendment applied in visa procedures. In accordance with the changes, tourism companies could apply online to obtain a visa for tourists, alleviating the procedure by making it more convenient for visitors (Guliyev, 2015).

The resolution on the approval of administrative regulations on electronic services was approved in 2013. According to the aforementioned resolution, the implementation of e-services was approved. The devaluation of the Azerbaijani manat occurred in 2014 after the sharp drop in oil prices in the world market (Bayramov and Orujova, 2017). Due to this,

the government had to find alternative ways of recovery and focus on the development of the non-oil sector. Therefore, the development of the tourism sector was one of the effective ways to strengthen the macroeconomic environment of Azerbaijan (Bayramov, 2021). From this perspective, it could be stated that the oil price shock has affected the tourism strategy of Azerbaijan and led to the establishment of modern tourism infrastructure and policies.

It has to be mentioned that the volume of investment in the tourism industry has significantly increased in 2014 (38%). However, after the recession in 2014, an opposite tendency could have been observed, as the investment has declined double, from 2.2040 mln manat to 1.0639 mln manat between 2014-2015. The process continued as the volume of investment in 2019 was composed of 133.7 Million manat¹.

From Figure 1 a share of the tourism industry in GDP might be observed. It becomes clear that after a slump in oil prices in 2014 the indicator remains relatively the same over the following three years. However, a slight decrease in 2018 followed by.



Up to 2020, prior to the rapid spread of coronavirus infection in Azerbaijan, the tourism sector was growing steadily. That is, tourism is among Azerbaijan's key sectors severely affected by the outbreak of a disease. Taking into account that the borders were closed, all incoming and outgoing passenger flights have been suspended, which led to the stagnation in the tourism industry, respectively. The overall number of visitors to Azerbaijan decreased by 92% since the COVID-19 outbreak emerged (CESD Research Group, 2020). In order to lessen the damage arisen on the background of the pandemic, the government has allocated 3.5 billion manat to maintain the sector (CESD Research Group, 2018). At the same time, the Azerbaijan Tourism Board (ATB) has developed a four-phase plan in order to put tourism back on track after the pandemic subsides. At the current stage, the sector is on its recreational path since the number of passenger flights to and from Azerbaijan increases steadily.

4. Structure of the Sector by Type of Tourism

In accordance with the definition of the United Nations World Tourism Organization (UNWTO), tourism entails the movement of people to countries or places located outside their usual environment for personal or business/professional purposes. Tourists are usually classified following their level and type of interaction with the destination. Different types of tourism include heritage, cultural, urban, rural, eco, and nature-based tourism.

The figures provided by the State Border Service of Azerbaijan for the year 2019, indicate the success of the tourism industry: 3,170,400 foreigners from 193 countries visited Azerbaijan. It is worth mentioning that the indicator is 11.3% more in comparison with 2018. The major part of visitors was registered from bordering countries of the Commonwealth of Independent States (CIS) and the Gulf countries. Furthermore, an increase in the number of visitors from Israel, India, China, Egypt, Malaysia, Hungary, Poland, the United Kingdom, Philippines, Spain, South Korea, and Germany was noticed as well (Public Administration in EU Eastern Partner Countries: Comparative Report, 2011).

¹ State Statistical Committee, 2020-https://www.stat.gov.az/menu/6/statistical_yearbooks/source/tourism_2020_1.zip

The main activities that summon these visits are leisure, business, and visiting friends and relatives, while a lesser extent is devoted to medical and religious tourism. Azerbaijan became an attractive destination for foreigners due to its policy of becoming a premium MICE (Meetings, Incentives, Conferences, and Exhibitions). An initial point was the Eurovision Song Contest in 2012, followed by the first European Games in 2015 and the investment that allowed the construction of modern facilities and sports complexes. The European Grand Prix, a Formula 1 race held annually on the Baku City Circuit from 2017 made its contribution to the prosperity of tourism as well (CESD, 2016).

Figure 2 illustrates the number of arrived/dispatched tourists. It might be observed that after an economic downturn in 2014, there was a sharp decline in the number of visitors.

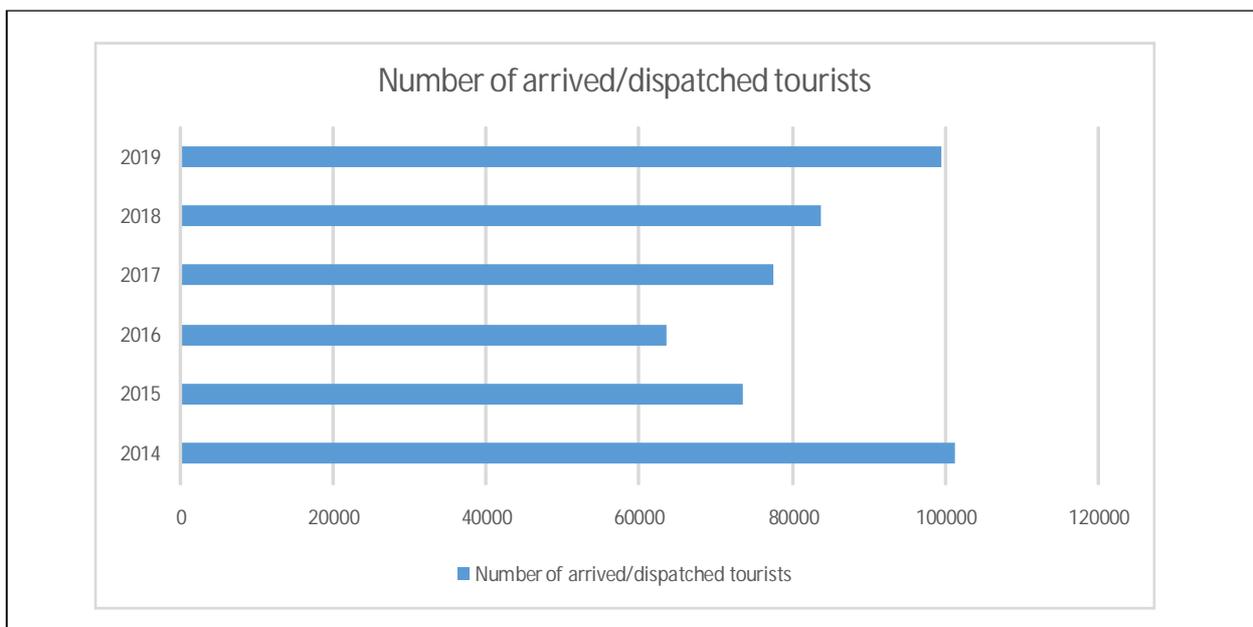


Figure 2: Number of Arrived/Dispatched Tourists, Person

Source: State Statistical Committee, 2020

It goes without a doubt that Azerbaijan is seen as an attractive spot for tourists visiting the country for leisure to its historical and cultural heritage as part of the Great Silk Road. The country is famous for its cave paintings, ancient temples and has more than 7.500 natural, archaeological, architectural, and historical monuments.

Table 1 demonstrates indicators of the purpose of travel of foreign citizens visiting Azerbaijan between 2006 and 2019. In a meantime, an increase in the number of visitors yearly might be clearly observed as well.

	2014	2015	2016	2017	2018	2019
leisure, recreation purpose	709.9	668.8	697.1	839.3	1042.4	1164.0
business purpose	670.5	632.3	691.7	834.4	787.4	850.5
treatment purpose	46.3	36.5	41.5	49.1	63.1	63.9
religious visit	13.7	11.5	12.6	14.7	15.3	16.6
visiting friends and relatives	677.1	542.0	562.0	674.9	651.6	719.9
other tourism purpose	42.2	30.8	39.8	41.6	45.5	48.6

Source: State Statistical Committee, 2020

While Azerbaijan represents an exciting and comfortable destination with a variety of activities and natural richnesses for those, traveling for leisure, the establishment of tourist infrastructure in the recreation zones may positively affect the

dynamics of tourists visiting the country for treatment purposes. At the same time, it is worth mentioning that some experts predict a gradual increase in the tourism indicators as newly liberated territories in Nagorno-Karabakh will attract more foreigners and investment into this region (Bayramov, 2021).

5. Challenges and Opportunities

Since tourism has been prioritized by the government and many programs have been implemented in order to develop the sector in Azerbaijan, the flow of both foreign and local investment has been attracted to the country. By being a multinational and multi-confessional state, the Republic of Azerbaijan is conducting a policy of full integration into the international community attaching great importance to the development of mutual relations and the relations of bilateral and multilateral cooperation in the international area. Taking into account the geographical importance of Azerbaijan, location on the Silk Way has a considerable impact on east-west, north-south economic relations. It plays an essential role in tourism relations with other countries.

The Strategic Roadmap for the national economy and key sectors of the economy was developed to ensure economic development and the prosperity of a national economy focusing on the prioritization of the key sectors ([Strategic Roadmap for the Development of Specialized Tourism Industry in the Republic of Azerbaijan, 2021](#)). Therefore, it encompasses actions such as the support of tourism sector development, supply of high quality and competitive tourism services, attracting new investment projects focusing on state-of-the-art ideas and innovations along with efficient interaction among respective bodies involved in the tourism sector development. It is assumed that Azerbaijan will become one of the top growing tourism destinations in the region and around the world by 2025. That is, the country aims to be one of the most preferred and attractive 20 touristic locations by 2025.

The existing environment offers uniquely authentic local experiences such as hiking between remote mountain villages through the Greater and Lesser Caucasus Mountains, exploring the craft heritage of former Silk Road settlements, visiting lemon and tea plantations in the south, etc. Development of the existing infrastructure and establishment of modern one may boost the interest level and tourist flow, respectively. To that end, more international airports are expected to be built in the liberated territories of the Nagorno Karabakh region so interregional connectivity is constantly being developed. In a meantime, it is worth mentioning that the number of tourism activities is growing as well ([Bayramov, 2021](#)).

However, focusing on the current challenges that emerged on the background of a pandemic, it becomes clear that contact-intensive services crucial to tourism and travel sectors were severely affected by the pandemic ([International Monetary Fund, 2020](#)). At the same time, the pandemic fueled an increasing demand for nature-related, eco-friendly, and outdoor activities. Due to the closed borders, growing demand for domestic travel among the citizens and residents of Azerbaijan was noticed. ATB has launched a domestic tourism campaign named “MacYra Yaxýndadýr” (“Adventure is Near”) to maintain the industry and encourage local people to discover the beauties country has to offer.

Undoubtedly, the post-pandemic era will require greater attention to health, hygiene, and safety in order to ensure sustainable tourism performance. Development of nature and environmental tourism, e.g., marking hiking routes and creating infrastructure for birdwatching along with genuine, authentic experiences and activities such as rural guesthouse infrastructure improvement are on the top of priorities in the recreational path of the tourism sector.

6. Conclusion

Tourism and tourism-related sectors, such as airlines reside difficult period since an outbreak of COVID-19 occurred. In Azerbaijan, the development of the tourism sector prior to 2020 succeeded and everyone acknowledged that the tourism industry is an important part of the non-oil sector due to its significant contribution to the GDP.

On the other hand, a need to tackle a number of issues in Azerbaijan’s tourism sphere remains. To that end, raising the quality of services seems to be one of the major policies to be implemented, although it seems complicated during the crisis. Supporting small accommodation units in the regions, e.g. guest-houses, family houses, village houses, etc. seems to be reasonable as it will upgrade part of their infrastructure and appear as direct support to local entrepreneurs.

As was mentioned above, the attraction of foreign investment plays a crucial role in the sector’s development. The attraction of foreign investment might be possible by introducing regions’ tourism potential, strengthening institutional support, and structural changes in the management of tourism capital.

Contribution to skill and capacity-building activities seem crucial in terms of preventing one of the main problems the industry is facing—a decrease of the high skilled labor force. Education and skills development trainings have to be

provided to tourism industry members, state officials, and community members to keep companies engaged in the sector afloat, project jobs, and trained qualified professionals.

A comparative analysis has indicated that in comparison with tourism industries in other countries, Azerbaijan has weaknesses related to the visa obtaining process and accessibility. In this regard, it has to be mentioned that the introduction of the e-visa was the first step and many countries have benefited from it. However, there is a need to enlarge the list of countries with visa-free entry to tourists. Following the connectivity issue, it is hard not to notice that even though there were some improvements over the last two years, there is a need to ensure a qualified air/train connection.

In order to further develop the sector and ensure its prosperity, there is a need to focus on major challenges and weaknesses of the tourism industry to prepare an efficient strategy of development. Currently, the establishment of modern infrastructure in the regions and increasing the quality of the tourism products and services seem as major steps on the sector's developmental path.

References

- Asian Development Bank. (2020). *AZERBAIJAN: Moving Toward More Diversified, Resilient and Inclusive Development*. <https://www.adb.org/sites/default/files/publication/624476/aze-diversified-resilient-inclusive-development.pdf>
- Esanov, Akram. (2012). *Economic Diversification: Dynamics, Determinants and Policy Implications*. *Revenue Watch Institute*, https://www.resourcegovernance.org/sites/default/files/RWI_Economic_Diversification.pdf
- Lashitew A Addisu., Michael L Ross. And Eric Werker. (2020). *What Drives Successful Economic Diversification in Resource-Rich Countries?*. <https://doi.org/10.1093/wbro/lkaa001>
- Bayramov, Vugar. and Abbas, Gulnara. (2017). *Oil Shock in the Caspian Basin: Diversification Policy and Subsidized Economies*. *Elsevier, Resources Policy*, 54, 149-156. <https://doi.org/10.1016/j.resourpol.2017.10.006>. Accessed on June 27, 2020,
- CESD Press. (2019). *Azerbaijan's Tourism Sector – Opportunities and Obstacles*. http://cesd.az/new/wp-content/uploads/2019/08/CESD_Paper_Tourism_2019.pdf
- USAID. (2020). *Country Development Cooperation Strategy (CDCS)*. <https://www.usaid.gov/sites/default/files/documents/CDCS-Azerbaijan-May-2025.pdf>
- Bayramov, Vugar., Dan, Breban., Mukhtarov, Elmira. (2019). *Economic Effects Estimation for the Eurasian Economic Union: Application of Regional Linear Regression*. *Communist and Post-Communist Studies*, 52(3), (<https://doi.org/10.1016/j.postcomstud.2019.07.001>)
- Strategic Roadmap for the Development of Specialized Tourism Industry in the Republic of Azerbaijan, <https://monitoring.az/assets/upload/files/d53a6f3606f2ec987a4084ee6664380e.pdf>
- International Monetary Fund. (2020). <https://www.imf.org/external/pubs/ft/fandd/2020/12/impact-of-the-pandemic-on-tourism-behsudi.htm>
- Heinrich Boll Stiftung. (2020). *The Socioeconomic Impact of COVID-19 and Oil Price Fluctuations in Azerbaijan*. <https://ge.boell.org/en/2020/09/15/socioeconomic-impact-covid-19-and-oil-price-fluctuations-azerbaijan>
- Ross, Michael. (2019). *What Do We Know About Export Diversification in Oil-Producing Countries?*. <https://doi.org/10.1016/j.exis.2019.06.004>
- Bayramov, Vugar. and Orujova, Leman. (2017). *Volatility, Diversification and Oil Shock in Resource-Rich Turkic Countries: Avenues for Recovery*. <https://dergipark.org.tr/en/pub/bilig/issue/42612/519424>
- Bayramov, Vugar. (2017). *A Comparative Study on Development of Small and Medium Enterprises (SMEs) in Azerbaijan, Baku*, http://cesd.az/new/wp-content/uploads/2017/11/CESD_SME_Paper_2017.pdf
- Bayramov, Vugar. (2021). *Karabakh Economy: New Driver for Sustainable Economic Development in Azerbaijan*. <https://azerbaijantoday.az/2021/04/25/karabakh-economy-new-driver-for-sustainable-economic-development-in-azerbaijan/>
- Guliyev, F. (2015). *Informal Economy*. *Caucasus Analytical Digest*, 75, 1-16. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2633425
- Gurbanov, S. (2015). *Migration and Brain Drain: Survey for the Azerbaijan Economy*. *Journal of Qafqaz University—Economics and Administration*, 2(1), 1-11. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2604362

- CESD Research Group. (2020). *A Preliminary Assessment of the Impact of the COVID-19 Pandemic on Azerbaijani Economy*. <http://cesd.az/new/wp-content/uploads/2020/08/Impact-of-COVID-19-on-Economy-CESD-Paper.pdf>
- CESD Research Group, *Foreign Debt of Azerbaijan In 2018: Realities and Perspectives*, http://cesd.az/new/wp-content/uploads/2018/02/Azerbaijan_Foreign_Debt_2018.pdf
- CESD. (2016). *Currency Market in Azerbaijan: Challenging Environment for the National Currency*, Baku. http://cesd.az/new/wp-content/uploads/2016/09/CESD_Research_Paper_Currency_Market.pdf
- Public Administration in EU Eastern Partner Countries: Comparative Report* (2011). https://eceap.eu/wp-content/uploads/2017/10/11_Review_No11.pdf

Cite this article as: Elnur Jamalkhanov (2021). *Diversification Policy in Azerbaijan: An Overview of the Tourism Sector*. *International Journal of Tourism and Hospitality*. 2(1), 1-7. doi: 10.51483/IJTH.2.1.2021.1-7.