

Directions for Attracting Foreign Direct Investment into the Non-Oil Sector of the Azerbaijani Economy

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ARTICLE INFORMATION	ABSTRACT
Article history: Published: October 2026 Keywords: Foreign Direct Investment Azerbaijan Non-Oil Sector Economic Diversification Investment Climate Export Development Sustainable Economic Growth	Foreign direct investment (FDI) plays an important role in economic diversification, technological modernisation, employment generation and export development. For Azerbaijan, attracting FDI into the non-oil sector is particularly important for reducing dependence on hydrocarbon revenues and strengthening the resilience of the national economy. Although the oil and gas industry has historically played a central role in attracting international capital, the development of manufacturing, agriculture, transport and logistics, tourism, information and communication technologies, and renewable energy creates new opportunities for investment diversification. This article examines the principal directions for increasing foreign direct investment in Azerbaijan's non-oil economy, focusing on improving the investment climate, strengthening institutional and legal frameworks, expanding investment incentives, developing infrastructure, supporting innovation, and integrating domestic enterprises into international value chains. It also considers the importance of human capital, public-private partnerships, export-oriented production and regional development. The article argues that a successful investment strategy should prioritise not only the volume of foreign capital attracted but also its contribution to productivity, technology transfer, employment, environmental sustainability and long-term economic competitiveness.

1. Introduction

Foreign direct investment is widely recognised as an important instrument for accelerating economic development, strengthening productive capacity and facilitating the transfer of technology and managerial expertise. Unlike short-term financial flows, FDI generally involves a lasting economic interest in enterprises operating in the host country. It can contribute to the creation of new production facilities, the expansion of existing businesses, the development of export markets and the integration of national economies into global production networks. For Azerbaijan, attracting foreign direct investment into the non-oil sector represents a strategic economic priority. The country's substantial oil and gas resources have historically provided significant export revenues and attracted considerable international investment. However, dependence on hydrocarbons exposes the economy to fluctuations in global energy prices, changes in international demand and the broader challenges associated with the global energy transition. Consequently, diversifying investment flows towards non-oil industries is essential for establishing a more balanced, resilient and competitive economic structure. The non-oil sector encompasses a broad range of activities, including manufacturing, agriculture and food processing, transport and logistics, tourism, information technology, construction-related industries and renewable energy. These sectors offer different investment opportunities and can generate complementary economic benefits [7]. For example, investment in manufacturing can increase domestic value added, while investment in logistics can improve connectivity with international markets. Foreign capital in agriculture and food processing can strengthen productivity and export capacity, whereas investment in digital services can support innovation and the development of higher-skilled employment. Nevertheless, the availability of natural resources and a favourable geographical position does not automatically guarantee sustained investment inflows into non-oil industries. Foreign investors also consider regulatory predictability, the protection of property rights, access to skilled labour, market size, infrastructure quality, taxation, financing conditions and the availability of reliable local business partners [5].

2. Current challenges in attracting FDI into Azerbaijan's non-oil sector

Azerbaijan has several advantages that can support foreign investment. These include its geographical position between Europe and Asia, access to regional transport networks, energy resources, established economic infrastructure and the potential to develop trade links with neighbouring and international markets. Government policy also provides investment incentives and institutional support for foreign investors. However, attracting international capital into non-oil activities remains a distinct challenge. The United States Department of State's 2024 Investment Climate Statement noted that foreign investment had historically been concentrated in the energy sector, while investment in several priority diversification sectors—including agriculture, tourism, transport and logistics, and information and communication technologies—remained comparatively limited [3].

United States Department of State. One important constraint is the difference between the investment characteristics of the oil industry and those of other sectors. Large hydrocarbon projects often involve established international companies, substantial export revenues and long-term contractual arrangements. By comparison, non-oil projects may involve smaller enterprises, less predictable market demand, limited collateral and a greater need for local supply-chain development. A second challenge concerns access to

finance. Domestic firms may lack the capital required to expand production, obtain international certification or establish partnerships with foreign investors. The International Monetary Fund has identified limited access to capital and skilled labour, governance challenges and the substantial role of the state in non-oil activities among the issues relevant to private-sector-led diversification [2].

A third challenge is the need to improve the connection between foreign investors and domestic enterprises. Investment projects that operate largely independently of the local economy may generate fewer indirect benefits than projects that purchase inputs from domestic suppliers, develop local skills and transfer production knowledge. Consequently, Azerbaijan's investment strategy should combine investor attraction with measures that strengthen the competitiveness of local businesses. The objective should be to create an environment in which international companies can operate profitably while contributing to the development of domestic production capabilities.

3. Strengthening investment promotion and international cooperation

Effective investment promotion requires a coordinated approach to identifying potential investors, communicating investment opportunities and supporting projects throughout their implementation. The Export and Investment Promotion Agency of Azerbaijan (AZPROMO) plays an important role in promoting non-oil exports, attracting foreign investment and connecting international companies with domestic businesses. Its activities include investment information, business networking and support based on a single-window approach. To strengthen these activities, investment promotion should become more targeted and sector-specific. Instead of relying primarily on general country promotion, Azerbaijan could develop detailed investment proposals for individual industries, supported by information on production costs, market opportunities, infrastructure, labour availability and regulatory requirements. Investment promotion institutions should also maintain structured communication with potential investors after initial contact [6]. A dedicated investor-support mechanism could help businesses navigate administrative procedures, identify local partners and resolve operational difficulties. Regular feedback from existing investors would provide valuable information about obstacles that may discourage further investment.

International cooperation can help Azerbaijan attract investment from countries with established capabilities in manufacturing, advanced technology, agriculture, logistics and renewable energy. Bilateral investment agreements, economic cooperation commissions, business forums and partnerships with international financial institutions can facilitate this process. However, investment partnerships should be evaluated according to their contribution to national development priorities. Projects that introduce advanced production methods, develop local supply chains and increase export capacity may generate greater long-term benefits than projects focused exclusively on the domestic market. Cooperation with international development institutions can also improve project preparation, provide technical assistance and facilitate financing for infrastructure and sustainable investment [4]. The European Bank for Reconstruction and Development's country strategy for Azerbaijan emphasises economic diversification, a stronger private sector, green energy and regional connectivity.

4. Conclusion

Attracting foreign direct investment into Azerbaijan's non-oil sector is an important component of the country's economic diversification strategy. Although the oil and gas industry has historically attracted substantial international capital, the long-term resilience of the economy depends on developing additional sources of productivity, employment, export earnings and technological progress. The analysis demonstrates that Azerbaijan possesses several advantages for attracting non-oil investment, including its geographical position, regional transport connections, natural resources, developing infrastructure and existing investment support mechanisms. Nevertheless, these advantages must be complemented by institutional predictability, effective competition, access to skilled labour, adequate financing and stronger connections between foreign investors and domestic enterprises. The principal directions for improving investment attraction include strengthening the legal and institutional environment, increasing the effectiveness of investment incentives, developing manufacturing and agricultural processing, expanding transport and digital infrastructure, promoting renewable energy and improving the capacity of investment promotion institutions. International partnerships can reinforce these measures when they facilitate technology transfer, local supplier development and access to export markets. An important conclusion is that investment policy should not focus exclusively on the total volume of foreign capital. The quality and economic additionality of investment are equally important. Projects that improve productivity, develop human capital, introduce advanced technologies and strengthen export capacity are particularly valuable for Azerbaijan's long-term development. Accordingly, a coordinated and results-oriented investment strategy can help Azerbaijan increase foreign investment in non-oil industries, strengthen private-sector competitiveness and build a more diversified and sustainable economic structure.

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