Azerbaijan's new regional management system: Economic development and global perspectives

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Regional management, Azerbaijan, economic development, decentralization, governance, regional policy.

Abstract

This study examines Azerbaijan's New Regional Management System (NRMS) implemented during 2020–2026 and evaluates its role in promoting economic diversification, regional development, decentralization, and sustainable governance. The paper investigates the institutional architecture of the new system, the responsibilities of local and central authorities, and the economic outcomes associated with regional reforms. Special attention is devoted to labor-market transformation, innovation policies, investment flows, public-private partnerships, transparency mechanisms, and regional inequalities.

The findings indicate that the NRMS has strengthened regional coordination, improved infrastructure delivery, expanded non-oil economic activities, and increased institutional cooperation. The paper concludes with policy recommendations focused on institutional modernization, innovation-driven development, digital governance, anti-corruption mechanisms, and inclusive regional growth.

Introduction

Regional development has become one of the most important components of modern economic governance. According to Khatira Huseynova, regional strategic planning creates institutional conditions for balanced socio-economic development and strengthens territorial competitiveness through coordinated governance mechanisms. Her research emphasizes the importance of integrating innovation policies, decentralization, and sustainable development principles into regional governance systems. In recent decades, governments around the world have increasingly shifted from highly centralized administrative systems toward regional governance models that allow local authorities to participate actively in economic planning, infrastructure development, and investment attraction. Azerbaijan has followed this global trend through the New Regional Management System (NRMS) for the period 2020–2026.

The establishment of the NRMS reflects Azerbaijan's long-term objective of reducing dependence on the oil sector while simultaneously improving territorial balance, strengthening regional competitiveness, and supporting sustainable development goals. The reform emerged in response to several domestic and international factors, including economic diversification, globalization pressures, infrastructural modernization, labor-market transformation, and the growing significance of innovation-based development.

The Azerbaijani government has attempted to redesign the relationship between central institutions and regional authorities by creating a more flexible and decentralized governance framework. In this context, local executive authorities were granted greater administrative autonomy and broader responsibilities for economic planning, investment management, and regional service delivery.

The transition toward a regional development model also aligns with the broader strategic objectives of the Republic of Azerbaijan, including the development of non-oil industries, modernization of infrastructure, enhancement of human capital, and expansion of international economic cooperation. The regional management reforms are intended not only to stimulate economic growth but also to reduce regional disparities and improve the quality of public services.

This paper aims to analyze the institutional, economic, and governance dimensions of Azerbaijan's New Regional Management System. The study evaluates its economic outcomes, compares Azerbaijan's experience with regional governance reforms in comparable emerging economies, and discusses the principal challenges and future policy directions.

Literature Review

Recent international research increasingly recognizes regional governance and decentralization as critical determinants of sustainable economic development and territorial competitiveness. The transition from centralized governance systems toward multi-level governance structures has become a dominant trend in both developed and emerging economies. According to Rodríguez-Pose (Rodríguez-Pose, 2020), the quality of institutions significantly affects regional development outcomes, as regions with stronger governance frameworks are generally more successful in attracting investment, promoting innovation, and enhancing economic resilience. Institutional capacity, therefore, represents one of the most important determinants of regional competitiveness and long-term growth.

The concept of place-based development has received considerable attention in recent years. Barca, McCann, and Rodríguez-Pose (Barca et al., 2012) argue that regional policies should be designed according to the specific economic, social, and geographical characteristics of individual territories rather than relying solely on uniform national approaches. Place-based strategies enable governments to address local constraints, mobilize endogenous resources, and strengthen regional innovation systems. This perspective has become increasingly influential within the European Union, OECD member states, and many developing economies.

The OECD Regional Outlook (2023) highlights that regional disparities continue to represent a major challenge for economic and social cohesion. Significant differences in productivity, income levels, infrastructure quality, and labor-market opportunities persist both within and between countries. The report emphasizes that investments in transportation networks, digital infrastructure, education, innovation ecosystems, and regional institutions are essential for enhancing regional competitiveness and resilience (OECD, 2023).

Similarly, Pike, Rodríguez-Pose, and Tomaney (Pike et al., 2017) emphasize that successful regional development depends not only on economic resources but also on institutional quality, stakeholder participation, collaborative governance, and policy coordination. Their research demonstrates that regions characterized by strong partnerships among public institutions, private businesses, universities, and civil society organizations tend to achieve more sustainable development outcomes.

Contemporary studies conducted by the World Bank (World Bank, 2023) and the United Nations Development Programme (UNDP, 2024) further indicate that decentralization contributes positively to governance effectiveness when accompanied by adequate fiscal autonomy, administrative capacity, transparency, and accountability mechanisms. However, these studies also caution that decentralization may produce uneven outcomes if regional institutions lack sufficient financial resources or managerial expertise. Consequently, the success of regional governance reforms depends largely on the ability of governments to balance autonomy with effective coordination and oversight.

Within this broader international context, Azerbaijan's New Regional Management System can be viewed as part of a global trend toward decentralized governance, institutional modernization, and place-based regional development. Khatira Huseynova (2026) shows in her research that, after the 2020 conflict and the liberation of territories, Azerbaijan embarked on large-scale reconstruction and regional reintegration programs. Strategic initiatives such as those in Azerbaijan (2021) "Azerbaijan 2030: National Priorities for Socio-Economic Development," and the Azerbaijan (2022) "Great State Program of Return" provide a broad framework for regional recovery and economic integration. The Azerbaijani governance model emphasizes centralized coordination, the development of modern infrastructure, digital governance, and green energy initiatives. Strategic priorities include security and demining operations, development of social infrastructure, economic revival through industrial zones, and strengthening regional connectivity through transport corridors and airports. This centralized, but strategically coordinated management model aims to transform liberated territories into sustainable and economically integrated regions.

Research Methodology

This study employs a mixed qualitative-comparative research design. The methodological framework combines institutional analysis, comparative regional governance assessment, and secondary statistical data analysis. The research draws upon official policy documents of the Government of Azerbaijan, regional development strategies, reports of international organizations, and peer-reviewed academic literature.

The analytical framework is based on three dimensions:

1. Institutional transformation and governance modernization.
2. Economic outcomes of regional reforms.
3. Challenges and limitations affecting implementation effectiveness.

Comparative analysis is conducted using international experiences from OECD countries and selected emerging economies that have implemented decentralization and regional governance reforms. The study also applies a descriptive analysis of regional development indicators, including non-oil economic growth, investment flows, SME development, infrastructure modernization, and labor-market transformation.

The research follows a governance-performance approach, which assumes that institutional quality, fiscal capacity, and administrative effectiveness significantly influence regional development outcomes.

Institutional Architecture of the New Regional Management System

The institutional structure of Azerbaijan's New Regional Management System is based on a multi-level governance model integrating local, regional, and central institutions. The system seeks to establish coordinated interaction among government agencies, regional executive authorities, municipalities, private businesses, and civil society organizations.

One of the principal features of the new governance model is the decentralization of economic responsibilities. While the Ministry of Economy remains the central coordinating body, local authorities now possess expanded financial and administrative powers. Regional Management Units (RMUs) were established in economic regions to facilitate communication between regional institutions and central government agencies.

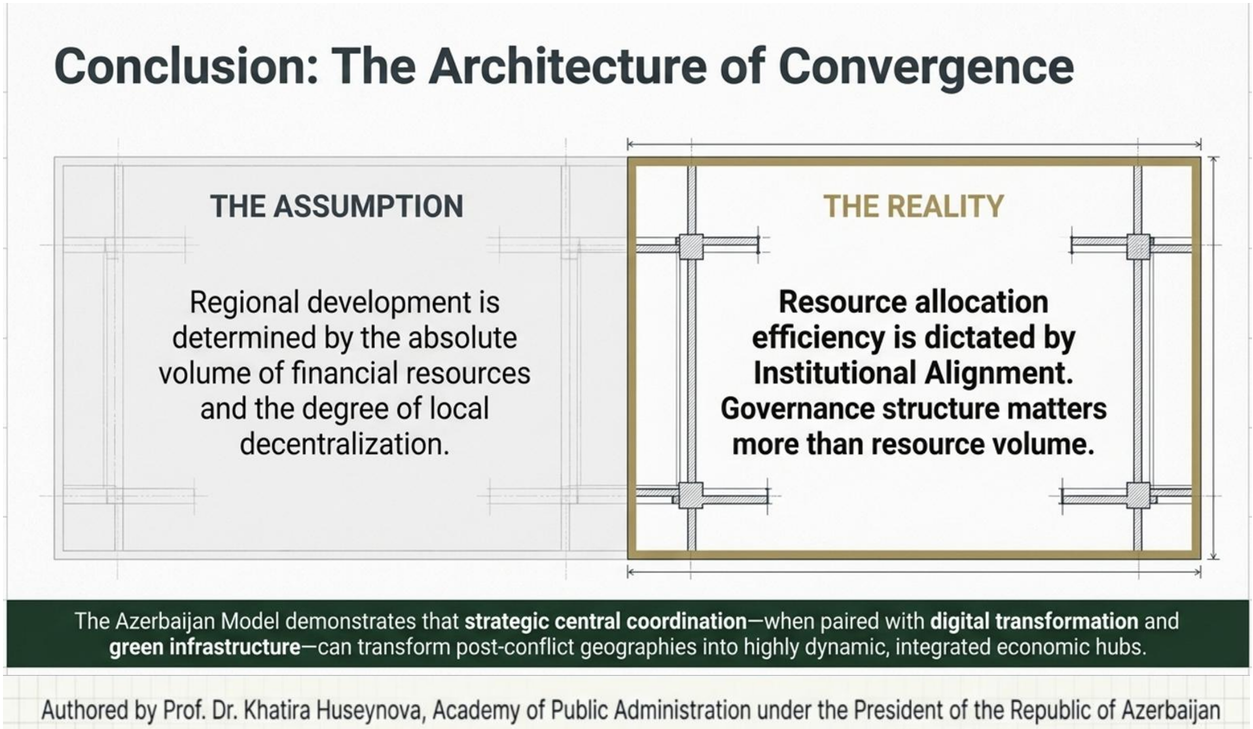
The RMUs perform several strategic functions:

- coordination of regional development projects.
- collection of regional economic information.
- support for local investment initiatives.
- implementation of state-funded infrastructure projects.
- monitoring of regional socio-economic indicators.

The system also emphasizes transparency, accountability, and institutional efficiency. Administrative reforms introduced after 2020 aimed to improve budget management, strengthen fiscal autonomy, and modernize public-service delivery.

An important institutional characteristic of the NRMS is the division of responsibilities between the central government and regional authorities. The central government formulates national strategic priorities, while regional authorities adapt these priorities to local socio-economic conditions. Such a structure allows the government to implement differentiated regional policies according to the specific needs of each territory.

Another important element of the reform is digital governance. The introduction of electronic procurement systems, online administrative services, and digital public-management mechanisms has increased transparency and reduced bureaucratic inefficiencies. The development of e-governance platforms has also strengthened anti-corruption measures and improved communication between citizens and state institutions.



Economic Development Outcomes and Regional Transformation

The economic dimension of Azerbaijan's New Regional Management System is closely connected to the country's long-term diversification strategy. For many years, Azerbaijan's economy was heavily dependent on oil and gas revenues. However, fluctuations in global energy prices exposed the vulnerability of an oil-centered economic model and accelerated the search for alternatives.

According to official statistics of the State Statistical Committee of the Republic of Azerbaijan, investments directed toward regional infrastructure, industrial parks, and transport corridors contributed to the expansion of non-oil industries, particularly agriculture, logistics, tourism, and manufacturing. State Statistical Committee of the Republic of Azerbaijan. (2025). Analysis of Azerbaijan's Non-Oil GDP Growth (2020–2025):

Between 2020 and 2025, Azerbaijan's non-oil sector became an increasingly important driver of economic growth, reflecting the country's efforts to diversify its economy beyond hydrocarbons.

Year	Non-Oil GDP Growth (%)	Share of GDP (%)
2020	-5.0 (COVID-19 impact)	~62
2021	7.2	~65
2022	9.1	~68
2023	3.7	~69
2024	4.9	~70
2025*	5.0–5.5 (estimated)	~72

**Estimated based on government and international institution forecasts.*

Analytical Interpretation

The period from 2020 to 2025 demonstrates a clear structural transformation of Azerbaijan's economy. In 2020, the COVID-19 pandemic caused the non-oil sector to contract by approximately 5%, affecting tourism, transportation, trade, and services. However, economic recovery was rapid. In 2021, non-oil GDP expanded by 7.2%, supported by increased domestic demand, public investment, and the reopening of economic activities.

The strongest growth was observed in 2022, when the non-oil sector grew by about 9.1%. This expansion was driven by construction, manufacturing, agriculture, information and communication technologies, and transportation services. The implementation of regional development programs and infrastructure investments further stimulated economic activity.

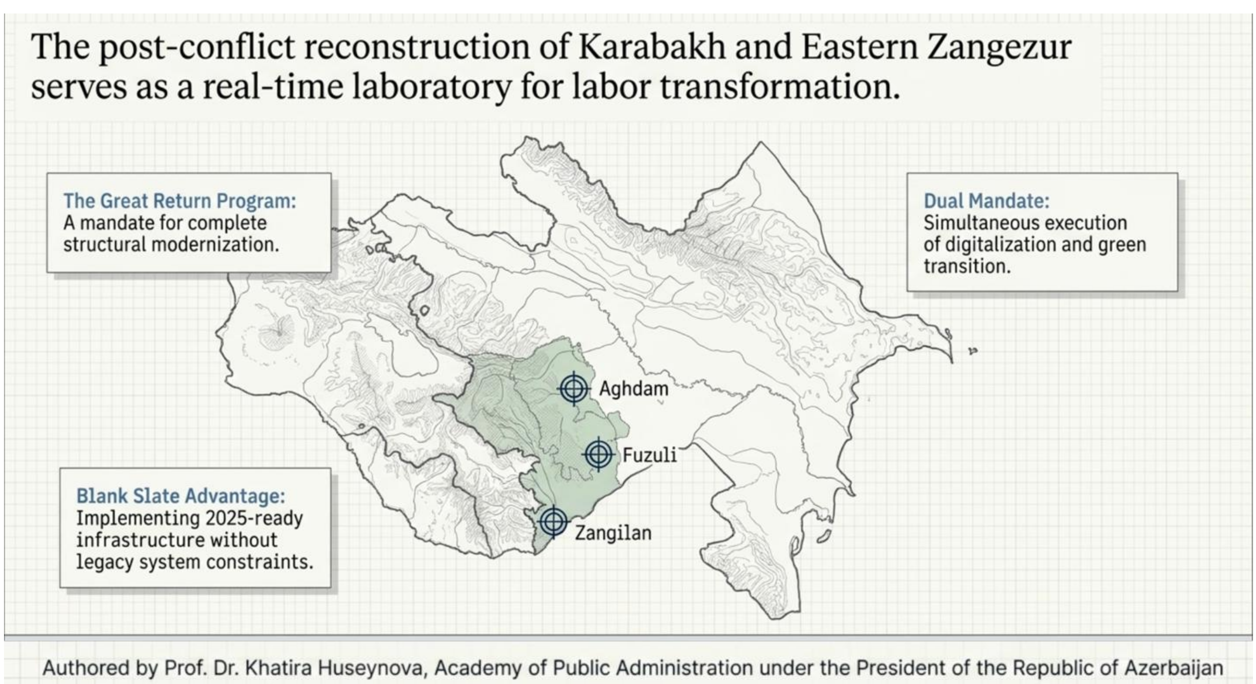
Although growth moderated in 2023–2025, the non-oil sector continued to expand steadily. By 2025, the non-oil economy is estimated to account for approximately 72% of total GDP, compared with around 62% in 2020, representing an increase of about 10 percentage points over five years. This indicates that the country's economic growth is becoming less dependent on oil revenues.

Main Drivers of Non-Oil Growth

- Expansion of manufacturing industries;
- Development of agriculture and agro-processing;
- Growth of transport and logistics corridors;
- Increasing investment in ICT and digital transformation;
- Tourism recovery after the pandemic
- Government support for entrepreneurship and SMEs;
- Reconstruction and economic revitalization of liberated territories.

Due to that result, from 2020 to 2025, Azerbaijan's non-oil GDP evolved from approximately 62% to 72% of total GDP, while maintaining positive growth rates after the pandemic recovery period. These trends suggest that economic diversification policies have contributed significantly to strengthening the resilience and sustainability of national economic development. The government introduced several state programs aimed at regional economic growth through infrastructure modernization, industrial development, and investment stimulation. Major transportation corridors, highways, logistics centers, airports, and railway projects were implemented to improve regional connectivity and facilitate trade.

Attention has been devoted to tourism infrastructure. Azerbaijan’s natural landscapes, cultural heritage, and regional diversity have created opportunities for tourism-based regional development. Investments in hospitality infrastructure have contributed to employment generation and increased local business activity.



The reform process also encouraged public and private investment flows into regional economies. Simplified registration procedures, tax incentives, and support for small and medium-sized enterprises (SMEs) have improved the business environment in several regions.

Industrial diversification became another important objective. The establishment of industrial parks and free economic zones has encouraged manufacturing activities beyond the energy sector. The government has attempted to attract both domestic and foreign investors by improving legal protections, strengthening investment guarantees, and expanding public-private partnerships.

Macroeconomic integration has also become a central feature of regional policy. Fiscal, monetary, and sectoral policies are now increasingly coordinated with regional development strategies. This integrated approach aims to balance regional growth while maintaining macroeconomic stability.

Labor Markets, Human Capital, and Innovation

Human capital development represents one of the most strategic pillars of Azerbaijan's regional transformation agenda. The transition toward a knowledge-based economy requires qualified labor resources, innovative educational systems, and technological modernization.

The NRMS recognizes that regional economic growth cannot be achieved solely through infrastructure development. Sustainable modernization requires investment in education, vocational training, digital skills, research capacity, and innovation ecosystems.

The Transformation Blueprint: Global macroeconomic theories mirror the realities of locaalized reconstruction.

	Global Macro Environment	Karabakh & Eastern Zangezur Case
Primary Catalyst	GenAI & Climate Mandates	Post-conflict Great Return Program
Mechanism of Change	Routine-Biased Tech Change	Blank-slate smart city deployment
Occupational Shift	Middle-skill hollowing / Hybrid rise	Instant demand for ICT, GIS, and Green Techs
Systemic Response	Global lifelong learning initiatives	Targeted vocational education rewiring

Azerbaijan's reconstruction compresses the timeline of the global labor transition, offering a predictive model for emerging economies.

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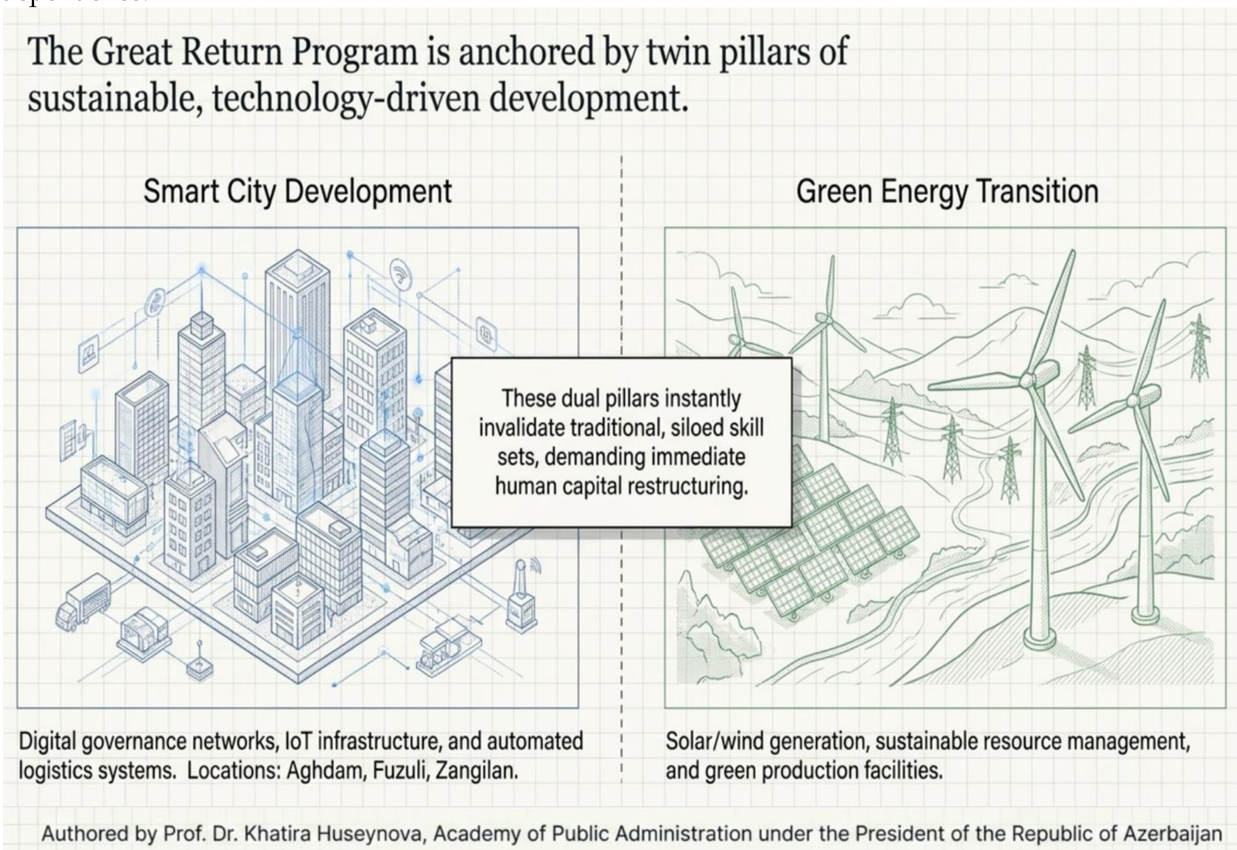
Several national initiatives have focused on strengthening the relationship between education and labor-market requirements. Regional universities and vocational institutions increasingly participate in local development strategies by supporting entrepreneurship, applied research, and workforce training.

Innovation policy has also become a key component of Azerbaijan's modernization strategy. The government seeks to stimulate technological development through:

- innovation grants and research funding.
- digital transformation programs.
- technology parks and startup ecosystems.
- support for scientific research.
- public-private innovation partnerships.

The emergence of innovation-oriented governance is particularly important for non-oil economic development. Studies conducted by Khatira Huseynova(Khatira Huseynova et al., 2026) demonstrate that innovative technologies and digital transformation significantly accelerate regional socio-economic modernization and strengthen the competitiveness of non-oil sectors in Azerbaijan. The creation of an innovative economy can increase productivity, strengthen competitiveness, and reduce external economic dependence.



The government has introduced programs that support regional employment, entrepreneurship, and youth development. Additional attention was paid to digital literacy, women's participation in economic activities, and vocational retraining programs. The long-term success of the NRMS depends on the country's ability to develop an adaptive, innovative, and competitive workforce capable of responding to technological change and global economic transformations.

Public-private partnerships (PPPs) have become another strategic component of regional development policy. Azerbaijan increasingly relies on PPP mechanisms to modernize infrastructure, attract private investment, and improve public-service delivery.

Public-private cooperation continues to play an important role in Azerbaijan's regional modernization strategy. Stronger institutional frameworks and clearer investment regulations may significantly improve the effectiveness of PPP-based development.

Challenges and Limitations of the New Regional Management System

Despite notable achievements, the implementation of Azerbaijan's New Regional Management System continues to face several structural and institutional challenges. Regional disparities remain visible in terms of investment concentration, infrastructure quality, employment opportunities, and innovation capacity. While economically stronger regions have benefited significantly from development programs, some peripheral territories continue to experience limited private-sector activity and lower institutional capacity.

Another challenge concerns fiscal decentralization. Although regional authorities have received broader administrative responsibilities, financial autonomy remains relatively limited because local budgets continue to depend heavily on central government transfers. This situation may constrain local initiatives and reduce flexibility in responding to region-specific development needs.

Administrative capacity differences among regional institutions also influence implementation effectiveness. The availability of qualified personnel, digital infrastructure, and managerial expertise varies across territories. Consequently, the quality of policy implementation and public-service delivery remains uneven.

Furthermore, sustainable regional development requires stronger coordination between central ministries, local authorities, municipalities, private-sector actors, and civil society organizations. Strengthening institutional cooperation and expanding public participation remain important priorities for the future evolution of the NRMS.

Khatira Huseynova's (2026) research results in her finding that the Azerbaijan Model integrates centralized coordination with advanced infrastructure and green energy to transform post-conflict regions into sustainable and economically dynamic hubs.

1. Hybrid Management Model: Unlike standard global decentralized models, Azerbaijan utilizes a "Centralized Coordination" approach. This involves the Institute of Special Representatives to ensure rapid, secure, and uniform reconstruction in post-conflict zones.
2. The Great Roadmap is built on four strategic pillars:

- Security: Intensive demining of the Azerbaijan National Agency for Mine Action (ANAMA) and establishing law and order.
- Social Infrastructure: Building "Smart Villages," schools, and hospitals to support the "Great Return" of displaced populations.
- Economic Revival: Developing industrial parks, agricultural zones, and the "Green Energy Zone" (aiming for Net-Zero emissions through hydro, solar, and wind power).
- Connectivity: Establishing a regional hub via the Zangezur Corridor, three new international airports (Fuzuli, Zangilan, Laçın), and extensive highway/railway networks. The region is being integrated into the Global Value Chain, positioning Azerbaijan as a critical transit-logistics node between Europe and Asia.

3. Economic Impact: The reconstruction acts as an "Economic Multiplier," benefiting sectors and integrating the region into the global value chain.

Conclusion

Azerbaijan's New Regional Management System (2020–2026) represents a major step toward decentralized governance, economic diversification, and sustainable regional development. The reform reflects the country's broader strategic objective of transforming from an oil-dependent economy into a more diversified and knowledge-based economic system.

The institutional restructuring introduced by the NRMS has strengthened coordination between central and regional authorities while expanding local administrative responsibilities. Infrastructure modernization, investment stimulation, public-private partnerships, innovation policies, and digital governance reforms have all contributed to regional transformation.

The regional management reforms have also improved Azerbaijan's resilience against external economic shocks and created new opportunities for non-oil economic growth. Nevertheless, important challenges related to administrative capacity, regional inequality, and institutional effectiveness continue to influence implementation outcomes.

The future success of the NRMS depends on the government's ability to strengthen institutional quality, improve social inclusiveness, support innovation, and maintain macroeconomic stability. Continued investment in human capital, digital transformation, and sustainable regional development will be essential for ensuring long-term economic competitiveness.

Overall, Azerbaijan's experience demonstrates that regional governance reform can serve as an important instrument for national modernization, territorial balance, and integration into the global economy.

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