



**THE MINISTRY OF EDUCATION OF AZERBAIJAN
REPUBLIC**

**PERSPECTIVES OF POST-OIL ECONOMY
DEVELOPMENT IN AZERBAIJAN**

Hasanova Aygul

UNEC SABAH

Azerbaijan State Economic University



2018

ACKNOWLEDGEMENTS

I would like to express the deepest appreciation to all those who provided me the possibility to complete this dissertation. First of all , I would like to thank my adviser associated prof Aliagha Ismayilzadeh for the continuous support of my dissertation and related research, for his patience, motivation and immense knowledge . I submit my heartiest gratitude to all members of Azerbaijan State University of Economics, “SABAH” faculty and I am extremely grateful to our faculty dean PhD. Aida Guliyeva for valuable guidance and encouragement extended to us. Finally, I would like also to thank all my friends whom I had a fortune to meet during my studies, for their sincere friendship, all kind of assistance, and for always supporting and inspiring me with their kind and encouraging words and advices.

ABSTRACT

Over the past four years, the economy of the republic has faced serious problems of development. Significantly, its growth rates have fallen, unemployment has raised and inflation has increased. Domestic and foreign experts agree, that this became possible as a result of interaction of two important factors: one-sided, raw-oriented development of the economy of the republic and volatility of prices for raw materials. The need to study the theoretical and practical issues of this stage in the development of the national economy, develop proposals for overcoming them and give the national economy greater stability and competitiveness led to the choice of this topic of our study.

Table of Contents

Acknowledgements	
Abstract	
Contents.....	2
INTRODUCTION.....	3
2. DIVERSIFICATION AS A FACTOR OF SUSTAINABLE DEVELOPMENT OF THE ECONOMY.....	4
2.1. Theoretical concepts of diversification the economy.....	4
2.2. Foreign experience of diversification of the economy.....	18
3.INSTITUTIONAL AND STRUCTURAL PROBLEMS OF DEVELOPMENT OF THE NON-OIL ECONOMY OF AZERBAIJAN.....	32
3.1 Modern challenges to the development of the oil industry.....	32
3.2. Strategic roadmap and prospects for the development of the non-oil industry of the republic.....	40
CONCLUSION.....	57
REFERENCES.....	59

INTRODUCTION

Over the last 20 years, the economy of the republic has been focused, mainly, on the production and export of oil and gas raw materials. The collapse of prices for these products in world markets also hit the economy of the republic. Negative consequences are not overcome until now. The growth of the gross national product was at a minimum level (less than 2% per year), the payment balance of the republic only in the first quarter of 2018 reached a positive level.

Another serious challenge to the monocultural development of the economy is the development of scientific and technological progress, which in the long run minimizes the consumption of oil resources, creates favorable conditions for the development of alternative, clean and renewable energy sources.

Under the circumstances, an objectively necessary conclusion is the development of the non-oil sector of the economy that would make it possible to use the resource and human factors of the economy and the republic more fully and ensure its sustainable development and competitiveness. This can be achieved only on the path to diversification of the national economy, its innovative development.

The purpose of this work is to study the theoretical concepts of economic diversification, the experience of foreign countries in creating a multi-sectoral economy, the study of modern challenges to the development of the national economy and the development of proposals on institutional and structural problems of the development of the non-oil economy of Azerbaijan.

The object of the research is the current state of development of the national economy, challenges facing it in the second decade of the XXI century.

The subject of the research are theoretical and practical issues of the development of the diversified, multifunctional, stable, export-oriented economy of the republic.

2. Diversification as a factor of sustainable development of the economy

2.1. Theoretical concepts of diversification of the economy

Diversification of the economy is a complex ambiguous process, different regions have their own diversification limit, exceeding which can lead to increased costs, a decrease in the efficiency of production, so determining its optimal level is one of the urgent tasks. In this regard, there is an objective need to study the conditions and factors for ensuring sustainable development of the region through the diversification of the structure of the economy and the development on this basis of an organizational and economic mechanism for its implementation.

"Sustainable development of the national economy" is viewed as a harmonious, balanced, dynamic interaction of all constituent subsystems and processes of the region (natural, geographical, socio-economic, political, ecological, etc.), which, through economic diversification, builds up the aggregate potential of the territory to meet increasing human needs and aspirations of the intra-regional community. The study of the diversification process as a characteristic of the structure of the economy has shown a close connection with the diversification potential, which in turn determines the possibilities and boundaries of the variety of industries in different fields (activities) in a certain territory and ensures their harmonious integration into the overall structure of the region's economy, united by a single social vector of economic development.

The structure of the economy largely shapes and predetermines the nature and model of the economic development of countries. The main trend of developed countries is such a modification of the structure of the national economy, which allows developing not so much on raw materials as on intellectual resources and science-intensive technologies.

The advantages of diversification include independence from one sector of the economy. If there are problems in one of the markets, this will not threaten the entire

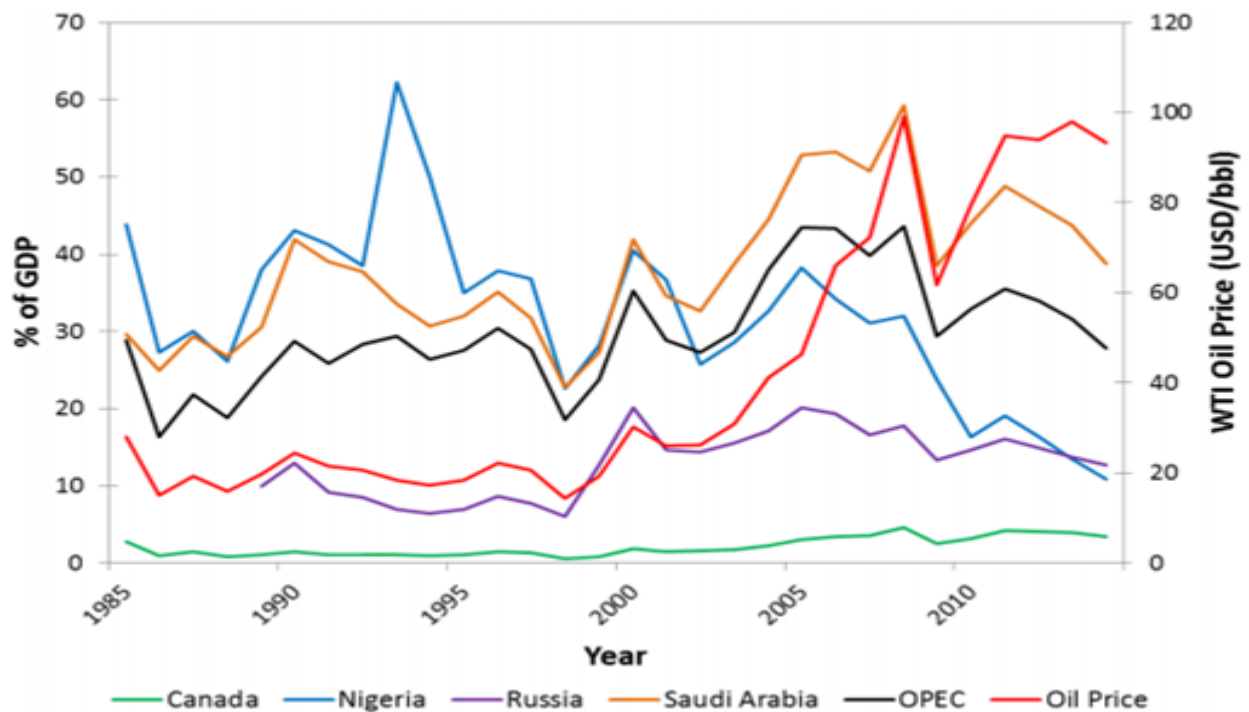
economy of the country. Diversification of the economy is particularly suitable for those countries that depend on the export of minerals and the sale of natural resources.

Crude Oil Prices (2013-2016)



Source: Economic Research, Federal Reserve Bank, St. Louis. 2016

Oil Rents (% of GDP)



Source: The World Bank, "Oil rents (% of GDP)", 2016

If we say that diversification is a complete reshaping of the existing economic system by a more efficient model, many countries have already achieved impressive results on this path. These countries include Chile, Malaysia, Indonesia and so on.

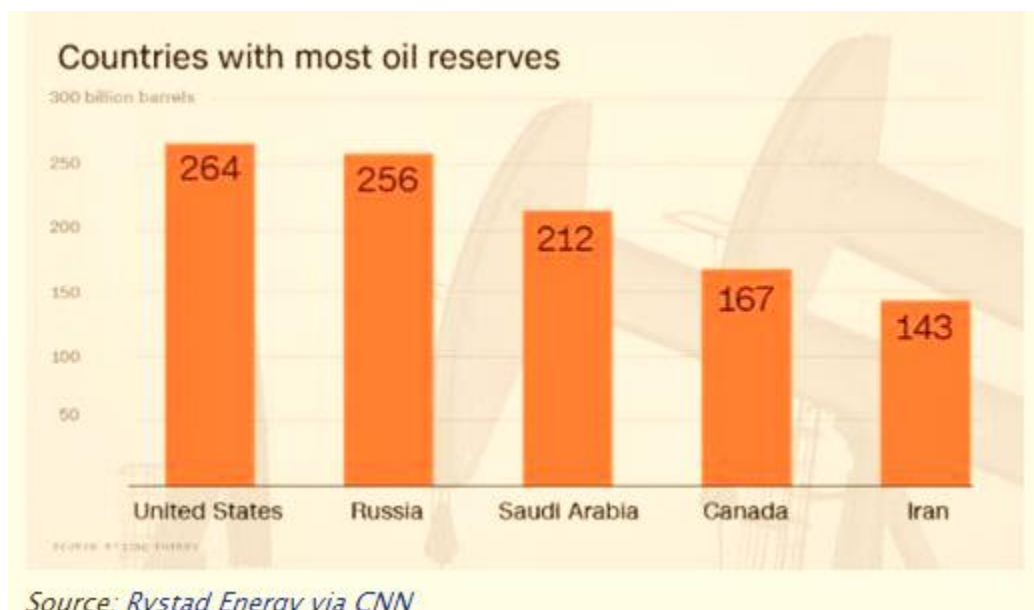
Another argument in favor of diversification is long-term prospects. The development of a wide range of industries, the tourism sector, the service sector will stimulate the simultaneous development of private entrepreneurship, inter-branch relations, and will create prerequisites and conditions for increasing trade turnover on the international market.

The next argument is natural that in countries with huge raw materials potential, the rate of extraction of natural resources often does not keep pace with population growth. Thus, the per capita income level is reduced, as is the standard of living. And this creates an open threat to social order and stability in the state. And while the extractive industries of the economy never create enough jobs, which, of course, leads to a crisis and unemployment.

Economies based on the export of mineral resources have a number of significant differences from the exporting economies of other commodities, in particular, weak production links with other sectors, a high degree of concentration of natural rents, received mainly in the form of tax revenues, and a relatively small amount directly created by the mining industry jobs. This is especially true in the case where oil is the main exported resource.

At the same time, the answer to the question of whether diversification of production is indeed the only acceptable option for developing countries dependent on the export of mineral resources is not at all as obvious as it seems. This approach has a number of alternatives, including increased investment of export earnings abroad, as well as joint production control with other countries to manage the global market for a particular resource.

An important factor for the economies of the countries that export fossil fuels is the factor of volatility of prices for resources in the world market. Even in the situation when there are agreements on the price policy between the majority of exporters of a particular commodity, a huge number of factors, including completely unpredictable ones, can radically change the global conjuncture. If we talk about the restructuring of the economy, then the ownership of natural resources, first of all - the competitive advantage of the country and any initiatives aimed at diversification, should serve the development and the most effective use of this advantage, and not abandon it.



One of the main methodological problems of realizing the directions of sustainable development of the region through economic diversification is the scientific justification of criteria and a system of indicators that sufficiently characterize the possibility of obtaining a long-term socio-economic effect. Problems of sustainable development of the regions in general are devoted to the works of many foreign and domestic researchers. The theory and methodology of sustainable development is reflected in the works of many foreign and domestic researchers such as H.Deilly, R.Konstantz, D.Kh. Meadows, I.Randers and other authors.

Despite the fact that, to date, considerable experience has been accumulated in the transition to sustainable development in the region, this problem remains relevant and insufficiently studied. There are still ambiguous interpretations of the concept of "sustainable development of the region", "economic diversification", does not take into account the specific features of the development of individual regions when developing the concept and strategy of sustainable development of the country as a whole, there is a lack of development of a comprehensive theoretical and methodological tool and a mechanism for sustainable development of the region. Several theoretical concepts can be identified that explain the nature of the relationship

between economic development and the diversification of the production structure at the national and regional levels.

Evolutionary economy focuses attention on the dependence of the speed and direction of structural transformations from the past - "*path dependencies*". The load of dependence on the past development path unevenly burdens the regions and countries: some accumulated competencies are important only for a particular type of product or product groups (for example, special technical knowledge), while others, or general-purpose competencies, are important for any activity. As such universal competencies, for example, innovative and adaptive abilities, social capital, the quality of public administration, etc. are often considered. However, up to now, in a few works, attempts have been made to analyze how changes in the structure (diversification / specialization) of the regional economy take place. These studies show that already existing firms and industries play a decisive role in production and technological diversification, and that related or related diversification will be successful. Ideas for stimulating regional development through "related diversification", i.e. an increase in diversity based on already accumulated assets, knowledge and skills, many European researchers share. At present, the policy of "Smart Specialization", which involves strengthening the competitive advantages of the regions through stimulating hi-tech entrepreneurship in a relatively narrow segment of technology, has been declared the priority in the European Union.

The theory of agglomeration economics assumes that the advantages of specialization are stronger than those of production diversity, since the concentration of specialized industries reduces the costs of coordination and interaction of firms. The costs of interaction of economic agents, the increasing return on the scale and variety of products produced form a polarized economic structure. Its core is regions with diversified production, where a wide variety of products is offered, and on the periphery are located firms that produce traditional goods. Complex goods are located in the

tightly connected core of the "goods space", while simpler goods occupy a sparse periphery. Later this idea was developed in Harvard, where a methodology for determining the "complexity" of the economy of the country or region was developed.

New economic geography considers uneven regional development as a natural result of technological progress and market coordination mechanism. Specialization and diversification of economic activity are the result of complex interactions that take into account the structure and density of spatial connections, the availability and scale of markets and etc. Back in the early 1990's. Krugman showed that more diversified regions, where more goods are produced, receive greater profits, attract more investments and can even increase production. Thus, geographical inequality is reproduced.

One of the important concepts included in the study of the influence of institutions on the processes of structural change is *the theory of the diversity of capitalism*. In developed countries, various variants of the organization of the national economy were formed. In liberal market economies, market mechanisms and hierarchies serve as the primary mechanisms for coordination, information is distributed through a price system, economic actors compete, formal contracts predominate. In coordinated market economies, non-market forms of coordination are used to a greater extent, firms use strategic interactions based on networks of relations, information is spread over private networks, actors rely on incomplete contracts.

Coordinated market economies are more conducive to incremental innovation: workers are more protected from job loss and can achieve higher levels of technical skills specific to existing industries. However, the liberal market economy largely supports radical innovations: firms can easily find workers with the necessary skills in more mobile markets, acquire companies with new technologies, gain access to the financial resources necessary to implement more risky projects. The work proves that the probability of developing unrelated diversification is higher in countries with a freer

market economy, while associated diversification is higher in countries where institutions are more supportive of non-market forms of coordination with respect to labor, corporate governance and inter-firm interactions. Thus, the institutional environment largely determines the economic and technological specialization of the country. Among the studies on the diversification of the regional economy, a separate layer of literature is singled out, where the emphasis is more on discussing the objectives of regional policy. High rates of economic growth become an independent goal of regional policy, while economic growth should be a means to achieve other goals, such as equity or sustainability of development. In particular, we are talking about the correlation of stability and diversification of the regional economy, diversification and distribution of income. In the works it is proved that the more diversified regional economy is more stable, the level of unemployment is lower. The pursuit of a growth goal involves reducing or eliminating less efficient technologies, skills, companies and industries, which may reduce the diversification of the regional economy and its adaptive capacity for future change. Thus, a short-term focus on growth and efficiency can be accompanied by a decline in technological, industrial, social and institutional diversity in the region.

To understand the process of diversification, *the theory of structural changes* is of particular importance. Analysis of the structure of the economic system allows us to identify its qualitative features, and the assessment of structural changes - its dynamics. The transformation of the structure of the national economy is associated with changes in the socio-economic development of the system, affecting all areas of economic and social development. In this respect, mechanical copies of the structure of countries with a developed market and the formal nature of introducing such a structure into the national economic systems of other countries can have not only positive but also negative consequences. If the original system (national economy) and the system-sample are the same, then most likely the changes will be to be progressive. If there is no uniformity of the analyzed systems, the "import" of the foreign structure will not

give the desired results both in the short and medium-term periods. Thus, the procedures for "importing" the structure of an economic system or its elements should be based on the study and application of both general and specific patterns governing economic development. General patterns are just as important as certain features of the transformation of economic systems. The mechanical copying of the economic models of developed countries does not take into account the specifics of the national development of the economic system. Inadequate consideration of the country's national characteristics in the process of economic transformation is contrary to the strategy based on the principle of recording and protecting national economic interests. In addition, the mechanical copying of one's experience does not take into account the social attitudes and values of various social groups of the population living in that state that is a narrowing of the social base of reforms. The inevitable aggravation of contradictions would increase the transformational costs.

In scientific research on macroeconomic analysis, there are different approaches to the sectoral structure of the national economy. However, the point of view of the majority of researchers is based on the division of the national economy into three sectors: *primary, secondary, tertiary*. *In the primary sector*, traditional production is carried out; it includes such sectors as agriculture, forestry, mining. *The secondary sector* includes the industrial sector, i.e. sector of processing raw materials in finished products, namely: production, construction, transportation. *The tertiary sector* includes the production of services, the high-tech industry, innovative services and the service sector. At first glance, this difference may seem simplistic, representing a connected form of the sectoral structure. This classification reflects the stages that have passed in their development of the structure of economic systems. The primary sector was leading at that time of economic development, when the economic system depended entirely on the natural factor that limited economic growth and defined the limits of the development of the national economy. The secondary sector of the economy reflects the industrial stage of development, when the technical and economic characteristics of the

development of industries, mainly dependent on the size of capital, significantly influenced the rate of growth. The tertiary sector becomes the main one at the post-industrial stage of the development of economic systems, when the role of the human factor is strengthened. Capital investments in the human factor are determined not only by the level, but also by the quality of economic growth. Under the influence of the tertiary sector, qualitative changes occur in the primary and secondary sectors of the economy, their proportions are modified.

Along with the changes in the economic structure, more fractional classifications of the sectoral structure have appeared in the literature. In particular, the macroeconomic study proposes to allocate five sectors of the economy, rather than three traditional ones, as suggested earlier. The new classification more fully reflects the specification of post-industrial growth and sector differentiation of the service sector. On this basis, the tertiary sector is analyzed in more detail and is divided into three separate parts: *the first* includes the production of material services (transport, communications); *the second* - trade, finance, insurance and real estate operations; *the third* - health, education, science and scientific services, recreation, management (government agencies). There were proposals to divide the tertiary sector of the economy into two independent ones - production services and consumer services. Despite all the differences in the approaches of the authors, they are united by an attempt of a macroeconomic analysis of intersectoral proportions and directions of evaluation and transformation of the production structure. A well-developed classification and typology are tools for analysis.

Classification of the economy by components, parts and analysis of this structure is a very difficult task. Quantitative relations between individual elements of the system should have an objective basis, which determines the need for different sectors. These proportions between the elements should reflect the state and especially the multifactorial nature of the development of the economic system. For Azerbaijan in modern conditions it is important to create a structure, corresponding

to the modern stage of development, ensuring the stability of economic growth. The increase in raw material resources, the mobilization of fixed capital is an extensive type of economic growth, the achievement of which is possible without the development of the economic system. Economic growth, carried out by improving the technology and technology used, capable of saving by increasing production, significantly reduces costs, guaranteeing a low value of goods.

Table 1. Diversification and concentration indexes in export of Azerbaijan and similar countries

Countries	2005			2013		
	Number of products	Diversification index	Concentration index	Number of products	Diversification index	Concentration index
Azerbaijan	171	0.764	0.573	182	0.785	0.876
Russia	248	0.662	0.352	256	0.604	0.377
Kazakhstan	195	0.757	0.605	225	0.740	0.651
Norway	232	0.647	0.453	236	0.612	0.391

Source: UNCTAD Handbook of Statistics 2014

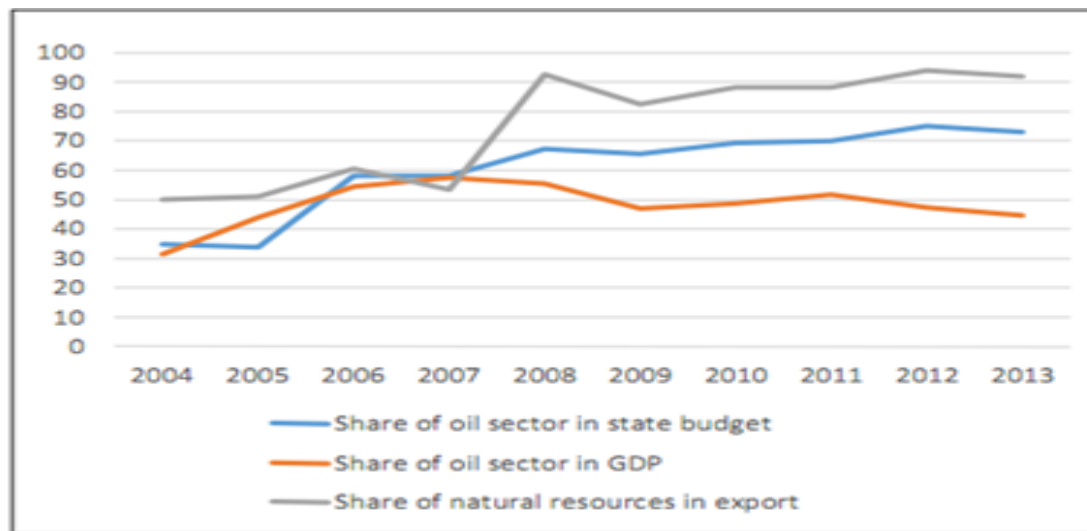
However, in modern conditions, price competition can not provide high competitive advantages. Therefore, firms and households are increasingly focusing on the quality and high consumer properties of goods and services. Thus, an increasingly important role in competition is played by non-price factors. Regulating the country's economic structure is an objective necessity and a basic part of state regulation of the economy. The objective need for regulation is related to the discrepancy between the structure of the economic system and the targets for the implementation of long-term sustainable economic growth. The disproportions accumulated in the economic structure increase the risk of slowing economic growth. Undoubtedly, reforming the economic structure is an integral part of general state regulation, although it has specific features that include legal, organizational and economic components.

The main strategic goal of structural regulation is to create conditions for economic growth. Economic growth should be based on a conscious, theoretically properly designed and implemented structural policy, which is a set of measures of state influence on the structure of the economy with a view to achieving its progressive

transformation. The structural policy of the state must now become the main driving force of economic growth. For this, the goal should be formulated, scientific strategy and tactics defined, and rational use of material, financial, human resources is guaranteed.

When implementing state regulation of the economic structure, it is necessary to take into account the state of the market. In a market economy, state regulation should be based on the optimal combination of administrative and economic regulators. Obviously, the package of measures used by the state in the interests of progressive development of the economy must necessarily include measures of an economic, legal and organizational nature. Due to the fact that some economic measures may be ineffective, they should be based on the rule of law and organizational support. In order to improve the efficiency of regulation of the economic structure, financial and economic instruments for the indirect regulation of structural reforms must be strengthened. It is also necessary to increase the efficiency of the system of economic stimulation of the development of industrial production in priority areas. This concerns the improvement of legislation through monitoring the implementation of adopted laws and the introduction of new ones. The importance of effective control by legislative and executive bodies in ensuring the balance of state interests and interests of private corporations is growing. Therefore, it seems advisable to increase the effectiveness of financial and economic expertise and legislative acts of the project. It is required to introduce essential amendments to industrial, investment and social policies, and also to take into account regional development features more.

The trend of the resource dependence in 2004-2013



Sources: Ministry of Finance of Azerbaijan

It should be noted the following forms of state regulation of the structure of the economy: forecasts, state economic programming and economic activity. Since economic changes are influenced by modern changes in the structural proportions of the economy, scientific forecasting and research of the fundamental proportions of the economy become especially important, determining the possibility of long-term economic growth. In the modern Azerbaijani economy, widespread use has been made of the program-targeted method of regulating structural reforms. Today, the economic situation has dramatically changed and there is the opportunity and resources for the formation of a structure that provides economic growth. The problem is how to ensure its stability. In this respect, the development and implementation of a new program of action is an urgent necessity. Along with the development of a new program for the structural transformation of the economy, a medium-term development program in certain industries, sectors and oblasts requires special attention to itself. When developing conceptual approaches to regulating the economic structure, there should be a clear understanding that the object of this regulation is a mixed economy.

The world has accumulated vast experience in regulating the structure of the mixed economy. In particular, the US experience in public stimulation of the development of TNCs can be useful. A variant of the German regulation of a socially oriented economy is also successful. The ultimate goal of regulating the structure of the economy should be an absolute focus on ensuring long-term stable growth. To achieve this goal, all economic processes should be directed and the economic interests of public and private enterprises, households and the public concentrated.

The introduction of state regulation of the structure of the economy implies a certain consumption of resources, including financial, material and human components. In the interest of efficiency, state regulation of the structural proportions of the economy should be implemented in stages, with constant monitoring and revision of the effectiveness of structural reforms. It is necessary to increase the responsibility of market institutions responsible for structural restructuring of the economy. The basic principles of state regulation of the structure of the Azerbaijani economy can be defined as follows: strengthening state influence on the structure of the economy based on the optimal combination of financial and monetary regulators; priority development of market mechanisms of self-regulation of structural proportions of the economy; ensuring optimal structure; stable impact on the reproduction process.

It is difficult to find a model for building the optimal structure of the economy. But this must be done by the state constantly. Of particular importance is the choice of the road map, which will ensure an increase in the effectiveness of state influence on structural reforms. The main activities of the state should contribute to the progressive dynamics of structural changes in relation to the country's sustainable economic development: maintaining the macroeconomic conditions necessary for stable progressive development; formation of effective owners; the provision of comprehensive institutional support for structural changes in the national economy; development of market infrastructure, which will remove barriers to growth and guarantees sustainability.

Thus, in order to move towards sustainable economic growth and reduce dependence on external conditions, it is necessary to pursue an active policy of economic diversification. The main focus should be on the development of industries and sectors that have absolute or relative advantages.

2.2. Foreign experience of diversification of the economy

In the second half of the twentieth century, diversification almost simultaneously appeared in the United States, Japan, Germany - countries with advanced market economies. Such a complex phenomenon could not arise by itself, its appearance was prepared by all the previous development of the system of economic and production relations. In the history of the development of the market economy, there are many combinations of diversification and specialization, the theoretical and practical issues of this phenomenon were first described by the American economist M. Gort (1962), and a little later by a group of Japanese specialists led by Y. Esinara (1979)

Examples of how countries heavily dependent on the sale of minerals have built a diversified economy are not so many. Among them, Malaysia, Chile and Indonesia, which managed to either reorient their economies to industrial production, or, as in the case of Chile, expand the range of its resource exports through products with higher added value.

Malaysia

Malaysia was lucky enough to have such diverse advantages as a convenient geographical location, a large number of ports and a fairly developed infrastructure for tin, rubber and timber mining, which helped diversify the country's export structure. A balanced budget policy has made it possible to channel a large amount of investment

into land development and forest restoration, as well as in infrastructure - primarily energy, communications and transport. In the mid-1970s, the government abandoned protectionism in favor of developing an export-oriented industry based on cheap labor. The low cost of labor was artificially supported due to the absence of a statutory minimum wage in the export sectors, as well as restrictions on the activities of trade unions.

Macroeconomic policy was also aimed at reducing costs. The devaluation of the national currency made the production even cheaper. A number of programs were launched aimed at supporting export sectors of the economy, including tax breaks, lending, state research subsidies, and assistance in the promotion of goods. All this increased the competitiveness of Malaysian exports in the world market.

Indonesia

The example of Indonesia demonstrates the importance of using the policy of active stimulation of agriculture in the rapidly developing oil industry. This policy included the allocation of a large part of the revenues from oil exports for the development and introduction of resistant varieties of rice and high-yielding varieties, the production and sale of fertilizers at the reduced prices, as well as the development of infrastructure in the country's agricultural areas.

Thanks to agriculture, which is able to supply cheaply a growing number of industrial workers, in the early 1980s, Indonesia embarked on the development of mass industrial production. At the same time, the level of government spending was tightly controlled, which allowed the government to accumulate significant cash reserves. As in the case of Malaysia, the Indonesian government actively resorted to the devaluation of the national currency with a relatively free trade regime, which allowed maintaining a positive trade balance.

Chile

Chile, unlike the two previous countries, has never become a major exporter of manufactured goods, but it has managed to significantly diversify its exports through specialization in raw materials with high added value produced by its developed resource base.

One of the main elements that contributed to the success of Chile's economic strategy was fiscal policy, aimed at leveling out fluctuations in the global conjuncture. It consisted in accumulating significant reserves in the years when the value of the exported resources was high, and their active expenditure, when prices in world markets fell. In addition, the Chilean government has focused its efforts on improving the business climate in the country - according to the conditions for entrepreneurship, Chile has traditionally ranked among the Latin American countries in the ratings.

Chile is also an example of the successful use of private-public partnership practices for the development of export areas of the economy. The country has created an infrastructure for information and financial support of small producers, which helps them reach a critical mass for entering the world market. Active work is carried out to develop production clusters with the involvement of small and medium-sized businesses.

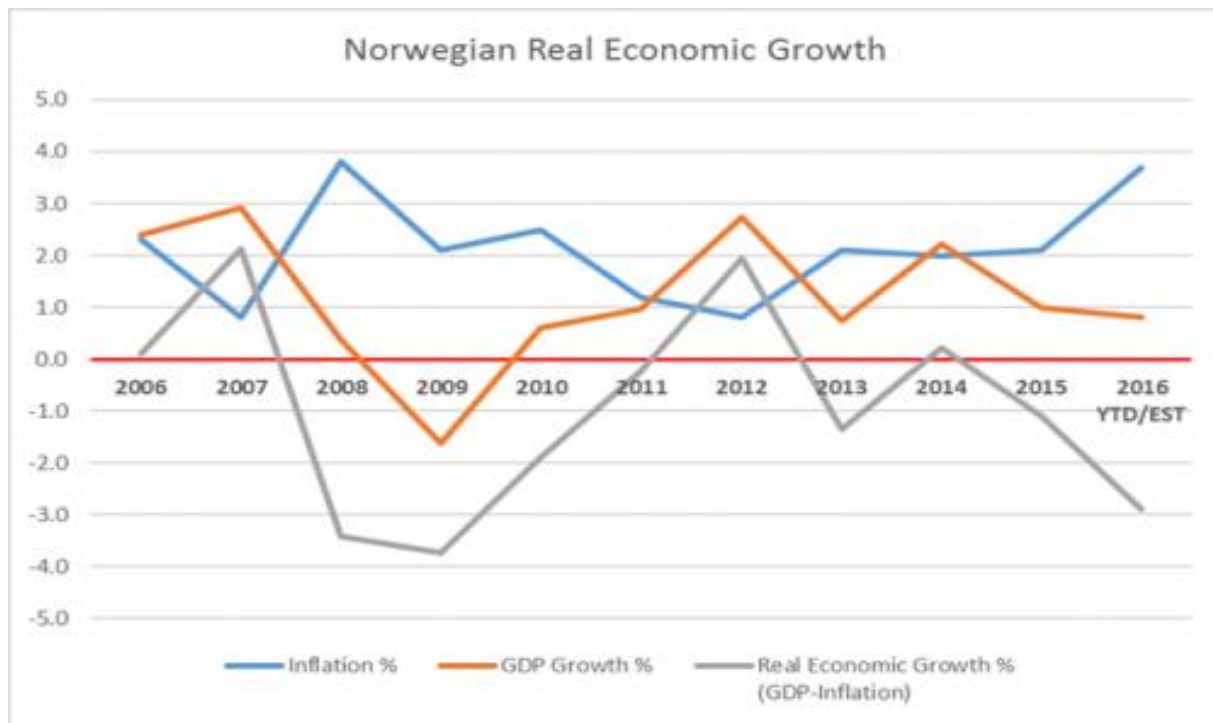
The experience of Malaysia, Indonesia and Chile demonstrates that with good management, diversification of the economy is possible even in countries that have long depended heavily on the export of fossil resources and have gone through a long history of political instability and turmoil. Despite a lot of differences, the economic policy pursued in these three countries has a number of common features.

First, the two main goals of their governments were to stimulate economic development and ensure social stability. Secondly, the main development priority was the expansion of the base of exported goods. Thirdly, in each described case the process of diversification was under the control of a group of competent economists who adequately assessed all the risks associated with it. And only the smooth interaction of

these specialists with the political elite made it possible to bring this process to its logical conclusion.

Norway and Diversification

An example of effective diversification of the economy is the experience of Norway. With significant hydrocarbon reserves, Norway has reduced the share of the extractive industry, exporting 90% of the produced oil and gas, and investing the revenues in innovation and social activities.



Today, the Norwegian authorities are not making any efforts to diversify the economy. The main rule of the regulating bodies - as in the textbook: non-interference of the state and creation of a competitive environment. Even Statoil was partly put on the stock exchange to answer to private investors - this would force it to compete with the international public companies of the oil industry.

Grants and business support exist, but it is more support for new business in the form of "seed capital" regardless of the scope of activities. Grant allocation takes place on a competitive basis. Phillips Petroleum in 1962 suggested that the Norwegian

government fully buy out the rights to develop the Norwegian sector of the North Sea, but was refused. The development of the shelf by foreign companies began on the basis of auctions.

In the 1970s, Norway aimed to increase the extraction of economic rent in hydrocarbon production in two ways - through taxation and through state participation in oil and gas production projects. Therefore, Statoil as a representative of the state automatically received 50% of the shares in each foreign project in Norway. Subsequently, fearing the rapid growth of Statoil and, accordingly, the impact on the economy of Norway, the government introduced such a tool as "direct government financial interest" in mining projects. The "50% rule" was also revised, and the parliament made a separate decision on the state share for each new deposit.

Some oil transnational companies could not withstand high taxes and left Norway. As a result, since 1981, Statoil has competed on an equal footing with oil majors for the position of the operator. It is worth noting that Statoil now has no preference from the state in the auctions for promising blocks. Nevertheless, today more than 60% of Norway's oil and gas is produced by Statoil. But for its history, this state-owned company has experienced several corruption scandals, which led to legal proceedings and loud resignations.

Diversification in Norway occurred naturally around the booming oil and gas sector. The government encouraged industrial clusters, but not financially, but organizationally and advisoryly. According to the legislation of the country, the activity of the government is completely transparent.

There is no responsible body or special programs for diversification in Norway. The privilege for business in terms of taxation on diversification or direct subsidies is not. The Norwegian authorities have focused on the control of resources, their processing and delivery, rent extraction, as well as building the knowledge and competencies of business and workers in this field.

Kazakhstan and diversification

One of the main features of the development of the economy of Kazakhstan is still the dominant position of the oil and gas and raw materials sectors due to the weakening of the positions of the domestic manufacturing industry, as well as the replacement of imported goods from the structure of consumption of domestic products. At the same time, it is in the raw nature of the domestic economy, its weak diversification, that experts see the main cause of the economic crisis.

As the world economic crisis has shown, the dominance of raw materials in the structure of the country's economy leads to instability of economic growth and prolonged stagnation. Therefore, it is of strategic importance for Kazakhstan to pursue a purposeful state policy of diversifying and modernizing the economy in order to increase its competitiveness, overcome the raw material orientation and ensure sustainable economic growth of the country and individual regions.

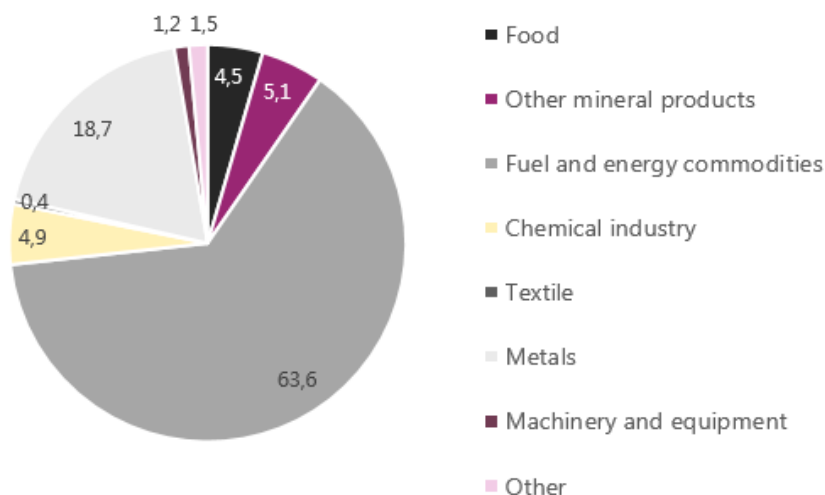
In this sense, Kazakhstan has all the prerequisites and a powerful potential for the development of the production of competitive agricultural products and could become one of the world's leading producers of food. Thus, the republic has a significant volume of agricultural land (223 million hectares); high labor potential of the village (47% of the country's population lives in rural areas); favorable climatic conditions for growing grain and leguminous crops, potatoes and vegetables; large potential for livestock breeding (pasture land makes up 85% of the total land area).

Real sector and wholesale and retail profile in Kazakhstan, GDP share

GDP segment	GDP share, %, 2012	GDP share, %, 2016	GDP share, %, 2021 (ACRA estimate)
Agriculture, forestry and fishery	4.3%	4.6%	3.6%
Mining industries	17.1%	12.9%	14.7%
Processing industries	11.1%	11.3%	11.9%
Electric power supply	1.7%	1.7%	1.8%
Water supply	0.3%	0.2%	0.2%
Construction	6.2%	5.9%	5.8%
Wholesale and retail sale	14.9%	16.8%	16.2%
Transportation and warehousing	7.4%	8.3%	7.7%

Source: the Statistics Committee of the Ministry of the National Economy of the Republic of Kazakhstan, ACRA estimates and forecast

Kazakhstan export profile by product group: fuel and energy commodities are most important (%, January-August 2017)



Source: the Statistics Committee of the Ministry of the National Economy of the Republic of Kazakhstan, ACRA estimates

In the conditions of sharp fluctuations in world prices for raw materials, agriculture can contribute to the country's exit from the economic crisis and impart a new impetus to

the strategy of diversifying its exports. Already today Kazakhstan is the largest exporter of grain, and for export of flour for the second year in a row ranks first in the world. Thanks to good harvests in recent years, Kazakhstan has been able to strengthen its global opportunities to stabilize prices in the markets of Central Asia, Russia, the Middle East, Europe and the Caucasus and improve its prospects in terms of ensuring food security in the surrounding regions.

Finland

Finland is a country with an industrially developed, basically free market economy with per capita output of about the same as in Austria, Belgium, the Netherlands and Sweden.

Over the past half century, the Finns have made a remarkable transition from forestry and farming to a country with a diversified modern industrial economy. In the 21st century, the key features of the current welfare state of Finland are: high level of education, equality in promotion and national social security system. Despite the typically high taxes for northern countries and the active participation of the state in regulating the economy, the Finnish model of prosperity proved successful.

The economy of Finland over the past 10 years has grown on average faster than in the countries of the European Union. Per capita income is currently one of the highest in Europe. The advantages of Finland are political stability, open economy, highly developed infrastructure and reliability of telecommunications, as well as a high level of interaction between enterprises, scientific and technical centers and universities. In addition, in the competitiveness of Finland, factors such as the rapidity in the development of new technologies, the high educational level of the population, the business-friendly business climate are important.

The weakest features of Finland in international competition are high taxes (up to 36% on personal income and 29% corporate tax) and a significant public debt (43% of GDP in 2014)

The growth of the Finnish economy is highly dependent on exports; more than 80% of the total output is exported, and the share of exports in GDP is 40-45%. The main export products are machinery, wood and paper, shipbuilding, electronics and chemical products. Finland is completely dependent on imported raw materials, energy and other components for the production of goods.

The locomotive of Finland's economic growth was the internationalization of enterprises, as well as the rapid development of exports and the sector of information and communication technologies.

The importance of Finland in the world economy is small: about 0.5% of world GNP, 0.4% of industrial production and 0.8% of exports, it holds significant positions in the production and export of forest products and electronics. 36 Finnish companies are leaders in the world market in their sectors for 63 types of goods and services.

As a result of the global economic crisis, the Finnish economy fell sharply between 2008 and 2009. Due to a decrease in international demand, industrial production, dependent on foreign trade, declined by about one fifth compared to 2009. The domestic production sector also did not escape the consequences of the crisis. The Finnish economy, however, already at the end of 2009 began to revive at the expense of retail trade and industry.

If in the 1940s and 1950s agriculture and forestry accounted for more than a quarter of the GNP, by the 2000s - about 3%. The sphere of services that created more than 60% of GNP became dominant and increased its share in GNP accordingly, almost twice. The share of industry grew until the 1980s, exceeding 30%, after which its share fell somewhat and stabilized at about 28%.

The economic structure of Finland has changed over the past decade. The importance of the service sector has risen, and the share of traditional industry in GDP has declined. The share of services is two-thirds of GDP, and the share of industry, respectively, one-third. Internationally competing large industrial companies in recent

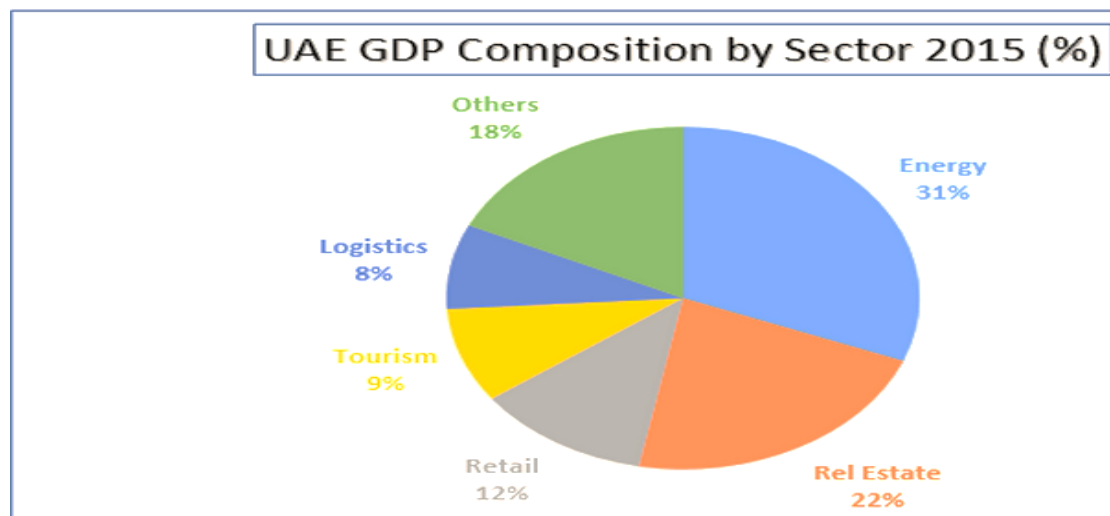
years have moved production closer to emerging markets and countries with cheaper production costs.

The challenge for the development of the Finnish economy, besides changing the structure of industry, is demographic change. The working population is getting smaller. This complicates the financing of pensions and health care, the guaranteed provision of which implies an increase in labor productivity and employment.

The division of labor in Finland is as follows:

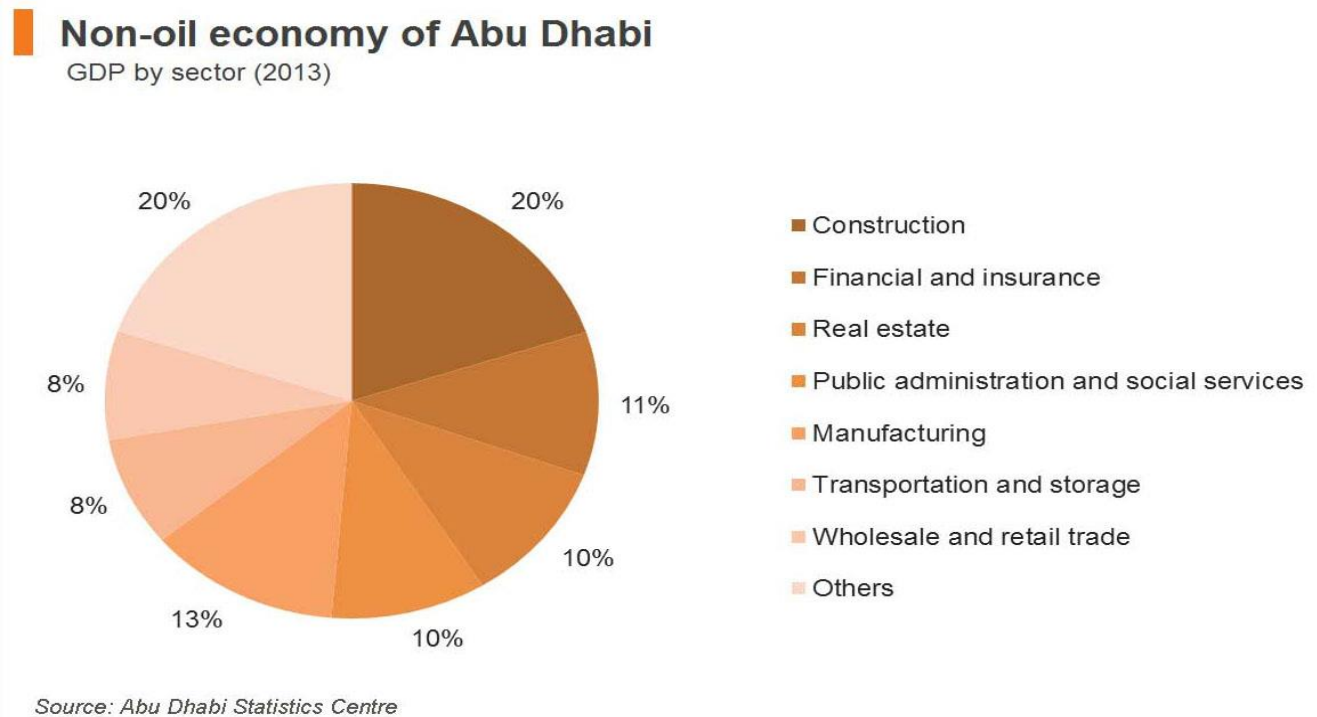
- *Agriculture and forestry* - 4.9%
- *Industry* - 16.7%
- *Construction* - 7.1%
- *Commerce* - 19.4%
- *Insurance business, entrepreneurship and financial sector* - 12.8%
- *Transport and communications* - 6.3%
- *Services* - 32.8%

Diversification of the economy of the United Arab Emirates

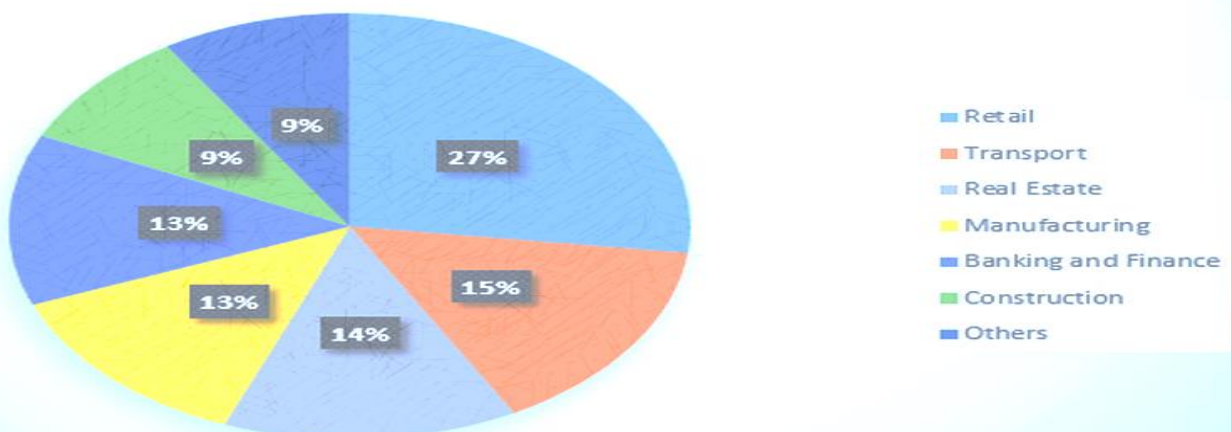


Source; IMF, Economic Diversification in Oil-Exporting Arab Countries, April 2016.

Many have come to believe that the economy of any state in the Persian Gulf is based on the extraction and sale of hydrocarbons. The Arab Emirates does have substantial reserves of oil and natural gas (according to official statistics, they occupy sixth and seventh place among the countries of the world most provided with these resources). At one time, such an abundance of natural resources actually helped push the country's development, but now the dependence of the UAE on the oil and gas industry has significantly decreased, compared with the early history.



Dubai GDP Composition 2014



For comparison, when in 2014, oil prices plummeted, the GDP growth of the Arab Emirates, in spite of this fact, amounted to 4.8%.

Since the establishment of the UAE as a state in 1971, the Arab Emirates has experienced significant economic growth. The well-thought-out policy of the country's founders, the government's proposed model of economic diversification, and measures to create an enabling environment for doing business in the country have become key factors that have ensured the dizzying GDP growth of the Arab Emirates.

One of the most important achievements of the country's economy can be considered a reduction in the role of oil and gas industry revenues in the formation of the UAE's GDP - if in the 1970s. the share of this industry in the GDP of the state was 90%, today it does not even reach 30%, which became possible due to the rapid growth of non-oil sectors of the economy.

Emirates deserved a solid reputation as a regional and international center for trade and finance. This allowed to attract large amounts of foreign capital to the country, and in completely different sectors of the economy. In many respects this became possible due to the creation of knowledge in the state of the economy and the shift of focus towards creative and innovative development.

One of the main points of the diversification strategy is the development of tourism. However, the rate is also made for such industries as innovation, production and financial services. At the same time, the government of the country pursues the goal of reducing the share of revenues from oil and gas sector activities in the GDP structure to 20% within the next 10-15 years. The maximum effective increase in the contribution of the non-oil sector to GDP formation can be achieved through innovation and modernization of a number of production processes, as well as by supporting the development of the tourism industry in the UAE.

In addition, the pledge of further successful economic growth of the state is to encourage the attraction of additional investment in the UAE - it is reported that the

total amount of foreign direct investment that has entered the country over the past decade has exceeded \$ 100 billion.

Since Abu Dhabi first began exporting oil in the early 1960s, The UAE government was concerned with effective measures to diversify the economy. As mentioned earlier, today the economy of the Arab Emirates has reached a very high level of diversification compared to other countries, and one of the most important roles in the formation of the country's GDP at the expense of the non-oil sectors is the emirate of Dubai.

The Dubai economy, whose dizzying growth began in 1969, also relied on revenues from the oil and gas industry in the early stages of its formation, but the government of the emirate was aware that the reserves of these resources are not unlimited, and was looking for alternative ways of economic development of Dubai. As a result, at the initiative of the government, the revenues of the oil-producing and oil-refining industries were directed to the creation of a competitive infrastructure in Dubai: the construction of roads, ports, business centers, medical and educational institutions. The foresight of the authorities of the emirate led to the fact that today the share of revenues from the oil industry in Dubai's GDP is about 1.5%, whereas in the early 1990s, this figure reached 25%.

Today, Dubai boasts an open and dynamically developing economy, and its growth rates are among the best in the world. The emirate has a developed infrastructure, created by world standards, an enabling environment for doing business and other features that guarantee Dubai prosperity in the long term.

Over the past few decades, Dubai has been characterized by exceptionally high rates of economic growth. Statistics of the Economic Council of Dubai, shows that in the period from 1975 to 1990, the average annual increase in the GDP of the emirate was 6%, whereas over the past 15 years this figure has reached almost 9%.

Thanks to the rapid growth of such sectors of the economy as construction, finance, trade, tourism and aviation, Dubai continues to be a popular destination for

investment in real estate and other industries that have priority for the economy of the emirate.

Among the aspects of which Dubai's investment appeal is, one can note, firstly, its strategically advantageous geographical position. The emirate allows to create and strengthen profitable trade links between the countries of Europe, the East, the Persian Gulf and Africa, thus serving not only as an intermediary of commercial operations, but also as their full participant. Thus, the emirate has access to a large-scale market (according to rough estimates, more than 1.5 billion people live on the territory of the Persian Gulf, the Middle East, the Eastern Mediterranean, the CIS, Central Asia, Africa and the Asian subcontinent), on which mutually beneficial foreign trade ties have already settled.

The well-thought-out policy of the Dubai authorities on investing in real estate, transport, telecommunications, energy and the creation of industrial infrastructure has allowed the emirate to form a favorable investment climate, which attracts businessmen and investors from all over the world. To date, the emirate is served by more than 120 shipping lines and 85 airlines linking Dubai, with at least 130 destinations around the world. It should be noted that the state-owned airline Emirates Airlines is steadily expanding its presence in the market, and the international airport Dubai International last year officially received the status of the busiest airport in the world in terms of the density of international passenger traffic, displacing the world-famous London Heathrow Airport from the leading position.

To date, the emirate can boast of an established business environment that meets the world standards of doing business. On the territory of Dubai, modern technologies are used universally, and market participants have sufficient experience of cooperation with foreign enterprises operating in the most diverse sectors of the economy. In addition, the government regularly improves the legislation of Dubai, which is aimed at protecting the rights and interests of investors and businessmen, including foreigners, focused on long-term investment in the emirate. Among the most

significant trading partners of Dubai are India, Iran, Saudi Arabia, Switzerland, China and the United States. According to official statistics, since 1988, the annual growth of the foreign trade turnover of the emirate is on average 11%.

3.INSTITUTIONAL AND STRUCTURAL PROBLEM OF DEVELOPMENT OF THE NON-OIL ECONOMY OF AZERBAIJAN

3.1 Modern challenges to the development of the oil industry

Oil is the main property of Azerbaijan. In the 1870s, industrial oil production began in Baku, and the first offshore drilling rig was built in 1924. In the history of oil and gas production in Azerbaijan, 1.5 billion tons of oil and condensate and 480 billion cubic meters of gas were extracted, including 0.5 billion tons of oil and condensate and 358 billion cubic meters of gas at sea. On the basis of hydrocarbon deposits, over a century development in the country are equipped with crafts, both on land and at sea, Oil refining and petrochemical industry, oil engineering, main oil and gas pipelines, railway and marine oil transport, as well as the oil university and research organizations, there are highly skilled personnel of oil Specialties capable of solving many important problems of the future development of the oil industry.

By the end of the twentieth century, with the discovery of large oil and gas reserves in Caspian Basin in the development of oil and gas industry qualitative changes. such developed countries of the world as the USA, Britain, Japan, France, Italy and a number of neighboring countries are trying to strengthen their economic and strategic positions in Azerbaijan.

Favorable EGP of Azerbaijan allows to transport oil and gas Kazakhstan and Turkmenistan through our territory to European countries. The need to involve in the economic circulation of deposits characterized by more complex exploration geological

conditions, an increase in the depth of the wells, causing significant complications in the conditions of all works, necessitated the attraction of significant investment in the country's oil and gas production industry. These problems were projected for the initial period of Azerbaijan's independence. Under these conditions, it was decided to involve foreign companies known to the oil world in the development and production of hydrocarbon raw materials.

Since 1994, the Azerbaijani state has been implementing its new oil strategy. The main meaning, the main principles of this strategy are to use the rich natural resources of Azerbaijan more efficiently, incl. oil and gas wealth, for the benefit of the Azerbaijani people.

In 1994, between Azerbaijan and the pool of companies from 8 countries, the "Contract of the Century" was signed for the development of offshore fields "Azeri-Chirag-Gunashli", the total amount of oil reserves of this field, according to BP, is 730 million tons. After the "Contract of the Century", a number of contracts were concluded with various companies for exploration and development deposits both on land and at sea. At present, in Azerbaijan in the framework of 26 agreements of the PSA (production sharing agreement) for The development of oil and gas fields is 32 foreign companies representing 15 countries.

The "Contract of the Century", signed by Azerbaijan for the development of marine fields "Azeri-Chirag-Guneshli", also represents the Production-sharing Agreement (PSA). Partition agreement production (DRP) was first used in 1966 in Indonesia and in Currently, it is a common form of doing business. DRP recognizes that the owner of natural resources is the state, but at the same time time allows foreign corporations to manage oil deposit and exploit it.

Azerbaijan did not efficiently dispose of oil revenues and did not escape the "Dutch syndrome," the really large amounts of transfers of oil revenues to the state budget gave rise to problems known as the "Dutch syndrome."However, it should be

noted that all resource countries including Russia, Kazakhstan, Nigeria, the countries of the Persian Gulf, Saudi Arabia face similar problems. The Strategic Roadmap for the Development of the Azerbaijani Economy reflects enough measures to prevent the "Dutch Syndrome". However, Azerbaijan is far from the positive experience of such an oil producing country as Norway.

The Norwegian Oil Resources Fund was established in 1990. In the second half of the zero years, it turned into a Pension Fund, which is managed by the Central Bank. There are certain limits beyond which transfers from the Pension Fund to the state budget are not allowed. In particular, in Norway they try to ensure that the amount of transfers does not exceed 4% of the profitability of the assets of the Pension Fund.

In Azerbaijan over the last 6-7 years, large amounts of money were transferred from the Oil Fund to the state budget, which was connected with infrastructure and social projects. In all years of independence, Azerbaijan's revenues from oil amounted to about 135-140 billion dollars. These funds allowed to solve both budget problems and carry out large-scale economic projects, however, most of these funds have already been spent.

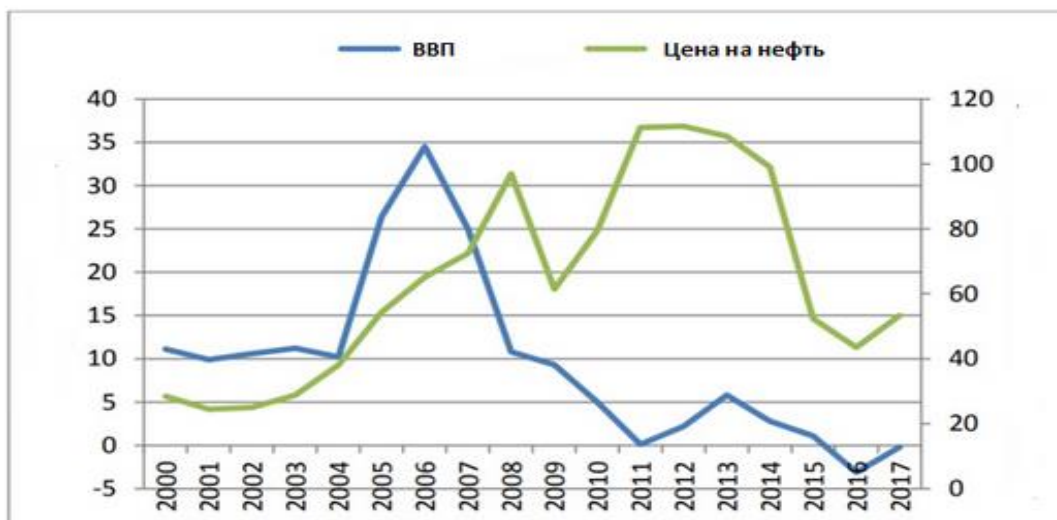
At the beginning of 2017, the Oil Fund accumulated about 33 billion dollars. However, the country's reserves are not limited to this. There are reserves of the Central Bank, and they are close to 4.8 billion dollars.

Along with the conclusion of new agreements on the development of oil and gas fields, until 2050 the government simultaneously takes measures to develop the non-oil sector and implements strategic road maps of the economy in 12 directions. The economic turbulence of recent years - both in the domestic and foreign markets - has had a serious impact on the stability of Azerbaijan's financial system. The global fall in oil prices, which began in 2014, was one of the main negative factors affecting the country's financial sector. However, this negative became an impetus that gave impetus to the processes of economic diversification, structural reforms, which are still being implemented in the country, affecting all spheres of the state's life. Already

today, the reforms that have been carried out give their results, and in the future will lead to the improvement of the country's financial system, restoring stability and stability to it.

Post-devaluation 2016 was very difficult, but then the reform of the country's financial system began. In 2016, GDP growth rates, for the first time since 1995, fell to a minus indicator, reaching -3.1 percent. Naturally, a threefold decline in oil prices shattered the country's financial stability and led to a 13 percent inflation rate. However, when compared with other CIS countries, this indicator does not look so bad. In any case, the state has found worthy decisions for an exit from the developed situation. It was possible to survive the crisis, to learn from it proper lessons, having managed to give a new impulse to the movement towards economic prosperity with the implementation of multiple structural reforms and the search for ways of economic diversification. This is evidenced by GDP growth in 2017, the stability of the monetary system, the confident development of commodity-market relations, etc.

The chart below shows the dynamics of oil prices in US dollars in relation to the country's GDP change:



The graph is well illustrated by the so-called "Dutch syndrome" - this is the negative effect of strengthening the real exchange rate of the national currency on economic

development as a result of the boom in a separate sector of the economy. In practice, this effect is usually associated with the discovery of mineral deposits or rising prices for the export of extractive industries. The syndrome is called "Dutch" because its first case was recorded in the Netherlands: in the north of this country in 1959, offshore natural gas deposits were discovered. The rapid growth of gas exports due to the development of the field led to an increase in inflation and unemployment, a fall in exports of manufacturing products and the growth rate of income in the 1970s. The financial well-being of the country has become dependent on the conjuncture of world gas prices.

As a result of the "Dutch syndrome", the devaluation of 2015 became a serious test for strength for Azerbaijan. However, the state has embarked on a path of radical change. Many economic and structural reforms have been carried out, and now our economy is less dependent on oil resources, it has gained stability and confidence. Not stopping at what has been achieved, the state continues to gradually solve regional economic issues.

The agreements signed on September 20, 1994 on joint work in the oil and gas industry with large companies from the developed countries of the world, had an impact on the growth rates of the oil and gas industry. It should be noted that along with the extractive industry, the manufacturing industry also developed.

In recent years, cash registers, microcalculators, telephone sets, household electrical appliances, plastic doors and windows, special pipes for transportation of oil and other goods have been developed. The production of a certain part of the production in Azerbaijan, which was previously imported from foreign countries, contributed to the enrichment of the domestic market and it can be said that it eliminated our dependence on imports.

All this had a strong influence on increasing business activity in industry and small business development. The increase in the number of foreign and joint ventures by 3 times is the result of the policy of "open doors" carried out by the authorities of the

country. Currently in the field of industry there are about 200 enterprises with foreign investments representing 63 states, thousands of new jobs have been opened. A significant increase in newly formed economic structures, expansion of entrepreneurship and its dynamic development, employment of individuals by entrepreneurship is accompanied by a further increase in the role of the non-state sector. Thus, the share of the non-state sector in the total production of industrial products in 1995 was 5.5 percent, in 2008 it increased to 75 percent.

In the medium term, the main goal of the state policy in the field of industry will be to ensure stable and high growth rates of industrial production, improve its structure and increase rationality. In this area, the main measures will be the following: elimination of high moral and physical wear of production equipment, increasing the competitiveness of national products and increasing investment and innovation activity in industry, stimulating the further growth of the non-oil sector and the activities of varieties of manufacturing industries. The dynamic development of the oil sector will create a solid basis for further growth in the development of non-oil areas. Along with this, a favorable investment environment created in the non-oil sector, the ongoing privatization process and other reforms will ensure the further intensive development of the non-oil spheres.

In addition to the above, special attention will be paid to the implementation of the following measures in the direction of the development of the non-oil sector:

- acceleration of the processes of restructuring and privatization, the Department of Affairs of the President of the Republic of Azerbaijan
- continuation of the implementation of measures related to the restoration of industrial enterprises with a sales market and enterprises whose restoration is economically viable;

- accelerate the transition to the application of international standards in industrial enterprises based on modern technology;
- development of a free enterprise environment;
- acceleration of measures related to investment promotion;
- development of traditional national skills;
- strengthening the material and technical base of applied sciences and research institutes that meet the requirements of market conditions in modern conditions, with the aim of developing knowledge-intensive production.

The main objective in the development of the industrial sector in 2008-2011 is the production in the republic of high technology, competitive and export industrial products meeting world standards, expanding government support measures, improving the system of state regulation in the industrial complex, identifying and increasing investment sources and resources, as well as the mobilization of natural and labor resources for the long-term development of industry.

Dynamical development of the oil sector and improvement of energy supply to regions, at the same time, a favorable investment environment in the non-oil sector, the privatization process, financial support for small and medium-sized enterprises and other reforms will ensure a more intensive development of the non-oil sector. The following activities are planned to achieve the main objective in the industrial sector:

- ❖ identification of directions for development of the non-oil sector;
- ❖ rehabilitation of the industrial structure in certain areas of development and bringing it in line with investment requirements;
- ❖ rehabilitation of industrial enterprises owned by the state or a controlling stake in the state;
- ❖ rehabilitation in terms of technology;
- ❖ definition and increase of investment sources and resources;
- ❖ support for production development through preferential budgetary funds;

- ❖ improving tax and customs policies, supporting exports and protecting the domestic market;
- ❖ training of qualified workforce;
- ❖ support for the production of manufactured goods through the creation of an industrial town, encourage the creation of export industries and strengthen integration in the regional and global economy, as well as involvement in all scientific and technological innovation processes that exist at the moment in the world.
- ❖ search and exploration of new deposits;
- ❖ full-scale development of identified deposits;
- ❖ drilling of new wells in developing fields and restoration of inactive wells;
- ❖ application of new techniques and technologies in order to increase the ratio
- ❖ construction, reconstruction and modernization of oil and gas production, transportation and processing;
- ❖ wide application of achievements of science and technology, best practices.

In order to develop the energy industry, measures will be continued in the following areas:

- ✓ expansion of the use of alternative and renewable energy sources;
- ✓ construction of new stations and transmission networks;
- ✓ works on the restructuring of power transmission stations and systems;
- ✓ reduction of energy consumption;
- ✓ reduction of technological losses in production and transmission of energy;
- ✓ carrying out structural changes in the energy sector and improving the management system;
- ✓ support for entrepreneurial activities in the energy sector.

3.2. Strategic roadmap and prospects for the development of the non-oil industry of the republic

Strategic Road Maps on the national economy and the main sectors-economies are called upon to ensure the economy's competitiveness, its inclusion and enhancement of social welfare on the basis of sustainable economic development in Azerbaijan. Responding to global challenges, as a result of investment mobilization, favorable environment for free competition, access to markets and development of human capital, Azerbaijan will strengthen its positions in the global economy and will join the list of high-yielding countries.

The key directions of the strategic road map on the national economy and the main sectors of the economy were approved by the President of the Republic of Azerbaijan, Mr. Ilham Aliyev on December 6, 2016 and in the appropriate order, strategic road maps for the national economy and 11 sectors of the economy, in the general consisting of 12 documents, were transferred to the Analytical and Communication Center with instructions to conduct monitoring, evaluation, and communications on the implementation of these strategic road maps.

The strategic roadmap for the future of the national economy covers short-, medium- and long-term periods, and consists of an economic development strategy and action plan until 2020, a long-term vision for the period until 2025, and a vision vision beyond 2025. This document covers not only the goals and principles of development, but also global trends in all areas, 360-degree diagnostics of the economy and SWOT-analysis of the current situation, planned measures, required investments and indicators of results.

Focusing on the priorities selected in the short term, it is planned to create a foundation for economic growth in the medium- and long-term periods. The strategic roadmap will contribute to all factors of economic development, including communication opportunities and cooperation with local and international

representatives of the private sector. Public investments will act as a catalyst, and the private sector will be the locomotive of economic development.

The main features of the prospects for the national economy

Over the past 10 years Azerbaijan has modernized its infrastructure due to its successful oil strategy, the economy of non-resource resources has been developed due to the existing incomes; social security improved; increased state assets, as well as created strategic foreign exchange reserves that exceed the level of GDP.

Beginning in 2014, as a result of the sharp decline in oil prices and the economic crisis facing trade partners, amid the ongoing processes in the country, in particular, the slowdown in economic growth, institutional and structural reforms, the balance of payments deficit and the non-oil budget, changes in the financial and banking sectors, there was a need in Azerbaijan for a new approach to economic development.

The structure of the national economy can be resumed through further improvement of the business environment, the application of a new policy within the framework of the medium-term strategy, the restoration of the financial and banking system, and the improvement of monetary policy based on floating exchange rates, external markets.

For this reason, four strategic goals were chosen within the national economic perspective. Achieving these goals and implementing road maps for 11 sectors will open the possibility for sustainable economic development by balancing the real and financial sectors. In accordance with the first strategic goal, fiscal stability will be ensured in Azerbaijan and a monetary policy based on the floating exchange regime will be formed. Coordination of fiscal and monetary policies will ensure macroeconomic stability. Within the framework of the national economic perspective, the second task is to increase productivity in the activities of legal entities with a large shareholding belonging to the state and ensuring a dynamic economic development through

privatization. The third goal is related to the development of human capital, as the development of the labor market will be coordinated in accordance with the national economic perspective. Finally, the fourth goal is to further improve the business environment. Also covered are general issues of ensuring the stable development of 11 sectors established in the context of the national economic perspective.

In the medium and long term, the economy of Azerbaijan will develop in an environment where it will be exposed to various changes. Tracking such influences and their understanding is mandatory in terms of overcoming difficulties and taking advantage of the opportunities that they have caused. Although the probability of occurrence of unpredictable processes is high, however, the first indicators of the impact of several global trends on the global economy in recent decades are already visible. In all likelihood, four of these impacts will be extremely important for Azerbaijan: moving the global center of economic power to Asia into emerging markets, a significant impact of technological innovation, a changing geopolitical configuration, and a change in the price of oil and gas.

A new approach to economic growth: a strategic choice

The choice of "growth points" for the future economic growth of the country is an important strategic decision. As a result of the reduction in the opportunities for the formation of value added in the model of intensive capital accumulation, in the new strategic period, there are two choices for the country towards a future growth approach:

a. labor-intensive growth model

b. growth based on productivity and efficiency.

Integration into the global value chain, transformation to an economic growth approach based on productivity and efficiency, in an appropriate and logical period, can become an obvious strategic choice, in terms of the quality of economic growth and sustainability. However, using the opportunity by combining both models in the short

and medium term could provide a transition to a strategic choice model in a shorter timeframe.

It is especially necessary to take into account the fact that the labor force in the regions of Azerbaijan, in comparison with the city of Baku, is largely cheap, and this creates a huge potential for the development of a labor-intensive cluster in the regions. Nevertheless, the strategic choice is to build an approach to growth based on productivity. This requires a high-quality institutional environment, accessible sources of financing, proper segmentation and specialization of business and, most importantly, training in the field of human capital in intensive order.

Improving the business environment. Improving the effectiveness of mechanisms for state regulation of entrepreneurial activity, further improving the quality of tax and customs administration, minimizing restrictions on entering the market, and at the same time providing conditions for free competition will improve the business environment. At the same time, limiting the commercial activities of the public sector (production, transport, communications, financial services, etc.), the expansion of opportunities for private initiative is very important.

Expanding the sources of financing for a new growth approach is one of the important issues on the reform agenda. First of all, it is necessary to confirm the potential of public and private sources of financing, and make significant efforts to encourage foreign investment.

Government funding. First of all, it is necessary to finance priority sectors of development. Further, these same areas can be financed through sector lending by the National Entrepreneurship Support Fund and other sources of funding.

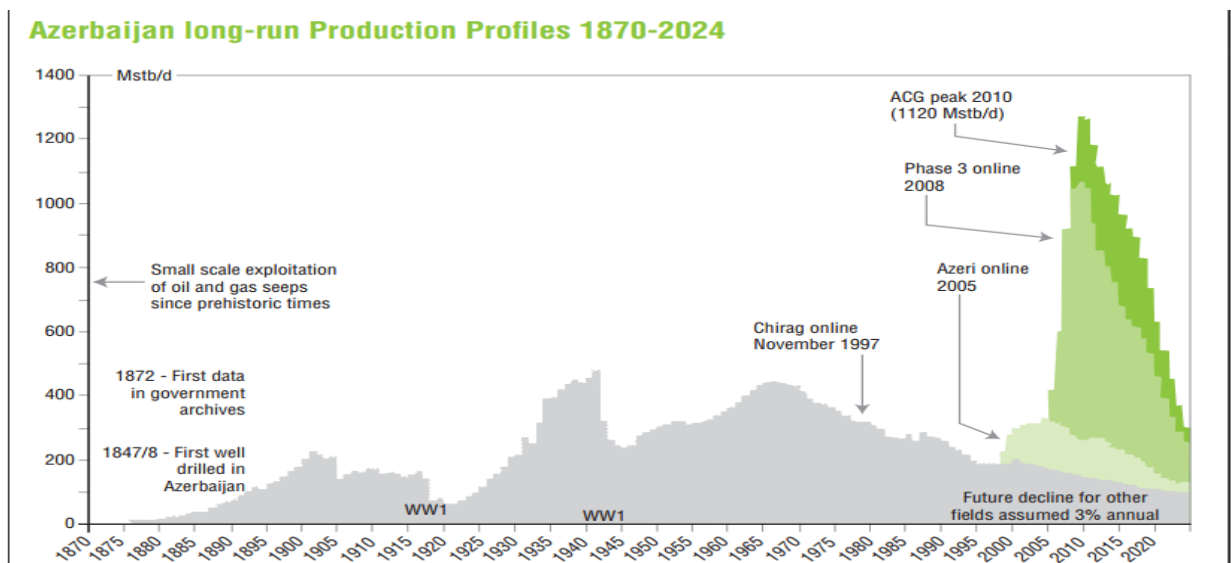
Investing in private savings. Improving the business environment can stimulate enterprises and households to invest their savings as investments, contributing to economic development.

Expansion of foreign sources of financing. Acceleration of judicial and legal reforms, ensuring the rule of law in the country can give an impulse for further

expansion of entrepreneurship initiatives of foreign investors. Along with the implementation of these reforms, the holding of investment fairs abroad intensively, the provision of specific incentives for investing in priority sectors (under the same conditions as for domestic investors) can facilitate the provision of foreign financing. In order to ensure the effectiveness of the new growth model, it is necessary to improve and modernize economic policies.

STRATEGIC REVIEW

Strategic review to 2020. The strategic vision of the development of the national economy by 2020 is, first of all, stabilization in the short term with the aim of ensuring the restoration of the Azerbaijani economy due to the negative impact of external shocks, in the medium term, the achievement of diversification and restoration of the development line at the expense of new driving forces; by the end of the period, the achievement of improving competitiveness through further integration into the world economy.



The strategic review until 2020 aims to promote the development of the foundations for building the economy for 2025 and beyond. Along with the preservation of Azerbaijan's important role in energy security and the development of transport and logistics corridors in Europe, the economy will progressively develop in the areas envisaged in the Strategic Roadmap.

The main goal is to increase the diversification and specialization of the economy, increase revenues and distribute them equitably by creating greater value in the non-primary sector. Over the past ten years, profit for oil has increased the level of employment. Nevertheless, due to the fact that the labor intensity in the oil sector is weak, the number of employees directly involved in this sector is only 1 percent of the total workforce.

The 2020 strategic review also includes further expansion of market entry opportunities. Improving trade infrastructure and increasing trade openness should be so harmonized with the policy of protecting domestic markets so that as a result of rational use of natural resources, a significant part of the funds remain in the country and fairly distributed.

In order to increase the long-term development, it is necessary to reduce the dependence of the economy, the state budget and currency on oil. Changes in oil prices damage the economic stability in the country, since the proceeds from the sale of oil significantly affect the domestic demand for goods and services. For example, in 2004-2014, as a result of changes in the annual rate of growth in the average account by 11.5 percent, limited the capacity of firms to plan and reduced the amount of investment in the private sector. In addition, the ongoing changes in oil prices contribute to the loss of the value of the national currency, due to the fact that the proceeds from the sale of oil are the main source of foreign currency.

It is envisaged to apply the "golden rule" to solve the dependence of the main macroeconomic indicators, in particular, the state budget on unsustainable oil revenues. Thus, an equitable distribution of accumulated oil revenues between generations will be

ensured, and the volume of SOFAZ transfers to the state budget will be linked to the needs of sustainable economic development. Price stability, achieved through monetary policy, will increase confidence in the national currency, help in shaping a disciplined fiscal policy and will have a positive impact on economic growth. In short, the tasks of monetary policy, the objectives of the growth of the fiscal framework and economic growth will support each other on a reciprocal basis. The depth of financial markets, as well as the variety of services, their quality and profitability will increase.

Long-term vision until 2025

The long-term forecast until 2025 is the achievement of enhanced competitive potential through the creation of values, in the conditions of mutually beneficial cooperation between all the participants of the Azerbaijani economy who have joined the highway of sustainable development.

The development of an enabling environment for free competition, accompanied by support from the private sector, will lead to increased investment in the national economy and increased access to markets. The growth of the national economy will be provided taking into account the main factors in the global and regional context, as well as integration into global and regional value chains will become the basis. Protecting macroeconomic stability, improving business conditions, encouraging investment by the private sector and supporting the public sector, these factors are the fundamental basis for the prospects of Azerbaijan's economic development until 2025.

Macroeconomic stability

The basis of a diversified and stable economy is formed by a stable macroeconomic environment. Elections of macroeconomic policies determine the form of this environment. Over the past ten years, Azerbaijan has taken its place among the

10 countries with the most stable macroeconomic environment, according to the Global Competitiveness Rating of the World Economic Forum. To preserve Azerbaijan in the rating of 10 countries with the most stable macroeconomic environment, in the next 10 years a more diversified structure of incomes will be created. The use of the "golden rule" for SOFAR transfers and a fiscal disciplined economy, conditioned by a strong expenditure framework, will protect against the volatility of oil prices, will enable SOFAZ to collect resources, and create conditions for maintaining a low level of public debt. In order to maintain debt levels in accordance with the level of potential sustainable growth, a fiscal rule will be developed to account for revenues received from natural resources and to account for foreign debts reflected in the balance sheet.

In addition, this rule will increase the level of payment of public spending by non-oil revenues through the reconciliation of government spending with non-oil GDP.

Improved business conditions and investment injections of the private sector

Until 2025 a competitive environment will be created in Azerbaijan providing equal access to modern technologies, markets and financial resources. In Azerbaijan, a business environment will be created that will create favorable conditions for the revival of local firms and the activities of foreign investors in accordance with world standards. Ease of doing business includes three key areas: creating conditions for investment, integrating into international value chains and achieving global standards in the conduct of business transactions.

Infusion of investment in productive infrastructure will be maintained at a high level to strengthen Azerbaijan's position as a regional hub. In 2025, the eco-architecture of Azerbaijan will benefit from the railway projects Baku-Tbilisi-Kars and Astara-Astara, linking the country's railway network with the railway network of Georgia, Turkey and Iran, as well as the construction of the Baku International Maritime Trade Port in the Caspian basin. Diversified transport and logistical capabilities of Azerbaijan will become the basis for increasing exports in the country, as a whole, will lead to

savings in operating costs. Moreover, the improved transport infrastructure in all regions of Azerbaijan, which creates conditions for closer integration, will give an additional impetus to the development of business in the regions. With the use of modern communication capabilities, the coverage of electronic services (e-education, e-health, e-banking, e-commerce, etc.) will be expanded through a high-speed broadband network. In particular, digitalization in public administration will create transparent, accountable, productive and predictable prospects for business. Expanding the scope of e-services in Azerbaijan will become the basis for the internationalization of business. In the future, in 2025, the private sector will be more closely involved in building the infrastructure, which will also lead to increased economic efficiency. In addition, high-quality utilities will be offered at competitive prices, and as a result, Azerbaijan will take the leading places in the rating for the prices of efficient public services among the countries of the region (according to the global rating it will rise from 65th to 35th place).

Productive customs procedures in a low-tariff environment, based on profitable trade agreements with such important countries of the region as the CIS countries, Turkey, Georgia and Iran, in the economic perspective for 2025 will strengthen Azerbaijan's position as a regional trade center. Regional integration of trade in the main volumes of non-oil goods and services is of great importance for the geopolitical and economic situation of Azerbaijan. For example, almost 90 percent of Azerbaijan's household and food products are exported to Russia, Georgia and the countries of Central Asia. The conclusion of trade agreements with neighboring countries will open the door for Azerbaijan to expand the export of goods and services to foreign markets on more favorable terms. At the same time, regional integration will strengthen Azerbaijan's export-oriented attractiveness for foreign investors. Continuing regional integration until 2025, relations and agreements will be established with the aim of

integration into global value chains, especially for high-value goods and services of Azerbaijan.

In order to facilitate trade and an accurate assessment of its quality, international companies will introduce international standards and certificates. Bringing in line with international standards until 2025, will make the goods exported from Azerbaijan competitive. Wide use of international certificates will create a reliable measure of quality and thereby increase the level of local production. Due to the fact that in the closest markets for Azerbaijan - in the European Union and the Eurasian Union, from the geographical point of view, mainly WTO standards are used, in Azerbaijan, the volume of exports of non-oil goods and services will increase , corresponding to these standards. New firms, improving the quality of their products, will meet gradually increasing demands of local consumers. As a result, the brand "Made in Azerbaijan" becomes a standard of quality in international markets. In order to improve the efficiency of the work, which is to be done in the direction of promotion of the "Made in Azerbaijan" brand, an Internet portal will be created reflecting information on goods produced in the country, as well as on their producers. Placement of information on this portal in three languages - Azerbaijani, English and Russian languages, expanding the coverage of users, will be more beneficial in terms of promoting local products. As a result, the relations between producers and consumers will be simplified, and the export of competitive local products will be increased.

In the long term for 2025, the investors who invested fixed capital in Azerbaijan and attract new direct foreign investments will be further strengthened. In particular, specific investment projects with a competitive advantage will be offered to interested foreign investors. In order to attract investors with the opportunity to integrate Azerbaijan into global value chains or investors who are giving serious signals to companies that are engaged in activities in similar sectors, special privileges and offers will be granted. The services provided to existing and potential investors will open the opportunity to intelligibly explain to them the administrative processes and

establish links with construction firms, organizations in the field of equipment or education. Mechanisms will be introduced to create a greater demand for local products and services from foreign investors.

A stable and profound financial system will be formed, offering a wide variety of profitable financial services, which will lead to the development of the economy through the satisfaction of the corresponding needs of the economy and households.

Supporting and Promoting Public Sector

In the next decade, Azerbaijan will also be given an impetus to economic growth. Within the framework of state interventions in the economy, politics, regulation, state orders and state entrepreneurial activities will be institutionally separated from each other. Instead of being a key driving force for the economy, the public sector will focus mainly on the following three priorities: creating conditions and opportunities for Azerbaijani citizens; imparting an impetus to economic development through appropriate macroeconomic and regulatory frameworks; the formation of administrative management, which allows the most expedient way to spend tax revenues.

Stable macroeconomic conditions, a serious fiscal discipline and a strong legal base will create a business environment in which the rights of physical and mental property are strictly protected and, as a result, the volume of private investment will increase sufficiently. In addition, applying an appropriate regulatory policy that will increase competition, the way to a serious increase in the provision of goods and services of local production, their quality and productivity will open. During this time, special attention will be paid to supporting the development of local small and medium-sized enterprises. In this area, there will be improved yields to opportunities for issued business loans, increased exports, the provision of quality curricula or simplification of administrative procedures. Improved state planning will create the conditions for building the proper infrastructure necessary for Azerbaijan to become a major logistics

hub, as well as for better economic integration of the countries of the region and help to remove differences in income inequality between urban and rural populations.

In the economic perspective of the public sector in 2025, in order to carry out its renewed role, the activities of state institutions will be monitored and managed. Here the main goal will be to explain the framework of public administration in these institutions, as well as in monitoring and strategic management. The development of clear mandates and executive objectives that will take care of the activities of government agencies, increase transparency, and will develop constructive dialogue between the state, state institutions and the public. Monitoring and ownership will be strengthened, and professional corporate structures will be strengthened. Moreover, Azerbaijan having estimated its portfolio from a strategic point of view, realizes the privatization of non-strategic assets, which are more likely to increase their productivity after privatization. In general, this process, taking into account public and national interests, at the beginning of each privatization process will create the necessary regulation and structure of the market.

Strategic overview for the period after 2025

The review for the period after 2025 envisages the formation of a strong competitiveness and an inclusive economy based on the development of high technology and an optimal economic structure that ensures an improvement in the social security situation and the achievement of a high level of the human development index.

Commentary on strategic vision Strong middle class, deep specialization in areas with competitive advantages, effective integration with the world economy, ensuring national economic security and developed infrastructure will be the main pillars of the strategic vision for the period after 2025. Azerbaijan will be committed to implementing urgent, decisive and transformed measures that will make the world sustainable and strong in accordance with the United Nations Sustainable Development Goals.

In the period after 2025 the main driving force of Azerbaijan's economy will be a competitive labor force. In particular, more attention will be paid to the employment of youth and women. Through institutions that ensure the implementation of flexible policies in the labor market, social dialogue will be developed and inclusive employment will be increased. The development of human capital in Azerbaijan, not only in accordance with the requirements of the national economy, but also with the requirements of a globalized world economy, will create conditions for regulating migration, which will lead to greater preservation of value in the country.

A strong, highly specialized and innovative workforce will play an important role in strengthening Azerbaijan's position in global value chains. Enhancement of opportunities in the field of technologies, create conditions for the workforce of Azerbaijan, carry out export activities in a number of spheres in the provision of services. The development of professional skills, as well as the effective use of labor resources, will result in the achievement of the level of labor productivity in Azerbaijan in the level of the countries of Eastern Europe in accordance with the relevant indicators. In general, starting from 2025, in the course of implementing labor market regulation, attention will be paid to the impact of high technologies, including the introduction of intelligent machines and systems, as well as factors such as the expansion of communication capabilities.

In the period after 2025, Azerbaijan will pay much more attention to environmental protection, as reducing carbon dioxide emissions will create conditions for cleaner air, water and soil from an ecological point of view. Proceeding from the principle of energy efficiency, the energy spent on the production of each unit of GDP will be minimized, and in the period after 2025 the share of renewable energy will be increased in the energy balance of Azerbaijan. In addition, taking as a basis for environmental balance, an effective system for waste management will be developed, including hazardous gases, wastewater treatment and management of radioactive waste.

Economic well-being

In 2025, as a result of macroeconomic stability, in particular fiscal stability, a favorable business environment, developed infrastructure, free access to foreign markets and attracting foreign investment, the economy of Azerbaijan will be more resilient to external shocks and labor productivity of Azerbaijan will reach the level of Eastern Europe in the corresponding indicators. As it was announced at the World Economic Forum, the economy of Azerbaijan will make a transition from the model based on efficiency to the model based on innovations. The real incomes of the population per capita will increase by about 5% per year, and Azerbaijan will be given the status of a "high-income country" in accordance with the World Bank classification. As a result of these development processes, in the period after 2025, per capita income level, Azerbaijan will approach the corresponding level of the countries of the European Union. Physical, human, institutional and social capital will be created to develop an innovative model.

In the period after 2025, three quarters of the total added value in the diversified and stable economy of Azerbaijan will be created in the non-oil sector. In subsequent years, competitive labor costs will serve as a short-term catalyst for the Azerbaijani economy. Nevertheless, the actual competitive advantage will be created both as a result of the use of advanced technologies and other forms of innovation, as well as the use of quality education and vocational training. In other words, the period until 2025 will be a period of transition to an educationally capacious economy.

The transition to an innovative development model in the period after 2025 will ensure that more value value will remain in the country due to the specialization of developed non-oil sectors with the advantage in the competitive struggle for previous years. Expanding the transition of technology and the commercialization of knowledge to improve the efficiency of investment contributions. The optimality of the regional and inter-sphere structure of the economy will develop and this will ensure a balanced and

sustainable development of the economy. In particular, the formation of regional development centers in Azerbaijan will ensure the overall development of the economy by deepening the competitive spheres of the economy in the regions. Baku will turn into an industrial and service center of regional importance.

In the period after 2025, a balance will be reached between hydrocarbon and non-hydrocarbon revenues and annually injections will be introduced from the SOFAZ on the basis of the "golden rule". Such an approach mitigating the impact associated with changes in oil and gas prices will raise confidence in the free floating local currency and ensure the stability of economic development. Macroeconomic stability will become a pledge in stimulating investment infusions by both local and foreign representatives of the private sector. Based on integration with international financial markets and the application of financial technologies, a competitive financial system will maintain stable economic development and improve the welfare of the population.

Additional investment deposits in the non-oil sector until 2025 and in the period after it will become a necessary driving force for a more competitive economy. For this reason, in the future, foreign direct investment in the industrial and service sectors will be attracted on a wider scale. Technologies, skills and investment contribution to the non-oil sector of large foreign companies offering access to global value chains will strengthen Azerbaijan's position in the global economic map. Strategic attraction of foreign investors to Azerbaijan will be carried out on the following three aspects: creation of extra attractive investment opportunities (for example, industrial parks with modern infrastructure); targeted access to leading international companies; First-class services for existing and future investors.

In the period after 2025, exports will diversify and increase not only at the expense of goods, but also due to the expansion of the range of services. The conditionality of exports from the growing number of products and services will reduce

dependence on the volatility of prices for oil and gas, and stabilizes the receipt of foreign currency.

TARGETED INDICATORS

Until 2025, the Strategic Road Map provides an average annual real growth of more than 3 percent of GDP, and in addition the creation of more than 450,000 new jobs

Achieving the share of foreign direct investment sent to non-oil GDP by 2025 from the current 2.6 percent to 4 percent.

Foreign investors play a very important role in the diversification of the economy. Thus, the contribution of foreign investors includes not only fixed capital, but at the same time, the introduction of new skills, technologies and networking opportunities necessary to enter new industries and value chains. Diversification of the economy requires attracting the largest number of investments in the non-oil sector.

An increase in the share of exports of the non-oil sector from \$ 170 per capita in 2015 to \$ 450 per capita in 2025. In 2015, the import demand in the Azerbaijani economy was \$ 1,000 per capita. To ensure balance with imports, in 2015 Azerbaijan exported goods in the amount of 1500 US dollars per capita, and 90 percent of these goods were oil and gas products. Balancing the export of goods and services with imports is extremely important for the economic independence and stability, however, in order to reduce dependence on oil prices, it is necessary to export more non-oil products.

Creation by 2025 of up to 150 thousand additional jobs in the sector of trade in goods and services, such as the production and tourism sector. Providing new jobs to citizens is always a priority of the state. However, in some sectors, the economic impact is much greater than in others. In order to diversify exports, in the sectors of trade in goods and services engaged in the production of goods (for example, industrial goods or food) or services (tourism or transportation) that can be sold at a new international level, the creation of new jobs is mandatory. Participants in the trade in goods and

services face international competition, and this usually leads to rapid growth in productivity.

Reducing the dependence of the state budget on SOFAZ transfers. Today, every second manat spent in the state sector (about 50 percent) is financed by transfers from SOFAZ. This figure should be reduced to 15 percent by 2025. The amount by which SOFAZ can make a transfer is closely related to its revenues and new oil prices. This dependence is one of the main reasons for the serious impact of oil price fluctuations on the economy of Azerbaijan.

To increase the share of private investment in the economy, it is very important to have a stable growth rate and the state budget should be less dependent on transfers from the Oil Fund. To achieve these goals, successful implementation of the strategic goals and priorities envisaged in the strategic road maps of the national economy and in 11 sectors of the economy is necessary.

At the same time, in order to implement the envisaged measures, it is necessary to mobilize investments and other resources, in order to ensure effective monitoring and evaluation. According to the estimates, to achieve the set priorities by 2020, it will be necessary to invest in the economy, amounting to 27 billion manat. This amount reflects total funds for all sectors, within the framework of strategic road maps. The envisaged amount will be provided at the expense of all types of public and private sources (local and foreign). In addition to the goals for the economy of Azerbaijan until 2020, these investments will serve as a foundation, in terms of impact on the goals foreseen for the future. The identification of new strategic goals for priority or other economic sectors will assist in achieving higher goals for Azerbaijan, in line with the positive trajectory of priorities within the Strategic Roadmap.

CONCLUSION

In the conditions of globalization and integration of the world economy, the orientation of the national economy only on the production of raw materials is extremely inefficient. Ensuring the sustainable development of the national economy requires diversification, i.e. the development of industries producing ready-made, export-oriented products. All this will allow the republic to receive additional foreign currency. In the long term, Azerbaijan sets a goal to reach the level of highly developed countries of the world, but the sectoral economy does not allow it to be achieved, so only the diversified economy helps to achieve this. All developed countries of the world set a goal to produce products with high added value, i.e. production of high-tech, science-intensive products.

Unfortunately, the existing structure of the Azerbaijani economy is oriented toward the production of raw materials, mainly oil and gas. The prices for oil and gas are extremely volatile, besides they do not provide the conditions for stable economic development, for the implementation of science and technology achievements. It is necessary to take into account the factor of economic situation around the republic and the condition of its neighbors, primarily with Armenia. To this end, Azerbaijan must diversify its economy, since the country has a very great potential in the form of a natural factor and the geographical position of the country also creates exceptional opportunities for this. For achieving the set goals it is important to use foreign experience of economic diversification and first of all of such countries as Kazakhstan, Indonesia, Malaysia. Diversification should allow Azerbaijan to develop industries necessary to meet its needs, in addition to ensure its vital interests. It is enough to say that about 50% of all agricultural products consumed in the republic are imported, and engineering products of about 80%, it follows that the foreign exchange resources received in the sale of oil and gas goes for imports, which is extremely ineffective.

Taking into account all the above, the government of the republic is taking serious measures to diversify the national economy, in particular, the President signed a decree

to develop a plan for a strategic road map for the development of the national economy, which provides 11 directions for the development of key industries that should establish finished and export-oriented products. In accordance with this plan, it is planned to create industrial clusters in all regions of the republic, this is done to reduce differences in the levels of development of regions, to ensure a stable level of their industrial development and ultimately provide the republic with the necessary industrial products. However, this does not mean total refusal to develop oil industry, since there are very large reserves associated with the transition from the export of raw materials to the export of finished products. Suffice to note that at present there is such a situation that the gasoline produced in the republic is of extremely low quality and price. As our studies have shown, the development of a post-oil diversified economy requires considerable financial resources and institutional and structural changes at the legislative level, i.e. creation of favorable economic conditions for the development of a multi-sectoral and export-oriented economy, including attracting capital from local and foreign investors.

REFERENCES

Books

Ankudinov A.B., Belyaeva M.N. and Lebedev OV (2012). Influence of diversification on the efficiency of regional economy // Regional economy: theory and practice, T. 10, no. 31, p. 8-20.

Ageeva, S., Suslov, N. (2011). Social diversity, institutions and economic development: a cross country analysis. Economics Education and Research Consortium, Russia and CIS, M.: EERC, 27 p.

Boschma, R. and Capone, G. (2015). Institutions and diversification: Related versus unrelated diversification in a varieties of capitalism framework // Research Policy, 44, 1902– 1914.

Krugman, P. (1980). Scale economies, product differentiation, and the pattern of trade // American Economic Review, 70, 950–959.

Neffke, F., Henning, M. and Boschma, R. (2011). How do regions diversify over time? Industry relatedness and the development of new growth paths in regions // Economic Geography, 87(3), 237–265.

Mikheeva, N. N. (2016). The diversification of regional economic structure as a growth strategy: pros and cons. Region: Economics and Sociology, 4, 196–217. (In Russian).

Akram Esanov. Diversification in resource-dependent countries:its dynamics and policy issues.

Anar Ahmadov. Blocking the pathway out of the resource curse: What hinders diversification in resource-rich developing countries?(2014)

"Evaluation of Azerbaijan's Economy and Export Diversification" Kenan Aslanli, Rovshan Aghayev, Zhorab Ismayil, Azer Mehtiyev (2013)

Abdullayev Z., Abbasov A.B. Economics and management of oil industry (Baku, 2002)

Allahverdiyev H.B. Structural problems of the transition economy and main directions of regulation. "Theory and Practice" (Baku,2001)

Gasanov R. Features of the transformation of the national economy and perspective economic model of Azerbaijan. Society and economy(2000)

O.Krasilnikov Structural transformations in the economy(2011)

Yuzbasheva G.Z. Restructuring of the industry of Azerbaijan. (Baku 2003)

Musabekov R. Independent Azerbaijan: oil and politics (2009)

Agosin, M. R. 2007. "Export Diversification and Growth in Emerging Economies."

Albassam, B. A. (2015). Economic diversification in Saudi Arabia: Myth or reality?. Resources Policy, 44, 112-117.

Gaidar E. Dutch disease, structural reforms and priorities government: a retrospective and perspective www.polit.ru (14 november 2001).

Bell D. The Future Post-Industrial Society: Experience social forecasting. M.: Academia, 1999.

Al-Marhubi, F. 2000. "Export Diversification And Growth: An Empirical Investigation."

Websites

<http://russiancouncil.ru/analytics-and-comments/analytics/neft-i-gaz-kaspiyskogo-regiona-mezhdu-evropoy-i-aziey/>

<https://www.eia.gov/todayinenergy/detail.php?id=31532>

<https://blogs.imf.org/2016/06/08/oil-exporters-learn-to-live-with-cheaper-oil/>

<https://ru.sputnik.az/news/>

<http://regionplus.az/ru/articles/view/2049>

<https://www.trend.az/other/commentary/2883304.html>

<http://www.worldbank.org/>

