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The determinants of economic growth and industrialisation strategies: case of Azerbaijan

Pinar Jabrayilova

UNEC SABAH

Azerbaijan State University of Economics

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Abstract

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Pinar Jabrayilova

SABAH 2 Industry

Supervisor: Seymur C. Aliyev

UNEC SABAH

Azerbaijan State Economic University

This study is specifically concerned with the determinants of economic growth and industrialisation strategies. The study was learned by using secondary sources. Data for this research was collected from number of books, World Data , articles have been used to answer research questions. The practical part of diploma thesis is not dedicated to only determinants of economic growth and industrialization strategies and also this thesis will explain how these determinants and strategies are in Azerbaijan. The results revealed that, economic growth and industrialisation strategies are connected to each other . Due to the manufacturing sector's capacity to

absorb workforce, enhance diversification and structural transformation, while spurring the growth of other sectors through linkages, it remains essential for a lot of developing states to promote their own industrialization. Azerbaijan has to improve economy and get better results for achieving industrialisation strategies as other states . However, all these factors will be defined in this thesis.

Contents

INTRODUCTION

There is agreement that industrialization has a crucial role in the practice of a nation's economic development. There are a lot of details why pursuing continued industrialization has long lasting profits on economic development. Some of these details are entrenched in Kaldor's law, which offers a theoretical framework for the connection between manufacturing and economic evolution. The chief arguments of supporters of industrialization trusts on the productivity benefit of manufacturing over other sectors, as well as on the higher externalities that can stand up from manufacturing evolution (see also Szirmai, 2012, for a detailed discussion). As a matter of fact, not single the manufacturing sector shows levels of productivity that are higher associated to those of other sectors and has a bigger capacity to engross workforce force (Timmer et al., 2015; McMillan et al., 2014), it also supports savings, increases the process of capital accretion and proposals higher investment chances (Lewis, 1954; Szirmaia and Verspagen, 2015). In totalling, the manufacturing sector supports economies of measure by pouring technological growth (Arrow, 1962; Thirlwall, 2002), while on condition that spill over properties through connections to other economic sectors (Hirschman, 1958). More modern research has revealed that industrialization lets for better economies of scope, with conditions that are able to create greater diversities of goods also being far more probable to experience rapid economic evolution (Hausman et al., 2007; Hidalgo et al., 2007). As far as evolving states are worried, both the data and the current empirical indication seem to funding the industrialization-growth nexus. Rodrik (2006) highlights that episodes of evolution quickening are often related with an cumulative role of manufacturing in the economy. Szirmaia and Verspagen (2015) examine the standing of manufacturing as a driver of economic progress using data for 88 countries (21 advanced economies and 67 developing states) over the period 1950–2005. They report that manufacturing has

a positive result on economic evolution. Cantore et al. (2014) get to alike results using a sample of 80 countries. Still, this initial indication dissimilarities with more recent examines illuminating a bent in evolving countries to go on board on a path of evolution not determined by speedy industrialization (Rodrik, 2016; Diao et al., 2017). According to Haraguchi et al (2017), nevertheless, this tendency should not be understood as one that moderate the standing of manufacturing as an engine of evolution. Using very complete data drawn from different foundations, the authors establish that the meaning of manufacturing for emerging countries has not faded over the last decades, but has in its place been focused in a small number of extremely populated countries (Haraguchi et al., 2017). Wood (2017) spreads a similar assumption using a different lens of study. He validates that the arrangement of re-distribution of manufacturing is steady with the fallouts of an increased Heckscher-Ohlin model, i.e. a model centred on countries' virtual factor donations. Finally, manufacturing value added has moved towards (skill-scarce) workforce plentiful and land-scarce states in Asia, while it is unsuccessful to spread land-abundant countries in Africa and Latin America (Wood, 2017).

Yet, what are the features that contribute to a actual process of industrialization? And why have some countries—more than others—been effective in preserving a continued pattern of industrialization over the previous decades? Policies clearly have a conclusive role. Newman et al. (2016) appraisal the causes of weak manufacturing development in Africa by associating it to effective cases in East Asia, and statement that the role of strategies is main in explaining the different designs perceived in the two country groups. Rodrik (2004) debates the role of strategies in stimulating industrialization and highlights the standing of strategic teamwork between the government and the private sector. In a subsequent paper, he attentions on the task of industrialization within the context of an open economy (Rodrik, 2007).

CHAPTER I

Identification of economic growth and successful industrializers

In this chapter, we clarify how we recognize "successful" industrializers. This leading source of material is the UN National Accounts Statistics, which provides, among others, yearly data on manufacturing value added (MVA) in constant US dollars over the period 1970 – 2014 for almost all countries in the world. Seeing this attention on evolving countries, we have unconcerned all countries from this primary sample confidential as high income by the World Bank at the end of every of the periods (1970-1990 and 1991-2014). Furthermore, we also fell states with a population of less than 1 million from this examination to abolish possible outliers from this sample. This last sample contains 126 countries for the period 1971 – 1990 and 112 countries for the period 1991 – 2014.2 Based on this sample, we calculated the annual MVA growth rates and examined the spreading of this variable for the sample over the two time periods. Table 1 information the mean, median and 75th percentile value discussing to the countries involved in this examination. Table 1 Descriptive statistics on the two variables of interest MVA growth

	1971-2014	Post 90'	Pre 90'
Mean	4.57%	4.26%	4.99%
Median	3.58%	3.16%	4.23%
75%	8.06%	7.50%	8.82%

Source: Author's elaboration of UN National Accounts Statistics.

To continue with the ID of "successful" industrializers, this policy trusts on a simple organization that practices thresholds strained directly from the experiential distribution of the conclusion of interests. The identification plan builds on the following stages:

1. For every country, the average MVA growth rate during the period of examination (1971- 1990 and 1991-2014) must be upper than the average growth rate of MVA for the whole sample over the same.
2. We then describe an "episode" of industrialization as any year in which the yearly rate of MVA progress is higher than the average annual MVA evolution rate of the reference group/period;
3. A first group of industrializers is recognized by grouping states permitting to number of successful "episodes" recorded over every of the two periods. Countries are categorized as "industrializers" if they practiced a number of episodes bigger than the average number of episodes for the whole distribution.

Table 2 offerings the list of industrializers, organized with particular rapid statistics on episodes of industrialization, for the two periods. Lastly, to improve this variety and to attention on a smaller group of "successful industrializers", we increase two additional principles that recount to the decoration and sustainability of the industrialization procedure:

1. We reflect only those countries that verified less than 25 per cent negative episodes

2. We choice only those countries that logged more than 75 per cent episodes of above average

Table 2 List of industrializers

1970 - 1990				1991 - 2014			
Country	n of episodes	n of negative	avg MVA growth	Country	n of episodes	n of negative	avg MVA growth
Algeria	13	4	6.49%	Albania	12	6	5.72%
Botswana	14	4	16.10%	Angola	15	3	5.45%
Brazil	13	5	4.92%	Bangladesh	18	0	7.73%
Bulgaria	15	2	5.41%	Belarus	13	6	5.23%
Burundi	11	1	5.81%	Botswana	11	5	5.54%
Cameroon	10	5	5.84%	Cambodia	20	1	12.59%
China	15	2	7.67%	Chad	13	6	9.14%
Costa Rica	11	2	4.91%	China	20	0	9.92%
Côte d'Ivoire	11	5	6.78%	Ethiopia	15	1	8.12%
Egypt	16	2	6.32%	Gabon	13	4	5.58%
Honduras	14	3	4.74%	India	18	0	7.56%
India	12	1	5.83%	Indonesia	13	1	5.46%
Indonesia	19	0	13.53%	Iran	12	6	5.61%
Iran	13	5	8.20%	Jordan	13	1	7.93%
Kenya	15	0	7.48%	Laos	20	0	9.72%
Laos	10	5	6.46%	Lebanon	13	2	6.33%
Lesotho	12	3	9.07%	Lesotho	12	5	7.39%
Libya	14	5	9.53%	Malaysia	14	3	6.36%
Malawi	10	5	5.10%	Mozambique	11	4	7.55%
Malaysia	17	1	10.96%	Myanmar	20	0	15.15%
Mongolia	13	0	6.09%	Nigeria	13	5	6.17%
Morocco	10	1	4.97%	Sri Lanka	17	1	6.14%
Nepal	11	4	5.70%	Sudan (Former)	13	3	7.61%
Niger	12	5	7.01%	Turkmenistan	14	6	10.44%
Nigeria	13	3	8.05%	Tanzania	16	1	6.20%
Oman	16	3	18.95%	Uganda	14	1	7.88%
Pakistan	15	0	6.86%	Viet Nam	21	0	10.43%
Paraguay	11	4	5.33%	Yemen	13	4	9.11%
R. of Korea	18	1	14.25%				
Sri Lanka	10	5	4.85%				
Thailand	16	1	10.10%				
Tunisia	13	2	8.96%				
Turkey	16	2	6.52%				

Table 3 delivers a list of the nominated countries. It is not shocking to see that the list is conquered by Asian countries, counting early Tigers, and recently industrialized countries during the first period, and big developing economies, as well as manufacture hubs complicated in worldwide and regional value chains through the second period.

Table 3 List of "successful" industrializers

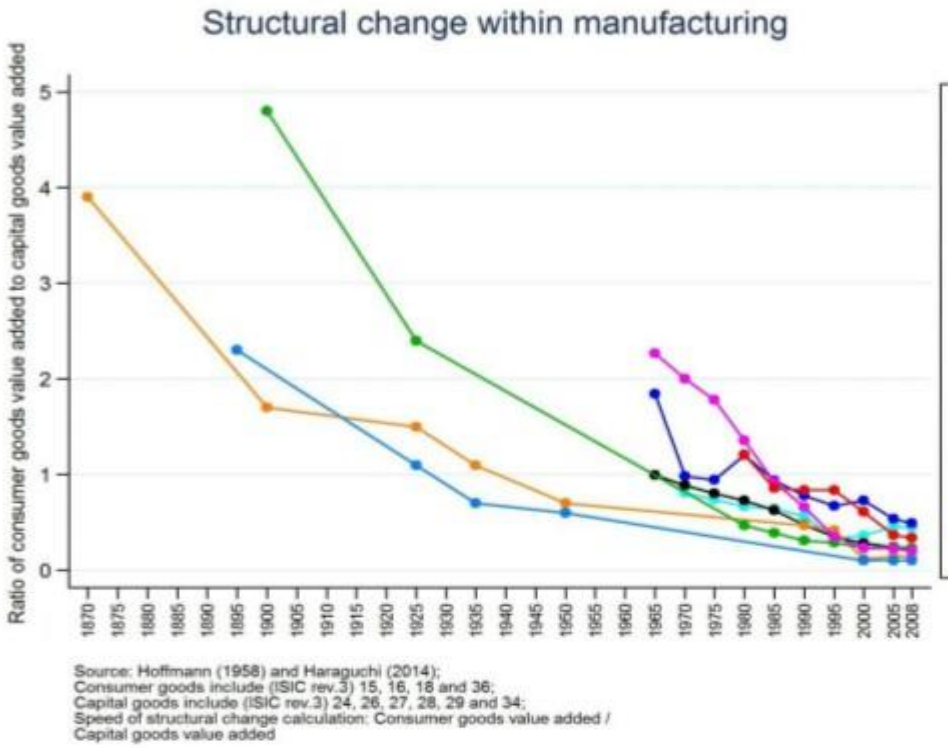
	Country	n of episodes	n of negative episodes	Average MVA growth for the period
1971 - 1990	Indonesia	19	0	13.5%
	Malaysia	17	1	11.0%
	Oman	16	3	19.0%
	Republic of Korea	18	1	14.3%
	Thailand	16	1	10.1%
	Turkey	16	2	6.5%
1991 - 2014	Bangladesh	18	0	7.7%
	Cambodia	20	1	12.6%
	China	20	0	9.9%
	India	18	0	7.6%
	Laos	20	0	9.7%
	Myanmar	20	0	15.2%
	Viet Nam	21	0	10.4%

The operative industrializers were nominated on the basis of continued, high MVA progress. These countries' MVA not only raised quickly over a long period of time, but also practiced structural change with upsurges in the share of MVA in GDP, representing faster development of their manufacturing sector qualified to the rest of the economy. At the foundation of the two periods, i.e. 1970 and 1991, the individual groups of effective industrializers with the exception of China had a lower share of manufacturing in GDP than the average of other evolving states .

Figure 2 offerings structural transformation within manufacturing and its speed (slope) based mainly on Hoffmann's industry grouping (Hoffmann, 1958). 5 The Y axis signifies the ratio of buyer to capital goods value added. The smaller the ratio is, the more capital rigorous the manufacturing structure. The compulsory value added data for the set of businesses over the long period of time are partial, particularly for post-1990 effective industrializers. The figure for that reason only contains four countries from the pre-1990 group, one country (India) from the post-1990 group, and the long-term trends of Gera lot of, Japan and the UK for reference resolutions. The lately effective industrializers shadowed the tendencies of primary industrializers and transformed their manufacturing construction by progressively increasing the involvement of capital goods industries qualified to

that of the customer goods industries to industrial value added. As designated by the slope of their curls, the rapidity of their organizational modification was much quicker than that of Gera lot of and the UK. It only procured about 40 years for the Republic of Korea to cut the ratio from 2 to the level normally experimental in industrialized countries, while it appropriated the UK and Gera lot of more than 100 years and Japan about 70 years to achieve such alteration.

igure 2 Pattern of structural change within manufacturing



Chine

Korea

Japan

Gera lot of

United Kingdom

India

Turkey

Malaysia

1.2 Data and model specification

In this fragment, we show the location of an empirical examination that aims to classify the features that supported industrialization in the nominated group of effective states. The next starting point model is estimated: $industrializerit = \beta \sum Zit + \theta t + uit$ (1), where i and t indicate the country and the year. θt are the time immovable properties recycled to control for state invariant shocks (such as global financial crises) that might have prejudiced progress and industrialization, while uit is the characteristic error term. This dependent variable is a dual indicator which takes a value of 1 if the state is categorized as a effective industrializer affording to the definition provided. The technique we use to classify effective industrializers effects the way we apply this empirical plan. Since we nominated a sub-set of countries with a continued pattern of industrialization completed the two periods measured the dummy takings a value of 1 for the whole sub-period of interest if the state is in the group of effective industrializers. For example, while Indonesia and Oman report a value of 1 for all 19 years of the historical 1971-1990, the value for all the ages involved in the 1991-2014 period is 0, as both countries were not categorized as effective industrializers in the second period. So, this examination practices the pooled measurement of the data smearing a standard probit estimator. The outcomes should so be understood as the occurrence of every factor on the likelihood of belonging to the collection of more effective industrializers in any given historical.

1.2.2 Control Variable

In first equation , Z is a vector of variables on which we inappropriate this main production . Along the lines of existing literature (Haraguchi, 2014; Chenery and Syrquin, 1975; Lin, 2012), these variables discuss to economic, demographic, official and policy-related features that may have prejudiced the frequency of effective industrialization over the age of examination. However these variables cover some proportions found in earlier literature to matter for industrialization, structural alteration and complete economic development (McMillan et al., 2012; Hausman et al., 2005), data limits, particularly concerning the coverage of previous years and of some low-income economy, have affected the probability to include added variables that might donate to the ID of continued patterns of industrialization. The first controller is the level of real GDP (LGDP_PC), which is used to calculate for cross-country variances in steps of development. Such variances may matter meanwhile countries that start from worse levels of economic development have more likelihood to catch up with more progressive states and so, to assume continued patterns of industrialization. Certainly, poorer countries are categorized by a higher productivity growth rate in their manufacturing sector, which in turn supports an unqualified convergence with the technological boundary (Rodrik, 2013). To maintain for the part of investment, we announce the gross fixed capital formation on GDP (GFCF_GDP). Greater investments are likely to support industrialization by motivating collective demand and increasing productive capacities (Weiss and Clara, 2016). So, higher investments can show a crucial role in supporting the development of the local industry, promotion structural alteration and being a pre-requisite for long-term development (Cornia and Martorano, 2012). Some growth concepts also highlight the critical role of human capital. Endogenous progress models accept that asset in human capital stops returns to capital from dropping and 13 donates to an upsurge in

capabilities for revolution and the revision of new technologies (Romer, 1986). This is obviously related to industrialization. To capture this result, we contain a flexible expressive human capital donations dignified by the average number of time of education of the workforce (HC), resulting from the Barro-Lee (2013) dataset. We use information on the local credit to the private sector (as a percentage of GDP) to regulate for the level of monetary development (CREDIT). The nexus between monetary development and manufacture goes back to Schumpeter, who requested that well-functioning financial institutions increase technological revolution by choosing and funding the winners, i.e. businesspersons with high prospects of implementing inventive processes and understanding innovative goods. There is a large body of literature that concentrations on the role of monetary systems in supporting savings and investment selections of individuals and companies, particularly in industries within the manufacturing sector (Rajan and Zingales, 1998). Macroeconomic strategies related to global openness and combination are also involved; meanwhile they can—directly or indirectly—effect the manufacturing sector's development. First, we contain the real operative exchange rate (REER), which has an significant role in promoting the productive sector, as debated widely in the literature (Rodrik, 2008). More precisely, a steady and competitive exchange rate is likely to encourage the growth of the tradable sector (Martorano and Sanfilippo, 2015). A economical exchange rate has been created to be more protective of the promising local manufacturing sector paralleled, for instance, to tariffs (Helleiner, 2011), particularly in states that concentrate in workforce demanding industries. Second, we also contain an pointer of capital account openness (KAOPEN). Capital account can effect in both positive and negative fall over to the local economy, and it has been succeeded differently by rising states over time. In a Solow growth strategy, opening to money inflows lowers interest rates and lets companies to borrow,

thus flying their investment rates (Chari et al., 2012). Also, capital liberalization might take to higher unpredictability and economic instability (Cornia, 2005). We also take intoaccount for the states' institutional situations. Stable institutions have been recognized as a main requirement for economic development, as well as a method to qualify a good commercial climate for the private sector (Alesina et al., 1992; Xu, 2010). We practice the number of successive years under the current administration type (Boix et al., 2014) as a substitution for political stability (POL). The fundamental idea is that a robust and stable government might guarantee the effective application of a long-term tactic, which might be essential to support the progress of new industries. To capture other significant features of the country, counting their endowments, we increase the share of mineral rents as a percentage of GDP (NAT_RES). Bigger confidence on natural resources inclines to raise cyclical variations in state income and raises the possibility of negative act in the long run (Rodriguez and Sachs, 1999). More precisely, Sachs and Warner (2001) practice the Dutch disease argument to point out the possible detrimental properties of high natural resource rents on the progress of the manufacturing sector. So, factors linked to geography can also hinder industrialization. We increase a dummy bookkeeping for each state's admission to the sea. Landlocked countries have fewer chances to be open to market and to foster a effective process of industrialization (Easterly and Levine, 2003). So, geographic restraints basket the skill of these countries to rise productivity according to their partial admission to big marketplaces or their chances to exploit economies of scale (Sachs and Warner, 1995).. The only exclusions are signified by the variables calculating openness-related strategies (REER and KAOPEN), which reproduce a different global trend as regards trade and monetary liberalization strategies. Moreover, the level of local credit to the

private sector improved following the process of inner liberalization while the steadiness of the political regime has went down.

1.3 Conclusions and policy implications

Industrialization is one of the crucial features of long-term financial progress. According to the manufacturing sector's volume to engage workforce, improve modification and organizational transformation, however encouraging the improvement of other sectors over connections, it vestiges essential for a lot of rising states to sponsor their own industrialization. What countries can do to pledge a continuous process of strong industrialization, particularly straggler, rests a crucial question and dishonesties at the core of national and global policymakers' schedules. In this learning, we sightsaw whether it is cool to classify some factors that are mutual to states that have been able to pledge a strong and continual process of industrialization over the past decades. We measured two different episodes, 1970-1990 and 1991-2014, which were probable to be prejudiced by different designs of industrialization according to major political, technological and organizational variations. We then industrialised a simple method to recognise a small group of countries for each period, which have shown a design of industrialization that is not simply remarkable in complete terms, but also continual (i.e. occurring over a long-time span). Using these particular groups of countries, we ran a multivariate examination with the goal of recognizing the crucial characteristics of their excellent industrialization design. The results of this study have several important suggestions for states with a manufacturing sector that does not yet make a remarkable influence to value added. First, industrialization is obsessed by a grouping of factors, counting initial economic situations, factor awards, as well as country faces such as demographic construction

and geography. States that are more probable to board on a path of continued industrialization are regularly those with a lower level of revenue per capita, and are thus more probable to still be focussed in businesses with low output improvement, a fact that is steady with basic models of structural revolution. Other country-specific features we have found to control industrialization are demographics and geographic situations. The previous is mainly relevant since it establishes that over time, states that developed were those that profited from ‘demographic windows’. Factor awards undoubtedly play a crucial role, since they effect a country’s comparative benefit and its design of development (Lin, 2011; Wood, 2017). In spite of being forced by data boundaries, we establish that development is more probable to be effective in states with low workforce costs, and less probable in resource gorgeous economies. This is steady with the design of rearrangement of manufacturing output and employment to some emerging regions recently defined by Wood (2017), who qualities this design to the obtainability of the low accomplished work force in most Asian states. The wearing clothing industry, for example, which is typically one of the chief manufacturing industries for low and lower mid income countries in terms of value added and occupation, is workforce focused in nature. The difficulty of relieving capital for workforce in this industry makes it stimulating to increase workforce productivity. So, the crucial source of affordability for the wearing apparel industry comes from a low salary level. This clarifies why the mainstream of states cannot withstand the improvement of the wearing apparel industry once their GDP per capita ranges an upper middle income. It also underlines the status of structural change within manufacturing or promotion to tolerate the process of industrialization (see Figure 2). At the same time, once development has started, maintaining low salaries can have a harmful effect on the

sustainability of the industrialization procedure, thus manipulating the local market's improvement. Additionally, this work makes known that governments have a number of tools at their clearance to encourage industrialization and board on a path of maintainable development. This examination highpoints that asset—both in terms of somatic and human capital—is one of the most associated factors in clearing up industrialization. Investment in corporal capital is mainly crucial in accumulative local manufacture volume. This study establishes that this connection holds for both widely and privately funded capital. Public investment, certainly, could be strategic in providing positive externalities to the private sector and in dropping potential holdups on the supply side (Storm, 2017). In fact, in the mainstream of states comprised in this group of effective industrializers, public share played a crucial role by crowding-in private funds, such as in the Republic of Korea early on or in China more recently. Likewise, savings in the facility of a well-trained workforce force are important in confirming that the industrialization process is supportable, since it lets an promotion of local abilities and skills and simplifies the process of operational transformation. States that practiced rapid industrialization and raised successfully over time through more progressive specializations 30 within manufacturing, such as the early Asian Tigers, have capitalised big amounts in human capital creation to fuel quick demand from the increasing industries. Another area of key policy significance is entree to credit, a essential factor to comfort the improvement of companies and industries by growing their investment. Given that entree to capital characterizes a major restriction to improvement in a lot of rising states, it is of maximum significance to develop a well-designed monetary system with a capillary link of financial societies available to private actors both in rural and urban areas, compromise easier entree to finance to companies and

individuals. The upstairs revealed conditions would have little consequence in small local markets or in the lack of a stable economic and recognized setting. This study defines that high unfairness may impede the process of industrialization meanwhile it has negative significances, among others, on the size of the local market. In turn, industrial improvement and an growth in the difficulty of the industrial construction tend to be convoyed by goes down in income variance according to the coevolution of more wide-ranging institutions, education system and manufacture linkages (Hartmann et al., 2017). Policies still have a central role in motivating the relocation of income, which can boost local demand meanwhile low-income groups be likely to to have a higher partiality to consume. This is steady with latest arguments about the importance of industrial strategies, not only to regulate market disasters, but also to help higher income likeness (Stiglitz, 2017).

We also demonstration those states that successes continued industrialization were principally those that have both macroeconomic—specifically a lower degree of appreciation—and high levels of governmental and social constancy. Both proportions donate to the making of a sound share climate, which in turn desires to build on high established stability. These are proportions that have powerfully characterized the upsurge of evolving economies in East Asia over the latest decades and in which extensive policy determinations are being assumed in other low-income markets (Newman et al., 2016). In conclusion, this results offer essential commendations about the character of external strategies. More precisely, this study seems to approve arguments about strategy choosiness in trade and capital runs can mainly effect industrial development in developing states (Lall, 1993; Lin, 2011). So, this work again underlines the part of the exchange rate as an actual industrial policy device. Effective industrializers accepted a more economical exchange rate regime permitting

the local sector to become more competitive globally. Also, a competitive exchange rate can be more defensive for the emerging local 31 manufacturing sector than rates. This seems exclusively true for bigger countries, such as China and India, who have increased their industrial sector by keeping the exchange rate competitive (Rodrik, 2006). Still, it must be distinguished also that in smaller economies with less differentiated exports and greatly instable terms of trade, a nailed regime or the dollarization tactic might be a better policy to cut transaction costs, promise price stability and upsurge policy reliability (Frankel, 1999). This analysis also describes the key responsibility administrations undertake to develop strategies that are operative under different conditions and in different stages. The directness of the capital description, for instance, justifies special care seeing the different types of investment (e.g. short vs. long-term), the way of capital flows and their possible significances in terms of economic steadiness. The most latest group of quick industrializers, such as China and India, have tailed more traditional strategies or a regular process of capital justification liberalization to cut the impulsiveness of their exchange rates while leaving boundaries to follow economic modifications. As a result , strategies incline to collaborate with one another. Accordingly, the outcome of single procedures should be measured in mixture with other strategy instruments since the usefulness of the strategy mix seems to hang on on the policy's overall consistency and organisation. This, for example, means that the approval of a economical exchange rate administration may need involvements in the currency market and the primer of capital switches as well as countercyclical fiscal and monetary policies.So, this work demonstrations that both factor donations and strategies may has a crucial role in the procedure of industrialization and, accordingly, for the economic improvement of states. The factors symbolizing the nominated group of

states examined in this study reveal that there are some mutual structures that seem relevant to the procedure of industrialization of various states across different periods. Some of the features discussed overhead may offer useful commendations to support sustained industrialization in enlightening states. Yet, the cases examined here remain principally restrained to the practices of a particular group of states grounded mostly in East Asia. There is no matchless model of industrial strategy or of public interference to support industrialization, not even within the group of East Asian states, with cases such as the Republic of Korea previous on or China and Viet Nam more lately indicating extraordinary differences. No one-size-fits-all solution occurs and specific strategies will therefore have to be applied to reproduce the different proportions, economic concentrations and levels of states' organizations.

Chapter 2.

2.1. Overview of Economic Performance of Azerbaijan

Azerbaijan has experienced great economic transformation and improvement meanwhile the country's independence from USSR in 1991. Economy of Azerbaijan collapsed with the division from the Soviet Union, and by 1995 GDP was just 37% of what it had been in 1989. So, in the face of a poverty rate of 49% as before as 2001, our state has speedily transformed itself into an higher middle revenue country with a gross national income (GNI) per capita of $7,350 (2013), 1 GDP per capita of $7,912.5 (2013), and a poverty rate of only 5% in 2013 as a result. It has also become a "high human improvement" country by 2010 under the HDI (Human Improvement Index). The quick economic improvement is mostly qualified to the utilization of hydro carbon sources (through manufacture sharing agreements which were signed with foreign oil companies, states and foreign direct investment). Considerable reforms planned to maintenance a market-based economy have been influential in simplifying improvement. So, the belief on petroleum sources residences the country at risk of instability and creates worries about long-term sustainability and macroeconomic firmness. The sluggish improvement rates in 2011 and 2012 established the country's weakness to relying on oil manufacture. The near 0% improvement in 2011 was the lowest percentage by 1995's GDP reduction and was according to a significant decrease in oil manufacture. Given the long-term in which it takes to make a diversified, developed, modern economy, Azerbaijan has to make bigger advancement in the non-oil sectors. With a reserve-production ratio of 22 in 2012, the oil assets would basically be washed-out by 2034.

In 2010, about 80% of all state budget revenue was from the oil-gas industry through the State Oil Fund of the Republic of Azerbaijan (SOFAZ) and

taxes from the oil-gas sector. In 2013 State Oil Fund of the Republic of Azerbaijan alone covered for 58% of the all of state budget revenues. Even most businesses in the non-oil sector are straight and indirectly funded by the oil-gas sector, such as construction and transport. Most of the private sector is dependent on state contracts from the public funds and agreements. The construction sector, mostly has been a main beneficiary sector of public investments.

The leading economic barrier, then, is to progress a varied and developed economy that has new, strong and maintainable sources of improvement, and one that grow into more economical in the national and international markets.

2.2 Government's economic objectives and goals

The government's economic aims and goals are expressed in three main plans and strategies. SPPRSD (The State Program on Poverty Reduction and Sustainable Improvement), 2008−2015 contains 9 strategic aims, including macroeconomic stability and balanced growth of the non-oil economy, and increasing revenue-generating opportunities and chances. SPDR (2009-2013) shows job opportunities in the regions and districts among other priorities, while Azerbaijan 2020: Look into the Future explains the ambitions of becoming a knowledge-based economy, improving the country's competitiveness, and developing the economic structure. As a result, the countless strategies and plans need to get maintainable economic improvement, a strong and developed economy with a stabile non-oil sector, international integration, and stabile improvement through the state. To develop the economy, the state procedures to use the country's oil revenue to buy infrastructure investments and to create developed non-oil economic sectors. Given the partial oil resources, which

are likely to be primarily washed-out since 2034, the government's tactic is one of frontloading oil capital into reserves that would generate the foundation for viable non-oil sectors.

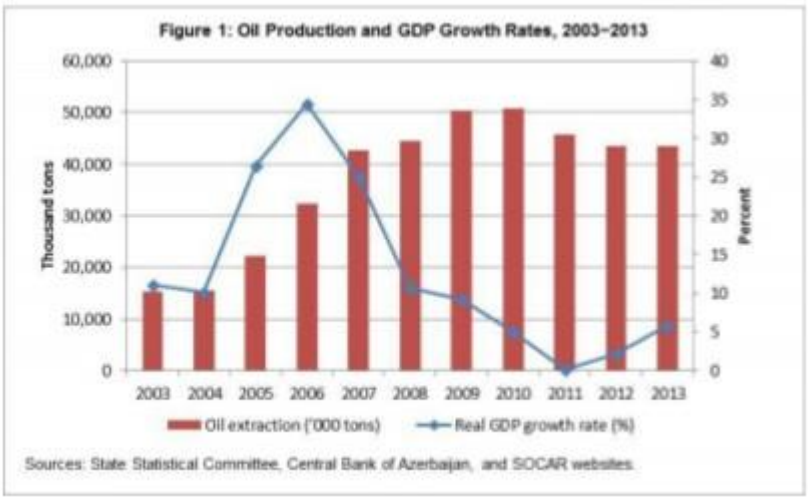
2.2.2 Pre-oil boom.

Economic improvement from 1991 to 2005 . Before independent, Azerbaijan had a justly wide economic vault, with improved industrial, agriculture , service sectors. Independence gave an economic failure in Azerbaijan that was the poorest in the CIS(Commonwealth of Independent States). A cooperation of trade trouble, loss in funding sector from Moscow, and the evolution to a market economy, amongst other factors, led to GDP altering till 1996. The fight with Armenia created the economic decline and led to an influx of nearby one million Azeri people as refugees and internally emigrant people who lived in peace. The first main oil agreement with international companies and states was prepared and signed in 1994, and the foreign direct venture surge and the creation of the Baku-Tbilisi-Ceyhan oil and gas pipeline brought billions of money into the our economy. The economy sustained improvement in 1996 according to the onset of oil and gas investment over manufacture sharing convention was (PSAs) signed between SOCAR, , and foreign oil companies for investigation and manufacture. And finally the state's balance and organizational development package began in earnest in 1995. The plan got about macroeconomic and monetary stability in terms of GDP improvement, better control of inflation, and compact fiscal and monetary deficits. The 10% average yearly economic improvement between 1996 and 2005 produced to a sharp reduction in poverty from 69% to 29% in 2005 .World Bank supposed the economic improvement to be pro-poor, even nevertheless the improvement was concerted in Baku. Among the signal is that consumption improvement was higher for the poorer labels compared to

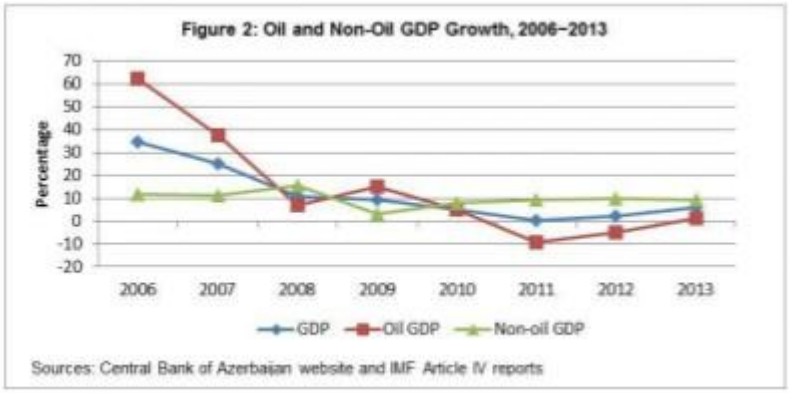
richer decals. Factors that led to the scarcity reduction included (i) appropriate increases of the minimum salary; (ii) quick increases in salaries; (iii) particular money transmissions to social plans; and (iv) higher settlements, mostly from the Russian Federation. A important improvement arose in February 2005, when the government allotted a decree to raise the manat. The earlier manat was devalued at the rate of 5,000 to 1 new manat and took major effect on 2006. The exchange rate for 2006 year was AZN 0.8714 for a US dollar.

2.2.3 Economic Performance 2006−2013 (GDP improvement, Inclusiveness of economic growth, Inflation Fiscal policy, Monetar policy, Exchange rate Balance of payments)

GDP Growth. Recently development in oil-gas sector caused GDP toimprove to surge in 2006 and 2007, averaging 30% yearly improvement before dropping back to improvement levels of about 10% seen in the early part of the decade. The liability of the economy to oil manufacture fluctuations was 5. Real GDP started to go down by 2006 meaningfully. but it stoped decrease in 2011, ghen started to increase again. Indeed, oil extraction increased significantly till 2009. During those years oil extraction did not affect real GDP World Bank. 3 seen in 2011 and 2012, when yearly GDP improvement go down to 0.1% and 2.2%, unexpectedly, according to lower oil-gas sector (Figure 1).

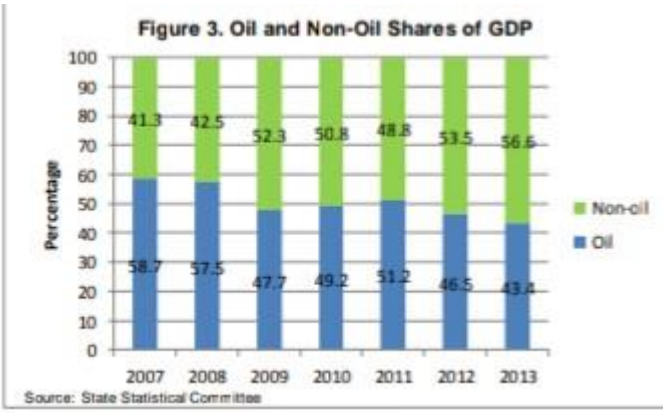


The non-oil sector improvement percentages by the mid-2000s have been balanced and fluctuating less than overall GDP improvement rates, ranging from about 8% to 10% between 2005 and 2013 with the exception of 2009 (only 3.7% improvement). From 2010 to 2013, non-oil GDP improvement was bigger than oil GDP improvement. In 2006 Oil GDP was higher than GDP and Non-oil GDP, but after 4 years they were at the same point, then they started to change and in 2013 Oil GDP was the lowest and Non-oil GDP was the highest (Figure 2).



Oil covers about half of our state's GDP (Figure 3). Aside from quarrying and mining , which take in oil, the next largest sectors have particularly been construction (7.% of GDP) and storage, transport and communication (which covers 9% of GDP). The arrangement of GDP by sector over the last 10 years has revealed small growth in

expanding away from petroleum production. The oil-gas boom obviously affected the structure of the state economy. Agriculture sector was nearly 16% of state GDP in 2000, but by 2013 it went down to only 5.2%. Rest of the sectors like manufacturing ,transport have also experienced reduction shares of GDP over the last years. In 2007 Oil GDP was 58.7, non-oil GDP was 41.3 percentages. After years Oil GDP started to decrease, non-oil GDP started to increase. As a result in 2013 Oil GDP was 43.3 and Non-oil GDP was 56.6 percentages.



The private sector share covers 81% of State GDP. So, much of the private sector's funds of the state economy is recognized to public costs and government agreements, which are purchased mostly by the country's petroleum export revenue.

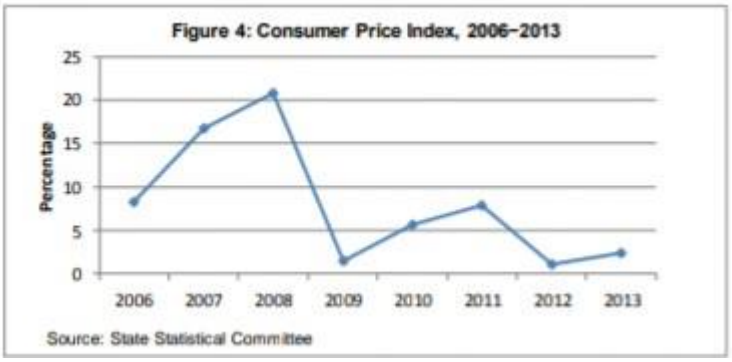
Inclusiveness of economic growth. Factors of wide-ranging improvement have been seen in Our state by the mid-2000s. Inequality has gone down by the oil boom, with the Gini index decreasing about 8 percentage points from to 34% in 2008 (recent information available). The mean profit change between cities and districts is actually small, with a Gini index of 33% for town and 27% for countryside. The social protection system has been a main factor in causing reduction in poverty and reducing inequality. The Key pro-poor social transfer plans are pensions and the well-regarded Targeted Social Assistance (TSA) plan, with the latter calclating for approximately 10% of social transfers and covering nearby 4% of the population. Nowadays, 81% of

poor households and nearby 93% of households in the lowest income go down get at least one kind of social transfer. The World Bank considered that the rate of poverty would be nearby 25% in the absence of social transfers.

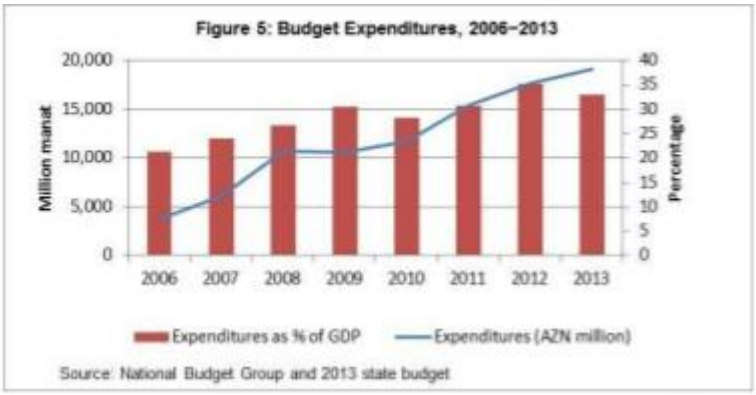
Other evidence found by World Bank of economic improvement having been general to date include (i) rural employment has risen despite a rise in rural workforce participation, (ii) the average pension has increased to 95% over the last years, and (iii) improvement has had a broad-based influence on household consumption in urban and countryside areas, with improvement in consumption payments having been pro-poor in countryside areas and being nearly the equivalent for most of income declines in inner-city areas. So , in spite of the relatively high GNI per capita and GDP per capita, a few people have chances and opportunities to the higher level of income works in the mining sector , which produces just 1.1% of the works but covers for more than half of the GDP. The importance of the workforce is related in low productivity and low salary sectors. Agriculture, we can say, employs 38% of the workforce but covers just 5.5% of GDP. In 2009 salaries in agriculture sector were an average of 120 euros compared to an average of mining sector which is 895 euros. Differences are also seen obviously in regions. Baku calculated for 78% of the value of products which were produced in 2009. However, the sustainability of the economic improvement, the inclusiveness, and some of the features that led to a considerable reduction in poverty is highly doubtful according to the heavy confidence on oil- gas sector's revenue.

Inflation, as calculated by the consumer price index (CPI), has decreased particularly from about 21% in 2008 to only 2.4% after 5 years . Inflation by the mid-2000s has been controlled by a grouping of factors such as high oil prices, big fiscal stimulus, monetary expansion, a stable rates against the dollar, imported food prices, and last credit improvement for households. The state has accepted common high inflation as a short-term trade off against the supposed benefits of speeded public costs. In 2006

Consumer Price Index was nearly 8 %. In 2008 it saw the highest level of it as 21%, after a year Consumer Price Index was the lowest point. In 2013 it was nearly 3%.

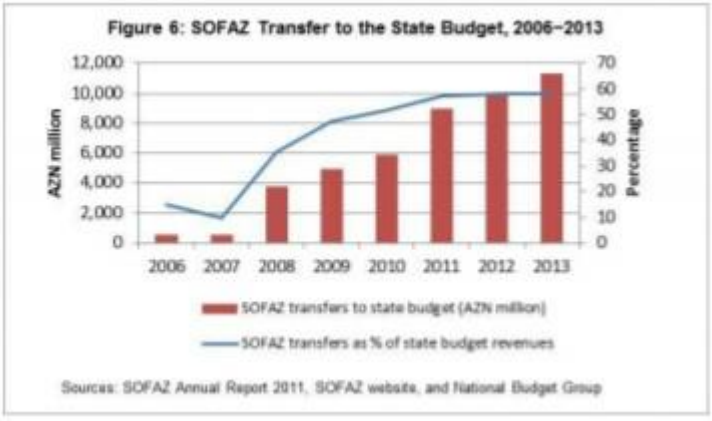


Fiscal policy. The oil-gas windfall led to a considerable upswing in government costs, which were used to support cumulative demand. The government's expansionary fiscal strategy speeded lately in 2007 and 2008, with costs rising 181% over 2006. Costs have rose since 2008 from AZN10.68 billion to AZN19.1 billion in 2013 (Figure 5). Rolling oil-gas revenues supported the government to go on board on ambitious public investment plans along with rising salaries and ST (social transfers). In 2006 level of expenditures as GDP were 10,000. Years by years it increased and after 7 years it was like 16,000. So, it increased more than 10%. And also level of expenditures as a manat increased and saw its maximum point in 2013 too.



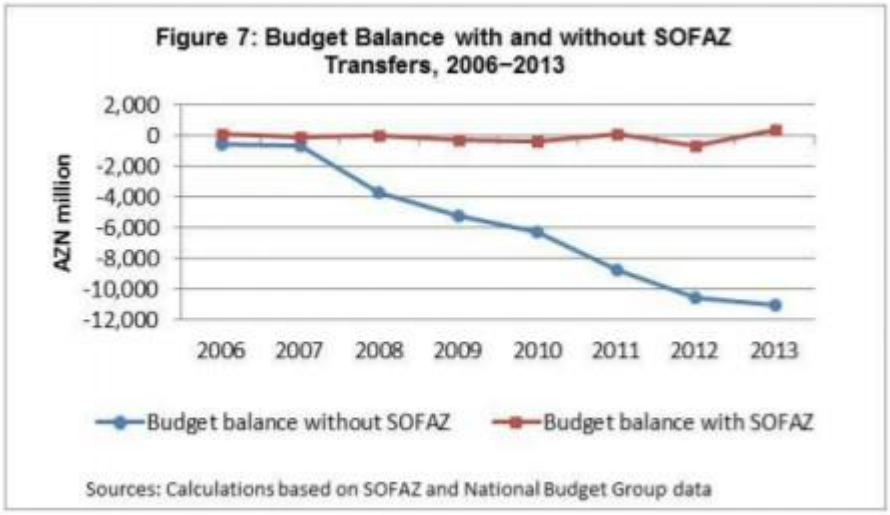
While health and education have profited by big rises in complete terms, the shares of these sectors' costs in the our state budget have declined significantly. In 2005, education calculated for 17.4% of state costs and health was 5.4%, but by 2012 their

own shares had gone down to 8.3% and 3.4%. Given that public investment costs partly cover health and education, their total weight in total costs is a little higher than rest of them. The government's big public investment plan since 2006 has been escorted by normal period of time of great inflation, low non-oil private funds, and low non-oil foreign direct investment. The fiscal expansion congested out non-oil private funds, which went down by over 50% as a percentage of GDP between 2005 and 2008. The great recent increases in budget costs since 2005 have been done easy by significant transfers from State Oil Fund of Azerbaijan. State Oil Fund of Azerbaijan was created in 1999 to "ensure the growth, effective organization, and use of revenue… correlated to oil and gas… for the profit of citizens and future generations…". The fund is held external, which supports to sanitize export revenue and bound inflation. The total state budget has grow into mostly in need of on transfers from State Oil Fund of Azerbaijan (Figure 6). In 2007, State Oil Fund of Azerbaijan transfers of AZN 585 million constituted only 9.7% of total state budget revenues. Between 2008 and 2013, State Oil Fund of Azerbaijan transfers as a percentage of the total state budget revenues increased sharply from 35% to 58%. In 2013, AZN 11.35 billion were transferred from State Oil Fund of Azerbaijan to the state budget, increasing nearly 92% from the amount transferred in 2010. In 2007 State Oil Fund of Azerbaijan transfer to state budget was less than 100 million AZN. In 2008 State Oil Fund of Azerbaijan transfers to state budget increased sharply and get nearly 2000 million manat. In 2003 State Oil Fund of Azerbaijan transfer to state budget saw its maximum point as 11000 and 65% of total budget.



The last rise in State Oil Fund of Azerbaijan transfers to the budget is a reason for worry on 3 fronts. Firstly, it determines the government's spending is becoming largely in need of on oil-gas sector revenue as faced to producing higher levels of other resources of revenue such as taxes and others. Secondly, by linking its fiscal strategy to the international oil-gas price cycle, the Azerbaijan runs the risk of showing the economy to instability. Thirdly, it reveals that the government is electing to waste high levels of the oil-gas revenue now in place of conserving the State Oil Fund of Azerbaijan(SOFAZ) revenues for next future generations, which was one of the crucial aims in the creation of State Oil Fund of Azerbaijan in 1999. With a window of only nearly 20 years in which to abstract the petroleum resources before they are especially worn-out, the government has to improve a broader revenue base than is annual the case. As a result, government revenues have approximately mirrored total costs as a percentage of GDP of state. Both revenues and costs as a percentage of GDP have been calculated from about 15% in 2001 to 33-36% in 2013. The government money budget has experienced small deficits of about 1% or less of GDP later 2001. So, without State Oil Fund of Azerbaijan transfers, the budget deficit would be large and rising each year (Figure 7). In 2013, the state budget shortage would have been AZN10.9 billion without State Oil Fund of Azerbaijan transfers compared to just AZN493 million in 2006. For 2014, policy calculates have been agreed to cut budget dependence on oil-gas sector revenues. In place of an increase in budget expenditures, transfers from State Oil Fund of Azerbaijan in 2014 are reduced

by AZN2.0 billion compared to 2013.In 2006 Budget that was balanced by State Oil Fund of Azerbaijan was nearly zero. After years We can say that Budget that was balanced by State Oil Fund of Azerbaijan did not changed EVEN 1%. But State Budget that was not balanced by State Oil Fund of Azerbaijan decreased sharply. Nowadays Budget that was not balanced by State Oil Fund of Azerbaijan 11000 deficit.

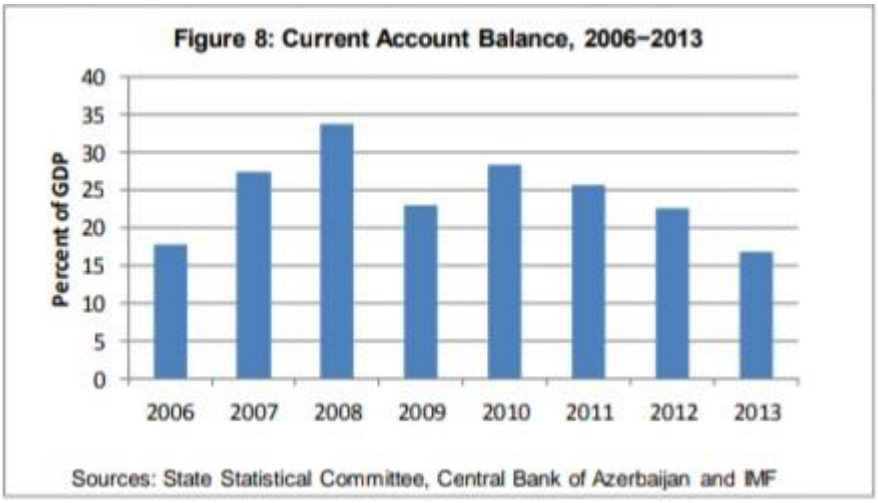


Monetary policy. Azerbaijan's monetary policy efforts on maintaining and getting a stable exchange rate. The Central Bank of Azerbaijan (CBA) has restricted monetary tools at its clearance because of the under improvement of the national debt market. The importance on exchange rate firmness has led to episodic inflation volatility because The Central Bank of Azerbaijan has followed an expansionary monetary policy to lodge the increasing demand for manat according to currency obligation in contradiction of the dollar by 2006. The Central Bank of Azerbaijan authorities agreed in principle with the IMF to let bigger exchange rate elasticity and go towards an interest rate-based monetary policy a, but strategy for progress has been limited. Broad money (M2) increased an extraordinary 168% in 2006 over 2005, signing the

start of a big development in the money supply. Broad money lengthened 546% between 2007 and 2012.

Exchange rate. The manat has treasured each year by the 2006 revaluation. Starting from AZN 0.893 to the dollar in 2006, the AZN strengthened to 0.784 in 2013. Much of the gratitude has been affected by the big entry of foreign currencies during the oil-gas boom period. Following the big international economic crisis of 2008 and crisis of 2009, the real exchange rate valued according to oil-related pressures such as (i) State Oil Fund of Azerbaijan transfers to the treasury; (ii) foreign oil companies' taxes on profits paid in US dollars; and (iii) State Oil Fund of Azerbaijan foreign currency revenues The real effective exchange rate gratitude could effect Azerbaijan's competitiveness and its contact to export properties besides hydrocarbons. The exchange rate gratitude also makes it harder for Azerbaijan to expand into agriculture and manufacturing exports. To rise competitiveness in light of the currency gratitude, Azerbaijan has to create boost productivity. Public fund can help in this honour but just in the short-run.

Balance of payments. The flow of hydrocarbon exports in the mid-2000s changed Azerbaijan's formerly perpetual negative present account balance (CAB) from the 1990s to 2004 into big extras from the second half of the 2000s onwards. The Current Account Balance reached at nearly 34% of GDP in 2008, but stayed at 16.8% of GDP in 2013 (Figure 8). Current Account Balance was 17% of GDP in 2006. Then, after years Current Account Balance increased firstly, then Current Account Balance decreased and in 2017 Current Account Balance was 17% of GDP again. Through years a lot of factors affected to pay of Current Account Balance in GDP.



The big Current Account Balance extras have been created by strong exports by 2006, overpoweringly for hydrocarbons. Oil and gas exports covered an average of 94.7% of total exports between 2006 and 2012 and calculated to $31billion in 2012. While total exports rose by 327% between 2005 and 2012, imports rose 139% and stopped at $10.4 billion in 2012. Azerbaijan has listed a trade surplus each year by 2004. In 2012 the trade extra was $22.2 billion. FDI has reached annually between $3 billion and $4.4 billion meanwhile 2006. FDI in the oil and gas sector calculated for an average of 84.7% of total FDI between 2006 and 2011, but the part of the oil and gas sector's FDI is generally decreasing. In 2011, oil and gas sector FDI calculated for 79.4% of total FDI. Non-oil sector FDI has rose substantially over the former several years, from $368 million in 2006 to $886 million in 2011, but the economy may need to get much more non-oil FDI to assistance spur the variation that is compulsory for maintainable economic improvement. So, the less positive international environment matched to before the economic crisis of 2008−2010 could make it more difficult for Azerbaijan to appeal investment into non-oil sectors. Azerbaijan lasts to accrue great amounts of international resources. A huge rise happened in 2011, in which gross official international resources rose 60% over 2010 to virtually $10.3 billion. Later, resources got $14 billion in 2013. Moreover, to the reserves held by the Central Bank of Azerbaijan, Azerbaijan has $35.87 billion collected in State Oil Fund of

Azerbaijan. The combination of gross official international reserves and State Oil Fund of Azerbaijan funds calculated to 68% of GDP 5 years ago.

Azerbaijan's public and publicly assured external debt remaining is increasing progressively, estimated from over $7 billion yearly in 2009−2011 to $9.2 billion in 2012, but this level is supportable for now given the high export pays from oil and gas sector. The debt level has persisted low because of the oil boom meanwhile the mid-2000s and the government's choice to practice oil revenues to funding investment tactics and social pay-outs.

2.3 Economic prospects of Azerbaijan

In the short run, GDP was expected to rise 5.2% in 2014 and 5.8% in 2015, driven by continued increase of the non-oil and gas sector and small rises in oil and gas manufacture. So, oil manufacture will have plateaued since 2015 and could go down after. In April 2012 the State Statistical Committee(SSC) and State Oil Fund of Azerbaijan announced the government's intention to prolong the time period of oil and gas manufacture and reserves by reducing oil and gas extraction rates. Lower manufacture levels in the near future would confine economic improvement and badly effect government revenue and expenditures from the economy. Non-oil economic sector improvement will continue to be determined by public sector funds, which are in need of on oil-gas revenue. With resumed improvement in the all sector of economy and the non-oil economy is going to have its output capacity in 2012–2013, inflation was3.5% in 2014 and it was 3.8% in 2015. Increasing public funds, wage increases, a fuel price hike and bigger divisions to social spending will probably be the main factors behind the inflation. During the near-term improvement prospects are positive, the long-term tactics are a worry. Our state has been chasing tactics that contains short-term enlargement of oil and gas sector revenues for obtaining the important revenue for state costs. Nowadays 58% of the state budget costs

are made up of State Oil Fund of Azerbaijan transfers. This tactic of present consumption of gas and oil funds has obviously benefited the country's current people in the short term, with a great loss in poverty, higher salaries and higher living standards, by the middle of 1990s. Yet that resource dependency has a fixed span, and that's why Azerbaijan has to make greater strides toward a non-oil sector economy. Our state has an probable 7 billion barrels of oil-gas reserves. Its reserve-manufacture ratio is just 22 years, which is obviously lower than the world average of 52.9 years. So, Our state faces a difficult barrier in managing its oil-gas sources and revenues for next generations, If it continues concurrently wasting on the infrastructure needed to help diversification of the total economy that would possible long-term, sustainable economic improvement. The government's current levels of yearly increases in public costs – both in nominal terms and as a percentage of GDP − are not supportable because they rely on major transfers from State Oil Fund of Azerbaijan to the total state budget. Given the limitations of the oil-gas sector's lifetime and the entrance of lower fiscal profit in the next to medium-terms, the government may control its costs in the short and medium-terms to be more fiscally stabile. The government aims to get fiscal sustainability by 2018 IMF in May 2012 made a commendation based on the slowdown of oil-gas manufacture for medium-term fiscal partnership by reducing the non-oil and gas sector fiscal deficit to 18% of non-oil sector GDP by 2017, down from 41% in 2011 . The IMF commendation for a regular reduction in the non-oil deficit, which could be successes by reducing investment plans and rationalizing present spending, was repeated in March 2013. Private sector share as a percentage of GDP went down, from 11.8% of GDP to 6.7%, between 2007 and 2012 while consolidated government stock as a percentage of GDP of Azerbaijan has increased 81% over that time and calculated for 70% of State's gross investment in 2011. Private sector asset needs to rise, but this probably needs overcoming the main

problem in the business environment that pressures the private sector. Among the major constraints are (i) limited banking intermediation, mortgage loans , small depository rate, and small penetration of saving accounts; (ii) limited entry to funds in bonds and securities market; (iii) monopolies that control a lot of business sectors and hamper competition; (iv) great levels of corruption; (v) poor infrastructure; and (vi) a absence of a skilled workforce. The present account balance will keep it in surplus over the next five years but has probably begun a gradual loss as oil –gas product exports level off and possibly went down. However, oil-gas exports will continue to control the trade surplus. The CAB is prognosis to be 15% of GDP in 2014 and then after a year 14.5% in 2015, well under the rates of over 20% between 2007 and 2012, reason of falling oil prices. global reserves should continue to go up, but improvement in reserves will probably be slower over the next years because of fixed or decreasing oil manufacture.

2.4 Challenges and constraints to growth.

Supportable and inclusive economic improvement faces with a numbers of barriers and constraints that must be overcome if Azerbaijan is to manage its aim of becoming a developed, knowledge based, strong country by 2020.

Monopolies. Official and also unofficial monopolies are general in a lot of economic sectors in most of the states. A lot of are state-owned, while others apparently have strong and developed connections with public officials. The dominance of most of the monopolies spoils competition between companies, new innovations, price stability in market, and improved service quality, reduced barriers and fosters corruption. Competition strategies and other business regulatory reports are needed to run a more level of playing field.

Limited role of SMEs. SMEs in Azerbaijan have a small number of share of GDP – less than ten percent − which is good below the thirty- forty five percent that was found in other CA(Central Asia) states. SMEs are that's why not playing a significant part as new sources of improvement or supporting the economy to develop and diversify. Maintaining by official monopolies and unofficial monopolies in a lot of economies is a significant reason for the SMEs' role in the world economy. The government suggestions some support to help promote SMEs like the ESF(Entrepreneurship Support Fund), but unfortunately that kind of efforts are insufficient to enable a burgeoning SME economic sector.

Corruption. Described high levels of dishonesty adversely effect the efficiency and usefulness of plans and investments in our state, and they thwart the improvement of the private economic sector. Corruption is dominant in a most of the economic aspects of life in our state, We can see in every sector from Medical services to the Education. But we have to admit that it is not specific for only Azerbaijan. **Infrastructure deficiencies.** Despite the latest heavy investment in developing the country's infrastructure, the quality and quantity of infrastructure varies according to sectors, with electricity and highway infrastructure and medical services improving greatly in last years but education and railway infrastructure is not well everywhere. Most of the infrastructure was congenital from the USSR and has outlived the typical 20-30 years of usefulness. The decline has affected the quality and quantity of service and created significant higher costs to the most part of economy. Infrastructure improvements differ according to sector.

Institutional improvement and regulatory reform. Global capacities have not improved lately enough compared to the macroeconomic improvement. Administrative and planning capacities are limited, and coordination in planning and implementation levels needs to be better among ministries and

agencies. Set priorities and sequencing reforms have to also improve in order to creat diversification of the each sector of economy to occur.

Workforce challenges. Employment progress has been importantly in less industrious, worse paying sectors, and in the informal economy. The pool of capable workforce has declined significantly since Independence Day. Weaknesses in the education and Medical system and workforce market policies are making this more difficult to increase the level of the modern skills and abilities needed for a competitive and more innovative non-oil economic sector. Despite the ability deficiencies of workforce, the minimum wage rised six-fold during 2002 to 2008, and payments tripled. Wage increases in the non-oil sector of economy are outpacing productivity of sectors, which can harm prospects for work creation. Youth unemployment may become a main issue. One-third of the unemployment people are in the 16-24 age bracket, that is higher compared to other countries around the world. Sectors that create the most GDP and improvement in our state do not create equivalent shares of total employment.

3. Total Conclusion.

This thesis defined what are economic improvement and industrialisation strategies and how all these factors are in Azerbaijan . Like a improveing country, Azerbaijan has some barriers to success economic and industrial aims and goals. But, by investing to non-oil sectors Azerbaijan can improve its economy and it can go down dependent from oil sector.As we see years by years Azerbaijan improved its economy by successful steps, plans. At First, it was difficult because of the limited budget but then by inviting and influencing foreign investors to this state, government got good connection and also improved sectors even if it was by foreign. Years by years level of extracting oil product increased, but indeed total real GDP went down. That was the reason why government has chosen to invest non-oil sectors. Total GDP, Oil GDP, and Non-oil GDP all went down

through years. But because of the investments of non-oil sector, non-oil GDP is more than Oil GDP. Nowadays, government tries to increase the level of investments to non-oil sector. Because we know revenue and profit is limited which we get from oil-gas sector. As a result we see that these invests prove itself, and state continues to investments. That demonstrates how the investments worked. But Consumer price index(CPI) decreased after a while . By this thesis it is clearly defined that how SOFAZ helped State Budget Balance get well. Current account balance went down again after increase.

And also we can compare Azerbaijan to other states, because we already got the determinants of other states by this thesis.

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