Economic Dynamics of Global Energy Geopolitics

Ahmet Salih Ikiz
Muğla Sitki Koçman University, Turkey
Editor-in-Chief: Ahmed Driouchi, Al Akhawayn University, Morocco

MISSION

In our changing economic and business environment, it is important to consider the financial changes occurring internationally as well as within individual organizations and business environments. Understanding these changes as well as the factors that influence them is crucial in preparing for our financial future and ensuring economic sustainability and growth.

The Advances in Finance, Accounting, and Economics (AFAE) book series aims to publish comprehensive and informative titles in all areas of economics and economic theory, finance, and accounting to assist in advancing the available knowledge and providing for further research development in these dynamic fields.

COVERAGE

- Economic Downturn
- Economics of Agriculture and Biotechnology
- Evidence-Based Studies
- E-finance
- Statistical Analysis
- Development Economics
- Accounting information systems
- Economic Indices and Quantitative Economic Methods
- Economics of Migration and Spatial Mobility
- Bankruptcy

IGI Global is currently accepting manuscripts for publication within this series. To submit a proposal for a volume in this series, please contact our Acquisition Editors at Acquisitions@igi-global.com or visit: http://www.igi-global.com/publish/.
Perspectives, Trends, and Applications in Corporate Finance and Accounting
Constantin Zopounidis (Technical University of Crete, Greece) Apostolos G. Christopoulos (National and Kapodistrian University of Athens, Greece) and Petros Kalantonis (Technological Education Institute (TEI) of Piraeus, Greece)

Microfinance and Its Impact on Entrepreneurial Development, Sustainability, and Inclusive Growth
Ramesh Chandra Das (Katwa College, India)

Maintaining Sustainable Accounting Systems in Small Business
Luísa Cagica Carvalho (Open University, Portugal & University of Évora, Portugal) and Elisa Truant (University of Turin, Italy)

Agricultural Finance and Opportunities for Investment and Expansion
Augustine Odinakachukwu Ejigou (Imo State University, Nigeria)

Regaining Global Stability After the Financial Crisis
Bruno Sergi (Harvard University, USA) Filip Fidanoski (University of New South Wales, Australia) Magdalena Ziolo (University of Szczecin, Poland) and Vladimir Naumovski (University American College Skopje, Macedonia)

Employment Protection Legislation in Emerging Economies
Samir Amine (Universite du Quebec en Outaouais, Canada)

For an entire list of titles in this series, please visit:
http://www.igi-global.com/book-series/advances-finance-accounting-economics/73685
To my Spiritual Father  
Professor Ethem Ruhi Fiğlalti  
Inaugural Rector of Muğla University
Acknowledgment

I would like to acknowledge the help of all the people involved in this project and, more specifically, to the authors and reviewers that took part in the review process. Without their support, this book would not have become a reality.

First, as editor I would like to thank each one of the authors for their contributions. Our sincere gratitude goes to the chapter’s authors who contributed their time and expertise to this book.

Second, I would like to wish to acknowledge the valuable contributions of the reviewers regarding the improvement of quality, coherence, and content presentation of chapters. Most of the authors also served as referees; we highly appreciate their double task.

Ahmet Salih İkiz
Muğla Sıtkı Koçman University, Turkey
# Table of Contents

**Preface** ................................................................................................................................. xiv

**Acknowledgment** .................................................................................................................. xxvii

**Chapter 1**  
Sustainable Development in Muslim Economies: Peace at What Cost? ...............1  
*Aisha Ansari, Capella University, USA*

**Chapter 2**  
Power, Character, and Leadership: The Case of Egyptian Revolutions.................8  
*Amal Nagah Elbeshbishi, United Nations Economic Commission for Africa, Morocco*

**Chapter 3**  
Key Factors Affecting the Investment Attractiveness of an Oil Producing Country .................................................................................................................. 29  
*Nurlan Nurseit, Eurasian Innovation Academy of Economics and Management, Kazakhstan*  
*Darmen Sadvakassov, Center of Strategic Initiatives, Kazakhstan*

**Chapter 4**  
EU and Central Asia: The Politics Behind Energy Supply ........................................59  
*Tuğba Aydın Azalov, Artvin Coruh University, Turkey*

**Chapter 5**  
Turkey’s Renewable Energy Potential: Policies and Practice ..........................83  
*Suuadan Gökçe Gök, University of Gazi, Turkey*

**Chapter 6**  
European Energy Alternatives and Turkey’s Compatibility .................................96  
*Selma Aytüre, Yıldırım Beyazıt University, Turkey*
Chapter 7
Turkey’s Path Towards an Energy Market ..........................................................122
Haşmet Gökirmak, Istanbul Sabahattin Zaim University, Turkey

Chapter 8
The Asymmetry of the Global Changes: Asymmetric States of the
Developing Countries .........................................................................................142
Gülüyeva Aida, Azerbaijan State University of Economics, Azerbaijan
Rzayeva Ulviyya, Azerbaijan State University of Economics, Azerbaijan

Chapter 9
Central Asia’s Role in China’s Energy Security: Challenges and Opportunities167
Paulo Afonso Brardo Duarte, University of Minho, Portugal

Chapter 10
Maximizing the Potential of a Japan-Turkey Strategic Relationship: The
Security of Middle Eastern Energy Supplies .....................................................192
Devrim Şahin, Eastern Mediterranean University, Cyprus
Ahmet Sözen, Eastern Mediterranean University, Cyprus

Chapter 11
Analysis of the Robustness of Norway’s Economy and Energy Supply/
Demand Fluctuations ..........................................................................................215
Maryam Hamledar, University of Tehran, Iran
Reza Saeidi, University of Tehran, Iran
Alireza Aslani, University of Tehran, Iran

Chapter 12
Maintaining a Collaborative Environment Between Turkey and Israel on the
Issue of Energy Resources: The Crisis Management Role of the United
States ..................................................................................................................242
Devrim Şahin, Eastern Mediterranean University, Cyprus
Ahmet Sözen, Eastern Mediterranean University, Cyprus

Compilation of References ...............................................................................262

About the Contributors ....................................................................................298

Index ..................................................................................................................303
Chapter 8
The Asymmetry of the Global Changes: Asymmetric States of the Developing Countries

Guliyeva Aida
Azerbaijan State University of Economics, Azerbaijan

Rzayeva Ulviyya
Azerbaijan State University of Economics, Azerbaijan

ABSTRACT

The object of the study is the asymmetry of interests in geopolitics between developed and developing countries. In the context of the global crisis, the issue of de-dollarization is relevant from the political and economic points of view. What will be the behavior of small oil countries in this situation is a big problem. Also, for them, the question remains how to get off the oil needle in a painless way? The ways of solving the above-mentioned problem by other states are examined in detail, and comparative analysis is conducted in the case of applying these methods to Azerbaijan.

DOI: 10.4018/978-1-5225-4203-2.ch008

Copyright © 2019, IGI Global. Copying or distributing in print or electronic forms without written permission of IGI Global is prohibited.
The Asymmetry of the Global Changes

INTRODUCTION

The object of our consideration is the meaning of the concept of asymmetry and polarization of hydrocarbon resources in a small group of developing countries and countries with economies in transition.

Historically, commodity markets have used the US currency as means of payment. However, an active anti-dollar campaign is gradually unfolding in the world. These efforts often lead to serious and not always positive developments in global politics. The purpose of the work is to find answers to the following questions: what should be done to ensure that the rejection of the dollar will be real? What can a small developing country’s economy expect in a global crisis, with falling prices for raw materials, and after two currency devaluations?

The novelty of this work is studying the structure of the Azerbaijani economy, aimed at getting rid of the “resource curse” - a theory that points to the relationship between large revenues from the export of natural resources and weak economic development.

The aim of research is to investigate this global asymmetry, which is caused by the dominance of the dollar and has the greatest impact on countries whose economies depend on energy exports. Azerbaijan is in the list of such countries.

To achieve this aim it is necessary:

1. Suggest ways to escape the global asymmetry in the light of the diminishing returns from oil sales.
2. Conduct a critical analysis of the structure of the internal markets and find out why raw materials and semi-finished products are mainly dominant in the exports of developing countries.
3. Examine steps that the Azerbaijan government should take towards the development of the non-oil sector (we do not take into consideration such fields of economy as agriculture, tourism, information technologies, etc.)
4. Present the authors’ vision for solving the de-dollarization problem from the perspective of a small developing country.

BACKGROUND

The concept of asymmetry i.e. disproportion, discrepancy was included into an arsenal of mathematics and physics long ago. Asymmetry belongs to usual, widespread natural phenomena (geological, biological and other). In the 1970s the head of the Pentagon’s obscure Office of Net Assessment, Andrew W. Marshall, was one of the first to apply the term “asymmetry” to the military-political sphere: he paid
attention to possible asymmetric warfare with such, apparently, symmetric opponent as the USSR (Lemann, 2011). Actually, at first the term “asymmetric relations” had a military strategic importance and only later became widely used in the political and economic speech.

Scholvin (2016) reveals in detail how asymmetry turned out to be an important aspect mostly in each known geopolitical relations. The asymmetric strategy is always present in relationships (Meinhardt, 2002). All modern asymmetric conflicts can be understood when they are considered through the prism of the strategy and concludes that asymmetry is a strategy and strategy is an asymmetry.

As Bourguignon and Morrison (2002) describes national economies in the framework of the world economy and international economic relations in late XX - early XXI century, these relationships are also characterized by the asymmetry of the states’ developments. This was reflected primarily in the greater inequality between them. The system transformation crisis of the 1990s changed the place of the post-Soviet countries quantitatively and qualitatively, throwing them back. With the successful development of China’s economy against the background of post-Soviet countries’ national economies also increases asymmetry of the world economy (King, 2009; Lau, Qian & Roland, 2000). Investigating relations with Asia Schaffer (2002) determines that even within certain, especially large multinational countries (India, etc.), there is practically no homogeneity of economies and asymmetry in their development is also observed. This fact also applies to such a stable regional community as the European Union.

The greatest asymmetry of interdependence is inherent in the relations of developed countries with the most backward and poor countries of the world. The latter do not have the resources of strategic raw materials, they are not competitive producers of industrial and consumer goods, and are not promising markets for the products of developed countries. Depending on the conjuncture of commodity markets, these countries can influence industry, but a significant dependence on world industrial centers dominates in the system of their economic relations.

Including Azerbaijan, the economic dependence of developing countries on developed countries is manifested primarily in the fact that developed countries are “pure” exporters of capital to developing countries, whereas developing countries are in fact the debtors of developed ones. In foreign trade, economic dependence is manifested not only in the overall asymmetry of exports and imports, but also primarily in their market’s commodity structure. Raw materials and semi-finished products are mainly dominated in the exports of developing countries.

Today the USA as the largest importer of oil and the only superstate to have monopolized the right – in the sphere of geopolitics of fuel – to convert the geopolitics of spaces into the geopolitics of streams, geostrategy to geoeconomy and vice versa. In response, there is a tightening of access policy to hydrocarbon
The Asymmetry of the Global Changes

resources by oil-producing countries, called “resource nationalism”. The geopolitics of asymmetry, unexpected forming the fanciest combinations for reaching the real horizons of multipolarity, today is not restrained by any ideological, confessional, political or social criteria.

According to the title of the study, this paper considers the global asymmetry, which has the greatest impact on countries whose economies depend on energy exports. In the light of the diminishing returns from the sale of oil, this paper requests ways for escaping this asymmetry. The authors consider the geopolitical asymmetry associated with the dominance of the dollar in this market, analyze the existing political situation and offer their vision of the republic’s economy, for which oil has become a brake on development.

The Azerbaijan government has taken a firm course towards the development of its non-oil sector. Currently, sectors of the economy such as agriculture, tourism, information technologies and the textile industry are being invested in as an alternative to the “oil needle”. The authors focus on the development of entrepreneurship, which occupies an important place in social and economic policy, and is also an active participant in investment processes. In turn, investment processes define scientific and technical progress, modernization of economy, growth rates of branch and regional economies in significant degree. The paper considers the current state of this economic area, presents the critical indicators for Azerbaijan in this sector. As a continuation of the theme of entrepreneurship development, the authors examine in detail the stock market of the republic, considering that the economy is based on the functioning of the corresponding financial system, and the most important place is occupied by the financial market in which there is the movement of money (capital). As a logical conclusion of the study, the authors in the final part again return to the theme of oil’s de-dollarization, and, assessing all the shortcomings of the resource asymmetry from the perspective of a weak state, present their vision for solving this difficult problem.

MAIN FOCUS OF THE CHAPTER

Issues, Controversies, Problems

Modern research notes a relatively high degree of asymmetry in the geopolitics of fuel. This is because the processes of the global economy are often characterized by both uniqueness and a high degree of uncertainty. As a consequence, the situation with geostrategic instability is difficult to forecast and estimate, and therefore, there are difficulties associated with obtaining reliable information about it. The authors’ research aims to assess the degree of information asymmetry in the context of this
The Asymmetry of the Global Changes

phenomenon’s significance for developing countries, taking into account their absolute dependence on the dollar.

Geopolitical Asymmetry Associated With Energy: US Dollar Oil Policy

The concept of “oil geopolitics” has taken root in global political usage, at least since the late 1970s, especially after the US Senate Committee on Energy and Natural Resources held hearings on this topic in 1980 (Geopolitics of Oil, 1980). The subject of oil geopolitics is the distribution of oil reserves on the Earth and the routes of oil delivery to different points of the planet; these subjects are treated by geopolitics from the point of view of the interested powers’ security, in conjunction with world civilization divisions and with the antagonisms which are developed in the civilization (International Energy Agency, 2014). Rumley and Chaturvedi (2015) explore how in the modern world the positions of an exporter and a consumer of fuel are characterized by a fundamental geopolitical asymmetry. First, it is obvious that money is scarcer than fuel (the consequence of this is the danger of the withdrawal of money from oil production into spheres with a more rapid return). The attempt of oil exporters in the 1970s to turn around this situation ended in failure. Secondly, our world is designed in such a way that geopolitics is reduced to geo-economics for exporters – investors and buyers’ searches, agreements on volumes of production with other exporters, pipelines’ laying (without including geostrategy at all). The producer and exporter of oil does not control the regions to which it flows, and, as a rule, even those areas through which it flows. Meanwhile, the largest oil consumers since the era of the world colonial division have consistently used force to control oil production areas to strengthen and optimize their geoeconomic positions: for them the geopolitics of oil has always been not only geo-economics but also geostrategy.

Analyzing the structure of the distribution of world oil reserves, Gutiérrez (2007) concludes that the asymmetry and polarization of hydrocarbon resources (along with some regional differentiation) increases in a small group of developing countries with transitional economies, which is one of the prerequisites for the revival of “resource nationalism”. Davis (2006) sees the specifics of the current situation on the world oil market in the formation of the new imbalance between supply and demand, and there are two key points: a sharp increase in dependence of energy resources’ countries-consumers on countries-producers (growth of market’s asymmetry); the achievement of peak growth of world production (oil peak), which leads to additional investments for the development of less profitable and remote fields of alternative energy sources. This explains the instability of the oil market, which manifests itself in an extreme aggravation of the overall geopolitical situation.
The Asymmetry of the Global Changes

and high price volatility. The consequence was the US’s firm orientation toward a unipolar world based solely on forceful methods of solving problems.

Traditionally, oil quotations are exposed in US dollars. You can pay for the goods in any currency, but the estimation is always made in dollars.

As a result, companies and governments of states that buy oil and oil products keep large dollar reserves for oil supply payments, which in turn facilitate the position of the US economy, allowing the US to cover a large trade deficit.

Plummer (2013) determines that the rejection of the dollar in mutual settlements in relations between Cuba, Bolivia, Venezuela, Honduras, Nicaragua and Ecuador occurred in 2009. The states that were members of The Bolivarian Alliance for the Peoples’ of Our America (ALBA) had accepted a new currency for mutual settlements, rejecting the US dollar. The first deal with the use of Ecuadorian Sucre was signed between Havana and Caracas.

It was also announced that China and Brazil would make payments in yuan. Moreover, Brazil aimed at a gradual departure from dollar settlements, not only with China, but also with the BRIC countries (Brazil, Russia, India, China). Argentina’s experience has confirmed the success of such calculations.

An active anti-dollar campaign is developing in the world. The Chinese monetary authorities proposed their plan for reforming the world financial system, which involved the creation of an international reserve currency. According to the Central Bank of China, special drawing rights (SDR) - IMF’s artificial payment facility, tied to a basket of currencies could become an international reserve currency (Xiaochuan, 2009).

At the summit of the Shanghai Cooperation Organization in 2008, the idea of rejecting the dollar in the computations between Russia and China was sounded (Qiang & Xiaokun, 2010). It was proposed to replace the dollar with the Russian ruble or the Chinese yuan. Two countries were able to conduct trade operations among themselves in their national currencies, although it concerned only the border areas.

And yet at the moment there is no tangible threat to the dollar as the only currency of oil contracts. 60-70% of export operations in the world are carried out in dollars. About 60% of all foreign exchange reserves of countries are also made in dollars, 80% of transactions in the world currency market are carried out in dollars and 70% of bank loans are provided in dollars.

The issue of de-dollarization goes far beyond the economy. These attempts sometimes lead to serious and far from positive developments in world politics. For example, as western media presents, the US invasion of Iraq began after S. Hussein had demanded that within the “Oil in exchange for Food” program calculations would be carried out in euro, but not in the American dollars (Proliferation Issues, 1992). “It was the choice that decided the fate of Iraq, – commented William Clark, a security expert and author of labor on the oil market economy. – It was the political
step, which brings the income in connection with steady falling of dollar exchange rate. And this was the last argument in deciding whether to seize Iraq. When the American marines entered Baghdad, Iraqi oil again began to be sold for dollars” (Tomberg, 2017).

In 2009, Muammar Gaddafi, the head of Libya and the president of the African Union, invited African countries to switch to a new currency, the “gold dinar”, independent from the US dollar and the African franc. Gaddafi proposed the creation of a monetary union in which the main means of paying for oil and other resources would be the “gold dinar”. This idea, according to economist Frederick William Engdal, was approved by the leaders of Tunisia and Egypt – Zin el-Abidine Ben Ali and Hosni Mubarak. According to Engdahl (2016), not human rights violations in Libya, but the attempt to de-dollarization was the main reason why Mubarak and Gaddafi were killed.

It is possible that this is not the last war for the stability of the dollar. In 2006, Iran announced plans to open an oil exchange where the price of oil would be quoted in euros. The news aroused serious concern in oil circles. The geographical location of the country in proximity to such important oil and gas importers as China, India and Europe determines the strategic importance of Iran as a world oil supplier. Iran has 158,400 millions of barrels of proven hydrocarbon reserves, or 10% of the world’s reserves (ENI, World Oil and Gas Review, 2016). And yet at the beginning of 2016, the Iranian authorities chose the euro in settlements with oil suppliers- in new contracts, the Islamic Republic required payment in Euro.

From this perspective, the greatest danger is political: any trade in a currency other than the US dollar is a blow to the dollar, and the US usually does not leave strikes without an answer.

Now put the policy aside, talk about the economy.

The sale of oil for the national currency is a controversial issue. Let us imagine that a foreign buyer wants to pay for oil in the national monetary standard. He comes with dollars or euro, submits the application for their exchange into the national currency, at the same time our buyer undertakes exchange rate risk. After receiving national currency, the money is deposited into the account of the sellers. However, there is also another party. Oil industry workers buy the equipment abroad for dollars or euro. In case of switching to the national currency, they also have to go to the exchange, sell it, buy dollars again, and take risks for changing the exchange rate. In this situation, as Baumeister and Lutz (2016) describes both sellers and buyers prefer to conduct calculations in dollars in order to avoid unnecessary transaction costs.

What other external factors prevent oil sales from being denominated in a national currency? First, the main factor is already settled system of trade generally for the American dollar. Actually, America remains the main consumer of hydrocarbon raw materials. In addition, the second external factor is the reluctance of European
consumers to buy goods for the national currency; in this case it also applies to hydrocarbon feedstock.

Analysis of the Structure of the Economy of Azerbaijan: “A Resource Curse”

It is difficult to overestimate the role of oil in the economy of Azerbaijan. In Azerbaijan, the share of employed in the oil industry accounts for most of GDP, reflecting its predominantly mineral-raw material orientation.

Recently there was a favorable situation on the world market for raw materials. Thanks to the global economic crisis, the “resource blessing” has turned into a “resource curse”. This theory points to the interrelation between large revenues from the natural resources’ export and the weak economic development of the country, and reflects the suppression of market development and the decline of other economic sectors’ competitiveness, the increase in the value of the national currency, inflation and unemployment.

Based on a survey of 20 countries, it is clear that abnormal revenues from mineral resources’ export, as well as an excess of this resource within the country distorts the alteration of economy in all cases, regardless of the political system and the applied economic policy (Karl, 2007). Azerbaijan is not an exception to this rule. The correlation of the rate of Azerbaijan GDP’s growth with the oil prices’ growth rate on world markets represents a parallel process. It is important to emphasize that this is not even a correlation with the rate of oil prices, namely with the rate of prices’ growth, i.e. for the growth of the Azerbaijani economy. How to solve the resource curse problem?

Quickly coping with the Dutch disease, the symptoms of which are evident in Azerbaijan is impossible. There are no simple recipes here. Nevertheless, the problem of price volatility and export revenue is solved quite simply. If we know that oil prices sharply change, we can save them for a rainy day, for those periods when there is a drop in income. Countries that export resources - oil, gas, and so on - can create so-called national welfare funds that have two goals. The first is a savings purpose designed to reserve a part of the income from oil for pensions and tax exemptions in future. The second goal of such funds is stabilization funds, which are directly related to volatility. When oil prices are falling: these funds can be used to meet current needs. When the prices are high, then, on the contrary, we keep our large income in the fund. Accordingly, we smooth out state revenues and solve budget problems.

However, there are problems with stabilization funds. Oil prices are volatile, but, as economists often say, they are sustained, and if they fall, they can stay at a very low level for a very long time. And vice versa.
The Asymmetry of the Global Changes

Not only oil producing countries possess national welfare funds, there are metal funds, copper funds, there are funds completely unrelated to raw materials, as in China and Singapore.

The largest fund is the Government Pension Fund of Norway. The Norwegian government does not spend money coming from oil and gas, but lives only on interest.

The State Oil Fund of the Azerbaijan Republic was established by the decree of President Heydar Aliyev in 1999 (actually began to operate in 2001). The revenues of the State Oil Fund are formed, first, by selling oil remaining at the disposal of Azerbaijan in accordance with production sharing agreements. In addition, the fund receives income from the concession of land in oil-bearing areas, the leasing of fixed assets, oil transit, the difference between the contractual and sales price of exported oil, as well as bonuses and income from the profitable use of assets.

The oil exporting countries are trying to change the development model based on the export of this raw material. However, the strategies of economic modernization need to be reoriented to new sources of national income. A purposeful economic policy can ensure the effective use of foreign exchange earnings from oil exports, and therefore the role of financing advanced sectors of the economy based on ICT raises. Developing countries seek to shift economic growth from the oil and gas production sector to sectors not related to the extraction and sale of crude oil and natural gas in order to reduce dependence on exhaustible oil reserves, the volatility of the world oil market, to change the economic structures based on foreign labor, to solve the problem of the social burden on the budget.

Investment Policy of Azerbaijan: Transition to a Non-Oil Economy

Development of Entrepreneurship as One of the Main Priorities of Economic Development

At the present stage of development of the Azerbaijani economy, foreign investments are directed mainly to the oil industry. However, proportional economic development requires redirection of revenues from the sale of oil and oil products to the development of the non-oil sector. The increase in investments is necessary for the purposes of economic growth, limiting inflation and unemployment, creating new jobs.

Registration of companies in Baku is carried out on the basis of unified principles, which are prescribed at the legislative level. The process of creating a limited liability company is very simple: it requires only 7 procedures and the process is normally completed within 11 days. This is much faster than the corresponding average for the countries of Eastern Europe and Central Asia. The whole process can be done online and the registration usually takes only 2-3 days. Currently, there are no restrictions on the minimum authorized capital. Article 117 of the Civil Code of the Republic
The Asymmetry of the Global Changes

of Azerbaijan states says that the amount of the authorized capital cannot be less than the amount established by the relevant executive authority (Civil Code of the Republic of Azerbaijan).

Land is granted only for rent to persons who are not citizens of the Azerbaijan Republic, individuals and legal entities of foreign countries. Some lands constitute the exclusive property of the state; rules for their usage and leasing are carried out in the order prescribed by law. The lease cannot be longer than 99 years. As a rule, contracts are usually concluded for 30 years and give the right to divide the land into sublease or leased land. There are no restrictions on the maximum quantity of land, which can be concentrated in one hand. In Azerbaijan a geographic information system that provides for the collection, storage, processing, access, display and dissemination of spatially coordinated data (spatial data) and, accordingly, centralization of information in one access point is absent.

Foreign direct investments in Azerbaijan in the fourth quarter of 2016 was 1895 million US dollars, reaching a record level of 2231 million US dollars in the fourth quarter of 2014 and a record low 586 US million dollars in the third quarter of 2009 (Figure 1).

Compared to the beginning of the XXI century, the overall investment climate in Azerbaijan is gradually improving, although serious problems remain.

The paradox is that everyone knows about these problems, but they remain unresolved, giving rise, in turn, to new problems. Over the past few years, the Azerbaijani government has worked to integrate the country more fully into the world market, to attract foreign investment, diversify economy and support growth.

Figure 1. Azerbaijan Foreign Direct Investment
Source: Trading Economics, 2018a
GDP growth of 2.8% in 2014 was due to non-oil economy and long-term public investment (Figure 2).

About 95% of the export income of Azerbaijan is the share of oil and gas products. Economic diversification and large foreign investment for the further development of energy sector are declared by President Aliev as government’s goals, but ineffective state bureaucracy, weak legal institutions, requests for illegal payments for cross-border operations and predatory behavior of related monopolistic interests prevent investments in the non-oil sector and present problems for foreign companies. Over the past few years Azerbaijan has been working to improve its regulatory system, but limited transparency and allegations of corruption remain key problems in this area. According to the legislation of Azerbaijan, foreign investors can engage in investment activities not prohibited by law.

Private entities can freely create, acquire and dispose of interests in enterprises. The Law on the Protection of Foreign Investments protects foreign investors from nationalization and requisition, with the exception of certain circumstances.

In February 2015, Azerbaijan devalued its local currency, the manat (AZN), by 35% in order to adapt to the decline in oil prices, putting pressure on the currency reserves of the Central Bank. Then in December 2015 there was a second devaluation of 48%. In general, however, there are no restrictions for converting or transferring of the means related with investments. The sphere of financial services is weakly competitive both on the external and internal markets.

Corporate social responsibility is a relatively new concept in Azerbaijan, and is associated only with assistance programs.

Figure 2. Azerbaijan GDP per capita
Source: Trading Economics, 2018b
The Asymmetry of the Global Changes

Development of the Securities Market as one of the Priority Areas of the State Investment Policy

In the economy, there is a constant turnover of financial resources, which subjects are households, enterprises, the state and various financial institutions acting as intermediaries in the system of relations. In the process of management, some subjects require means to expand their activities, while others accumulate savings. The distribution of these means occurs through the formation of funds, which can be centralized by the state or owned by the producers.

Until recently, the Azerbaijani government has practically ignored the possibility of attracting the population’s financial resources for infusion into the national economy. Practically bank deposits are the only financial instrument to fill up the people’s budget. Nevertheless, the two waves of currency devaluation, and the closing of some banks (for today from 45 banks remained acting 33 credit institutions) considerably lowered the population’s trust in the banking system. In the developed countries of the world, income from securities is an important additional source of money for the population.

The population provides the bulk of investment in the stock market, if it has incomes that exceed consumption costs. If the consumer has a larger disposable income, then more goods will be produced and/or imported. There are special indicators characterizing the willingness of consumers to spend money on the acquisition of various goods. Some of these indicators are important for foreign exchange markets; however a high consumer demand stimulates the recovery of production in many sectors and can serve as a basis for economic growth. Conversely, the weakness of consumer demand or its decline are signals and may result in a slowdown in the economy. Focusing on these indicators, central banks can change interest rates or use other levers of financial policy, which directly affect the exchange rates. Let’s consider some of them for Azerbaijan.

In view of the fact that many economic indicators show economic cycles, but each of them does it in its own way, it is natural to attempt to construct one from several indicators which, thanks to the generalization (averaging), would better predict the cycles than each one does individually. The composite leading indicator – Leading Economic Indicator (LEI) combines 11 indicators for this purpose:

1. Average duration of the working week in the manufacturing sector;
2. Average weekly number of applications for payment of state unemployment insurance;
3. New production orders for consumer goods and materials;
4. Efficiency of deliveries;
5. Contracts and orders for capital goods and equipment;
6. Obtaining permits for housing construction;
7. Unfulfilled production orders on durable goods;
8. Change in prices for raw materials;
9. Stock Index S & P500;
10. M2 Monetary aggregate;
11. Consumer expectations index (University of Michigan’s Consumer Expectations Index).

The LEI index is based on the idea that the main driving force in the economy is the expectation of future profits. In anticipation of profit growth, companies expand the production of goods and services, invest in new plants and equipment; accordingly, this activity decreases when a decline of profits is foreseen.

In Azerbaijan the GDP YoY (year over year) shrank 0.9 percent year-on-year in January-May of 2017, compared to a 4.2 percent contraction in 2016. LEI in Azerbaijan averaged 9.87 percent from 2006 until 2017, reaching an all time high of 116.10 percent in September of 2012 and a record low of -4.50 percent in April of 2016 (Figure 3).

The Index of Consumer Confidence is an attempt to measure consumer optimism; it has a limited impact on the market, as it may not reflect the real state of the economy. However, it is traditionally used to forecast trends in employment and the general state of the economy. The growth of the index value is a positive factor for the development of the national economy.

Figure 3. Azerbaijan GDP YoY
Source: CEIC, 2018
As a reflection of the economic situation, consumer confidence in Azerbaijan declined in the third quarter of 2014 to 23.80 points, being 25 points in the second quarter of 2014.

Consumer confidence in Azerbaijan averaged 25.25 from 2013 to 2014, reaching a maximum of 26.35 points in the first quarter of 2014 and a record low of 23.80 points in the third quarter of 2014 (Figure 4).

The index *Personal Income* includes the salaries of workers and employees, income from rent, dividends, income from bank interest, payments for social insurance, etc. Personal income in Azerbaijan increased from 35,924.80 million manats in 2014 in to 37,948.30 million manats in 2015. This indicator averaged 24,010.00 million manats from 2000 to 2015, reaching a record level of 37,948 million manats in 2015 and a record low of 37,480.00 million manats in 2000 (Figure 5).

The index *Personal Spending (Consumption)* reflects the change in spending of funds to meet personal needs. Has a limited impact on the market. Consumer spending in Azerbaijan rose from 9.94 bn manats in the third quarter of 2016 to 9.125 bn manats in the fourth quarter of 2016. This indicator in the period from 2001 to 2016 averaged 3.767.86 million manats, reaching a maximum of 9,190.40 million manats in the fourth quarter of 2015 and a record low of 700 million manats in the first quarter of 2001 (Figure 6).

The *Consumer Price Index (CPI)* is the main indicator of inflation, measures the changes in the goods and services’ prices included in a fixed consumer basket (Tsibulnikova, 2013). This indicator increased from 141.40 points in December 2016 to 144.70 points in January 2017, an average of 115.69 points from 2011 to
The Asymmetry of the Global Changes

Figure 5. Azerbaijan Personal Income Index
Source: Trading Economics, 2018d

Figure 6. Azerbaijan Personal Spending (Consumption) Index
Source: Trading Economics, 2018e

2017 and reaching a record level of 144.70 points in January 2017. The minimum record was fixed at the level of 105.30 points in January 2011 (Figure 7).

As it was said above, the population is the main supplier of resources to the stock market. Credible figures for Azerbaijan, disclosed above, give no chance on successful development of this economic sector.

Let us consider this situation in more detail. The securities market in Azerbaijan was established at the beginning of the 20th century. Back in 1900, promissory notes
and interest-bearing securities were issued by banks operating in Baku. The first shares were issued in 1913 after the approval of the Baku Merchants Bank’s Charter. In the era of the Azerbaijan Democratic Republic, the bill market also developed, but during the Soviet period it was limited.

On December 30, 1998, after the restoration of independence the State Committee for Securities was established to create and develop the securities market.

The Committee is engaged in the adoption of regulations in the securities market, the emission and turnover of shares, the activities of securities market participants and investment funds, the licensing of related activities, as well as the market for debt securities.

As shown in Musayev (2012), the economic reforms carried out in Azerbaijan in recent years have ensured the creation of an economic system operating on the basis of free market relations. The fundamental institutions of the market economy have been formed, including the legislative framework that consolidates new economic relations.

Securities which will be interesting to society have to be issued for work of stock exchange. In Azerbaijan, such large joint-stock companies as the State Oil Company of the Azerbaijan Republic (SOCAR), the organization for providing electricity to the country AzerEnerji, etc. belong to the state. As for public companies, they are open only formally, but in reality, too, belong to the state. Potential buyers do not believe that over time competitive monopoly organizations will give an opportunity to develop joint stock companies.
The Asymmetry of the Global Changes

No one wants to give up part of the own enterprise. However, the shares are essentially related to the transfer of part of the ownership rights to shareholders. In addition, another reason for the underdevelopment of the stock market in Azerbaijan is the lack of qualified and experienced personnel, for example independent brokers.

Thus, the model of the undeveloped securities market in Azerbaijan is characterized by the fact that there are practically no national investment resources, national production cannot effectively consume foreign investment.

Yet the situation in the world economy suits developing countries. They feel much better developed, their markets grow, which makes them attractive to investors. However “overly good” is also not good: capital flows from developed countries can lead to overheating and a crisis.

Azerbaijan does not have such risks - the economy has fallen into a lethargic dream: industry, investment, exports and GDP growth are generally slowing down, and this is the best medicine for overheating.

Oil, Gold and the Stock Market

Let us return to the subject of abandoning the dollar in the computations for oil supply. In our opinion, “rejection of the dollar” is nothing but a desecration. Such “refusals of the dollar” and the emerging systems of local mutual settlements are a distortion because the instrument of mutual settlements is not important. An instrument for quoting these mutual settlements is important.

No matter how these countries name their currency, accepted between them for mutual settlements, they will continue to quote the rate of this currency (determine the value of the currency) and to determine the value of the goods (determine the value of the goods) in the same petrodollars. Moreover, this means that, through the dollar exchange rate (the dollar index) the US will retain its economic power over these countries and can still influence the economy and therefore the policies of these countries. What should be done to ensure that the rejection of the dollar will be real and not virtual? To do this, countries need to sell their oil and gas, either for gold or for a national currency tied to gold, and not to the US dollar. Only the termination of quoting (assessment) in dollars of the cost (value) of oil and cost (value) of the used settlement monetary unit is capable to destroy world hegemony of the petrodollar; moreover, with it the entire world hegemony of the United States. Here a reasonable question arises: how to determine the value of oil relative to gold, without the participation of the US dollar, in which today both oil and gold are quoted (estimated) in world markets? The answer is “no way”. It’s just not necessary. The market itself will determine the relative value of oil against money (gold). It is only necessary to start selling oil for gold, according to the artificial proportions of values that we have today and which are expressed in US dollars. Moreover, in order to do
The Asymmetry of the Global Changes

this, there is no need even to announce the rejection of the dollar. It is enough simply to immediately exchange all dollars received from the sale of oil and gas for gold.

As it was said above, oil is a trump card of all geopolitics, and the countries that have this card try to use it. The fact that foreign oil companies with billions of dollars in debts, will pay for Iranian oil in euro, creates the idea of the similar practices’ introduction in our country. Nevertheless, can Azerbaijan refuse the dollar in foreign trade and switch to the euro after two devaluations? And do we need this? For Azerbaijan, such a step would be extremely dangerous, because the limited inflow of dollars is the main cause of instability in the financial market at present. The fact is that 90% of our exports are oil and oil products. The country has very few other dollar revenues. The price of oil is falling: the volume of the dollar coming to the republic is dropping, and the Central Bank is beginning to spend its foreign exchange reserves. The value of gold expressed so far in US dollars, immediately starts to grow rapidly, both against the dollar, and against all goods-works and services. After a while in a certain market-defined trading range the oil-gold ratio will be stabilized naturally and the dollar will simply fall out of the formula which determines the price of oil and gold. On the contrary, the value of the dollar will begin to be measured in gold, as it should be and as it was throughout the entire monetary history of humankind. The value of national currencies has always been valued in money, i.e. in gold.

The changes of oil prices always have a strong influence on the deals. But in the last 10 years the nature of this influence has changed dramatically.

Modern oil exploration is financed through a variety of methods, including issuing shares to increase capital, as well as attracting finance through bonds and bank loans.

If the future expectations of the global economy are bad, as it is happening now in Azerbaijan, people are trying to protect the dollar and gold and sell shares in countries where the stock market is developed. The price of gold is rising; the value of the dollar is rising against the national currency. When the price of the dollar rises, oil prices rise for developing economies. This creates an additional burden on the economy, since inflation increases with energy costs. Because of high inflation, people invest more in gold and less in stocks, which leads to a drop in stock markets.

There are many combinations of oil, gold and shares, but as a rule:

- In developing countries gold and oil are in inverse ratio: decreasing oil prices testifies about bad times, then the price of gold increase.
- In developed countries gold and shares are also in inverse ratio. If shares’ prices increase, then the price of gold decreases and vice versa.
SOLUTIONS AND RECOMMENDATIONS

Money is not the exclusive and the main goal of entrepreneurial activity, but also the most important means of this activity, since without the availability of money (initial investments) the emergence of entrepreneurial activity is impossible. At the same time, it is necessary to solve questions about the source of capital and its investment. One of the main subjects of business turnover in financial markets is securities.

There are more restrictions on foreign capital in Azerbaijan than in Eastern Europe and Central Asia. Under current legislation, a controlling stake in companies operating in the mining sector or oil and gas sector remains in the country. Among the most important measures to limit foreign investment are:

1. Establishment of special state control over the admission of foreign capital to the development of mineral and natural resources;
2. The prevention of foreign capital in certain sectors that are most important for the national economy;
3. Establishment of an obligatory share of participation of the national or private capital in the enterprises created by foreign firms (in the mixed societies);
4. Activities directed to use of some of foreign enterprises’ profits for the domestic needs of developing country (taxation, restrictions when transferring profits abroad, etc.);
5. Definition of concession policy.

FUTURE RESEARCH DIRECTIONS

Research results indicate that the accumulation of huge monetary and financial resources has an ambiguous impact on the economy of oil-producing countries. On the one hand, it creates unprecedented financial conditions for boosting the economic development of these countries. On the other hand, it generates such problems as, for example, inflation growth, deepening of structural disproportions (flawed development of the “non-oil” sector), and difficulties in the social sphere. The development of entrepreneurship is closely linked with the development of small enterprises, the formation of the middle class and is conditioned by both internal and external factors. Investment activity is associated with the processes of international separation of labor, attracting foreign investment and the development of investment projects.
The Asymmetry of the Global Changes

The modern structure of the world in the postindustrial information space becomes very vulnerable. Therefore, in the very near future the development of oil fields with the correct configuration of the innovation process can move from massive technologies, requiring huge economic and industrial resources to point high-tech modules, whose development requires not so much capital investment, as creative flexibility and avant-garde approach.

The developing countries, to which Azerbaijan belongs, should develop this side of strategic asymmetry as a priority.

CONCLUSION

The main problem is rational using of financial resources within the country for its social and economic development. The desire to master other markets in the face of the declining efficiency of investments in the development of new oil resources can be considered as the most important prerequisites for the transition to a non-primary economy. This process of deliverance of raw dependence can be intensified by increasing investments in entrepreneurship and development of the stock market. The strategic goal of economic development of any country is foreign investments’ attraction. Foreign direct investments are of significant importance, they characterize the long-term interest of foreign investors in the development of economic activity. The stock market develops when investors appear on it.

In current conditions, Azerbaijan should treat the idea of de-dollarization more restrainedly. First, if the country switches to calculations for oil and gas in manats, then the budget will lose additional income from devaluation. To date, since the beginning of the year, manats has depreciated more than 100% against the dollar and the euro. The Transformation of the manats into an international currency will probably not lead to the stabilization of the national currency, but to its even greater volatility. the Conversion of currency into a freely convertible one means that its circulation is not limited in any way, the state cannot influence it in any way, and its rate is determined only by speculation on the stock exchange - in this case the dependence on the dollar is only strengthened.

Today, especially during the currency crisis, it is economically unprofitable, not to mention the fact that Azerbaijani raw materials exporters need dollars and euros to pay off their foreign debts and make purchases on imports to support the extraction of raw materials. The transition to manats, if it takes place, will sharply worsen the competitive position of Azerbaijan in the energy markets. The costs will significantly increase for importers: since they need to buy manats for dollars or euros, they lose
The Asymmetry of the Global Changes

the difference between the rates of purchase and sale. In addition, they would have to spend money on insurance against risks of a depreciating manats, and this would also be worth a lot, because manats is a currency, which rate is subject to very high fluctuations. The acquisition of fuel is often done at the expense of a loan. There are a very high percentage of manats loans. Here is one more extra cost for those who would have to buy Azerbaijani fuel for manats. When we force customers to pay extra, we lose them.

The results of theoretical research identify essential features of overcoming the dollar dependency and oil dependent countries’ strategic objectives. For these aims:

1. The authors consider the geopolitical asymmetry associated with the dominance of the dollar in this market, analyze the existing political situation and offer their vision of republic’s economy, for which oil has become a brake on development.

2. The manuscript shows in detail that developing countries including Azerbaijan, depend on developed countries. This is manifested primarily in the fact that developed countries are “pure” exporters of capital to developing countries, whereas developing countries are the debtors of developed countries. In foreign trade, economic dependence is manifested not only in the overall asymmetry of exports and imports, but also primarily in the market's commodity structure.

3. The authors draw attention to the development of entrepreneurship, which occupies an important place in socio-economic policy, and to the development of the stock market, which is an active participant in the investment processes. In turn, investment processes define scientific and technical progress, modernization of economy, growth rates of branch and regional economies in essential degree. The paper considers the current state of this economic area, presents the dominant indicators for Azerbaijan in this sector. As a continuation of the theme of entrepreneurship development, the authors examine in detail the Azerbaijani stock market, considering that the economy is based on the functioning of the corresponding financial system, and the most important place is occupied by the financial market on which there is the movement of money (capital).

4. As a logical conclusion of the study, the authors in the final part again return to the theme of oil’s de-dollarization, and, assessing all the shortcomings of the resource asymmetry from the perspective of a weak state, present their vision for solving this difficult problem.
REFERENCES


The Asymmetry of the Global Changes


ADDITIONAL READING


