

**THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN**

**AZERBAIJAN STATE UNIVERSITY of ECONOMICS**

**INTERNATIONAL GRADUATE AND DOCTORATE CENTER**

**MASTER DISSERTATION**

**ON THE TOPIC**

**“POSSIBLE EFFECTS OF ECONOMIC GROWTH TO THE WELFARE  
OF COUNTRY. THE CASE OF DEVELOPING COUNTRIES”**

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**BAKU – 2019**

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OF COUNTRY. THE CASE OF DEVELOPING COUNTRIES”**

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# **İqtisadi artımın ölkənin rifahına mümkün təsirləri. İnkişaf etməkdə olan ölkələrin timsalında**

## **Xülasə**

**Tədqiqatın aktuallığı:** İqtisadi artım inkişaf etməkdə olan ölkələrdə ən güclü vasitədir. Bu tədqiqat işi inkişaf etməkdə olan ölkələrdə iqtisadi artımın artacağını və onun necə inkişaf edəcəyini nəzərdə tutur. Son illərdə Azərbaycanda sürətli iqtisadi artım olmuşdur. Azərbaycan beynəlxalq iqtisadi münasibətlərdə daha güclənir və ticarətdə mühüm rol oynayır. Azərbaycanda inkişaf etmiş sahələrdən danışmaq və digər inkişaf etməkdə olan ölkələrlə, məsələn, keçmiş sovet respublikaları ilə, Müstəqil Dövlətlər Birliyi ilə müqayisə etməyi nəzərdə tuturuq.

**Tədqiqatın məqsəd və vəzifələri:** Tədqiqat işinin məqsədi iqtisadi artımın və ölkənin rifahının nəzəri-metodoloji əsaslarını sistemli şəkildə tədqiq etmək əsasında onların vəhdətinin təmin edilməsi qanunauyğunluqlarını, xüsusiyyətlərini və mənbələrini müəyyən etməkdən, müasir şəraitdə iqtisadi artımı təmin etməklə ölkənin rifahına mümkün təsirləri araşdırmaq istiqamətində təklif və tövsiyələr işləyib hazırlamaqdan ibarətdir.

**İstifadə olunmuş tədqiqat metodları:** Azərbaycanda iqtisadi artımla bağlı Dövlət Proqramları, Respublika Prezidentinin, hökumətin müvafiq qərar və sərəncamları, eyni zamanda müvafiq problemlər üzrə klassiklərin baxışları, bazar yönümlü iqtisadi islahatlar, iqtisadi artımla əlaqədar olan elmi araşdırmalar, elmi məqalələri təşkil edir. Tədqiqat işində sistemli təhlil, məntiqi ümumiləşdirmə, elmi fikirlərin müqayisəsi və statistik tədqiqat üsullarından istifadə olunmuşdur.

**Tədqiqatın informasiya bazası:** Azərbaycan və xarici ölkə alimlərinin, Nüfuzlu beynəlxalq təşkilatların, MDB-nin və Azərbaycan Dövlət Statistika Komitəsinin statistik materialları, tədqiqatları və məlumatları təşkil edir.

**Tədqiqatın məhdudiyyətləri:** MDB ölkələri ilə bağlı elmi məqalələrin və araşdırmaların azlığı dissertasiyanın başlıca məhdudiyyətidir.

**Tədqiqatın nəticələri:** İqtisadi inkişaf yolu ilə inkişaf etməkdə olan ölkələrin rifahının artırılması yolları müəyyən edilmiş, bu istiqamətdə müvafiq təkliflər verilmişdir.

**Nəticələrin elmi-praktiki əhəmiyyəti:** Magistr dissertasiyasında irəli sürülən təklif və tövsiyələrdən müasir dövrdə ölkənin rifah göstəricilərinin iqtisadi artımla əlaqəsinin səmərəli şəkildə təşkil olunmasında istifadə etmək olar. Dissertasiyada verilən nəzəri-metodoloji materiallar və məntiqi struktur tədris prosesində də istifadə edilə bilər.

**Açar sözlər:** iqtisadi artım, iqtisadi inkişaf, MDB ölkələri, Azərbaycan iqtisadiyyatı

## ABBREVIATIONS

<b>ASEAN</b>	The Association of Southeast Asian Nations
<b>BP</b>	British Petroleum
<b>CIS</b>	Commonwealth of Independent States
<b>EU</b>	European Union
<b>GDP</b>	Gross Domestic Product
<b>GNP</b>	Gross National Product
<b>GUAM</b>	Organization for Democracy and Economic Development Georgia, Ukraine, Azerbaijan, Moldova
<b>ILO</b>	International Labor Organization
<b>IMF</b>	International Monetary Fund
<b>NATO</b>	The North Atlantic Treaty Organization
<b>OPEC</b>	The Organization of the Petroleum Exporting Countries
<b>TNC</b>	Trans National Corporations
<b>UN</b>	United Nations
<b>USA</b>	The United States of America
<b>USSR</b>	The Union of Soviet Socialist Republics
<b>WB</b>	The World Bank
<b>WTO</b>	World Trade Organization
<b>Etc</b>	Et cetera

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## INTRODUCTION

**Actuality of the subject.** Economic growth can be defined as an increase in productivity and productivity itself. The main objective of economic growth should be to ensure economic and social well-being in which every economy strives to achieve in the long run. As is known, there are some important factors that affect economic growth. Natural development, natural resources, physical investment or infrastructure, innovation in the field of population or labor and rights are an important part of the economic development of nations. However, when economic growth occurs in the country, this does not mean that people will always have the same economic and social benefits. In this case, there are some different issues. There are reasons such as unemployment rate and income inequality, high level of poverty; problems related to the health sector, environmental issues, education problems.

Economic growth is the most powerful tool in developing countries. This research work envisages the growth in developing countries and how it will be developed. This is important for the topic of research. Economic growth can lead to the emergence of progress and opportunities for scientists. Strong growth contributes to human development, which in turn contributes to the development of economic growth.

In recent years, there has been rapid economic growth in Azerbaijan. Azerbaijan becomes stronger in international economic relations and plays an important role in trade. We intend to talk about developed areas in Azerbaijan and compare them with other developing countries, for example, the former Soviet republics, the Commonwealth of Independent States.

**The statement and level of studying the problem.** The study of economic growth problems in modern economic conditions was largely implemented by local and foreign economists. The research of the following scientists of Azerbaijan is especially worthy of attention: Z. Samedzadeh, Sh. Hajiyev, A.Shakaraliyev, A.Pabayev, M.H.Meybullayev, C.Karimov, A.Orujov, H. Israfilov, F.Mirisli and others.

Foreign economist Scientists A. Smith, C. Kaines, S. Bruve, K. McConnell, I.Blank, E.Dolan and others also can be noted. Many well-known economist-scholars in developing countries, especially in the CIS and in Azerbaijan, have explored the economic growth and development problems and their impact on the welfare of the country in this or that sense in connection with the establishment of a market economy.

However, the fact that there are some difficulties in studying the problems of interaction between economic growth and the welfare of the population in the Independent Republic of Azerbaijan gives grounds to study the above-mentioned problem.

Thus, the formation of market relations in the country's economy makes it necessary to study the interaction of the welfare of the population with economic growth, which is one of the main factors of the developing economic system. In our opinion, the presented master's thesis can play a positive role in filling the gap.

**Purpose and tasks of the research work.** The purpose of the research is to develop proposals and recommendations to explore the possible effects of the country's prosperity by identifying legitimacy, characteristics and sources of their unity based on a systematic study of the economic and economic well-being and theoretical-methodological foundations of the country's prosperity. Concerning the above mentioned, concrete tasks have been put forward to the research.

- to examine and evaluate conceptual approaches to the content and characteristics of economic growth;
- summarizing and evaluating scientific approaches to the differences between economic growth and economic development;
- to identify the effects of various factors on economic growth;
- to reveal the positive effects of economic growth;
- To examine the general situation of the economy in the CIS countries;
- To compare the economy of Azerbaijan with other developing countries;
- to determine ways of increasing the welfare of these countries through economic development.



**The research object and subject of the dissertation** work is to ensure the welfare of the country on the basis of economic growth in developing countries, including the CIS and Azerbaijan and a combination of relationships between the features and ways of economic relations between economic growth and welfare of the country.

**Theoretical and methodological basis of the research work.** State programs on economic growth in Azerbaijan, relevant decisions and orders of the president of the Republic, the government, as well as reviews of classics on relevant problems, market-oriented economic reforms, scientific research on economic growth, scientific articles. Systematic analysis, logical generalization, comparison of scientific ideas and statistical research methods were used in the research work.

**Sources and information base of the study.** It organizes statistical materials, researches and data of scientists of Azerbaijan and foreign countries, authoritative international organizations, CIS and State Statistical Committee of Azerbaijan.

**Limitations of research.** The scarcity of scientific articles and research on this topic is the initial limitation of my research.

**Scientific innovations** of the study include:

- The scientific approaches to the differences between economic growth and economic development were summarized and evaluated;
- The impact of various factors on economic growth and the positive effects of economic growth were investigated and revealed;
- The general situation of the economy in the CIS countries was investigated and evaluated;
- The economy of Azerbaijan was compared with other developing countries, advantages and disadvantages were identified;
- The ways of increasing the welfare of developing countries have been identified through economic development and relevant proposals have been made in this direction.

**Theory and practical significance of research work.** The suggestions and recommendations mentioned in the master dissertation can be used effectively in the contemporary period to link the country's welfare indicators with economic growth. Theoretical-methodological materials given in the dissertation and logical structure can also be used in the teaching process.

**Volume and structure of the dissertation.** The research work consists of an introduction, three chapters, eight paragraphs, conclusion and 82 pages with a list of used literature. Within the scope of the study, 10 table listed. In the list of reference 60 names of literature, 3 internet sources are indicated.

## **CHAPTER 1. ECONOMIC GROWTH AS A CATEGORY OF ECONOMICS**

### **1.1. The Economic growth and the evolution of scientific views on economic growth.**

One of the most important indicators of the dynamics of the national economy is economic growth. It reflects changes in the material and social component of its well-being in the development of human society. That's why economic growth and its "recipes" are one of the most important problems of modern economics. The concept of "economic growth" began to be used in the economic literature after the Second World War. (Karimov C., Orujov A., 2007: p. 302)

Economic growth combines social production, harvesting and individual consumption as a single whole. It characterizes, on the one hand, the social necessary labor costs and its productivity, on the other hand, the growth of individual well-being and social wealth.

Philosophers and economists have always been interested in the causes of "wealth" and "poverty" of peoples, the speed of development and the quality of economic dynamics, the origin, dimensions and sources of economic growth. First of all they connected economic growth with the existence of natural resources but then, with the cost of living and material labor, the development of science and technology, the social motivation of man (human).

The famous American scientist Ben B. Seligman, who analyzes the evolution of the theory of economic growth, said: "It is quite clear that economic growth is a very complicated event. The theory of growth should take into account the natural resources, political institutions, legislation, as well as numerous psychological and social factors. Making a comprehensive theory is almost impossible" (Селигмен Бен Б., 1968: p. 462).

This provision has been confirmed by the scientific experiments of modern economists, authors of the theory of economic growth, that they did not put themselves in the task of creating a universal theory first of all. Therefore, each of the theories or models developed by them enables them to find and analyze more

significant elements of economic growth through their particular abstraction. The complexity and multifaceted economic growth, as a phenomenon, can lead to many misunderstandings at the stage of determining the category of "economic growth". They are based on different approaches to determine the essence of the phenomenon that is taken into account.

One of the first researchers of economic growth was known economists like A. Smith and T. Malthus, who portrayed this phenomenon as a more important factor of the earth and linked growth with the increase in wealth (Smith A., 1993).

In the works of contemporary European and American authors the concept of "economic growth" is basically identical to the real GDP (gross domestic product), the dynamics of the GNP (gross national product) or the growth rates of economic well-being, with the national income per capita calculated over a certain period of time (Денисон Э., 1971: p. 45-47; Collar D. 1988: p. 103).

In foreign economic literature this concept is interpreted as a "quantitative characterization of product growth" (Management Services 1985: p. 9), "the expansion of potential national production or the country's potential GDP growth" (Самуэльсон Пол Э., Нордхаус Вильям Д. 2000: p. 466), "increasing the production potential of society" or "relative change in the real GDP" (Макконнелли К.Р., Брю С.Л., 1992: p.380). The above-mentioned interpretations of economic growth, without disclosing the initial causes, objectives and necessity of this phenomenon are good descriptive nature and limited with the interpretation of the fact. In this regard, the American economist, one of the most well-known researchers of economic growth, Simon Kuznets, Nobel laureate in economics, deserves special attention because his description combines the characteristic of the phenomenon with its basis and consequence (Kuznets S., 1973: p. 11-14; Kuznets S., 1955: p. 247). The views on the problems of economic growth are connected with the deepening of ideas on future continuous economic growth and methods of its determination.

Thus, the concept of economic growth began to cover not only the quantitative, but also the qualitative aspect, with the possibility of its value

assessment. They begin to consider the quality of labor results as one of the components of the culture of society.

In the scientific literature, the following thesis can be considered as a characteristic feature: The achievement of high quality should be gained not by increasing control over the production of a mass of product produced, but by changing the attitude of labor to itself, as a result of which the worker's masterpiece occurs (Meade D., 1961:p. 20).

The adoption of the qualitative aspect of economic growth prompted scientists, on the one hand, to establish its interaction with the nature of the interaction of human and environmental natural environment (Золотак., 1985; Fellner W., 1956) on the other hand, to analyze the information flows combining scientific and technical progress and the organization of production activities in a single technological system (Cobb C.W., Douglas P.H., 1928).

The problems of economic growth in the local economy were not sufficiently reflected in the fundamental works of scientists until 1980. Despite the publication of works devoted to the development of this topic in periodicals of the first half of the XX century, their main provisions were not widespread. In 1927, the Soviet scientist A. Feldman published a report "on the theory of growth rates of national income". He tried to formulate theoretical conditions and model to determine the balanced long-term growth rates of the Soviet economy, but his calculations did not recognize by official science (Осадчая И.М., 2001). This was explained by the fact that the state's economic policy was based on the Marxist-Leninist theory, the fairness and advantages of the state demanded evidence due to the growth of the main economic indicators achieved by a wide range of reproductions.

Nevertheless, there were made attempts in the economic literature of the Soviet era to identify the definition of economic growth, to classify its types and criteria for evaluation, quantitative and qualitative factors that affect it. During these theoretical studies, local economists put forward a number of ideas on the content of the economic growth concept. On the one hand, traditionally, the economic dynamics of such categories of the economy, the expansion of

production, extensive recycling, etc. as is considered from the prism. Especially P.I. Bahriy argues: "economic growth or economic dynamics is another expression of the concept of broad re-production which is characteristic for socialism and capitalism" (Багрий П.И. 1971: p. 5). This situation is also available in Zoteyev, V.I. Melkodze, K.N.Y. and others (Грегори П., Зотеев Г. 1991).

From the above definition it becomes clear that the concepts of "economic growth" and "economic dynamics" are identical. Such an idea has also been formed that economic growth and wider re-production are the same concepts. This idea is also protected by P.I. Bahriy, which includes the above definition, A.I. Oncishkin and Z. Tikhonov also argued that "economic growth can theoretically be considered a concretization of the theory of re-production" (Анчишкина А.И. 1975: p. 13; Тихонова З. 1980: p. 35).

On the other hand, the analysis of the economic literature of the Soviet era as an independent phenomenon allows us to distinguish one direction that is characterized by the study of individual signs of economic growth. In particular, D. Kamayev criticized the identification of economic growth with a wide range of re-production and noted this as follows: One of the most common ideas is the opinion of supporters, which equates economic growth with an extensive repetitive production. We do not share this view because the theory of economic growth is based on the theory of re-production and involves its concretization in relation to the process of long-term development. The broad reproduction theory is broader than the theory of economic growth because it combines the study of the relationships between self-efficacious forces and production relations, production relationships themselves, labor force and etc. But at the same time, the theory of growth contains a number of important issues that are not considered in detail in "the theory of reproduction" (Камаев В.Д. 1977: p. 28).

Thus, Kamayev emphasizes that the process of economic growth has its own nature and dynamics, and the growth itself increases "the volume and the quality of product" (Камаев В.Д. 1977: p. 29). Then another economist scientist from Russia K.I. Mikulski noted that "... in recent years, the term "economic growth" has become

*widely used despite its obvious lexical shortcomings. Its use is due to the need to terminologically express such a concept, which is associated with changes in the structure of the economy, in the influence of various factors of production on the dynamics of production, between production and consumption. This is the content of the concept of "economic growth" (Микульский К.И., 1983: p. 119).*

In later works, K.Ī. Mikulski's concept of "economic growth" is deeper, more meaningful and closer to the concept of "economic development" than the expansion of production, the pace of economic development (Микульский К.И., КрачО., 1986: p. 12).

Further development of the concept of "economic growth", which is conditioned by intensification of re-production processes and increasing the role of scientific and technical progress, is reflected in the popular work on the political economy as follows: "new quality of economic growth is achieved on the basis of intensification of production in the conditions of scientific and technical revolution" (Медведева В.А., 1988: p. 110). At the same time, while working on the problem N.P. Kuznetsov emphasizes that despite many definitions of economic growth, the issue is not at all in comparing them with each other and trying to identify logic and fundamental contradictions, but in determining the most important aspects and signs of economic growth on the basis of the presented explanations (Кузнецова Н.П. 2001: p. 17).

According to Kuznetsova, the overall picture of growth in the dynamics of recycling, which binds the process of continuous hesitation, characterizes repetitive production as a long-term trend of mutually exclusive periods.

In addition, Kuznetsova defines three directions for defining the concept of "economic growth". The first is the categorical direction that links economic growth with the mechanism of re-production or re-production process. The second is quantitative and qualitative definitions of economic growth synthesized in terms of efficiency and means of achievement, which act as a corresponding increase in the growth rate of economic growth and economic well-being, technical progress and intensification of economic growth process. Third, the structural feature of the

result is the definition of economic growth not only from the position of the dynamics of the national economy and its main branches, but also from the position of the movement and quality of production factors. According to these provisions, Kuznetsova defines the following: economic growth is a multilateral genetic concept that involves the interaction of static-spatial and dynamic time aspects with their content (Public re-Production); their type corresponding to the type of Re-production; mechanism of action (interaction of economic growth factors); quantitative and qualitative criteria of this movement, reflected by the system of indicators; socio-economic result (national wealth) and goal (national welfare)(Кузнецова Н.П.2001: p. 18).

The above critical analysis of the views of representatives of various scientific schools and directions and subsequent systematization of its results allowed the authors to create an idea about the general and special features of economic growth reflected in their definitions.

For all analyzed provisions and interpretations, dynamics of any quantitative indicators that characterize the scale of economic activity in general and reflect the outcome of economic growth should be adopted.

The basics are as follows:

- Early interpretations of the economic growth that are found in the works of A. Smith, T. Maltus and others use only the quantitative approach to determine the essence of this phenomenon;

- In Denison's works, the quantitative approach is concretized by certain macroeconomic indicators and expanded at the expense of using their specific and relative values;

- In the economic ideas of P. Samuelson, A. Thompson and others, the methodological link between the essence of economic growth and the limitations of the production capacity of the economic system is quite clearly revealed;

- The interpretation of economic growth in S. Kuznets's works clearly reflects the connection between the original cause and the ultimate purpose of the event being investigated;



- P.I. Bahriy expresses its objective character and thus determines his essence with extensive reproduction;

- A.I. Anchishki's view of the essence of economic growth reflects the connection of this phenomenon with the periodic nature of the economic system;

- In V.D. Kamayev's definition, there is a link between the mechanism of economic growth and the final outcome of its quantitative and qualitative expression;

- The wide interpretation of economic growth proposed by N.P. Kuznetsova in her works, along with the generalization nature, leads to the emergence of ideas about the genetic origin of this phenomenon.

The ideas expressed through the above definitions of scientists regarding the essence of such a phenomenon as economic growth give grounds to talk about the categorical analysis process, which is not yet completed. At the same time, any of the above comments, regardless of the accuracy, objectivity and rigidity, at the same time, allows to extend the boundaries of the understanding and to apply for the study of its provision.

## **1.2.Theories on economic growth**

The theory of economic growth was of practical importance in the nineteenth century, when production growth began to regularly exceed population growth and actual economic growth took on its own character. More attention is paid to the dynamics of economic growth, which is considered the main integral indicator of the development of the economic system.

At present, it is possible to identify three main theories that reveal mechanism of the process of increasing the gross national product: Keynesian, neoclassic and post-Keynesian.

Despite the fact that Keynesian economic theory, in fact, has become more a doctrine of the fight against the crisis than the theory of economic development, it is clear that his R. Harrod, E. Domar, E. Hansen, S. Harris and s. as confirmed in

the works of its predecessors has subjective basis for studying the issues of economic growth (ЗызаВ.П.,2005:p. 150).

In his work “General Employment, Interest and money theory”, Keynes focused on the more complex and actual nature of the problem of effective demand support, taking into account the growth of public wealth. People are trying to save more of their income. Identification of the deposit with the accumulation does not correspond to real experience; the saved dollars do not automatically go to the accumulated part of the public product.

It is necessary to allocate savings and investments. If savings are less than investments, economic activity falls, the growth rate decreases. If the deposit is greater than the investment, the activity increases(ЗызаВ.П.,2005: p. 145-146). On the basis of these provisions and analysis of the crisis processes taking place in the economy of capitalist countries in the conditions of monopolism, Keynes and his followers accepted the necessity of participation of the state in the regulation of economic life.

First, in order to remove the economy from the crisis and achieve economic development, The Keynes proposed an increase in state investment, which should play the role of "key to fire", leaving the multiplier mechanism in the context of depression. At the same time, the main criterion for the success of the state stabilization policy is the increase in the demand for purchasing power, even if it seems unprofitable to the government to spend money. In this case, state spending for non-productive purposes is preferable, so they are not accompanied by an increase in the offer of products and, nevertheless, provide a multiplier effect.

Secondly, the state should provide the circulation with an amount of money that can allow it to lower the interest rate. In modern scientific circulation, this phenomenon has entered as a "cheap monetary policy". Entrepreneurs will invest money not in securities, but in the development of production. While Keynes thinks inflation is less bad than unemployment, it actually confirms the adoption of inflation because it reduces liquidity superiority.

Thirdly, Keynes proposed a policy of redistribution of revenues in favor of groups prone to greater consumption and investment. These groups include both hired workers (highly inclined to consumption) and entrepreneurs who make extensive investments.

Fourth, to prevent significant unemployment, to expand the social security system, to implement complex social measures, to develop a long-term credit system, and so on. a full-fledged employment policy has been proposed.

Fifth, Keynes thought it was necessary to reconsider his attitude to foreign economic policy. He argued that the actions of the government of this country could be considered justified if a country with high unemployment closed its borders for cheaper foreign goods to engage its "own" workers, even if the national industry is not effective enough.

The predecessors of Keynes are based on the fact that economic growth has an unequal, unbalanced nature when developing their own models. In particular, in the Harrod-Domar model, two types of economic growth are distinguished: guaranteed economic growth, which ensures the full use of production capacity and natural or maximum economic growth, aimed at the more complete use of the workforce. Such inequality of economic growth is due to the fact that the rate of guarantee, as a rule, does not coincide with the natural rate, which leads to either excess or lack of capital resources(СелигменБенБ. 1968).

One of the most important achievements of neoclassical school in economic theory is the development of a new theory of economic growth, which was formed in the first 20 years after World War II. He was clearly oppose not only the neo-Keynesian theory of dynamics, but there was also considerable progress in the development of the neoclassical school itself, as this theory analyzes a number of macroeconomic problems, including the conditions of balanced economic growth, which previously were not in the field of neo-Keynesian theory(ЯрцеваН.В., 2003).

Modern neo-classics, especially R. Solow, unlike supporters of the Keynesian theory, considers economic growth an equal, balanced process.

Supporters of balanced models think that the market mechanism makes more efficient and full use of resources in the process of increasing production. Disruption of balance is due to high operating costs, especially for monetary reasons or asymmetry of information flows. The methodology of the new theory of economic growth was built on the main "postulates" of the neoclassical school:

-First, the theory of production factors (such as the value of the product or the theory of value). This theory considers labor, capital and land as independent factors of the social product and its own productive value. At the same time, capital means only basic production facilities (buildings, machinery, equipment, etc.).

-Secondly, the theory of final productivity of production factors. Accordingly, the revenues derived by the owners of the factor (factor prices) are determined by the final product created by the relevant factor.

-Thirdly, this is a condition for the existence of an advanced market competition, which means that there is no state intervention in the economy. As a result of this condition, the income of the owners of production factors should be equal to their final products.

-Fourthly, it is likely that the efficiency (benefit) of the factors will not change, and they will be completely mutually interchangeable.

-Fifth, the "production function" of Cobb-Douglas is used on the basis of economic growth models. This is obtained by changing the simplest production function and allows determining the quality of the factors of production and the extent to which different ratios in their combination affect economic growth (Lewis A.W. 1963:p. 139-165).

The first neoclassical models of economic dynamics were developed in the 50-60s of the last century. These models include the models published by American economist R. Solow in the "Contribution to Economic Growth Theory" (Solow R., 1956) and "Technical Progress and Gross Production Function" (Thompson A.R., 1988), as well as in the Neoclassical Theory of Economic Development (Ostry J.D., Berg A. 2014) English economist J. Mead's model.

The economic development model of Solow is based on the production function of Cobb-Douglas, but the author tried to eliminate one of its main shortcomings - the assumption of continuous efficiency and intensity of labor and capital. In the equation describing the relationship between the volume of labor and capital applied by Cobb and Douglas and the final result of production, such a hypothesis is fully consistent with extrasensory growth in the 20s and completely unsuitable for post-war conditions of development.

Already in the 50s, it became clear that the simple increase in the number of employed and the physical volume of the applied output is not the main basis of economic growth: Solow noted that, the development of technical and technological progress is gradually increasing, and it leads the improvement of the quality of the used production factors, so technical promotion is understood as a very broad phenomenon-this is the aggregate of qualitative changes in labor and capital.

The author also includes raising the level of education of employees and specialists, saving on the scale of production, increasing the efficiency of production organization and management, and, of course, the constructive improvement of techniques and technology(ЯрцеваН.В., 2003).

At the same time R. Solow, as an independent factor of economic growth, is incorporating technical progress into its production function. This led to the discovery of previously unknown economic growth factors by other representatives of the neoclassical direction.

More evidence of the probability of the equilibrium is given in the J. Mead model under the Neoclassical Growth theory. According to A.Pesenti, it has advantages in comparison with the Solow model, and first of all, it systematizes the problem of operating an economic system of advanced competition, which can change and develop as a result of population growth, capital accumulation and technical progress(ПезентиА.1976: p. 824).

J. Mead, relying on the function of modernized production of Cobb-Douglas, also assuming that the pace of technical progress and growth of labor volumes is

stable, comes to the conclusion that the stability of the growth rate of national income can also be achieved if the growth rate capital is stable. In addition, if the growth rate of capital is also stable, it is equal to the growth rates of national income. If the growth rate of capital is higher than the growth rate of national income, mechanism will automatically reduce the rate of capital accumulation.

This mechanism looks like this: if the share of savings in stocks is stabilized under the terms of the model, then the growth of deposits which needed to finance a higher level of capital accumulation will lag and hence reduce the volume of accumulation. If the growth rate of capital was lower than the growth rate of national income, the reverse situation would be observed. If the growth rate of labor volume exceeds the growth rate of capital accumulation, another dimension is activated in such a situation-the transformation of labor into output and a new combination of factors of production will ensure their full employment (ПезентиА.1976).

Nicholas Kaldor (Kuznets S. 1971: p. 177-122) and Robert Barron (Barro R., 1995: 407-443) gave empirical studies a significant contribution to the formation of the problem area of theoretical work carried out by representatives of the neoclassical direction and it resulted in the basic provisions of the "framework" of the neoclassical growth theory:

- per capita production of the population is increasing over time and its growth rate is not inclined to decrease;
- physical capital per employee (armament with capital) increases over time;
- the real income rate on capital (real interest rate) is almost constant;
- the ratio of physical capital to product release is almost constant;
- the share of labor and physical capital in national income is almost stable;
- the growth rate of production per worker in developed countries is significantly different.

In addition, empirical studies conducted by Robert Barro allowed him to present one of the central questions of the theory of economic development - the conditional (relative) approximation hypothesis formed as a result of the search for

an answer to the long-term convergence of the level of development of countries (Barro R., 1995: p. 10-12; Barro R., 1992: p. 233-251).

At the same time, the future development of empirical research began to emerge as the occurrence of continuous displacement from past facts, especially as additional determinants of economic growth emerged, there is arisen a question to the basic theory, which could not answer. Thus, the results of the study of capital accumulation during a long-term development allowed Paul Romer to add the main conclusions drawn up by Nicolas Kaldor (Rostow W., 1960):

- The average growth rate does not depend on the per capita income;
- The growth of international trade has positive correlation with per capita income;
- Population growth has negative correlation with per capita income;
- Skilled and unskilled workers tend to move to richer countries;
- Capital increase is not enough to explain the increase in production.

The latter thesis allows us to propose the existence of some "internal" forces in the Re-production process, which requires its definition as growth determinants, and therefore needs to correct the theoretical basis of the study. Future studies in this direction carried out by William Easterly and Ross Levine have completed their presentations with the following provisions (Easterly W., Levine R., 2000):

- for most of the mutual differences in the levels of economic growth, the accumulation of production factors is not decisive. Overall factor productivity is crucial, which explains the difference in growth rate;
- there is divergence, but not convergence with long-term intervals, and it is important and sustainable to increase the differences in the levels of development between countries;
- economic growth is not guaranteed to remain stable in time. In different time frames, there are different types of economic growth in different countries.
- all production factors develop at the same time, taking into account the interaction;
- national policy affects long-term economic growth.

Initially, the emergence of the theory of "new wave" was based on the search for internal sources of stable growth, which meant the ability of the economic growth model to change behavioral parameters. The further development of this direction is based on the expansion of development models with no object of discussion in terms of the direction of scientific research and the construction of more "complex" (in terms of a number of factors taken into account) models.

In modern economic literature, theoretical studies and results in the field of this problem are summarized in five series of "endogenous" models related to the new wave of theories of economic growth. In modern economic literature, labor force, land and capital, as well as human capital are key factors of growth. However, the existence of these factors does not guarantee the existence of economic growth. The above growth factors are mainly the parameters of modern production, which cannot lead to an increase in the product used in the ratio of immutable quantity and quality, and thereby cannot be the primary cause of economic growth.

Thus, the existence of economic growth factors determines the physical ability of the economy to grow, that is, the existence of economic growth is necessary, but still insufficient. As evidence of this, labor, natural and capital resources are sufficiently measured in the country, there is no economic growth, and on the contrary - the state is experiencing an economic crisis. This means that the identification of the concept of "factors" and "primary causes" of economic growth is not considered justified.

Based on the above, it is possible to formulate a scientific hypothesis about the initial causes (sources) of economic security, which will undergo a systematic analysis in the unity of its factors and forces, to some extent, can complement the concept of this very important event.

### **1.3 differences between economic growth and economic development**

The process of economic development, which reflected in the works of A. Smith, D. Ricardo, T. Malthus, J. Mark, A. Marshall, J. Wicksell, J. Schumpeter,



W. Rostow, E. Toffler, F. Braudel always caused the interests of economist scientists.

Without distinction between such concepts as economic growth and economic development, representatives of the classic school of political economy linked the long-term growth in the country's aggregate income and aggregate output and tried to analyze the processes underlying it. In particular, A. Smith, developing his theory and referring to the doctrine of "Natural Law", noted that free competition in the economic sphere and non-interference in the economic relations of State farms would contribute to the economic development of the country (Smith A., 1993).

In such an environment, the growth of the deposit will ensure the necessary accumulation of capital. This, in turn, will help to increase the level of division of labor and deepen the specialization. This is also the key to economic progress.

Developed Smith's theory and based on its basic provisions, Malthus focuses on trends in land revenue reduction and increase in the number of workers, resulting in their wages tend to be at a subsistence minimum, which can lead to a reduction in aggregate demand and a shift in the scale of production capacity to exceed it (Мальтус Т. 1868).

Ricardo made an important contribution to the development of classical theory by emphasizing its dynamic nature and noting the important role of revenue distribution in production factors, as well as putting forward the concept of comparative advantage.

J.S. Mill has provided greater determination to the analysis of the benefits of foreign trade and free competition for economic development. At the same time, he prepared an important note on the "young" industry. It could be taken, first of all, for measures of protection against advanced past external competitors (Милль Д. С., 1980).

One of the first and most serious attempts to study economic development was carried out in the "capital" by K. Marx, whose main purpose was to reveal the economic rights of the society. This attempt cannot be considered complete until

the end, since capital accumulation research, which is a very important part of the theory of economic development, involves a system of probability, which implies the absence of scientific and technical progress, unemployment, foreign trade, crises, inefficient capital expenditure, institutional changes, so it was linear.

Despite the fact that representatives of the neoclassical direction of Economic Science consider short-term trends as a subject of analysis, they also touched upon the issues of economic development in the long-term from the point of view of the theory of capital accumulation. In particular, as the main factor limiting economic development, they defined the norm of accumulation and still considered international trade as the main force of action. In general, it is possible to distinguish the three most important features of neoclassical views on the development of the economy:

- development - this is a single progressive process characterized by organic growth and evolution;

- development is a harmonic process, the results of which are distributed among the main groups of income earners and are applied to the entire socio-economic system, since all its elements are closely related to each other and complement each other;

- economic development is stable because the results of the discovery of new economic sources and technical innovations exceed the impact of the initial limited resources efficiency.

J. Schumpeter yielded the most important contribution of socio-economic systems to the theory of economic development, so he first tried to distinguish between the concepts of economic growth and economic development. J. Schumpeter linked economic growth to the growth of the population and wealth, which does not create "qualitatively new developments".

Economic development defined the economy as a special movement that is spontaneously created by itself, divided into two periods; marked as a change in the way in which the cycle is carried out. J. Schumpeter proposed an innovation

that explains his concept in five positions, which is one of the main factors of economic development:

- to create a new product, that is, it is not yet known to consumers, or to create a good or new quality;
- the application of production, which is not yet based on a new scientific discovery of this industry and consists of a new way of commercial use of the relevant product;
- mastering the new sales market, regardless of whether this market existed before, the industry of this country is still a market that has not been represented;
- acquisition of a new raw material or semi-finished products regardless of whether the source is already available.

Economic growth and economic development are related to each other: economic growth during the evolutionary period can be a major fluctuation force on the eve of national economies. economic growth can not only provide solutions to various social and economic problems facing humanity, it also adds the national economy and contributes to the emergence of new problems (ecology, structure, etc.).

Thus, according to the above, the essence of economic development is much broader than scientific ideas about economic growth. This creates a serious reason for using systematic analysis tools to establish cause-and-effect relationships at the points of contact of those events in the context of the subject of the study.

## **CHAPTER 2.THE IMPORTANT FACTORS AND CONSEQUENCES OF ECONOMIC GROWTH**

### **2.1. Factors affecting economic growth**

In modern industrial societies, consumer production is limited, rather than production consumption. This situation has been in the period of quite a long time, subjected to critical analysis in the works of representatives of various economic schools.

All the analysis gives grounds to talk about the factors of economic growth as the necessary "physical" basis that determines the ability of the economy to grow, but it is still not enough to create economic growth itself.

Adam Smith in his work "research on the nature and causes of people's wealth", even under his own name, allow authors to consider three concepts related to each other in the context of the topic(Smith A., 1993):

- as a concept that reflects the characteristics of economic growth "wealth of peoples";
- the "nature of wealth", which is associated with such a concept as "factors" of economic growth";
- "causes of wealth" - can be interpreted as "sources" of economic growth.

Growth and structural changes in the economy are one of the most important problems in the economic outlook of the society. Economists do not think much about the source of economic growth. So, a group of scientists decided that the source of economic growth is natural resources. The second group of scientists see the source of economic growth in past and living labor. Some scientists claim that the source of economic growth is science or the social state of man.

Smith emphasizes that saving, rather than labor, is a direct cause of capital growth. Thus, on the basis of capital, one of the main factors of economic growth, a person's tendency to savings is based, and economists believe that this tendency is the "source" of growth - the element that affects this factor and injures its quantitative growth. Man's natural work on "becoming rich" or in other words

living better "can be considered the main component of this" source". As a determinant of economic growth, this tendency is emphasized as a psychological trend by W. Rostow, which defines "human behavior" (Rostow W., 1960).

Supporters of the neoclassical model of economic growth, applying a purely technical approach to its analysis, do not distinguish between "nature" and "reasons", that is, growth factors and sources. Taking into account the problem of economic growth, they emphasize the importance of deepening the capital accumulation process, resulting in an increase in the capital of each employee.

Although neoclassicals do not define a definition of a category such as the "sources" of economic growth, they help themselves with some scientific statements of scientific provisions in this direction. Particular attention is paid to the fact that "capital" actually loses its profitability in the unchangeable condition of technology. The deepening of capital occurs when the increase in basic capital is overcome by the labor force (ПезентиА., 1976: p. 648). Here, the source of growth can be a certain dependence between factors such as labor and capital. If the deepening of technology does not change, leads to an increase in labor productivity, an increase in labor output and an increase in wages, the source of production growth is considered to be technical progress. Changes in technology will allow to maintain the necessary ratio between "labor" and "capital" with the increase in the workforce, which will prevent a decrease in profitability and profitability of the company (ПезентиА.,1976: p. 724-725).

R. Solow presented technical promotion as an independent factor to production function and paid special attention to this issue (Solow R., 1957).

It should be noted that technological changes caused by scientific and technical progress are a factor of intensification of economic growth, but it cannot be considered as a primary cause. If the norm of savings and capital capacity are constant, which affects the accumulated scientific and technical potential, the volume of production should be perceived as real sources of socio-economic conditions created.

In this case, to ensure economic growth, the norm of savings should be equal to the production of capital capacity and population growth in the current period. If it is accepted that the population remains unchanged and the technical progress is constantly developing, it is necessary to influence the norm of savings to ensure economic growth. The general conclusion from Harrod's theory is that the increase in population and the sustainable development of technical progress are natural conditions of economic growth (Thompson A.R., 1988: p. 88).

Thus, in this case, the regulatory impact of the state investment policy on the balance between savings and investment can be considered a source of economic growth.

In a dynamic equilibrium model based on E. Domar's production function with irreplaceable factors, investment growth is viewed as the only growth factor in aggregate demand and aggregate supply, while the ultimate productivity of resources is viewed as a fixed quantity, as technology remains unchanged in the short term (Easterly W., Levine R., 2000: p. 26).

Aggregate demand in the current period changes as a result of the multiplying impact of increased investment in the same period. In the current period, balanced economic growth is conditional on the equality of growth rates of aggregate demand and aggregate supply. According to this model, in order to find the criterion for achieving balanced economic growth, the growth rate of investments in the current period is equal to the output of capital's last limit of productivity by the norm of savings. The analysis of these scientific findings allows us to discuss socio-economic, political and psychological elements that identify the above equality and consider them as sources of economic growth. It is clear that there is a direct link between the political decisions made by the expectations of economic system subjects, which are also dependent on the final limit of savings.

Nevertheless E. Domar, emphasizing that the rate of balanced growth is unstable, directly dependent on the state investment policy that regulates both the rate of savings and the volume of investment flows in the short term, defines it as a factor rather than as a source of economic growth (Easterly W., Levine R., 2000: p. 29).

William Fellner, who uses a similar method such as R. Harrod and Domar, insists that, in developing economic conditions, investments should correspond to the total volume of savings, but insists that, if there is economic growth, the volume of savings would necessarily be sufficient to secure investments (Fellner W., 1956). Fellner emphasizes that there are enough opportunities to improve the technology that determines the volume of investment.

Based on the results of their research, Fellner concluded that economic growth depends on the consistency of expectations and the plans that come out of them, but because expectations and results do not always coincide, it suggests that regular adjustments should be made to avoid making "wrong" investments. At the same time, it is necessary to take into account the difference in the pace of investment and consumption changes in various sectors of this economy. Under such conditions, production functions undergo certain changes, which, in turn, require a different combination of capital and labor. This includes the limits of economic growth rates and levels, including the volume of financial resources, existing production capacities, the balance of payments, and so on. such as restrictive factors.

In this case, according to economists, scientifically justified strategic structure of state policy in all spheres of long-term life activity and the flexible tactics of state regulation, which can affect the marginal productivity of capital in the economy, psychological expectations and trends of the population and determine the average saving rate in the short-term, can be sources of economic growth.

English economist A. Lewis, links economic growth for three possible reasons in his work "Theory of Economic Development": first, the desire to save and produce more goods; second, their application for the purpose of accumulation of knowledge and Technical Development; third, by increasing the amount of capital per capita of the population (Lewis A., 1967: p. 75-76). But only the analysis of these three reasons does not fully disclose the movement of economic growth and does not allow the determination of its sources.

Lewis emphasizes that " economic growth depends on the attitude of people to work and wealth, their savings and the desire to have children, on their inventions, on aliens, etc. it depends on the attitude and all these characteristics depend on the deep sources of the human mind(Lewis A., 1967: p. 14).

This interpretation allowed him to draw such a conclusion that effective economic growth depends on the delicate balance of the numerous elements that determine economic growth and stimulate economic growth.

Thus, Lewis's considerations can be seen in some ways that, in addition to production factors, there is a source of growth that promotes economic growth in order for the emergence and existence of economic growth. These impulses are formed consistently under the influence of motivation fields in the "human-society-state" system. Moreover, the first elements of the system ("human", "society") can be used on the basis of existing motives and tendencies and on the basis of the latter ("state") - its economic growth.

S. Kuznets was closer to the description of the category that was considered in one of his works. By determining the economic growth, he tells that"... technical development is a long-term increase in productive capacity of the country based on instrumentation and ideological ability and can provide a variety of benefits to the population". At the same time, there has been some discussion about the existence of some sources of economic growth (Kuznets S., 1955: p. 247).

However, when discussing the nature of economic growth, the term "source" was used, and its meaning cannot be determined, because in this context there are three concepts of confusion: sources, potential and economic conditions. Similar classifications, such as the sources, determinants, conditions, and factors of economic growth, also exist in other scientific and research work, reflecting the imperfection of the category of economic growth theory.

The inaccuracy of research and the identification of essentially different concepts of "sources of economic growth", "economic growth factors" and "factors of economic growth intensification", based on the works of these authors, lead to



the inadequacy of modern scholars' goals and objectives in this aspect(УльченковаВ.Э., 2007).

Particular attention should be paid to the assessment of the population growth rate and the impact of its "social structure" on economic growth by S. Kuznets (Kuznets S. 1973: p. 11-14).

As the main engine of economic development, representatives of the modern economic school determine the aggregate demand paid by the payment (АбалкинЛ.И., 2002: p. 8).

This aggregate indicator covers the final consumption expenditures of households, public spending and investment demand, taking into account the industry policy priorities for the sale of products, as well as positive balance in foreign economic activity. All these components are reflected in the final use of GDP. However, it should be noted here that aggregate demand cannot be determined by the growth of money supply, since each group of the population has its own internal structure of the use of income growth.

Based on these provisions, the logic of mutual relations in the market economy is based on demand, and the primary reasons for economic growth are, in one way or another, on aggregate demand. On the other hand, despite the possibilities of effective practical application, such an investment in the problem does not allow to sufficiently clearly distinguish economic growth factors from its root causes.

Thus, the sources of economic growth will be the motives of human behavior formed under the influence of accepted values and declared by public, religious and political organizations.

Of course, effective allocation of resources, large-scale savings, institutional and mental factors are also important for economic growth (ФилипенкоА.С.2002:р.90).

The components of economic growth differ from each other according to the level and structure of development, even in countries which close to each other.

It should be noted that there is a significant correlation between the growth and the criteria for macroeconomic indicators. In this regard, the main reason for the decline in growth is the relationship between the liberalization policy and the economic growth and inflation: a significant decline in the initial stage of reform and high inflation expectations were due to the low level of liberalization and the weakness of the reform in Azerbaijan. The theoretical view here was that the quality of state institutions did not meet the necessary standards as the main reason for economic growth. In such cases, macroeconomic policy should be prepared for the protection of the rights of entrepreneurs, the definition of “rules of play” and the development of infrastructure in accordance with the relevant economic conditions. In this regard, the main reason for the decline in the industry is weak growth in the development of financial institutions and lack of macroeconomics (“strict budget constraints”, abnormal development of competitive means, poor resource mobility). Thus, for the market economy, both the development of institutions and the macroeconomic policy are necessary. As a result, it should be noted that financial policy, structural reforms and institutional strengthening are not mutually complementary: for significant growth it is necessary to combine them. At the same time, demonetization of the economy in the context of restrictive monetary policy has an important role in the change of growth.

In the process of economic stabilization in Azerbaijan, its modernization was rapidly declining. On the one hand, this led to a decrease in the company's money supply, on the other hand, to the development of money surrogates in settlements. The mass of compressed money pushed to increase barter operations. Since 1996, the patronage of the flow of short-term capital took place. But this led to the strengthening of the manat. The problem was not that the exchange rate of the manat increased, but that the country was prone to “Dutch disease”. This was primarily determined by the increase in imports, and then by the decrease in the effectiveness of various sectors. Thus, the strengthening of the manat outstripped the pace of production. The reason for such an economic decline should be sought in the deficits of demand, improper aggregation of financial resources, etc.

Azerbaijan has achieved growth only in the oil and gas industry. This growth was not accompanied by the distribution of a concrete part of labor and capital resources to other areas. In fact, there was no mechanism for redistribution of resources between fields.

However, the determination of economic growth in each country by the following key factors is undeniable:

- 1) Quantity and quality of natural resources;
- 2) Quantity and quality of labor resources;
- 3) The aggregate amount of fixed capital;
- 4) Technological innovations;
- 5) Reduction of the level of aggregate expenses;
- 6) Efficient distribution of the increased resources.

The first four factors serve as a key element, and the economic growth is a key component. The physical capabilities of production depend on them. It is possible to increase the production of real products only with the help of high quality resources and technology. There are two cases of real growth characteristic:

- Growth is determined by the demand factor. It is necessary to meet the full use of resources in order to realize the production potential. This requires an increase in aggregate costs. These costs can be attributed wages, tax policies, stimulation of (savings) deposits, etc., which stimulate growth.

- The impact of division factors on economic growth is great. The division factors can include the division of financial, labor and natural resources across the country. It is not enough to increase the output of products: It is necessary to divide them so that the maximum volume of profit can be achieved.

The other two factors can be considered a demand factor.

Demand and supply factors affecting economic growth are interrelated. For example, unemployment causes a decrease in the rate of investment, and on the contrary, the weak pace of investment acts as the main cause of unemployment. But to realize the production capacity:

- Total costs should be increased enough in order to fully protect the deal totals;

-Additional resources should be used effectively in order to meet the growth rate.

From the theoretical point of view, two types of economic growth can be distinguished: The types of intensive and extreme economic growth. It is necessary to use direct supply factors to expand the scope of material benefits and services of the intensive type. The characteristic of this type of growth is that here the growth is based on the qualitative improvement of the proposal factors. In the case of extensive growth, the ratio between the actual growth rate of production and the total expenditure on its acquisition is expected. Under current conditions, depending on the increase in GDP, economic growth is related to these or other factors, which are conditioned by intensive factors. If the actual volume of GDP generated by these factors increases by 50%, then an intensive type of economy is characteristic, or vice versa. The calculations show that in the 70-80s of the last century, the growth of national income was realized at the expense of intensive factors. In contemporary conditions, scientific and technical progress acts as the main factor for development. To meet this requirement, three conditions are required:

- 1) to make possible use of the existing production potential in the country;
- 2) to prevent the withdrawal of financial resources from Azerbaijan;
- 3) to use natural resources purposefully.

In modern conditions, rich energy, raw material resources, internal resources of the country, as well as resources mobilized in the budget system, for the purpose of promoting economic growth in the country. available. First of all, it is necessary to achieve structural and institutional reconstruction in the economy in order to effectively develop them. At the same time, an efficient bank and insurance system should be established and population savings should be stimulated. Financing of research and development activities should also be improved and opportunities for the protection of domestic investment requirement should be identified.

Economic growth determines directions of its real volume change taking into account the parameters of economic development in the long run. Since economic growth is reflected in the wellbeing of generic income, it is important to take into account any changes that have taken place in that direction. Thus, the inclusion of the economy in this or other dependent situation reveals the improvement of welfare and the real potential.

Economic growth has been able to meet the demand for more efficient use of existing facilities or to increase production capacities, theoretical summarization should also be kept in focus.

The crucial factors for economic leap in developing countries are:

- implementation of gradual liberalization of the economy, market reforms, reduction of politicization of the economy, taking into account national characteristics;
- attracting foreign investment to the most promising sectors of the economy;
- export directions of priority sectors of the economy (low wages, low exchange rate of the national currency);
- formalization of the system of equal distribution of income within the country;
- import of advanced technologies;
- raising the qualification of employees;
- development of the economy from agriculture to industry in structural reform, improvement of the technological level of the industry and development of the service sector.

This does not indicate that all these factors do not involve the economic leap of 43 countries. It has been used in some countries in more ways than some factors to accelerate economic development. Nevertheless, an attempt to distinguish the main thing that made it possible to achieve success led only to such a list.

It seems that in some countries included in the list, in fact, there was no economic progress, since the non-uniqueness of National Statistics led to distortion of data. Nevertheless, strict adherence to the proposed criteria led to the

formulation of a list of the above-mentioned developing countries, which showed economic progress in different periods of their history.

## **2.2. Positive effects of economic growth**

The growing economy has a greater ability to meet new needs, solve socio-economic problems both locally and internationally. This is characterized by an increase in the annual real product, which can be used to meet the current needs more effectively.

Economic growth has both positive and negative sides, so it has not received an unambiguous assessment.

Beneficial effects of economic growth:

- Increase the country's industrial strength and its security;
- Increased labor productivity;
- Increased wealth of the country and people's welfare;
- Satisfaction with the needs of a broader audience;
- Reducing social tension in society and so on.

Negative impact of economic growth:

- Reduction of unrecoverable resources;
- Pollution of the environment as a threat to the existence of all human civilization;
- The need for staff retraining and increasing their ability to work;
- Strengthening the living space of people (especially in developed and developing countries), which creates certain conditions for the activation of terrorists and anti-globalizers.

Theories (models) of economic growth developing in the classical (neoclassical) direction are based on the following methodological prerequisites (postulates):

1. Economy is an imperfect competitive economy by its nature, any manifestation of imperfect competition is considered to be exogenous (external) factors that do not change the nature and character of economic nature.

2. In the economy, prices are definitely flexible. The flexibility of the price shows that they can change both up and down in a short period of time, which is more applicable to the price of the product and the invoice and reacts quite to mutual deviations.

3. Economic aspects act efficiently by maximizing their benefits. For example, companies increase their profits, households increase their long-term consumption. Therefore, the current parameters of the economic conjuncture have a great impact on the decision-making of the subjects.

4. Division of the economy into two autonomous sectors, such as money and real (classical bilateral). At the same time, all markets in the real sector are balanced. Money does not have an independent value and serves only as a unit of account and means of exchange.

5. The economy regulates itself, thereby ensuring the equality of the most important prices, flexible interest rates, deposits and investments flexible nominal a system of internal stabilizers with wage rates is provided.

6. The leading role of the model aggregate supply - aggregate demand is assigned to the factors on the aggregate supply side. Their automatic equality ensures the full use of resources (production factors).

7. Equilibrium in the labor market is created during full employment, so the aggregate supply is determined at the level of natural output (national income from full employment).

8. The volume of supply is determined only by the available factors of production, and these factors can replace each other.

The initial conditions listed above determine the characteristic feature of the classical (neo-classical) approach. Macroeconomic analysis methods are widely used to study macroeconomic problems.

The R. Solow model and the "golden rule of harvest" offer some practical suggestions:

1. Increase or decrease in the norm of savings. According to the "golden rule" of the economy, if it develops with a larger capital resources, it is necessary to

apply a policy aimed at reducing the norm of savings. This will increase consumption and, accordingly, lead to a decrease in investments – which will ultimately reduce the level of stable productive stock. If the economy develops with less capital than a stable state under the "golden rule", it is necessary to stimulate the growth of savings in society. This will reduce the level of consumption, which will eventually lead to an increase in consumption.

2. Stimulation of technical progress. As mentioned in R. Solow model, a faster population growth will accelerate the growth rate of the economy, but the output per capita will decrease in a stable state. Another factor-the increase in the norm of savings, which will lead to an increase in per capita income and an increase in the norm of capital-labor but will not affect the pace of steady growth. Therefore, technical development is the only factor that ensures sustainable economic growth, that is, an increase in per capita income. As a result, the state should stimulate technical progress (budgetary financing of basic research, patent laws, tax options).

The theory of economic growth in the neoclassical direction was also developed by British economist J. Mead. He used a modified version of Cobb-Douglas and achieved the equilibrium of a stable dynamic balance:

$$Y = \alpha K + \beta L + r.$$

Here: Y is the average annual growth rate of national income; K - average annual growth rate of capital; L - average annual Labor growth rate;  $\alpha$  - share of capital in national income;  $\beta$  - share of labor in national income; r - technical progress rate.

J.Mead concluded: a steady economic growth rate is achieved due to the continuity of efficiency and the equalization of national income with the growth rate.

The main provisions of Keynesian are:

1. Economy is not an advanced competitive economy. Markets are, first of all, a result of external factors of the labor market, but a feature of the real economy.



2. Prices are not flexible due to institutional factors (long-term contracts) and behavior of economic entities (money illusions).

3. Economic entities do not act rationally, but with subjective factors - the environment, requirements, behavioral psychology and so on.

4. Money is wealth and therefore has an independent value that determines the interaction of the money market with the real sector of the economy. All markets are interconnected, and changes in one of them create a change in the operating conditions in other markets.

5. The economy is not self-regulating, but its deviation from the balance is characteristic for its development, so active state intervention is necessary.

6. The leading role of the aggregate demand - aggregate supply model is designated for general needs.

7. The full employment status is not typical for the economy, due to the characteristics of the labor market (the burden of nominal wages).

8. The volume of balanced production, the real level and dynamics of national income and the level of employment in the economy are determined not by the existing factors of production, but by the factors that are on the side of aggregate demand, which determine the conditions for the sale of the product.

The Keynes model is more compatible with economic realities.

According to the classification adopted by the scientific majority, developing economies usually go through three stages of development, distinguished by various competitive paths:

\*The economy which winning competition which depends on the elements of production costs (in turn depends mainly on the availability of natural and human resources);

\* Investment economy based on increasing the technical efficiency of production mainly through competition;

\* The main argument for competition is the creation of new, higher values for consumers, the creation of new products and services, in which consumers agree to pay a higher price. At the same time, it is necessary to reduce the cost of

production of such innovative products - it is sufficient to keep them approximately equal to the cost of production among competitors.

The driving force of the innovative economy is protected by the intellectual law property, where technically complex or less developed countries, such as the development of new products, increased consumption and market value, are temporarily unable to participate in price competition in those markets.

Economic growth is determined by:

- quantity and quality of natural and labor resources;
- volume of fixed capital;
- innovations;

These are consumption factors that provide an increase in physical capacity in the real sector and characterize its increased capacity.

\* the demand factor, that is, the ability to use resources that expand by increasing the level of total costs;

\* resource allocation factors;

\* offer factors.

Taking into account global tendencies of economic development, it causes practical interest to analyze to analyze the structural elements of the gross domestic product and to consider possible options for modernizing the structure of the national economy. To analyze the structural characteristics of the gross domestic product, the following can be noted:

1. There is a gradual decrease in the relative share of raw material sector, which increases at a lower rate than the growth rate of GDP as a whole;

2. The biggest contribution to the growth rate of GDP is aimed at the industrial market, called non-commercial products, that is, products that are not produced, those which do not compete with foreign analogues in the field of construction, trade, finance;

3. The major part of the growth of new industry leaders is still based on the pricing system applied in cartel contracts, which have not been announced among key market participants. Thus, the structure of the economy of the republic remains

imperfect in accordance with modern standards and its growth is mainly characterized by raw material and inflation character.

4. Especially when talking about a country that is in the process of long-term crisis and requires a deep structuring of the economy, ensuring economic growth is a multifaceted problem. At the same time, a number of features of economic growth should be emphasized:

5. Medium and long-term sustainable growth and development requires decisions that only have short-term effects;

6. Innovative structural changes in the country and the world economy;

7. Taking into account the existing limitations and social development priorities for the restoration of the social base for future change, in particular the restoration of the confidence of the majority of the population.

The main findings of this study are:

- To reduce the revenue gap between developed and developing countries, the growth rate of gross domestic product in developing regions is not sufficient as the objectives of the International Development Strategy;

- The solution to the problem of providing food for the rapidly growing population of the planet can be solved by turning existing arable land into vast areas, doubling and tripling the productivity of Agriculture;

- The main constraints of sustainable growth are not physical, but political, social and institutional factors;

- The problem of natural resources is not in their scarcity, but in the study of less efficient and more expensive mineral resources, as well as intensive discovery of new deposits;

- Protection of polluting emissions at current levels in developed regions is technically possible;

- Growth of developing regions is possible only in cases where the share of investments is 30-35%, and in some cases 40% of the total product.

- Stable dynamics requires a faster growth of the heavy industry; the rapid development of national economies poses the risk of trade deficits when there is

a balance of payments in many developing countries.

To overcome these shortcomings, three options are possible: reducing the pace of development; financial assistance from developed countries; raising prices for raw material and food from developing countries.

The most significant problem in developing countries is the relatively high unemployment rate. According to the ILO (International Labor Organization) methodology, the labor force of the unemployed aged 15-64 years was calculated in the relevant period compared to the economically active population. Table is given in appendix 1. As can be seen from the table, the highest level of unemployment among the CIS countries was observed in Armenia.

In the CIS Countries, Russia, Kazakhstan and Belarus share the main places for the average salary level nominal (table 2.1).

**Table 2.1. Nominal average salary in the CIS countries (for each employee),  
In US dollars**

	2014	2015	2016	2017
<b>CIS</b>				
Azerbaijan	567	455	313	307
Belarus	590	413	361	426
Armenia	381	359	364	368
Kazakhstan	676	569	418	463
Kyrgyzstan	229	209	212	227
Moldova	291	241	251	308
Uzbekistan	436	456	505	291
Russia	856	561	549	672
Tajikistan	166	144	123	134
Turkmenistan	405	364	395	401
Ukraine	293	193	203	273

[www.cisstat.org](http://www.cisstat.org) Interstate Statistical Committee of the Commonwealth of Independent States

According to the household survey, as shown in the table the situation in Armenia, Bulgaria and Russia is extremely unsatisfactory in terms of the ratio of incomes in the group of 20 percent of the most and least provided population (table 2.2)

**Table 2.2. The ratio of income in the group of 20 percent of the population, which is the most and the least provided (according to household survey, with Times)**

	2014	2015	2016	2017
<b>CIS</b>				
Azerbaijan	2,1	2,1	2,3	1,9
Belarus	4,0	4,1	4,2	3,9
Armenia	8,9	8,3	9,5	
Kazakhstan	4,0	4,0	4,0	4,3
Kyrgyzstan	9,8	7,6	8,4	7,7
Moldova	7,1	6,8	6,9	6,4
Russia	9,1	8,8	8,8	8,9
Ukraine	3,4	3,5	3,4	
<b>European Union - 28</b>				
Bulgaria	6,9	7,1	7,7	8,3
Hungary	4,3	4,3	4,4	4,3
Lithuania	6,1	7,6	7,1	
Poland	4,9	4,9	4,8	
Romania	7,3	8,3	7,2	7,0
Slovenia	3,7	3,6	3,7	3,4
Croatia	5,1	5,3	5,0	
<b>Other countries</b>				
Brazil	15,6	15,6		
India	5,4			
China	9,2			

[www.cisstat.org](http://www.cisstat.org) |Based on Common wealth Independent States statistic datas on years

In contrast to the change in demand and oil prices, the urbanization process and the aging process of the population are more predictable and lead to the shift towards developing countries, which has not been observed in the near future. The growing accumulation of urban population and the aging of the workforce create additional problems, among them low productivity, decreased demand, increased health care costs and pension provision are particularly selected.

The urbanization process is going at an unprecedented pace from Brazil to China. The rural population is actively responding to the growing opportunities of industrial and economic growth, the weight of cities in the global economy continues to grow. According to McKinsey, by 2025, about 50% of the two hundred largest cities in the world will be located in China. Recognizing the urgency of the urbanizosiya problem, the Chinese government is trying to solve climate problems surprisingly, as air pollution produced by outdated power plants

and industrial enterprises threatens the safety of life in urban areas. India faces similar problems, but does not yet have the same expediency.

Modern air and rail transport is needed to maintain economic integrity. Another strategic direction of qualitative renewal and restructuring of the economy is the restoration and expansion of quantitative and qualitative growth of the country's usual potential, which has been proven over the years.

The relationship between equilibrium and sustainable economic growth is complex, but the positive and negative of some are shown in the relevant literature. Positive relations arise if a rich part of the population creates a source for the development of individual entrepreneurship at the expense of income savings and considers it an incentive that will increase efficiency and motivation to raise the level of savings and investments that are important in the developing country. On the other hand, inequality can hinder the increase, as the health and education of the poorest layers of the population leads to an insufficient level of human capital and ultimately reduces labor productivity. In addition, it threatens to undermine political and economic stability, as well as the social stability necessary to achieve sustainable development.

In addition to the "direct" effects described above, inequality in general has been recognized as affecting economic development due to the inevitable problem of resource redistribution. In the economic literature, the most common opinion is that redistribution of resources leads to a weakening of economic growth, as it hinders the work of market players. At the same time, economists have confirmed that growth among some types of redistribution has softened, for example, redistribution, investment in public goods, spending on social needs or the negative impact caused by unequal capital and the labor market. In such a situation, redistribution can contribute to the achievement of equality and economic growth.

Thus we believe that inequality will have both positive and negative consequences for economic growth and its sustainability. What does empirical research show?

Since the time of the Second World War, the economists have discussed the relationship between the level of income distribution and economic growth. However, until recently, it was the main issue to investigate the impact of economic growth on the level of inequality (Clark N., Juma N., 1987: p. 1-28), the opposite connection was relatively rarely studied (Edgmand M.R., 1983: p. 755-776).

Over the past decades, a number of studies have emerged on how inequality in revenue sharing can affect or prevent sustainable economic development. After examining the relevant literature, F. Stuart concludes:"numerous studies revealing these links allow us to talk about the presence of positive links between inequality and economic growth,which undoubtedly casts doubt on the opposite results as previously done."

Easterly shows in his article that there is a clear empirical relationship between the inequality and income levels per capita, indicating that the issue of cause-effect relationships has not been resolved yet (Easterly W.,2007: p. 755-776).

In the current literature, it is not established to what extent the inequality that prevents absolute revenue growth and / or growth is weakened or diminished as a result of the increase in income, because high-income societies can redistribute their wealth. Explaining the direction of cause-and-effect relationships Easterly uses the"method of instrumental variables" and has a direct cause-and-effect relationship with the average level of inequality per capita income from 1960 to 1998. (Whether it is the level of income calculated by the Gini coefficient or the income share in the highest quintile). Based on this study, Easterly notes that "inequality leads to a decrease in the level of development". In addition, confirming some of the above theoretical links, he believes that inequality has reduced economic growth, largely preventing the creation of highly developed institutions or organizations and the accumulation of human capital in the poorest part of the population.

In the same way, J. Ostry and its co-founders note that statistical data confirm the general assumption that inequality prevents economic growth (Ostry J.D., 2014).

They note that many studies have revealed a negative relationship between inequality and long-term growth rates, income levels in different countries, as well as the duration of the development cycle, and some studies on short-term growth deviations have led to other conclusions. Moreover, J. Ostry and his co-authors believe that the method of instrumental variables (as in Easterly) and the method of ceasing variables enable such a conclusion that inequality affects the economic growth, and the opposite is impossible (Ostry J.D., 2014).

In a study by Ostry, it is noteworthy that the authors study the effects of inequality and redistribution of resources in the re-analytical system at the same time. Such a task was not solved before because of the lack of information.

A modern set of data describing 153 countries from 1960 to 2010, analyzing the speed and duration of the development cycle was used to uncover the relationship between neutrality and resource redistribution. Based on this, scientists draw two main conclusions. The first conclusion: inequality has a negative impact on both the scale of economic growth and sustainability, taking into account the individual impacts of resource redistribution. The second result: redistribution of resources hinders economic growth. Summarizing these findings, the authors concluded: "Redistribution generally stimulates economic growth, taking into account the potential negative and positive consequences of reducing inequality in the sample." Thus, the authors underline that "reallocation stimulates economic growth, with the exception of large-scale redistribution".

Studies described above show that inequality (at least to a certain extent) has a negative impact on the level of economic growth. However, research has shown that increasing inequality primarily affects the creation of institutions / institutions and the formation of human capital. Considering these ideas, it is possible to question the role of human rights in the fight against inequality.

Hypothetically, the relationship between human development and economic growth is likely to work in both directions. On the one hand, economic growth will have a positive effect on human development and will be spent on food, water, education, health care, etc. and will provide financial resources for investing in



social services to the state. It should be understood that none of these effects work by default. Their actions depend on how income is distributed among households, such as farms, how the state increases these incomes and social costs are considered a priority. On the other hand, human development contributes to economic development, increase in labor productivity, development of technological potential and innovations, as well as the development of key government institutions such as an effective judicial system and government.

There are a number of links between human and economic development. Econometric studies allow us to argue that it is an important factor that determines the growth of human capital formation.

K. Ranis, F. Stewart and O. Ramirez (2000) investigated these two-way links to 76 developing countries from 1960 to 1992 on the basis of an example (Ranis G. Stewart F. and Ramirez A., 2000:p. 197-219).

Considering the impact of economic development on the level of human development, we have a question: what is the life expectancy between 1970 and 1992? Economists declare that economic growth has a significant positive impact, since countries with high economic growth from 1960 to 1992 showed an increase in life expectancy from 1970 to 1992. As for the reverse direction of the relationship (from human development to economic development), scientists believe that the increase in the expected standard of living in previous periods and the level of literacy in later periods have a positive impact on economic growth.

## **CHAPTER 3: ECONOMIC GROWTH IN THE CASE OF DEVELOPING COUNTRIES**

### **3.1 The general overview of the economy of CIS countries.**

Differences between economic transformation approaches and methods have led to extensive economic models in the post-Soviet space but have not affected the economic outcomes (major macroeconomic indicators) of these countries, because their sectoral structure and competitiveness were taken into account. The CIS countries, which differ in market organizational principles and the institutional structure of their economic systems, demonstrate nearly economic trends in key indicators. Thus, dynamics of one of the most important macroeconomic indicators - the Gross Domestic Product in all CIS countries is shown by a tendency characterized by the unequal level of different amplitudes (exception: Azerbaijan and 1996-1999, Turkmenistan in the years 2005-2006).

Average annual growth in all CIS countries increased from 1993 to 2014 by 3.5%, from 1993 to 2015 by 3.23%. At the same time, the corrected curve of the overall GDP growth rate in the CIS repeats the general trend for individual countries and has a clearly transformed nature. In all 11 countries of the CIS and Georgia in 1992-2015, three strong periods of weak recession are observed: the first (1992-1995), the beginning of market reforms of the economy, the violation of Interstate economic relations (in all countries of the former socialist camp in Eastern Europe and Eurasia), the second (2008-2009), with the influence of external factors - global financial and structural crises and the third (2014-2015), is a more serious factor in the geopolitical situation around the Russian Federation and the internal environment of the Russian Federation.

The first crisis in 1992-1995 led to many reductions in the level of GDP produced in almost all countries (excluding Armenia-an increase of 10%). In Azerbaijan, the decline in GDP during this period was 42%, in Georgia, Kyrgyzstan, Moldova, Tajikistan and Ukraine 30-40%, while the economy of Russia, Kazakhstan and Turkmenistan decreased by 20-22%.

As shown by the retrospective analysis of the dynamics of GDP in the post-crisis period, the depth and nature of periodic changes in the level of GDP in the CIS countries differ. The country, which suffered more damage during the crisis, is Ukraine, whose economy could not be restored later (this is the only economy among the CIS countries that could not restore GDP until 1992).

**Table 3.1. Economic growth rates in CIS countries, by percentage**

	<b>2010</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Azerbaijan	105,0	102,8	101,1	96,9	100,1
Belarus	107,7	101,7	96,2	97,5	102,4
Armenia	102,2	103,6	103,2	100,2	107,5
Kazakhstan	107,3	104,2	101,2	101,1	104,1
Kyrgyzstan	99,5	104,0	103,3	104,3	104,6
Moldova	107,1	104,8	99,6	104,5	104,5
Uzbekistan	108,5	108,0	107,9	107,8	105,3
Russia	104,5	100,7	97,5	99,8	101,5
Tajikistan	106,5	106,7	106,0	106,9	107,1
Turkmenistan	109,2	110,3	106,5	106,2	106,5
Ukraine	104,1	93,4	90,2	102,4	102,5

Source: National Currency (Monetary) Fund [www.imf.org](http://www.imf.org)

In 1998, 2009, there was a sharp decline in GDP in Russia, Moldova, Kazakhstan, Georgia and Armenia, and growth in other countries weakened compared to the pre-crisis period. At the heart of the decline growth rate for the CIS countries was the decline of the Russian economy, which faced mainly a structural crisis, a tight monetary policy, a transition to a volatile exchange rate regime, high price volatility of the main export commodity and foreign restrictions (sanctions and counter-sanctions).

The degree of convergence of integration, the dependence of the majority of CIS countries on the Russian economy (the potential of the Russian market and the solvency and price volatility of the export supply of basic mineral resources) created conditions for a long-term slowdown in these countries, which were developed in 2015.

In 1991-1992, the economic development of the CIS countries consisted of several stages: from the moment of formation to the events of crisis. For a long

period of existence of the countries of the Commonwealth of Independent States has passed the path of unification and integration of national economies. The level of development of the CIS countries is not the same. As a result, the customs union, the Eurasian Economic Union and a single economic space have been created. Thanks to this, the economy of the CIS countries began to change, customs rules for the import and export of products were simplified, and economic cooperation of the CIS countries increased. In the rating of the organization countries, the Russian Federation ranks first, Kazakhstan ranks second, Belarus ranks third. Due to the movement of funds and the development of production, Azerbaijan is approaching the leaders of many factories and gas industries - gas and oil. Russia is an important link in the formation and development of foreign economic relations, integration of the CIS into the world community. States largely depend on the economic situation of the Russian Federation, the Union's market relations, the money of Russian investors.

1. The main trends of economic development

a. Reform of the economy. It takes a different place in different countries.

b. Mutual dependence and complementarity.

c. Measures aimed at creating a common agricultural and national economy complex. In this regard, the economic indicators of countries show that the production of agricultural products is harmless without unification. In particular, the volume of agricultural production in Russia has dropped and now is 67%. Figures in other countries are lower: in Kazakhstan - 48%, in Belarus - 16%, in Azerbaijan - 15%.

d. The markets of other countries of the world, including Europe, Asia, the Middle East and the Caucasus, are being re-directed by raw material and fuel supply. The refusal of more active interaction in this area is due to the fact that many states have large debts to the Russian Federation. Especially, some countries have not paid for gas, so gas prices have been revised regularly in recent years.

e. Manufacturers operating in the markets of the Customs Union reduce industry because they are not required to have large quantities of industry.

f. The national economies of most CIS countries differ in their integration and the same conditions are created for goods and services in the foreign trade system.

## 2. Foreign economic development and trade

In 1991, reforms were carried out in the countries of the Union, which led to structural changes in foreign and domestic markets. The GDP of the CIS countries fell steadily. In Russia, (the number one CIS country), the import dependence of the domestic market has shown itself, the state debt has grown, and the Russian capital has a threat to "runaway" without "escape" without any control abroad.

All these processes have a negative impact on trade, domestic and foreign trade, and reduce the link between members of the organization. This proves that in the late 1990s, the trade volume of the Russian Federation with other CIS countries fell to \$ 19 billion. After the creation of the Customs Union and the European Economic Community, the situation began to improve: the import-export trade relations between Kazakhstan, Russia and Belarus was further activated. Imported goods were better and more demanded in domestic and foreign markets. The main exported products are petroleum products, sugar, cellulose, oil, car. Russia wanted to get products and services from CIS countries, not from the world market. At the same time, foreign trade volumes are more than trade with the Union countries. The main partner for Central Asia, Moldova and Belarus remains Russia, which receives energy resources, raw materials and technical products. The share of the products that Russian Federation gives to the CIS countries is different. The average range varies from 54 to 88%.

## 3. Investments in the economy

Several investors invest in the development of national economies and markets of the countries of the customs union. By the end of the 90s, local investments in the CIS and Russia accounted for about 21-30% of the gross domestic product.

In the positive direction, the situation has changed since 1997: GDP, as investments, began to grow every year. On average, this figure was about 1%. In order to increase investment and maintain a steady increase in imports, the

following guidelines should be followed: Expanding the export market for products derived from the manufacturing industry. To continue investing in the energy and fuel industries. Increase the volume of investments in metallurgy and engineering industries, as well as in light industry.

CIS governments should not leave the Russian economy and the market. Some countries of the union take measures to prevent the Russian Federation from interfering with internal affairs and violation of sovereignty. It is necessary to implement projects that are non-governmental and take risks. States that are included in the organization are trying not only to protect traditional product sales markets, but also to learn new ones. Most of them are raw material, and the CIS countries should be tested, it is necessary to compete successfully with other manufacturers, to expand the range of consumer goods. All changes actively implemented by the government should be permanent. To change the economy structurally, money is needed. Every year, every state is obliged to finance reforms, which account for 2-3% of GDP.

#### 4. The role of migrants in the development of the economy

The countries of the Union face the phenomenon of migration. For many states it is foreign, and only for Kazakhstan - it is domestic. The history of labor migration in the CIS countries began during the Soviet Union, had a serious impact on economic development and the formation of markets. After the collapse of the USSR and the establishment of the United Nations, each member state developed its own migration policy, creating tools and mechanisms for the general regulation of migration flows. They mainly come from the following countries: Kazakhstan; Kyrgyzstan; Moldova; Tajikistan; Turkmenistan; Uzbekistan. Traditional countries - cheap labor resources-are facing a massive flow of migrants from China and Vietnam.

In this regard, the migration policy of the UN has started to change because the labor market is one of the key elements of the national economy.

The reasons for attracting migrants in the CIS include:

- Lack of representatives of working specialties.

- Refusal of the local population to occupy low-paying positions.
- Lack of manpower in industrial enterprises and factories, construction, agricultural sector and agriculture.
- The need to operate at a high level in the oil and gas industry.
- Economic benefits of using cheap labor in the border regions.

Most of the labor migrants work illegally and are officially only part of those who come to work. Employers' legal forms are harmful to the government because employees are provided with social insurance, pensions, health insurance and income tax. Migrants mostly come to Russia, where there are many job opportunities. At the same time, the wages for proposed vacancies will be higher than in Azerbaijan or Turkmenistan. Migrants were also directed to Kazakhstan and Belarus. Some of the arrivals remain, others go to Europe or America.

### **3.2. Azerbaijan economy compared with other developing countries**

Azerbaijan pays great attention to international cooperation in Europe and transatlantic roads. The organization of Islamic Cooperation was the first intergovernmental organization where Azerbaijan joined after the restoration of independence (December 1991). Since March 1992, the country has been a member of all UN specialized agencies. Since 1997, Azerbaijan has the status of an observer in the World Trade Organization (WTO) and since 2004 negotiations are underway to enter the WTO.

The country is a member of the Organization for Security and Cooperation in Europe, the European Bank for Reconstruction and Development, the CIS and Interpol. In January 2001, Azerbaijan became the 43rd member of the Council of Europe.

Azerbaijan is one of the founders of the Black Sea Economic Cooperation Organization that established to strengthen cooperation in the Black Sea basin. In addition, the country is a member of the GUAM subregional Integration Group established in October 1997 by Georgia, Ukraine, Azerbaijan and Moldova to deepen integration and cooperation in economic and political spheres outside the

CIS. Another important integration project, in which Azerbaijan participates, is the Eastern Partnership, developed to strengthen relations between the European Union (EU) and its "new neighbors" after the enlargement of the European Union in 2004.

In 1994, Azerbaijan cooperates deeply with NATO, which originated from the "partnership for Peace" program. At the same time, in May 2011, the country became a member of the Non-Aligned Movement. In April 2018, Azerbaijan received the Ministerial Conference of Non-Joining Movement and will lead the organization in 2019-2022.

In November 2015, Azerbaijan became an observer at The Forum of Gas Exporting Countries. According to BP, at the end of 2017, it accounts for 0.5% of world natural gas production. The country is involved in the process of stabilizing the oil market under the OPEC agreement.

Azerbaijan's dynamically developing oil and gas sector is determining the country's economic growth.

After the collapse of the Soviet Union, Azerbaijan was part of the post-Soviet space experiencing the deepest economic crisis: real GDP decreased by 52.6% in 1994 compared to 1990 (71.0% in Georgia, 62.4% in Armenia, Moldova-60,6%, Tajikistan - 53.8%).

The lack of its extensive industrial base and the high level of specialization of the economy in hydrocarbons led to such a serious decline in the country (compared to 1995-18.7%), and their exports declined in the early 1990s. The emergence of the able-bodied population and the armed conflicts in Nagorno-Karabakh also played a negative role.

Despite the small production volume and low oil prices in 1995-1997, macroeconomic stability was observed in Azerbaijan. It is a reform of financial and budget spheres, privatization, foreign trade liberalization and attracting foreign investments into the oil and gas sector.

In 1994, the first product sharing agreement was signed, which allowed foreign manufacturers to discover and operate the fields. In the following years,



this format of cooperation attracted dozens of foreign companies to the oil and gas sector. According to the World Bank, incoming foreign investment increased from 10.8% of GDP in 1995 to 28.1% of GDP in 1997; the economy's savings rate in 1995 reached 23.8% in 1998 and then 34.7% in 1998.

Since 1998, the Azerbaijani economy has entered a much faster pace of development in the period of rapidly growing oil prices since 2004. In 1998-2003, the country's GDP grew by 61,1%, while in the next 6 years the price of crude oil doubled and the economic growth by 185,3% with an increase in oil production by 3.3 times. Exports of mineral fuels and oil products increased from \$ 3.0 billion in 2004 to \$ 46.4 billion in 2008. GDP growth in 2003-2004 reached 53-58%, which was provided by large-scale investments from abroad on fixed capital. In 2001-2005, the ratio of foreign investment to GDP (in 2003 it reached 55.1%) made Azerbaijan be among the top three world leaders. Azerbaijan's GDP growth rate in 2005-2007 was recorded at 15.7 per cent, 20.1 per cent and 10.6 per cent respectively.

In 2004-2008, the annual GDP growth of Russia, Kazakhstan and Azerbaijan was 7.1%, 8.4% and 21.1%, respectively. The expansion of high resources and the involvement of foreign investors in the oil and gas sector allowed the economy of Azerbaijan to develop faster than the CIS in 2001-2009. The period of high oil prices combined the largest economy of the CIS with per capita income: in 2009, GDP per capita increased 2.6 times and reached 15.7 thousand dollars, in 2003 individual consumption increased more than twice in the same period. In 2005-2016, Azerbaijan was lower in terms of GDP per capita in the post-Soviet space (without the Baltic countries) only in the ratio to Russia, Kazakhstan and Belarus. At the same time, according to the World Bank report, in 2007, Azerbaijan per capita GDP per capita exceeded the world average level and reached the world economy by 13-22% (3-6% in 2016-2017) by 2015. At the end of 2000 the extraction sector accounted for more than 50 per cent of GDP. However since 2011 economic development has slowed significantly. Azerbaijan faces classic problems in this time.

**Table 3.2. Main macroeconomic indicators of Azerbaijan, 1994-2017**

	1994	1998	2000	2004	2006	2008	2012	2014	2016	2017
Real GDP, % compared to the previous year.	-19,7	6,0	6,2	9,3	34,4	10,6	2,1	2,7	-3,0	0,1
Nominal value of GDP, billion US dollars	2,3	4,3	5,3	8,7	21,1	49,0	69,7	75,2	37,9	15,9
GDP per capita, thousand dollars	4,1	4,1	4,8	6,4	10,9	14,6	16,0	16,9	16,2	15,9
Deposit rate, GDP%	1,9	34,7	20,7	58,0	29,8	18,7	22,3	27,5	24,8	21,6
Average annual inflation, %	1664,0	-0,8	1,8	6,7	8,4	20,8	1,1	1,5	12,5	13,0
Imports (goods and services), growth, %	-24,0	4,9	0,4	-5,2	1,5	7,7	11,1	5,2	-3,3	-4,4
Exports (goods and services), growth, %	-8,0	26,1	5,1	7,2	39,8	6,1	-1,4	-2,4	2,7	-7,3
Unemployment, % of the labor force			11,8	8,0	6,6	5,9	5,1	4,9	5,0	5,0
Population, million people	7,6	7,9	8,0	8,3	8,7	8,8	9,2	9,5	9,6	9,8
Balance of state budget, % of GDP	-6,4	1,7	0,5	2,0	0,8	17,3	3,8	2,9	-0,9	-1,1
National debt, % of GDP		14,3	22,8	20,1	10,5	6,9	13,8	14,3	50,7	54,1
Current account, GDP%	-5,5	-31,9	-3,5	-29,8	17,5	33,6	21,4	13,9	-3,6	4,1

Source: International Monetary Fund statistics. [www.imf.org](http://www.imf.org) 2017

The decline in the growth rate of oil production in 2008 by 4.6% (after almost + 42% in 2005-2007) led to a decrease in GDP growth by 10.6%. In 2009, more than 1/3 of the crude oil prices and about 2/3 of the crude oil and petroleum products exports decreased to \$ 13.6 billion in 2009, which led to a tripartite reduction in the oil and gas sector.

In this period, in most post-Soviet countries, traditionally, a significant contribution to the reduction of personal transfers of migrants, who have a significant share of domestic consumption, has been made. Decrease in private transfers was due to the crisis in the Russian economy, whereby the World Bank considers that 60 per cent of personal transfers to Azerbaijan. Nevertheless, the economy has maintained a positive trend for the "Big Decline" (+ 9.4% in 2009, + 4.6% in 2010).

Since 2011, the country has gone through a period of low growth: there has been a sharp decline in oil production (-10,1%) due to current repair problems and delays in the commissioning of new wells. Despite historically high oil prices and an increase of 8.9% of non-oil GDP (mainly due to the construction sector), it led to negative GDP dynamics (-1.6%) in 2011, resulting in a decline in economic activity in the country.

After 2010 (the highest year of production in the largest area), oil production grew only in 2013 (+ 0.7%). The volume of production in 2017 amounted to 794.5 thousand barrels per day. Since the first quarter of 2015, the manat began to lose its value: by the end of 2015, as a result of the fall in oil prices, the national currency almost doubled compared to the dollar. In 2016-2017, consumer inflation reached 12.6% and 13.0%, respectively, which is less than in 2008 (20.8%).

In 2015-2017, the construction sector, which decreased by 33% as a result of a reduction in public investment and a decrease in lending, made the greatest contribution to the negative dynamics of GDP since 2014. At the same time, the financial sector, which has been steadily expanding since 1998, decreased by 11.3% in 2016. In 2016, non-oil GDP dropped by 5.0%, showing a negative trend for the first time since 1990.

In 2015, individual money transfers from Russia decreased by 31.6% in the amount of dollars, and in 2016 by 65.3% from the level of 2014. The state debt is 50.7% of GDP in 2016 and 54.1% of GDP in 2017. The current account balance was negative in 2015-2016 after positive values over the previous decades. In 2017, more than 34% of the value added to Azerbaijan's economy accounted for the extraction of minerals.

In the first half of the 1990s, Azerbaijan was an agrarian country: more than a quarter of the GDP of agriculture was provided. Production and production areas account for more than 10% of GDP. Serious changes have taken place in the sector structure of the Azerbaijani economy in the last quarter century.

The development of the oil sector was based on structural reforms and a large amount of foreign investment was required for the recovery of the extractive

industry in the 1990s. Azerbaijan sells oil and gas products to many foreign markets - the EU, Turkey, Israel and others.

Prediction of economic growth in Azerbaijan and solution of the issue

The table below shows the data characterizing the changes in the dynamics of GDP, the main production funds of the industry and the number of busy population in 2005-2018.

**Table 3.3. In 2005-2018, GDP increased by dynamics of the number of main, production funds and busy population**

<b>Years</b>	<b>The main Production function (mln. manats)</b>	<b>Busy population (thousand people)</b>	<b>GDP (mln. manats)</b>
2005	18,225.0	4,062.3	12,522.5
2006	21,029.0	4,110.8	18,746.2
2007	28,467.0	4,162.2	28,360.5
2008	30,660.0	4,215.5	40,137.2
2009	34,789.0	4,271.7	35,601.5
2010	37,165.0	4,329.1	42,465.0
2011	41,952.0	4,375.2	52,082.0
2012	46,769.0	4,445.3	53,995.0
2013	50,289.8	4,480.6	57,708.2
2014	61809,4	4602,9	59014,1
2015	71978,8	4671,6	54380,0
2016	111009,6	4759,9	60425,2
2017	123371,1	4822,1	70135,1
2018	137109,1	4879,3	79797,3

Based on WTO and CIS statistics data [cisstat.org](http://cisstat.org) 2018

On our part, we examined the dependence of the country on factors affecting GDP separately, as well as the combined effect of the time factor, the volume of the main production funds and the volume of GDP of the busy population of the Republic of Azerbaijan. The aim of the study was to develop an affordable econometric model to predict GDP growth in 2019-2024.

Econometric analysis was carried out in 2 stages:

Stage 1: At the first stage, the correlation dependence of the country's GDP,

the volume of the main production funds and the number of the busy population on the time factor was investigated.

The analysis of the corresponding dynamic sequences in Table 3.1 shows that among the factors studied there is a linear correlation dependence, which can be given as a linear model of double correlation:  $y=a_0+a_1x$

The  $a_0$  and  $a_i$  coefficients of the regression equation of the double correlation are calculated on the personal computer by the least square method (application software package on EXCEL).

Based on the econometric analysis, the following regression equations were found:

1. In order for GDP to depend on the time factor:

$$Y_{GDP}=-9293816,840+4645,17t \quad r=0.938$$

2. For the dependence of the main production funds of industry on the time factor:

$$Y_{MIF}=-7014743,127+3508,9201t \quad r=0.981$$

3. In order for busy population to depend on the time factor

$$Y_{BP}=-95055,091+49,4431t \quad r=0.996$$

The following forecast data on the economic indicators studied at first stage were also obtained.

**Table 3.4. Forecast data of economic indicators studied at the first stage**

Years	Forecast data based on econometric double correlation model		
	GDP (mln. manat)	MIF (mln. manat)	BP (min person)
2019	88509,8	149120,9	4929,3
2020	96155,0	163629,8	4990,7
2021	104800,2	175138,7	5040,2
2022	113445,4	188647,6	5092,6
2023	120090,6	201156,5	5134,3

Based on CIS and WTO statistics data, prepared by author.

Step 2. At this stage, based on the double correlation model, the econometric

analysis of the dependence of the factors of time factor of GDP (x1), volume of the main production funds (x2) and the number of employed population (x3) was carried out. Linear model of cluster correlation was chosen as the form of the majority regression equation:

$$Y_{GDP} = a_0 + a_1x_1 + a_2x_2 + a_3x_3$$

As a result of Model experiments, the following digital model of cluster correlation was obtained on the personal computer:

$$Y_{\text{UDM}} = 534488,650 - 2718,172x_1 + 1,798x_2 + 21560x_3$$

$$R = 0,9898; R^2 = 0,987$$

The quantity of the correlation coefficient in the majority indicates that this model reflects dependence on the studied economic system and is quite suitable for forecasting.

Using the forecast data of table 7, we calculate the expected forecast data for the country's GDP under that condition that the forecast data obtained for the factors affecting IT based on the double correlation model are extremely stable:

$$Y_{GDP} \text{ 2019 forecast} = 88310,7 \text{ mln. manats}$$

$$Y_{GDP} \text{ 2020 forecast} = 9593555,0 \text{ mln. manats}$$

$$Y_{GDP} \text{ 2021 forecast} = 104521,3 \text{ mln. manats}$$

$$Y_{GDP} \text{ 2022 forecast} = 113137,5 \text{ mln. manats}$$

$$Y_{GDP} \text{ 2023 forecast} = 119760,7 \text{ mln. manats}$$

The following table provides a comparison of the forecast quantities of GDP on the cluster correlation model with the neutral forecast for the trend Model.

**Table 3.5. Comparison of GDP forecast quantities by Trend model with neutral forecast by cluster correlation model**

Years	2019	2020	2021	2022	2023
GDP forecast by Trend model (million people)	8850	9615	1048	1134	120
GDP forecast based on cluster correlation model (million people)	88310,7	95935,0	104521,3	113137,5	119760,7
Deviations	+199,1+19	+220,0+22	+278,9+27	+307,9+30	+329,9+3

Based on Azerbaijan statistics data used in the thesis, prepared by author

Analysis of the data presented in the table 3.5 shows that the deviation of pointed forecasts based on double correlation model and cluster correlation models small(0.2-0.3%). Thus, the GDP of the Republic of Azerbaijan will be 88310,7 million manat, in 2019 - 95935,0 million manat. AZN 10,4521.3 million in 2020, 113,137.5 million manat in 2021. manat, in 2022 - 119760,7 mln. manat. The forecast is based at manat level in 2023.

### **3.3 Ways of improving the welfare of these countries through economic development.**

In 2017 and 2018, the pace of economic growth in more than half of the countries has increased. During these two years, the growth rate of the economies of developed countries was 2.2 per cent on a regular basis, and in many countries this rate was close to its maximum potential values, while the unemployment rate in a number of developed countries fell. Among the developing countries, economic growth in East and South Asia in 2018 continued at a high growth rate of 5.8 and 5.6%, respectively.

The economies of many commodity exporting countries, especially fuel exporting countries, continue to recover gradually, although these countries are still opposed to price volatility. A sharp decline in market prices for crude goods, which occurred in 2014/15, continues to affect the balance of budgets and the balance of payments, and is the reason for the emergence of the remaining debt.

Overall, the growth of the global economy in 2018-2019 is expected at 3.7% (table 3.6). Table is given in appendix 2.

Growth in economies of developed countries is expected to be 2.4% in 2018 and 2.1% in 2019. In the United States, these figures will be higher than in developed countries: 2.9 and 2.5% due to significant rising recent demand and declining unemployment up to the level of the 1950s. However, these factors create serious inflationary pressure and contribute to an increase in imports, which increases the balance of payments.

The growth rate is expected to decline significantly in eurozone countries from 2.4% in 2017 to 2019, mainly due to Germany and France. In Japan, growth will also decline due to weak private consumption and a decline in investment and will not exceed 1% in 2019.

The economies of developing countries are facing serious difficulties recently: rising oil prices, high incomes on US Securities, dollar growth, trade and geopolitical conflicts. The prospects of this group and individual countries depend on the interaction of these global forces with specific internal factors.

The developing countries of Asia will still demonstrate impressive economic growth by 6.5% in 2018-2019. At the same time, as a result of the tightening of the financial and credit policy in China and increasing domestic demand, prices will slightly decrease (from 6.9% in 2017 to 6.6% in 2018 and 6.2% in 2019). India is expected to grow in contrast to economic growth (from 6.7% in 2017 to 7.3% in 2018 and 7.4% in 2019), which will help lower exchange rates and lower taxes on goods and services. It is expected that the growth rate of ASEAN countries will be at the level of 5.3% against the stable domestic demand and recovery of exports. In Latin America, the economic situation is expected to gradually improve. Thus, the average annual growth rate in the region will rise from 1.3% in 2017 to 2.2% in 2019. This will help to increase the cost of basic export goods. The exception will be Venezuela, where domestic economic and political crises have led to a decline, despite increasing oil prices.

The economic prospects of African countries are improving: in Nigeria, it will grow from 0.8% in 2017 to 2.3% in 2019, and in South Africa from 1.3% to 1.4%. The pace of economic growth in Russia, despite price increases, will be steadily lower as one of the lowest in the world due to both economic sanctions and uncertain economic policies.

In the medium term, the global economy will be affected by a group of three factors. The first group of factors consists of a policy of economic stimulation of aggregate demand and progress in the energy markets. The second group of factors includes urbanization and the aging process of the population, which further



strengthens the existing structural problems. Finally, the third group of factors is characterized by the uncertainty and volatility of the parameters: these are technological innovations and the ability to interact with the global economy.

In the last 50 years, the demographic boom has provided an annual growth of 1.8% worldwide. Now the actions of this development factor are coming to an end. According to McKinsey, the decline in GDP from 2015 to 2050 will be 40%, while the decline in GDP per capita will be 20%. This decline is expected to be uneven among countries. Among the developed countries, the largest drop in rates is expected in Canada and Germany. Saudi Arabia, Brazil and Russia are among the developing countries at risk (table 3.6).

**Table 3.6 Potential change in GDP growth rates in the period from 2015 to 2050, in %**

<b>Developed countries</b>	
Great Britain	-10
France	-18
USA	-34
Japan	-36
Italy	-36
Australia	-36
South Korea	-39
Germany	-52
Canada	-53
<b>Developing countries</b>	
Nigeria	+7
Turkey	-25
India	-27
South Africa	-30
China	-31
Indonesia	-33
Argentina	-37
Brazil	-60
Russia	-61
Saudi Arabia	-73

Source: Where to look for global growth. McKinsey Quarterly, January 2015. [www.mckinsey.com](http://www.mckinsey.com)

Reports and analytical notes are prepared annually, which allows you to assess the state of the world economy and the regional market. Developing countries occupy a special place in such reports, because analysts are watching who occupies the poorest positions in the world, where the problem of spheres,

industry, service, education or migrants is growing. Reports and analytical notes that allow us to assess the state of the global economy are compiled annually, the data collected are compared, since a different number of member states are part of an organization, and their development (index) is evaluated differently. There are general parameters, as well as concrete ones, which is why it is necessary to lower the data provided by such international organizations: IMF, UN, WB and etc.

1. Classified features 2. Classification criteria for the level of economic development of states 3. Structure of developing countries 4. Features of developing countries 5. Place in the global economy 6. How to remove lagging behind?

Classification features. The ratings of leading countries with market economy are basically based on the goals of the organization. Other features of the formation of the top 10 emerging market countries include:

- Lack of information provided by governments to various committees on the state of the economy.
- Late submission of information.
- Incorrect assessment of the financial situation of the project.
- Incomplete statistics on mortality, productivity, demographic situation.
- Lack of clear figures on the poverty line and problems with migrants.
- Subjective assessment of ongoing reforms.

The World Bank focuses on the following points:

- How poor is a citizen of this or that country.

On the UN World Map, developed countries assess other aspects:

- Production of basic goods and services.
- Poverty level.
- How entrepreneurship develops.
- Social Security System, Protection.
- Financial market situation.
- Position of the banking system.
- Environmental problems.

- Demographic and social trends.
- Productivity and death.
- Level of GDP.
- The level of investments and loans to projects and various economic sectors.

In order to obtain a complete and comprehensive picture of all these indicators for each region, it is important to choose the largest and fairly promising share of developing and capitalist countries.

Developing or third world countries (usually referred to in literature and analytical reports) cover most of the countries of Africa, Asia and Latin America. Among themselves, historical development is associated with common features, socio-economic and political structural features. Other features of Asia, Latin America or Africa are common: they were all colonies of European states. A multilateral and contradictory development has occurred in the development of Industry, Production and agriculture. The rapid increase in the population explosion, due to the fact that the initial population growth was higher than in other regions, put the governments of the countries in the face of acute social and economic problems.

It is necessary to combat illiteracy, high mortality, poverty, low average wages, problems of the domestic market, industry and agricultural sector.

Criteria for classification of states according to the level of economic development:

There are several approaches that can be attributed to a particular group. The main classifications include the following: socio-economy, which was used by Soviet economists during the Cold War. The leader of the first group (capitalist countries) was the USA - the countries of Western Europe, the largest state, gradually began to unite. According to this approach, the Soviet Union was the largest in the second group (socialist states). Under the influence of the USSR, the world socialist system and the emergence of the market collapsed in the early 90s. The third group included the states of Africa and Asia. The socio-economic

classification is not used because it does not meet the trends of world powers and ignores many parameters.

The number of developing countries is changing every year. Considering the economic characteristics of the countries of the world, developing countries take into account GDP, the center of the economy, including the basis of the sector, the availability of relevant scientific intensive areas, the standard of living and quality of life of the population. The criteria for determining individual groups are: the structure and production of productive forces; prospects for economic development; economic relations between countries and beyond; the amount of external and internal debt; the presence or absence of inflation growth / fall; conditions for the development of transnational companies; the role of small scale business in the formation of industry and services.

These parameters allow us to distinguish several types of countries with a developing market and economy - the "Asian tigers" of East and South-East Asia and Latin America. Major Arab states and Asian countries exporting oil and other minerals. Bahrain, Qatar, Libya, Iraq, the United Arab Emirates are engaged in oil production: Since each of them has a favorable economic and geographical position, it plays an important, practically fundamental role in the market of energy resources and carriers, the population is not poor, it can save money.

Developing countries with high GDP per capita: For example, in Guatemala or Colombia it costs 1 thousand US dollars for one person. Huge countries with natural resources, vast territories, a huge number of people: India, Indonesia, Pakistan. They are developing thanks to European and American investment projects. At the same time, other trends are observed: people often live below the poverty line, the level of GDP is 300 dollars per person, the low rate of industrial development.

Poor countries of Africa and Asia, for example, Bangladesh, Benin, Somalia, Ethiopia, Afghanistan: Despite the provision of loans, material and technical assistance, these developing countries are struggling to overcome the lagging behind. The economy has a clear agricultural character, pre-industrial forms of

labor prevail in production. Relations with the outside world either disappeared or developed very badly.

In 2019, the number of countries in the "developing" category reached 132. All of them occupy a special place in the world economy, are associated with capitalist countries, the world economic system and the market in different ways. Therefore, due to developed and advanced countries, a mixed economy was created in such states.

Features of developing countries:

- The level of living is very low.
- Society is rich and very poor.
- Rich incomes are many times more than the income of ordinary citizens.
- Lack of laws, so investors from abroad rarely invest in the economy of countries.
- Development of financial, tax and banking systems is weak.
- The control device does not work.
- Unemployment is constantly growing, the population does not have solid incomes.
- High birth and death rate.
- Small volume and volume of the domestic market.
- Dependence on developed countries, which lead to the constant accumulation of foreign debt.
- Availability of special socio-economic problems.

Economy is subject to ideology, religion and political system. The interest of society is paramount, therefore civil society begins to develop or is not developed at all.

In developing countries, there is scientific and technical potential, but it is weak, so the fields of science, economy and production practically do not develop. However, many states have large reserves of natural resources. Developing countries were freed from Colonial Dependence in the 60s, so there are still negative factors in the social, economic and political structure: the lack of the

ability of Metropolitan countries to independently cope with domestic economic problems previously solved.

The leaders of the country rely on the army and the police, and not on various authorities and institutions in their power. Corruption and bribery are widely developed: Constant wars, ethnic conflicts. Formation of a self-isolating economic model of a centralized type. It is not market oriented and does not take into account the characteristics of the world economy, its trends and major changes.

In many cases, in third world countries, this situation is due to the fact that the Soviet Union states in the eighties invested money in the construction of metallurgical and heavy industrial facilities. The peculiarities of the geographical position of developing countries and their specificity were not taken into account. Therefore, an imbalance arose, a complete dependence of economies from developed countries appeared. The industrial product exported to the world market is 21.4%. The share in export is 30%.

Dependence from TNC: Large companies do not agree to work here, but open branches and headquarters. As a result, about 25% of all foreign investments of transnational companies are located in developing countries. Large incomes of private companies, loans and investments reaching 50% of all foreign financial sources. Loans are issued by corporations, funds, individuals, individual entrepreneurs.

The characteristic features of the economic development of the developing countries are as follows:

- The advantage of the agricultural sector in the economy.
- The patriarchal road is a big part of the predominant agricultural activity.
- Low level of industrial development.
- In developing countries, there is ferrous metallurgy, but its part is insignificant.

How to remove lagging behind?

Developing countries are constantly looking for ways to restart the economy, get tariff options from developed countries, provides jobs and social protection to

people. The best model for combating crisis and lagging behind is industrialization. For this, it is necessary to fully modernize agriculture, industry and production. Industrialization supported by modernization is aimed at improving the material and technical base of the agricultural sector, expanding the working conditions and infrastructure of the workers.

In developing countries, the following changes are proposed:

- Application of the latest technologies that can ensure the achievement of Science and technology in various sectors of the economy, the growth of labor productivity and the improvement of quality.

- Development of the metallurgical industry.

- To establish the production and import of machinery and equipment created on the basis of the achievements of scientists of developing countries.

- Restructuring of the national economy and the agricultural sector to create a larger production process.

- It is possible to receive preferential bonuses from international organizations and developed countries at the same time with the above measures to eliminate inflation growth and implement other strategies at the same time.

- It is necessary to fully nationalize all resources belonging to foreign companies.

- To diversify the economy.

- Trade protection.

- Increase the exchange rate.

- To introduce the concept of import substitution and export oriented industry.

Central banks of developing countries have also joined in order to save the economy and the national currency. Raising the rate is the main tool for currency strengthening. In Indonesia, this action is often applied, even several times a week. In the Philippines, India, Malaysia, Turkey, Mexico, Brazil, where there is little rate hike and inflation leads to growth, foreign debt, borrowing from the International Monetary Fund. At the same time, some of the developing countries are known as investment attractiveness and include the first twenty: Mexico - the

1st place. Turkey - 2. Malaysia - 5. Colombia-8. Peru-9. Bea-10. Chile-11. South Africa-13. Brazil-14. Russia-15. Thailand-16. Philippines-17. Indonesia-18. China-19. India - 20.

Investments from abroad and private sponsors will contribute to the implementation of many projects related to the modernization, industrialization and renewal of the transport system of developing countries. In terms of rapid renewal, the leaders are China, Brazil and India. Their governments were able to organize their production within the country, organize hundreds of thousands of jobs and control the extraction of natural and mineral resources.

Governments of developing countries should understand that the only way to save is to pay attention to themselves, their power. This will reduce dependence on other states, gradually overcome the decline and poverty of the population. Scientists believe that with the appropriate reform of the economy and agriculture, third world countries will establish economic relations with each other, starting with the integration process, bringing together the domestic and foreign markets.



## **CONCLUSION AND RECOMMENDATIONS**

1. For all analyzed provisions and interpretations, dynamics of any quantitative indicators that characterize the scale of economic activity in general and reflect the outcome of economic growth should be adopted.

2. In modern economic literature, labor force, land and capital, as well as human capital are the main factors of economic growth. However, the existence of these factors does not guarantee the existence of economic growth. The above mentioned growth parameters are mainly factors of modern production, cannot lead to an increase in the product used in quantitative and qualitative terms, and thus cannot be the primary cause of economic growth.

3. Economic growth and economic development are related to each other: economic growth during the evolutionary period can be a major fluctuation force on the eve of national economies. Economic growth can not only provide solutions to various social and economic problems facing humanity, it also adds to the national economy and contributes to the emergence of new problems (ecology, structure, etc.).

4. The determination of economic growth in each country by the following key factors is undeniable:

- 1) Quantity and quality of natural resources;
- 2) Quantity and quality of labor resources;
- 3) The aggregate amount of fixed capital;
- 4) Technological innovations;
- 5) Reduction of the level of aggregate expenses;
- 6) Efficient distribution of the increased resources.

The first four factors serve as a key element, and the economic growth is a key component. The physical capabilities of production depend on them. It is possible to increase the production of real products only with the help of high-quality resources and technology. There are two cases of real growth characteristic:

5. The crucial factors for economic leap in developing countries are:

- implementation of gradual liberalization of the economy, market reforms, reduction of politicization of the economy, taking into account national characteristics;

- attracting foreign investment to the most promising sectors of the economy;

- export directions of priority sectors of the economy (low wages, low exchange rate of the national currency);

- formalization of the system of equal distribution of income within the country;

- import of advanced technologies;

- raising the qualification of employees; development of the economy from agriculture to industry in structural reform, improvement of the technological level of the industry and development of the service sector.

6. Economic growth has both positive and negative sides, so it has not received an unambiguous assessment.

Beneficial effects of economic growth:

- Increase the country's industrial strength and its security;
- Increased labor productivity;
- Increased wealth of the country and people's welfare;
- Satisfaction with the needs of a broader audience;
- reducing social tension in society and so on.

Negative impact of economic growth:

- Reduction of unrecoverable resources;
- pollution of the environment as a threat to the existence of all human civilization;
- the need for staff retraining and increasing their ability to work;
- Strengthening the living space of people (especially in developed and developing countries), which creates certain conditions for the activation of terrorists and anti-globalizers.

In developing countries, the following changes are proposed:

- Application of the latest technologies that can ensure the achievement of Science and technology in various sectors of the economy, the growth of labor productivity and the improvement of quality.

- Development of the metallurgical industry.

- To establish the production and import of machinery and equipment created on the basis of the achievements of scientists of developing countries.

- Restructuring of the national economy and the agricultural sector to create a larger production process.

- It is possible to receive preferential bonuses from international organizations and developed countries at the same time with the above measures to eliminate inflation growth and implement other strategies at the same time.

- It is necessary to fully nationalize all resources belonging to foreign companies.

- To diversify the economy.

- Trade protection.

- Increase the exchange rate.

- To introduce the concept of import substitution and export oriented industry.

Governments of developing countries should understand that the only way to save is to pay attention to themselves, their power. This will reduce dependence on other states; gradually overcome the decline and poverty of the population. Scientists believe that with the appropriate reform of the economy and agriculture, third world countries will establish economic relations with each other, starting with the integration process, bringing together the domestic and foreign markets.

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### **Online resources**

1. [www.cisstat.org](http://www.cisstat.org)
2. [www.imf.org](http://www.imf.org)
3. [www.mckinsey.com](http://www.mckinsey.com)

## APPENDIX 1

**Overall unemployment rate in some developing countries (The unemployed aged 15-64 years, compared to the economically active population, according to the labor force, ILO methodology in the relevant period)**

	2014	2015	2016	2017
<b>CIS</b>	6,1	6,3	6,2	6,1
Azerbaijan	4,9	5,0	5,1	5,0
Belarus	-	-	5,9	5,6
Armenia	18,2	19,2	18,6	18,5
Kazakhstan	5,1	5,1	5,0	4,9
Kyrgyzstan	8,1	7,6	7,3	7,0
Moldova	4,0	5,0	4,3	4,2
Uzbekistan	5,1	5,2	5,2	5,8
Russia	5,1	5,5	5,7	5,3
Tajikistan	-	-	7,0	-
Turkmenistan	-	-	-	-
Ukraine	9,4	9,2	9,5	9,6
<b>European Union - 28</b>	10,4	9,6	8,7	7,8
Bulgaria	11,4	9,3	7,8	6,3
Hungary	7,8	6,8	5,1	4,2
Lithuania	10,9	9,3	8,1	7,3
Poland	9,1	7,6	6,2	5,0
Romania	7,1	7,0	6,1	5,1
Slovenia	9,8	9,2	8,2	6,6
Croatia	17,5	16,4	13,3	11,3
<b>Other countries</b>				
Brazil	6,9	8,7	11,7	13,0
India	3,7	-	-	-
China	4,1	4,1	4,0	-

www.cisstat.org Interstate Statistical Committee of the Commonwealth of Independent States



## APPENDIX 2

### Annual growth rates of the world economy, %

	2016	2017	2018*	2019*
The world economy as a whole	3,2	3,7	3,7	3,7
<b>Developed countries</b>	1,7	2,3	2,4	2,1
USA	1,5	2,2	2,9	1,9
Germany	1,9	2,5	1,9	2,1
France	1,1	2,3	1,6	1,6
Italy	0,9	1,5	1,2	1,0
Spain	3,3	3,1	2,7	2,2
Japan	1,0	1,7	1,1	0,9
Great Britain	1,8	1,7	1,4	1,5
Canada	1,4	3,0	2,1	2,0
Other developed countries	2,3	2,8	2,8	2,5
<b>Developing countries</b>	4,4	4,7	4,7	4,7
CIS countries	0,4	2,1	2,3	2,4
Russia	-0,2	1,5	1,7	1,8
Other countries of CIS	1,9	3,6	3,9	3,6
China	6,7	6,9	6,6	6,2
India	7,1	6,7	7,3	7,4
ASEAN countries	4,9	5,3	5,3	5,2
Brazil	-3,5	1,0	1,4	2,4
Mexico	2,9	2,0	2,2	2,5
Saudi Arabia	1,7	-0,9	2,2	2,4
Nigeria	-1,6	0,8	1,9	2,3
South Africa	0,6	1,3	0,8	1,4
<b>Inflation</b>				
Developed countries	0,8	1,7	2,0	1,9
Developing countries	4,3	4,3	5,0	5,2

Source: World Economic Outlook October 2018, IMF, Wash. D.C. USA [www.imf.org](http://www.imf.org)

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