

# AI'S DOUBLE-EDGED SWORD: STRIKING BALANCE BETWEEN INNOVATION AND ECONOMIC INEQUALITY IN AZERBAIJAN

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This paper examines the dual impact of artificial intelligence on innovation and economic inequality, focusing on Azerbaijan. Through a comprehensive analysis of existing literature and case studies, it explores the transformative potential of AI in driving innovation across various sectors while exacerbating economic disparities. The research delves into Azerbaijan's efforts to embrace AI adoption and digital transformation, highlighting the country's progress and challenges. Moreover, it discusses the implications of AI on employment and income inequality in Azerbaijan, drawing insights from global perspectives and best practices. The paper concludes by emphasizing the importance of policy interventions, such as investing in digital infrastructure, promoting education and reskilling programs, and fostering international collaboration, to ensure inclusive and ethical AI adoption. Ultimately, it underscores the need for a balanced approach that maximizes the benefits of AI while mitigating its adverse effects, thereby shaping a more equitable and sustainable future for Azerbaijan and beyond.

**Keywords:** artificial intelligence, innovation, economic inequality, digital transformation, policy interventions

## 1. Introduction

In the realm of the fourth industrial revolution or Industry 4.0, artificial intelligence (AI) stands out as one of the groundbreaking technological advancements with expansive transformative potential. AI's ubiquitous adoption in various sectors promises an innovative future, reshaping the global economy, boosting productivity, and creating novel lines of business (Bessen, 2018).

However, it is equally potent in exacerbating economic inequality, creating a polarised society with wealth concentrated at the helm. This essay explores the contradictory nature of AI with Innovation on one edge and Economic Inequality on the other, particularly in the Azerbaijani context.

The growth trajectory of AI in Azerbaijan primarily began with its Vision 2020 strategy, focusing on economic development through enhancing technological

capabilities, including AI (Azerbaijan 2020, 2011). However, despite all the benefits AI offers, there is a pervasive concern about the simultaneous increase in economic inequality. This accentuates the need to strike a balance and ensure that the benefits of this technology are equitably distributed.

AI has extraordinary potential for driving innovative growth. It serves as a bulwark for systemic improvements, leading to increased productivity and generating new business opportunities. Its application varies across sectors from health to education, from energy to finance, and everything that lies in the spectrum. In Azerbaijan's case, AI forms the backbone of its strategy to diversify its oil-based economy—long reliant on traditional energy sectors—toward a more innovation-centric approach, fostering resilience and adaptability in the face of evolving global economic landscapes.

Even with its rich prospects, the dark underbelly of AI showcases it as a catalyst of economic inequality. AI's potential to create extreme job market polarization raises the stakes of this discourse (McKinsey Global Institute, 2018). The fear of AI replacing jobs and creating redundancies puts those with lower skills at risk while fortifying the technological elite. The latter reaps astronomical benefits creating a stark societal divide. The cascading effect of this division on the broader structure of the economy could be precarious.

The innovation-economic inequality paradox lays bare the nuanced complexity of AI in the contemporary world. Striking a balance between these polarities is both an imperative and a challenge for policy-makers. Ensuring a just and equitable utilization of AI necessitates well-crafted policies, safeguarding the interests of all economic strata without stifling innovation. This is the predicament that Azerbaijan, and indeed the world, faces while weaving the narrative of its digital future. Some innovative solutions, including, but not limited to, repurposing the traditional education system and skills training to adapt to the AI era, fostering a culture of lifelong learning, creating sustenance allowance to aid those economically displaced due to AI, and introducing regulatory mechanisms, will be of crucial importance.

## **2. AI Adoption and Digital Transformation in Azerbaijan**

One of the fundamental shifts undergoing the world today is the digital transformation in various government and private sectors, made possible by the adoption of Artificial Intelligence. Azerbaijan, a developing country in the Caucasus region, a region with great strategic importance, has been making significant strides in this regard, embracing AI and electronic services on a broad scale. Azerbaijan's increasing reliance on electronic services signifies a broader global trend of digitalization seeding economic development and inclusive growth.

In recent years, the Azerbaijani Government's commitment to developing the "Electronic Government" has been profound, which has notably contributed to improving its E-Government Development Index (United Nations E-Government Development

Database, n.d.). Azerbaijan's Electronic Government Portal, offering digital services ranging from tax declarations to health insurance, is illustrative of their continual efforts towards this development, which simplifies the provision of social services, increases transparency, and enhances citizens' satisfaction by reducing the 'distance' between civil servants and citizens (E-Government Portal, n.d.).

The widespread use of such electronic services in Azerbaijan, significantly reducing paper-driven work, not only ensures transparency and efficiency but also fosters environmental sustainability. Further bolstering this digital transformation is Azerbaijan's progressive step in AI integration across various platforms. From healthcare to finance, AI has been revolutionizing all sectors. The advent of AI has resulted in an evolving landscape where efficiency, precision, and informed decision-making drive the central ethos.

The benefits of AI-driven digitalization are immense – streamlined operations, cost-efficient strategies, and improved services, conducive to both economic and social capital growth (McKinsey Global Institute, 2018). However, AI integration is not without its challenges. AI technologies fuel the need for advanced technical skills which raises pertinent issues relating to workforce management and skill redundancy. Consequently, there is a palpable need for upskilling and re-skilling initiatives. Moreover, data privacy concerns surfacing with technological advancement necessitate rigorous regulatory constructs (Parsons, 2023).

The journey of Azerbaijan towards AI adaptation and digitization is a testament to its robust commitment to harness the benefits of technological evolution. The growth of electronic services and the development of "Electronic Government" in Azerbaijan is a shining example for many, depicting a promising direction for their digital future. It is, therefore, incumbent upon policymakers, educational institutions, and businesses to ensure the development and implementation of appropriate strategies focusing on bridging skill gaps, managing data privacy concerns, and promoting a conducive environment for AI integration. By doing so, Azerbaijan will be able to successfully negotiate the challenges presented and fully realize the promise of the AI-enabled digital future.

### **3. Impact of Artificial Intelligence on Employment and Income Inequality in Azerbaijan**

Artificial Intelligence has been an essential invention undergirding numerous sectors of our lives. Its influence on employment and income inequality is an elusive topic that needs to be explored in depth. This brings a need for evaluation of the impacts of AI on employment and income inequality in Azerbaijan.

First, the potential of AI to foster new job opportunities in major industries, such as agro-processing and transportation/storage, is significant. Sectors heavily reliant on manual labor have much to gain from incorporating AI into their operations. The agro-

processing sector for instance can leverage AI technology for precision farming, crop monitoring, or weather prediction. This not only helps in increasing the yield but opens up opportunities for specialized roles that understand the technology. Similarly, AI has the potential to revolutionize the transportation industry with innovations like autonomous vehicles, smart logistics, and intelligent traffic management systems (Bughin et al., 2018).

However, the rise in AI usage also comes with the risks of job displacement as AI systems usurp roles once performed by humans. Financial strain and unemployment can be catastrophic for low-income workers who are more susceptible to AI-driven job displacement. For instance, cashiering, assembly line jobs, and other routine-based jobs are more likely to be automated, rendering the previous workers potentially unemployed (AI, Automation, and the Future of Work: Ten Things to Solve For, 2018)

Moreover, AI can potentially amplify income inequality by preferentially benefiting higher-skilled, higher-income workers. The presence of AI creates a new market for jobs that require advanced skills in AI technology. How will it happen? As AI capabilities advance, there is a growing demand for workers with specialized skills in AI development and implementation. Those who already possess these skills, often highly educated and well-compensated individuals, can leverage AI to further boost their productivity and earning potential. In contrast, workers in routine, automatable jobs face the risk of displacement by AI, pushing them into lower-paying positions or unemployment. This "skill-biased technical change" widens the wage gap between high-skilled and low-skilled workers (Cornelli et al., 2023).

Moreover, the concentration of wealth and power within the AI industry itself contributes to inequality. As AI-driven companies accumulate capital and market share, they can further entrench their dominance, making it harder for others to compete. This "winner-take-all" dynamic exacerbates inequality both within the tech sector and across the broader economy. Those individuals who already possess such skills have the opportunity to gain a significantly larger income than their counterparts who do not have these skills (Kharate, 2024).

Additionally, implementing AI could lead to higher profits for AI-producing firms and AI-adopting firms. These wealth gains often flow to the firm's owners and highly skilled workers, thus exacerbating the wealth gap. AI's increasing pervasiveness makes an argument for regulation and upskilling. Governments and institutions should invest in educational programs and vocational training to prepare individuals, particularly in low-income sectors, for the eventual AI transformation.

This all brings us to the conclusion that while AI yields potential for new job creation and industrial improvement in Azerbaijan, it inherently presents dangers of job displacement and possible intensification of income inequality. A balanced approach grounded with adequate preparation and informed policies can ensure that the rewards of AI are more evenly distributed and not just confined to certain sections of society.

#### **4. Policy Interventions and Strategies for Inclusive AI Adoption Interest and Investment in**

The rapid pace of AI adoption, as already discussed, is not without challenges, especially in terms of inclusivity and equity. Policymakers have a critical role in mitigating these challenges through well-thought-out strategies and interventions. A fundamental pillar of inclusive AI adoption is the creation of robust digital infrastructure, which would be more efficient, flexible, and innately intelligent systems that require less data and are more transparent, addressing the limitations of current data-hungry and black-box neural networks. This includes both technological hardware, such as fast and reliable internet connections and digital devices, and software, including digital platforms and tools, and machine learning algorithms (Wilson et al., 2019).

With the current digital divide, the lack of access to such infrastructure often impedes the benefits of AI technologies. Investing in this infrastructure in underprivileged areas, therefore, is a significant step towards closing the digital gap (AI in the Global South– NRI, 2023). While this requires substantial investment, its socio-economic benefits far outweigh the financial implications as it can foster economic development and inclusivity (Reskilling Revolution, n.d.).

Alongside digital infrastructure, another fundamental aspect is education. The future of work is changing dramatically due to AI, altering the nature of jobs and industries. Creating opportunities for individuals to learn AI itself and to build AI capability is, therefore, of crucial importance. More importantly, education, particularly focusing on AI-related skills, also empowers individuals to fully participate and benefit from this ever-progressing field (PwC, n.d.). Reskilling and upskilling programs are also central in preparing the workforce for AI-shaped industries. McKinsey Global Institute reveals that as many as 375 million workers globally will need to switch occupational categories and learn new skills by 2030 because of AI (Manyika et al., 2017). Reskilling programs, if done appropriately, can effectively help workers adapt to the changing job market and ensure that no one is left behind. The key is to offer tailored training programs to enhance the digital literacy and skills of both current and future workers.

While it is important to focus on these aspects, policymakers must also ensure the responsible and ethical use of AI. This can be achieved through the creation of sound ethical guidelines. Policymakers are responsible for defining these guidelines that ensure that AI technologies are used for the best interests of all citizens and that benefits and risks are shared equitably (Future of Life Institute, 2017). Besides, the formulation of regulatory frameworks should also be a priority. These frameworks should encourage innovation, transparency, and accountability, and should be able to address issues such as privacy, bias, and security in AI adoption (Ethics Guidelines for Trustworthy AI, 2019).

In conclusion, inclusive AI adoption is a challenging yet achievable goal. It requires strategic policy interventions from easing the digital divide through investment in digital infrastructure and education to reskilling and upskilling programs, and ethical guidelines and regulatory frameworks. As AI continues to permeate various facets of life, its adoption

should be a force for societal good, fostering economic growth, and improving the quality of life of citizens.

## 5. Global Perspectives on AI Adoption: Lessons and Prospects for Azerbaijan

As artificial intelligence continues to advance and become more integrated into our daily lives, it is crucial for countries to understand the current state of AI adoption globally. While some nations are at the forefront of AI development and implementation, others are still in the early stages of adoption. By examining the successes and challenges faced by countries leading the way in AI, nations like Azerbaijan can learn valuable lessons to accelerate their own AI strategies and avoid potential pitfalls.

Estonia, dubbed the 'most advanced digital society in the world' serves as a vital comparison, as well as a benchmark for Azerbaijan. Their adoption of AI has extensively affected both employment and inequality rates. While Estonia's employment rates fecundated due to AI, inequalities also rose. Notably, Estonia mitigated these effects through educational reforms and bolstering its IT sectors.

Estonia's adoption of AI has had a mixed impact on employment and inequality rates:

- The risk of losing jobs due to AI is smaller in Estonia compared to other OECD countries. Only 6% of jobs are estimated to disappear in Estonia, versus 9% on average in other OECD member states. This is likely because Estonia has a highly educated workforce able to learn digital skills to manage AI, and a labor market dominated by small companies that are less impacted by automation (Joamets & Chochia, 2020).

- The Estonian Unemployment Insurance Fund uses AI to predict long-term unemployment risks and offer customized services (Aiforgoodstg, 2020). This proactive approach aims to mitigate the potential negative impacts of AI on employment.

This means that Estonia's advanced digital society is yielding rather positive results; therefore, targeted policies to reskill workers and ensure equitable access to AI-driven opportunities will be important going forward. Azerbaijan can learn from Estonia's experience in harnessing AI to improve public services while mitigating potential negative impacts on employment and inequality.

In contrast to Estonia, South Korea serves as an example of a larger economy dealing with AI adoption. South Korea is top-tier regarding AI investment yet is grappling with employment and inequality issues, significantly those from age and gender disparities.

South Korea is grappling with the impact of AI adoption on employment and inequality, particularly issues stemming from age and gender disparities. A study by the Bank of Korea found that AI could replace up to 4 million jobs, or 14% of South Korea's workforce, over the next two decades (Bloomberg - Are You a Robot?, 2023)

To address these challenges, the South Korean government has launched several initiatives:



- The Ministry of Science, ICT and Future Planning (MSIP) laid out the Artificial Intelligence Information Industry Development Strategy to strengthen the foundation for AI growth (Lee & Choi, 2016).

- The government also announced a Comprehensive Strategy for the Artificial Intelligence Information Society to analyze the transformations brought by AI and propose policies to address the socioeconomic implications (ibid).

- The AI strategy document outlines use cases for AI to help address major societal challenges in South Korea, such as an aging population, gender inequality, and online bullying (Choi, 2020).

Such proactive measures taken by the South Korean government can be exemplary for Azerbaijan in dealing with issues pertinent to vulnerable demographics like older and female workers.

Japan, another Asian nation, offers crucial insights as well. Despite enlightened AI adoption, Japan is encountering issues associated with automation and subsequent job losses. Nonetheless, Japan has adopted an AI-focused reskilling approach to maintain employment and reduce inequalities. Industry leaders, such as Keidanren, have been encouraging Japanese companies to take steps to become AI-ready, recognizing that AI is a core technology for achieving Society 5.0 and the Sustainable Development Goals (Using AI to Realize Society 5.0 for SDGs, 2023).

From these countries, Azerbaijan could glean valuable best practices. Notably, the commitment to educational reform, as demonstrated by Estonia, is paramount. Enshrining AI and IT in educational curriculums could be invaluable to Azerbaijan. Concurrently, addressing demographic disparities brought by AI adoption, like South Korea, can inform Azerbaijan's approach significantly, with Japan's focus on reskilling its labor force highlighting the importance of upskilling and reskilling programs in Azerbaijan.

International collaboration offers Azerbaijan support and resources to navigate AI challenges better. Pooling resources and knowledge from international partners, both industry and academia, could expediently facilitate AI adoption in Azerbaijan. The United Nations Development Programme (UNDP), World Bank, and International Telecommunication Union (ITU) all offer relevant platforms for collaboration. Joining global initiatives like the AI for Good movement can bolster Azerbaijan's AI adoption, promote AI ethics, reduce job losses, and address inequalities. In conclusion, while Azerbaijan grapples with the challenges attached to AI adoption and its associated impacts on employment and inequality, it can extract several lessons from countries that are ahead in their AI journey. A concerted effort toward educational reform, coupled with demographic-specific interventions and investment in reskilling programs, all underpinned by international collaboration, can guide Azerbaijan's AI future.

## Conclusion

In conclusion, the transformative power of artificial intelligence (AI) presents both unprecedented opportunities and significant challenges for Azerbaijan and the global community at large. As AI becomes increasingly integrated into various sectors, it has the potential to drive innovation, enhance productivity, and foster economic growth. However, this technological advancement also exacerbates economic inequality, poses threats to employment stability, and requires careful navigation to ensure inclusive and ethical adoption.

The case of Azerbaijan exemplifies the complex interplay between AI-driven innovation and economic inequality. While the country has made significant strides in embracing AI and digitization, there remains a pressing need to address the widening gap between technological elites and marginalized communities. Policy interventions aimed at bridging this divide, such as investing in digital infrastructure, promoting education and reskilling programs, and implementing ethical guidelines and regulatory frameworks, are imperative to ensure that the benefits of AI are equitably distributed across society.

Furthermore, global perspectives on AI adoption offer valuable insights for Azerbaijan as it navigates its own AI journey. By learning from countries like Estonia, South Korea, and Japan, which have grappled with similar challenges and devised proactive strategies, Azerbaijan can develop a holistic approach to AI adoption that prioritizes inclusivity, addresses demographic disparities, and fosters international collaboration.

In essence, the future of AI in Azerbaijan hinges on the ability of policymakers, businesses, and civil society to collaborate effectively in harnessing the benefits of AI while mitigating its adverse effects. By embracing a balanced and proactive approach grounded in ethical principles and social responsibility, Azerbaijan can pave the way for a more equitable and sustainable AI-enabled future for all its citizens.



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