

FEATURES OF REGIONAL DEVELOPMENT OF AZERBAIJAN

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This article examines the features of Azerbaijan regional economy, assesses the opportunities and economic potential of liberated lands, evaluates investments in restoration of regional economy, reveals economic indicators for Azerbaijan regions and recommends the improving measures for Azerbaijan national economy development and strengthening. This article uses methods of observation, statistical analysis and grouping of data, and comparison of the results obtained. The authors used also SWOT and PEST analyzes to provide an expert assessment of Azerbaijan opportunities. The main objectives of study are: 1) study of theoretical characteristics of Azerbaijan regional economy; 2) analysis of competitive advantages of Azerbaijan liberated lands' economy; 3) study of industrial development and features of Azerbaijan regions' economies; 4) PEST and SWOT analysis of Azerbaijan regions' economic potential; 5) preparation of recommendations to strengthen the economic potential of the regions of the republic.

The authors propose: 1) introduce government measures to increase investment and innovation activity, 2) carrying out restructuring and reforming of enterprises, development of small and medium-sized businesses in newly liberated lands of Azerbaijan; 3) take measures to restructure natural monopolies and implement targeted programs for economy infrastructure development; 4) create a competitive environment; 5) create equal conditions in certain industry markets.

Keywords: regions of Azerbaijan, regional economics, SWOT analysis, PEST analysis, strategic objectives,

1. Introduction

The process of rational distribution of industry on economic regions, as is known, is carried out based on the characteristics of the territorial division of labor, taking into account local mineral resources, socio-economic and scientific-technical prerequisites.

Accordingly, the most important question arises - how to actually carry out the process of forming a regional industrial structure acceptable to Azerbaijan by rationally distributing it throughout the country.

We will try to answer this question, but it should be noted that rational does not mean uniform distribution, since it is “unevenness” that is the most important component of “any organized economic space” (The Path to the 21st Century, 1999, p. 575).

Modern conditions of economic growth and development require a more in-depth study of the regional structural factor. Changes in the regional structure, as well as in the sectoral structure, occur as a result of the further division of labor, deepening specialization of production, ongoing shifts in the distribution of natural and labor resources, and the achieved level in the development of production and social infrastructure.

Reproduction is largely predetermined by the characteristics of the demographic situation and the reproductive structure of basic production and non-production assets. It is at the regional level that this relationship becomes most noticeable (the relationship between the reproduction of products, demographic conditions and the specifics of the created production apparatus).

2. Regional economy: investigation of competitive advantages of economy of liberated lands of Azerbaijan

Regional policy contributes to the real unification of the actions of the government, ministries and departments in order to achieve acceptable results for each region and as a whole (Yuzbashiyeu, 2010). Therefore, the methods of implementing regional policy are:

- identification of areas in need;
- complete restoration of territories mined and destroyed during the 30-year period of Armenian occupation;
- restoration of depressed areas;
- “compensatory and stimulating” policies that reduce social disparities in the level and quality of life of the population, creating conditions for innovative development (Yuzbashiyeu, 2010, p. 478.).

It should be noted that regional policy measures in “depressed”, “needy” and fully recovering areas include direct financial assistance, favorable loans and credits, tax incentives, the creation of industrial and social infrastructure at the expense of the state, increasing the importance of government orders, implementing policies migration flows of the population (in particular, the resettlement of former refugees to their original places of residence).

Non-state regional economic policy is the one pursued by associations, self-government bodies, foreign states and their companies, international financial

organizations, manufacturing companies and banks, their combined structural forms and associations. As a result, it can be noted that the following stand out (Yuzbashiyeu, 2010):

- regional policy – different attitudes towards different regions, and the common goal is some redistribution of resources between regions, achieving an optimal territorial structure in order to transform the regional economies into innovation-oriented, competitive systems. Regional policy ultimately helps to reduce existing economic and social disproportions between individual regions in terms of income sources, imbalance, unevenness and differentiation of the level of socio-economic development, migration of internal and external migrants, development of the banking services market. Changing structural policy priorities;
- regional policy – the available methods for regional authorities to influence their territory to ensure sustainable economic development of the region;
- issues of rational placement of regions must comply with general efficiency requirements. Achieving interconnection of production (inter-industry agreement) in a certain territory is not an end in itself, but a means of achieving real results. The goal is to determine the main directions and priorities of structural transformations of industry, ensuring the creation and effective use of competitive advantages, increasing the level of its competitiveness.

The strategic priorities of structural restructuring and increasing the competitiveness of the country's economy are: real development directions corresponding to the chosen country, coupled with existing/identified economic benefits from foreign trade conditions; existing/identified opportunities for entering new international markets and strengthening the position in traditional markets, expanding the export structure in new and traditional markets; protection of national interests in world markets (Yuzbashiyeu, 2010, p. 478).

There are certain competitive advantages for this:

- favorable economic and geographical location;
- developed transport communications system and production infrastructure in general;
- minerals, water, land and forest resources;
- significant scientific, technical and technological potential;
- diversified industrial complexes, technology parks, clusters, industrial zones, free and special economic zones;
- high general educational level of the population, etc.

Azerbaijan, uses its advantageous geographical location, introduces progressive transport and logistics infrastructure in the region, and develops the renewable energy sector by restoring the economy of its liberated lands. President of Azerbaijan MR. Ilham Aliyev notes in his speech at the 16th Economic Cooperation Organization (ECO) Summit:

“The transport and logistics infrastructure of Azerbaijan is available to the ECO member countries. In recent years, Azerbaijan has invested billions of US dollars in its transport infrastructure and has become one of the transport and logistics hubs of Eurasia along the East-West and North-South transport corridors. Construction of the Azerbaijani sections of both corridors has already been completed. We are currently working to expand rail capacity along these corridors. Over the past twenty years, more than \$310 billion has been invested in Azerbaijani economy, of which about \$200 billion comes from the non-energy sector.

This is the result of a favorable investment climate in our country. Despite the fact that Azerbaijan is rich in oil and gas resources, we pay special attention to the development of the renewable energy sector... In the near future, Azerbaijan will become a potential exporter of green energy, including hydrogen energy... In 2021-2023 in liberated Karabakh and Eastern Zangezur, hydroelectric power stations with a total capacity of 170 MW were put into operation.

By the end of 2024, this figure will reach 270 MW. In a few years, the total capacity of our hydroelectric power stations in the territories liberated from the Armenian occupation will be 500 MW.” (Aliyev I., 2023). Let's consider Table 1.

Table 1.

PEST analysis of structural transformations in regions of Azerbaijan

Positive aspects	Negative aspects
Political factors	
<ul style="list-style-type: none"> ➤ multilateral agreements are being created in the field of investment, tax benefits, simplification of customs duties between Azerbaijan and other countries; ➤ the “Single Window” system was introduced in trade operations. 	<p>crisis, pandemic, local wars indicate the vulnerability of the oil and gas market to political events.</p>
Economic factors	
<ul style="list-style-type: none"> ➤ Since 2020, a progressive transport and logistics infrastructure has been introduced in liberated territories of Azerbaijan with the attraction of foreign investments; ➤ The renewable energy sector is developing - huge areas of wind generators are being created, solar panels are being introduced to generate energy; ➤ smart and green cities are being built, historical cities are being revived; ➤ preferential taxation of industrial and agricultural enterprises for 10 years; ➤ access to financial resources for entrepreneurs has been expanded. 	<ul style="list-style-type: none"> ➤ the growth of government spending has a dual impact on economic growth: on the one hand, it increases the stability of the economy, and on the other, it contributes to a decrease in entrepreneurial activity; ➤ regions have different rates of development of industrial production; ➤ the structure of industrial production is different; ➤ all economic regions, except Baku, were subsidized; ➤ not always, government support contributed to the rational use of available financial resources; ➤ there is an unequal volume of output per capita; ➤ the integrated nature of the region's development presupposes the achievement of optimal economic efficiency through real

	interconnection of production, taking into account the high degree of its concentration and specialization of related enterprises.
Social factors	
<ul style="list-style-type: none"> ➤ Residential, administrative and social facilities, as well as schools and kindergartens are being massively built in the cities of Agdam, Fizuli and Jebrail, Lachin, Shusha, Khankendi and Khojaly; ➤ Specialists with modern knowledge and experience are invited. 	<ul style="list-style-type: none"> ➤ In 2023 inflation in Azerbaijan has dropped to 8.8%, but still remains high; ➤ An opportunity is created to reduce vulnerability from corruption through administrative measures.
Technological factors	
<ul style="list-style-type: none"> ➤ Airports of international standard are being created, transport infrastructure is being updated; ➤ Telecommunications and ICT engineering structures are being improved; ➤ Industrial parks and free economic zones are being created in the liberated territories. 	<ul style="list-style-type: none"> ➤ Monopolization and growth in energy demand create the basis for the formation of the resource component of inflation, leading to a decrease in competitiveness, productivity, and increased imports of foreign goods.
Ecological factors	
<ul style="list-style-type: none"> ➤ "Green energy" zones are being created in the Karabakh and East Zangezur regions; ➤ Creation of new resorts and new types of tourism such as ecotourism, mountain tourism, religious tourism, entertainment tourism. 	<ul style="list-style-type: none"> ➤ The development of alternative types of energy shows the reaction of inflation to the structure of energy supply; ➤ The influence on the inflation process is manifested even with a minimal share of alternative types of energy (15-25%)

Note: assessment by S.Abasova on sources (Yuzbashiyeva and others, 2022; Yuzbashiyeva and others, 2023)

The most important task, as noted above, is the revival of lands liberated from occupation and their integration into the country's economic system, which is what all the activities of the country's government are aimed at. In this regard, the regional development of country and improvement of the regional structure become one of the priorities of current policy. As the main, electric power and main network infrastructure develops in the returned territories, the most capital-intensive projects are also scheduled to start here - the construction of new cities and industrial facilities.

In particular, in 2023, massive construction of residential, administrative and social facilities in Aghdam, Fizuli and Jebrail cities were carried out. In the shortest possible time, a master plan for the restoration of Lachin city was prepared, which allowed the gradual settlement of this city to begin in the fall of this year... New comfortable houses are being built in Karabakh, cities and villages are being built, and the rich industrial and agricultural potential of the liberated region is developing in the form of the formation of large industrial and agricultural complexes.

And for this, all comprehensive approaches are being taken, laying the foundation for transforming the liberated territories into a stimulating force for our economy. The industrial parks of the Aghdam and Jebrail regions will become a catalyst for economic growth and a key incentive for economic activity... the industrial parks of Karabakh have already attracted more than 200 million manats of private investment, and in general, according to the Ministry of Economy, applications for participation in projects in the

liberated territories were submitted by over 1,500 local and foreign companies” (Khalilova, 24.10.2023).

The President of the country has created conditions for the revival of lands (Tagiyeva, 2022a):

- “benefits: from January 1, 2023, for ten years they will not pay income tax for legal entities, as well as income and property taxes for individuals. In addition, not only profits from the sale of goods and services, but also non-operating income are exempt from taxes. At the same time, imports of goods, materials and raw materials for enterprises in the liberated territories are also exempt from value added tax (VAT) for a period of 10 years;
- benefits are also provided for utility services for entrepreneurs engaged in production activities on liberated lands;
- expanded access to financial resources for entrepreneurs carrying out various types of work in the liberated territories, and strengthening of the necessary state support in this direction;
- benefits for attracting highly qualified personnel to de-occupied lands (specialists with modern knowledge and experience, as well as improving procedures for issuing work permits);
- It is planned to provide additional tax benefits to entrepreneurs engaged in the processing of agricultural products.

As you know, the Karabakh and East Zangezur regions have been declared a “green energy” zone. Industrial parks and free economic zones (priority areas of investment for foreign entrepreneurs engaged in the industrial sector) are being created in liberated territories. At the first stage, investments in the amount of more than 50 million manats are planned in Aghdam Industrial Park, financial injections totaling over 30 million manats are expected in the economic zone of the Araz Valley (Tagiyeva, 2022a).

Along with agriculture, it is planned to expand the manufacturing industry (the expansion of agricultural production will contribute to the production of finished, processed agricultural products, which will increase the export value of the agricultural sector. Karabakh is also considered by Azerbaijan as a future tourism center”.

3. Industrial development and economic features of Azerbaijan regions

Historical features and industrial development of the region had a significant impact on the territorial structure of the economy, predetermining its inconsistency with the spatial distribution of the most important natural resources. Real rational development of regions presupposes the interconnection of a complex of processes associated, first of all, with the production, distribution, exchange and consumption of material goods, indicating the versatility of this problem.

The structure of region's industrial production is the more perfect if region development created in rational terms. Ultimately, all this will contribute to the rationalization of the overall industrial structure. It is by overcoming years of existing differences in the level of development of regions that it helps to increase the overall level of economic development. But this does not mean that everything will be the same in different regions. There will be different rates of development of industrial production, its different structure, and unequal volume of output per capital.

The integrated nature of the region's development presupposes the achievement of optimal economic efficiency through real interconnection of production, taking into account the high degree of its concentration and specialization of related enterprises with the aim of an economically acceptable division of labor on a national scale. It is important to answer the question: *How to overcome unevenness in regional development?* Based on the above, let us consider the structure of the gross regional product (see Table 2).

Table 2.
Gross regional product (GRP) and its structure

Azerbaijan regions	Structure (%)						Changes:
	2017	2018	2019	2020	2021	2022	Improvement (+) or deterioration (-)
Total	100.0	100.0	100.0	100.0	100.0	100.0	
Baku city	73.42	75.39	72.24	61.52	65.5	71.4	- 2.2
Nakhchivan Autonomous Republic	3.44	3.13	3.09	2.04	3.1	2.3	- 1.14
Absheron-Khyzy region	3.53	3.52	4.62	5.41	5.8	5.3	+ 1.77
Upland Shirvan region	0.89	0.87	0.95	0.71	1.2	1.0	+ 0.11
Ganja-Dashkesan region	2.76	2.57	2.71	3.07	2.8	2.3	- 0.46
Karabakh region	1.40	1.31	1.36	2.25	2.0	1.7	+ 0.3
Qazakh-Tovuz region	2.18	2.05	2.15	3.43	3.0	2.6	+ 0.42
Quba-Khachmaz region	1.84	1.78	2.06	2.85	2.5	2.1	+ 0.26
Lankaran-Astara region	2.49	2.30	2.34	3.18	2.84	2.4	- 0.09
Middle Aran region	3.41	3.02	3.18	4.03	3.5	2.9	- 0.51
Mil-Mughan region	1.72	1.51	1.70	2.59	2.3	2.0	+ 0.28
Sheki-Zagatala region	1.97	1.82	2.04	2.82	2.4	1.9	- 0.07
East Zangezur region	0.01	0.01	0.01	0.11	0.09	0.1	o – neutral
Shirvan-Salyan region	2.53	2.48	2.60	3.08	2.744	2.3	- 2.23

Note: changing was calculated by S.Abasova

Source: (Regions of Azerbaijan, 2023)

As can be seen from Table 2, in the structure of GRP, Baku city has got larger share (71.4% in 2022), which indicates the presence of disproportions in regional structure of Azerbaijan. The share of Baku decreased slightly compared to 2017 (73.42%). Despite the small percentage, the share in structure of GRP of Azerbaijan regions has increased. All economic regions, except Baku, were subsidized. The situation is improving, along with overall regional development, by channeling funds from the national budget to regional budgets. All this is a consequence of the ongoing economic policy, which is producing positive results.

It is advisable to use an ordinal approach to measuring the structural changes to reduce the existing regional asymmetry (a pairwise comparison of the industry of individual regions in terms of their structural development, which helps to increase the efficiency of the structure). For this purpose, it is advisable to carry out innovative modernization of a wide range of promising industries on the basis of mutually beneficial ties between the state, business, science, culture and education, which will help raise the level and improve the quality of life of the population of a certain territory.

It is advisable to develop the production and entrepreneurial sector, since entrepreneurship should become the basis of the reproduction process. Growing consumer demand will stimulate innovation in the services and manufacturing sectors. The situation has improved in the regions due to significant assistance from the head of state to the regional budgets for the purpose of their development and improving not only the economic but also the social status of the regions to reduce differences in regional development.

It is advisable to actually use the advantages of the budget structure and the presence/absence of clear budget policy priorities. Different countries have different budget structures, reflecting some specific socio-economic and political characteristics of countries, depending on the priorities of economic development.

The stability of the budget system is important, since its expenditure side shows the degree of importance and usefulness of the state given the existing budget constraints, indicates the level of state participation in the economy and the extent to which budget policy priorities are real and long-term (Yuzbashiyev, 2010). But, at the same time, it should be noted that the growth of government spending has a dual impact on economic growth: on the one hand, it increases the stability of the economy, and on the other, it contributes to a decrease in entrepreneurial activity.

At the same time, it is important to take into account how much the state's expenses correspond to its wealth, that is, a rich state spends a lot or a poor state spends little (the role of the state in economy is an indicator of the share of expenses in GDP and the level of wealth of a country is an indicator of GDP per capita).

The positive relationship between state participation in the economy and state wealth is important. Differences in the shares of expenses reveal the priority of budget policy, the ability to determine whether an increase in a given budget item occurs with an

increase in the budgetary capabilities of the state. You can have the same level of expenses, but different standards of living (Yuzbashiyeva, 2019).

This comparison contributes to the study of not only the development of the region, but also the gradual convergence/removal in their development due to the influence of various factors (institutional and political conditions for economic development) (Sharipova & Chabakaur, 2004). So, for example, consider the level of government spending and the standard of living of the population (see Table 3.)

Table 3.
Government expenditures and living standards

Azerbaijan regions	Government expenditures, million manats					Standard of living, manat		
	2020	2021	2022	2023	2024	2020	2021	2022
Azerbaijan	7548.7	7623.5	12156.96	13779.2	14090.6	8485.5	10693.8	14766.2
Baku city	6305.3	6322.9	10542.8	11814.8	12482.8	22960.8	30860.4	45714.1
Nakhchivan Autonomous Republic	370.6	378.1	457.6	452.8	343.3	3780.5	7269.97	7280.4
Absheron-Khyzy region	175.82	182.34	227.0	261.3	271.6	8091.2	10790.3	9086.7
Upland Shirvan region	32.63	33.94	47.37	52.62	111.1	1854.5	3816.9	4463.8
Ganja-Dashkesan region	82.88	88.87	113.18	117.82	155.4	4307.9	4909.4	5728.5
Karabakh region	72.93	78.03	90.23	77.30	70.97	2127.8	2370.9	3473.9
Qazakh-Tovuz region	61.77	63.53	81.28	85.22	110.2	4278.6	4701.2	5746.7
Quba-Khachmaz region	67.21	71.31	94.60	98.40	112.4	4367.9	4762.5	5772.5
Lankaran-Astara region	55.84	66.68	84.27	81.27	90.8	2828.94	3213.9	3905.5
Middle Aran region	84.73	102.63	110.43	108.39	118.03	4674.5	5140.4	5972.2
Mil-Mughan region	56.65	58.46	75.76	78.45	83.92	4245.3	4721.5	5769.5
Sheki-Zagatala region	81.59	87.10	101.23	87.03	68.96	3837.6	4039.1	4599.1
East Zangezur region	27.89	31.11	40.31	29.69	17.95	252.97	296.6	427.4
Shirvan-Salyan region	54.51	58.61	72.80	77.36	87.68	5274.9	5908.7	6878.3

Source: (Finance of Azerbaijan, 2022; Budget of Azerbaijan, 2024).

As can be seen from Table 3, an increase in government spending contributes to an increase in standard of population living, even despite a slight decrease in government spending in 2020. For example, there is an increase in GRP per capita in all economic regions and in Baku city. Azerbaijan ranked 50th among 163 countries (73.5 points) in 2022 with according the goals and objectives of SDGs (Global Sustainable Development Goals Index) (Official website of Azerbaijan Ministry of Economy, 2024). The “Strategy for the Socio-Economic Development of the Republic of Azerbaijan for 2022-2026” was adopted, which defines the country’s development priorities in accordance with the goals of sustainable development (Tagiyeva, 2022b).

The measures taken contributed to increasing the efficiency of budget expenditures. Thus, the efficiency of budget expenditures has increased using the budgetary coverage ratio. In general, the efficiency of budget expenditures for Azerbaijan in 2020 it was equal to 2.74, in 2021 – 2.84, in 2022 – 3.17. The efficiency of budget expenditures only by region was equal to 0.75 in 2020, in 2021 – 0.76, in 2022 – 1.21. An increase means an increase in its efficiency and costs from a social point of view. Efficiency has also increased taking into account the increase in budget expenditures. In 2020 it was equal to 0.94, in 2021 – 0.99, in 2022 – 0.90. The higher this indicator, the more effective the spending, since a small increase in it provides a greater increase in GDP.

There are noticeable differences across regions by indicator of budget expenditures' efficiency. So, in Baku in 2020 this indicator was equal to 2.70, in 2021 – 2.71, in 2022 – 4.51. In Nakhichevan was equal to 0.80 in 2020, in 2021 – 0.82, in 2022 – 0.98. In the Absheron-Khizi economic region was equal to 0.20 in 2020, in 2021 – 0.21, in 2022 – 0.26. In Nagorno Shirvan the budget expenditures' efficiency indicator was equal to 0.11 in 2020, in 2021 – 0.11, in 2022 – 0.15. The budget expenditures' efficiency indicator in Ganja-Dashkasan in 2020 was equal to 0.14, in 2021 – 0.15, in 2022 – 0.19. This indicator in Karabakh in 2020 was 0.10, in 2021 – 0.11, in 2022 – 0.12. In Gazakh-Tovuz in 2020 this indicator was 0.09, in 2021 – 0.10, in 2022 – 0.12. In Guba-Khachmaz the budget expenditures' efficiency indicator in 2020 was equal to 0.13, in 2021 – 0.13, in 2022 – 0.18. In Lankaran-Astara this indicator in 2020 was – 0.06, in 2021 – 0.07, in 2022 – 0.09. In Central Aran this indicator in 2020 was equal to 0.12, in 2021 – 0.15, in 2022 – 0.16. In Mil Mugan this indicator in 2020 demonstrated index 0.11, in 2021 – 0.12, in 2022 – 0.15. In Sheki-Zagatala this indicator in 2020 was equal to 0.13, in 2021 – 0.14, in 2022 – 0.16. In Eastern Zangelan in 2020 – 0.10, in 2021 – 0.11, in 2022 – 0.14. In Shirvan-Salyan in 2020 – 0.11, in 2021 – 0.12, in 2022 – 0.15.

As you can see, there is some growth in economic regions, but a very low level of efficiency of budget expenditures (the shadow economy, monopoly, corruption have a great influence). As is known, with the dominance of fossil hydrocarbons in the global energy balance, the structure of global energy supply has a high degree of monopolization.

Monopolization and growth in energy demand create the basis for the formation of the resource component of inflation, leading to a decrease in competitiveness, productivity, and increased imports of foreign goods.

As the President of Azerbaijan MR. I.H. Aliyev noted: “One of the main problems of the Azerbaijani economy is monopoly... If there is no competition, there will be no development, there will be no quality products... in the future, the main direction of economic development will be export... I have repeatedly said that we are preparing very seriously for this, and it has already been said here that we are creating logistics centers abroad. Why are we investing outside the country? In order for our products to reach

there, enter new markets. We are doing this so that entrepreneurs get new opportunities and can conveniently sell their products” (Official website of Azerbaijan President I. Aliyev, 2015).

Not always, government support contributed to the rational use of available financial resources. The development of alternative forms of energy shows the reaction of inflation to energy supply structure. The influence on the inflation process is manifested even with a minimal share of alternative types of energy (15-25%). In 2022 inflation in Azerbaijan was equal to 13.6%, in 2023 – 8.8%. An opportunity is being created to reduce vulnerability to corruption through administrative measures.

The crisis, pandemic, local wars indicate the vulnerability of the oil and gas market to political events. Therefore, it is advisable: providing targeted loans from the state in order to support long-term investments; create conditions for human potential development; conditions for increasing investment attractiveness and competitiveness, specialization, coordination, co-operation, integration, reducing the subsidy component of regions and their dependence on central financial policy, etc. This is important, since financial conditions are improving, but conditions are being created for their irrational use, risks and bankruptcies.

To this end, the Government is taking measures to optimize the management system, increase transparency, introduce new management mechanisms, and increase the efficiency of using existing economic and personnel potential. (see Table 4.)

Table 4.
Structure of investments and fixed assets (%)

Economic regions	Structure of investments, %					Structure of fixed assets, %					
	2018	2019	2020	2021	2022	2017	2018	2019	2020	2021	2022
Azerbaijan	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Baku city	62.2	58.8	61.8	60.6	53.2	61.5	60.9	66.6	66.9	60.7	61.0
Nakhchivan Autonomous Republic	5.9	5.6	6.1	6.3	5.6	13.0	9.2	7.4	6.6	7.7	10.4
Absheron-Khyzy region	7.1	13.7	12.6	7.3	3.9	1.7	6.7	5.8	12.1	9.0	9.5
Upland Shirvan region	1.8	2.1	1.3	1.3	1.6	1.1	0.9	2.5	1.0	2.2	0.9
Ganja-Dashkesan region	2.7	1.8	2.8	2.5	1.9	3.4	2.1	2.0	1.5	1.0	4.8
Karabakh region	2.2	1.5	1.5	8.0	10.6	2.12	1.5	1.5	1.3	2.7	1.74
Qazakh-Tovuz region	1.7	3.0	2.9	1.6	1.5	1.8	1.1	3.0	2.0	1.34	1.0
Quba-Khachmaz region	2.6	3.6	2.6	2.7	2.4	1.9	5.9	2.0	2.1	4.2	1.3
Lankaran-Astara region	2.9	1.5	1.2	0.9	1.7	2.5	1.9	1.6	1.4	4.4	2.3
Middle Aran region	2.4	2.6	2.2	0.9	1.0	4.4	1.8	2.6	2.3	3.1	1.6
Mil-Mughan region	1.9	1.7	0.6	0.5	0.7	2.0	1.3	2.2	0.6	1.5	1.3
Sheki-Zagatala region	2.2	2.2	2.7	1.2	1.4	1.7	2.2	1.1	0.7	0.95	2.3
East Zangezur region	0.01	0.01	0.13	5.1	12.5	0.2	0.1	0.0	0.0	0.2	0.5
Shirvan-Salyan region	2.5	2.0	1.5	0.9	1.8	2.7	2.2	1.9	1.7	1.1	1.4

Source: (Regions of Azerbaijan, 2023)

As the data in Table 4 shows, a larger percentage of investments and fixed assets belongs to Baku city, which indicates the presence of imbalances in regional development of Azerbaijan. Thus, the share of Baku in 2022 will be 53.2% of all investments and 61.0% of fixed assets. The remaining percentage was distributed between Nakhichevan and 12 economic regions of Azerbaijan. To improve the current situation, it is advisable to produce uncomplicated high-tech projects and create conditions for production of less complex products in order to create the foundations for sustainability and competitiveness.

The measures taken by the Government to reduce of inflation level which will influence to reduce inflationary pressure on investment processes and increase efficiency and investment activity in Azerbaijan regions (see Table 5.).

Table 5.

Investment activity in Azerbaijan regions and distribution of regions by gross output

Azerbaijan regions	Investment activity in regions, %						Gross output, million AZN	GDP per capita villages, manat	Index of efficiency of use of fixed assets	
	2017	2018	2019	2020	2021	2022	2022	2022	2020	2022
Azerbaijan	23.3	20.5	21.3	20.1	15.5	11.96	142486.2	14.07	1.30	0.33
Baku city	21.6	16.9	17.34	20.2	14.3	8.9	105536.7	45.17	1.87	0.34
Nakhchivan Autonomous Republic	39.2	38.6	38.4	59.7	31.6	29.4	3762.9	8.08	4.41	2.51
Absheron-Khyzy region	17.4	41.3	63.14	46.8	19.7	8.7	6643.1	7.60	6.37	0.98
Upland Shirvan region	44.6	43.3	47.24	37.0	17.96	19.8	1032.6	3.25	1.13	0.17
Ganja-Dashkesan region	24.4	21.6	13.7	18.14	14.1	10.0	2575.96	4.32	0.19	0.74
Karabakh region	44.9	34.3	23.5	13.5	62.4	73.8	3569.7	4.85	0.24	0.16
Qazakh-Tovuz region	17.8	17.3	30.1	17.2	8.4	6.7	2727.2	4.04	0.43	0.04
Quba-Khachmaz region	29.2	30.1	37.7	18.3	16.7	13.7	2402.7	4.42	0.65	0.08
Lankaran-Astara region	29.1	25.8	14.0	7.3	4.9	8.5	2453.8	2.64	0.18	0.18
Middle Aran region	17.1	16.1	17.7	11.2	3.96	4.1	2722.1	3.28	0.38	0.07
Mil-Mughan region	23.9	25.9	21.2	4.9	3.4	4.4	2262.84	3.73	0.06	0.11
Sheki-Zagatala region	24.8	25.1	22.8	19.1	7.6	8.4	2003.9	3.80	0.05	0.23
East Zangezur region	388.4	44.3	30.3	24.7	84.3	95.2	2258.6	7.52	0.001	0.67
Shirvan-Salyan region	22.8	20.3	16.4	9.8	5.24	9.6	2534.1	5.16	0.36	0.09

Note: Calculated by G.Yuzbashiyeva based on data (Regions of Azerbaijan, 2023)

As can be seen from the data in Table 5, an increase in investment activity is observed in Nagorno-Shirvan (19.8%), in Karabakh (73.8%), in Lankaran-Astara (8.5%), in Central Aran (4.1%), in Mil Mugan (4.4%), in Sheki-Zagatala (8.4%), in Eastern Zangezur (95.2%) and in Shirvan-Salyan (9.6%). Compared to 2017 there was a decrease and only in Karabakh there was an increase. Growth of the index of efficiency of use of fixed assets in 2022 in relation to 2020 observed in Ganja-Dashkesan (0.74), in Mil Mugan (0.11), in Sheki-Zagatala (0.23) and in Eastern Zangezur (0.67).

Despite the wave-like changes in investment activity and in the index of efficiency of use of fixed assets, the situation is explained by the most important task - the revival of lands liberated from occupation and their integration into the economic system of the country, which is what all the activities of the country's government are aimed at. Measures taken by the government to reduce inflationary pressure will help improve the efficiency of investment in fixed assets through increased investment activity, rational use of the number of employees and increased productivity of the number of operating enterprises (see Table 6).

Table 6.

Structure of the number of employees and the number of operating enterprises (%)

Azerbaijan regions	Structure of number of operating enterprises, %					Structure of the number of employees, %				
	2017	2019	2020	2021	2022	2017	2019	2020	2021	2022
Total:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
State	20.5	17.7	16.4	15.3	13.7	-	-	-	-	-
private	79.5	82.3	83.6	84.7	86.3	-	-	-	-	-
Baku city	48.5	52.7	53.9	54.2	55.2	46.0	49.5	50.8	51.3	51.8
Nakhchivan Autonomous Republic	4.9	3.4	3.2	3.0	2.7	6.5	6.4	6.4	6.4	6.3
Absheron-Khyzy region	9.1	10.4	10.1	10.3	10.8	5.5	5.5	5.5	5.8	5.8
Upland Shirvan region	1.74	1.64	1.54	1.6	1.5	1.9	1.7	1.7	1.6	1.6
Ganja-Dashkesan region	6.6	5.8	5.7	5.3	4.6	5.2	4.8	4.75	4.7	4.6
Karabakh region	2.5	2.34	2.3	2.3	2.3	4.5	4.2	4.0	3.8	3.8
Qazakh-Tovuz region	2.94	2.84	2.7	2.7	2.8	4.1	3.8	3.6	3.5	3.5
Quba-Khachmaz region	3.6	3.3	3.3	3.4	3.3	3.4	3.15	3.1	3.1	3.2
Lankaran-Astara region	3.3	3.2	3.2	3.2	3.2	4.6	4.2	4.1	4.0	3.9
Middle Aran region	5.38	4.5	4.3	4.3	4.2	5.2	4.7	4.5	4.4	4.4
Mil-Mughan region	2.6	2.34	2.4	2.3	2.2	3.1	2.9	2.7	2.6	2.5
Sheki-Zagatala region	4.8	4.3	4.2	4.5	4.4	4.8	4.4	4.3	4.3	4.2
East Zangezur region	0.4	0.44	0.4	0.3	0.5	1.5	1.4	1.3	1.3	1.2
Shirvan-Salyan region	3.56	2.94	3.0	2.7	2.7	3.7	3.3	3.2	3.2	3.2

Source: (Regions of Azerbaijan, 2023)

As can be seen from Table 6, there is a decrease in the share of state-owned enterprises and an increase in the number of enterprises in Baku (55.2% in 2022). Accordingly, there is an increase in the number of workers in Baku (51.8% in 2022). Despite the increase in number of operating enterprises and number of employees in Baku, certain measures are being taken in Azerbaijan regions to improve the current situation.

Measures are being taken to ensure compliance between the number of employees and the availability of jobs. This requires the development of existing human potential in various industries and sectors, which will help reduce unemployment and underemployment. Table 7. demonstrates the SWOT analysis of Azerbaijan regions' economic potential.

Table 7.

SWOT analysis of Azerbaijan regions' economic potential

Strengths	Weaknesses
<ul style="list-style-type: none"> ➤ the measures taken by Azerbaijan Government to reduce the level of inflation help reduce inflationary pressure on investment processes and increase efficiency and investment activity in the regions; ➤ conditions for increasing investment attractiveness and competitiveness, specialization, coordination, cooperation, integration, reducing the subsidy component of the regions and their dependence on the financial policy of the center, etc. 	<ul style="list-style-type: none"> ➤ in economic regions has observed some growth; ➤ a very low level of efficiency of budget expenditures (in case of shadow economy, monopoly, corruption have a great influence); ➤ not always, government support contributed to the rational use of available financial resources; ➤ there are conditions for irrational use of finances, risks and bankruptcies.
Opportunities	Threats
<ul style="list-style-type: none"> ➤ an opportunity is created to reduce vulnerability to corruption through administrative measures; ➤ advisable: provision of targeted loans from the state in order to support long-term investments; create conditions for the development of human potential; ➤ the financial conditions of the regions of Azerbaijan are improving. 	<ul style="list-style-type: none"> ➤ crisis, pandemic, local wars indicate the vulnerability of the oil and gas market to political events; ➤ monopolization and growth in energy demand create the basis for the formation of the resource component of inflation, leading to a decrease in competitiveness, productivity, and an increase in imports of foreign goods.

The activities of Azerbaijan government promote the proportional development of industries and sectors of regional economy, the development of auxiliary and service industries that ensure the effective development of specialization, the balanced development of agriculture, processing industries, the construction materials industry, and local industry.

Conclusion

The most important objectives of structural policy are: increasing investment and innovation activity, stimulating the rapid development of the high-tech sector of the economy; stimulating restructuring and reforming of enterprises, development of small and medium-sized businesses; restructuring of natural monopolies, ensuring tariff regulation of their services; implementation of targeted programs for the development of transport, communications and telecommunications, formation of a competitive environment, creation of equal conditions not only for economic activity, but also in certain industry markets (Yuzbashiyeva, 2010, p.478).

Regional factors and regional policies determine the regional situation, that is, we observe at one time or another the state of the region and the trends in its change. In turn, the regional situation influences regional factors and policies. The result of the interaction of regional factors, policies and situations gives the entrepreneurial climate, that is, the conditions and opportunities for doing business in a given territory.

Real solutions to problems are only possible by combining general problems with local problems. The sectoral division of labor accelerates the technical progress of production and is determined by the interests of its development. In some cases it connects enterprises of related and related industries, and in others it separates them from each other, and regional always unites them spatially. As a result, the rational distribution of industry across regions contributes to the rate of its growth as a whole, with a correct, constantly improving structure in conditions of maximizing the degree of complexity of industrial production. The objective reasons for systematic rationalization are:

- strengthening the role of each region in the social division of labor, subject to the effective use of local resources;
- maximizing the needs of the economy and population of each region through the growth of local production of relevant industrial products, taking into account technical progress and, if profitable, focusing on imported raw materials.

Recommendations

- to reduce the existing regional asymmetry, it is advisable to use an ordinal approach to measuring structural changes, that is, a pairwise comparison of the industry of individual regions in terms of their structural development, which helps to increase the efficiency of the structure. For this purpose, it is advisable to carry out innovative modernization of a wide range of promising industries on the basis of mutually beneficial ties between the state, business, science, culture and education, which will help raise the level and improve the quality of life of the population of a certain territory;

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- It is advisable to develop the production and entrepreneurial sector, since entrepreneurship should become the basis of the reproduction process. Growing consumer demand will stimulate innovation in the services and manufacturing sectors.
 - It is advisable to actually use the advantages of the budget structure and the presence/absence of clear budget policy priorities.
 - growth in government spending has a dual impact on economic growth: on the one hand, it increases the stability of the economy, and on the other, it contributes to a decrease in entrepreneurial activity.
 - it is advisable to ensure proportionality in the development of specialization industries, auxiliary and service industries. Sectors of specialization express the economy's orientation towards production. Service and auxiliary industries must in due time ensure the effective functioning of specialization industries.
 - it is advisable to balance the development of agriculture and industries processing agricultural raw materials. The poor development of processing industries and the production infrastructure of the complex leads to large losses of agricultural products, both at the harvesting stage and at the stage of transportation and storage.

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