Geo-economic development scenarios for the Republic of Azerbaijan*

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ABSTRACT. The paper provides systematic analysis of Azerbaijan’s geo-economic development potential scenarios in the context of multivariation and multi-vector nature of the existing economic development paradigm. Methodological framework of the research was formed based on 'intersection points' of the pair 'post-positivism → post-structuralism'. The author first provided scientific substantiation of the key mono- and multi-factor scenarios of Azerbaijan development based on technogenic and evolutionary competitiveness models. Analysing combination of interrelations between events and processes (such as revolutionary, political, social, military, etc.) in the triad 'country → multidimensional communication space → global economy' allowed for determining an integrative approach to formation of a single scenario for providing high competitive status of the country and its economic impact expansion in the Eurasian continent.

KEYWORDS. Geo-economics, geo-economic development, geo-economic competition, post-positivism, post-structuralism.

Introduction

Current geopolitical situation as well as features of relationship system formed at both regional and trans-regional level on the one hand, and the need for considering features of the consolidated external economic activity starting with strategic views to institutional support on the other hand, indicate that replacement of external economic strategy with the geo-economic one is not a unilateral act, but a holistic process requiring a transition period of certain duration.

For this purpose, at the initial stage of external economic strategy improvement the emphasis should be made on several aspects taking into account the following geo-economic requirements:

1. Based on economic interpretation of the geo-economic views system the conceptual generalization of methods to approach geo-economic goals (e.g., gaining a global income share) should be performed, i.e. it is necessary to achieve partial and consistent «economization» of geopolitical goals. For instance, one of the goals pursued by the consolidated external economic and political

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activities could be achieved by using an effective approach of expanding economic impact of Azerbaijan and reaching higher growth rates. Thus, in the contemporary geo-economic world expansion of economic impact zones leads also to increased political importance.

2. Theoretical basis of the country’s external economic strategy should be enriched by global conceptual views. In this case, the main purpose is to provide for theoretical foundations of a gradual transition from trade (as the principal foreign economic strategy direction) to the reproduction model.

3. At the same time, foreign economic strategy should focus not on abstract global economy but on geo-economic space having specific limits within which Azerbaijan takes or intends to take an active part. Since the mentioned changes allow engaging all geo-economic subjects (such as nation-states, government agencies, supranational associations, private sector, etc.) based on the active subject definition, they provide an effective basis for creating a favourable geo-economic situation.

One of the basic conditions for development and effective application of geo-economic development strategy by Azerbaijan implies creation of a unified methodology aimed at clarifying quite a complex geo-economic development process of countries, regarding in particular the following:

— Absence of a single methodological vision regarding geo-economics on the global scale. The experience of certain countries shows that in this regard methodological approaches are pluralistic in nature. The range of approaches in this case varies from methodological anarchy to the neo-liberal paradigm of the 'third way' economy, as well as covers both orthodox and unorthodox movements;

— Existence of geo-economics as a reservoir for diverse trends (geopolitics, geecology, geo-informatics, socio-cultural and religious values, etc.) creates specific barriers to developing a single methodology. In this situation, the best solution might imply methodological synthesis covering different areas: unfortunately, in methodological sense the inter-scientific synthesis system cannot be developed yet.

Evidently, given diversity of methodological approaches to clarification of the analysed subject, selection of uniform methodological principles along with development of effective geo-economic strategy proves quite remote from the concept of universality.
Contemporary features of Azerbaijan’s geo-economic position

Along with the above problems, methodological principles of Azerbaijan geo-economic strategy as widespread in the global practice can be formed with consideration of the country’s specific characteristics:

1. For Azerbaijan, state independence is of the highest strategic meaning. The main line of policy pursued by President Ilham Aliyev implies focus on strengthening, further developing of national statehood, along with steady increasing economic and political weight in the international arena. Azerbaijan is one of the countries with the scope of consolidated state activity entirely focused on the national cause.

2. The economic interpretation of Azerbaijani national cause is exhaustively reflected in the Azerbaijan 2020: A Look into the Future concept formulated by the President:
   — Transition to the ‘new economy’ based on expanding innovation activity;
   — Application of advanced international standards in the social sphere;
   — Achieving drastic changes in development of science, education, culture, and healthcare;
   — Society transition to a new stage of development – post-industrialism;
   — Azerbaijan’s gaining status of a developed country.

3. Azerbaijan is a ‘small’ country. However, in view of transition to post-industrialism meaning of the concept has also changed. That is, even if the real economic potential does not allow to set the ‘rules of the game’ at the global level, the country may by controlling non-financial flows ‘grow up’ to become a strong state on the regional scale. However, so far in geo-economic sense participation of Azerbaijan in the geo-economic reproduction cycle is insufficient.

4. Despite effective changes in a number of activities, currently the country’s economy mono-structuring level remains high while being energy-dependent.

5. Azerbaijan has very difficult relations with Armenia. This is causing significant problems in geopolitical space, while preventing better use of geo-economic activity opportunities, forcing Azerbaijan to maintain military budget in excess of USD 3 billion, thus in fact withdrawing significant funds from geo-economic circulation, which could be used with greater economic benefit.
At the same time there are many achievements important for geo-economic activities of the country:

1. Azerbaijan is a recognized regional leader holding 75% of the South Caucasus economic power. Speaking the language of geo-economic terms, Azerbaijan is a geo-economic pole, having every chance to become a regional power centre upon cessation of hostilities.

2. Multivector geopolitics of Azerbaijan, absence of political bias in a certain direction, preserved balance of interests between various power centres in the region provide for a sufficiently favourable situation in terms of geo-economic activity.

3. The country has made tremendous progress over the past decade. Macro-social, macroeconomic and political stability has become irreversible with formation of a reliable socio-economic system.

4. Successful national capital trans-nationalization process spreading in the neighbouring countries and the Eastern Europe is mainly directed towards real sector, which in turn allows organizing a geo-economic reproduction chain.

5. Azerbaijan has turned into one of the major players in the field of ensuring energy security of Europe. Strategic importance of energy carriers grants geo-economic advantage to the country in certain areas.

6. For European space, Azerbaijan serves as a transportation and communication hub, being one of the main transiter for economic flows. With East-West ultramodern information and communication channel launched into operation, Azerbaijan will become one of the highest-speed information channels (the Optical Silk Road).

When selecting a geo-economic development model one should perform detailed study of all the features characterizing geo-economic situation of the country:

— The argument claiming that geo-economics completely replaces geopolitics is of non-binding nature. Geo-economics plays a crucial role in achieving benefits in the area geopolitics focuses on;

— Geo-economic position of the country cannot be changed by a mere discretionary decision. It depends on the geographical, historical, civilization, national and many other factors, while being sustained by intersection points of them all. Priority of searching for cause-and-effect relationship should not form a wrong idea that in terms of determining geo-economic position there is an element of ‘doomness’ with the geo-economic position entirely dependent on the latter.
— In practice this means the country may not breach the existing balance of traditional relationships by giving priority to any party (East, West, the Islamic world, etc.). This approach should be used when both selecting geo-economic vectors and economic development paradigm (in the domestic national plane);
— Consideration of geo-economic particularities, their multi-vector nature and unique specific features of the parties targeted could contribute to extending the room for manoeuvring in selection of the geo-economic development model, while also eliminating the absolute dependence on the global ‘single correct’ decisions.

**Azerbaijan’s geo-economic development prospects**

Azerbaijan transition to the model of geo-economic development requires comprehensive addressing a number of closely interrelated tasks:

1. Transition to new interpretation of the state’s place and role (in the geo-economic sense), formation of a new ‘state – private sector’ relationship system based on the principles of efficient use of resources and effective control of social capital, promoting activity of the state at regional and trans-regional levels as a business operator;

2. Expanding economic activity boundaries both in spatial-geographic and functional aspects. Connecting to the geo-economic reproduction cycle, shifting economic activity centre of gravity to the geo-economic space;

3. When selecting key areas of the country’s geo-economic development one must seek balance between the most important challenges and potential results of economic growth;

4. Trans-nationalization of capital based on the innovation areas’ priority of and determining the innovation ‘niche’;

5. Implementation of relevant international infrastructure projects by means of transforming transport and communication lines, trade routes and information flow channels of the country to one of global trans-regional hubs;

6. Ensuring reliability of the system based on geo-economic specifics, need to achieve radical transformation in the activity of commodities and stock exchanges;

7. Parallel development of bilateral and multilateral relationship systems, support of multi-variant communications with the external world.
Currently, the geo-economic approach to economic development is characterized by a large range of elaborated scenarios. This process revealed interesting aspects related to activities of the states. Despite the unanimous opinion of most researchers who believe that developed countries have made great strides in geo-economic approach, this is not always true. It turned out that similarly to the developing countries, a number of developed countries also face numerous challenges in this area. The mentioned group of countries is now showing special interest in geo-economic scenarios. According to E. Solovyov, the special interest in geo-economics is based on the prospect «...of either missing the start of contest in globalization, or retaining relatively weak competitive positions». In this respect, i.e. when considering competitive position weakness, the developed scenarios in Russia, Italy, Greece, Ukraine and other countries are in fact of theoretical and conceptually generalized nature. It is clear that ‘core’ participation in the geo-economic (international) reproduction implies availability of resource potential (mainly, intellectual and technological resources). In this regard, researchers speaking from neighbouring countries, Russia, in particular, keep emphasizing alternative paths of development: «an idea was offered that Russia may initiate establishment of new civilization coordinates skipping the post-industrial stage of development. This is a neo-economic model». It is a known fact that the history of the Russian state always went along with the urging issue implying search of a ‘special way’. However, skipping the historical stage of development and creating a new civilization based on a neo-economic model with its abstract theoretical construction can be regarded at least as naive.

Using any approach, two major problems, i.e. identification of strategic national interests and developing behavioural strategy of the country under the above geo-economic development scenarios are left behind. Doubtlessly, based on the global context, in terms of the geo-economic impact capabilities the Eurasian continent remains the primary region. Z. Brzezinski argues that «Eurasia is a supercontinent of the globe acting as a kind of axis». 

2 Solovyov E. G. Geopolitical analysis of contemporary international problems: Pro et contra. / Solovyov E. G. // Polis, No. 6, 2001, p.116. [In Russian].
Pointing out that America's main competitors are located right here, Z. Brzezinski indicates that the state becoming dominant in the territory will have a decisive impact in two of the three most economically advanced regions of the world: Western Europe and East Asia. At the same time, it will almost automatically control developments in the Middle East and Africa, which suggests that it is inexpedient to develop one policy for Europe and quite another – for Asia, but a single one for Eurasia should be formulated instead.

It is known that most of the countries in the world today are influenced by a technogenic model. Technology creates a new world order. Position of individual economic entities and countries as a whole in global, regional or trans-regional aspects is determined by their level of competitiveness. Basic conceptual views existing in the XX century and related to competitiveness failed to provide a general answer that would also take into account the latest global challenges. Competitiveness has long been inconsistent with the notion of a benefit resulted from acquiring relatively higher quality goods or services from a competitor, while instead it is a process depending on technological development diversity. Of course, in the state and global context it must primarily meet the global economic development trend. In this regard, the need for developing a proper course of action for individual economic entities and the state as a whole becomes a pressing issue. Despite the multi-variant development scenarios, selection should be made along with taking country specifics into account. Our research shows that along with the ‘main line’ in selection of the development vector there are numerous derivative vectors (eventually connecting with the ‘main line’) and symbiosis of different configurations thereof. Identification of Azerbaijan’s development scenario main vector in geo-economic space can be made based on the following option:

1. **Formation of competitiveness technogenic model.** i.e. applying system of values characteristic of post-industrial society. Implementing ‘supremacy’ of technology in the economy causes major changes including those related to mental values.

Our research results show that transition to the ‘technological pyramid’ model widely applied in developed regions of the world is a long process impossible to be implemented in a short period of time. Today, Azerbaijan manufactures mainly homogeneous and partially complex configuration products competitiveness of which is always questioned. That is, in the accepted hierarchy (technological pyramid) our country is located on the lower floor while taking certain efforts to go up to the middle floor. Transi-
tion to the top floor depends on intensity as regards implementing the concept of new technological principles «unique products \(\rightarrow\) R&D technologies». As noted above, in terms of being the ‘main line’ technology pyramid development scenario rejects abrupt upgrading, whereas staged rise (use of derivative options) is accompanied by both losses in geo-economic area and by giving way to the loss of the scarcest resource – time. The ‘technological pyramid’ model prompts dramatic changes in the nature of the market, therefore:

— Regular use of marketing technologies and unprecedented increase in labour productivity during the industrial revolution has turned the «seller’s market» into a «buyer’s market». By now, the process has been reversed. Supply again comes to the fore due to its unique nature;

— This model creates a monopoly position in the market. The high degree of individualization, increase in the market power of the technology owner along with monopolization change the type of competition. Thus, transition from the ‘pyramid’ low technology level to the top one is accompanied by an increase of value added and the degree of control over markets and business efficiency. Therefore, for countries which have only started on the road of market economy, this system may prompt the effect of ‘overbalancing’. At the stage of achieving free competition the business struggle at different levels and within one level of this model may lead to a paradoxical situation – disappearance of the model as an institution. Simultaneously, with 7 advanced countries owning 46 of 50 meta-technologies\(^5\) enabling competitive production, the technology gap between developed and less developed countries becomes virtually insurmountable, while excluding the possibility of succeeding in global competition for the latter ones.

We believe that transition process to the technogenic model creating a new world order should along with specific organically linked stages be designed subject to the existing potential adequate compliance with the national strategic interests of the country.

2. Application of competitiveness evolutionary model. Unlike technogenic model providing for the only correct way of implementing successful macroeconomic development strategy by

achieving the highest level of technological competitiveness, the evolutionary model allows creating a more comprehensive and multi-factorial set of tools for implementing strategies. In fact, the essence of differences covers a much broader plane:

1) Given the evolutionary aspects of setting on the geo-economic development trajectory, it goes without need of proving that there are basic conditions for a direct transition to the technogenic model, failure to ensure which in terms of ‘abrupt’ development process will lead to the breakdown of such concepts as causal and genetic relations. In other words, the evolutionary ‘from simple to complex’ approach for a ‘small’ country is less effective compared to non-evolutionary one. However, the world practice has not seen an example of such a transformation;

2) Social temporal factor role in the transition process. The question still unsolved is as follows: is it possible to transit to post-industrialism without establishing a completely industrial (modern) society? It is known that post-industrialism implies a qualitatively different progressive stage of a highly industrialized society. That is a higher development level. Thus, the initial prerequisite is to achieve a high level of industrial society. Otherwise, a country may face not the real transition, but an imitation thereof. In this sense, a country cannot skip certain stages of the social time: its course (that of time) can simply be ‘sped up’, but this is only possible within the evolutionary approach.

The main arguments of those supporting lack of an option to the ‘technological pyramid’ imply that in today’s globalized world the importance of a country (on the global scale) is determined by the stage of its joining the technological pyramid. This position is absolutely correct. However, in terms of justifying immediate transition to this model the hopes for spontaneous changes at least raise questions. This does not go beyond the concept of technological determinism revived in modern terms and suggesting that complex technologies in themselves will lead to renewal of society and establishment of a new social type.

3. Degree of efficiency with respect to the geo-economic approach based on mono or multi-factorial nature. ‘Technological pyramid’ is a mono-factor model. However, development scenarios of a country or countries also have other problem situations: technological development alone would suffice. In fact, implementation of most nuances allowing to achieve geo-economic benefits, including technological ones, is under the direct influence of the principles and procedural rules formed by combination of interrelations between events and processes (such as evolutionary, political, social, military, etc.) in the triad ‘country →
multidimensional communication space → global economy'. Therefore, in order to achieve visible results, it would be correct to proceed from the fact that the path to excellence in geo-economic competition goes not in one but in many directions which are closely interrelated.

When comparing the presented geo-economic development scenarios we can reach a number of other conclusions. In fact, current socio-economic transformations are those generators that form international markets. Thus, regions located in the lower floors of the ‘technological pyramid’ operate in ‘buyer's markets’, whereas those on the top floors – are active in ‘seller’s markets’. ‘Collision’ of markets that differ in main parameters can lead to all sorts of geo-economic changes in the world.

Contrary to industrial regions of the planet’s prosperous pole (the world’s major centres) that develop due to economic activity and monopolistic regulation under conditions of free competition and traditional societies, market collisions in regions with archaic methods lead to further acceleration of the globalized world mass localization. Regarding the situation under analysis, in case of no major changes, the actual essence of geo-economic benefits will become characteristic only for post-industrial countries.

**Integrated approach to Azerbaijan’s geo-economic development scenario formation**

Evidently, regarding both Azerbaijan geo-economic development scenarios in terms of ‘national economy → geo-economic space’ conjunction, the first component (i.e. national economy) comprises resource potential growth (in the broadest sense), process organizing and progression stages with the development dynamics taken into account. At the same time it is clear that application of the ‘technological pyramid’ model as the basis would bring the need for innovation to the fore. This should be regarded as a natural change of priorities, since innovative processes are the foundation for establishing ‘new economy’.

One of the most important conditions for achieving success in the geo-economic plane implies a systematic approach to industrial policy. As shown by our research, in majority of developing countries (in part this applies to the Azerbaijani reality as well) activities carried out under the industrial policy, in particular, regarding support of national enterprises, are a set of quick response actions to eliminate the most negative consequences arising during implementation of economic policy, but in no case im-
ply steps for establishment and implementation of the preventive public policy. Regarding a country’s territory not as a combination of interrelated regions under administrative governance, but as an independent territorial unit leads to manifestation of a ‘fragmentary’ approach to industrial policy.

Therefore, as the basic methods of industrial policy are aimed not at the system as a whole, but at individual functional structures, they prove insufficient for industry reconstruction and solving structural problems. A problem manifestation in external environment leads to a new type of competition — ‘inter-level and intra-level competition’ entailing further complication of the geo-economic situation. Naturally, in such competition the winning country will be one applying a systematic and comprehensive approach in solving the problem. Along with that, the country will prove inadequacy of theoretical views on circumstances under which integration processes in economics and finance flow, and will discover that the primary role in distribution is vested not in the market, but in the country as a system.

Clearly, the issue of commercial and industrial strategy formation grew extremely pressing due to the ‘threat’ of geo-economic competition. The nature of international competition and the ‘gaps’ existing in the industrial policy prompt the need for establishment and operation of a single management unit, while in case of failure to comply with respective conditions — predetermines possibility of inefficiency thereof. This also concerns the need for paying particular attention to spreading of technological innovations and transformation of the country into a country-system.

The reasons are as follows: firstly, the failure to become a country-system, i.e. failure to go on within inherent geo-economic reproduction cycle, entails incapability to resist geo-economic competition. Secondly, improving economic efficiency of individual businesses (economic entities) is insufficient to maintain competitiveness in the geo-economic space. This requires availability of the ‘effective environment’ or effectiveness of the environment in its essence being manifestation of ‘systemic effect’. Effectiveness of the environment in which an economic entity operates plays an invaluable role in creation of integration ties, scientific knowledge and innovation, as well as in creating technologies.

Thirdly, certain innovations or technological novelties produce little influence on the competitiveness system, whereas it can be effective only in case of ‘effective environment’ available.
Fourthly, industrial structure of the mentioned group of countries (including Azerbaijan) mainly consisted and still consists of traditional industries. High-tech manufacturing and service industry occupy an extremely small space. Importance of this aspect is justified by the need for transition to a post-industrial society type.

Fifthly, development of competition (internationally) for these countries, primarily creates dangerous situations in the structural respect. Insufficient degree of participating in strategic areas (informatics, communications, etc.) in geo-economic space literally pulls the industry as a whole to a structural ‘morass’ ending up with status-quo ‘conservation’. It is through this prism that institutional structures should be formed capable to ensure development of scientific research, spreading of scientific achievements and innovations created among economic entities along with consideration of current production and economy requirements.

Science Development Fund established and operating in Azerbaijan to a degree covers some elements of the issues raised. However, the mission of the fund is more extensive and generally encompasses most areas of science. The structure mentioned in our paper should be localized only within areas that enable scientific research to achieve superior position in the geo-economic competition and also to perform the function of spreading innovations. Such organization can also play an important role in shaping interests of the private sector in the reviewed area. It is known that most of the country’s existing private economic structures are not interested in scientific research and experimental design activities. Lack of interest is on the one hand associated with a small number of entities and their traditional specialization, while on the other hand being due to absence of the above organization providing for individualization of scientific innovative activity.

As a result, companies try their best to keep (rather than expand) gained positions, thereby becoming a factor exposed to various counter-effects and preventing potential development of other areas. Designing concrete plans with consideration of this aspect ultimately plays a major role in effective forecasting and responding to dynamic changes in the state of geo-economic competition.

Relying on the experience of developed countries, the key aspect in formation of national development strategies for research and innovation activities in any country implies incorporation of geo-economic interests of the country and the state of geo-
economic competition. Experience of the developed countries shows that the main problem in planning research and innovation activities implies ensuring compliance with its geo-economic competition logics. In this case, planning should take into account two main features: 1) the need to prevent ignoring competitive advantages of the ‘country-system’ along with taking into account integration of the country in the innovation and research system (aimed at cooperation); 2) while approaching this problem, the centre of gravity should be shifted from supply to demand.

In this regard, of particular interest is the French version of cooperation between enterprises and universities. Activities under CIFRE (industrial agreement of training through research) programme occupy an exceptional place in transformation of research into a social process. By means of these agreements ministries provide funding of work on theses dedicated to the issues of interest to enterprises. Through this, various kinds of research such as fundamental applied and held by universities and companies are integrated.

Another way to support development of research and innovation activities offered by global practice is internationalization of national companies. In this respect, great importance is vested in the need to attract foreign investment and ensuring their ‘stay’ in the country.

For example, in France, attracting of foreign investment is performed by a dedicated organization (DATAP) incorporating a network of regional development agencies. A similar approach is observed in England. Along with all the traditional methods, stimulation by the British trade unions has taken the form of real social dumping.

Conclusions

Thus, replacement of external economic strategy with the geo-economic one is not a unilateral act, but a holistic process requiring a transition period of certain duration. Despite the fact of Azerbaijan being a recognized regional leader holding 75% of the South Caucasus economic power, currently the country’s economy mono-structuring level remains high while being energy-dependent.

Multivector geopolitics of Azerbaijan, absence of political bias in a certain direction, preserved balance of interests between

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6 Nomisma, Italian industrial report 1993. II Mulino, Bologna, 1994, p. 173. [In Italian]
various power centres in the region create pre-requisites for designing an efficient geo-economic development scenario of the country allowing to provide high competitive status of the country and its economic impact expansion in the Eurasian continent.

Based on the synthesis of key technological achievements and evolutionary model of competitiveness the author has determined priority directions of Azerbaijan development, in particular:

— transition to new interpretation of the state’s place and role (in the geo-economic sense), formation of a new ‘state – private sector’ relationship system based on the principles of efficient use of resources and effective control of social capital, promoting activity of the state at regional and trans-regional levels as a business operator;

— expanding economic activity boundaries both in spatial-geographic and functional aspects. Connecting to the geo-economic reproduction cycle, shifting economic activity centre of gravity to the geo-economic space;

— parallel development of bilateral and multilateral relationship systems, support of multi-variant communications with the external world.

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