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Subject: **Ongoing Research Proposal**

Thesis Dissertation: The pertinence of “Knowledge Based Azerbaijan” hypothesis: case study Knowledge sharing in the Oil sector.

"How economic growth is generated?" was the central issue for any modern economist since the appearance of the first society based on market economy. No economy in the history of the world has progressed at the same speed as the market economies of North America, EU and Japan in recent centuries. The Soviet Union fully exploited its natural resources and human service its economy centrally planned, but the living standards lagged far behind that of the free market economy and, eventually, the Soviet Union collapsed because of its inability to provide rapid changes to its citizens. It's interesting to explain why the Western economies are increasingly flexible than others?

At the same time, since the 2nd half of the twentieth century, a whole school of economic thought was developing dissatisfied with the previous economic theories and focusing on the leading role of knowledge in the competitiveness and growth of nations. This scientific discipline, the knowledge economy define and analyze a central concept of the organization and economic development, but also to mark a moment in history where the share of knowledge among all factors of production took place more and more important.

The European Council held a special meeting on 23-24 March 2000 in Lisbon to agree a new strategic goal for the Union in order to strengthen employment, economic reform and social cohesion as part of a knowledge-based economy. The U.S. economy, based on the emergence of "new" knowledge driven economy and its leadership in ICT, is beginning to take a serious advance on all European economies. To preserve its social model and especially continue to provide its citizens new opportunities, jobs and a good quality of life, Europe must act with determination, especially as a emerging economic challenge growing on the side of Asia and taking into account the slow growing of European population. The EU set itself "a strategic objective for the next decade: to become the knowledge economy the most competitive and

dynamic knowledge. This was proof of how modern economies rely and act on this type of choice to ensure social cohesion and well being of all.

The rapid and accelerating pace of change means it is urgent for Caucasian countries to act together and urgently to harness the full benefits of the opportunities presented. Regarding Azerbaijan, with the collapse of the Soviet Union, the economy seems to experience many changes both in structure and in the concept. Since independence, the country has experienced many political orientations, economic and social view of its unstable environment. First, the government could attract foreign investment through the "Contract of the Century", the Operating Agreement of Azeri oil resources by European companies, U.S. and Russia, bringing a strong guarantee of its future development.



Thus the strategy of investment-based view has played an important role in the recovery of the Azerbaijan economy. A rapid change is occurring with oil production that began in 1997 triggered a strong economic growth. In recent years, Azerbaijan's GDP has recorded a very high level or even the world's strongest reaching 30% per year, mainly thanks to the oil and gas export and its positive impact on the domestic economy. Natural resources generate more than 50% of GDP and 87% of exports, so the competitiveness of the economy remains dependent on oil resources.

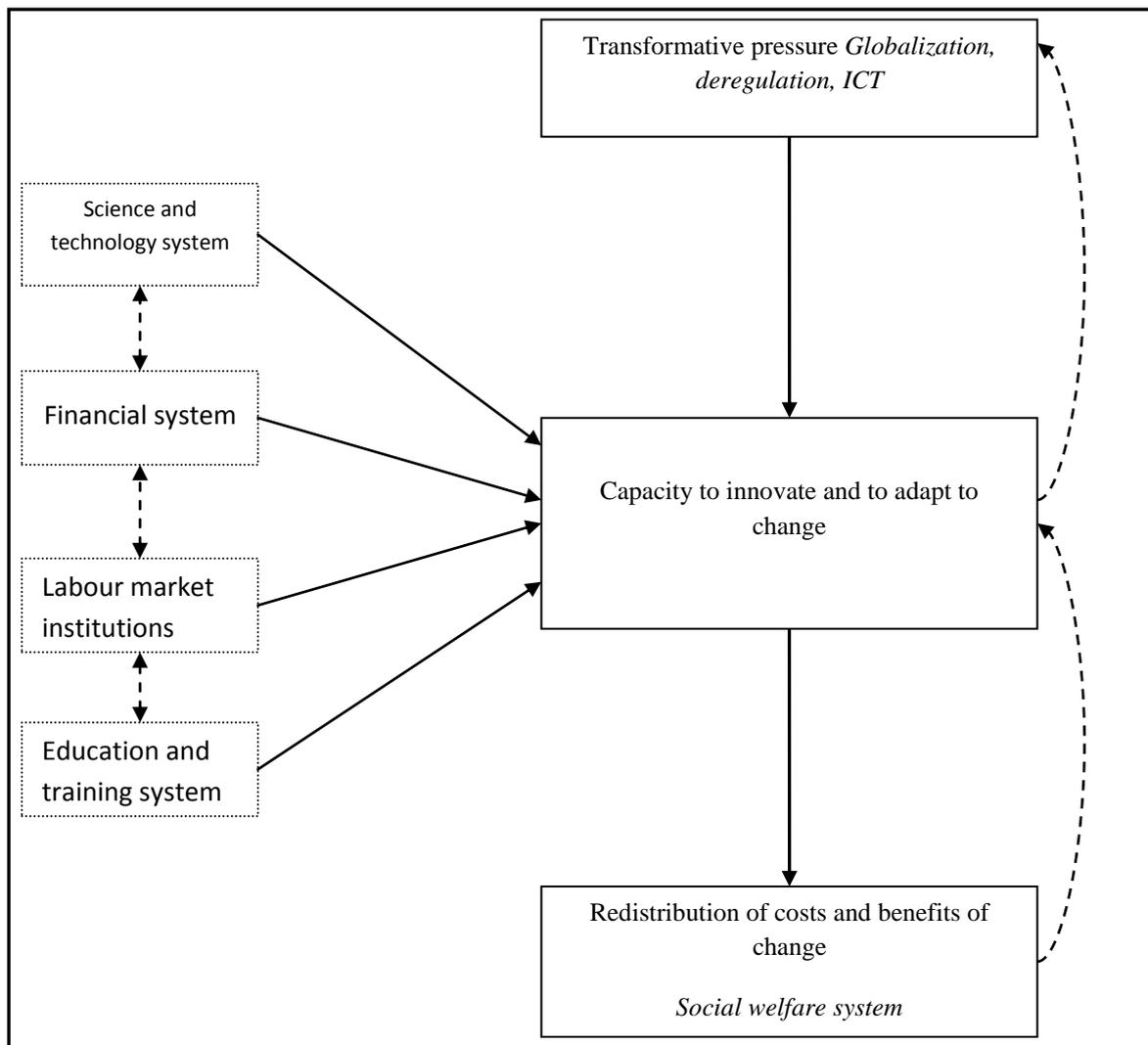
Discussions on the diversification of the economy and sustainable development led to a new perspective from the part of many governments and international organizations in Baku. The government announced on ICT as its second priority after the oil sector and has set a goal of equalizing income between these two sectors by 2020.

Largely based on the American and European model, adding the support of several international organizations and EU, Azerbaijan wants to catch up with the European average life and become a leader in the Transcaucasia region. This vision, based on creating an Azerbaijani knowledge society would fight against poverty and raise the employment rate while improving the country's competitiveness both regionally and globally. The Knowledge-based Azerbaijan sees future Azerbaijan as a knowledge-based society in which scientific

research directed at finding new knowledge, application of knowledge and skills, and developing human capital will have become the source of growth and competitiveness of the economy, labour, and quality of life.

Theoretically, this approach can lead to a positive result, but the fundamental question needs to be studied in depth to what areas the Azerbaijani economy has to specialize, she would invest in high tech products and services, in medium tech, or "low tech" pursuing the tradition. So, the thesis project will aim to investigate critically and in detail the relevance of the approach based on the knowledge driven economy for Azerbaijan. Given that the subject no study has been done before, the question would have important implications.

This essay plans at bringing the understanding of the eventual dynamic interplay between knowledge creation, learning and innovation by the firmes and so the whole economy, on the one hand, and the impact on economic performance and competitiveness of Azerbaijan economy on the other hand.



Above we noticed that Azerbaijan gained its independence from the Soviet Union in 1991, but the country continues to face considerable problems in making the transition from a command to a market economy, including the loss of its traditional markets, the need to diversify its economy, excessive bureaucratic regulation, and the slow pace of structural reforms. Azerbaijan is an industrial-agricultural republic. The diversified economy of Azerbaijan is based on the use of rich and various mineral reserves. Besides oil and gas, the reserves of iron ore, zinc ore, molybdenum ore, alunite, rock salt, boring waters containing iodine and bromine, gypsum, lime stone, bitumen, clay, and marble are used in industrial exploitation, including, hydro-electric power resources.

The agriculture of the Republic is specialized in the cultivation of vegetables, fruits, cotton, tobacco, subtropical cultures, silkworm and sheep breeding. Accordingly, special place in the

industrial structure of the country is shared by the fields busy with primary processing of the agricultural raw material.

Azerbaijan possesses considerable labor manpower reserves, as the result of natural accretion of population. A far-flung transport network supplies the developing economic relations of Azerbaijan with foreign countries. Azerbaijan is distinguished as an area of oil extraction and refining, chemical, electromechanical industries, oil engineering and machine building, ferrous and nonferrous metallurgy industries, production of building materials, light and food industries. The main sections of the Republic's economy are the branches of heavy industry and industry on the whole.

Today Oil sector generates more than 52 per cent of the gross domestic product, but only 2 per cent of all jobs. That's what we understand the reason to implement a comprehensive strategy of Knowledge-based Azerbaijan through encouraging new businesses in non-oil sector and spur economic development. This must be one of the biggest challenges of the Government of Azerbaijan.

As we noticed above the challenge to convert "black gold"-oil into "human gold"-people with skills and opportunities” is a great importance, but in the reality the general understanding is still very poor including in the midst of politicians, entrepreneurs, public servants and scientists. Increased funding on its own is not sufficient to properly implement Knowledge-based Azerbaijan, but the funding must be channeled to the most perspective fields. A strategy for raising the competitiveness of the economy must be based on a vision that has strong support in the society and on a national development plan that stems from it. Neither is a declarative call to the youth to choose for the fields of science and technology sufficient.

General upgrading of science infrastructure is of no help. This must be integrated into the elaboration of the necessary basis for the development of education and innovation. Only supporting single research and development projects *per se* create a significant amount of benefit. It is important to establish regionally and internationally renowned centers of excellence in science. It is perhaps important to pay attention the cases of different countries and to indicate what might be learnt from the study of various systems. That's one of the solutions to be taken into account. However, there are several specific characteristics of the system that need to underline before one considers the transfer of for example “good American, Norwegian, Korean practices” to Azerbaijan national systems. These models might

serve as a prism through which the characteristics of other systems can be seen and as a contrast that brings out their characteristics more clearly. At the same time, it should be recognized that some of the most important features have roots far back in history. However it is true that political actors, policy-makers and scientists can learn something important from the study of the other systems of innovation and competence building such as the US as a knowledge based economy. Many authors assume that this kind of international institutional learning is radically different from the now so popular idea of “international benchmarking”. It is vital that some of the comprehensive ideas behind benchmarking may be useful in relation to scientific and policy learning. To focus the attention on alternative ways used elsewhere of doing things and to reflect on what possibly could be learnt from these observations is useful and it gives rise to a process of “learning by comparing”. As pointed out above, we can approximately draw on the experiences of Finland, Norway and the Asian Tigers, so the main pillars for raising the competitiveness of Azerbaijani economy may be indicated:

- purposeful effort to attract knowledge and technology intensive foreign direct investments;
- specializing on the sectors that are perceived to induce the highest rate of growth (IT, bio and nanotechnology), and using these technologies to raise the productivity of the traditional industries;
- significantly raising the effectiveness of educational system, investments into education, skill conversion and retraining on all levels.

The purpose of the current survey is to understand debate about how private firms and public organizations can organize themselves so that they are better able to utilize the technological and organizational possibilities available today. On microeconomic level that we are not mentioned hereby, it is vital to put the focus on how firms adopt learning organizations, invest in human resources, enter into network relationships and hire and fire personnel, to analyze the knowledge production and knowledge flows between sectors and firms, understand organizational change at the level of the firm to the conduct of the firm in the labour market and so on.

We believe that the idea of using different successful experiences, as US, Danish, Korean approaches as a benchmark for economic policy and institutional reform is supporting by

many authors. That's not a magic formula but it should be recognized as one of the best references and we have to give strong priority to integrate the positive and relevant aspects of these models-competence building systems.

The project is a continuation of my Master graduate work- memoire for which I tried to describe the problem. It will thus give a clarification on this issue by sticking to certain aspects, including the perception of choice for the Azerbaijani economy of tomorrow.

Seattle, 15TH March, 2011