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TERRITORIAL ORGANIZATION

OF INDUSTRIAL ENTERPRISES: FEATURES OF INVESTMENT POTENTIAL FORMATION AND DEVELOPMENT PROBLEMS IN AZERBAIJAN

ORGANIZACIÓN TERRITORIAL DE LAS EMPRESAS INDUSTRIALES: CARACTERÍSTICAS DE LA FORMACIÓN DEL POTENCIAL DE INVERSIÓN Y PROBLEMAS DE DESARROLLO EN AZERBAIYÁN

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ABSTRACT

The study aims at analyzing how to enhance industrial production efficiency in Azerbaijan through a comprehensive analysis of its regions. In the research, various methods are used such as comparative analytical analysis and a systematic approach, utilizing economic development categories like productivity and innovation. The study underscores the importance of considering legal, political, economic, moral, and psychological aspects for the systematic and comprehensive development of industrial production. It is emphasized the regulatory role of the state, prospects for sustainable development in the non-oil sector, the use of human capital to foster entrepreneurship through fair competition, and strategic allocation of industrial enterprises and investments across regions. Recommendations are made aiming at attracting and improve the investments, resolving socio-economic challenges in regions, and creating a better legal framework.

Keywords: Economic potential. Investment opportunities.

RESUMEN

El estudio tiene como objetivo analizar cómo mejorar la eficiencia de la producción industrial en Azerbaiyán a través de un análisis integral de sus regiones. En la investigación se utilizan varios métodos, como el análisis analítico comparativo y un enfoque sistemático, utilizando categorías de desarrollo económico como productividad e innovación. El estudio subraya la importancia de considerar aspectos legales, políticos, económicos, morales y psicológicos para el desarrollo sistemático e integral de la producción industrial. Se enfatiza el papel regulador del Estado, las perspectivas de desarrollo sostenible en el sector no petrolero, el uso del capital humano para fomentar el espíritu empresarial a través de la competencia leal y la asignación estratégica de empresas industriales e inversiones entre regiones. Se hacen recomendaciones con el objetivo de atraer y mejorar las inversiones, resolver los desafíos socioeconómicos en las regiones y crear un mejor marco legal.

Palabras clave: Potencial económico. Oportunidades de inversión.

INTRODUCTION

Among the various approaches that exist in connection with the theories of socio-economic development, the direction of sustainable development of regions has received a huge priority (Olga Khodakivska et al., 2022). According to this scientific and theoretical concept, at the beginning of the XX century, the period of natural development of mankind ended and a period of controlled development began. The most common of these development models is the "theory of adaptation to the conditions of post-industrial society" connects the possibilities of regional development with the possibilities of adaptation to the requirements of post-industrial society (Della Lucia & Pashkevich, 2023). This relationship is reflected in the following factors: support for the development of all forms of entrepreneurship, development of telecommunication and transport systems, coordination of various nodes, development of general secondary and higher professional education in the regions at the national level, expansion of scientific and technical research that can stimulate the development of regions, creation of conditions for technology transfer and dissemination of innovations (Broman & Robèrt, 2017).

One of the common theories related to regional development is the theory of "diffusion of innovations" by J. Schumpeter, one of the founders of the theory of entrepreneurship. According to the theory, changes in the leading business areas of the region affect other business areas of the region (Brouwer, 2000; Malerba & McKelvey, 2020). Another theory related to the development of the region is the theory of the "development base". But according to this theory, the greater the demand for a region, the more it specializes in the production of this region, the more it will develop, and this will lead to a deepening of specialization and an increase in production, which will affect the economy. However, there are 2 alternative ways of regional development for developing countries: 1) applying innovations directly to the periphery; 2) introduction of innovations into undeveloped areas, and then to the upper levels of the hierarchy (Uddin, 2006).

If we consider the alternative path separately, it can be noted that the 2nd path leads to a reduction in the gap and differences between regions, while the 1st path is based on achieving socio-economic development at the country level. In order to achieve regional development, it is considered necessary to ensure sustainable development at the regional level and, accordingly, to prepare comprehensive regional development programs. Then, the relevance of preparing comprehensive development programs for various regions of the world is determined by the following issues (Nuriyev, 2002):

- Since the management system at the regional level does not have all the means of managing the economy and has certain disadvantages, it assumes effective coordination of regional development, management activities carried out at the country and regional levels.
- Regional development is more resilient to negative impacts if it is based on local resources and opportunities.
- When the political measures implemented in the country correspond to the goals of achieving regional development, there are opportunities to get greater benefits from interregional and external relations.

In modern times, the economic policy implemented by the states in ensuring the sustainable development of the regions affects both the social and the economic system. Accordingly, it can be noted that the policy of socio-economic development requires taking into account the following characteristics of the region as the main component of achieving regional development.

- Welfare of the population of the region, which is part of the citizens of the country.
- The state and structure of the existing labor and financial potential.
- Work, business ethics, religious thinking.
- The position of the region within the country.

It also plays an important role in solving the social problems of the region, which include the following (Huseynov, 2009):

- Development of the people's famous settlement system in the territory.
- Balancing the standard of living of the population in different regions.
- Taking into account the national and cultural characteristics of the population of the regions.
- Preparation of reasonable measures in the direction of environmental protection.

In the context of Azerbaijan, on April 14th, 2009, the State Program of Socio-economic Development of the Regions of the Republic of Azerbaijan (2009-2013) was adopted by the decree of the President of the country. The main goal of this program was to achieve balanced regional and sustainable social development, as well as accelerate the development of the non-oil sector by making serious changes in the direction of using oil revenues, and related issues have also been identified. To achieve the goals set out in this State Program, a number of tasks have been outlined, which include the following:

- Opening of new sources of investment attraction for economic development and continuation of this process.
- Implementation of measures related to the improvement of social and general infrastructure provision.
- Implementation of measures related to accelerating the development of all forms of entrepreneurship and improving the business environment.
- Significant reduction in poverty.
- Stimulating the production of export-oriented products, especially stimulating the export of agricultural products and, as a result, achieving a reduction in imports of these products.
- Improving the provision of public utilities to the population.

Then, the activities planned under the program are grouped as follows (Muradov, 2001): measures for economic regions, events of national significance, actions on districts and settlements of Baku city. Considering the above, the purpose of the study is to provide theoretically and practically sound proposals and recommendations for its improvement and increasing the efficiency of industrial production in the regions based on a comprehensive analysis of the location of industrial production in the country and regions of Azerbaijan. These proposals and recommendations are based on the consideration and determination of the most optimal areas of application in terms of internal and external resources of the existing potential and economic and political, further improvement of the existing legislative framework and the creation of free and fair competition environment and investment opportunities in the industry and the economy as a whole.

The relevance of the topic is linked to the fact that since the independence of Azerbaijan, the formation of our national economy on market principles, among other things, directly depends on the level of proper and effective organization of the country's industry on the territory, as well as on successful and targeted investment in various areas of the economy. The effective placement of industrial enterprises on a national scale is one of the important factors that can ensure the development of the national economy and social progress, being one of the aspects of the territorial organization of productive forces.

DEVELOPMENT

Industry is one of the developed sectors in Azerbaijan's economy. This important sphere unites fuel and energy, chemical, machine-building, metallurgical, food, light and other industries. As it is known, until a few years ago Azerbaijan's economy was completely dependent on oil

and gas revenues. Contracts concluded with oil companies of developed countries of the world gave impetus to the rapid development of the oil and gas industry (Humbatova et al., 2020). Azerbaijan's proven hydrocarbon reserves - oil - are 6 billion tons, and gas is estimated at 4-5 trillion cubic meters. According to the calculations of the British oil company BP, Azerbaijan's oil reserves at the current production rate will last for 64 years. In order not to deprive future generations of oil, it is necessary to reduce oil production to a minimum level and maximize the development of the non-oil sector. Today, the dynamic development of the oil sector in Azerbaijan has created a solid foundation for further accelerating the development of non-oil sectors. The favorable investment environment created in the non-oil sector, the privatization process and other reforms will ensure more intensive development of non-oil sectors (Allahverdiyev, 2002).

In addition, special attention should be paid to the implementation of the following measures for the development of the non-oil sector (Huseyn, 2011; Mahmudova et al., 2022):

- Acceleration of the restructuring and privatization process.
- Continuation of the implementation of measures related to the restoration of the activities of industrial enterprises that have a sales market and the reconstruction of which is economically feasible.
- Acceleration of the transition to the application of international standards at industrial enterprises based on modern technologies.
- Development of a free competitive environment.
- Accelerating the implementation of investment promotion measures.
- Development of traditional national crafts.
- Strengthening the material and technical base of applied sciences, research institutions in accordance with the requirements of the market situation in modern conditions in order to develop knowledge-intensive production.

On the other hand, it is understandable that the location of an industrial enterprise affects the development of transport, communications and other spheres of the region, the provision of energy and raw materials for production, the complication of interregional and intersectoral relations, the increasing importance of environmental protection. As a result of all this, effective placement on the territory plays a positive role in the development of both the society and the country in a certain sense. The negative consequences of using principles that have no objective economic

basis in the placement of productive forces and territorial organization in the former Soviet space for more than 70 years are evident in the modern era and have had a great impact on the formation of regions, and inter-regional differences are still observed. Because of that, despite the fact that each region of our republic has powerful potential opportunities (industrially important natural resources, cheap labor), at present the level of placement of industrial enterprises on the territory of the country does not correspond to the existence of these potential opportunities.

Thus, in 2014, most of the industrial enterprises operating in the country were concentrated in one region. That is, 57.6 percent of the industrial enterprises operating in the country are located in the Absheron Economic District (including 4 cities of Baku). As a result, this region accounts for 89.5 percent of industrial output. In our opinion, one of the most important conditions for the effective use of local resources and the effective solution of a number of socio-economic problems that have arisen in the country is the improvement of the territorial structure of industrial production, the successful use of all potential and resources, including investment opportunities (Mammadli, 2021).

Furthermore, there are a number of industries in our republic that are used inefficiently. However, the development of these areas will further accelerate the development of the country's economy. Let's take a look at some of them. The state and perspectives of the mineral resource base ensure the creation and intensive development of highly profitable mining and processing enterprises on its basis. Aluminum production in Azerbaijan is based on the industrial reserves of the alunite deposit in Dashkasan district. The large reserves of this deposit are able to provide the Ganja Aluminum plant with raw materials for more than 40 years (Allahverdiyev, 2002). Filizchay is considered one of the largest deposits in Europe. The main valuable components of the deposit are copper, zinc, tin, silver, sulfur, gold, cobalt. On the basis of the industrial resources of the Filizchayskoye field, it is possible to create a highly profitable mining and metallurgical complex capable of providing raw materials for more than 50 years.

As we know, a large number of investments are currently being sent to the Azerbaijani economy. But what is an investment and what directions should investment policy be carried out? An investment is the use of financial resources for the purpose of expansion, renewal and modernization in order to make a profit in the future (Bodie et al., 2023). The last point of action is the return of capital through the sale of the residual value of the technology that has reached the end of its economic life, with a profit from the finished product delivered to the market. Then, investment processes are essential in developing

innovations, designing facilities and their implementation, allowing economic development. Investments are a set of property and intellectual values invested in all spheres and objects of the economy in order to generate profit (income) or achieve socio-economic efficiency (Bonadio & Goold, 2023). But in addition to personal goals, investments should take into account the purpose of the state. In modern conditions of Azerbaijan, the future shortage of raw materials, uncertain natural conditions, and economic and political events require an accurate and comprehensive analysis of projects to be prepared for investment purposes. Thus it is necessary to allow investments to be directed to those sectors of the economy that seem weak today - the non-oil sector.

Nevertheless, to ensure the success of the policy in the planned directions, it is necessary to solve a number of problems. Let's take a look at some of them. Recently, there have been frequent changes in legislation related to entrepreneurship. It is impractical to change them so often. Before the completion of the regulation of its activities by the entrepreneur in accordance with the new law, this law must be repealed and replaced by a new one. At this time, the entrepreneur does not know whether to adapt to the new law or develop the company. To avoid such a situation, it is necessary to adopt better laws and achieve their long-term stability (Bunyad, 2022). At the same time, aggravating circumstances adopted by law in the period after the investment should not be applied to these investors, or should be applied after a long period of time (Aliyev, 2014). Thus, based on the analysis and the country's position in international rankings, we can say that serious reforms are needed to improve the investment environment in Azerbaijan in order to increase FDI attracted to the non-oil sector of the country. These reforms should cover issues that are more sensitive to investors, and not the expansion of tax benefits and subsidies. Such problems include:

- Increase transparency and accountability, especially in public administration, and eliminate corruption.
- Ensuring the protection of property rights.
- Creation of an independent and fair judicial system.
- Expansion of economic freedoms.
- Improving the regulatory environment (ensuring the rule of law, ensuring equality of all before the law, predictability of the behavior of state institutions, abandoning the practice of making government decisions affecting business expenses and income without public discussion, adopting such changes at least ensuring its entry into force in 6 months, etc.).

- Adoption of the “Competition Code”, the new law “On the Protection of Foreign Investments”, etc.

State property should be privatized in order to develop declining state-owned enterprises. Artificial obstacles to the participation of key entrepreneurs and shareholders in the privatization process should be eliminated. It is necessary to accelerate the process of horizontal and vertical privatization. All opportunities should be created for the operation of privatized enterprises (there is a process of physical and moral aging of equipment at existing enterprises). But privatization should be open and transparent to keep international prestige. Stock markets should be formed, stocks should be bought and sold on these markets, and the activities of investment funds should expand. In the process of privatization, the monitoring capabilities of international organizations should be also expanded. Finally, it is necessary to give a general assessment of the privatization process, investigate the mistakes made, consider complaints, take appropriate measures and prevent the repetition of mistakes.

To ensure the effectiveness of reforms and development in the field of industry, industrial reforms should be carried out in accordance with the optimal economic structure and accelerated, while the supervision of international economic organizations should be ensured, and the experience of developed countries should be taken into account. The manufacturing industry is the more promising. Thus, it is possible to achieve greater results with less investment in this area. The development of this section will also stimulate the development of raw materials. A special policy for the modernization of industrial enterprises should be developed and prepared. Because most of the equipment and technologies at the industrial enterprises of Azerbaijan are outdated both physically and morally. With this equipment and technology, it is impossible to produce products that can withstand competition in the global or domestic market. Therefore, special attention should be paid to the study of new equipment and technologies and their introduction into the country. On the contrary, there are areas of the industry that need to be abandoned due to the lack of prospects, and new ones should be developed instead. The state should have a special industrial policy, it should abandon industries that are considered unpromising by privatizing them. It is necessary to develop industrial processing enterprises based on local raw materials (light and food industries) (Nadirov, 1976).

Domestic demand for a number of industrial goods is met by imports if there are sufficient domestic stocks of raw materials. It is necessary to carry out work on the organization of production of these products in the country. It is necessary to stimulate the construction of enterprises for the

production of sugar, paper, vegetable oils. Reconstructing the work of the Baku Tannery, it is possible to get large incomes (increase profits, open new jobs, increase payments to the budget, revive the work of the leather industry, etc.). It is necessary to take urgent measures to revive the work of industrial areas that have fallen into decline the most (there should be state orders for industrial products, it is necessary to develop state entrepreneurship in this area, a differentiated taxation system should be introduced in industry, concessions should be given to less developed areas, preferential loans should be given, etc.). Existing investments should distribute by industry according to their importance. Finally, the export of industrial products should be stimulated.

The implementation of these measures can have a positive impact on the socio-economic development of the regions, as well as on the formation and improvement of scientific and technical potential. World experience shows that scientific and technical activities play a very important role in the recovery of each country (region) from the crisis. Therefore, it is necessary to take serious measures in the field of formation and distribution of scientific and technical potential in the republic. Taking this into account, the President of the country in 2004 approved the “State program of socio-economic development of the regions for 2004-2008”. In accordance with this program, the state has set as its main goal the development of the regions. The State Program divides Azerbaijan into economic zones and provides for the implementation of additional measures related to the development of an action plan, taking into account the characteristics of each zone, for the development of these zones (Muradov, 2001).

More recently, in 2022, 18272.3 million manats were allocated to fixed assets in Azerbaijan, or 5.5 % more funds than in 2021. According to the State Statistics Committee, investments in the oil and gas sector have decreased by 9.8 % over the past year, while investments in the non-oil and gas sector have increased by 13.6%. 10611.3 million manats, or 58.1 % of the funds used during the year, were allocated to production areas, 6735.6 million manats, or 36.9 %, for the service sector, and 925.4 million manats, or 5 %, for the construction of residential buildings. During the reporting period, 14718.9 million manats or 80.6 % of the funds allocated to fixed assets were own funds, and 13461.5 million manats or 73.7 % were spent directly on construction and installation work.

This way, the development of the regions of the Republic of Azerbaijan is an important component of the sustainable socio-economic development strategy in the country. The implementation of the tasks envisaged in the state programs adopted and successfully implemented in the

field of development of regions, as well as orders related to additional measures on the socio-economic development of regions in the country aim at achieve sustainable development of the non-oil sector, to improve the quality of Public Utilities and social infrastructure in the regions, to further improve the entrepreneurial environment, to increase investment and the creation of new enterprises and jobs. It is expected to serve as an impetus for increasing the position of the country in the world business, innovation and development.

CONCLUSIONS

In the context of global economic integration and the pervasive influence of globalization, the paramount challenge for contemporary national economies lies in fortifying the interconnection of states across economic, cultural, and political dimensions. The imperative of harmonizing territorial, productive, and human resources within regional industrial enterprises emerges as a key priority, reflecting the demand and challenge of the current era. The sustained development of national economies hinges upon effectively addressing this imperative in alignment with the concentration of essential factors. After analyzing the territorial organization of industrial enterprises of Azerbaijan, a number of conclusions and proposals have been put forward which include:

The effective placement of industrial enterprises on a national scale emerges as a pivotal strategy for ensuring the development of the national economy and fostering social progress. This facet of territorial organization encompasses essential factors such as the efficient utilization of natural resources, increased employment levels, heightened labor productivity, and enhanced production efficiency through judicious resource utilization. Moreover, optimal socio-economic development of economic regions is facilitated by the strategic location of industrial production, which, in turn, contributes to the advancement of regional infrastructure, intersectoral relations, and environmental considerations.

Despite the considerable potential opportunities present in each region of the republic, economic studies reveal a significant disparity in the placement of industrial enterprises across the country. Notably, in 2014, a substantial majority, 57.6 percent, of the country's industrial enterprises were concentrated in the Absheron Economic District, including the city of Baku. Consequently, this region accounted for a disproportionately high 89.5 percent of the total industrial output. The observed concentration highlights a crucial mismatch between the existing potential opportunities and the current distribution of industrial activities.

When situating industrial production on the territory, it is imperative to adhere to scientifically grounded principles, emphasizing the importance of a systematic and informed approach to the spatial distribution of industrial activities. In addition, the development of the industry in different regions is significantly contingent upon a favorable investment climate. To effectively pursue the objectives of investment policy, it is crucial to cultivate a positive investment environment within the regions. This involves the creation of a reliable and stable regulatory framework aimed at improving the overall investment climate but also a concerted effort towards the development of regional infrastructure, expansion of the construction base, and enhancement of communication networks encompassing transport, communications, and computer science.

Finally, but not least importantly, it is necessary to develop a constant monitoring and regulation of the investment attractiveness of the enterprises to allow to attract investments, increase the efficiency of the management system, the profitability of production and economic activities, as well as introduce business planning and budgeting processes, monitoring the achievement of the planned result.

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