

**REPUBLIC OF AZERBAIJAN**

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**ABSTRACT**

of the dissertation for the degree of the doctor of philosophy

**PERSPECTIVES OF FORMING A BUSINESS AND  
COMPETITION ENVIRONMENT IN THE EASTERN ZANGEZUR  
ECONOMIC REGION**

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Applicant: **Asadzada Zaur Adalet**

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The dissertation work has been carried out at the Azerbaijan Cooperation University.

Scientific Supervisor: **Doktor of Economic Sciences, Associate Professor Huseynov Mohubbat Musa**

Official opponents: **Doktor of Economic Sciences, Professor Valiyeva Sabina İzzet**

**Phd of Philosophy Economic, Associate Professor Mammadov Alirza İsrafil**

**Phd of Philosophy Economic, Associate Professor Gurbanov Tariyel Musallim**

Dissertation Council of Azerbaijan Cooperation University and Baku Business University, ED 2.46 of the Higher Attestation Commission under the President of the Republic of Azerbaijan, operating under Azerbaijan Cooperation University

Chairman of the Dissertation council:



Member of ANAS, Doctor of Economic Sciences, Professor **Samadzada Ziyad Aliabbas**

Scientific secretary of the Dissertation council:

Phd of Philosophy Economic, Associate Professor **Mammadova Samira Yashar**

Chairman of the scientific seminar:



Doctor of Economic Sciences **Ibrahimov Elshan Ali**

## GENERAL CHARACTERISTICS OF THE WORK

**Relevance of the Topic and Degree of Development:** In the modern era, where market relations are developing, the leading position belongs to the private sector. In the context of a market economy, the formation of the state budget, socio-economic progress, and the development of any region are directly characterized by the level of development of the private sector. In this sense, the formation of a favorable business and competitive environment in any area (region) is of particular relevance.

The return to normal life in the liberated territories, ensuring population settlement, and involving the regional potential in economic circulation is the main task ahead today. The elimination of the consequences of Armenian vandalism in the liberated regions, the return of former internally displaced persons to their native lands, and the economic reintegration of these areas are priorities of the policy pursued by the Azerbaijani state.

The decree of the President of the Republic of Azerbaijan dated December 10, 2021, *"On some measures related to accelerating economic development in the liberated territories"* states: *"...Efficient use of the rich resources and infrastructure potential in these areas, revitalizing economic activity and ensuring sustainable settlement based on public-private sector partnership and the most favorable business environment should be supported by measures aligned with the country's long-term development priorities"*<sup>1</sup>. This further underscores the need for research and studies on the formation of a favorable business and competitive environment in the liberated areas.

On the other hand, the "Azerbaijan 2030: National Priorities for Socio-Economic Development," approved by the decree of the President of the Republic of Azerbaijan on February 2, 2021, identified five national priorities for socio-economic development. Among them are the formation of a sustainably growing competitive economy and the large-scale return to the liberated areas. All of these require efficient and economical use of natural-economic resources,

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<sup>1</sup> <https://e-qanun.az/framework/48628>

flexible and favorable realization of existing potential opportunities, and so on. These goals are achievable through the development of the private sector, entrepreneurship, and the creation of a favorable business and competitive environment.

In total, it is planned to allocate more than 30 billion manat for the liberated territories from 2022 to 2026. Over the past three years since the historic victory, 12 billion manat has been allocated from the state budget for restoration and reconstruction works in Karabakh and Eastern Zangezur, and 4 billion manat is also planned for the 2024 state budget. All these efforts express the relevance of the restoration and reintegration of Karabakh and Eastern Zangezur, with large amounts of funds being spent in this direction. In this context, the formation of a favorable business and competitive environment in these areas is not only relevant but also necessary for the recovery (self-sufficiency) of the funds spent.

The formation of the business environment through the attraction of investments, the promotion of the development of small and medium enterprises (SMEs) in the region, and the full and efficient involvement of local natural and economic potential in the economic turnover are among the main objectives outlined in the "First State Program on the Great Return to the Liberated Territories of the Republic of Azerbaijan," approved by the Decree of the President of the Republic of Azerbaijan on November 16, 2022. In other words, the State Program highlights the ensuring of economic revival in the liberated territories as one of its main objectives, which, first and foremost, requires the formation of a favorable business and competitive environment. This means that scientific research in the field of business and competition environment formation and development is an urgent necessity arising from today's realities.

One of the current issues is also public-private partnerships. The Law of the Republic of Azerbaijan on "Public-Private Partnership," adopted on December 9, 2022, covers issues such as promoting the sustainable development of various economic sectors, attracting private investments, creating business-oriented infrastructures, producing and exporting competitive products, balanced regional development, and the state's support for private partners, which

reflects that the development of the private sector is a strategic goal. The Law, which clarifies the policy, relationships in this field, and the evaluation of proposals from the private sector, also sets the necessity for the formation of a favorable business and competitive environment.

The research conducted in the context of the Eastern Zangezur economic region is related to the broader development potential of this region. The Eastern Zangezur region combines mountainous and plain areas, offering different climate and seasonal opportunities. The attractive geographical and natural relief of the economic region, the harsh climate in most areas, mineral and therapeutic water resources, and the potential for the development of mining industry, black metallurgy, etc., have encouraged the study of Eastern Zangezur.

Like other occupied territories of Azerbaijan, the Eastern Zangezur economic region has been subjected to Armenian vandalism. In addition to the destruction of settlements, natural resources were looted, billions of manat worth of damage was inflicted on nature, and greenery and forests were destroyed. In such circumstances, the formation of a business and competitive environment depends on many factors. Considering these circumstances during the research, extensive studies and analyses were carried out, and ways to form a favorable business and competitive environment in the Eastern Zangezur economic region were proposed. It should be noted that this research is the first comprehensive study conducted on the business and competitive environment in the liberated Eastern Zangezur economic region.

The above-mentioned points fully justify the relevance of the selected research topic, and it indicates that conducting scientific research on forming the business and competitive environment in the Eastern Zangezur economic region is an urgent necessity arising from today's realities.

Since the Eastern Zangezur economic region is relatively new, individual administrative districts have been studied, but the entire economic region has not been selected as a subject for complex research. Nevertheless, research related to the business and competitive environment has been widely covered in the scientific

works of academician Z.A. Samadzada, corresponding member of the National Academy of Sciences of Azerbaijan (ANAS) A.Kh.Nuriyev, professor E.A.Quliyev, B.Kh.Ataşov, V.T. Novruzov, V.A.Gasımlı, İ.H. İbrahimov, E.R. İbrahimov, E.M. Hajızade, İ.M. Abbasov, A.B. Abbasov, T.N. Aliyev, R.A. Balayev, E.A. İbrahimov, R.Z. Huseyn, N.C. Qafarov, A.A. Azizov, M.C. Huseynov, Sh.T. Aliyev, Y.A. Mammadov, A.F. Abbasov, S.İ. Valiyeva, M.M. Huseynov, F.V. Guliyev, F.H. Abbasov, E.N. Ahmadova, V.B. Mirzayev, and others.

At the same time, the works of foreign scholars also address related issues. The organization of business, the development of entrepreneurship, the essence of competition, the factors affecting the business and competitive environment, public-private partnerships, and other issues have been studied by foreign researchers such as Grishin I.A., Ignatiev K.M., Porter M., Lebedev N.A., A. Wall, Xiong W., Y. Yongheng, Jeffrey R., Roignant B., and others.

Additionally, various projects supported by the World Bank, the International Monetary Fund, the World Trade Organization, the World Economic Forum, and other organizations, as well as their traditional reports and analyses conducted by international experts, examine and assess the business environment and competitive opportunities in different countries. They emphasize the need for continuous improvement of the business and competitive environment.

In addition to all of the above, as previously noted, the issue of forming a business and competitive environment has not been selected as a research object in the case of the Eastern Zangezur economic region until this study. In this regard, the chosen topic is relevant, and the research work is an investigation arising from the requirements of modern times.

**Object and subject of the study:** The research object is the business and competitive environment of the Eastern Zangezur economic region.

The subject of the research consists of the formation and development of economic relations, the patterns of progress and improvement in the creation of the business and competitive environment.

**Purpose and objectives of the study:** The main goal of the research is to develop scientifically justified proposals and recommendations for forming a favorable business and competitive environment in the Eastern Zangezur economic region. To achieve this goal, the following objectives were set and systematically carried out:

- Studying the scientific and theoretical foundations of forming the business and competitive environment;
- Identifying the factors influencing the formation of the business and competitive environment;
- Studying the possibilities of applying international experience in forming the business and competitive environment;
- Examining the current state of the business environment in the Republic of Azerbaijan;
- Investigating the distinctive characteristics of the Eastern Zangezur economic region;
- Studying the business opportunities in the Eastern Zangezur economic region;
- Investigating the role of public-private sector cooperation in the formation of the business and competitive environment;
- Studying the application possibilities of digital technologies in forming the business and competitive environment;
- Investigating the state mechanisms in the formation of the business and competitive environment.

**Research Methods:** The research utilized methods such as comparative analysis, generalization, economic-statistical analysis, expert evaluation, induction, and deduction. The theoretical and methodological foundations of the research include the Decrees and Orders of the President of the Republic of Azerbaijan related to the development of the business and competitive environment, decisions and laws passed by the National Assembly and the Cabinet of Ministers of the Republic of Azerbaijan, reports from central and local executive bodies, data from the State Statistics Committee of the Republic of Azerbaijan, and others. Additionally, local and foreign scholarly works, materials from national and international conferences, and reports from the World Bank, the International Monetary Fund, and other organizations were used in the research.

**Main provisions submitted for defense:**

- The digital approach and the application of digital technologies serve as an essential condition for forming a favorable business and competitive environment;
- The region's socio-economic development indicators, natural resources, relief, accessibility of government services, and others are factors that shape the business and competitive environment. To assess these indicators and evaluate the region's development level, it is advisable to apply a regional development index in accordance with international experience;
- It is necessary to select development goals for individual administrative areas in the Eastern Zangezur economic region in accordance with the development needs, potentials, and problems of cities and villages;
- International transport projects should become a driving force for creating a favorable business and competitive environment;
- Along with implementing governance and administrative reforms in the Eastern Zangezur economic region, strengthening and promoting public-private sector cooperation is also crucial;
- The experience of developed countries shows that applying a regional competitiveness index helps to identify the skills available in the labor market, as well as the strengths and weaknesses of the business environment.

**Scientific novelty of the research:** The scientific novelties of the research are as follows:

- The directions for the development of business activity in the Eastern Zangezur economic region have been identified;
- Ways to use digital technologies for the formation of a favorable business and competitive environment in Eastern Zangezur have been proposed;
- The necessity of applying a regional development index has been justified, and the sequence and objectives of the index evaluation have been determined;
- To ensure rapid resettlement, profitable activities for entrepreneurs, normal living conditions for residents, and employment in the region, the competitiveness of the region



needs to be assessed. To achieve this, the application of a regional competitiveness index has been proposed, and its specific goals have been explained;

- The algorithm for calculating the regional competitiveness index, which is necessary for a favorable business and competitive environment, has been suggested;
- By studying the regional development strategies of countries such as China, Japan, European countries, Kazakhstan, Georgia, and others, the application of the Czech and Kazakhstani experience in the Eastern Zangezur economic region has been proposed;
- The stages and directions of developing public-private sector cooperation in the Eastern Zangezur economic region have been proposed.

**Theoretical and practical importance of the research:** The scientific and theoretical proposals and recommendations obtained as a result of the research can serve as a foundation for future studies in this field. Based on the findings, the optimization proposals presented, as well as the recommendations for public-private sector cooperation, the application of a digital approach, the use of modern digital technologies, and the adoption of advanced international practices for forming a favorable business and competitive environment in the Eastern Zangezur economic region, can be used in the preparation of relevant regional development programs and projects. At the same time, the results obtained during the research, as well as the proposed recommendations, can be useful for students studying in relevant fields and researchers.

**Approbation of the research and application of the results of the work.** The main scientific and theoretical provisions, results, and recommendations of the dissertation have been published in 7 articles (2 of which are abroad) and 13 theses (4 of which are abroad) in prestigious journals and conference materials recommended by the Higher Attestation Commission of the President of the Republic of Azerbaijan. Among the conference materials are: “The Use of Modern Technologies is One of the Key Requirements for Sustainable Development” (Baku, 2022), “Development Directions of Service

Sectors in the Context of the Digital Economy” (Baku, 2022), “Development Prospects of Eastern Zangezur” (Baku, 2023), “Tourism Potential of Eastern Zangezur: Formation of an Appropriate Business Environment” (Istanbul, 2023), “The Impact of Human Capital on the Business Environment” (Paris, 2023), “Favorable Competitive Environment as a Factor Determining Business Development” (New York, 2023), “Heydar Aliyev’s Strategy: The Path from Decline to Victory” (Mingechevir, 2023), “Heydar Aliyev: The Founder of Modern Azerbaijan's Successes” (Baku, 2023), and “Heydar Aliyev's Role in Forming an Ecologically Sustainable Environment in Azerbaijan” (Baku, 2023), among others.

Additionally, the author has published articles such as "Development Directions of Tourism Services in the Eastern Zangezur Economic Region" (Baku, 2022), "The Potential of the Liberated Territories in the Provision of Quality Food Products in Azerbaijan" (Baku, 2022), "Directions for Forming a Favorable Agribusiness Environment in Eastern Zangezur" (Baku, 2023), "Competitive Production Conditions Sustainable Development" (Baku, 2024), "The Importance of Competition in the Formation of a Favorable Business Environment" (Poland, 2024), "Opportunities for Applying Digital Technologies in Forming a Favorable Business and Competitive Environment" (Russia, 2024), and "The Impact of Digital Approaches on Business and Competitive Environment in the Modern Era (Case of the Eastern Zangezur Economic Region)" (Baku, 2024).

**The Dissertation** was completed at the Azerbaijan Cooperation University.

**The structure and volume of the dissertation:** The dissertation consists of an introduction, three chapters, a conclusion, and a list of references. The introduction (15,049 characters), Chapter I (81,121 characters), Chapter II (56,986 characters), Chapter III (67,530 characters), conclusion (9,550 characters), and the list of references (26,730 characters) have a total volume of 271,683 characters. The dissertation includes 10 tables, 6 diagrams, and 3 figures. The character count of the dissertation, excluding tables, diagrams, figures, and the list of references, is 230,236 characters.

## THE MAIN CONTENT OF THE RESEARCH

The introduction of the dissertation justifies the relevance of the topic, defines the research goals and tasks, characterizes the methods used, and presents the main propositions defended. The scientific innovations, theoretical-practical significance, and approbation of the work are also highlighted.

In the first chapter of the dissertation, titled "Scientific-Theoretical Foundations of Forming the Business and Competitive Environment," the scientific and theoretical foundations of forming the business and competitive environment are explored. Factors affecting the formation of this environment are analyzed, and international practices regarding the formation of such an environment are examined. In this chapter, various theoretical approaches and scientific viewpoints are studied in detail, followed by relevant generalizations.

There are numerous approaches in economic literature regarding the concepts of business and competition. Adam Smith, explaining his views on entrepreneurship, stated that: *"An entrepreneur, although primarily acting to gain profit, also serves other essential and necessary purposes that benefit society, such as increasing product production and quality, effective functioning, modernizing production, democratizing the economy, and so on."*<sup>2</sup> For example, an entrepreneur, through economic activities, also bears the social burden of the state. However, the main goal of every entrepreneur is to achieve sustainable development of their enterprise and gain profit.

There are various approaches to competition in economic literature. However, the common outcome of these approaches is that competition is the main mechanism in the market and serves as the driving force. These different approaches can be classified into three directions<sup>3</sup>.

The first approach considers competition as a struggle or race. This perspective is reflected in local legal acts, which view economic entities as competing with each other for market dominance and customers.

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<sup>2</sup> Valiyev T.S., Babayev A.P. and etc. "Economic theory". Baku, 2001, 692 p.

<sup>3</sup> Roignant B., Lenos T. "Competitiveness strategy: Options and Games", 2019, 312 p.;

The second approach treats competition as an element of the market mechanism that ensures the equilibrium of supply and demand. This approach is rooted in classical economic theory.

The third approach focuses on competition as a criterion that determines the type of industry markets. This approach emerged as a result of recent developments in economic theory.

Another significant approach to competition is proposed by the American economist Michael Porter. According to Porter, the competitiveness of a national economy is based on production, investment, innovation (technological superiority), and wealth<sup>4</sup>.

- Production-based competitiveness is determined by the country's resources (natural labor force, etc.) and how effectively they are used (production costs, prices, currency exchange rates).

- Investment-based competitiveness relies on intensive capital investments in modern equipment and technology.

- Innovation-based competitiveness can be observed in countries at various stages of development, where certain sectors focus on adopting innovations to gain competitive advantages.

- Wealth-based competition, unlike the previous three stages, ultimately leads to decline, as economies relying on previously created wealth are unable to further increase their wealth.

In addition to the four factors mentioned by Porter, geographical location and transport-communication-based competitiveness are also crucial aspects of competition.

A well-known Austrian economist, Joseph Schumpeter, noted that *"the concept of competitiveness is an extremely dynamic category, and its dynamics is primarily influenced by external factors. Competition is not a state of equilibrium; it is always changing."*<sup>5</sup> Schumpeter emphasizes that the improvement and renewal of an industry is not a one-time event but an ongoing process requiring long-term stability. In other words, the more innovative an entrepreneur is in their field, the more competitive they will be in the market.

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<sup>4</sup> Porter M. "Competitive Strategy. Methodology for analyzing competitor industries." Translation Minervin I. M.: Alpina Publisher, 2015, 453 p.

<sup>5</sup> Veliyev D.A., Asadov A.M. "International Economics". Baku, "Europe" publishing house, 2012, 403 p.

Another Austrian economist, Friedrich Hayek, viewed competition in a broader sense, describing it as a "discovery procedure." According to Hayek, entrepreneurs must precisely assess in which direction they should act, and what, how, and for whom they should produce, based on the changes in the prices of resources and goods.

American economist A. Sloan argued that succeeding without competition is dangerous, and that the absence of competition leads to stagnation.

The famous American economist Ilyas Kirchner explained the essence of competition in economics through five forces: inter-firm competition, the emergence of substitute products, the arrival of new competitors, the ability of suppliers to engage in trade, and the ability of buyers to engage in trade.

Economists from the 19th century, such as C. Robinson and E. Chamberlin, pointed out that<sup>6</sup> *"a market is considered competitive when there are so many firms selling products that each firm's share is so small that no firm can influence the market price by altering the volume of its product."* In other words, the main characteristic of a perfectly competitive market is the existence of a large number of independent actors.

In addition to the factors discussed, one of the elements affecting competition is time. Every period has its own characteristic features that business entities must take into account. These include factors such as an enterprise's vision, the organization of management, the knowledge and skills of staff, corporate culture, the legal framework, competition, taxation, insurance, banking and credit, and other socio-economic factors, each of which has a distinct influence on the business and competitive environment.

The main strategy for regional competitiveness involves attracting investments, creating jobs, stimulating economic growth, and improving the quality of life for the population by enhancing general economic indicators and stability. Regional competitiveness strategies aim to make one region more attractive and competitive than others,

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<sup>6</sup> "Basics of Business". Collective monograph edited by A.B. Abbasov, Baku, "Nurlan", 2005, 656 p.

both within the country and globally.

Regional development strategies globally aim to support economic growth, improve infrastructure, and enhance the standard of living in geographic areas. Several countries apply different approaches to regional development based on their unique economic, social, and geographic conditions.

One of the most developed countries, China, employs a comprehensive approach to regional development, aimed at supporting economic growth and improving infrastructure across its provinces and regions.

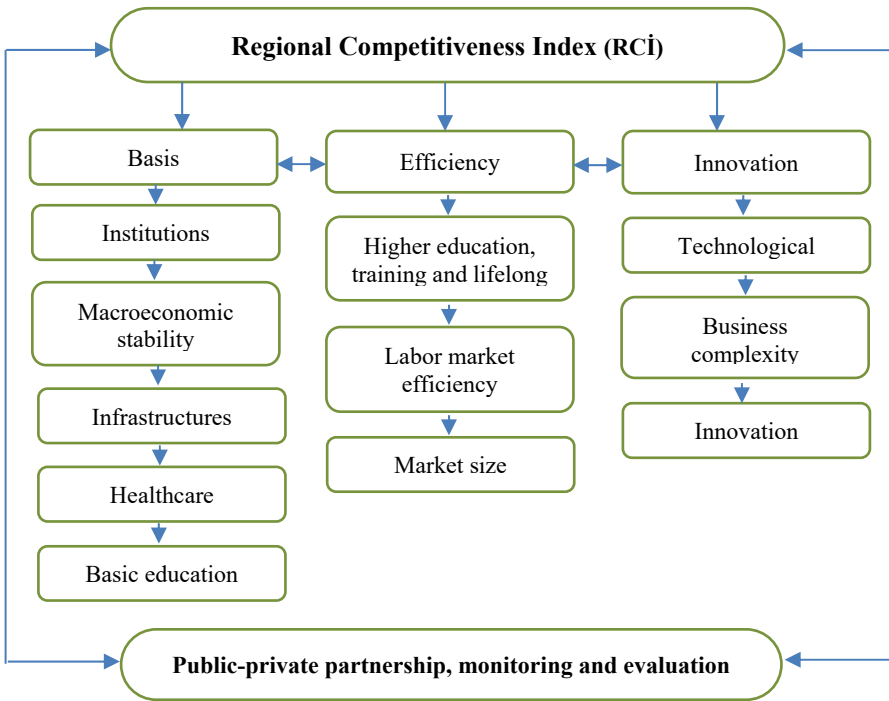
In the strategic guideline document prepared by the Japan International Cooperation Agency (JICA) on regional development, it is recommended to divide urban and regional development into two broad directions: "Urban Development" and "Regional Development."

In the Central European country of the Czech Republic, a "Regional Development Strategy" has been developed to form a special support package for regions aimed at shaping the business and competitive environment, improving strategic planning and management, strengthening connections between districts and cities, and other related issues.

The main objectives of Kazakhstan's Strategic Development Plan are to accelerate economic growth and improve people's quality of life. In the case of Georgia, the "Regional Development Strategy" aims to use the economic and social potential of regions to make agriculture, forestry, and fishing more productive, ensure sustainable use of natural ecosystems and biodiversity, and improve infrastructures that support the country's competitiveness and sustainable development overall.

In Germany, a multi-level governance system that involves various levels of government (regional and local) is applied to ensure coordinated and integrated regional development efforts.

In Sweden, a comprehensive and long-term regional development strategy is developed, which includes the goals, action plans, and performance indicators for each region.



**Scheme 1. Regional Competitiveness Index (RCI)**

Source: [https://ec.europa.eu/regional\\_policy/information-sources/publications/working-papers/2011/a-new-regional-competitiveness-index-theory-methods-and-findings\\_en](https://ec.europa.eu/regional_policy/information-sources/publications/working-papers/2011/a-new-regional-competitiveness-index-theory-methods-and-findings_en)

Ireland's approach, on the other hand, is largely based on public-private sector collaboration. In this country, there are flexible relationships between the public sector, private sector, and civil society, which are consistently encouraged.

In Portugal, the focus is on promoting innovation, research, and development activities to enhance competitiveness.

In countries like Finland, Denmark, the Netherlands, the United Kingdom, etc., issues such as environmental protection and sustainability, regular monitoring and evaluation, adherence to sustainable development goals, close coordination of economic changes with demographic situations, the provision of flexible social services, and the ease of access to healthcare, education, and other

services are considered important conditions for creating a favorable business environment and ensuring economic dynamism.

Another noteworthy aspect of European experience is the "Regional Competitiveness Index" (RCI), which has been in circulation since 2010 and is published every three years. The RCI allows for the tracking and evaluation of the development of EU countries over time in a comparative format and serves as the first initiative to provide a European perspective on regional competitiveness within the European Union.

The **second** chapter of the dissertation is titled "Analysis and Evaluation of the Current Business Environment in the Republic of Azerbaijan." In this chapter, the overall business environment in Azerbaijan is studied, the characteristic features of the business environment in the East Zangezur economic region are examined, the natural and economic potential of the economic region is analyzed, and business opportunities in the region are explored.

In all countries where market relations prevail, the development of the private sector and the improvement of the business environment are included in the priorities of the state's socio-economic policies. One of the directions of the reforms is related to issues arising from Azerbaijan's participation in international agreements and recommendations from the international organizations it is a member of. By the Decree of the President of the Republic of Azerbaijan No. 2199 dated July 13, 2016, the "Commission on Business Environment and International Rankings" was established, and by the Decree No. 431 dated August 27, 2018, the "Regulation on the Commission on Business Environment and International Rankings" was approved. The main goal of the Commission is to create a business environment based on fair competition principles, ensuring the potential profitability of entrepreneurial activities<sup>7</sup>.

In 2021, the Decree of the President of the Republic of Azerbaijan on the establishment of the "Araz Valley Economic Zone" Industrial Park was signed, and in the same year, the Agency for the Development of Economic Zones under the Ministry of Economy was

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<sup>7</sup><https://azranking.az/az/>



created, further enhancing the attractiveness of the business environment.

The development of entrepreneurship and increasing the share of the private sector in the national economy also stems from the “Strategy for Socio-Economic Development of the Republic of Azerbaijan for 2022-2026,” which was approved by the Decree of the President of the Republic of Azerbaijan dated February 2, 2022<sup>8</sup>. The strategy includes tasks such as supporting the participation of entrepreneurs in international and local exhibitions, providing support to all types of SME entities, and expanding SME-friendly and SME Development Centers in the country.

As a result of the programs and projects implemented and the measures taken, the number of active business entities increased by 6.2% in 2023, reaching 377,842 units, compared to 355,906 units in 2022. Of these, 50.3% were in the regions in 2022, and 50.9% were in the regions in 2023.



**Figure 1. Distribution of operating MCO entrepreneurial entities between Baku city and regions.**

*Source: “Micro, small and medium enterprises in Azerbaijan”. Baku, SSC, 2024, p.13.*

Almost 50% of micro, small, and medium enterprises are concentrated in Baku city, which requires a new approach to regional policy. This situation, as well as the figures presented in the table below, demands serious investigation. Why is entrepreneurship less

<sup>8</sup> <https://president.az/az/articles/view/56725>

developed in the regions compared to Baku city? This could be related to purchasing power, rapid urbanization, or the procedures for organizing entrepreneurial activities. In fact, when looking at the numbers for individual regions, a significant disproportionality is noticeable. However, this is more apparent between Baku and the regions rather than between individual regions. As shown in the table, with the exception of the Absheron-Khizi and Eastern Zangezur economic regions, the level of development of micro, small, and medium enterprises is similar across other economic regions.

**Table 1.**

**Distribution of operating MSM business entities by economic regions, in percent**

Name of the economic region	Share of individual economic regions, %		
	2021	2022	2023
Baku city	49	49,7	49,1
Nakhchivan	2,3	2,4	2,5
Absheron-Khizi	9,1	9,0	8,9
Mountainous Shirvan	2,1	2,0	1,9
Ganja-Dashkasan	4,8	4,7	4,7
Karabakh	3,8	4,0	4,0
Gazakh-Tovuz	4,0	3,6	3,8
Guba-Khachmaz	3,5	3,4	3,5
Lankaran-Astara	5,6	5,7	6,0
Central Aran	4,4	4,3	4,5
Mil-Mugan	2,9	2,9	2,9
Sheki-Zagatala	4,8	4,5	4,5
Eastern Zangezur	0,4	0,5	0,4
Shirvan-Salyan	3,1	3,2	3,2

*Source: Compiled by the author based on statistical data.*

As seen, entrepreneurship entities are also operating in the Eastern Zangezur region, with 1,845 entities operating in the economic region in 2022 and 1,754 entities in 2023. In 2023, the region's share in the total number decreased by 0.1% compared to 2022, and the number of entrepreneurship entities decreased by 4.9%, or 91 entities. The main reason for this is explained as the merging of businesses and activities and the organization of joint operations. A number of micro, small,

and medium entrepreneurship entities preferred to organize their activities together, which resulted in a decrease in the total number.

During the period under review, the added value created by micro, small, and medium entrepreneurship entities increased by 23.0%, the number of employees grew by 3.4%, the average monthly nominal wage rose by 12.0%, the number of entrepreneurship entities increased by 6.2%, and the share of MSMEs in the added value created in the national economy grew by 2.5%. However, investments in MSMEs decreased by 560.6 million manat, which is likely related to the strengthening of the country's development level and the growth of large business entities and network entrepreneurship.

**Table 2.**

**Main macroeconomic indicators of micro, small and medium enterprises**

Indicators	Y E A R S		
	2021	2022	2023
Newly created added value, million manat	13956,1	17170,4	20087,1
Number of employees, thousand people	357,8	370,1	390,8
Average monthly nominal wage, manat	632,2	707,9	765,8
Investments in fixed capital, million manat	3387,7	2827,1	2366,1
Active entrepreneurship entities	355906	377842	401149
Share of MSME entities in the added value created in the national economy, percentage	16,4	13,9	18,0
Investments in fixed capital directed by entrepreneurship entities	31,1	29,1	19,0
Total number of wage earners in enterprises	41,8	41,8	44,0
Total number of active entrepreneurship entities	99,6	99,7	99,7

*Source: “Micro, small and medium enterprises in Azerbaijan”. Baku, SSC, 2024, p.23*

As it is known, taxes are the main source of revenue for the state budget, and tax policy is one of the key tools for regulating economic processes by the state. In the context of market relations, the increase in taxes and, thus, budget revenues is a priority of the state's economic policy. This increase is possible due to both the rise in the number of taxpayers and the increase in their turnover. As shown in Table 4, in

the years 2021-2023, taxes paid by MSME entities increased by 647.1 million manat, or 35.4%. Over these years, the number of MSME entities also increased by 45,243 units. Table 4 provides a more detailed representation of this trend.

The results are quite contradictory and thought-provoking. As seen in Table 4, although the number of MSME entities increased across all sectors in 2021-2022, taxes paid by MSMEs decreased in most sectors during the analyzed period. The greatest decline was observed in the Information and Communication sector, which decreased by 122.2 million manat, and in the Construction sector, which decreased by 47.7 million manat. According to experts, the decrease in the construction sector is associated with increased activity in the territories liberated from occupation, where certain tax concessions apply to workers in these areas.

**Table 3.**

**Taxes paid by micro, small and medium enterprises by type of economic activity, million manats**

Sectors of the economy	Y E A R S		
	2021	2022	2023
Total by Economic Activity Types	<b>1827,1</b>	<b>1791,6</b>	<b>2374,2</b>
Agriculture, Forestry, and Fishing	18,1	16,9	15,7
Construction	402,3	354,6	428.1
Trade, Vehicle Repair	455,0	503,0	604,8
Transport and Warehousing	72,6	60,4	73,1
Accommodation and Food Service Activities	44,2	63,2	114,0
Information and Communication	207,0	84,8	149,0
Real Estate Activities	47,5	46,8	75,1
Education	17,1	15,5	23,9
Health and Social Services	35,4	43,1	43,8
Industry	170,1	242,3	341,1
Other Sectors	357,8	361,0	505,6

*Source: “Micro, small and medium enterprises in Azerbaijan”. Baku, SSC, 2024, p.215.*

Research suggests that the business environment in Azerbaijan is conducive to engaging in efficient business activities across various sectors. The realities of the current environment do not pose any

challenges for legally operating business entities; rather, it is quite stimulating. In most cases, excluding the dominance of network businesses and large taxpayers over smaller entities, the overall competitive environment can also be considered favorable.

**Table 4.**

**Statistical overview of the number of micro, small and mediuenterprises and taxes paid by types of economic activity**

Sector of Economy	Number of MSM, unit		Tax payments, million manats	
	2021/22- years	2022/23- years	2021/22- years	2022/23- years
Total by types of economic activities:	+21936	+23307	- 35.5	+582,6
Agriculture, forestry, and fishing	+120	+77	-1.2	-1,2
Construction	+560	+946	- 47.7	+73.5
Trade, vehicle repair	+5831	+4008	+ 48.0	+101.8
Transport and warehousing	+3244	+3407	-12.2	+12.7
Accommodation and food services for tourists	+1059	+1065	+19.0	+50.8
Information and communication	+1136	+538	- 122.2	+64.2
Real estate activities	+830	+1566	-0.7	+28.3
Education	+1110	+2015	-1.6	+8.8
Health and social services for the population	+494	+843	+7.7	+0.7
Industry	+1782	-45	+72.2	+98.8
Other sectors	+5770	+8679	+3.2	+144.6

*Source: The table was compiled by the author based on research.*

As it is known, one of the economic regions of Azerbaijan that promises long-term development prospects and is of priority importance is the Eastern Zangezur economic region. The favorable geographical location of Eastern Zangezur for health, summer resorts, mountain tourism, and even winter tourism indicates its multifaceted tourism potential. It is especially worth noting that, alongside Kalbajar, which is the largest district in Azerbaijan in terms of area, Lachin is also rich in summer resorts, health tourism, and medicinal springs.

Kalbajar, one of the leading districts of the region, is renowned for its significant potential in both health tourism and the development of the agricultural sector. Referring to the words of National Leader Heydar Aliyev about Kalbajar: *“Indeed, Kalbajar is a very valuable corner of Azerbaijan. Both due to its nature, mountains, forests, rivers, springs, and the presence of valuable underground waters, marble, gold reserves, and other non-ferrous metal deposits, it is a very valuable place<sup>9</sup>,”* we can conclude that Kalbajar district has rich potential opportunities for the development of both health tourism and the agricultural sector.

The “Great Return to the Liberated Territories,” one of Azerbaijan’s five National Priorities until 2030, includes the demining of territories, the establishment of modern residential complexes, and the creation of infrastructure in the production and service sectors that meets modern requirements. Additionally, it involves the restoration of transportation and communication lines in the region and, consequently, the reconstruction of economic activities.

Moreover, the advantageous conditions for the cultivation of various agricultural products in Eastern Zangezur are also clear. These areas have the potential to increase the total volume of grain production to 400,000 tons and meat production to 45,000 tons. President Ilham Aliyev of Azerbaijan emphasized the necessity of innovative foundations for the construction work in Karabakh, stating: *“Again, I say that in this region, in the Eastern Zangezur and Karabakh regions, agriculture should be developed on the most modern foundations. Because we are starting from scratch, we cannot afford to make mistakes. We cannot repeat the mistakes made during the agricultural reform in Azerbaijan. Everything must be done correctly and transparently, and I am confident that the highest productivity will be achieved precisely in the liberated territories.”<sup>10</sup>*

In total, there are up to 160 valuable metal deposits in the liberated

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<sup>9</sup> <https://www.azerbaijan-news.az/az/posts/detail/ulu-onder-kelbecerin-inkishafi-uchun-chemiyyetli-qerarlar-qebul-etmishdir-202396>

<sup>10</sup> “New Karabakhnama: post-conflict construction in Karabakh and Eastern Zangezur economic regions” Baku, 2022, “AzPrint” publishing house, 217 p.

territories, most of which are located in the Kalbajar, Lachin, and Zangilan districts. Notably, valuable metal reserves, such as in Soyudlu (Zod) (Kalbajar), Vejnali (Zangilan), Mehmana (Kalbajar), Chilgəzçay, and Narzanlı (Lachin), are in the tens of thousands of tons.

Research suggests that although the districts of Kalbajar, Lachin, Gubadli, Zangilan, and Jabrayil, which are part of Eastern Zangezur, have similar features and potentials, they differ significantly in terms of natural, climatic, underground and surface resources, land designation, and fertility, among others. In this regard, while there should be a general approach to all areas within the economic region, it is also necessary to adopt a different approach for each administrative district.

In the third chapter of this dissertation, titled “Prospects for the Formation of the Business and Competitive Environment in the Eastern Zangezur Economic Region,” research covers three main directions. This chapter investigates the directions of public-private sector cooperation in forming a favorable business and competitive environment in Eastern Zangezur, explores the application possibilities of a digital approach in forming such an environment, and examines the governmental mechanisms for shaping a favorable business and competitive environment.

It is clear that under market relations based on the development of the private sector, joint activity between the state and the private sector can be efficient for the rapid revival of the region. In this context, public-private partnership (PPP) is considered essential for the formation of a favorable business-competitive environment in the Eastern Zangezur economic region, the region's development, and the restoration of normal life in the area.

There are several key forms of public-private partnerships (PPP), with countries like the United States, the United Kingdom, Germany, and France being leaders in this area. Currently, PPPs are more widely used in countries like Brazil, India, and Turkey. Based on research, the stages of PPP development can be outlined as follows:

According to international experience, it can be said that financing projects through public-private partnerships leads to their faster and more efficient completion. In practice, public-private sector

collaborations are typically carried out under 20-30 year contracts, or even longer.

Regarding the approach of international organizations, specifically the World Bank's studies on public-private relations in various countries, including traditional investment directions, attract particular attention. Figures 2 and 3 show the public-private sector collaboration and the traditional investment directions of the government.

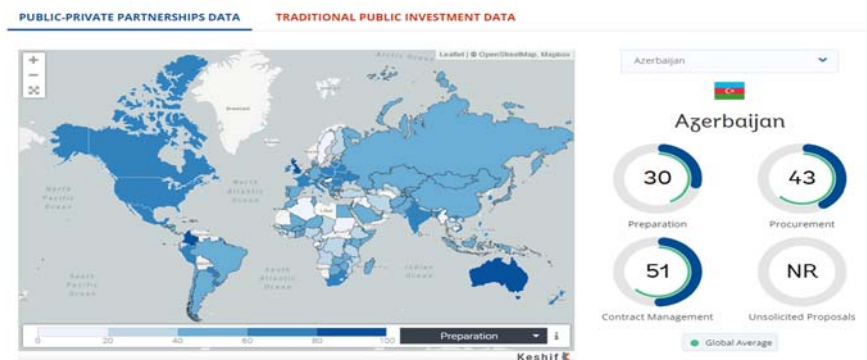
**Table 5.**

**Development stages of public-private partnership (PPP)**

Stage I	Stage II	Stage III
Initial political decision-making	Review of legislation	Creation of a fully integrated system
Alignment with existing legislation	Broad dissemination of strategic and practical guidelines	Removal of legal obstacles
Formation of the project portfolio	Establishment of specialized structures dealing with PPP issues	Further clarification and implementation of PPP models
Formation and development of the theoretical base	Improvement of PPP models	Complex risk allocation
Application of existing experience	Promotion of market development for PPPs	Formation of a guaranteed project portfolio
Development of the PPP market (scale of cooperation)	Expansion of the project portfolio and inclusion of more sectors	Creation of long-term political consensus
	Attraction of new financial resources	Utilizing all available financial resources
		Creation of an investment market for infrastructure, including pension and private equity funds
		Use of PPP experience by highly skilled personnel

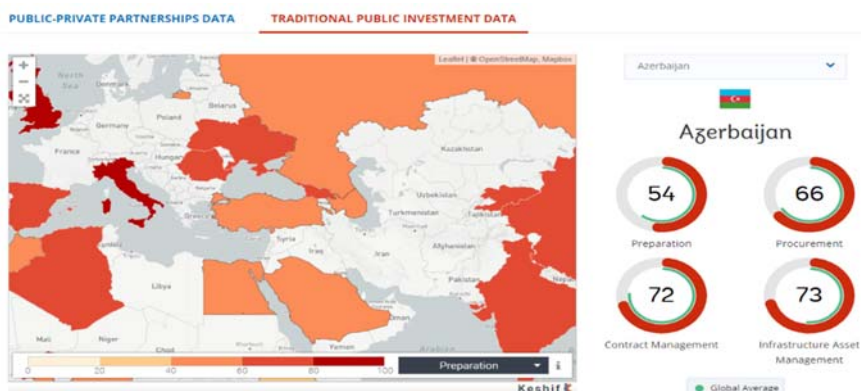
*Source: Compiled by the author based on research.*





**Figure 2. Public-Private Sector Cooperation**

Source: <https://bpp.worldbank.org/>



**Figure 3. Traditional public investment directions**

Source: <https://bpp.worldbank.org/>

According to the World Bank's 2020 report on Public-Private Partnership (PPP), Azerbaijan was assessed with 30 points out of 100 for its preparation level before initiating the PPP process, 43 points for the procurement section, and 51 points for contract issues. Based on these indicators, Azerbaijan ranks 44th globally for preparation, and 63rd for both procurement and contract issues. Based on the World Bank's traditional government investment data, it can be stated that Azerbaijan was evaluated with 54 points in preparation, 66 points in procurement, 72 points in contract issues, and 73 points in infrastructure asset management. Among 184 countries, Azerbaijan

ranked 61st in preparation, 67th in procurement, 77th in contract issues, and 52nd in infrastructure asset management.

Taking advantage of the benefits promised by digitization, one of the main demands of the modern era, is a priority. Studies of various sources reveal that "Metaverse" technology, an essential element of digitization, is emerging as one of the key components of a favorable business-economic environment in the modern era. This makes the application of "Metaverse" technologies a challenge in ensuring development at the national or regional level.

The harsh natural and climatic conditions of East Zangezur, the difficulty and costs of gathering various businesspeople and people in one place, also make the application of "Metaverse" necessary. This will, in turn, support economic development in administrative regions with vast territories, as well as in the broader economic region, by ensuring flexibility. Considering that digitization and internet technologies are the main driving forces of modern economic success, it becomes evident that steps in this direction are necessary in East Zangezur as well.

Thus, research on the formation of a business and competitive environment and the study of the state's mechanisms lead to the conclusion that issues such as investment, financial-tax policy, financial-credit policy, opportunities for fair competition, anti-monopoly activities, and others significantly affect the environment. In other words, the environment is shaped by these policies. Experience proves that the more favorable the business environment and the fairer the competition environment, the longer-lasting and more stable the operations of economic entities will be.

From the research conducted on the prospects of forming a favorable business and competitive environment in the East Zangezur economic region, the following results were obtained, and relevant suggestions were made:

➤ The business environment in Azerbaijan is favorable for engaging in efficient business activities across various sectors. The current environment does not create any difficulties for legally operating entrepreneurial entities; on the contrary, it is quite stimulating. One of the main factors affecting the business

environment is competitiveness, and a fair competitive environment is often present. In most cases, we can consider the overall competition environment favorable, aside from the dominance of network businesses and large taxpayers over relatively smaller entities. Additionally, continuous tax incentives, prevention of illegal interventions, concessional loans, and other stimulating decisions adopted by the government make the business environment in the country even more attractive. In addition to these factors, the adoption of more favorable, stimulating conditions in the East Zangezur economic region should also be a focal point.

➤ The East Zangezur economic region, while encompassing a priority direction of the state's regional development policy, holds significant potential. Whether in the development of the mining industry, agricultural industry and sector, or tourism and other service sectors, the region has abundant potential opportunities. The infrastructure and energy supply, as well as communication services, are being rebuilt and restored in the region, which is crucial for realizing the business opportunities there.

➤ Research indicates that although the districts of Kalbajar, Lachin, Gubadli, Zangilan, and Jabrayil, which are part of East Zangezur, share several characteristics and potentials, they differ significantly in terms of natural and climatic conditions, underground and surface resources, land designation and fertility, etc. Therefore, while there should be a general approach to all areas within the economic region, a distinct approach for each administrative district is also necessary. Thus, it would be advisable to create a "passport" for these districts (liberated territories), where all potential opportunities and specific characteristics (harsh climate, mountainous areas, fertile soil, etc.) are consolidated in a virtual source.

➤ Public-Private Partnership (PPP) covers areas such as financing, planning, construction and operation of facilities, production and delivery of public sector services, and includes forms such as contracts, leases, concessions, joint ventures, etc. Key features of PPP include long-term (30 years or more) services, risk transfer or sharing with the private sector, and long-term contracts covering various directions. These elements help reduce government spending

and create conditions for flexibility and competitiveness.

➤ The application of digital technologies is a necessary condition for forming a business and competitive environment in East Zangezur. “Metaverse” technology, which is a significant component of digitization, has become one of the key components of a favorable business-economic environment in modern times. This is evident as prestigious international companies make significant investments in this field. For instance, according to McKinsey’s 2021 report, the sector is expected to expand by up to 5 trillion USD by 2030. Therefore, applying “Metaverse” technologies in the development of the East Zangezur economic region would be appropriate.

➤ Modern realities demand an in-depth analysis of regional inequalities and balancing development goals. To monitor overall development and evaluate and improve the effectiveness of strategic approaches over time, it would be beneficial to incorporate a specific regional development index. The implementation of regional development indices is also justified by the fact that every development indicator should be measurable. The use of indices allows for timely evaluations (mainly on annual and semi-annual bases), enabling the timely adoption of necessary improvement measures.

➤ One of the most important indicators of the business and competitive environment in the region is infrastructure provision. This provision ensures access to necessary markets and creates a conducive environment for obtaining raw materials and finished products. Therefore, for any region’s development and for the formation of a favorable business and competitive environment, access to markets and infrastructure provision should be given utmost importance.

➤ Based on the results of research conducted in the direction of applying digital approaches and modern technologies in forming a favorable business and competitive environment, the following suggestions for stimulating socio-economic development, shaping a normal standard of living, and creating favorable business and competitive opportunities in the East Zangezur economic region can be made:

1. Economic regions, based on their geographical position, must

ensure their internal economic development by becoming a supporting force for the mega-projects that the country is involved in at the global and regional levels. For example, it is necessary to turn regional projects such as the Middle Corridor, East-West, North-South, and the Baku-Tbilisi-Kars railway into driving factors for regional development.

2. The development goals for cities and economic regions should be tailored to the specific development needs and problems of each city or village.

3. In relatively less developed regions, it would be appropriate to identify innovation-based regional development drivers and implement the “Smart Specialization” strategic approach.

4. It is necessary to more closely align the regional development objectives and programs with the long- and medium-term economic goals set at the macro level of the country.

5. Improving infrastructure (roads, bridges, utility services, transportation links, etc.) to ensure easier and more flexible access to necessary markets, even for the most remote settlements, is important.

6. To promote the diversification of non-oil and gas industries, it is necessary to support sectors such as agriculture, tourism, technological development, etc., in order to create new employment opportunities.

7. In order to make more efficient use of tourism potential, it is considered appropriate to promote the region's unique cultural and natural heritage and to create normal (flexible) infrastructure and business environments to generate new jobs and economic opportunities.

8. Along with administrative and governance reforms, strengthening public-private partnerships and encouraging public oversight is a current necessity.

➤ During the research, the regional development experiences of countries such as China, Japan, European states, Georgia, Kazakhstan, etc., were examined. The application of the experiences of the Czech Republic and Kazakhstan in our country has been proposed. In the Czech Republic, a "Regional Development Strategy" was developed with the aim of shaping the business and competitive environment in

the regions. The goal of the strategy is to form a special support package for regions and to make the right decisions to develop strategic planning and governance in the regions. The Kazakh experience is similar and also recommends the application of the regional competitiveness index.

➤ The application of the regional competitiveness index provides an opportunity to determine the competitiveness of the area, offer an attractive environment for the normal living and working conditions of regional entrepreneurs and residents, and fully and more effectively utilize potential opportunities.

**The content of the research work is reflected in the following articles by the author:**

1. Development directions of tourism services in the East Zangezur economic region // - Baku, "Cooperation" scientific and practical journal, - 2022. № 1, - s.92-99.

2. Potential opportunities of the liberated territories in the quality food supply of the Republic of Azerbaijan // - Baku, CIERK, Journal of Economic Reforms, - 2022. №3(4), - s.69-77.

3. Directions for forming a favorable agrarian business environment in East Zangezur // - Baku, ANAS News. Economy series, - 2023. № 1, - s.55-62.

4. Competitive production determines sustainable development // - Baku, "Cooperation" scientific and practical journal, - 2024. № 1(72), - s.23-31.

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9. Specific features of staff management in project management // - Baku, Azerbaijan University, "Materials of the V Republican Scientific-Practical Conference of Young Researchers", - 2022.- s.98-99

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13. Development prospects of Eastern Zangezur // - Baku, ASEU (UNEC), V International scientific conference of researchers in the field of economics and management, - 2023. – s.217-224.

14. Ways of creating a suitable business environment in Eastern Zengezur with tourism potential // - Istanbul, VI. International Halich Congress on Multidisciplinary Scientific Research, - 2023. – s. 120-127.

15. The Impact of Human Capital on the Business Environment // - Paris, University of Paris, 9. International Paris Congress on Social Sciences & Humanities, - 2023. – s.391-398.

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17. Heydar Aliyev's strategy: The path from decline to victory // -

Mingachevir, Moscow State University, Materials of the Republican scientific conference "Heydar Aliyev - 100: the founder of independent Azerbaijan and the author of a comprehensive development strategy" dedicated to the 100th anniversary of the birth of the National Leader of the Azerbaijani people Heydar Aliyev, - 2023. – s.49-59.

18. Heydar Aliyev - the founder of the successes of modern Azerbaijan // - Baku, AKU, Materials of the International Scientific and Practical Conference on the theme "Heydar Aliyev and the Modern Turkic World", dedicated to the 100th anniversary of the birth of the National Leader of the Azerbaijani people H. Aliyev, - 2023. – s.423-428.

19. Azerbaijan's transport strategy: current situation and prospects // - Mingachevir, Moscow State University, Materials of the II International Scientific Conference "Sustainable Development Strategy: Global Trends, National Experiences and New Goals" dedicated to the 100th anniversary of the birth of the National Leader of the Azerbaijani people H. Aliyev, - 2023. I cild, - s.121-124.

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Address: AZ1106, Azerbaijan Republic, Baku city, Najaf Narimanov str., 93.

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