

## EXPLORING THE RELATIONSHIP BETWEEN ECONOMIC CONVERGENCE AND SALARY LEVELS IN DEVELOPING COUNTRIES: A CASE STUDY OF AZERBAIJAN

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### **Abstract**

*The purpose of this paper is to examine the relationship between wage levels and economic convergence in developing countries. Although the topic was approached from a broader perspective at the beginning of the article, more specific factors were mentioned in the continuation. Here, the economic growth in many countries of the world, the rate of salary level, changes in the level of welfare of the population, and the economic convergence trends of those countries are examined.*

*Although Azerbaijan was chosen as the main research object to analyze the issue more concretely, as mentioned above, the general aspects of the developing countries of the world are studied. This will lead to a comparison of the experience of Azerbaijan and the world in this field and, as a result, a more accurate analysis.*

*The article talks about the factors that have a greater influence on the salary levels and economic convergences of developing countries. Analyses are made, results are obtained and recommendations are made.*

*This article contains useful information about the economy of Azerbaijan and other countries of the world for those studying this topic.*

**Keywords:** *economic convergence, wage, Azerbaijan, salary level, economic growth, integration*

**JEL Classification:** *O11*

### **Introduction**

In general, economic growth, material well-being, economic approach and other factors form a closed circle in the interaction. This means that when one of them is affected, the entire circulation is affected. This article deals more with external factors affecting that cycle. For example, an increase in the country's GDP will lead to an increase in the wage level. This, in turn, will lead to the improvement of the material well-being of the population. As a result, this increase will show itself in all links of this chain. Thus, increased demand will also increase product prices. This will lead to the inflation of the economy.

Because the increase in the population's income will lead to an increase in demand. As we know, demand and price are directly proportional. Rising prices are one of the first signs and causes of direct inflation.

Thus, the increase in the salary level of the population has advantages as well as disadvantages. So, this will lead to a decrease in the purchasing power of the national currency and, ultimately, to inflation. All these are the main factors that should be taken into account to analyze the country's economic convergence.

Also, local and foreign direct investments, state support for entrepreneurship, applied concessions, subsidies and other measures indirectly affect the improvement of the population's standard of living. In general, these or other economic indicators can be divided into the following two groups according to the wage level and the impact on economic convergence:

1. Direct influencing factors
2. Indirect influencing factors

More detailed information about them is given in the later parts of the article. It is impossible to imagine the country's economic development without the integration process. This has proven itself throughout history in world experience. Even in the first ancient state institutions, foreign trade relations with other countries were established. However, history shows that countries that have better trade relations with other countries have become economically more powerful than others. Although in ancient times material resources had a greater influence on a country's share of trade, nowadays intellectual resources gain value almost faster.

## **A theoretical approach to the concept of economic convergence or integration**

As mentioned above, the establishment of economic relations between the countries dates back to before our era. Throughout history, the economy has been divided, and new areas have emerged. Newly emerging areas have been formed according to the demand of the day. Nevertheless, for emerging fields, the discovery of new markets or organization of new ones has been one of the most important issues facing the economy. Today, this process has found its solution through integration.

In the process of world economic integration, two tendencies are manifested:

1. International convergence;
2. Regional convergence.

There are many meanings of the word integration, which means that different systems or parts and elements of the system interact and adapt. This article will talk about economic integration, its history, causes, types, and economic importance.

Economic integration is the creation of new mutual economic relations between enterprises, countries, international and local organizations, as well as other economic participants, or the expansion and strengthening of existing relations.

There are two main reasons for the emergence of economic integration. These are the following [21.1]:

1. Political reasons
2. Economic reasons

This article analyzes more the economic aspects of integration, so a few brief examples of political reasons can be given. In practice, the main reason for using economic integration is more political. For example, in 1867, the main goal of creating an economic organization under the name "Zollverein" or "German Customs Union" was to unite all of Germany under Prussian leadership after only 4 years. In addition, it is possible to cite as an example the United Kingdom's offer of the "Imperial Free Trade" agreement in order to recreate or restore its broken relations with its colonies.

The economic reason is to increase production, material well-being, and productivity by increasing trade relations between the participants. The economic reason is to increase production, material well-being, and productivity by increasing trade relations between the participants. The most established example of economic integration in the 21st century is the European Union. [21.2]

The stages of economic integration vary depending on the level of depth as follows:

**Concession Trade Zone.** The first stage of integration, the Concession Trade Zone, involves the reduction or elimination of tariffs on certain types of products between the parties.

**Free Trade Zone.** At this stage, member states agree to eliminate tariffs, other duties on certain products, and import and export quotas. This economic union is more attractive for economically close countries. This stage of integration is not very efficient for states competing with each other.

**Customs Union.** This is the general tariff system applied by participants in the Free Trade Zone to others.

**Common Market.** The Common Market is the removal of barriers and tariffs to ensure the free movement of products, as well as capital and production services. This level of integration is the stage of transition to the "Single Market" and ensures the unhindered movement of all production resources between participants.

**Economic Union.** Economic Union is a type of economic integration in which common market and customs union are implemented together. Within the Union, member countries carry out general regulation of production, free movement of all resources is ensured. That is, the free movement of labor, capital, and other goods and services and other factors of production is ensured. In this union, the member countries have a single foreign trade policy.

**Economic and Monetary Union.** This is the 5th stage of integration. Along with the Single Economic Policy, the Single Currency Policy is implemented in the Economic and Monetary Union. This, in turn, leads to the formation of the Monetary Union for the transition to full economic integration.

**Full Economic Integration.** Full Economic Integration is the last stage of the integration process. Here, member states behave almost like participants of a single economy. Because here they sign an agreement to act equally in most areas of the economy. From the outside, Full Economic Integration also looks like a kind of federative organization. An example of this is the United States of America. Because all the states in the USA have autonomy, but they have uniform foreign economic policies. [21.3]

The best example of integration was the European Economic Cooperation (EEC), which was established in 1958 on the basis of the Treaty of Rome of 6 countries of Western Europe, later this union expanded, the composition of this union was 9 countries in 1973, 12 countries in 1980-82, in 1992 it consisted of 15 countries. According to the Maastricht Agreement of November 1, 1993, the EU became the European Union. [6.1]

**Advantages And Disadvantages Of The Integration Process.** In general, all these lead to the strengthening of the GDP, national income, economic power, welfare level of the population, and in general, the state's economy and general power of the member countries of the organization.

But despite all this, why are not all countries members of a single organization?

There are many reasons for this. But one of the main reasons is that in each of these stages of economic integration, member countries lose their economic independence more. Because in order to join any of these integration stages, countries adapt their foreign policies to the general policy of the organization. And while becoming a member of the organization, they agree that they will not conduct foreign policy alone in certain areas.

Therefore, some countries do not intend to participate in the deeper levels of the integration process.

### **A theoretical approach to the concept of wages**

Salary is the compensation amount agreed between the employee and the employer for the performance of certain work based on the established schedule. Salary can also be called a kind of labor compensation. [16.1]

In world experience, wages vary due to the influence of many indicators. Factors affecting the level of wages can be divided into the following three groups according to the degree of influence.

1. Micro factors
2. Macro factors
3. Global factors

**Micro factors** refer to factors within the workplace. This includes working hours, type and amount of work, type of workplace, duties and responsibilities within the enterprise, etc. For example, when analyzing the salary level at the micro level, it is necessary to take into account whether the salary is our work or our time.

**Macro factors.** At the macro level, the country's economic income, GDP, GNI, legislation, devaluation, inflation, the country's integration into the world, subsidies, state support for small and medium enterprises and large business stimulation programs and other factors can affect the wage level.

**Global factors** can have a wider range of influence. For example, the global economic crisis, pandemic, world wars, energy crisis, global warming, terrorism, polarization of the countries of the world and other factors are among the factors that have a global impact on the wage level. These factors are called Global Effects

because they can affect wage levels in two or more countries at the same time. Even global factors can be classified according to their regional and secular effects. While regional influence factors affect only regional countries, secular factors affect all countries of the world. For example, terrorism is a regional factor, and a pandemic like Covid-19 is a secular factor.

The wage payment system can be chosen independently by employers. These systems may vary by country and company. According to the legislation of the Republic of Azerbaijan, there are currently 3 systems of salary payment in the country. These are the following:

1. It's our job
2. It's our time
3. Other

In the “Our Job” wage system, the wages of employees depend on the volume and amount of work they do. Here, the salary is calculated based on the unit or fixed mass of the work done. The wage calculated per product is agreed upon in the contract between the employee and the employer. Those who work hard get paid more, those who work less get paid less. The advantage of this system is that it motivates employees to work harder. The disadvantage is that it leads to discrimination, inequality and, in some cases, exploitation of workers.

In “Our Time wage system” employees are paid according to their working hours, the total number of hours they work in a week. Here, the salary is calculated per hour and multiplied by the total number of hours worked during the month. The amount of hourly wages is agreed between the employee and the employer and is specified in the employment contract.

Although the “Our Time wage systems” seems more humane than the “Our Job” wage system, this system also sometimes leads to the exploitation of workers by the owners. [3.1]

Currently, there are many “Other wage systems” in the world. For example, the following can be shown:

1. Tariff-free payment system
2. Variable position salary system
3. Salary calculated on the basis of commission, etc.

For example, **the system of accord payment of wages**. Here, the salary is paid for the full execution of the relevant work within a predetermined time frame.

The salary includes the following:

1. Monthly position salary
2. Salary supplements

### 3. Awards

Position salary is the main part of salary. It is determined according to the qualification of the employee, the difficulty of the work, the importance of the work performed and the duties.

Salary supplements are incentive supplements paid for additional work or overtime hours as a supplement to the monthly position salary.

Rewards are material funds paid by the employer based on the salary system to increase the productivity and motivation of the employee, the quantity and quality of work. These include vouchers, gifts, prizes and so on. [3.2]

### **Analysis of the relationship between economic convergence and wage level in general and in the case of Azerbaijan**

Within the borders of Azerbaijan, wage relations are regulated by the legislation of the Republic of Azerbaijan. In 2001, in accordance with the new era of socio-economic relations, the Labor Law and the concept of demographic development in Azerbaijan, and in 2001, the Labor Law and "Concept. The new era of the population due to socio-economic relations of demographic development" etc. [2.1]

As mentioned above, like all other countries, Azerbaijan started to integrate with the world from the first years of its independence in order to maintain and strengthen its independence. He made an effort to establish new relations with foreign countries and to strengthen and expand existing relations. He used all his resources and opportunities to become a member of international organizations, which is the fastest way of integration. After regaining our independence (on October 18, 1991), the international economic organizations with which we obtained the first cooperation relations can be classified as follows:

- Organization of the Islamic Conference (OIC) - 1991
- International Monetary Fund and International Bank for Reconstruction and Development - 1992;
- Economic Cooperation Organization (ECO) - 1992;
- World Trade Organization (former WTO) observer status - 1993;
- Black Sea Economic Cooperation Organization (COEC) - 1993;
- Commonwealth of Independent States (CIS) - 1993;
- Council of Europe – 2001

In 2002, the average monthly income per person was 43.9 manats, which was 19.0 percent more than in the last year of the 20th century. In order to ensure financial stability in the economy, the minimum wage was increased twice in 1994 and once in 1995 based on the decrees of the country's president. [2.2]

The role of Heydar Aliyev, the national leader of the Azerbaijani people, in all this rise is an undeniable fact.

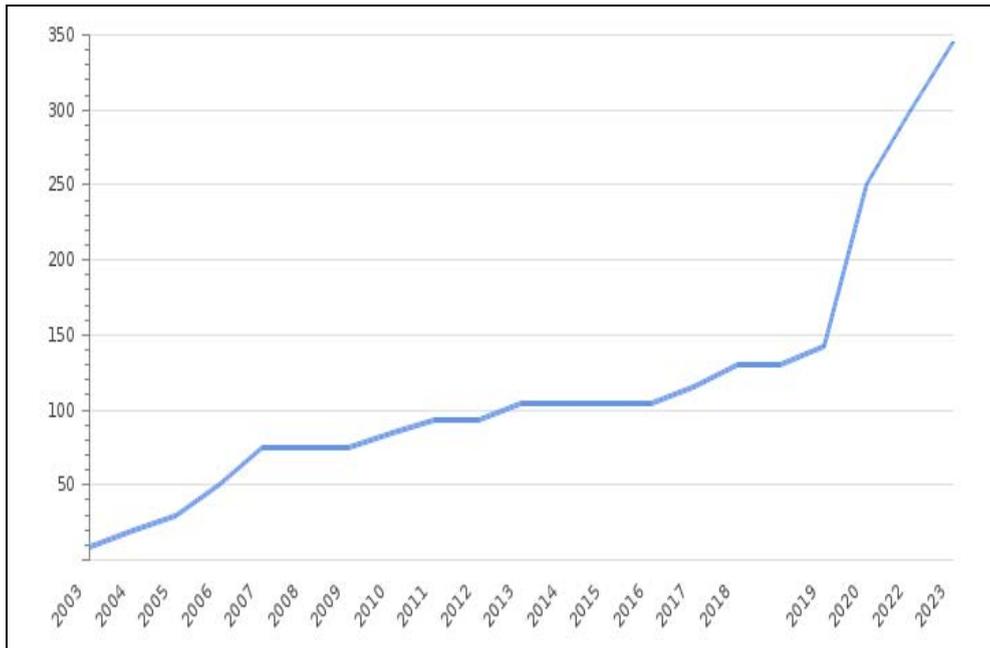
Academician Ramiz Mehdiyev writes: “Heydar Aliyev's tireless and consistent policy, which serves the interests of the country, is based on the strategic interests of the state, is comprehensively thought out, distinguished by its own duties and principles, is valid even today in all directions”. (R. Mehdiyev Azerbaijan: demands of globalization, Baku, 2005, p. 335).

Since 2003, the process of Azerbaijan's integration and development has begun to develop more rapidly. As an example, we can look at the changes in the economic indicators of Azerbaijan in the period of 2004-2009.

The growth dynamics of the minimum wage in Azerbaijan over the past 20 years is clearly shown in the table below:

N	Growth year	Growth rate	Amount after increment
1	2010	13.3%	85
2	2011	10%	93.5
3	2013	12.2%	105
4	2017	10.4%	116
5	2018	12%	130
6	2019	92.3%	250
7	2022	20%	300
8	2023	15%	345

To better visualize these changes and the magnitude of the growth rate over the years, its dynamics can be presented in another form:



In general, in 2004-2009, GDP in the Republic of Azerbaijan increased 2.8 times in real terms. In dollar terms, this means US\$43.0 billion. GDP per capita increased by 120% in 2009 compared to 2004 and reached 4874.1 US dollars. During these years, money income has increased by 100% in real terms, the average wage has increased by 3 times, the value of the minimum pension by 3.8 times, per capita income by 1.85 times, and the minimum wage by 6.3 times.

2004-2009 trade turnover increased by 2.8 times, exports by 3.9 times, non-oil exports by 140%. During these years, 32,886 new enterprise buildings and about 840,000 new jobs were opened. As a result of the targeted measures, the poverty level was reduced from 44.7% to 11% during the relevant period. [20.1]

This growth continues to date. So, despite all the global repercussions, even during the Covid-19 pandemic, economic development continues in Azerbaijan. This is the result of Azerbaijan's high-level strategic development plans. At a time when the pandemic has almost completely stopped economic development in some countries or caused an economic crisis, although it has reduced the speed of economic development in Azerbaijan, Azerbaijan is also on the list of countries least affected by the pandemic.

Despite the fact that the pandemic is still ongoing, as a result of the revival of the global economy, the economic indicators of Azerbaijan have started to rise faster. If we take into account the indicators of recent years, we can clearly see this.

As of April 1, 2022, the number of salaried workers in Azerbaijan increased by 65,300 people or 4.1 percent to 1,646,100 people compared to the same month of 2021. Of them, 911,700 people work in the state, and 734,400 people work in the non-state sector.

20% of wage earners are in education, 18% in commerce, 13% in industry, 8% in health and social services, 8% in construction, 7% in public administration and social protection and security, 5% in transport and warehousing, 3 percent were engaged in professional, scientific and technical activities, 3% in agriculture, forestry and fishing, 2% in financial and insurance activities, and 13% in other areas of the economy. [20.2]

In January-March of that year, the average monthly nominal salary of the country's population working for wages increased by 29 percent compared to the corresponding period of the previous year and was 744.5 manats. The average monthly nominal salary of employees working in the professional, mining industry, information and communication, financial and insurance activities, scientific and technical fields, as well as transport and warehousing sectors of the economy is expressed in higher numbers than in other sectors.

During the months of January-August last year, the average monthly nominal salary of the salaried population increased by 15% compared to the corresponding period of 2021 and reached 829 manats. During that period, the salary level of workers in the oil sector was 3,485.5 manats, while the allowance in the non-oil sector was 778.1 manats. At the same time, the wages of employees working in state enterprises were 780.1 manats, and the wages of workers in private enterprises were 884.5 manats. [20.3]

## Conclusion

Looking at all of the above, it is possible to clearly observe how economic convergence, in general, economic integration affects the income of the country's population and improves material well-being indirectly.

The modern theory of interregional mutual economic relations, or the mutual activity of regional economies, reflects the location of production and production factors, interregional economic relations, distribution relations, as well as integration relations. [15.1]

Today, the state of Azerbaijan considers integration into the world community one of the priority directions of national development. He is trying hard to define his place and role in the new world order. Azerbaijan consistently carries out intensive political training in the direction of determining its optimal economies in the world economy and politics in the 21st century. [7.1]

Studying Azerbaijan as a case study is also important. Because Azerbaijan is a young country. Considering that it is rich in natural resources and has wide potential, it is seen that there is a great need for its economic investigation.

Thus, the rapid development of a state with 30 years of independence draws the world's attention to this. As a result, foreign investments increase, investors participating in the local market increase their investment volumes, and new investors try to get a share of this market.

Thus, the number of participants in the economy increases, new jobs are opened, and within the framework of increased competition, an increase in wage levels is also felt. Because employers offer higher wages to attract more professionally qualified personnel. This leads to the improvement of the material well-being of the local population.

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