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**The Impact of Import Dependency on the Labor Market  
(A Political Economy Perspective)**

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**Abstract**

The increasing integration of national economies into the global trade system, particularly in developing countries, has intensified debates about the effects of import dependency on domestic labor markets. This article examines these effects through a political economy lens, arguing that such dependency can lead to a decline in domestic production capacity, a rise in informal employment, and the erosion of institutional frameworks governing labor relations.

The study systematically compares theoretical approaches from diverse schools of economic thought—liberal, structuralist, and neo-mercantilist—to understand varying interpretations of import dependency's consequences. It then analyzes the United States' recent protectionist policies as a contemporary case example of a developed nation responding to perceived vulnerabilities. A comparative empirical assessment of labor markets in Latin America (e.g., Mexico), Bangladesh, the United States, and Germany provides broad international context, highlighting common challenges and divergent outcomes. Crucially, the paper offers an in-depth examination of Azerbaijan's labor market, exploring how import dependency in key sectors intersects with its ongoing economic diversification efforts, regional inequalities, and the prevalence of informal labor. The analysis also considers income volatility linked to the energy sector and its implications for social protection.

The findings reveal that import dependency has profound economic, social, and political implications, extending beyond mere trade balances to fundamentally reshape labor market structures. Addressing the disruptions necessitates a multi-faceted approach that goes beyond traditional tariff-based interventions, requiring robust institutional reinforcement, comprehensive regulation of labor relations, strategic industrial policy, and fostering regional cooperation. The political economy framework offers a robust lens for understanding these complex, multi-dimensional dynamics and formulating viable policy alternatives.

**Keywords:** import dependency, labor market, political economy, informal employment, protectionism, structural reform

**Introduction**

Globalization and the relentless drive towards trade liberalization have fundamentally reshaped national economies, profoundly increasing their reliance on intricate external supply chains. This reliance is not confined to the mere flow of goods; it extends to the very structure and dynamism of domestic labor markets, significantly influencing employment levels, job security, and the overall quality of work.

In numerous developing economies, the ambitious pursuit of industrialization — a historical pathway to sustained economic growth and job creation—has, regrettably, been supplanted by consumption-driven economic models. These models are often deeply rooted in an almost insatiable demand for imports, thereby systematically constraining the effective utilization of indigenous labor resources and stifling the development of robust domestic productive capacities.

This article embarks on a critical evaluation of the pervasive impact of import-oriented economic policies on labor markets, meticulously examining these dynamics within a comprehensive political economy framework. Drawing extensively on a rich tapestry of international experiences and integrating insights from diverse, often contrasting, economic theories, the study endeavors to achieve several key objectives. Firstly, it seeks to rigorously identify and delineate the existing structural problems inherent in economies grappling with high import dependency. Secondly, it aims to unravel the complex mechanisms through which this dependency translates into specific labor market outcomes, including job displacement, wage stagnation, and the proliferation of precarious employment. Finally, and crucially, the study proposes a suite of viable and contextually appropriate policy alternatives, with a particular emphasis on their applicability and potential effectiveness within the unique socio-economic landscape of Azerbaijan. By bridging theoretical insights with empirical observations and policy recommendations, this research contributes to a deeper understanding of one of the most pressing challenges facing globalized labor markets today.

#### **I. The Labor Market Effects of Import Dependency: A Theoretical and Empirical Analysis**

Understanding the multifaceted impact of import dependency on labor markets necessitates an exploration of various theoretical perspectives that offer distinct lenses through which to interpret these complex dynamics. Each school of thought provides valuable insights into how global trade integration, and specifically reliance on imports, can shape employment, wages, and labor market institutions.

##### **Dependency Theory**

The phenomenon of import dependency finds its foundational conceptualization within the framework of Dependency Theory, which emerged primarily from Latin American schools of political economy during the 1960s and 1970s (Dos Santos, 1970; Cardoso & Faletto, 1979). This theory presents a stark division of the global economy into "core" and "periphery" regions. It asserts that the core nations, primarily industrialized Western countries, maintain their dominance through a sophisticated control over advanced technology, financial capital, and global trade networks. Periphery nations, in this view, are systematically relegated to a subordinate position, often specializing in the export of raw materials or low-value-added manufactured goods, while simultaneously relying heavily on imports of high-value manufactured goods and technologies from the core.

From a labor market perspective, Dependency Theory argues that this systemic subordination manifests as a perpetuation of underdevelopment and structural disarticulation within peripheral economies. The inability of these nations to develop robust, diversified domestic industries due to import competition and technological dependence leads to chronic labor market instability. This often translates into the prevalence of low-skilled, informal employment, characterized by precarious jobs, limited social protection, and stagnant wages (Review of Political Economy, 2023; ILO, 2022). The "surplus labor" generated by underdevelopment, often in rural areas, migrates to urban centers but finds limited absorption in formal, productive sectors, thus fueling the informal economy. Furthermore, dependency can reinforce an elite class that benefits from import-driven consumption patterns, further entrenching inequalities and undermining broad-based labor market development. The theory also suggests that efforts at industrialization in peripheral countries often become "dependent industrialization," relying on foreign capital and technology, which might create some jobs but often with limited spillover effects or deeper technological absorption.

### Structuralist Approach

Building on some similar critiques of global economic structures, structuralist economists such as Raúl Prebisch, Celso Furtado, and Albert Hirschman offered a nuanced perspective, particularly highlighting the concept of unequal exchange and the deterioration of terms of trade for primary commodity exporters. They posited that development models excessively reliant on foreign trade, particularly for imports, fundamentally constrain domestic resource mobilization and impede genuine industrial transformation. Structuralists argue that the "center-periphery" dynamics lead to a situation where peripheral countries perpetually trade increasing volumes of their primary products for a relatively smaller quantity of manufactured goods from the core, thus transferring wealth outwards.

In the context of import dependency, structuralists emphasize that economies with high levels of import reliance struggle profoundly to achieve meaningful technological transformation and industrial upgrading (Cardoso & Faletto, 1979). This is because domestic industries face an uphill battle competing with cheaper or more advanced imported goods, discouraging investment in local production and innovation. The lack of technological dynamism, in turn, facilitates the expansion of precarious employment forms (ILO, 2023). Without a vibrant, technologically advanced domestic manufacturing base, labor markets are often characterized by a large segment of workers engaged in low-productivity activities, both in agriculture and in the informal urban sector. Structuralists advocate for active state intervention, including import substitution industrialization (ISI) strategies, to foster domestic industries and reduce external vulnerability, thereby creating more stable and higher-quality employment opportunities. However, they also acknowledge the challenges and potential inefficiencies of ISI if not implemented carefully.

### Political Economy Models of Labor Market Analysis

Beyond these broad theories of international political economy, more specific labor market models offer granular insights into how import dependency shapes employment structures and dynamics:

- **Dual Labor Market Theory (Doeringer & Piore, 1971):** This influential model posits a fundamental division within the labor market into two distinct segments: the primary sector and the peripheral (or secondary) sector. The primary sector offers good jobs—characterized by high wages, job security, opportunities for advancement, and good working conditions, often found in capital-intensive or highly skilled industries. The peripheral sector, conversely, is defined by irregular employment, low wages, minimal job security, limited opportunities for training or advancement, and a lack of social protection (e.g., health benefits, pensions). In economies grappling with substantial import inflows, particularly those that undermine domestic manufacturing or traditional industries, the peripheral sector tends to expand significantly. This occurs as formal sector jobs are lost or curtailed, pushing a greater proportion of the workforce into informal, precarious, and low-wage occupations. For instance, textile imports might decimate a domestic textile industry, leading workers to seek employment in unregulated small businesses or self-employment with no benefits. This expansion of the peripheral sector exacerbates income inequality and limits social mobility.
- **Institutional Approach (Hall & Soskice, 2001):** This perspective emphasizes that labor market outcomes are not solely determined by market forces but are profoundly shaped by a complex interplay of state regulation, collective bargaining frameworks, and social partnership mechanisms. These institutions act as mediating forces, influencing everything from wage setting and working conditions to social safety nets and skills development. When import growth, especially unchecked, leads to intense competition that pressures domestic industries, it can significantly weaken these institutional frameworks. Industries facing import pressure might lobby for deregulation, reduced labor costs, and weakened unions to remain competitive. This often results in a process of labor market liberalization, where protections are eroded, collective bargaining power diminishes, and the social safety net frays. The consequences include a rise in flexible, insecure employment, a decline in real wages for many workers, and an increased vulnerability to economic shocks.

- Segmentation Theory (Standing, 2011): This theory analyzes the labor market through the lens of different social groups, highlighting how various forms of discrimination and structural barriers lead to the uneven distribution of jobs and opportunities. It argues that certain groups are systematically relegated to less desirable segments of the labor market. In the context of import competition, women, migrants, youth, and workers from ethnic minorities are often disproportionately vulnerable to its adverse effects. They are more likely to be concentrated in insecure, informal, or low-wage jobs within industries most exposed to import competition (e.g., certain manufacturing segments, informal services). This is due to a combination of factors, including pre-existing social biases, limited access to education and training, and weaker bargaining power. Import competition can therefore exacerbate existing inequalities, pushing these already marginalized groups into even more precarious forms of employment, leading to what Guy Standing terms the "precarariat"—a new, dangerous class characterized by chronic insecurity and alienation.

#### Empirical Research (2019–2024)

Recent empirical research provides compelling evidence for the varied and often adverse impacts of import dependency on labor markets across different national contexts:

- Autor, Dorn, and Hanson (2020, 2023) conducted seminal work demonstrating that the dramatic rise in Chinese imports, particularly after China's entry into the WTO, significantly contributed to the loss of approximately 2 million manufacturing jobs in the United States. Their research highlighted how local labor markets with higher exposure to import competition experienced greater job losses, increased unemployment, and reduced wages, with substantial and persistent negative impacts on local economies and even contributing to political polarization. Their later work confirmed that these effects were long-lasting and often required significant adaptation from affected communities.
- Timmer, Miroudot, and Ye (2021), in their analysis of global value chains (GVCs), underscored that while integration into GVCs can offer opportunities for growth, it also significantly increases vulnerability for low-skilled workers. These workers are often concentrated in routine tasks within GVCs, making them susceptible to automation or relocation of production to lower-wage countries. Their work emphasizes the need for robust social safety nets and proactive labor market policies to mitigate these risks.
- Rodrik (2023) consistently emphasizes that without active and well-designed state intervention, the social impacts of imports—particularly job displacement and wage suppression—tend to deepen, leading to greater inequality and social instability. He argues for "green industrial policy" and other strategic interventions to reshape comparative advantage and ensure that trade benefits are widely shared.
- The International Labour Organization (ILO) reports from 2022 and 2023 have consistently confirmed a notable and concerning rise in informal employment globally in the post-pandemic period. This trend is particularly pronounced in import-dependent economies, where formal sector job creation struggles to keep pace with labor force growth, pushing more workers into unregulated and unprotected work.
- OECD studies (2020–2023) indicate a complex picture: while import growth in developed countries, particularly from emerging markets, has fostered job creation in the services sector, it has simultaneously caused significant job reductions in manufacturing. This reflects a structural shift where manufacturing jobs are offshore or automated, while new employment opportunities arise in domestic services, sometimes creating a mismatch between displaced workers' skills and new job requirements.

#### Country-Specific Experiences

A comparative look at various country experiences reveals both commonalities and divergences in the labor market impacts of import dependency:

- Mexico: Following the implementation of the North American Free Trade Agreement (NAFTA) in 1994, Mexico experienced substantial economic integration with the U.S. and Canada. While formal employment did increase in certain export-oriented manufacturing sectors, particularly in maquiladoras, the informal sector continued to account for approximately 55% of total employment (OECD, 2020).



This suggests that while trade liberalization stimulated some formal job growth, it was insufficient to absorb the expanding labor force into quality employment, often due to heightened competition in other sectors or a preference for flexible, informal labor by some employers. Furthermore, wage growth in Mexico has often lagged behind productivity gains, leading to concerns about the quality of jobs created.

- Bangladesh: Despite experiencing significant employment growth in its burgeoning textile and garment sector, which is heavily reliant on global supply chains and exports, labor rights enforcement in Bangladesh remains notably weak (ILO, 2021). The reliance on imported inputs for its ready-made garment industry also creates a form of import dependency. The competitive pressures within the global textile market often translate into low wages, poor working conditions, and limited unionization for workers, demonstrating how even export-oriented sectors can be vulnerable to global pressures that impact labor standards when institutions are weak.
- Germany and the United States: These two developed economies offer a stark contrast in their experiences with import dependency. In Germany, technology-based imports and its strong integration into global value chains have, in many instances, contributed positively to labor market outcomes. Germany's robust vocational training system, strong social partnerships, and sophisticated industrial policies have allowed it to absorb technology and integrate into global supply chains in ways that support high-skilled, high-wage jobs, even in the face of significant imports. The country often specializes in high-value-added components and machinery, leveraging imports as inputs rather than simply consuming final goods. Conversely, the U.S. experienced increased unemployment in industrial regions heavily exposed to import competition, particularly from China (Autor et al., 2023). The U.S. labor market, with its more flexible but less protective institutions, often struggled to adapt to rapid import shocks, leading to persistent job losses and economic dislocation in specific manufacturing hubs. This highlights the crucial role of domestic institutional frameworks in mediating the impact of global trade.
- Post-pandemic Trends: The COVID-19 pandemic exposed and exacerbated vulnerabilities across global supply chains. For import-oriented economies, the disruption led to significant economic shocks. On average, labor incomes in import-oriented economies fell by 6% during the pandemic and its immediate aftermath. Unemployment among low-skilled workers saw particularly sharp increases, rising by 2.1% in Mexico, 2.8% in Bangladesh, and 1.3% in the U.S. (ILO, 2023). This data underscores how import dependency, when combined with global crises, can disproportionately impact the most vulnerable segments of the workforce, highlighting the urgent need for enhanced resilience and robust social protection systems.

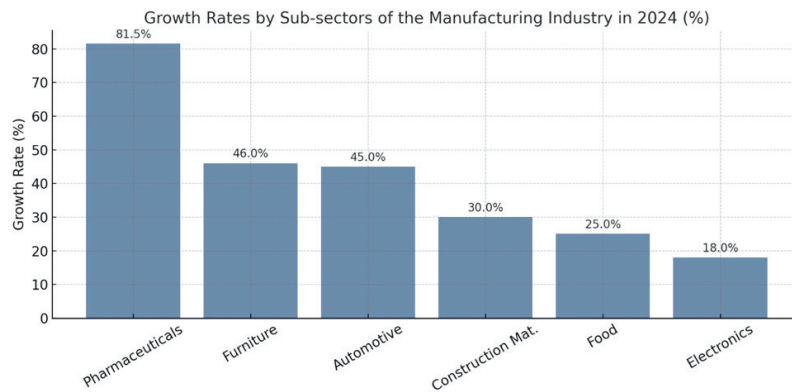
## II. The Impact of Import Dependency on Azerbaijan's Labor Market: The Role of Manufacturing and Industrial Policy

Azerbaijan, a country historically defined by its rich hydrocarbon resources, has in recent years embarked on an ambitious strategic imperative: diversifying its economy and significantly strengthening its non-oil manufacturing sector. This shift is not merely an economic aspiration but a crucial national priority aimed at fostering sustainable growth, creating high-quality employment, and reducing the country's vulnerability to global energy price fluctuations. Data from the State Statistics Committee for 2024 underscore the growing importance of this sector, indicating that 29.8% of total industrial output was attributed to the manufacturing sector. Furthermore, a robust 7.3% growth in the non-oil industry was recorded, signaling the initial effectiveness of ongoing industrial policies and reforms (OECD, 2023; World Bank, 2024). This structural transformation is critical for building a resilient labor market less susceptible to the volatilities of the global oil market and the challenges posed by excessive import dependency.

### Growth Trends in Azerbaijan's Manufacturing Sub-sectors (2024)

The Azerbaijani manufacturing sector has experienced significant and differentiated growth across various sub-sectors, reflecting strategic investments and evolving domestic demand. Notably, pharmaceuticals, furniture production, automobile manufacturing, and food processing have emerged as key drivers of this growth. These sectors are playing an increasingly crucial role not only in import substitution but also in the vital expansion of domestic employment opportunities, contributing to a more diversified and robust labor market.

The following analysis of growth rates across key manufacturing sub-sectors in 2024 provides a comparative overview of sectoral performance and reflects the strategic direction of Azerbaijan's industrial development.



#### Analysis of Sectoral Performance:

**Pharmaceuticals:** This sector experienced the most impressive growth, reaching 81.5%. This sharp increase is indicative of targeted policy incentives, such as investment in new production facilities and potentially preferential procurement policies, coupled with increased domestic demand—especially in response to post-pandemic health sector priorities. The pharmaceutical sector's expansion suggests a growing potential for high-value-added manufacturing, technological absorption, and future export capability, creating skilled employment opportunities in research, development, and production.

**Furniture and Automotive Manufacturing:** These sectors followed with remarkably similar growth rates of 46.0% and 45.0%, respectively. These figures reflect increasing investment in light industry and transport manufacturing, driven by both rising consumer demand and efforts to strengthen regional production linkages. The development of the automotive sector, in particular, implies a growing technological capacity, the potential for assembly operations, and the cultivation of a skilled labor force in areas like engineering, mechanics, and logistics. This growth is critical for job creation in middle-skill categories.

**Construction Materials:** Registering a robust 30.0% increase, this sector's growth is likely propelled by ongoing infrastructure and housing development initiatives across the country. This consistent growth reflects both public investment in major projects and the expansion of the domestic construction industry, creating significant backward linkages with other industrial branches like cement, steel, and timber, thereby stimulating employment across a wide spectrum of skill levels.

**Food Processing:** With a commendable growth rate of 25.0%, the food processing sector demonstrates steady expansion. This growth potentially reflects the success of policies supporting agricultural value chains, enhancing food security, and stimulating rural employment. While its growth is moderate compared to some higher-tech sectors, its foundational importance for national food security and its capacity to absorb a large, often rural, workforce suggests continued room for deeper structural transformation and modernization.

**Electronics:** Recording the lowest growth at 18.0% among the highlighted sectors, the electronics industry indicates that high-tech industrial production remains relatively underdeveloped in Azerbaijan. Despite the immense global demand for electronics and their potential for high-value job creation, Azerbaijan's sectoral base in this field may still be nascent, requiring more aggressive and targeted technological investments, intensive human capital development programs (especially in STEM fields), and strategic attraction of foreign direct investment (FDI) to truly take off.

#### Conclusion on Sectoral Differentiation:

Overall, the data reveal a pattern of robust growth in mid-technology manufacturing (pharmaceuticals, automotive, furniture), moderate but steady progress in foundational industries (construction materials and food processing), and lagging performance in high-tech segments (electronics). To ensure sustained and balanced industrial development, strategic emphasis should be placed on:

- **Sustaining Momentum:** Continuing to support and expand pharmaceuticals and automotive manufacturing, leveraging existing successes and exploring new export markets.
- **Deepening Technological Capacity:** Implementing targeted policies to significantly enhance technological capabilities in electronics, potentially through R&D incentives, specialized industrial zones, and international partnerships.
- **Strengthening Human Capital:** Developing and bolstering vocational and research and development (R&D) infrastructure to support sectoral upgrading across all industries, ensuring a skilled workforce capable of adapting to technological advancements.

This sectoral differentiation in growth rates highlights both the successes of current industrial policies in fostering diversification and the critical need for calibrated, sector-specific interventions moving forward to address persistent gaps and maximize future potential.

#### Labor Market Effects of Import Dependency in Azerbaijan

Despite the positive developments in specific manufacturing sub-sectors, Azerbaijan, like many emerging economies, faces distinct labor market challenges arising from a broader import dependency, particularly in areas where domestic production is still nascent or uncompetitive.

- **Job Losses and Stagnation:** Where domestic production remains weak or struggles to compete with cheaper, often higher-quality, imported goods, it inherently limits the operational capacity and expansion of local enterprises. This directly contributes to rising unemployment or underemployment, especially in traditional manufacturing sectors that face direct import competition (Autor et al., 2020). For instance, if local textile or basic goods manufacturing cannot compete with foreign imports, these industries contract, shedding jobs or inhibiting new job creation.
- **Declining Labor Productivity:** A persistent preference for imported goods, often driven by lower prices or perceived higher quality, suppresses local innovation and investment in technology. When domestic firms are unable to compete effectively, they have less incentive to invest in R&D, worker training, or advanced machinery. This can lead to a hindrance in overall labor productivity growth (Karabarbounis, 2024). Furthermore, resources that could be allocated to enhance domestic productive capacity are instead channeled towards financing imports, which can be a drain on the economy's long-term growth potential and its ability to create high-value jobs.
- **Structural Labor Imbalances and Informality:** The decline in formal manufacturing employment due to import competition is often "offset" by an artificial or unsustainable growth in the services sector, or, more critically, by an expansion of the informal labor market. This leads to significant mismatches in labor market dynamics (Standing, 2011). Displaced manufacturing workers may lack the skills for emerging service sector jobs, or the available service jobs may be low-wage and precarious. In Azerbaijan, the informal sector is a persistent challenge, particularly in rural areas and in certain urban services. Import dependency can exacerbate this by limiting formal job creation and pushing individuals into informal economic activities where they lack social protection, stable incomes, and opportunities for skill development. This structural imbalance also contributes to regional inequalities, as formal economic opportunities might be concentrated in Baku or other major cities, while other regions struggle with unemployment and informal work.
- **Income Volatility and Social Protection System:** Azerbaijan's economy, while diversifying, remains significantly reliant on the energy sector. Fluctuations in global oil and gas prices can lead to substantial income volatility for the state, which in turn impacts its ability to fund public services, social protection programs, and investment in non-oil sectors.

This volatility can indirectly exacerbate the negative labor market effects of import dependency. If state revenues decline, the government's capacity to implement comprehensive social safety nets for workers affected by import competition, or to invest in retraining programs, might be constrained, leaving vulnerable populations exposed.

#### The Role of Industrial Policy

Recognizing these challenges, the Azerbaijani government has undertaken important steps to foster a more resilient economy and labor market through proactive industrial policy. These include:

**Establishment of Industrial Parks:** Zones like the Sumgait Chemical Industrial Park, Balakhani Industrial Park, and Pirallahi Industrial Park are designed to attract investment, localize production, and promote technology transfer. These parks aim to create concentrated hubs of manufacturing activity that can benefit from shared infrastructure and services, fostering job creation in modern industries.

**Attracting Investment in High-Tech Sectors:** Efforts are underway to draw foreign direct investment (FDI) into higher-value-added sectors, moving beyond traditional industries. This includes incentives for companies that bring advanced technologies and provide training for the local workforce.

**Support for Small and Medium-Sized Enterprises (SMEs):** Recognizing SMEs as crucial for job creation and innovation, the government provides various forms of support, including access to finance, training, and business development services.

However, despite these commendable initiatives, more systematic and sustained efforts are required to develop vocational skills that directly align with the needs of emerging industries and to significantly reduce the pervasive issue of informality in the labor market (ILO, 2023). This calls for a holistic approach that integrates educational reforms with labor market policies.

#### Post-Pandemic Dynamics

The global COVID-19 pandemic served as a stark reminder of the inherent vulnerabilities embedded within overly import-dependent supply chains. The disruptions led to widespread shortages of essential goods, inflated prices, and, critically, substantial income losses for workers in many economies, including those in Azerbaijan relying on imported inputs or consumer goods. International experience, as highlighted earlier, has unequivocally shown that such dependency undermines labor market stability, particularly for vulnerable segments of the workforce, and necessitates the urgent adoption of alternative, more resilient policy frameworks (Autor et al., 2023). The pandemic underscored that relying heavily on external supply chains for critical goods can pose significant risks to national economic security and social well-being, reinforcing the urgency of fostering domestic production capabilities.

#### III. Government Policy to Reduce Import Dependency and Its Labor Market Implications in Azerbaijan

The Azerbaijani government has proactively implemented a broad and evolving set of policy instruments specifically aimed at reducing the country's economic dependency on imports and, concurrently, strengthening its domestic production capacity. These measures are strategically designed not only to stimulate robust industrial growth but also to fundamentally enhance structural stability within the national labor market, thereby creating more resilient and higher-quality employment opportunities (Rodrik, 2023; OECD, 2023). This proactive stance reflects a recognition that economic diversification and labor market health are inextricably linked.

#### Policy Instruments to Mitigate Import Dependency

The core of Azerbaijan's strategy revolves around several interconnected policy pillars:

- **Support for Small and Medium-Sized Enterprises (SMEs):** SMEs are recognized globally as the backbone of dynamic economies, responsible for a significant portion of employment and innovation. In Azerbaijan, the government is providing subsidies, preferential loan schemes, and fiscal incentives (e.g., tax breaks, simplified administrative procedures) to encourage the establishment and expansion of domestic production by SMEs. These measures are crucial for diversifying the economic base beyond large state-owned enterprises and energy companies. By fostering a vibrant SME sector, the government directly contributes to job creation, especially in regions outside the capital, and helps to demonstrably lower unemployment rates (OECD, 2021; World Bank, 2022).



Furthermore, supporting SMEs can lead to the development of local supply chains, reducing reliance on imported intermediate goods and creating a more robust industrial ecosystem. This bottom-up approach to industrial development is vital for broad-based labor market improvement.

- **Development of Industrial and Technology Parks:** A cornerstone of Azerbaijan's industrial strategy is the continued expansion and strategic development of specialized industrial and technology parks. These dedicated zones are designed to be magnets for investment attraction, facilitate the localization of advanced technologies, and actively promote innovation through clustered industrial activities. Companies operating within these parks often benefit from advantageous tax regimes, simplified bureaucratic procedures, and access to modern infrastructure. Critically, these platforms play a pivotal role in cultivating a skilled workforce by attracting foreign firms that bring in new expertise and by offering training programs that enhance vocational qualifications of local employees (UNCTAD, 2023; OECD, 2020). The aim is to create high-value-added jobs in technologically advanced sectors that can compete internationally and provide stable, well-paying employment.
- **Import-Substituting Investments:** The government is actively directing and incentivizing investments targeted at boosting domestic output in key manufacturing and agricultural sectors where import dependency is particularly high. This includes sectors like food processing, textiles, and specific areas of machinery and equipment. The objective is to produce locally what was previously imported, thereby retaining domestic demand and generating internal economic activity. Such investments are explicitly designed to reduce informal employment by creating formal sector jobs with proper contracts and social benefits. They also aim to generate high-quality, sustainable employment opportunities that contribute to long-term economic stability and reduce vulnerability to external shocks (Rodrik, 2023; OECD, 2023). This includes modernizing existing industries and building entirely new production capacities.

#### Correlation Model: Policy Measures and Labor Market Outcomes

The interplay between these policy instruments and their intended labor market outcomes can be systematically understood through a correlation model, demonstrating the direct and indirect linkages:

| Policy Instrument                 | Immediate Outcome                               | Labor Market Impact   |
|-----------------------------------|---|---|
| Promotion of Domestic Production  | Expansion of local enterprises                  | Increased employment, reduced unemployment, diversified job base              |
| Creation of Industrial Parks      | Establishment of new firms, technology transfer | New job creation, improved job quality, skills development                    |
| Expansion of Vocational Education | Development of a skilled labor force            | Increased labor productivity, better wage prospects, reduced skill mismatches |
| Import-Substitution Investments   | Growth in domestic production capacity          | Long-term, sustainable employment opportunities, formalization of jobs        |

Empirical findings from international contexts consistently suggest that well-designed import-substitution policies, when combined with broader industrial strategies, not only enhance production levels and foster economic diversification but also play a crucial role in developing a skilled workforce, expanding socially protected employment, and significantly reducing informality (Autor et al., 2020; Timmer et al., 2021). The effective role of the state in this process should extend beyond merely providing fiscal support; it must encompass the formulation and implementation of long-term industrial strategies that are seamlessly integrated with robust and comprehensive social protection systems (Hall & Soskice, 2001; Baicker & Rehavi, 2004). This holistic approach ensures that the benefits of economic transformation are broadly shared and that vulnerable populations are safeguarded during periods of transition.

### Policy Recommendations

To ensure structural stability in the labor market, minimize the socio-economic risks associated with excessive import dependency, and build a more resilient and equitable economy, the following comprehensive policy measures are strongly recommended for Azerbaijan:

- **Strengthen Domestic Production in Strategic Sectors:** Government support must be significantly expanded and made more targeted for local enterprises, particularly in key sectors such as food processing, textiles, pharmaceuticals, electronics, and construction materials. These sectors are not only critical for achieving self-sufficiency and reducing import reliance but also hold immense potential for improving regional employment levels, diversifying local economies, and enhancing overall supply chain resilience. This involves providing R&D incentives, facilitating access to finance, and establishing specialized industrial clusters.
- **Further Develop Industrial and Technology Parks with Enhanced Incentives:** Investment in modern industrial infrastructure, such as fully serviced industrial and technology parks, must continue and be scaled up. A particular emphasis should be placed on attracting both domestic and high-quality foreign investors to these parks. To achieve this, a stable, transparent, and highly incentive-based regulatory environment must be meticulously established and consistently maintained. This environment should actively promote technological localization, encourage advanced manufacturing techniques, and foster knowledge transfer, ensuring these parks become true engines of innovation and high-tech job creation.
- **Enhance Vocational Training and Skill Development, Aligned with Industrial Needs:** National education and labor programs must undergo a fundamental reorientation to prioritize the alignment of vocational training with the current and anticipated labor market needs of growing manufacturing and technology sectors. This requires close collaboration between educational institutions, industry associations, and employers to design curricula that impart relevant technical and soft skills. Strengthening the institutional base of vocational education, through upgraded facilities, qualified instructors, and practical, hands-on training, can help form a competitive, adaptable, and highly productive workforce capable of supporting industrial upgrading.
- **Prioritize Import Substitution in Agriculture and Food Industries with Comprehensive Support:** Given its foundational importance for national food security and rural livelihoods, agriculture and food security must be treated as strategic policy areas. This necessitates targeted investments in modern farming techniques, irrigation systems, agricultural research, and value-added food processing facilities. Capacity-building initiatives for farmers and agribusinesses, coupled with market access programs, can significantly reduce dependency on imported food products and support inclusive rural employment. This will also help to address existing regional inequalities in economic opportunity.
- **Reinforce Labor Market Institutions and Social Protection Systems:** Parallel to industrial policy, efforts must be intensified to strengthen labor market institutions, including robust labor inspection, collective bargaining mechanisms, and social dialogue platforms. This includes ensuring fair wages, safe working conditions, and adherence to international labor standards. Furthermore, the social protection system needs to be consistently strengthened and expanded to provide a more comprehensive safety net for workers, particularly those vulnerable to economic shocks or displacement due to trade dynamics. This is crucial for maintaining social cohesion and equity during periods of economic transformation.
- **Promote Research and Development (R&D) and Innovation:** To truly move beyond basic manufacturing and reduce technological import dependency, Azerbaijan needs to significantly increase investment in R&D and foster a culture of innovation. This can be achieved through tax credits for R&D spending by private companies, government grants for promising research projects, and strengthening collaboration between universities, research institutions, and industry. Developing indigenous technological capabilities is essential for creating sustainable, high-value jobs.

The effective and synchronized implementation of these multi-faceted measures will not only promote sustainable labor market development and create a more resilient economy but also establish a strong institutional and economic foundation to minimize the inherent risks posed by excessive import dependency. Achieving long-term labor market stability, fostering sustainable economic growth, and ensuring social equity will unequivocally require a more synchronized, integrated, and forward-looking policy approach—one that seamlessly aligns industrial strategy with robust social protection, comprehensive human capital development, and equitable regional development goals. This holistic framework is essential for navigating the complexities of the globalized economy and building a prosperous future for Azerbaijan.

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