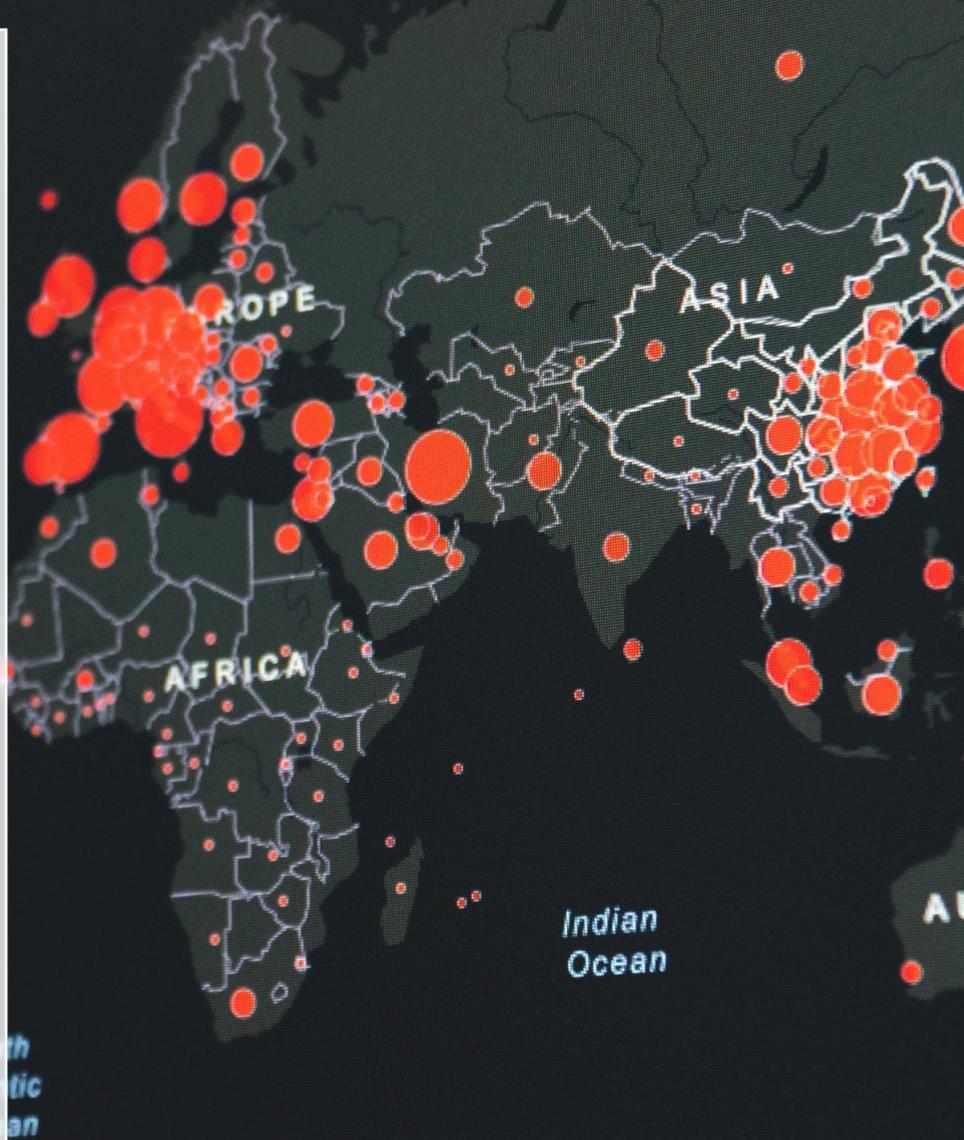


# Transnational business

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*On the research of main issues of  
improving the efficiency of  
regulation of the transnational  
business in the Republic of  
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#### **ABSTRACT**

*The main purpose of the study of the scientific article is to formulate complex methods for the efficiency of transnational trade regulations in the modern economy of Azerbaijan. It is well known that the socio-economic system is governed by certain elements, including the regulation by the state of the economy in general and the regulation of each industry. However, under present circumstances, multinational corporations are the main source of restructuring. This conclusion is based on the fact that this form of organization of production not only helps to minimize production costs and distribution costs, but also transaction costs.*

**Keywords:** transnational business, effectiveness of regulation, import, transnationalization.

#### **INTRODUCTION.**

*Although the formation of transnational business based on certain general principles, this process takes place specifically in different countries, since the specific features must to be considered in various areas, including socio-economic, structural and organizational, national-ethnic aspects of the development of a State. This principle can be fully applied to research regulation of transnational business in Azerbaijan Republic, which must have its specific point of view in selecting a clear methodology in studies of transnational business, which makes this area particularly relevant and meaningful.*

#### **Development.**

From the point of view theoretically, there are serious studies on the theory and methodology of regulation of transnational business of TNCs, but in the modern theory insufficiently investigated the characteristics and problems of the functioning of transnational structures under the new conditions, in the transforming economic systems. The problem is in the long-term stable sources of solving activity regulation of transnational business in the global economy and the boundaries of their expansion. TNC's of the countries which are

dealing with the problems of energy (oil and gas) is forming typological group of forms, methods and ways of conducting transnational business form. The largest domestic TNC's are included in the ratings of the largest non-financial TNC's world-wide. Therefore, the analysis of the current state of development of new areas of the global and regional development of the transnational business will allow Azerbaijan to consider the world experience to create public policies that contribute to the support of the reforms, which has been justified in

the developed world (Shamilov A. 2007).

### ***Methodology and research methods***

Currently defining tools exist in a variety of methods and researching techniques of research regulation of transnational business, including transnational corporations.

To identify the competitiveness of multinational corporations in the transnational business, we identified three main areas practically: the competitiveness of the company's or Transnational Corporations, the competitiveness of the industry and the competitiveness of the country (Bakan J. 2004).

In our view, the selection and justification of methods and techniques of research of transnational business should be carried out on the above three areas. This approach is the most integrated process for the maintaining of the institutional balance in the economic system (Lokaychuk O. 2001, p. 240).

The aggravation of the contradictions of the market economic system and their resolution should be linked directly to the activities of TNCs. The scale of the economic power and political influences of TNCs allow to allocate them as an essential element of country's market economy (Aragon C., 2014)

### ***System of National Accounts (NSA)***

The most important objectives of multilateral comparisons include the following: assessment of levels of economic development and welfare of nations; identification and comparison of the performance of national economies; analysis of the financial capacity of countries; policy development and the amount of aid developed to developing countries; analysis of the market situation; International comparisons of price levels; study of the international economic integration; the development of economic models of development (B. Joel, 2004).

The index of increasing of the competitiveness defines the ability of the

economy to achieve sustainable growth in the medium term (Krivopalov, 2006).

Let us consider in more detail the quantitative definition of transnational competitiveness.

### ***Methods of assessment of economic competitiveness***

The most complete and well-known method of assessing the competitiveness of the economy is the technique which is called as «European Forum for Management Development." Development of the theory of international competitive advantage by M. Porter, who created the concept of "competitive rhombus" and the stages of development of competitive advantages, promoted a qualitative leap in the method of calculating the level of international competitiveness (Bondarenko V.A. 2012). Currently, modern methods of calculation of national competitiveness, used by the "International Forum on the development of management" based on the theory of "competitive rhombus" and the methods used by "World Economic Forum" based on the theory of development of staging of the competitive advantage.(Hausman R. 2003, p. 72)

The main aim of this technique is the research of the relationship between the national competitive environment in which the state plays a key role, and the process of wealth creation that falls on enterprises and individuals. IMF focuses only on the four last competitive factors that determine the state of the National competitive environment and the ability of enterprises to create wealth and the basis of which can be seen the theory of "competitive rhombus pattern." The main complexity of the analysis and the application of research methodology of national competitiveness (WEF), is in its constant changes and revisions (Batmanova E.S. 2005). Changes in the method of calculating the period Existing-Tense WEF touched many, if not all the components that make up the composite index of competitiveness (Bozkurt G. 2015). These changes affect the

number of countries (which changes almost every year), the number of indicators and methods of their calculation, the number and content of the survey items. But what is more important in terms of comparability of results, sometimes radically change the structure of the calculation of the composite index, and has repeatedly created new indices based on new metrics. All this has led to the inability to compare results over a long period of time, and, therefore, to fully appreciate the analytical and predictive capabilities techniques used by this organization (Emmonth A., Gebert O., Lundberg H. 2015).

### ***The method of production of an integrated index, called the "Global Competitiveness Index"***

In recent years, a research in the field of integrated development index, called the "Global Competitiveness Index" carried out. However, the method of its calculation quite different: it comes from the two indices of macro and micro-competitiveness, and is based on an expanded list of indicators, which are the characteristics of 12 factors of competitiveness, the weight of which is determined by reference to the stage of development of competitiveness (Manko N. 1999, p.8)

Industrial indicators of transnational business indicators are based primarily on foreign trade.

In economic literature, these indicators are defined in terms of the international division of labor and international specialization of production.

While calculating indicators, it is important to observe the following basic features (Batmanova & Tomilov, 2005, p. 123-130).

- The principle of the fullest possible accounting of all components of the costs and benefits. Part time cost accounting and results can distort conclusions about the effectiveness of the sector assessment; the principle of comparison with the base variant. Everything is known by the comparison, including efficiency. For the base case can be made the situation before

deciding, one of the variants of the decision or the state of affairs in the market, competitor; the principle of reduction of costs and benefits in a comparable form. Comparable figures should be comparable (Kolosov G.). The principle of reduction of costs and benefits occurring at different times to the same point in time. Compliance with this principle - one of the most important provisions of the theory of effectiveness evaluation (A. Gehringer, 2014, p.45). Practical calculation of performance will be largely dependent on the type of operation on the foreign market, its objectives, conditions and other features of the specific transaction (Manko N. 1999). Especial method of determining the efficiency of the industry on the international market, including:

- economic efficiency of export;
- economic efficiency of import;
- economic efficiency of export-import operations (Batmanova & Tomilov, 2005).

### ***Performance indicators of the transnational corporations.***

Transnational corporations are the major actors of the global economy, the process of establishing which based on the profitability of TNCs (Bhanumurthy N., Singh. P. 2013).

Specific performance indicators are an index of the TNCs transnationalization. In 1974, the UN set up an institution designed to coordinate the actions of corporations - the Commission on Transnational Corporations. Its function is to develop recommendations for a "Code of Conduct for TNCs." Formed on the basis of these recommendations, "Guidelines for Multinational Enterprises of the Organization for Economic Cooperation and Development", became the first international instrument in this area adopted in 1976 by the governments of OECD countries (Petrenko T. 2008).

The Commission has developed indicators, assessing the level of transnationalization of the corporation and its weight in the economy of the host countries. The indicator called transnationalization index - the

average value of the sum of three ratios: foreign assets to the value of their total cost; foreign sales to total sales of the corporation; the ratio of the number of employees in foreign structural units to the total employment in TNCs. (O. Lokaychuk, 2001, p. 90)

### ***Method quantification of the involved direct investment***

The simplest way is to compare the absolute volume of direct investment (PII), or their share in the total volume of investments in this or that country based on the index of the involved investments. However, it does not consider the size of the recipient country, as well as other factors affecting the volume of incoming PII to: political and macroeconomic stability, the degree favored PII; competitiveness of the economy, the availability of natural and human resources (Mihajlovic I. 2014).

In 2003, UN experts have developed a new index - the index of involved investments of UNCTAD, defined as the ratio of the country share in total flows of PII to its share in the worldwide VVP (Borodin, 2001).

### ***Definition method of the index of the potential incoming investments.***

UN experts also developed an index ranks of the countries on the potential of involved investment - the index of potential incoming investment, UNCTAD, based on structural economic factors that change slowly, so leaping in the level of the index only exist in developing countries. Thus, we can conclude that the system of methods and researching techniques for the studying of regulation of transnational business and multinational corporations include such performance indicators, which would include the following parameters and indicators: transnational business performance indicators at the national level (the index of competitiveness); industry performance indicators transnational business (indexes of foreign trade, including import, export, and import-export operations); performance indicators of transnational corporations (trans-

ationalization index).

In this section, we researched the state regulation of transnational business in Azerbaijan based on the chosen methods in three directions. With the proposed method, the empirical results have been tested and approved by the out proposal. The studies allow to group control system of transnational business in a country, in the Republic of Azerbaijan. This hypothesis is based on the results obtained from the empirical research in the following areas:

- Microeconomic approach of regulation of transnational business in the country through the effective use and balance of the main macroeconomic indicators of the country;
- Sector approach of regulation of transnational business, research on settlement terms foreign trade, and their rational use;
- Microeconomic approach of the control system, transnational corporations SOCAR, based on index numbers.

General regulation of transnational business at the national level is carried out through a system of national accounts. In this paper, as the main indicators of regulation of transnational business is considered such generalized, basic economic indicators of the country, as gross domestic product (including the private sector GDP, the composition and structure of the GDP), a report of products and services, reports of the economic transactions with the other world, the composition of national income, balance of payments and the competitiveness index. Let us consider in more detail the above-mentioned general indicators of business regulation of the transnational level of the Azerbaijan Republic (Mica M. 2010).

### ***Calculation of the effective regulation of transnational business at the industry level (foreign trade).***

Studies indicates that regulation of transnational business at industry level are mainly related to foreign trade, including export-import operations. Particular

importance in the regulation of transnational business acquires a transnational corporation SOCAR (State oil Company of the Azerbaijan Republic), since a significant proportion of the foreign trade turnover of the republic falls in energy resources and their components (Shagurin S.V. and Shimko P.D. 2008).

To identify the parameters of regulation of transnational business at the industry level, we propose the following sequence of research:

- Systematic analysis of the dynamics of foreign trade, including exports and imports;
- Research and analysis of foreign trade turnover by types of operations;
- Examination and diagnosis of the external trade classification standards of the international trade;
- Determination of the export quota of the Republic;
- Determination of the import quota of the Republic;
- Determination foreign trade quota of the Republic;
- Determination of the share of exports in total exports of the Republic;
- Determination of the export quota in the production industry of the Country;
- Determination of structural specialization of industries;
- Determination of the coefficient of relative export specialization of the industry.

We carry out research on the above sequence.

System analysis of the dynamics of foreign trade turnover of the republic was held based on customs data. During the 2005-2013 years foreign trade turnover increased from 8558.4 million US dollars to 34,687.9 million US dollars or 4.0 times, and for the period from 2010 to 2013 - 1.2 times; imports, respectively, over the same period - from 4211.2 million US dollars to 10,712.5 million US dollars or 2.5 times and 1.6 times. More rapidly increased exports, whose growth over this period amounted from 4347.2 million US dollars to 23,975.4 million US dollars or 5.5 times. Significant

progress was made in the positive indicators of the trade balance, whose growth amounted from 136.0 million US dollars to 13,262.9 million US dollars or 97.5 times.

*The regulation of transnational business is largely dependent on changes in the structure of foreign trade according to the classification which is met to the standards of international trade.*

*Above we have shown the absolute key performance indicators of regulation of transnational business at the industry level, which give a general idea of the degree of regulation of this sector.*

More specific studies regulation of transnational business processes at the industry level includes many relative indicators, which include foreign trade quotas, export quotas, import quotas, as well as indicators of economic benefit and efficiency (Vanka G, Heijman W., Vasiljevic Z. 2012).

#### ***Determination of export quotas.***

Our calculations for the determination of the export quota in the country have indicated that over the 2005-2013 biennium's these figures varied in different ways. As can be seen, the highest rate of export quota accounted for 2008 (97.7%) and the least - in the 2007 (18.3%). In other years during the analyzed period, the export quota of the Republic ranged from 30.4% to 40.7%, which is consistent with the international norms.

Consequently, for the successful management of transnational business on export performance should be guided by the

indicators of the export quota from 30% to 40%.

### **Determination of the import quota.**

Results of calculation of the import quota of the republic have indicated that during the 2005-2013 years they formed in different ways (see. table 1). The highest rates of import quota accounted for 2005 (31.8%) and 2006 (25.1%). From 2007 to 2013 years import quota ranged from 12.5%

to 17.3%. World practice shows that if the import quota does not exceed 20%, so this country has everything to provide itself with the necessary goods and products.

Therefore, the main objective of regulation of transnational business for imports should be reduced to ensure that import quota is not exceed more than 20%. To date, the country has been successful in regulating transnational business imports.

**Table 1.** Determination of the import quota million USD (13,18,19).

Years	Estimated quota	The export quota, $I_i$ , %	The volume of exports	Gross domestic product, GDP
2005	$I_i = \frac{i}{DGP} \cdot 100$	31,8	4211,2	13238,7
2006		25,1	5266,7	20983,0
2007		17,3	5713,5	33050,3
2008		14,7	7170,0	48852,5
2009		13,8	6123,1	44297,0
2010		12,5	6600,6	52909,3
2011		14,8	9756,0	65951,6
2012		13,8	9652,9	69683,9
2013		14,6	10712,5	73560,5

**Determination of foreign quota.** The results of the foreign quota of the republic are presented in Table № 1. This data indicates that the highest rates of foreign trade quota during the research period accounted for 2008 (112.4%), and the remaining years of the oscillation was 35 1% to 65%. By international standards the optimal quota of foreign trade should reach up to 60-70%. Therefore, it is necessary to increase the effectiveness of regulation of foreign trade quota of the republic that the oscillation is in the range from 60% to 70%. An important indicator of the relative regulation of transnational business is in export share of industry exports in total exports, the results of which are shown in Table № 2. As an export industry have been taken data on exports of energy fuels and lubricating oils with chemical products and without them.

**Table 2.** Determination of relative export industry specialization (13,18,19).

Years	Design formula	Ratio of relative export specialization sector, $I_o$	The share of exports of goods in the country, $U1\%$	The share of world exports of goods, $V2\%$
2009	$I_o = \frac{Y_1}{Y_2}$	2,796	93,40	33,40
2010		2,654	94,76	35,70
2011		2,502	95,34	38,10
2012		2,400	94,10	39,20
2013		2,330	93,45	40,10

The calculation results showed that the share of exports of energy fuels and lubricating oils without chemical products for the years of 2009-2013 ranged from 92.72% to 94.42%, and with the chemical products even higher - from 93.40% to 95.34%.

In our opinion, the above data indicates that the share of energy fuels and lubricants in the total value of exports is very high, which could eventually lead the country in a strong dependence on energy.

Therefore, it is necessary to carry out an effective policy regulation of transnational business, regardless of the oil and gas factor and to develop non-oil sector of the economy.

It should be noted that in recent years the government works effectively in the direction of the development and regulation of the non-oil sector of the country. This is evidenced by the data obtained in terms of the export quota in manufacturing industry. As an example, these energy fuels and lubricating oils considered with and without chemical products again. As can be seen, the indicator for the years 2009-2013 fluctuation of export quotas in the production of industry amounted from 63% to 90%, significantly lower than the share of industry exports in total exports (92% - 95%).

However, this is the initial stage of the effective management of export quotas in energy sector. I think soon this figure will range from 60% to 70%.

Indicators of regulation of the transport business at branch level include structural factor of specialization of industries, estimates are given in Table number 3.

**Table 3.** Determination of the economic efficiency of SOCAR's export (see. P. 14), million manat

Years	Design formula	εF	Эк	V	Z
2012		4,5637	476	13877	3145,0
2013	$\varepsilon_F = \frac{\varepsilon_k + V}{Z}$	12,5598	444	35163	2835,0

As can be seen, for the period from 2009 to 2013 the coefficient of structural specialization industries remained almost unchanged (0,999 - 1,070), which indicates that there should be a deeper policy of the transnational regulation of business in foreign trade, which will help to effectively develop all industries, those along with mining activities expand manufacturing. And finally, the final measure of regulation of transnational business can be regarded as the coefficient of relative export specialization sector, estimates of which are given in the table number 4.

**Table 4.** Determination of the economic effect of imports SOCAR, million manat

Years	Design formula	The economic impact of imports, εi	The total cost of priority products, Z	The purchase price for the products, CP
2012	$\varepsilon\varepsilon_i = Z - CP$	2958,0	3145,0	187,0
2013		2579,0	2835,0	256,0

According to the data of 2009-2013 years, the coefficient of relative export specialization sector ranged from 2,330 to 2,796, or there is a tendency of reducing them.

In our opinion, the tendency to reduce this factor will contribute to the process of

converging to international standards.

The regulation of transnational corporations, including SOCAR, is carried out by many parameters. They can have general, indirect and direct nature.

In our view, the classification of the

regulatory process of the transnational corporations should include a systematic approach, the parameters which may affect its effectiveness (Emmoth A, Gebert Persson S, Lundberg H. 2015).

The paper proposed the following classification of regulation of the transnational corporations through the following set of parameters:

a) parameters of profit and loss of TNCs:

- Calculation of parameters that minimizes the volume of production profits;
- Calculation of parameters that minimizes the loss in output;

b) the effect parameters and efficiency of TNCs:

- Determination of the economic impact of SOCAR's export; (SOCA -State Oil Company of the Azerbaijan Republic)
- Determination of the index of economic efficiency of SOCAR's export;
- Determination of the economic effect of SOCAR's import;
- Determination of the index of economic efficiency of SOCAR's import;
- Determination of the economic effects of export-import activity of SOCAR;
- Determination of the index of economic efficiency of export-import activity of SOCAR.

c) the parameters of index numbers of TNCs:

- An index of transnationalization of TNCs;
- An index of incoming involved investment of TNCs;
- An index of potential investments.

It should be emphasized that despite the variety of the indicated parameters for the regulation of transnational corporations, transnationalization index of TNCs is considered to be one of the important indicators on a global scale.

However, in our view, for a systematic approach to the study of the process of regulation of TNCs is to apply all the above parameters, the study of which will be given below.

As can be seen from figure 2, generally SOCAR is a form of transnational corporations which makes a profit. Graphical part of the picture appears as a

maximum area of profit equal to the difference between price and average total costs. Hence, graphical area figure is profit SOCAR.

Then we calculated the parameters, minimizing the loss in production. Therefore, SOCAR very effectively regulates transnational business using the best indicators of profitability and efficiency.

In calculating the economic effects of the export, the parameters of the deductions to the Monetary Fund, revenues from compulsory sale and the full costs of TNCs for export have been used in AZN equivalent.

Calculations show that for only 2012-2013 years, economic efficiency of SOCAR increased from 11,208.0 million AZN to 33,772.0 million AZN, or almost 3 times.

However, the rate of economic effect is mainly characterized by overall activities of transnational corporations, related to sales and costs.

4. Calculations show that the cost-effectiveness of export of SOCAR in 2012-2013 years increased from 4.5637 million AZN to 12.5598 million AZN or 2.7 times.

Next, determination of indicator of the economic efficiency of SOCAR's import, which consists of parameters such as total cost of priority products and purchase price on the product.

The results indicate that for the years 2012-2013 economic effect of SOCAR's imports decreased from 2958.0 million USD to 2579.0 million USD.

The decline in the economic effect of imports to a certain extent affected the index of economic efficiency SOCAR.

During 2012-2013, economic efficiency of SOCAR's imports decreased from 16.818 million USD to 11,074 million USD.

As can be seen, for the 2012-2013 years the figures of the economic effects of import-export operations SOCAR increased from 14,166.0 million USD to 36,351.0 million USD.

Next, we calculated the integral index of efficiency of export-import activity of SOCAR.

Results showed that in the 2012-2013 years

integral indicator of economic efficiency of the export-import operations of SOCAR increased from 4.2497 million USD to 11.7603 million USD.

Legend:  $Y_t$  - the index of transnationalization;  $S_1$  - the value of foreign assets;  $S$  - value of the total assets;  $P_1$  - sales abroad;  $P$  - total sales;  $\zeta_1$  - staff TNCs abroad;  $\zeta$  - total staff of the corporation.

As can be seen, for the 2012-2013 years, SOCAR's transnationalization index increased from 0.363 to 0.395.

Comment: Legend:  $Z_i$  - an index of potential investments;  $Z_1$  - value of the variable in the count

$ry$ ;  $Z_2$  - minimum variable SOCAR;  $Z_3$  - the maximum value of the variable SOCAR

In the first direction, or in the regulation of the transnational business at the national level, which is based on a study of macroeconomic indicators can be certain abnormalities associated with external factors (increase or decrease in foreign exchange rates, the fall in oil prices, etc.).

In the second direction, most consistent results on regulation of transnational business may be obtained at the branch level, as regulation of foreign trade is mainly concentrated in the hands of the state.

Relatively reliable results on regulation of transnational business may be obtained at the microeconomic level, or at TNC, as the system is much more flexible and is subject to various transformations.

### **Conclusion**

- Basic macroeconomic indicators of the country for the 2005-2013 years increased significantly (GDP - from 12522.5 million AZN to 57708 million AZN or from 13238.7 million USD to 73,560.5 million USD, per capita GDP - from 1494.3 AZN to 6207, 3 AZN or from 1579.8 USD up to 7912. USD, the share of private sector in the GDP - from 77.8% to 82.5%; the composition of GDP: production – from 8307.2 million AZN to 36,588,2 million AZN, services - from 3141.3 million AZN up to 17429.7 million AZN;

- System of the National Accounts: total output - from 20252.3 million AZN up to

81061.5 million AZN; intermediate consumption-from 8676.3 million AZN up to 27043.6 million AZN; Taxes on production and imports from 974.1 million up to AZN 3874.1 million AZN; final consumption expenditure - from 6579.7 million AZN up to 30838.2 million AZN;

- Accounts with economic transactions with the rest of the world (as of 2012) - almost all respects there are negative indicators on these accounts;

- Positive changes in all aspects of the national income;

- The balance of payments - current operating account - from 163.3 million AZN up to 12317.8 million AZN; revenues - with -1,645.6 million AZN to -4,120.6 million AZN;

- Low levels of the index of competitiveness of the country: the growing global competitiveness index - Rank 39; outstripping the rating indices - Rank 77; market and non-market indexes – Rank 66 and Rank 95, etc.

Calculation of performance of the transnational business regulation at the industry level (Foreign Trade) gave the following conclusion:

For the 2005-2013 years the growth of foreign trade turnover increased from 8558.6 million USD to 34,687.9 million USD, including imports - from 4211.2 million USD to 10,712.5 million USD; export - from 4347.2 million USD to 23,975.4 million USD; the balance - with 136.0 million USD to 13,262.9 million USD.

- Changes in the export quota - from 32.8% to 32.6%; import quota - from 31.8% to 14.6%; foreign quota - from 65.0% to 47.1%;

- Change in the share of industry exports (energy fuel, oils and chemical products for 2009-2013. (From 93,40% to 93,45%)

- The change in the export quota in manufacturing sector during the analyzed period from 64.40% to 90.65%;

- The structural change in the coefficient of specialization of industries from 0,999 to 1,070;

- Fluctuation coefficient of relative export specialization of industries - from 2,330 to

2,796.

We believe that effective management of the results of foreign trade of the republic will enhance the effectiveness of transnational business at the industry level.

- Calculations of the minimizing profits and losses in production volume of SOCAR goes towards profitability;

- For the 2012-2013 years determination of the economic efficiency and cost-effectiveness of their exports show an increase, respectively, from 11208.0 million AZN to 33772.0 million AZN and from 4.5637 million AZN up to 12.5598 million AZN;

- For the 2012-2013 years determination of the economic benefits and cost-effectiveness of imports also showed their growth, respectively, from 2958.0 million USD to 2579.0 million USD and the decline

from 16.818 million USD to 11,074 million USD;

- For the 2012-2013 years determination of the economic benefits and cost-effectiveness of the export-import operations indicate their increase according from 14,166.0 million USD to 36,351.0 million USD and from 4.2497 million USD to 11.7603 million USD;

- During the study period, the index of transnationalisation of SOCAR increased from 0.363 to 0.395; Index involved incoming investments decreased from 0.961 to 0.861; Index of potential investments increased from 1,643 to 3,500.

Therefore, the above positive results of SOCAR give us grounds to assume the effectiveness of regulation of this transnational corporation.

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