

Internal Policy of Azerbaijan: Increasing the Efficiency of Investments

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DOI: <https://doi.org/10.15421/172375>**Yahyayeva Aynura**

Ph.D., Assoc. Prof., Dean of the Faculty of Economics and Management,

<https://orcid.org/0000-0002-8638-7722>, yehyayeva1@gmail.com*Sumgayit State University (Sumgayit, Azerbaijan)*

Abstract

The aim of the study was to increase the effectiveness of foreign investments in Azerbaijan. In the conditions of global challenges, in the conditions of the financial crisis observed in the world economy, the processes of specialization in international markets are increasing, preference is given to the science-intensive model of the economy based on innovation and creating high added value. This, in turn, leads to a sharp increase in competition at the global and regional level. In such conditions, any country should face the task of formulating a stable and sustainable development strategy distinguished by its high competitiveness, productivity and efficiency. These tasks include improving the structure of the economy, creating new areas of knowledge-intensive economic activity, protecting macroeconomic stability, improving the investment environment, eliminating uneven development trends in regions, applying advanced and innovative technologies and experience, promoting the development of human capital, and others. Taking into account the role of foreign investments in the realization of the above tasks and the economic development of the country, the research conducted in this direction has a great practical significance. Attracting foreign investments is one of the priority areas of the country's economic policy. Because this type of investment plays an important role in ensuring the import of advanced technologies, equipment and know-how from abroad, updating the technological structure, revitalizing and increasing industrial production.

The advantages of foreign investments are that they allow not only to introduce technological innovations into the national economy, but also to ensure sustainable development accompanied by the introduction of new knowledge and innovative management technologies. Creating an investment potential capable of ensuring the country's economic development and stable high growth rates without actively attracting foreign investments is the main problematic issue that urgently requires a solution. All these or other aspects indicate the relevance of the topic of the article.

The necessity of attracting foreign investments is justified in the article. The role of foreign investments in the economic development of the country was studied and the state policy in this field was studied. In order to attract foreign investments, measures to stimulate them have been defined. The current situation and growth dynamics of foreign investments were analyzed using the database of the State Statistics Committee in Azerbaijan. The directions of attracting and improving foreign investments have been investigated. Recommendations regarding the attraction and efficient use of foreign investments have been put forward.

The methodology of the research consists of grouping, generalization, comparison, development dynamics, factor analysis.

Conclusions. The main tasks set in the field of attracting foreign investments were determined, and the role of state policy in that field was studied. All business entities interested in attracting foreign investments can benefit from those proposals.

Keywords: foreign investments, state policy, development, national economy, innovation, production

Внутрішня політика Азербайджану: підвищення ефективності інвестицій

Ях'яєва Айнура*Сумгаїтський державний університет (Сумгаїт, Азербайджан)*

Анотація

Метою дослідження було вивчити фактори підвищення ефективності іноземних інвестицій в Азербайджан. В умовах глобальних викликів, в умовах фінансової кризи, що спостерігається у світовій економіці, посилюються процеси спеціалізації на міжнародних ринках, перевага надається наукоємній моделі економіки, яка базується на інноваціях та створює високу додану вартість. Це, у свою чергу, призводить до різкого зростання конкуренції на глобальному та регіональному рівнях. У таких умовах перед будь-якою країною має стояти завдання формування стабільної та сталої стратегії розвитку, що відрізнятиметься високою конкурентоспроможністю, продуктивністю та ефективністю. Ці завдання включають удосконалення структури економіки, створення нових сфер наукомісткої економічної діяльності, захист макроекономічної стабільності, покращення інвестиційного середовища, усунення тенденцій нерівномірного розвитку регіонів, застосування передових та інноваційних технологій і досвіду, сприяння розвитку людського капіталу та інші. Враховуючи роль іноземних інвестицій у реалізації вищезазначених завдань та економічному розвитку країни, дослідження, що проводяться в цьому напрямку, мають велике практичне значення. Залучення іноземних інвестицій є одним із пріоритетних напрямків економічної політики країни. Оскільки цей вид інвестування відіграє важливу роль у забезпеченні імпорту передових технологій, обладнання та ноу-хау з-за кордону, оновленні технологічної структури, відродженні та збільшенні промислового виробництва.

Переваги іноземних інвестицій полягають у тому, що вони дозволяють не лише впроваджувати технологічні інновації в національну економіку, а й забезпечувати сталий розвиток, що супроводжується впровадженням нових знань та інноваційних технологій управління. Створення інвестиційного потенціалу, здатного забезпечити економічний розвиток країни та стабільно високі темпи зростання без активного залучення іноземних інвестицій, є основним проблемним питанням, яке нагально потребує вирішення. Всі ці чи інші аспекти свідчать про **актуальність** теми статті.

У статті обґрунтовано необхідність залучення іноземних інвестицій. Досліджено роль іноземних інвестицій в економічному розвитку країни та досліджено державну політику в цій сфері. З метою залучення іноземних інвестицій визначено заходи щодо їх стимулювання. З використанням бази даних Державного комітету статистики Азербайджану проаналізовано поточну ситуацію та динаміку зростання іноземних інвестицій. Досліджено напрямки залучення та вдосконалення іноземних інвестицій. Надано рекомендації щодо залучення та ефективного використання іноземних інвестицій.

Методика дослідження складається з групування, узагальнення, порівняння, динаміки розвитку, факторного аналізу.

Висновки. Визначено основні завдання, поставлені у сфері залучення іноземних інвестицій, досліджено роль державної політики у цій сфері. Цими пропозиціями можуть скористатися всі суб'єкти господарювання, зацікавлені у залученні іноземних інвестицій.

Ключові слова: іноземні інвестиції, державна політика, розвиток, національна економіка, інновації, виробництво

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Introduction.

It is known that meeting the growing socioeconomic needs of society members requires the full and efficient use of existing production potential as an important task. From this point of view, the role and importance of investments in the life of the society is extremely high. Improving macroeconomic indicators in the country requires increasing the role and importance of leading sectors, especially service sectors, in the structure of GDP. In this regard, the increase of foreign investments in the republic and its regulation by the state, ensuring the necessary proportions in the development of separate areas of the economy are of great scientific and practical importance.

On the one hand, it is intended to increase the export potential of the country based on the attraction of foreign investments, and on the other hand, to further expand foreign economic relations here. From this point of view, the "Contract of the Century" signed on September 20, 1994, has great socioeconomic significance. The conclusion of this agreement, named "Contract of the Century" in the international world, is regarded as a historical event in the life of the independent Republic of Azerbaijan.

Formulation of the problem.

It is known that investment activity in the sphere of production and service is regulated according to the Law of the Republic of Azerbaijan dated 1995 "On Investment Activity". In that law, the role of the state as a defender of the rights of all investors, regardless of the form of ownership, is specially emphasized. However, state bodies and officials are not allowed to interfere with the investment activities defined by the existing legislation. Therefore, investors, being completely free in their goals and activities, prefer to invest in service sphere enterprises, which are one of the most efficient and promising areas in the republic.

It should be noted that the favorable political, economic and legal conditions created in the republic have led to a significant increase in the volume of investments, which are considered an important indicator of economic recovery. Studies show that there is a dynamic and rapid growth rate in investments. On a positive note, it should be noted that domestic and foreign investments in the non-oil sector in the republic are increasing at a high rate. At the same time, the scale of investments made by foreign companies is expanding. The Law of the Republic of Azerbaijan "On Protection of Foreign Investments" dated 1995 opens wide perspectives in the direction of strengthening the investment activity of service sphere enterprises. That is why, in the modern era, when domestic and foreign investment activities are expanding in the country, the regulatory role and function of the state is increasing.

The formation of the market economy in Azerbaijan and its rapid development in a short period of time has placed important demands on its management.

Management, as is known, is based on the relevant information base. The main part of the information required for business management is formed through accounting and reporting. That information is the basis for making management and financial decisions in enterprises and companies. What has been said also applies to information on internal and external investments. It is necessary to form the required volume and reliable information in order to make objective and justified decisions based on the mentioned and other indicators. Since the requirements for the quantity and quality of information change in different periods, it becomes an objective necessity to constantly renew and improve the accounting and reporting system that forms it. In this regard, noticeable methodological and methodical changes have been made in the accounting and reporting of investments, as well as in the organization of economic analysis, as well as the accounting and reporting system as a whole in the conditions of the market economy. However, those changes do not fully take into account the processes of globalization and integration in the economy and cannot be a convenient means of "communication" for the country's enterprises and companies to enter the international commodity and capital market, to enter into contact with foreign companies. Overall, research shows that the analysis of investments in the service sector differs significantly from international standards and regulations. As a result, the analysis of investments based on the information formed by that system does not allow obtaining information that meets the requirements of management. The theory, methodology and methodology of accounting and analysis must meet the requirements of providing quality information about the investment activity of each enterprise to all users that meets certain criteria. In order to implement those requirements, it is important to investigate and clarify the economic essence and content of the enterprise's investment activity on a new conceptual basis. The relevance of the comprehensive study and solution of the above-mentioned issues also determines the importance of the current scientific research work.

Main part.

The main goal of the work is to study the existing theoretical-methodological and practical aspects of the analysis of investment activity in the service sphere. In accordance with the stated purpose, the following tasks are defined in front of the article:

- researching the conceptual basis of the formation of the accounting and reporting system of investment activity in the country;
- investigation and clarification of the essence and content of investments;
- assessment of the classification used for the analysis of investment in the service sphere in terms of the requirements of information users;
- development of a package of specific proposals in the field of creating an analysis methodology that can

form information that enables management and financial decisions to be made about foreign and domestic investments;

- analysis and evaluation of investment activity using various methods and indicators system;
- providing suggestions on improving the methodology of investment activity analysis and the system of indicators in the service sphere.

State investment policy is directed on the formation of an enabling environment which promoting the involvement and the increasing of the efficiency of investment resources in the development of the economy and social sphere. In the process of developing the investment policy it is necessary to take into account the experience of the economically developed countries of the world, but it is obligatory to adapt of foreign provisions to national conditions.

The investment process has begun from 20 September 1994, with the signing of the "Contract of the Century", which imply a partnership with foreign companies on development of "Azeri-Chirag-Guneshli". Since then, have been signed the new oil contracts, for execution of contracting in Azerbaijan, which attracted more than 400 companies. It was implemented the price liberalization, formed a monetary and tax and customs legal frameworks, has been created a favorable environment for business development and attracting foreign investment. The political and economic stability is very important for the economy of the country, for investment and business climate. Unlike other countries, reforms implemented in Azerbaijan are systematic, continuity and regularity, also the investment attractiveness of the country is increasing, economy adapts to world realities and the improves business climate. Investment activity in Azerbaijan is regulated with "The Law on Investment Activities" (adopted on 13.01.1995) and the "Law on the Protection of Foreign Investments" (15.01.1992). These laws define the inviolability of property, protect the rights and interests of investors, create the same working conditions for local and foreign entrepreneurs, unimpeded using of the profits received, thereby creating a legal framework (Abbasova, & Ismayilova, 2017).

Attracting investments plays a special role in ensuring the sustainable and balanced development of Azerbaijan for a long period. One of the main tasks ahead is to improve the investment climate in the country in order to ensure the required volume and quality of investments. For this purpose, measures aimed at the following directions will be continued:

- protection of personal property and improvement of corporate governance;
- creating a more favorable competitive environment for all investors, regardless of the form of ownership;
- increasing the role of the state in order to ensure a stable legal and regulatory regime;
- further improvement of the legal and regulatory framework of investment activities;

- improving the information system for investors about enterprises for the purpose of selection and analysis of investment objects;

- increasing support for the development of modern institutional infrastructure that ensures the effective transformation of deposits into investments;
- improving the information provision of business, bringing accounting and statistics in line with international standards.

The main directions of the public investment policy in the country are:

- adaptation of investment projects to the goals and priorities of socio-economic development defined by medium and long-term state programs and Strategic Road Maps;
- the orientation of investment to the development of non-oil sector and regions;
- prioritization of regional investment policy in accordance with modern development trends;
- strengthening the social direction of investment activity in the country, ensuring the priority of investments in human capital and infrastructure;
- ensuring the economic security of the country;
- giving priority to production areas based on nanotechnologies and aimed at reducing the amount of carbon compounds emissions into the atmosphere when prioritizing public investment;
- the orientation of state investment to science-intensive projects;
- increasing defense capability of the state (Blank, 2001).

One of the types of foreign investment is foreign direct investment. They can be in different forms: payment of membership fees by the investor to the authorized capital of enterprises, issuance of corporate loans, equipping part of the company's shares, equipping it with technology and technology, etc. Investments in the oil industry, as well as joint ventures and enterprises with foreign capital, can be considered direct investment. Direct investments for 1995-2014 were directed to the oil industry 52.5 billion dollars, and joint ventures and enterprises with foreign capital of 8.7 billion US dollars. Thus, the bulk of foreign investment invested in the economy of Azerbaijan is financial loans and direct investment. The main investors investing in Azerbaijan are Turkey, Great Britain, the USA, Japan, the Netherlands. It should be noted that, since 2006, after putting into operation the international oil pipeline "Baku-Tbilisi-Jeyhan" and the gas pipeline "Baku-Arzurum" the gross domestic product increased for 5.7 times. Over the past 15 years, the amount of investment invested in the Azerbaijani economy exceeds \$ 180 billion. Most of this amount is internal investment. Today Azerbaijan is a country investing large investments far beyond its borders. At the same time, Azerbaijan becomes a lender from the borrower. Thus, the conducted analysis shows that the economic situation in Azerbaijan is favorable, the ground for attracting financial resources

to the economy of the country (Official web page of Azerbaijan President, 2017).

In a market economy the resource support for the modernization of industries, the economy is impossible without attracting private capital. Consequently, one of the objectives of the state's investment policy is the formation of a system of measures, stimulating entrepreneurs to actively participate in the investment of all high-tech projects. As noted in the Concept of Development "Azerbaijan-2020: Look into the Future" - along with the development of traditional manufacturing industries of the non-oil industry and the expansion of their export opportunities, will be supported the new competitive manufacturing industries. Stimulating mechanisms will be used to intensify attraction of domestic and foreign investments to the non-oil sector of the country (Official web page of the Azerbaijan President, 2017).

Azerbaijan's natural competitive advantages are based on 4 major factor resources, such as oil and gas resources and ability for their development, [Pashayev F., 2006] strategic geographical location at the crossroads in the heart of Eurasian continent, (UNCTAD report, 2011) diversified and favorable climate for agribusiness, (Martins Priede, 2012) rich history and culture. These factors have been inherited, and before re-gaining independence in 1991 never used properly for nations benefit. Initial competitive advantage derived from Azerbaijan's geographical location and natural [oil and gas] resources was supported by the Government's trade and investment policies.

The World Investment Report 2011 introduced by United Nations Trade and Development Agency is entitled "Non-equity modes of international production and development" and specifically analysis important role of non-equity forms of cooperation and MNE penetration. Currently new, non-equity forms of MNE penetration are playing important role in Azerbaijani economic development. Together with 100% control and joint ventures, licensing, management contracts, franchising, became popular in Azerbaijan. This is mainly derived from globalization and growing attractiveness of Azerbaijani economy (Pashayev, 2006).

Another interesting phenomenon of the recent years is growing Azerbaijani investment abroad. Large investment in energy sectors of Turkey and Georgia could be good examples. That can be explained by the fact that Azerbaijani market Investment policies and competitiveness of Azerbaijani economy 26 is too small and foreign markets are attractive, especially due to global financial crisis and economic slowdown. Diversification of Azerbaijani economy will require development of human resources. To provide industrial

workforce, Azerbaijan started to modernize its education system. It would be advisable to look at the experience of some other successful countries, such as Singapore for example, which since 1960s started to make emphasis on technical vocational education. Government of Azerbaijan already started paying attention to industrial development. In Sumgait, city near capital Baku industrial site has emerged. This industry will definitely need trained workforce. Therefore, technical and vocational education and specialized industrial training institutes are necessary elements for industrial development. Italy can be helpful in this area, since lack of qualified workforce will result in growing import of labor power from abroad making national workforce uncompetitive and out of game. Tertiary education is also necessary element of education in general since it can provide professionals and managers in science, engineering, business and computing. At initial stage recruiting of foreign talent is necessary both for public and private sectors. This should be gradually changed in favor of local labor force. Azerbaijan may use experience of newly industrialized countries that introduced English as language of instruction in schools and universities facilitating the operations of MNCs in Azerbaijan and linking Azerbaijan with global economy (Pashayev, 2019).

The scientific novelty of the research consists of the following:

- problems of investment classification and analysis were studied based on the principle of a complex approach;
- the methodology and system of indicators for the analysis of investment activities according to international theoretical and methodological principles and practice have been defined.

Conclusions.

During last two decades Azerbaijan made remarkable achievements in developing its statehood and economy. Despite the difficult political environment, the Government was able to conduct rational policies and attracted foreign investment in oil and gas sector that became engine of development. Country's current economic policies and strategies aimed at lessening of dependence on mineral sector through policies of diversification, development of regions and growth of business and employment in non-oil sector. Domestic investments in industrial development, infrastructure and education, could ensure sustainable economic growth, especially in non-oil sector of economy. State will play important role in creation of favorable investment climate, pursuing structural reforms, maintaining macroeconomic stability, negotiating beneficial conditions for accession to WTO and diversification of economy.

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