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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**GOVERNMENT REGULATION OF
FOREIGN INVESTMENTS – WORLD EXPERIENCE
AND AZERBAIJAN ECONOMY**

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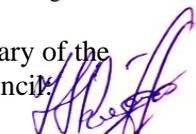


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INTRODUCTION

The relevance and study level of the research. From the very first years of independence, Azerbaijan, as a country with large oil and gas resources, attracted the attention of foreign investors, and as a logical consequence of this, the Azerbaijani government and the world's leading energy companies have signed an agreement called "Contract of the Century" for the development of hydrocarbon fields in the Azerbaijani part of the Caspian Sea and as a result of this agreement, the country's energy sector has attracted significant foreign direct investment (FDI) (more than \$80 billion between 2000 and 2021). Thanks to these investments, Azerbaijan still ranks first among the CIS countries in terms of both annual and total foreign investment per capita, and among the world leaders in general. It is the result of these investments that the Azerbaijani economy shows the highest economic growth in the CIS in the post-Soviet period.

At the same time, the rapid growth of the oil and gas sector has created certain threats to the Azerbaijani economy. Most of the country's exports fall to this sector (the share of oil and gas products in total exports is more than 90%). The main part of Azerbaijan's state budget revenues is financed by the State Oil Fund. The most disappointing point is that in such a situation, the growth rate in other sectors of the economy is low and tends to decline in some years.

On the background of all these, in recent years, on the one hand, the slowdown in investment in existing projects, on the other hand, the decline in global demand for energy resources has led to a sharp decline in GDP growth. The main negative state is that this process can be accelerated by the depletion of the country's hydrocarbon resources.

Taking all of these into account, the country's leadership is trying to take measures to reduce the dependence of the national economy on one sector - a decree on the "Long-Term Strategy for Oil and Gas Revenue Management" was signed in 2004 to ensure more balanced and sustainable economic development. The development of the non-oil sector is the main goal of the Azerbaijani government. Achieving this goal involves the renewal of promising areas of the country and the development of production infrastructure. In modern times, the

modernization of enterprises is impossible without attracting foreign investment. At the same time, it should be noted that foreign investors, who are very interested in Azerbaijan's mineral resources, have very limited investment in agriculture and the processing industry. The establishment of high-tech production in the country with the participation of foreign investment outside the oil and gas sector is almost non-existent, although most international studies show that many sectors of the Azerbaijani economy have strong potential and high intellectual level.

In this condition, the role of the state in attracting foreign capital to the non-oil sector is irreplaceable. First of all, because in most cases, risk-free private capital tries to get a guarantee from the government of this country before going abroad. This is especially true of multinational companies in developed countries with high technology.

Secondly, in order to attract foreign capital to the country, a certain investment medium must be created, where the main role belongs to the state - namely the state should:

- create an appropriate legal framework;
- offer non-discriminatory and, in some cases, preferential terms to foreign investors;
- create institutions that facilitate the activities of foreign investors in the country and regulate their activities;
- minimize the risks and uncertainties that may lead to the withdrawal of foreign capital from the country - ensure political, economic, military stability, public order;
- fight against bribery, corruption, procrastination and other manifestations of official arbitrariness;
- hold events (exhibitions, fairs, conferences, etc.) that facilitate the relations of local producers with foreign business for the establishment of joint ventures and / or assist in their holding;
- achieve the formation and growth of a positive image of the country in the world in other (as well as non-economic) spheres;
- carry out reconstruction or improvement of production infrastructure (roads, utilities, landscaping, telecommunications, etc.);

- organize research that is outside the scope of private business and is necessary or facilitates the evaluation of investment projects.

Thus, there is no alternative for the state to take measures to improve the investment medium in order to ensure the diversification of the national economy and the attraction of foreign investment, which is a necessary condition for sustainable development of the country. The explained arguments condition the study of the world experience in the field of state regulation of foreign investments and the urgency of exploring the possibilities of applying the positive elements of this experience in the reality of Azerbaijan.

Numerous scientific studies have been devoted to the study of the investment medium. In addition to research by individual authors, special mention should be made of the research conducted by reputable international organizations such as the World Bank, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), the United Nations Development Program (UNDP), the United Nations Conference on Trade and Development (UNCTAD), the Asian Development Bank, the Organization for Economic Development and Cooperation (OECD) with the participation of both leading local scientists and international experts.

Magnus Blomström, Alfaro L., Ari Kokko, André Pascal, Kalemli-Ozcan S., Fung KC, Iizaka H., Tong S., Shaukat A., Wei G., Edward M. Graham, Erika Wada are among the authors conducting research in this field from far abroad countries that their work attracts attention.

As CIS authors Иващенко И.С., Комаров В.В., Костюнина Г.М., Ливенцев Н. Н, Макеев К.С., Мельниченко О., Наливайский В.Ю. and УЛЬЯНОВ И.С. can be noted.

The topic of foreign investments and its state regulation was discussed by Azerbaijani authors such as N.Majidov, A.Mehtiyev, G.Aliyev, F.Zeynalov, H.Allahverdiyev, J.Namazova, V.Zeynalov, I.Ibrahimov, K.Karimov and others.

In the presented dissertation, a different approach was applied to the theoretical issues of foreign investment, the study of the experience of foreign regulation of foreign investment and the study of the foreign investment medium in Azerbaijan, and different results were obtained.

The object and subject of the research. The object of the research is the foreign investment environment in Azerbaijan. The subject of the research is the state mechanisms for attracting foreign investment to the country.

The purpose and objectives of the research. The purpose of the research is to make proposals for the development of a set of state measures to improve the foreign investment medium in Azerbaijan based on the study of world experience in attracting foreign investment to the country.

For this purpose, the following objectives are set within the research:

- Complex study of theoretical and methodological bases of investment;
- Monitoring of investment efficiency assessment methods;
- Identification of factors affecting foreign investment;
- Study of the positive and negative effects of foreign investment on the country;
- Analysis of state mechanisms for regulating foreign investment;
- Detailed study of China's experience in attracting foreign investment to the country;
- Analysis of the legal framework of foreign investment and state institutional mechanisms in Azerbaijan;
- Determining Azerbaijan's international reputation on the basis of research by international organizations;
- Analysis of the current state of foreign direct investment in Azerbaijan;
- Study of the current state of the foreign investment climate in Azerbaijan and preparation of proposals on the main directions of state policy in the field of its improvement.

Research methods. The theoretical and methodological basis of the research is the works of the classics of economics, as well as contemporary researchers on foreign investment. Among these studies, priority is given to those that summarize the experience of countries with economies in transition, in particular the People's Republic of

China (PRC), which has had the greatest success in this area. The research database was compiled by the official data of the Statistical Committee of the Republic of Azerbaijan and the Central Bank of Azerbaijan, as well as official statistics of the PRC, the results of research by international organizations.

The main provisions for the defense. The main provisions for the defense are below:

- The factors influencing the attraction of foreign investments to the country and the positive and negative contributions of the attracted investments to the country's economy were systematically investigated from new aspects.

- The experience of China – country which achieved the most successful results in attracting foreign investments to the country, was studied, the state policy of attracting foreign capital to China, the problems that appeared in attracting foreign investments and the main elements of the foreign investment policy of the Chinese government were determined.

- The factors determining the attraction of foreign investments to Azerbaijan have been identified, justified and systematized, as well as the main directions of the complex of measures that should be implemented for the effective attraction of foreign investments to the country have been determined.

The scientific novelty of the research. The scientific novelty of the dissertation is that as a result of the research, the strengths and weaknesses of the conditions for foreign investment in Azerbaijan were studied and a set of measures to be taken by the state to further improve it was identified. The main novelties are as follows:

- The factors affecting foreign direct investment (FDI) have been systematized and analyzed, and the effects of the exchange rate, interest rates in the world and in the host country, and the country's geographical location on investment in this country have been studied from new aspects. (2.1.)

- The positive and negative effects of FDI on the national economy have been systematically studied and analyzed. (2.1.)

- The features of the Chinese government's foreign investment policy are summarized.

- The role of FDI in the social and economic life of the host country has been identified and systematized. (End of chapter II)

- In the first years of independence, the factors that led to the involvement of FDI in Azerbaijan were identified, substantiated and analyzed (3.1.).

- The approach to assessing the investment environment in the country has been substantiated and applied to modern Azerbaijan (3.2.).

- The main directions of the future activities of the government of Azerbaijan in the field of effective attraction of foreign investments to the country have been identified (3.5.).

The theoretical and practical significance of the research.

The implementation of future activities of the Azerbaijani government to improve the investment environment identified during the research within the dissertation will play an important role in the diversification of our national economy, which is determined by the state as a matter of destiny.

Approbation and application of the research. The main provisions of the dissertation were presented at two local and one foreign scientific conference. The results of the research have been published in four local and one foreign publication published by the author and recognized by the SAC.

The name of the organization that the research prepared.

The research was prepared at the Scientific Research Institute for Economic Reforms under the Ministry of Economy of the Republic of Azerbaijan (currently, the Economic Scientific Research Institute).

The structure and volume of the research. The dissertation consists of an introduction (12302 characters), 3 chapters (Chapter I - 74556 characters, Chapter II - 83915 characters, Chapter III - 89171 characters), conclusion (13883 characters), and a list of used literature, totaling 164 pages (273827 characters). 1 picture and 19 tables were used in the work.

THE STRUCTURE OF THE RESEARCH

Introduction

Chapter I. Theoretical-methodological basis of investment and methods of evaluation of investment projects

- 1.1. Economic nature and classifications of investment
- 1.2. Methods of evaluating the efficiency of public investments
- 1.3. Quantitative methods of investment efficiency evaluation

Chapter II. State regulation of foreign investments and its world experience

- 2.1. Determinants and consequences of foreign investment
- 2.2. State mechanisms of regulation of foreign investments
- 2.3. The Chinese experience of attracting foreign investment to the country

Chapter III. Features of state regulation of foreign investments in Azerbaijan and directions for its improvement

- 3.1. Legal framework and state institutional mechanisms of foreign investments in Azerbaijan
- 3.2. Azerbaijan's international reputation
- 3.3. Contemporary situation of foreign direct investments in Azerbaijan
- 3.4. Assessment of the impact of foreign direct investments on economic growth in Azerbaijan
- 3.5. The current state of the foreign investment environment in Azerbaijan and the main directions of state policy in the field of its improvement

Conclusion

Reference list

BRIEF SUMMARY OF THE RESEARCH

The introduction substantiates the relevance of the dissertation, indicates the level of study of the problem, the purpose and objectives, object and subject of the research, as well as explains the scientific novelty, practical significance and approbation of the work.

Chapter I, entitled "Theoretical and methodological framework of investment and methods of evaluating investment projects" examines the economic nature of investments, classifies them on the basis of various criteria, discusses methods of evaluating the effectiveness of public investment, quantitative methods of evaluating the effectiveness of investments.

Chapter II, entitled "State Regulation of Foreign Investment and Its World Experience," systematically examines the factors influencing foreign investment and the socio-economic consequences of FDI, examines state mechanisms for regulating foreign investment, and examines China's experience in the field, the most successful transition country in attracting FDI.

Chapter III, entitled "Features of state regulation of foreign investment in Azerbaijan and directions for its improvement" is entirely devoted to the study of Azerbaijan. The following issues have been studied here:

- Legal framework of foreign investments and state institutional mechanisms in Azerbaijan.
- Azerbaijan's international prestige.
- The current state of foreign direct investment in Azerbaijan.
- Assessing the impact of foreign direct investment on economic growth in Azerbaijan.
- The current state of the foreign investment medium in Azerbaijan and the main directions of state policy in the field of its improvement.

The following main results were obtained within the dissertation work:

I. Factors influencing FDI have been systematized and analyzed, and the effects of the exchange rate, interest rates in the

world and in the host country, and the country's geographical location on attracting investment to this country have been examined from new perspectives. The following factors were analyzed:

1. *Level of socio-political stability in the country.*
2. *Level of military stability in the country and the surrounding region.*
3. *The level of economic stability in the country.*
4. *Exchange rate.* It should be taken into account that the long-term devaluation policy is a threat to the country's economic security, as it can lead to the export of the country's wealth and the transfer of property to foreigners at low prices. Therefore, the policy of devaluation must be accompanied by the protection of domestic wealth and property.
5. *The degree of suitability for business and foreign investment in the country.*
6. *The ratio of interest rates in the world and in the country.*
7. *Geographical location of the country, including access to the ocean.*
8. *Country population.*
9. *Income level of the country's population.*
10. *The level of education and knowledge of the citizens of the country.*
11. *Relations with neighboring countries.*
12. *Membership in the World Trade Organization (WTO).*
13. *Accession to other international investment conventions.*

II. The positive and negative effects of FDIs on the national economy have been systematically studied and analyzed.

1. *Competition.* The positive impact is even more pronounced when the technologies imported into the country through FDI are advanced. On the one hand, it is good for local consumers by lowering the price of the product, on the other hand, it serves to increase their competitiveness in both domestic and regional markets by encouraging domestic producers to improve their production as a result of competition.

The negative impact is manifested in the underdevelopment of domestic production, which has a potential competitive advantage. At

the same time, weak domestic producers fail to compete with a strong foreign company that has entered the market, and thus there is a danger that an important sector for the country will fall completely into the hands of foreign investors, however, if there was no such competition, local producers would be able to achieve sufficient competitiveness on a regular basis.

2. *Domestic economic policy.*

3. *National security.* a) TNCs seek to prevent any (as well as just) military operations in the host country as they seek to maintain stability for the success of their business; (b) Influencing domestic political processes, such as supporting internal opposition forces in pursuit of their business interests, or even assisting in a coup d'etat.

4. *Unemployment.* The increase in employment is one of the important positive socio-economic effects of the FDI, as it focuses on the real sector. In some cases, the FDI may increase unemployment in the country. This happens when there are no new technology professionals in the host country.

5. *Inflation.* In some cases, the FDI causes price increases in some markets in the country. FDI also stimulates the flow of people (workers, tourists) from abroad to the country, which creates additional demand.

6. *Impact on joint ventures.* A local company that has set up a joint venture with a foreign company is likely to lose its stake and the company will be completely taken over by a foreign partner. Although a foreign investor who initially needs a local partner may set up a joint venture with a local company, once the country has adapted, it may no longer need the partner and may want to take over its share.

III. The role of FDIs in the social and economic life of the host country has been identified and systematized.

FDI has the following universal contributions that can be applied to any country.

1. The new production facilities create new sources of foreign exchange inflows to the country, which are very important for the national economy, by increasing the country's export potential.

2. It increases employment in the country by creating new jobs, which serves the implementation of a very important socio-economic task of the state.

3. An increase in employment increases the income of the population, which in turn leads to an increase in consumption. The increase in consumption strengthens national producers and thus increases their competitiveness.

4. Other areas related to them are beginning to develop around the newly developed economic sectors, which creates conditions for cluster development, which is relevant, popular and effective in modern times.

5. Appropriate areas of education are also developing. The irreplaceable role of education in solving modern socio-economic problems, including poverty eradication, is an undeniable fact proven by the experience of different countries.

6. An increase in the income of the population and local companies, in other words, an increase in national income, also increases the income of the state budget. This general growth increases the country's image in the international arena, which leads to an increase in demand for goods and services in other areas. For example, the growing interest in a country that has gained a reputation in the world with other products increases the flow of foreign tourists to this country.

7. If we look at the above points, we see that each of them has a multiplier effect that reinforces the other. This means that effectively attracting foreign investment to the country is one of the most important factors of economic development.

IV. The features of the Chinese government's foreign investment policy are summarized:

1. This policy is implemented in the context of adaptation to the national economic development strategy of the state.

2. Almost all mechanisms of international cooperation in the field of investment in production (joint development of mineral resources, construction, compensation agreements, labor emigration, investment in foreign countries) are used.

3. Selectivity in attracting foreign investment. This applies to both sectoral and territorial sections.

4. Export targeting of products of enterprises established with the participation of foreign capital.

5. Preference for quantitative factors in attracting foreign capital in the first periods, and qualitative factors in the following periods.

6. Ensuring national economic interests along with creating a favorable investment medium for foreign capital.

7. Prefer labor-intensive, capital-intensive and science-intensive production rather than simple detail collection.

8. Preferring the "horizontal" division of labor over the "vertical" division.

9. Preference for large enterprises and transnational corporations over small and medium enterprises.

V. Factors determining the involvement of FDI in Azerbaijan in the first years of independence were identified, substantiated and analyzed.

1. *Internal economic crisis.* Economic problems existed long before independence, when Azerbaijan was still within the USSR. These problems, arising from the internal nature of the economic and political system of socialism and explained primarily by the denial of private property and the implementation of production, as well as procurement at the enterprise level on the basis of centralized planning, began to deepen in the 1970s. Gorbachev, who came to power in the mid-1980s, failed to implement the "reforms" he and his team had failed to achieve due to incompetence and bias. Although private property was introduced, it had the opposite effect due to incompetence and corruption in public administration. The logical consequence of these processes was the decline of production throughout the USSR, including Azerbaijan. The ongoing protests in Azerbaijan over the Nagorno-Karabakh conflict in protest of the central government have deepened the recession.

2. *The decline of foreign economic relations.* During the Soviet era, the republics that joined the USSR, although unofficial, had different statuses. The main economic centers were Russia, Ukraine and Belarus - heavy industry and advanced technologies were developed in these republics. The Baltic republics, which were forcibly incorporated into the USSR only after World War II, and which were therefore most dissatisfied with the Soviet regime because of their geographical proximity to the West, had a higher status than the Slavic republics.

Accordingly, the level of exports from the USSR (for example, per capita, share in GDP, etc.) was also relatively high in these republics. The rest of the republics, as well as Azerbaijan, were mainly focused on intra-USSR sales. Therefore, after the collapse of this country, Azerbaijan remained dependent on post-Soviet markets. On the other hand, the crisis in these countries has further reduced the demand for Azerbaijani goods, which have already reduced production.

3. *Currency dependence on Russia.* Even one of the important factors hindering domestic investment was the lack of Azerbaijan's own foreign exchange reserves at that time: according to the USSR, all foreign currency received from the country's exports was concentrated in Vnesheconombank in Moscow, and there was no foreign currency in the republics. On the other hand, since modern technologies are based on imported equipment, the young states that gained independence could be virtually deprived of this opportunity and rely only on foreign investment.

4. *Moral obsolescence of production technologies.*

5. *Protection from external aggression.* This can be considered as another pragmatic target of non-economic nature in attracting foreign investment. The point is that the then USSR, and then the Russian leadership, continued its imperialist policy against the former republics, especially Azerbaijan, which has great economic potential. This was already reflected in the bloody aggression of the Soviet army in Azerbaijan in 1990 and the participation of the Russian army in the occupation of Azerbaijani lands by Armenia. Under such circumstances, the involvement of powerful TNCs in the country was an effective way to prevent the more aggressive policies and activities of militarily powerful countries such as Russia and Iran.

6. *Ensuring internal socio-economic stability.* In the first years of independence, on the one hand, the struggle for power of domestic political forces, on the other hand, the sabotage policy of the above-mentioned neighboring countries, which in some cases reached the level of a terrorist act inside Azerbaijan, was another political motive for attracting foreign investment. TNCs interested in internal stability play the role of guarantors of this stability in small countries such as Azerbaijan.

The subsequent course of events proved that these hopes were justified as a result of the arrival of TNCs in Azerbaijan. However, it should be noted that the motives described above also hindered the attraction of foreign investment in Azerbaijan. Another obstacle to attracting foreign investors was the intensity of international competition in the region - a goal that was the main goal for all post-Soviet states, and the most obvious manifestations of this were a) the location of regional offices of many international organizations in Georgia, the most militarily stable country in the South Caucasus. b) Foreign investment in Azerbaijan's non-oil sector is very weak.

On the other hand, it should be taken into account that the main goal of any country in which foreign companies invest is not to solve the problems of this country, but to make a profit. As for TNCs, another important point should be taken into account that these companies, which operate in close contact with their countries, also act as realizers of the interests of those countries.

VI. The approach to assessing the investment medium in the country has been substantiated and applied to modern Azerbaijan.

Such a flow of processes requires a critical assessment of the investment medium in the country and an understanding of the origins of the problems in this area. It is expedient to conduct research in this area in two directions:

1. Investigation of relevant country ratings as a result of research by various institutions.
2. Research of foreign organizations to assess the foreign investment medium in Azerbaijan.

The expediency of this approach is explained by the following arguments:

- Some of these ratings directly reflect the state of the business environment in the country (for example, "doing business", "economic freedom"), while others indirectly affect it.
- Even if these ratings and reports do not fully and accurately reflect the reality, their great reputation in the world leads to the fact that they influence the decisions of potential investors.

- The Global Competitiveness Index. This indicator, prepared by the World Economic Forum for each country, which is held annually

and is attended by the first people of all countries, is the most reliable indicator in terms of reflecting the business environment and business potential. This index has been calculated since 2004 and covers the broadest indicators of competitiveness. According to the methodology used in the calculation of the index, national competitiveness means ensuring sustainable economic growth of the country and its institutions in the medium term.

Here, along with the global competitiveness index, the second - business competitiveness index is also calculated. Obviously, both indices are important for foreign investors. For example, if a competitive business in a country produces a substitute for a potential investor's product, it can be a deterrent for it, and if it produces a complementary product, it can be an attractive factor. 113 indicators used in the calculation of indices, two thirds of which are formed on the basis of a survey of company executives, are divided into 12 groups.

In the survey conducted for 2019, Azerbaijan ranked 58th among 141 countries. It should also be added that the global competitiveness index has ceased its activity since 2020.

- Economic freedom index. The index has been calculated annually since 1995 by the Wall Street Journal and the Heritage Foundation research center for most countries. The Heritage Foundation's economic freedom means "the absence of interference or obstruction by the State in the production, distribution and consumption of goods and services, except in cases of support for citizens and liberty in general." The report divides the countries into 5 groups:
 - Countries with free economies (index 80-100).
 - Countries with mainly free economies (index 70-79.9).
 - Countries with almost free economies (index between 60-69.9).
 - Countries whose economies are mainly not free (index 50-59.9).
 - Countries (despotic) with non-free economies (index 0-49.9).

The Economic Freedom Index for 2019 is calculated for 180 countries and is led by Hong Kong (index 90.2), Singapore (89.4) and New Zealand (84.4). In order to understand the situation and dynamics of Azerbaijan from the point of view of the Index of Economic Freedom, it is expedient to analyze it in comparison with other post-Soviet

countries. According to the Economic Freedom Index, Azerbaijan ranks 75th in the world in 2022, and 7th among the post-Soviet countries.

- Doing Business index. This index is compiled by the World Bank based on a study of laws and regulations affecting business with the involvement of legal and economic experts, as well as government officials, and is calculated based on certain factors.

According to the 2019 report, Azerbaijan ranks 5th among post-Soviet countries. As a result of recent reforms, Azerbaijan's global ranking rose from 57th to 25th place in 2019, for three main reasons:

- investment protection (2nd place)
- doing a business (9th place)
- property registration (17th place)

As of 2020, according to the decision of the World Bank, the "Doing Business" report has stopped its activity.

- Corruption Perceptions Index, CPI. The index, presented by Transparency International since 1995, is calculated with the participation of international financial and human rights experts, including Asian and African development banks, the World Bank and Freedom House.

According to the results of this study conducted on 180 countries in 2021, as in many post-Soviet states, a high level of corruption is reflected in Azerbaijan, which in any case has a negative effect on attracting foreign investments.

- Bertelsmann transformation index, BTI. This index is calculated by the Bertelsmann International Foundation, founded in Germany in 1977, and reflects the state of political and economic reforms in countries transitioning from authoritarian regimes to free market economies.

According to the status index, Azerbaijan ranks 12th among 15 post-Soviet countries. The comparisons show that there are certain problems in the attractiveness of Azerbaijan for foreign investment.

VII. The main directions of the activity of the Azerbaijani government in the field of effective attraction of foreign investments to the country have been identified:

1. The state's "Investment Strategy for Economic Development" must be developed. This strategy should be harmonized with the "Country Economic Development Strategy". As one of the important components of this concept, which requires a lot of time and effort, a strategy should be developed to involve FDI in the field of innovation and production of high-tech products.

2. The regulatory framework needs to be further improved (eg, requiring a portion of FDI production to be export-oriented, requiring long-term investment, preventing FDI on obsolete technologies, restricting FDI on business activities that can be carried out by Azerbaijani residents, the requirement of strict expertise of FDIs that do not comply with the socio-economic development strategy).

3. Even if the legal framework is ideal, it is not enough. The rule of law must be ensured in this area, and the implementation of normative acts must be ensured.

4. For internal stability to be sustainable, various branches of government, various social groups, political forces, parties and public organizations must be involved in state-building and security must be ensured between them. This is very important to increase the interest of foreign investors in the country by reducing the risk of investments and increasing their forecast rate.

5. Violations of the law and economic crime in the country must be reduced on a regular basis.

6. Effective fight against procrastination, bribery and corruption at all levels of public administration and transparency in this area must be ensured.

7. The sustainability of the macroeconomic stability policy successfully implemented so far must be ensured.

8. Further simplification of the tax system should be achieved, and tax incentives should be provided in case of reinvestment of foreign capital.

9. In order for enterprises to reach full capacity and benefit from the positive scale effect, active work must be done to ensure that local products have access to regional markets.

10. In order to direct the free financial resources of the population and companies to investment needs and increase the interest of foreign

investors in the country's economy, the national banking system must be further improved, the level of reliability of commercial banks must be increased.

11. In order to attract foreign portfolio investment to the country, it is necessary to develop the domestic securities market, which is still weak and has weakened even more since the recent financial crisis.

12. The idea of creating special economic zones in the country, which has been discussed for a long time, must be realized.

13. The investment and leasing insurance market must be developed in the country.

14. Further development of civil market relations must be achieved in the country.

15. The institutional and logistical base for investment promotion and monitoring needs to be strengthened. The functions of AZPROMO and AIC, which have been operating for a long time, need to be clarified and complemented.

16. Investments, especially foreign investment, should be inspected and selected at the project stage to ensure that the new production is in line with the country's economic development strategy.

17. The establishment and operation of companies providing comprehensive services to potential foreign investors in the country should be encouraged. In fact, it can be said that such companies already exist in the example of AZPROMO or AIC. However, a gradual transition to their self-financing mechanism must be achieved.

18. In a country like Azerbaijan, where large financial resources are concentrated in households, there must be a choice in the inflow of foreign capital into the country, and certain principles must be followed. The agency responsible for selecting foreign investment should be guided by certain principles in the selection process. Some of these principles are as follows:

- The project must be in line with the national economic development strategy and national security principles.
- The technology to be brought to the country in the project submitted by a potential investor must be evaluated in terms of modernity. Products produced with the application of the proposed technology must be promising. In this sense, perspective means the existence of

at least three attributes:

- This product has a fairly wide current market;
 - the product produced by this technology has a current competitiveness in a fairly wide range of markets;
 - This product will not lose its relevance for a long time, in other words, it will be in demand, ie these investments will be justified until a new product can be created that can replace this product due to its consumer qualities;
 - this technology will not become obsolete for a long time, in other words, these investments will be justified until a more advanced, ie low-cost technology is created and diffuses that produce this product;
 - The technology must be flexible enough: if the events in paragraphs 3 and 4 occur, ie a new product or technology emerges, the enterprise created can adapt to these changes in a relatively short period of time and at a relatively low cost.
- Domestic investors should be preferred in productions that do not require high-tech processes.
 - Preference should be given to projects and investors offering reinvestment.
 - Preference should be given to investors offering environmental and social projects.
 - Preference should be given to investors from developed countries.
 - Goodwill investors should be preferred to Azerbaijan.
 - Joint ventures with Azerbaijani capital should be preferred, but it should be ensured that foreign capital is not formal in order to take advantage of concessions.

The main provisions of the dissertation, the results obtained and the proposals are reflected in the following published scientific works:

1. Международный имидж Азербайджана как страны с транзитивной экономики / Журнал «Вектор науки» Тольяттинского Государственного Университета РФ. Серия: Экономика и управление, №3 (3), 2010, с.17-21
2. Capital and investment: economic essence, definitions and classifications / “İpək yolu” magazine, № 2, 2010

3. State policy of attracting foreign capital to China / “Xəbərlər” magazine of ANAS, № 3, 2011
4. Determinants and results of foreign investment / Collection of scientific works of ANAS, №2, 2011
5. Major international conventions in the field of investment / Proceedings of the international conference on "Actual problems of sustainable development in the context of globalization" dedicated to the 88th anniversary of national leader Heydar Aliyev and the 93rd anniversary of modern Azerbaijani statehood, 2011
6. The main elements of the investment policy framework / Collection of Scientific Works of the Scientific Research Institute of Economic Reforms "Features and problems of implementation of economic reforms in Azerbaijan" edition XVIII, 2018
7. Problems in attracting foreign investment to China / Proceedings of the scientific-practical conference "The role of engineering in the innovative development of Azerbaijan: Goals and Prospects", November 29-30, 2019
8. Problems of the foreign investment environment in Azerbaijan and the main directions of state policy on their resolution / 30th Eurasia Business and Economics Society (EBES) Conference Proceedings - Kuala Lumpur, Malaysia, 8-10 January 2020



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