Azərbaycan Respublikası

Təhsil Nazirliyi

The problems of increasing impact of foreign direct investment on economic growth

Hajiyev Javid

Scientific leader: PhD Aliaga

UNEC SABAH

Azərbaycan Dövlət iqtisad Universiteti

May 2018

Table of Contents

INTRODUCTION

The most important direction of the modern process of establishing a market economy is the transition to sustainable economic growth based on its innovative components. Therefore, the problem of developing a competitive technological and innovative potential of the country is one of the key problems in today's Azerbaijan. One of the main sources of innovative development of the Azerbaijani economy is the attraction of foreign capital to the economy along with the diversification of the economy. The advantages of foreign direct investment are that they allow for sustainable economic growth, accompanied by the introduction of not only technological innovations in the domestic economy, but also new knowledge and technologies of innovative management.

However, the lack of a domestic policy of attracting foreign direct investment was manifested in the deformed sectoral structure and their concentration in the raw and extractive industries with a relatively low level in high-tech industries producing products with a high share of added value. At the same time, certain regions form their own policy in this area, aimed at creating structural changes in the economy of the region, replenishing the budget, and also stimulating the development of industrial and social infrastructure.

There is a general consensus that in all countries the process of economic growth and investment / formation of capital is closely interrelated. Both neoclassical and Marxist economists pay attention to the accumulation of capital as the engine of economic growth. An important use of capital is to increase production of capital-intensive goods. Consumption of such goods usually increases with income growth (due to the fact that we raise funds for growth growth) (Sundrum, 1993). All growth models are concentrated on capital as one of the two main parameters in determining the rates of economic growth. An increase in the capital fund is, of course, necessary to ensure production growth. According to the World Bank (1989), GDP growth is higher for those countries that have a relatively high level of investment / GDP.

In general, investments relate to all economic activity, which involves the use of resources for the production of goods and services. Investments in infrastructure are especially important for the development of less developed countries (LDCs), since the infrastructure allows producers to use modern technologies and introduce modern technologies for producers, expanding infrastructure directly stimulates productive activities. Investments in education and vocational training of a qualified and productive laboratory. Investments in agricultural research and extension services improve and facilitate the dissemination of research results, which also increases production.

Investments in human capital increase the value of parental time and the cost of raising children. The increase in the cost of raising children raises fertility and increases the desired savings per person, which in turn increases per capita growth rates (Barro, 1991).

In the general literature on economic development, the authors emphasized the importance of investing / capital formation in the development process. In view of the importance of the subject, many empirical studies have been conducted to assess the role of investment / capital formation in economic growth. In his work, Anderson (1990) tries to find the role of investment in economic growth and development, developing an accounting relationship between the rates of economic growth and variables that represent the speed, distribution and efficiency of investment. His analysis shows that investments play a big role in the growth of the country, if it is effectively used to increase production. On the other hand, if investments are inefficient, this leads to the achievement of output growth rates.

In the light of various capital crises, over the past few years, there has been a trend towards the definition of portfolio investment, while praising the inflow of direct investment. Nevertheless, it is also recognized that effective capital markets help to mobilize financing for growth and development. Both direct and portfolio investments can be achieved, for example, including in different ways.

Both the portfolio and direct investment provide economic benefits, and both can enhance these benefits. It is not advisable to discriminate against one type of investment or another, although it is necessary to recognize their differences. With the right policy and contribute to a strong and healthy economy.

In the conditions of growing regionalization, the problems of forming a regional policy of attracting foreign direct investment for the formation of an innovative orientation of the economic development of the regions are becoming more urgent. Despite a significant number of works devoted both to studies of the specifics of attracting foreign investments both at the macro level and at the regional level, the task of increasing the effectiveness of their influence on innovative development remains to be actual.

1. Theoretical foundations of the role and importance of foreign direct investment in the development of the economy.

1.1. Theoretical concepts in the study of foreign direct investment.

With its orientation to developing enterprises directly, foreign direct investment helps to strengthen economic potential. Sometimes, this is accomplished through greenfield investment, adding new and different economic activity and consequently diversifying the economy. Other times, this will be achieved through building up existing enterprises and enhancing their potential. Both of these activities will add a new and healthy element of increased competition to an economy, which is itself a powerful force for economic development.

Competition is one of the ways a foreign direct investment can have a broader effect on the economy. It spurs other enterprises to increase their own efficiency and productivity. Competition plays a major role in improving the allocation of resources, boosting the economic prospects of the domestic economy and worldwide sustainable economic development. Technology transfers and the development of human capital are often seen as two of the primary benefits of foreign direct investment. Competition has a role to play in both, as it encourages domestic competitors of the foreign investment to build up their own technological capabilities and the productivity of their labor force. They will, among other things, learn from the technology of the foreign investor and the ways in which it improves the productivity of its labor and management.

The development of human capital can be one of the chief contributions of foreign direct investment. The foreign owners will bring their management skills and technology to their enterprises. In training the local workforce, they will pass on those management skills and technology. As their workers move on to other jobs in domestic firms, or start their own businesses, they will bring with them the management, working skills, and the technology that they have learned. Thus, in a very direct manner, the human capital of the host country can be developed by foreign direct investment, and the investment' technology transferred.

Human capital development and technology transfer also occur through the foreign investment’s relationships with its suppliers and the downstream users or sellers of its products. The investment will require from its suppliers a certain standard of product, perhaps a higher standard than they are accustomed to producing. In order to meet that higher standard, they will have to improve their workers’ skill levels and their management system. They may also gain new technological expertise needed for the required product standard from the foreign investment. The current trend toward outsourcing and closer collaboration along the supply chain means that there will be a greater tendency to pass management, production and technology know-how to suppliers, enhancing the transfer of technology and skills. Enterprises that are downstream in the supply and sales chain will receive similar benefits, although less obviously and perhaps less frequently, both through the direct use of a higher standard product incorporating technological improvements, and through efforts by the foreign investment to maximize the value of its product.

Foreign enterprises often incorporate foreign trade, either with the parent company or with customers, or both. Thus, another benefit that foreign direct investment brings is increased opportunities and avenues for trade. Trade and investment are increasingly integrated, as are their benefits.

Foreign direct investment can also provide environmental and social benefits. Often, international investors will operate at higher environmental and social standards than their domestic competitors. Although they may not bring standards up to the highest level possible, they will have the effect of raising the standards above existing levels. These standards may also be adopted over time by domestic companies, further raising the country's environmental and social standards.

A healthy domestic economy also enhances the benefits that foreign direct investment can provide, and a sound financial sector is a prerequisite for economic health. As shown below, the benefits of foreign portfolio investment require a suitable prudential regulatory system, but prudential regulation is also necessary for a sound domestic financial sector and overall economic health. The contribution of foreign portfolio investment to strengthening domestic capital markets and their infrastructure, which enhances the domestic allocation of capital, can help to boost the benefits of foreign direct investment. Therefore, the two are also complementary in that their benefits are enhanced when both are present.

To maximize the economic benefits of foreign direct investment, the key element of the economic development and sophistication in the domestic economy. The closer the match to the foreign enterprise, the needs, the sophistication, the more. This will be the transfer of technology and know-how.

In general, then, sound policies for domestic economic development. Policies that will maximize the benefits of foreign direct investment, and minimize its costs, or potential drawbacks, are those that will do the same for domestic investment. One of the basic objectives of investment policy should be to create an enabling business environment, facilitating the growth and development of all businesses, small and large, domestic and foreign.

Just as with portfolio investment, sound regulation is important for foreign direct investment. However, regulatory details for the myriad business sectors and activities in which a foreign direct investor are involved will be impossible to summarize. In all cases, however, maintaining health and the environment are legitimate and necessary subjects of regulation. As a basic approach to regulation, creating an incentive structure for the arts, compliance with the spirit and letter of the laws and regulations. envisioned. For instance, markets in pollution have gotten an effective way to stimulate firms to find the most efficient ways to reduce pollution.

To get the greatest benefit from foreign direct investment, it's possible to absorb and integrate the knowledge that the foreign investor has to offer . Therefore, a policy of developing domestic skills and knowledge is necessary to reap the full benefits of foreign direct investment. The two most fundamental elements to that policy are health and education. Basic human health and primary education are prerequisites for developing the skills and knowledge needed to get the full benefits of foreign direct investment, and for domestic economic development, as well.

The health and education prerequisites require infrastructure. Not only must there be an infrastructure for delivering health and education services, either publicly or privately. To integrate the foreign enterprise into the domestic economy, and thus maximize the benefits it has to offer, adequate commercial infrastructure is necessary, which would include energy, communications, transport, and financial infrastructure.

These are the elements necessary to derive the greatest benefit from foreign direct investment. Other than the need for regulation, acknowledged in both cases, these elements are different from the policies of the portfolio investment. Yet, there are underlying policy needs, such as the need for good governance, that apply to both types of investment.

Theory of the cycle of international production of goods

Introduced in 1966 by the American scientist R. Werner, the paradigm of the cycle of international commodity production examines the process of internationalization of the company, explains the interaction between international trade and foreign investment. The aim of the paradigm was to expand the theory of international trade described by David Ricardo, paying particular attention to the life cycle of the product in order to explain how the structure of trade changes over time. The theory describes the behavior of the manufacturer of a technologically advanced new product in several stages, depending on the stage of the product's life. According to the theory, the creation of a new or technologically advanced product is possible in a developed economy where the standard of living and income of the population is higher, and, consequently, the higher the demand for such a product.

It is known that the product life cycle includes four main stages: introduction, development, maturity and decline. The manufacturer of the innovative product strives to use the production as it is possible for as long as possible and to obtain a higher yield covering the total costs. Thus, in the process of changing the product's life cycle, the manufacturer consistently takes three types of decisions: to produce goods on the home market, to export to foreign markets and, finally, to transfer production to the economies of other countries by making FDI. Creating an innovative product, the company has the ability to produce it in the home market at a lower cost, taking advantage of the monopoly position. With the growth of demand and expansion of production, the goods enter the second stage of the cycle. At this stage, the company has competitors in the home market, and to maintain its position the manufacturer resorts to the strategy of internationalization. In the growth phase, the export of goods to foreign markets begins. The increasing competition of the next stage leads to an increase in costs per unit of output and a decrease in profits, which causes the search for cheaper labor and favorable location of production in less developed countries. Consequently, FDI grows at the stage of product maturity, when the transferred technologies are no longer advanced, but standardized. This fact limits the effectiveness of investments made by transnational companies in developing economies. Thus, Vernon's concept explains the use of relatively cheap labor in

China, but the motives for foreign TNCs to enter the Chinese domestic market can not be explained by this theory.

TNCs and imperfect competition

The theory of monopolistic advantages was developed by SG Khaimer in 1960 and subsequently supplemented by Ch. Kindleberger and R.E. Cave's. The main idea of this theory is the desire of foreign investors to use market imperfections, in other words, the internationalization of TNCs is viewed from the position of a monopolistic market. According to theory, a foreign company is in a worse situation than a local company, since it does not have sufficient knowledge about the market and about the "rules of the game", does not have the necessary connections. For a foreign company, investments abroad are associated with higher risks, additional costs for remote management of subsidiaries abroad, marketing activities, etc. In this regard, the investing firm needs to have monopolistic advantages, stemming from imperfections in the market, that would help overcome barriers to entry to the target market and compete with local firms. These advantages include the possession of advanced technologies, managerial experience, access to capital, the best organizational structure. Using these monopolistic advantages, a foreign firm can carry out FDI.

Kindlerberger complemented the theory of Hymer and identified four factors that determine the success of TNC investment:

• Product policy of the firm: marketing tools, product differentiation;

• Factors of production: availability of own technologies, better qualification of personnel, privileged access to capital;

• the possibility of using economies of scale;

• Government policy and its intervention in the economy: introduction of preferences for foreign investors.

In turn, Cavez described the impact of foreign direct investment on local firms. Thus, due to the emergence of TNCs in industries with high barriers to foreign capital, the monopoly nature of the market is weakening, additional competition leads to an improvement in the technological level of local enterprises, and technology is spreading.

Oligopoly and FDI

The theory of oligopolistic defense was formulated by Nickkerbocker and Graham in the 70s of the last century. In this theory, it is argued that in oligopolistic industries, the decision of market leaders to invest abroad affects their competitors and increases their incentives for FDI, that is, the behavior of the leader determines the process of internationalization of its competitors. In highly concentrated industries (energy, metallurgy), investment strategies of this type are rare, as competitive rivalry between market participants can result in price declines and losses for all oligopolists, so leaders tend to choose the usual market segment.

Graham improved this model by taking as an example European multinationals and examining their investment behavior in the United States. In his opinion, European TNCs, when making the decision to invest in the United States economy, resisted strengthening the position of American companies in Europe, and not European competitors in the United States. Thus, their goal was to fight American TNCs. As a result of the growing threat from American competitors, Europeans strengthened their transnationalization strategies. In this case, decisions on FDI could not be explained by obvious reasons for the economic benefits, but they performed a protective function aimed at restraining competitors both at home and abroad markets.

The theory of internalization

The theory of internalization formulated by the British economists P. Buckley and M. Casson in 1976 is based on the assumption of market imperfections, the presence of which makes it difficult for a foreign company to enter into market relations with local firms and forces them to make FDI, that is, to expand their activities to this market . In this regard, the authors of the concept of internalization focus on the internal structure of companies. In the opinion of Buckley and Casson, only having an effective organizational structure and accumulating all the assets within itself, the company is able to carry out its activities, penetrating into an insolvent market. In other words, it is profitable for the company to perform, in fact, international operations within the firm. Realization of transactions between different departments of one company allows to avoid large transaction and transaction costs, there is no need to purchase raw materials, materials and semi-finished products from local suppliers. The ability to internalize managerial and marketing experience, technological knowledge and know-how enables the company to replace market interaction with an "alternative" market - an internal structure. Thus, the theory of internalization explains the cases when it seeks to penetrate a country where there are market imperfections.

The paradigm of flying geese

Drawing on the experience of Japan, in the late 1930's. the Japanese economist K. Akamatsu initiated a new concept of FDI, known as the "paradigm of flying geese", which is a generalized theory of economic development. According to his theory, the product cycle in the industry includes three main stages (phases): import, domestic production and exports. Thus, for the catching-up economy, the emergence and development of a new industry begins with the stage of importation of a new product. With the growing demand for this product, it becomes economically expedient to replace imports with domestic production. In the domestic market, new industries are being created to meet demand. At the final stage, the surplus produced in the developing country is exported. Its name was given to the theory due to the graphical representation of these three phases, reminiscent of flying geese.

The concept of Akamatsu echoes the theory of the product life cycle, as it considers economic growth in developing countries catching up with industrialized countries. By analogy with the theory of Vernon, there is the introduction of a new, innovative product on the domestic market of a developing economy through imports from a developed country. The shortage of the Akamatsu theory is the secondary role of foreign direct investment.

K. Kodzhima and T. Ozawa strengthened the importance of FDI in the model and showed how foreign capital can accelerate the economic growth of the recipient country. TNCs are trying to make FDI at a stage when the phase of exporting goods to the developing market has not yet been passed. In this case, the opening of branches of foreign companies or joint ventures is not necessarily accompanied by an increase in imports in the recipient country of FDI. The transition to the third phase and the development of exports are faster. As a result of this behavior, foreign TNCs are accelerating the formation of a competitive industry in the economy of a developing country.

FDI and the competitive advantage of nations

American economist Michael Porter in his book "Competitive Advantage of Nations" analyzed the mechanisms of the industry's competitive struggle and the main factors influencing the competitive advantage of this or that industry. The author tried to understand what are the reasons for the more successful investment of companies from certain industries compared to companies in other areas of activity; why in some cases, foreign-made FDI stimulated the development of local enterprises, and in other cases, there was no increase in efficiency. Having conducted a study of the competitiveness of various industries in the economies of the most developed countries, Porter came to the conclusion that there are four main factors that create a favorable position of the industry and, therefore, improve its investment attractiveness for foreign TNCs. At the same time, TNCs' strategies are based on the comparative advantages of the recipient country.

These factors include:

1. Ability to form an effective corporate strategy and corporate governance, identify goals and assess existing risks in the industry, i.e. advantages in management;

2. Features of production factors - physical and human capital, namely, superiority in their effective use;

3. The nature of demand, the degree of its capacity and growth rate, as well as the standard of living of the population;

4. The presence of developed related industries, allowing foreign TNCs to conduct beneficial cooperation with local companies.

An important element of the Porter model is the idea of territorial and sectoral clusters formed by interconnected industries, firms, suppliers and related industries. Porter notes that public policy can positively influence the formation of these clusters in order to increase the competitiveness of specific industries.

Eclectic paradigm

The theory of the eclectic paradigm was developed by John Dunning in 1988. It is based on several provisions of economic theory, because the purpose of the theory was to combine several models and comprehensively explain the behavior of TNCs. Based on the eclectic paradigm, it can be concluded that foreign direct investment occurs only if the firm has at the same time three types of advantages: the owner's advantage (O-advantage), which is more favorable position of the firm than other firms abroad. The advantage of ownership determines the competitiveness of a firm that enters international markets. The second advantage is the advantage of placing FDI, that is, the firm is able to use resources more efficiently abroad than in the home market, due to local factors of production, better infrastructure, etc. (L-advantage). More rational use of resources and advantageous location determine the direction of investment. Finally, the advantage of internationalization, which explains the choice of the firm to carry out foreign direct investment, rather than sell goods through export (I - advantage), that is, the firm chooses a way to implement FDI, avoiding transaction and transaction costs. It can be noted that Dunning's theory is in many respects similar to the theory of monopolistic advantages. Thus, an eclectic paradigm or OLI paradigm explains the behavior of an investing company: the more a firm has and uses the O-advantage over its competitors, the more incentives it has to enter foreign markets. The implementation of the L-advantage further involves TNCs in international production.

1.2. Foreign experience of using foreign direct investment in accelerating economic development.

Foreign direct investment (hereinafter - FDI) is an important component of successful economic development in a number of countries. The inflow of foreign capital in the form of direct investment contributes to the development of economic sectors, promotes the introduction of high technology, creates new jobs and increases the level of skills of the workforce. In the world practice, a number of mechanisms have been developed that contribute to the inflow of foreign capital. However, the uncontrolled arrival of foreign investment in the country can have not only positive, but also negative consequences.

In this regard, national governments develop and implement measures to attract foreign capital, including foreign direct investment, taking into account the characteristics and interests of a particular state.

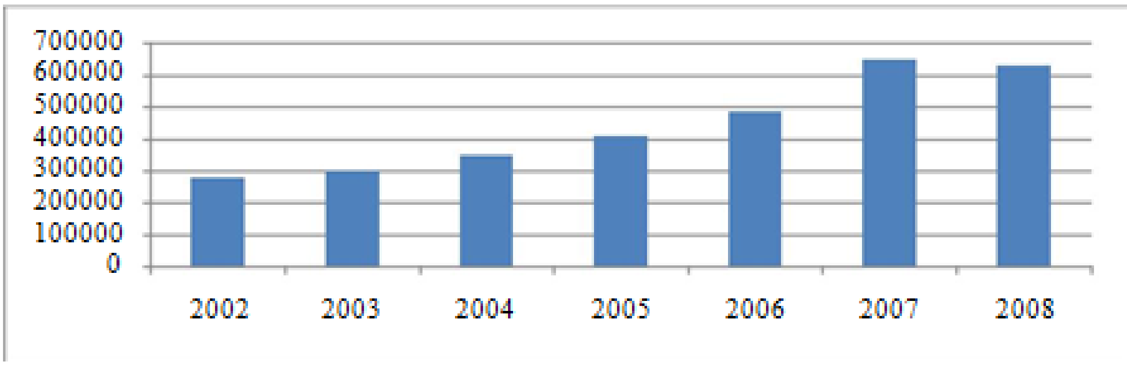
Among the features of foreign direct investment, it should be emphasized that FDI can have both direct and external effects on the domestic enterprises of the host country and the economy of the recipient as a whole. The appearance of foreign companies creates opportunities for borrowing technologies and organizational experience for local enterprises. Such an effect is known as a demonstration effect. Along with it, FDI also helps attract foreign specialists who previously worked in foreign companies. All this, together with increasing competition in the domestic market, can be referred to as horizontal effects from FDI. Vertical effects include the creation by foreign companies of incentives for domestic enterprises wishing to become suppliers of foreign companies, to carry out restructuring and modernization of production.

In Chapter 1.2, I will analyze the characteristics of Singaporean as well as Chinese FDI, as well as observe the push factors or factors of the country that affect FDI from Singapore to Thailand. However, a descriptive approach will be occupied with study and analysis to arrive at conclusions.

As this is widely agreed, the main reason for the rapid economic growth in Singapore is Inward Foreign Direct Investment. Between 1961 and 1990, Singapore accounted for 42.7 per cent of total FDI inflows to ASEAN. Moreover, in 1996, the World Trade Organization (WTO) ordered Singapore to enter one of the leading countries that received the highest degree of IFDI per capita.

However, it can not be said that IFDI has brought great benefits to Singapore. But in order to maintain economic growth and maintain the level of its growth in the future, only IFDI is not enough. Consequently, Singapore has begun to concentrate on FDI. More precisely, many Singaporean enterprises have operations abroad, where the cost of production is relatively low. Thus, since 1995 the volume of Singapore FDI has increased significantly.

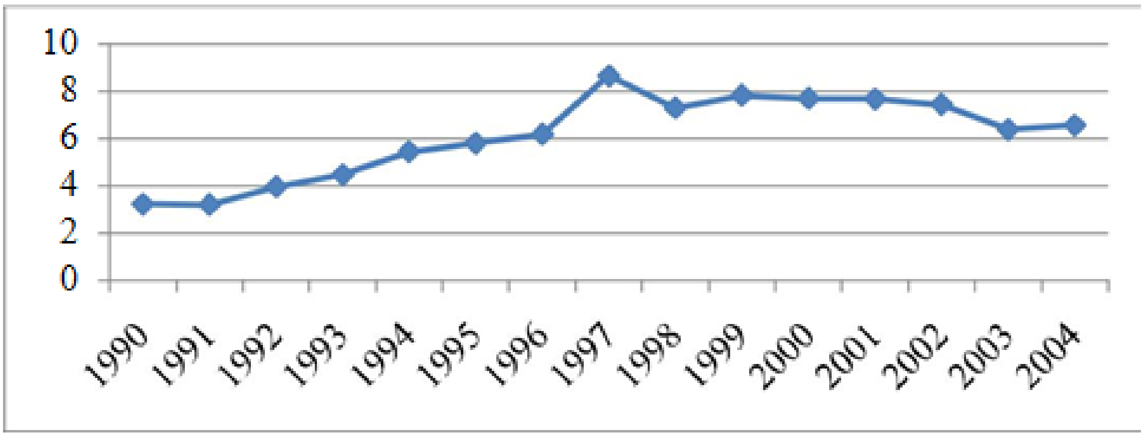
Figure 3.1: Singapore investment abroad (all sectors) in millions of US dollars for 2002-2008



Source: Singapore Investment Abroad, Singapore Department of Statistics

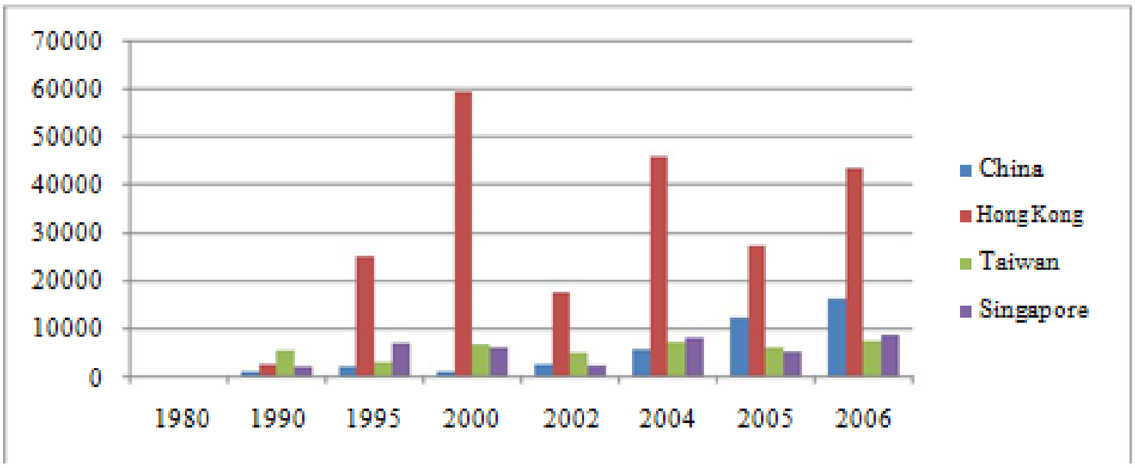
Since 1990, the share of Asian new industrialized countries entering the world average number of countries has been steadily increasing. Some of these have become vital sources of FDI. More precisely, it is clear that Hong Kong is the largest source of foreign direct investment in Asia, followed by the Taiwanese province of China, and Singapore takes the third place (UNTAD, 2007).

Figure 3.2: Proportion of recipient countries of Asian newly industrialized countries in world average FDI in percentage terms



Source: UNCTADSTAT

Figure 3.3: Direct investment abroad for Asia and selected Asia countries between the years 1980 and 2006 (millions US dollars)

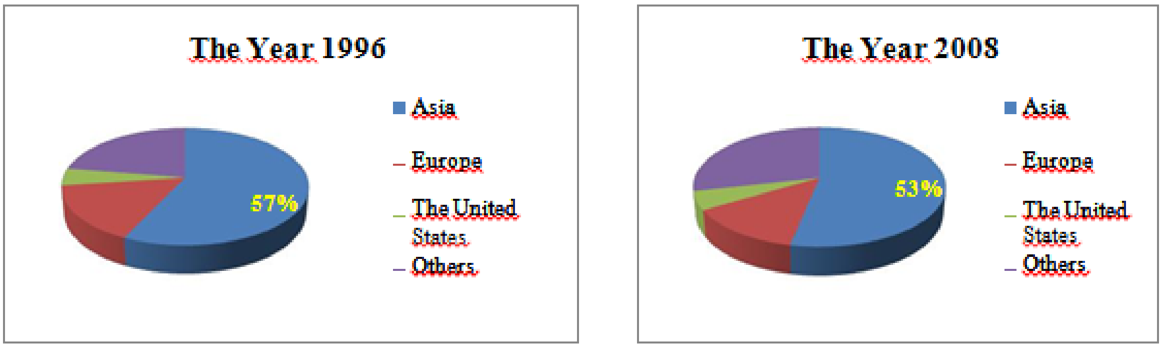


Source: UNCTAD 2007

However, when we focus on Singapore's FDI structure, we can see that Singapore's FDI always focuses on the Asian region. This 57 percent of Singapore's direct investment in 1996 was in Asia. Although in 2008 this indicator fell slightly, but still was high by 53 percent of total FDI in Singapore. However, the three ASEAN countries, which are Malaysia, Indonesia and Thailand, account for the bulk of Singapore's FDI, followed by China (Goldstein and Pananond).

In any case, there are some important aspects of Singapore's FDI, when they are compared to the main investor countries. This, first, the focus of Singapore's FDI in Asia is similar to FDI from Germany and the UK, which are focused on Europe. Secondly, concentration in Asia is very strong in the manufacturing sector of Singapore's foreign direct investment. This over 90 percent of Singapore's FDI in manufacturing was located in Asia in 2003 (Ellingsen, Likumahuwa and Nunnenkamp, 2006). Finally, developing countries, whose economies are less developed than Singapore, have more than 80 percent of the shares of Singapore FDI, compared to less than one-third in the case of the United States (Ellingsen, Likumahuwa and Nunnenkamp, 2006).

Figure 3.4. The total foreign direct investment of Singapore abroad, classified by region between 1996 and 2008



Sources: Singapore's Investment Abroad, Singapore Department of Statistics

The drivers of Singapore FDI

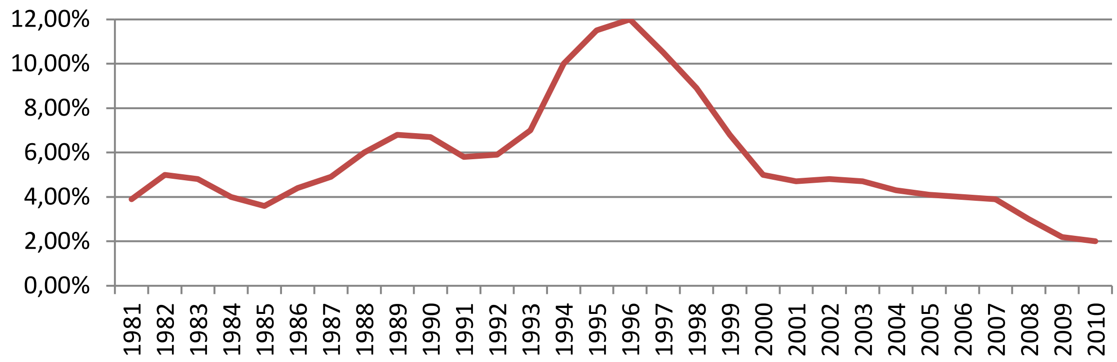
As you know, Singapore has ever been one of the dominant FDI in Asia, and it can use MNEs as an effective tool for boosting the country's economic development. However, Singapore subsequently turned into a country that is designated as an important source of FDI, especially in the Asia-Pacific region. The reasons for the transformation in the structure of FDI in Singapore are not embarrassing. To be precise, first, the problem of Singapore's limited domestic market, which leads to a lack of market growth. Consequently, many Singaporean investors are forced to expand their business overseas to find in accordance with their market motives. In addition, quickly

a change in Singapore's comparative advantage also forces investors to find their production abroad. This reason is caused by a revolution in the structure, as well as by industrial modernization, which is an essential factor in the prosperity of Singapore's economic development. To explain this more, the change in the Singaporean relations of the relative factor is the reason for the transformation into the industrial structure of Singapore. For example, in order to maintain competitiveness in labor-intensive industries, Singaporean investors must transfer their production to places where there is a lower cost of land and labor. Thus, it can not be argued that less developed countries with unequal comparative advantages are the solution for Singaporean investors in this case (Aggarwal and Agmon 1990, p. 167, Lecraw 1985, Sithathan 2002).

In addition, in order to ensure international competitiveness of the state, the Government of Singapore has played a vital role in supporting Singapore's FDI. That is, after the recession (in the mid-1980s), the Singapore government began to pay attention to FDI in the country. The International Direct Investment Program (IDI) was approved in 1988. Along with this program, a number of incentives were received for direct investors, such as the "foreign tax incentive", which allows firms to reduce their losses through taxes, as well as "tax incentives" that repatriated to Singapore for income of investors (Okposin, 1999). In addition, in 1993, the Overseas Enterprise Promotion Committee was established to propose measures to assist Singapore firms that travel abroad. Investment obstacles were recognized and various incentives were explored, as well as the possible catalytic role of the Singapore government (Tan, 1995).

In the developing economy, the impact of foreign direct investment is mixed. An example of the direct influence of foreign investment on economic development is the accumulation of capital. Figure 12 shows that FDI in China was an important element of investment in fixed assets since the beginning of economic reforms. In the early 1980s, foreign investment accounted for less than 5% of total investment in fixed assets. In the late 1980s and early 1990s, this share slightly increased, fluctuating about 6%. The share of FDI in the total volume of investments in fixed assets reached the highest level, more than 10%, in the mid-1990s, when the flow of FDI accelerated. But as a result of the Asian financial crisis, investment in fixed assets due to foreign sources began to decline. Despite the cost growth of foreign direct investment after gaining membership in the WTO, the share of FDI in the total volume of investments in fixed assets decreased to 2% in 2010.

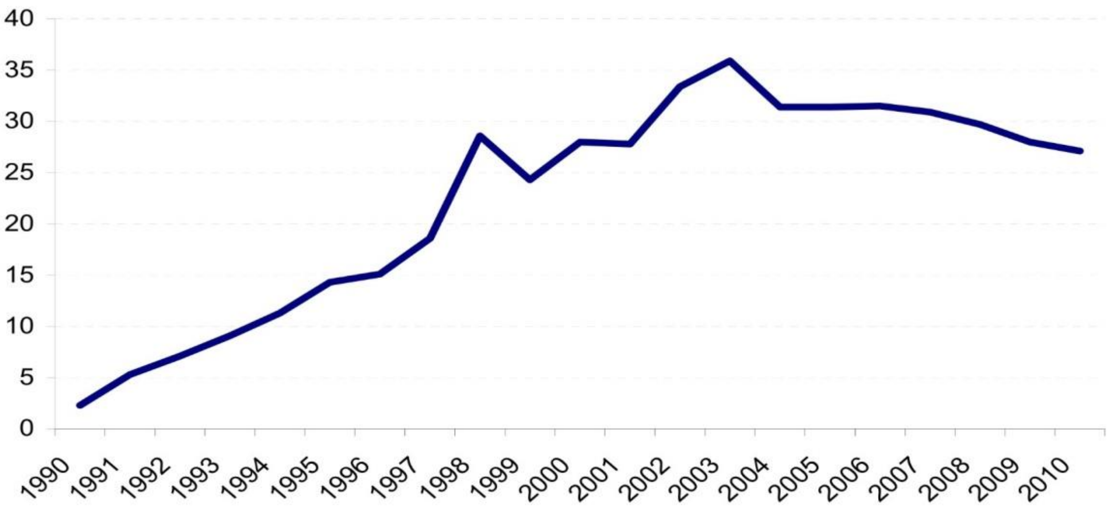
Figure 12. Share of FDI in total investment in fixed assets



Source: Invest in China

FDI accounts for a significant share of industrial production in China. This level rose from 2.3% in 1990 to 35.9% in 2003, but fell to 27.1% by 2010 (Figure 13). In addition, enterprises with foreign capital make a significant contribution to the volume of China's foreign trade. In 2011, enterprises with foreign capital formed 52.4% of Chinese exports and 49.6% of imports, although this level has declined since 2006, when the share of FDI in Chinese exports and imports reached 58.2% and 59.7%, respectively.

Figure 13. Contribution of enterprises with foreign capital in industrial production, in %



Source: Invest in China

With the growth of attracted FDI, competition in the domestic Chinese market is intensifying, the number of private companies operating on a market basis is increasing, which is the reason for improving their productivity. China has achieved high indicators of aggregate productivity of factors of production (total factor productivity, SFP). TFP is the volume of production per unit cost factor of production and is often associated with the consequences of scientific and technological progress and increased efficiency. China is experiencing a rapid increase in TFP due to the ability to access and use existing foreign technologies and know-how. Deputy Minister of Science and Technology of the People's Republic of China Cao Jianlin noted that over the past years, the number of patents granted in the country has significantly increased. In 2002, 15,600 certificates were issued. At the end of 2012, the number of issued patents increased to 217.1 thousand certificates. Exports of high-tech products in 1998 amounted to 12%, currently the third part of all exports account for high-tech goods. Since 2001, 80% of high-tech exports have been provided by companies with foreign investment. During the same period, the share of high-tech exports of foreign subsidiaries (excluding joint ventures with Chinese firms) increased from 55% to 67%.

With regard to employment levels, FDI creates opportunities for employment directly by creating companies with foreign capital. And in this case, there is a multiplier effect - the turnover is increasing at the adjacent enterprises, the suppliers of raw materials, components and services, respectively, there is a need for additional manpower. In 1979, the number of enterprises with foreign capital was about 100, their number increased to 280,000 by 1998, in March 2013 in China there were about 439,000 companies with foreign investment. According to the OECD report (2000), in 1991, 4.8 million people (0.74% of the total number of employed) worked at enterprises with foreign capital, in 1999 this number increased to 18.4 million (2.64% of the total employment), and by 2010 - 55.2 million people.

Nevertheless, there is another side to the coin. Foreign capital can also have a negative impact on the economy of the host country. Thus, urban employment in the field with FDI is particularly concentrated in the eastern provinces (85% of the total), particularly in Guangdong, Fujian, Jiangsu, Shandong, Liaoning and Zhejiang, and cities such as Shanghai, Beijing and Tianjin. While the central and western regions accounted for only 11% and 4% of total urban employment in China respectively. It is known that the geographical distribution of FDI in China is very uneven. FDI is mainly concentrated in the prosperous eastern coastal provinces and major metropolitan cities. This uneven regional distribution of FDI in China is the result of a number of factors, including FDI policies and regional differences in the investment environment. This suggests that FDI contributed to widening the income gap between the eastern and western regions of China (Table 3). The disposable income per capita urban population in the developed eastern regions is 2 times higher than in the western regions, and per capita rural population is 3-4 times more. GDP per capita in the developed eastern regions is 5-6 times higher than in the western regions.

Table 3

Disposable income per capita according to the administrative units of the PRC, 2011

	Provinces	incomes of the urban population, in yuan	rural incomes, yuan	ratio of urban incomes to rural incomes
1	Shanghai	31,83	13,74	2,3
2	Beijing	29,07	13,26	2,2
3	Zhejiang	27,35	11,30	2,4
4	Tianjin	24,29	11,80	2,1
5	Guangdong	23,89	7,89	3,0
6	Jiangsu	22,94	8,98	2,6
7	Fujian	21,71	7,42	2,9
8	Shandong	19,49	6,83	2,9
	mean value	**19,10**	**5,91**	**3,2**
9	Liaoning	17,71	6,90	2,6
10	Inner Mongolia	17,69	5,53	3,2
11	Chongqing	17,53	5,2	3,4
12	Guangxi	17,06	4,54	3,8
13	Hunan	16,56	5,62	2,9
14	Hebei	16,26	5,95	2,7
15	Yunnan	16,06	3,95	4,1
16	Hubei	16,05	5,83	2,8
17	Henan	15,9	5,5	2,9
18	Anhui	15,78	5,28	3,0

19	Shaanxi	15,69	4,10	3,8
20	Shanxi	15,64	4,73	3,3
21	Hainan	15,6	5,15	3,0
22	Jilin	15,57	5,95	2,6
23	Jiangxi	15,48	5,78	2,7
24	Sichuan	15,46	5,14	3,0
25	Ningxia	15,34	4,67	3,3
26	Tibet	14,98	4,13	3,6
27	Guizhou	14,18	3,4	4,2
28	Heilongjiang	13,85	6,21	2,2
29	Qinghai	13,85	4,64	3,0
30	Xinjiang	13,64	4,64	2,9
31	Gansu	13,06	3,30	3,9

Source: State Bureau of Statistics of China.

The increasing presence of foreign companies strengthens competition. Chinese enterprises do not have all the advantages of foreign firms, such as the availability of advanced technology, management experience, rapid access to credit, preferences provided by the Chinese government, etc. As a result, competitive pressure is growing, leading to the withdrawal of local companies from the market. A prejudicial policy towards foreign firms generates a number of social and economic problems, such as market distortions, welfare losses and regional income inconsistencies.

In the final analysis, the inflow of FDI gives rise to the dependence of further economic development on foreign capital. The global financial crisis showed the entire vulnerability of the position in which the Chinese economy is located. As a result of the crisis, China has faced many problems, which indicates the need for further steps on the path of structural reforms. The fact that one of the main engines of the growth of the Chinese economy is investment attractiveness, puts China in an external position.

So, the structural changes in China's economy were significantly affected by the state's commitment to "openness to the outside world," and great importance was attached to stimulating foreign economic operations. The need to expand external relations and orientate the national economy to openness is based, first of all, on the fact that the Chinese economy has long been isolated. In the process of economic reforms, China paid special attention to the promotion of foreign direct investment. Since the late 1970s, China has gradually opened its economy to foreign companies. As a result, today China is an important player in the international arena and the largest recipient of foreign direct investment. By pursuing a policy of openness, China has made great strides in maintaining a significant volume of FDI and a steady increase in the inflow of foreign capital.

Conclusions

This chapter attempts to monitor the Singaporean characteristics of FDI, as well as an analysis of the drivers of Singapore's direct investment in Thailand. The result shows that over the past few decades the structure of Singapore's FDI has changed, which means that FDI plays a much more important role than IFDI in the Singapore economy. It can be clearly seen that the volume of Singapore's FDI has steadily increased over time, and a large number of direct investments in the quality of its target have been received by Asian countries, including Thailand. However, from the point of view of the push factors or factors of the country, not only Singapore's small domestic market and Singapore's comparative advantage, but also the government's policy that supports Singapore investors for investment abroad, are important determinants of Singapore's direct investment in Thailand.

China is a key market for foreign multinational companies. In the process of removing barriers to entry into the domestic market and opening the economy to the outside world, China has expanded the permissible directions for investment and developed new forms of attracting and using FDI. Since the main foreign direct investment methods are the transnational acquisition of a company, the merger of two companies or the establishment of a subsidiary, the PRC government introduced three principally new enterprises for the Chinese economy, varying in the degree of participation of foreign capital in business. Such a facility provided foreign investors with the opportunity in various ways to make financial investments, creating mixed enterprises, joint ventures or enterprises on foreign capital. M & A activity plays a significant role in the rapid growth of China's economy in recent years. Although the level of M & A transactions in the mid-1990s was minimal, now this market is a priority in attracting foreign capital in China in recent years. Two factors played an important role in the rapid growth of mergers and acquisitions in China: economic reforms and China's accession to the WTO. Nevertheless, the government still has considerable weight in regulating mergers and acquisitions.

At the time of WTO accession, China was already one of the five largest recipients of foreign direct investment and ranked second (taking into account the Hong Kong Special Administrative Region). The positive result achieved was made possible thanks to a number of factors that make China attractive for foreign investment. These include the high rates of economic development, the relative stability of the political situation in the country, the comparative advantages of the Chinese economy (the availability of a capacious domestic market, cheap labor, unique types of minerals), as well as the skillful policy of the Chinese authorities to attract Chinese investment, neoclassical liberal recipes

Foreign capital played a significant role in shaping the service sector in China's economy. Attracting foreign investment, balancing the openness of services with state control, created favorable conditions for the growth of the sector's competitiveness and the quality of the services provided. With the onset of reforms and the "openness policy", China's service sector has developed rapidly. Rapid development of the tertiary sector of China's economy caused the increase in the number of employees involved in the service sector. The PRC government acknowledged that more efforts should be made to develop the services sector and significantly expand its presence in the national economy.

The main contribution to the tertiary sector of China is made by such services as wholesale and retail trade, transportation and storage. The basis for such rapid development of material services is the expansion of Chinese production and an increase in the volume of exports. In turn, services related to social and environmental development are left behind.

Becoming a member of the WTO, China has had the opportunity to achieve its goals for the liberalization of its economy. China substantially freed from control a wide range of services by eliminating many existing restrictions at all levels of government, opening access to the market. So, the greatest successes were made in attracting foreign direct investment in the sectors with the greatest growth potential: telecommunications, banking, insurance, transport and communications. As a rule, relatively inefficient state enterprises prevailed in these industries before. Foreign investors, including Hong Kong, Singapore, Taiwan, Japan and the United States for many years, have begun to show increasing interest in these industries, increasing investment inflows into the economy.

In China, there is a conglomeration of foreign direct investment in the East. Among the provinces of the Eastern region, Guangdong dominates in attracting foreign direct investment. The share of the Central region in the national volume of accumulated FDI consists mainly of three provinces: Henan, Hubei and Hunan. The western provinces are less developed, hence the inflow of FDI here is much less.

In the long term, by 2020, the transition to a dominated economy should be completed, which in practical terms means that the share of value-added services should constantly grow, employment in the services sector should be significantly increased, and competitiveness in the international market should be strengthened. China continues to develop the potential and improve the quality of services with high added value, such as information technology services and a number of other professional services. Barriers to market entry for foreign competitive companies still exist. Nevertheless, the services sector is currently being identified as the second most important engine of the country's economic development, which will ensure the solution of the most important tasks in China.

2. Directions to increase the effectiveness of foreign investment in the development of the economy of the republic.

2.1. Investigation of quantitative and qualitative trends of foreign direct investment in the economy of Azerbaijan.

Foreign direct investment represents one of the ways of international investment activity that reflects the sustainable influence of an economic entity of a country on the activities of enterprises of another country.

Obtaining a stable influence here means that long-term relationships are formed between the direct investor and the noted enterprises, and the direct investor plays an important role in the management of these enterprises. The mechanism for implementing direct investment can be different. For example, payment of membership fees by an investor to the authorized capital of enterprises in the country to which investments were made, issuing loans to the enterprise, buying an investor part of the company's shares, channeling the proceeds to the development of the enterprise, equipping the enterprise with one or another technique and technology, and others.

Attracting of foreign investments at country economy is one of the important composition parts of the strategy of economical development determined by Azerbaijan Government. For recent periods political stability and economical development in the country have increased interest of foreign states to long-terming investing in Azerbaijani economy.

So far important laws had been passed and a legal base was created in connection with protection of rights and interests of investors in republic, inviolability of property, creation of the similar conditions for business of local and foreign entrepreneurs, using the earned profit without obstacles. At present there are two laws regulating the investment activities in the Azerbaijan Republic: "The Law of Azerbaijan Republic on investment activity" approved by the President of the Azerbaijan Republic on Jan 13, 1995 , under No 952 and "The law of Azerbaijan

Republic on protection of foreign investments" approved by the President of the Azerbaijan Republic on Jan 15, 1992 , under No 57.

Moreover Azerbaijani Government had signed agreements with some foreign states on elimination of double taxation, promotion of and mutual protection of investments.

All restrictions related to converting of profit in foreign currencies, transferring to abroad, or reinvesting were liquidated, the combined rate of exchange has formed on the basis of principles of market economy. These actions had further increased the interest of the international financial institutions, foreign investors and economical organizations in Azerbaijan.

At present actions are carried out in connection with continuing of the economical reforms in the country, improving further the business environment, developing of non-oil sector along with oil sector. To attract investments in to economy of Azerbaijan Republic the policy of "open gates" is implemented here by government.

The process of integration of Azerbaijan to the world economy has received intensive character within last years. During 1995-2011th years more than 60% , i.e. about 63 billion from 119 billion of investment directed in the economy of the country was foreign investments. If the volume of the foreign investments in the 1995-2002th years has been 9 billion dollars, this figure has been increased by 6 times in 2003-2011 and reached 54 billion dollars.

But 25.5 billion dollars directed at economy of the country during 1995-2011 was of non-oil sector and of 37.5 billion dollars of oil sector.

Main branches attracting JV and foreign investment establishments, carring out activity in non-oil sector industry are construction, transport and trade.

Businessmen from Turkey have 27. 6% of share in the creation of full foreign investment and JV enterprises. This figure is 11.7 % on UK, 6.8% on Russia, 5,9% on the USA and 2,9% on Germany.

In Table. 1 shows the volume of direct investment in the economy of Azerbaijan for the period from 1995 to 2013. As can be seen from the table, during these years more than $ 53 billion was invested in the Azerbaijani economy. During the same period, the volume of foreign direct investment in the oil sector amounted to about 46 billion dollars. Thus, foreign direct investments directed to the oil sector accounted for about 87% of all direct foreign investments invested in the economy of Azerbaijan. The rest is accounted for by joint ventures and companies with foreign investment.

As can be seen from Fig. 1, during the analyzed period, the dynamics of the volume of foreign direct investments directed to the economy of Azerbaijan is generally positive. This is due to the fact that during these years the main oil and gas projects were implemented, including the construction of the Baku-Tbilisi-Ceyhan oil pipeline and the South Caucasus gas pipeline. The general tendency of the growth in the volume of investments directed to the non-oil sector is to a greater extent determined by the general trends in the development of the country's economy. In other words, investments invested in the oil sector, depending on the vastness of oil resources and a favorable investment environment, play a stimulating role in economic development in a certain period. Investments sent to joint ventures and enterprises with foreign investments operating in the non-oil sector are most closely connected with the results of economic development and invested in the services sector. In connection with the financial crisis of 2008-2009, the volume of investments is decreasing.

Table. 1

Years	Oil sector	Joint ventures and enterprises with foreign capital	Total
2006	1966,3	45,6	2011,9
2007	2972,4	45,4	3017,8
2008	4088,1	104,2	4192,3
2009	3799,9	230,5	4030,4
2010	3422,3	368,4	3790,7
2011	4003,3	439,1	4442,4
2012	3350,7	494,1	3844,8
2013	2412,7	624,4	3037,1
2014	2955,3	659,6	3614,9
2015	3407,8	886	4293,8
2016	4287,8	1094,5	5382,3
2017	4935,2	1041	5976,2
Total	**45740,8**	**7349,3**	**53090,1**

Note: the table was compiled by the authors on the basis of data from the State Statistics Committee of the Republic of Azerbaijan.

Thus, the capital invested in the economy of the country by a large number of foreign companies operating in Azerbaijan, especially in the oil sector, can be considered direct investments.

Since in Azerbaijan most of the investments invested in the economy are related to the oil industry, the list of countries investing here is also headed by countries that own transnational corporations known in this economic sphere.

In Great Britain and the USA, which are the main countries making direct investments in the oil industry, there are corporations that play a major role both in the Azerbaijan International Operating Company (AIOC) and the Baku-Tbilisi-Ceyhan Company (BTC Co) and in the South Caucasus Gas Pipeline Company (SCP Co).

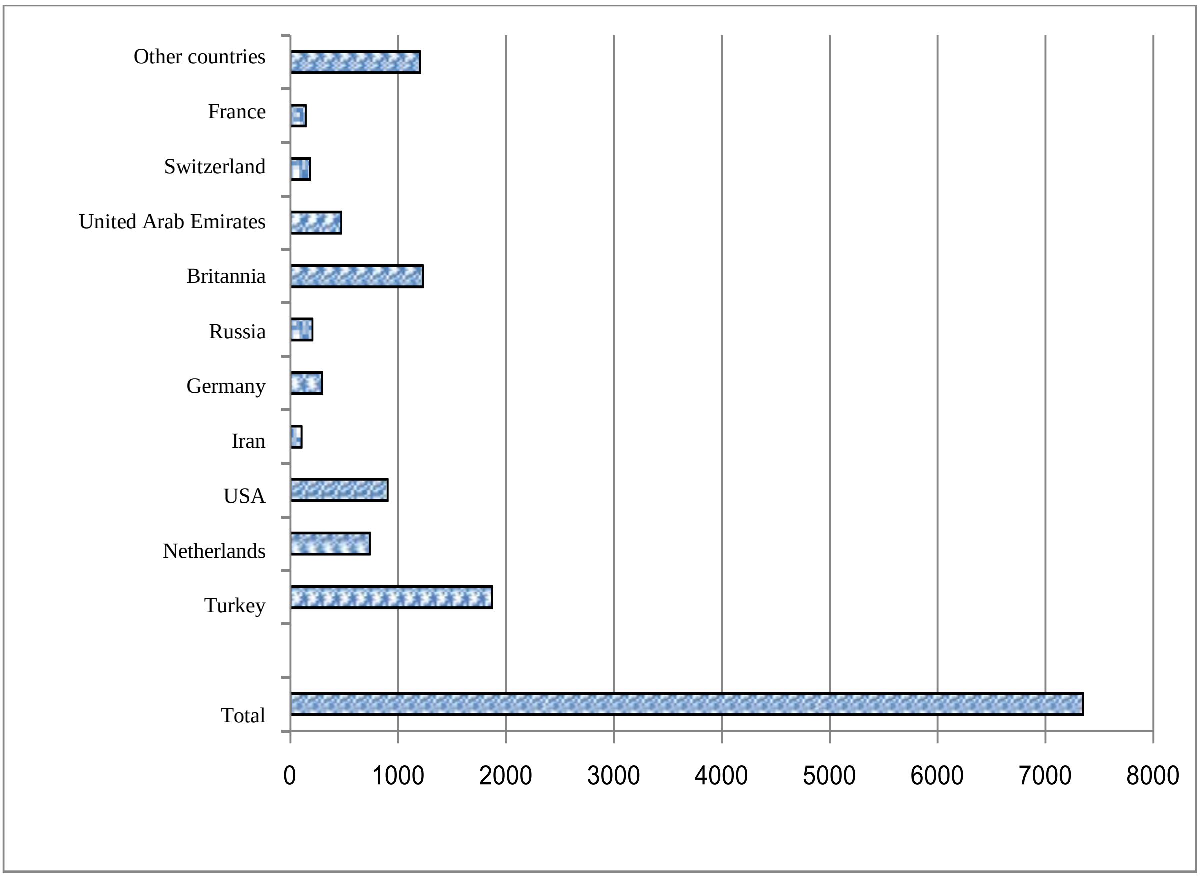


Fig. 5. Rating of countries for joint ventures and enterprises with foreign investments in Azerbaijan (million US dollars)

Great Britain had a high share (48.7%) among foreign countries and international organizations for investment in 2010. The volume of investments directed by British residents to fixed assets in Azerbaijan amounted to 800.9 million manat or about 1 billion dollars. The share of Great Britain in the volume of foreign investments received in the Azerbaijani economy by joint ventures and enterprises with foreign investments for the period 1995-2013 was 16 , 7%. For comparison, let's say that Turkey's share was 25.5%, and the US share was 12.3%. According to the total volume of foreign investments received in Azerbaijan, the first five of the main foreign investors of the Azerbaijani economy, along with the UK, are residents of the United States, Japan, Turkey and Norway. Investments of investors representing these four countries accounted for 81.5% of all investments in the Azerbaijani economy. The top five for joint ventures and enterprises with foreign investments are also the Netherlands.

As can be seen from Fig. 5, Turkey and the United Kingdom have a major share in the volume of foreign investments attracted to the Azerbaijani economy by joint ventures and enterprises with foreign investments. However, despite this, such foreign investments constitute only a small part of all foreign investments. During the period from 1995 to 2013, foreign investments in Azerbaijan totaled $ 81.1 billion, and only 9% of them came from joint ventures and enterprises with foreign investments.

The system of "One window"

The President of the Republic of Azerbaijan signed the Decree "On measures to ensure the organization of a" single window "in the activities of business entities" on October 25, 2007 with the aim of taking the necessary measures to accelerate the development of entrepreneurship in the country, enhancing the benevolence of the business environment and simplifying the procedure for starting business in the country. According to the Decree, the Ministry of Taxes of the Republic of Azerbaijan was the only registration authority on the principle of "one window", and this system began to work since January 1, 2008. The business start-up procedures were reduced from 15 after the application of the "One-stop" system in Azerbaijan and the time spent on it, and decreased from 30 days to 3 days.

Entrepreneurs can exchange documents with tax authorities and banks using the Internet Tax Department (www.e-taxes.gov.az). In addition, there were not created 195 telephone information services to answer questions of entrepreneurs, their adoption and prompt consideration.

All legal entities involved in commercial activities must register with the Ministry of Taxes in accordance with the Single Window system.

In order to improve the business environment in the Republic of Azerbaijan, increasing government care in this area, some organizations work for these purposes:

Azerbaijan Investment Company

The Azerbaijan Investment Company was established in 2006 to regulate state policy in supporting the development of business from one center to ensuring the investment attractiveness of the republic. The main duty of the company is to provide support for investments in the country. The investment objective is to invest in long-term investment.

AZPROMO - The Azerbaijan Investment and Investment Fund was established in 2003 to develop local production and export potential of the country. The Fund carries out important work in the field of investors, local producers and the government. AZPROMO helps foreign investors in the field of investment projects, struggles with local bureaucracy and simplifies their arrival in Azerbaijan. Local institutions use the results of surveys of the foreign market and consulting services AZPROMO.

Advantages of Azerbaijan for foreign investors:

1. Favorable condition for foreign investment:

The highest rate of foreign direct investment per capita in the region.

- Legal guarantees for investors.

2. Development of a fast and open economy:

- Annual GDP growth of 26.4%

- Annual growth of 19.8% of foreign trade turnover.

- Average import. Degree of economy: 5. 7%

3. Broad opportunities in the non-oil sector:

- High growth over the last five years in the most economical activity: industry - 7.5 times, construction - 3.8 times, trade - 3.5 times, transport and communication - 2.9 times, social services - in 2.8 times, agriculture - 2.1 times.

- Tax incentives for agricultural producers

4. Natural reserves: minerals and fertile soil:

5. Appropriate strategic position:

- Direct access to the Central Asian and Caspian regions.

- Participation in international trade initiatives (Silk Road, North-South Corridor)

- Expansion of the European factor and joining the policy of the New Quarter.

1. Competitive local workforce

Rapid socio-economic development of Azerbaijan, measures aimed at improving the business environment in the country, etc. Achievements are always highly appreciated by authoritative international organizations.

In the Doing Business 2012 report of the World Bank and the International Finance Corporation, Azerbaijan ranked 66th among 183 countries. Azerbaijan, and also entered the leading group among the countries of the world in terms of parameters to start a business, simplicity of property registration. The country was on the same line with the developed countries in the areas of obtaining loans, carrying out work and in some other areas.

According to the Doing Business 2012 report, the best indicator in Azerbaijan is property registration. So, according to the prepared report among 183 countries, Azerbaijan is on the 9th place according to 10 different parameters due to registration of real estate. At the same time, Azerbaijan requires 4 procedures for the transfer of property, which takes 11 days at a cost of 0.2 percent of the value of the property. This is one of the best indicators in the region. For comparison, in Eastern Europe and Central Asia, where Azerbaijan is connected, the average figure for the transfer of property is 37, in neighboring Turkey - 44 days, in Russia - 45 days, in Bulgaria - 66 days, in Romania - 70 days, in Iran - 163 days, in Ukraine - 166 days.

According to the rating, starting business, Azerbaijan ranks 18th among 183 countries. To start a business requires 6 procedures. The number of days is 8, the expenses required to start a business amount to 2.7% of the average per capita capital. Minimal capital is not required. This indicator of Azerbaijan is better in comparison with the countries of Central and Eastern Europe. Because it takes 11 days to start a business in these countries. In addition, this is less than the number of procedures required to start business in Azerbaijan compared to countries.

The state of the Azerbaijani economy was estimated by international rating agencies. Thus, the rating agency Standard & Poor's raised the long-term sovereign loan of Azerbaijan in foreign and national currency in December 2011 to the level of "BBB", and therefore the investment rating was granted to Azerbaijan. The agency also upgraded the short-term sovereign credit rating of Azerbaijan to "A-3" level in foreign and local currency from "B" level one step. At the same time, Fitch Ratings has retained the long-term sovereign investment rating of Azerbaijan with a "positive" outlook in local and foreign currency at "BBB-". But Moody's changed the outlook of the sovereign rating at the level of Ba1 from stable to positive for Azerbaijan.

All this once again shows that Azerbaijan is always in the center of attention of the world's leading investors as a developed country.

3.2. The main directions of perfection of a state policy of attraction of direct foreign investments.

Programs have been implemented in Azerbaijan to achieve both macroeconomic and sectoral targets. As a result, Azerbaijan ranked 63th among 189 countries in the Doing Business report prepared by the World Bank in 2016. Azerbaijan ranked among the world's top 40 in terms of 5 out of 10 reflected in the report. The main factor of economic development in 2004-2014 was the attraction of foreign investments into the oil and gas sector and the direct and indirect participation of the state. The new economic approach requires further improvement of the business environment in order to stimulate the private sector's investment in non-oil economy. From this point of view, economic reforms will focus on further improving the business environment, ongoing policy of encouragement and institutional reform. By supporting macroeconomic stability and infrastructure development, it will continue to contribute to the improvement of the state of the business environment. This Strategic Road Map reflects conceptual issues covering eleven sectors of business environment. A more detailed action plan is provided on the Strategic Road Map for each sector.

The most important issues are the development of entrepreneurship in the country, improvement of state regulation in increasing its competitiveness, the formation of attractive business and investment environment and the increasing availability of advanced international experience, the existence of a progressive regulatory and legal basis in this area. In order to achieve these goals, the government has consistently taken measures to develop state-entrepreneurial relations, eliminate illicit interventions and artificial barriers to entrepreneurial activities, expand competitiveness and export opportunities, form government support and incentives for entrepreneurs, and provide comprehensive e-government services was carried out. The Commission has been set up to ensure the sustainability of rapid development gained in the field of entrepreneurship over recent years and to strengthen competitiveness, as well as to further improve the position of Azerbaijan in international ratings.

Within this priority, the Azerbaijani state will strengthen the institutional bases of business environment. In particular, the development of free competition mechanism, reduction of the role of human factor in state-business relations, efficiency, accountability and transparency increase will be taken as the main direction. Another role of the state is to conclude free trade agreements to ensure access to foreign markets, to ensure technical regulation and formulation of the national standardization system in line with international requirements. Also, the state will continue to work towards increasing the mutual trust and transparency between taxpayers and taxpayers and improving the business environment through optimal tax burden.

Measures to be taken

Measure 4.1.1: Developing a Free Competition Environment

In order to provide a favorable business environment that supports the development of the private sector, significant reforms have been made in Azerbaijan that promote competition.

Solving the problem of determining the balance between the financial sector and the real sector is possible by further improving the competitive environment in Azerbaijan. Thus, it is possible to increase the competitiveness of local products and services only by stimulating the economy in complete competition conditions. Improved competitive environment requires sound and complete competition legislation, implementation of this legislation by an effective and self-employed competition body, and complying with competition principles as a whole, eliminating obstacles to competition development and implementing an economic monopoly. An initial investigation into the violations of the competition law and the adoption of decisions on the revealed offenses are two different directions of action because of their specialization. In this regard, in accordance with the experience of advanced foreign countries (USA, Austria, Latvia, Lithuania, Hungary, Czechia etc.), establishment of an independent competitive body in Azerbaijan will be considered and the Competition Code will be adopted in accordance with international practice.

Measure 4.1.2: Promoting Effective Taxation System

Compliance with advanced international standards and most of the tax services applied in leading countries of the world. Therefore, reforms are underway to promote the development of the private sector and the formalization of entrepreneurial entities, with careful, accurate tax rates, effective and fair tax and enforcement.

Since the tax system and its management are an important part of a favorable business environment, reforms that facilitate the implementation of tax payments by entrepreneurship entities in Azerbaijan have been made. Reforms will be continued in the area of tax system and administration to enhance transparency, strengthen mutual trust between taxpayers and tax authorities, and identify tax potential for sustainable economic development. In order to move forward in this direction, the tax burden on companies in other countries and the tax rate for all operations will be assessed, taking into account taxes. Potential reforms will be analyzed and evaluated in order to predict the financial obligation of business entities to clearly define and predict the country's tax liabilities. In the framework of these reforms, initiatives to reduce taxation costs will be considered to promote the formal registration of entrepreneurship entities and to expand the tax base. Along with the ongoing reforms, the impact of tax regulations on the stimulation of economic activity, promotion of priority sectors and attracting foreign investment will be continuously evaluated. In order to ensure the effective implementation of reforms, the role of other factors, such as tax administration, will be analyzed and will be considered in the appropriate manner during the process. Investment opportunities will be analyzed by stimulating companies contributing to economic growth and job creation through government programs, and investing in areas that support economic development.

Measure 4.1.3: Increasing the flexibility and efficiency of public services

The development of a favorable business environment will continue to improve e-government services by expanding the use of modern technologies and simplifying their use. State e-payment, e-tax, e-intellectual management, etc. expanding the organization of electronic services, and promoting the development of digital economy, and thus improving public administration will increase the overall economic effectiveness.

The scope of ASAN service centers, known as the brand of Azerbaijan in the world and rendering state services based on a single space principle, will be expanded. In general, the integration of information systems of state bodies will ensure flexibility, efficiency and transparency of e-services so that entrepreneurship entities will retain their resources, improve mutual relations at local and international levels, expand access to markets and resources, and streamline investment flows to the country. Regularly, the measurement of the consumer satisfaction index will ensure the further improvement of the quality of public services and the continuous improvement of the business environment.

Because of the high public procurement in Azerbaijan, improving the procurement procedures for products and services, including the speed and efficiency of the public procurement process. Additionally, using a large amount of public procurement, the establishment of certain norms on public tenders will provide additional support to local companies or small and medium-sized businesses in the country.

The timely and efficient implementation of measures to further develop the public-private partnership and improve the business environment will be ensured in

Azerbaijan, and private investment in the development of infrastructure will contribute to the development of business.

Measure 4.1.4: Conclusion of Free Trade Agreements

In order to benefit from the economic benefits derived from free trade agreements, Azerbaijan is constantly concluding favorable trade agreements.

Afterwards, export activities will be stimulated by closing bilateral and multilateral trade agreements, and the business environment will be improved by increasing the trade margin. The created transport and logistics infrastructure will be further developed to strengthen the country's foreign trade, as well as improvements in trade logistics to further improve the country's position in the World Bank's Logistics Achievement Index.

Prepared new free trade agreements will be based on assessments on market analysis and strengthening positions in the value chain. In addition to the traditional CIS markets, activities will be continued to enter the markets of the European Union, the Gulf countries, and China on a more favorable trade regime to increase non-oil exports. Government-supported feasibility studies and risk analysis of logistics centers in the export markets will be conducted and the real value that these projects can give to the country's export will be forecasted.

Electronic commerce will be encouraged to provide access to foreign markets for local products and services by ensuring the development of infrastructure and legal basis of e-commerce, which is part of the global information society, which is part of the global information society.

The possible economic, social and political consequences of the conclusion of trade agreements and participation in international contracts will be analyzed. It is also important to evaluate the potential impacts of various sectors while taking into account the bilateral agreement with Turkey and Iran. It is important to take precautionary measures in this direction, including the performance of risk mitigation efforts and the establishment of special arrangements in the event of a contract.

Measure 4.1.5: Formation of technical regulation and national standardization system in line with international requirements and applying them in support of business environment

Most products, including food products, are compulsory certified by the standards in the country. According to the current legislation, the central executive authority responsible for the management and regulation of the national standardization system is the State Committee for Standardization, Metrology and Patents (SCPDC). In addition to the Committee, other relevant government agencies also carry out the preparation of standards, certification, monitoring and evaluating the conformity of products to the standards and safety requirements of the market.

Azerbaijan's national standardization system has many different features compared to the national standardized systems existing in developed countries and formed on the basis of the requirements of the World Trade Organization (WTO). Some CIS countries, including the Russian Federation, Kazakhstan, Ukraine and Georgia, harmonize WTO requirements and existing EU standardization systems with international requirements to eliminate such differences and facilitate free movement of products produced in international trade.

It is expedient to take a series of measures to ensure the free circulation of Azerbaijani products in international trade and simplify the import-export operations. These activities cover the processes beginning from the formation of the legal framework until the adoption of a relevant action plan to bring national standards to international and European standards. By adopting a technical regulation, voluntary adjustment of state control over the products to safety requirements and voluntary compliance with quality requirements, removal of food control from the technical regulation and standardization system, and the risk level of products certification will be resolved. In addition, the adoption of the new standardization law, which regulates quality issues, will fully align the system's legal framework to international requirements. All existing standards will gradually be voluntary, and new technical regulations will be adopted instead. As a model, the EU's current directives can be removed and adopted as a national technical regulation. In order to meet the essential requirements of these directives, the European Union has reference standards adopted in accordance with relevant international standards. Once the technical regulations have been adopted, those international standards will be adopted as national standards. At the same time, those that meet international standards from existing standards will remain in effect as reference standards, and those that are incompatible or old will be canceled. These measures will be based on a gradual transition principle. Thus, the existing standards will remain in force until the new technical regulations and their reference standards have been adopted and will gradually be annulled as each new technical regulation and its reference standard are adopted.

While implementing these reforms at the institutional level, a number of crucial criteria will be taken into account: ensuring the balance between the product security and the formation of a liberal business environment; restriction of regulatory measures to ensure product safety and standardization that contributes to quality enhancement as an activity that contributes to increasing product competitiveness; the management system's principles of market economy, as well as transparency, non-discrimination, and liberalism; rationalization of public administration costs; Ensure the minimum intervention necessary for entrepreneurial activity; substitution of state control over the production to the market by state control and production control to the body of conformity assessment; ensuring more active participation of the private sector in the national standardization system; minimizing the costs of the private sector for the implementation of regulatory documents and simplifying procedures.

Priority 4.2. Strengthening business continuity through promoting environmental environments

Justification

At present, competitiveness in attracting investments at global and regional levels is strengthened and business promotion mechanisms are improved. Reforms in this area will be accelerated and the country will be more favorable in attracting investments at the regional level. Thus, by attracting more investment, the tension in the balance of payments will be eliminated, and the gradually optimized public investment will be replaced by private investments and sustainable economic development will be ensured. In particular, the attraction of foreign investments will create a basis for Azerbaijan's deeper involvement in the value chain on a global and regional scale. At the same time, necessary incentive mechanisms will be developed to invest in the domestic capacity. It is of particular importance to reflect the business promotion environment in international ratings in Azerbaijan.

Measures to be taken

Measure 4.2.1: Accelerate existing reforms to improve business organization and improve positions in international rankings

One of the most important areas for attracting investment is to have an advanced, predictable and stable business environment. Among the factors shaping the country's investment image, the most important is the position of the country at international ratings. These ratings have indicators for many factors (macroeconomic stability, investment climate, judicial system, etc.) that are important to investors, and just by looking at those ratings, the investor can shape the country.

In order to improve the positions of Azerbaijan in international ratings, the following activities will be continued:

1) improvement of the legislation based on advanced international experience;

2) Ensure execution of the adopted decisions;

3) Informing local and foreign public through the strengthening of communication of economic reforms.

A key indicator of the ease of business is the Doing Business report based on the rules and norms that assist the private sector, assessed annually by the World Bank Group. According to this report, the organization of business in Azerbaijan has facilitated over the past years. Thus, a number of reforms and improvements, including the introduction of a "window" system for the start of entrepreneurship subjects, elimination of demand for seals in companies, development of electronic system for tax and social insurance payments, signed by the President of the country in 2007-2014 and other relevant reform measures, Azerbaijan has risen to 63rd place among 189 countries in 2016 (picture 37).

CONCLUSION

As a result of my research, in my graduation work on the topic The problems of increasing impact of foreign direct investment on economic growth allow us to draw a number of conclusions and final clauses.

1) in the context of globalization and integration of the world economy, the flow of financial resources is increasing, and the problem of their rational use arises. Foreign direct investment is not just a flow of money-capital, but it is the flow of a new technology of technology and management. Therefore, those countries that achieve the greatest results in attracting foreign direct investment, i.e. they are not in a direct monetary sense, but in the form of modern equipment technology management experience, those countries are making the most progress in the economic development of the country.

These conclusions allowed to formulate the main factors of the influence of foreign direct investment on the processes of formation and development of the regional innovation system (RIS). It seems to us that the starting point in the formation of RIS should be an "effective absorption mechanism of borrowing" of foreign advanced technologies that have proven effective in the world market. And only after its creation and as the RIS is filled with new borrowed technologies, there is a parallel influx of knowledge and skills among specialists of local enterprises that will form the basis for the emergence and formation of innovative activity and incentives for creating innovations. At today's qualification level, it is impossible to create truly innovative products that are truly competitive in the world market.

2) In studying the practices of developing countries, especially such as Vietnam, China, Singapore and some Eastern European countries that are part of the EU, show that they have created the most favorable conditions for attracting foreign investment, they have achieved high rates of development and increase of GDP and living standards of the population countries.

In today's economic literature, the limitations of state policy on FDI are increasingly being criticized, in particular, the fact that traditional forms of attracting foreign investment through the provision of tariff and fiscal benefits have already exhausted themselves and have lost their effectiveness, and the practice of forming free economic zones in the regions did not justify the hopes placed on them as an effective mechanism for attracting FDI. In other words, FDI did not acquire a state level of support as the most important factor in the innovative development of the domestic economy. At the same time, as evidence of the current practice of attracting FDI, the regions of their movement are oriented to the sectors of the domestic economy with highly developed intellectual capital in the regions. Therefore, the transfer of technology, like the omission of the legislator, is an increasingly important place among the tools for attracting FDI. Thus, the imperfection of the institution of legislation may entail inadequate mechanisms and tools for attracting FDI, which, in turn, threatens to attract "inadequate" FDI in terms of its institutional characteristics.

In Azerbaijan foreign investments, unfortunately, the main images are attracted to the oil sector more than 70%. But now the leadership of the Republic creates favorable conditions for attracting foreign investments outside the oil sector.

Measures taken by the Government of the Republic of Azerbaijan are described in the Strategic road maps for the national economy and main economic sectors.

1. The main part of foreign investments attracted to the economy of Azerbaijan consists of financial loans and direct investments.

2. The bulk of the attracted investments was invested in the oil sector, and after 2008 the bulk of all investments, especially domestic investments, were invested in the non-oil sector.

3. Turkey and the United Kingdom have a major share in the volume of foreign investment in joint ventures and enterprises with foreign investments attracted to the economy of Azerbaijan.

As a result, the role and the importance of direct foreign investments in the form of borrowing or transfer of technologies as the tool of forming the technological base for the development of the innovative component of the domestic economy, which is the most adequate to the current level of development of the domestic economy, is substantiated in the thesis.

Based on the theoretical analysis, we can conclude that the modern features of the process of foreign direct investment are that they bring to the economy of the region innovative technologies and forms of organization of production and business that provides a fundamentally different and more significant socioeconomic effect in comparison with opportunities of domestic business.

The process of institutionalization of FDI involves the formation and adaptation of a number of factors that are constituent elements of the objective advantages of the regions when forming their investment attractiveness for FDI. To such factors it is necessary to attribute, first of all, the factors of specific advantages from owning property to foreign investors in the region in comparison with less pronounced advantages, provided they are in other regions of Azerbaijan. To this group of factors it is necessary to attribute also natural factors connected with the developed natural and raw materials available in the region, which also provides advantages to the foreign investor in comparison with other regions.

The interdependence and interdependence of the categories of FDI and the transfer of technologies with seemingly all their evidence, however, are by no means always relatively easily identifiable. At the same time, these processes, as analysts testify, are particularly evident in the most advanced and innovative-oriented industries, which include the branches of chemistry, petrochemistry and oil refining.

In the development of the theory of investments and their types, additional classification characteristics of foreign direct investment - the owner's motives, internationalization and placement - and their content characteristics in regions with developing market infrastructure and formed investment climate are substantiated in the dissertation. Thus, the dominant classification features of modern FDI are not the goals of creating transnational corporations, but the motives of the owner, internationalization and placement.

Therefore, the authorities' policy on FDI in regions with developing market infrastructure and the investment climate being formed should be based on a combination of FDI and outsourcing, which involves splitting production by opening a branch in a developing country (FDI), or by transferring part of the company's business based on the territory of the recipient country (outsourcing).

It is necessary to ensure the formation of an absorption policy or the ability of the state and industrial policy to recognize the value for it of a particular new technology, its adaptation to the conditions of the recipient country; openness to foreign trade and tariff policy that protects developing high-tech industries, preferential tariffs for the import of equipment that is supplied as part of a technology transfer; direct state support for imitations and innovations, consisting in direct government funding of research organizations, the formation of tax incentives for them and the credit system.

Based on the analysis of a number of theoretical and methodological provisions, it is possible to formulate the most important principles of the policy of attracting FDI in the regions:

- priority support for regional socio-economic interests, manifested in stimulating and motivating foreign direct investment in the expressed specific sectors of regional economic, technological and resource specialization, which determines the relatively high level of its competitiveness;

- Institutional support of the multiplicative sectoral effect associated with attracting FDI in the budget-forming sectors of the regional economy, which will increase the stability of the socio-economic development of the territory on the basis of balanced economic growth, smoothing intra- and interregional differences, which is especially important in the context of reforming the system of local self-government and formation of their revenue base;

- development of a toolkit for synergistic development of FDI recipient industries, which will increase the efficiency of accumulation of regional revenues and increase the taxable base of the regional budget.

Thus, the aim of the policy of attracting FDI to the regions, in our opinion, is to ensure sustainable regional development by attracting FDI in the socially and economically most significant sectors of the region's economy, using the multiplier effect and synergy tools as the results of technology transfer, managerial innovations and innovative management in the economy of the region.

In regions like the Republic of Azerbaijan, our experience shows that the attracted FDI in the petrochemical industry is characterized by a fairly high level and efficiency of technology transfer, which is accompanied not only by the borrowing of foreign technologies, but also by managerial and organizational and economic innovations. The conclusion drawn by the author that "targeted" for Azerbaijan should not be resource-oriented FDI, but FDI of high organizational and technical level contradicts the logic of sustainable development of the region at this stage based on the mechanism of borrowing advanced technologies and their adaptation, imitation and distribution. FDI of high technological and organizational level is directed to regions with a high level of income per capita, to which Azerbaijan in relatively comparative characteristics does not apply yet. Therefore, for the transfer of FDI of high technological and organizational level, necessary institutional and infrastructure prerequisites have not yet been created in Azerbaijan and these technologies will not be in demand or fully implemented, which can only damage the investment climate of the republic and the external investor itself. This is the content of the absorption policy of the regions, as an ability to select, adapt, imitate and replicate investment projects adequate to the institutional and investment climate of the region.

Investigation of the processes of direct foreign investment in the thesis work was carried out on the basis of the branch petrochemical complex as the largest association of enterprises having a clearly expressed budget-forming and city-forming specificity and being the most high-tech enterprises. This makes it possible to identify them as the most attractive objects of foreign direct investment in the Republic of Azerbaijan. In this connection, the results of the analysis made it possible to form evaluation factors that influence the formation of the processes of direct foreign investment in the petrochemical complex of the region, to which were assigned:

- Assessment of the investment climate in the region;

- an estimation of a financial situation of the enterprises of a petrochemical complex of region;

assessment of the level of technological specialization of enterprises of the petrochemical complex of the region;

- an estimation of a level of development of an industrial infrastructure;

- assessment of the availability and quality of factors of production;

- Assessment of the level of environmental load on the territory of the region.

BIBLIOGRAPHY

1. Lyubomudrov A.V. Foreign direct investment in the economy of China / / Russian Foreign Economic Journal, 2010. № 2. http://finanal.ru/002/pryamye-inostrannye-investitsii-v-ekonomiku-kitaya
2. Manezhev S.A. Foreign capital in the economy of the PRC. M .: Nauka, 1990.
3. Mozias P.M. Foreign investment in China: on the threshold of a new stage // 32nd scientific conference "Society and the State in China". M .: Eastern Literature, 2002.
4. Banerjee A. FDI in China and its Economic Impact // World Review of Entrepreneurship, Management and Sustainable Development. 2006 Vol.2, No.1/2.
5. Buckley P.J. Foreign Direct Investment, China and the World Economy. N.Y.: Palgrave Macmillan, 2010.
6. Graham E., Wada E. Foreign Direct Investment in China: Effects on Growth and Economic Performance. London: Oxford University Press, 2001.
7. Rattiya Ratiphokhin Empirical Analysis of the Determinants of FDI in Thailand A Case Study of FDI from Singapore Södertörn University | Department of Economics 2011
8. GRAHAM, E.M. and KRUGMAN, P.R. (1995) Foreign Direct Investment in the United States, Institute for International Economics, Washington, D.C., January 1995

9. OECD (2002) Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs, Paris
10. Jensen J., Rutherford T., Tarr D. The Impact of Liberalizing Barriers to Foreign Direct Investment in Services: The Case of Russian Accession to the World Trade Organization // Economic School, 2007, May.
11. Lee J.-Y., Mansfield E. Intellectual Property Protection and U.S. Foreign Direct Investment // Review of Economic Studies. 1996. - Vol. 78. - № 2. - P.181-186.
12. Ozawa T. Foreign direct investment and economic development // Transnational Corporation. 1992. №1,1 (February).
13. Zeile W.J. Foreign Direct Investment in the United States: 1992 // Benchmark Survey Results. Survey of Current Business. 1994. - Vol. 74. -№. 7.-P. 154-186.
14. Komarov V.V. World economy. Foreign Direct Investments / V.V. Komarov, NI Litvina // FGBOU HPE «Russian State Agrarian Correspondence University». - Moscow: Publishing House of the State Educational Establishment of Higher Professional Education, RGAZU, 2012. - 246 p.
15. The main performance indicators of foreign and joint ventures for 2010 (Key performance indicators of foreign and joint ventures in 2010, Goskomstat of Azerbaijan, Baku, 2011, p. 565 (in Azeri).
16. Anderson, Dennis, (1990), "Investment and Economic Growth", World Development, vol. 18, pp. 1057-1079.
17. Ralph, Landau,(1990),"Capital Investment: Key to Competitiveness and Growth", The Brooking Review, vol.8, pp. 52-56.
18. Muhammad S. Anwer and R.K. Sampath Presented at Western Agricultural Economics Association Annual Meeting July 11-14, 1999 Fargo, ND Investment and Economic Growth.
19. Strategic road maps for the national economy and main economic sectors.

20. Damodar N. Gujarati and Dawn C. Porter, 2009. Basic Econometrics. 5th ed. McGraw-Hill.
21. David, L., 1972. International Encyclopedia of the Social Sciences. 2nd ed. University of Michigan: Macmillan Co.
22. Dunning, John H., 1988. Trade, Location of Economic Activity and the Multinational Enterprise: A search for an Eclectic Approach. London.
23. Imad, A. Moosa, 2002. Foreign Direct Investment: Theory, Evidence and Practice. 1st ed.: Palgrave.
24. John D Kendall, Park Donghyun and Randolph Tan, 1997. East Asian Economic Issues. 3rd ed. Singapore: World Scientific.
25. Sara, L. Gordon, 1995. The United States and Global Capital Shortages: the Problem and Possible Solutions. 1st ed.: an Imprint of Greenwood Publishing Group, Inc.
26. Steve Suranovic, 2010. International Trade: Theory and Policy. 1st ed.: Palgrave Macmillan.

List of electronic resources:

- State Statistical Committee of the Republic of Azerbaijan- https://www.stat.gov.az/
- Ministry of Economy of the Republic of Azerbaijan- www.economy.gov.az/
- The State Oil Fund of the Republic of Azerbaijan- www.oilfund.az/
- Azerbaijan State Customs Committee- customs.gov.az/
- Ministry of Taxes of the Republic of Azerbaijan- www.taxes.gov.az/modul.php?name=elaqe&lang=_rus
- Ministry of Foreign Affairs of the Republic of Azerbaijan- www.mfa.gov.az
- Ministry of Industry and Information of the PRC - http://www.miit.gov.cn

- Ministry of Science and Technology of China - http://www.most.gov.cn/
- Journal «Beijing Review» - http://www.bjreview.com/
- Portal about investments "InvestMarket"- http://www.investmarket.ru
- The World Bank - http://www.worldbank.org/
- FDI to China - http://www.fdi.gov.cn