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The Influence of Foreign
Direct Investment in the
Economic Growth of
Azerbaijan

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Introduction

At present, the Azerbaijani economy has a favorable environment for the wide range of transnational corporations around the world and foreign direct investment. External investments have focused more on fuel and energy, and the export potential of those areas has been of considerably greater weight and has a tendency to further increase this incidence. Under current conditions, Azerbaijan, like the economy of many countries in the world, has faced a sharp decline in oil prices in the world market and devaluation of the national currency on some other issues, some changes in budgetary funds, which requires a serious analysis of national economic growth factors. The above-mentioned situation increases the attention of the country's economy to the development of the non-oil sector and requires a substantial turnaround in the economy's acceleration of diversification. It should be borne in mind that nowadays national investments in both oil and non-oil sectors are very small, and attracting foreign investment is still in the spotlight. Because of the low level of international competitiveness of national capital and national entrepreneurship in the current state of our country's economy, it requires foreign investment. The Ministry of Economy and Industry of Azerbaijan has determined the total amount of investment required to increase the competitiveness of the country's economy. Experts estimate that in order to raise the country's economy to the level of developed countries, investment of \$ 20-22 billion (in the absence of restoration of the oil and gas sector and occupied 20% of the occupied territories) is required in the next 15 years. The high poverty level of the country's population, the shortage of income and other economic and legal factors has a negative impact on the volume of investments in the country. In recent years, many obstacles have been eliminated in relation to foreign investment, in particular, direct investment. First of all, laws and decisions on protection of foreign property in the country have been simplified, and some have been adapted to international standards. Among them, by specifying the

normative-legal acts, the authority of many national courts and administrative authorities to interfere with the legal aspects of foreign investment has been reduced to zero. Information on foreign investment in the economy of Azerbaijan and its leading fields has been expanded in all respects. During the period of economic reforms a complex scientific research work was carried out on the theoretical aspects of the economic and social efficiency of investments in the Republic of Azerbaijan, the role of investments in state regulation in the country, the role of investments in the establishment of economic balance in the country, and the substantial increase of domestic and foreign investments. The methodology of socio-economic efficiency of investments in the market economy is now a matter of debate in economic literature. In the opinion of the claimant, his dissertation will help fill this gap somewhat. Thus, taking into consideration the situation in the country and the local features of our country, it assesses and evaluates the economic effectiveness of foreign investments as an integral part of economic reforms as a whole.

I. Theoretical-methodological basis of foreign investment contribution in the market economy

1. The essence of investment and its role in economic development of the country

One of the reasons for the rapid development of the economy of our Republic can be considered as an effective placement of foreign investment and budget revenues into the country. Realization of investment investments requires a serious approach, being a complicated process. From this point of view, it was desirable to consider an investment concept as an economic category and to highlight its essence.

Investment (in Latin, the word "invest" means "Wear") means a long-term investment in objects of entrepreneurship or other types of activity, as well as material and intellectual resources, in order to achieve profit or revenue. Such resources and allowances are as follows:

- money, bank deposits, loans, stocks, shares and other securities;
- movable and immovable property (buildings, fixtures, equipment and other tangible assets);
- scientifically-experimental and other intellectual property, duly approved;
- rights to use land, water and other natural resources, buildings, installations, equipment and other property rights arising out of copyright;
- other resources.

Finance in terms of investment - all kinds of assets directed to economic activity in order to obtain profit - are funds. Investment from an economic point of view is the costs associated with the creation, expansion, reconstruction of key funds. Investments provide an increase in production resources and eventually the rate of economic growth. Investments are capital, with the help of which national wealth is increased. Investment

is invested in tomorrow and is essentially directed to human capital. The investment reflects the processes of long-term capital investments in manufacturing and non-production spheres of the economy. Under certain circumstances, investments can be grouped as follows:

- investment in expansion and modernization of production;
- investment in production infrastructure;
- investment in the creation of inventories;
- investments in the creation of social infrastructure;
- Investments in personnel preparation and retraining;
- science and scientific service.

The main functions that are invested by economic systems are to provide micro and macro levels of basic capital growth and quality improvement; supporting progressive structural changes; the implementation of the efficiency of production at different levels is based on scientific and technical achievements. Subjects of investment activity are diverse. This includes: investors, customers, business executives, users of investment activities, consignors, etc. Legal entities should be mentioned separately in this list. Legal entities include banks, insurance and intermediary organizations, investment funds. The dynamics of the investment market also implies its effectiveness. It is known that the investment flows to those enterprises that are more profitable than the recessionary enterprises when other conditions are equal. Therefore, it is essential to ensure that investment in production, which is risk-based and long-term, is favorable. For example, an environment should be created that the returns on investment from production are higher than alternative contributions (bank savings, jewelry, etc.).

Investors have equal rights to carry out investment activity in accordance with the principles of a free economy. The investor is known to be voluntary in determining the scope, direction and effectiveness of the investment. Thus, the investor may attract legal entities and individuals who are required to invest in the form of contract and

competition. Regardless of whether it is own funds or attracted funds, the investor is almost always using the right to claim the intended purpose. The following are the objects of investment activity:

- securities (stocks, bonds, etc.);
- fixed assets and circulation funds newly created and upgraded in all sectors of the economy;
- purposeful money savings;
- Scientific and technical products and other objects of property;
- right of property and intellectual property

In international practice, two main forms of investment are distinguished: direct and portfolio investments. Sometimes, direct investments, which are called real investments, involve direct investments in capital, industry, commerce, services and other industries. Portfolio (or finance) investments, as it is known, are investments in stocks, bonds and other securities. In an open economy, an important investment activity is a foreign investment that does not contradict the country's legislation. Foreign investment enhances its scientific potential by bringing advanced technologies to the national economy. The normal development of the economy of any state without investment is impossible. Macro level investment is a key to:

- implementing extensive reparation policy;
- structural reorganization of public production and proportional development of all spheres of public activity;
- Facilitating scientific and technological progress, improving the quality of the country's products and ensuring competitiveness;
- creation of necessary raw material base of industry;
- the development of civil construction, health, culture, higher and secondary education, as well as other social problems;
- solving partial or complete mitigation of unemployment problem;

- environmental Protection;
- the state's defense capacity and a number of other issues

We are always on the "road junction" between today's consumption and tomorrow's consumption. If we invest a lot of what we produce and invest, tomorrow we will be able to consume more. On the contrary, the more we use today, the smaller the chance of tomorrow's higher consumption level.

2. Mechanism of foreign investment activity regulation in the market economy and features of investment policy formation

Globalization and its initial results show that state and interregional governance of investment flows that will play an important role in the dynamic development of the global economic system in the 21st century will play an important role. Investment is an important structural subdivision, and it is not difficult to see that investment policies play a leading role in shaping the future prospects of the economy. Concentration of capital investments, mobilizing various funding sources, and focusing on more important and urgent regional problems are key elements of structural and investment policy.

In the modern world, the investment process is almost impossible without the involvement of transnational corporations. At present, one of the features of investment processes is that investments for production and commercial activities are not just investments, but also scientific and technical innovation achievements, and investments that perform non-waste technologies that are environmentally friendly. It is no coincidence that investment policy is based on the most important achievements of science and technology. Therefore, attracting investment is considered to be one of the most important directions of the overall state policy.

Economic security and prosperity of our country are largely related to the oil sector and the development of this sector provides great foreign investment. Large financial investments in the oil sector will be financed through extraction of rich hydrocarbon resources. Of course, this area is able to return more investments. However, the claim to invest in the investment of natural resources at the expense of natural resources does not always justify itself. Significant factors that hinder this include: gaps in the legal system that minimizes the credit risk in the investment market, the availability of funds, and so on. can be attributed. Investment policy is focused on investment security, which implies

that investments are not dependent on the processes taking place in the investment market and that revenue is stable. The minimization of the financial risks faced by the investment process requires a scientific justification and adequate provision for the investment policy.

In this case, as a transition element, strict adherence to all the items of financial discipline, the exclusion of "gentleman agreements" and so on can be attributed. Economic risk, as is known, is the price, inflation, demand and supply ratio and so on based on forecasts. The investment policy should provide a critical approach to the methodology and outcome of those predictions.

Political, economic and financial risk indicators have been named as socio-economic risks. The socio-economic risk is grouped as follows: Very high risk ranging from 0 to 50 points; the average high risk is 50 to 60 points; the moderate risk is 60 to 70 points; Low risk 70 - 85bal.

Despite the measures taken to increase the attention to the non - oil sector, Azerbaijan's investment policy remains the leading position of the energy complex (especially the oil and gas sector). The fuel and energy complex is more exposed to political influences. Therefore, the development of this complex is not only an important economic and political conceptual one.

At present the investment policy of our country should be directly related to the employment mechanism. Under the unwanted level of unemployment, especially among highly skilled oil workers and professionals, the relevant capabilities of foreign investment are not fully realized. Foreign investment attraction as an integral part of economic policy should intensify domestic potential. While the approach to the realization of this potential at different stages of market relations is different, there is also a general methodological approach. The main directions of economic policy in attracting foreign investment should depend on the necessity of solving the following urgent tasks:

- Creation of legal and organizational conditions for maintaining the stability of the tax regime for foreign investors;
- raising the country's reputation through reducing commercial risks;
- collection of functions of search and attracting of potential foreign investors in a single state body, etc.

The state's priority in investment policy is as follows:

- Deep processing of raw materials, the use of low waste and non-wasteful technologies;
- attraction of investments to increase the role of the country in the production of high-tech products and the development of modern infrastructures;
- Investing in complex development of service areas and so on.

These directions will be based on the effectiveness of reforms in the national economy, including on the basis of the country's investment policy and the level of support. The role of the state in investment policy in attracting foreign capital in the national economy should be based on the following main principles and trends:

- the use of more efficient forms of foreign investment attraction for a specific project;
- insurance and protection of foreign investments in the country;
- arrangement of collateral on foreign investments;
- delivery of inquiries about the conditions of investment to foreign investors, formation of the information bank on existing investment projects;
- Creation of international consortiums, voucher funds and leasing companies to attract foreign investments;
- development of investment cooperation with international financial institutions and organizations;

- Creating favorable conditions ensuring security and unimpeded return of capital moved from the country;
- Development of the state program on creation of free economic zones in the country in order to increase export;
- liberalization of norms and rules of foreign investors' foreign exchange operations in the future;
- development of regional investment programs and investment projects to strengthen the inflow of foreign investment to the regions;
- expanding cooperation with foreign banks, conveying information about the republic's banking system, investment projects to the international banking community, and trying to open credit lines

Investment portfolio management is an important element of the investment policy of banks. At the same time, the policy covers the aspects of ensuring the optimal ratio of direct and portfolio investments, profitability, risk and liquidity ratios. The investment policy of banks is important both in terms of macro and microeconomics in the current period in which their role in the management of the economy is observed. Strengthening the flow of foreign investment in the national economy and creating favorable conditions for their international compliance are one of the main directions of the country's economic policy and should be in the focus of attention as a strategically important one.

One of the key elements of the investment policy is to intensify the development of science-intensive industries, in other words, to support innovation. The effectiveness of the investment policy depends directly on the objectives of the counterparty, i.e. those of the foreign direct investment institutions. Investment policy, of course, can't be abandoned to the norm of harvesting.

3. Theoretical-methodological basis of foreign investment contribution

As a result of the development of markets, the system of international commodity circulation has begun to operate globally. At a global level, capital has the ability to move from the domestic market to the global commodity market and vice versa. It is known that international capital flows to a place where income and productivity are higher than national. Economists note that the international capital movement is now higher than any other period.

The placement of capital, technology, and manufacturing facilities in another country would increase the risk in the past. Nevertheless, international trade has existed, and in some cases the need to invest in foreign investment, capital, technology abroad. It is aimed at bringing these products abroad from the production of certain agricultural products (tea, coffee, exotic fruits, etc.) outside of the country. The same situation existed in the areas of extraction, primary processing and transportation of minerals.

Neo-classical theory of international capital movement has been developed by R. Nurse and K. Iserven after B.

Its macro theory takes a special place in the study of international capital movements. The macro theory of international capital movement covers four directions:

1. Influence of capital movement on domestic investments;
2. Influence of capital movement on national income;
3. Influence of periodic changes in capital movement conjuncture;
4. Influence of capital movement on payment balance.

D. McCarthy's proprietary model is also of particular importance in studying international capital movements. According to Clark, investments play an accelerator in the economy.

In the first half of the twentieth century, as capital inflows from developed countries increased, at the same time, crises in some leading countries revealed the inability of the government to regulate the economic process. This arrangement can be implemented after theoretical justification. Later, the "General Theory" drew on the ideas of the self-regulation of the economic system and examined the importance of the state's active intervention to create a balance in the economic system. This economist has increased the interest of academics in learning about long-term direct foreign investment on the national economy. Thus, the new direction of the theory of international capital movement emerged in the theory of Keynes. According to this model there is a relationship between volumetric changes in the output growth rate of the investment. In this case, the difference between investment incentives for the domestic business sector of the economy and investment incentives for the sector of foreign and joint ventures.

One of the key points in macroeconomic studies was the relationship between the impact of the investment movement on the country's balance of payments, as well as the nature of the investment movement and the cycle of economic development. In the 40s of the last century, American scientists L.Matsler and F. McLoup talked about the multivariate export of capital exports in their theories. Direct foreign investment is widespread during the period when they are dealing with this issue. L.Matsler sought to reveal the impact of capital imports on both the importer's and the exporting country's domestic investment and, thus, its national income. But it was not so simple to answer this question unambiguously. Therefore, research and analysis were conducted in several ways. These trends can be summarized as follows: capital exports are accompanied by a decline in investment in the exporting country and an increase in the importing country; capital exports are accompanied by an increase in investment in the exporting country, while the importer does not increase investment in the country; capital exports increases the amount of investment in the importing country and does not reduce investment in the importing country at this time.

Based on the study of these options, there were some assumptions: capital exports did not reduce domestic investments because of the use of unused resources; foreign investment does not exacerbate domestic investment; on the contrary, it complements them; the total investment volume does not increase in the country.

The central problem of non-monetary policy is the distribution of national income. T.Huseynov points out that C. Keynes's theory is different from the various aspects, suggesting that investment volumes change as a driving force of economic development and, according to this theory, the most insightful attitude to the investment level: "Experience of Azerbaijan and some other countries shows that The fact that it is high does not lead to the use of savings as capital investment. Savings in Azerbaijan are often turned into commodity circulation capital, bank savings, and non-cash foreign currencies.

C. Keynes has made an important idea of the international movement of international trade and capital movement. According to this opinion, the migration of production factors under certain conditions may replace international trade. This theory has emerged from the supporters of these theories in the interest of the end-effect factors of K.Manger, U.Cevons, E.Bem-Baverk, who founded the marginalism.

The rapid growth of trans-national corporations in the second half of the twentieth century turned them into focus on economic theory. In the early years, TMCs were studied only within the scope of the firm's theory, and then independent concepts were developed for them separately. These concepts also focused on the ideas of more American economists. S. Haimer's theory of the necessity of firms to dominate domestic competitors in terms of implementing direct external investments, the existence of a speculative market within R. Kouz's large corporation and the concept of "life cycle of R. Verno". These concepts are mentioned in part above.

The main feature of TMCs is the availability of commodities and services abroad, i.e. direct investments. For this reason, several direct investment models have been developed within the TMC concept:

- monopoly advantages model;
- life-cycle model of the commodity;
- oligopolistic protection;
- internationalization model;
- eclectic model;
- The theory of capital running

The model of monopoly advantages - this model was developed by S.Haymer. Therefore, the foreign investor is less favorable than the local investor. He knows the market and the conjuncture of the country poorly, does not have extensive connections, attracts additional transportation costs and faces a risk. For this reason, he needs to gain an additional monopoly advantage over his local competitors so that he can earn higher profits. These revenues are revenues from investment risk at the expense of monopoly competitive advantages. S. Haymer monopolized the advantages of technology and investment.

The scope of the theory has also been improved on vertical integration, diversification of commodity nomenclature, technological advancement and corporate strategy. Countries with a transitional economy, including Azerbaijan, have the following outcomes: 1. Foreign investors need to be seriously studied. It should be borne in mind that the investor's ability to invest in corporative assets, high technology and know-how, and specifics of investing in the company's investment and the form of investing; 2. Important factors for the success of the external campaign should be compared with the recipient country development strategy.

The role of governments in the economy also has a significant impact on investors' decisions. Today, many TMCs also engage in commercial and investment policies in several countries and create a system of internal corporate transactions.

In the areas where high competition is maintained, the market structure and the behavior of the leader can determine the essence and speed of the process of transposing the competition. Nikkerbokker (1973), who analyzed the international activities of 187 American companies during the 1948-87 period, determined that for a few years after the establishment of foreign investment enterprises in the oligopolistic areas. However, such investment strategies are much less common in such areas as energy and metallurgy. It follows that the tracking strategy leads to a general fall in prices and losses to the oligopoly. As a result, they prefer a simple division of the market. European investors have applied this experience in the US and Japanese companies in Europe and the United States.

The internationalization model was developed by P. Beckley and M.Casson in the second half of the 70s. In theory, businesses should have a perfect internal structure. The perfect internal structure involves integrating all technologies and know-how into the company. In doing so, the company will not only expand its business but also hide its "know-how" from competitors.

The global strategy gained through international trade and investment is the only means of maximizing profits, expanding international coverage and market leadership. TMCs use different internationalization strategies. Corporate interests can be encountered by the interests of the state (the protection of the local industry, the environment, the labor law). In addition, large oligopolies (for example, chemistry, automobile, oil and gas giants, international) have the opportunity to make commodity circulation and technological innovation to the state in order to achieve significant concessions. Negative impacts on the social sphere and the surrounding environment should be taken into account when making such discounts.

The eclectic model models of direct investments, which are briefly described above, draw attention with unilateralism and restrictions. This was the reason why the eclectic model of the English economist C.Dannin had appeared. The Dannering model combines the advantages of other models. Therefore, the model is called eclectic or OLI model. The OLI is based on the model, based on the first factor of the factor. These factors are as follows; the company has the advantage over other firms operating in the country (specificity of ownership, e, g, Ownership -specific advantages); the company may gain superiority over some other countries abroad compared to its own country. For example, local workforce and raw materials are cheaper, large size of the local market, good local infrastructure, affordable sales opportunities (location-specific advantages); In some cases, it is more convenient for the company to use their products abroad (preferences of internationalization, internalization advantages) instead of selling their commodities (technological innovations, know-how, etc.) to commodities and services, or selling their associations to local companies in the form of licenses.

In modern times, the eco model of direct investment is more popular. In addition to the TMK theories, portfolios in the economy are based on theories and models on investment.

Portfolio investment theories indicate that the portfolio investor is interested in four points in foreign countries;

1. Profitability level of foreign securities;
2. The level of risk on compensations;
3. Liquidity level of foreign securities;
4. The desire to diversify its portfolio of securities at the expense of foreign currency.

The combination of these four points leads to the fact that portable investments are more exposed to changes in political and economic conjuncture.

Generally, the main reasons for capital exports are:

- Overlapping demand for capital in different sectors of the world economy;

- Availability of local commodity markets or creation of new ones. It's time to clear the way for the export of capital products, it is exported in order to stimulate demand;
- Equity stable political conditions in the host country, a favorable investment climate, favorable investment regime of the free economic zones, etc.;
- cheap raw materials and labor availability of capital in the host country (e.g. Manufacturing industry workers, German workers cost value of Taiwan 4, from Brazil, 9, 54 times higher than Mexico);
- the host country of the capital "donor" availability of relatively low environmental standards;
- In certain international corporations, products of high tariff and non-tariff restrictions on the Third World entry into the enthusiasm (e.g., Israel and South Korea and Japanese cars, the import has been banned. However, the US-based Japanese car companies for their products, so there is no restriction

II. Evaluation of the state of foreign investment contribution in Azerbaijan

1. Analysis of the current state of foreign investment contribution in Azerbaijan

The role of financial resources for the development of investment is quite high. Depending on their composition and structure, they can be divided into two categories: foreign and domestic sources of investment. The Law of the Azerbaijan Republic of

January 13, 1995 on Investing Activities indicates that investment can be determined from the following internal sources:

- investor's material and intellectual wealth, financial resources and internal resources. Domestic reserves include profit, depreciation deductions, reimbursement of physical and legal entities' savings, savings, payments for damages caused by accidents and natural disasters, and so on;
- investor's debt, ie bank and budget loans, bonds and other funds;
- investor's attracted funds. It includes funds from labor collectives' citizens, legal entities, and other rights, from the sale of shares;
- appropriations from the budget and extra-budgetary funds, namely, the president's special fund, various humanitarian and other purpose funds;
- indispensable and charitable fees, donations, and more for businesses, organizations and citizens.

Foreign investment sources include:

- budgetary funds of foreign countries;
- funds of foreign legal entities and natural persons;
- financial resources of international organizations;
- interstate loans, grants and technical assistance;
- financial funds, loans and grants from international financial institutions

From the sources of funding for the above mentioned investment, we will only mention the participation of foreign investment projects in the Azerbaijani economy.

In modern conditions, the flow of foreign capital to the economy of our country continues to grow, while simultaneously using both domestic and foreign sources in financing many areas. Funds borrowed from foreign sources are mainly borrowed. These loans are taken for implementation of a specific project and are usually paid at low interest rates and for a long time.

Construction work in the regional areas of Azerbaijan can be divided into two stages. The first stage covers the years 1969-1982 and the second stage, after independence of Azerbaijan, 1994 and later years.

At the first stage, the main essence of economic policy in Azerbaijan was to involve natural and labor reintegration into the production cycle of our republic and, on this basis, to achieve dynamic development of the economy. The achievements gained during that period created favorable conditions for the transformation of the agrarian country into the agrarian-industrial country.

After the independence of Azerbaijan, the development pace, which began in 1994, has made it possible for the country to grow rapidly in the coming years, and the opportunities for the development of the oil and non-oil sector. Since 2004, a new action plan has been approved with a view to strengthening the socio-economic development of the regions. In accordance with the plan, the creation of new production and service areas has been initiated by directing investments into the regions at the expense of all financial sources.

Foreign investment is a key element in the formation and development of the national economy. The development of the entire field structure of the country, including the technological and reproducible structure, depends on the application of investment in its spheres. As it is known, special-purpose investments are primarily of income. Hence, the level of investment priority of that area or unit determines the degree of affluence of any sector of the national economy. The degree of benefit city of any economic unit is a crucial determinant of the value of investment that will be applied. Therefore, they have different levels of profitability, depending on the purpose of investing in national economies.

Thus, investments from public and non-state sources will, first of all, be different for their speed and profitability. Therefore, non-state sources of investment are highly profitable areas that are primarily selected by the fastest growing capital. This factor

affects the volume of foreign investments. Typically, foreign investment is not invested in low-profit sectors of the economy. Nevertheless, the use of investments and their limitations should not be construed as the realization of national interests. Thus, involvement of excessive investment will increase the inflow process and cause excessive tension in the economy. On the other hand, less investment than necessary leads to defilement. Taking this into account, the optimum volume of investments to be made by external sources should be determined by the economic policy implemented in connection with the development and formation of the national economy. In such circumstances, the scale of the national economy should be regulated by effective government strategy, state expenditure, monetary and fiscal measures.

Foreign investment plays a central role in the development of the national economy and gives advance information about the rate of economic growth. Development of the national economy through the investment process leads to the rise of national income and the production of competitive products by paying for a number of commodities and services. In such conditions, the volume of funds directed to both national and consumption funds increases. The continuity of this process requires the efficient use of funds directed to collections and consumption funds. Investments generated at the expense of national income result in an increase in the national economy by generating both the collection and the income form, as well as the extensive reprocessing of production on the one hand. The more efficient the investment is, the higher the rate of growth of the national income, the higher the absolute and relative volumes of consumption of the harvest. Achieving fairly high return on investment ensures the gross domestic product, which is the main indicator of the national economy.

In order to achieve a steady growth rate of the national economy, investments should primarily focus on areas where the economy can benefit from the highest efficiency and national interest. Hence, the investment market should be permanently flexible and moving. The creation of an economic environment in the application of foreign

investment should largely depend on the transition to more perceptual areas in the stagnant areas of the economy. Income from investment will always have differences. Meanwhile, revenues from investment in production-oriented industries should be higher than that in the service sector, which is an alternative to that. The risk level for production-related investments should be quite low for this process to take place.

The dynamics of investment and key development parameters can be found in Table 2.1 and 2.2, respectively.

Table 1

Analysis of the dynamics of investments directed to the economy

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Investment contributions from all sources (taking into account foreign investment):											
Mln.manat	7 415.6	10 353.9	13 328.0	10 475.0	14118.9	17048.8	20251.1	21448.2	21890.6	20057.4	22868.5
Mln.dolar	7 415.7	12 066.1	16 222.0	13033.5	17591.4	21588.9	25777.8	27340.0	27907.5	19547.2	14329.5
Foreign Investments											
Mln.manat	7 415.9	5 727.2	5 625.8	4 395.1	6 619.7	6849.8	8102.7	8269.3	9175.7	10998.9	16216.1
Mln.dolar	7 415.10	6 674.3	6 847.4	5 468.6	8 247.8	8673.9	10314.0	10540.9	11697.7	10719.1	10161.1
Domestic Investments:											
Mln.manat	2 901.4	4 626.7	7 702.2	6079.9	7499.2	10199.0	12148.4	13178.9	12715.0	9058.5	6652.4
Mln.dolar	3 247.6	5 391.8	9 374.6	7 564.9	9343.6	12915.0	15463.8	16799.1	16209.8	8828.1	4168.4

As can be seen from Table 2.1 and 2.2, while investments in all sources of funding to the country's economy amounted to 7415.6 million manats in 2006, this figure reached 14118.9 million manats in 2010, and 22868.5 million manats in 2016.

As seen in Table 2.4 the volume of foreign investments increased from AZN 480.0 million to AZN 5727.2 million in 2007 compared to 1995, and in 2008 this figure was 5625.8 million manat. In 2010, the volume of foreign investments increased to 6619.7 million manat, in 2013 - 8269.3 million manat.

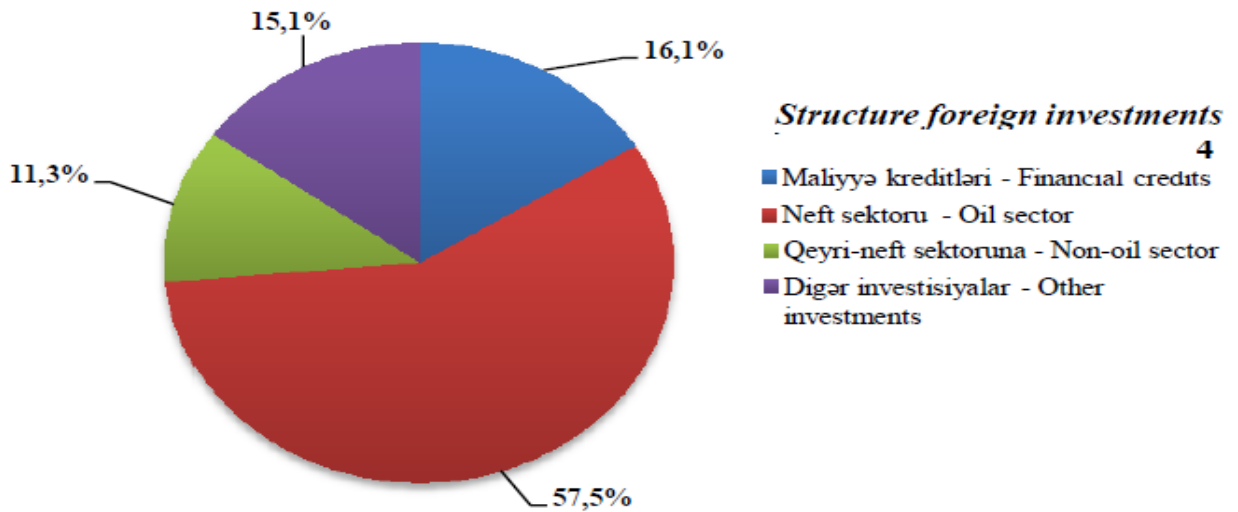
Table 2
Analysis of key parameters of investment development

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP	18746.2	28360.5	40137.2	35601.5	42465.0	52082.0	54743.7	58182.0	59014.1	54380.0	60425.2
FD	7 415.9	5 727.2	5 625.8	4 395.1	6 619.7	6849.8	8102.7	8269.3	9175.7	10998.9	16216.1
Share of foreign investments in the gross domestic product	9.56%	0.19%	4.01%	2.35%	5.59%	3.15%	14.8%	4.21%	5.55%	0.23%	6.84%

One of the major problems facing our country in foreign investment is the direct investment of 97.5% of foreign investment in various sectors of the economy. Based on the data presented in Table 2.2 on key parameters of economic development in 2006-2016, it should be noted that over the years, growth rates of gross domestic product, growing numbers of foreign and domestic investment, and the increase in the share of foreign investment in GDP that the country has created a favorable investment climate, and in time, appropriate measures are being taken in this direction.

The investment policy carried out in the country is largely due to the stimulation of foreign capital flow to the country. As Figure 2.3 shows, capital flows to the national economy are mainly focused on the development of the oil and gas sector. However, from the point of view of formation of the national economy it is important to use foreign investments in the direction of economics, especially in the field of agriculture and processing industry. In order to make the foreign investment unbearable in the development of the national economy, it is necessary to realize the structure and technological support of the economy as well as to solve the social and ecological problems.

Diagram 3
Structure foreign investments



Establishing, rebuilding, and expanding each production and social sector, and thus ensuring employment, requires proper investment and more efficient use of it.

For this, the country should have the necessary financial and material resources. Otherwise, involvement of foreign investors into the country is a necessity to ensure the formation and development of the national economy. That is why, in the conditions of the modern market economy, our sovereignty has the opportunity to realize mutual investment in full compliance with the interests of foreign countries and the development of Azerbaijan's national economy. From this point of view, the "Contract of the Century" signed on 20 September 1994 with the world's leading oil companies on the development of the Azeri, Chirag oil fields and the Gunashli field in the Caspian Sea was an important step in attracting foreign investment to the country's economy. This agreement created a complete basis for the integration of the Azerbaijani economy into the world economy. So, an international consortium has been established, and so far there have been agreements with more than 20 oil and gas operations in the republic. The joint uses reserves of the oil sector of the national economy envisage 25-30 years, which will further increase the socio-economic development of our country in the 21st century. The envisaged billions of foreign investment will provide a qualitative renewal of the scientific, production and technical basis of the economy, in particular the

petrochemical industry, which, in addition to the growth of macroeconomic indicators, creates conditions for further enhancement of staffing potential, will create conditions.

Table 4

Analysis of the volume of foreign investments for the exploitation of oil fields

	Neft yataqları	istehsal həcmi mln.t	investisiya (mlr. ABŞ dol, hesabı ilə)	Azərbaycanın payı (faizlə)
1.	"Azəri", "Çıraq", "Günəşli"	630.0	12-14	10.0
2.	"Qarabağ"	80-150	1.7-2.0	7.5
3.	"Şahdəniz"	100.0	4.0	10.0
4.	"Dan ulduzu-Əşrəfi"	100-150.0	1.5-2.0	20.0
5.	"Lənkəran-Talış-dəniz"	100.0	1.5-2.0	25.0
6.	"Yalama" (D-222)	100.0	1.5-2.0	40.0
7.	"Abşeron"	150-300	3-3.5	50.0
8.	"Naxçıvan"(Keçmiş D-3)	75-100	5.0	50.0
9.	"Oğuz"	75.0	2.0	50.0
10.	"Kürdaşi"	90-120	2.0	50.0
11.	"Güney-Qərbi-Qobustan"	30-60	0.3-0.5	20.0
12.	"İnam"	150-250	3-4	50.0
13.	"Muradxanlı"	80-80	1-1.5	50.0
14.	"Alov", "Araz", "Şəfəq"	150-300	9.0	40.0
15.	"Kürsəngi", "Qarabağlı"	60-90	0.5-0.8	50.0
16.	"Atəşgah"	100.0	2.0	50.0
17.	"Zəfər", "Məşəl"	120-150	2.0	50.0
18.	"Lerik-dəniz", "Savalan"	100-120	2.0	50.0
19.	"Padar"	50-100	0.8-1.0	20.0

2. Evaluation of foreign investment environment in Azerbaijan

One of the most important issues is their evaluation of macroeconomics in order to determine the efficient use of domestic and foreign investments aimed at developing and strengthening our economy day by day.

Improving the process of attracting foreign capital to the country's economy, not only the restructuring of its foreign-economic policy, but also the shadow economy should be the main line of structural changes in the radical economic reforms of an economic system. Significant flows and development of foreign capital inflows to the country are closely linked to the state-level event in the direction of forming a fertile investment climate. For the implementation of foreign investments and the further improvement of these opportunities, the following should be considered as an important precondition, and, more precisely, it would be expedient to solve these problems related to the directions of international investment movements in Azerbaijan in line with the globalization process:

- improving existing legislative acts that allow for the implementation of foreign investment in the country by establishing a favorable and favorable investment environment and establishing legal norms of businessmen and their adaptation to international standards and requirements in all respects;
- to work on the creation of the country's advertising market in the world capital market, using the most effective form of international practice in capital flows;
- consolidation or co-ordination of the functions of existing organizations in the single state structure for the search and engagement of potential foreign investors for industries where development is required;

- maintaining and harmonizing the national and international interests of the country, the state and society in the foreign investment policy, taking the country's commitment to comply with international conventions, treaties and the decisions adopted by many world countries;
- directing them to all sectors of the national economy by rationalizing the industrial structure of the introduction and attracting of foreign investments;
- In addition to direct investments, it is necessary to create favorable conditions for attraction of portfolio investments to our country, to ensure the formation of the securities market in accordance with world standards, taking into account the features of the investment. Because currency risk management issues in international (direct and portfolio) investment transactions should be considered as important factors;
- weak participation of the country's banking system in supporting investment activity should be eliminated. The share of local banks in the service of investment projects involving foreign capital should be increased to a satisfactory level;
- One direction that is important in attracting foreign investors - one of the most important and national interests - special consideration should be given to the organization of import substitution products;
- The fact that foreign investment should not be concentrated not only in the center, but also in the regions should be taken at the state level by other measures of the industry's economy;
- studying the concrete situation in attracting foreign investment in modern conditions, attracting foreign investment in the country's economic and legislative framework that provides investment climate in the country and ensuring that the mechanism of creating a joint venture is up-to-date.

Effective and purposeful use of foreign investments directed to industry, which is one of the key sectors of the country's national economy, will be a full guarantor of stimulation of its involvement, sustainable future development of the country, its position in the world economy and integration.

Enhancing the enrichment of the necessary legal environment for foreign investment and adapting it to the progressive world-class can further develop the country's access to foreign investment and can help our country to actively participate in globalization processes.

3. Mechanism of state regulation of foreign investment activity

State regulation of investment activity means a complex system of measures for the implementation of a single economic, scientific-technical, social policy in the country. Financing of these activities is carried out at the expense of the republican and local budgets and personal funds. Investment contributions are primarily focused on the payment of public demand and the development of strategic sectors of the economy. Investment in the republic, irrespective of forms of ownership and property, is regulated by the legislation of the country in which the country is operating. The state controls the socioeconomic development of the republic, as well as the establishment of appropriate proportions in the national economy, the formation of production and social infrastructure.

As it is known, the creation, production, expansion of any production and social spheres, and thus ensuring employment, requires proper investment and more efficient use of it.

To do so, the country should have the necessary financial and material resources. Otherwise attracting foreign investors to the country in order to ensure the formation and development of the national economy. Therefore, in the conditions of the modern market economy, our country has the opportunity to realize mutual investment in full compliance with the interests of foreign countries and the development of the national economy of Azerbaijan, the role and significance of foreign investment is extremely high. Raising macroeconomic indicators in the country requires increasing the role and importance of leading sectors in the structure of the domestic product, especially in strategic areas. From this point of view, the increase of foreign investment in the Republic and its regulation by the state, and the provision of necessary proportions in the development of the economy are of great scientific and practical significance.

In addition, the state should actively use different methods (economic mechanisms) in regulating investment activity. These mechanisms can be summarized as follows:

- application of the tax system with differentiation of taxation subjects and objects, tax rates and discounts;
- implementation of credit and depreciation policy, including through rapid depreciation of fixed assets. Depreciation benefits can be varied and distinct for different types of economic sectors, different types and elements of fixed assets and equipment;
- subventions, subsidies, budget loans for the development of separate regions, industries and industries;
- defining state norms and standards;
- taking anti-monopoly measures;
- determination of conditions of use of soil, water and other natural resources;
- implementation of pricing policy;
- Carrying out examination of investment opportunities;

Also, state regulation of investment activity includes the management of public investment, as well as the regulation of investment activity and supervision of compliance with these conditions by all subjects of investment activity.

Public investment management is carried out by the republican and local authorities and governing bodies and consists of the budget, extra-budgetary funds and other resources attracted by these agencies, determining the terms of the investment and resolving other related issues.

To assess the dynamic and sustainable development of the national economy, it is important to properly interpret the innovation concept and the innovation system. Therefore, when considering the national innovation system, first of all, the following should be considered:

1. Long-term economic growth;
2. Physical, global orientation of economic development;
3. The competitive advantages and directions of the national economy;
4. Internal and world markets requirements;
5. The state of development of the national economy and the conditions of the economy;
6. Condition of the balance sheet and the degree of its usage;
7. The degree of structural changes leading to the national economy's demands

In order to realize all these directions, the state accepts relevant laws in the area of scientific and technical policy. Every state has its own national interests and defines its scientific and technical policy.

The results of scientific research often do not give the expected result. Therefore, the private sector does not make much effort to invest in fundamentally based research. Taking into account the importance of the ETT for the country's economy as a whole, its importance for strengthening its position in the world, the state takes on the development of this area. However, as the ETT's results lead to the reduction of production costs, technical and technology upgrades, quality and competitiveness, in many cases, the private sector is particularly interested in investigating its findings.

III. Ways to increase the economic effectiveness of direct foreign investments in Azerbaijan

1. Priority directions of foreign investment contribution in Azerbaijan.

According to Mr. Ilham Aliyev, the President of the Republic of Azerbaijan, "We need a multilateral economy - economy which is not dependent on oil and oil prices." One of the main tools for eliminating these discrepancies and restoring the economic balance is investments and their efficient utilization. Another important issue related to investment is the lack of adequate economic benefits from large-scale investments. Profit for a single investment in industry is ten times less than the norm.

As can be seen from the direct foreign investments, strategic objectives and opportunities for the creation of new priority areas in the future are not properly used by the capabilities of the current foreign capital. It is not imperative that investments in different sectors be paid directly from investments. Other sources should also be used effectively. The majority of non-credit investments in Azerbaijan are directed to the oil sector, 5.2% to other construction, 2.0% to transport and communication, and 1.2% to service sectors.

One of the main tools to eliminate the mentioned discrepancies and restore the economic balance is the investment and effective use of them. Another important issue related to investment is the lack of adequate economic benefits from large-scale investments. Profit for a single investment in industry is ten times less than the norm. Analysis of annual forecasts suggests that in the end of 2014, the price of oil goes down in the world market. For this reason, the government has developed new economic strategies and focused on diversifying and developing the country's economy, which does not have a non-oil economy. Diversification of the economy and development of

the non-oil sector will play a decisive role in securing sustainable development of Azerbaijan in the context of deepening global financial crisis. The growth of the economy over the past five years was largely due to the development of the non-oil sector; the share of this sector in GDP reached 69.9%. In general, according to official statistics and macroeconomic indicators, over the past 12 years, the non-oil sector has grown more than 2.5 times in the country. Undoubtedly, the measures taken to diversify the economy through the oil revenues have played an important role in the development of the non-oil sector. Due to diversification of the economy and the development of the non-oil sector, billions of dollars have been spent on support for small and medium-sized businesses through allocation programs, subsidy allocation to rural entrepreneurs, restructuring of transport communications infrastructure throughout the country. All this has caused the economy to revive in this area. At present, non-oil products produced in the country are exported to different regions. Our country, successfully completing the transition to market economy, uses the natural resources in a purposeful way to diversify the country's economy and minimize its dependence on the economy. As a result of this field, the trend of sustainable growth in construction, agriculture, tourism, transport, information and communication technology continues. As a result of this trend, over the last twelve years, a new job place has been created in our country, with the vast majority falling on the non-oil sector.

President Ilham Aliyev said at a meeting of the Cabinet of Ministers on the results of socioeconomic development in 2015 and on the forthcoming tasks, "Our successes, of course, are historic. Over the six months, our economy has grown, although the economic situation in the neighborhood has not changed so far, and the country's economy is developing. Now, the figures I will bring will show and prove that this is a historical achievement from birth. Thus, the economy grew by 5.7 percent over the six months. It is a very good indicator and proves the dynamic development of our country.

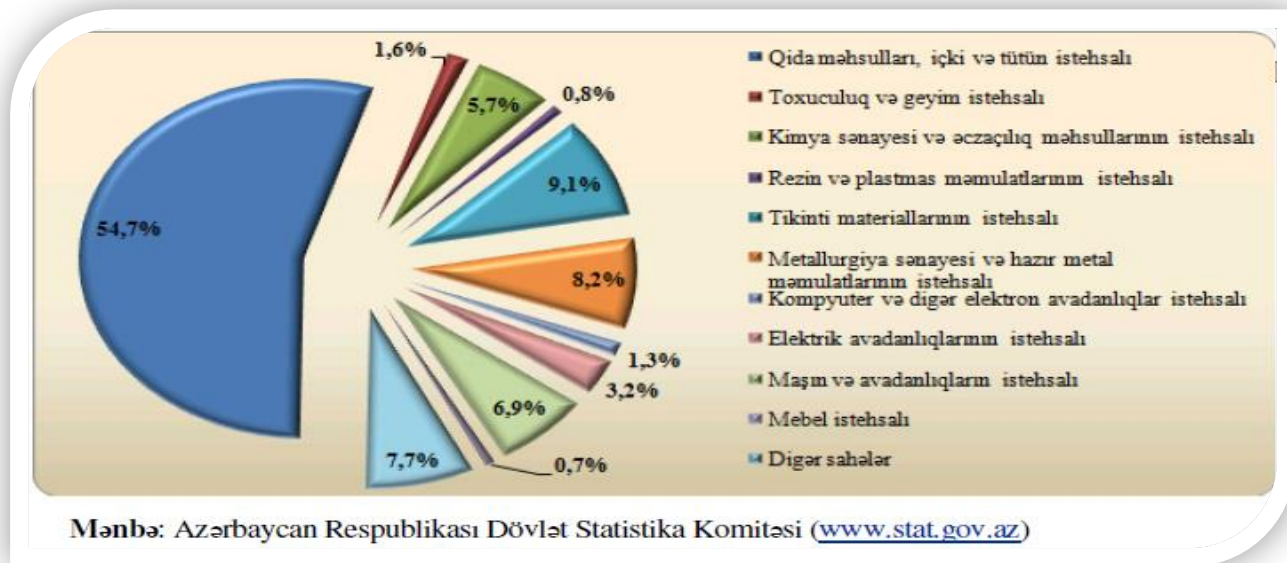
The better indicator is the development of the non-oil sector. Here we see a 9.2 percent increase.

The announcement of 2014 as the "Industrial Year" and the implementation of the approved plan of action have given a new impetus to the non-oil industry. Consistent and purposeful measures to diversify the country's economy have led to the rapid development of the non-oil industry. It should be noted that in the first half of 2015 non-industrial goods worth 3 billion 669.4 million manat were produced. The country has been the result of purposeful measures taken in recent years on industrialization, creation of new industrial zones.

Improvement of the investment environment should be accompanied by measures to be taken, along with important measures in the country's investment promotion. Business forms and other business events are organized regularly in the country and abroad in order to encourage the country's investment potential and attract foreign direct investment to priority areas. Expansion of participation in prestigious international investment events is underway. Preparation and dissemination of campaign materials and electronic media, promoting the country's economic potential, natural resources, investment climate, opportunities and projects, as well as priority areas in the country, was carried out by the country's leading international media.

Diagram 5

Structure of the total release of Non-oil refining industry in 2016



Relevant state bodies operate in our country to stimulate foreign and domestic investment. Azerbaijan Investment Company OJSC, Azerbaijan Export and Investment Organization (AZPROMO).

AZPROMO may establish the following stimulus measures for the Industrial Park according to the "Model Regulations on Industrial Parks", as approved by the Decree No 865 of April 24, 2003:

- Tax and customs stimulus measures (according to the legislation are exempt from VAT for property for 7 years, property tax, land tax, income tax, and equipment for their production purposes);
- Determination of land plots within the limits of the lease;
- granting preferential loans;
- simplification of administrative procedures;
- Implementation of favorable proposals for the sale of heat and electricity, water and gas, waste water discharge and domestic waste collection

The priority directions of foreign investment in the fields of economy and economic regions in Azerbaijan can be classified as follows:

Priority sectors of the economy:

1. Development of information technologies

- development of computer technologies;
- the advancement of science and technology based information fields;
- Development of Internet services.

2. Tourism sector

3. Agriculture

- technical plantation (cotton, viticulture, tea, tobacco, sugar beet);
- fruit growing (including the development of cereals for the production of fruitful orchards), vegetable growing and horticulture;
- livestock;
- breed (breeding or development of breeding);
- industrial poultry (development of broiler industry);
- Cereal crops (grain growing);
- crop;
- fisherman;
- beekeeping.

4. Innovation oriented entrepreneurial activity

5. Food industry

- canning of fruits, vegetables, melons and fish preserves;
- meat and dairy products;
- wine making;
- production of natural fruit and vegetable juices;
- bread and flour products;
- manufacture of confectionery products;
- production of various types of vegetable oils;
- soft drinks production;

6. light industry

- textile industry;
- sewing industry.

7. Chemical industry

8. Mechanical engineering industry

- electrical engineering;
- electronics;
- radio-electronics;
- instrumentation;
- machine tools and tools;
- Manufacture of machinery, machinery and equipment for transport, agricultural and other industries.

9. Production of building materials based on local raw materials

- Areas based on extraction of mineral - building raw materials (sand, gravel, different brow and marble);
- manufacture of masonry materials (cement, lime);
- manufacture of various wall materials for buildings and structures;
- production of concrete, reinforced concrete structures.

10. areas of the economy based on traditional and historical labor patterns of the population (carpet weaving, copper, baking, pulp, carpentry, etc.)

11. Manufacture of woodworking and furniture

12. Servants

- medical service;
- Establishment or development of a refrigerated warehouse infrastructure for agricultural products;
- Establishment of enterprises producing frozen food

Priority directions for economic regions

Priority directions of economy in the Absheron economic region

1. Manufacture of building materials based on local raw materials.

- Manufacture of masonry materials (cement, lime);
- mineral-building raw materials (sand gravel, various stones);
- Manufacture of various wall materials for buildings and structures;
- Production of concrete and reinforced concrete constructions;
- manufacture of other construction materials.

2. Agriculture

- vegetable growing;
- livestock (meat, dairy, oil, cheese, wool etc.)
- industrial poultry (development of broiler production);
- Meat and milk processing;
- production of bread and flour products;
- olive and saffron cultivation development.

3. Food industry

- canning and frying of fruits and vegetables;
- Meat and milk processing;
- production of bread and flour products;
- manufacture of confectionery products;
- production of natural fruit juices and soft drinks.

4. Light industry

- weaving;
- **clothing industry.**

5. Chemical industry

6. Mechanical engineering industry

7. Manufacture of woodworking and furniture

Priority directions of the economy on Guba-Khachmaz economic region

1. Agriculture

- fruit growing, vegetable growing and horticulture;
- livestock;
- agriculture (grain growing, viticulture);
- industrial poultry (development of broiler farms);
- beekeeping;
- fishing.

2. Tourism sector development

3. Food industry

- canning of fruits, vegetables and melons and canned fish;
- Meat and milk processing;
- wine making;
- production of bread and flour products;
- manufacture of confectionery products;
- production of natural fruit juices and soft drinks.

4. Light industry

- weaving;
- sewer.

5. Manufacture of building materials based on local raw materials

- mineral-building raw materials (sand, gravel, various stones);

6. Manufacture of woodworking and furniture

Priority directions of economy in the Daghliq-Shirvan economic region

1. Agriculture

- livestock;
- agriculture (grain growing, viticulture);

- industrial poultry (development of broiler farms);
- beekeeping;
- fishing (fishing).

2. Tourism sector development

3. Food industry

- wine making;
- Meat and milk processing;
- production of bread and flour products;
- production of natural fruit juices and soft drinks.

4. Light industry

- weaving.

5. Manufacture of building materials based on local raw materials

- mineral-building raw materials (sand, gravel, various stones);
- manufacture of other construction materials.

6. Manufacture of woodworking and furniture

Priority directions of economy in Sheki-Zagatala economic region

1. Agriculture

- livestock;
- Cereal crops (grain growing);
- technical crops (viticulture, cotton and tobacco);
- industrial poultry (development of broiler farms);
- beekeeping.

2. Tourism sector development

3. Food industry

- Meat and milk processing;
- wine making;

- production of bread, flour and flour;
- manufacture of confectionery products;
- production of natural fruit juices and soft drinks.

4. Light industry

- weaving;
- sewing.

5. Manufacture of building materials based on local raw materials

- mineral-building raw materials (sand, gravel, various stones);

6. Manufacture of woodworking and furniture

Priority directions of economy in Ganja-Gazakh economic region

1. Agriculture

- livestock;
- Cereal crops (grain growing);
- technical crops (viticulture);
- vegetable growing and horticulture (potato);
- industrial poultry (development of broiler farms);
- beekeeping;

2. Tourism sector development

3. Food industry

- Meat and milk processing;
- wine making;
- production of bread, flour and flour;
- manufacture of confectionery products;
- production of natural fruit juices and soft drinks;
- production of various types of vegetable oils.

4. Light industry

- weaving;
- sewing.

5. Manufacture of building materials based on local raw materials

- Extraction of mineral-building raw materials (sand, gravel, various stones and marble) areas based;
- masonry materials (cement, lime, plaster, lime, etc.)

6. Manufacture of woodworking and furniture

Priority directions of economy in Lankaran economic region

1. Agriculture

- livestock;
- production of citrus products;
- technical plantation (tea and vine growing);
- Cereal crops (grain growing);
- production of vegetable and horticultural products;
- industrial poultry (development of broiler farms);
- fishing;
- beekeeping.

2. Tourism sector development

3. Food industry

- Meat and milk processing;
- wine making;
- production of bread, flour and flour;
- manufacture of confectionery products;
- production of natural fruit juices and soft drinks;
- production of vegetables and fish preserves.

4. Light industry

- sewing.

5. Manufacture of building materials

- areas based on mineral-building raw materials (sand, gravel);
- manufacture of other construction materials.

6. Manufacture of woodworking and furniture

Priority directions of economy in Aran economic region

1. Agriculture

- livestock;
- technical plantation (cotton, viticulture, sugar beet);
- Crop production (grain growing);
- production of fruit, vegetable and horticultural products;
- industrial poultry (development of broiler farms);
- fishing;
- beekeeping.

2. Food industry

- processing areas based on agricultural raw materials (meat, milk, cotton);
- wine making;
- production of fruits, vegetables, melons and fish preserves;
- production of bread, flour and flour;
- manufacture of confectionery products;
- production of natural fruit juices and soft drinks;

3. Light industry

- weaving;
- sewing.

4. Manufacture of building materials

- areas based on mineral-building raw materials (sand, gravel);
- manufacture of masonry (cement);
- production of concrete and reinforced concrete structures

5. Chemical industry

6. Mechanical engineering industry

7. Manufacture of woodworking and furniture

Priority directions of the economy on Yukhari Garabagh economic region

1. Agriculture

- livestock;
- technical crops (viticulture);
- Cereal crops (grain growing);
- industrial poultry (development of broiler farms);
- beekeeping.

2. Food industry

- processing areas based on agricultural raw materials (meat, milk, cotton);
- wine making;
- bread and flour;

3. Light industry

- weaving;

4. Manufacture of building materials

- areas based on mineral-building raw materials (sand, gravel);

2. Development slopes of direct foreign investments in oil and non-oil sector in the economy of Azerbaijan

Investors investing directly in foreign investment use their experience in developing the Transnational corporations of to develop the national industry of Azerbaijan, in particular those industries that produce technics and technology, with the aforementioned methods. Taking lessons from this experience, Azerbaijan and its national firms and companies should be careful about their direct investment relationships and should use the international investment policy in bringing technology and technology to the country. It is clear that this policy is evident in the development of raw materials and energy carriers of Azerbaijan, in particular, the oil and gas sector. Over the last ten years (2006-2016), GDP growth was 3.2 times due to the 12.5% increase in the oil sector and 5.5 times the non-oil sector. It should be borne in mind that the share of the oil sector in the structure of GDP in 2005 was around 34-43%, and in 2006-2016 - 49-63%. They point to the fact that energy in Azerbaijan's economy, in particular the oil and gas sector, plays an important role and that foreign investments in the sector are constantly increasing. It is no coincidence that Azerbaijan's energy, especially oil and gas resources, and their global market dominance. The advantage of Azerbaijan over these raw materials is that not only the cheapest price for this raw material, but also the cost of low energy costs in the production of other products based on these raw materials, can be sold at a cheaper price. The ever-increasing demand for energy carriers and raw materials in the world economy is a great advantage of those countries. Oil, energy is not only a source of energy for many sectors of the economy, such as carriers and raw materials, but also supplies them with materials. This natural potential of the country and the efficient use of these potentials in the non-oil sector are the main advantage of the national economy of Azerbaijan in comparison with other countries. Significant development of the oil-related energy sector in the Azerbaijani

economy can be attributed to the more rapid and rapid implementation of direct foreign investment in that sector. From 2006 to 2016, more than 37.5 billion dollars of direct investments were invested in Azerbaijan's oil projects, which is about 60% of all investments in the country's economy. Just because investments in the oil sector of the country are progressing gradually, interest in the non-oil sector, especially in the processing of the economy, the production of finished goods and the service sector, is increasing.

Table 6

Total contributed investments in the economy of Azerbaijan

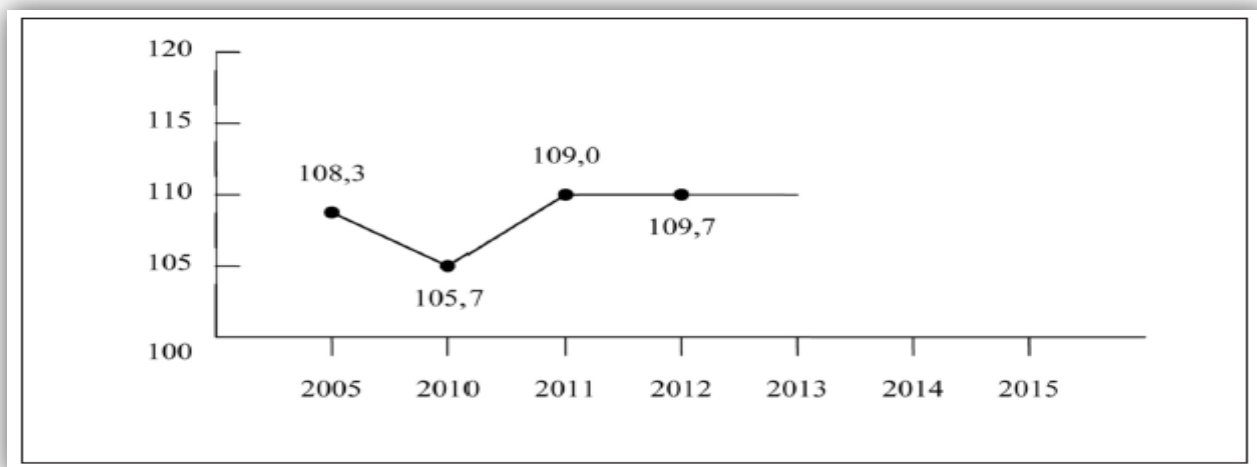
	2000	2005	2010	2012	2013	2015	2016
Total	1441,4	7118,5	17591,4	25777,3	32515,1	19547,2	14329,5
Domestic Investments	514,4	2225,3	9107,0	15463,3	21974,2	8828.1	4168.4
Foreign Investments	927,0	4893,2	8247,8	10314,0	10540,9	10719.1	10161.1
Including							
Direct investment in the oil industry	546,1	3799,9	2955,3	4287,8	4935,2	2573,6	1806,04
Oil bonus	-	1,0	2,0	2,0	-	-	1,0
Other investments	3750,1	1365,2	1225,0	1778,0	8348,9	10008,8	4715,83

As it is seen from the table data, the total investment in the Azerbaijani economy during 2000-2013 has increased rapidly, with domestic investments increasing rapidly compared to foreign investments. After 2013, there is a sharp decline in the total amount of investment. When compared to the real situation for comparison, that growth rate was 5.6% in favor of domestic investments. This has been a result of the stronger growth of national investors in Azerbaijan in recent years and the rapid increase in their investment. Undoubtedly, in the development of the non-oil sector, protection of the nature, the development of education and science for the formation of human capital, and the formation of an innovative economy are in the forefront using the state funds to

protect the ecological balance in the country. A long-term strategy on oil and gas revenues management was adopted in 2004 on the current state of the funds allocated for the non-oil sector development in Azerbaijan. It is more important to adopt that strategy, which sets out the basic rules for the management of oil revenues in 16 countries in 2005-2025.

Diagram 7

Non-oil sector growth in Azerbaijan's GDP (with -% to the previous year)



The chart shows that in 2005-2010, the dynamics of the non-oil sector's GDP declined, but in recent years, gradual growth has started, but since 2012, this growth has been very small, but the positive trend is still evident . It focuses primarily on the strategy of directing oil revenues to the non-oil sector, while revealing the potential of the non-oil sector and strengthening the impact of the sector on maintaining macroeconomic stability. Hence, the stable and at the same time rapid development strategy of the non-oil sector in Azerbaijan is not original, but rather a more powerful and competitive sector in the future.

3. Foreign Direct Investment and ways to increase the competitiveness of the non-oil sector

The non-oil sector's competitiveness strategy and the sustainable development of the sector need to be implemented in the following areas:

- revealing potential opportunities for increasing the production of final national products and finished goods;
- further stimulation of small and medium entrepreneurship development in the regions;
- Large-scale development of production-oriented infrastructure in the regions;
- To achieve the formation of the innovative and technological base of the national industry, especially the finished products;
- Preparation of highly skilled national cadres (especially in foreign countries), raising their professional level.

The funds of the State Oil Fund of Azerbaijan, created at the expense of the country's oil revenues to accelerate the development of these strategic social and economic processes, which are directly related to the non-oil sector, are of special importance. It is no coincidence that those projects supported by the Oil Fund and directed to the development of the non-oil sector are large investment and infrastructure projects. The main purpose of these projects is to strengthen the national economy, to strengthen the international competitiveness of the sector's latest economic results, in particular by encouraging the rapid development of the non-oil sector. Advantages of direct foreign investment in increasing the production infrastructure and improving the quality of production in the country along with priority sectors of the national economy. is essential to raising competitiveness of the non-oil sector. This necessitates not only the rapid growth of the non-oil sector, but also the impact of the more productive

infrastructure on the impact of the latter on the international competitiveness. In this sense it is expedient to direct the following national production infrastructure of direct foreign investments to improve the quality of the non-oil production infrastructure in the country:

- further improvement of technical and economic parameters of transport infrastructure - high quality transport system to ensure the continuity of the extensive recycling process in the national economy.
- It is of exceptional importance in the formation of power. Depending on the production and service sectors of the country, the development of transport, including between the areas of trade and areas, as well as international transport corridors and roads, should be in the focus of attention of the State of Azerbaijan;
- Strengthening information and communication infrastructure - the information security of the information economy is gaining momentum, and the information on conjuncture changes in the global economy and its particular sectors is currently being strengthened. All this requires the use of more rapid and more accurate communication communications. Countries with high level of infrastructure are able to achieve higher competitive advantage over other countries.
- Improving the technical basis of the utility and economic infrastructure and the quality of the utility services - the utility sector and the quality of public utility services play a special role in the business activity of both national and foreign entrepreneurs, the competitiveness of this activity, and even the flow of foreign investors to the country.

All this shows once again that the balance of direct investments in all spheres of the country's economy will be strengthened, as well as the tendency to direct these investments to further increase the production-oriented infrastructure. This direction

needs to be determined in advance, determining the factors that can affect the country's competitive ability, the most beneficial of these factors, and the more concrete ways to achieve results that can lead to superior competitiveness in the economic competition. Although roads are few, the complexity and shortcomings of progress are undeniable. The main road is a strategy to define priority areas that allow competitive advantage. The most important points of this strategy will be explored in the following questions, and the issues on which processes, criteria and principles will be determined will be studied. In order to provide the required volume and quality of investments in the country further improvement of the investment climate is one of the main challenges ahead. This is done by:

- personal property protection and corporate governance improvement;
- more favorable competition for all investors regardless of ownership
 - creating environment;
 - increasing the role of the state in order to ensure a stable normative-legal regime;
- Further improvement of the regulatory and legal framework for investment activity;
- About enterprises in order to select and analyze investment objects
- improving the system of informing investors;
- modern, which ensures efficient conversion of savings into investments
- increasing the assistance to the institutional infrastructure development process;
- Improving business information, accounting, and adaptation of statistics to international standards.

In terms of protecting the economic interests of foreign investors, it is possible to concentrate on the advantages of the Azerbaijani economy in two groups: Group 1

factors are the advantages of all emerging economies, including Azerbaijan. The 2nd group advantages are the advantages that directly belong to Azerbaijan. The advantages of developing countries, including Azerbaijan:

1) Developing countries with developed countries as they are developing countries compared to many times. More growth is the opportunity to generate more revenue. This principle encourages transnational companies around the world to invest in more developing countries.

2) Local firms are weakly developed, and domestic competition is not strong.

3) Developing countries have the opportunity to earn higher returns for high risk.

4) In emerging markets, foreign investors are locally bureaucratic are less likely compared to investors. The advantages of direct Azerbaijan are as follows:

a) In addition to having a favorable geographical location of Azerbaijan developed international transport network (air, water, railway and motor roads, oil and gas pipelines). This facilitates the creation of intense relationships with external ones;

b) has a rich natural-economic potential (rich mineral resources, productive land, favorable natural-climatic conditions, plentiful and cheap labor force, etc.);

c) industrial enterprises with a number of modern technical and economic base, production areas and infrastructure facilities are available;

d) strong scientific and technical potential and qualified personnel reserve;

e) involvement and protection of foreign investments, foreign economic relations establishment and implementation of a number of important laws and regulations on liberalization and development and the establishment of an organizational and management mechanism for their implementation;

f) engage in business activities with a number of influential foreign companies around the world establishing businesses;

g) interstate economic agreements with leading countries of the world, international treaties and agreements, international and regional economic associations and accession to organizations, etc. Using these advantages of our country, it is necessary to accelerate the attracting of foreign investments and prevent the development of business, restrictions should be eliminated.

It should be noted that foreign investors estimate the three main risks while investing in transition economies:

I macro-economic stability - economic growth, inflation, exchange rate risk, etc.

II institutional risk - foreign investment climate, tax regime, legal regulation and level of corruption;

III political risks - stability, political freedoms, etc.

The minimal risk shown in preparing the overall investment policy of Azerbaijan to create conditions for investors to enter the domestic production and consumption market, to encourage foreign investment in the manufacturing industry for more than 2 years, and to provide a full account of the business climate for foreign investment to attract foreign investors and to increase the rating established by international organizations (regional) agencies should be established. It should be noted that the rankings of the world's leading organizations are very important for the country, which needs more than any foreign country, especially in the economy. Foreign companies attach great importance to indicators that reflect the investment and business environment assessed by international organizations when investing in any country's economy. In recent years, despite the significant reforms in the economy of Azerbaijan in the area of liberalization, privatization, improvement of the business environment and the introduction of foreign investments, there are opportunities to raise the position of our country in the rating of international organizations. Countries are trying to improve their investment climate by implementing a wider range of economic liberalization in the economy to attract foreign investors. According to UNCTAD, in 2010, 149 changes

were made in state regulation in the world. 101 of these changes are related to the liberalization and elimination of restrictions. It should be noted that due to the financial crisis, the processes of liberalization of foreign investments have been relatively weakened. For comparison, in 2004 there were 270 changes in the economic regulation. 234 of these changes relate to softening Azerbaijan has experienced unprecedented development over the last decade in the economic sphere. Over the period, industrial production has tripled, with unemployment sharply declining in the country. At present, the unemployment rate is around five percent in the country. Foreign debt accounts for only 12 percent of the gross domestic product. This limit is regarded as one of the most successful outcomes in the world in the current crisis.

Formation of the economy on the basis of market principles, the correct implementation of economic reforms and the emergence of new property relations among the factors affecting the development of the non-oil sector, especially the non-oil industry in the country. Over the past two years, the Republic of Azerbaijan has ranked 9th among 183 countries in the field of registration of real estate rights under the World Bank and the International Finance Corporation's Doing Business 2013 report. Over the past period, procedures and regulations that regulate the private sector's activities and which are crucial for the development of the non-oil industry have been substantially liberalized, a state-financed mechanism has been set up, the maximum limit of 15 per cent of import duties has been set, the profit tax rate is reduced to 20 per cent and the protection of entrepreneurs' mechanisms were created and procedures for state registration of economic entities were simplified. Azerbaijan Investment Company was established with the order of the President of the Republic of Azerbaijan dated March 30, 2006 to promote the development of non-oil sector of the economy and to invest in the modernization of the material and technological base of existing enterprises. In order to support business development, the Entrepreneurial Council under the President has been established. The acceleration of efforts to create a microcredit bank with the

establishment of foreign investors to further improve the financial support to the non-oil sector and the creation of these banks have created "green light" for the solution of the initial capital problems of those working in this area. Decrease in centralized accounting rates in order to reduce interest rates on loans in the country and reduce the discount rate from 10% to 7% by the Central Bank has affected the business environment. Practical steps have been taken to prevent negative situations such as the inability of the licensing system of business areas and hence the emergence of bureaucratic obstacles in the country, which hinders the development of the economy, industry and the private sector. The number of licensed economic and business activities has been reduced and important legislative documents have been adopted to create a fertile environment in this direction. Azerbaijan has entered the "upper middle income" group of countries for the Common National Income class, which is per capita of the World Bank, more quickly than other CIS countries. Our country, based on the United Nations Development Program's 2010 report on human development, left a group of "average human development" countries "high human development" countries. For macroeconomic stability, Azerbaijan is in the 18th place in the world. According to the index of competitiveness of the Azerbaijani economy, Azerbaijan is one of the first among the CIS countries. The country holds the eighth place in the world according to the "macroeconomic situation" and 30th in the "labor market efficiency" indicator. Over the past year, the country has moved up to 11 levels on the "technological level" indicator, "macroeconomic stability" and "financial market development" indicators. In international reports, Azerbaijan entered the top 20 on some of the sub-indicators. Azerbaijan ranks 14th in the 'Innovation Potential' indicator, 13th in the "Technological Level" indicator, and 5th in the quality of institutions. According to the index of competitiveness Azerbaijan has been a leader in CIS for 4 years. At the same time, the existence of a favorable business and investment climate, a relevant regulatory and legal framework and institutional framework for attracting foreign investment and promoting

exports. The Republic of Azerbaijan has been among the first in the world in terms of economic growth rates achieved in recent years. The economic stability that potential foreign investors invested in in this or that country has been reflected in the fast and sustained growth of macroeconomic indicators in Azerbaijan. Thus, GDP in 2016 increased by 3.2 times, strategic currency reserves by 31 times, and state budget revenues by about 16 times compared to 2003. According to the World Economic Forum's latest report on global competitiveness, Azerbaijan, which ranks 38th in the world, has 9th out of 144 countries in terms of macroeconomic stability.

In the achievement of these achievements, the special role of the state in the development of the private sector has played a major role. As a result of the work done to improve the business environment, today more than 80% of the country's economy falls to the private sector. Includes simplification of procedures and procedures for entrepreneurial activity, electronic business registration, full taxation of tax system, application of "single window" system, interactive and informative information services. For this reason, in the latest report on the simplicity of business activity published by the World Bank, Azerbaijan ranks 15th among 50 countries that have been oriented towards the best indicator since 2005. In addition to the implemented reforms, the strengthening and improvement of the normative-legal base and the signing of international agreements have laid the foundation for a successful business venture for foreign investors, along with Azerbaijan's domestic entrepreneurs. Signing agreements on mutual protection and promotion of investments with 46 countries, as well as agreements on eliminating double taxation with 45 countries, Azerbaijan is also a member of international conventions protecting the rights of foreign entrepreneurs. In addition, institutional mechanisms created as a mediator between the private sector and the state are another example of government support for entrepreneurship. Azerbaijan Export and Investment Promotion Foundation (AZPROMO) providing various services to local exporters and foreign investors, National Fund for Entrepreneurship Support

(NFES), providing concessional loans to entrepreneurs, State Agency for Agricultural Credits under the Ministry of Agriculture, implemented joint investment projects with local and foreign investors the Azerbaijan Investment Company (AIC) and the newly established industrial parks and industrial neighborhoods are the main task to stimulate the development of the non-oil sector of the country's economy. In addition, it is necessary to expand production and export of highly competitive products in order to ensure balanced and sustainable development of the country's economy in the following years, thereby increasing the business and investment environment, simplifying foreign trade procedures, and increasing public support to entrepreneurs in the international markets. However, it is advisable to take the following measures to further improve the investment climate:

- State bodies and municipalities, including business entities expanding the range of electronic services to increase the quality of services to foreign investors, expand their coverage and increase transparency in this area;
- registration of entrepreneurship subjects, including legal entities with foreign investments, issuance of permits for construction, access to utility networks, state registration of real estate rights, recruitment of labor force, reduction of procedures, time and expenses in foreign trade and other activities of state regulation of entrepreneurship, enhancement of legislative acts aimed at attracting, protecting and promoting investments, including expanding the bilateral contractual framework in the field of mutual protection and promotion of investments with foreign countries;
- Relevant state bodies to entrepreneurship subjects, including foreign ones

- expanding the range of services provided to investors based on the principle of "single window";
- Promoting investments and exporting services to foreign investors and exporters
- strengthening institutional mechanisms and best international practices
- improvement accordingly;
- Direct external to the economy of the country, especially to economic projects
- promotion of investments through the securities market, institutional development of the securities market, financial intermediation and organization of collective investment schemes, support of demand and supply in the securities market, expanding the principles of financial transparency and corporate governance, and the securities market improving the regulatory and legal framework and raising awareness and professionalism in the securities market;
- Acceleration of Azerbaijan's accession to the WTO;
- Actively participate in regional integration blocs, as well as with countries in the region
- obtaining mutual concessions on foreign trade by signing a bilateral agreement;

Conclusion

Economic theories show that the more limited the rewards, the greater the demand for its more efficient use. From this point of view the limitation of the state investment financing is topical. In the early years of independence, the national economy has become a crisis. In this situation, the only way was to raise the national economy back to its feet by bringing foreign investments into the country. In the given period, Azerbaijan's investment policy was mainly attraction of major foreign investments to the oil sector. Specific investment environment for foreign investors as a result, the volume of investments in the economy of Azerbaijan is estimated at \$ 1 billion. The key feature of modern investment policy of our country is the achievement of high development of this sector by completely reducing the economy's oil dependence and directing oil revenues into non-oil sector investments. To achieve this, to create innovative production facilities by increasing their production capacity and using the latest achievements in scientific and technical progress by directing innovative investments into existing production facilities.

In contemporary conditions, the competitiveness of the national economy of Azerbaijan and increasing the export orientation of the leading sectors of the national economy are closely linked to foreign investment. The directions of direct foreign investments and their preferences were outlined within the foreign investment. With the increase of direct foreign investment in the national economy, it is possible to bring the finished and finished consumer goods in the world market to the world market and to be competitive.

The following results were obtained as a result of the research:

- The modern system of foreign investment involves not only informational support, but also in the form of financial and sustainable support. In addition to traditional support mechanisms, many countries have

begun implementing new mechanisms to promote and stimulate investment, and new discounts have been adopted. In order to attract foreign investments and investor support, a "single window" mechanism has been initiated and the tax burden has been reduced. The involvement of foreign investments is largely due to the existence of a substantial intellectual property system and the protection of intellectual property, with emphasis on the development of this area;

- stimulating the flow of import-substituting and export-oriented foreign investments in line with non-oil development priorities, increasing the volume of non-oil exports and ensuring access to new markets. To achieve this goal, it is important to: • Identify key areas for attracting foreign investment into the non-oil sector; Increasing the volume of foreign investments and improving the structure of high added value of the country's economy; Developing a creative economy that raises the attractiveness of the investment environment; Implementing incentive mechanisms to intensify foreign investment involvement, developing investment cooperation between public and private sectors; Intensification of investment attractiveness through the financial market; More intensive involvement of foreign investments into priority sectors of the non-oil sector to diversify the economy.

- The advantages of our country for attracting foreign investments in Azerbaijan are as follows: Azerbaijan has a favorable corpus-transport position, as well as developed international transport network (air, water, railroads (now railroad cars from Ukraine, China reaches XR during the month) and roads, oil and gas pipelines. This simplifies the ability to create intensity from outside; rich natural-economic potential. There are a number of industrial enterprises, production facilities and infrastructure facilities with

a modern technical and economic base; Establishment of organizational and managerial mechanisms for the adoption and implementation of a number of important laws and regulations on foreign investment attraction and protection, liberalization and development of foreign economic relations; Accession to international treaties and agreements, accession to regional economic associations, etc.;

- The following measures are in place to further improve the attractiveness of the foreign investment: increase the quality of services provided to foreign investors; Improving and enhancing the quality of electronic service in their service; Improvement of legislative acts aimed at attracting, protection and promotion of foreign investments, expansion of bilateral contractual legal base; Expansion of services provided to foreign investors based on "single window" pillar; Intensification of investment and export incentive mechanisms for foreign investors and exporters. Arrangement of a development program for foreign investors and local producers to increase local component product and services provided by foreign investors.

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