

**THE MINISTRY OF EDUCATION OF THE REPUBLIC OF
AZERBAIJAN
AZERBAIJAN STATE UNIVERSITY OF ECONOMICS
INTERNATIONAL GRADUATE AND DOCTORATE CENTER**

MASTER DISSERTATION

ON THE TOPIC

**“ECONOMIC DEVELOPMENT TRENDS IN THE SECURITIES
MARKET IN AZERBAIJAN”**

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BAKU – 2019

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MARKET IN AZERBAIJAN”**

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Azərbaycanda qiymətli kağızlar bazarının iqtisadi inkişaf meylləri.

Xülasə

Tədqiqatın aktuallığı: Sözü gedən dissertasiya mövzusunda ölkənin əsas aparıcı sahələrindən biri olan qiymətli kağızlar bazarının global inkişafın və onun iqtisadi, maliyyə, xüsusən də bir başa edilən investisiyalara olan təsiri öyrənilir. Cari dövrdə əsas maliyyələşmə sahələrindən biri olan maliyyə institutları bəzi hallarda ən effektiv və ən uyğun kredit təklifləri ilə bazarda iştirak edə bilmir. Bunun ən real əvəzedicisi olan qiymətli kağızlar bazarı, risk iştahası səbəbindən maliyyə institutlarının kəflif edə bilmədiyi anlarda biznesə real dəstək olur. Bu sahənin Azərbaycanda da inkişaf etdirilməsi üçün lazımi tədbirlər atılmalı və uyğun proyektlər icra edilməlidir.

Tədqiqatın məqsəd və vəzifələri: Dissertasiya yazılan zaman əsas nəzərdə tutulan məqsədlər qloballaşmanın təsirindən yaranan effektdən xarici investisiyanın qiymətli kağızlar vasitəsi ilə cəlb edilməsi və bu yollar daxili bazarı canlandırmaq yollarını araşdırmaqdır. Bu üçün araşdırma iqtisadi sabilliyin daha da möhkəmləndirilməsi, bu vasitə ilə ölkə reytinginin yüksəldilməsi, hasıki hal-hazırda Ba2 səviyyəsindədir, və nəticədə maliyyə kağızlarına olan marağın artırılmasıdır. Digər bir faza isə ölkə daxilində qiymətli kağızlar üzrə maliyyə savadlığının artırılması və peşəkar əməkdaşların yetişdirilməsidir.

İstifadə olunmuş tədqiqat metodları: Nəzəri biliklərin əsas götürülməklə ölkə daxilində bu sahə üzrə araşdırılmada çox az araşdırılmış Çin Respublikasının metodikası, məsələyə yanaşması və statistika dövlət orqanının təqdim etdiyi, və eyni zamanda müxtəlif məlumat qrafikləri təklif edən beynəlxalq mərkəzlərinin informasiyasından yararlanaraq bitkin fikir irəli sürülmüşdür.

Tədqiqatın informasiya bazası: Tədqiqat cari mövzu ilə daha əvvəl öz fikirlərinin kitab və ya məqalələrdə əks etdirmiş tədqiqatçıların nəşrləri və müxtəlif dövlət və ya cari sahə üzrə beynəlxalq bazarda öz sözünü demiş mənbələrdən əldə edilmiş statistik xarakterli məlumatlar istifadə edilərək dissertasiyanın yazılmasında istifadə edilmişdir.

Tədqiqatın məhdudiyyətləri: Dissertasiya yazılan zaman hər hansı informasiya məhdudiyyətinə rast gəlinməmişdir.

Tədqiqatın nəticələri: Dissertasiyada müzakirə edilən məqamların məntiqi sonluğu kimi nəticələrə gəlinmiş və hər bir sahə üzrə təkliflər verilərək onların icrası zamanı yaranacaq məqamlara toxunulmuşdur.

Nəticələrin elmi-praktiki əhəmiyyəti: İqtisadiyyatın bank sektoru, ölkə və korporasiya gəlirləri, iqtisadi vəziyyət, investorların ölkəyə olan maliyyə maraqları və sair bu kimi digər sahələrlə sıx əlaqədə olduğu üçün dissertasiya zamanı əldə edilən nəticələr izah olunarkən əsasən bütün sahələri mümkün qədər əhatə edilməsinə yönəlmişdir. Qeyd edilən təklif və nəticələrin bəziləri yalnız teoriya olaraq yazı formasında qalsa da, digərləri real dünya nümunələrindən götürülmüş və onların nə dərəcədə sözü gedən bir başa investisiyalara, qloballaşmanın təsirini özündə əks etdirən məqamlar araşdırılıb.

Açar sözlər: maliyyə zəbarları, qloballaşma, inkişaf etməkdə olan ölkələr, inkişaf etmiş ölkələr.

ABBREVIATIONS

FDI	Foreign Direct Investment
MNC	Multi National companies
GDP	Gross Domestic Product
SME	Small-Medium Enterprises
ISI	Import Substitution Industrialization
IPO	Initial Public Offer
OCP	Open Currency Position
NPV	Net Present Value
YTM	Yield to Maturity
FIMSA	Financial Market Supervisory Authority
CBAR	Central Bank of the Republic of Azerbaijan

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INTRODUCTION

Actuality of topic: This thesis topic studies global development of the securities market, one of the key and leading areas of the country, and its impact on economic, financial dynamics and direct investments. Currently the financial institutions that constitute one of the main financing areas cannot participate in the market with the most efficient and most relevant credit options in some cases. The securities market, as the most real substitute of this, provides businesses with an actual support when the financial institutions cannot offer the effective options due to risk appetite. Necessary measures should be taken and relevant projects should be executed for improvement of this area in Azerbaijan.

The level of problem investigation and formulation: The main problems stand for the government is rise credit rating of the country which is provided by big three rating companies for corporates and also for countries. By this way we might attract foreign investors for a profitable security market and decrease yield of the papers.

The objectives and duties of the thesis: The main objectives of the thesis are analysis of ways to attract foreign investment through the securities with the effects of globalization, and to explore ways to revive the domestic market. This research is to further strengthen economic stability by raising the country's rating, which is currently at the level of Ba2, and ultimately raising interest in securities. Another objective the thesis aims is the increase in financial literacy across the country regarding securities and growth of the professional staff in this field.

Research objectives: Objectives of the thesis consist of investigation of problems, offering appropriate models of peer countries, and by applying models thesis tries to select the most suitable one.

Research methods used in the thesis: Economic theories, statistical and econometric study methods were utilized along with the information by international centers offering different data graphs and the ones obtained from relevant state authorities for conducting research. The research methods are up to the concept of the topic.

Information base of the thesis: As an information base, the direct and indirect ideas collected from many book and articles which mostly cover security market forms in developing countries, especially in China. Moreover, statistic and graphical tables are copied by using outstanding big three rating companies and government institutions.

Limitations of the research: No information limitations were encountered during preparation of the thesis.

Scientific and practical significance of the results: The main role of financial markets in the economy is controlling money flow among government, corporates and consumers within a full cycle of one product or service. Due to financial markets businesses such as corporate and especially small and medium enterprises can cover their cash flow gap between producing a product and receiving a cash for a purchase. Deficit of money for a new production between producing a product and receiving a cash for a purchase can be covered by financial institutions. Actually there is an advantage for both sides of that process and additionally having said that government also is able to save its savings for the prioritized issues than caring for production. Thus, there is a chance for corporates to cover liquidity gap, which helps to manage liquidity issues such as staff salaries, collection raw materials and provide other operational costs. On the other hand, financial institutions such as banks, non-bank loan organizations and other organizations make a profit through their loans, loan guarantee, performance guarantee and so on. Therefore, central bank is interested in this industrial sphere and tries to create a suitable environment for easy borrowing and lending processes. Moreover, there is also one more branch of financial market that referred to as security market. The responsibility of security market includes offering corporates to public as initial public offer, borrowing money through fixed income products, managing liquidity instruments, managing open currency position and other derivative instruments. Let's discuss these products more detailed and highlight its advantages or disadvantages.

Structure and size of the thesis: In the thesis structure, current environment in the security market, potential appropriate market models, economic solution and

action plans are formalized in order to stimulate security market in Azerbaijan. The biggest part of the thesis consists of potential market models of China and action plans for the development.

In recent decades, security market has come to the forefront of many discussions and debates, especially in relation to its impact on foreign direct investment in developing countries. This study aims to concentrate on how security market can influence economic situation of the country, foreign direct investment levels in developing nations, using evidence from Azerbaijan. Moreover, as we know Azerbaijani market has not own the number one top security market even in the among emergency markets, therefore as an obvious methods to interpret the current condition, compare primary trends and benchmarks, ultimately sort out the target market situation for the next five or ten years we have to decide on the target country. Due to target country dissertation might has a chance to provide robust proposals in order to bring Azerbaijani security market environment to the level of the target country and, simultaneously, exclude deviations that is not suitable for our domestic market. There are main reasons to choose European countries or United States of America as a target country in view of the fact that these nations have precise powerful economy and financial system to remain the same growth trend even in the crisis periods or on the other side, these states are available keep economic improvement trend high by narrowing recession interval of the economic cycle. However, as historical data indicates that even big economies may default or just come close to failure to pay its debts in crises periods. At the same time, the structural formation of the security market of Azerbaijani security market is far away from the top controlling counties' financial markets. If take into consideration that derivative market really takes a tremendous place in United States of America or on other European countries to diversify market products in the market, while Azerbaijani security market mainly focuses on government notes and other state securities. Therefore, as an alternative solution of this issue we can select China Republic as a benchmark for Azerbaijani security market and analyze all statistical questions and issues with that country. One of the main reasons to select China

Republic as a target country is lack of studies in that sphere with that country. As we remember from the previous studies that studies are discussed this tasks only in comparison with United States of America or on other European countries and at the final result they always sum up with that opinion that in spite of the reason that these countries are improved so much as a developed country, while their security market model do not match with Azerbaijani security market and there are many gaps that theoretically is not possible to cover. Although, China Republic is also emergency market, our financial situations might not match as Turkey's financial environment. However, as I mentioned above China Republic is one of the first studies in the local scientific researches. In order to compare these two countries, first and foremost, we have to research China Republic's financial and economic situation, indicate Gross Domestic Product, inflation rate which plays a tremendous role in the determination of yield of security, historical data of interest rate which indicates central bank's impact, unemployment rate in order to analyze economic situation of the China Republic, China Government Budget to understand expense power of the government in the foreign direct investment proportion, debt to foreign direct investment ratio, balance of trade, economic growth trend, Foreign direct investment and so on. foreign direct investment plays an unbelievable role in order to improve a country such as China after the many difficulties and gain actually a very immense development which helps to compete with the economy of United States of America. The study provides an insight into the most popular post-war development theories- Modernization and Development theory. Throughout the paper these theories are applied to the policy of the Chinese government. The theoretical literature on China has illustrated how globalization can have a positive impact on foreign direct investment in China. The paper concludes that the impact of globalization on foreign direct investment is dependent on several variables such as political stability, corruption and poverty. Increased foreign direct investment does not lead to prosperity for all and thus future research into the repercussions of increased foreign direct investment is considered.

Nowadays, the worldwide economy has various spheres to spread its power and simultaneously many sectors provide a big support in improvement aspects. Production and consumption, service and its types, trade and negotiation, banking and insurance, leasing and life insurance and other such kind of examples are the part of economy. Although all mentioned things play a tremendous role in a daily turnover life of economy, however without foreign direct investment it would be a tough issue for investors to find appropriate opportunities and for the weak countries, especially such as China, to find world-wide, cheap borrowing money with new opportunities and new social, economic, business supported projects. In the other word, due to potential ability of China, foreign direct investment makes a suitable environment to combine and connect investors who want to lend and countries who look for cheap lending. Therefore, it is unthinkable to imagine the current economic situation in the lack of foreign direct investment in China.

As a final conclusion of the case about how China is really one of the profitable countries in the world for business perspective, having said that, beside the words or some graphs you need to ask from citizen of your city who you will meet first at the street. The question should be easy as whether two plus two or just how old you are – which products you do know with a famous sentence “Made in China” and what kind of Chinese products do you use at home. If that person is in the ability to talk, he will count you infinite list with Chinese productions. It is not one of the ways in order to persuade you to believe to something. The survey might be an obvious indicator for the tremendous power of China Republic which also indirectly show the source of all these counted product. Of course except human power, land, raw materials, technology and other important sources which we learned for many years from economy classes, investment does not take a fragile place in the production. In order for comparable product at inception to remain business cycle process, first and foremost enough source of money have to exist. Taking into account of available free money in the country which has been printed by the central bank of China Republic and interest rate (not risk free rate) at banks for business loans, companies especially small and medium enterprises might need

cheap, long term matured and big amount of investment to start. Because of the reason that national banks in the country mostly finding financial sources from the central bank with intermedia mature securities and as a another purpose that shareholders require fast earnings, therefore for long term investment domestic banks may face some kind of difficulties. At this moment foreign direct investment come into scene for easing mentioned problems with long term investments. Simultaneously, from another side of the economy, government decreases tariffs, increases transparency for the economy and tries to get the highest score rating from three rating companies, expresses all dispute solution point to the legislation and creates a suitable environment to attract maximum amount of foreign direct investment and keep them in the country as much as long term.

The main role of financial markets in the economy is controlling money flow among government, corporates and consumers within a full cycle of one product or service. Due to financial markets businesses such as corporate and especially small and medium enterprises can cover their cash flow gap between producing a product and receiving a cash for a purchase. Deficit of money for a new production between producing a product and receiving a cash for a purchase can be covered by financial institutions. Actually there is an advantage for both sides of that process and additionally having said that government also is able to save its savings for the prioritized issues than caring for production. Thus, there is a chance for corporates to cover liquidity gap, which helps to manage liquidity issues such as staff salaries, collection raw materials and provide other operational costs. On the other hand, financial institutions such as banks, non-bank loan organizations and other organizations make a profit through their loans, loan guarantee, performance guarantee and so on. Therefore, central bank is interested in this industrial sphere and tries to create a suitable environment for easy borrowing and lending processes. Moreover, there is also one more branch of financial market that referred to as security market. The responsibility of security market includes offering corporates to public as initial public offer, borrowing money through fixed income products, managing liquidity instruments, managing open currency position and other

derivative instruments. Let's discuss these products more detailed and highlight its advantages or disadvantages.

An initial public offer makes private company to public, and by this way stock of company become available for public purchase which considered as a mirror of company's financial statements, reputational issues and managements attitude. Therefore, price of stock is more volatile for risky companies and less volatile for big companies. Of course, there is a possibility for a manipulation by big players in the market, however standardized government policies controls this issues and punishes that players in case of violation.

Bond product serves corporates to find a loan from a different lenders and this number may spread from one to thousands depends on volume of issued bond number. A fixed income product consists of certificate of deposits, commercial papers, bonds, bill or notes other such kind of financial tools which provides a clear calculation of fixed income of the paper at the end of period. At maturity investor gain the fixed income of money, unless they do not decide to trade it before the maturity because of market price volatility. A fixed income products are sold in discount, premium or par value. In case of discount selling an investor pays discount amount, for example 98 dollar, and gets a par value 100 dollar at the maturity. The difference between these two numbers is a profit of an investor. As vice versa, premium selling fixed income is sold in premium, for example 102 dollar, and gets a par value 100 dollar at the maturity.

Liquidity instruments are differ from fixed income products that their main purpose of purchasing is managing liquidity issues which helps a company to liquidate its financial paper in order to meet short term obligations of the company than making a profit from trading activities. Moreover, there is also manipulating purposes in order to change market prices by big players of the market and they use this activities to make a personal gain by violating fair market rules. Liquidity instruments includes short term papers with low yields and they have a very active secondary market for trading current securities to exit the position.

Open currency position is standardized rules of the central bank to narrow losses in case of exchange rate changes. Thus, each bank has its asset and liability positions in the balance sheet which indicates planned receiving and obligation positions. By subtracting assets from liability and dividing this number by total capital of the bank we are receiving a ratio which interprets effect of exchange rate changes in this ratio. Thus, increasing exchange rate in long position make a non-trading profit for a bank. As the central banks actually adds derivatives and off balance items to this equation, so management of derivatives also takes a tremendous place in the financial institutions.

Historical indicators show that economical and financial situation are growing year by year and this process will go on forever. Climbing numbers show itself in the mass sector, however there are the most important sides which have to be mentioned most of all. First and foremost, management of the life circle of the crisis should be taken as a prioritized case and action plans must be accelerated due to financial support influences. Moreover, financial transparency, high credit rating, investment condition in the market is an extremely significant sample for the investment perspectives. Emergency markets sometimes lost these measures, and this somehow affects the improvement of the market members. In this way China has organized transition steps one by one which accelerate the process, facilitate to see the full picture with the estimated results. By coping or paraphrasing the best rated markets, emergency market can also get some gain. On the other hand, strong investment market is also interesting for the improved countries. Furthermore, high level markets also cannot stand in the same place, and therefore due to international conferences, organization and government supports the current situation is getting new heights. Strong corporate governance positively affects the quality of financial reports in a sense that it minimizes the incidence of fraud, fewer restatements and lower earnings of the management. The nature and strength with which organizations carry out their initiatives pertaining to corporate governance significantly affect the audit process.

Ultimately this study will use a deductive approach as the research begins by analysing the general topic of globalization, followed by examining its impact on foreign direct investment in developing countries, and finally concluding on its specific impact in China.

As historical data indicates that even big economies may default or just come close to failure to pay its debts in crises periods. At the same time, the structural formation of the security market of Azerbaijani security market is far away from the top controlling countries' financial markets. If take into consideration that derivative market really takes a tremendous place in United States of America or on other European countries to diversify market products in the market, while Azerbaijani security market mainly focuses on government notes and other state securities.

CHAPTER I. SECURITY MARKET INFLUENCES ECONOMY AND THE MAIN BACKGROUND POINTS WITH THE COMPARABLE SCENARIOS OF CHINA REPUBLIC

1.1 How do security markets run and tremendous collisions of the globalization?

Common in the literature on globalization is a wide array of definitions that try to conceptualise the theory into sub-categories, in the attempt of making its understanding easier. Henry Wai-chung Yeung, a Singaporean economist and academic defines globalization as ‘the rapid proliferation of cross-border production, trade, and investment activities spearheaded by global corporations and international financial institutions that facilitate the emergence of an increasingly integrated and interdependent global economy’. The popularization of the word ‘Globalization’ came about in the 1980’s, representing the increase in technological advances which inevitably made international transactions in trade and financial flows substantially easier and more rapid. The term also refers to an invisible extension that goes beyond national borders of similar market forces that were in operation for centuries before, such as urban industries, village markets, or financial centers. There are numerous empirical and theoretical indicators that further establish the globalization phenomenon as a force to reckon with.

- The amount of trade as a percentage of world GDP has risen from 42.1% in 1980 to 62.1% in 2007.

- Total Foreign Direct investment increased from 6.5% in 1980 to 31.8 percent in 2006, a more than 5-fold increase.

- The stock of international claims i.e. bank loans, has increased as a percentage of world GDP, from 10% in 1980 to 48% in 2006.

- The increase in the number of foreign workers from 2.4% of the world population in 1965 (78 million) to 3% in 2005 (191 million).

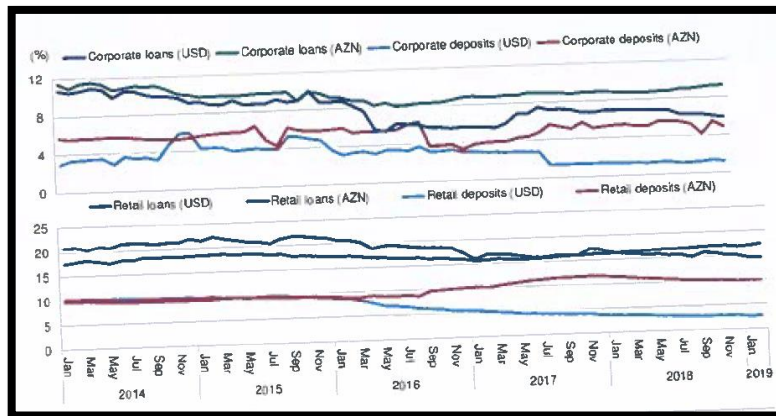
It is evident that in some regions and countries in the world have gained from improved efficiency via increased competition and the division of labour. In

countries like China the ability to now specialise on a comparative advantage has played a large part in the growth rate of the country. This has been made possible by global markets that allow access for nations and corporations to cheaper imports, increased capital and technology, and greater export markets. However, it is clear that due to a lack of national political policies, these efficiency gains have not been spread equally causing further widening gaps between the rich and the poor in developing countries. It is also evident that some other countries in Asia and Africa have not got the benefits from globalization; instead the process has resulted in poverty, corruption, and impoverishment in their country. This will be further explored by examining the background on China. Thus, comparisons between Azerbaijan and China will be discussed.

I would like to start my distinguish analyses with a simple rating scale: Azerbaijan - Ba2 and China – A1. To be honest, if remain other betas constant such as net present value (NPV), yield, duration, convexity, reinvestment rate, yield to maturity (YTM), a risk averse investor might never choose Azerbaijan's security in this situation. Therefore Azerbaijan government have to implement projects in order to increase a reputation, financial stability, governmental standardized rules for a better solution of disputes. A legislation of the country in the security market helps an investor to leave or enter the position easily and with small commissions. Furthermore, local intermediaries in the market makes purchasing and selling process of securities more easier and decreasing performance and commission fees. So in this section I am going to discuss rating scale increasing methods by different projects.

First and foremost, one of the main issues that we have to take into consideration is local market's capacity to invest into domestic securities. As mentioned in the graph dollarization process in the market decreases and that amount of money is substituted by manat equivalent in form of deposits in the financial institutions. Unlikely, manat deposits fluctuated in the previous 4 years including January 2019 also. But as a full picture manat deposits remains stable in these 4 years.

Graph 1.1 - Changed interest rate framework



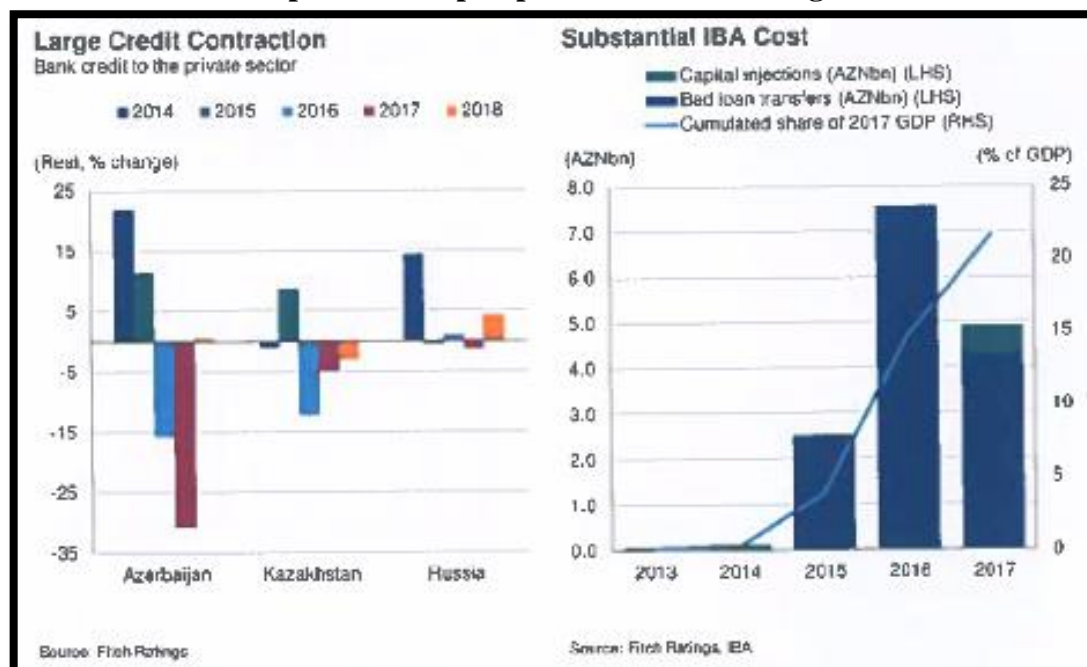
Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

Deposit rates in dollar decreased sharply after devaluation of manat and currently stays at about 1-1.5% corridor. This graph might seem to investor as a catastrophic trends. Despite an investor tend to do a shopping for himself or his family, because of cheap prices in dollars, however an investor might never agree to invest into this market which his money may lose a value in case of a new devaluation. Therefore, a government have sell them securities with an additional put option which will create an opportunity for an investor to sell it back at fixed price and run out his money safe. In this case the central bank also will do its best to keep exchange rate stable, while the biggest income of Azerbaijan depends on oil income. The last sentence opens a new discussion issues for the next topics. They are oil production trends in the global market, price impacting events, oil price and budget income correlation, breakeven point for the exchange rate changes and action planes.

This research seeks to analyse the impact of Globalization on Foreign Direct Investment in developing countries. The analysis is based on the available literature on globalization, FDI, and developing countries. For these reasons the study will take a critical analysis approach by weighing up the pro's and con's of the main issues, including the impact on socio-economics in particular countries.

As we mentioned before, Azerbaijan government, especially, Financial Market Supervisory Authority (FIMSA) implemented tremendous project just in order to improve financial market in Azerbaijan.

Graph 1.2. - Despite previous restructuring



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

Despite interest rate rise of Central Bank of Azerbaijan (CBAR) paper such as notes with 45 days maturity period or clean financial institutions or improving risk management system in banks, Government transfers the only government bank – International Bank of Azerbaijan's toxic loans and restructure the bank for new profitable and non-risky loan opportunities, and simultaneously by pushing bank shareholders to make an injection to the banks also helps bank management lend new loans, collect toxic loans year by year and get a quick interest gain from new and non-risky loans. Moreover, I would like to compare bank credit to the private sector ration among the same market region players like Russia, Kazakhstan and Azerbaijan. As we know these all three countries made a devaluation in their domestic currency against the dollar. The bar chart interprets that Russia exit the bad situation faster than the peers.

A case study approach will be taken where China will be examined using data, literature and interviews. This will hopefully provide an insight into the real impact of globalization on FDI, producing patterns and useful observations which will add a valuable contribution into the conclusions made for this study. The reason why China was chosen for this study is due to the vast literature which views China as a relatively successful representation of economic globalization. Its rapid rise from the 1980's to present is unlike any seen around the world and is therefore a benchmark for many other countries striving for economic prosperity. The vast literature on China also provides this study with easily accessible information including facts and data that will prove to be vital for this research.

Trade behavior has been created from the globalization perspective where trading partners started to organize global network and business connections with massive of trade members just to achieve whether absolute or competitive advantage and gain. Moreover, the modern banking system supports globalization procedure like nothing else. Thus, accelerated and facilitated payment process has reached its peak level, simultaneously, increased trading from 1 to 100 times. Thereby, sellers and buyers are available to receive and sent payments swiftly, in addition, new products such as guarantees smooth the process which is provided by banks to recover demanded amount in case of if the company will deny or will not be able to pay its obligations.

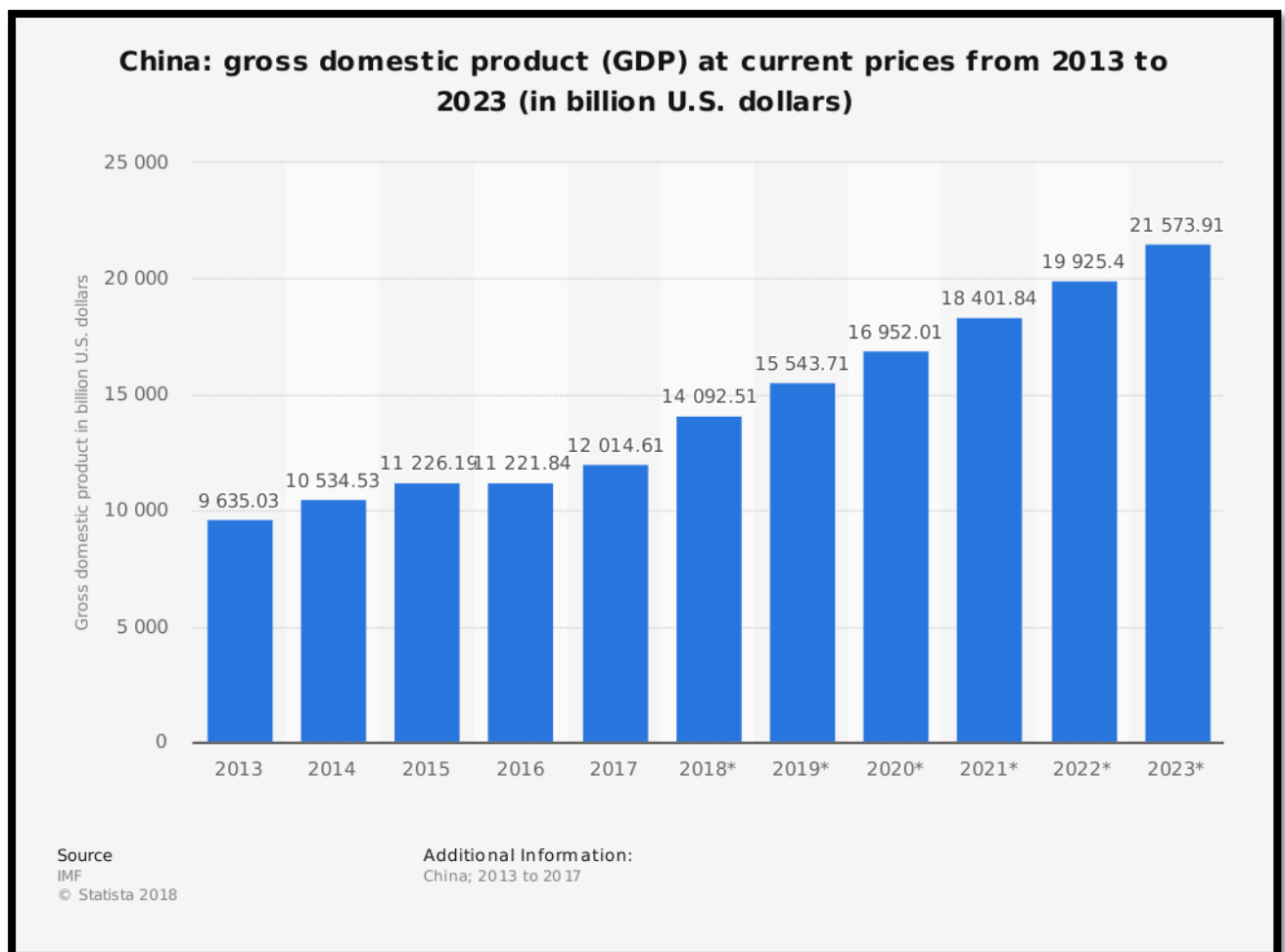
1.2 The main background points with the comparable scenarios of China Republic.

For the Chinese people the ending of World War 2 was marked with a strong statement from the founder of the Peoples Republic of China, Mao Zedong- "On what basis should our policy rest? It should rest on our own strength". In the last three decades China has shifted away from its traditional isolationist ideology and inevitably towards a more global economy stance. The catalyst for this shift was towards the end of the Cultural Revolution in an unexpected U-turn, as China's top leaders and advisors decided to encourage foreign capital participation. Instead of

the more common ISI strategy, this open door policy was part of China's own Four modernisations' programme of economic development.

As financial statements are the number one indicator for the company and every investor firstly takes a look at them for in order to get the initial review about the debts, improvement, and real situation of the company, such measure methods also are available for the countries which referred to as GDP. GDP as of December 31, 2017 date is \$12,015 billion and this tendency has been expected to rise as also shown in graph 3.

Graph 1.3. – GDP (annual statistics)

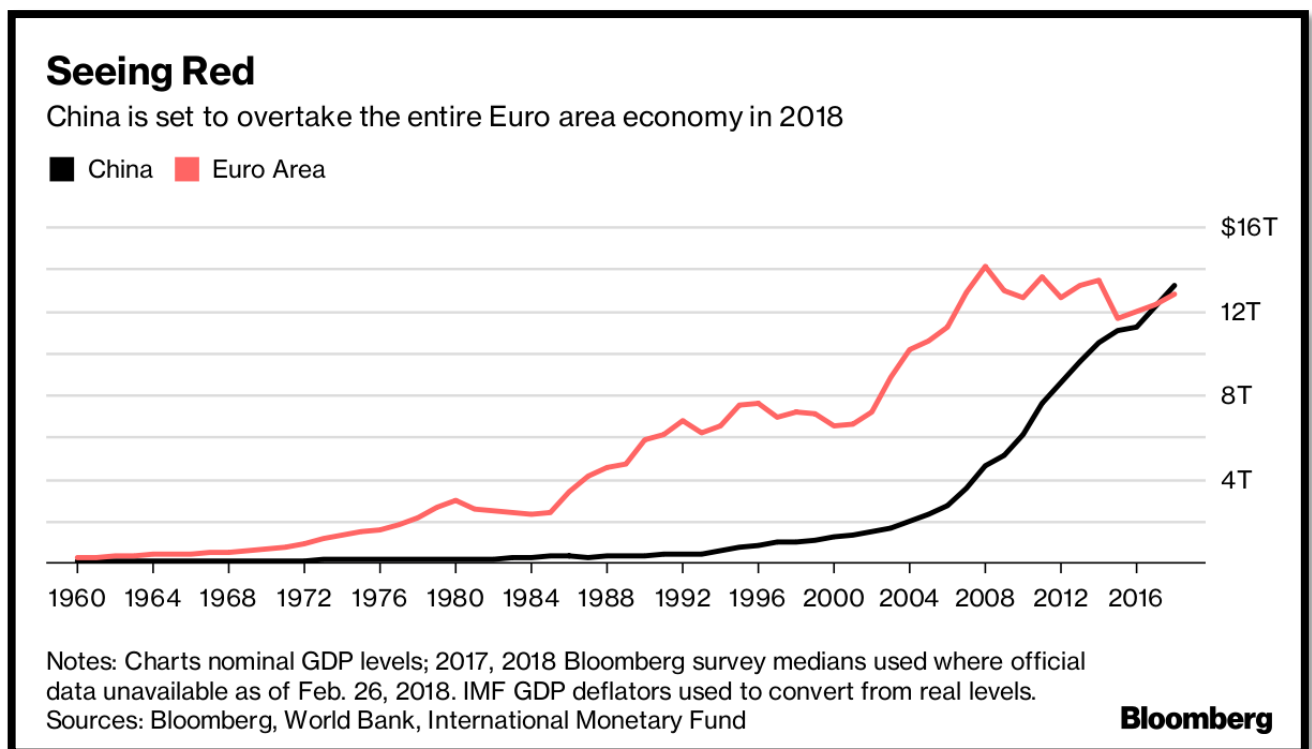


Source: International Monetary Fund/ <https://www.imf.org/en/#q=china%20gdp&sort=relevancy>

2008 crisis period has brought many harms to the strongest economies of the world and this impact did not pass through China without any damages. If take into

consideration that consumption market of the China products are almost the whole world and the decreasing ability of consumption of the countries just because of dropped budget incomes declines the sell and as a result of this process GDP has downturned sharply and reached its 6 years low level. On that point the supportive globalization factor that makes China a leader country in the diversifying production sectors with a cheap cost of goods and quick production method pulls the economy down permanently. Moreover, the massive sort of product and services helps China's corporate and small and medium factors to become the most demanded stuff.

Graph 1.4. – GDP (comparison table)



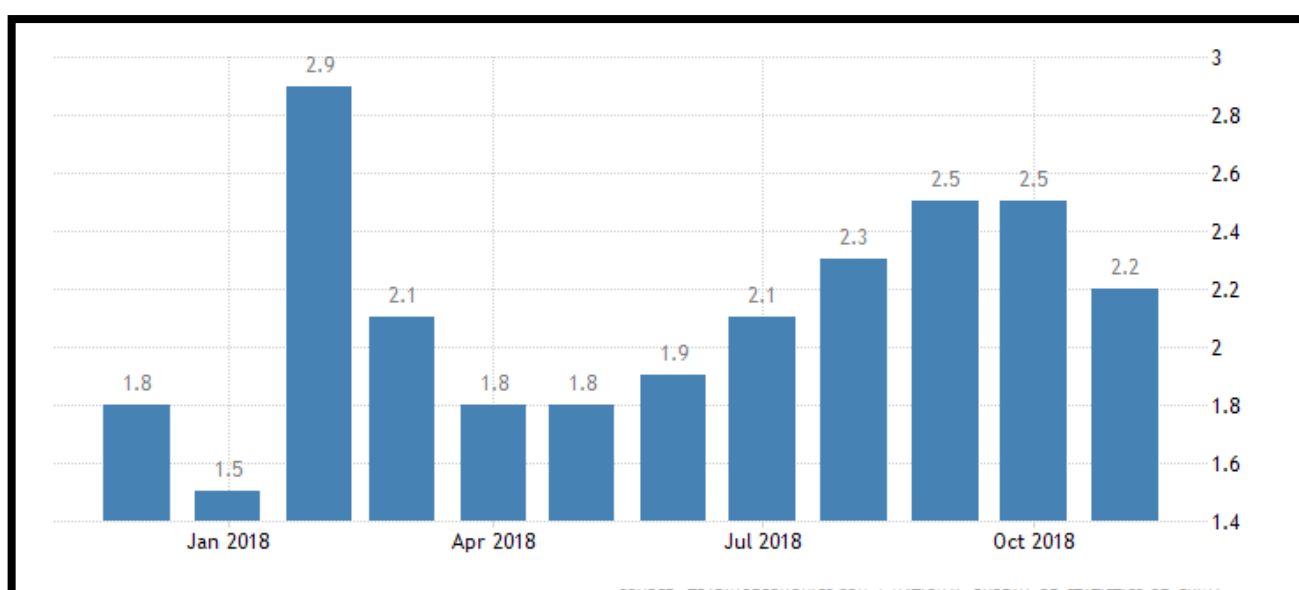
Source: Bloomberg.com/fdv=china2lk=gpd

The mentioned indicators show the positive side of China where it rules many markets by its product and services, on the other word power. Because of the reason that this rise remains its direction year by year not only business lever, but also economic level and simultaneously financial condition is becoming a good size, quality and quantity. In Graph 4 we can see a steady increase which help China to

achieve the Euro Area GDP. It is an obvious fact that the Euro area has a tremendous power to enhance its economy and other related spheres. Although all these affords China has found a capacity to pass them from 2016 year. Furthermore, the forecast estimates that this overtake by China will be saved for many years, as least till 2020.

Consumer price inflation reduced speed to 2.2 per cent as of November 2018 after a not big growth in the previous 2 months.

Graph 1.5. – Inflation rate



Source: National Statistics, Republic of China / <https://eng.stat.gov.tw/ct.asp?xItem=37408&sffs=534dsfs5465>

However, the overall view in the graph 3 shows that inflation shock in February has slowed and market find its balanced level. Food inflation reaches its low ranking in 3 months and cost of non-food rose in 7 months. On a monthly basis, consumer prices declined by 0.3 per cent in November, compared with market forecasts of a 0.1 percent fall and after a 0.2 percent gain in a month earlier. It marked the first monthly drop in consumer prices since June. Inflation Rate in China averaged 5.20 percent from 1986 until 2018, reaching an all time high of 28.40 percent in February of 1989 and a record low of -2.20 percent in April of 19 99.

Moreover, I would like to mention the importance of inflation index. Every time when experts try to estimate an inflation rate on a yearly and monthly basis, their forecast influences investors' decision in the lending perspective. Because yield

of each investment consist of many economic and financial factors, but we should not forget inflation rate as one of them. It is actually a main work of central bank and other regulatory institutions to keep harmony between the high (where rising inflation increases money supply, then banks will pump market with business and consumption loans, a result of business loans leads high salaries, more salary will increase the ambition of consumption, at the end growing spendings will improve economy) and low inflation.

Graph 1.6. – Inflation rate (2008 crisis effect)



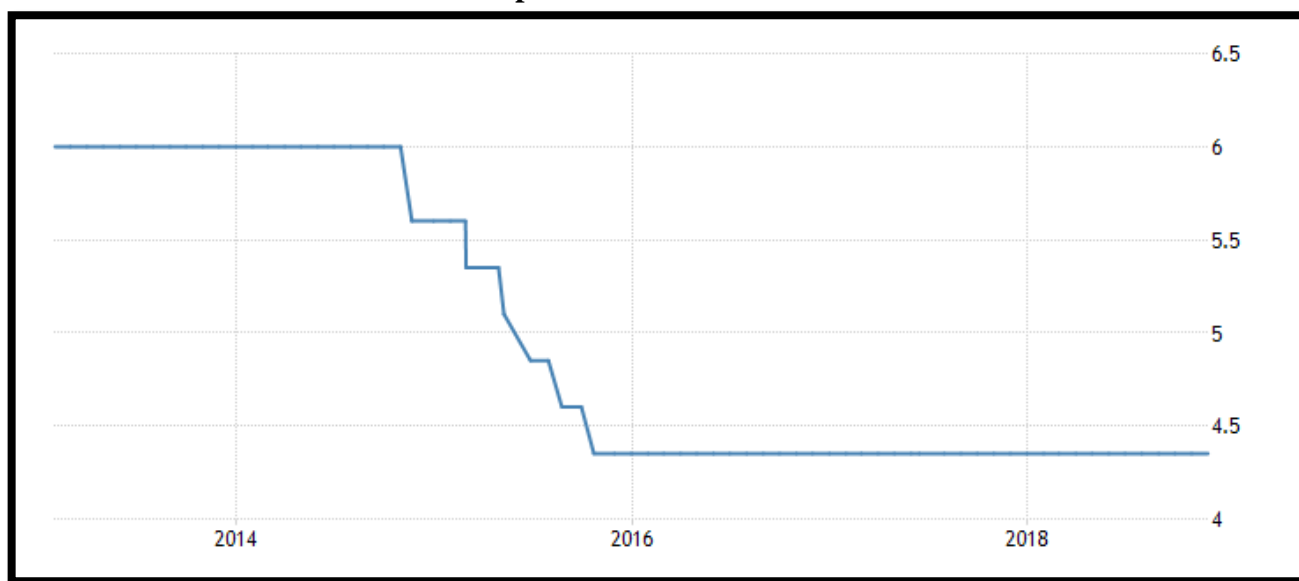
Source: National Statistics, Republic of China / <https://www.imf.org/en/=china%20gdp&sort=relevancy>

Unfortunately, some economic situation makes countries to make a heavy decision to control prevent the future damages. An crystal clear example is shown in Graph 4 where inflation rates has changed sharply – firstly hiked to almost 9 per cent and then declined to about -2 per cent in order to stabilize the position - and later fluctuated between 1 and 3 per cents.

The benchmark interest rate in China was last recorded at 4.35 percent. As observed in graph 5 it was the last cut by 25 basis points in October 2015. By taking into consideration a trade war between Chine and USA, also dependence of the economy of Chine from USA interest rates of Chine are mostly affected by the Federal Reserve’s decisions and their meeting results.

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Graph 1.7. – Interest rate ratio



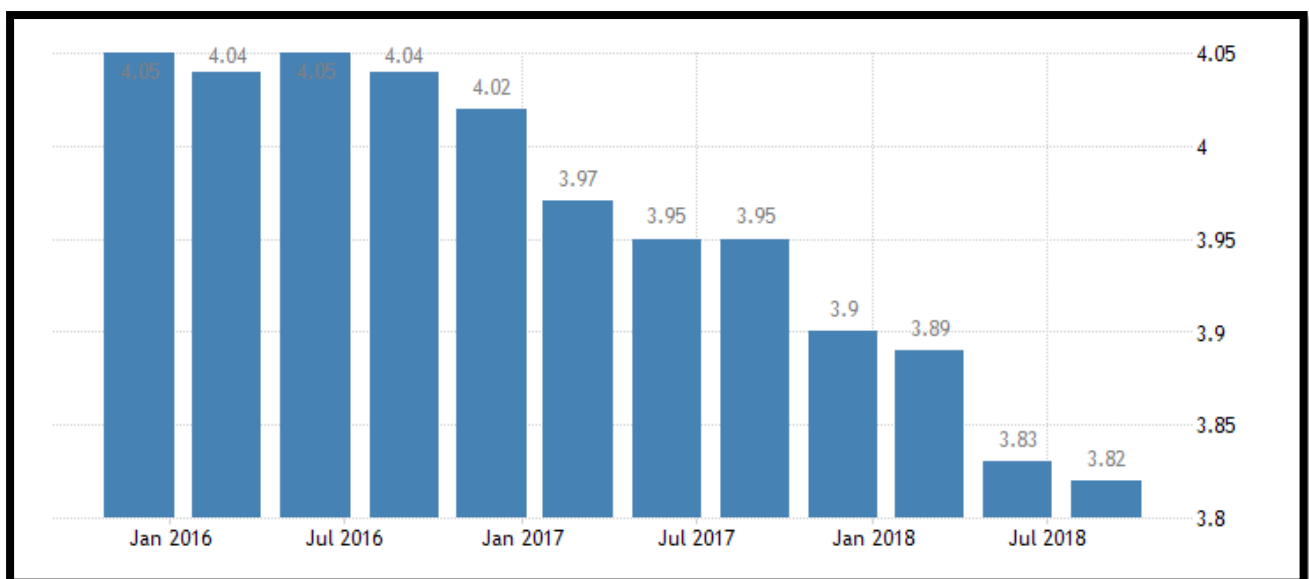
Source: National Statistics, Republic of China / <https://eng.stat.gov.tw/ct.dsasp?xItem=37408dss&CtNode=dsds>

In September 27th 2018, the People's Bank of China left interest rates for open market operations unchanged even after the Federal Reserve's decision to tighten monetary policy. The rate for 7-day reverse repurchase agreements remained at 2.55 percent, the 14-day tenor at 2.70 percent and the 28-day tenor at 2.85 percent, the central bank said in a statement on its website. Interest Rate in China averaged 6.15 percent from 1996 until 2018, reaching an all time high of 10.98 percent in June of 1996 and a record low of 4.35 percent in October of 2015.

Additionally, besides the inflation rate interest rate takes an incredible part in the life of economy. Refinancing rate is 4.35 per cent at the moment which means that short term lending from the central bank costs 4.35 per cent. The major moment in that explanation is that this kind of financing is only serving to solve short term liquidity problems. In addition, corridor floor and corridor ceiling factors mainly

depend on refinancing rate level. They determine the long term lending and borrowing rates amongst central bank and banks. In the substandard period central bank increases all mentioned interest rates to facilitate banks' daily gain and prevent their default probability as well, because in recession stage a total loan portfolio stops getting bigger and the only way to survive is a support of central bank with high yield treasury notes. Gradually central bank declines interest rate to stimulate the market for economic improvement.

Graph 1.8. – unemployment rate



Source: National Statistics, Republic of China / <https://eng.stat.gov.tw/c3cre=37408&CtNode=5347&ss>

Unemployment rate is a major indicator of economic and business improvement because an area where 96.2 (Graph 6) per cent of residences are employed, it sings a positive trend in corporate operations. From October 2015 Chine keeps its interest rate unchanged at 4.35 per cent. If take into consideration that interest rate has declined from 6 per cent to 4.35 within a year, it would be very heavy to find some other substitution of this kind of support to the economy. Of course there are many other factors that plays a tremendous role for remaining interest rates so low no less that economic improvement effect. This is a globalization comparison, and worldwide market product and service providing

capacity. It is universally believed truth that USA's 45th president Donald Trump takes an immense place in this influence. Donald Trump's conservative policy and trade war actions against China import that consist of plenty of tax and custom charges to China product and services has forced Central bank of china to go on 4.35 rates. By considering the current situation lower interest rates might not bring long term advantage to the China, therefore the only method to leave this tension is globalization. We will discuss this theme more widely in the coming paragraphs.

Graph 1.9. - Export list

	Value	Year
United States	\$430.33B	2017
Hong Kong	\$279.21B	2017
Japan	\$137.26B	2017
South Korea	\$102.70B	2017
Vietnam	\$71.62B	2017
Germany	\$71.13B	2017
India	\$68.04B	2017
Netherlands	\$67.13B	2017
United Kingdom	\$56.71B	2017
Singapore	\$45.02B	2017
Russia	\$42.83B	2017

Source: National Statistics, Republic of China / <https://eng.stat.gov.tw/ct.asp?xItem=37408&CtNode=5347&mp=5>

Graph 9 is an actual example of above talked issues. Weight of export to USA takes the first position in trade of China. That proportion of trade tells a big entrance of China into the globalization and a small change in this quantity will influence extensively to the economy.

Listed export products in graph 10 shows the high technology achievement of China. As a person who has been in China can say that products like textile, plastics, articles of apparel, furniture and other things that exported are mostly produced in

small workshops. However, the rest products need high technology for the accurate working platforms and mechanisms. Comparison on Azerbaijani export list, we can see the big portion of the oil and gas sector products, and the second biggest position has been taken by food industry due to exports to Russian Federation.

Graph 1.10. – Export by category

	Value	Year
Electrical, electronic equipment	\$598.33B	2017
Machinery, nuclear reactors, boilers	\$383.24B	2017
Furniture, lighting signs, prefabricated buildings	\$88.97B	2017
Articles of apparel, not knit or crocheted	\$73.41B	2017
Articles of apparel, knit or crocheted	\$71.82B	2017
Optical, photo, technical, medical apparatus	\$70.62B	2017
Plastics	\$70.00B	2017
Vehicles other than railway, tramway	\$67.26B	2017
Articles of iron or steel	\$56.73B	2017
Toys, games, sports requisites	\$54.59B	2017
Organic chemicals	\$49.74B	2017
Footwear, gaiters and the like,	\$48.19B	2017
Iron and steel	\$42.98B	2017
Mineral fuels, oils, distillation products	\$35.39B	2017

Source: National Statistics, Republic of China /
<https://eng.stat.gov.tw/ct.asp?xItem=37408&dscs54s>

CHAPTER II. LINKING METHODOLOGIES WITH THE TOPIC ISSUES

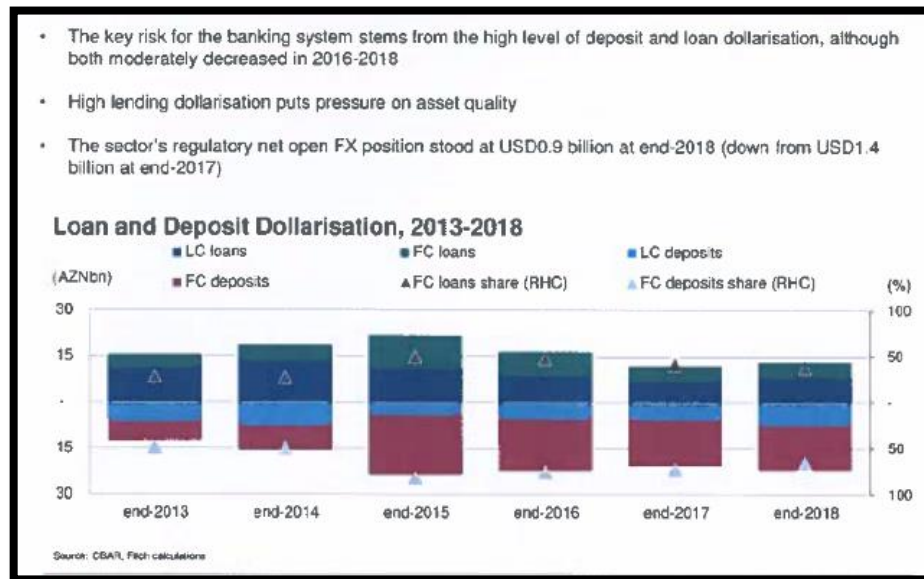
2.1. Security markets in the emergency countries in comparison with Azerbaijani market

Globalisation in its many shapes and forms has become a global phenomenon which has swept the world over. Its origins are uncertain; however with further study into its most dominant wave in the Post-Colonial World, it is possible to see where its future lays. The process of globalization can be sub-categorised into four major tendency's are mentioned below: Expanding global communication, immigration of people, expansion of international trade, financial flows. In the process of constructing a global economy, where Nations invest in the hope of better global allocation of capital and improved international risk sharing, it is commonly asserted that this comes at a cost of vanishing national borders, diminishing national economies and weakened cultures.

This has prompted the question of why globalisation has been so openly welcomed by developing Nations across mostly the Asian continent, even when the degree of success is extremely inconsistent. To begin to understand this voluntary and in some cases involuntary adoption of the global economy theory, it is necessary to comprehend the conditions in which these nations are under. The term Third World or Developing Nation stems from a number of features shared amongst these countries.

Dollarization in the domestic market makes financial institutions to decrease interest rates. Although, low interest rates for foreign currency, especially for dollar, deposits stimulates corporates and individual clients to redirect their money to the security market, however as we mentioned above, low rating scale of the country, unstable and weak processes of security market, at least lack of big and believed players in the market changes domestic investors mind to take a return from financial market's deposits. Azerbaijani manat interest rates has seen its peak after the devaluation of manat, and central Bank of Azerbaijan decreased this rates steadily to 6.75% as of June 2019.

Graph 2.1. - Dollarization still significant



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

This per cent indicates that Central bank of Azerbaijan tries to stimulate banks to lend more money to the real sector than investing to the Central bank's, Mortgage Fund's or Ministry of Finance's securities. Because low rates that offered by government institutions are low to cover financial institutions cost and make a profit currently.

In the beginning of 1990s years play a big role in the globalization of countries in a bilateral and group forms. Due to varies connection among countries, economy has found a chance to grow, become wide, enlarge and efficient. Efficiency has been provided by financial sectors by more easy transfer methods of money, and global tariff adjustments. All these amendments become a strong support for the globalization and as logical ending investment flows between continents, among states and economies rose sharply. An obvious indicator for the China Republic has shown in 13th graph, thus all mentioned theoretical studies substituted with practical evidences. In 2000 Foreign Direct Investment to China Republic just was under 50 billion US\$, while this numbers climbed tremendously after 2005 with new economical projects that has been implemented in that period and remained its impact for few years more. It is universally believed that China Republic is always in an uptrend with modern and hi-fi economy which help to not only stand in a first

place among their peer countries, but also tries to catch its number one competitor United States of America. 2008 crisis did not pass away from China Republic, because of such tremendous synchronization with product, service and financial traded countries. If take into consideration that a huge amount of investment has come from United States of America and other European countries for their production, in crisis period these countries has faced problems to continue their investments in the same portion. 2008 and 2009 years remembered as a chaotic period in Foreign Direct Investment of China Republic. However, after a recession in a world economy recovery period has taken its place and created a suitable environment for the improvement and flowering time. Starting from approximately 2010 year Russian Federation has started to change in their investment policy and increased investment amount to China Republic. Because of economic weakness in Russia Federation in 2015 that has caused ruble to decrease against dollar for several sanctions, China Republic faced difficulties from Foreign Direct Investment point side. Despite all these facts and economic and political wars China Republic still has a big power over the worldwide economy. A real example is a trade war problem between China Republic and United States of America. Economists said their drawbacks through next effects that dispute between these two hegemon countries might impact the conglomerate and super leader companies not only in China Republic and United States of America, but also in many other countries. As a result, unemployment ratio in increased countries might decrease to emergency country level. Plenty of economic and social issues may be highlighted also, but taking into consideration that this thesis is related to the impact of globalization on Foreign Direct Investment in China Republic study, the main points should cover investment changed in China Republic through globalization effects. The last idea that I would like to mention is trade disputes between China Republic and United States of America. Foreign Direct Investment ration of China Republic, of course, change year after year through lots of reasons. Although many tries to solve this issue, the world still do not get a real solution or a final decision from both sides yet.

Graph 2.2. - Elevated LICs, Break-even sector performance



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

I would like to continue the logical chain and present the profitability of the sector with and without International Bank of Azerbaijan. Actually this chart has no any meaning without injection and toxic loan transfer information. Low interest rates for foreign currency, especially for dollar, deposits stimulates corporates and individual clients to redirect their money to the security market, however as we mentioned above, low rating scale of the country, unstable and weak processes of security market, at least lack of big and believed players in the market changes domestic investors mind to take a return from financial market's deposits. As we see from the graph that although the whole sector cannot get profit after the devaluation issues in the country, while International Bank of Azerbaijan finished its financial years 2017 and 2018 in profit. Actually the reason of this gain stands behind the governmental support to the government bank. And the main reason of such big operational costs, non-performance loans in the graph is toxic loans that pass 90+ day delay of periodic loan payments.

The Modernization theories were aimed at underlining the problems of the Developing World and producing policies that would encourage social change and economic development. Furthermore, the Modernization theory pinpointed the vital features that were the foundations for the development of the First World, and

identified where and why these were effectively non-existent in the Developing World. Few conclusions were made by Modernization theorists after their limited and rather general study into the Developing Nations. The first view was one dimensional and explained that most of the Third Worlds problems could be attributed to the lack of capital; development required an increase in the savings rate. The other conclusion was that capital was independent to success if there was no shift to more broader and consistent cultural, social and economic changes. In some Developing Nations the incumbent culture was widely seen as lacking capitalist values such as profit maximization, which inhibited the potential success or development of an economy. The solution was for west to intervene and share not only its capital but also its know-how, to somehow transform these countries into the 'modern age' of capitalism and liberal democracy. The Modernization theory highlighted clearly the optimism and idealism of that era in which many critics were swift in realising. As mentioned above the method of study into society and human behaviour was extremely limited, accused of being closer to nineteenth-century positivism than to contemporary scientific theory (Rapley: 1996, pg 17). The theory also carries a significant bias towards the Western culture and ideology and maintains an anticommunist stance. It was quite typical of the Modernization theorists to look to the Westernizing elites, specialised in the secular, bureaucratic, and entrepreneurial values of the Developed Nations to shine in the light for the Third World. Unsurprisingly, as time went on a new theory emerged known as the Dependency theory, which criticised the Modernization theorists for ignoring the structure of unequal relationships between the poor and the rich. Hence proving that Modernization theory served to disguise the continuing imperialist nature of such relationships. The Dependency theory was first established in the 1950's by Paul Baran, and it concentrated on identifying the cause of backwardness of Developing Nations. In contrast to the Modernization theorists' belief of the First World leading the way for the Third World via aid, investment and know-how, Baran stated that the First World actually blocked the progress of the Third World. The so called Westernizing elites of which Modernization theorists entrusted were fifth columnists

who conspired to keep their homelands poor, which impoverished the majority of the population but enriched the few who followed it (Rapley:1996, pg 19). Baran outlined the major flaw in developing countries was that the middle class preferred to spend their profits on self indulgence rather than investing in the country. Baran also claimed that Imperialism had not exported capitalism to the Third World; instead it had drained all valuable resources which could have been used for internal investment, and had destroyed any remaining local capitalism through intense competition. This controversial theory ultimately blamed the West for maintaining poverty in the Third World in order to guarantee a demand for their finished goods while gaining from a cheap supply of raw materials for their development. Early versions of the Dependency Theory stated that Third World countries would continue as classical dependents or in other words producing primary goods and importing finished goods. It was evident later on to Dependency theorists that industrial development was possible, as is the case in China today with its large manufacturing sector. However, even the rare emergence of industrial developments, was seen as prompted by the First World countries and not a sign of development within a country. Multinational companies based in the First World countries would expand abroad into the Third World to gain competitive advantage through cheap labour. It was argued that very few jobs would be created and that capitalism would not spread beyond those Multi national corporations (MNC). In addition, the drain of foreign currency reserves would deteriorate as the MNC's sent their money back home, leading to a required increase in primary goods exports to earn foreign currency. In conclusion, whatever the level of development that occurred within a Third World country would bring miniscule social development, and would ultimately be determined by the First World.

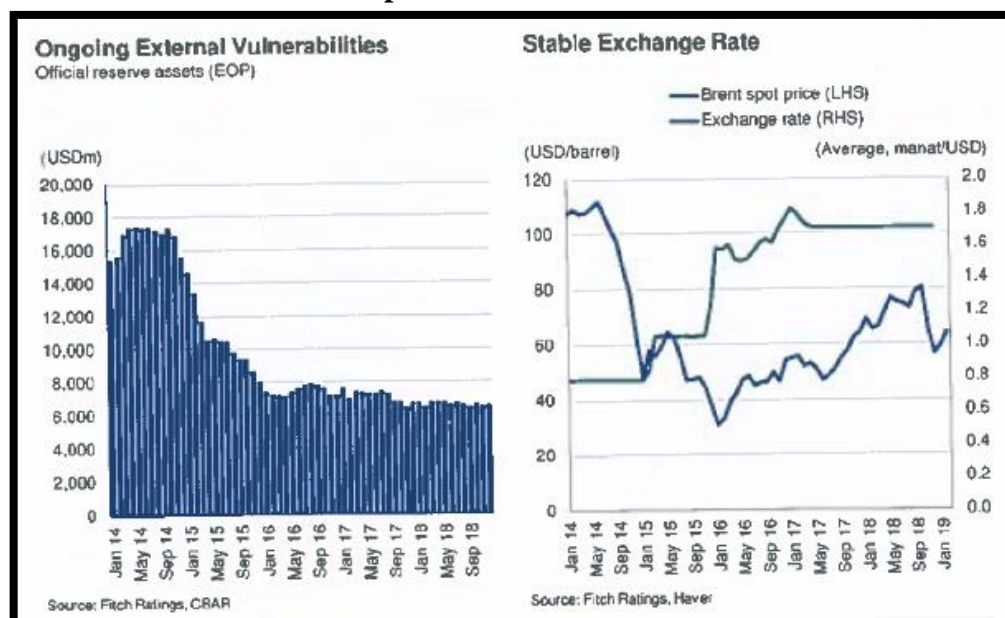
Conclusion of the case about how China is really one of the profitable countries in the world for business perspective, having said that, beside the words or some graphs you need to ask from citizen of your city who you will meet first at the street. The question should be easy as whether two plus two or just how old you are – which products you do know with a famous sentence “Made in China” and what

kind of Chinese products do you use at home. If that person is in the ability to talk, he will count you infinite list with Chinese productions. It is not one of the ways in order to persuade you to believe to something. The survey might be an obvious indicator for the tremendous power of China Republic which also indirectly show the source of all these counted product. Of course except human power, land, raw materials, technology and other important sources which we learned for many years from economy classes, investment does not take a fragile place in the production. In order for comparable product at inception to remain business cycle process, first and foremost enough source of money have to exist. Taking into account of available free money in the country which has been printed by the central bank of China Republic and interest rate (not risk free rate) at banks for business loans, companies especially small and medium enterprises might need cheap, long term matured and big amount of investment to start. Because of the reason that national banks in the country mostly finding financial sources from the central bank with intermedia mature securities and as a another purpose that shareholders require fast earnings, therefore for long term investment domestic banks may face some kind of difficulties. At this moment Foreign Direct Investment come into scene for easing mentioned problems with long term investments. Simultaneously, from another side of the economy, government decreases tariffs, increases transparency for the economy and tries to get the highest score rating from three rating companies, expresses all dispute solution point to the legislation and creates a suitable environment to attract maximum amount of Foreign Direct Investment and keep them in the country as much as long term.

Despite of the reason that we blame many direct thing in weak security markets, while there is an indirect issue of the such big problem that stands behind the indirect issues. As we are aware that financial market has always obligations in Azerbaijani manats, dollar, euro also. In order to cover such big demand of the market Azerbaijan government uses dollar amount of State Oil Fund of the Azerbaijan Republic which get these dollar as a result of the State Oil Company of the Azerbaijan Republic's oil sales, and directs dollar to the market to sell money

for domestic bank's demand and buy Azerbaijani manat to transfer it to the budget for government spending.

Graph 2.3. - External vulnerabilities



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

If market's appetite becomes less than planned amount of dollar, State Oil Fund of the Azerbaijan Republic and Central Bank of Azerbaijan Republic reserve that money for shock events in the market. That event happens in our market after the devaluation of Azerbaijani manat and Central Bank of Azerbaijan Republic stated to sell an extra dollar than planned from this reserve. As I understand, this reserve is very important for the government and decreasing amount of dollars in reserves always disturbs all state, including Central Bank of Azerbaijan Republic.

First, relative to the developed nations of Europe, North America and parts of the East (i.e. Japan, Russia), the per capita incomes are low. This is strongly correlated to other factors such as shorter life expectancy levels, lower levels of educational achievement, and higher rates of infant mortality. It is also common for Developing Nations to have a large per cent of its economy dependant on the agricultural sector in contrast to Developed Nations which tend to concentrate on the secondary and tertiary sectors such as manufacturing and the financial sector. Finally, in the more political sense, the majority of Countries referred to today as

developing Nations were once part of a colony of the imperial strengths of Britain, France, Portugal etc. In the early post-war period, parts of Africa and all of south-eastern Asia were given independence, inheriting a state of poverty and civil unrest. Several nationalist were quick to point fingers at the imperial colonies for reaping the benefits of the scarce resources such as raw materials and for establishing intra-imperial free trade blocs that impoverished the developing nations in order to enhance the development of the First World. Nevertheless, governments and politicians were now faced with two over lapping priorities; consistent development and sustained independence, which ultimately required the help of the First World.

2.2 Modernization and Development contentions

In this neo-colonial period after World War II, scientists and scholars began to shift their attention away from constitutional and institutional studies and towards the study of social sciences. The Modernization theories were aimed at underlining the problems of the Developing World and producing policies that would encourage social change and economic development. Furthermore, the Modernization theory pinpointed the vital features that were the foundations for the development of the First World, and identified where and why these were effectively non-existent in the Developing World. Few conclusions were made by Modernization theorists after their limited and rather general study into the Developing Nations. The first view was one dimensional and explained that most of the Third Worlds problems could be attributed to the lack of capital; development required an increase in the savings rate. The other conclusion was that capital was independent to success if there was no shift to more broader and consistent cultural, social and economic changes. In some Developing Nations the incumbent culture was widely seen as lacking capitalist values such as rofit maximization, which inhibited the potential success or development of an economy. The solution was for west to intervene and share not only its capital but also its know-how, to somehow transform these countries into the ‘modern age’ of capitalism and liberal democracy. The Modernization theory highlighted clearly the optimism and idealism of that era in which many critics were

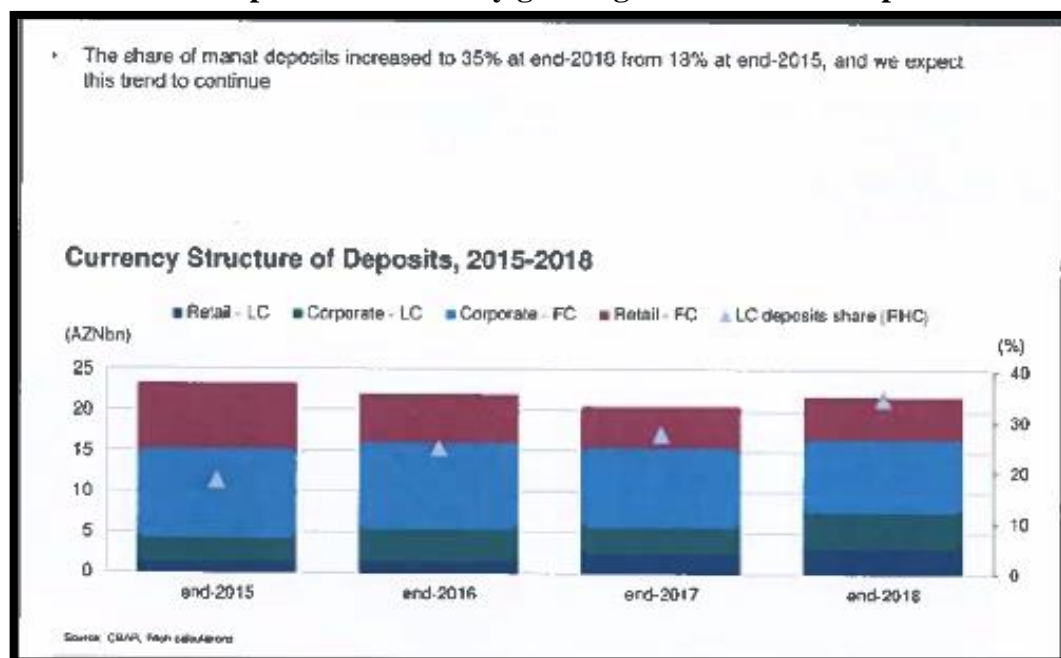
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industrial development was possible, as is the case in China today with its large manufacturing sector. However, even the rare emergence of industrial developments, was seen as prompted by the First World countries and not a sign of development within a country. Multinational companies based in the First World countries would expand abroad into the Third World to gain competitive advantage through cheap labour. It was argued that very few jobs would be created and that capitalism would not spread beyond those Multi national corporations (MNC). In addition, the drain of foreign currency reserves would deteriorate as the MNC's sent their money back home, leading to a required increase in primary goods exports to earn foreign currency. In conclusion, whatever the level of development that occurred within a Third World country would bring miniscule social development, and would ultimately be determined by the First World.

As we know and universally believed that budget management from the income and expenses sides are taken the serious position in order to control country's economical situation. Neither deficit nor surplus numbers do not convey the negative opinion about the economy. By conducting analysis in both situations drawback and advantages exist due to support to the economy and vice versa. For example deficit of the budget means that expenses are more than income. And if analyze the excess expense flow from the budget, having said that, the main cause of GDP rise. By the climbing expenses government tend to buy many kind of service and products, and due to purchase of services and products within the country GDP goes upward. In the China example that indicator disseminates information to the public about the state's support to the economy, whilst many other drawbacks also exist and make analysts to revalue the case from another point of view. Payment of the state obligations in form of debt is also an influential factor to the budget. Of course, that kind of negative impact could be substituted or added by ineffective management of the budget. However, in the China case periodic debt payment is more realistic. As of October 2018, the total amount of owed national credit is about US\$ 5.2 trillion. In the next paragraphs we will measure national debt to GDP ratio and analyze its effects through many spheres. Because an only one factor might not interpret the full

picture of the situation, therefore priority of additional ratios are increased significantly.

Graph 2.4. - Gradually growing share of manat deposits



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

If to analyze how interest rates are created, the number one of this components is default probability of the country. Of course, we can argue that Central Bank of Azerbaijan Republic can print an extra money and pay its debts at the maturity and close the loans, however the value of money will decrease in that per cent at which Central Bank of Azerbaijan Republic prints. Therefore, theoretically this idea is real, but in the reality we may face much more troubles and cause decreasing economy. After default rate banks added their operational expenses and profit margin for the loan rates. As we said by devaluating Azerbaijani manat, default rate of the country increases and automatically increases rates in the country. By increasing interest rate in deposits, clients interested in Azerbaijani manat deposits more than other foreign currencies. All written issues are mirrored in the graph and requires an important action plans for the future.

As a final conclusion of the case about how China is really one of the profitable countries in the world for business perspective, having said that, beside

the words or some graphs you need to ask from citizen of your city who you will meet first at the street. The question should be easy as whether two plus two or just how old you are – which products you do know with a famous sentence “Made in China” and what kind of Chinese products do you use at home. If that person is in the ability to talk, he will count you infinite list with Chinese productions. It is not one of the ways in order to persuade you to believe to something. The survey might be an obvious indicator for the tremendous power of China Republic which also indirectly show the source of all these counted product. Of course except human power, land, raw materials, technology and other important sources which we learned for many years from economy classes, investment does not take a fragile place in the production. In order for comparable product at inception to remain business cycle process, first and foremost enough source of money have to exist. Taking into account of available free money in the country which has been printed by the central bank of China Republic and interest rate (not risk free rate) at banks for business loans, companies especially small and medium enterprises might need cheap, long term matured and big amount of investment to start. Because of the reason that national banks in the country mostly finding financial sources from the central bank with intermedia mature securities and as a another purpose that shareholders require fast earnings, therefore for long term investment domestic banks may face some kind of difficulties. At this moment Foreign Direct Investment come into scene for easing mentioned problems with long term investments. Simultaneously, from another side of the economy, government decreases tariffs, increases transparency for the economy and tries to get the highest score rating from three rating companies, expresses all dispute solution point to the legislation and creates a suitable environment to attract maximum amount of Foreign Direct Investment and keep them in the country as much as long term.

The solution according to Dependency theorists is to establish an autonomous national-development strategy, whereby the degree of dependency on the First World was minimized and the Third World countries become more self-sufficient. In practice most Third World countries decided to follow the Dependency theory,

more specifically development strategies that enabled these countries to exploit their comparative advantages. The aim was to build up domestic industries by mobilizing any foreign and state investment in a strategy known as Import Substitution Industrialization (ISI). The strategy was designed for Third World countries to reduce their reliance on importing First World finished goods and to begin to produce these goods themselves. This was to be achieved through a restriction of imports of certain goods by way of tariffs, quotas, taxes on imported goods, quality controls, and content regulations. The results of these restrictions is a raise in the prices of imported goods to local consumers, and a boost for local investors who were previously left redundant due to the fierce competition from foreign goods. With sufficient capital made possible by state subsidies or private investment, all which is required is to import the necessary production machinery to begin local production. It became apparent that in the South Asian countries a combination of planned industrial development and a mixed economy was largely preferred to over the relatively laissez-faire industrial policies of their colonial past time.

2.3. Review of prior studies and China's benchmark juxtaposition

In the past three decades globalization has swept much of the world with both successes and failures in the developed and developing nations. This has encouraged many theorists, scholars, and policy-makers to construct researches that shed light into the global phenomenon. Much of the literature on globalization is based on theoretical and empirical findings of a specific region, country or union. These findings span from the early 19th century and have been developed further in the last two decades. For this research on the impact of globalization on Foreign Direct Investment in developing countries it is essential to review the relevant literature on the theory of globalization in order to begin to comprehend its impact on specific country as China. They ultimately challenge the theory of globalization and all the components that have been popular among critics of the theory in the last decade. These include accusations that national economies have lost all sovereignty and dissolved into global economies determined by the market forces of the world as a

consequence of a sudden escalation of international investment and trade. As a result, their method of conduct is to concentrate on solely the economic arguments regarding globalization and their political consequences. They conclude that it is vital to control the volatility of world markets, at the same time encouraging growth in order to prevent high irregular unemployment levels, maintain national welfare institutions, endorsing prosperity along with a fairer distribution of wealth, income and resources. A lot of faith is put in the political institutions and the potential scope for increased governance at supranational and national planes.

One of the veterans on this field, John H. Dunning, has continuously researched into the economics of international direct investment and globalization since the 1950's. In one of his more recent books published in 1998 he examines the impact of globalization on the degree of competitiveness in a range of countries and regions, including New Zealand, Taiwan, Ghana and the European Union. The methodology chosen is to highlight the main analytical components of competitiveness, taken from the viewpoint of both countries and the firm. The research also describes and evaluates the relationship between trade, foreign direct investment, and the activities of MNE's, which Dunning argues has an effect on or is affected by globalization. The book fails to conclude anything general about any patterns or shapes of globalization other than the noticeable fact that it is slowly restructuring the global economy through a new international division of labour and an integrated world economy. These conclusions were made on the basis of evidence suggesting that there have been great technological advances and regimes that are encouraging freer trade and investment. Another important conclusion they make is in relation to the negative consequences of many of the features in a modern globalizing economy, namely the effects on employment and the distribution of income between countries and within them. These issues are predicted to reach the top of the political agenda as more attention is demanded from national governments if not the international community within the next decade.

Paul Hirst and Grahame Thompson (1999) focus on analyzing the shape of the international economy and whether there is scope or a prospect of lengthened

economic governance at both global and national levels. They ultimately challenge the theory of globalization and all the components that have been popular among critics of the theory in the last decade. These include accusations that national economies have lost all sovereignty and dissolved into global economies determined by the market forces of the world as a consequence of a sudden escalation of international investment and trade. As a results there method of conduct is to concentrate on solely the economic arguments regarding globalization and their political consequences. They conclude that it is vital to control the volatility of world markets, at the same time encouraging growth in order to prevent high irregular unemployment levels, maintain national welfare institutions, endorsing prosperity along with a fairer distribution of wealth, income and resources. A lot of faith is put in the political institutions and the potential scope for increased governance at supranational and national planes. In particular chapter 5- The Developing Economies and Globalization provides a valuable insight into the importance of the developing world in its contribution to creating a global economy and the consequences to the first world of a reduced level of output and employment.

In his work on Globalization and the Postcolonial world, Ankie Hoogvelt (1997) attempts to construct a study on the new political economy of development. This piece of literature explores a group of questions regarding the relationship between politics and economics, power and wealth, and states and markets. In his research several theories of world order are put to the test in today's modern world including realism, Marxism/structuralism, and institutionalism. In chapters 6 & 7 the global aspects involved in the process of transformation, such as the sociology and the economics behind globalization is discussed. Hoogvelt claims that the modern process of globalization represents an advanced level of strengthened economic, cultural, financial and social cross border networks never witness before. As a result it is also associated with a process of dissolution, as traditional structures of political power including economic and social organisation become dormant as new global frameworks are created. Part three of the book is especially useful for this stud as it looks at the implications of globalization for the postcolonial world. He identifies

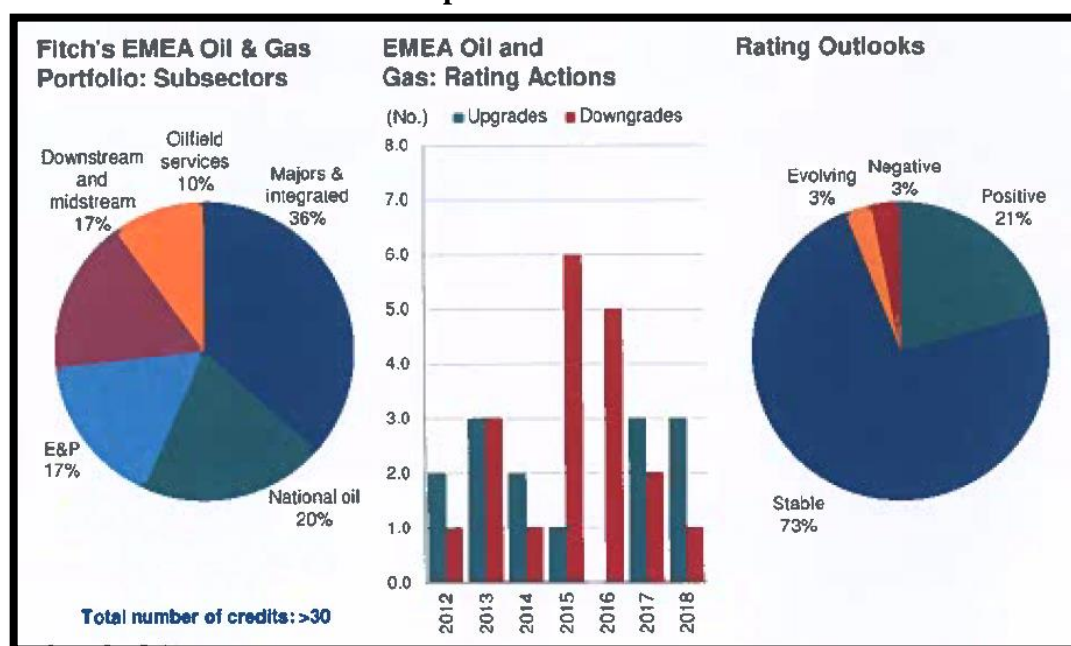
four postcolonial conditions which represent the way in which the trail of colonialism relates to the power of globalization.

There are many questions floating around the theory of globalization, John Rapely (2004) undertakes the question of whether globalization succeeded in creating a new world along neoliberal lines. The approach used by him was to look at regimes and specifically the relationship it has with institutions, culture and globalization. He concludes that while neoliberal reforms frequently produced economic growth in some regions, this was also accompanied by negative consequences. The costly price of economic growth is the increase in inequality which had knock on effects such as political instability and supposedly created tendencies spanning from ethnic and Islamic militancy to right-wing populism. Rapley puts forward a number of cases which portray how neoliberal globalization has influenced the destruction of regimes particularly in the third world by unevenly shifting patterns of income distribution and resource allocation. Widening gap between the rich and the poor as a result of globalization, concentrating on the patterns such as the retreat from democracy, fundamentalist politics and post-modern politics. He concludes that none of these common features provide an explanation or resolution to the regime crisis created through neoliberalism and that the harmful consequences are yet to be fully acknowledged.

The association between globalization and civil wars has not been researched by many; however Katherine Barbieri and Rafael Reuveny (2005) produce a comprehensive study on this potentially devastating relationship. They attempt to conclude on whether in recent increase in civil wars in the last decade is in any way related to the rise in the scope of economic globalization. This research takes three parts, the first being that globalization in practice reduces the potential of a civil war breaking out. Conversely, the second theory is that particular components of globalization actually induce civil wars. Finally, that globalization does not essentially affect the possibility of a civil war. The paper uses statistics to measure the effect of numerous features of globalization on civil war from a large-N, time series, crosssectional example. The aspects of globalization that were tested include

FDI, FPI, trade, and the use of internet. There were two types of measurements for the occurrence of civil wars: the presence of a civil war and the collapse of a civil war. The final result of this paper shows that economic types of globalization reduce the likelihood of civil wars; however a product of globalization, the internet, does not affect its likelihood. Despite oil and gas industry impacts financial market sector indirectly, but it has very big influence to the countries rating.

Graph 2.5. – Outlook stable



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

Actually foreign direct investment to the domestic financial market directly depends on countries rating scale for a better attractiveness. One of the big three rating companies determines Azerbaijan's rating Ba2 as of December 2018 and rating outlook is stable for 73% for the next one year. The main point that effects rating is shown in the middle, and of course it is gas and oil price changes. The most effect comes from 2015 and 2016 years. Ficht rating company also divide the oil and gas portfolio to subsectors and there are downstream and midstream 17%, oilfield services 10%, majors and integrated 36%, National oil 20%, E&P 17%. All these subsectors have some weight in the full oil and gas portfolio. Government has always

different projects to increase non-oil sector for more export and dollar attraction. By this way we can increase rating of county and attract more foreign direct investment.

In the beginning of 1990s years play a big role in the globalization of countries in a bilateral and group forms. Due to varies connection among countries, economy has found a chance to grow, become wide, enlarge and efficient. Efficiency has been provided by financial sectors by more easy transfer methods of money, and global tariff adjustments. All these amendments become a strong support for the globalization and as logical ending investment flows between continentals, among states and economies rose sharply. An obvious indicator for the China Republic has shown in 13th graph, thus all mentioned theoretical studies substituted with practical evidences. In 2000 Foreign Direct Investment to China Republic just was under 50 billion US\$, while this numbers climbed tremendously after 2005 with new economical projects that has been implemented in that period and remained its impact for few years more. It is universally believed that China Republic is always in an uptrend with modern and hi-fi economy which help to not only stand in a first place among their peer countries, but also tries to catch its number one competitor United States of America. 2008 crisis did not pass away from China Republic, because of such tremendous synchronization with product, service and financial traded countries. If take into consideration that a huge amount of investment has come from United States of America and other European countries for their production, in crisis period these countries has faced problems to continue their investments in the same portion. 2008 and 2009 years remembered as a chaotic period in Foreign Direct Investment of China Republic. However, after a recession in a world economy recovery period has taken its place and created a suitable environment for the improvement and flowering time. Starting from approximately 2010 year Russian Federation has started to change in their investment policy and increased investment amount to China Republic. Because of economic weakness in Russia Federation in 2015 that has caused ruble to decrease against dollar for several sanctions, China Republic faced difficulties from Foreign Direct Investment point side. Despite all these facts and economic and political wars China Republic

still has a big power over the worldwide economy. A real example is a trade war problem between China Republic and United States of America. Economists said their drawbacks through next effects that dispute between these two hegemon countries might impact the conglomerate and super leader companies not only in China Republic and United States of America, but also in many other countries. As a result, unemployment ratio in increased countries might decrease to emergency country level. Plenty of economic and social issues may be highlighted also, but taking into consideration that this thesis is related to the impact of globalization on Foreign Direct Investment in China Republic study, the main points should cover investment changed in China Republic through globalization effects. The last idea that I would like to mention is trade disputes between China Republic and United States of America. Foreign Direct Investment ration of China Republic, of course, change year after year through lots of reasons. Although many tries to solve this issue, the world still do not get a real solution or a final decision from both sides yet.

Brigitte Levy (2007) opens up a new dimension to the globalization issue, trying to steer away from the tradition literature which often covers the relationship between trade and growth in the context of economics, sociology and political sciences. The study concentrates on areas of International Business and management studies, as more companies are forced to consider the implications of their economic aims and societal impact on the developing host countries. The paper initially provides an analysis of globalization and the trade patterns connected in the last few decades. Secondly the article provides an insight into the relationship between the highly competitive trading system and patterns of globalization. The final aim of this paper is particularly useful to this study, as it looks at developing countries and the required level power needed to enforce national policy and achieve the Millennium Development Goals set by the UN. The conclusion is that the intentions of MNE's and MNC's become irreverent if there is no clear and concise framework of rules and law which must begin at level of home and host governments. These rules and laws must be designed and implemented in the interests industrialized, emerging and developing countries.

The relationship between Foreign Direct Investment and developing countries has been increasingly close and interdependent. This has been the case for the last three decades as a rising percentage of developing countries begun to liberalize there economy's to facilitate capital mobility. What also has become clear in recent years is that the impact of FDI varies vastly between regions and countries which has prompted the research into literature that discusses the costs and benefits of FDI in developing countries.

Graph 2.6. - Ongoing macro weaknesses



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

Government policy is important as economic decisions. Currently out income depends on oil and gas sector big partially and because of the reason that approximately the big dollar amount comes due to oil and gas sells to the country we have to increase to non-oil sector for the better economic stabilization and decreasing oil and gas concentration. Despite oil price was more volatile in the previous years, our economy and financial sectors really effected, however gas prices are less volatile compare to oil prices. As a good news for the country, Shahdaniz 2 project will start its sells and this will be an additional income for the budget. At the inception, gas will be sold to the turkey, because TANAP pipe line is ready for gas transfer and TANAP only covers Turkey territory. Furthermore, TAP

pipe line will be finished in the next years, and after the whole project complete Azerbaijan Republic will export Shahdaniz 2 gas to the Europe directly.

As a final conclusion of the case about how China is really one of the profitable countries in the world for business perspective, having said that, beside the words or some graphs you need to ask from citizen of your city who you will meet first at the street. The question should be easy as whether two plus two or just how old you are – which products you do know with a famous sentence “Made in China” and what kind of Chinese products do you use at home. If that person is in the ability to talk, he will count you infinite list with Chinese productions. It is not one of the ways in order to persuade you to believe to something. The survey might be an obvious indicator for the tremendous power of China Republic which also indirectly show the source of all these counted product. Of course except human power, land, raw materials, technology and other important sources which we learned for many years from economy classes, investment does not take a fragile place in the production. In order for comparable product at inception to remain business cycle process, first and foremost enough source of money have to exist. Taking into account of available free money in the country which has been printed by the central bank of China Republic and interest rate (not risk free rate) at banks for business loans, companies especially small and medium enterprises might need cheap, long term matured and big amount of investment to start. Because of the reason that national banks in the country mostly finding financial sources from the central bank with intermedia mature securities and as a another purpose that shareholders require fast earnings, therefore for long term investment domestic banks may face some kind of difficulties. At this moment Foreign Direct Investment come into scene for easing mentioned problems with long term investments. Simultaneously, from another side of the economy, government decreases tariffs, increases transparency for the economy and tries to get the highest score rating from three rating companies, expresses all dispute solution point to the legislation and creates a suitable environment to attract maximum amount of Foreign Direct Investment and keep them in the country as much as long term.

The debt crisis inherent in a lot of the developing world has been damaging to the potential growth rates of countries. Agarwal (1993) argues that this is a major reason why the inflow of Foreign Direct Investment has become such a dependent source of external finance for countries like China. The view assumes that the tightening of regulations and rules for borrowing from the World Bank and International Monetary Fund has meant that countries are forced to turn to Multi National Corporations as an inevitable substitute. Thereby resulting in the liberalization of economies and deregulatory policies aimed at increasing the inflow of private capital. Abstaining from receiving any source of FDI may lead to great underdevelopment specifically in terms of income, employment and growth rates. Agarwal concludes that as developing countries compete to increase their FDI levels, they begin to invest in the infrastructure and loosen the economic framework for investment. Resulting in positive development of an environment which is a more credible host for investment, long before Multinational Corporations presented their interests.

The majority of the literature which appears to be in favour of the globalization process seems to assume that the conditions prevalent in developing countries are all the same. This assumption is arguably miss-leading as individual countries have extremely different socio and economical environments. The following literature covers the potential draw backs of FDI in developing countries. The realism of achieving the advantages mentioned above is outlined in Li Quan and Adam Resnick study. They claim that the influx of foreign firms into a domestic industry increases the level of competition. Although at first glance this may seem to improve efficiency, only the large MNC's are able to utilise their economies of scale, which ultimately drives small domestic firms out of business as they struggle to compete with prices of raw materials and products. The potential spill over effects, such as employment opportunities, resources and technology accompanying the foreign firms do not necessarily go to the displaced workers. The study also considers the costs to the host country when governments try to induce investments through tax holidays, import duty exemptions, reductions in social security

contributions, accelerated depreciation allowances, subsidised loans, investment grants, site facility donations, and possible wage subsidies. With numerous developing countries competing for FDI from Africa to Asia, large corporations are likely to choose the countries which offer conditions that satisfy their needs. The problem is even if all of these inducement policies attract the target MNC's it is not guaranteed that the worth in returned flow is above the initial investment. Foreign Direct Investment has become such a dependent source of external finance for countries like China. The view assumes that the tightening of regulations and rules for borrowing from the World Bank and International Monetary Fund has meant that countries are forced to turn to Multi National Corporations as an inevitable substitute. Thereby resulting in the liberalization of economies and deregulatory policies aimed at increasing the inflow of private capital. Abstaining from receiving any source of FDI may lead to great underdevelopment specifically in terms of income, employment and growth rates. Agarwal concludes that as developing countries compete to increase their FDI levels, they begin to invest in the infrastructure and loosen the economic framework for investment. Resulting in positive development of an environment which is a more credible host for investment, long before Multinational Corporations presented their interests.

CHAPTER III. POTENTIAL IMPROVEMENT SPHERES IN THE SECURITY MARKETS AND ECONOMIC CONTEXT

3.1. Economic context of the security market as example of China

Republic

A Chinese Ministry of Commerce report published four years after integration into WTO, reported that foreign investment reached \$53.1 billion in 2004 and that 450 of the globe's top 500 companies have invested in China. Foreign direct investment into the chemicals industry from the US grew from around \$37 million in 1999 to an estimated \$520 million in 2005. From Taiwan foreign direct investment flows between 1999 and 2005 surged from \$538 million to \$2.4 billion in the electronics sector and from \$28 million to \$373 million in precision instruments³. Thus confirming the opinions of many that membership into the multilateral trade body would further increase China's dependency on foreign direct investment and external trade. Concerns were also voiced for the future of the agricultural sector during the WTO ministerial in Hong Kong. It is clear that the agricultural sector of China has become relatively insignificant compared to other larger industries, contributing to only 15% of China's GDP. Nevertheless, as with many developing nations the agricultural sector was once the predominant industry in China, and therefore hundreds of millions still depend on agriculture for survival. The drawbacks of globalization process begin to appear when economic policy over-shadows social policy. Big amendments were made on import tariffs for 2005 to an average of 9.4% from a previous 15.3% in 2001. All tariffs on information technology products fell from 13.3% to 0 over the same time span. Finally in December 2004 the Chinese government allowed foreign banks to work as local currency operators in 18 cities. As a result of these tariffs a lot of the farmers and rural workers have either migrated to urban areas in seek of factory jobs or are left living of stagnant wages while China's economy continues to grow. The government estimated that the underemployed and unemployed rural labour is between 100-120 million; in addition 300 million Chinese workers are anticipated to migrate from surrounding rural areas to the inner cities by 2020. As China turns progressively into a knowledge

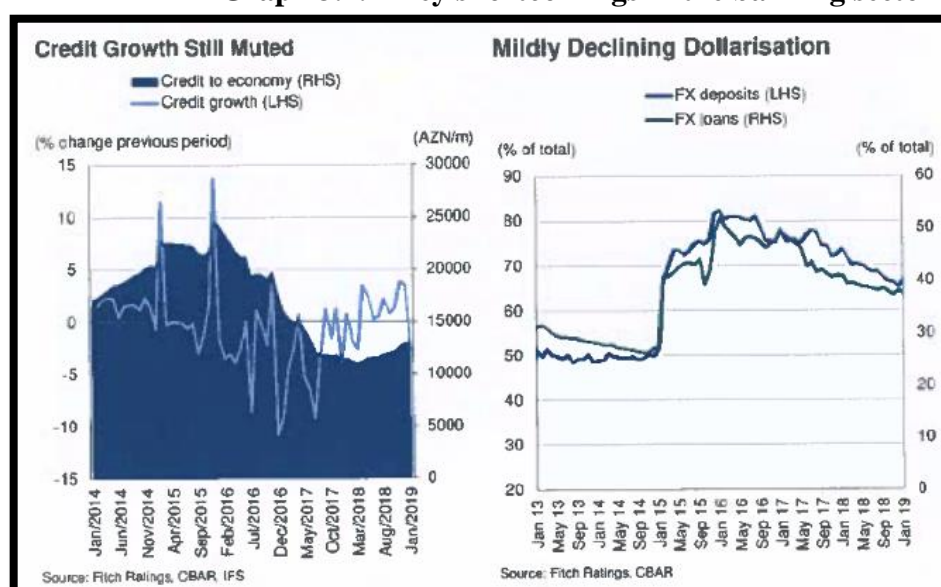
and service based economy and into a middle income nation, not many economists are stopping to acknowledge the harsh realities of this transition in such a short time span. China's biggest problem is the amount of surplus labour it has inherited with its labour force reaching over 700 million people. China's state enterprises began to lose profitability, largely due to the reliance of foreign investment into private enterprises and the relatively high taxes that had to be paid. With reduced competitiveness, profitability and increased management issues including corruption, state enterprises soon became indebt encouraging the government to privatise them. Even before China's integration into the WTO, the number of workers in the state enterprises was cut by 40% between 1995 and 2001, in addition workers in collectively owned urban enterprises were reduced by 60% in the same period. Nevertheless, China continued to rapidly grow via exports combined with a huge reliance on foreign enterprises predominantly in high-tech industries. China's huge growth rate and transition into a global competitor seems to have been achieved at the cost of many environmental and social trade-offs.

It not only reflects the success of economic globalization but also the several negative social externalities produced with corporate-led economic globalization. There seems to be a combination of both theories discussed earlier in this study; modernization and development theory. Privatisation and foreign enterprises mostly from the first world along with the rise of local elites have managed to further widen the gap between the rich and the poor. In a report published by the UNDP's Human Development programme for 2008, China's rising income inequality is demonstrated in the form of Gini Coefficient at a level of 0.4694. These features characterise many of the flaws of the modernization theory highlighted by development theorists. John Rapley in his book *Understanding Development* mentions the ratifications of following the modernization theory and specifically industrialization- "Third World industry would be based on second-generation production technology and would be owned by foreigners who processed imported inputs and created few jobs or linkages to other producers in the economy." This is

clearly becoming the case in China with more than 300 million rurally unemployed people migrating to urban areas in search of jobs.

However, it is also evident that China has achieved its globally competitive status through a nation-state development framework; using strategies like the Import Substitution Industrialization (ISI) to create domestic industries which enabled China exploit their comparative advantage. China over the past decade has increased its domestic supply as a consequence of shifting from simple assembly operations to more advanced operations. In the year 2006 China's simple assembly operations accounted for only 10% of their processing trade account down from 30% in the late 1990's. There has been a clear change in the composition of China's exports, from primary goods to high tech finished goods. In 1995 the share of exports that were considered high tech stood at 20% and by the end of 2005 it had increased to 40%. Unfortunately little has been done to reduce the dependency of foreign trade or to increase investment into the domestic economy in order to produce jobs. The relationship between china and globalization can be summed up as a speeding train not stopping for any red lights.

Graph 3.1. - Key shortcomings in the banking sector



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

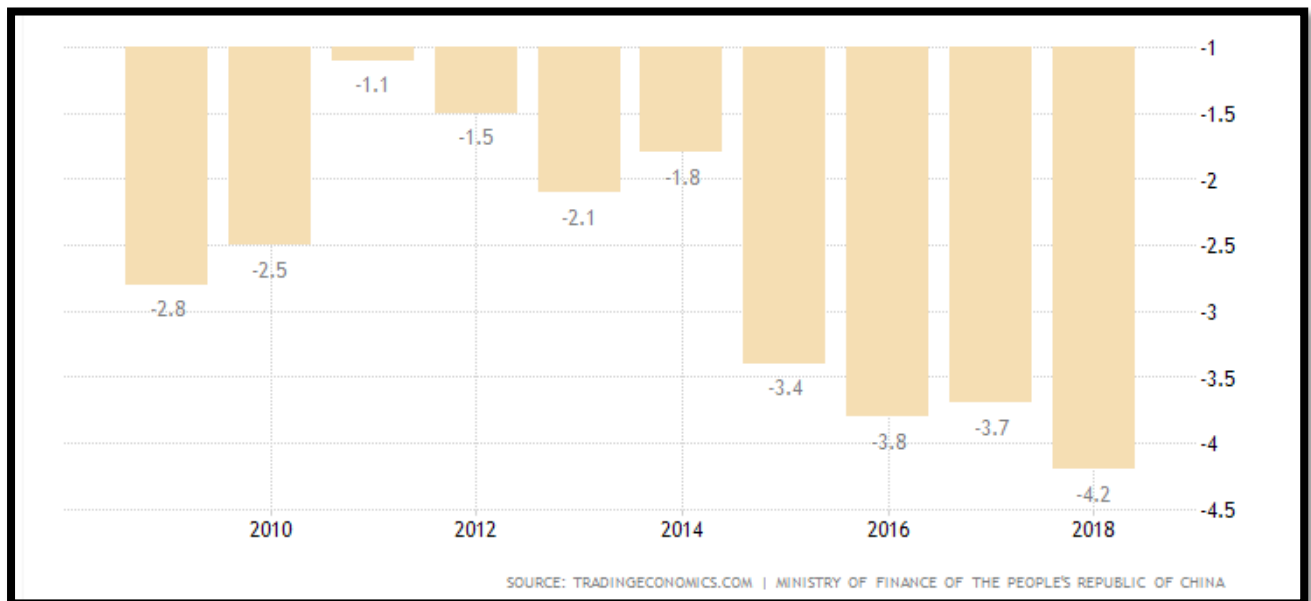
We talked about the action plans to decrease dollarization loans in the banks to decrease risky loan portfolio and make banks to build up their risk management system for better lending. In order to reach that level FIMSA returns the interest part of the dollar loans that rises because of devaluation in 2016. But this was government really effects bank to clean up toxic loan and simultaneously creates new debt borrowers for a future loan portfolio creation. As mentioned in the graph as January 2019 dollarization in deposits and dollarization in loans starts to decrease steadily from mid 2016 and this trend decreases year after year. In order not to concentrate banks' loan portfolio by dollarization, FIMSA changed lending rules that banks can lend only to the clients in dollar who has income in dollar. This policy really takes financial market far away from dollarization and devaluation risk. Moreover, Central Bank of Azerbaijan Republic decreases interest rates to stimulate banks to lend to the market than investing in Central Bank of Azerbaijan Republic, Ministry of Finance and other government institutions.

Some other indicators take a tremendous role in the globalization and attraction of Foreign Direct Investments. They could be regional placement, culture, ethics and so on. Neighbors that surround the country and regional development level support improvement of globalization for the country. War, disputes, religious difference slows that process and make this country risky for any kind of investments. Risk averse investors try to keep their money far away from that sort of regions in order not to loss money than their risk appetite. Unlike regional issues, cultural point might disturb investors to take back gain from the market and it is one of the limitations for Foreign Direct Investment. The real example of could be taken as Coca-Cola in Arabian Emirates.

As we know and universally believed that budget management from the income and expenses sides are taken the serious position in order to control country's economical situation. Neither deficit nor surplus numbers do not convey the negative opinion about the economy.

By conducting analysis in both situations drawback and advantages exist due to support to the economy and vice versa. For example deficit of the budget means that expenses are more than income.

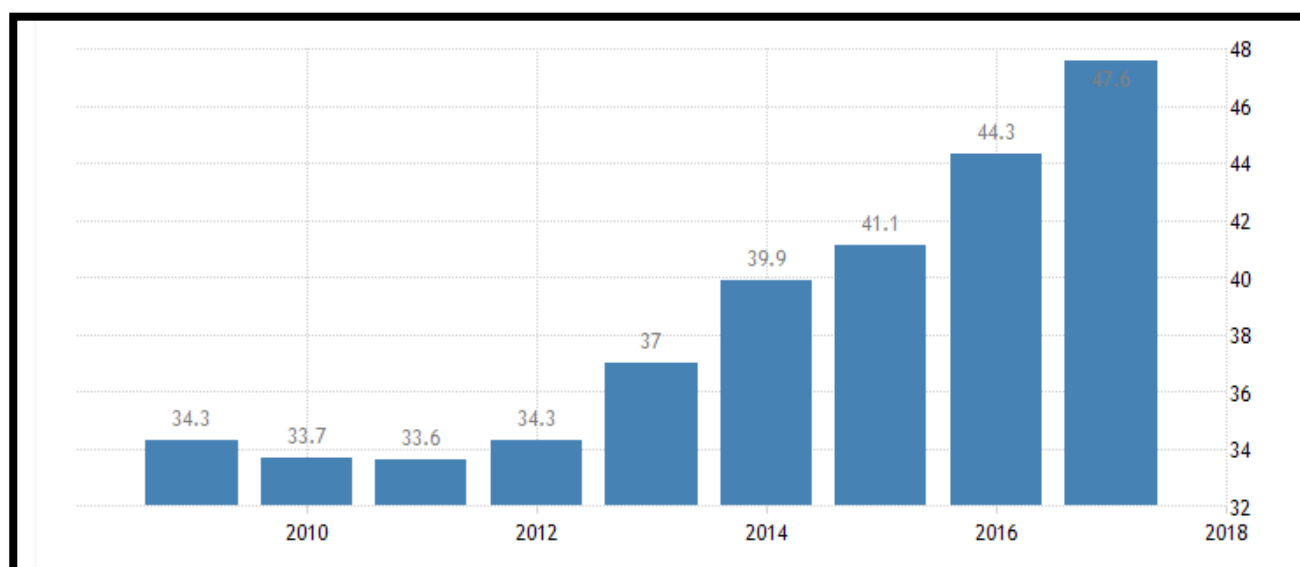
Graph 3.2. - China Government Budget



Source: tradingeconomics.com/37408&CtNode=5347&mp=5

If analyze the excess expense flow from the budget, having said that, the main cause of GDP rise. By the climbing expenses government tend to buy many kind of service and products, and due to purchase of services and products within the country GDP goes upward. In the China example that indicator disseminates information to the public about the state's support to the economy, whilst many other drawbacks also exist and make analysts to revalue the case from another point of view. Payment of the state obligations in form of debt is also an influential factor to the budget. Of course, that kind of negative impact could be substituted or added by ineffective management of the budget. However, in the China case periodic debt payment is more realistic. As of October 2018, the total amount of owed national credit is about US\$ 5.2 trillion. In the next paragraphs we will measure national debt to GDP ratio and analyze its effects through many spheres. Because an only one factor might not interpret the full picture of the situation, therefore priority of additional ratios are increased significantly.

Graph 3.3. - China Government Debt to GDP

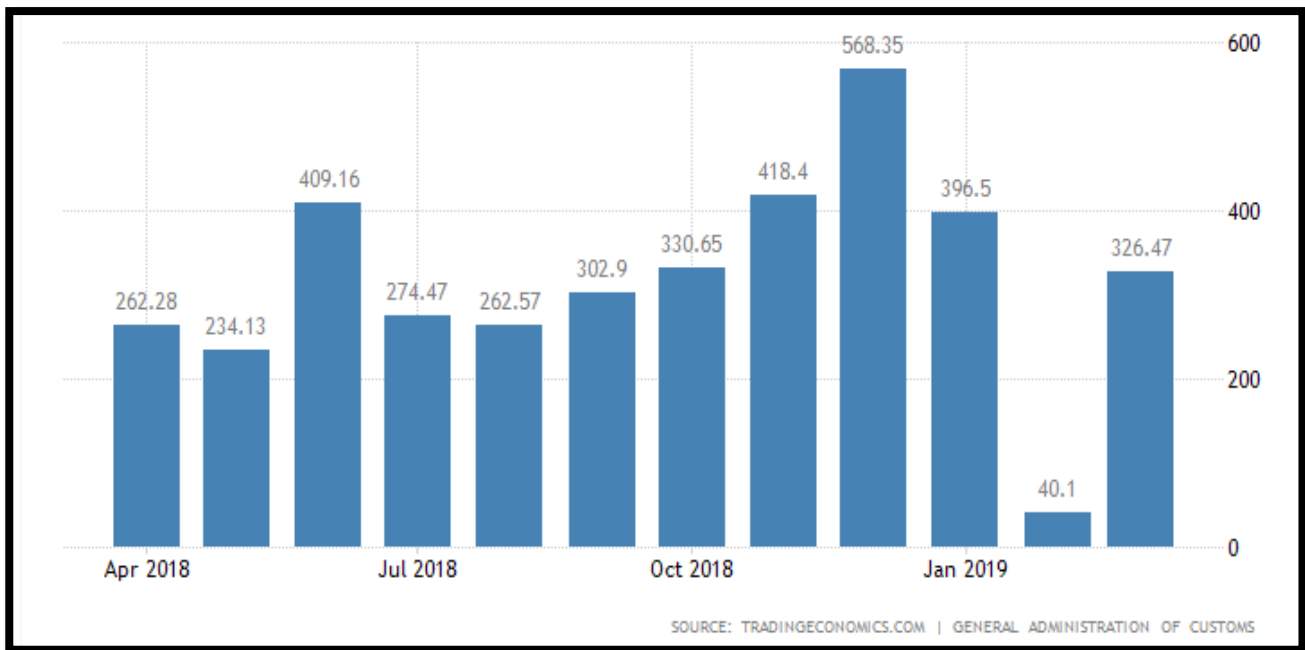


Source: National Statistics, Republic of China /
<https://eng.stat.gov.tw/ct.asp?xItem=37408&CtNode=5347&mp=5>

Will country be able to execute its obligations and pay back debts periodically? In order to answer this question, specific ratios could help us and can show a clear estimation. First and foremost of them is debt to GDP because the shown per cent in the graph explains the weight of debts in country's income. By this way an analysis could evaluate the ability of debt payments. In the China example this indicator went up from 2013 year by issuing new debt instruments to cover government expenses. Due to economic situation and qualify easing this ration increases year after year and reaches almost 48% as of 2017, despite this ratio was 33.6 in 2011. Moreover, one extra impact have to be taken into account during analyzing debt to GDP ratio. As mentioned in the previous graph GDP and debt to GDP increases simultaneously which means that rising debt tendency moving up more faster than GDP itself. Therefore, the sole graph may not express the full picture and additional GDP statistics would be required for exact results.

Importance of trade balance starts from income of the country. Because tax and export are the main components of state's income and it is important to remain surplus balance of trade for budget management challenges. In the consumption of all kind of goods, except food, China's products reaches the top places in each country.

Graph 3.4. - China Balance of Trade

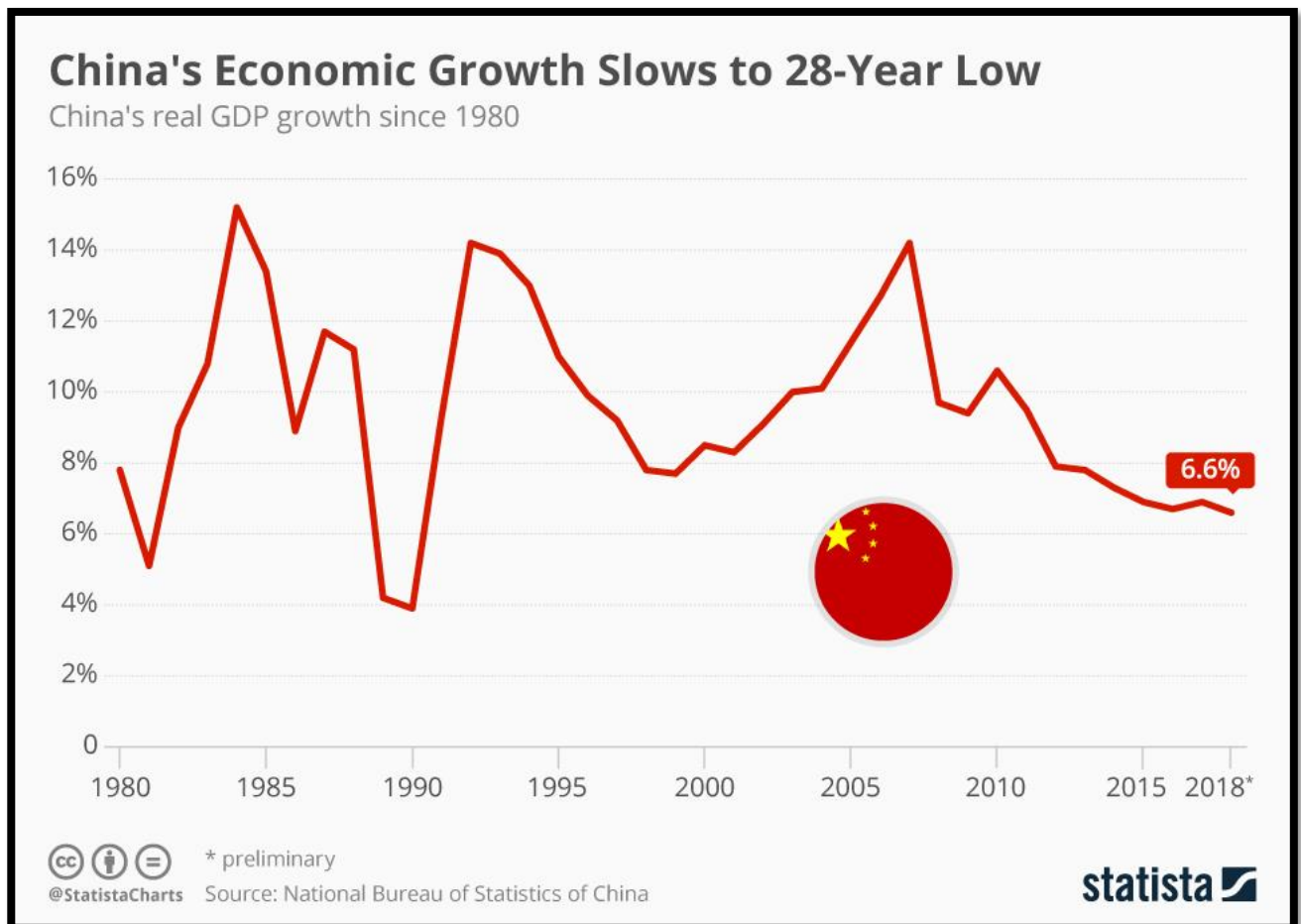


Source: National Statistics, Republic of China / <https://eng.stat.gov.tw/ct.asp?xItem=37408&CtNode=5347&mp=5>

China has plenty of factors for this kind of aggressive production, distribution around the world and find a big weight in consumption portfolio of individual person and companies. There are cheap labor force, high improvement of technology and support of government authorities to small and medium enterprises. Balance of trade for China fluctuated for many years, however the main point that have noticed is positive balance of trade for many consecutive years. Above mentioned factors are the major reason for such kind of performance. Although trade balance remain positive in April 2018 by 262 billion, in July 2018 by 274 billion, and finally 568 billion as of December 2018, while at the beginning of 2019 decreased to 40 billion. But this drop was related to yearly bias factor and increased to 326 billion to its average monthly level. China over the past decade has increased its domestic supply as a consequence of shifting from simple assembly operations to more advanced operations. In the year 2006 China's simple assembly operations accounted for only 10% of their processing trade account down from 30% in the late 1990's. There has been a clear change in the composition of China's exports, from primary goods to high tech finished goods. In 1995 the share of exports that were considered high tech

stood at 20% and by the end of 2005 it had increased to 40%. Unfortunately little has been done to reduce the dependency of foreign trade or to increase investment into the domestic economy in order to produce jobs. The relationship between china and globalization can be summed up as a speeding train not stopping for any red lights.

Graph 3.5. - China's Economic Growth Slows chart

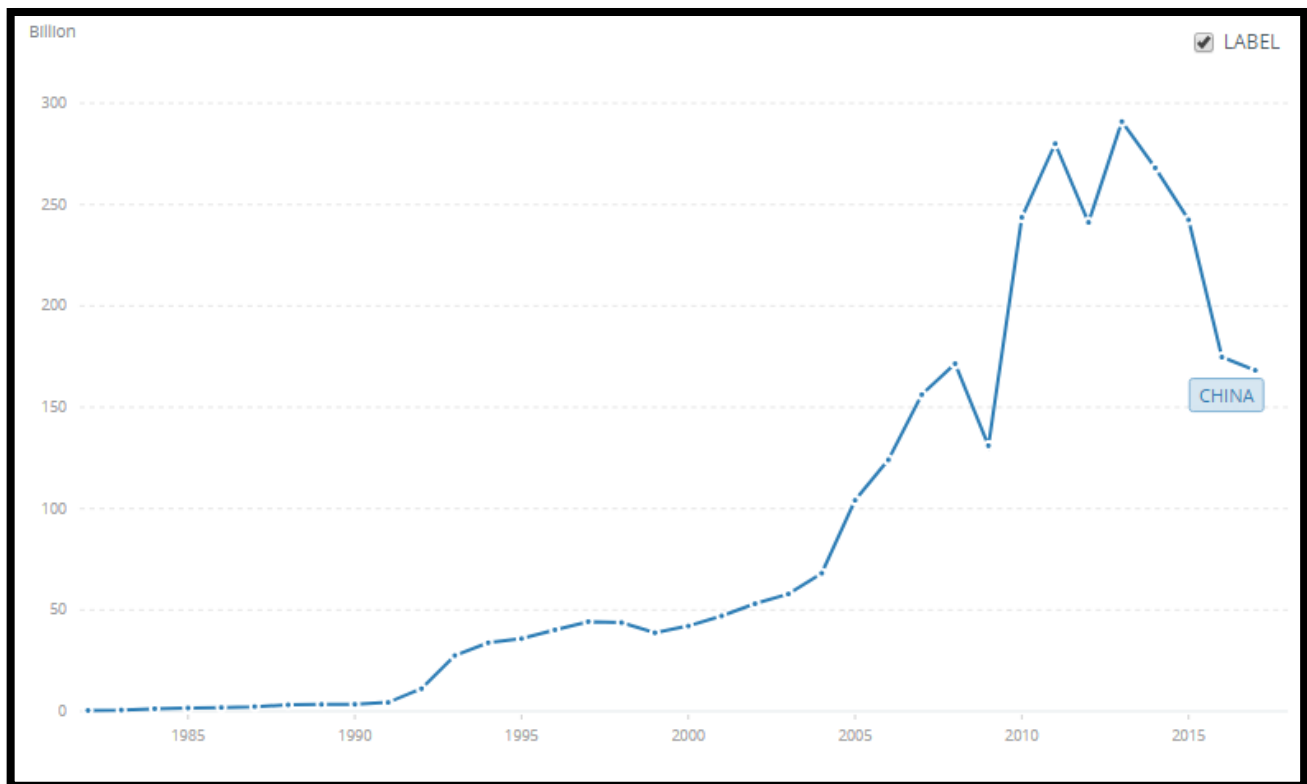


Source: National Bureau, Republic of China / <https://eng.stat.gov.tw/ct.asp?xItem=37408&CtNode=5347&mp=5>

Slowdown of the economy in the recent years has noticed in China and it is the biggest slow since early 1990's. Of course economical slow has its reason and below factors will discuss with details. USA and China trade war is the main point for this slow. The one of the biggest weight for China's export is USA in many different products. Some kind of restricts for China in USA market might harm exporting companies and without USA consumers companies are close to default

after stressed period. Today both sides, especially China trying to solve the dispute as soon as possible and rebuild trade policy and turnover again. Having said that concentration of China's economy to the USA market is so big and each problem in that sphere might effect foreign direct investment flow to the country.

Graph 3.6. - Foreign direct investment, net inflows (BoP, current US\$)



Source: National Statistics, Republic of China
<https://eng.stat.gov.tw/ct.asp?xItem=37408&CtNode=5347&mp=5>

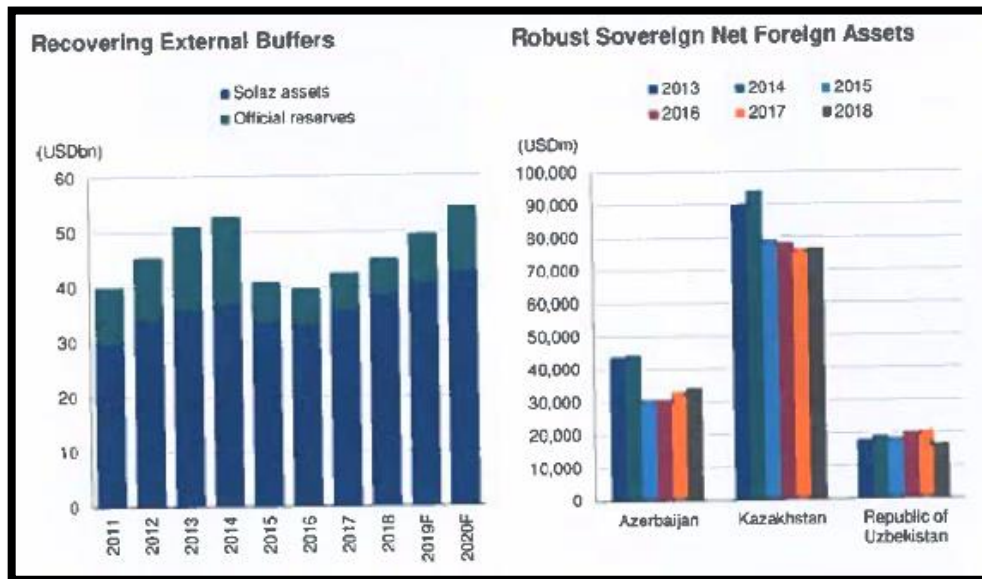
1990s years play a big role in the globalization of countries in a bilateral and group forms. Due to varies connection among countries, economy has found a chance to grow, become wide, enlarge and efficient. Efficiency has been provided by financial sectors by more easy transfer methods of money, and global tariff adjustments. All these amendments become a strong support for the globalization and as logical ending investment flows between continentals, among states and economies rose sharply. An obvious indicator for the China Republic has shown in 13th graph, thus all mentioned theoretical studies substituted with practical evidences. In 2000 Foreign Direct Investment to China Republic just was under 50

billion US\$, while this numbers climbed tremendously after 2005 with new economical projects that has been implemented in that period and remained its impact for few years more. It is universally believed that China Republic is always in an uptrend with modern and hi-fi economy which help to not only stand in a first place among their peer countries, but also tries to catch its number one competitor United States of America. 2008 crisis did not pass away from China Republic, because of such tremendous synchronization with product, service and financial traded countries. If take into consideration that a huge amount of investment has come from United States of America and other European countries for their production, in crisis period these countries has faced problems to continue their investments in the same portion. 2008 and 2009 years remembered as a chaotic period in Foreign Direct Investment of China Republic. However, after a recession in a world economy recovery period has taken its place and created a suitable environment for the improvement and flowering time. Starting from approximately 2010 year Russian Federation has started to change in their investment policy and increased investment amount to China Republic. Because of economic weakness in Russia Federation in 2015 that has caused rubble to decrease against dollar for several sanctions, China Republic faced difficulties from Foreign Direct Investment point side. Despite all these facts and economic and political wars China Republic still has a big power over the worldwide economy. A real example is a trade war problem between China Republic and United States of America. Economists said their drawbacks through next effects that dispute between these two hegemon countries might impact the conglomerate and super leader companies not only in China Republic and United States of America, but also in many other countries. As a result, unemployment ratio in increased countries might decrease to emergency country level. Plenty of economic and social issues may be highlighted also, but taking into consideration that this thesis is related to the impact of globalization on Foreign Direct Investment in China Republic study, the main points should cover investment changed in China Republic through globalization effects. The last idea that I would like to mention is trade disputes between China Republic and United

States of America. Foreign Direct Investment ration of China Republic, of course, change year after year through lots of reasons. Although many tries to solve this issue, the world still do not get a real solution or a final decision from both sides yet. tax and export are the main components of state's income and it is important to remain surplus balance of trade for budget management challenges. In the consumption of all kind of goods, except food, China's products reaches the top places in each country. And China has plenty of factors for this kind of aggressive production, distribution around the world and find a big weight in consumption portfolio of individual person and companies. There are cheap labor force, high improvement of technology and support of government authorities to small and medium enterprises. Balance of trade for China fluctuated for many years, however the main point that have noticed is positive balance of trade for many consecutive years. Above mentioned factors are the major reason for such kind of performance. Although trade balance remain positive in April 2018 by 262 billion, in July 2018 by 274 billion, and finally 568 billion as of December 2018, while at the beginning of 2019 decreased to 40 billion. But this drop was related to yearly bias factor and increased to 326 billion to its average monthly level. China over the past decade has increased its domestic supply as a consequence of shifting from simple assembly operations to more advanced operations. In the year 2006 China's simple assembly operations accounted for only 10% of their processing trade account down from 30% in the late 1990's. There has been a clear change in the composition of China's exports, from primary goods to high tech finished goods. In 1995 the share of exports that were considered high tech stood at 20% and by the end of 2005 it had increased to 40%. Unfortunately little has been done to reduce the dependency of foreign trade or to increase investment into the domestic economy in order to produce jobs. The relationship between china and globalization can be summed up as a speeding train not stopping for any red lights.

When State Oil Fund of the Azerbaijan Republic was founded in 1999 its first and foremost mission was to collect oil and gas sells income, transfer demanded portion to the budget and save another part as a reserve for a future generation.

Graph 3.7. – Strong international liquidity



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

State Oil Fund of Azerbaijan Republic does not remain at this point, State Oil Fund of Azerbaijan Republic also invests that amount for a more money generation. Again comparing with peers such as Kazakhstan and Uzbekistan we saved a very good amount of reserve and as planned in the 2019 budget approximately more 5 mln dollar amount should be transferred to the budget at the end of 2019 December financial calendar. State Oil Fund of Azerbaijan Republic cannot save its all reserve in one currency, because each currency has a risk for devaluation and therefore State Oil Fund of Azerbaijan Republic currently saves in usd, eur, gbp, Australian dollar, Turkish lira, Russian ruble, Korean won, Chinese yuan, Japan yen and so on. I would like to mention that foreign currency's daily valuation always affects to the net profit in one currency.

3.2. Liberalization in the security market in Azerbaijan

Theoretical and empirical studies have shown that the impact of the globalization process can deviate enormously between regions, countries, and even sectors within countries. This almost equal ratio of failure or success under globalization created a split amongst the Chinese leaders after the opening of their economy in 1979. Many of the concerns expressed were in relation to the prospective

of globalisation carrying ideas and institutions that would corrupt Chinese socialism and erode the national economy. However policy makers decided to embrace the globalisation process, especially the component of FDI as a source of necessary capital, technology, and management techniques. It is evident that in a large majority of literature available there is no distinction between the two different types of FDI. Although it is true that a large proportion of the FDI in China are 'Greenfield' investments into the manufacturing sector, there is also a significant portion of FDI which is involved in Mergers & Acquisitions. This key distinction is required for this research in order to thoroughly evaluate the positive and negative impacts of globalisation on FDI.

In the first few years following China's liberalization of their capital accounts, investors were sceptical on the conditions in China. This was particularly due to the restricted access to domestic markets, non-convertibility of the Renminbi currency, inadequately defined legal framework, and a lack of precedence. As a result, by 1983 the stock of foreign direct investment was at an estimated \$3 billion, falling well below the expectations of business-men and targets of policy makers. The Chinese government needed to establish a development strategy that would enable the country to exploit any kind of comparative advantage in order to attract foreign trade, which was seen as an essential component for rapid growth. It was clear to policy makers that China's main strength was in the production of labour-intensive goods and manufacturing. As a result the government announced duty exemptions on the importation of intermediate inputs used in the production of exports. The strategy adopted clearly had remnants of the increasingly popular ISI economic experiment. China's coastal factories were able to assemble and process imported inputs, for instance industrial equipment and machinery, predominantly from neighbouring countries and the Western first world. With a surplus of manual and skilled workers and now newly built factories, China had formed the perfect conditions for producing final products that could be exported abroad and used domestically. Multinational corporations and export processing industries of the First world

instantly came to realise the potential for reducing their variable costs i.e. labour significantly and slowly started to relocate from mostly western Europe to Asia.

Graph 3.8. – Sovereign rating triggers

Negative Triggers					Positive Triggers				
✗ An oil price or other external shock that would have a significant adverse effect on the economy, the public finances or the external position					✓ Improvement in the macroeconomic policy framework strengthening the country's ability to address external shocks				
✗ Developments in the economic policy framework that undermine macroeconomic stability					✓ A significant improvement in public and external balance sheet				
✗ Weakening growth performance and prospects					✓ An improvement in governance and the business environment leading to progress in economic diversification underpinning growth prospects				

	2017	2018E	2019F	2020F
Real GDP, (% change)	0.1	1.3	3.5	3.6
Inflation, (% change)	12.9	2.3	3.8	4.0
Current account balance, (% GDP)	4.2	7.3	8.5	8.7
Government balance, (% GDP)	-1.6	3.9	3.4	3.3
Government debt, (% GDP)	22.9	18.7	20.7	22.4

BB+/Stable	
Latest Review	
• 25 January 2019	
Next Formal Review	
• 19 July 2019	

Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

I collect here the main triggers for a rating decision making process, and moreover add main economic indications such as real GDP, inflation rate, current account balance, government balance and government debt. For a better comparison I would like to compare this triggers with China's ones. Without a deep dive analyzes we can see the differences and make a conclusion for a better economy and of course for a security market of Azerbaijan.

Productivity of the economy in China has changes year after year because of the government's effect in the economy. When the weight of state owned enterprices had a big part in the market, productivity might be decreased and compepetivness in the market losses its power for a stornig and fair competition. State owned enterprices in 1998 decreased about 238,000 enterprices and this number consist of more than half of planned state owned enterprices. Then, in 2007 another part of enterprices has been prioritized by approximately 116,000 amount. There is an interesting factor that the businesses that has been opereated by state before the privatization still

continues to operate in the same sphere and only a small portion of businesses substituted with other industries.

3.3. Potential improvement trends in the emergency market

Towards the mid 1990's China had become the main hub for industrial manufacturing, capturing 50% of all Foreign Direct Investment flows to the East Asian region between 1987 and 1998. In terms of dollars within the 20 year span of 1979-1999, the total aggregate inflows of FDI into China totalled \$306 billion, approximately 30 per cent of the total FDI distributed among all developing countries and an estimated 10 per cent of FDI in the world⁷. The 1997 Asian crisis proved to be a relatively minor hiccup for China's economy (compared to some of the worse effected countries such as Indonesia, Thailand, Malaysia and South Korea), as officials announced that economics growth in 1998 was 7.8%- a mere .02% of the 8% government target ⁸. This was mainly due to the fact that most of China's foreign investment was in the form of factories as appose to securities that dominated many of the Southeast Asian countries, which shielded the country from rapid capital flight. Having survived the wave of the Asian crisis, the aftermath affects began to creep in as GDP growth slowed drastically towards the end of 1998 and into 1999. Economic growth dropped to 7% and foreign investment dropped to approximately \$40, down 11% on 1997, as the promise of a stable currency was not sufficient for the retracting investors in South Korea, Japan and Taiwan. China was able to learn from its vulnerabilities by drawing attention to the structural flaws within its economy, consequently the Chinese government began to address the issues of its considerable financial weakness, drawn from the surplus of non-performing loans in the banking system and its highly concentrated trade dependence with the US. The Premier Zhu Rongji introduced a wide range of radical reforms including ending subsidies to the state sector, reducing the bureaucracy by half, producing financial safety nets for the unemployed. Although being one of the most popular Communist officials in China, he had gained the respect several Western business and political leaders for bringing the country into the World Trade

Organization in 2001, which further increased the bulk of foreign capital into the country. China's joining of the WTO in 2001, was marked as the most influential chapter in their history of the globalization process. In total China has amended more than 2500 of its national laws and regulations and removed over 800 of them to comply with WTO rules⁹. The amendments symbolize a shift in China's infrastructure from the production of consumption goods to the production of intermediate products and capital equipment. The negative impact of these changes has affected mostly the employment levels in industries such as the automobiles, agriculture, machinery and instruments. Conversely, employment growth has occurred in industries such as plant-based fibers, livestock and meat, light manufacturing and electronics, and clothing.

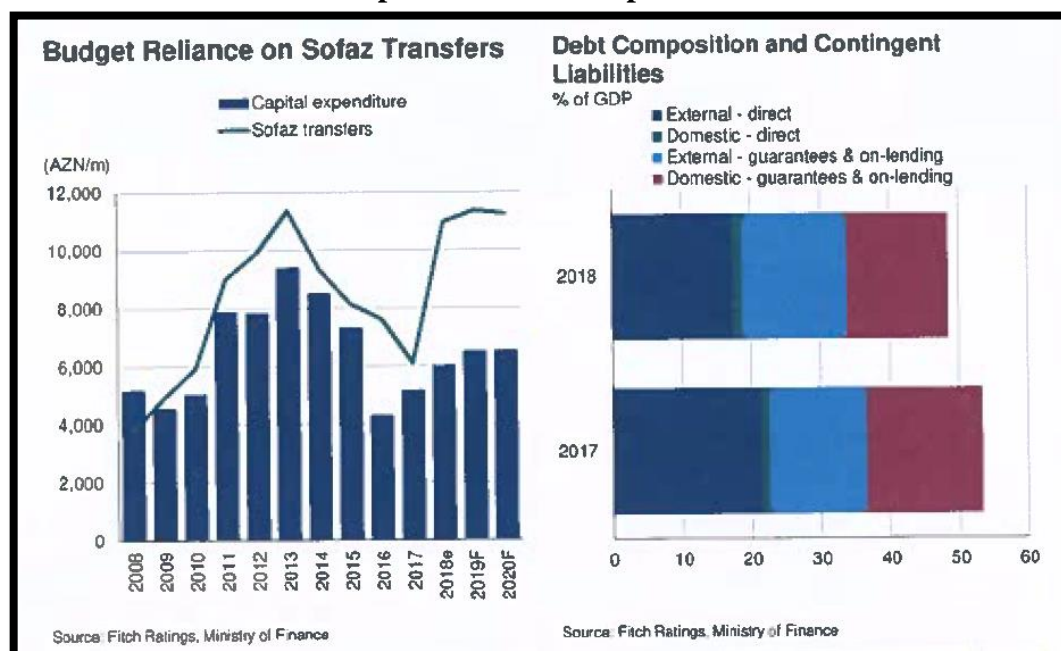
This graph interprets State Oil Fund of Azerbaijan Republic's transfers to the budget from 2008 to 2020. 2013 year was of the oil price's top years and after this kind of high increase prices decreased steadily and reached about 40 dollar in 2016. State Oil Fund of Azerbaijan Republic has another mission besides transferring oil income to the budget, and that is funding a huge reserve for future generations.

Currently reserved amount reached approximately 40 mln dollar and professional team of State Oil Fund of Azerbaijan Republic invests money in vary market and sector not to lose from inflation and simultaneously get interest gain from investment. As of December 2018 State Oil Fund of Azerbaijan Republic's portfolio consist of below investment products: money market and bond market 76%, equities 13%, real estate 5%, commodity especially gold 5%. State Oil Fund of Azerbaijan Republic stated 2018 year with 35.8 mln dollar amount and finished it with 38.5 mln dollar amount.

Below chart has invaluable price for this topic. All discussed case is consolidated in this graph. As central bank has devaluated Azerbaijani manat, it should be increase the interest rates in order to finance financial institutions.

In such situations consumer price index also went up from all these events. Furthermore, there real GPD and non-oil real GDP also divided to see the full picture of economic situation.

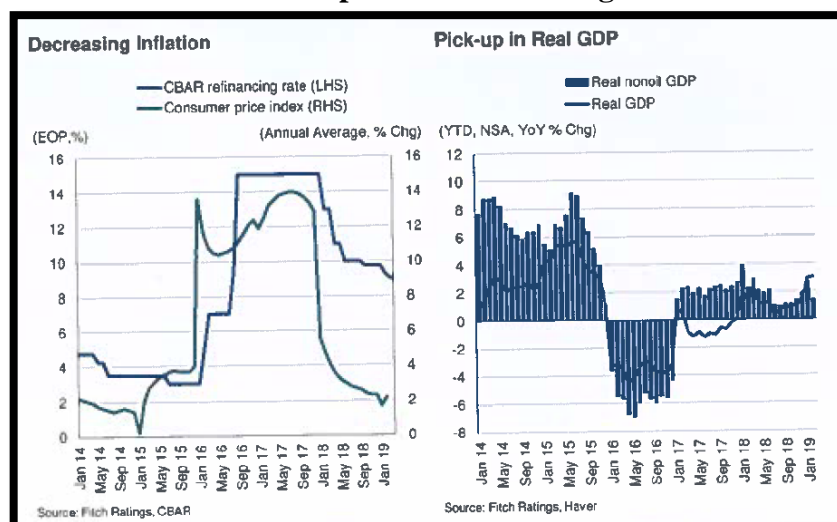
Graph 3.9. – Risks on public finances



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

As shown in the graph 2016 year's devaluation not only impacts financial sector, but also non-oil sector. Because chaotic environment made non-oil sellers to stop their production for a moment in order to understand what results could happen. Despite all mentioned weal issues, the Republic of Azerbaijan survived and solved the issues in a short period. Due to such kind of economic and financial issue a state always affects well and makes improvements in all spheres for a better future.

Graph 3.10. – Subsiding macro imbalances



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

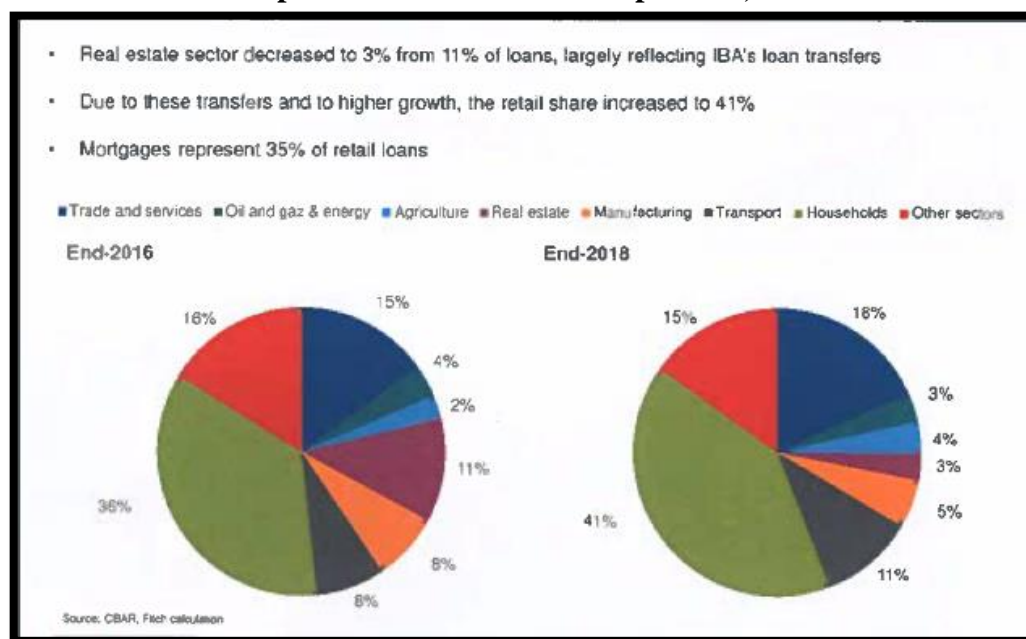
China's economy has been increased through its big port in the East China sea and the South China sea. As a hub of international transportation system, China's ports attract a big amount of investments especially foreign direct investments. Daily turnover of these ports passes billion dollars, plenty of tons of product and so on. Taking into consideration that many global and multinational companies have built their businesses there in order to decrease operational costs also transfer products from mentioned China ports. Shipping industry simultaneously decreases operational costs of companies, and also provides a save transportation for the big amount of products.

The impact of globalization on Foreign Direct Investment in developing countries can not be generalised into one category or be tagged as positive or negative. The answer is dependent on several variables including the region, demography, culture, roots and politics. This study has provided a basis for understanding the globalization phenomenon and one of its major components-FDI. With its increasingly popular existence in the Developing World, Globalization has now effectively influenced each and every person. From the factory worker who is sewing up the football for the next world cup to the large businessmen who has just signed a contract which invests billions in Vietnam. What can be concluded is that there is a definite distinction between the impact of globalization on FDI in the developed world and in the developing world. A developing country has several incumbent factors such as higher levels of corruption, poverty and political instability in comparison to developed countries. In some instances globalization tends to reduce the severity of these factors, however in other instances the process may increase or even induce some of these factors. Thus the level of FDI depends to a certain extent on how globalization affects these factors within developing countries. For the majority of developing countries, globalization opens up opportunities in the global economy as worldwide markets become available for importation and exportation.

It is universally believed that real estate sector is a number of indicator for economy. The importance of real estate comes from its early signal. As per historical

data we can see that after real estate sectors decrease and going down of house sells economy face a crisis in the next 2-4 months. It is universally believed that real estate sector is a number of indicator for economy. The importance of real estate comes from its early signal.

Graph 3.11. – Sector loan composition, 2016 vs 2018



Source: Fitch rating agency, Fitch rating annual conference in Azerbaijan, 2019

As per historical data we can see that after real estate sectors decrease and going down of house sells economy face a crisis in the next 2-4 months. Because building of buildings create a huge employment places that decreases unemployment statistics. And therefore a government always tent to stimulate construction sector by mortgage offer easing. Mortgage fund of the Azerbaijan Republic eases this process by creating State Housing Development Agency of the Republic of Azerbaijan. State Housing Development Agency of the Republic of Azerbaijan offers new mortgage rules that, a mortgage offer can rent a flat and State Housing Development Agency of the Republic of Azerbaijan will receive rent commission as a mortgage payment. By this way many new married families can provide themselves with a new apartment by paying rent for a flat.

With the evidence from China it is clear that globalization increased the level of FDI by advertising to the world the country's comparative advantage. Globalization brought about an increase in international communication and transportation among other things which induced more efficient allocation of capital. Consequently, China's was not only able to benefit from growth in its manufacturing sector but also in its economy by implementing positive policies such as Import Substitution Industrialization. However, what also became apparent was the dark side of increased globalization and FDI, as unemployment and inequality grew.

In summary this study establishes an unambiguous paradox created by globalization, where by the forces of globalization can both induce FDI but also reduce the level FDI to a country or region. It is also important to look beyond globalizations impact on FDI and begin to consider the repercussions of increased FDI. China is a prime example how increased FDI does not automatically mean prosperity for all. As FDI increases in one sector it is very common for another sector to suffer, as was the case in China where the manufacturing sector grew as the agricultural sector diminished.

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