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ASPECTS OF EMERGING MARKET ECONOMIES IN A MODERN GLOBALIZED WORLD: BRIEF ANALYSIS OF CAPITAL INFLOWS AFFECTING EMERGING MARKET ECONOMIES

Name: Aytac Abdurahimova

Azerbaijan State University of Economics

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Abstract

This research project deals with the deep faces of processes that made a move inside the Emerging Market Economies and also underdeveloped besides to countries in transition period, and the real implications of capital inflows to these economies in today's extremely globalized world. The core aim in this work is ascertaining the absolute burdens and worries of EMEs and others pointed out more thoroughly and to determine whether capital inflows is a real remedy and one of the best solutions for them for not to suffer from these infinitively lasting tendencies and best ways to allure them into the nation's economy which is absolutely require to be awareness of about related potential risks besides by benefits toward to make them to be more advanced as possible as. As the issue is not quite straightforward it makes the issue global and applicable enough as well as highly actual. The paper holds a thorough theoretical investigation followed by data analysis to find out certain correlation between Emerging markets and related capital inflows and the face of Azerbaijan with its effective investment policy on its way of attainting more sustainable and progressive economic development.

Key words: Globalization, EMEs, capital inflows, FDI, Azerbaijan, investment policy

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Introduction

By and large, today's globalized and extremely integrated day is not a fruit of current century, long experienced periods, even centuries stay behind of this gradual innovation. Within the ending period of World War II, the U.S. had the greatest economic and political power over the other nations' economies. Following, by dint of great economic and political challenges, during this period, the number of international institutions were formed for the purpose of regulating entire economy around the world and preventing another Great Depression. These range of institutions include The International Bank for Reconstruction and Development, International Monetary Fund and General Agreement on Tariffs and Trade or GATT (that resulted with the formation of WTO in 1995). Overtime their attendance and membership have significantly expanded in international economy system. International bureaucrats - the faceless symbols of the world economic order – are under attack everywhere (Stiglitz, 2002)[1]. Therefore their great contributions should not be kept out of attention which relies on indispensability as reasonable researches noted that stay in the cornerstone of today's world. Other tendencies that catalyzed the evaluation process of complicated world economic and political system on the basis of increased economic interdependence among countries were the formation of European Community or European Union (EU) in 1950s, in 1970s OPEC, increasing importance of transnational and multinational corporations, finally creation of euro and China's getting economic power on world economy system. As well as a yawning gap between industrialized and developing countries made it necessary to bring new equilibrium system into the international economic system which would lead to enhanced accountability of developing countries and consideration of their needs and interests, which would lead

to enhanced accountability of developing countries and consideration of their needs

[1] Joseph E. Stiglitz, Globalization and its Discontents (New York: W. W. Norton, 2002)

and interests, this happened in 1960s and 1970s under the concept of ‘New International Economic Order’ that emphasized being irrespective of their social as well as economic choices, countries should have national sovereignty on their resources and underlined sovereign equality of them, states have discretion to the acceptance of foreign investments. The New International Economic Order is directly on the way of economic and social development of poorer countries, better conditions for them by emphasizing profits should be dispensed equally among investors and host States opposed to ‘universal minimum standard’ concept. In the Resolution 1803 hold by the United Nations General Assembly On permanent Sovereignty based on Natural Resources, but more notably, in the Charter admitted by the Resolution 3281 (XXIX) of the UN General Assembly on Economic Rights and Duties of States, with either voting against or avoiding by the most dominant industrialized Western States. The charter in question recommends the needs and interests of developing economies to be made more accountable internationally, strengthen their position, besides to this another aim is to enhance international economic relations, support developing countries, and reduce current gap between different economies. It is also noted that there should be remunerative, equitable and stable prices for primary products and other necessary consumption goods. It strongly emphasizes that how technology transfer is important for such kind of economies for further development. Because as we pointed out before although these economies try to expand more quickly rather than normal temp, one of the hindrances is that they less capital. So they always have a need to technology transformation to their place, for instance, advanced technical industrial equipment for the effective removal process of natural resources, raw materials, course not a kind of any exploitation but as a part of foreign direct investment. Here we also should point out, technology transfer as well as financial aid stay on the agenda of IEOs for facilitating the access of these countries to technology and science.

Lawfulness of a range of worries of developing economies has significantly effected to the development of economic governance all over the world, despite the fact that the ‘New International Order’ was formulated some several decades ago.

Considerably great part of the WTO system and EU commercial policy are formulated by preferences and other related custom-made regulations to developing countries. All of these reflected above can be evaluated the advantages of globalization and its positive effects upon developing or emerging market economies. But besides to these, there is also disadvantaged sides of globalization that affiliates the EMEs and results them to suffer from this innovation. Let’s talk about them: The term of globalization relies on overly complicated unification of different economies and mixes countries from various development level. But following to this, there is an intense fact that should not be eliminated, this kind of global mergers are strongly related to the development position of countries that relies on their GPA, CPI indicators, quality of life, amount of capital, level of production, quality of services, even educational progress, and mainly their total share on international trade, globally complicated market place. History reflects that it was inevitable to run away from the global integration after the forces of British East India, Hudson’s Bay Company and Dutch East India Company, the one after another wars, depressions, peace, then formation of international organizations, mainly GATT, IMF, IBRD, then WTO unintentionally put the global governance into action and the term an entrance to the economic platform.

Literature research. This work have been formed from a substantial range of academic writings and also website materials that have been showed in references section. And additionally statistics provided by World Bank Group, International, Monetary Fund and the State Statistical Committee of the Republic of Azerbaijan.

Emerging Market Economies

As first when giving a start to research the issue in question as a whole, the first step should be an application to the main essence of emerging market economy deeply for the purpose of being more accurate.

So what is emerging market economies itself

Emerging Markets are also defined as emerging economies as well as developing countries which are nation's economy (was named in 1981 by Antoine W.Van Agtmael of the International Finance Corporation of the World Bank) that try to get progress for the aim of being advanced as possible as which is seen from regular changes in their current market, in the amount of their local debt and economy governing system as a whole. Examples can be brought from the former Soviet Union and Eastern bloc countries. Although the countries who have emerging economies also accept that they have no more advanced achievements rather than developed ones but the countries in question still take a position between developed and developing ones by maintaining economy as well as infrastructures more advanced level compared to the frontier economies. By dint of investing in more productive capacity they turn their structure of economy, from traditional to modern as a requirement of fast globalization tendencies, so they are moving away from their economies that have been formed based on agriculture or raw material export. EMEs are considered as an economy with the low to middle per capital income, fast-flourishing economies what leads to rapid industrialization and acceptance of free or mixed economy system as a response of rapid globalization and the aim of better life quality in countries which fall into this category. Besides the financial position in EMEs have been more complex as a result of Currency crisis in 1997, so this also proves that how emerging markets are important as they support durable growth in the global economy. Today it includes outstanding BRICs (Brazil, Russia, Russia, India and China) and also even Portugal, Ireland, Italy, Greece, and Spain.

O'Neill were forecasting, combined GDP share of these countries would rose from 8% to 14%. But their real share rose to approximately even 19%. This is a main incentive that called investors to invest their capital there for the purpose of diversifying and extending their portfolios, reallocating expected risks.

1.1. Representatives, and characteristics of EMEs. Thoroughly EMEs are characterized as economy of countries in transition, in the process of passing across their traditional closed economy to open one. For today there have been five core characteristics of emerging markets which are related to each other have been reflected below:

1. As mentioned above EMEs are differed for their lower-than average per capital income. Disclosures by World Bank, developing countries as those with either low or lower middle per capital income of less than $4.035 are as below.

By region	By income	By lending
East Asia and Pacific	Low-income economies	IDA
Europe and Central Asia	Lower-middle-income economies	Blend

2. Low income forms the second main characteristic of EMEs- rapid growth even more than developed ones. The main incentive force of leaders of these markets for rapid change to industrialized economy is to maintain their power, increase life

standards of their people, not to disappear in today’s gigantic as well as complicated world economy system. For instance, according to statistics for the year of 2015, the indicator of economic growth in developed countries such as Germany, United Kingdom, United States, Japan has been between lower than 3%, on the contrary the indicator in question in Egypt, United Arab emirates and Turkey has been more than 4% while in China and India this reflection has been observed totally around 7%. An emerging market is realizing a great ranger of economic reforms to drive itself in a more economically responsible, transparence and efficient market level. By forming fixed, stable local currency for providing enough confidence and creating effective investment climate, EMEs reforms exchange rate policy, too. This point make the investors avoid their decision of carrying their capital abroad. Additionally EMEs is receiving aid for almost the time from huge donor countries and world organizations such as IMF and World Bank.

3. Significantly high volatility happens because of rapid positive changes which come from three core factors in its term either namely external price shocks, natural disasters and instability in domestic policy.

a) When currency instabilities happen, for example changes in dollar exchange rate or change in some commodity prices such as oil and food, emerging markets are more likely to be volatile. Because they have a small market economy which means they have no any power to influence these tendencies for their benefit and not to suffer. If we bring an example, if governments that have great open economy subsidize production of some strategically significant goods, it leads to increase in the prices of related products which results loss of food in most EMEs countries (subsidization of corn ethanol production by United States in 2008).

b) Economies relied on traditional ones are sensitive to climate changes (flood, landslip, earthquakes), disasters and also raw materials have always probability of exhaustion (oil is expected to deplete till 2050 in Azerbaijan)

c) The last point is that these tendencies can affiliate the domestic situation of the country both socially and economically. For instance, as we know the main purpose of such kind of markets is to be more advanced and industrialized but it requires to make necessary changes in domestic environment needed for to be desired. This directly leads to sufferance of some traditional sectors, such as agriculture as farmers lose their land that will be used to industrial purposes. As time passed and this capturing increase, expectedly social problems such as unrest, revolts happen.

4. Naturally this kind of growth needs to invest a great range of capital, but in our case it seem difficult enough as such kind of countries has less capacity to meet these capital requirements, their capital markets are significantly weaker compared to developed market economies are. Besides it is usually difficult to gather information regarding their companies that perform on stock markets although they need to be more open and attractive to MNEs, especially foreign direct investment. In this case it is valuable point to have ability in differing all three kind of market that are developed, emerging and frontier especially for amateur as well as new investors. Actually identifying developed market is the easiest one while the emerging and frontier markets include to a little tricky class. As we pointed out above and either it is seen from its phase, countries that belong developed market are the most advanced, technically developed, quality-oriented, different in life standards and overall governance, in amount of total capital size, and per capital income either (U.S., Germany, North America, the U.K., Australia, New Zealand, Canada, Japan). But here there are also confusing points, therefore, different entities can be classified for what constitutes the developed market in question. With this, reflected country can be evaluated as developed market regarding to one firm evaluation, but also an emerging market for another one. About emerging market we are already talking. And the third one- frontier market economy (CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa and Nigeria, Bangladesh, Botswana)) which is evaluated as the subset of emerging market itself. It means that all frontier markets

are EMEs, but it is not to say that all emerging markets are frontier. Such kind of markets stay behind of developed and emerging markets like China and Brazil because of having lower liquidity and per capital income. Admittedly as an inevitable requirement of nowadays, frontier markets incur to significant economic development which makes them more interesting to risk-related investors.

5. Rapid growth also results with the main characteristic called higher-than average-return for invested parties. Internal demand in these countries is lower than external so they try to produce goods with low production cost and export to consumers of developed markets. While the companies in question of home country make more profit, it is also to say that stock prices will increase for investors and higher return than average on bonds that costs more to meet the extra risk of EM companies.

Other basic characteristics of emerging market economies related portfolio and direct investment are also differed that we will talk about in following chapters.

1.2. Essence of globalization and its positive & negative effects upon EMEs and developing countries. Globalization is a sign of being great interdependence among world counties and citizens. Through immigration, mutual trade relations and direct investments, especially foreign direct investment this type of interaction happens. Besides economic, globalization results technological, political, cultural changes, because of the interaction among countries via immigration, trade and investment flows realize on flows of goods & services, people, factories, a range of affiliates of international companies, bonds. As a result of mutual interaction different people from different culture, religion, work and life conditions meet in a common environment, so cultural changes and shifts become more likely to happen. Compared to 50-70 years ago, now people reflect more willingness to travel overseas, enjoy external, more innovative items that makes them be more delighted, businesses are more likely to synergies with external companies, investors prefer overseas investing.

But what are catalyzing globalization? Generally economic interdependence happen because of labor, trade and investment (capital) flows like government securities as well as corporations bonds.

So perhaps the first factor is technological innovation. As its main pros, technologic advancement directly leads decreasing in production and transportation cots which means more production and extra profit which have begun since 1700s' industrial revolution (e.g. railways). Admittedly, next inventions and discoveries, for instance, telephones, electricity, automobile increased capacity for effective communication and decreased transportation costs and logistic shortages. Invention of telephones and other communication methods (p.s. internet became a core factor in decreasing communication costs) make the economy independent from the geographical location. The second core influence is liberalization. Oppose to protectionism, liberalist tendencies are the main factors that drive international economic relations, between of 1940s and 2014, industrial countries have cut down tariffs from double digits to approximately 4%. Other kind of trade restrictions, such as quotas have removed or significantly decreased, others were forbidden by GATT, or WTO. Another remedy became tendency in developing countries as they have illustrated their willingness for foreign investments and global financial markets. If we take it into account that the last ones also increase the affordability of financial resources, all pointed out above have facilitated international relations and leaded rapid inevitable globalization. On the technological side of the issue, easy access to information flows and higher tradability of products have been a profound stimulus to trade and decision of production location abroad.

Nowadays, it can be said that there have no any nations that stay behind an economic insulation. This means all nations' economies are linked to each other in all parts of their economies, include level of income, life standard, good as well as services sectors and level of employment, too. The economic situation of one is directly or indirectly linked to its trading partners. The linkage makes it impossible to form and run one economic policy of a nation without evaluating their influence on another one. This proves great interdependence between nations' economies that is a result of recovery in economic order of the world. Researchers have calculated that the overall production sharing counts approximately 30% of the world trade, still only in [2]manufactured goods. But it is a fact that trade in separate parts and components of products are significantly more than finished goods and are growing rapidly.

The essential advantages of globalization are[2]:

- ❖ It leads positive changes in living conditions and overall productivity level inside. Because as a fruit of free trade countries get the chance of trading with others freely in products where they have less capacity to produce on their own, and can also get a specialization in products where they really indicate comparative advantage;
- ❖ Expected risk of inflation is more available to be avoided, because, lower prices on imports besides international rivalry make the prices to stay in average as well as globally advisable level;
- ❖ Transfer of technology and knowledge tends to be more hyperactive in character, probability increase which means more rapid technological and innovative growth;
- ❖ Unrestricted capital flows give an opportunity to countries to get a gigantic size of free access to invest overseas, and be a visible hindrance to interest rates' increase.

The inevitable disadvantages of globalization are:

- ❖ Not only blue collars, as well as white collars are sensitive enough to foreign job markets, as high skilled staff is always looking up;

[2] Backlash Behind the Anxiety over Globalization, "Business Week, April 24, 2000, p. 41.

- ❖ As said above salary rates are vary enough according to the development level of countries, so people get a job with lower-paid salary in emerging and underdeveloped countries;
- ❖ A size of employees faces job losses, for instance, the United States because of extreme amount of import;
- ❖ There is always a risk availability of lay off and decrease in competition capability of countries;
- ❖ There is always high probability of asking wage compromises by the employers in attitudes to their employees, and this can motivate to transfer jobs overseas when the workers do not agree with that demand.

Admittedly today extended global problems from environmental to human rights violence that requires a dealing by a combined power of countries to be solved are in the center of the issue. However the process cannot go by from poor countries without at least any little harmless. First, huge countries that have great open economy hold the three-fourth of the market such as Japan, the EU, the United States, China, therefore deep imbalances exist among various economies. Living standards, education, employment and other related indexes is updating directly in global sphere under the international meaning. Member states of different international economic organizations should obey the all accepted common rules that generated several difficulty to poor countries relative to the other ones. But in case, some privileges, preferential applications are provided to countries that are in the transition period as well as reflects great enthusiasm to get advanced development under the term of “Favorable Conditions for Developing Countries” in the form of preferential (most favored nation treatment), national (eliminating unfair competition between home country and goods imported) treatment, preferential tariffs, technology transfer, and also some exemptions for them from general obligations (principles) of contracts. Unfortunately this is not enough for bridging the gap between them, and avoiding existing inequalities. For instance, some experiences form inside policy, of developed economies, it can be seen that, not everything depend on commonly approved requirements, the half directly relates to inside attitudes. For example some countries with advanced growth remove trade, migration barriers to all, but inside rise the overall living costs through accommodation, rent, insurance, food prices that result undesirable, hard living condition for immigrants, so the internal structure have to be fit to worldwide economic order. Second anxiety is coming from missed “worldwide governance” that is notably far from the real meaning of “intercontinental governance”. Violations of rights of weak subjects, cases of persistent abuses, impossibility of avoiding imbalances are core sign of missed governance by illustrating its internal limitations. Moreover it should be highlighted that this also make a discomfort for dominant subjects of global relations. Third, it cause a visible threat to domestic industries as they suffer from shortages in required knowledge, labor and production standards, skilled labor force which make their finished products uncompetitive relative to ones produced in highly innovative industries. Existing example can be reflected form the current case of Nigeria, though it has great source in supply of chronic and epileptic power, so the producers have a difficulty in performing on power creating weir, less labor cost is implementing for the compensation of high gasoline prices, that is the obstacle in the ahead of Nigeria to have balanced competition with its external counterparts. Fourth, the next the effect its environmental affection. Developed countries, mostly, demonstrate a willingness to replace their firms, manufactures in the area of such countries as their soft environmental laws and difficulties in monitoring, poor controlling standards. In the result, the local country meets negatively progressed degradation, deterioration, health, contaminated air problems which is the other form of excessive exploitation.

1.3. The three core waves of globalization and implications over world economy system Before evaluating the effects of globalization over the world countries, especially developing countries, the recent historical waves of globalization should be considered to see that how they influenced the system over the past:

There have been three major core waves of globalization over the recent history: the first wave was around 1870-1914, the second has occurred from 1945 to 1980, while the last one began in 1980.

The first interdependence in question scintillated by reducing tariff barriers and presenting latest technologies to industries. So in its term it resulted a significant decrease in costs related transportation. By and large, mostly drove by American and European companies, the first wave of globalization was characterized by the amount of muscle, wind, horse and a few later steam power of the country. But the main point was different, the point is that whether the country put them into use in a satisfactory level. Although this interdependence ended by the World War I, statistics proved it have had a great positive impact on global economy within 44 years, overall amount of export have passed a double step, nearly 8 %, and per capital income reached up to 1.3% rise. As noted above by the beginning of World War I, the first wave reached an end. So in this case, by analyzing all its positives as well as consequences did not cross by developing countries. One of the core impacts was that developing countries stayed absolutely in the edge of whole processes, instead countries which took part actively became the richest ones such as the United States and its similar partners. Furthermore while the world economy benefited free trade relations as a result of liberalist tendencies practiced by some developed countries, especially by the United Kingdom

like an oppose to this, the United States pursued a keen protectionist policy in the second half of nineteenth century till the beginning of War in question. But then, Austria-Hungary, Germany, France as well as Italy began to implement protectionism as the United States in about 1890s (e.g. high tariff barriers). However they act so for the purpose of rising revenue, then it turned to the main way of these countries to protect domestic industry. Followed by all of these there was also currency instability problems afflicts economic situation, too. Liberal international relations have always become a cornerstone of developing, and also emerging economies to develop. So the tendencies in question, admittedly their continuation within the period of 1930s' Great Depression became the greatest obstacle to little countries to flourish. Applying high tariffs on import raise the demand to local products which means more motivation to domestic companies to produce more than average that leads them rapid promotion, so new job places become available. Therefore the protectionism brought an economic falling, while the export have rose to 8% at first, fell to nearly 5% at the end.

Following the World War II, the second term of interdependence, second great wave of globalization occurred, from 1945 to 1980. The advocates try to convince the government that, it can bring significantly more benefit if trade barriers were reduced enacted in previous period, falls in transportation costs were one of the most catalyzes, too. However, it cannot be said this achievements brought any advantage to developing countries. The reason was that although developed countries broke down trade barriers, they have done this only among themselves that was a huge source of income, but just in manufacturing goods. Freed of barriers to developing countries applied only agricultural products that were have no potential to compete agriculture sector in developed ones and there were still remaining intense trade barriers to manufactured products of developing countries in a global market. By dint of the wave the new economic phase entered to the dictionary of economy, namely – **economies of agglomeration.** This new type of trade relation was rely on specialization of countries and trade was only operated on manufacturing niches. Simply, agglomeration economies are the incarnation of urban economies, here the companies, firms are characterized with close location to each-other, connect by linkages and create network-effects. Firms was clustered together on the similar and related sector of businesses that lead significantly decrease in communication, transportation, controlling, generally production costs, facilitate the overall production and company performance process. Furthermore, such kind of clusters can get more amount of customers as well as suppliers relative to a single one, although they are rival to each-other separately. Examples can be brought from the structure of shopping malls (by locating close they benefit from the usage of the same infrastructure), production policies of some auto companies such as Toyota, Honda and so on. So while taking a back to second wave period, the main essence of the issue was the position of left out economies because of non-competitiveness location. Therefore, this brought to the divided emergency in the economy, there was a yawning gap between salary rates over the region. Unfortunately, the situation in developing countries were still miserable as they stayed in the edge of the growth, relatively trade in manufacturing goods as well as services and dependency on agricultural fields. Unfavorable investment climate, facing with keen trade restrictions were also lasting on to be characteristic features of them. The per capital income increased in developed countries and developing countries were experienced the next shock. Thus, the second wave of globalization also blew on the favor of developed countries with the exception of a few points, the aim of developing countries to get extended and easy access to the market of developed countries, generally the global economic relations even in manufacturing goods stayed as a great enthusiastic desire.

At last, the latest one, third wave of global interdependence gave a start in 1980s and brought a great difference to the economic environment as opposed to previous ones. Brazil, China, India, or the G3 of today's Bric countries took the first but steady steps into world economy system, formation and entrance of Emerging Market Economies into international market. However, even the global investment flows tended to be more satisfactory level relative to second one, the developing countries, except BICs, suffered from exclusion by developed countries and a lasting poverty. Even the developing economies have no supplementary capital, they still gain from competitive advantage because of their labor and raw material abundancy. Only now, the countries began to harness this advantage in the favor of themselves, technological onslaught in communication and also transportation put them one step ahead by facilitating an access to global production chains even in manufacturing products. Although developed countries was still relying on restricted trade, developing countries pursued liberalist trade policy and declared having a suitable investment climate for foreign investments that became a desired incentive for some several outstanding companies to invest over there, for instance Ford Motor Company (p.s. the first MNC in history is East Indian Company). Examples can be bring from the faces of the developing countries in question such as Sri-Lanka, Hungary, Thailand, Turkey, Bangladesh, Mexico, as well as the Philippines, Malaysia and Indonesia. But on the whole this sudden emergency proses was not supported by developed countries, the multilateral economic liberalization looked unattainable. In addition if it is taken into account that, during the period of first globalization wave, some of dominant countries, for instance the United States pursued liberal policy for labor migration especially relied on labor flows from European countries, although it eliminated by World War I and a sharp policy against immigration was put into action. This wave brought an innovation to the structure of global trade, finding employees outside, generally foreign form of outsourcing was globalized. Developed countries started to prefer investing in these countries rather than inside of themselves, therefore, even more than half of production of manufacturing goods started to be produced overseas, different components of them were realized in more than at least one country. Although this flow was bode ill to home producers of them and they were against to extension of outsourcing, but companies were lasting to act from this way for some substantial reasons. First one is because, (e.g. FDI) - in host countries, workers are paid less enough than the average salary level of home country. For instance, an engineer in India and China produce chips for Intel and Texas Instruments and are paid $1.100 for one month while their American counterparts earn $8.000 a for a month. Secondly, extended movements of educated, high-skilled workers is likely to happen more frequently. Moreover, next pros of foreign outsourcing, companies can practice new things that they never did before. For example, U.S. evaluates as impractical to follow slow customers who buying goods with less than $1000 worthy. However when the same practice is realized in India, as cheap as $100, the company could chase up on bills. But besides the advantages of such kind of investment flows, capital movements, trade, labor migrations, there are some several sectors, especially service sector that cannot go far away as they need face-to-face contact and direct control. So then what about examples? Most huge companies such as Hewlett-Packard (HP), Apple, Dell, Gateway, Boeing, is outsourced to other different countries, mostly in EMEs, so the point is that what is in the behind of such behavior of companies. As it seen, these processes are proceeding since the latest wave incessantly.

Table 1. Manufacturing an HP Pavilion, ZD8000 Laptop Computer

Component	**Major Manufacturing Country**
Hard disk drives	**Singapore, China, Japan, U.S.**
Power supplies	**China**
Magnesium casings	**China**
Memory chips	**Germany, Taiwan, South Korea, Taiwan, U.S.**
Liquid-crystal display	**Japan, Taiwan, South Korea, China**
Microprocessors	**United States**
Graphics processors	**Designed in U.S., and Canada; produced in Taiwan**

Source: From “The Laptop Trail”, The Wall Street Journal, June 9, 2005, pp B1 and B8

1. Policies carried out by EMEs and other Developing Economies and capital movements towards to them.

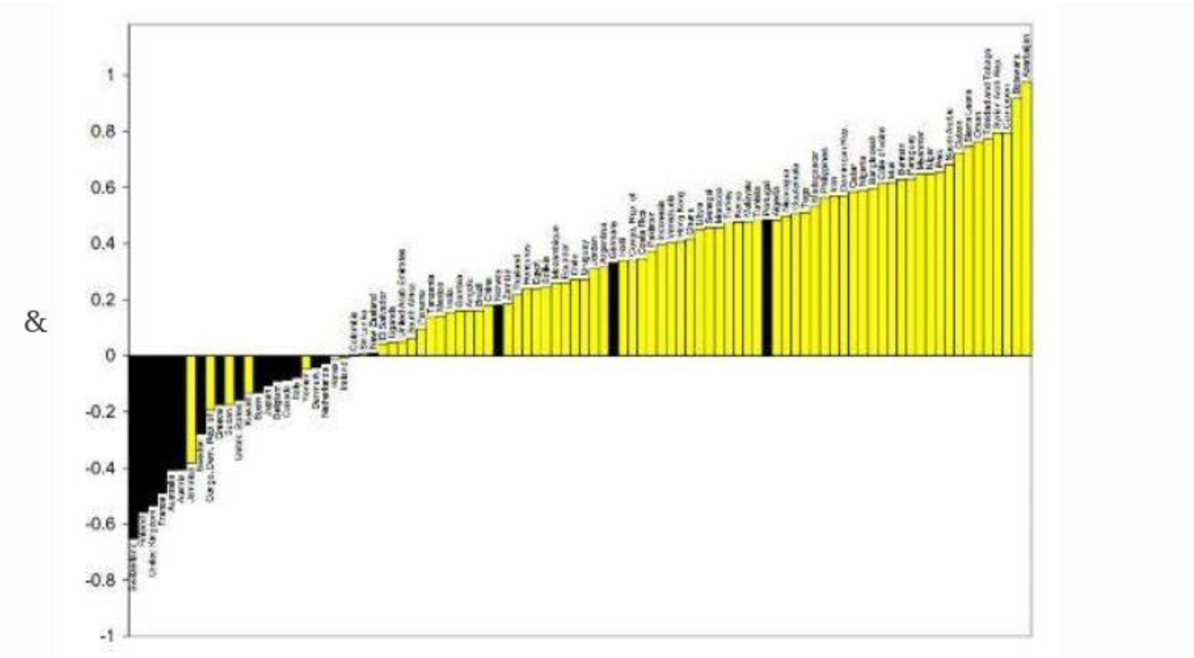
2.1. Fiscal and monetary policy moved by entire developing world and EMEs. First there is requirement to realize the main essence of Fiscal policy and why governments approach to it as a one of the main types of policy implications.

In every government, stabile, fixed character of aggregate demand in a desired level, low rate of unemployment, less inflation with rapid growth are the cornerstones of healthy macroeconomic situation. For reaching this level of economic advancement, governments put it into the back of fiscal policy which have been brought to economy by the outstanding British economist, John Maynard Keynes as an immediate oppose reflection to the Great Depression. As it is known from the history, the New Deal Program was a result of Keynes's theory which have led to a massive chain of steps for the mission of welfare in society, varied projects on publicly growth. As a summary, fiscal policy is a tool of government regulation to have a positive influence on it that is related to tax policy and all the spending by government as straightforward.

It has two essential types in its term, called expansionary where the government plan to achieve rapid growth, fiscal policy is realized in the form of extended money supply, decrease in current taxes, expanded government spending in case of government awareness that there is a gap in economic activity, overall expected performance is less enough. But, in the second-contractionary approach of fiscal policy, total expenditures of government are lessening besides to the extension in taxes in order to have surplus in the budget. The main reason of fiscal policy in developing countries is to attain long term economic growth. The long lasting researches illustrates that, in the past short-term economic stability have become more preferable for them as oppose to nowadays. The brief analysis of the issue require brief understanding of the influence of fiscal policy on under developed economies for the aspect of stabilization, and long-term growth. If it is come to the next to the issue just from the methodological side, as developing countries vary from industrialized ones in the respect of many landscapes, in fiscal policy term, there is also yawning gap in the structure of government budget. Unfortunately developing countries are also suffer from missed and less availability of data both in quantity and quality side for tracking for certain. It is an undeniable fact for the perspective of all economists, when the monetary authorities raise the interest rate, the gap in the output is falling and a slow inflation is experienced. In order to evaluating fiscal policy shocks on spending and taxation system of government, it can be applied to SVAR model (Structural Vector Auto-regression Approach that relies on Perotti and Blanchard which is special term of advanced econometrics part of the economy. Among all the tools of fiscal policy, public expenditure and taxation are the most effective appliances for related authorities in response to income, investment, the CPI indicator non-stabilizations.

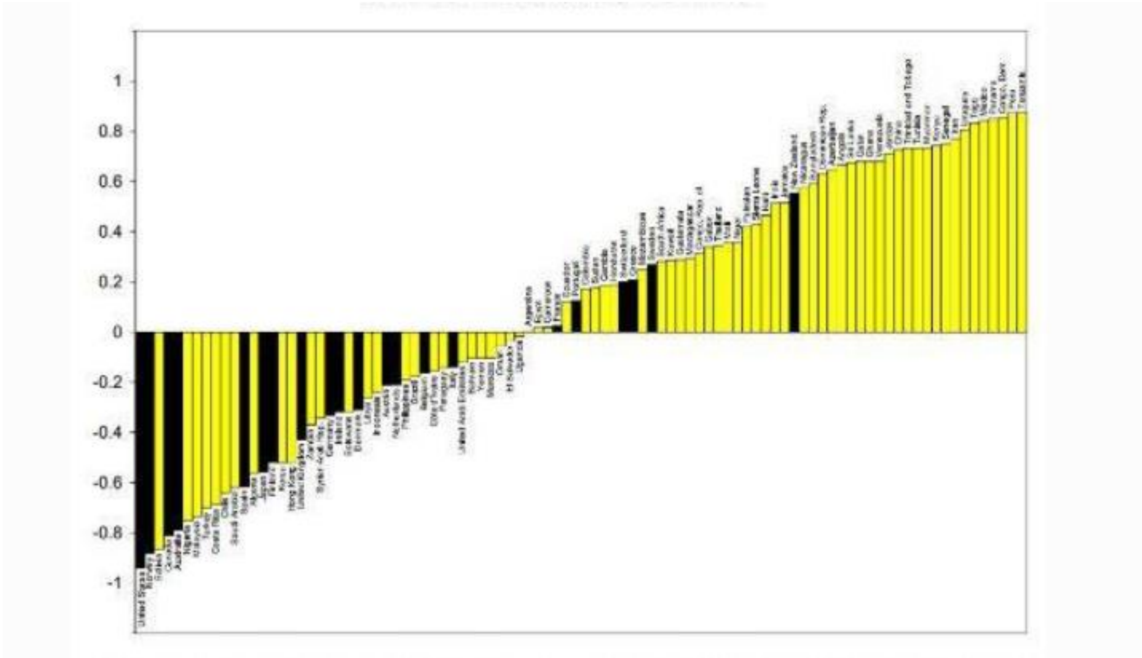
Statistics shows that, in recent decades the most part of EMEs have reached to the countercyclical signals of fiscal policy instead of past procyclical type. What is its mean? It means that while the economy is experiencing recession period taxes increase, or instead the amount of overall expenditures spending by government fall by naturally; also vice versa of this within the expansion period. Tax receipts are endogenous in character that is the first reason of why academic investigations mostly apply considering procyclicality. The real reason is that, governments receipt because of the taxes, and booming in royalties. Additionally, it is clear that bearing and resisting to somehow a pressure, such as political one is unfit and impossible situation to any governments. The figure shown below reflects the rate of relevancy among two economic indicator, namely government spending (cyclical elements) and Gross Domestic Product (GDP) in the face of ninety four (twenty one developed by presented bars in black and seventy three developing by bars in yellow) countries around the world from 1960 to 1999. Where positive indication of correlation is the sign of procyclical spending (destabilizing) while the opposite illustrates countercyclical (stabilizing) type. The results put it precisely the difference between industrialized and developing economies.

Figure 1. Correlations of country among cyclical factors of real government expenditures and real gross domestic product, 1960-1999.



But the next figure is an updated result of historical shift in the fiscal policy in under developed societies.

Figure 2. The same essence, for the years of 2000-2009



Source: World Economic Outlook, International Financial Statistics, IMF.

As it seen from the bars, approximately countercyclical policy reached nearly thirty five percent in these countries, that it is to say twenty six out of seventy three. Another aspect of fiscal policy is its role that playing in flourishing economic promotion via objective taxation system. Many gigantic worldwide organizations take a reasonable steps on taxation, like Organization for Economic Co-operation and Development (OECD). An efficient tax system is like an insurance of inclusive development in every society which has been included the context of 2015 Sustainable Development Goal. Today world economy observe the loss of developing countries nearly $100 billion yearly exactly because of tax avoidance cases.

In case of situation that against depression income is increased through taxes in order to keep stabile balance of consumption, and in the period of inflation relative steps are taken for rejecting excessive demand.

In coordination, the actual missions of fiscal policy in countries with less development level are like listed below:

- Effective fiscal policy in these EMEs and other countries in somehow transition leads to effective mobilization of resources both publicly and privately, DRM (Domestic Resource Mobilization). When the people have less money in their family budget, they present less willingness in excessive consume. From the other side, less savings are a true informer of shortages in national and per capital income amount. So, governments increase savings mandatorily for more investment possibilities. Private investments are the sources of reasonable increase in domestic investments, however these countries are face to face with high flow of external investments. Therefore, the rightest remedy is to fix progressive saving ratio, and increase high willingness to saving of public finance, enforcing loans and tax system. It is to say to apply term of marginal propensity on the whole. Moreover, incremental taxation is a shield of domestic environment from unfair external influences, excessive duty on some imported goods is related to the development of domestic production in the same goods or such kind of heavy custom duties are one of main source of income and budget revenues of government, course if it is not relying on protectionist trade policy from the faces of these countries.
- It rises the speed of growth as an extension of first point. By and large some reasonable economists say that real economic development is not the substantial surplus just in industry, instead the actual development is to keeping fixed balance between agricultural sector and industry. This requires investments in a considerable amount into the both private and public sector that realized by efficacious fiscal policy with having a grandchild. An effectual combination of its tools – mainly, proof taxation system, deficit financing is more likely to impact positively to consumption rate, production function and fair proportions in national wealth.

- Fiscal policy can also be evaluated as a main motivational force of investments to socially important and economically significant activities inside either. Optimal meaning of investments is to prevent useless wastage investments and other financial resources. This relates to direct investments into social aims, like investments for having further access to communication, better chances of using transportation, advanced level of medical care.

- If socially needed projects, therefore investments on them is lower than the commonly accepted rates, it gives a view of a poor social marginal productivity. Desirable fiscal policy keeps in mind all these factors and catalyze investments, and capital storing as well.

- Reasonable rise in public expenditures and CPI enhancement mean excessive demand, thus more job opportunities. Sufferance from unemployment is a typical factor for these countries on the whole.

- EMEs and generally developing countries are the exporters of primary and importers of finished, manufactured goods as being contrary with developed ones. This policy exists for stabilizing such kind of fluctuations by the help of fiscal measures (e.g. custom duties), and supporting diversification all over possible sectors.
- When there is inequality between the demand and supply level mutually which is the ordinary case for these countries, inflation tendencies are becoming more likely to arise. Aggregate demand exceeds aggregate supply for the reason of that, purchasing power extend while the related resource supply keep on its inelastic character in adversely response. In such situation, fiscal policy implements certain measures for checking and controlling it. For instance, CDS (Compulsory Deposit Scheme) that via of it, purchasing power is fell, or raising the existing rate of some

taxes (e.g. on capital gains, rent and other kind of income), motivate people to save their money.

- Social and also economic welfare of nations keeps no meaning even if it is not relying on a fair proper and wealth proportion. Admitted point is this, distribution policy of public, support steps to little companies in their marketing issues, incentive events to weak producers for the purpose of making them more productive and competitive evermore, tax exemptions or concessions on certain products that keep strategic importance for the government, massively consumed goods and restricted policy on non-desirable products or other supporting measures by this policy tools in the form of somehow exemption subsidies are the cornerstone of and rejected hindrance of economic growth in these nations. It is tend to have a fruitful end as bridges the inequality gaps, balances the two.

- It cause reallocation of resources: in unfair environments resources are used only for the favor of productions that serve to the interest of rich people, and others are kept down or simply disappear by themselves as it is impossible for them to bear unfair competition. The other claim tends to be discriminated locations. It is a modern flow of agglomeration, rich people with high purchasing power mostly place in urban areas, thus producers choose there to locate. This forecasts the miserable position of leave out ones because of being entirely disintegrated. The unfairness goes on till the government interference over it, therefore government. To have balanced growth government apply to the fiscal tools (may be in form of incentive or restrictions upon on mutual views of partners) either, in any urgent case it is the best salutary equipment of government authorities in summary.

In sustainable economies, controlling of money supply is a core function, that covered by the central banks, as well as related competent authorities (e.g. FED in the U.S.). Monetary policy is exactly contain this process, it consists of economic activities by countries' competent regulatory committees on about totally required amount of money supply in circulation. In its implementation policy, interest rates as in tern of money supply are reevaluated, repo, reserve repo operations are realized and interest rates for bank reserves, minimum level of money that the central banks determine for government money banks to hold in the tomb. As fiscal policy here there is again two types, the same named expansionary and contractionary. The first one, the easy kind of monetary policy is in the practice of the most central banks by financial crisis of 2008 hitherto where supply of money is extended, unemployment level falls, consumption expenditures and borrowings in private sector flourish, thus economy is treated well. In the contrary, the contractionary is experienced in order to avoid expected inflation coming by excessive money (is lessened) in circulation even this afflict the speed of growth. Real example can be observed in the 1980s' practice of FED, that have been obliged to reach benchmark interest rates to nearly 20 % to restrain inflation by about 15%. The news according survey by IMF, countries with lower and lower income level can have better control capacity to curb the inflation via monetary policy examination. It is necessary to relax monetary policy from time to time for a better economic environment inside, especially in the period of economic crisis. The prescription in question is encouraged by the face of Keynesian model. The remedy that put into the practice by the Taylor rule. While the promoted economies act [3]sufficiently, EMEs experience missed countercyclical policy because of some several obstacles[3].

On the whole there are some econometrical variables in use for studying the case more accurately, such as fluctuations in currency exchange rates, inflation forecasting index, and other financial measures. Additionally, borrowing on local market, as well as in currency has expanded with together development tendencies in financial markets which is to say reduction in capital flights, dissonances in currency. Hence, such promotion facilitates countercyclical policy management behavior. Larger dependency on currency debt that is foreign, currency exchange rate become

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[3] Calderon (2003) that, "The credibility of policy is its determinant

less willingly to increase in attitudes to the country of credit. However high amount of external debts and also shortly maturated debts bring an undesirable consequences to EMEs in solvency issues. So as a result of with this account, some additional variables, like foreign exchange reserves, maturity of external debt are added, too.

During the financial crisis in 2008-2009 years a massive proportion of EMEs experienced monetary policy looseness that are analyzed by several economic factors as vulnerability and macroeconomic factors, economy openness, credibility capacity of applied policy and regime characters in exchange rates, and the role of financial development and reforms as well.

The main expect of loosening monetary policy is cushion consequences within the period real risks of crisis that afflict whole economic environment. The advanced statistical analysis reflects that the keys to healthy economic position through by monetary policy is to attain greater openness in economy, to have sustainable health macroeconomic principals, to eliminate subjections as possible as and update reforms on financial issues from time to time and available system for anticipation of inflation risk details for certain. As inflation targeting is the basic for limpidity EMEs deserve a great praise as they follow this policy from 1990s. Having inflation targeting followed by updated financial reforms indicate a guarantee for EMEs for higher credibility as well rather than before that could be evaluated considerable hassle for the image of policy reliability. The noticed perceptivity on about lack of credibility reduce the confidence in attitude to the county policy and adversely afflict the decision of investors to invest over there that proves its importance in stabilization and desirable resilience.

Thus, the strong monetary policy side by side fiscal measures are a warranty of firmness of EMEs in relation of developed economies with their economical attacks despite the fact of becoming more integrated as time passed.

2.2. Investment policy in EMEs and brief analysis of capital inflows upon over them, economic indications. Capital flows rely on flow of money for making just investment or trade, business relations, investment on technological advancement, or R&D and so on. There are other class- individual investors that save money for the purpose of investing on stocks, securities, bonds and others like that. Country investment policy is directly and indirectly related to its investment policy, because so many cases governments pour money to additional investments on social, public programs or trade with foreign partners by portfolio or kind of direct investment by gathering money from tax receipts.

On the whole, each type of capital flows have own substantial advantages and potential risks to countries over the world and in fact all countries that aim to have well-performed economy system try to reap all the pros of these flows and avoid their possible risks. Thus if the countries that decide to allow free movement of capital flows into the national economy implement stabile economic system by the help of effective monetary policy where fixed exchange rates are implemented through it. When talking about the advantages of capital flows, they create a surplus in the budget of domestic country, more investment compared to the previous, and less rate of unemployment. In addition, it make more capacity to investing countries in accessing new foreign market, also not only from the perspective of foreign country but also domestic countries which is also to say less portfolio risks for both. It cannot to say that all capital flows are useful, it means each kind has different implication over the host country. In general capital flows are categorized into the three: portfolio investment, foreign direct investment, and bank or related kind of investment.

After the period of financial crisis a really substantial weigh of flows took a turn towards to the EMEs, however, as noted below great fall took place within in the period of crisis. At first these flows support the overall economy with limited savings and, enhance their capacity in financing more perspective sectors and ease their access into the global trade relations in order to reap all benefits of modern globalization. This actually are similar enough aspects of free trade.

By and large, as a tendency of financial crisis, there were becoming reasonable economic shifts between among subjects of international relations. While the period of pre-crisis, capital flows to emerging countries were higher and were lasting on to increase, in GFC times it fell sharply, which is the bad side of global interdependence. As almost a substantial amount of developed as well as developing economies were connected to the U.S. economy, as economists pointed out that "When the U.S. feels sick, all related ones are influenced", the financial crisis spread its affects over the rest of the world. For the economists' evaluations, compared to the early period when the overall net flows was a core irrespectively the share of inflows or outflows in it, today new approach emerged in attitude to the capital flows, balanced regularly increase in both inflows and outflows. So it is important to determine the main runners of capital flows in emerging countries, or determinants called in in empirical studies. Reflected above, the determinants of capital flows are put into the two opposite category as called indicated below are in mostly use as an outstanding empirical strategy:

$$y_{i,t} = \alpha_0 + \sum_{i=1}^{n-1} \alpha_i D_i + \beta_0 External_t + \beta_1 Domestic_{i,t} + \varepsilon_{i,t}$$

,where $y_{i,t}$ indicates of country's GDP[4], as an indicator of total flow ratio- capital flows to a country i within the period of t; if the observation is related to the country D_i=1 or 0 if it is not; furthermore, vector of variables that illustrate external cases are named as push factors and the same vector but related to domestic conditions are categorized as pull factors. Thus, net inflows as well as gross out and inflows are the dependent variable of total flows, private and also many kind of investment flows

[4] net capital flows are considered as net inflows, Financial Flows Analytics, (FFA)

like FDI, portfolio investment keys, too. However pull and push factors in question are considered independent variables or determinants of capital flows.

Table 2. Capital Flows Determinants

Push/Pull	Push	Structural
• Growth differential vis-à-vis U.S. • Rate differential vis-à-vis U.S.	• Global risk aversion (log) • Commodity prices (growth) • Global liquidity (growth) • U.S. Corporate Spread • U.S. Yield Gap	• Trade openness (share of GDP) • Reserves (share of GDP) • Exchange rate regime • Institutional quality • Income per Capita • Capital openness • Financial development

Source: International Monetary Fund, 2007, IMF Working Paper

Of course while the process of evaluating the driving determinants by the help of regression analysis, the episodes observed by the performances of capital flows are restricted to some extent as a criteria because of getting more accurate results (population<sample) but the same empirical strategy is applied.

Besides emerging countries sometimes experience a concerned about temporary character of capital inflows, and are saying that this sudden direct can bring them problems as well. When such kind of flows depends on changes in interest rates (lower rates) it can put the future of countries invested into the danger as interest rates turn to average or upper level. But also it may be reserved in any case being up to desired policy objectives even at least partly. But in most cases permanent inflows, for example, are less preferable and beneficial than their transitory character. It is said that huge chain of inflows puts into action the higher exchange rate which strengthen financial crisis. So this point makes the economists to rethink about real impact of capital inflows whether they are really innocuous tool of mutual relations.

Macroeconomic data[5] analysis of China by:

Table 3. Intro of macroeconomic analysis of China [6]

```
. *(6 variables, 25 observations pasted into data editor)

. tabstat capitalinflow gdpgrowthrate inflation cpi saving unemployment , statistics (mean p50 var sd p25 p75)
```

stats	capita~w	gdpgro~e	inflat~n	cpi	saving	unempl~t
mean	31.444	.09576	.0484	91	12.66	.037224
p50	28	.094	.03	87	7.5	.0405
variance	239.6059	.0004713	.0045307	295	131.955	.0000307
sd	15.47921	.0217088	.0673102	17.17556	11.48717	.0055433
p25	17.1	.078	.01	81	3.4	.031
p75	42.1	.106	.05	106	21.2	.041

By the first step we get common information about the actual economic face of data and real economy position.

[5] Data source- World Bank Statistics
[6] The table have been screened from the Stata, advanced data analysis program that carried out from my own, the purpose of screenshot is to show the command as they are which are used for evaluation of the data

```
. cor capitalinflow gdpgrowthrate inflation cpi saving unemployment
(obs=25)

             | capita~w gdpgro~e inflat~n      cpi   saving unempl~t
-------------+------------------------------------------------------
capitalinf~w |   1.0000
gdpgrowthr~e |   0.2777   1.0000
   inflation |  -0.2142   0.3884   1.0000
         cpi |   0.3005  -0.6420  -0.2862   1.0000
      saving |   0.2227  -0.5559  -0.0638   0.9323   1.0000
unemployment |   0.4235  -0.2293  -0.4414   0.7350   0.6177   1.0000
```

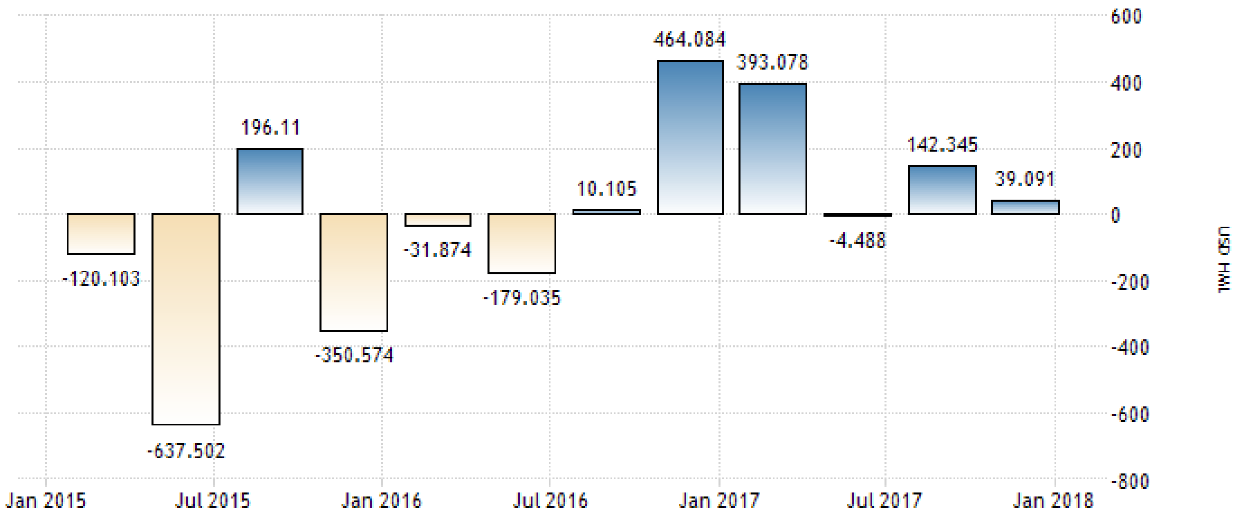
In the result of the analysis, there is positive correlation between capital inflows with other core economic indicators of China except inflation. This proves that and there is positive linear relationship among the data variables, however the most stands with between CPI, unemployment rate and capital inflows have positive impressions over the EMEs economies.

The best way to control all possible effects of capital flows is to attain sustainable, outstanding tools of macroeconomic policy. Practice shows that countries that make a contribution to free availability of capital flows, there it is more difficult to control the situation compared to the others where capital flow operation are extensive in character. Because sometimes capital flows, for example, foreign direct investment can bring less safety that will be discussed below. Although capital flows are the desired source of new more investment chance for EMEs, sudden surges can force their economy as this pours into more complicated managerial and financial situation. The concern from the financial perspective is that, over amount capital flows are the basic indication of over amount of foreign borrowing. Additionally besides to this debt to foreign sources, the share of foreign currency reveals and it is realized credit boosting in domestic country.

2.3. Foreign Direct and Portfolio Investments as a core types of capital inflows. Substantial amount of investment is a key characteristic of Emerging markets, both a portfolio and foreign direct investments. An Increase in overall investment amount means that country have got a success of enough confidence in the eye of both side investors which can be connected its effective fiscal and monetary measures. For available investors, and developed economy representatives, as a mainly preferred type of investment FDI provides reciprocity mean of benefit for connected partners. It means, this provide new better beneficial business place and a source of revenue for invested side, while the recipient one reaches lessening of unemployment level, benefit from technology and knowledge transfers, extra amount of professional labor force. Evermore, it leads substantial increase in country's GDP index and the existing gap between emerged and emerging sides are tightening. This capital flows to these worlds make an extension in size of their stock markets, too.

Example can be brought from the face of China economy on capital flows operations from 2015 to the year of 2018.

Figure1. China Capital Flows



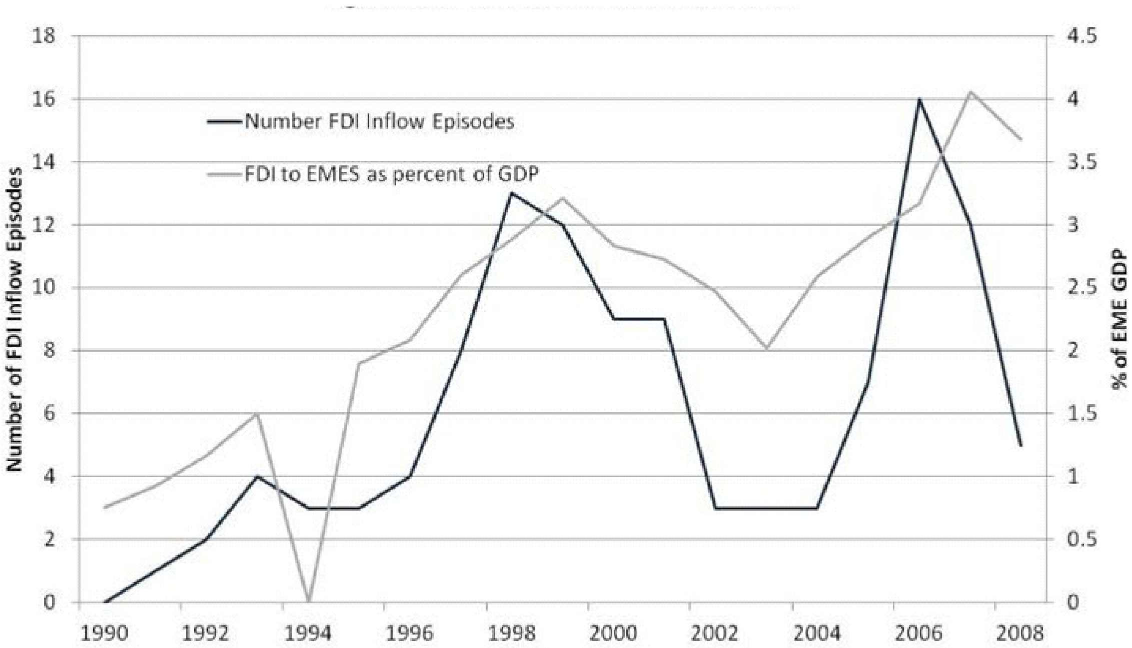
Source: Trading Economies, State Administration of Foreign Exchange, China.

By and large, by the face developing and emerging economies, FDI is viewed as a real chance and effective policy tool for getting increase in financial capacity, production rate of the country and from the aspect of advanced technology imports as IMF claims. If it is taken into account that, crisis periods, as crisis of 2008-2009 signed substantial inflows fragments ending into the EMEs. The main political issue is that for factor push FDI and capital inflows to EMEs that can be both domestic and external.

Generally FDI inflows to frontier, emerging economies have taken a start from the year of 1990 and got a substantial part of share in the countries' GDP amount.

Actually Foreign Direct Investment is more stable relative to other kind of capital inflows, I has also a few fluctuations from time to time as shown from the figure.

Figure 2. FDI inflows to EMEs from the year 1990 to 2008



Source: IMF, International Financial Statistics, and author's calculations.

It is taken a look to the late of previous century the changes in the amount of total FDI was directly related the development level and economic as well as financial position of developed economies, mainly G-7 countries which were the main exporters of these investments. Additionally, however, statistics shows the lessening interest of high economies to invest, low amount of international interest rates during within the period of early 2000s became a real incentive factor for investors to invest overseas as the projects and M&A activities were lower in price to finance.

From the aspect of empirical side of issue, here some econometrical variables are included to evaluate the factors that capital inflows, namely push factors that arise by the country own – also in-house factors (progress in domestic economy, positive change in companies strategies and management process) and external ones which are the result of external atmosphere (overseas business goal, factors related competition) and pull factors that are typical for country itself. It is claimed by the most economists that push factors are more important and reasonable in defining the specifics of capital flows emerging economies. Of course the globally economic tendencies have a great role in all capital flow operations, economic crisis in 2008-2009 prove this with its consequences over the entire world.

- ❖ Foreign direct investment is irreplaceable source of funding when the developing and emerging market want to corporate multinational relations and to be part of international buy & sales operations, enhance inside productivity, to get global competitiveness capability. Actually both investors as well as invested recipients take an advantage from this capital inflow, both home and host country. In this way even being irrespectively from the religious or cultural differences, investors find best recipients that high profit in return with least amount of risks can be expected.
- ❖ Controlled and balanced FDIs also is a main reason for forming healthy competitive advantage of recipient country and as time passed their products begin to get an easy access enough to worldwide market.
- ❖ It is a fact that diversification is always survivor and rescuer in every dangerous cases. Thus direct investments create a good condition to invested countries to diversify their business over the world best beneficial and potential countries to survive infinitively possible

- It gains to applied country better business and real life styles and related standards, as a result of these inflows the technology, knowledge level, management experience in companies, managerial tools, financing system and so on take a new step into the alien situation through by flows of best practices into there.

But related consequences of its is always possible such as:

- In strategic sectors at home, countries do not have to create any chance for investors to intervene into these, as this can put the democracy of home country into the inevitable danger
- The next is that investors from abroad, sometimes, sell the shares of less importance, for instance, shares that do not carry no any commercial benefit, then they can get local credits by using companies' belongings as collateral. An opposite to investing again, investors in question can pass the capitals in hand to parent company.

There is also Portfolio investment, that being opposite to direct ones, portfolio investments do not rely on direct control of investor and so the investors do not involve to all the process entirely as being in FDIs which gives a right to investor to have permanent control on its capital. It is generally considered as a passive kind of investments and keeps the portfolio of stocks, government and corporate bonds REITs, certificate of deposits, and so on. It can also be uploaded into the list the types of investments which carry out physically means such as commodities or real estates and other large sized ones form this class as well as several kind of derivatives. This kind is really recommended to new starters and less funded investors in order to avoid potential risks. It actually vary for the economic and personal characters of investors, for instance investors with higher risk tolerance prefer to invest on stocks, while the traditionalist ones who feel economic threats and do not love to take high risked investments it seems more advisable to choose government bonds to apply.

Benefits of portfolio investment can be enumerated as below:

- Investors benefits from the pros side of its, hence it provide to them a corporation with a pools of assets include portfolio investments. This means lower unpredictability as well.
- FPI create a new source of credits to investors, therefore, if they realize substantial capital movements over there, it gains a right to them to receive credits. It is absolutely profitable for countries, mainly their local conditions is not as favorable as in foreign one.
- Exchange rate positive opportunities
- Including greater market- it is typical below competitiveness besides to enormous markets for economically little countries, for example it is more expectable to find a consumer mass at least developed ones compared to opposites (e.g. more sales in Africa with less competition rather than others)

And course it is followed by potential risks that require permanent care on performance:

- First it is not possible to anticipate the return for certain. Investors always experience uncertainty and the point is that this can afflict to all kinds inside the portfolio.
- The first claim comes from the market fluctuations. When the worldwide market experience at least o small sized fluctuations, it can cause a greater chaos in economy and substantial market risk (e.g. crisis of 2008-2009)
- Then business risk can arise as a sign of incomplete management system and saturation of products
- Inflation gigantic threats for portfolio investors especially for those who keep assets that demonstrate extreme vulnerability to inflation such as bonds. As

lessening in purchasing power afflict the all economic indicators, portfolios also experiences significant consequences.

- In order to keep the economy under the control Central Banks of governments take certain steps through by the range of policies, for instance fiscal measures or monetary policy tools. This is becoming a reason for fluctuations in the level of interest rates, extent or fall. Thus the price of asses is influenced time to time
- From time to time investors have to replace investments by cash, but sometimes the investors can face such undesirable situation that there is no anyone to be likely to buy which put into the center the liquidity threat.
- Moreover portfolio assets tend to be more likely to be influenced badly or well in case of any changes in national regulation system or laws about investment activities that directly affect the value of them.

3. Azerbaijan Economy from the investment policy manifestation

3.1. Economic position of Azerbaijan within the Soviet Socialist Union. Within the period of Soviet Socialist Union, Azerbaijan was like its part as a region, and included into the list of countries as being one of the other 15 countries which were headed by one administrative power. As here Azerbaijan like the other under group countries, it was normal of drowning all potential of country to develop. All infrastructures include agricultural and industrial sectors have been established for the interest of Soviet Socialist Republic and all the potential of countries were exploited for the favor of it. In this case each country has its responsibility for the need of center under the policy of central planning. As today, also within that period, the main impetus force of Azerbaijan economy was based on oil industry. But all export operations are realized by Russia itself, while the all amount of imports also implicated from Azerbaijan, no matter whether they were for the production of oil products, food or fur-skin products. The other minus tendency was that however all the raw materials that used for the production of manufactured or agricultural products were gained from the natural sources of Azerbaijan, after the export of these materials to the center for making finished goods, the finished products that were produced by the same materials were brought to Azerbaijan for the purpose of reselling under the status of finished goods at significant higher prices. And is it not s secret that this unfair exploitation of the country's natural resources were enough to have a real obstacle for integration. But besides to this, even before the breaking up of Soviet Republic, professionals noted that "if there were two countries that is ready for the political independence, one of them is Azerbaijan. Course, this evaluation was not only for the natural resources capacity of Azerbaijan, but also for its potential in economic and political development perspectives. It is because of that, statistics were showing that the budget revenues were more than related expenditures and this also was a prove Azerbaijan had been reached to a certain development level even in the part of Soviet Union. The main issue was that centered planning policy were avoiding the strategic terms of the country, thus it could not reap all benefits of its potential. Admittedly, Azerbaijan was deprivation of all revenues of its own as the all were gathered in one hand, therefore it did not have the right to property. During the 22 years (1960-1970) period but before the gaining independence, Azerbaijan index of economic growth level increased by around 2.2%, from 5.3% to 7.5% approx. But unfortunately, between the years of 1980 and 1990, this growth were conveyed by declining trend. The main reason for such tendency was mainly that giving more preference to energy sector which were relying on tight usage of raw materials energy resources and manual labor.

After the collapse of Soviet Union, Azerbaijan gained an independence, but new form of economy- structured economy coming by this independence faced some hindrances because of shortcomings of the past that listed below:

- Unhealthy structure of the economy
- Missed diversification of production power upon sectors and regions
- Poor quality of products and less amount of product per person.
- However there were a positive balance of payment, export overwhelmed import, but as it did not bring an advantage to Azerbaijan economy, as the main objects of export were raw materials and intermediate goods and generally greater amount of it were run by the Union.

For the fact, in 1990s 50% of the consumption goods were imported, only half was the result of domestic production. Therefore, however Azerbaijan released from the dependency and got an independence, it was really hard to be integrated for it, because to achieve an integrated and sustain economy it is necessary to make a healthy reforms in the structure and take durable steps or extremely long lasting period of evolution is inevitable.

At first period, between1991-1995s, is considered economic crisis and recession period for Azerbaijan, 1995-2003s as economic stabilization and ranger of market reforms, and after 2003 as dynamic economic development period.

Economic situation in Azerbaijan (1991-1995)

- GDP declining year by year
- Increased unemployment rate
- Paralyzed position in bank-financial system
- Occupation of 20% area of Azerbaijan that resulting loss of it from economic turnover
- Extremely less amount of per capital income
- Excessive rate of budget deficit

- 3-4 digit inflation, peak point
- Extremely undervalued national currency
- 250 % interest rates by Central Bank and so on.

With the aim of rejecting such kind of challenges, the “Law on Protection of Foreign Investment” in1992 and “Law on Investment Activity” in 1995 were accepted. By the adoption of these laws, it was put the cornerstone of adequate flow of investment as they provided the rights of foreign investors absolutely and rejected all possibilities of nationalism tendencies toward to them. Even in case of expropriation, compensation was provided to investors.

The second period is observed by gaining economic stability and as a next stage on this growth a large size of economic reforms for the transit to market economy have been realized that has to be applaused. In addition

- The main achievement of this period was forming adequate investment climate and taking substantial steps in attracting foreign investments into national market.
- New strategies were put into action in order to have development in trade and new sources of investments into the non-oil sectors.
- Furthermore, in this stage budget deficit, bank and financial system have been balanced, inflation were fell to the lowest rate, and the overall economic situation has been curbed.

These years were driving three basic principles, which formation of sustainable economic growth based on foundations of free market relations was one of them. These years made a qualitative changes in economic structure, thus remove of budget deficiency, inflation limitations, GDP growth nearly by 90.2 % were achieved. And another main force to macroeconomic stability was to extension of permanent correlated, future-aimed programs, for instance, investments on nation economy have exceeded $20 mld. One of the distinguished character of this economic system in Azerbaijan was privatization of government properties as the second stage after the previous period and making adequate environment for free business activities, desirable climate for investment flows.

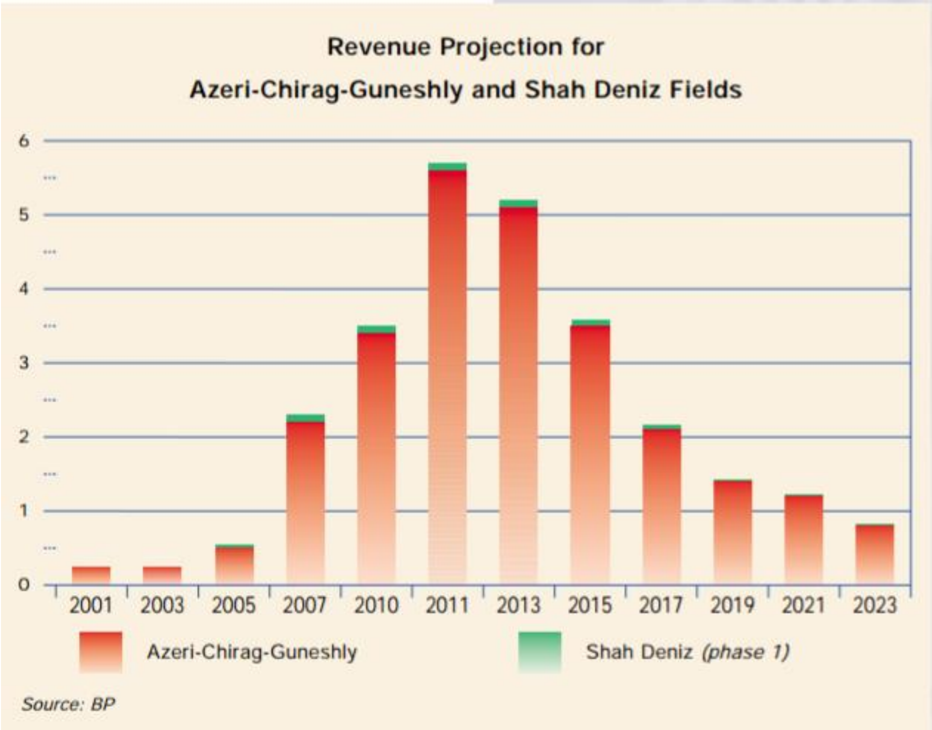
And the final consecutive period of reforms have taken a start in 2003 and covers all times till today which lead to a result new stage of Azerbaijan economy by the help of socio-economic based programs and got ease access into the international economy system. Here, socio-economic blossom has taken a severe speed, besides oil sector, non-oil sectors has got a success with 11% annual growth acceleration. The country was classified country as "upper middle income" for the report by World Bank. Hereby, in 2010 transition period ended officially. Of course, the all of the presidential decrees, laws, concepts and other reforms have become in the center of this perfect attainment. Thus the basic prosperity was the realization of the dense chain of investment programs by government. Regarding to the decree government in 2002, it was confirmed of fulfillment of programs upon promotion of FDI and prosperity of private sector as well.

For the terms of investment policy implications, investments are warranted for ten years, based on repatriation of all increments, returns came on them, and protection of investors' rights that can be impacted by any sudden changes in domestic investment law. Moreover though there are some limitations for investments which directly related to the safety issues of the country, an enormous size of sectors are open and indicate full availability to foreign investment flows. But for some several economic reasons some kind of industries as oil, or energy types are kept less open for foreign investments where mergers, joint ventures are more motivated into.

3.2. Reviving of economy through by "The Contract of the Century". The indispensable step taken in the eco-historical back-round of Azerbaijan is the signing of "Contract of the Century" in September 24, 1994. Till this time there was no any opinion about Azerbaijan, its economy, position, if yes, it can be even not good. It is a perfect incentive and ambitious way to make Azerbaijan known internationally, to attract foreign direct investment and to develop our oil-gas reserves. It rose our vision all around South Caucasus and Asia. The contract in question was based on connected growth of oil sources of “Azeri”, “Çıraq”, “Günəşli” (where production took a start in the eight of April in 2008, twentieth anniversary of the contract) that located Azerbaijan side of Caspian Sea. The term of the contract have to be lasted for 30 years from its confirmation day. Twelve huge companies from eight huge countries joined to the contract and invested in Azerbaijan. As owing to this contract, investment by $7.4 billion worth invested Azerbaijan oil industry for the purpose of realization of the contact. This was also beneficial from the perspective of investing countries as they could dissolve their energy problems besides to reap the geostrategic perspectives of the region. Many greetings from high ministers of joint countries to the President of Republic of Azerbaijan. It should be noted in side cons side of the contract that, the eighteen percent of volume investment was coming by foreign countries, while the left only twenty percent was provided by ourselves. The main share of invested countries belonged to BP an oil company (17.1267), the next to Amoco and Unocal from United States. Signing of the contract was a first, but substantial step for us in order to have connections with world’s highly developed economies and get integrated economy within globalized economy, create of free market principles. The first profit as a fruit of this negotiation came back after the first two years’ production. Thus, there were put a formation of special unique fund to hand the money flows from contract which core objective is to lessen dependency on oil- sector and invest through the revenue coming by it for the improve of non-oil sector, now. The next cons side of the contract was its chance that provided to Azerbaijan to be gas exporter, too. Hereby, Azerbaijan began to produce gas production that was more than three time compared to domestic requirement (through by the area of Turkey, Georgia, Iran and Russia).

Currently the terms of contract is going on perfectly and it is substantially future-aimed character as it plans to diversify the export channels of energy permanently and make the country in the center of Euope's need to energy as one the main confident supplier.

Figure 3. Revenue Projection of Azeri-Chirag and Shah Deniz Fields



Source: British Petroleum.

3.3. Investment policy and promotion efforts realized by Azerbaijan. By and large, it is impossible to conceive of economy, especially modern economy without at least little amount of foreign investment, not only domestic. The reason is that as noted above, investments, generally capital flows are the warranty of sustainable development, long-term growth, and base for stable progress, no matter the claim is not straightforward entirely. So it was a main term for Azerbaijan aster restoring its political independency, however it was experienced somehow a dilemma upon the issue of conducting of strategic floors.

The first thing for every nation to do for being in one step from others in the eyes of investors is to provide adequate investment environment inside that create a durable confidence on stability and trusting issues of its that require active, carefully compiled system of investment policy followed by low rate of inflation, high degree of economic stabilization. At first Azerbaijan began to make this macroeconomic mission real by use of the industries where it has really great potential to win in competitiveness, such as oil or gas. After the adoption of decree about foreign direct investment, it was conducted some main legislation acts, where include, Tax, Custom, Labor Codes of Conducts.

To purse healthy investment it is necessary to conduct some measures without any exception, because convenient climate is a guarantee from the quality and wealth aspect of investments. For the affordable and auspicious investment climate, the following legislative enactments are important which are carried out by the Government of Azerbaijan as the basis of its investment policy.

- Enhancing the quality and performance of management system, (efficient corporate management) and providing entire safety of own properties;
- Providing sufficient and thorough amount of information about the availability of appropriate business sectors;
- Having permanent platform of data and all statistics that have accurate compliance according to international standards;[7]
- Ensuring fair investment environment for current and potential investors in order to attain them healthy competitiveness being irrespective from the kind of investment;
- Achieving high level of institutional potentials that are capable of enough to make deposit transfer into the investments.

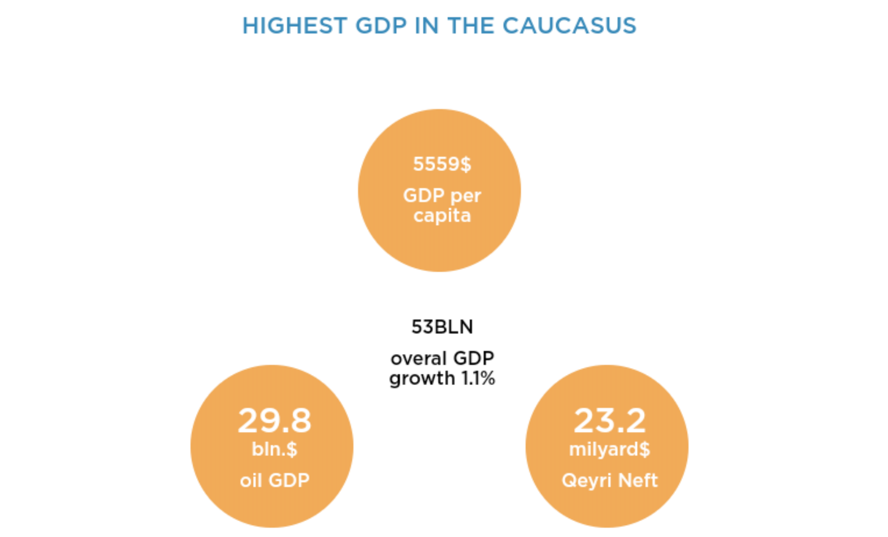
[7] AZPROMO-Azerbaijan Export and Investment Foundation, which was formed in 2003, by the Ministry of Economy of Azerbaijan Republic for the mission of encouraging economic behavior inside through by foreign investment flows.

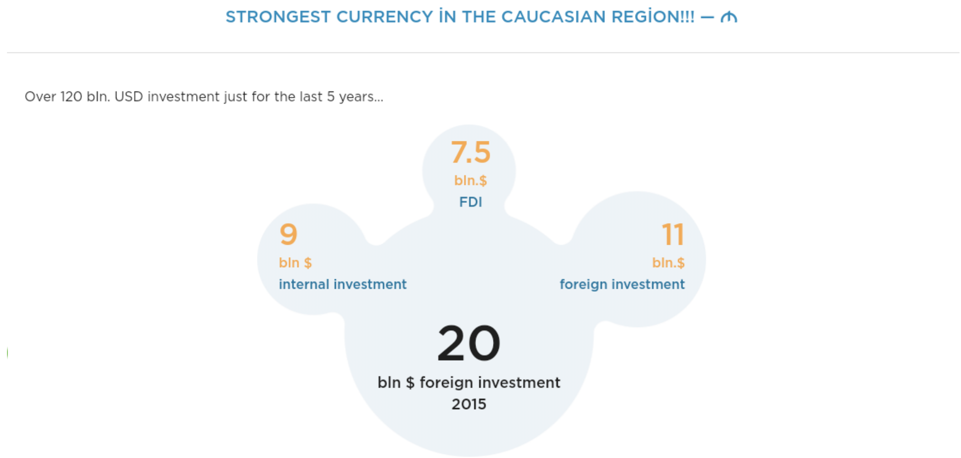
- And finally, of course, lying on permanent legal regimes stipulated by the government authorities.

To be more thorough, core sides Azerbaijan investment policy for the recent years are maintaining greater attention to non-oil sector growth, diversifying of money flows over the various business objects and regions, to attain high quality of limpidity in overall invest operations, to turn the directions of investments to the social kind in more size, and full accountability of safeguarding issues of country. One of essential decree adopted for the support of investments, “AZPROMO”[6] has also been formed.

Moreover, a country always has a need for the use of new technologies to put into practice on domestic production which can bring it more competitiveness to its products in both domestic and global market. As a sign of liberalization policy investment policy should always be a part of it in order to reap all benefits, thereby all of these listed require to show distinctive attitudes on distinctive investments. First there always have a need to take steps on raising enterprises’ images and prestige; then to increase the capabilities of free trade principles for the aim of importing advanced technologies into the country permanently; besides attention to human kind investments, to provide flows of capitals into the service sector; and at the fullness of time, there should be a continuous controlling system that balance internal policy with international investment relation standards.

Currently to enhance investment allurement Government of Azerbaijan Republic implement “Open door” and the legislation is adjusted by the provisions of certain lawa that have been indicated above. Even foreign investors are permitted to take part in privatization activities by using the same right with internal investors. Statistics convinces Azerbaijan is really perfect enough to rely own savings, and here also noted some indicators that confirm why?





Source: World Bank, IBRD/IDA

Source: World Bank, IBRD/IDA

Figure 4. FDI into Azerbaijan.

Source: Trading Economies: Central Bank of the Republic of Azerbaijan.

Desirable business environment in Azerbaijan, today, works on 10 principles of “no” which present strongly willingness in supporting the rights of all investors. Theoretically the policy fits the principles of “Calvo” doctrine where the importance of same attitudes to both domestic and foreign investors are considered as a main essence of the claim in question. The dealt “no” principles include:

1. No any kind of inquires is required (inspections) with the exception of taxes, cases related to the mental and physical wellness of people, and the country safety issues
2. No any discriminative matters among domestic and foreign capital sources
3. No any requirement for pre-permission process for offshore investments
4. Any restrictions and are put into action for overseas exchange
5. There is no requirement for licensing for currency transactions regarding to capital flows
6. In companies there is no limitations on foreign capital
7. Technology transfer is non-limited to any extent.

8. Property rights is absolutely unrestricted according to legislation.

9. Repatriation of earnings is infinite or there are no restraints.

10. It doesn't matter if you have no local partner, it is not added to the list of requirements.

Affordable Trading system for more investment promotion is a cornerstone of policy in question. It is applied to "single window" policy to all imported goods and machines and e-customs regime for services' categories, too. In addition there are not any duties while exporting process and "green channel"[8] structure is used during the border crossing procedures.

[8] Green channel-means not to realization of physical controlling of custom work objects.

Conclusion

To conclude, the evolution of BRIC and all other representatives of Emerging Market Economies bring us into a summary that, although advanced structured countries have a momentous economic and political peaks and the overall character of stability over there is substantially far-reaching in all senses of the word. But it is not say the less potential and non-capabilities of EMEs, countries in transition and left countries with underdeveloped economies. Statistics, researches, and references indicate immense speed of such countries along the positive way. Therefore, they differs for the massive size of resources, labor force, demonstrate tremendous willingness in order to fight against unfair competition and have healthy competition atmosphere, manifest more perseverance in agricultural, manufactured, production of finished goods, service sectors as possible as they can and expose more surge speed in gross domestic product compared to front sides.

Besides it is a fact that, the indicators in numbers does not always show the true situation inside the country, somethings can be different and look vary from the reality. The issue is that, sometimes, numbers are not the core proves, the quality is essential not the quantity that distracted the tendency from being straightforward.

In every case in is inevitable the underestimation the role and help of developed subjects of world economy into to their economy that can get an impression in the form of capital flows, however it is beneficial for these leading subjects, too.

The nucleus remedy for the tendency tend to be capital inflows directed to their domestic economy which is critical, of course updated control system over the moment activities is essential. As it seen from the data analysis of China, one of the huge candidate of EMEs, there is a positive correlation between the capital inflows with the other core economic indicators of China, which are GDP rate, CPI, Gross

Domestic Savings, Inflation and Unemployment rate, that are meaning these inflows create a positive effect over their economy no matter much or less.

Today it is impossible to conceive of the any kind of growth from edge of globalization. In oppose case, there is no doubt that the country left behind will lose. In the globalization period country left behind this surge emergency is not only fail in integrated relations, but also lose its credibility. Thus when the related confidence fall under the shade at least for even one small amount, it directly find an impression in its face of economy. If it is evaluated more accurately, it is seen from the perspective of host country, progress is achieved is overall supply related to nation's resources as well as capitals, so managing and technological system get connected progression. The second, balance of payment become positive over time and also large-sized income make a substantial expansion in consumer preferences, so prices become lower because of extra supply, customer satisfaction boost, unfair competition is rejected. But it can put the sovereignty of hosts under the danger as it dependency extent on these flows, home country representative can do no any compromises to hosts somehow, immense risk of monopoly is also available which results the distraction of domestic industries that is new and have no enough durability against unfair competition. Relatively, BOP can be effected badly as it is feeding by extra input by external sources.

From the side of home country available risks and benefits find and impression at the end, too. BOP positivity because of extra earnings from overseas, innovative knowledge, skills and technologies are detected. Subsidiaries form an over requests for the products of home. However, these outflows can keep home country to bridge the gap and shortcuts in employment level inside for the reason of job exporting. And while the countries try to get import substitution, export substitution are realized. Extra outflows affects BOP case in its term, too.

As a result of ideal and thought out carefully investment strategy of Azerbaijan today gives its desirable fruits into the national economy system, therefore a large size of countries with at least double companies of their own in Azerbaijan. At then the latest statistics provided by Central Bank the latest amount of total FDI inflows in Azerbaijan is above USD 4.7 billion, while the total investment allurement is USD 14.7 billion for the end of 2017.

At the end potential suggestions can be provided for correct evaluation of capital inflows not only for progression of EMEs, but also all which want to flourish, and make a contribution to the today's globalized world and being integrated enough. For achieving this, the first remedy is get fair balance of countries over the world not depending on of their total shares, economic, political policy and other own choices. The second is connected power of world's gigantic economies to protect the rights of relatively poor ones and enhance their accountability globally. The next is that it is necessary to fight against the undesirable effects of international relations, for instance try to avoid the bad effects of capital inflows as possible as toward to EMEs and all underdeveloped economies, because it is not the real right of them, it is also because they have extremely a lot of positive things to donate entire world economy system. And from the eyes of the home countries all potential losses should be taken into account, such as transportation costs, host country external trade policy, economic stability, credibility, monopoly risks as a full range of other that enumerated above.

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