THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN

AZERBAIJAN STATE UNIVERSITY OF ECONOMICS

INTERNATIONAL GRADUATE AND DOCTORATE CENTER

MASTER DISSERTATION

ON THE TOPIC OF

“THE EFFECT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH: AZERBAIJAN CASE”

Yashar Nasibov Mansur

BAKU – 2019

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ABBREVIATIONS

AzPROMO	Azerbaijan Export and Investment Promotion Foundation
BDI	Baltic Dry Index
BP	The British Petroleum Company
BTC	Baku-Tbilisi-Ceyhan
CIS	Commonwealth of Independent States
CJSC	Closed Joint-Stock Company
CPI	Consumer Price Index
DPRK	Democratic People's Republic of Korea
EU	European Union
FDI	Foreign Direct Investment
GATT	The General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GPSN	Global Production Marketing Systems
IFI	International Financial Institution
IMF	International Monetary Fund
LDC	Least Developed Country
MNE	Multinational Enterprise
PCA	Production Sharing Agreement
PRC	People's Republic of China
S&P	Standard & Poor's
SCPX	South Caucasus Pipeline Expansion
SEZ	Special Economic Zones
SOCAR	State Oil Company of the Azerbaijan Republic
SSIA	Social Services Improvement Agency
TANAP	Trans-Anatolian gas pipeline
TAP	Trans Adriatic Pipeline
TNC	Transnational Corporation
UK	United Kingdom
UN	United Nations
UNCTAD	The United Nations Conference on Trade and Development
USA	United States of America
WB	World Bank
WTO	World Trade Organization

CONTENTS

“Xarici birbaşa investisiyanın iqtisadi artıma təsiri: Azərbaycan nümunəsi”

XÜLASƏ

Tətqiqatın aktuallığı: Azərbaycanın xarici institutların göstəricilərindəki reytinqlərinə əsaslanaraq, ölkə iqtisadiyyatının qeyri-neft sektoruna xarici investisiyaların cəlb edilməsi üçün hökumət çox vacib olan investisiya mühitini formalaşdırmalı və bu səpkidə təcili islahatlar həyata keçirməlidir. Vergi imtiyazlarından və subsidiyaların genişlənməsindən əlavə, bu islahatlar investorlar üçün həssas olan aşağıdakı digər məsələləri əhatə etməlidir
Tətqiqatın məqsəd və vəzifələri: Dissertasiya işində tədqiqatımızın məqsədi və vəzifəsi qeyri-kommersiya müəssisələrində marketinq fəaliyyətinin araşdırılması və strateji marketinq idarəetməsinin nəzəri əsaslarını onun prkatiki nümunələrilə verərək qeyri-kommersiya müəssisələrinin düzgün və effektiv idarəetməni aşılamaqdır.
İstifadı olunmuş tətqiqat metodları: Analiz, sintez, sorğu, ümumiləşdirmə
Tətqiqatın informasiya bazası: Sektoral analizi həyata keçirtmək üçün lazım olan statistik göstəricilər Azərbacan Statistika Komitəsinin və Dünya Bankının məlumat bazalarından əldə edilmişdir. Bundan əlavə son dövrlərdə istifadə olunan elmi araşdırmalardan, məqalələrdən və jurnallarda mövcud olan informasiyalardan da geniş şəkildə istifadə olunmuşdur.
Tətqiqatın məhdudiyyətləri: Daha geniş praktik informasiya tələb edir.
Tətqiqatın nəticəsi: İnvestisiya qoyuluşlarında mövcud olan əsas əngəllərin müəyyənləşdirilməsi və mümkün həlli yollarının təklif edilməsi bu araşdırmanın vəzifələrindən biridir. Eyni zamanda, müxtəlif sahələrə olan investisiyaların sayında baş verən dəyişikliklər qeyd olunmuşdur. Bu dəyişikliklərin Azərbaycanın iqtisadi artımına sözü gedən müddət ərzində mümkün təsirlərini statiski rəqəmsal göstəricilər və qrafiklər vasitəsilə aydınlaşdırılmağa çalışılmışdır.
Tətqiqatın elmi-praktiki əhəmiyyəti: Bu istiqamətdə aparılan nəzəri-praktiki tədqiqatların az olması səbəbindən, əldə edilmiş nəticələr əsasında Azərbaycanda xarici investisiya mühitinin yaxşılaşdırılması yolları təklif kimi verilmişdir. Tədqiqat, bu sahə üzrə gələcəkdə həyata keçiriləcək təqdqiqatlar üçün informasiya mənbəyi olacaqdır.

Açar sözlər: Xarici birbaşa investisiya, iqtisadi artım, Azərbaycan

INTRODUCTION

The relevance of the topic: The idea of foreign investment that emerged in the mid-XX century with the beginning of globalization has a great importance in the economy of every country. Because positive factors such as employment opportunities and economic growth directly affect the economy of the country, countries are almost a race to attract foreign investment into their own country. One of these countries was the Republic of Azerbaijan, which gained its independence in 1991. In the first years of independence, the Karabakh war, on the other hand, the transition from the closed economy to the market economy, has been going through a very painful period for the economy in Azerbaijan, and the country's economic chart is getting worse with each passing day. In order to prevent this negative schedule, the urgent operation of oil deposits with the key relay in the Azerbaijani economy and the export of the obtained oil were required. The main target for Azerbaijan, which does not have enough financial resources for this purpose, has been the arrival of foreign capital which could meet this financial resource. In a short period of time, legal arrangements, inter-state bilateral agreements and the establishment of infrastructure conditions for foreign capital attracted a great deal of foreign investment to this sector. Thanks to these foreign investments, the general schedule of the economy started to improve in a short time, the government revenues increased, the quality of life of the people increased and economic difficulties were overcome.

The research study. Investment activity in Azerbaijan, investment climate, foreign investment joint ventures, some scientific research works have been carried out in recent years, and a number of monographs, publicist and scientific articles have been published in the press, economic literature.

Theoretical and practical aspects of the role of domestic and foreign investments in the implementation of radical economic reforms in Azerbaijan, the economic strategy and its investment strategy, the implementation of state property privatization programs, structural transformation in the country, and the practical aspects of the realization of these processes are based on the economics scholars of

Azerbaijan Muradov, Bagirov, Hasanli, Nadirov , Samedzade and other economist scientists have been studied and investigated in various speeches. Investigative activities in the monographs and scientific articles of Absalkin, Adjubeyn, Afonini, Jdanov, Sheremetin and others from economist scientists from foreign countries have been studied and analyzed for the flow of foreign capital, management of investment processes and their efficiency improvement.

Using the works of these authors, it was necessary to analyze the role of investment activity in the Azerbaijani economy, the activities of joint ventures with foreign investments and their role in the development of national economy, theoretical and practical study of the problem.

The main purpose and tasks of the research.The purpose of the research is to analyze the current state of investment activity in the Azerbaijani industry and to develop scientifically substantiated proposals for its improvement on the basis of generalization and evaluation. To achieve this goal, the following tasks have been implemented and implemented in a logical sequence:

- Investing in understanding, investing in the formulation of the business, accounting policies and the role of its extensive production process;
- The nature of the investment property and the financity of the securities;
- Investigate the role of investment in real estate;
- Investigate the most cost-effective way of investing in the business;
- Consider the cost of investment profits;
- To stimulate the investment activity of the entity and determine the role of the tax;
- Show ways to increase investment attractiveness of businesses.

The object of the research is monetary capital, the mechanism of its accumulation among the main economic agents, distribution in the system of reproduction of GDP and use as investment resources in the national economic system and in the system of global financial flows.

Subject of study. The subject of the dissertation research is the economic relations regarding the formation and movement of state money capital.

Theoretical and methodological basis of the research is composed of works by economical scientific classics, scientific research works of the country's scientists. During the scientific research, the Constitution of the Republic of Uzbekistan, the Law on Protection of Foreign Investments, the Investment Activity, and the Law on Entrepreneurship. Laws "On Joint Stock Companies", decrees and orders of the President of the Republic of Azerbaijan, normative legal acts of the Cabinet of Ministers and other documents were used.

The legal basis for the study was the Constitution of the Republic of Azerbaijan of November 12, 1995, the Law of the Republic of Azerbaijan on countering money laundering or other criminal property, and the financing of terrorism, the Law of the Republic of Azerbaijan on currency regulation, the Law of the Republic of Azerbaijan on insurance activities, the Law Of the Azerbaijan Republic On accounting, the annual report of the Central Bank for 2013, the Law of the Azerbaijan Republic On currency regulation, Law of the Republic of Azerbaijan on the Credit Union, Law on the Central Bank of the Republic of Azerbaijan, Civil Code of the Republic of Azerbaijan.

The scientific novelty of the thesis is as follows. The functions of the monetary capital category are defined as the function of securing the status of an economic entity and the function of additional funding, and its role in the process of social reproduction is indicated, which makes it possible to supplement the definition of the organization's money capital category by establishing the purpose of its investment aimed at ensuring the effective functioning of the organization. The principle of financing the activities of business entities, corresponding to the current state of the domestic and world economy and aimed at the formation of an effective structure of money capital, allowing to increase the value of the organization, is proposed and substantiated. Models have been developed for ranking state support measures at different levels according to stages of cyclical development of the economy, allowing the state to prioritize the use of these measures, and for an organization to determine the potential use of state resources in its money capital.

CHAPTER I. THEORETICAL ISSUES OF ECONOMIC DEVELOPMENT

1.1.Theories of international movement of capital

Under the category of capital is understood the amount of material, monetary, intellectual means that are used by their owner in the interests of making a profit by creating an enterprise for the production of goods and services or in another way (acquiring shares, bonds and other securities). Capital is the basis of a market economic system. Capital is the most important factor of production; the stock of funds necessary for the creation of tangible and intangible goods; cost, income in the form of interest, dividend, profit.

The export of capital - moving it abroad in the interests of obtaining additional value from the importing country (World Investment Report, 2008, p. 155).

The concept of international capital movement should be defined as a set of financial and economic relations about the redistribution of capital between countries with the aim of systematically or one-time gain or achieve other economic, social and political goals. The international movement of capital is carried out through its export and import directly between countries, through international financial markets or international credit and financial organizations.

The subjects of the International Movement of Capital (exporters and importers of capital) are public and private entities, including central and local governments, other government organizations: private firms, banks, international and regional organizations, individuals. Two parties are involved in this process: the country from which capital is being exported and the country that receives it. (J.H. Dunning, 2003, p. 506). One of the features of the modern world economy is the simultaneous formation in each developed country of both a relative surplus of capital, which determines the expediency of its export from the country (in some sectors of the economy), and at the same time, the need to attract additional capital from outside (for the development of other sectors). Therefore, most developed countries act simultaneously as an importer and exporter of capital.

From an institutional point of view, international capital movement is the movement of capital between entities of different national economies, international institutions through organized, unorganized markets or through international institutions. Defining in the international division of capital is the stock and loan segments of the market (E.N. Petrushkevich, 2013, pp. 30-45).

International capital movements are a dynamic category. It is based on two basic forms of capital migration - inverse and irreversible. The return of capital is characterized by the return of capital from the country of importer to its country of origin, with an additional effect (profit, as well as social, economic, political and other effects for the exporter of capital). Basic capital can be returned directly (as is the case with a loan of capital) and indirectly (through the above political, economic, social effects).

Only bilateral migration of capital can be fully identified with its turnover between national economies and bring benefits to the exporting state. Additional capital that is returned to the donor country is the result of using the base capital and production factors of the recipient country.

Irreversible International Movement of Capital means the absence of return of basic capital, either directly or indirectly. Manifestations of irreversible MDC are: (I.B. Khmelev, 2009)

- International capital flow based on erroneous asset management;
- Capital flight;
- The international movement of capital as a result of the emergence of a capital owner of new priorities for his investment.

One of the main causes of erroneous asset management are the risks of the world economy as a whole and the capital-importer country in particular. The causes of capital flight are associated with unfavorable conditions for capital arising from the specific determinants of the political, economic, social environment of the host country of capital.

It should be noted that the categories of “international capital flow” and “foreign investment” are not identical. In the case of investments, the return of capital is obligatory, while the irreversible movement of capital outside the national economy is not an investment from the point of view of this national economy. (World Investment Report, 2017, p. 292). In addition, one should also give an example of international capital movements due to the migration of its owner. However, you can give a reverse example of offshore jurisdiction, which imposes a ban on the direct use of capital.

Thus, the International Capital Movement should be understood as a set of phenomena associated with the turning and irrevocable redistribution of capital between national economies.

At the same time, in practice the category “international investment” is the basic component of the category “international capital movement” and is used in many theories as international identity capital movement. The fundamental importance of the category of "investment" (The Development of the Azerbaijani Economy in 2008, 2008) for the modern economy is that it lays down the most important structural proportions of the economy: between accumulation and consumption, investment and capital gains, costs and profitability.

Any process International movement of capital can be divided into the import and export of capital. The essence of the export of capital, in accordance with the approach of Kireev (Kireev, pp. 240-241) is reduced to the withdrawal of part of financial or material resources from the process of national economic turnover in one country and their inclusion in the production process in others. At the same time, it should be noted that this definition is true only with reservations, since capital can participate in the economy of the recipient country both directly and indirectly, as is the case, for example, in the case of offshore companies. Therefore, in our opinion, it is necessary to reduce the essence of the export of capital to the movement abroad of value in monetary, commodity or other form with the aim of systematically earning a profit or achieving other economic, social or political benefits.

Changes in the scale and structure of public demand determine the objective need for capital to adapt to them. The form of this adaptation is the migration of capital. Therefore, the international movement of capital is an expression of the essence of capital, its self-assertion as self-increasing value. (Integration into Global Economy, 2008, p. 192)

Historically, the international division of capital as one of the factors of production. The concentration of capital in certain countries is a prerequisite for the production of certain goods economically more efficiently than in other countries. The international division of capital is expressed not only in the varying security of countries with accumulated stocks of material resources necessary for the production of goods, but also in the differences of historical traditions and production experience, levels of development of commodity production and market mechanisms, as well as money and other financial resources. The availability of sufficient savings (capital in cash) is an essential prerequisite for investment and expansion of production.

In the process of movement in the world economy, capital takes various forms. There are many classifications of forms of movement of capital, but the author of the most comprehensive in content seemed to be the following (The economy that has become a hostage to oil and oil products, 2010).

According to the ownership of capital, it is usually divided into state, private foreign investments, investments of public organizations and mixed. At the same time, investments of intergovernmental organizations are either included in state investments or are singled out in a separate position.

The main forms of public investment are government loans, grants (gifts), assistance, the international movement of which is determined by intergovernmental agreements. This also includes loans and other funds of international organizations.

Loans from national governments and intergovernmental organizations are often carried out on preferential and sometimes gratuitous basis. However, they may be accompanied by conditions that the host country must fulfill (economic liberalization, opening up certain industries for foreign investors, increasing taxes, etc.). For example, loans from the IMF, carried out in the 90s, were accompanied by a variety of conditions, the fulfillment of which in general had a significant impact on the country's economy (Reforming international governance, 2015).

Sometimes, the assistance of developed countries in relation to certain developing or countries in transition has economic interests - the creation of future markets for domestic companies.

Private investment is funds from non-government sources. This group includes investments, trade loans, interbank loans, deposits. They are not directly related to the state budget, but the government can control and regulate their movement in accordance with current legislation.

In the direction of capital flows allocate import and export.

The duration of the placement of funds abroad distinguish short-term (during the year), medium-term and long-term investments.

The predominant part of the international movement of capital accounted for short-term operations. The large scale of such operations poses serious problems not only for countries that import capital, but also for global financial markets in general, and therefore requires a search for collective measures to stabilize these markets. (Don Clark, 2011, p. 42)

Long-term investments include all investments of entrepreneurial capital in the form of direct and portfolio investments, as well as loan capital (public and private loans).

According to the forms of investment, they allocate monetary and commodity (equipment, patents, know-how), and in the form of money, short-term investments are most often made.

The greatest economic importance is the classification of international capital movements according to investment objectives. Significant changes in this area and their consequences have a direct impact on the trends in its regulation.

The international movement of capital is carried out in an entrepreneurial and loan form. In the first case, the exporter of capital counts on income in the form of profits from the activities of a particular enterprise, and in the second case - in the form of interest for the funds provided for temporary use. (World Investment Report, 2008, p. 155)

Business capital, in turn, is usually divided into portfolio and direct investment, allowing the owner of capital, respectively, to either receive a portion of the company's profits, or also to have the right to participate in its management (based on the possession of a controlling or blocking stake). There is no clear boundary between portfolio and direct investments, since the right to control the enterprise depends on the number of shares of other co-owners (sometimes this right is received by the owner of less than 10% of the shares if the rest of the package is distributed between a large number of shareholders). (J.H. Dunning, 2003)

Practice shows that portfolio investments are the most mobile and are subject to frequent changes in the direction of migration. Portfolio investment, increasing the size of national stock markets, increase their volatility and with a rapid outflow of capital can destabilize it. In this regard, the so-called speculative capital can be distinguished in the portfolio investment - funds intended not for the development of production, but for the purchase and subsequent resale of various financial instruments.

Theories of capital movements reveal the reasons for the export of capital, its directions, strategies of participants in the capital market. They consider the consequences of the export of capital for the donor country and the host country. The solution of these issues is important for the development of a rational foreign economic policy of the state. Consider first the traditional theory of capital movement.

Classical theory. Historically, capital outflow followed foreign trade, which mastered new markets and was a pioneer for more global foreign expansion. It is quite natural that all the theories that explained the effectiveness of foreign trade and its directions became at the same time theories of the efficiency of capital migration. This applies to such well-known theories as:

• D.Ricardo's theory of comparative advantage, explaining the choice of the country's export direction;

• The Heckscher – Ohlin model, showing how international trade exchanges abundant production factors for infrequent ones;

• The theory of competitive advantage, which noted the desire to obtain monopoly profits in the world market of monopolistic competition.

The researchers of the neoclassical school, who devoted their work to analyzing the mechanisms of the market, made an attempt to consider how capital outflow is included in the market self-regulation mechanism built on the mobility of resources. The same processes that ensure the circulation of resources within the country are transferred to the international arena. Capital rushes to those regions where this rate is higher. But in order for capital to move from its place, the differential must be significant, since the additional benefit must cover the high commercial risks of working in a foreign country. In addition to the interest rate, there are additional controls on the export of capital in the form of customs barriers, a desire to diversify investments, etc.

Marxist interpretation of the export of capital. Marx saw the reason for the export of capital in the processes of its accumulation. He noted that its use in the national economy would lead to a decrease in the rate of profit and an intensification of the competitive struggle. The export of capital removes the tension of the national economy and makes it possible to weaken its contradictions. Such an interpretation was justified by the further course of economic development.

Lenin called the export of capital one of the main features of modern capitalism. He described the features of the export of capital for the beginning of the XX century. Then the capital went from a developed country to a less developed one, where the factors of production were much cheaper. V.Lenin noted that the export of capital meets the mercantile interests of the country exporting capital. Such interests were seen in the desire:

• To organize the resource supply of enterprises in the metropolis;

• Obtain sales markets for goods produced at home;

• Quickly repatriate profits, withdraw them from the country in which they were created. V.Lenin linked the aggression of developed countries and their conflicts among themselves with the struggle for markets for their goods and capital. Actually, it was the struggle for the redistribution of zones of international influence that led to the First, and then to the Second World War.

The consequence of the expansion of capital for the recipient country, as rightly noted by V.Lenin was:

- Its transformation into a raw materials appendage of the country supplying capital;
- The formation of one-sided specialization, which made the domestic market highly unbalanced;
- Increasing heavy dependence on world market conditions.

After World War II, much has changed. Capital began to move not only from a developed country to a less developed one. Capital exchanges also take place between developed economies. Sometimes capital comes to a country with higher costs. The previous interpretations did not explain these phenomena, which caused new theories of the export of capital.

Keynesian interpretation of the export of capital. Keynes saw the potential for outflow of capital in the unclaimed savings of the entire population. If excess savings remain in the country, there will be a threat of depression. He noted that the processes hindering the export of capital, deepen the economic downturn. Today, the warning of Keynes sounds very relevant for those countries where there are calls for governments to limit capital outflows to ease the economic depression.

J.M. Keynes drew attention to the fact that not only countries that suffer from a lack of savings, but also those who are successfully advancing on the world market may have a need for foreign capital.

In the second half of the XX century. new directions for analyzing the export of capital. These include:

• Search for modern motives for the export of capital, which produce TNCs;

• Generalization of the interdependence of global capital flows in the context of globalization.

Now we will consider the modern theories of capital outflows, aimed at finding the competitive advantages of a corporation, the demonstration of which is possible only in the recipient country.

The theory of the cycle of international production of goods. This theory points to the connection of the export of capital with the laws of the product life cycle.

The life of a commodity on the market goes through several stages, as is known. First, it is introduced into the market (first stage), then sales growth and improvement of the quality characteristics of the product (second stage). Then the production becomes massive (third stage). But with the saturation of the market, a decline in sales is already taking place (the fourth stage), and then production collapses.

The need to export products and locate production abroad arises at the turn of the transition from the third to the fourth stage. If the export of goods and capital happens successfully, the company will be able to extend the product life cycle at the most advantageous position, when high and stable productivity and, accordingly, profitability are ensured. The competitiveness of the goods at the stage of maturity, usually has a strong position, since the costs of production with its mass character usually decrease. At the same time, the need for foreign economic expansion becomes imperative, since the time of the advantages of a monopolistic competitor in their homeland ends, and in another country the life of goods and capital continues.

The theory of competitive advantages of M. Porter. The theory of competitive advantage was introduced by M. Porter in 1990. He identified the success factors of TNCs on world markets, as a result of which he managed to classify them (Don Clark, 2011). He described the synthesis of success factors as a “diamond of competitive advantages”, guaranteeing the benefits and success of capital expansion.

The invasion of any market is associated with unforeseen heavy losses. To minimize them, an elaborate strategy of possible actions is needed. The best strategy allows you to get ahead of your competitor and ensure more efficient progress. Porter notes that winning the market is the result of the competition of the strategies used.

The state of demand in one country or another can be the key to a company's success in a foreign market. For example, one company works in a country where the demand for its products is small, and another with the same potential could penetrate into a country with a large market. Naturally, the second firm will be able to increase much larger sales than the first firm, and will be in a better position.

In Porter's theory, the most valuable is an indication of the great advantages of the production of TNCs, which are not at all related to its main activity. It can be initiated by related and supporting industries. He showed that if a firm develops within the framework of interrelated productions, the so-called clusters, a positive multiplier effect from investments is possible.

Porter has demonstrated that a country exporting capital achieves sustainable success if this capital is co-operating with the adjacent production of the recipient country. Local supplies will reduce the cost of purchases, reduce customs costs, i.e. reduce production costs.

Eclectic paradigm. The eclectic paradigm owes its origin to the English scientist J.Dunning, who brought together many of the reasons for the breakthrough of TNCs to world capital markets. This popular theory attempts to explain three things:

- In which case it is more profitable to export capital, and not a commodity;
- When it is more profitable to use the resources of other countries, rather than national ones;
- When a company abroad can make a monopoly profit that is inaccessible at home?

To solve the latter problem, J.Dunning has classified the company's advantages that it must demonstrate in the global capital market. J.Dunning has shown that success can be guaranteed by a conglomerate of advantages that a company must possess simultaneously. It should also take advantage of the local market. Benefits are grouped into three large blocks.

- "O-benefits" associated with the internal potential of the company investors.
- "I-benefits", caused by the use of their own networks to promote products and industries to foreign markets.
- “L-benefits” provided by the recipient country (preferential taxation, state participation in the financing of investment projects, provision of infrastructure services, etc.).

For recipient countries, the eclectic paradigm may suggest that one should not rely only on the benefits of the low cost of its resources. It is necessary to focus on a favorable investment climate for foreign capital, a reliable legislative base.

1.2.Foreign direct investment and its impact on economic growth

Among the diverse forms of economic activity in modern conditions, the realization of foreign investment is becoming increasingly important, becoming one of the most important elements of the investment component in the economy of various countries. The total volume of these investments in the world is growing annually at a much higher rate than the volume of the total gross product of the countries of the world (World Investment Report, 2008).

Today, without investments, modern capital creation and the competitiveness of producers in foreign and domestic markets are impossible. The processes of structural and qualitative renewal of world commodity production and market infrastructure occur exclusively at the expense of investment. The more intensively it is carried out, the faster the reproduction process takes place, the more actively effective market transformations take place.

In the era of globalization, the development of a small open economy largely depends on the intensity of the use of various forms of international economic relations, among which foreign direct investment (FDI) plays a special role. This is due to the fact that FDI helps to involve the potential of the recipient country in the international production of goods and services, affecting its economic growth, changing international specialization and its place in the international division of labor. During periods of economic crisis, in contrast to other forms of international capital movement, foreign direct investment has a positive effect on the stability of the current and capital account of the balance of payments of developing countries and countries with transition economies (J.H. Dunning, 2003).

The most important direction of the state economic policy of our country is the creation of a favorable investment climate for attracting and effectively using foreign investments.

To consider this issue in more detail, it is necessary to highlight several concepts.

International movement (migration) of capital is a process of large-scale movement of capital across state borders. The international movement of capital is based on its international division as one of the factors of production historically established or acquired concentration of capital in various countries, which is a prerequisite for the production of certain goods that are more economically efficient than in other countries. The international division of capital is expressed in the varying countries' wealth of the accumulated stocks of material resources necessary for the production of goods and services, as well as differences in historical traditions and production experience, levels of development of commodity production (technological order), market mechanisms, financial and other resources. Accumulated savings (capital in cash) are the most important prerequisite for investment and expansion of production (J. Eaton, 2001, pp. 742-755).

Investments (from the Latin investire - region) all types of property and intellectual values invested in the objects of entrepreneurial and other activities, which result in a profit (income) or a social effect.

Investing is the direct process of investing in investment objects.

Investment activity is a process that includes both the investment itself and the subsequent implementation of other actions in order to obtain a profit or other positive effect from the investment.

The share of reinvested profits in the economy. The named indicator is important for the characteristic of investment attractiveness of the country. Reinvested income represents the share of a direct investor in the undistributed profit of the enterprise, which it received from production activities and again turned into circulation. By definition, the IMF, reinvested earnings include: (О.В. Носова, 2011, pp. 135-145)

- The difference between the cost of issue and redemption of shares;
- Increase or decrease the cost of capital;
- Change in reserve for revaluation of assets;
- Retained earnings

As world practice shows, the profits earned by investors are often not taken out of the country, but again directed to the economy in the form of FDI. Reinvested profits today are one of the most important sources of direct investment: 30% of total FDI inflows are in the world and 50% in developing countries.

The analyzed indicator also serves as a kind of indicator, allowing to determine the direction of flow of international financial capital, the degree of their confidence in the national economic policy of the recipient country.

The objects of foreign investment are: (О.В. Носова, 2011)

- Any enterprises and organizations engaged in activities not prohibited in the republic;
- Buildings and facilities, property of legal entities and individuals;
- Shares, bank deposits, insurance policies and other securities and funds;
- Scientific and technical products;
- Intellectual property rights;
- Other property and acquired property rights, including the rights to use land and other natural resources of the republic to carry out its activities.

Investments can be divided into three categories: (Radosevic, 1995, pp. 459-478)

- Direct (Foreign direct investments - FDI) - real, in which a foreign investor gains control over an enterprise in the country or actively participates in managing it (placing capital in industry, trade, services, directly in enterprises);

• Portfolio (financial), in which a foreign investor is not actively involved in the management of the enterprise, content to receive dividends (in most cases, such investments are made on the market of freely tradable securities). The portfolio portfolio also includes investments by foreign investors in the government and municipal securities market. In the postwar period, the volume of such investments is growing, which indicates an increase in the number of private investors. The intermediaries for foreign portfolio investment are mainly investment banks (intermediary organizations in the securities market engaged in financing long-term investments)

Other investments include deposits in banks, commodity loans, etc. Their exclusion from the analysis is caused primarily by the heterogeneity of the group, as well as the difficulty of obtaining reliable statistical information about many of them. The boundary between the first two types of investments is rather arbitrary (it is usually assumed that investments at the level of 10-20 or more percent of the share (authorized) capital of an enterprise are direct, less than 10-20 percent are portfolio). Such a division seems to be quite appropriate, since goals pursued by direct investors are somewhat different.

Foreign direct investment differs from other forms of international capital movements by two main criteria. First, FDI is carried out not just abroad the country of residence, but within the company-investor. The company-investor, expanding its presence abroad, is nothing more than a multinational company (TNC). Since FDI is invested in the framework of one company, then, accordingly, it is its property and implies investor control over the use of factors of production. The concept of control by a company-investor of a direct investment enterprise is key to the concept of FDI. (Klein M. Rosengren, 1994, pp. 373-389)

The second difference between FDI and other forms of international capital movement is that the FDI process involves the transfer of not only financial resources across the border, but also other assets. Their number primarily includes technology, equipment, management experience, training and development, employee skills, access to an established supply network of raw materials and resources, as well as to the international sales network of TNCs, trademarks, brands, advertising networks and products.

At the same time, as they say, greenfield FDI is different - “investments in a green meadow”, when production activities based on FDI in the recipient country start from scratch, with the creation of new enterprises and industries, and brownfield FDI - “investments in the field under steam” (P.Welfens, 1994) when FDI flows into the assets of existing and existing facilities.

In the modern world economy, foreign direct investment flows from donor countries to recipient countries for reasons that serve the interests of: (О.В. Носова, 2011)

- TNCs (which are the subjects of the FDI proposal);
- Donor countries that regulate FDI;
- Recipient countries that regulate FDI imports, speaking on the demand side of FDI.

Export of foreign direct investment is carried out by TNCs, thanks to their ownership of valuable assets: capital, technology, information, qualified personnel, access to raw materials markets, access to markets, managerial and organizational experience, research and development base, optimal size and sustainability, created brands, economies of scale, geographic and production diversification, etc.

Having these assets, companies are interested in opening branches abroad in order to involve new resources and markets in their own production, to reduce the cost of producing goods and services, and to gain leadership positions in a particular industry on an international scale. Based on the listed main motives for investing TNCs abroad, FDI can be resource-oriented, market-oriented, efficiency-oriented, orienting for strategic assets.

In modern conditions, foreign direct investment (FDI) is becoming one of the most important elements of economic activity in various countries. By compensating for the lack of domestic savings, these investments, by their very nature, imply the creation of new enterprises or the fundamental restructuring and development of existing companies and, thus, to the greatest extent contribute to economic growth. In real life, especially in developing economies, most often represent investments in stocks of export-oriented enterprises, which also brings certain benefits to recipient countries due to an increase in their foreign exchange earnings. (M.Haddad, 1993)

The advantage of FDI over other forms of investment is obvious. In addition to the direct economic effect in the form of tax revenues, increasing employment, stimulating national suppliers and expanding the domestic market, foreign direct investment has a highly beneficial effect in the field of technology transfer, the spread of best practices in management, marketing, logistics, personnel development, etc. It is often emphasized that the benefits of technology transfer far exceed the values of the flow of capital itself.

The economic effects of foreign direct investment in the recipient country can be divided into three groups depending on the level of economic processes: microeconomic, sectoral, macroeconomic. In addition, the effects of foreign direct investment can be direct, that is, have a direct impact on the development of the country as a whole, indirect, or secondary. The latter include effects at the industry level. (Якубовський, 2011, p. 472)

The microeconomic effects of foreign direct investment are associated with a direct transfer of the assets of the investing company to a direct investment enterprise. At the microeconomic level, the negative effects of foreign direct investment can be manifested in the transfer of “dirty” technologies, non-compliance with sanitary and hygienic production standards and environmental requirements for the exploitation of resources.

The sectoral effects of foreign direct investment can be horizontal, or intra-industry, and vertical, or inter-industry. The horizontal sectoral impact of foreign direct investment on economic development is manifested in the spread of technology and experience in the management of investing companies through intra-sectoral labor migration and imitation of technology.

The vertical effects of foreign direct investment arise through inter-sectoral relationships with national companies of enterprises with foreign capital, which can play the role of both suppliers of raw materials and materials, and be buyers of goods and services. To establish production relations with local enterprises, foreign enterprises put forward certain requirements to improve product quality, thereby stimulating the need for modernization. The emergence of companies with foreign direct investment in infrastructure sectors affects the development of most sectors of the host capital of the country. For example, foreign audit firms require clients to comply with international reporting standards, which increases the level of accounting in local client companies, thereby ensuring transparency in business operations.

The positive effects of foreign direct investment on the economy of the recipient country of investment at the macroeconomic level include: (The World Economy, 2007)

- Increasing financial resources for the development of the real sector and investment in fixed assets;
- Increasing the competitiveness of the country's exports;
- Increasing employment and staff development;
- Other direct and indirect effects.

The potential negative effects of foreign direct investment at the macroeconomic level are mainly related to the anti-competitive practices of a transnational company; tax evasion and abuse of transfer pricing practices of a multinational company; the suppression of national producers and the ousting of national products, technologies, retail chains and business activity.

Also of serious concern is the fact that the volume of imports of a company with foreign investments significantly exceeds the volume of exports. The difference between exported and imported products can be explained as follows: (Voznesenskaya, 2006)

- A significant part of the raw materials for production is imported in order to create quality products;

- A significant share of finished products remains in the domestic market. Thus, foreign direct investment performs the function of import substitution for consumer goods;
- The high share of imports of intermediate products with foreign investment indicates a low degree of their industrial integration into the economy and a lack of vertical links with local enterprises and firms.

The most important factor in socio-economic development is the attraction of foreign investment. They provide an additional inflow of funds lacking in the economy and the arrival of the latest technology, technology, and advanced management experience. In this regard, over the past two decades, there has been an increase in competition for global investment among states, which has prompted national governments to develop and implement comprehensive economic policies aimed at increasing the country's attractiveness for foreign investors.

The study of the influence of FDI on the economic growth of recipient countries in economics is mainly empirical. Expansion of knowledge on this issue is related to research and analysis of world practice, in particular, the experience of countries actively attracting FDI to solve their economic development problems. World experience shows that the behavior of FDI in the country, their impact on economic growth, the conditions for the emergence of positive and negative effects are largely repetitive and universal for most countries. In this regard, the accumulated international experience can be largely transferred to individual countries, adjusted for local socio-economic and economic-geographical conditions. In addition, based on the analyzed data, it is possible to formulate general principles, conditions and factors determining the place and role of FDI in the process of economic development, as well as methods for increasing the effectiveness of participation of FDI in the economic development of a country.

In this paper we will analyze the experience of two groups of countries: countries of South-East Asia and Latin America. Among the countries of Southeast Asia, we will dwell on four “Asian tigers”: Singapore, Taiwan, South Korea and

Hong Kong. Among the Latin American countries consider the experience of Mexico, Brazil, Argentina, Chile, Colombia, Venezuela.

The experience of these countries may not be fully transferred due to significant initial socio-economic and economic-geographical differences. However, the study of the experience of these countries in the context of determining the place of FDI in the process of economic development of the country, in our opinion, is most relevant for modern Russia, which is due to the following reasons: over the past 40 years, these countries have shown high rates of economic growth; it was generally agreed that external factors, primarily FDI, played a significant role in their economic success; they are the first among developing countries to actively attract FDI and have accumulated a great deal of positive and negative experience with FDI over a more than 40-year period; in these countries, for the first time, all the main strategies of FDI participation in the economic development of the recipient country were implemented. The economic challenges facing these countries are similar to those currently facing Russia.

The experience of the developed countries of the West, in our opinion, is less relevant for modern economy due to the significantly higher level of development of their economy, significant differences in the goals and objectives of economic development, the presence of well-established structure, forms and directions of FDI in these countries.

In the 50s - 60s of the 20th century, the countries of Western Europe and Japan were actively recovering after the Second World War, developing their industry, increasing financial and investment resources. During this period, US corporations dominated the international arena, developing their business in Europe and Japan, including through the implementation of foreign direct investment in these countries. At that time, American banks and corporations were the largest investors in the world, the main flows of these funds were directed to the countries of Western Europe and Japan.

Since the mid-1970s, the Middle Eastern oil-producing countries, due to a sharp increase in oil prices, began to accumulate huge funds, a significant portion of which they then invested in the banking sector of developed countries, so by the second half of the 1970s the largest American and Western European banks were flooded free cash that they lend to the governments of developing countries, hoping for their high reliability and profitability.

During the 50s - first half of the 60s, 51 countries gained state independence, some other countries embarked on the path of accelerated economic development. Most of the developing countries of that period had a colonial commodity economy, largely dependent on their metropolises and the international corporations operating in their territory. Having gained independence, these countries, during the 1960s - 1970s, nationalized enterprises owned by foreign corporations and established state control over their own natural resources and the mining industry located in their territory. The governments of many of these countries have developed, with the help of international organizations, development programs aimed at industrializing the economy. For their successful implementation, these countries needed significant financial resources that they sought to borrow in the external market. Given their lack of large foreign debt, they were able to attract significant amounts of foreign loans.

CHAPTER II. FOREIGN DIRECT INVESTMENTS IN THE WORLD ECONOMY

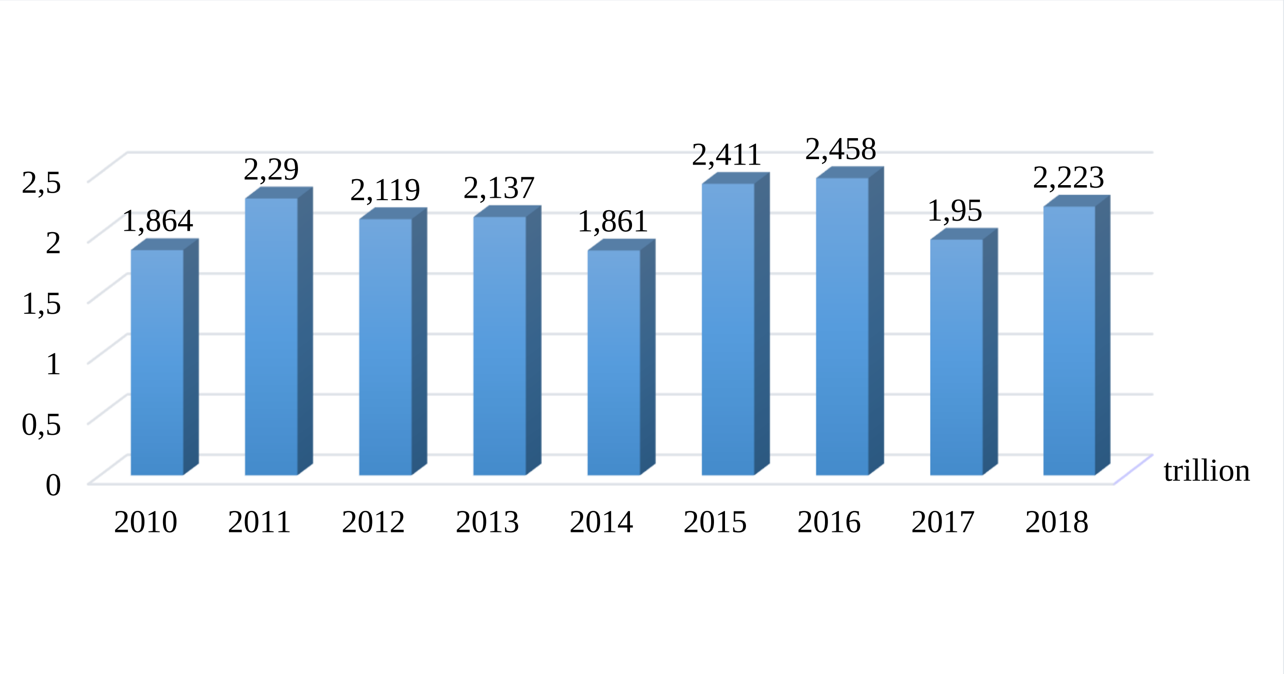
2.1.Major trends and directions of foreign direct investment in the global economy

In recent decades, the term “globalization” (Spiridonov, 2006) has gained special significance, due to the deep interest in this phenomenon of scientists working in almost all fields of science, politicians, public figures, businessmen and ordinary citizens. The term “globalization” first appeared in 1983 in an article by Leviticus in Harvard Business Review (V.V.Polyakova, 2008). Initially, this term was understood to mean the formation of unified world markets, in which large corporations operate, producing similar goods and services. Currently, there are a large number of definitions of this process, often conflicting with each other (Don Clark, 2011). The emergence of the term “globalization” is associated with the name of the American sociologist Robertson, who in 1985 gave an interpretation of the concept “globalization”, and in 1992 set forth the basis of his concept in the book s. According to Robertson, globalization is the process of the ever-increasing impact on the social reality of individual countries of various factors of international importance: economic and political ties, cultural and information exchange, etc.

In recent decades, the international market for foreign direct investment is characterized by dynamic development. The tendencies of its development are diverse, but at the same time it is possible to identify the main ones that determine the nature of the dynamics and structure of foreign direct investment in the global economy.

Global direct foreign investment (FDI) declined by 23% to $ 1.43 trillion. Such dynamics is fundamentally at variance with the high rates of growth of GDP and trade. The fall was partly due to a 22% decline in the value of cross-border mergers and acquisitions. But even without taking into account large one-off transactions and restructuring of corporations, due to which FDI figures for 2016 increased sharply, the decline in 2017 remains quite significant. The volume of announced investments in new projects, which is one of the indicators of future trends, also decreased by 14%.

Figure 1. Foreign direct investment, net inflows (USD)



Source: World Bank, 2018 https://www.data.worldbank.org

FDI inflows to developing countries continued to remain at $ 671 billion, not showing recovery after falling 10% in 2016:

• FDI flows to Africa continued to decline, reaching $ 42 billion, which is 21% lower than the 2016 level. The decline was noted mainly in the group of large exporters of raw materials.

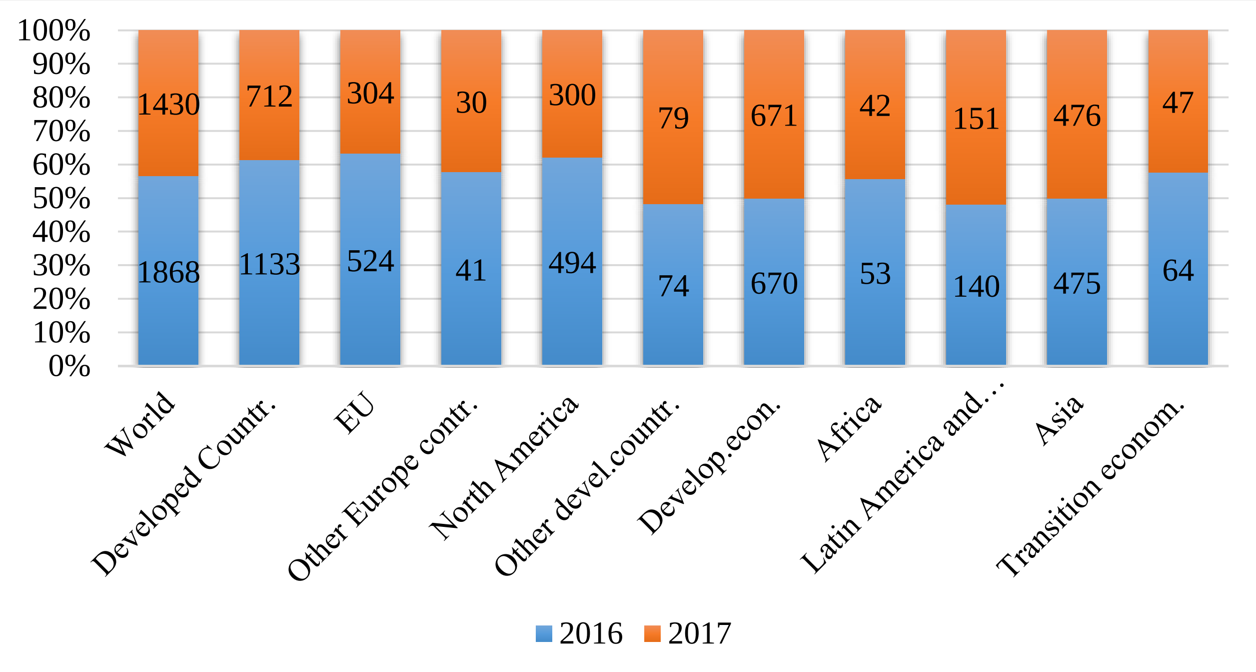
• FDI inflows to developing countries in Asia remained stable at $ 476 billion. This region has regained its position as the largest recipient of FDI in the world.

• Thanks to the revitalization of the economies of Latin America and the Caribbean, FDI inflows to this region increased by 8% to $ 151 billion. The increase was recorded for the first time in the last six years, but the volume of incoming FDI is still far below the peak of 2011, noted during the commodity boom.

• Investment flows to countries with structurally weak and vulnerable economies remain unstable. The inflow of investment in the least developed countries (LDCs) fell by 17% to $ 26 billion. In landlocked developing countries, this figure slightly increased (by 3%) to $ 23 billion. FDI inflows to small island developing states increased by 4% to $ 4.1 billion.

Sharply, by 37%, to the level of 712 billion US dollars, the inflow of FDI to developed countries has decreased. Due to the decrease in the number of large transactions and corporate restructuring operations that determined the global investment dynamics in 2016, the volume of cross-border mergers and acquisitions fell by 29%. The significant reduction in investment inflows was largely due to a return to previous levels in the United Kingdom and the United States after the 2016 bursts.

Figure 2. FDI inflows, by region. (2016-2017)

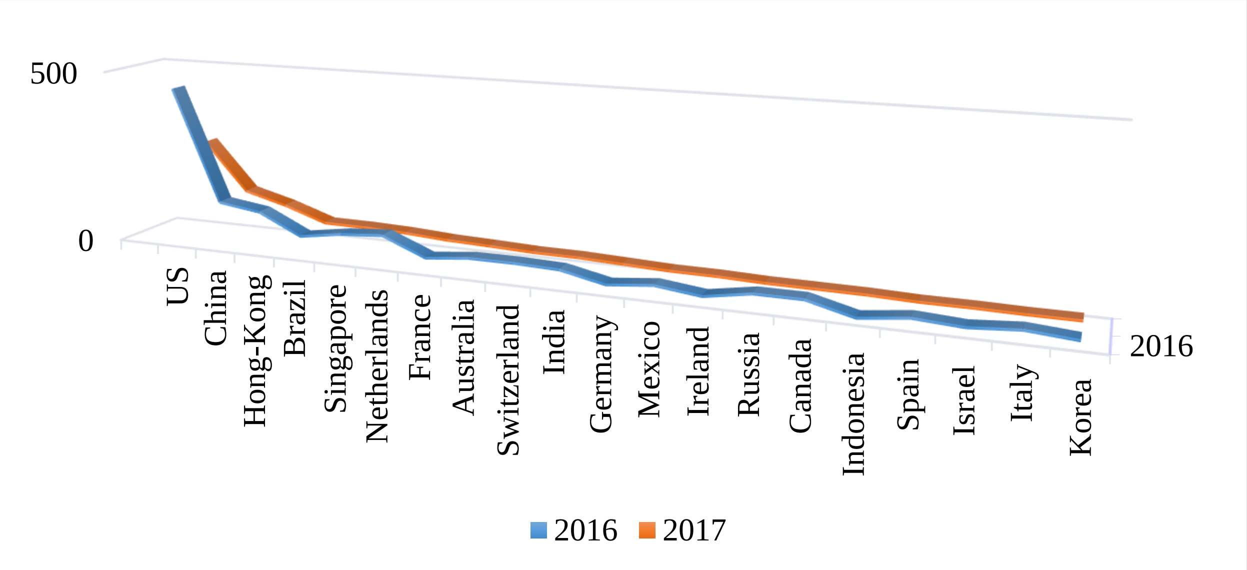


Source: UNCTAD, 2017 https://www.unctad.org

FDI inflows to countries with economies in transition decreased by 27% to $ 47 billion - a lower level since 2005 was observed only once. This decrease reflects the uncertainty of the geopolitical situation and sluggish investment activity in the natural resources sector.

Projections of the dynamics of global FDI in 2018 show unstable growth. Some growth in global investment is projected (up to 10%), but it will still be below the average of the last 10 years. Improved growth forecasts, increased trade and commodity prices, in principle, should indicate a more significant potential increase in global FDI flows in 2018. However, the risks are great and there are many serious uncertainties. The escalation of tensions in trade and the further spread of these tendencies may adversely affect the investment activity of global production marketing systems (GPSN). In addition, in all likelihood, the global investment dynamics will be significantly affected by tax reforms in the United States and increased tax competition.

Figure 3. FDI inflows, top 20 economies, 2016 and 2017 (Billions USD)



Source: UNCTAD, 2017 https://www.unctad.org

One of the factors of the investment recession is the decline in profitability. The global return on foreign investment currently averages 6.7% versus 8.1% in 2012. Investment returns fall in all regions, and most dramatically in Africa and Latin America and the Caribbean. Reduced returns on foreign assets may affect long-term prospects for FDI.

FDI is declining in all sectors. Mergers and acquisitions fell in the primary, manufacturing, and services sectors. The decrease in announced investments in new projects in 2017 was mainly in services. However, in all regions of developing countries over the past five years, the volume of investments in new projects in the manufacturing industry has been consistently lower than in the previous five year period. This has important implications for industrial development. The sharp fall in global FDI is completely at odds with the major trends in other cross-border capital flows. The total capital inflow increased from 5.6% to 6.9% of GDP, as the decline in FDI was offset by bank loans and portfolio investment.

Table 1. Selected indicators of FDI and international production, (1990-2017)

Current prices (Billion dollars)					
FDI	**1990**	**2005-7**	**2015**	**2016**	**2017**
Inflows	205	1 415	1 921	1 868	1 430
Outflows	244	1 452	1 622	1 473	1 430
Inward stock	2 196	14 487	25 665	27 663	31 524
Outward stock	2 255	15 188	25 514	26 826	30 838
Income on inward	82	1 027	1 461	1 564	1 581
Rate of return on inward	5.4	9.2	6.8	7.0	6.7
Income on outward	128	1 101	1 394	1 387	1 553
Rate of return on outward	7.8	9.5	6.1	5.8	6.2
Net cross-border M&As	98	729	735	887	694
Sales of foreign affiliates	6 755	24 217	27 559	29 057	30 823
Value added (product) of foreign affiliates	1 264	5 264	6 457	6 950	7 317
Total assets of foreign affi liates	5 871	54 791	94 781	98 758	103429
Employment by foreign affiliates (thousands)	27 034	57 392	69 683	71 157	73 209
Report					
GDP	23 433	52 383	74 407	75 463	79 841
Gross fixed capital formation	5 812	12 426	18 561	18 616	19 764
Royalties and licence feereceipts	31	174	299	312	333
Exports of goods and services	4 414	14 957	20 953	20 555	22 558

Source: UNCTAD, 2017 https://www.unctad.org

Capital inflows to developing countries increased slightly from 4.0% to 4.8% of GDP. For developing countries, FDI remains one of the most important sources of financing. Within the entire group of developing countries, they account for 39% of the total inflow of funds, but in LDCs this figure is less than one quarter, with the downward trend developing since 2012.

The growth rate of international production is slowing. In the sphere of international production and cross-border exchange of factors of production, there is a gradual shift from material and material forms to intangible assets. Sales volumes of foreign affiliates continue to grow, but the amount of assets and the number of employees increase at a slower rate. This may adversely affect the prospects for developing countries to attract investment in productive capacity.

Dynamics of GPSN is stagnant. The peak of the indicator of foreign value added in world trade (ie, the share of imported goods and services in the export of countries) was in 2010–2012 after two decades of constant growth. Judging by the data on GPSU in UNCTAD, in 2017 the share of foreign value added decreased by 1 percentage point to 30% of the trade volume. Over the course of this decade, the rate of expansion of participation in the SSIA has significantly decreased compared with the previous decade in all regions of the world, both developed and developing. This slowdown is clearly correlated with trends in the dynamics of FDI and confirms the fact of the influence of the latter on the dynamics of global trade.

Multinational enterprises (MNEs), which are included in the world ranking of the 100 largest companies and among the 100 leading corporations in developing countries, are at the forefront of efforts to ensure a more balanced gender composition of company boards, although they have a lot to do on this path. On the boards of the largest 100 corporations, women make up an average of 22%, which is higher than the average for companies in the S & P basket and national averages.

Reasons of foreign direct investment (Karluk, 2001);

- Sources of raw materials,
- Vertical and horizontal integration in production activities,
- The existence of non-transferable information,
- Protection of company title and protection of company secrets,
- The company wants to benefit from the brand or title,
- The product has reached the last stage of life,
- Oligopolistic market structure,
- Avoiding the tariffs and quotas of the importing country,
- Get rid of legal regulations and restrictions in national markets,
- Company monitoring its customers,
- International diversification of investments,
- The use of cheap foreign factors.

Foreign direct investments are the transfer of capital transfers between countries from one country to another without a market transaction. It is possible to evaluate and evaluate foreign direct investments as a private capital transfer. But this private capital transfer has two characteristics;

While foreign direct investment is a capital transfer, it also provides the transfer of enterprise, technology, risk transportation and organization and therefore it is considered only as the financing of the establishment and equipment of the enterprises. (Seyidoğlu, 2013)

Due to this role, direct investment brings business management and know-how, and also puts the competitive factor into the country.

Foreign direct investments are directed towards the industrial sector and are not in the form of capital transfer from country A to country B but from A country of industry X to industrial branch of country X of country B.

Direct investments, in particular, are characterized by a capital inflow between the two industrial sectors. This capital flow occurs in the form of horizontal and vertical investments.

Horizontal (horizontal) investments occur in countries where a firm invests in the same production as its own country. Vertical investments are seen in the country where the investment is carried out in a forward and backward manner regarding the processing of the products in the main country and the sale of these products. However, many small breeding companies only distribute in the host countries and market the products of the parent company in the host countries. Thus, it is possible to differentiate direct investments from other international capital movements.

There are three main sectors of the economy: primary, secondary (industrial) and tertiary (services). (J.H. Dunning, 2003) The primary sector of the economy is the production of raw materials and food: agriculture and forestry, fishing, mining, geological work, etc. Usually the production process in this sector is very difficult to divide into parts, and this requires a lot of effort and capital. Investments attracted to this sector are usually made in large volumes, and foreign investors are more inclined to regard them as intercompany loans or money exports due to restrictions on foreign ownership of property. Therefore, the connection of this sector with the rest of the economy is rather weak. On top of that, due to the fact that the amount of capital attracted to the primary sector is very large, there is the possibility of the development of the so-called Dutch disease.

Investments in the primary sector of the economy can cause a rise in earnings in this sector and therefore stimulate the flow of labor from other sectors of the economy. In turn, this may lead to de-industrialization and, as a result, other sectors of the economy and the secondary sector in particular will become less competitive. Consequently, the inflow of FDI into the primary sector of the economy does not contribute to the development of the economy of the country to which they are directed, and the effect of such investments can have a negative impact on economic growth (The Development of the Azerbaijani Economy in 2008, 2008).

The secondary or industrial sector of the economy deals with the transformation of raw materials into the final product. Activities related to the secondary sector include metallurgy, automotive, chemical and petrochemical, light and food industries, as well as construction. Unlike the primary sector of the economy, the impact of FDI on the industrial sector is much more significant, as is the relationship of this sector with other activities in the economy. The secondary sector typically uses various types of products produced by other sectors as intermediate materials in its manufacturing process (Seyidoğlu, 2013). In addition, foreign investors seek to invest their money in various enterprises of the country in which they plan their activities, with a view to profit, rather from their functioning in the domestic market than from exports. In this regard, the achievement of this goal stimulates foreign investors to create new jobs, develop new technologies and management methods, conduct various trainings for employees, which, as a result, increases the overall competitiveness of the sector. Thus, the inflow of FDI to the secondary sector usually has a positive effect on improving the competitiveness of a country's economy.

The third sector of the economy or the service sector includes such sectors as transport and communications, information technology, healthcare, finance, restaurant business, education, etc. Foreign investors can improve the efficiency of this sector by attracting new knowledge, technologies and bringing the overall level of development of the services sector to world standards by improving the quality of services provided and reducing costs. However, many branches of the service sector are quite capital-intensive, for example, telecommunications and the banking sector, and, therefore, less competitive compared to the industrial sector. In this connection, there is a possibility that foreign competitors will oust domestic companies from the market. Therefore, to obtain a general positive effect from the inflow of FDI to the tertiary sector, properly functioning legislative and regulatory systems are very important, as well as the favorable situation prevailing in the market of services in a country attracting foreign capital.

Despite the huge role that FDI plays in the modern world, there are also a number of negative consequences from attracting FDI. One of them is related to the ability of foreign investors to use the difference in international wages. Due to the fact that foreign companies have the opportunity to pay higher wages, they tend to attract more skilled labor. Consequently, less skilled workers have to work in domestic enterprises with lower wages, which leads to inequality, and, ultimately, to social tensions within the country. The second is that enterprises financed by foreign investors have the opportunity to control most of the market and force domestic enterprises to leave the market. Such actions negatively affect the level of competitiveness, therefore, FDI may not have an estimated positive effect on the economy of the country to which they were directed (Don Clark, 2011).

Thus, the impact of foreign investment has a different effect on the economic achievements of the recipient countries. In some cases, it may be more or less obvious. Sometimes even negative, depending on many factors, the main ones of which are the policies pursued by a transnational company and the economic policies pursued by each of the countries receiving investments.

2.2.The role of TNCs in stimulating foreign direct investment

TNC uses a comprehensive global business philosophy, providing for the functioning of the company both domestically and abroad. Typically, companies of this kind resort in their business activities to virtually all available operations of international business.

Transnational corporations are international companies. They are international in the nature of their activities: they own or control the production of products (or services) outside the country of origin, in different countries of the world, having branches there operating in accordance with the global strategy developed by the parent company. Thus, the “international approach” of TNCs is determined by the role that foreign operations occupy in all aspects of the economic life of these companies. If at the early stages of this process, foreign production was only episodic in nature, then it later became a significant and even decisive factor. (World Investment Report, 2018)

The “multinationality” of a company can also manifest itself in the sphere of ownership. Although the criterion of this "internationality", as a rule, is not property, but capital. In addition to a few multinational capital companies, in all other core property is based on the capital of one and not different countries.

It should be noted that the criteria for classifying corporations as transnational are currently used and proposed for use: (Губайдуллина, 2003)

- The number of countries in which the company operates (in accordance with the various proposed approaches, the minimum is from 2 to 6 countries);
- A certain minimum number of countries in which the company's manufacturing facilities are located;
- A certain size that the company has reached;
- The minimum share of foreign operations in the income or sales of the company (as a rule, 25%);

Possession of at least 25% of the “voting” shares in three or more countries - the minimum share of participation in foreign equity capital, which would provide the firm with control over the economic activities of a foreign enterprise and represent foreign direct investment, multinational staff of companies, the composition of its senior management. (Губайдуллина, 2003)

Thus, it is clear that the signs of TNCs are related to circulation, production and property.

The UN, studying the activities of international corporations, for a long time attributed to them such firms that had an annual turnover in excess of $ 100 million and branches in at least 6 countries.

One of the criteria for assigning a company to the category of transnational is the composition of its top management, which, as a rule, should be formed from nationals of different states in order to exclude the one-sided orientation of the company's activities to the interests of any one country. In order to ensure the multi-ethnic nature of top management, it is necessary to practice recruitment in the countries where TNC subsidiaries are located, and to provide them with opportunities for career advancement up to top management.

Transnational corporations have enormous financial, production and technological resources, using which TNCs and their affiliates influence the economy of the host country. The degree of such influence is determined by the scale of attracted capital, its sectoral structure, and also depends on the investment climate in the country and interest in attracting foreign capital. As a rule, TNCs modernize the economy of the host country in carrying out their activities.

For the successful functioning of TNCs in the host country, there must be a stable political environment and an effective business regulation system that provides the investor (TNC) with a guarantee of his rights and the protection of his interests. (Е.В Ленский, 1998)

The host state ensures the peaceful coexistence of foreign and national investors, improves the system of protection against risks (including political ones), a fair system for settling investment disputes, and does not prevent the repatriation of profits (the export of profits to their country for a foreign investor). In addition, the host state grants the right to use tax concessions, various tariff and administrative preferences.

At present, most states are developing thanks to the infusion of foreign investment into their economies, the impact of which cannot be unequivocally evaluated, since there are both positive and negative sides to them.

The positive points include: (В.К. Ломакин, 1998) Foreign investment is a promising source of financing for the state. These funds are invested in production, resulting in an increase in production capacity. Sometimes foreign investment takes the form of technology, then you should talk about the exchange of experience between the host country and the home country of TNCs.

Foreign investment raises the level of technological development in the host country, which increases the demand for highly qualified employees. This means that by increasing this demand, foreign investment contributes to the well-being of the population by paying higher wages, which distinguishes the investing company from the local one.

Foreign investment increases the competitiveness of national products by improving its quality. (Г.П.Овчинников, 1998)

So, we have considered the positive aspects of foreign investment, but there are also a number of negative aspects. As discussed earlier, foreign investment increases the demand for highly qualified employees and contributes to raising their salary levels, and therefore national companies gain a competitor in the face of TNCs and lose a significant proportion of their employees and their own income.

Foreign investments are mainly aimed at stimulating intermediate production, for which there is the greatest demand. Local enterprises are engaged in the creation of auxiliary production facilities. Thus, TNCs assume a priority role in the development of national production, while local companies are fading into the background. This would not have happened without the infusion of foreign investment and the entry of transnational companies into the national market. (The World Economy, 2007)

The negative aspect of the functioning of TNCs is the fact that foreign capital crowds out domestic investment. Foreign enterprises, suppressing the activities of national producers, create obstacles for them to enter foreign markets with their products.

On the other hand, this effect can be considered by a local enterprise producing products jointly with a foreign company and using advanced technologies, acquires the ability to most effectively and quickly enter the world market, while having insurance against the risks of failures and failures, since they are shared between partners.

Changes in the culture of the host country, methods of corporate management of the company, as well as changes in the social sphere should be attributed to a special type of influence of foreign investments.

In conclusion, it should be noted that for the successful development of the state the attraction of foreign capital is extremely necessary, but special attention should be paid to its minuses. The state needs to assess and forecast the attraction of foreign investment in the national economy and objectively assess the need for these actions. (В.В. Полякрв, 2005)

As for foreign investment in the economy, there is currently an outflow of foreign capital. This is due to the fall in investment attractiveness due to lawsuits against large businesses and the existence of a high level of corruption. To improve the investment climate it is necessary to reduce administrative barriers (reduce bureaucracy and imperfect legislation), strengthen cooperation with leading institutions in the field of science and technology, including foreign ones, as well as improve education in the field of business.

Thus, the cash flows of investments from TNCs are the driving force in the development of the global economy. TNCs have an impact not only on the economy of specifically taken countries in which they operate, but also on the economy of entire regions of the world. (Губайдуллина, 2003)

With the help of international companies is the establishment of relationships between different countries. For example, according to statistics, at the end of the 20th century, sixty thousand such firms operated in the world, which guaranteed the work of more than 50% of the global industry. The budget of such companies does not exceed the budget of some states.

In the world market over the past twenty years, the largest investment is observed in the mining and processing industries. Particular attention is paid to these industries by Japan and Germany. These countries allocate the most funds for the development of these industries more than 50% of the total number of investments.

From the end of the 80s of the 20th century to the present, there has been an investment of developed countries in developing countries. There has been an evolution of foreign investment. This is due to the increase in the rhythm of international trade and the worldwide increase in prices for products. In addition, the products created by the invested companies are sold in countries where the producers themselves are located. Most of the direct investment today belongs to Japan, the EU and the United States. (Е. Халевинская, 1999)

Evaluation of the inflow of investments on the competitiveness of the host country leads to the following conclusions:

- The actions of the host country determine the degree of efficiency of the investment. The country's policy should be aimed at increasing the transparency of the economy, increasing the level of competition, increasing the freedom of financial institutions and reducing the bureaucratization of the economy;
- A competent investment program stimulates the promotion of foreign and national businesses;

The positive effect of investments is achieved through long-term investments. Short-term capital investment on the contrary negatively affects the economy and stimulates the financial instability of the country.

Among the negative aspects of the investment impact of TNCs can also be highlighted: a decrease in profits of local companies due to unequal competition and crowding out domestic investment by foreign investments, crowding out local firms by more competitive foreign ones.

The huge volume of goods and services produced by TNCs in various countries created the basis for the development of the international division of labor. The division of labor between countries and independent firms is complemented by the international division of labor within firms. This division of labor is regulated from one center. A private product produced in a given country has no use value outside of the internationally organized production process. The use of international socialized labor expands the possibilities for production and appropriation of super-profits by large corporations in industrial centers, primarily the USA, Western Europe and Japan. TNC as an organizational form of functioning of a large private enterprise turned out to be the most adequate to the modern nature of the international division of labor, which allows it, on the one hand, to provide high economic efficiency, on the other - to constantly show the enormous potential of adaptability to new conditions and susceptibility to innovation. At the same time, an increasing volume of bilateral trade is accounted for by enterprises of the same TNCs located in different countries. (J.Eaton, 2001, p. 9).

TNCs are considered as an integral objective element of international economic relations, which has a large positive beginning, as a result of the development of integration processes, the interweaving of economic ties. The objective requirements of economic globalization lead to the fact that almost any truly large national firm is forced to join the world economy, thereby becoming a transnational one.

With the transnationalization of the world economy, the economic situation in industrial mills, and even lagging behind, is improving, slowly bringing the state closer to the world welfare level, differentiation in the lifestyle of developed and developing countries is smoothed to a large extent by redistributing not only the technical, economic, financial base but also cultural.

During the 1970s and 1980s, at the UN level, attempts were made to develop a code of conduct for transnational corporations that would put their actions within certain limits, and to create, in some cases, advantages for national firms. These attempts were met with resistance from transnational corporations. In 1992, negotiations on a code of conduct for transnational corporations were terminated.

It should be noted the main negative features of the impact of transnational corporations on the economy of the host country: (World Investment Report, 2018)

- The risk of the host country becoming the dumping site for obsolete and environmentally hazardous technologies;
- The seizure by foreign firms of the most developed and promising segments of the industrial production and research structures of the host country. Transnational corporations, which possess large financial resources even at times of upheaval, actively use bad conditions to seize other firms;
- The possibility of imposing unpromising directions in the system of division of labor within the framework of transnational corporations to the companies of the host country;
- The orientation of transnational corporations towards absorption leads to an increase in the instability of the investment process. Large investment projects associated with real investment are notable for their sustainability - they cannot be started without lengthy preparation and are suddenly completed without significant losses. A takeover policy, on the contrary, implies financial mobility;
- The stable position of transnational corporations enables them to take more decisive measures in the event of crises - shutting down enterprises, reducing production, which leads to unemployment, etc. Negative phenomena. This explains the phenomenon of disinvestment (massive withdrawal of capital from the country);
- The propensity of transnational corporations to exaggerated reaction to a changing market situation gives many reasons for reducing output, if the competitiveness of a given state for one reason or another decreases.

And although the impact of foreign investment on the economy of the host country may be ambiguous, one cannot disregard the enormous positive economic impact of transnational corporations.

The inflow of foreign investment contributes to the development of intraregional trade, since a large part of their needs for materials, components and equipment are subsidiary branches of foreign companies are satisfied by imports from the investing country.

Transnational corporations undermine the position of local monopolies and, despite their large size, often increase the degree of competitiveness of national markets. Through foreign direct investment, transnational corporations move large productive resources across national borders. By moving productive resources from countries where they are abundant to countries experiencing their shortages, transnational corporations contribute to a more efficient allocation of world factors of production and, consequently, to an increase in production in the world. The global community benefits significantly from the more efficient allocation of resources, moving skilled labor, capital, technology, etc. from country to country. This is where the views of practically all international economists agree. (World Investment Report, 2018)

Transnational corporations have proven their viability despite differences in national laws, different levels of economic development and political orientation. Diversified development of states is not an insurmountable obstacle to their close cooperation. The objective nature of integration is determined by the common historical, geographical, economic and other factors.

World experience confirms the viability and efficiency of combining banking and industrial capital within transnational corporations, which allows accelerating the turnover of financial resources, reducing costs through the development of netting and payment systems within transnational corporations, increasing the proportion of resources in the form of money and redistribution mobility, the possibility of large transactions , multi-currency transactions. The emergence of transnational corporations was not only a logical step in the development of a system of organizational and legal forms of social production, but also a necessary stage in the reorganization of the industrial structure.

Despite all this, there are opinions that cast doubt on the advisability of creating transnational corporations. However, “practice is the criterion of truth,” and in practice, transnational corporations have undoubtedly proven their right to exist.

2.3 General effects of foreign direct investments on the development of world economy

In the 19th century, classical economic theories, such as the Smith and Riccardo theories (Welfens & Якубовский, 1994), viewed international trade as an engine for the internationalization and integration of world economies. The processes of internationalization through the development of trade were seen as the main catalyst for the growth of national welfare, especially if the country specialized in areas where it had a relative advantage.

Since the 60s of the 20th century, theories and concepts of FDI have been constantly replenished and improved, but one way or another, at present they are still unable to provide national governments with accurate analytical tools that enable them to anticipate the behavior of a particular company and effectively influence international flows of capital, technology and know-how. Some paradigms contain, however, curious provisions that can provide significant assistance in creating and implementing FDI policies aimed at economic growth and industrial development. A number of scientific studies are attempting to explain changes in FDI models and the motivations of foreign investors in response to various economic strategies and incentives in recipient countries.

The paradigm of the international commodity cycle, developed in 1966 by French scientist Vernon (О.В. Носова, 2011, pp. 109-114), describes the dynamic interaction between international trade and foreign investment. It examines the growth in trade and investment among North American corporations during post-war reconstruction in Europe. The originality of the concept lies in combining elements of the international economy (trade between countries and the reasons for the movement of entire industries) with the theory of marketing (product life cycle curve). (Петрикова, 2009)

In accordance with the theory, the natural life cycle of a product and the corresponding change in costs suggests to corporation leaders three types of solutions: to produce goods at home, export it, or transfer its production to foreign markets. The product life cycle consists of three main phases: innovation, maturity and standardization. Innovative companies can use a temporary monopoly on domestic markets during the introduction of a new product, allowing them to cover part of the costs of investing in research and development and marketing. When a product enters the second and third phases of its life cycle, in order to successfully compete with its competitors, the company has to apply an internationalization strategy. When a product loses its market novelty, reaching the maturity phase, the company usually looks for opportunities to export it. At this stage, competition becomes tougher, leading to higher unit costs and lower profits. In the end, at the stage of standardization, companies must find the most advantageous locations for production in other countries, especially large ones. At the stage of standardization, companies are investing abroad in an attempt to maintain their leadership and, with the prospect of later, re-export the same product to the domestic market, where it first appeared. (О.В. Носова, 2011)

When it was formulated, the theory gave a clear explanation of the decisions taken by US corporations to move production abroad. Since then, the international situation has changed a lot. Since corporations and their competitors currently have networks of foreign affiliates, competition has spread from domestic markets to global ones. When capturing new markets, corporate leaders form strategic alliances and absorb foreign companies. This is necessary in order to maintain and strengthen its leadership while providing access to new markets and technologies. Their decisions are determined by strategic objectives rather than certain stages of product maturity. The role of the government in the economy and the incentive mechanisms also greatly influence the decisions of investors. Today, a typical

TNC pursues trading and investment strategies in several countries simultaneously, creating a unified system of intra-corporate transactions and interconnection.

According to estimates by the United Nations Conference on Trade and Development (UNCTAD), direct investment in the global economy last year fell by 19%, while for Europe and developed countries as a whole, direct investment fell below the level of the 2008 global financial crisis. These estimates are published in the UNCTAD report. The total amount of foreign direct investment in the world last year, according to the report, has decreased by 19% from $ 1.47 trillion in 2017 to $ 1.2 trillion in 2018. (The World Economy, 2007)

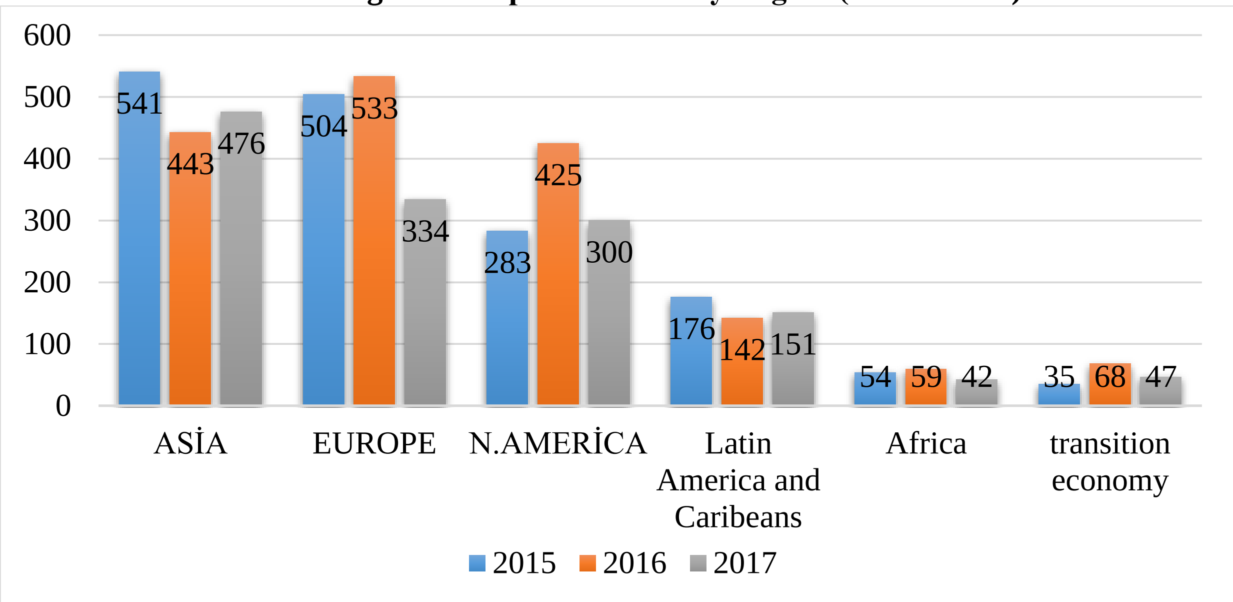
Global FDI flows are expected to increase by a very small 5% to $ 1.5 trillion in 2018. Although there is a 5% increase in 2018, there are many risk factors. These risk factors include geopolitical risks, increasing trade tensions, and tendency to switch to protectionist policies. In addition, it is foreseen that tax reform and increased tax competition in the US will significantly affect global investment models.

Investment monitoring policies have also become widespread in recent years. Although manufacturing industry is less affected by foreign ownership restrictions, except for certain sensitive sectors, restrictions remain in some infrastructure sectors.

In summary, investment policies are a key instrument of industrial policies, with all three categories of industry policy emphasizing different policy instruments and focusing on different sectors, economic activities and mechanisms to maximize the contribution of investments to industrial capacity development.

International investment activity is the direction of foreign economic activity, rationalizing the distribution of material, financial, labor and intellectual resources in order to update the technological structure of social production. International investment activity in both entrepreneurial (direct or portfolio investment) and loan (loans, gratuitous assistance) form is aimed at solving global (ecology, assistance to developing countries, etc.), regional or national (large industrial facilities, development natural resources, objects of social importance, market infrastructure, etc.) problems. Over the past decade, international investment activities have increasingly covered the field of small and medium-sized businesses. (P.Welfens, 1994, p. 223) International investment activity is a set of practical actions of subjects on investing abroad. It redistributes resources in space and time between individual subjects and objects of different countries. It is clear that the main subject of investment activity is the investor, since it is he who makes decisions about investing his own or borrowed material or intellectual values in investment objects. There are individual and institutional investors. The differences between them are manifested in the scale of the resources they manage, the nature and methods of decision-making.

Figure 4. Capıtal Inflows By Regıon (Billion USD)



Source: UNCTAD, 2018 https://www.unctad.org

A promising direction for the integration of countries into the world economy system and the development of international investment activity is the creation of special economic zones(SEZ). This is one of the most attractive forms of interest of foreign investors, which makes it possible to activate entrepreneurship, increase export potential, form a market infrastructure, and accelerate the development of individual regions and sectors of the economy. (В.К. Ломакин, 1998)

The motives for creating special economic zones in different countries are quite different. They can be created either in the pure form of a free trade zone or as special zones where not all aspects of economic activity are regulated. In countries whose policies are focused on the domestic market, the SEZ are strictly regulated, have little freedom in the investment sphere and are developing with less activity; if the country's economic policy is focused on the external economy and attempts are made to intervene as little as possible in the administration of the SEZ, favorable conditions are created for the inflow of foreign investments.

For us, the experience of China is very relevant, where the introduction of market elements in the economy and openness towards foreign partners have become the most important goals of the government of the PRC. By the beginning of the 80s, 4 SEZs were created - Shenzhen, Juhai, Shangzhou and Xianmen; in the mid-80s, 14 coastal cities and the island of Haimin became economically open. Subsequently, the areas in the Yangtze and Jujiang Valley, the Fujia Peninsula were transformed into open economic areas, the Shandong Peninsula and Laodong Peninsula also became open economic areas, and by the end of the 80s, it was decided to make the Haimun Island a province The SEZ, the provinces of Guangdong, Fujian, and Jiangsu were merged into one of the largest experimental economic zones. At the same time, a strategy was developed for the development of coastal areas in order to further expand openness of the economy. Thus, an experimental economic area was created with a population of more than 100 million people, which in China is figuratively called the “open window”. The purpose of its creation is the use of foreign capital and modern foreign technology, the creation on this basis of a large export sector of the economy.

According to expert estimates, the experience of creating an SEZ in China can be regarded as very successful, given that in the 10 years since the decision to create them (1979), foreign investment in the SEZ amounted to $ 2.5 billion. That corresponds to j of all foreign investments in China for the specified period 1.

One of the reasons for foreign investment activity was the fact that in Southeast Asia, 30 million Chinese live outside their own country and often carry on successful business activities, or, as is typical for Hong Kong, they are oriented toward the Chinese mainland. (Г.П.Овчинников, 1998)

Indeed, among the enterprises investing money in the Chinese SEZ, in the first stage, enterprises from Southeast Asia prevailed, only later appeared American, European, Japanese enterprises.

The leading goal of creating a special economic zone in the countries that are leaders of world industry is to simplify the withdrawal of national concerns to foreign markets, which is reflected in the formation of free trade zones. Their maximum number (more than 130) is fixed in the USA. On their territory, export products are completed with import nodes, not subject to duties, receive marketing and engineering services, and factoring.

The results of fundamental research by foreign scientists unequivocally indicate that the processes of economic renewal and growth are determined by the size and structure of investments, the quality and speed of their implementation. Moreover, the researchers state that without investment savings and the corresponding material resources in investing, there are no positive changes at all.

Foreign direct investment is a type of international investment activity with the aim of acquiring by a resident of one country (direct investor) a persistent and long-term influence on the activity of an enterprise that is a resident of another country (a direct investment enterprise).

The United States is the largest country in the world in terms of economic potential and leading in terms of economic development. The state and dynamics of the US economy largely determine global trends in economic development (The economy that has become a hostage to oil and oil products, 2010). In addition to the leading position in terms of GDP at current prices in 2015 according to the World Bank ($ 18.03 trillion), the United States is among the top three world exporters and importers of goods and services.

The main driving forces behind the growth of US foreign trade are technical progress, state economic policies aimed at trade liberalization and the activities of TNCs abroad, which are closely interrelated with foreign direct investment (J. Eaton, 2001). Due to the active expansionist policy of American companies in foreign markets by the beginning of the XXI century. The United States has taken a leading position in the world and continues to hold these positions despite growing competition from developing countries. (Khlemev I.B., 2009)

According to the Organization of International Investments (OFII), about $ 220 billion of total FDI in 2015 accounted for the investment of foreign investors in equity, and $ 83 billion in reinvestment. Despite a twofold decrease in FDI inflows into the US economy in 2014 ($ 106 billion) compared with 2013 ($ 211 billion), in 2015 the United States again proved its superiority in global FDI flows, when the volume of investment in the country's economy increased by 3 times compared to 2014, and the leading position of the States was squeezed by China ($ 129 billion) and Hong Kong ($ 103 billion). UNCTAD's optimistic forecasts give American experts a reason to believe that in 2017 and 2018. This positive trend will continue. Although the experts of UNCTAD in their statistics allocates Hong Kong as an independent subject of international investment exchange, this territory has only relative autonomy, as a special administrative zone of China. China is actively using Hong Kong as its “gateway” and its “gateway” for trade and economic ties with the rest of the world. Therefore, it can be said that the absolute leaders in the field of exports and imports of FDI are in fact two international subjects of the United States and Greater China.

Table 2. Countries with highest foreign direct investment (FDI) position in the United States in 2017. (billion U.S.D)

COUNTRİES	FDI BİLLONS USD
United Kingdom	540.92
Japan	469.05
Canada	453.13
Luxembourg	410.73
Netherlands	367.15
Germany	310.19
Switzerland	309.36
France	275.47
Ireland	147.83
Belgium	103.45
Spain	74.72
Australia	66.74
Repuplic of Korea	51.77
Sweden	50.9
China	39.52

Source: The Statistics Portal for Market Data, 2018 https://www.statista.com

The conditions prevailing in the world market and in national economies adequately reflect the greater interest of developing countries and countries with economies in transition in increasing the volume of foreign investment. This problem is of particular importance for CIS countries in connection with their active work in the international economic arena and joining leading intergovernmental economic organizations, including the WTO.

In the modern world there are almost no countries not involved in the processes of international investment cooperation. Even countries such as Cuba and the DPRK have in recent years been taking the path of attracting foreign direct investment in their economies (О.В. Носова, 2011).Foreign direct investment is stimulated in some countries by the possibility of using absolute infrastructure advantages in the form of low labor costs, low environmental standards, highly skilled labor, or taxation that is beneficial for the investor. An example is the increased direct investment of American and European companies in South Korea (Radosevic, 1995, стр. 459-478).

In the globalization of the world economy, international investment capital flows play a more significant role in comparison with international trade in goods and services. No longer requires proof that the sustainable economic development of countries is impossible without effective participation in world economic processes, including the active use of the benefits of attracting foreign direct investment. The international movement of capital contributes to the fact that at the end of the twentieth century. Uniform norms of state regulation of investment processes have become widespread. They operate in accordance with international bilateral and multilateral treaties, and the latter - under the auspices of international economic organizations, such as the World Trade Organization (WTO). However, it would be an exaggeration to speak about the formation of a global investment law on the world market, which operates according to the same legal principles and norms.

Today, US transnational corporations play a key role in the investment life of the international community. About half of US exports fall to US and foreign TNCs. Most of the payments associated with the transfer of new technologies are made within transnational corporations (up to 80% in the USA). The main characteristic of transnational corporations is the availability of direct investment. The total amount of foreign direct investment accumulated by American TNCs exceeds $ 4 trillion, and their sales amount to 25% of the world, and one third of the products of US TNCs are produced by affiliated foreign entities. The volume of sales of foreign structures of TNCs already exceeds all world exports (15). In recent years, the United States has been in first place in terms of foreign direct investment attracted. On the example of the United States, there is a clear trend: the more developed a country is, the more direct foreign investment it makes, but the more it attracts. In the list of the 100 largest investment firms (World Investment Report, 1992) American companies are firmly in the lead. For example, in the first place in terms of the volume of foreign assets (namely, according to this criterion, the places in the list of 100 leading TNCs are distributed) is the American corporation “General Electric”, whose foreign assets amounted to 97.4 billion dollars. i.e. half of the ten largest TNCs have their headquarters in the United States.

The competitors of American TNCs are similar financial and economic entities of the European Union. Their total number (from seven EU countries) was 45. Over the past two years, the number of corporations from EU countries in the list of the 100 largest TNCs increased by four, while the number of American and Japanese transnational corporations decreased by one in each of these states. However, it is still premature to talk about the trend of increasing the role and strengthening the influence of European TNCs. Despite the growing number of European TNCs, their total assets relative to the total assets of the 100 largest TNCs have slightly decreased.

The globalization of economic life does not eliminate the differences between the individual components of the world economy (between developed, developing and transitional economies). The international flow of capital contributes significantly to the fact that national economies are becoming increasingly dependent. At the same time, in countries with different levels of economic development, foreign direct investment plays a different role. The amount of attracted capital depends on the motivation that foreign investors are guided by, and on the policy towards them, and on the goals that the host country sets itself. This became especially apparent in the late 90s of the twentieth century, when the growth rate of attracted foreign direct investment as a whole throughout the world increased dramatically.

The world leader in terms of attracted foreign investment is currently still the United States, which is even more detached from its closest pursuers. In the mid-90s of the last century, China ranked second, a country that combines the features of the largest developing and largest transition economies. However, in the late 1990s, Great Britain came in second, and China was ahead of another European country, Sweden (P.Welfens, 1994).

In this case, between the developed countries there was a significant regrouping of forces. Until the end of the 90s of the twentieth century. The states of the European Union were the largest source of direct investment, while in most cases exchanging capital among themselves. Unlike American investors, they showed interest in other regions - capital recipients. In 1998-1999 there was a noticeable activation of European capital - both within the EU and beyond, primarily in the US market. Largely due to the massive investments of national firms in the US economy, England in 1998 for the first time was able to get ahead of the world leader and come out on top as a source of foreign direct investment.

The structure of global investment flows is explained by the fact that developing countries and countries with economies in transition have suffered the most from the global financial crisis. Most of them experienced a recession in the late 1990s or, at best, a slowdown in economic growth.

In developed countries, the instability of international financial markets is less reflected in the state of the real sector.

Thus, the prevailing share of the import and export of direct investment, according to leading experts, will continue to fall on the zone of the industrial and post-industrial core of the global economy. In the foreseeable future, the main areas of attraction for such investments will remain the financial and banking sector, the services sector, primarily information, pharmaceuticals, biotechnology, electronics industry, science and technology intensive engineering. In the less developed regions of the world, geostrategic sectors such as oil and gas production, some sectors of emerging engineering, as well as individual sub-sectors of the agro-industrial complex will retain their attractiveness (О.В. Носова, 2011).

According to some experts, the shift of international capital flows towards highly developed countries is a temporary phenomenon. And the wave of cross-border mergers in the developed part of the world economy, and even more so the consequences of the financial crisis of 1997–1998, which undermined the reputation of a number of developing and transitional countries, are beginning to subside. At the same time, an increasing number of developing states in the course of further economic reforms increase their investment attractiveness (M.Haddad, 1993). As for Western countries, after the investment boom at the very turn of the century, the growth of annual foreign investment is likely to stabilize at about 10-12% as a long-term trend. It is expected that by 2005 the volume of capital flow will reach about 1-1, 2 trillion, in 2010 -1, 7-2, 1 trillion, and in 2015 - 2, 8-3, 7 trillion dollars (Якубовський, 2011) .

The further liberalization of international economic relations is important in the international legal regulation of foreign investment. Financial shocks 1997-1998 once again confirmed this truth. The fact is that the past events did not escalate into a serious global economic crisis, largely due to the commitment of the governments of both the affected countries and the rest of the world community to the principles of free trade and the obligations assumed under the multilateral agreements under the auspices of GATT / WTO. If some large states were tempted to protect their domestic markets from the influx of cheap goods from countries whose currencies in 1997 and 1998 strongly devalued, a chain reaction of protectionism could, as in the 20s of the twentieth century, cover most of the global market space. The fact that this did not happen is undoubtedly the merit of the rules of behavior of states in the world arena and the WTO as a world institution that ensures their observance established by the 90s (The World Economy, 2007). It should be recognized that some states were forced to use protective measures, but mostly without going beyond the provisions of the GATT. Yet the danger of a relapse of protectionist tendencies remains.

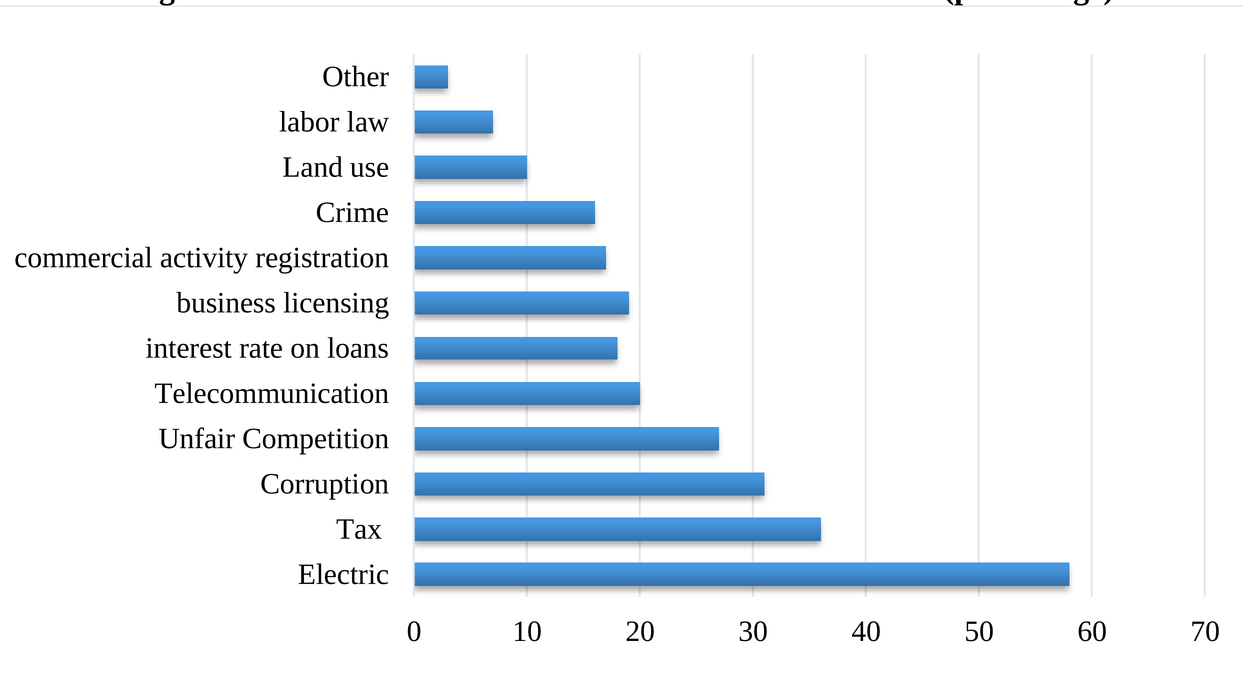
As experience shows, forecasting the development of the world economy is a thankless task. Suffice it to recall the predictions that scientists made in the past. For example, in the early twentieth century. great hopes were given by Argentina, which was ranked 10th in the world in terms of per capita GDP. Today she is in 60th place. Back in 1960, the Philippines overtook Taiwan and South Korea, and now they are six and four times behind them, respectively. In the early 60s of the twentieth century. Ghana was the richest country in Africa, with per capita GDP at the level of Greece and Japan. But the predictions of her future also did not come true. More recently, in 1989, one of the members of the Japanese parliament declared that the United States had no future, and such a forecast did not cause much surprise. But after 10 years, the situation changed radically and the share of Japan in the capitalization of the world stock market decreased from 40 to 10%. Now everyone is talking about the undisputed US leadership (Voznesenskaya, 2006).

CHAPTER III. THE IMPACT OF FOREIGN DIRECT INVESTMENT ON THE GROWTH OF THE ECONOMY OF AZERBAIJAN

3.1.Strategy to attract foreign direct investment

As a result of the large-scale social and economic reforms implemented successfully in Azerbaijan, significant changes have taken place in the life of our country in recent years, and the country's economy has embarked on a new stage in its dynamic development. Only in the last five years, GDP production increased by 29.9%, including industrial products 2.5 times (in 2008, while the country produced 40.1 bn manats, its volume was about 54.0 bn manats reached). As you can see, the development of the country's economy is, to a certain extent, attracting and rational use of investment here is one of the important stages of the day. The country's investment climate hampers many problems. In general, the problems that hinder the investment environment are further illustrated by the results of a 2006 survey by FIA (Foreign Investment Advisory Service) (Халевинская, 1999).

Figure 5. Problems that hinder the investment environment(percentage)



Source: The State Statistics Committee of Azerbaijan, 2008 https://www.stat.gov.az

A company that wants to engage in foreign investment may face various restrictions. The most common limitation is taxes and duties imposed on some items (technology and other) brought to the country. Therefore, in order to mitigate the effects of such restrictions, relevant international organizations are regularly preparing adequate regulatory measures to the emerging conditions. For example, in the Republic of Azerbaijan, a joint program is being implemented with the International Monetary Fund and the World Customs Organization in order to simplify and simplify the procedures of customs bodies in line with international standards. As a result of the cistamic activity, according to international experience, export duties in our country have been abolished, and the maximum limit for import duties is 15%. At the same time, the "Tariff Council of the Republic of Azerbaijan" was established in accordance with the Decree of the President of the Republic of Azerbaijan and by the Decree of the Cabinet of Ministers dated January 31, 2002 in order to improve the competitive environment in the domestic market, to regulate the prices of natural monopolists, as well as the prices determined by the state. In order to accelerate the development of entrepreneurship in the country, to increase the business climate and to take necessary measures to simplify business start-up procedures, the President of the Republic of Azerbaijan signed the Order of October 25, 2007 "On measures to ensure the organization of entrepreneurship activity on a single window" principle. According to the decree, the single state registration agency on the principle of "single window" has been defined by the Ministry of Taxes of the Republic of Azerbaijan and since January 1, 2008 the system has been introduced in Azerbaijan. (E.S. Imanov, 2001)

Entrepreneurs can carry out document exchange with tax authorities and banks through the newly established Internet Tax Administration (www.e-taxes.gov.az). Moreover, telephone information service 195 is functioning in order to receive, review and respond to entrepreneurs' questions and appeals on tax legislation.

Legal entities engaged in commercial activity under the "One window" system must register with the Ministry of Taxes. Importance is attached to the policy of "open door" in the economic policy of the state to attract the country's economy. One of the important components of the national economic development strategy is the achievement of high-quality, competitive products through the introduction of foreign investment, introduction of modern technologies, equipment and advanced management practices.

A number of important laws have been adopted to ensure the protection of the rights and interests of investors, ensuring the inviolability of the property, the formation of favorable entrepreneurship environment, and the free use of earnings during the transition from a planned economy to market economy. The laws approved by the Order of the President of the Republic of Azerbaijan No. 952 dated January 13, 1995, approved by the Order of the President of the Republic of Azerbaijan dated January 15, 1992 "On Investment Activity", "On Protection of Foreign Investments" is valid. In addition, our country has signed bilateral agreements on the abolition of double taxation, investment attraction and mutual protection with a number of foreign countries. The conversion of income to other currencies, transfer to other countries, all issues related to investment have been solved, a liberal exchange rate has been formed on the basis of the market economy pillars. A number of measures have been implemented to simplify the licensing system in the country. The existing licensing system has significantly reduced the number of licensed activities ranging from 240 to 33, and the lifetime of a license for a period of up to 5 years. Decree of the President of the Republic of Azerbaijan dated December 21, 2015 No 713. The introduction of a new licensing system will lead to the development of free competition, improved product quality, and improved service quality. (Mehdiyev, 2008)

Tax legislation is one of the most important factors affecting the country's investment investment in international practice. It is known that the tax legislation of the countries differs substantially from the national economic development objectives and level.

It should be noted that the determination of the economic effectiveness of investments is based on concrete metadology. During the period of the former Soviet Union, a methodology based on the plan method of division of capital investments in the economy has been functioning and numerous methodological documents have been prepared on its basis. This widely used method of determining the capital inflows was based on the amount of production and cost of production. According to this method, the best option for equity investments was determined by the normative efficiency ratio of the amount of capital invested by the value of the annual production of the future venture. (İ.A Aslanzadə, 2000)

In the late 70s of the twentieth century, a new approach to identifying the economic benefits of capital investment began to be formed. Thus, in the determination of economic viability, the utilization of capital investment in non-production areas, as well as the industrial development of other sectors, has been started. In other words, a complete and complex approach to the objective determination of the economic benefits of capital investment has been determined. This method has played a positive role in selecting the barriers of capital investment. That was not an easy task at that time. However, the serious differences that have emerged in the future of the economic system have led to the need for advanced international experience in determining the economic benefits of foreign investment. Determining the efficiency of investment in modern times is an important issue for every country. Thus, the importance of investments in the provision of perespective development is closely linked to the socio-economic impact that they have created. In its recent report on international investment in the UN Development and Cooperation Agency, the effectiveness of foreign investment in the country was classified in the following five major groups: (İ.A Aslanzadə, 1997)

- Increasing financial sources and investments;
- Introduction and development of more progressive new techniques and technologies;
- Increasing export potential;
- Raising the level of employment;
- Positive impact on environmental protection.

Economic efficiency is also reflected in the improvement of labor productivity and the positive solution of other economic issues of crucial importance. From this approach, the two economic and social aspects of investment attraction are differentiated.

In determining the effectiveness of investing in economic aspects, it is attempting to take account of the major and associated production costs in more detail. Here, the total cost of the product, both the producer and the consumer, is clarified and the overall economic effectiveness is evaluated as an investment attraction. In this case, the level of capital adequacy, productivity, product cost, product quality, material and energy capacity of the product or service, duration of production, project force utilization, improvement of working conditions, when the volume of product or service as a summarized indicator is increased. environmental protection and so on. is determined.

Determining the social consequences of investment contributions reflects a comparison of social norms, standards and compliance with human rights protection. From this point of view, the indicators reflecting the social outcomes of investments can be summarized as follows: (Ə.T. Əlirrzayev, 2000)

- Quantitative change of workplaces;
- Improvement of living and cultural-living conditions of the population;
- Changing labor conditions;
- Changes in production structure;
- Increasing the health of the population;
- Positive change in payment of individual demand.

The effectiveness of investment contributions is reflected in the formula when calculating the effectiveness of investment contributions in several aspects, including the entire economy of the country, ie macroeconomic, on the same technology-based group of large enterprises, as reflected in the formula, respectively, as the ratio of capital gains to equity investments across all financial sources. At the level of newly created enterprises, the ratio of the difference between the annual production output and the cost of the annual product is reflected in capital investments.

The effect of the impact of the economies of the participating countries on the implementation of large-scale investments with the participation of foreign states is conditioned by its international importance. Meanwhile, evaluating the effectiveness of the goods and services at the international level is considered as a major goal. In such a case, the following indicators are included in the results: (T.Paşayev, 2001)

- Social and economic results achieved as a result of the joint activities of the participants in the region where the investment is realized;
- The latest production results obtained by the participants of the investment from the realization of the product;
- Indirect financial results that occur in the income of the parties not directly involved in the investment.

It should be noted that, while determining the economic effectiveness of investments, they are considered as additional factors of effectiveness to political, social, environmental and other outcomes which can not be quantified in quantitative terms, and are taken into account when implementing investment by the government.

It is crucial that investors know the effectiveness of their investments in long-term costs in the market economy. Thus, the wide range of opportunities for private entrepreneurship in the conditions of free competition and the diversity of investment activity require the owner of the capital to be more attentive. Based on the investment decision-making process, there is a comparison and evaluation of future cash flows.

Because the comparable figures refer to different time periods, the main problem here is their comparison. Under current conditions, including inflation rate, size of investments, receipts, forecasting time. It is possible to approach this issue differently.

Various methods are used to determine the economic benefits of investment in modern times, which are divided into two groups based on discounting and accounting estimates. Discounting is based on the concept of "Cost-Benefits" and

"Alternative Value" and covers all costs. At this point, not only all the material costs, but also the moral costs are taken into account. The final outcome of the assessment of the benefits and costs is examined.

Investments in the entity's charter capital for direct investments, the acquisition of new revenue and the right to participate in the enterprise management, acquisition of securities, buildings, including land, as well as transfers of property rights as well as other rights over immovable property on the other property owned by immovable property under the laws of the host country, delivery and receipt of payment delay for goods and services for more than 180 days.

There is no limit on the entry of foreign capital into the country. Our country occupies one of the leading places among the CIS countries, as well as Eastern Europe, for the share of direct foreign investments, the most effective form of foreign investment. The state, as well as other economic entities, have established partnerships with leading international commodity lending institutions in the world and have long-term borrowings with large foreign banks.

The increase of efficiency in the banking system of the country has been considerably liberalized by foreign capital. Thus, the foreign bank capital limit has been eliminated in the banking system. In accordance with the legislation, foreign investors have also been authorized to repatriate profits. At the moment, the capital outflows from the country are met in the manner specified in Article 8 of the Law on Currency Regulation.

Further improvement of the investment climate in the country is one of the main tasks to ensure the required volume and quality of investments. For this purpose the following actions are carried out: ("Xarici investisiyaların qorunması haqqında" Azərbaycan Respublikasının qanunu, 1992)

- Protection of personal property and improvement of corporate governance;
- Creating a more favorable competitive environment for all investors regardless of ownership;

- Increasing the role of the state in order to ensure a stable normative-legal regime;
- Further improvement of the regulatory-legal framework of investment activity;
- Improvement of the system of informing investors about enterprises for the purpose of selection and analysis of investment objects;
- Increasing assistance to the development of modern institutional infrastructure that ensures efficient transformation of savings into investments;
- Improving business information, bringing accounting and statistics into international standards.

In terms of protecting the economic interests of foreign investors, it is possible to concentrate on the advantages of the Azerbaijani economy in two groups: Group 1 factors are the advantages of all emerging economies, including Azerbaijan. The 2nd group advantages are the advantages that directly belong to Azerbaijan. The advantages of developing countries, including Azerbaijan, are as follows: (Е. Халевинская, 1999)

- As the developing country, development potential is much higher than in developed countries. More development means more income. This principle encourages transnational companies around the world to invest in more developing countries;
- Large firms are poorly developed, but domestic competition is not strong;
- Developing countries have the opportunity to generate more returns for high risk;
- In emerging economies, foreign investors are less likely to face bureaucratic barriers than domestic investors.

The advantages that are directly attributable to Azerbaijan can be summarized as follows: (Е. Халевинская, 1999)

• In addition to having a favorable geographical location, Azerbaijan has an advanced international transport network (air, water, rail and road, oil and gas pipelines). This simplifies the possibility of creating intense contacts outside;

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

• There are a number of industrial enterprises, production areas and infrastructure facilities with a modern technical and economic base;

• Has strong scientific and technical potential and qualified staff reserve;

• Establishment of organizational-management mechanism for the adoption and implementation of a number of important laws and legal-normative acts on attraction and protection of foreign investments, liberalization and development of foreign economic relations;

• Establishing enterprises engaged in business activities jointly with a number of influential foreign companies around the world;

• Interstate economic agreements with the world's leading countries, accession to international treaties and agreements, accession to international and regional economic associations and organizations, etc. Using these advantages of our country, it is necessary to accelerate the attracting of foreign investments and to eliminate the barriers that hindered business development.

3.2.The role of foreign direct investment in the development of the energy sector of Azerbaijan

Azerbaijan is in the focus of attention of the world countries as a source of energy resources. Priority is given to increasing energy security of the US and its allies, ensuring the energy independence of the Caspian basin for the period of free flow of oil and natural gas to the world markets.

According to some estimates, Azerbaijan's oil reserves will be exhausted within 60-67 years. According to Russian experts, this period is 25-35 years. The amount of investments made by the Foreign Investments in Oil Industry in Azerbaijan is given in detail in the table below for fear.

From January to September, 2018, from all financial sources for the development of the country's economic and social spheres, 10 148.7 mln. AZN or 11.5% less than in the corresponding period of the previous year. This decrease was due to the decline in investments in the oil sector, and the amount of funds directed to the non-oil sector increased by 20.2%, including non-oil investments by 24.4%. 69.4% of the total investment was spent for the construction and assembly works, 69.3% of the used funds were spent on production of objects of production, 22.4% in the service sector, 8.3% the area of 1503.6 thousand square meter of housing was built.

Funds allocated from domestic sources to fixed capital accounted for 60.7% of total capital.

The total amount of capital invested by enterprises and organizations was 51.1%, bank loans 13.6%, budget funds 25.7%, personal funds 7%, extra-budgetary funds 1.8%, and other funds by 0.8% .

Today, the signing of the contract between the State Oil Company of the Azerbaijan Republic (SOCAR) and world-renowned oil companies on the joint development of the Azeri-Chirag-Guneshli fields in the Azerbaijani sector of the Caspian Sea and the deepest part of the Gunashli field and the distribution of oil production two years pass. It is celebrated as Oil Worker Day in Azerbaijan on September 20, 2001 by the decree of national leader Heydar Aliyev.

The contract, about 400 pages and 4 languages, has been named the "Contract of the Century" for its historical, political and international significance. The agreement covers 13 most popular oil companies in 8 countries (Azerbaijan, US, UK, Russia, Turkey, Norway, Japan and Saudi Arabia) (Amoko, BP, MakDermott, Yunokal, SOCAR, LUKOIL, Statoil, Exxon, Turkey Petroleum, Penzoyl, Itochi, Remko, Delta). Thus, the basis of the oil strategy and doctrine of our independent state was laid. This global project demonstrated to all over the world that Azerbaijan, as a sovereign state, has the right to possess its natural resources, defend its national interests, economic and strategic interests, and become an important guarantee of state independence.

The "Contract of the Century", prepared under the leadership of national leader Heydar Aliyev, is a glorious page of the new oil strategy. This contract is included in the list of the largest deals in the world, both in terms of both hydrocarbon reserves and investment volume. ("Investisiya fəaliyyətinin qorunması haqqında" Azərbaycan Respublikasının Qanunu, 1995)

What kind of development has Azerbaijan's oil industry achieved over the past 22 years, and what success has been achieved? Let's look at the story shortly.

In early November 1997, the first oil from the Chirag platform was purchased under the "Contract of the Century". On November 12, the ceremony was held on the platform with participation of great leader Heydar Aliyev, representatives of the project operator BP and its partners, guests from foreign countries. This was the beginning of the success of Azerbaijan's new oil strategy. This event laid the foundations for the construction of production facilities related to the oil industry of Azerbaijan in line with international standards.

An intergovernmental agreement was signed between the Russian Federation and the Republic of Azerbaijan on the transportation of Azerbaijani oil via the Baku-Novorossiysk route in January 1996. In October 1997, this line was put into operation.

Compared with large oil volumes produced within the framework of the "Contract of the Century", this pipeline has limited capacity, and the necessity of diversification of export pipelines has emerged and serious work on alternative options has begun. An agreement was signed between Azerbaijan and Georgia on the transportation of oil to the Black Sea by the Baku-Supsa route in 1997. In April 1999, the Baku-Supsa oil pipeline and the Supsa export terminal on the Black Sea coast of Georgia were commissioned.

Baku-Supsa and Baku-Novorossiysk pipelines were unable to export large volumes of oil in Azerbaijan to the world market. That's why the need to build a major export oil pipeline was short-lived. In this case, the great leader Heydar

Aliyev brought up the idea of Baku-Tbilisi-Ceyhan (BTC) main export oil pipeline. By bringing various pretexts both inside and outside our republic, the international public opinion strives to create an idea that Azerbaijan will not have enough oil to export it to the pipeline in the future, considering it as utopian. However, this concept of the great leader Heydar Aliyev showed that it was absolutely real and economically efficient. In May 2006, Azerbaijani oil was delivered to the port of Ceyhan via the BTC pipeline. At present, the importance of this pipeline is recognized worldwide. (Ложникова А.Б., 2001)

Table 3. Domestic and foreign investments directed to fixed capital

	Total cost of one thousand manats	**Including**			
		domestic investment		**foreign investment**	
		thousand manats	**total gross weight, in percent**	**thousand manats**	**total gross weight, in percent**
1995	227 977,2	149 268,0	65,5	78 709,2	34,5
1996	644 453,5	267 584,6	41,5	376 868,9	58,5
1997	910 237,4	308 710,7	33,9	601 526,7	66,1
1998	1 102 425,6	356 115,0	32,3	746 310,6	67,7
1999	928 547,9	395 237,3	42,6	533 310,6	57,4
2000	967 821,1	460 287,7	47,6	507 533,4	52,4
2001	1 170 820,3	437 734,3	37,4	733 086,0	62,6
2002	2 106 976,7	546 041,7	25,9	1 560 935,0	74,1
2003	3 786 366,7	938 329,2	24,8	2 848 037,5	75,2
2004	4 922 755,9	1 323 966,4	26,9	3 598 789,5	73,1
2005	5 769 876,3	2 104 904,8	36,5	3 664 971,5	63,5
2006	6 234 483,7	2 901 370,9	46,5	3 333 112,8	53,5
2007	7 471 189,9	4 626 695,8	61,9	2 844 494,1	38,1
2008	9 944 153,8	7 702 189,9	77,5	2 241 963,9	22,5
2009	7 724 944,8	6 079 921,8	78,7	1 645 023,0	21,3
2010	9 905 665,8	7 499 173,4	75,7	2 406 492,4	24,3
2011	12 799 061,3	10 198 978,3	79,7	2 600 083,0	20,3
2012	15 407 274,4	12 148 356,5	78,8	3 258 917,9	21,2
2013	17 850 815,7	13 178 868,0	73,8	4 671 947,7	26,2
2014	17 618 601,1	12 714 973,3	72,2	4 903 627,8	27,8
2015	15 957 028,2	9 058 514,7	56,8	6 898 513,5	43,2
2016	15 772 825,8	6 490 276,3	41,1	9 282 549,5	58,9
2017	17 430 339,5	8 765 258,9	50,3	8 665 080,6	49,7

Source: The State Statistics Committee of Azerbaijan, 2018 https://www.stat.gov.az

Today, the Baku-Tbilisi-Ceyhan main export oil pipeline is also of great importance for the entire international energy security system, as well as for countries that are successfully partnering with our country in oil export, especially in the Central Asian states.

The capacity of the pipeline is 50 million tons per year, which can be reached in the future with up to 60 million tons. BTC transported 19 million 157 thousand 662 tons of oil in January-August this year. Generally, 312 million 660 thousand 920 tons of oil has been pumped from the BTC as of September 1 of the current year. 728,768 tons of oil from Novorossiysk port, 1 million 578 thousand 922 tons of oil from Supsa port, 11 million 379 thousand 588 tons from Ceyhan port and 14 thousand 946 tons of Azerbaijani oil were exported from Kulevi terminal in January-August.

With the implementation of the new oil strategy, large foreign investments were attracted to exploitation of oil reserves of our republic. It is enough to say that the State Oil Company of Azerbaijan (SOCAR) successfully represents the Azerbaijani state in the Production Sharing Agreement (PSA) signed with 25 companies from 15 countries. Within the framework of the HPBS, USD 51.6 billion was invested in the oil and gas sector of Azerbaijan in 1995-2013. SOCAR is a transnational company that meets the world standards and carries out big projects beyond Azerbaijan, with the necessary economic and technical capacities. At present, oil and oil products from Azerbaijan are transported to 30 countries and gas to Georgia, Turkey, Russia, Iran and Greece.

One of the major dividends brought by Azerbaijan in recent years is the transformation of Azerbaijan into a natural gas exporter with great international expectations. In June 1999, the discovery of a giant Shah Deniz field with reserves of 1.2 trillion cubic meters of gas and 240 million tons of condensate and the successful implementation of the Shah Deniz gas project have introduced Azerbaijan as a country exporting large quantities of gas to the world. (İ.A Aslanzadə, 2000)

The 3,000-kilometer-long South Gas Corridor (SGC) to transport gas from the Shah Deniz-2 field to Turkey and this country to Europe is estimated to be the most complex natural gas pipeline chain developed around the world. The chains of this chain are the Shah Deniz-2, South Caucasus Pipeline Expansion (SCPX), TANAP and TAP gas pipeline projects. At this stage, it is planned to transport 6 billion cubic meters of gas to Turkey and 10 billion cubic meters of Azerbaijani gas to Europe.

The State Commission and Southern Gas Corridor Closed Joint-Stock Company (CJSC) were set up to implement the project. The projects will be implemented by SOCAR's SOCAR Upstream Management International and SOCAR Midstream Operations. These companies participate in all the committees created within the project and collaborate with operators on the project implementation. SOCAR is also a participant in making major decisions in addition to ensuring the state's interests in projects. The state has 51% share in the Southern Gas Corridor and 49% by SOCAR. The project is funded through capitalization of Shah Deniz-1 revenues, including through equity capital of Southern Gas Corridor CJSC, and borrowed funds from local and foreign financial markets.

Shah Deniz-2, one of the world's largest gas field development projects, includes two new platforms, 26 drilling wells, underwater equipment, expansion of the Shenzhen terminal and 500-kilometer subsea pipelines. At present, 162 equipment suppliers from 23 countries have been involved in the project. Under the project, a total of $ 11 billion contracts were signed on engineering, construction and procurement. In Azerbaijan, over 12,500 people are employed on all key contracts, and more than 85 percent of them are local labor force. (İ.A Aslanzadə, 1997)

At present, the Shah Deniz-2 project is successfully being continued and ahead of the schedule. Up to now, 10 out of 26 wells have been drilled. The level of work to be made on the initial gas production at the beginning of April is ahead of schedule. Up to 80 percent of the total project work has been completed. The total capital expenditure of the Shah-Deniz-2 for 2014-2020 is about $ 24 billion, taking into account inflation, more than $ 12 billion of this amount.

The first natural gas export to Turkey is planned for 2018 and to Europe in 2020. The project participants are BP-operator (28.83 percent), TPAO (19 percent), NICO (10 percent), LUKOIL (10 percent), AzSD (10 percent), SGC Upstream , 67 percent) and Petronas (15.5 percent).

Another component of the Southern Gas Corridor, the South Caucasus Pipeline Expansion Project, covers the construction of a new 48-inch pipeline, including two compressor stations in Georgia, to pass through the territory of Azerbaijan and Georgia. The SCPX project has been launched since 2013 and is scheduled for completion in mid-2018. The pipeline will be connected to TANAP at the Georgian-Turkish border, which will serve the delivery of Azerbaijani gas to Turkey and from there to Europe. The total cost of the project is $ 4.9 billion. Under the SCPX, the costs of Azerbaijani companies are expected to be $ 820 million by 2020.

As a result of the expansion, the capacity of the South Caucasus Pipeline (Baku-Tbilisi-Erzurum) will increase by 16 billion cubic meters and reach 23.4 billion cubic meters. Thus, the volume of gas transportation will increase up to 3 times. The length of the pipeline is 424 kilometers in the territory of Azerbaijan, 61 kilometers in Georgia and 2 kilometers from TANAP. More than half of the project work has been implemented.

Totally up to 30,000 new jobs will be created during the implementation of the Southern Gas Corridor. Ten thousand of these jobs will be opened in Azerbaijan. Implementation of the project will allow Azerbaijan to generate about $ 30-50 billion in hydrocarbon sales and transportation. (Radosevic, 1995, стр. 459-478)

In short, one of the great dividends that oil strategy has brought to our country in recent years is the transformation of Azerbaijan into a natural gas exporter with great international hopes. This rich potential, which derives its source from the "Contract of the Century," has now transformed Azerbaijan into the region's oil and gas state. In addition, the Southern Gas Corridor will play an important role in ensuring Europe's energy security and diversifying the gas transportation infrastructure of the continent.

These successes are also driven by the selfless labor, rich experience and professionalism of Azerbaijani oil workers. It is no coincidence that on the day of signing the "Contract of the Century" on September 20, the Day of Oil Workers is celebrated in our country according to the Decree of national leader Heydar Aliyev who takes into account this. Hero congratulates our oil workers on this remarkable day and wish them new successes in the oil and gas industry in Azerbaijan.

3.3.Attracting foreign direct investment in accordance with strategic road maps for development of national economy

It is of particular importance for Azerbaijan, which wants to achieve a shortage of oil and gas revenues through diversification of the economy and export, to non-oil sector sectors, particularly to the processing industry, with direct foreign investments (BDI). It is no coincidence that the first 4 target indicators of the Government on the Strategic Road Map for the National Economy Perspective of the Republic of Azerbaijan until 2025 are "the achievement of the non-oil sector's share of non-oil GDP in the non-oil GDP by 4 per cent" 2.6 per cent in 2015).

Azerbaijan's oil and gas sector, with a large volume of hydrocarbon reserves, has always been attractive for foreign investment: $ 77.8 billion directed to the country's economy during 2000-2017. More than 85 percent of the US $ ($ 66.8 billion) share in the oil and gas sector. But the country's non-oil and gas sector, especially the processing industry, did not have enough interest in foreign investors during that period. The fact that foreign investors are so active in the oil and gas sector of the country is less inconvenient to non-oil / gas (non-extractive) industries. It is important to identify and eliminate the factors that impede the foreign investors in order to achieve the growth of IFIs in these sectors. In the last three years, the effectiveness and efficiency of the government's decisions on increasing investment activity is also among the issues to be investigated. (M.Haddad, 1993, pp. 51-74)

The competition between the two countries for the involvement of the UK has especially aggravated in recent decades. Therefore, the issue of determining the factors that make the PRC attractive for the economy and government policy is one of the key issues that are always in the spotlight of the purely scientific research, as well as the practical studies of international organizations and national governments.

The United Nations Conference on Trade and Development (UNCTAD) annually publishes annual reports on the status of IWR in countries around the world. These reports are summarized by the CPI's growth dynamics, summarizing the actions undertaken by governments to attract foreign investment, and key development trends. According to the 2018 report of the Organization on Investment and New Industrial Policies, the volume of global CPI flows will reach 1.43 trillion in 2017. US dollars, which means a 23% decline compared to 2016 ($ 1.87 trillion) (E.N. Petrushkevich, 2013). The report notes that in 2017, 126 investment-related decisions were made in 65 countries, of which 84% were favorable for investors (124 investment policies in 58 countries were issued in 2016). These decisions were aimed at eliminating access barriers in certain areas (including transport, energy and manufacturing), reducing administrative procedures and stimulating mechanisms.

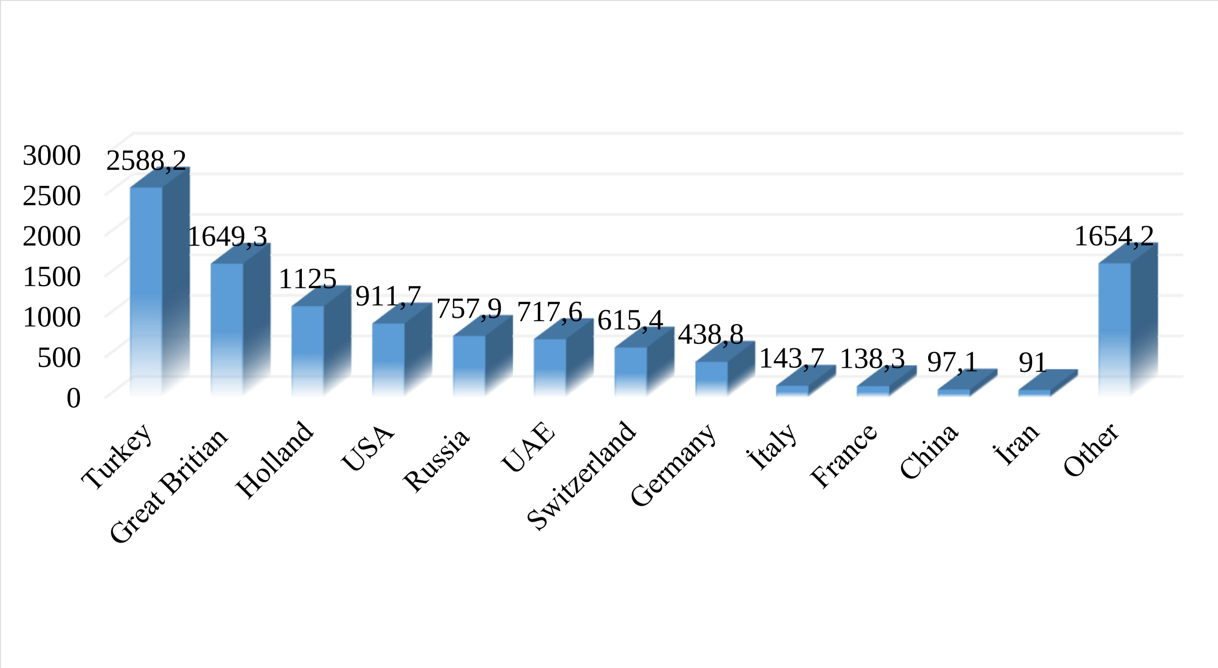
The results of a survey conducted by the World Bank (WB) on the Global Competitiveness Report 2017-2018: External Investors' Perspectives and Policy Outcomes, conducted among leaders of 754 international companies (I.B. Khmelev, 2009). Heads of international companies operating in a number of countries around the world have evaluated the factors that influence the decisions of the ICC for their significance.

Along with international organizations, separate regional organizations also carry out investigations on MDA streams. Especially in the studies carried out within the frames of Eurasia and the Commonwealth of Independent States (CIS), the results of Azerbaijan are interesting. For example, the Eurasian Development Bank's Inter-bank Investment Monitoring-2017 report shows that the amount of investment by Azerbaijan in the CIS countries (for years) is 2.4 billion US dollars in 2016. US dollars, while the amount of investments from these countries to the economy of Azerbaijan amounted to $ 0.91 billion. US $ ($ 0.89 billion of this is Russia's share). (World Investment Report,, 2007, p. 292) According to another study by Eurasian Development Bank, "Eurasian Economic Union (The Development of the Azerbaijani Economy in 2008, 2008) and Eurasia Matter Countries: Monitoring and Analysis of Direct Investments - 2017", Azerbaijan is the leader in terms of capital exports among the CIS countries outside the Eurasian Economic Union: the last 5 years (2012-2016) The average annual growth rate of BDI from Azerbaijan to non-CIS countries is 41% (The Development of the Azerbaijani Economy in 2008, 2008) (The economy that has become a hostage to oil and oil products, 2010). According to the same study, the total amount of Azerbaijan's total IFIs in the region at the end of 2016 amounted to $ 16.9 billion. US dollars, and the third of it was directed to Turkish economy.

It can be said that the introduction of the ICD into the independent Azerbaijan economy began in 1995. In late 1994, after the restoration of independence in 1991, political ceasefire was largely eliminated by the end of 1994, the declaration of a ceasefire in the Karabakh war, particularly in September 1994, the first international oil contract, the Azeri-Chirag-Gunashli "The Production Sharing Agreement (PSA) has led to direct foreign investment in the country.

According to the SSC, in the period 1995-2017, the economy of the country totaled $ 125.5 billion. Foreign direct investment amounted to US $ 96.1 million (or $ 120.6 billion) in 2000-2017. In the period 2000-2017, all foreign investment in the country was $ 29.2 billion. (or 24.2%) of the financial credits of the Azerbaijani government and separate public and private entities from international financial-credit organizations amounted to $ 77.8 bn. Direct investments (64.5%), 217.7 mln. (0.2%) oil bonus, remaining 13.4 billion dollars. (11.1%) were other investments (mainly portfolio investments).

Figure 6. Direct Foreign Investment in Azerbaijan's Oil Sector. 2007-2017



Source: The State Statistics Committee of Azerbaijan, 2018 https://www.stat.gov.az

77.8 billion dollars directed to the economy of Azerbaijan in 2000-2017. US $ 66.8 bn. or 85.9% in the oil sector, the remaining $ 19.9 billion. dollars (14.1%) in non-oil sectors.

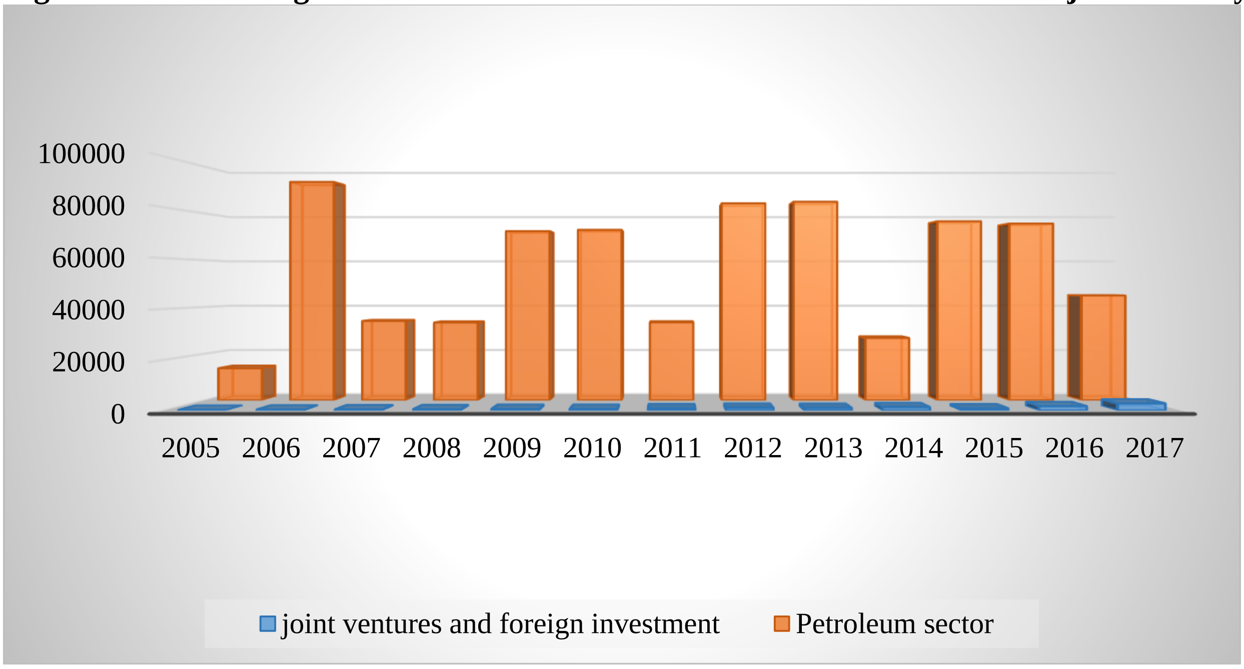
The amount of CPI included in the oil sector over the years has always been higher than the non-oil sector at all times.

During the year, the CPI was attracted to the country's non-oil sector by $ 500.0 million in 2008 and $ 1.0 billion in 2012. the dollar reached its peak. There has been a gradual increase in the volume of CPI involved in the non-oil sector during 2003-2014, but there has been a sharp fluctuation in the last three years (2015-2017): the amount of such investments has increased by 2015, by 2016, having dropped by 34.7% to 98.3% in 2016 ($ 1.7 billion), and again in 2017 - 52.4% (i.e. more than twice).

The GDP per capita, which is involved in the oil sector of Azerbaijan, has always been more than 20% (even exceeded by 150% in 2004) by the year 2007, and 10% in 2008-2013, 20%, and after 2015, again over 30%.

In contrast to the non-oil sector, the CPI's ratio to non-oil GDP is often less than 3% (only 3% for a few years). In 2016 the level of this indicator rose to 7.6%. The sharp decline in non-oil GDP was crucial in this year's sharp change: in 2016, the amount of non-oil GDP was about 22.5 billion. , Which is 46.8% more than in 2014 (approximately $ 42.3 billion), and 32.4% less than in 2015 (approximately $ 33.3 billion). In 2017, the level of this indicator has also dropped to 3.5% as a result of the decline in CPI. (By the way, the definition of the targets set forth in the Strategic Road Map of the Republic of Azerbaijan for the National Economy Perspective is to "define the non-oil sector's share in non-oil GDP by up to 4% by 2025" Currency exchange rate can have a significant impact on the level of indicator.)

Figure 7. Direct foreign investment in the oil and non-oil sector of the Azerbaijani economy



Source: The State Statistics Committee of Azerbaijan, 2018 https://www.stat.gov.az

During the period of 2000-2017, the country's non-oil sector totaled $ 10.9 billion. US $, which is 3.3% of GDP in the non-oil sector during the same period.

According to the SSC, during the period (2000-2017), total non-oil sector entered the total amount of $ 2588.2 million. (23.7%) in Turkey, 1649.3 mln. (15.1%) in the UK, 1125.0 mln. The Netherlands (10.3%) is the Netherlands with 911.7 mln. US dollars (8.3%), US $ 757.9 million, Russian Federation, 717.6 mln. United Arab Emirates (UAE), US $ 615.4m (6.6%). Germany (6.6%) and Germany ($ 143.7 million). (1.3%) Italy, 138.3 mln. (1.3%) France, 97.1 mln.

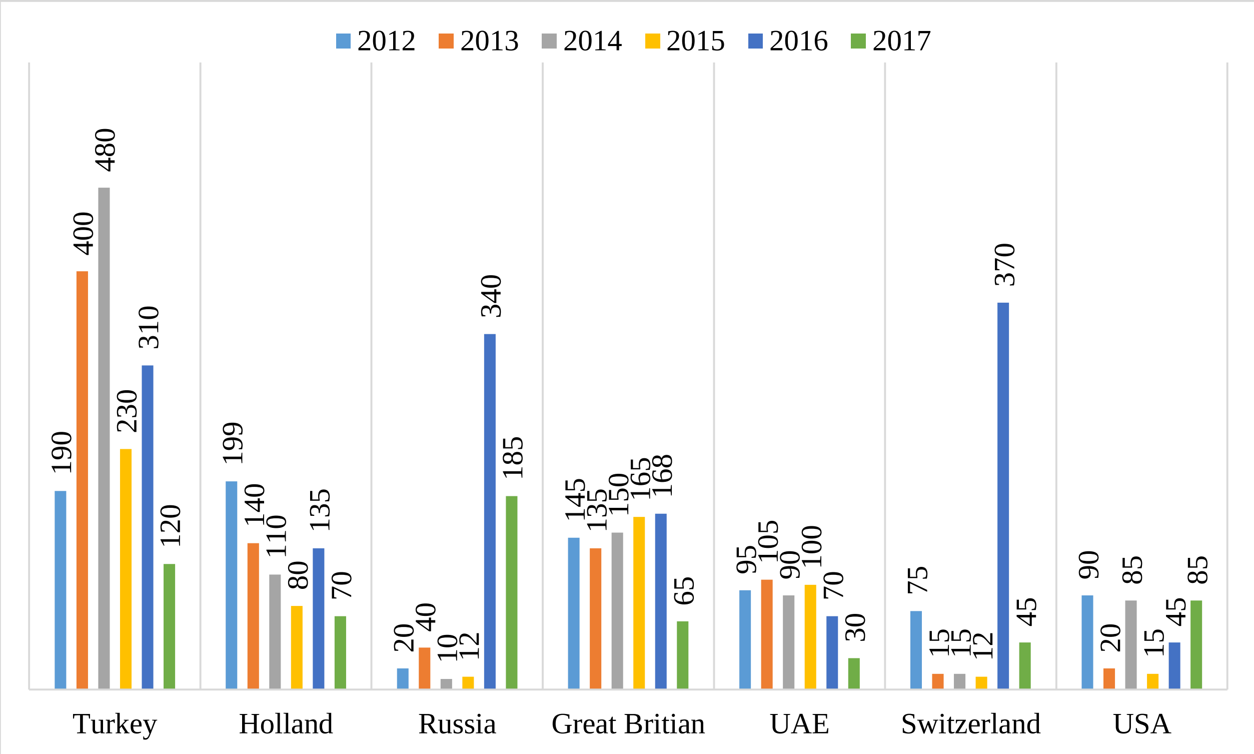
China (0.9%) and China ($ 91.0 million). US dollar (0.8%) fell to Iranian companies.

In 2016, the UK's largest non-oil sector has received over $ 370.5 million from Switzerland. US Dollars. This is 60.2% of all investments in the non-oil sector of Azerbaijan from Switzerland during 2000-2017. Russia, which has entered Azerbaijan in 2016, is estimated at $ 363.2 million. The second was US dollar. Interestingly, 71.6% ($ 542.2 million) of Russia's non-oil sector from Russia in the period from 2000 to 2017 fell to the last two years (2016 and 2017).

Although the SSC provides information on the amount of IBRs included in the non-oil sector of Azerbaijan, information on the areas in which these funds are directed is not clear. The Central Bank of the Republic of Azerbaijan also provides information on the annual balance of payments only in the non-oil sector, but does not provide any information on areas and projects (Don Clark, 2011). Therefore, it is difficult to explain the sharp increase in the CPI coming out of Russia and Switzerland in 2016. Perhaps, the sharp increase in Russian investments in the last three years is due to the participation of Gazprom bank in the financing of the SOCAR-Polymer project implemented at Sumgait Chemical Industry Park: 750 mln. 60% of this project (J. Eaton, 2001) (roughly $ 450 million) was funded by Gazprom bank’s loan (M.Haddad, 1993).

It is also important to track the foreign investments directed to major capital by sector division and economic activity types of joint ventures and foreign investment companies operating in the country while investigating the non-oil sector. The Minister of Economy of the Republic of Azerbaijan, S. Mustafayev, has stated that over 9,000 companies have been registered in Azerbaijan, covering various areas of foreign countries (О.В. Носова, 2011). However, according to the SSC, in Azerbaijan's economy in 2017, there were 1424 joint ventures and full foreign investment (in 2000 their number was 551, 1091 in 2010, and 1235 in 2015). In 2017, 528 joint ventures and foreign investment enterprises (37% of all such enterprises) are engaged in trade and repair of vehicles, 271 (19.0%) in industry (including oil and gas industry) 151 (10.6%) in the field of professional, scientific and technical activities, 138 (9.7%) in construction, 74 (5.2%) in transport and warehouse, 41 (2.9%), 41 (2.9%) in the field of information and communication, and in the field of public catering and 30 (2.1%) in agriculture and fishing. Information on the country affiliation of joint ventures and foreign investment enterprises operating in Azerbaijan is also unclear.

Figure 8. Direct foreign investment in non-oil sector of Azerbaijan. Million US Dollars (2012-2017)



Source: The State Statistics Committee of Azerbaijan, 2018 https://www.stat.gov.az

According to the SSC, 6.3 billion manats (72.6%) of all foreign investment (including the CPI) of 8.7 billion manats directed to the fixed capital in the economy of Azerbaijan in 2017 are related to the mining industry (mainly oil and gas), the remaining 2.4 billion and manat in other sectors of the economy (Klein M. Rosengren, 1994, pp. 373-389). In the non-oil / gas sector, 1.07 billion manats (about 45%) of foreign investments directed to fixed capital, 548.1 mln. manat (22.8%), transportation and warehousing, 468.9 mln. (19.5%) of water supply, about 200 mln. (8.3%) accounted for the share of electricity, gas and steam production.

This sectoral structure of foreign investment in fixed capital in 2017 is almost unchanged in the last three years (2015-2017). Thus, according to the SSC data (P.Welfens, 1994, p. 223), calculations show that over the past three years, 18.6 billion of foreign direct investment, or 75% of the 24.8 billion-dollar foreign direct investment directed to all major sources in the economy of Azerbaijan (mainly oil and gas industry) fell. 51.2% of the foreign investment in the rest of the economy in the rest of the economy over the past 3 years (3.2 billion manats) of foreign investments amounted to 6.2 billion manats, construction of 21.2% (1.3 billion manat) warehousing, 18.2% (1.14 billion manats) water supply, 4.6% (288.5 million manat) were directed to the production of electricity. In contrast to these, over the past 3 years, 76.8 million manat (1.2 percent), 48.2 million manat (0.8 percent) in the processing industry, 22.0 million manat (0.3 percent) in information and communication sector, and 0.3 percent of foreign investments in agriculture, forestry and fishing it was.

It should be noted that foreign investments in water supply and electricity generation are mainly borrowed from international financial institutions.

Hence, for non-oil sector, for foreign investors, the areas that are still attractive in the Azerbaijani economy are mostly non-commercial sectors such as construction and storage. The production areas, especially the processing industry and agriculture, have not been able to seriously attract the attention of the UK. At the end of 2016, the development of small and medium-sized businesses producing agricultural and information-communication technologies as well as consumer goods, along with transport and tourism, have been announced as key priorities in the strategic road map for key sectors of the economy approved by the President.

For involvement of the UK, foreign investors should have sufficient information about the country and its prospects for development, business and investment climate in the country, and changes in the environment. Dunning and Lundan in 2008 distinguished four types of such investments, depending on the BMI's motivation source, which is included in this or that country:

- The country's natural resources;
- Scale and availability of the market in the destination country;
- The firm's strategic assets in the domestic market; and

• The intent to save costs by increasing the productivity (О.В. Носова, 2011, pp. 109-114). The authors state that, depending on the source of motivation and the type of investment, investors react differently to government policy decisions in the country of destination and the overall investment environment in the country. Investors investing in natural resources and strategic assets are not sensitive to the changes in the investment climate. Investors who are motivated by cost-savings are very vulnerable to any changes that can hinder their expenditure or create barriers to free exchange. The processing industry and other manufacturing areas are areas where the cost savings and markets can be of interest to investors.

Since mid-2015, the Government of Azerbaijan has been undertaking measures to improve business and investment climate in the country (licensing and permits, simplification of procedures, etc.), partial suspension of inspections in entrepreneurship up to 2021, promoting investment (e.g. application of the document and the issuance of tax deductions for those who received this document for 7 years, as well as the taxation of imported technology and technology within the framework of the project), creation of industrial parks (7 years tax rebates are applied to parks as well as for their production purposes imported machinery and technology are exempt from VAT and duties), protection of domestic production and protection of the domestic market, stimulation of non-oil export (export introduction of progressive mechanisms in the field of import-export operations (green corridor, electronic declaration, etc.), subsidizing the production of some agricultural products and so on. many decisions were made and measures were taken.

Such investment incentives and business and investment climate information are generally posted in 3 languages at the Azerbaijan Export and Investment Promotion Foundation's (AzPROMO) website (Е. Халевинская, 1999). According to the information, Azerbaijan has signed agreements on double taxation with 51 countries and bilateral investment contracts with 47 countries. This site has been enriched in terms of information compared to the previous 2-3 years ago.

However, the information contained on the AzPROMO website is very limited, as compared to the websites of the relevant agencies of the World Association of Investment Promotion Agencies. Even the US Department of State Bureau of Economic and Business Affairs, and posted on the Department's website (2017 Investment Climate Statements Report), has more information on business and investment climate in Azerbaijan (Mehdiyev, 2008).

Or on the website of the Ministry of Taxes a material entitled "Favorable tax environment for foreign investments in the Republic of Azerbaijan" was posted. The information contained there is not updated on time. Macroeconomic data are still in effect for 2016, and the material has not been updated since 2017 and subsequent legislative changes (В.В. Полякрв, 2005). However, enrichment, timely and regular updating of such information, which presents Azerbaijan and the business situation in the world, is extremely important. Also, according to international experts, investors are interested in the country's future development rather than the current situation in the host country, as such information enables investors to assess future expectations (Г.П.Овчинников, 1998). Therefore, information on such sites and other sources, as well as the current situation, also needs to reflect information on the country's and country's economy's potential and prospects for development.

CONCLUSION

International Assessment Reports by International Organizations (eg EU Business Climate Report Azerbaijan 2018) and international rankings by individual international organizations play an important role in assessing the country's status on the factors described in this study.

In the WB Doing Business index, Azerbaijan is ranked 57th out of the 80 countries (among 189 countries) in 2018, with 57th place (among 190 countries), although it is worth mentioning that construction permits (161th place) it seems that there is a need to seriously improve the country's position on factors such as joining the electricity supply network (102), lending (122) and foreign trade (83).

In the Global Competitiveness Index of the World Economic Forum, Azerbaijan ranks 35th in 2018 (among 137 countries) in the 51st place in 2010. Nevertheless, financial market development index (79th place), health and primary education (74th place), higher education and vocational training (68th place), macroeconomic environment (65th place), domestic market (63th place) and technological readiness (56th place) reflects the country's sub index positions that need serious changes in the relevant fields.

In the Economic Freedom Index of the Heritage Foundation, Azerbaijan was able to move from 49.8 points in 2000 to a group of "moderate free" countries with a score of 64.3 in 2018 from the "regressive" countries. (Seyidoğlu, 2013) However, the scores that the country has collected on sub-indices such as legal effectiveness (36.8 points), Government Integrity (39.9 points), investment freedom (55.0 points) and property rights (53.6 points) are.

In the International Corruption Perceptions Index 2017, Azerbaijan ranks 112th out of 180 countries with 31 points out of 100 points. In this index Azerbaijan cannot achieve any serious progress: in 2012 our country collected 27 points from 100 possible points and collected 31 points in 2017 index. However, this index is considered an important source of corruption in the country and discloses it to the world (including investors).

It is clear that the 45th position of Azerbaijan among 46 countries in the rating "Best European Countries for Business - 2018", prepared by the European Parliament's Doing Business and the International Transparency Initiative's "Corruption Perceptions Index", will not shape good views on our foreign investors.

The Fragile States Index, annually published by Foreign Policy magazine and The Fund for Peace, is based on 12 criteria. In the 2018 Index, Azerbaijan rated 74.6 points (maximum 120 points) in 78 countries with 178 out of 178 countries. While Azerbaijan's position improved by 3.6 points compared to 2013, there was no change in the group of countries where it was located.

The World Bank's Governance Matters Index, which has been drafted since 1996, places a rating of 0 (lowest) to 100 (highest) points in 6 countries. In the rating of 2016, Azerbaijan has collected a score of 7.39 on the right to hearing and reporting, 17.62 on the lack of political stability and violence, 17.79 on corruption control, 31.73 on the rule of law, 43.75 on the quality of the regulation and 49.04 on the effectiveness of the government, i.e. country indicators on all criteria Less than 50 points.

In the Legatum Prosperity Index, calculated from the Legatum Institute analytical center in the UK since 2006, 104 subtypes are subdivided into nine subdues. The overall rating of Azerbaijan in the index of 2017 was 106th place (53.33 points) among 149 countries. The position of Azerbaijan in sub-indexes was 138th place on natural resources, 137th on social capital, 128th on public administration, 123th for individual freedoms, 98th on economy quality, 81st in business environment, health 71th, the 70th on security and the 46th place in education.

Thus, both on the basis of the analysis and the position of the country on international ratings, we can say that there is a need for serious reforms to improve the investment climate in Azerbaijan in order to increase the CPI involved in the country's non-oil sector. These reforms should focus not only upon expanding tax incentives and subsidies, but also primarily for issues that are more sensitive to investors. Such issues include:

- Increasing transparency and accountability in public administration and eliminating corruption;
- Ensuring the protection of property rights;
- Establish an independent and fair judicial system;
- Expansion of economic freedoms;
- Improvement of legal and regulatory environment (ensuring rule of law, ensuring equality before the law, predictable behavior of public authorities, refusal from practice of public decision-making on business expenses and income, and at least 6 months after the entry into force of the agreement, etc.);
- Preparation and adoption of a single government policy on the involvement of csos;
- Adoption of the new Law "On Competition", "On Protection of Foreign Investments", etc.

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Appendix

List of Tables

List of Graphs