

**THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN**

**AZERBAIJAN STATE UNIVERSITY OF ECONOMICS**

**INTERNATIONAL CENTER OF GRADUATE EDUCATION**

**MASTER DISSERTATION**

**On the topic**

**“WAYS OF INCREASING THE INVESTMENT ATTRACTIVENESS OF  
THE KARABAKH ECONOMIC REGION”**

**Ahmadzada Narmin Shahadat**

**BAKU – 2022**

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KARABAKH ECONOMIC REGION”**

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## **Elm andı**

Mən, Əhməd zadə Nərmin Şəhadət qızı and içirəm ki, “Ways of increasing the Investment Attractiveness of Karabakh economic region” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

## **QARABAĞ İQTİSADI RAYONUNUN İNVESTİSİYA CƏLBEDİCİLİYİNİN ARTIRILMASI YOLLARI XÜLASƏ**

**Tədqiqatın aktualığı:** Qarabağ iqtisadi rayonunun investisiya cəlbediciliyinin artırılması yolları, regionun Erməni işğalından azad edilməsindən sonra Azərbaycan iqtisadi islahatlarının əsas istiqamətlərindən birinə çevrilmişdir. Buna görə də investisiya cəlbediciliyinin artırılması yollarının nəzəri, elmi və praktiki cəhətdən araşdırılması mühüm əhəmiyyət kəsb edir.

**Tədqiqatın məqsədi:** Tədqiqat işinin əsas məqsədi investisiya anlayışının konseptual əsasları, regionda investisiyaların hazırkı vəziyyətinin təhlili, regionun investisiya potensialının dəyərləndirilməsi və investisiya cəlbedilməsi yollarının artırılması istiqamətində konkret təklif və tövsiyələr hazırlanmasından ibarətdir.

**İstifadə olunmuş tədqiqat metodları:** Tədqiqat işinin aparılmasında investisiyaların situasional və sintez analizi, müqayisəli təhlil və ümumiləşdirmə metodlarından istifadə edilmişdir.

**Tədqiqatın informasiya bazası:** Dissertasiya işinin yazılmasında Azərbaycan Respublikası prezidenti İlham Əliyevin investisiyalar haqqında verdiyi qətnamə və qərarlardan, bu istiqamətdə aparılmış beynəlxalq və yerli tədqiqatlardan, konfrans məqalələrindən, müxtəlif kitablardan və internet resurslarından istifadə edilmişdir.

**Tədqiqatın məhdudiyyətləri:** Qarabağ iqtisadi zonasının konfliktli ərazi olması bölgəyə investisiya axınına mənfi təsir göstərir. Həmçinin ərazi minalıdır və bu da investisiyaların reallaşdırılması prosesini ləngidir. Bundan əlavə yerli və xarici investorlar üçün müxtəlif vergi və gömrük güzəştləri tətbiq edilmir.

**Tədqiqatın elmi yeniliyi və praktiki nəticələri:** Aparılan tədqiqat nəticəsində investisiya konsepsiyası dərindən tədqiq edilmiş, investisiyanın iqtisadiyyata ümumi təsirləri qiymətləndirilmiş, Qarabağla oxşar situasiyanı yaşamış ölkələrlə müqayisəli təhlillər aparılmış, regionun investisiya potensialı qiymətləndirilmiş, mümkün investisiya istiqamətləri müəyyən edilmiş və investisiyanın cəlbedilməsi üçün praktiki təkliflər qeyd edilmişdir.

**Nəticələrin istifadə olunma biləcəyi sahələr:** Tədqiqat işinin nəticələri bakalvr və magistr pillələrində təhsil alan tələbələr və bu sahədə araşdırma aparən insanlar tərəfindən istifadə olunma bilər.

*Açar sözlər: Qarabağ, BXİ, Bİ, investisiya, iqtisadiyyat*

## **WAYS OF INCREASING INVESTMENT ATTRACTIVENESS OF THE KARABAKH ECONOMIC REGION SUMMARY**

**The actuality of the subject:** Recently, increasing investment attractiveness of the Karabakh economic region is one of the main directions of Azerbaijan's economic reforms. Therefore, it is important to study theoretically, scientifically and practically ways to increase investment attractiveness.

**Purpose and tasks of the research:** Purpose of the research is to develop a framework for the concept of investment, analysis of the current state of investment in the region, assessment of investment potential of the region and concrete proposals and recommendations to increase investment attractiveness.

**Used research methods:** Situational and synthetic analysis of investments, comparative analysis and generalization methods were used in conducting the research.

**The information base of the research:** Resolutions and decisions of the President Ilham Aliyev on investments, international and local researches, conference articles, various books and Internet resources were used in writing the dissertation.

**Restrictions of research:** Being conflict zone this has a negative impact on investment flow to the region. The area is also mined, which slows down the investment process. In addition, various tax and customs exemptions do not apply to local and foreign investors.

**The novelty and practical results of investigation:** As a result of the research, the investment concept was studied deeply, general impact of investment on the economy was assessed, the region's investment potential was assessed, possible investment directions were identified and practical proposals were made.

**Scientific-practical significance of results:** The results of the research can be used by bachelor's and master's degree students and people conducting research in this field.

**Keywords:** *Karabakh, FDI, FI, investment, economy*

## **ABBREVIATIONS**

<b>FDI</b>	Foreign Direct Investment
<b>FI</b>	Foreign Investment
<b>UN</b>	United Nations
<b>IDP</b>	Internally Displaced Persons
<b>BRI</b>	Belt Road Initiative
<b>MNEs</b>	Multinational Enterprises
<b>CIS</b>	Commonwealth of Independent States
<b>DTEs</b>	Developing and Transition Economies
<b>DWE</b>	Developed economies
<b>LLDCs</b>	Land Locked developing countries
<b>UNDP</b>	United Nations Development Program
<b>GDP</b>	Gross Domestic Product

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## INTRODUCTION

**Relevance of the research topic:** The Second Karabakh War, which began with Armenian attacks on September 27 and lasted for 44 days, was a great success for the Azerbaijani army. After Azerbaijan recaptured part of the Shusha city, the Yerevan leadership admitted its defeat. The agreement was signed between Azerbaijan President Ilham Aliyev and Armenian Prime Minister Nikol Pashinyan through mediation of the Russian President Vladimir Putin on November 10. The agreement canceled the 28-year status of the South Caucasus and a new process began. According to the agreement, Armenia did not only return Fuzuli, Jabrayil, Zangilan, Gubadli and Aghdam cities, which were liberated from Armenian occupation by Azerbaijani army, but also accepted the withdrawal from Lachin and Kalbajar and a withdrawal schedule was set. It also meant the liberation of seven occupied regions of Azerbaijan, with the exception of Nagorno-Karabakh. At the end of the process, Azerbaijan got back some parts of the lands, which were lost during Karabakh War I, through diplomacy. Finally, we can say that glorious army of the Azerbaijan liberated our ancestral lands from Armenian occupation. The President appealed to the families of martyrs and Karabakh veterans and the "Yashat Fund" was established to increase their safety. Specific measures will be taken by this fund to enhance social security of the Karabakh veterans and martyrs families.

The state will begin to implement serious projects and measures for the development and reconstruction of the liberated areas. These areas will be one of the most glorious places in Karabakh. Experts are confident that Karabakh will be recognized as one of the most beautiful tourism zones in the world soon. During the speech, the President said that "The war is over. We have reached our goal, and now the time of creation and restoration. Today we are talking about it." At the meeting dedicated to the results of 2021, President Ilham Aliyev also gave specific instructions on the development and implementation of the concept of restoration and development of liberated lands. Furthermore, it was noted that actions taken by



the government to develop and reconstruct the liberated areas would create a framework for grabbing attention of the foreign and local investors to the non-oil sector. Although this process is only in the non-oil sector, it will also contribute to the active growth of the economy.

Acceleration of scientific and technical progress of Azerbaijan's economic cooperation with the world countries helps the country's economic entities to reach the level of world standards in terms of quality, equipment and technology. In its most general form, economic cooperation with the countries of the world covers the issues of maximizing profits and achieving the highest level of profitability in terms of the impact on the economy of socio-economic development. In this regard, maximum use of the best practices and investments of the world countries should be made to expand the activities of our country in the world economy and to improve the effectiveness of these activities and to increase the country's economic growth rate.

**Statement of the problem and learning level:** Today, it is almost impossible to imagine the world economy without domestic and foreign investment. Currently, the role of domestic and foreign investment in the growth of the world economy is undeniable. In addition to sending money to their home countries, most countries around the world also benefit from investing in other countries, which has a positive effect on the economy of the invested country.

The Azerbaijani economy, which is rich in its own characteristics and national shades, is an integral part of the world economy. Thus, the study of its features and resources can help determine our presence and place in the world economic system. In modern conditions, foreign and domestic investment is an integral factor in the economic policy of all countries with developed market economies.

Today, the transition to a market economy, integration to the world economy, and domestic and foreign investment have become an integral part of economic policy.

Various research have been conducted by local and foreign researchers: F.M. Ibrahimov, V.E. Yildirimzade, A. Sh. Imanov, Z.Z. İsayev, A.V. Kazimov, T.S.

Babayev, M.B. Bayramov, U.E. Separately, V.H. Bakirova, E. Gültekin, G.L. Aksoy, T.H. Huseynov, F.Ş. Kashiyeva, X.C. Mahmudova, F.M. Mirzayev, V. Maharramova, I.S. Mammadov, T.N. Nabiyev and others regarding the impact on investment in the development of the Azerbaijani economy. However, these economists in their works discuss the economic development of Karabakh did not touch upon the problem of increasing investment in this economic area. They only searched upon the role of foreign investment in the development of the Azerbaijani economy, the role of the investment factor in capacity building, regional problems of infrastructure policy and investment of the oil industry and the solution of these problems.

Research have shown that the increase in investment in the Karabakh economic zone has not based on identifying ways to conduct scientific research.

This dissertation was prepared considering the great scientific and practical importance of increasing foreign and domestic investment in the Karabakh economic zone and its regulation by the state and ensuring the necessary proportions in the development of economic sectors.

**Purposes and objectives of the research:** The purpose of the study is to determine the impact of the Karabakh economic zone on the economy, learn the development trends of investment for this zone and identify areas for improvement. Some tasks have been identified and implemented to achieve the determined goals. These obligations are set out below:

- Research of scientific-methodical literature and internet materials that relate to the concept of investment, its essence and the main types of investments;
- Study of general economic effects of investments;
- The current state of investments in the world and their attraction, comparative analysis of countries' experiences;
- Identify the current situation of the investments in the Karabakh economic region;

- Evaluation and generalization of the work done to attract investment to the Karabakh economic region, the effectiveness of attracting investment in this area as a result of this work and possible measures to be taken in the future;
- Analysis of priority areas and prospects for attracting investments to the Karabakh economic region;
- Ways to increase the investment attractiveness of the Karabakh economic region;

**Object and subject of the research:** The object of the research is the Karabakh economic zone, and the subject is the study of theoretical and practical issues of attracting investment to this economic zone.

**Research methods:** The study used a systematic and situational analysis of investment in the Karabakh economic zone, a comparative analysis of the experience of attracting investment in many developing countries and synthesis methods obtained using effective methods during these experiments. The results were quite favorable and lead to an increase in investment. Comparative analysis and generalization methods were used for the purpose of this study.

**Research database:** To study the topic of this dissertation from the "Charter of the Karabakh Revival of the Foundation" dated January 19, 2021, reports of the Center for Economic Reforms Analysis and Communication of the Republic of Azerbaijan, local and foreign research in this field in international and national journals, conference materials of scientists and researchers, published scientific articles, theses, information, as well as Internet materials were used.

**Research limitations:** Any international or national companies, private enterprises as well as investors may invest in any project. However, there are some conditions and environments for making investment. One of them is a security of the military. As we know, the current conflict situation in Karabakh must be ensured as a country or organization level, because none of the investors is willing to invest in the conflict zone. Moreover, these areas are mined, and the investment cannot fully give its effect or realization can be a problem.

Another reason for the restrictions is the lack of a fair competition environment.

An investor should understand that if there are five investors in one field and they come from different countries, there would be a fair competition between them.

The list of restrictions also includes the lack of incentives for foreign and domestic investors in the field of taxes and customs. Additionally, to foreign and domestic investors in the field of taxes and customs the absence of concessions is included in the list of these restrictions. Although laws exist in this regard, these need to be further improved.

**Scientific novelty of the research:** As a result of the research, the following scientific innovations have been achieved:

- Scientific-methodical literature and internet resources related to the concept of investment, its essence and the main types of investments have been investigated
- General economic effects of investments have been studied
- A comparative analysis of the current state of investments in the world and the experience of countries involved in their attraction have been conducted
- The current state of investments in the Karabakh economic region has been studied
- The work done to attract investment to the Karabakh economic region, the effectiveness of attracting investment to this zone as a result of this work and possible measures to be taken in the future have been summarized
- Priorities and prospects for attracting investments to the territories of the Karabakh economic region have been indicated
- Ways to increase the investment attractiveness of the Karabakh economic region, various proposals and opinions have been identified

**Scientific and practical significance of the results:** The results of the research can be used by students studying at bachelor's and master's levels and people who are conducting research in this field to increase their knowledge of the concept of investment, theoretical information about its types and practical materials on international experience.

## **CHAPTER I. THEORETICAL AND METHODOLOGICAL FOUNDATIONS OF THE INVESTMENT**

### **1.1. The concept of the investment, its essence, and main types of the investments**

Investment, one of the most important categories of the economy, is a necessary factor in ensuring economic growth at any level (micro-, mesa- and macro-), increasing its production potential.

The term “investment” used in the language of many people, including Azerbaijani, is derived from the Latin word “investire”. However, for some reasons there is a misunderstanding in the interpretation of this term. We will see below that in some cases these reasons are objective. But there are different approaches to the definition of investment in different scientific and economic literature make it necessary to dwell on its definition in detail. Therefore, let’s get acquainted with different approaches in this area.

Investment means the expenditure of capital for various periods of time in various sectors of the economy, businesses, and other activities in order to obtain a profit and achieve the individual goals and positive social effect of the investment. The term is also referred to as “long-term capital investment for the purpose of making a profit” (Большой экономический словарь, 1998).

In some cases, investment involves a change in capital, and this approach is presented in the following formula in most economic-mathematical models used by reputable international organizations for example, RMSM-X and Polak models widely used by the World Bank and the International Monetary Fund:

$$I = \Delta C$$

Here, **I**- is the volume of investment and  $\Delta C$ - is the change in capital.

Another definition distinguishes between the acquisition of financial capital and physical capital since investment means one of the following two cases.

- Acquisition of a financial product or other asset (e.g., precious stones-actors) with the expectation of a favorable future return on finance, in other words, investment is the use of money to make more money.

- Investing in a business is money that a manufacturer spends on physical goods, such as long equipment and working capital, in the hope of expanding the future business.

Summarizing all these ideas, we accept the following definition of investment. Investment is the investment of money in capital with the purpose and expectation of efficiency.

In this definition, we want to draw attention to two points.

1) Unlike most definitions, we use the word efficiency, rather than profit, which more fully and accurately reflects the use of the term investment in theory and practice. The point is that, as mentioned above, profit is a category of economics in the concrete sense processed:

***Profit = income - total expenses (income is the money received from sales)***

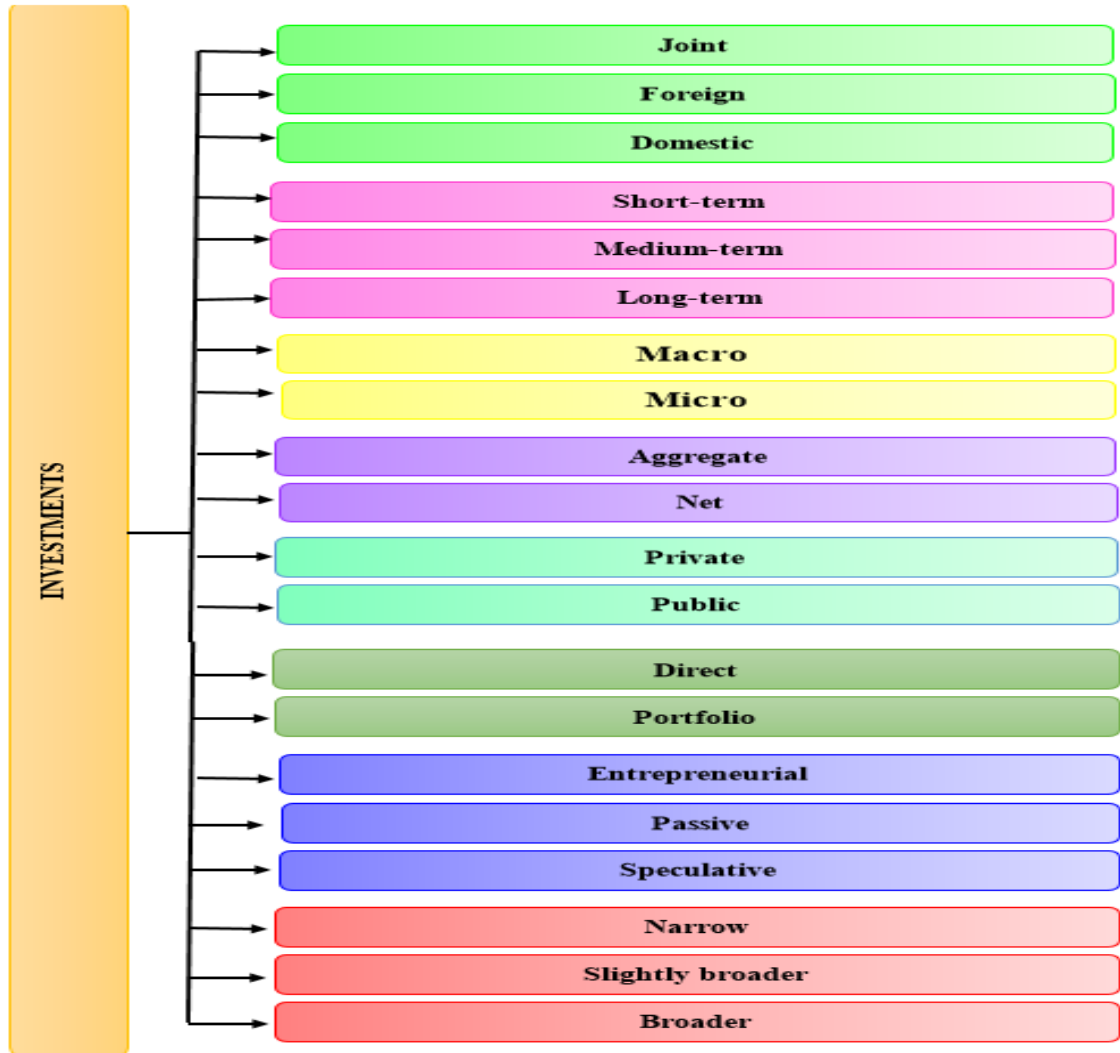
For example, in most CIS countries, its total investment goals and directions are different: increasing competitiveness, reducing costs, renewal of fixed assets (repair or purchase of new ones), purchase of securities, environmental protection expenditures.

However, the purpose of every investment is not profit. For example, widely used public investment, charitable investment, etc. The word “benefit” is more successful. It is used in our definition and corresponds to the English word “benefit”, which is widely used in the economy, but does not have a specific meaning. Indeed, if someone has a business purpose. If he buys a car for personal purposes, not for a year, it is an investment in terms of profit, because the use of the car has a subjective benefit for that person. Of course, if this car is ever used as a taxi, this investment becomes a business investment is done exclusively for social benefit.

2) The word “capital investment” used in the definition is also not accidental and is more accurate than the expression “capital acquisition” given in some of the above definitions, because investment means not only the acquisition of capital, but also its repair.

Thus, since investment is an investment in capital, several characteristics of capital are also reflected in the investment (Quliyev R., Ibrahimli U, 2010, p.10). Investments are classified according to different criteria (*Picture 1*).

**Picture 1: Classification of investments**



Source: [https://www.researchgate.net/figure/Classification-of-investments\\_fig1\\_328288114](https://www.researchgate.net/figure/Classification-of-investments_fig1_328288114)

1. *Narrow, slightly broader and broader investments.* Narrow investment - investment in all factors of production except land, natural resources, and human factors. This is an accepted interpretation in economics. In a broader sense, investment involves investing in all factors of production except human factors. This is the approach adopted in some practical and theoretical matters. In a broader sense, the investment involves the addition of investment in human resources to reap the benefits.

**2. *Entrepreneurial investment, passive investment, and speculative investment.*** The investor has two choices for this purpose: either to buy goods, or to borrow money or buy securities for interest. In the first case, 3 cases are possible:

- If this entity (individual or complaint) receives fixed assets or working capital to make a profit, it behaves as an entrepreneur. We will call such an investment an entrepreneurial investment.
- If, for example, he buys and leases a long-term commodity, he does not benefit as an entrepreneur, but simply by increasing his income. We will call this a passive investment.
- The primary intention in acquiring any physical or financial asset can be realized with the expectation that the value of that asset will increase in the future, which can also be called a speculative investment.

It should be noted that the investment can be made with all three intentions, but, of course, as a rule. These intentions will differ in their priorities. In the second option, interest (that is passive) or speculative goals can be pursued without entrepreneurial activity.

**3. *Direct and portfolio investment.*** Thus, the concepts of investment in economics and finance have different meanings. The first is the investment in real (physical) capital, which is called real investment or direct investment. The second is invested in financial capital (securities: bonds, stocks, etc.), called portfolio investment or indirect investment.

The production investor is directly involved in the selection of direct investment objects and instruments. Portfolio investment, which consists mainly of the purchase of securities, is carried out in financial bases, often using the services of financial intermediaries (Наивайский В.И, ю. Иваценти, р. 61).

We will mainly study real investment, and in some cases, portfolio investment.

**4. *Private and public investment.*** The difference is not limited to the diversity of investment entities. The issue is that government spending is divided into three categories: staff salaries, consumer spending and investment. The investment includes the construction of buildings, canals, irrigation systems, roads,



bridges and other such costs. Public investment in working capital is very rare. The most essential thing in investment is that salaries are not included in the investment. Public investment finance these can be the state budget, extra-budgetary funds and borrowed money. The role of public investment in national economies varies among countries.

**5. *Aggregate and net investment.*** All the above and the above definitions apply to aggregate investment. In other words, all money invested in capital constitutes aggregate investment.

**6. *Investment at the micro and macro levels.*** Investment objectives are distinct at the macroeconomic level. They serve the implementation of the following tasks.

**7. *Short-term, medium-term, and long-term investments.*** The concept of term is relative and varies in different cases. Short-term investment covers a period of up to one year, and the money invested returns during this period.

**8. *Domestic, foreign and joint investment.*** Let's take a closer look at this classification, which is the subject of our research, because in fact there is confusion here. At first glance, this definition may seem simple. The difference is so subtle. In other words, it is not easy to differentiate between foreign and domestic investment. This is indeed the case via the word "own" used in the confusing definition. There is another entity called the "rest of the world", which includes the internal subjects of other countries. The problem arises in the identification of foreign companies and households (or individuals) residing in the country. Is used, so every citizen and company mentioned above is considered a resident, but foreign citizens and companies operating in the country for more than a certain period of time are also considered residents of this country. An additional problem is that the definition and criteria of a resident are different in different countries and on different issues. Companies and individuals exceeding the tax liability apply to citizens and companies of the country by being declared residents of the country. There may be additional conditions for determining a resident in terms of investment. Investment made by residents in the country are assessed by the Statistics Office as domestic

investment, not as foreign investment. Investors in the joint venture include both non-resident and residents of the country. Foreign companies operating in the country have the opportunity to divert their profits in two ways: to reinvest in the economy of the country in which they operate. This is called reinvestment.

Investment can take various forms, which is more pronounced in joint ventures.

- In the form of money. Thus, this money is then invested in the acquisition of physical capital or financial assets, depending on the specifics of the company.
- In the form of physical capital (equipment, real estate, etc.).
- Direct financial capital in the form of a securities portfolio (although money is also a security, in terms of 100% liquidity, it is advisable to mention it separately).
- In the form of patents, entrepreneurial skills, and other important opportunities for business, such as derivatives of human capital.

It is not common for each of the partners to put one of these forms in a joint business.

It is crucial for the process of reproduction of fixed and working capital, and therefore the financial condition of companies is the focus of attention not only of water owners but also government regulators. Sources, forms, and methods of financing direct investment in fixed assets and conditioned by the characteristics of the construction (Большой жонмический словарь, 1998 р.237).

There are three types of investment sources:

- special financial resources
- debt capital
- raised funds

The main source of special funds is profit. Undistributed profit is distributed among partners (shareholders), which is also directed to investment.

In addition, special funds can be formed from the following sources:

- Depreciation expense. This is the main source of investment along with profit

- Savings in pre-planned costs (savings in construction and repair costs, lower prices for fixed assets to be purchased).
- Additional (unexpected not related to the main activities of the company) income.

Borrowings play a pivotal role in the life of companies. The primary source of business lending is the banking system. In large businesses, these funds are borrowed from banks for a long time to direct to fixed capital. Borrowing companies are required to provide a guarantee. This can be a liquid asset pledged as collateral or a guarantee from any reputable company, such as a bank or the government.

There are the following popular ways to raise funds:

1) Issuance of additional shares. In fact, this means attracting new partners. Many authors consider this an important method, as this resource can be used by the company itself and its subsidiaries in the form of a joint stock company.

This step is mainly taken in two cases:

- when the company is facing the threat of bankruptcy or other financial problems
- whether the company plans to expand or implement any promising project, but only if it is highly risky

2) Issuance of bonds and placement in financial markets. In this case, the redistribution of property does not occur. This is almost the same as borrowing. The main distinction is that collateral is not needed in this. Not high, but at the same time it is undesirable to take a loan from a bank as collateral.

3) Investment leasing is a well-established and promising form of raising funds for the company in modern times. In fact, leasing is a form of long-term credit as a bond. The difference is that the loan is given in kind (machinery, equipment, real estate, etc.), (usually long-term). In this case, the leased asset itself plays the role of actual collateral: only after the amount is paid in full, it becomes the property of the company.

Leasing companies prefer machines and equipment (cars, ships, planes, etc.) that can be easily dismantled and transported.

Thus, summarizing the knowledge about investment, we can note the following:

1. The main features and characteristics of the investment:

- Capital investments of so-called investors. These goals do not always coincide with the goals of society.
- The investment is made for a certain period and purposefully.
- Investment depends on the prices of different types of invested capital (mainly fixed and working capital) formed on the basis of supply and demand in the market.
- Investment is always associated with certain risks.

2. Private investment is financed from the following sources:

- depreciation fund
- retained earnings
- bank loans
- investment leasing
- issue of shares and bonds
- government loans and concessions

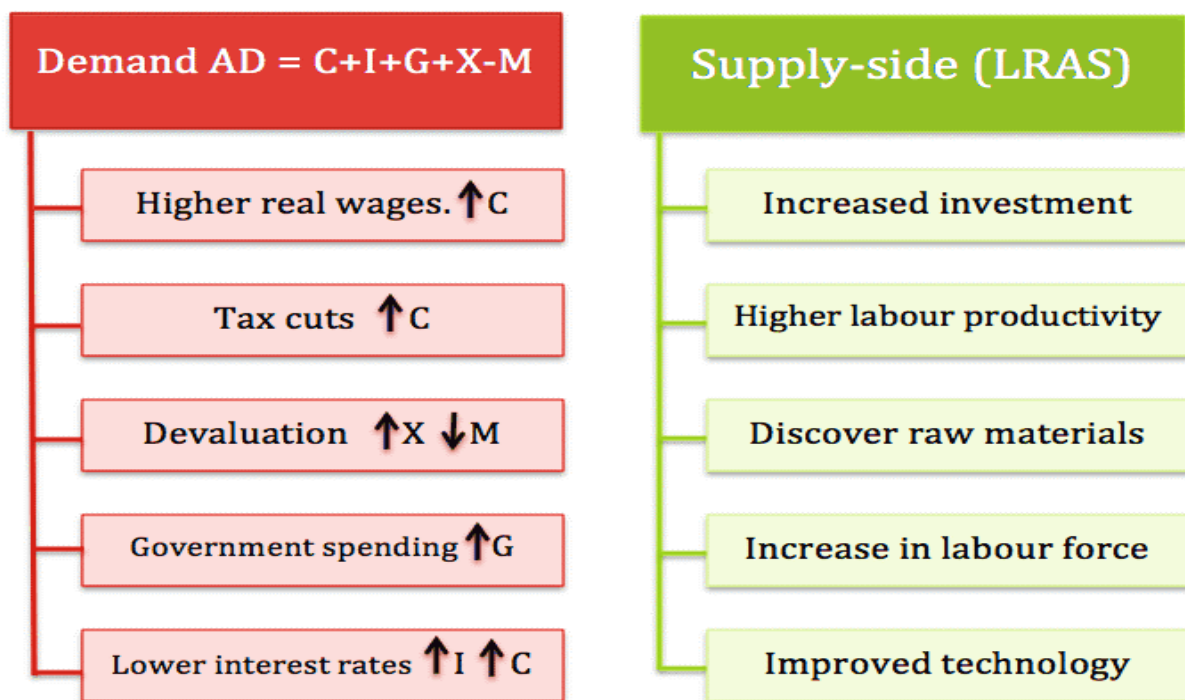
The main source of investment financing is the company's own funds. To the fact that not all 3 processes are under the control of the investor, there is a risk that, to one degree or another, any investment will lose all or part of its investment or achieve any return.

## **1.2. General economic effects of the investment**

Financial development implies an expansion in genuine GDP. Financial development implies there is an expansion in public result and public pay. Monetary development is brought about by two principal factors (<https://www.jstor.org/stable/2600175>):

- An expansion in total interest (AD)
- An expansion in total stock (useful limit)

Picture 2: Policies for economic growth



Source: <https://www.economicshelp.org/blog/5272/economics/policies-for-economic-growth/>

Venture impacts the pace of financial development since it is a part of total interest (AD) and more significantly impacts the useful limit of the economy (LRAS). An expansion in speculation ought to be a lift to monetary development.

Speculation implies consumption on capital spending, for example purchasing new machines, building greater industrial facilities, purchasing robots to empower robotization. (In financial matters speculation doesn't mean setting aside cash in a bank). Venture is a part of total interest (AD). In this way, assuming there is an expansion in speculation, it will assist with helping AD and short-run financial development. If there is extra limit, expanded venture and an ascent in AD will build the pace of financial development.

For the time being, financial development is brought about by an expansion in total interest (AD). On the off chance that there is extra limit in the economy, an expansion in AD will cause a more elevated level of genuine GDP.

$$AD = C + I + G + X - M$$

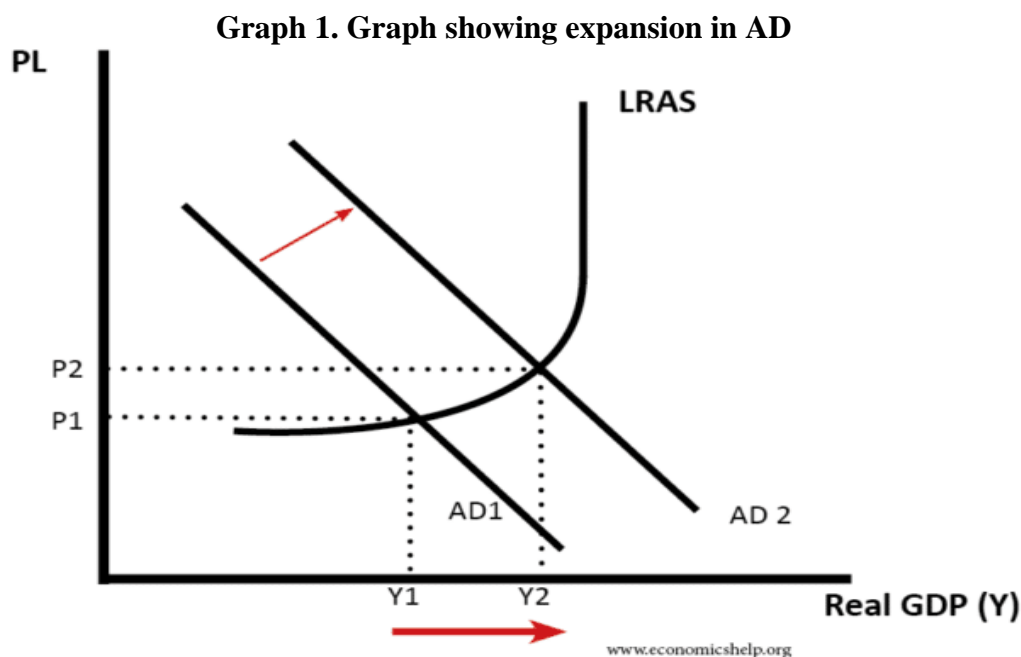
C – Consumer spending

**I** - Investment (gross fixed capital speculation)

**G** – Government spending

**X** - Exports

**M** – Imports



Source: <https://www.assignmentexpert.com/homeworkanswers/economics/macroeconomics/question-159331>

Factors which influence AD:

- **Lower loan fees** - Lower loan fees lessen the expense of acquiring thus supports buyer spending and firms to contribute. Lower financing costs additionally decrease contract installments thus increment the discretionary cashflow of customers.
- **Expanded compensation**. Higher genuine wages increment discretionary cashflow and support purchaser spending.
- **Expanded government spending (G)**. e. g. government venture on building new streets or expanded spending on government assistance benefits, which increment extra cash.
- **Cheapening**. A fall in the worth of the conversion standard (for example Pound Sterling) makes sends out less expensive and builds the amount of products

(X). A deterioration likewise makes imports more costly, lessening amount of imports and making homegrown merchandise somewhat more alluring.

- **Certainty.** Expanded purchaser certainty urges families to spend by one or the other running down investment funds or assuming out more private acknowledgment. It empowers higher spending (C) which supports spending (C).
- **Lower charge.** Lower personal duty will expand the discretionary cashflow of shoppers and increments buyer spending (C).
- **Rising house costs.** An ascent in the cost of houses makes a positive abundance impact. Property holders who see an ascent in the worth of their homes will be more ready to spend (remortgaging house if fundamental)
- **Monetary strength.** On the off chance that there is monetary solidness and banks will loan, firms will be more able to contribute, and speculation will increment total interest.

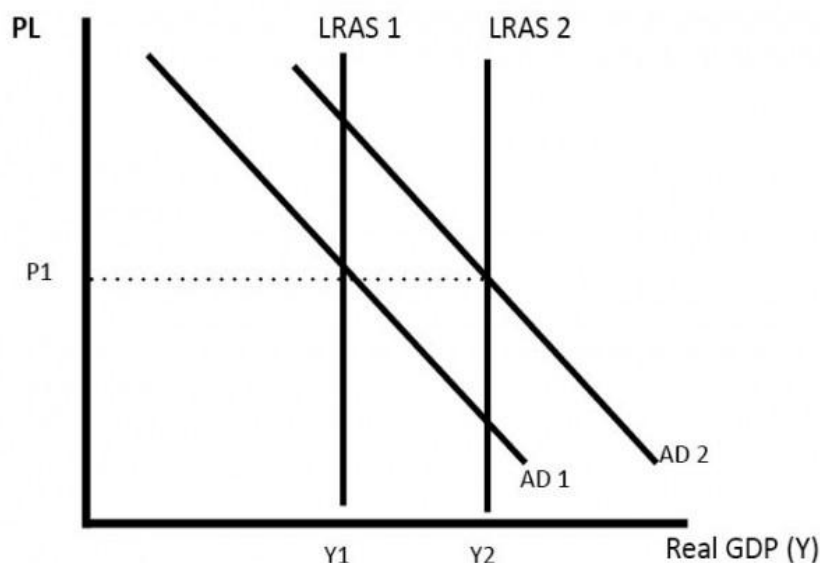
Be that as it may, if the economy is near full limit, rising AD will just objective expansion and not an expansion in genuine GDP. Notwithstanding, there are different elements that influence AD separated from speculation. For instance, assuming that there was a fall in buyer spending or a fall in trades, then an ascent in venture may not really increment AD. Venture isn't the greatest part of AD (approx. 16%); the greatest part of AD is shopper spending (approx. 66%).

If the economy has spare limit, an ascent in venture can likewise cause a multiplier impact. The underlying ascent in venture increments financial development, however assuming firms acquire deals and benefit, they are ready to reinvest this in additional speculation. Additionally, families who gain work from the venture, have more pay to spend. In this way a venture of £2 billion could cause a last expansion in genuine GDP of £3 billion (multiplier impact of 1.5) (<https://www.jstor.org/stable/2600175>).

On the off chance that speculation is viable, it ought to likewise build the useful limit of the economy. For instance, putting resources into abilities and schooling can increment work usefulness. Interest in new innovation and capital can increment

efficiency and the useful limit of the economy; this assists with moving long-run total stockpile (LRAS) to one side. An expansion in LRAS is fundamental for long haul monetary development; it can increment financial development without expansion. On the off chance that speculation prompts a huge expansion in usefulness, - it can prompt an expansion over the long haul pattern pace of monetary development (normal supportable pace of development).

**Graph 2: Promotion/AS diagram showing expansion in LRAS and AD**



Source: <https://snbchf.com/economic-theory/the-long-run/>

Speculation can prompt higher genuine GDP without expansion.

- It relies upon the sort of speculation. For instance, lost government interest in further developing modern limit could be wasteful and neglect to increment efficiency in the economy. Private area speculation or venture from abroad might be significantly more successful in really expanding usefulness as private firms have more information about the best kinds of venture.
- Notwithstanding, a few nations might have supply-requirements in open merchandise - streets, spans, foundation. These public products won't be given completely by the unrestricted economy; accordingly, it might require government venture to beat the inventory bottlenecks. For instance, clog on the streets is a significant limitation for business and monetary action.

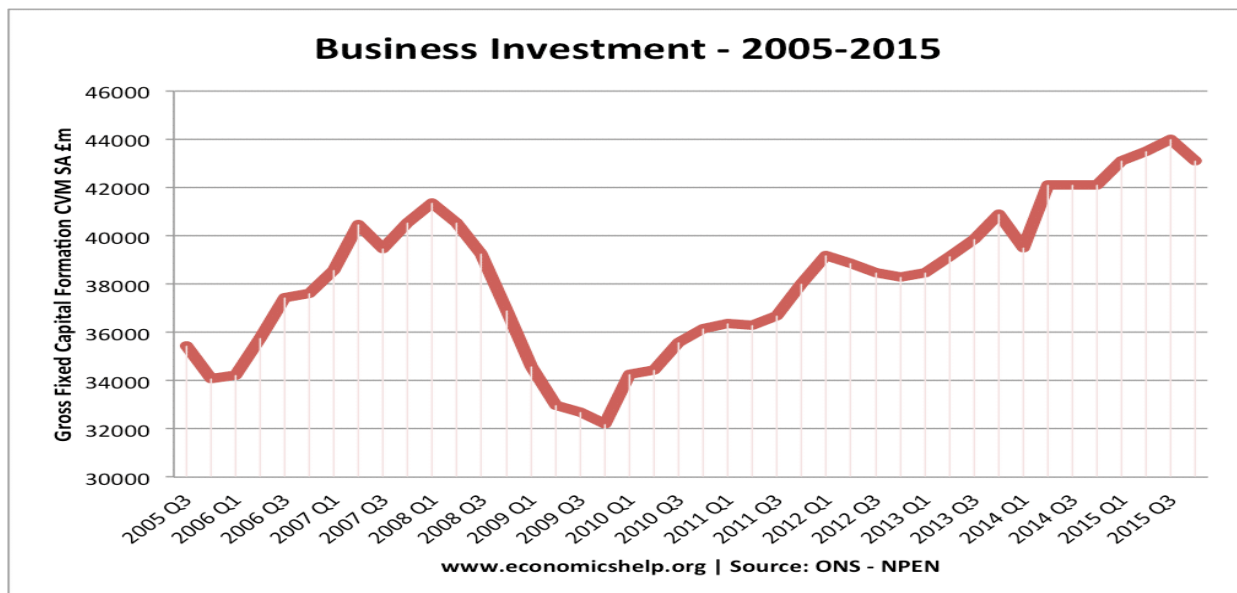


- In the long haul, venture is significant for further developing usefulness and expanding the intensity of an economy. Without speculation, an economy could appreciate elevated degrees of utilization, yet this makes an uneven economy. There will generally be a present record shortfall and little interest in future development possibilities.

The pace of financial development additionally influences the degree of input. Business venture will in general be very unpredictable. Assuming organizations see an improvement in financial gauges, they will build venture to satisfy future need. Hence, an improvement in the pace of financial development can cause a significant ascent in venture. However, if there is a financial slump and a fall in the pace of monetary development, business will scale back venture.

The accelerator theory indicates that the level of investment depends on the economic growth changing rate. However, in addition to the rate of financial development, the amount of speculation is influenced by the rate of interest, the certainty of trade, the pace of innovation, and government controls. Consider the trade speculation in the United Kingdom from 2005 to 2015. (Graph 3).

**Graph 3: UK Business speculation 2005-2015**



**Source:** ONS-NPEN [www.economicshelp.org](http://www.economicshelp.org)

Business venture fell practically 25% during downturn of 2008/09. The fall in venture (caused incompletely by credit crunch and decrease in bank loaning) was a critical reason for the downturn 2008/09).

## **CHAPTER II. ANALYSIS OF THE CURRENT SITUATION OF THE INVESTMENTS IN THE WORLD AND IN THE KARABAKH ECONOMIC REGION**

### **2.1. The current situation of the investments in the world and experiences of the countries in attracting investments**

Foreign investment is an indirect investment in a company in one country by an individual or company in another country. Foreign investment is the funding of projects in one country by companies from another, and it is an essential factor influencing the development of global markets. Foreign Investment (FI) is the most essential factor in the international trade. Foreign direct investment is long-term investment which provides capital to build factories or buy property. The FI has been used as a measure of economic development since the 1960s and it is expected to continue to grow in the next few decades (Dickey, D.A. and Fuller W.A,1981, p.1057).

Whether it is for short term investments or long term ones (greenfield investments) – foreign investments are an important source of income for developing countries wishing to grow. The World Bank estimated that only 4 out of 100 people living in Sub-Saharan Africa have access to electricity, with many people having no means of lighting their homes or powering their businesses .

The profitability of FI depends on many factors, such as: labor cost, taxation, tariffs and exchange rates. The profitability can change due to economic fluctuations and changes in government policy. However, we can see that there are some regions that have been more attractive for foreign investors than others during the last decade, such as Asia-Pacific region and North America.

The current circumstances of foreign investment in the world has become more and more diversified. It is evident that the United States, Japan, China and Europe are still the top four countries with substantial FI inflows. The United States remains at the top position for its FI inflow and outflow, while China's rise will continue to reshape global economic landscape.

The foreign investment has been quite similar to GDP growth rates. This is because the amount of FI that happens around the world is about 10% of the world's GDP, and it has been increasing gradually since 2010 (Choong C.K., Baharumshah A.Z., Yusop Z. and Habibullah M.S, 2010, p.107).

The amount of money invested by investors into foreign countries has increased over the last decade. This is largely due to an increase in globalization and an improvement in communication and transportation, which has made it easier for people around the world to invest in businesses internationally.

Some of these investments are made as part of plans by companies to expand their operations abroad, while others are made as part of plans by companies to take advantage of opportunities that exist in different countries or economies because they offer better returns on investment. The decision about which country will receive the investment and how much will be invested is usually determined by several factors such as: tax laws, government regulations, economic factors like markets

In 2018, the global investment inflows increased by 10% to an all-time high of US\$1,9 trillion. The flow of FI into developing and transition economies (DTEs) picked up during the year for the second year in a row, while that into developed economies (DWEs) fell slightly .

Foreign investment in developing countries is more than in developed countries. To get an idea on where this money is going, we can look at China since they are such a large investor and there has been talk about how they are influencing the world's economy.

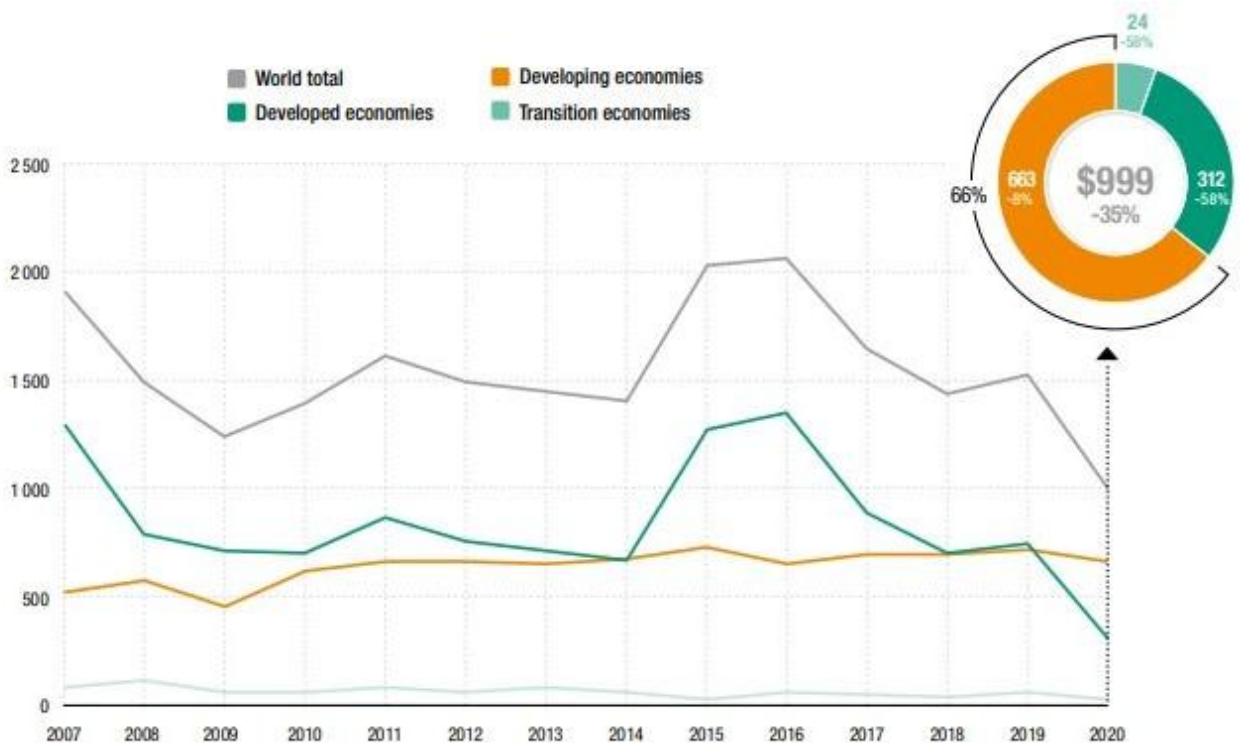
The average rate of return for FI in low-income countries is significantly higher than the rate for high-income economies.

Investments are on the rise for all regions, however there are some distinctions between regions. For example, Latin America has become an attractive destination for foreign investments due to its excellent macroeconomic performance and high growth potential. Europe has also seen significant increases in FI over the past few years because of its stability and relatively low economic volatility.

The COVID-19 had a great impact on global foreign investment flows. They decreased by a third to \$1 trillion in 2020, considerably below the ten-year trough established during the global financial crisis. Greenfield industrial investments and new infrastructure projects in emerging countries were particularly heavily hit. Existing investment projects were stalled by global lockdowns in reaction to the COVID-19 pandemic, and the risk of a recession prompted multinational companies (MNEs) to reconsider future initiatives. The drop in foreign investment was much more pronounced than the drop in GDP and trade.

In 2020, global foreign investment flows declined by 35%, to \$1 trillion, down from \$1.5 trillion in 2019. (Picture 3). Since 2005 it has reached its lowest level, and approximately 20% less than the global financial crisis trough in 2008. Existing investment projects were stalled by global lockdowns in reaction to the COVID-19 pandemic, and the risk of a recession prompted multinational companies (MNEs) to reconsider future initiatives. The drop in foreign investment was far greater than the drop in GDP and trade.

**Picture 3: FI inflows, global and by economy group, 2007–2020 (Billions of dollars and per cent)**



Source: UNCTAD, FI/MNE database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

This is a big source of concern, as international investment flows are critical for long-term development in the world's poorer countries. Increased investment is now a worldwide policy priority to promote a long-term and inclusive recovery from the pandemic. This means boosting infrastructure and energy transition investments, as well as resilience and health care.

Foreign investment fell by 58 percent in both rich and developing economies. In developing nations, it fell by a more moderate 8%, owing primarily to strong flows in Asia (up 4 per cent). As a result, emerging economies received two-thirds of global FDI in 2020, up from slightly under half in 2019.

Large variations in a small number of conduit economies influenced both the precipitous decrease in developed nations and the comparatively strong performance in Asia to a substantial degree. The Netherlands accounted for over a third of the global reduction, which was caused by the liquidation of numerous big holding companies, corporate reconfigurations, and intrafirm financial movements. The rise in Asia was a result of an enhancement in foreign investment stream to Hong Kong, China, which largely reflected financial transactions by Chinese MNEs.

The patterns of new greenfield investment announcements and international project finance arrangements contrasted markedly with FI trends, with developing economies experiencing much greater decreases than industrialized economies. Greenfield announcements in developing states declined by 44% in value, while foreign project finance arrangements decreased by 53%, in comparison to 16% and 28% in well developed countries, respectively (Table 1). These kinds of investments are critical for the expansion of infrastructure and productive capacity, as well as the possibilities for a long-term retrieval.

**Table 1: Announced greenfield projects, cross-border M&As and international project finance deals, by group of economies, 2019–2020**

Group economies	Type of FI	Value (Billions of dollars)		Growth rate (%)	Number		Growth rate (%)
		2019	2020		2019	2020	
Developed economies	Cross-border M&As	424	379	-11	5802	5225	-10
	Greenfield projects	346	289	-16	10331	8376	-19
	International project finance	243	175	-28	543	587	8
Developing economies	Cross-border M&As	82	84	2	1201	907	-24
	Greenfield projects	454	255	-44	7240	4233	-42
	International project finance	365	170	-53	516	443	-141
Transition economies	Cross-border M&As	1	12	716	115	69	-40
	Greenfield projects	46	20	-58	697	371	-47
	International project finance	26	21	-18	59	31	-47

**Source:** UNCTAD's cross-border M&A database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)) for M&As, Financial Times Ltd's fDi Markets ([www.fDimarkets.com](http://www.fDimarkets.com)) for announced greenfield FI projects, and Refinitiv SA for international project finance deals are all sources of information.

The World Investment Report assists policymakers by tracking regional and global investment tendencies, as well as international and national policy changes.

The COVID-19 pandemic caused a undeniable drop in foreign investment. In 2019 global FDI flows fell from \$1.5 trillion to \$1 trillion by approximately 35%, down from \$1.5 trillion in 2019.

The reduction was highly skewed towards developed nations, where FI fell by 58 percent, owing to business transaction and intrafirm money flow oscillations. FI inflows into developing nations fell by a more moderate 8%, owing primarily to strong flows in Asia. As a result, emerging economies received two-thirds of global FI in 2019, up from slightly under half in 2019.

The FI examples were in sharp contrast to the new project activity, which was burdened by a decline in investment in developing countries. The number of freshly announced greenfield projects in developing nations plummeted by 42%, while the

number of foreign project finance arrangements — crucial for infrastructure — declined by 14%. In industrialized economies, greenfield investment has decreased by 19 percent, while foreign project finance has increased by 8%.

All FI components were decreased. Reinvested earnings of foreign affiliates — a major portion of FI in normal years — were also down, with profits of multinational businesses (MNEs) down 36% on average.

The pandemic's influence on worldwide FI was most noticeable in the first half of 2020. International project financial arrangements, generally has retrieved since third quarter of the year. Greenfield investment, on the other hand, which is more significant for emerging countries, continued to decline until 2021. (World investment report 2021, [https://unctad.org/system/files/official-document/wir2021\\_en.pdf](https://unctad.org/system/files/official-document/wir2021_en.pdf)).

The patterns of FI differed greatly by area. The result of the pandemic in GVC-resource-based activities and intensive was disproportionately felt in developing regions and transition economies. Regional inequalities were also fueled by inequities in fiscal space for the implementation of economic stimulus measures.

- FI inflow to Europe plummeted by 80% among developed countries. Main oscillations in conduit flows exacerbated the downturn, but most of the region's large economies witnessed significant declines. On average 42% and roughly 20% decline have been experienced in North America and developed countries respectively. The decline in the United States was primarily due to a drop in reinvested earnings.
- Foreign investment into Africa decreased by 16% to \$40 billion, the lowest amount in 15 years. Greenfield project announcements, which are critical to the region's industrialisation aspirations, decreased by 62%. The economies that export commodities were the hardest hit.
- Flows of the investment to Asia were stable. In fact, inflows into China climbed by 6% to \$149 billion. South-East Asia had a 25% drop, with its reliance on GVC-intensive FI playing a key role. FI into India rose, owing in part to mergers and acquisitions.

- FI inflows into Latin America and the Caribbean dropped by 45 percent to \$88 billion. Most economies of the continent which were among the most hit by the Covid-19 pandemic, are reliant on investments in tourism and natural resources, both of which have since plummeted.
- FI flows to economies in transition dropped by 58% to just \$24 billion, the biggest drop of all non-European areas. Greenfield projects reduced at the same time.

The epidemic harmed FI in fundamentally weak and fragile economies even more. Although inflows to LDCs remained constant, greenfield announcements dropped by half and foreign project finance deals dropped by a third. Small island developing states (SIDS) saw a 40% drop in FI, while landlocked developing nations (LLDCs) saw a 31% drop.

COVID-19 has resulted in a drop in investment into SDG-relevant sectors in developing countries. With the exception of one, every SDG investment sector saw a double-digit drop from pre-pandemic levels. The shock compounded reductions in areas including power, food and agriculture, and health that were already struggling before the COVID-19 crisis.

Large MNEs, which are major players in global FI, are surviving the storm. Despite the expected decline in earnings in 2020, the top 100 MNEs boosted their cash holdings significantly, demonstrating the largest corporations' resilience. In 2020 the state-owned MNEs has increased by 7%, to almost 1,600.

Global FI flows are likely to level out in 2021 with a 10 to 15% growth and recoup some lost ground. This would still put FI at a 25% lower level than in 2019. Further increase in 2022 has been indicated in the current expectations which intends bringing FI back to 2019 levels to the upper limit of projections. The phase of economic improvement and the probability of pandemic rerurrences, the possible effect of retrieval spending packages on FI, and policy constraints are all elements that will influence prospects.

And it should also be noted that, the current situation of foreign direct investment in the world is not that good. We have seen a global economic slowdown



in recent years, which has dampened investor appetite for risky investments abroad. However, since the beginning of the year there are signs of renewed optimism for foreign direct investments so it is likely that they will increase in the future.

Using a comprehensive approach that removes administrative, regulatory and legal institutional barriers that currently affect all stages of the business and investment cycle, the World Bank is helping countries create a competitive investment climate that encourages investment in business development. With the ability to mobilize a wide range of WBG tools including various credit products (DPFs, IPFs and P4Rs) and consulting services and analytics to assist emerging states, experts on promotion, investment policy and business climate deliver solutions at three consecutive levels:

- **Management of the Evidence-Based Reform:** Various institutional surveys, global analytical criteria, laws, indices and other benchmarks have brought the issue of creating investment reforms and business climate to the forefront of policymakers' agenda. They also proved the urgent demand for support in the management of evidence based reforms. Through the advanced diagnostic instruments for investment environment, market deformations and entrance barriers have been determined, mandatory restrictions for firms have been assessed and the expected effect of the reforms have been quantified. Interventions in the entire investment environment are based on a good knowledge of and applied research, advanced analytical and diagnostic tools, best experience and reform practices.
- **Promotion of competitiveness of the businesses:** Creating a regulatory and institutional framework that allows local and foreign firms improve both within and across the sector depends on opening the lock of the the private sector-dominated growth. Policies of the government play a crucial role in increasing market competitiveness and motivating business activities. Solutions should be developed to upgrade the regulatory climate for local and foreign companies at all the stages of business cycle and investment. Investment environment team motivate companies to invest, grow and do lucrative jobs. They also assist government in execution of assessable, transparent and effective regulatory practices and policies.

- **Enhancement of Investment Opportunities:** Directing foreign direct investment to the country assists to increase economic growth and connect local economy to the international value chain. As it is known, foreign investment brings not only money, but also new technologies, export expansion, business experiences, new job opportunities and spread supply chain. For the flow of investment there should be adequate legal, political and organisational investment climate. Countries affected by the COVID-19 pandemic need to clarify their value propositions as investment venues in the global arena. Furthermore, in order to fully benefit from foreign direct investment effective and direct investment practices and strategies must be executed. In order to create an adequate investment environment, an exhaustive approach should be used, because it may remove regulatory, legal and institutional and procedural barriers that show its influence on all stages of the investment climate. The Investment Climate team assists countries in establishing a competitive investment climate that is conducive for attracting, maintaining, and increasing sustainable foreign direct investment. Systematic efforts of the various agencies and ministries are needed in order to effectively establish and execute investment environment improvements. World Bank Investment team helps developing countries to create investment environment improvements programs. Reform perspectives and understandable targets are identified by investment team for different time periods.

In Bangladesh, a program was initiated by the government. One of the goals of this simplification program was to reduce cost to connect the electricity grid and a one-stop shop (OSS). As a result of these reforms more than \$721 million cost was saved for locals and businesses. So far the OSS has benefited more than 1,200 firms.

In Ecuador, the team maintained the initiative of a novel simplified stock corporation, a flexible legal form tailored to both small-sized and medium-sized organizations.

Six new sectors were started for FDI in Ethiopia. \$96m in FDI was yielded directly in two years of the reform. Also, a new mechanism was introduced in order

to cope with investor grievances in advance of their escalation to international controversy. \$5.4 million FDI have been generated.

In Guinea, in order to address the participation of the low levels of local supplier in the mining sector, an online platform for supplier marketplace was introduced. 111 women-owned of total 883 domestic companies have registered here. Awards have been given to 77% of requests.

In Iraq, \$220 million in FDI previously facing the risk of loss have been generated since an investor grievance mechanism was established in the Basra Investment Commission.

In Myanmar entry restrictions were removed through a negative list of the opening of 70 sectors to full foreign ownership and the decline of FDI screening via a unified investment law. The removal of these restrictions resulted in a six-fold increment, from \$1.4 billion to \$9.5 billion.

In Saudi Arabia, the team collaborate with the Ministry of Commerce and Investment in order to remove legal barriers of economic attendance of females and pass a historic amendment package. This reform addressed legal equality in employment, freedom of travel, a legal equality in pensions. As result of the reforms more than 5 million women aged over 21 benefitted.

In Vietnam the first stage of the development program for suppliers resulted in 70% increased capacity of SMEs as a consequence of implementation of new management tools and standards, a 50% gain in turnover and profit, a total of 42% sustained new connections with MNE buyers whose 9% turned formal suppliers to MNEs.

## **2.2. Current situation of the investments in the Karabakh economic region**

Many of innovative achievements are based on investment, which is a vital aspect of the government's economic policy. Macroeconomic stability and growth, economic security, ensuring the competitiveness of the national economy, improving the quality of life of the population, addressing many socio-economic concerns, and innovative investment are the goals of the economic policy.

Azerbaijan is a popular investment destination for people all over the world. Because of the country's political stability and favorable business and investment climate, any project can be realized easily. The existing investment strategy, as well as the attractive economic environment are attracting foreign investors and enterprises to our country.

Thanks to an ever-improving reforming business environment now all the investors have equal rights and opportunities. Strong conservation regulations and legislation in this sector, on the other hand, are favorable advantages for investors.

One of the qualities that promotes the investment climate is the lack of government inspections (tax, human health, and government security issues abroad).

At the same time, there is no discrimination between foreign and domestic investors, and there are no external exchange restrictions, licensing for currency transactions related to capital movements, restrictions on the amount of foreign capital in companies, restrictions on technology transfers, legal restrictions on ownership, restrictions on profit repatriation, and no local co-operation requirements.

As a consequence of our efforts to strengthen the investment climate in our country, a growing number of corporations are investing in Azerbaijan. Well-known investors want to put their money into countries that are stable. Currently Azerbaijan's economy has \$280 billion investments.

Azerbaijan's current role as a regional and global investor has transformed the country into a significant geological player as well as a powerful country with progressively growing international trust. Azerbaijan has been a driving force behind multibillion-dollar investment projects such as the “East-West” and “North-South” transportation crossings, the Baku-Tbilisi-Ceyhan oil pipeline, and the Baku-Tbilisi-Erzurum gas pipeline, as well as one of the European Union's top energy projects (“Shahdaniz-2”, Expansion of the Southern Caucasus Pipeline, TANAP and TAP).

Azerbaijan's activity and continuous territorial connective ventures, such as the Baku-Tbilisi-Qars railroad, the Modern Baku Universal Sea Exchange Harbor, and the calculated center on the Xerxes Ocean, which interfaces railroad systems

between Azerbaijan and Iran, appear modern accomplishments within the advancement of Trans regional framework with multilateral openings for the East-West and North-South headings.

Since of the volume of ventures in remote economies within the locale, Azerbaijan, which has now reinforced its position as a critical financial specialist, has become one of the most economies within the CIS nowadays. Our nation has gotten to be a topographical center of speculation within the locale, agreeing to reports from the world's most eminent financial investigate educate.

Endeavors are right now underway to pull in worldwide speculators to the possessed zones, and a few nations are intensely included in domain revamping and framework ventures.

The state program for the socio-economic advancement of Azerbaijan's locales is one of the essential reports, which plans a five-year cycle of the country's financial advancement. Since of this conspire, the non-oil sector's parcel of add up to territorial assess receipts has multiplied since 2005, coming to 15%. The last was approved and its execution was assessed to take a toll 17.4 billion manats and result within the creation of 12,000 unused business.

However, the epidemic, followed by the war in Karabakh, significantly altered the situation, revealing new features and paths for economic development, ushering in a qualitatively new era in regional politics. Agriculture, manufacturing, tourism, and other branches that were highlighted in past stages will very definitely be complemented by new ones. After all, the expansion of transportation communications has a significant impact on the country's export potential, encouraging the private sector to raise output quantities.

To gain a better understanding of what is going on, consider the data released by MP Vugar Bayramov: Karabakh's share of production in the key sectors of the economy was only 0.7 percent last year, and the former Kalbajar-Lachin economic zone was only 0.1 percent. However, only these two districts' economic potential can be compared to Baku.

Separated from animals and farming, which are conventional for all districts of Azerbaijan (the characteristic conditions of Karabakh have verifiably contributed to great comes about in all ranges of these two segments), these districts have a sizable mechanical and tourism potential, as well as wealthy valuable metal mines, mineral stores, therapeutic waters, and so on. As much get to of experts to the freed lands as doable, nitty gritty inquire about and calculations of financial potential are right now being done. Indeed, In any case, the existing information infer that after IDPs return, the districts will be able to achieve a level of self-reliance and venture self-sufficiency in a generally brief period of time.

However, in the great scheme of things, all of this will have a positive impact on the country's state budget by bringing in non-oil earnings.

Even more significantly, given the predominance of green economy concepts in these places, they will draw investors from all over the world who value environmental stewardship in their manufacturing processes.

Furthermore, Eastern Zangezur will serve as a sort of extension of the Zangezur corridor. With the opening of the corridor, Azerbaijan will effectively become a regional transportation center. It will bring together enterprises from all over Azerbaijan and adjacent nations, enabling them to form manufacturing chains and access global markets.

As a result, Azerbaijan's 14 new regions present the country with new opportunities, initiatives, investments, and revenue. Today, the most important thing is to finish the process of infrastructural rehabilitation in the freed areas and to ignite their economic potential as quickly as possible.

Human development and sustainable economic growth are primary objectives of post-conflic reconstruction strategies. Post-conflict countries confront greater challenges and dissiculties than stably low developed countries according to a study of the economic recovery of several such countries, including Afghanistan, Croatia, Iran and Kosovo. Among those challenges are massive unemployment, high inflation, damaged physical, human and social capital, high government debt,

widespread poverty, chronic fiscal deficits and destroyed economic incentives. Azerbaijan's political will and clear vision will avoid these impediments.

In world practice, in the post-conflict period countries usually re-prioritize and allocate their budgetary resources. Under such conditions, the use of this model will be more convenient in our country. In Malaysia a new economic policy strategy was approved in 1971, whose main aim was to ensure national unity in two ways and they were decreasing poverty and terminating economic imbalances by expediting the restructurization of society.

Assesing the population of the Karabakh region as main human capital is one of the crucial step according to world experience. They should not expect funding from foreign agents. On the contrary, they can add value by showing perseverance, diligence and innovation. If development strategies are based on the whole understanding of institutional processes and social dynamics will be more continious. According to the local economic actors anad United Nations Development Programs must play a pivotal role in the retrival plan.

According to the world experience in order to retain macroeconomic stability a new economic development program must meet certain requirements. Some of the are the followings: steady and continous execution of the determined reforms, alterations of social services for individuals, revamping fiscal and monetary arrangements that guarantee financial restoration. Additionally, reducing unemployment level should be accepted as a main objective of the fiscal policy. Fiscal steadiness and effectiveness and tranparency in the international grants and aids must be ensured.

The Marshall Plan was used to help France and Italy recover economically after WWII. The Marshall Plan, like previous post-conflict aid initiatives, concentrated on importing products and services. At the same time, the utilization of aid was contingent on the US budget and expenditures being approved. France and Italy created a favorable post-conflict restoration policy via significant departures from

the program's requirements and goals by enhancing funding of priority areas of the country.

It is crucial to follow the competence of international organisations that plays a pivotal role in establishing a post-conflict reconstruction model at the full stages. An adequate financial sources, a high-quality institutional environment and the gradual execution of reforms are important for the application of an effective post-conflict model.



## **CHAPTER III. DIRECTIONS FOR INCREASING INVESTMENT ATTRACTIVENESS OF THE KARABAG REGION**

### **3.1. Perspective directions of the investments in the Karabakh economic region**

In November 2020 peace agreement was signed between Azerbaijan and Armenia, the former immediately began to work on the reconstruction, decontamination, reintegration and rehabilitation of liberated Karabakh, which had been suffering enormous destruction for 30 years over the course of the Armenian invasion. Five national priorities of Azerbaijan have been determined. One of them is sizeable relocation of citizens to the newly-released areas via sustainable settlement while reintegrating economic activity.

Azerbaijan is very determined to allocate all resources and stakeholders to revive Karabakh. Main attention will be given to converting “ghost settlements” into smart villages and smart cities by specially taking needs of most vulnerable groups into account. These groups are 1 million refugees and internally displaced persons of the Karabakh region.

Restruction program of the liberated regions has been determined by President Ilham Aliyev. Post-conflict development of liberated territories of Azerbaijan, including humanitarian and construction activities, institutional solutions through engagement of global development investors and partners, replacement of refugees, cooperation between private sector and the government sector, and the development of social capital can be carried out by appliance of special state programs. The location of Karabakh and East Zangazur is both geopolitically and economically crucial. On July 7, 2021 the Decree of the President of the Republic of Azerbaijan on the new division of the economic regions was approved. The objective of this Decree is to reorganize economic regions of Azerbaijan Republic for increasing the efficiency of economic management after the termination if Armenian occupation. As a result of the new division the number of economic regions has extended to 14, and Karabakh and East Zangazur economic regions were created.

The establishment of an economic zone between Karabakh and Zangazur regions has attracted attention. Because Zangezur and Karabakh are our historical ancestral lands. In the Karabakh economic region, all districts of the Karabakh region were united. The districts belonging to the East Zangazur region were united under the East Zangazur economic region. West Zangazur economic region is now under Armenian control. Zangezur corridor we will be used as a return way for our citizens.

Economy of the Azerbaijan has expanded more than three times, sectoral and regional structure of the economy has changed. In addition to this Karabakh has been entered into the economic circulation, Zangezur corridor has been opened and regional communications have established new realities. Also the sectoral and regional structure of the economy has changed. These new realities confirmed a new approach to economic zoning. In Azerbaijan this new economic division will facilitate the increment of effectiveness of measures taken to improve and renovate Karabakh. This division will help to guarantee flexibility in institutional reforms and economic governance in the country. This will also result in increase in efficiency of economic region planning. Program on Karabakh development strategy, as well as economic and social development plan of the regions, will comply with a new economic division of the regions.

Post-conflict reconstruction will be implemented within frame of the general development strategy of Azerbaijan Republic. Liberated areas will be connected to the value chain via reintegration plan. In accordance with the Goals and, Local features, prospects and resources of the region will be taken into account to develop post-conflict areas in accordance with the principles of the 4th industrial revolution and UN Sustainable Development objectives. The damage done by Armenians to water, minerals, forests and cultural resources and, particularly, civilians is calculated with the engagement of international experts, as well as, claims regarding these are filed against opponent party.

After the conflict is resolved and our Karabakh returned to Azerbaijan, region became more attractive to the investors all around the world. The volume of the investments that are planned to be made in Azerbaijan in the next few years can increase several times. Majority of the investment will be made to the Karabakh due to the rich natural resources and important geopolitical location of the region which attract local and foreign investors.

Turkey, Italy, Israel, Russia, China, Japan, the UK and other strategic partners have shown great interest to be involved in the ongoing restoration and decontamination projects in Karabakh. General manager of Pasha Capital Investment Cenk Eynehan said “283 foreign organisations bid for the projects in the recently released border region”. It was also noted that “the government of Azerbaijan allocated \$1.3 billion for reconstruction of the region in 2021, and the same amount is expected to be earmarked in 2022” (<https://www.aa.com.tr/en/economy/turkish-firms-take-lions-share-in-rebuilding-karabakh/2454113>).

The Confederation of Entrepreneurs has already received a number of proposals in this regard. Today there are more than 600 offers. Both local and foreign entrepreneurs were informed about investment and business opportunities in Karabakh economic region. Even some of these foreign guests paid a visit to Karabakh.

Center for analysis of Economic Reform and Communication of the Republic of Azerbaijan assessed the potential of Karabakh and Zangazur economic regions. Three main areas which have investment potential are the followings:

- Tourism;
- Industry;
- Agriculture.

These three main areas include processing industry, metallurgy, mining industry, food industry, grain and vegetable growing, tourism and recreation, pharmaceuticals, cotton and fruit growing, viticulture, beekeeping, poultry farming,

animal husbandary, creative industry and production of building materials. Investment in these fields is vital for import substitution and improvement of non-oil exports and for connecting to the value chains. In terms of food and economic security post-conflict restoration will play a pivotal role. In order to stimulate investment various mechanisms can be carried out such as agro and techno parks, industrial parks and districts. Karabakh region has opportunity to enter Iranian and Turkish market with the population 80 and 83 million people respectively. Since Karabakh has efficiency, strategic assets and resources to grab interest of the investors.

In order to reach the projected level of development in these areas, it is important to build transport infrastructure in the first place. Priorities for restoration include the construction of new communication and transport lines, as well as the renovation of existing roads. Ten highway projects with totally 665.4 km length are included in road construction project of the region.

101 km Victory Road which is one of the major projects has completed in the region. This new road is another way to Shusha and is already in use. As a part of 15 various projects more than 1,400 km of roads are currently under construction in the Karabakh region. Some examples of these projects are the followings: The Ahmadbayli-Fuzul-Shusha, Horadiz-Jabrayil-Zangilan-Aghband, Kalbajar-Lachin, Toghanali-Kalbajar-Istisu, Shukurbayli-Jabrayil-Hadrut, Khudafarin-Gubadli-Lachin, Fuzuli and Gubadli-Eyvazli highways. Recovery of the road and rail connection western part of Azerbaijan and Nakhchivan, as well as opening of the Zangezur corridor is one of the most crucial matters in this direction.

The territory of Karabakh is distinguished by its relief, historical monuments and natural resources. Azerbaijan's tourism potential is generally considered inexhaustible. Even though infrastructure was destroyed by Armenians, we can make it possible to develop tourism here. Full utilization of the tourism potential of the Karabakh region will be probable after security, creation of the infrastructure

and return of the population are ensured. In the near future, after resolving these matters Karabakh will have leading position in the tourism sector.

The work on the formation of infrastructure in the liberated areas has already started. The improvement of the tourism sector in the Karabakh region will positively influence rapid economic recovery of the region. It is feasible to contribute to the economic recovery of the Karabakh by utilising tourism potential of the cultural tourism, ecotourism, medical and mountain tourism in Kalbajar, Shusha and Lachin which are wonderful tourist destinations. There are a great opportunities for the improvement of the numerous types of the tourism such as health, winter, ecological and mountain.

In the early stages formulation of the domestic tourism will be primary direction. An ancient history of the region, cuisine, ancient fortresses, distinctive fauna and flora, religious, historical and cultural monuments, springs and bridges will grab an attention of the tourists. After the completion of restoration of the infrastructure it is planned to arrange introductory tours for revitalising health tourism. Once all of these concerns are handled Karabakh will become a major player in the Azerbaijan tourism industry. We can say that Karabakh economic region will be a center of regional and global ecotourism. As ecotourism is considered as a future of the region different types of the extreme tourism, green tourism and agro tourism can be organized.

Istisu, Tutgunchay, and Minkand mineral springs, mountain forests, balneological and climatic conditions of the Kalbajar-Lachin region can be utilised for resort purposes. Kalbajar district can also be considered an ideal place for winter tourism. Shusha will be one of the cities-symbols of Azerbaijan tourism industry. Lachin district has quite broad recreational opportunities. The presence of mineral water sources in the district will necessitate the establishment of new beverage manufacturing facilities. The Lachin reserve which covers more than 21,000 hectares via rich flora and fauna and the Iligsu mineral spring will boost tourism

opportunities of these districts. Even before the occupation, there were two large sanatoriums in Istisu, Kalbajar region, that were well-known across the USSR and treated 50,000 people annually. There was a mineral water bottling plant. So we can say that Kalbajar's tourism potential may compete with Georgia's tourist destinations.

The abundance of both ecotourism and cultural tourism monuments in this area increases its tourism potential. Thanks to the new infrastructure projects which are being implemented in Karabakh, will create conditions for the influx and attraction of completely new tourists 3 tourist destinations with tourism potential can be put into operation. The first one is located in the eastern part of Fizuli-Shusha region. Shusha also has a health resort center. The region's unique climate, extraordinary natural beauty, Chetir waterfalls, Shirilan and Turshsu mineral water springs, historical sites, authentic architecture and museums will draw a large numbers of tourists. Today the cultural capital of Azerbaijan is Shusha. After the completion of restoration works the famous Jidir Plain will become a destination for significant cultural events, competitions and festivals. This is a strong incentive to attract tourists. Those who have visited Shusha at least once will undoubtedly want to return. Contemporary recreation centers and hotels is required to be built in Karabakh to establish conditions to host tourists.

Ahmadbeyli-Fuzuli-Shusha road and the "Victory Road" will ensure the comfortable arrival of tourists to these areas. The road will be fully used for increasing tourism potential of the region. Fizuli International Airport which is located in that area is also valued as an important route for foreign tourists. The second destination is Gashalti sanatorium and the third is Istisu. In 1970 distinctive Istisu spring which got the all-union health center status in Caucasus. There are multiple therapeutic springs here, with water temperatures reaching approximately 90 degrees Celsius at depth!. This spring is surrounded by mountains, rare forests, and prehistoric monuments. With rare birds and animals and typical forests of the region a reserve may be crated.

Although medical tourism is considered as uninteresting kind of rest, favourable opportunities of the area can change situation and make the resort more competitive and attractive than similiar resorts of Caucasus. As a result of this Kalbajar has become one of the most well-known tourist destinations in the region and the world. During the Soviet times Istisu hosted over 50,000 tourists annually, the number can now be multiplied by establishing favorable conditions for the development of various types of tourism, ranging from medical to extreme.

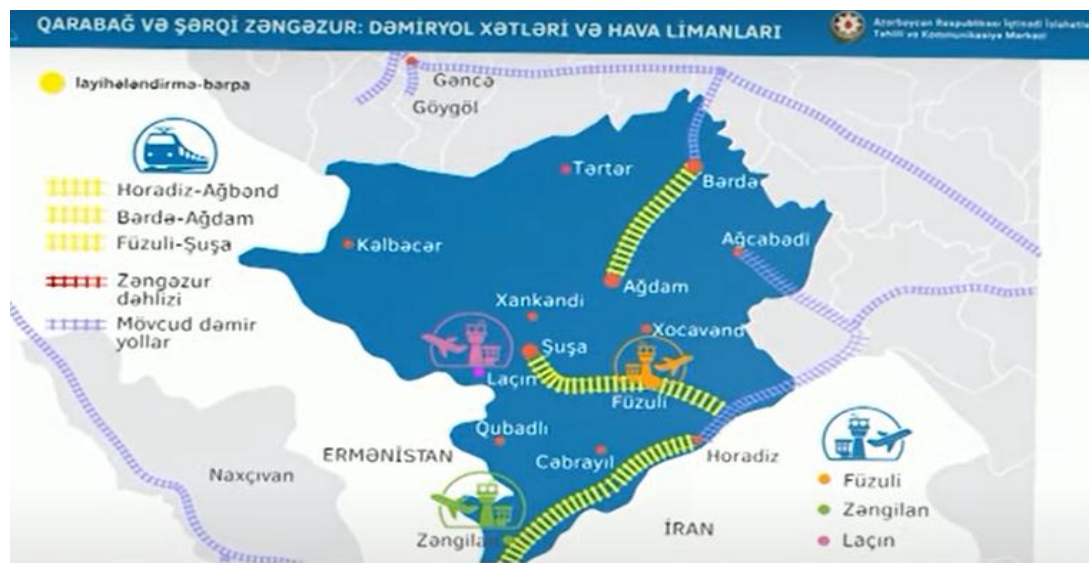
After the opening of the Toganali-Kalbajar-Istisu road which play a crucial role in the improvement of the tourism potential of this region, this area will grab the attention of the tourists. Moreover, the commissioning of this road which connects Kalbajar and Lachin districts, as well as the opening of Lachin airport will facilitate the arrival of international tourists in this area.

**Picture 4: Highways in Karabakh and East Zangezur economic regions**



Source: <http://www.aayda.gov.az/en/news/31>

**Picture 5: Railways and airports in Karabakh and Zangezur economic regions**



**Source:** Agrarian Research Center's "Agricultural Economics" scientific journal

President Ilham Aliyev laid down the foundation of the new road junction of the Karabakh. On the 27-km section of the Ahmadbayli-Fuzuli-Shusha highway Fuzuli-Shusha road was founded by Ilham Aliyev and this road will be joined to. Furthermore, the foundations for the Fuzuli-Hadrut, Zangilan-Horadiz, and Barda-Aghdam highways have already been placed, and a new alternative roadway with a length of about 80 kilometers is being constructed without passing through Lachin.

The Lachin district which borders Kalbajar, has rich thermal waters. Lachin is a must-see place for tourists all around the world because of its massive green meadows, rich fauna and flora, as well as thousands of architectural monuments, including fortresses and burial mounds.

Karabakh and East Zangazur have a great prospective for tour arrangements in resort areas. The Azykh cave, for example, is located in the Khojavand region, near the city of Fuzuli, and is considered one of the cradles of civilisation. Unfortunately, archaeological and historical heritage of the Azerbaijan has been irrecoverably damaged and exhibits of the cave were devastated by the Armenians during the occupation period. However, the cave itself surprisingly survived. In order to re-attract history enthusiasts from all around the world a large-scale project will be implemented.



The industrial potential of Karabakh and East Zangazur is fairly big. Production industry based on natural resources is expected to be formed both in Aghdam and in the city of Jabrayil. Industrial park establishment process in Aghdam is being carried out rapidly. Due to the scale of its destruction by Armenians, Aghdam was called a "ghost town" and "Hiroshima of the Caucasus." International analysts described Aghdam as the planet's "largest home warehouse" because Armenians ransacked and plundered the properties of the city to use as building materials. Aghdam is going to be revitalized as part of the post-war reconstruction strategy implemented by the Azerbaijani government. President Ilham Aliyev put the foundation of the first "smart" residential building in May 2021 in Aghdam. According to the reports, 23,000 apartments and 1750 houses will be built in Aghdam. 70% of the inhabitants of the city will live in apartment buildings, while the other 30% settle in private houses.

The Aghdam Industrial Park is intended to turn Aghdam into a cutting-edge industrial hub for the entire Karabakh region. In May 2021, President Ilham Aliyev put the foundation of the industrial park. Production of construction materials, dairy and meat products, fertilizers, packaging of agricultural products, processing and production of feed, as well as storage, refrigeration and other services are the main priorities of the industrial park which covers 190 hectares area.

Currently, Aghdam Industrial Park has five registered residents. Certificates have already been issued to two companies in this regard. It is planned to implement more than 10 projects submitted by entrepreneurs, including the production of ventilation systems, metal products and firefighting equipment, maintenance of heavy equipment, concrete production, production of upholstered furniture and orthopedic mattresses, drinking water pipes and sewerage and so on.

On February 13, Ilham Aliyev opened Smartpoint LLC and Dadash-N LLC. These are two of five resident companies of the newly created industrial park.

According to the reports Smartpoint LLC will produce devices and light poles powered by renewable energy sources, as well as solar energy. The most crucial aspect of the renovation and restoration effort in the Karabakh region is the provision of power to the area, as well as the improvement of innovative and renewable energy

sources. \$5.4 million will be invested in this project. Advanced technologies from Turkish and Italian manufacturers will be used in the manufacturing plant. 21 000 light poles and different facilities are estimated to be produced in the enterprise. This project will permanently employ 80 people who will come there six months after the beginning of its construction. The goods of Smartpoint LLC will be sold in the domestic market, as well as in Georgia, Uzbekistan and Kazakhstan.

Various synthetic carpets at the Dadash-N LLC are expected to be produced in the Aghdam Industrial Park. A carpet factory will be built on 2 hectares of the park. Cost of investment in this project is estimated to be \$5.6 million. An annual production volume of the facility will be 700,000 square meters of carpets. Complex will use facilities of Belgium and China. In the new plant 60 workers will be employed. In addition to the domestic market Dadash-N LLC wants to sell its products in global markets particularly in Commonwealth of Independent States (CIS).

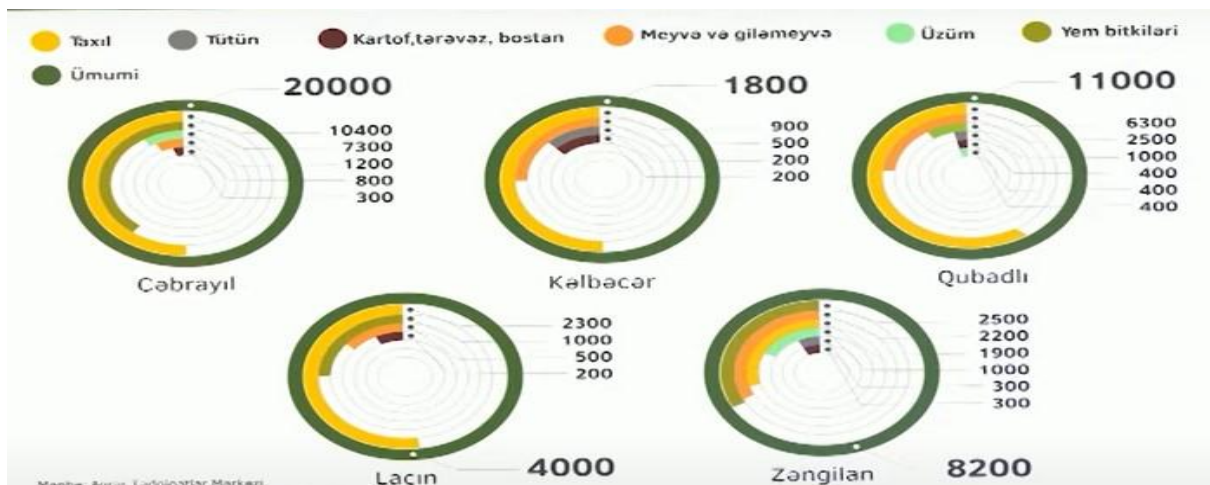
Currently, 74 hectares of land have been cleaned from mines. Reinforced concrete products will be produced in the area and this project will employ 80 people. At the same time, infrastructure and logistics projects are also interesting for entrepreneurs. This, of course, is the production of industrial goods, especially construction products which will allow the involvement of local and foreign investment. Especially, the involvement of the local investors in service sector is very crucial. Total cost of 12 investment projects with approximately 1 million manat and 140 people are considered to be employed permanently. Investors have already shown great interest in investing in these projects. Their interests are primarily in the labor market and attracting people to the region where the existence of very favorable conditions for investment is a great initiative.

On May 3, 2021 Karabakh has been determined as a "green energy" zone with the presidential order. The Energy Ministry has been allocated \$1 million of the reserve funds for attracting international experts specializing in the development of green energy and formulating plan for the creating "green energy" zone in the region (<https://www.azernews.az/nation/192378.html>).

Application of the new technologies in the development of green energy, as well as agriculture and food will lead to positive effects on industrial development. Entrepreneurs operating under the industrial park for 10 years are exempt from certain taxes for a period of time which, in turn, will encourage more businesses. A mobilization camp is also being established which ensures the comfort of employees and residents who will work in the park in the future. On the campus, a container-type dormitory, canteen, medicine station, and sports ground will be built. Topographic planning of the area and engineering geological research has also been completed. All investments in the region mean the development of the country's economy as a whole (Hacıyev, 2021, p.24).

The region also has great prospects for agriculture. According to estimates, more than 70,000 tons of grain is expected to be produced in the economic regions of Karabakh and East Zangazur.

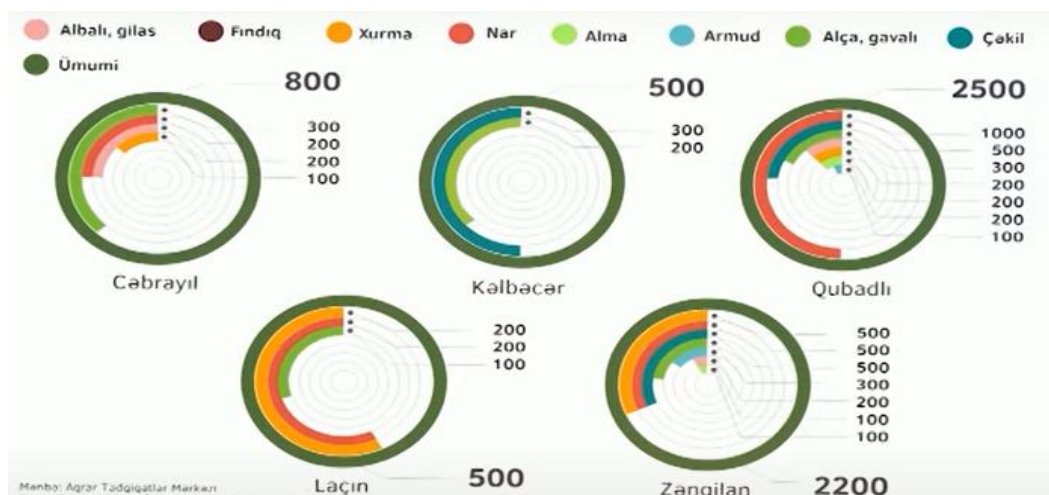
**Picture 5: Expected harvest of the vegetables**



Source: Agrarian Research Center's "Agricultural Economics" scientific journal

In addition, 1,800 tons of tobacco, 8,400 tons of potatoes, 11,900 tons of vegetables, 4,600 tons of melons and 153,000 tons of fodder crops are projected to be produced.

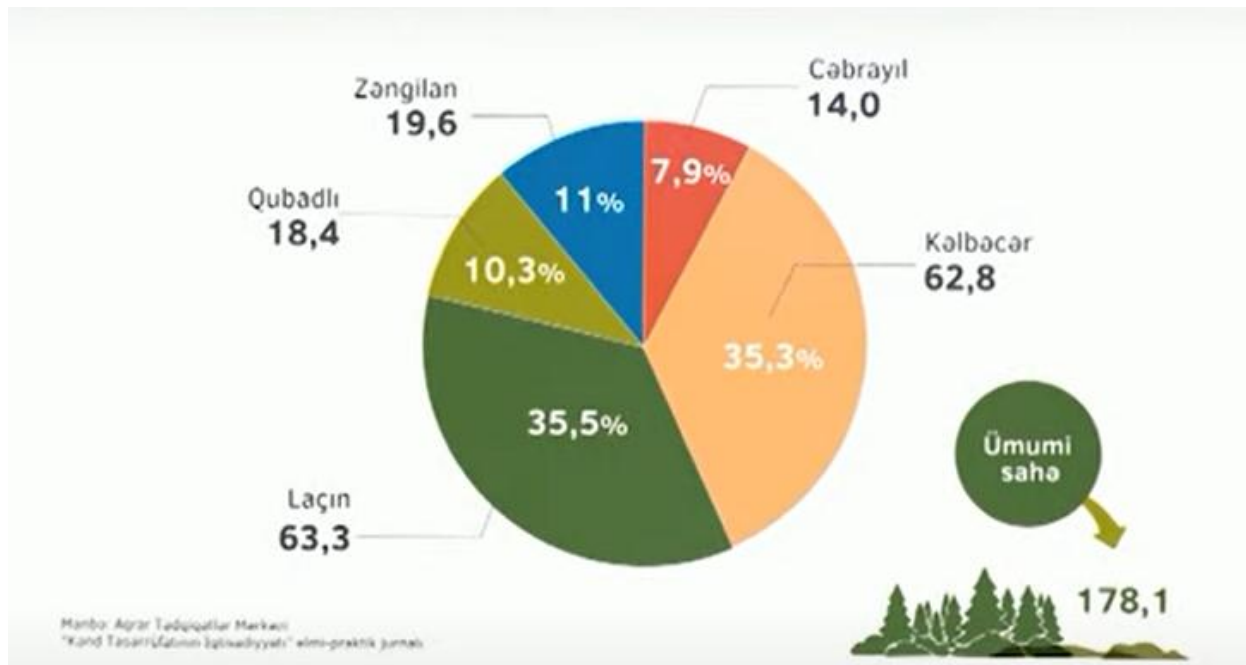
**Picture 6: Expected harvest of the fruits**



**Source:** Agrarian Research Center's "Agricultural Economics" scientific journal

There are also 46.3 thousand tons of berries and 27.3 thousand tons of grapes are projected to be produced. These areas are also very rich in forest resources. In general, the East Zangazur Economic Region alone has 178.1 thousand hectares of forest resources.

**Picture 7. Forest area of Karabakh region**



**Source:** Agrarian Research Center's "Agricultural Economics" scientific journal

The forested part of the reserves falls on the territory of Kalbajar and Lachin economic regions. Large forest areas will also support the growth of tourism potential in these areas. Agriculture will grow even more as a result of the special

role played by roads and railways. The Horadiz-Agband railway will also play a role in the formation of a center of gravity for the international transportation of goods in this area. Thus, it is important that Zangilan becomes an important logistics center, and this potential will increase as a result of the commissioning of the Zangazur corridor. It is planned to increase freight traffic along the Barda-Agdam railway, which was designed and restored in the Fuzuli-Shusha direction. Along with large agricultural reserves, the Karabakh region also produces gold and silver, and has natural mineral resources such as copper and molybdenum. East Zangazur is rich in both non-ore and ores such as gold, copper and mercury. According to official data, the region has various natural resources and is estimated to have about 163 natural resource deposits.

Azerbaijan has already begun reforestation efforts in forested areas of Karabakh, and the associated action plan includes the state reserves Garagol and Basitchay, as well as state nature preserves of Gubadlı, Lachin, Dashalti and Arazboyu.

Today, one of the main economic trade partners of Azerbaijan in the world is the People's Republic of China. Azerbaijan is an vital partner of China in Eurasia with the "One Belt, One Road" initiative. Against the background of the 30-year liberation of Karabakh and the Eastern Zangazur region, new realities are changing these facts. The Chinese side already considers "One Belt, One Road initiative" as one of the strategic projects for the Karabakh and East Zangazur regions. The Karabakh region is a crucial corridor between Iran and Azerbaijan. It also can be used as a BRI trade route. Several Chinese firms have already expressed an interest in participating, particularly in the establishment of industrial parks and reconstruction work. Huawei is involved in projects to build "smart cities" in Karabakh.

China is very interested in the liberated areas of Azerbaijan. In general, attracting foreign investors is one of the priorities of Azerbaijan today. It is also crucial to attract Chinese investors. \$ 260 billion investments in Azerbaijan's

economy over 15 years has been completed. More than 100 billion of this is foreign investment. In the current situation, the launch of the corridors will stimulate the next wave of investment flows to the region.

It is also a belt of the East-West, North-South corridor passing through Azerbaijan. Given the prospects of synchronization with the mega-project as a road corridor, the inflow of foreign capital is natural. The opening of the international transport corridor of Azerbaijan in the Karabakh region by the end of 2023 will further increase the role of airports. Currently, the trade turnover between India and Russia is \$ 11 billion, China and among the European Union is \$ 500 billion, and Azerbaijan between these poles becomes an important transport logistics center. If 10% of the trade turnover between India and Russia passes through the territory of Azerbaijan, the state budget can receive transit revenues in the amount of \$ 1-1.5 billion annually. If we calculate the trade turnover between the European Union and China with a minimalist approach, the transportation of only 1% through our country means the transit of \$ 5 billion worth goods. The opening of the new corridor is in the middle of the Great Silk Road, and the creation of new communications will shorten the line by about 350-400 km, which in itself is a separate event in the economic context.

Majority of projects for reconstruction of Karabakh region will be implemented by Turkish firms. Currently approximately 283 foreign companies are bidding on projects in the recently liberated region with majority of them being Turkish firms (<https://www.aa.com.tr/en/economy/turkish-firms-take-lions-share-in-rebuilding-karabakh/2454113> )

One of the important topics of the Shusha declaration is development of the trade and economic relations between countries through the use of investment potential. The investment role of the Turkey in Azerbaijan economy is adequate. Turkey got the first place in investment volume in the non-oil sector with \$12 billion. Turkey has shown great enthusiasm to make investment in reconstruction of liberated areas of the Karabakh economic region.

Immediately after Azerbaijan has declared its victory in Karabakh war, Turkish businessmen expressed their readiness to invest in restoration projects and some representatives of the entrepreneurial companies made concrete proposals during the visit of Karabakh.

It must be acknowledged that against the background of the large-scale reconstruction campaign in Karabakh, additional steps have been taken to make it easier for Turkish entrepreneurs to operate in Azerbaijan.

Involvement of Turkish companies in Great Return strategy is not only moral and political support of the Turkey, but also this is a business. The Karabakh projects are important for Azerbaijan. With timely and high-quality implementation of these projects internally displaced persons can return to their ancestral areas within the shortest possible time and live and work there in comfort and safety. Companies must submit commercially reasonable and profitable proposals in order to be considered for these projects.

The preference in implementation of large-scale projects will be given to the Turkish construction companies. Because they have great experience in the construction sector. The 44 of the Turkey construction companies are in TOP-250 of the world construction companies. Additionally, Turkey is in the second place with its companies. Turkish construction firms are successfully and actively building variety of projects around the world, ranging from residential complexes to bridges, airports and other complex facilities.

Turkish companies have also involved in mining development projects in Karabakh. President Ilham Aliyev has given the mining of the Gashgacay ore deposit with 30 years contract to the Eti Bakir A.S. company while mining of the Elbeydash and Agduzdag has been given to the Artvin Maden A.S. company. These companies are part of one of the Cengiz Holding companies.

Turkish companies are also invited to invest in renewable energy projects in Kalbajar and Lachin districts. Parviz Shahbazov Energy Minister of Azerbaijan

reported that Turkish companies has already shown their interest in projects for the wind power plants construction. Liberated areas have been referred to 'green energy' zone and they have 500 MW wind energy and more than 4,000 MW solar energy. Turkish firms has made approximately \$7 billion in the renewable energy sector, and because of this Azerbaijan government has invited them. According to strategy for 2019-2023, it is expected to install 2 100 MW power plants in this year. The total cost of these projects will be more than \$2.5 billion. Of course, the most of projects are completed by local businesses, which have sufficient experience and skills.

Karabakh has high tourism potential with its extraordinary nature, thermal waters and rich history. Additionally the passage of critical transportation junctions, as well as the possibilities of the Zangezur corridor, make the region's industrial and export potential even more appealing to investors. According to the reports \$50 million will be invested by Turkish businessmen in the early stages of establishing industrial enterprises in Karabakh economic region.

Azerbaijan has signed an agreement with Turkey's leading technopark to establish a joint high-tech park in the Karabakh economic region, which will carry out the most modern research and production of high-tech devices.

The Turkish bank of Ziraat Bank plans to open a branch in the Shusha city. Officials of the bank said that internal procedures have completed and new branch in the Shusha can be opened after getting essential permits from Azerbaijan government. Bank officials has stated that the opening date of the branch depends on the decision of the Azerbaijan authorities. Approximately \$50 million investment plan in the liberated Karabakh has been declared by Chairman of the Turkish TŪMKİAD association. It helps to connect entrepreneurs and leading businessmen in Turkey. Textile is identified as the key area for the multimillion dollar investment.

For supporting technological development of the Karabakh region the British government has also involved. The Kingdom's ambassador in Azerbaijan, James



Sharp, said that he was discussing with government officials of the Azerbaijan about the creation of "smart cities" in the region.

The contract worth €5 million (\$6 million) was signed between Energy company of Italy Ansaldo and Azerbaijan in order to supply equipment for four substations that are planned to be in the Karabakh economic region. Each of these substations will have 110 kilowatt capacity, and according to the reports they will be located in Fuzuli, Aghdam, Kalbajar and Gubadli districts. Delivery of the equipments has completed in March 2021, and construction finished in June 2021.

The Hungarian government has also shown its eager to contribute to the reconstruction of the Karabakh region. Péter Szijjártó, Hungary's Foreign Affairs and Trade Minister held a online meeting with the Minister of Labor of Azerbaijan to discuss options for involving Hungarian companies in reconstruction projects. Exim Bank of Hungary has allocated \$100 million to the companies for involving in revitalisation of liberated areas of Azerbaijan. Furthermore, €25,000 assistance was offered by Hungarian government for demining processes in formerly occupied territories in order to mitigate the effects of the war.

Japan, Israel and Iran companies are ready to invest in reconstruction projects of Karabakh economic region. The Energy Ministry of Azerbaijan met with the officials of the European Union Delegation to Azerbaijan, the United Nations (UN), the US Agency for International Development, German Society for International Cooperation, the UN Development Program, the International Finance Corporation, the World Bank, Asian Development Bank and the European Bank for Reconstruction and Development to discuss the establishment of a "green energy zone" in the Karabakh region (<https://report.az/en/analytics/economic-brotherhood-turkey-s-karabakh-investments/>).

### **3.2. Ways to increase investment attractiveness of the Karabakh economic region.**

Development strategy for Karabakh can include short-term, medium-term and long-term activities at the regional, local, international and national levels. Use of monetary, fiscal, social, macroeconomic and other policy instruments of government is crucial for the effective execution of the strategy. Simultaneously, it is crucial to take money stock absorption of the economy in order to manage real exchange rate of the national currency.

For involving required level of investment region should have favourable investment climate, political and economic stability and important geographical location which can attract both local and foreign investors. For attracting foreign direct investment(FDI) into the reconstruction of the Karabakh region government should offer attractive terms, simplify the legal processes and legislative amendments.

Karabakh region will reintegrate and develop into the country life through the President's directive to construct within the framework of the strategic management of the economic policy.

Karabakh development strategy can be carried out by consistent execution. To ensure the application of the Karabakh development strategy a management, evaluation and monitoring mechanism, as well as an accountable and transparent financing mechanism, can be established. Decontamination, construction and landscaping works will be carried out in the liberated areas in accordance with the new master plans of cities, settlements and villages.

The economic infrastructure of the area, including roads, irrigation systems and land reclamation, gas, water supply, sewerage, electricity, etc. need to be created, restored and developed in order to establish favourable investment climate in the region. At the same time, it is crucial to improve social infrastructure, including

health care and education. In the liberated areas, priority should be given to providing the full functioning of municipal and state, the development of competitive fields of the employment and economy, including self-employment. The priorities should also cover the following: the development of human capital, supporting the development of entrepreneurship, particularly micro, small and medium-sized entrepreneurs, gradual settlement of the internally displaced persons by taking into account social and economic issues, as well as improvement of the economy with principles of new technologies, advanced solutions, green and circular economy.

Today, the growth of investment activity in the Karabakh economic zone is a key condition for economic and social development of all economic sectors.

The main investment to provide the most effective ways to build a strategy for the liberated regions is public investment. The state performs the following functions in investment management:

- Taking into account the current state of the investment market, national demand for investment and forecasting development;
- Development of strategic directions of investment policy taking into account the development trends of the whole country, as well as its regions;
- Incentives, regulation, support and investment legislation for monitoring;
- Monitoring of investment activities and implementation of specific measures to support and regulate the financing of investment projects at all levels.

In general, the region's compliance with key objectives such as investment attractiveness, investor profitability, regional liquidity and zero-risk investments is determined. The indicators that local and foreign analysts offer to assess when determining the level of regional investment attractiveness are three main groups of factors. These factors determine the level of attractiveness for investors:

- Factors affecting the level of regional investment potential (natural-geographical, labor, production, innovation, institutional, infrastructure, finance and consumption potentials).

- Determining the level of non-commercial investment risk factors (legislative, political, social, economic, environmental and criminal risks).
- Investment activity (concentration and distribution of investment capital, activation of new productive forces, direct and indirect development of portfolio investments) (Butko, M., Zelenskiy, O. (2005), p. 31).

The Karabakh economic zone has a strong research and production and intellectual potential, as well as a number of different cultures. Today, one of the main priorities is to increase the share of foreign investment in the investment attractiveness of the Karabakh economic zone and the regional economy. This region has a high rate of socio-economic development. As for the investment infrastructure, there are many consulting firms and agencies in Karabakh that will actively develop in time. And they deal not only with professional business plans, but also with the sources of investment funds and will be able to act as intermediaries between investment projects.

There are strong hidden opportunities for diversification of cooperation for investment potential in the Karabakh region. We must convince investors to work in the liberated Karabakh economic zone. We need to persuade investors to do business in the region. Variety of incentives must be used to motivate them. At the same time, we must mobilize investment potential in three directions:

- 1) enhancement of capital investment expenditures from the state budget;
- 2) encourage domestic investment in the region;
- 3) attract overseas foreign investors to the region;

For encouraging local investors to participate in investment activities of liberated regions should be given various incentives from institutional concessions to tax breaks. This would also stop migrant capital from flowing to different countries.

Public-funded investment infrastructure should play a critical role in attracting foreign capital. Infrastructure must ensure the inflow of investment into the country. Investment creates value when it enters into the economy. In other words,

infrastructure through its attractiveness should grab attention of the foreign investors. Foreign investment creates value when it enters the economy. Therefore, the value-added potential of the infrastructure must be utilised. When infrastructures don't create value wearing out. As infrastructure itself requires additional repairs and wear and tear from year to year. So, an infrastructure system must be established in a way that can attract foreign investment.

We need to change our relation approach to the foreign investors and build new relations in a completely new way. Basic slogans such as "Let's invest in Karabakh" should not be used. Special investment strategy of the Karabakh economic region should be established. It must be accepted that the work does not end with ensuring the movement of foreign investment into the country. Effective investments can help to revitalise our Karabakh that is considered as a dead zone.

Firstly, a supportive economic regime must be created for the development and establishment of the business in our newly liberated areas. The political, legal, economic and social factors that determine the investment climate must be normalized. Foreign investment priorities must be clearly identified. Special attention should be given to the companies whose states have shown a clear position in legal and political promotion of Karabakh. While we may set superior and unambiguous criteria for Turkish investors, we can also impose restrictions on other countries. France can be put in this list. Also prohibitive standards can be imposed on French businesses. We can also adopt legislation prohibiting foreign corporations from investing in Karabakh, particularly French companies. If the senate of this state refuses to recognize Karabakh as our territory, our parliament can issue a declaration of complaint for that state, as well as comparable legislation for the enterprises who do business there.

As an economic principle, this type of regulatory criteria for investment operations is well stated in our proverb: "He who has no trace in the field should not have his face on the table!" (<https://www.turan.az/cache/2020/analytics/free/news-2020-11-free-analytics-en-130426.htm>).

Priority areas for sectors of the economy and economic regions have been identified in order to effectively allocate the Fund's resources in connection with the implementation of the tasks arising from paragraph 4.9.13 of the Charter of the Entrepreneurship Development Fund of the Republic of Azerbaijan. Priority areas of Karabakh and East Zangazur economic regions have also been defined. These areas are reflected in Table 2.

**Table 2: Priorities for Karabakh and East Zangazur economic region, directions on the Karabakh economic region (Khojaly, Khojavend, Shusha, Tartar, Barda, Agdam)**

<i>Karabakh economic region (Khojaly, Khojavend, Shusha, Tartar, Barda, Agdam, Agjabadi, Fizuli)</i>
<i>East Zangazur economic region (Kalbajar, Lachin, Gubadli, Jabrayil, Zangilan)</i>
<ul style="list-style-type: none"> <li>• Establishment or extension of planned production, processing, and service areas by decrees and orders of the President of the Republic of Azerbaijan, state plans, decisions, and orders of the Cabinet of Ministers of the Republic of Azerbaijan</li> </ul>
<ul style="list-style-type: none"> <li>• Establishment of agricultural processing enterprises, as well as the modernization or extension of existing processing enterprises</li> </ul>
<ul style="list-style-type: none"> <li>• Establishment or expansion of businesses producing dried and frozen fruits and vegetables, strong feed, and meat cutting</li> </ul>
<ul style="list-style-type: none"> <li>• Establishment or expansion of horticulture and seed farms using intensive agricultural techniques such as modern irrigation systems and other modern Technologies</li> </ul>
<ul style="list-style-type: none"> <li>• Expansion or establishment of beef and dairy cattle and other livestock complexes</li> </ul>
<ul style="list-style-type: none"> <li>• Establishment or expansion of farms and agro-parks</li> </ul>
<ul style="list-style-type: none"> <li>• Establishment of viticulture and cocoon farms;</li> </ul>
<ul style="list-style-type: none"> <li>• Expansion or establishment of wool and leather reception points and cocoon drying</li> </ul>
<ul style="list-style-type: none"> <li>• Supporting internet, telecommunication services and digital economy development projects</li> </ul>
<ul style="list-style-type: none"> <li>• Supporting media development projects</li> </ul>
<ul style="list-style-type: none"> <li>• Support for souvenir production, carpet weaving and other areas and development of ancient folk arts reflecting national spiritual and traditional values</li> </ul>
<ul style="list-style-type: none"> <li>• Supporting startup projects</li> </ul>
<ul style="list-style-type: none"> <li>• Using renewable energy, providing services in this field, and supporting production-oriented initiatives with equipment and facilities</li> </ul>
<ul style="list-style-type: none"> <li>• In the fields of production, processing and services based on innovative technologies (light, food, chemical, mechanical engineering, medical, educational and household services, etc.) Establishment of enterprises or expansion</li> </ul>

<ul style="list-style-type: none"> <li>• Financial assistance in development projects of mining industry</li> </ul>
<ul style="list-style-type: none"> <li>• Establishment or expansion of refrigeration and grain storage complexes, farm stores and green markets, growth of a logistics center (storage, transportation, and sale of food and non-food products).</li> </ul>
<ul style="list-style-type: none"> <li>• Assistance in establishing wineries and mineral water businesses</li> </ul>
<ul style="list-style-type: none"> <li>• Financial assistance for tourism development projects</li> </ul>
<ul style="list-style-type: none"> <li>• Supports waste recycling projects and maintains environmental balance</li> </ul>
<ul style="list-style-type: none"> <li>• Financial support for initiatives in agricultural, manufacturing, processing, tourism, and other sectors based on the United Nations Sustainable Development Goals and ESG (environmental, social, and corporate governance) aspects</li> </ul>
<ul style="list-style-type: none"> <li>• Investing in non-oil commercial projects that promote socioeconomic development</li> </ul>

Source: <https://e-qanun.az/framework/39705>

France became the first country that recognized so-called "Armenian genocide" during the presidency of Jacques Chirac at the beginning of the 21<sup>st</sup> century (2001). "National day of commemoration of the Armenian genocide" by the current President of France, Emmanuel Macron, was recognised in February 2019. According to a resolution accepted in November 2020 Nagorno-Karabakh was declared as the territory of Armenia. In other words, France has been supporting Armenia and therefore French companies cannot be among investors in Karabakh.

Turkish companies have always been great investors and it is necessary to raise the volume of Turkish-Azerbaijani investment. Over the years, \$ 11 billion has been invested in Azerbaijan by Turkey and Azerbaijan has invested \$ 20 billion in Turkey. Additionally, our investments are expanding, especially in food and construction sectors. The GDP of Azerbaijan is \$ 45 billion while the GDP of Turkey is \$ 813 billion, taking the numbers into account we can conclude that Azerbaijani economy needs more investment from Turkish investors. At the same time, there are problems with investment activities in the Karabakh region at both the national and regional levels. Followings are at the state level:

- Lack of investors' information on available resources, labor and investment potential in the region;
- difficult access of potential investors to regional land resources;

- lack of adequate protection of intellectual, high-tech (innovative) production and property rights.

There are problems at the regional level in creating a modern investment climate due to a number of obstacles for foreign investors:

- Lack of information on the provision of free land for investment projects;
- Increasing the investment attractiveness of the region
- Preparation and regulation of investment proposals
- Information and advice support
- Study of regional demand for investment
- Improving monitoring of regional investment processes

To achieve this goal in the region, we must use scientific-technical and innovative potential and new scientific knowledge and try to find ways to apply them in practice. In the portfolio of the industrial complex, the areas developed for the attractiveness of high innovations have the highest priority.

The development of regional investment infrastructure is mainly based on the processes and trends inherent to the economy. To solve such a problem requires a system-level approach, ie the organization of tools, the application of economic and social complexes, the development priorities approach that will allow to choose a new direction of regional investment activity.

One of the biggest problems of Azerbaijan so far is the lack of active participation of the private sector in infrastructure projects. For example, If we look at the past, we had a very widespread model in the West it is called public private partnership investments. The state assumes all the burden or it involves other public sectors (eg Italy, Ukraine, Turkey, Russia an example of this). All the investment came through the state. It can be clarified that British, Turkish or Italian states are involved there only at the state level it will not be a complete reason for us to achieve the development we want. We must direct and involve other sectors here. Discounts, exemptions from certain taxes, various additional grants, guarantees can encourage both our private sector and foreign investors.



We must fully ensure military security in order to attract investment to Karabakh. We must guarantee that there will be no any military conflict in Karabakh, otherwise there will be no foreign investors because no-one wants to invest in any country which is having ongoing conflicts like Syria. We have had foreign military conflicts in Karabakh, and now we need to guarantee that this will not happen in if we want to attract investors here. Both as a state and as an institution this must be guaranteed. The United Kingdom has allocated £ 500,000 (about \$ 690,000) to support the United Nations Development Program (UNDP) which aims to clear the mines in the region. The United Kingdom is a very close partner of Azerbaijan. Azerbaijan-UK relations has are always been based on mutual respect. During the 44-day war, we lost our allies, friends, and others whom we tested again. It turned out that Great Britain is still among our great friends. Because during the war, Britain brought the resolutions which ware adopted by the UN Security Council back to the agenda in a timely manner. The people of Azerbaijan will never forget this with dignity and kindness. We know that these two friendly countries are taking part in humanitarian actions to clear Karabakh of the mines. Azerbaijanis highly appreciate the help of Great Britain. When we say we are returning to our ancestral lands, Karabakh, we must ensure the people will have safe, secure lives and fertile conditions. The only way to achieve this is demining in the first place. It is difficult to estimate the number of mines in our lands which were under occupation of Armenians for too long. The president, Ilham Aliyev, stated that all of the mines must be neutralized. because the life of every Azerbaijani citizen is important for the Azerbaijan government. Therefore Azerbaijan higly values friend countries which assist us with the most modern mine cleaning equipment with great attention and sensitivity, and with the acquisition and application of technology. So far, more than 100 Azerbaijanis have suffered in various ways from such mines buried by Armenians. Therefore, the demining process is still relevant and must be taken into account. The total number of mine maps submitted by Armenians in the exchange process is about 25% accurate, which is actually a terrible thing. Nevertheless, Azerbaijan is still mobilizing all its forces and this area is growing. The British

initiative will also be a great help in this direction. In fact, in 2020, the United Kingdom became the first country to announce a humanitarian and invested £ 1 million in the Red Cross. This was the last support of the United Kingdom.

<https://fed.az/az/investisiya/azerbaycana-birbasa-xarici-investisiyalar-movcud-durum-ve-problemler-meqale-40060>

In the region various sources of funding can be used, namely, SOFAZ, the state budget, donations of foreign credit institutions, grants, aids, as well as private investments and some other sources which are not prohibited by law. It is obvious that foreign countries, international organizations, large and medium-sized businesses are interested in involving in post-conflict reconstruction. Some international organization in accordance with their mandate, and business following their profile are willing to invest in post conflict areas. For instance Israel, widespread useage of the diaspora investment model is possible in our country. Also, crowdfunding and crowdinvesting, venture capital investment can appeal interest in in technology sector in post-conflict territories. Obviously, making large investments is very difficult at first, so the investments of small and medium-sized businesses are crucial because they will stimulate large investments in the future. Therefore Japan and Taiwan have displayed themselves as venture capital investors in technology sector. Investment can be attracted in several areas with help of public-private cooperation.

[https://azertag.az/en/xeber/Vusal\\_Gasimli\\_Karabakh\\_will\\_be\\_a\\_new\\_driver\\_of\\_economic\\_growth\\_in\\_Azerbaijan\\_-1649603](https://azertag.az/en/xeber/Vusal_Gasimli_Karabakh_will_be_a_new_driver_of_economic_growth_in_Azerbaijan_-1649603)

## **CONCLUSION AND RECOMENDATOINS**

Investment is a very important factor in increasing economic potential and ensuring sustainable development of the economy. The concept of investment has been used in many literatures in various meanings. An investment can be considered as both spending money to make more money and acquisition of the goods and assets. Taking into account all the explanations, the general conclusion is that the investment is purposefully putting money to increase efficiency. Investments are categorized according to many criteria such as nature, period, risks, property, region, purpose and etc. It can also take various forms, such as money, physical capital, direct financial capital, patents, entrepreneurial skills, derivatives, and so on.

Financial development leads to expansion of GDP. This is result of either expansion of aggregate demand or expansion of the total spending. Foreign direct investment plays a vital role in the economy of the emerging countries. International trade can't be imagined without FDI. For a long period an amount of the FDI has been used for assessing economic development of the country. Profitability of the investment depends on many factors such as exchange rates, tariffs, labor cost and taxation. Currently investing in foreign countries is trend of the developed countries and investment process has been diversified. According to the reports amount of investment made to the other countries has been increased in the last decade. This is a result of globalization, advanced technologies, improvement in communication and transportation and so on. For attracting investment area should has a favorable investment environment. For example, Latin America countries are attractive to the investors because of its growth potential and macroeconomic performance.

COVID-19 pandemic has also shown its effect on investment. This pandemic has negatively affected global investment flow. For achieving long-term development investment is crucial, so dramatically decrease in the investment amount scared developing countries. It should be noted that investment flow not only dropped in the developing countries but also developed countries. The results

of the pandemic has been obvious since first half of the 2020. But this decrease differed from area to area. In general taking into account the results of the COVID-19 pandemic we can say that current situation of the investment is good enough in the world.

Investment also play a pivotal role in economic policy. It helps to maintain growth, stability, security, competitiveness of the economy, solve socio-economic problems, and improve welfare of the people. Recently, Azerbaijan has become one of the famous investment destinations. After strengthening reforms investment climate in our country has improved. Current role of Azerbaijan as a global and regional investor has converted the country into a major geological player and a powerful country with steadily gaining international trust.

After 44 days Karabakh war Azerbaijan and Armenia has signed a peace agreement in November 2020. Azerbaijan immediately started to work on revival strategy of the liberated region. For better managing this territory Karabakh and East Zangezur economic regions has been created by presidential order in July 2021. After liberation of the territory President Ilham Aliyev gave an order to prepare post-conflict economic recovery strategy of the Karabakh. This strategy considers sustainable economic growth and human development as main priorities of the reconstruction strategy. Through this strategy region will join the value chain.

Nowadays, main investment destination of the Azerbaijan is Karabakh economic zone. Countries such as Israel, Italy, Turkey, Japan, China, and the UK have shown great interest in ongoing projects of the Karabakh. Reconstruction of the liberated areas will help to enhance economic growth of the Azerbaijan. Azerbaijan will pursue to constantly strengthen its political and military preference and economy in the region.

It is critical to study the experience of international organizations that play a critical role in developing a post-conflict reconstruction model at all of these stages.

Karabakh has great investment potential in the tourism, industry and agriculture, and Karabakh will be a geographical driver in Azerbaijan. Investments and reconstruction activities in Karabakh region and will increase the GDP growth of the country.

Development strategy of the Karabakh should cover short, medium and long term projects at local, national, regional and international levels for the revival of the region. With directives of the President Karabakh will integrate into the economy of the country as soon as possible.

For attracting required level of investment region should has favourable investment environment that attracts attention of tht local and foreign investors. But there are a number of regional concerns for building sustainable investment environment in the Karabakh region. After solving these issues and creating attractive environment Karabakh will grab the attention of the investors all around the world. Local investors should be actively involved in the investment process. Government should offer particular incentives to local investors. Military security of the region should also be maintained for convincing foreign investors to invest in liberated territories.

In order to increase investment attractiveness of the Karabakh economic region the follwings should be taken into account:

- Increasing transparency and accountability, especially in public administration;
- Elimination of corruption;
- Ensuring protection of property rights;
- Establishment of an fair and independent judiciary;
- Enhancement of economic freedoms;
- Establishing the legal and regulatory environment;
- Development of a unified government policy on attracting FDI and acceptance;

- Gradual reduction of pressure on investors and diversified investment lack of sources, inequality of their regional distribution;
- Effective mechanisms for managing investment activities creation;
- Restructuring of the economy, sectors with special needs for capital priority of investment attraction;
- Long-term investments of entities, but not consumption of the population, encouraging investment in the economy; - stimulation of reinvestment;
- Improving investment legislation and ensuring stability ;
- Guarantee to investors;
- Correspondence between income and expenditure of investment resources, etc;
- Adoption of the law on “On Competition”, “On protection of foreign investments”.

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