SUSTAINABILITY ISSUES OF FOREIGN DIRECT INVESTMENTS IN AZERBAIJAN: IN TERMS OF DIVERSIFICATION

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ABSTRACT
This research aims to analyze the correlations between the inflow of foreign direct investment and several macroeconomic factors in Azerbaijan. In order to examine the relationship between macroeconomic factors such as gross domestic product, export, import, and foreign direct investment outflow on foreign direct investment inflows, a multiple regression model was used. The study focused on the time period from the fourth quarter of 2010 to the fourth quarter of 2022. The study's results indicate that gross domestic product, imports, and outflow of foreign direct investment have a positive impact on foreign direct investment inflows. Conversely, exports have a negative impact on foreign direct investment inflows.

Keywords: Investment Policy, Economic Development, Azerbaijan's Investment Policy, Azerbaijan's Economy

INTRODUCTION

The development objectives of developing nations include the attainment of sustainable economic growth, the initiation of new investments, the enhancement of competitiveness in global markets, the generation of additional job possibilities, and the establishment of enduring technical advancements (Bayraktar, 2003:1). Adequate accumulation of capital is necessary to enable economic progress. One of the primary challenges faced by emerging nations is the inadequate accumulation of capital (Ege and Gürdoğan, 2006:42). Developing nations see foreign money as a remedy for this insufficiency. Foreign capital investments refer to the financial or technological resources that a nation acquires from foreign sources to enhance its economic strength, with the intention of repaying them in the future (Aydemir et al., 2012:70). Foreign capital investments may be categorized into two types: indirect foreign investments, often known as portfolio investments, and direct foreign investments. Indirect foreign investments refer to the act of foreign investors putting their money into financial assets, such as stocks, bonds, and time deposits, in a foreign nation with the aim of earning interest income, dividends, or capital gains. Foreign direct investments (FDI) refer to investments made by individuals or organizations residing in one nation with the purpose of acquiring permanent or long-term economic interests in other countries and exerting influence in the administration of the formed firm (Karabıyık and Anbar, 2010:44). Foreign direct investment refers to the act of an investor or firm setting up a new enterprise in a foreign nation, acquiring an already established local business, or becoming a partner in an existing business. Foreign direct investments have a prominent position among capital investments from abroad. Indirect investments have the potential to rapidly exit a country and even trigger financial crises. In contrast, direct investments are intended to secure lasting economic income and, importantly, contribute capital, new technology, expertise, managerial abilities, employment opportunities, and exports to the recipient countries. It offers several advantages, including expansion of the market, enforcement of market regulations, entry into international markets, and risk distribution (Çalışkan, 2003:44; Özcan and Arı, 2010:66). Therefore, all nations, particularly those that are less developed or in the process of development, are making efforts to entice foreign direct investments.

LITERATURE REVIEW

Currently, in order to guarantee and sustain economic progress of nations, governments use Foreign Direct Investment (FDI) via partnerships. This approach allows countries to foster innovation, enhance their regional economies, contribute to the growth of the global economy, and acquire more resources (Awunyo-Vitor, 2018: 8). Specifically, the correlation between foreign direct investment (FDI) and the development of public infrastructure has a significant economic effect. Positively and significantly contributes to economic development and has a beneficial effect on energy, modern telecommunications, and transportation infrastructure.
It is crucial to assess the impact it has on enhancing efficiency in transportation networks. (Mamingi, 2018). Utilizing foreign capital is a cost-effective approach to funding these operations.

Developed economies are the primary recipients of foreign direct investments. Particularly, starting from the early 2000s, the significance of developing nations as a destination for foreign direct investments (FDI) has steadily grown. In recent years, the European Union (EU) and other advanced economies have expedited the movement of capital by engaging in mergers and acquisitions. Identical Simultaneously, the services sector has emerged as the primary focus of foreign acquisitions (Carril-Caccia, 2018: 2-4). Typically, foreign direct investments are primarily focused on the industrial sector but are gradually shifting towards the services sector. This shift is driven by factors such as increased rivalry among firms, higher employment levels, and advancements in technology. This is a noteworthy advancement in terms of technological breakthroughs. The main focus of positive advancements in this area is to promote economic growth and development via the expansion of the industrial sector. Additionally, it has shown to be efficacious (Bal, 2016: 156). Recently, the growing global need for energy and renewable sources has prompted multinational corporations to prioritize fossil fuels due to their cost-effectiveness. Specifically, the study of climate change, the impact of environmental pollution, and the advancement of the green economy are key areas of focus in this discipline. Furthermore, it had an impact on the allocation of investment resources. Simultaneously, substantial resources are being produced in this area.

Drawing the interest of economies and promoting foreign direct investments in host nations The proper regulation of investment laws and regulations is crucial in attracting and facilitating investment. Foreign capital inflow is seeing a substantial increase in emerging nations.

The resource reserves and development potential of nations also play a significant role in this matter. Following Azerbaijan's attainment of independence, it established open commercial contacts with nations throughout the globe.The paucity of resources prevented any desire for entrance and attempts to liberalize the economy. Has not reached the desired standard. Foreign investment into the Azerbaijani economy has seen a rise since 1994. The legislative and administrative reforms implemented between 1994 and 1997 effectively facilitated the influx of foreign money into the nation. Initial influx of international investment Their primary emphasis lies on the development of abundant oil and natural gas resources (Farmanlı, 2022: 75). Azerbaijan passed its first legislation on foreign investments in 1992, after its independence.

The legal and economic restrictions governing foreign investments in the Republic of Turkey are established by Law No. 57, which outlines the guiding principles. Various legal laws, including the Law on Foreign Capital, Foreign Capital Law, Central Bank Law, and Bankruptcy Law, have been implemented (Ahundzade, 2009).

Investments in production and extraction had a significant growth of 59.1% over the period from 1995 to 1998. The mentioned activity serves as the primary employment provider in Azerbaijan and makes a significant contribution to the country's Gross National Product (GNP).

The proportion of foreign investments in the agricultural sector, which ranks as the second most significant sector, is less than 0.5% Occurred (Ahmedov, 2006). The Azerbaijani economy comprises many industries, except the oil industry. The industry that garnered the most Foreign Direct Investment (FDI) was Nevertheless, the construction industry ranks second in importance, surpassed only by the industrial sector.

The industry that receives the most amount of foreign direct investment (FDI) is the one that draws the greatest attention (Ravan, 2022: 79). Direct in Azerbaijan The presence of official guarantees for foreign investments has a substantial influence. During this procedure, a 2-year tax exemption is granted for capital shares over 30%, as well as a fee exemption for new equipment. Tax deductions and other conveniences serve as significant incentives in this context. The citation is from Baghirova's work in 2017, on page 308. Nevertheless, as a consequence of the abundance of natural resources and favorable regulations, there is a potential danger of the Dutch Syndrome. This syndrome refers to the adverse effects on economic performance that might arise from excessive expenditures in the oil industry. Therefore, it is essential to effectively monitor and control the investment environment. When considering the post-independence era, direct foreign exchange has seen rapid growth. The Azerbaijani economy has undergone a system transformation that has attracted investors, with the occurrence of the Karabakh conflict in recent years. Although macroeconomic indicators have negative consequences on the global economy, they also demonstrate beneficial outcomes. Azerbaijan received a total of 119 billion dollars in Foreign Direct Investment (FDI) between 1995 and 2011. Foreign investment accounted for almost 60% of the total investment, amounting to around 63 billion dollars. Regional Enhancing the country's export capability by fostering production development and promoting investor attractiveness.

The Azerbaijan Export and Investment Promotion Fund (AZPROMO) was founded in 2003 (AZPROMO, 2022). The industrial parks that have been operational in Azerbaijan from 2011 to 2021 include the Sumgait Chemical Industrial Park established in 2011, the Mingachevir Industrial Park established in 2015, the Garadagh Industrial Park established in 2015, the Pirallahi Industrial Park established in 2016, the Agdam Industrial Park established in 2021, and the Araz Valley Economic Zone. The year is shown as 2021. The industrial zones include Masalli Industrial Zone and Neftchala Industry. The specific areas mentioned are the Hajigabul Industrial Zone and Sabirabad Industrial Zone, as stated by the Azerbaijan Ministry of Economy in 2022. Azerbaijan's national policy prohibits foreign investments in order to focus on and enhance the agricultural, tourism, and transportation sectors of the economy. Efforts to promote economic development through ongoing changes aimed at diversification persist. Azerbaijan's regulations on foreign investment are determined by a variety of international agreements and domestic laws.

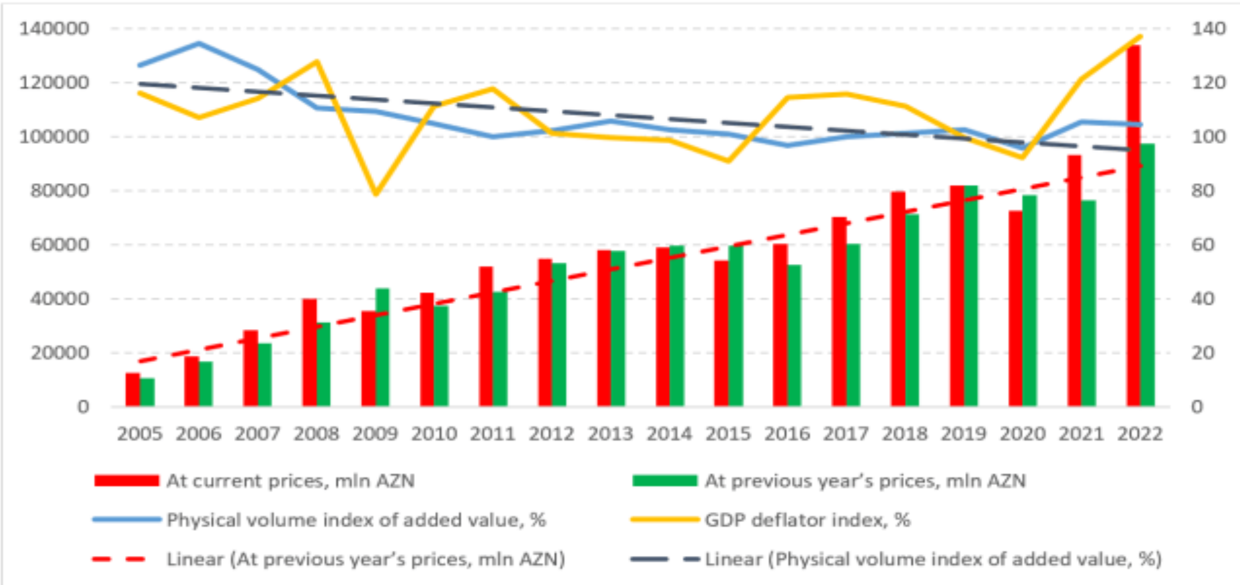
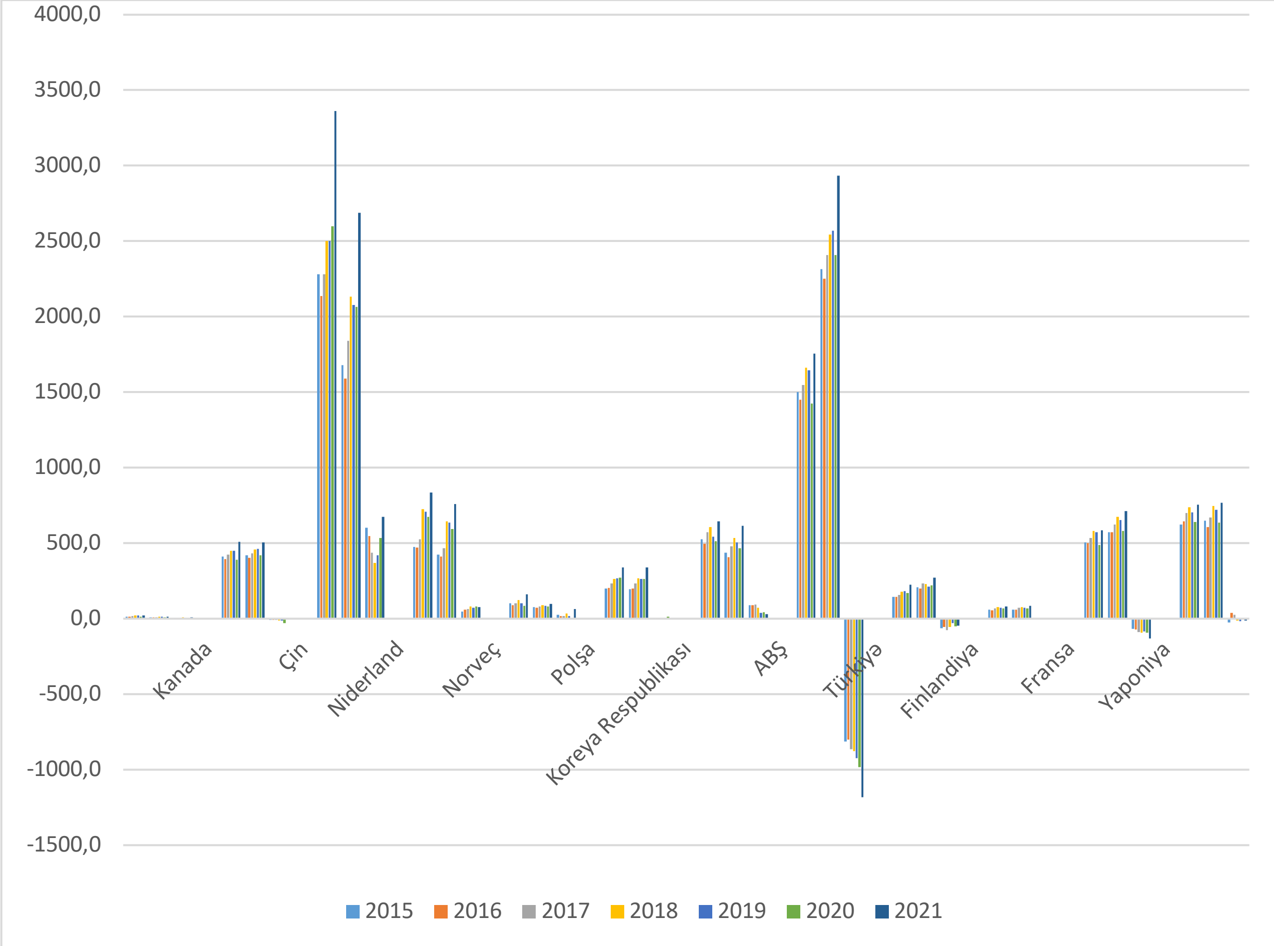


Figure 1: GDP dynamics at current and previous years' prices during the period 2005-2022 (million AZN), GDP deflator and real growth indices

Source: https://www.stat.gov.az/source/trade/

The crimson bars in the diagram illustrate the fluctuations in GDP using the prices from the preceding year. A rise in the red bar relative to the previous year signifies actual expansion, whilst a fall shows a genuine loss. The chart clearly illustrates an increased trend in GDP for the same time when comparing it to the prior year's numbers (shown by the broken red line). Although there were decreases in GDP in 2010, 2016, and 2020, the subsequent years had an increase in GDP. The GDP, measured at constant prices from the preceding year, increased from 10.8 billion AZN in 2005 to 97.5 billion AZN in 2022. This represents a growth of 9.0 times during the period 2005-2022.



Figrure 2: Import, export and investment relations of Azerbaijan with other countries (in millions of dollars)
Source: https://www.stat.gov.az/source/trade/

METHODOLOGY

In accordance with the topic of our research, the synthesis of these indicators is of great importance by refining the statistics. Diminishing various literatures is also an important issue.

DISCUSSION

Investments are ımportant for each country. This process is typical not only for azerbaijan but also for developed countries. Determining the continuous financial flow has a direct and indirect effect on the growth of any economy and the level of well-being of the population. In the organization of this process, azerbaijan's karabakh conflict was considered risky for foreign investors to invest in the region, since the solution to this problem has already been provided, the volume of investment in the karabakh economic zone is expected to increase in the coming years.

CONCLUSION AND RECOMMENDATION

Factors such as abundant and cheap natural resources, cheap labor and human capital stock and potential demand are effective in the entry of foreign direct capital into the country. The excess capital in investor countries and companies, low profitability rates, firm growth, technological development and monopolistic competition conditions create a desire to invest in foreign countries. However, there are also opinions that direct investments are not always attractive in terms of national values, property rights, preventing the development of local businesses and environmental problems.

For this reason, the need for regulatory direct investment legislation and state control that spreads controlled economic development to all sectors and increases the level of welfare is emphasized. The Dutch Syndrome threat in Azerbaijan is given as an example. However, in general, the views that foreign direct investments (FDI) positively affect economic growth are more valid. Despite these threats, it is seen that foreign direct investments (FDI) provide a significant gain in the Azerbaijani economy. In the developing world conditions, steps need to be taken to increase direct foreign investments in order to ensure the socioeconomic development of Azerbaijan and to increase the living standards of the people. In this context, it is essential to make investments outside the petrochemical industry, which has a significant weight in the Azerbaijani economy.

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