



“İQTİSADI İSLAHATLAR” elmi-analitik jurnal

INVESTMENT ATTRACTION: CASE STUDY-AZERBAIJAN

 № 3 (4)

Vusal GASIMLI,
Executive director, Center for Analysis of
Economic Reforms and Communication,
Doctor of economics,
Professor of the Academy of Public
Administration under the President of the
Republic of Azerbaijan

Masuma TALIBOVA,
PhD student, International Center for Master
and Doctoral Studies
Head of Department, Center for Analysis of
Economic Reforms and Communication



Investment attraction: Case study-Azerbaijan

Vusal GASIMLI,

Executive director, Center for Analysis of Economic Reforms and Communication,
Doctor of economics, Professor of the Academy of Public Administration under
the President of the Republic of Azerbaijan

Masuma TALIBOVA,

PhD student, International Center for Master and Doctoral Studies
Head of Department, Center for Analysis of Economic Reforms and Communication

SUMMARY

The article analyzes investment attractiveness of Azerbaijan Republic through the results reflected in credit ratings like "Moody's", "Fitch" and "Standard & Poor's". Analise also include other international ratings results as "World Investment Report", "Sustainable Development 2020" Report and "Doing Business" Report. It also assesses the geo-economic position of Azerbaijan in terms of investment attractiveness. In addition, institutional reforms that facilitate the investment process, as well as reforms in public administration and reforms aimed at technological development were also analyzed.

Key words: *Investment attraction, credit ratings, reforms, geo-economic position*

INTRODUCTION

Azerbaijan, which tripled its economy during the last 15 years and aims to double its economy relying on non-oil sector in the next 10 years, is preparing for a new investment wave that depends on the ability to take advantage of the fourth industrial revolution. According to the World Investment Report-2020, Azerbaijan is among the top 3 transition countries together with Russia and Kazakhstan in terms of FDI inflows between 2014-2019, while Azerbaijan is the second transition economy in terms of FDI outflow at the same period. Among transition countries, FDI flows to Azerbaijan are expected to fall significantly less than those to other transition economies, because Azerbaijan entered the crisis on a relatively more robust footing. Azerbaijan was ranked 54th among 166 countries in the UN Sustainable Development Goals (SDG) Index, becoming the leader in the region, according to the report on "Sustainable Development 2020". So, Azerbaijan having involved investors creates opportunity to follow ESG in business to ensure positive investment impact.

Credit ratings

Starting from 2020, there is an upward trend in Azerbaijan's credit ratings. Being that, on 2020th Standard & Poor's (S&P) Global Ratings had upgraded the outlook on Azerbaijan's ratings from 'negative' to 'stable' with maintaining long- and short-term sovereign credit ratings in foreign and local currencies at 'BB+/B'. S&P said that the budgetary and external stock positions of Azerbaijan remain one of the strongest among sovereign states, which are rated in the 'BB' category, despite lower hydrocarbon prices and a slowdown in economic growth caused by the COVID-19 pandemic.

Moody's rating agency's assessment also includes similar results. Thus, in 2017, the rating evaluated as "Ba2" "negative" outlook increased to the level of "Ba2" "positive" outlook in 2021. Furthermore, the latest estimates of Moody's for 2022 show the results to be even higher and at "Ba1" with "stable" outlook level.

The results of Fitch Agency increased from "BB+" "negative" outlook (2020) to "BB+" "positive" in 2021. Which shows that all credit rating agencies have confirmed the positive growth dynamics in Azerbaijan's credit ratings.



DYNAMICS OF AZERBAIJAN'S CREDIT RATING (by years)

Agency	Rating	Outlook	Date
Moody's	Ba1	stable	Aug 05 2022
Fitch	BB+	stable	May 14 2021
Moody's	Ba2	positive	Apr 06 2021
S&P	BB+	stable	Jan 22 2021
Moody's	Ba2	negative	Oct 23 2020
S&P	BB+	negative	Apr 10 2020

Source: Prepared by the authors using sources from <https://www.spglobal.com>, <https://www.moodys.com/> and <https://www.fitchratings.com/>

Technology adoption and governance

Azerbaijan joined to the list of 13 countries, like Japan or Israel, partners of the Center for the Fourth Industrial Revolution under the World Economic Forum, to contribute to technology adoption and governance. As one of the most industrialized economy of Europe Azerbaijan with the 46.5 percent share of industry in GDP (2021) outperforms as twice as the world average. As the results of shifting from extractive to processing industry, during the last ten years the share of non-oil sector in the industry has been increased from 15 percent to 25 percent in Azerbaijan. The non-oil and gas sector of industry increased by 12.5 percent in Azerbaijan in 2020, while world industry was in recession. The Industrial Park in Sumgayit, the second top industrial city of the South Caucasus after Baku, introduces the opportunity to develop petrochemical cluster. Azerbaijan has opportunity of deepening and expanding GVC participation in the fields of pharmaceutical, electrical equipment, wood manufacturing and production of wood products, chemical, rubber and plastic products, metallurgy, textile, leather and leather products, construction materials, tobacco, food, beverage and so on. It's time to shift from “low-hanging fruits”.

Geo-economic conditions

Since regional market-seeking investment will increase, South Caucasus's new geo-economic reality after peace agreement between Azerbaijan and Armenia in the last November creates new opportunity with the unblocking of economic and transport links in the region. After opening of Zangazur corridor, transport links will run through the main part of Azerbaijan into its exclave Nakhchivan and further into Turkey. Compared to the south and north routes, which connects China and EU, the Middle Corridor passing through Azerbaijan is shorter thousands of kilometers. This corridor will decrease the transportation costs of shorter value chains among countries in the region which can attract more investment in distributed manufacturing. China and EU, whose trade turnover amounted to 695 billion euro in 2021, are interested in the development of the Middle Corridor. At the same time, the Middle Corridor is important to the trade turnover between Turkey and Central Asia amounted to 6.3 billion USD and trade turnover between China and Turkey amounted to 35 billion USD.

Having 4-hour air distance to 50 countries covering half of the world's consumers is the other advantage of Azerbaijan for market-seeking investors. Moreover, Azerbaijan has free introduction to the markets of the CIS and Georgia with 270 million consumers and preferential free trade agreement with Turkey with 83 million consumers.



Institutional reforms

21 state-owned companies and enterprises, as well as business entities with a share of state capital, like SOCAR, Azerbaijan Airlines, Azerenergy, Caspian Shipping, Azerbaijan Railways, International Bank of Azerbaijan and AzerGold were transferred to the management of the Azerbaijan Investment Holding (AIH). The creation of the AIH is associated with the need to raise efficiency, chart clear and quantifiable goals and optimize SOEs, which are critical source of employment and economic growth in Azerbaijan. Moreover, Azerbaijan introduced a new 2021 privatization agenda on the portal of www.privatization.az. Special economic zones—industrial, techno and agro parks, investment incentive document, the easiest starting business procedures, green corridor in customs, competitive tax regime, tax holidays, 51 double taxation agreements and 47 bilateral investment agreements create opportunity for involvement of investment. Alat Free Economic Zone is being established next to Baku International Sea Trade Port, the first “Green Port” of the Caspian basin recognized by the European Sea Ports Organization, to attract investment and diversify the economy on the crossroads of East-West and North-South transport corridors.

Energy security

Azerbaijan continues its pivotal role in ensuring Europe's energy security while attracting investments. The Trans Adriatic Pipeline (TAP), which is part of the USD 45-billion investment Southern Gas Corridor, transporting natural gas to Europe from the Shah Deniz 2 field in Azerbaijan, started last December. Less than a month after commencement of TAP, Azerbaijan signed MoU with Turkmenistan on joint exploration and development of hydrocarbon resources of the "Dostlug" field in the Caspian Sea, another chapter of investment destination.

Tools to ease investment

Azerbaijan Investment Company, Azerbaijan Industrial Corporation and EnterpriseAzerbaijan.com promote private-led development and public-private partnership, catalyze for attracting investments, talent and technologies. Fiscal stimulus and monetary easing are very important to redirect money supply to boost economic growth in Azerbaijan. The banking sector of Azerbaijan has sufficient amount of money, desirable liquidity ratio and capital adequacy to finance the real sector. For mitigating risks in the real sector, the Government of Azerbaijan applies mechanisms such as loan guarantees, credit insurance, and loan subsidies widely. Innovation Agency, Innoland, EnterpriseAzerbaijan and other government units support Azerbaijani startups having used incubation, acceleration, co-working, virtual residency and mentorship to raise fund and to reach local and world markets.

Along with a judicial reform taken by the support of the World Bank, foreign arbitral awards are recognized and enforced in Azerbaijan. Azerbaijan acceded to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, 1965 Washington Convention on the Settlement of Investment Disputes between States and Nationals of Other States which provides for arbitration at the International Center for Settlement of Investment Disputes and 1961 European Convention on Foreign Commercial Arbitration.

CONCLUSION

Azerbaijan, which lies at the heart of transport corridors of Eurasia, is among the top-10 reformer and was ranked 28th among 190 countries, according to the last “Doing Business” report by the World Bank. With low inflation and stable national currency, one of the lowest level of foreign debt-to-GDP ratio and one of the highest level of strategic currency-to-GDP ratio, Azerbaijan created a welcoming environment for foreign and local businesses, investments are thus protected by guarantees provided under law. Azerbaijan – one of the best destinations for investment in industry, tourism, transport, IT and agriculture.



REFERENCES

1. <https://www.spglobal.com>
2. <https://www.moody's.com/>
3. <https://www.fitchratings.com/>
4. <https://w3.unece.org/PXWeb/en/CountryRanking?IndicatorCode=11>
5. <https://www.ceicdata.com/en/azerbaijan/gdp-by-expenditure-current-price-annual/gdp-non-oil>
6. <https://aih.gov.az/portfolio-companies>
7. <http://www.privatization.az/index.php/en/>
8. <https://www.statista.com/statistics/257155/eu-trade-with-china/>
9. https://www.trademap.org/Bilateral_TS.aspx?nvpm=1%7c792%7c%7c156%7c%7cTOTAL%7c%7c%7c2%7c1%7c1%7c1%7c2%7c1%7c1%7c1%7c1%7c1

İNVESTİSİYA CƏLBEDİCİLİYİ : AZƏRBAYCAN NÜMUNƏSİ

Prof.Dr.Vüsal QASIMLI,
Məsumə TALİBOVA

XÜLASƏ

Məqalədə "Moody's", "Fitch" və "Standard & Poor's" kimi kredit reytinglərində əks olunan nəticələr vasitəsilə Azərbaycan Respublikasının investisiya cəlbediciliyi təhlil edilir. Təhlillərə həmçinin, "Dünya İnvestisiya Hesabatı", "Dayanıqlı İnkişaf 2020" Hesabatı və "Doing Business" Hesabatı kimi digər beynəlxalq reyting nəticələri də daxildir. Məqalədə həmçinin, investisiya cəlbediciliyi baxımından Azərbaycanın geoiqtisadi mövqeyini qiymətləndirilir. Bundan əlavə, investisiya prosesini asanlaşdıran institusional islahatlar, eləcə də dövlət idarə etməsi sahəsində islahatlar və texnoloji inkişafa yönəlmiş islahatlar da təhlil edilib.

Açar sözlər: *İnvestisiya cəlbediciliyi, kredit reytingləri, islahatlar, geoiqtisadi mövqe*

Məqalə redaksiyaya daxil olub: 01.09.2022

Çapa qəbul olunub: 28.09.2022