



Role of Economic Freedom in Attracting Investments in the Context of Azerbaijan

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ABSTRACT

Since foreign investments are crucial in developing economy and breaking poverty chain, the majority of developing countries, which suffer from the lack of investment savings in countries, enter the competition in attracting investments. In the competition, they realize that economic freedom has to be improved for investments to come to the economy as well as other freedom level indices. This paper analyzes the key factors needed to better off in order to attract investments, the linkage between foreign capital and the level of freedom of countries investigated in theory and practice, and Azerbaijan's current economic freedom level and improvements. Sharp decline in oil prices since 2015 that forced government to devalue the currency twice lead to government reforms in non-oil sector in Azerbaijan. This study also investigates impact of Azerbaijan economic freedom level improved by economic and legislative reforms on economic freedom indices set by World Bank doing business and other organizations.

Keywords: Economic Freedom, Attract Investments, Azerbaijan Economy

JEL Classifications: R11, E61, K20

1. INTRODUCTION

One of the main factors in attracting investments is directly linked to the climate of economic freedom in that country. To ensure smooth capital flow in "economic organism" free blood circulation should be carried out in order to enable for blood to refresh and get clean. Attaining economic freedom and non-intervention of government is vital in this regard. However, government may control market players through regulatory tools, like fiscal and monetary policies and law enforcement. But if the government interferes directly to economy, foreign investments will be gone. Rodrik (1998) found that openness of the country without controlling external risk more consistent with government size growth. When governments take steps to encourage competition among market participants while maintaining observer status in the market, it can strengthen the economy more than direct government involvement. Similarly, capital flows will not increase when a government size is too big.

Private sector share in Azerbaijan increased from <10% when Azerbaijan started privatization in 1994 increased to 81% in 2006 and to 85% in 2016. Since government became smaller by years, chance for economic freedom has increased. Indicators built by The Heritage Foundation may direct government fiscal stance status. The concept of economic freedom within the classical liberal tradition that emphasizes 12 factors and categorized as rule of law (property rights, government integrity, judicial effectiveness), Government size (government spending, tax burden, fiscal health), regulatory efficiency (business freedom, labor freedom, monetary freedom), open markets (trade freedom, investment freedom, financial freedom) for 186 countries and can be graded on a scale of 0–100. Institutional reforms aimed at free economy, property rights, reducing the scale of shadow economy, corruption among others should be achieved because not only a government but an ordinary citizen as well as overall economy wins at the end of this process. Such indexes are designed to measure the progressive policies of governments on economic freedom.

Similarly, the Fraser institute of Canada has established economic freedom of the world index since 1996 which is designed on (1) personal choice, (2) voluntary exchange coordinated by markets, (3) freedom to enter and compete in markets, and (4) protection of persons and their property from aggression by others including 159 countries and territories.

The level of economic freedom is the result of fights between a group of politicians on one side, trying to increase votes by providing interest groups with special benefits through subsidies, regulation, and tax-breaks, and other group of politicians on the other side, who pull votes by making the public aware of the cost of the policies advocated by their opponents. In well-functioning democracies, this fight of policies that reduce economic freedom leads to political standoffs and equilibrium levels of economic freedom by their history, culture, and institutions. Changing in level of freedom can be seen after major economic and political crises such as electing Roosevelt after Great Depression, and voting for Ronald Reagan in US and Margaret Thatcher in Britain after stagflation in 1970's leading to more governmental activism (Grubel, 2015).

Comparisons of Economic Freedom Index published each year by the Washington Heritage have revealed that the more liberal the market is, the more affordable economic opportunities will be realized. Business success highly depends on the ability to enter with a particular product and to sell in the competitive market. The free market allows a great deal of work without any capital, and only with idea and the desire to work. Your duty is to understand this system and protect if necessary (Brian Tracy, 2002).

Economic freedom is measured by four broad categories such as Rule of law (property rights, judicial effectiveness, and government integrity), Government size (tax burden, government spending, and fiscal health), regulatory efficiency (business freedom, labor freedom, and monetary freedom), and market openness (trade freedom, investment freedom, and financial freedom).

When companies decide to invest in a country they refer to several sources including the World Bank's (WBs) "doing business" report. In this report, several interrelated procedures for business efficiency especially for creating, managing and closing business are emphasized. Easiness of starting and doing business is considered main elements of the index because they attract capital. Even government gets benefit when economic freedom exists, because more government intervention reduces foreign capital level and eventually overall economic output.

Doing business gets easier as the level of economic freedom increases, maximizing economic maneuver of individuals (Nikolaev and Bennett, 2016). The Doing Business Report is published by the WB Group annually since 2003 and is aimed at highlighting the ease of doing business worldwide. The ranking is based on the distance to frontier score and it "measures the gap between a particular economy's performance and the best practice, and serves as basis for the ease of doing business rankings" (WB, 2017. p. 1).

The Heritage Foundation's Index of Economic Freedom uses 22 *Doing Business* indicators in four areas, including rule of law, government size, regulatory efficiency and market openness. Economies have higher score in DB consistence with high degree of economic freedom (DB, 2018). Empirical evidences also reveal positive relationship between the level of economic freedom and the ease of doing business (Angulo-Guerrero et al., 2017).

Particularly foreign capital degree indicates freedom of capital flow. Thus, in economically free countries there is no restriction on capital flows which eliminate problems in entering local as well as foreign markets. However, several countries unfortunately have such barriers, such as injecting foreign currency into the market, for transfers, presence of foreign direct investment (FDI)-prohibited sectors, procrastination, bureaucracy, weak institution, and low infrastructure.

Indicators and factors taken in those reports are very common. Similar rating report is "Business Environment and Enterprise Performance Survey" conducted by EBRD in 131,000 firms in 139 countries in partnership with the WB which surveys enterprises' top managers from different regions of a country to show the quality of the business climate involving government role also. For instance, latest available (Enterprise Surveys: Azerbaijan - 2013; 2014) indicated that Azerbaijan status is very high in infrastructure, trade, business licensing than other East European and Asian countries group and in lower-middle income countries where Azerbaijan is listed. Only bribe and corruption (graft index, which reflects times of firms were requested to pay a gift or informal payment when applying for six different public services) as well as perception on fair court were lower than average.

2. THE BENEFITS OF ECONOMIC FREEDOM IN LITERATURE

To summarize this approach, we can conclude that strong economic freedom means: (i) You can create a private company or another entity very easily and in short time, (ii) tariffs on foreign trade are not so heavy, (iii) taxes on your income are relatively low (iv) your company does not get damaged by unfair competition from public and private enterprises; (v) there is no unnecessary intervention into your business, (vi) your business does not run under high inflation and government price regulation; (vii) you do not suffer from serious regulatory regimes while hiring and firing your employers; (viii) capital flow and investments are fully free on your business sector; (ix) banking information is secured; (x) your property rights are fully protected by the state (xi), and you are not working under corruption pressures. Despite aforementioned economic freedom and the business environment indicators are not taken seriously by some undemocratic countries, especially major leading countries, international financial institutions, international organizations, big investors empower and value such economic indices. More than hundred papers overwhelmingly provide evidence that economic freedom corresponds with a wide variety of positive outcomes with almost no negative tradeoffs according to Hall and Lawson (2013). Ayal and Karras (1998) pointed out that through improving factor productivity and capital accumulation,

economic freedom can contribute to economic growth for 58 countries. Similarly, Carlsson and Lundström (2002) found evidence of significant positive impacts of economic freedom on economic growth for 74 countries also including American, African and Asian countries (Berggren, 2003) concluded after huge survey that, economic freedom levels increasingly support economic growth in a large number of countries.

Higher level of economic freedom forwards people to acquire the capital stock and lower the transactions costs which is a key source of economic growth in a long run as neo-classical economic growth theories have stated. (Wu and Otto, 1999) Berggren (1999) finds that the economic freedom level of a developing country lifts income equality level up especially in liberalization and deregulation period (Claessens et al., 2006) found that higher-income economies with greater openness, more efficient legal systems, among other indicators have more developed local markets which contribute to integration of the country to the global markets. Moreover, improvements in economic fundamentals tend to huge impact on capital raising and trading in foreign exchanges, resulting in a higher portion of international activity. Esposto and Zaleski (1999) find that economic freedom brings up the quality of life, in terms of literacy level and life expectancy.

Improvement of economic freedom highly associates with government efficient but minimal state functions (Gwartney and Lawson, 2003) (Sayari et al., 2017). Reveal that growth in the industrial and service sectors in the thirty European countries generate economic freedom in a long run. A group of research analyzing impact of economic freedom on capital flows show us the fact that low economic growth level highly derived from restrictions on capital flows which indicates less economic freedom (Fofana, 2014; Herrera-Echeverri et al., 2014; Iamsiraroj, 2016).

Higher level of economic freedom through increasing opportunities on the labor and product market will encourage entrepreneurship productivity in the economy (Baumol, 1990). In recent years, top ten countries for ranking of doing business included European countries (Denmark, Norway and UK) and Asian countries (Singapore, Hong Kong, Republic of Korea) (DB, 2016; 2015; DB, 2015; 2014).

For instance, Hong Kong and Singapore had the highest economic freedom levels, and the per-capita incomes of these two countries were the sixth and third highest in the world, respectively in 2012 (IMF, 2013). Singapore ranks second and Hong Kong is in third place among countries in the world without significant natural resources. Oppositely, the countries such as Republic of Congo, Chad, and Zimbabwe with the lowest per-capita incomes in the world were at the bottom of the economic freedom ranking in 2012 (Grubel, 2015). Empirical studies found positive impacts of economic freedom on economic growth and development (De Haan et al., 2006; Faria and Montesinos, 2009); capital investment (Dawson, 1998; Gwartney et al., 2006; Hall et al., 2010); labor market outcomes (Feldmann, 2007; Heller and Stephenson, 2014); reducing poverty (Gwartney and Connors, 2010); human rights (Blume and Voigt, 2007); less crime and peace (Bjornskov, 2015; de Soysa and Fjelde, 2010). One important study on 212

crises between 1993 and 2010 years and across 175 countries shows that the risk of crisis and duration are not affected by economic freedom, however recovery times of crises are strongly associated with economic freedom index (Bjornskov, 2016). Paldam (2003) analyzed Asian Tigers and showed certain difference of economic freedom on economic growth level. Study found that Hong Kong and Singapore have higher levels of protection of property rights and freedom of trade, than Korea and Taiwan which contributed to their economic growth level. Mahmood et al. (2010) also found long-run significant positive impact of economic freedom on economic growth for five South Asian countries including Bangladesh, India, Nepal, Pakistan, and Sri Lanka. Bengoa and Robles (2003) study reveals that economic freedom is a key reason for FDI inflows in Latin America over the period 1970–1999.

Investors are looking for stable markets with lower interference levels. “Capital runs from noise and struggle, because it is coward by its nature. But capital gets courage, when there is enough profit. In case, 10% profit, capital is ready for use by any means; when the profit is 20%, the capital comes on the fever (overheating); when it reaches to 50%, he is ready to give up his head; when profit is 100%, the capital steps on all the laws of mankind; in 300% profit case, it is bold enough even to consider to be hanged” (Marx, Das Capital Vol. I, [1845] 1992). Though it is expressed in art way, the more profitable the capital is, the more it would increase market share. Capital could be accelerated by economic freedom level.

3. THE RELATIONSHIP BETWEEN DEMOCRATIC GOVERNANCE AND ECONOMIC FREEDOM

There are many studies exploring the connection between democratic governance and sustainable economic development, and it gets clearer when looking at global map of democratization of the world. Outcomes of “World Economic Democracy Index of 2016” report by Economist Intelligence Unit (The Economist) reveals that, only 19 countries have full democracy which mainly EU countries with Norway ahead. This number decreased from 20 in 2015 because the US had been downgraded from a “full democracy” to a “flawed democracy” due to a further erosion of trust in government and elected officials. This report empowers business leaders to act with confidence when they make strategic decisions of rates of 167 countries on 4 democracy levels by 60 indicators grouped in five categories: Electoral process and pluralism; civil liberties; functioning of government; political participation; and political culture. In this regard, 57 countries are considered as “flawed democracies,” while 40 countries as “hybrid regimes” in 2016 year report. Besides, 72 countries recorded a decline in their total score comparing previous year. Unfortunately, 51 countries are considered as “Authoritarian regime” in line with Russia, China, Caucasus and Central Asian countries and most Arabic and African countries among with 2.5 billion populations. What makes countries to stay behind of this process is regulatory mechanism having no or less economic and political freedom. A country becomes attractive by achieving all type of freedom including economic freedom which transfers to economic growth and welfare.

Economic freedom is commonly accounted to show as a good reason for growth and distribution of income in most econometric analysis. However, economic freedom may also be affected by political freedom, wealth, or democracy level (Berggen, 2003, p. 193). Economic freedom refers to providing protection of property rights and enforcement of contracts, freedom of individual choice and voluntary exchange with limited government scale. However, political freedom refers to political rights as fair elections and civil liberties as freedom of press, speech and religious beliefs among other liberties. Friedman (1962) believed that political freedom and economic freedom support each other (Wu and Otto, 1999). Economic freedom declines when taxes, government expenditures, and regulations get heavier than personal choice, voluntary exchange, market imperfection and freedom to enter and compete in labor and product markets (Gwartney and Lawson, 2003). It is also commonly accepted that together political and economic freedom have an overall positive effect on economic growth (Bekaert et al., 2005; Persson and Tabellini, 2006; among others). (Wu and Otto, 1999) suggest that economic freedom fosters economic growth and development, which is condition for political freedom. Study points out that economic freedom is kernel for economic growth, where political freedom can be the fruit of economic development. Political democracy will tend to grow naturally and firmly after achieving sustainable development level. It is obvious that countries with less economic freedom are resource-rich countries. Achieving economic growth due to natural resources may seem as a correct sustainable development path. However, due to hierarchical imbalances and low management, governments in these countries are more likely to build closed information system of resource sector which is designed to raise public consciousness, because open systems require more distribution policies and culture.

Research of “Renaissance Capital” based on 150 countries over last 60 years point out that the rich cannot simply live with authoritarian regime in any country. Basic research shows that per capita GDP indicator is positively related to democratic systems. Results suggest that when per capita GDP is about 3,000 dollars, it is not worth mentioning elements of democratization. However, in case of \$ 6,000, it is not easy to eliminate democracy in that country; when per capita GDP is more than about \$ 10,000, irreversibility of democracy presence in that country. These irreversible ‘immortal’ democracies are quite high in EU member states. Author Charles Robertson believes that when economic and social situation of the population falls suddenly as a result of income decline, there is a serious threat to democracy: “When we can afford house and car, we demand our political rights”. There is political and economic freedom when democracy exists and it leads to higher National Income, which cannot endure closed regulatory system for a long time.

Reports of international open budget index indicates that budget transparency is relatively low in high income countries, for example, there are fiscal obstacles in countries such as Saudi Arabia, Trinidad and Tobago, and Malaysia which could be eliminated by transparency, efficiency and accountability in public fiscal management.

Local policies which do not give freedom to market players would not succeed. Simply, sustainable economic growth cannot be achieved if policies affect investors. Israeli historian Yuval said that “investment

may have influence on policy, but politics should not affect investment, in order to achieve economic growth, less intervention is needed¹.” Market freedom level as a result of less intervention, may increase competition which also will direct these power into the local market.

4. INTEGRATION OF AZERBAIJAN ECONOMY INTO GLOBAL INVESTMENT SYSTEM

In 2018, Azerbaijan ranks 57 compared to 65 and 63 in 2017 and 2016, respectively, out of 190 countries listed and 70.19 score which was 67.99 and 67.80 out of 100 points in 2017 and 2016, respectively, according to doing business reports by WB. As shown in Scheme 1, Azerbaijan ranks lower than Russia, Romania, Bulgaria, and Poland with regional average as well. State that appreciation of the real exchange rate of Azerbaijan which mostly derived by global oil prices weakened the competitiveness of non-oil exports of the country (Hasanov, 2013). Explain such appreciation of the real exchange rate during 2000–2007 years with rapid increases in the wages and the non-tradable prices (Hasanov, 2013). The study reveals that FDI inflow to the oil sector damages non-oil exports which contribute to amplifying of oil dependence in Azerbaijan.

Starting business is ranked 5 out of 190 countries which increased from 7 with 97.74 score (with almost no changes) in 2017. However, for 2018 starting a business indicator gets worse decreasing to 18 point with 94.36 score for Azerbaijan. As shown in Scheme 1, Azerbaijan ranking on starting business ahead of aforementioned countries with regional average as well. Azerbaijan’s ranking declined gradually on getting credits, from 15 out of 183 countries in 2010–122 out of 189 countries listed in 2018 (DB-2010, 2009; DB-2018, 2017).

As shown in Tables 1 and 2 and Charts 1-4 given, indices of resolving insolvency, trading across borders and protecting minority investors which brought Azerbaijan respectively 17, 11 and 26 countries up are key reasons to improve overall score of easiness of doing business for 6 countries up. However, getting credits is kept down unchanged at 40 score during 2016–2018, but ranking decreased 13 countries down. Meanwhile, indices of starting business and construction permits decreased 11 and 47 countries down respectively recent years, as others stayed at same level or fractionally increased.

Hong Kong, Singapore, and New Zealand have highest scores according to Fraser Institute ranking by economic freedom through 5 factors such as Size of Government, legal system a property rights, sound money, freedom to trade internationally, and regulation. Azerbaijan ranks 114th country out of 159 in this report.

The Heritage foundation report of 2017 ranked and scored Azerbaijan by 12 factors of economic freedom index. Business, labor, monetary and trade freedom levels have high scores and

1 Harari (2014), *Sapiens: A brief history of humankind*,” p. 262.

Table 1: Doing business rank and score for Azerbaijan by topics for 2016–2018 years

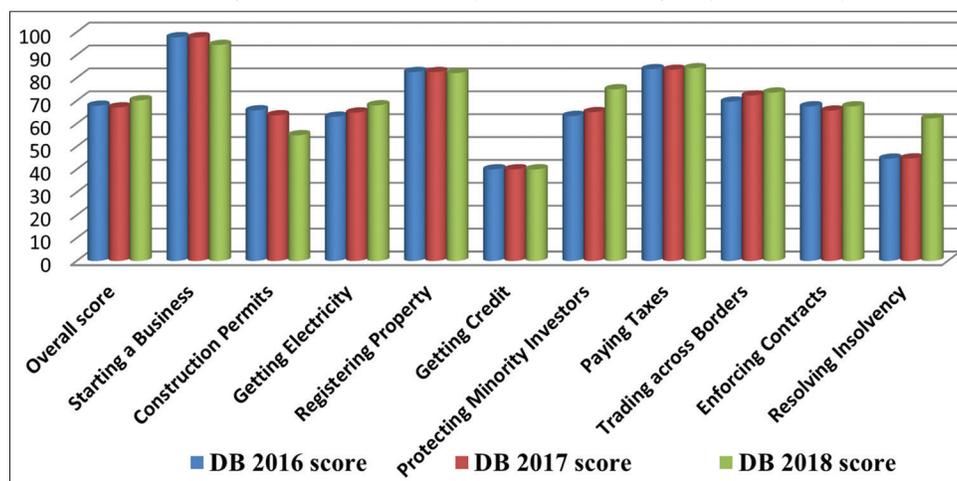
Topics	DB 2016 rank	DB 2017 rank	DB 2018 rank	DB 2016 score	DB 2017 score	DB 2018 score	Change in score, %	Change in rank, No
Overall score	63	65	57	67.8	67.07	70.19	2.39	-6
Starting a business	7	5	18	97.75	97.74	94.36	-3.39	11
Construction permits	114	127	161	65.79	63.63	54.9	-10.89	47
Getting electricity	110	105	102	63.01	64.83	67.98	4.97	-8
Registering property	22	22	21	82.55	82.52	82.07	-0.48	-1
Getting credit	109	118	122	40	40	40	0	13
Protecting minority investors	36	32	10	63.33	65	75	11.67	-26
Paying taxes	34	40	35	83.77	83.52	84.21	0.44	1
Trading across borders	94	83	83	69.59	72.28	73.56	3.97	-11
Enforcing contracts	40	44	38	67.51	65.66	67.51	0	-2
Resolving insolvency	84	86	47	44.68	44.77	62.27	17.59	-37

Source: Authors calculation by (DB, 2018; 2017; DB, 2017; 2016; DB, 2016; 2015) reports

Table 2: Azerbaijan ranking and score by factors out of 159 countries in 2015

Overall rank	Country name	Overall score	Size of government	Legal system and property rights	Sound money	Freedom to trade internationally	Regulation
1	Hong Kong	8.97	8.55	8.08	9.51	9.23	9.49
2	Singapore	8.81	7.78	8.29	9.84	9.25	8.91
3	New Zealand	8.48	6.46	8.74	9.51	8.57	9.12
114	Azerbaijan	6.38	5.19	5.32	7.31	7.10	6.99

Source: www.fraserinstitute.org/economic-freedom

Chart 1: Doing business index scores by factors of Azerbaijan by 2016–2018 years

Source: Authors calculation by (DB, 2018; 2017; DB2017, 2016; DB 2016; 2015) reports

tax burden and fiscal health higher than others with 87.7 score with 33rd country and 97.4 score with 22nd country in the world.

Azerbaijan average score in 10 factors of economic freedom index increased from 30% since 1996 to world average in 2010 and passed to moderately free economy in 2017 according to The Heritage foundation report of 2017 (<http://www.heritage.org/>).

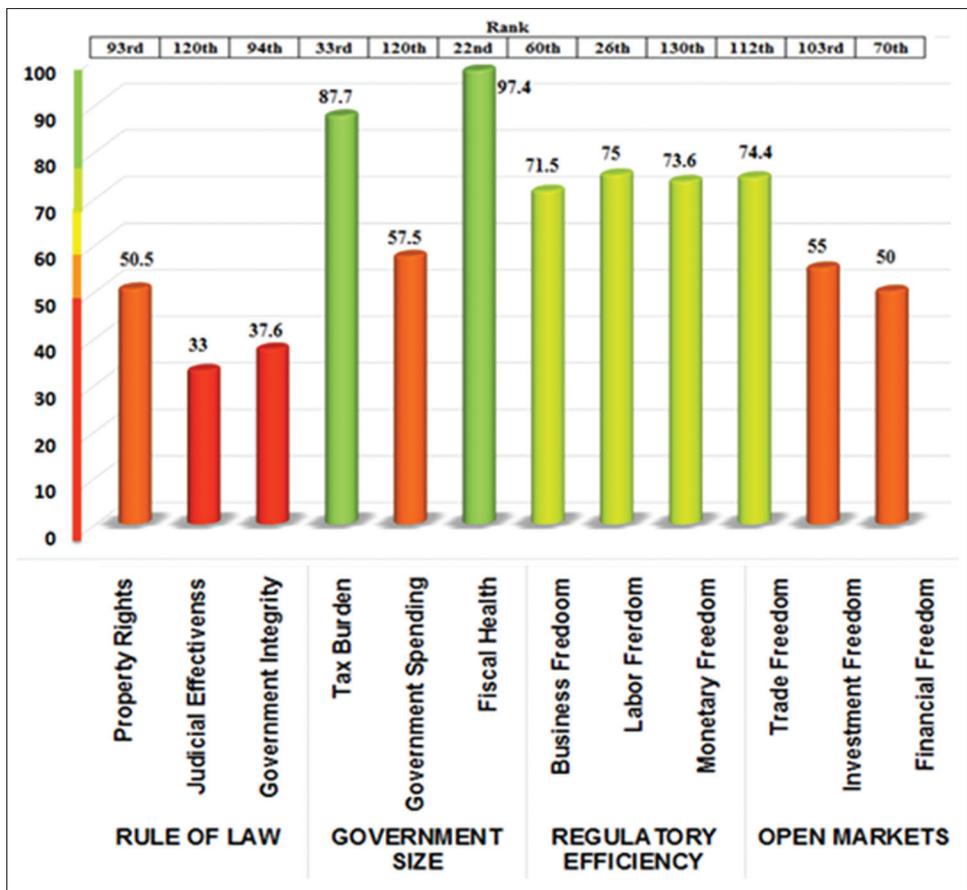
Financial freedom index of Azerbaijan started to increase since 2009 and investment freedom index since 2010. Except monetary freedom and government spending indices level that holds overall score down, all other indicators were made bettered off by time manner.

Azerbaijan scores are above world average in financial (+1.1), business (+6.7) and labor freedom (15.6) levels, but less in

investment freedom (-4.7), trade freedom (-2) and monetary freedom (-3.1) levels in 2017. In spite of tax burden score of this index is +10 point above world average, in government spending (-8), government integrity (-4.8) and property rights scores (-1.7) are below. We compared 10 factors out of 12 in economic freedom index and remain factors are judicial effectiveness and fiscal health which are newly added to the index.

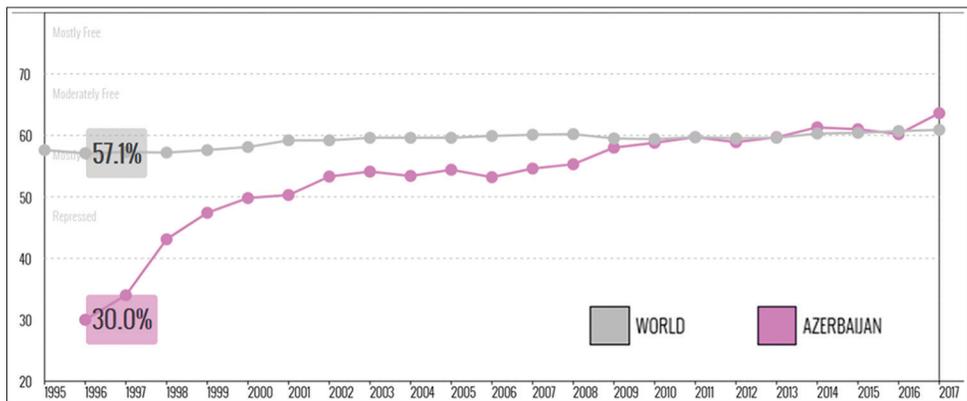
Economic growth in recent years, good geographic location, competitive production costs, cheap and qualified labor, numerous bilateral treaties for promoting trade are strong points of Azerbaijan. However, bureaucracy and corruption levels make investing difficult outside the energy sector, which is dominated by foreign investments and there are few developed sectors other than the oil industry (<https://www.nordeatrade.com/dk/explore-new-market/azerbaijan/investment>). Corruption Perceptions

Chart 2: Azerbaijan rank and score by 12 factors of economic freedom index



Source: The heritage foundation report, 2017

Chart 3: Azerbaijan score comparison with world average by economic freedom index



Source: The heritage foundation, 2017

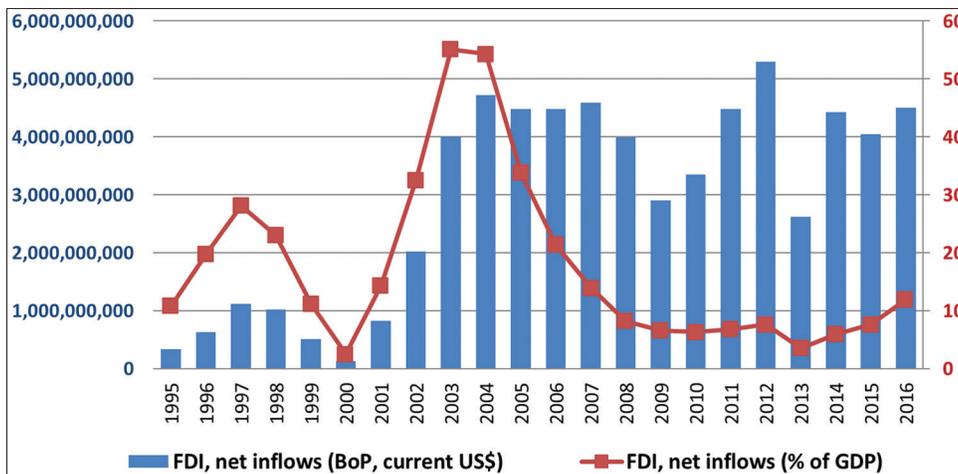
Index of Azerbaijan went down from score 27 since 2012 to score 30 with 123 ranking out of 176 countries in 2016 (www.transparency.org/cpi). Human Development Index of Azerbaijan which indexed 0.64 level in 2000 slightly increased from 0.741 level in 2010 to 0.759 level and ranked 78th out of 188 countries in 2016 (<http://hdr.undp.org/en/2016-report>).

According to doing business reports, Azerbaijan score for the protecting investors is above regional average. For instance, index of transaction transparency scores highest (10), index of manager’s responsibility (5.0) same as average, index of

shareholders’ power (7.0) and index of investor protection better than region.

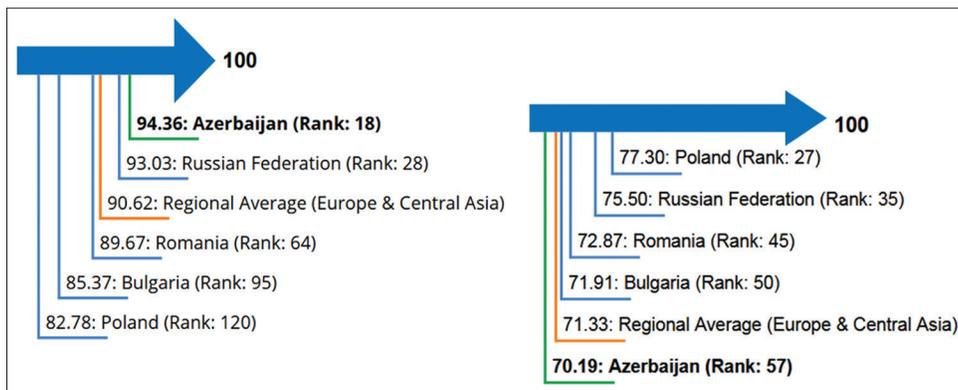
Serious steps were taken by Azerbaijan government for economic freedom. “Single window” system to submit regulatory and reporting documents was established to reduce bureaucratic barriers to open businesses. As a result of this application, procedures for registering new businesses were reduced from 15 to 1 and time lapse for registration was decreased from 30 days to 3 since October 25, 2007. Besides, Ministry of Emergency Situations created single window operation for getting permission

Chart 4: Foreign direct investment net inflows



Source: <https://data.worldbank.org>

Scheme 1: Azerbaijan rank and score in doing business (right side) and in on starting business (left side) with selected countries of 2018 years



Source: WB (2018) Doing Business Report; <http://www.doingbusiness.org/data/exploreconomies/azerbaijan>

for construction in a short time in 2009. Another important step for stimulating business was minimizing the number of documents required for licenses (Alirzayev and Abdurazzakov, 2016).

Azerbaijan government established investment promotion certificate which grants exemption from several types of taxes for 7 years in those industries that are considered as high priority industry lines and have already been given to 121 projects worth AZN 1.2 billion as of April 2017. For instance, 50% exemption on personal and corporate income tax and 100% exemption of land tax and assets tax as well as VAT and customs duties exemption on hardware, technological equipment and structures imported are considered for individuals who get investment promotion certificate (<http://www.privatization.az/index.php/en/business-guide/investment-protection>; http://en.apa.az/azerbaijan_business/azerbaijan-gives-investment-promotion-certificate-to-121-projects.html).

In January 2016, president of Azerbaijan signed a decree on a strategic roadmap of the national economy and in March 2017 another decree was signed that establishes free trade zone area located 65 km south of capital Baku which also include the territory of the new Baku International Sea Trade Port with 400 hectares (<https://www.state.gov/e/eb/rls/othr/ics/2016/eur/254339.htm>).

Before 2008, starting a business in Azerbaijan required registration at 5 different agencies, complete 15 procedures, and file 33 documents which had taken more than 2 months. Due to new *e-registration* system, entrepreneurs can be ready to do business by submitting 7 documents and completing 6 procedures at the new, one-stop shop - State Business Registry - without additional fees to speed the cumbersome process up, which saves businesses an estimated \$8.4 million annually (Bagaudinova et al., 2009).

Application of ‘Single Window’ concept on the border checkpoints in custom system since 2009 also serviced triggering economic freedom level up. Another act for improving legislative background of businesses functioning is making simple and minimal of license documents, and giving all authorities to “Easy Service” government new one-stop shop starting 2012.

Since November 1, 2015 all types of inspections of entrepreneurs have been suspended for 2 years and expanded to January 1 of 2021 after then. Besides, all type of licenses to entrepreneurs could be received through “Easy Service” Government Agency, which makes the process much efficient and less bureaucratic. Number of fields requiring license was reduced from 59 to 37 and most particularly for life lasting and amount of government duty reduced 2 times in Baku and 4 times in regions

(Alirzayev and Abdurazzakov, 2016) (<http://www.e-qanun.az/framework/31093>).

To increase efficiency of foreign investors to access legal documents, “*Electronic information portal on permissions*” is giving preliminary knowledge how to manage government documents from one source was launched in 2011 and was used by over 390,000 people (<http://icazeler.gov.az/en/news/over-390-thousand-people-use-wwwicazelergovaz-portal/>).

Azerbaijan took part of regional and global projects in recent years. Baku-Tbilisi-Kars railway project was launched on October 2017 connecting a freight and passenger link between Europe and Asia as main part of so-called Silk Way. Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas line also play key economic role in the region. In 2015, to address Europe’s energy problem the Trans-Anatolian Natural Gas Pipeline has been started to build.

Azerbaijan has conducted bilateral investment treaties on the mutual protection of investments with Turkey, Russia, UAE, Saudi Arabia, USA, UK, Germany, and Poland among 49 countries. Azerbaijan also enacted a multilateral treaty on the mutual protection of investments with the OPEC Fund for International Development since November 2002. Besides, 40 Tax Treaties to protect against double taxation including On February 2016, Government of Azerbaijan establishes Financial Market Supervisory Authority as the main regulatory body which aims to regulate and control the security market, investment funds, insurance and credit organizations, payment systems, and improve the control over the anti-money laundering and financing of terrorism, and improve transparency.

(<http://investmentpolicyhub.unctad.org/IIA/CountryBits/13>; <https://www.export.gov/article?id=Azerbaijan-Bilateral-Investment-Agreements>; CLS (2016) Guide on Doing Business in Azerbaijan, Capital Legal Services LLC, Baku, Azerbaijan). As a result of such improvements in Economic Freedom Index, FDI inflow into country increased over this period. In 2000, net FDI inflow was accounted <\$1.3 billion, and reached to highest \$5.3 billion in 2012 and stood at \$4.5 billion in 2016. Major decreases in this trend one can be connected to aftermath of Global Financial Crisis which hit Azerbaijan economy in 2009 and 2010 years. However, FDI inflow as part of GDP declined since that time. Besides, Azerbaijan economy grew very fast after 2003 oil boom period and attracted more FDI into country. This can be also linked to GDP growth rate and FDI outflow level since 2003. In 2013, FDI inflow decreased more than 2 times comparing to one previous year. At the same time, FDI outflow of the country decreased more than 3 times in comparison. Despite, Azerbaijan economic output (GDP) continued to increase in 2013 also; FDI net inflow and outflows fell dramatically. Azerbaijan state budget had reached to highest level with highest transfer level from extra budgetary fund, SOFAZ at that year. So, the government which run surplus did not need to finance major projects by additional external sources.

5. CONCLUSION AND SUGGESTIONS

According to Heritage Foundation, Azerbaijan current status of economic freedom is increased to moderate free since 2013. It

realized mainly to notable successes of Fiscal Policy, Tax Policy, and Labor Freedom, but still has some concerns about Rule of Law, Investment Freedom, and Financial Freedom. Other concerns supporting level down are that, the central bank shifted to a managed float exchange rate regime after two steep devaluations in 2015, and raised interest rates in 2016 to curb rising inflation. The banking sector is dominated by a large state bank, and small private banks remain fragmented. Although Financial Market Supervisory Authority was established in 2016 that had given control system on banking sector took from Central Bank in Azerbaijan, there is still room for improvement in development of banking system. Thus, largest bank in the economy had recently acquired high debt that holds pressure on investment and financial freedom indices.

Azerbaijan has increased number of bilateral and multilateral investment treaties on the mutual protection of investments and tax treaties within the region and became hub for transit of energy and logistics. As theory suggest us FDI inflow to country increased along with improvements in economic freedom indices. As FDI level links to openness of economy to global markets, one can be concluded that, Azerbaijan economic freedom index was improved over time. Economic growth needs to be deeply analyzed by impact factors for expanding its base and predict future behaviors of investors by sectorial analysis more than its economic results and major steps need to be taken to improve economic freedom level would be:

Attracting investors to this country through emphasizing higher economic freedom;

- Develop non-resource sector relying resource revenues to realize favorable investment environment in post-resource period in resource-rich countries;
- Pull investments through multi-vector reforms by improving indicators to increase economic freedom index level by countries;
- Adjust investment policy to government strategies.

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