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THE FORMATION OF INVESTMENT POLICY AND OVERALL ANALYSIS OF ITS INFLUENCE ON THE ECONOMY

Abstract

The main theoretical directions in studying of investment policy are considered. In addition, the influence of state on investment processes is analyzed, including characteristics of different models of state regulation in investment processes. A special place occupies studying of foreign countries' experience in investment policy.

Key words:

Foreign investments, national economy, government regulation, regulation of investments, national interests, economic policy, investment climate, economic development.

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In the broadest sense investment policy can be considered as part of government economic policy, aimed at ensuring effective investment [1, p. 332]. As the economy constantly requires investment, the state always prepares and tries to implement effectively investment policy. As this investment policy covering all fields of economy, the sources of funds which are necessary to ensure its objectives might be numerous. One source, as it is known, is foreign investments. Therefore, foreign investment policy is formed, which is one of the part of public investment policy and rather important part. The main objective is to create economic conditions to increase long–term investment and attract foreign capital. Mobilization of funds on this basis leads to more intensive structural and technological restructuring of the economy and ensure growth of investment efficiency [2, p. 133] in Azerbaijan, plays a peculiar role in the national economy, its sustainable development and ensure productive employment. To implement this policy it is necessary to develop special investment program, which consider accurately national transitional economy and international experience. During this time, special attention should be paid to strategically important areas for development of economy.

During formation of investment policy, the interests of foreign states and their representatives should be taken into account, but national interests should be also ensured. In addition, the interests of other agents in economy should be taken into account. In other words, during formation of investment policy national interests, individual interests and the interests of foreign actors are consistent.

«Toolkit» for investment policy is very limited. Therefore, using them, you need to know exactly which instrument will give an effect. However, the specific instruments of state investment policy need to be differentiated appropriately [1, p. 339]. In this case, public policy experience is very important, since government policy is a model that combines several tools. There are three models of investments' regulation, which stimulate investments and are differed between each other in some approaches to the problem.

In the first model the main attention is paid to personal investments. The second model is focused on public financing of projects. In the third model state coordinates the activities of various private investments. Clearly, each model includes extensive «toolkit». However, these models are grouped according to the major goals. The abovementioned models were successfully implemented in several countries with market economies. Therefore it is expedient also to introduce this practice in countries with economies in transition.

In the so–called American model the regulation is made mostly by means of tax instruments. At the same time other liberal macro–economic measures are made, which are the extension of tax regulation and make their impact on such categories as price and market. While implementing these measures the value of banks (depending on the instructions state) is quite significant. But during the distribution of investment resources the stock exchanges are very important. The main factor that determines the activity of this model is developed securities market. The function of state in this field is preparation and coordination of information about the market and the country's macroeconomic indicators. In this model public investments are rarely implemented. Overall the model is justified. But there are some drawbacks. For example, it doesn't provide in short time the storage of desired money mass, but also does not stimulate this accumulation.

The second model, which describes the formation of a strong relationship between state and personal investor, called the Japanese model. This model characterized by direct state control over banks. The state controls accumulation and distribution of personal funds. It provides corporations with compliant funds collected from citizens, forcing them to adhere to the main conditions. This condition is to work closely with state and fully comply its commitments. Investments which are directed in infrastructure are established according to the specific needs of individual entrepreneurs. The main factor of this model is the existence of strong private sector and powerful public authority. The advantage of this model is the ability to concentrate funds in large amounts. The disadvantages are politicization of the investment process and the appearance of corruption.

So–called Taiwanese model (third model) combines elements of these two models and aims to create a mechanism of self–coordination of private sector in investment field. The government believes that the firms engaged in exporting understand better what investments are.

In the world each year a broad scale of events are held in the state towards foreign investments. Each country within the framework of its economy is trying to improve the investment climate. Creating of a favorable investment climate is made to a large extent through the development of legal framework of state regulation of foreign investments [5, p. 726]. According to UNCTAD, in 2006 about 184 changes in the legislation were made in the world to attract foreign direct investments and multinational corporations. 80 % of them were aimed at creating an favourable investment climate. And as a result it is indicated that in countries with developed mining industry 37 legislative changes were implemented against foreign investment.

Of these 184 changes 109 are related to developing countries. Among them in Africa – 57,in West Asia – 14, in South, East and Southeast Asia – 32, in Latin America and Caribbean – 6, in South–Eastern Europe and countries of CIS – 38; and in developed countries 37 legislative changes were made [11, p. XVII].

In the period of investment crisis, transition economies are beginning to implement investment policies of developed countries. In some countries economic crisis was so strong that the government sought to use all instruments that are at hand. Really, government encourages private sector investment, finances investment projects and social sector. Our country has also passed through such crisis. Despite the crisis period was long time ago, in our investment policy a mix of existing models can be observed.

Some countries have started to make changes in their investment policy. By means of this action, they avoid to control over all projects, but were concentrated at forming of favourable investment climate. Only in social and infrastructure projects their direct involvement has been presented.

If we pay attention on the experience of European countries with former transitional economies, we will see that at the first stages of transition these countries refused from complex state investments, but directed their activities mainly at the transformation of legal framework and tax system, which provide favourable investment climate. We already know that the great success achieved in this field is typical not for the governments, which put into practice all sides of investment policy, but for those which developed the exact investment strategy and comply with it.

Thus, three groups of countries can be distinguished according to the level of investment and the participation of countries in investment processes. At the beginning, we should note that first group consists of countries with corresponding to the pre-crisis level of investments and significant economic growth. In market economies decline of investments from a high level to normal level is a basis for a change. Note also that the natural level of investment volume compared with GDP ranges in about 20 %. In this group government refuses completely to finance investment projects and finances only social sector and infrastructure projects. In such countries development in the investment area is doing only through foreign investments. Thus one of important sides of investment strategy is to release investors from taxes. Clearly, this is for a certain period of time. These countries thus solve their investment problems. But the problems facing their economies are different. For example: bringing the economy to a new technological level, ensuring adequate collection and use of investments in economic recovery and others.

In the second group of countries the level of investment is satisfactory. But economic development is achieved with some difficulties and if the state does not implement stabilization policy, it is impossible to achieve sustainability. Really, the state is involved in private investment, and can be either a guarantor provides financial assistance. In this group the ratio of investments to GDP decreased from 30 % to 20–15 % and these countries are experiencing difficulties in attracting investments. Therefore, major efforts are directed at increasing of efficiency.

In the third group of countries the level of investments has fallen so sharply that we can talk about their economic backwardness. In such countries, certainly, an investment strategy should be directly aimed at attracting of foreign investments. In such countries there is no possibility to use the experience of first and second groups. These countries implement the erroneous policies. It leads to the degradation of their economies.

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