OVERVIEW OF INTERNATIONAL TAX COMPETITION

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Abstract: *The relevance of this study is due to the rapid changes in the economies of countries associated with the processes of globalisation. In the conditions of huge global competition by states in various industries and using every available method, all possible advantages of the country, including the level of its taxes, tax policy, begin to play a huge role. The extent to which a country can afford to be open in the international arena in terms of tax collections considerably affects its position in the world, especially for investors and multinational corporations (hereinafter referred to as MNCs). The purpose of the study is to determine the state of international tax competition, the features of tax competition in the countries of the world, and to consider the existing problems in tax competition, including those related to the existence of offshore companies; a separate purpose is to review the competitiveness of Azerbaijan and draw conclusions about the tax competitiveness of this country. The main methods used in the study are historical and analysis. The study provides a brief analysis of the main features of the tax policy of advanced countries, the features of the functioning of offshore companies are considered. Based on the results obtained and historical data on the evolution of the tax code of countries and objectively positive and negative aspects of the policy of each of the states, conclusions are drawn about the main signs of a competent tax policy. A comparative review of the data obtained from developed countries with Azerbaijan is conducted, the situation with the country's tax policy is described, possible methods of improving the situation by the state and the prospects of the country are indicated. The study will be useful for the development of tax policy in Azerbaijan and national policy in general; for improving the awareness of the situation with tax competition in the advanced countries of the world; for a better understanding of the modern economy of Azerbaijan; for students studying tax policy issues; for authors who cover related subjects in their papers.*

Keywords: economy of Azerbaijan; tax policy; economic development of the countries of the world; globalisation; international competitive environment.

Competition is the foundation for the existence of a market economy. Based on egoism, which is the reason for a person's desire to obtain the greatest personal benefit, capitalism is built. In this regard, Adam Smith wrote: "We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages"[1]. This opinion was confirmed by many researchers. Economists generally agree that competition is important for a healthy market economy[2]. Economic practice also proves this.

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[1] A. Smith, *Inquiry into the Nature and Causes of the Wealth of Nations,* Eskmo, Moscow, 1776.
[2] M. Keane, J. Bramby, *Group pressure: Tax competition and developing countries,* 2017. Retrieved from https://www.imf.org/external/russian/np/blog/2017/071117r.pdf; O.M. Yaroshenko, O.Y. Lutsenko, N.M. Vapnyarchuk, "Salary optimisation in Ukraine in the context of the economy Europeanisation", in *Journal of the National Academy of Legal Sciences of Ukraine,* 2021, vol. 28, no. 3, p. 224-237; G.K. Lukhmanova, K.S. Sakibaeva, M.B. Seisekenova, R.E. Kuralbayeva, M.S. Orysbayeva, "Improving the competitiveness of crop production in the Republic of Kazakhstan", in *Journal of Social Sciences Research*, 2018, vol. 2018, no. Special Issue 3, p. 178-181.

Competition has always existed not only between enterprises but also between countries, which forced them to develop at the fastest possible pace. With the development of technology, it took on new forms, and with the beginning of globalisation, a form of competition through tax rates in the country occurred – tax competition[3]. Tax policy is becoming an attractive tool for state regulation of the economy in the context of financial liberalisation and coordination of monetary policy at the supranational and intra-national levels[4]. Its essence is to attract MNCs and investment flows into the country through lower taxation[5]. However, competition does not always generate benefits only. Researchers are certain that without regulation in the markets, ultimately, monopolies arise, which can receive superprofits due to their dominant position in the market, and also have the opportunity not to make any innovations to the market to maintain their status due to the huge amount of money, etc.[6] The same applies to other types of competition, including tax, although it generates different problems. Taxes are often the main part of the budget revenues of countries. With intense tax competition, the state, attempting to attract investment by reducing corporate and income taxes, can harm itself by excessively reducing tax revenues to the budget, and thus will be forced to seek financing from other, less reliable sources[7]. This is especially true of developing countries, which have difficulty taking loans in the national and foreign markets[8]. This can even lead to active liquidity influences in the economy, which in developing countries has devastating consequences. Thus, the country may fall into a trap in which it is forced to reduce taxes to attract new investments and stay afloat, while strongly lacking funds in the budget[9].

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[3] A.B. Sembin, L.A. Tussupova, I.V. Selezneva, M.V. Shtiller, M.S. Tulegenova, "Project management in the context of digital transformation of the economy for the sustainable development of Kazakhstan", in *Rivista di Studi sulla Sostenibilita*, 2021, no. 2, p. 217-229.

[4] A.A. Pugachev, L.B. Parfenova, A. Podvezko, "Assessment of the impact of tax competition on the competitiveness of the national tax system", in *Taxes and Taxation*, 2019, vol. 4, p. 143-154; S.V. Mishchenko, "Financial crisis influence upon realization of monetary policy by central banks", in *Actual Problems of Economics*, 2009, vol. 9, p. 209-218.

[5] I. Alieksieiev, "Monitoring of tax and non-tax flows", in *Economics, Entrepreneurship, Management*, 2021, vol. 7, no. 1, p. 1-9.

[6] A. Kisiołek, "The market of flooring systems in Poland", in *Innovative Marketing*, 2018, vol. 14, no. 1, p. 13-22; V. Mishchenko, S. Naumenkova, S. Mishchenko, "Assessing the efficiency of the monetary transmission mechanism channels in Ukraine", in *Banks and Bank Systems,* 2021, vol. 16, no. 3, p. 48-62.

[7] N. Trusova, I. Demchenko, N. Kotvytska, A. Hevchuk, D. Yeremenko, Y. Prus, "Foreign-economic priorities of the development of investment infrastructure of agri-food production entities", in *Scientific Horizons*, 2021, vol. 24, no. 5, p. 92-107.

[8] V.I. Mishchenko, S.V. Naumenkova, O.A. Shapoval, "Consumer loans securitization", in *Actual Problems of Economics*, 2016, vol. 186, no. 12, p. 311-321.

[9] Z. Zeynalova, "The applying functions of tax regulation for state development" in *Australian Economic Papers,* 2020, vol. 59, no. 4, p. 376-394; N.V. Trusova, L.V. Melnyk, Z.S. Shilo, O.S.

Even though, according to economists, tax competition can lead to negative consequences for the country, there are many positive sides to this phenomenon. Such competition leads to lower taxation for investors and MNCs, which stimulates investment on a global scale and ensures economic growth in the long term[10]. Furthermore, theorists assert that tax competition, as a predictable market mechanism, is quite effective, in contrast to inefficient regulation by the public sector[11]. Thus, the modern economic scientific literature describes two sides of tax competition: its positive and negative impact on the economic development of the country. However, currently, there is no single opinion among economists about the impact of tax competition on economic processes[12]. In addition, there is no one generally accepted definition of tax competition in the economic literature. Thus, Gerasimenko defines tax competition as the impact on the national tax policy of one particular state of the tax policy of other countries, while Larina defines it as a simplified model of competitive relations, which provides competition between authorities for attracting mobile factors of production to their territory through the development of a certain taxation environment to maximise their own income and power[13] . The relevance of this study lies in such ambiguity of the issue of tax competition.

The purpose of the study is to analyse the tax policy regarding the profitability of international investment of advanced countries and their methods of tax competition. Furthermore, a similar analysis was conducted for Azerbaijan to determine the country's situation in the international arena from the standpoint of the attractiveness of investment in the context of tax policy. The data and conclusions obtained during the analysis of developed countries help in forming a holistic view of global tax competition. In addition, the paper describes the impact of offshore zones on global competition for capital flows. The object of the study is the tax policy of states. The originality of the study is explained by the fact that there is little literature on tax competition between countries in open sources. The above also applies to the tax policy in the investment environment of Azerbaijan.

Prystemskyi, "Credit-investment activity of banks of the Ukraine: Financial globalization, risks, stabilization", in *Universal Journal of Accounting and Finance*, 2021, vol. 9, no. 3, p. 450-468.

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[11] A. Kisiolek, R. Budzik, C. Kolmasiak, "Public relations on the internet on the examples of the metallurgical industry in Poland and in the World", in *Metalurgija*, 2003, vol. 42, no. 2, p. 117-121.

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[13] E.K. Simakova, "Tax Competition: Essence and modern aspects of counteraction", in *Modern Competition*, 2013, vol. 1, p. 64-72.

Materials and methods

Theoretical research methods are at the core of the methodology of the study since it examines the current state of tax competition in the world based on the analysis of tax policy in some countries, including Azerbaijan. Furthermore, empirical methods play a considerable role in the study, they are used to study the economic situation in countries in general, their competitive component on the world stage, and their tax policy on investment flows. Research methods: historical; abstract-logical; statistical (data collection, tabulation); analysis (analysis of the collected information, both empirical and theoretical); monographic; economic and mathematical; modelling.

The most important taxes from the standpoint of attractiveness for investments are income tax, the amount of which is calculated from the final amount of the investor's net cash income and corporate tax, which, in fact, is also income for profit, but in relation to the income of the corporation[14]. The latter determines how attractive the country will be for registering MNCs in it and doing business with this corporation[15]. Since these taxes are the most considerable for investors and corporations when choosing a country, it is on their basis that a comparison of tax competition between countries will be conducted. Furthermore, for the analysis of tax competition, the activities of MNCs in countries and the flows of direct and portfolio investments will be considered. Data on investments are presented as a percentage of gross domestic product (GDP) for comparing it between countries; for Azerbaijan, data are provided in absolute values as well for a more in-depth analysis. It is important to understand that the value of net direct investment of 5% of GDP is considered a high indicator. Based on these data, conclusions about tax competition will be drawn.

The whole research consists of three stages, each of which describes the state of tax competition from different perspectives. The first stage describes the impact of offshore companies on the international economy, especially on tax competition. The features of the modern functioning of offshore companies and possible changes due to trends in the changing policies of countries are described. At the second stage, the analysis of tax policies in the field of worldwide tax competition between some countries of the world was conducted based on data on tax rates and investment flows. Having assessed certain trends among the economies of the world, conclusions were drawn about the importance of tax rates for investors when choosing a country to

[14] S. Kalchenko, N. Trusova, D. Hrybova, B. Serhii, "The small and large business interaction within national economy's gross added value reproduction in Ukraine", in *Oeconomia Copernicana*, 2018, vol. 9, no. 3, p. 403-417.

[15] T.O. Nikolaychuk, "Innovative forms of experience services in business activities", in *Scientific Bulletin of Mukachevo State University. Series "Economics"*, 2021, vol. 8, no. 3, p. 46-59.

invest in. At the third stage, the features of Azerbaijan's economic development after the collapse of the USSR are described, a brief economic analysis of Azerbaijan is conducted, the state of the country in the international arena is assessed from the standpoint of tax competition, and recommendations for the country's future national policy are compiled. At the end of the study, conclusions are formed about the current state of international tax competition, its benefits and harms, the fate and role of offshore companies, the prospects for the development of Azerbaijan.

Results and discussion

Offshore companies in the modern world economy

Considering tax competition and its impact on the global economy, it is impossible to ignore such a phenomenon as offshore. In general, an offshore is a territory where certain tax benefits exist for enterprises[16]. Although some experts tend to believe that offshore companies have ceased to exist, in fact, studies show that offshore zones continue to function. Thus, companies registered in Bermuda, the British Virgin Islands (hereinafter referred to as the BVI), or the Marshall Islands are provided with zero corporate tax burden. In large financial centres, such as Hong Kong and Singapore, companies receive favourable tax regimes and open access to the international banking system, although they are not exempt from taxes at all. Such countries are also called mid-shores. There is another group of so-called on-shores, where tax benefits apply only to certain types of businesses. This most often applies to Latvia, the Netherlands, and the United States of America (hereinafter referred to as the USA).

Although the term offshore itself was first used not so long ago, it has actually existed since ancient times. Then, merchants often sold their products in places with lower tax charges. Now the world community has begun the fight against offshore companies. This is primarily explained as a means of combating money laundering schemes. This situation is especially typical for the countries of the former Union of Soviet Socialist Republics (hereinafter referred to as the USSR). Thus, countries are beginning to adopt plans for BEPS (Base Erosion and Profit Shifting – the erosion of the tax base and the withdrawal of profits from taxation). Basically, such a plan is a minimal set of actions that a country must take to prevent tax abuses by companies that register in certain areas solely for the purpose of obtaining tax benefits.

The last serious step in the fight against offshore companies was the G7 proposal (Great 7 – an informal association of seven countries: Great Britain,

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[16] L. Giammanco, C.C. Bordenca, D. Rigoglioso, C. Greco, E. Sirica, K. Venslauskas, "Tax benefits for the energy requalification of Italian real estate assets", in *Rivista Di Studi Sulla Sostenibilita*, 2019, no. 2, p. 249-265.

Germany, Italy, Canada, France, Japan, and the USA) to introduce a single corporate tax of 15%. The reason for this decision was the constant tax competition between countries that have been lowering corporate taxes for many years to attract MNCs. However, according to US Treasury Secretary Janet Yellen, the government should have "stable tax systems that generate sufficient income to invest in basic public goods"[17]. Although a single corporate tax has not yet been introduced, in the future it may mean the actual disappearance of offshore companies or a decrease in their impact on investment and capital flows. Furthermore, a constant tax rate of 15% will allow making the budget of the countries of the world more stable, which may lead to the recovery of not only individual economies but also the global economic system.

Although offshore companies have some positive effects for economies (for example, companies registered offshore and not paying taxes or having tax benefits can develop faster; besides, as a rule, territories that have the status of an offshore zone receive a positive effect, since MNCs create new jobs and improve the welfare of the population through their activities), in general, their existence is fraught with more dangers and disadvantages. Current trends in the global economy suggest a decrease in the influence of offshore companies on global tax competition in the future, which should lead to a general recovery of economies. This will also lead to the fact that states, in general, will have more opportunities to form their policies, as their budget revenues will increase. Nevertheless, countries that had the status of offshore companies can lose a lot; and since such states are mostly small and insular, which indicates a slight diversification of their economy, such an event can bring them a lot of new problems that the local government will have to solve. However, it is not established whether the national economies will improve after the implementation of this policy by the world community[18]. Only time will give a certain answer to this issue, since it is common that quite logical and, at first glance, reasonable views of economists on a particular phenomenon happened to be false due to various factors.

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[17] U.S. Treasury Secretary calls for a global corporate minimum tax, 2021. Retrieved from https://www.weforum.org/agenda/2021/04/u-s-treasury-secretary-pledges-global-corporate-minimum-tax-rates-and-asks-countries-to-unite/.

[18] G.K. Lukhmanova, K.S. Baisholanova, L.A. Baibulekova, K.K. Primzharova, G.R. Kassymbekova, "Financial market of Kazakhstan: Current state and ways of stabilization in the context of global instability", in *Journal of Advanced Research in Law and Economics*, 2018, vol. 9, no. 6, p. 2056-2059; Zh.V. Piskova, I.M. Tsurkan, "Outlines of changing the tax policy paradigm of Ukraine", in *Scientific Bulletin of Mukachevo State University. Series "Economics"*, 2021, no. 1, p. 205-211.

Interstate comparison of tax competition methods and their impact on investment flows

As already mentioned, the main taxes that are most important for investors and corporations when making decisions about choosing a country are corporate and income ones[19]. To analyse international tax competition, below is a table with the values of these fees for some countries from 2003 to 2021.

Table 1: Values of corporate and income taxes in some countries from 2003 to 2021, %[20]

Years	USA		United Kingdom		China		Russia	
	Corporate	Income tax	Corporate	Income tax	Corporate	Income tax	Corporate	Income tax
2003	39.3	35	30	40	33	45	24	13
2004	39.3	35	30	40	33	45	24	13
2005	39.3	35	30	40	33	45	24	13
2006	39.3	35	30	40	33	45	24	13
2007	39.3	35	30	40	33	45	24	13
2008	39.3	35	30	40	25	45	24	13
2009	39.2	35	28	40	25	45	20	13
2010	39.2	35	28	50	25	45	20	13
2011	39.2	35	26	50	25	45	20	13
2012	39.1	35	24	50	25	45	20	13
2013	39.0	39.6	23	45	25	45	20	13
2014	39.1	39.6	21	45	25	45	20	13
2015	39.0	39.6	20	45	25	45	20	13
2016	38.9	39.6	20	45	25	45	20	13
2017	38.9	39.6	19	45	25	45	20	13
2018	27	37	19	45	25	45	20	13
2019	27	37	19	45	25	45	20	13
2020	27	37	19	45	25	45	20	13
2021	27	37	19	45	25	45	20	13
Years	Germany, tax		Brazil, tax		Japan, tax		Egypt, tax	
	Corporate	Income tax	Corporate	Income tax	Corporate	Income tax	Corporate	Income tax
2003	39.6	48.5	34	27.5	42	50	42	34
2004	38.3	45	34	27.5	42	50	42	34
2005	38.3	42	34	27.5	40.7	50	20	34
2006	38.3	42	34	27.5	40.7	50	20	34
2007	38.4	45	34	27.5	40.7	50	20	20
2008	29.5	45	34	27.5	40.7	50	20	20

[19] N.V. Trusova, T.A. Cherniavska, Y.Y. Kyrylov, V.H. Hranovska, S.V. Skrypnyk, L.V. Borovik, "Ensuring security the movement of foreign direct investment: Ukraine and the EU economic relations", in *Periodicals of Engineering and Natural Sciences*, 2021, vol. 9, no. 3, p. 901-920.

[20] TaxFoundation, 2021. Retrieved from https://taxfoundation.org/; KPMG, 2021. Retrieved from https://home.kpmg/xx/en/home.html.

2009	29.4	45	34	27.5	40.7	50	20	20
2010	29.4	45	34	27.5	40.7	50	20	20
2011	29.4	45	34	27.5	40.7	50	20	20
2012	29.5	45	34	27.5	38.0	50	25	20
2013	29.6	45	34	27.5	38.0	50.8	25	25
2014	29.6	45	34	27.5	35.6	50.8	25	25
2015	29.7	45	34	27.5	33.9	50.8	22.5	25
2016	29.7	45	34	27.5	30.9	56.0	22.5	25
2017	29.8	45	34	27.5	30.9	56.0	22.5	22.5
2018	30	45	34	27.5	30.9	56.0	22.5	22.5
2019	30	45	34	27.5	30.6	56.0	22.5	22.5
2020	30	45	34	27.5	30.6	56.0	22.5	25
2021	30	45	34	27.5	30.6	56.0	22.5	25

*Note: * – corporate tax in the USA consists of 2 parts: 21% mandatory tax + state tax (from 0 to 11.5%); the average figure is approximately 27%.*

From the above data, it can be concluded that in fact in all countries of the world there is a gradual reduction in corporate tax, unlike income tax, where the situation is not so obvious (Table 1). Nevertheless, this once again proves the existing tax competition in the international arena. To compare how much the tax policy in these countries affects their competitiveness in the world, below are tables with data on direct and portfolio investments in the countries discussed above. Based on the selected countries, it is impossible to generalise the data for all states, yet there is a certain logic and relationship between taxes and investments[21].

Table 2: Foreign direct investment of some countries from 2003 to 2020, % of GDP

	2003	2004	2005	2006	2007	2008	2009	2010	2011
USA	1.0	1.7	1.1	2.2	2.4	2.3	1.1	1.8	1.7
United Kingdom	1.8	3.6	10.0	7.5	6.8	8.7	0.6	2.7	1.0
China	3.5	3.5	4.6	4.5	4.4	3.7	2.6	4.0	3.7
Russia	1.8	2.6	2.0	3.8	4.3	4.5	3.0	2.8	2.7
Germany	2.6	-0.7	2.1	2.9	1.5	0.8	1.7	2.5	2.6
Brazil	1.8	2.7	1.7	1.8	3.2	3.0	1.9	3.7	3.9
Japan	0.2	0.2	0.1	-0.1	0.5	0.5	0.2	0.1	0.0
Egypt	0.3	1.6	6.0	9.3	8.9	5.8	3.5	2.9	-0.2

	2012	2013	2014	2015	2016	2017	2018	2019
USA	1.5	1.7	1.4	2.8	2.5	1.9	1.3	1.6
United Kingdom	1.7	2.0	1.9	1.5	12.1	4.7	2.8	0.1
China	2.8	3.0	2.6	2.2	1.6	1.3	1.7	1.3
Russia	2.3	3.0	1.1	0.5	2.5	1.8	0.5	1.9
Germany	1.9	1.8	0.5	1.9	1.9	3.0	4.0	1.8
Brazil	3.8	3.0	3.6	3.6	4.1	3.3	4.1	3.7
Japan	0.0	0.2	0.4	0.1	0.8	0.4	0.5	0.8
Egypt	1.0	1.5	1.5	2.1	2.4	3.1	3.3	3.0

21 The World Bank DataBank, 2021. Retrieved from https://databank.worldbank.org/home.aspx

Table 3: Portfolio investments of some countries from 2003 to 2020, % of GDP[22]

	2003	2004	2005	2006	2007	2008	2009	2010	2011
USA	-3.6	-5.5	-4.3	-4.6	-5.4	-5.5	0.1	-4.1	-1.5
United Kingdom	-7.1	-0.1	-2.9	4.7	-5.0	-26.1	-8.5	-7.9	-8.3
China	-0.7	-1.0	0.2	2.5	-0.5	-0.8	-0.5	-0.4	-0.3
Russia	1.0	-0.1	1.5	-1.7	-0.4	2.1	0.2	0.1	0.7
Germany	-2.4	-0.7	1.3	0.7	-6.3	-1.2	3.5	4.5	-1.4
Brazil	-1.0	0.7	-0.5	-0.8	-3.5	-0.2	-3.1	-3.0	-1.6
Japan	2.1	-0.5	-2.8	-1.6	5.6	4.0	2.5	-2.7	0.5
Egypt	0.1	-0.3	-3.9	0.7	2.7	4.7	0.3	-4.8	4.5
	2012	2013	2014	2015	2016	2017	2018	2019	2020
USA	-3.1	-0.2	-0.7	-0.3	-1.0	-1.1	0.2	-0.6	-2.0
United Kingdom	10.4	-10.2	0.5	-7.9	-7.9	-4.9	-12.6	1.7	0.6
China	-0.6	-0.6	-0.8	0.6	0.5	-0.2	-0.8	-0.4	-0.6
Russia	-0.8	0.5	1.9	1.9	-0.2	-0.5	0.5	-0.8	1.7
Germany	1.9	5.6	4.6	6.3	6.3	6.3	4.6	2.1	1.5
Brazil	-0.6	-1.3	-1.7	-1.0	1.1	0.9	0.4	1.0	0.9
Japan	-5.3	-5.3	-0.8	3.0	5.4	-1.0	1.9	1.7	…
Egypt	0.7	-1.0	0.7	0.0	-0.2	-10.1	0.8	-3.4	-0.3

Upon analysing the data (Table 2, Table 3), it can be observed that lower income has little effect on the number of net direct and portfolio investments in the country. Moreover, investment indicators are quite heterogeneous and can notably fluctuate annually (for example, UK portfolio investments in 2012 amounted to 10.4%, and in 2013 – 10.2%). It is more likely that for investors, the main reasons for investing in a particular country are primarily related to development prospects, and not the tax rate.

The situation with MNCs is a little different. It is impossible to find accurate data on the number of registered corporations in each country, and even if an analysis is conducted based on the indicators of one year, the data may vary considerably from source to source. However, studies show that, despite the high corporate taxes in Germany and the UK, quite a large part of MNCs are registered in these countries. Moreover, there are many MNCs in the USA and China, where corporate tax is not so high. Moreover, the number of several highly developed and large economies accounts for about half of the registered MNCs.

Upon summarising the information obtained as a result of the study, it can be concluded that, in general, tax rates do not always play the main role for investors and MNCs when making their decisions. The country's development prospects, risks, the size and structure of markets and other indicators remain more important. However, if the tax rate were completely unimportant, there would be no such clear downward trend in the corporate tax rate. This is also confirmed by the fact that a huge proportion of MNCs still register their

[22] The World Bank DataBank, 2021. Retrieved from https://databank.worldbank.org/home.aspx

companies offshore. Furthermore, developing countries that have high investment risks, which are often associated with political and economic instability, are actually forced to lower taxes to attract large amounts of capital[23]. However, low taxes of developing countries do not attract MNCs for their registration (since there are offshore companies), and high risks often discourage investors who continue to invest in more stable countries like the United States to not lose their investments[24]. It has already been described above that the problems associated with tax competition primarily relate to developing countries, and this study confirms this once again.

Azerbaijan and global tax competition

Since Azerbaijan is one of the republics of the former USSR, it has gone through a difficult stage of transformation into a market economy. The conditions for the transition to a market economy were not appropriate; after independence, hyperinflation and a general decline in production appeared in the country, as in many other states after the collapse of the Union. This was preceded by both economic and political reasons. Nevertheless, the country was able to manage this situation, and since 1995 and up to 2005 there has been a strong upswing, which primarily occurred due to the large volumes of oil produced. However, mistakes were made in the development of other sectors of the economy, which did not allow achieving a sufficient level of diversification.

Currently, the country's economy is at the stage of recovery from the consequences of the COVID-19 crisis, the events of which particularly affected the country due to the considerable decline in oil prices (the country has the richest oil and natural gas reserves on the Absheron Peninsula of the Caspian Sea and directly in the Caspian Sea), the revenues from the sale of which were needed by the country at that moment, also, the consequences of the Second Karabakh War considerably impacted the country's economy and claimed many lives although it lasted about a month and a half.

Azerbaijan is considered a country with a transitional economy, although the country has already announced its transition to a market economy. Until 2014, Azerbaijan experienced stable GDP growth at a fairly rapid pace, but after this year and in 2020 there was a decline. It was considered one of the fastest-growing CIS countries. As already mentioned, Azerbaijan depends on oil exports and prices for it. This caused oil crises in the country due to the fall

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[23] O.M. Kovalko, N.M. Kovalko, O.V. Novoseltsev, "Result-oriented investment management system for targeted energy efficiency programs", in *Naukovyi Visnyk Natsionalnoho Hirnychoho Universytetu*, 2018, no. 3, p. 160-166.

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in oil prices after 2011. The country is industrial, the industrial sector accounts for about 40% of GDP, and mechanical engineering occupies the second line of exports after oil; agriculture occupies about 6-7%[25].

In recent years, the government of the country has been aiming at Azerbaijan's departure from the raw material growth model and at sectoral diversification: the development of the agricultural sector, private economy, and manufacturing[26]. Although the price of oil has already begun to recover, the country will face a long recovery from the events of 2020.

Interestingly, back in 2017, Azerbaijan was considered a fairly competitive country, especially in comparison with the countries of the former USSR, but after 2017 the situation deteriorated considerably. Thus, in 2017, the country ranked 35th[27], while in 2018 it ranked 69th[28]. Below are the values of corporate and income tax by year, the levels of portfolio and foreign direct investment in the country by year to compare the country's competitive state in the field of taxes, similarly to the comparison made in the last chapter.

Table 4: The main indicators of the analysis of tax competition in Azerbaijan in 2003-2020[29]

Years	2003	2004	2005	2006	2007	2008	2009	2010	2011
Corporate tax, %	25	25	24	24	22	22	22	20	20
Income tax, %	35	35	35	35	35	35	35	30	30
Foreign direct investment, % of GDP	55.1	54.4	33.8	21.4	13.9	8.2	6.5	6.3	6.8
Foreign direct investment, billions of dollars	4.007	4.719	4.476	4.486	4.594	3.987	2.900	3.353	4.485
Portfolio investments, % of GDP	0.0	0.2	-0.2	0.1	0.1	0.7	0.3	0.3	0.5
Portfolio investments, billions of dollars	0.000	0.018	-0.031	0.012	0.026	0.347	0.139	0.139	0.317
Years	2012	2013	2014	2015	2016	2017	2018	2019	2020

[25] Azerbaijan's GDP growth in January-August amounted to 3.6%, the non-oil sector grew by 5.7%, 2021. Retrieved from http://interfax.az/view/844808.

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Corporate tax, %	20	20	20	20	20	20	20	20	20
Income tax, %	30	25	25	25	25	25	25	25	25
Foreign direct investment, % of GDP	7.6	3.5	5.9	7.6	11.9	7.0	3.0	3.1	…
Foreign direct investment, billions of dollars	5.293	2.619	4.430	4.048	4.500	2.867	1.403	1.504	…
Portfolio investments, % of GDP	-0.4	-1.0	-1.8	-2.0	-1.3	-6.5	2.6	0.8	0.7
Portfolio investments, billions of dollars	0.268	-0.719	1.321	-1.081	-0.488	-2.669	1.241	0.389	0.282

Evidently, during the years of the greatest recovery associated with increased volumes of oil produced, the country received huge infusions of foreign direct investment (Table 4). All this happened with a relatively high income tax. Over time, the country's GDP began to grow considerably at a high rate, but the number of direct investments did not. Moreover, their values have decreased notably in recent years. The income tax cut did not help either, which once again confirms that investors are not guided only by the tax rate to make investment decisions. Moreover, the country has lost a considerable part of its budget revenues due to the reduction of income tax. Nevertheless, it is worth mentioning that the values of the indicator "foreign direct investment as a percentage of GDP", although decreased, remains very high.

As for MNCs, such a low corporate tax value is also not enough to motivate countries to register their companies in Azerbaijan. The reasons for this are related to instability and risks of the country, which are also indicated in its credit rating: BB+ from S&P and Fitch[30]. This indicator suggests that investments in Azerbaijan, according to these holdings, are quite risky. Nevertheless, MNCs operate on the territory of the country. MNCs create new jobs and attract new investments, therefore, this activity has a positive impact on the development of the country. One of the state goals of Azerbaijan is to attract new investments and MNCs. However, based on the research conducted above, it can be concluded that the main methods of achieving this goal are the stabilisation of the economic and political situation in the country, the fight against corruption, improvement of the well-being of the population, etc.[31]

30 Trading Economics, 2021. Retrieved from https://tradingeconomics.com/

31 M.O. Dumchikov, V.V. Pakhomov, "Ways to combat corruption abuses in the area of public finances", in *Legal Horizons*, 2021, vol. 14, no. 2, p. 31-37.

Conclusions

Tax competition is quite a serious problem in the global economic arena. To attract large investments, countries compete in tax rates, thereby reducing their own budgets. Therewith, this effect has positive sides, as it allows companies to reinvest more and develop faster (which, however, should not lead to monopolism). Tax competition brings the greatest harm to developing countries, which, to attract new investments, are forced to lower the tax rate and attract money from other, less reliable and more expensive sources. However, there is no clear answer among economists as to how harmful tax competition is.

Offshore companies are an important component of tax competition. However, states have already begun to combat this phenomenon. This is primarily due to the adoption of certain laws in each of the countries, a recent proposal to introduce a law that would prohibit the introduction of corporate tax in each country at a level below 15%. Such a policy should cease the existence of offshore companies or greatly reduce their influence and will also help some countries to increase budget revenues from corporate tax revenues.

Although the impact of tax competition cannot be denied due to the constant trend towards tax cuts in countries and the existence of offshore companies, the study showed that, in general, companies choose a country to register and conduct business in by analysing its riskiness, stability, prospects, and other factors. This explains the fact that there are a large number of registered MNCs in some developed countries, where tax rates can reach 40%. Upon analysing the economic situation in Azerbaijan and based on the country's long-term strategy, it was concluded that to achieve these goals, it is primarily worth focusing on improving the economy and increasing the credit rating. Despite various difficulties in the country, Azerbaijan has considerable development potential that can be fulfiled with a competent national policy.