

## МИРОВАЯ ЭКОНОМИКА WORLD ECONOMY

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### РОЛЬ НАКОПЛЕНИЯ КАПИТАЛА В ЭКОНОМИЧЕСКОМ РАЗВИТИИ

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#### Аннотация

Странам нужен капитал для замены старого оборудования, используемого для производства товаров и услуг. Если страна не может заменить капитальные блага по мере того, как срок полезного использования существующего капитала подходит к концу, производство снижается. Как правило, чем выше накопление капитала в экономике, тем быстрее экономика будет увеличивать свой совокупный доход. Потому что производство большего количества товаров и услуг приведет к увеличению уровня национального дохода. В статье рассматривается роль капитала в экономике страны. Подчеркивается значение капитала и проводимой в этом направлении экономической политики в развитии зарубежных стран.

Анализ сделан на основе макроэкономических показателей первого квартала 2023 года в Азербайджане. Из анализа видно, что государство придает большое значение этой сфере в нашей стране. В январе-марте 2023 года действующими в стране предприятиями, организациями и индивидуальными предпринимателями произведен валовой внутренний продукт в размере 30,3 миллиарда манатов, а в основной капитал направлены средства в размере 3523,1 миллиона манатов. В результате этого в нашей стране действуют новые индустриальные парки с современным капиталом, а новые индустриальные парки в настоящее время строятся на освобожденных от оккупации территориях.

**Ключевые слова:** капитал, депозит, инвестор, отрасль, акции.

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## THE ROLE OF CAPITAL FORMATION IN ECONOMIC DEVELOPMENT

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### Abstract.

Countries need capital to replace old equipment used to produce goods and services. If a country is unable to replace capital goods as existing capital reaches the end of its useful life, then production declines. As a general rule, the higher the capital formation of an economy, the faster the economy will increase its aggregate income. Because the production of more goods and services will lead to an increase in the level of national income. The article discusses the role of capital in the country's economy. The importance of capital and the economic policy conducted in this direction is emphasized in the development of foreign countries.

An analysis was made based on the macroeconomic indicators of the first quarter of 2023 in Azerbaijan. It is clear from the analysis that the state attaches importance to this field in our country. In January-March 2023, the gross domestic product of 30.3 billion manats was produced by enterprises, organizations and individual entrepreneurs operating in the country, and funds in the amount of 3523.1 million manats were directed to the fixed capital. As a result of this, new industrial parks with modern capital are operating in our country, and new industrial parks are currently being built in the territories freed from occupation.

**Key words:** capital; deposit; investor; industry; share

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### Introduction

Capital formation is the net capital accumulation for a given country over an accounting period. Thus, it is considered the net accumulation of fixed assets such as equipment, tools, transport assets and electricity during the reporting period for a given country. To raise additional capital, the country must create savings and investments from household savings or based on government policies. Countries with a high rate of household savings can accumulate funds to produce capital goods faster, and the government managing the extra income can invest that income in capital goods. When investors buy stocks and bonds issued by

corporations, firms can put capital at risk to increase production and create new innovations for consumers.

According to Bohm Bawerk, capital enables the circulation of methods of production because there is a net gain in productivity resulting from the use of such methods. Rapid capital accumulation can lead to an increase in the supply of tools and machinery per worker. It allows them to use mechanical devices to produce products.

According to some economists, higher population growth is an obstacle to economic development. Therefore, capital is needed to manage population growth. Capital is required to adopt family planning methods and other

methods of population control, especially in poor and underdeveloped countries. Another argument is put forward that these countries lack food, shelter and housing, etc. capital is the main requirement for meeting its demand [What is the Role of Capital ...].

### **Why is capital formation important?**

Capital formation actually causes more money to circulate around the economy. The accumulation of fixed assets translates into investment and the production of more goods and services, which should increase the population's income and stimulate demand.

Capital formation does not happen by itself. It depends on the income of people living in the country, their savings and spending opportunities. This happens when the population has enough income to save and invest. Capital formation is the main measure of a country's economic health. Increasing production and investment leads to better financial conditions of the population and more spending, which contributes to economic growth. In theory, an economy with high capital formation should continue to grow, reinvesting its earnings to accumulate more—at least as long as inflation is kept at an appropriate level [Capital Formation: Definition ...].

Capital is the most important factor of production, especially in a developing economy. Capital formation is defined as the part of the current product and import of the country that is not consumed or exported during the reporting period, but is allocated in addition to its stock of fixed assets [Capital Formation ...].

Industry is considered as the leading area of capital formation and economic development. We can achieve economies of scale by applying advanced technology and division of labor and scientific management. Thus, production and employment will increase rapidly. This will lead to economic growth and capital formation.

Poverty and unemployment can be quickly eradicated through rapid

industrialization. This happened in industrially developed countries like Japan. Slow growth of the industrial sector is responsible for widespread poverty and mass unemployment. Thus, with the rapid development of the industrial sector, the surplus labor force from the villages can be used in industry.

Industrial development contributes to rapid growth of national and per capita income. The history of economic development of advanced countries shows that there is a close relationship between the level of industrial development and the level of national and per capita income. Poverty and unemployment can be quickly eradicated through rapid industrialization. This happened in industrially developed countries like Japan. Slow growth of the industrial sector is responsible for widespread poverty and mass unemployment. Thus, with the rapid development of the industrial sector, the surplus labor force from the villages can be used in industry.

The Korean War (1950-53) almost completely destroyed the manufacturing facilities and infrastructure of the country's economy. After the war, the partition of the country destroyed the existing industrial infrastructure. In the 1950s, many foreign observers were pessimistic about the development of the Korean economy. Until the early 1960s, the economy was dependent on foreign economic aid and had a per capita income of less than \$100, which was below that of many African countries (including Ghana and Kenya). South Korea started the process of economic development in the early 1960s. In 1962, the Korean government adopted a strategy of promoting more exports. The government has strongly supported exporting firms by providing various incentives, including credit allocation and favorable conditions in the tax system. The export financing system has also played an important role in supporting exports. As a result, South Korea's economic growth indicators in the last 30 years have been called an exemplary model of rapid economic development [Robert E. Lucas Jr., 1993].

### **International experience and example**

Caterpillar (CAT) is one of the world's largest manufacturers of construction equipment. It makes equipment that other companies use to create goods and services. Caterpillar (CAT) is a company that raises funds by issuing shares and debt. In the first quarter of 2023, sales and revenue were \$15.9 billion, a 17% increase compared to \$13.6 billion in the first quarter of 2022. The increase was primarily due to favorable price realization and higher sales volume.

The World Bank acts as a source of financial and technical assistance to developing countries with the aim of ending extreme poverty through its programs. The World Bank tracks gross capital formation, which it defines as expenditures on additions to fixed assets plus the net change in reserves. Fixed assets include plants, machinery, equipment and buildings used to create goods and services. Stocks include raw materials and goods available for sale. The World Bank measures capital formation by assessing the change in net savings. If the household savings rate increases, savers can make additional investments, buying stocks and bonds. If more households save, the country may report a cash surplus, which is a positive sign for capital formation. The World Bank also reports the amount of a country's central government's outstanding public debt compared to the country's gross domestic product (GDP), which is the sum of all the goods and services the country produces. If the rate of capital formation of a country increases, the country's GDP also increases.

### **Capital formation in Azerbaijan**

In our country, this field is one of the priority directions of the economy. The basis of the development of Azerbaijan's economy, which was founded by the National Leader Heydar Aliyev, was the capital that entered the country thanks to the "Contract of the Century". It is as a result that in January-March 2023, the gross domestic product of 30.3

billion manats or 0.4 percent more than the corresponding period of 2022 was produced by the enterprises, organizations and individual entrepreneurs operating in the country. During this period, the added value produced in the oil and gas sector of the economy decreased by 3.9 percent, and in the non-oil and gas sector, it increased by 4.9 percent. 47.5 percent of added value is industry, 9.0 percent trade; vehicle repair, 5.4 percent in transport and storage, 5.0 percent in construction, 2.6 percent in agriculture, forestry and fishing, 1.9 percent in tourist accommodation and catering, 1.5 percent in information and communication fields, 17.6 percent were produced in other fields. Net taxes on products and imports accounted for 9.5 percent of GDP. GDP per capita was 2991.2 manats. Industrial enterprises and individual entrepreneurs operating in this field produced 18.6 billion manat industrial products in January-March 2023, or 3.2 percent less than in the corresponding period of 2022. Product production in the oil and gas sector decreased by 4.0 percent, and in the non-oil and gas sector, it increased by 4.7 percent [Macroeconomic indicators ...].

In January-March 2023, 3,523.1 million manats were allocated to the fixed capital, or 40.3 percent more than in the corresponding period of 2022. The volume of investments in the oil and gas sector increased by 23.8 percent, and the volume of funds directed to the non-oil and gas sector increased by 51.7 percent. 1,941.3 million manats or 55.1 percent of the used funds were spent on production areas, 1,396.5 million manats (39.6 percent) were spent on service areas, and 185.3 million manats (5.3 percent) were spent on the construction of residential houses. 2577.3 million manats or 73.2 percent of the funds directed to the fixed capital were made up of internal funds. 2,517.5 million manats or 71.5 percent of the funds directed to the fixed capital were directly spent on construction works [Macroeconomic indicators ...].

Таблица

Макроэкономические индикаторы

Table

Macroeconomic indicators

The name of the indicator	January-March 2023, actual	January-March 2023 to January-March 2022 relatively, with interest	January-March 2022 for information January-March 2021 relatively, with interest
A	1	2	3
Gross domestic product, million manats	30 310,6	100,4	106,8
including non-oil-gas GDP	16 959,8	104,9	110,3
GDP per capita, manat	2 991,2	99,8	106,4
Industrial product, million manats	18 558,9	96,8	103,9
including the non-oil and gas industry	4 243,1	104,7	118,1
Funds directed to fixed capital, million manats	3 523,1	140,3	90,5
including the non-oil and gas sector	2 251,7	151,7	110,1
from it to the non-oil and gas industry	175,4	87,1	67,6
Agricultural products, million manats	1 340,1	103,4	103,4
including: plant breeding	76,0	101,3	114,4
animal husbandry	1 264,1	103,5	102,8
Freight transportation in the transport sector, million tons	52,5	106,4	105,7
Passenger transportation in the transport sector, million passengers	423,7	122,8	136,3
Information and communication services, million manats	692,7	117,8	114,7
Retail trade turnover, million manats	13 008,5	103,0	103,1
Paid services provided to the population, million manats	2 608,1	111,6	105,2
Revenues of the state budget, million manats	8 290,0	118,3	122,2
Expenditures of the state budget, million manats	6 567,0	116,7	101,9
State budget surplus, million manats	1 723,0	x	x

Nominal income of the population, million manats	18 479,9	115,2	119,2
Nominal income per capita, manat	1 823,7	114,4	118,8
Savings of the population in banks, as of March 1, 2023, million manats	11 901,8	118,6	119,8
Credit investments, as of March 1, 2023, million manats	20 347,1	115,7	120,3
including overdue loans	606,1	87,8	75,2

Source: State Statistics Committee of the Republic of Azerbaijan

### Conclusion

Industrialization plays an important role in promoting trade. Advanced countries gain more in trade than industrially backward countries. Underdeveloped countries export primary products and import industrial products. Agricultural products have lower prices and demand for them is generally elastic. Although industrial products have higher values, demand is inelastic. This leads to a trade gap. To cover the deficit in the balance of payments, we have to produce import substitutes or promote exports through industrial development.

Enterprises producing car parts should be opened in the industrial parks operating in our country. It is possible to meet the demand of the domestic market as well as to export abroad. It would be useful to use the experience of South Korea and Turkey in this field.

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