Enhancing bilateral ties: the escalation of Azerbaijan's economic investments in Turkey

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Abstract.
This research explores the strengthening economic partnership between Azerbaijan and Turkey, particularly focusing on Azerbaijan's increasing investments in the Turkish economy since the signing of the "Trade and Economic Cooperation" agreement in 1992. It analyzes significant projects like the Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum pipelines, which transcend mere infrastructural achievements to become strategic assets in the geopolitical landscape. These pipelines facilitate the safe transportation of hydrocarbons from the Caspian basin, bypassing traditional transit routes, and thereby reducing political and economic vulnerabilities. Additionally, Azerbaijan's substantial investments in Turkey's PETKIM petrochemical complex and the STAR Oil Refinery are examined as strategic steps enhancing the economic depth of both countries. These investments represent more than capital inflows; they symbolize a deep-rooted strategic alliance that promotes energy independence and industrial diversification. The STAR Oil Refinery plays a pivotal role in Turkey's energy supply chain, significantly contributing to its self-sufficiency in processed oil products. This bilateral economic engagement exemplifies how states with complementary resources and strategic visions can create sustainable economic corridors, highlighting the role of economic diplomacy in shaping international relations in an increasingly interconnected global economy. The evolving partnership not only exemplifies successful bilateral cooperation but also indicates strategic foresight in using economic synergies for regional stability and prosperity.

Keywords:
Economic Relations
investment
Azerbaijan-Turkey Partnership
Energy Sector Cooperation
Introduction and purpose of study. This research is designed to provide a detailed analysis of the developing economic relations between Azerbaijan and Turkey. It aims to unravel the strategic significance of key energy projects and investments and their impact on the economic landscapes of both countries. By examining initiatives such as the Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum pipelines, as well as significant investments in the PETKIM and STAR oil refineries, the study seeks to assess how these endeavors have shaped regional economics, energy security and geopolitical dynamics. The research intends to present a comprehensive overview of the synergy and collaboration efforts between Azerbaijan and Turkey, exploring how their partnership influences broader economic and strategic objectives in the region.

Analysis of recent publications. In the article [1], the economic developments in Turkey and the six Independent Turkish Republics of the Turkic World and the economic cooperation opportunities of these sister countries were investigated based on current statistical data. First, a brief analysis and summary of recent economic events in Azerbaijan is given. In the second part, indicators and developments related to foreign trade in the Republic of Turkey in 2005-2020 and subsequent periods were analyzed. In [2], the investments made by Azerbaijan, which has rich oil and natural gas resources and is one of the fastest growing economies in the world, in the energy sector of Turkey and the positive effects of these investments on Azerbaijan-Turkey economic relations were evaluated. Investments in Turkey's largest petrochemical company "Petkim", which was purchased by Azerbaijan's state oil company SOCAR as part of privatization, were investigated. Petkim is Azerbaijan's most strategic and profitable investment in the crisis years with its integrated facilities and port where it can process its oil into high value-added products, experienced staff, and unparalleled market share. The Star oil refinery, power plants, and port investments, whose construction began on the Petkim peninsula, were investigated under separate headings. In addition, information was given about the Trans-Anatolian Natural Gas Pipeline (TANAP) project signed in late 2011, and
its possible effects on Azerbaijan-Turkey economic relations were evaluated. The article [3] discussed the main contributions of energy projects to Turkey-Azerbaijan relations. Here, the investments made by Azerbaijan, which has rich oil and natural gas resources, in Turkey's energy sector and its impact on both economies were evaluated. After providing brief information about the economy of Azerbaijan, SOCAR's investment in Turkey's Petkim petrochemical enterprise, which was purchased within the framework of Turkey's privatization master plan, was analyzed in the study. Azerbaijan, which regained its independence after the collapse of the Soviet Union, aimed to establish an independent energy policy related to the extraction, processing and export of natural resources to international markets. However, due to the many internal and external problems it faced in the first years of its independence, it could not find an opportunity to define its own energy strategy. In this process, Turkey was the country with which Azerbaijan cooperated the most in the energy policy. The article [4] analyzed the role and importance of energy in the relations between Turkey and Azerbaijan.

The main results of the study. Baku-Tbilisi-Ceyhan was designed to ensure the transportation of oil from the Caspian Sea region to the world markets by an alternative and safe route, outside of the existing routes. This offered an alternative route for oil extracted from the region rather than through traditional transit countries such as Russia and Iran, which helped reduce political and economic risks. In addition, BTC allowed Azerbaijan to gain greater strategic independence in oil exports, greater control over energy policies, and more effective participation in international markets. The Baku-Tbilisi-Erzurum Natural Gas Pipeline is an important energy infrastructure project created to transport natural gas from the Caspian Sea region to Europe. Gas has been supplied to Turkey through this line since 2007. The most important feature of the Baku-Tbilisi-Kars railway is that it promotes regional trade, cooperation and economic development by creating a new and strategic transport corridor. These two countries aim to ensure energy security and cooperation between Turkey and Europe. It is of great
importance in terms of diversification of supply to the Union. The Trans-Anatolian Pipeline (TANAP) project, which Azerbaijan and Turkey started implementing jointly, added an important new aspect to energy cooperation. TANAP is one of the most strategic steps taken so far in the direction of increasing the diversity of natural gas resources of Europe and Turkey, as well as turning Turkey into an energy corridor.

Azerbaijan's important investments in Turkey include PETKIM and STAR Oil Refinery. These two projects are examples of large-scale investments made by Azerbaijan in the Turkish economy. STAR Oil Refinery is one of Azerbaijan's largest foreign direct investments in Turkey. SOCAR's total investment in the STAR Refinery project is $6.3 billion. The refinery has an annual crude oil processing capacity of 10 million tons and meets a significant part of Turkey's need for petroleum products.

SOCAR Turkey's natural gas portfolio accounts for 6% of Turkey's consumption, making it one of the country's largest private sector gas portfolios. In 2022, the total trade and sales volume of natural gas and electricity reached 17 terawatt-hours, and the turnover reached 28 billion TL. Since its inception, STAR Oil Refinery has ensured the sustainability of Petkim's raw materials and increased its capacity utilization to 113 percent by meeting its local fuel demand. It has maximized SOCAR's competitiveness in Turkish and world markets with the influence of raw material sustainability and synergy. "Petkim" broke the net profit record in 2022. Thus, at the end of 2022, "Petkim" renewed its 58-year net profit record with 6.5 billion TL.

STAR Refinery meets about 25 percent of Turkey's need for refined petroleum products, and Petkim meets about 12 percent of Turkey's need for petrochemical products. Both projects are a strong indicator of economic cooperation and mutual investments between Azerbaijan and Turkey and contribute to the deepening of the strategic partnership between the two countries. These investments have also increased Turkey's capacity and competitiveness in the energy and petrochemical sectors.

In the first 10 months of 2023, the volume of trade turnover between the two partner countries approached $7
billion, exceeding the 12-month turnover of 2022 by 15%. During 1995-2023, Azerbaijan has invested 20 billion US dollars in Turkey's economy. As a result, today, about 2,000 companies with Azerbaijani capital are operating in Turkey. Azerbaijan ranks first among the countries of Central Asia and the Caucasus in terms of both the number of companies in Turkey and the volume of investment. Besides that, Azerbaijan has become Turkey's second-largest gas producer. The establishment of a joint investment fund between the two countries will accelerate the implementation of the tasks ahead in terms of achieving investment goals that can be implemented within the framework of public-private sector partnership and maximizing opportunities for large enterprises and large projects, joint technology transfer and joint production. According to the statistics of the Central Bank of Azerbaijan, direct investments from Azerbaijan in the foreign economy in January-September 2023 amounted to 2 billion 691.9 million dollars.

<table>
<thead>
<tr>
<th>Name of the state</th>
<th>2022, 9 months</th>
<th>2023, 9 months</th>
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<tbody>
<tr>
<td></td>
<td>amount, min $</td>
<td>Special weight,%</td>
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<tr>
<td>TOTAL</td>
<td>759,146</td>
<td>100.0</td>
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<td>Türkiye</td>
<td>87,794</td>
<td>11.6</td>
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Source: Central Bank of the Republic of Azerbaijan - Foreign sector statistics (cbar.az)

**Conclusion.** For the future, Azerbaijan can significantly invest in Turkey's renewable energy sector. Turkey has significant potential in the field of solar, wind, water and geothermal energy. Azerbaijan's investment may focus on joint renewable energy projects, including the development of wind power plants or solar power plants. Apart from that, tourism is another area where Azerbaijan can expand its investments. With its rich cultural heritage, beautiful landscapes and well-developed tourism infrastructure, Turkey offers a
lucrative market. Investments can be directed to the development of new tourism destinations, the improvement of existing facilities, or the creation of joint tourism packages that promote both Azerbaijan and Turkey as complementary tourism destinations. This will not only boost the tourism industry but also strengthen the cultural and people-to-people ties between the two nations.

Azerbaijan's economy is predicted to grow by 3-3.5% in 2024, especially in the non-oil and gas sector. This economic growth can have a positive effect on Azerbaijan's opportunities to invest abroad, including Turkey. Given the historical context and ongoing cooperation, it is expected that Azerbaijan will continue to focus on key sectors such as energy, infrastructure, and diversification into new areas that match the strategic interests of both countries.

References: