

REPUBLIC OF AZERBAIJAN

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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

PRIORITIES OF ECONOMIC DIPLOMACY OF AZERBAIJAN IN THE CONDITIONS OF GLOBALIZATION

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Field of Science: Economy

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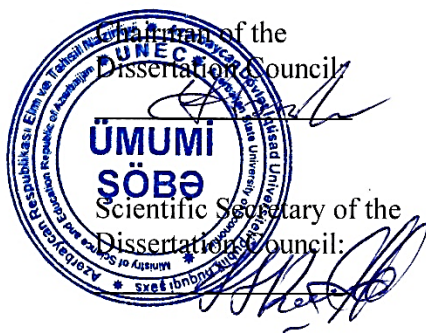
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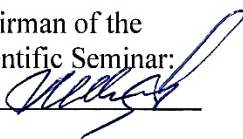
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GENERAL CHARACTERISTICS OF THE WORK

Relevance and level of development of the topic. In the modern world, economic issues play an increasingly important role in international relations. Azerbaijan, seeking to strengthen its economic position in the international arena, develops and conducts balanced economic diplomacy. One of the main priorities of Azerbaijan in economic diplomacy is attracting foreign investment. In the conditions of globalization, when competition for investment is becoming increasingly tough, the importance of economic diplomacy for attracting foreign capital and developing the national economy increases several times. Azerbaijan, with its rich and developed economic sectors - such as the oil and gas industry, tourism and industrial production, has managed to attract foreign investors through economic diplomacy and become a leader in the Caucasus.

Azerbaijan seeks to expand its export base and enter new markets for its goods and services, which is also a priority in economic diplomacy. Azerbaijan is actively working to improve multilateral cooperation and overcome trade barriers through economic diplomacy. The development of multifactorial and bilateral relations with partners based on mutual benefit contributes to the expansion of Azerbaijan's opportunities in the international arena and creates a favorable position in the global economic system. Globalization, as a process covering various countries and regions of the global economic system, has a direct impact on the economic policy of each country. In a period of increasing international conflicts, wars and sanctions, economic diplomacy becomes an integral part of the foreign policy of states, since the level of success in negotiations on economic issues becomes a key factor for the stability, prosperity and political strength of the country. Therefore, identifying the main priorities, functions and tasks facing Azerbaijan's economic diplomacy in the conditions of globalization becomes especially relevant. The fact that Azerbaijan is a participant in the international market and maintains diplomatic relations with many countries of the world directly affects the state of the country and requires an analysis of the socio-economic consequences of economic diplomacy. For this reason, modern science faces the task of assessing its impact and effectiveness on the socio-economic development of the country.

The scientific study of economic diplomacy began at the end of the last century and continues to this day. The study of the essence of economic diplomacy, its directions, its influence on the economic and political situation in the country and many other problematic issues is associated with the names of such scientists as Hans J. Morgenthau, Barry H. Steiner, S. Woolcock, N. Bayne, Donna Lee, D. Hudson, L. Badel, G.R. Berridge, L.M. Kapitsa, Yu.B. Kashlev, L. Golovataya, A.A. Lapin, N.A. Kozhanov, T.V. Zonova, E.P. Babin, T.M. Isachenko, M.Yu. Apanovich, D.A. Degterev, D.D. Zirovchich, R.O. Reinhardt, A.G. Savovsky, I. Mavlanov, V.D. Shchetinin, G. Rustambekov, Kh.A. Valizade, A.K. Aleskerov, D.B. Saifullayev, E.I. Emir-Ilyasova, S.Z. Isayev, R. Kuliyeu, A. Gasanov and others. They, considering various aspects of the problems of economic diplomacy, although they received significant results, however, the analysis of the priorities and functions of economic diplomacy remains insufficient at the current stage of development of Azerbaijan. Many works consider the forms of economic diplomacy, the stages of development of international relations and, accordingly, economic diplomacy, problems in the international market and ways to combat them through economic diplomacy. Methods of regulating international relations and economic diplomacy, measures of state regulation are presented. The results of these works were used in this study. However, the limited number of works devoted to the study of economic diplomacy and its impact on international economic relations of Azerbaijan led to the study of foreign experience in this area. Today, in the conditions of globalization, the analysis of the problems of economic diplomacy of Azerbaijan remains insufficiently complete, which determined the choice of the research topic.

Object and subject of research. The object of the study is international economic relations and economic diplomacy of the Republic of Azerbaijan. The subject is the study of priorities related to the expansion of trade relations and increasing investments through economic diplomacy of Azerbaijan.

Objectives and tasks of the study. The main objective of the dissertation is to determine the priorities of economic diplomacy of Azerbaijan in the conditions of globalization. To achieve the main objective,

it is necessary to study existing theories and views on economic diplomacy and state policy in this area, the impact of economic diplomacy on the country's relations in the world market, analyze the results, as well as the main changes and trends of this activity in the conditions of globalization. The following tasks were set during the study:

- to reveal the essence and characteristic features of modern economic diplomacy through its theoretical and methodological foundations;

- to determine what measures economic diplomacy takes to protect interests in the international arena in the conditions of globalization;

- to analyze the impact of resource potential on the development of multi-vector economic diplomacy of Azerbaijan;

- to study the role of institutions and functional mechanisms of economic diplomacy in Azerbaijan;

- to identify the impact of globalization on Azerbaijan's foreign trade and how economic diplomacy helps to overcome the problems associated with it;

- to determine how Azerbaijan attracts foreign investment through economic diplomacy in the conditions of globalization;

- to consider new challenges and opportunities facing Azerbaijan's economic diplomacy in the rapidly changing global economic situation;

- to provide recommendations on economic and diplomatic aspects and logistical diplomacy to increase the competitiveness of the Azerbaijani economy and ensure the country's national economic security

Research methods. The information base of the study includes materials, websites and other resources of the Cabinet of Ministers of the Republic of Azerbaijan, the Ministries of Foreign Affairs and Economy, the State Customs and Statistics Committees, as well as other government agencies. During the study, the lack of a number of statistical data created difficulties in its implementation. The methodological basis of the study is the work of domestic and foreign economists, regulatory legal acts at the international and national levels, international conventions and multilateral agreements on the regulation of foreign economic relations.

This study is based on the following methods. Since economic di-

plomacy is a qualitative activity, both quantitative indicators and qualitative characteristics were included in the analysis. First of all, in paragraphs 1.1 and 1.2. based on observation and synthesis, a comparison of domestic and foreign scientific literature on economic diplomacy was made. Secondly, in paragraph 2.1. the number of economic agreements and treaties concluded by our country was analyzed. In paragraph 2.3, a comparison of regulatory acts related to the regulation of foreign economic relations and the elimination of double taxation was carried out. An analysis was conducted based on the processing of statistical data and to clarify the impact of economic diplomacy, an econometric analysis was made based on the Eviews program, and a qualitative assessment method was introduced.

The main provisions put forward for defense. The main provisions considered in the dissertation are the following:

1. Economic diplomacy is becoming the main factor in the realization of national economic interests in the conditions of globalization.

2. Economic diplomacy has a positive impact on the socio-economic development of the country and its participation in foreign markets.

3. There are problems in the system of statistical indicators of the effectiveness of economic diplomacy and in the sources of their formation.

4. An analysis of the current situation of foreign economic relations of Azerbaijan shows that the policy of economic diplomacy implemented by the state periodically eliminates the negative impact of global political and economic processes on the national economy, ensuring the implementation of direct and indirect measures in the direction of regulating global economic relations.

5. Research conducted to assess the impact of economic diplomacy on the national economy shows that over the past 20 years, thanks to effective economic diplomacy, there has been a stable positive relationship between GDP and trade turnover in Azerbaijan.

Scientific novelty of the research:

– the essence, the difference in terms and distinctive features of economic diplomacy from other forms of diplomacy, such as classical diplomacy, trade diplomacy, business diplomacy, commercial diplomacy, financial diplomacy, etc., are revealed;

- The impact of economic diplomacy on the country's economic development was assessed by determining the relationship between GDP and trade turnover;

- proposals have been put forward to adapt the institutions and functions of economic diplomacy to the requirements of professionally specialized structures at the international level;

- recommendations were given on the use of economic diplomacy mechanisms to attract foreign investment and invest domestic investment abroad;

- Proposals were made to use the logistics potential of Azerbaijan as one of the main areas of economic diplomacy to ensure the country's national economic security. It was emphasized that there is a need to strengthen the role of economic diplomacy in the implementation of the Zangezur Corridor project.

Theoretical and practical significance of the study. The results and recommendations of the study can be used in developing strategies and conducting research by the Ministries of Foreign Affairs and Economy, the State Committees of Customs and Statistics, as well as in the educational process in higher education institutions.

Testing and application of research results. The main results and provisions of the dissertation were presented in scientific journals and conference proceedings. Five scientific articles reflecting the main essence of the dissertation and scientifically substantiated have been published (one of them in a foreign journal included in international abstracting and indexing databases), along with three theses and one international conference material.

The organization in which the dissertation work was completed. The work was carried out at the Department of World Economy of Baku State University.

Volume and structure of work. The dissertation includes an introduction, 3 chapters, 9 sections, a conclusion, a list of references, and an appendix. The first chapter contains 48,102 characters, the second chapter — 99,070 characters, and the third chapter — 83,048 characters. The total volume of the dissertation is 192 pages and 253,315 characters. The dissertation contains 17 tables, 12 charts, 5 figures, 1 graph, and 1 diagram.

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Chapter I. The essence and characteristic features of modern economic diplomacy

1.1. Theoretical foundations and methods of research of economic diplomacy

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Chapter II. Factor analysis of multi-vector economic diplomacy of Azerbaijan

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THE MAIN PROVISIONS PUT FORWARD FOR DEFENSE

1. Economic diplomacy is becoming the main factor in the realization of national economic interests in the conditions of globalization.

Economic diplomacy is a relatively young area of international activity. In our review of the literature, we found that there are several approaches to defining the term “economic diplomacy.” Initially, the term “economic diplomacy” was identified with classical diplomacy and economic diplomacy was characterized as an area of diplomatic activity that focuses on economic issues between countries^{1,2}. Primarily engaged in facilitating trade, investment, and other economic interactions between countries. Over time, a distinctive feature was identified. The expansion of the scope of economic diplomacy reflects the recognition that economic considerations play a key role in shaping international relations and geopolitical dynamics. As countries seek to protect their economic interests, they increasingly use diplomatic tools and strategies to overcome the complexities of global economic systems. Economic diplomacy plays a vital role in addressing global economic challenges and promoting cooperation among countries. Challenges such as climate change, energy security and financial stability require joint efforts and coordinated actions, which highlights the importance of economic diplomacy in addressing issues that transcend national borders^{2,3}. Economic diplomacy has evolved to encompass a broader range of activities aimed at advancing a country’s economic interests, including strategies for developing entrepreneurship, innovation and technological cooperation⁴.

¹ Giles, K. Discourses of Economic Diplomacy: The Historical Setting. *Diplomacy & Statecraft*. / K.Giles, J. M.Evans, – 1998, 9(1). – p. 1-32., p.3

² Мехтиева, К. Теория и практика экономической дипломатии в современных условиях// *ІПӨК YOLU*. – 2021. No.1, – с.79-90, с.80

³ Cooper, A F. *Diplomatic Realities and Foreign Aid Policy: Diplomatic Norms and Aid Diplomacy of the Major DAC Donor Countries*. / A F.Cooper, G.W.Gunn. – Springer. –2016.

⁴ Fues, T. *Economic Diplomacy: A Conceptual Development*. / T. Fues, C. Perez. *Shaping Globalization - Civil Society, Cultural Power, and Threefolding*. – Springer. –2011. –pp. 169-192.

We believe that this broader perspective reflects the complex relationship between economic factors and international relations. However, beyond trade, economic diplomacy extends to promoting investment and attracting foreign direct investment. Governments actively participate in diplomatic activities to attract foreign investors, and the role of economic diplomacy in creating a favorable investment climate is increasingly growing.

The role of economic diplomacy in the development of regional economic cooperation and integration is intensifying. Digital platforms offer new channels for dialogue, negotiations and trade facilitation. The significance of economic diplomacy is increasing through digital tools, particularly for promoting online trade, developing the digital commercial sector, and strengthening economic partnerships between countries amid the technological transformation of the modern world.

Economic diplomacy is also considered and explained in the areas of international and foreign affairs; national, including economic security; economic goals, interests of states and other entities; to solve the main problems of socio-economic development. There are four main areas of economic diplomacy: informational and analytical, political and normative, technical and advisory, and financial and credit⁵. The UN views informational, technical and advisory, and financial elements not as areas, but as forms of activity.

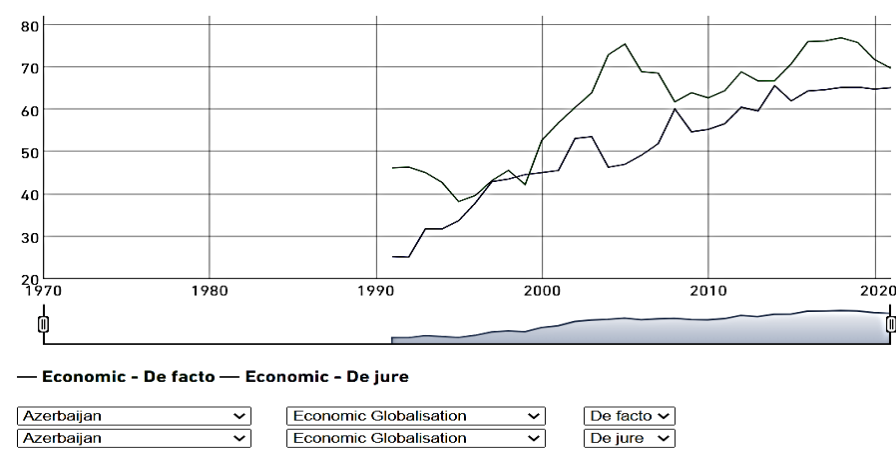
Having examined the definitions of "economic diplomacy" in different directions among domestic and foreign scientists, we found similarities and differences in opinions. It was revealed that there is no consensus in the broad and narrow interpretation of economic diplomacy. Some consider economic diplomacy as a defense of national interests, promotion of goods and services, an opportunity to strengthen positions, others as a mechanism for transforming various spheres to suit their interests.

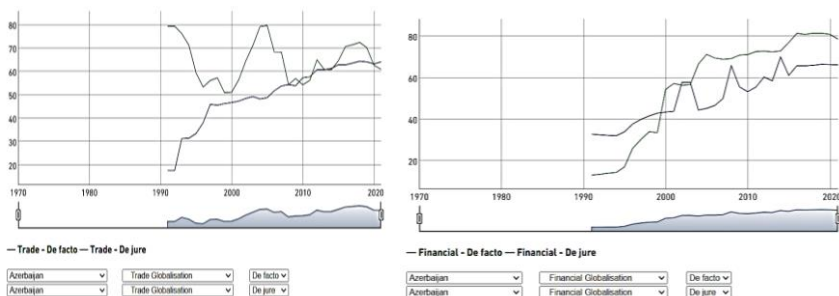
Modern economic diplomacy is characterized by dynamism, openness, and a wide range of tools and strategies. It is characterized by an offensive nature and offers various options for countries to participate in the global economy.

⁵ Экономическая дипломатия в условиях глобализации / под ред Л.М.Капицы. – М.: МГИМО. – 2010. – 623 с.

As a comparative analysis of neighboring countries in the region has shown, Azerbaijan and some neighboring countries in the region have shown significant growth in integration. However, Azerbaijan started with a lower baseline than Russia and Turkey, which are leaders in the globalization index for 20 years (2000-2020). Due to sanctions against Russia and Iran, integration processes and the growth of globalization do not have the desired effect on the region. Iran has shown the least progress. But the restrictions of Russia and Iran allow Azerbaijan to use economic diplomacy in these circumstances as an opportunity to its advantage.

A comparative analysis of the Economic Globalization Index (KOF) for Azerbaijan and five neighboring countries showed that Azerbaijan, despite the low base indicator, was able to achieve a high level, even ahead of Turkey and Iran. Georgia and Armenia have also demonstrated a high level of development thanks to foreign investments and the liberalization of their economies. This allows us to conclude that Azerbaijan, although it has shown a rapid growth in the index and integration into the world economy, for further growth of the economic globalization index, it is necessary to develop the non-oil sector and business, which requires deep reforms in diversifying the economy.





Source: <https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>

Picture 1. Economic Globalization Index (KOF) and its components in Azerbaijan

A detailed comparative analysis of the trade and financial globalization index showed that Azerbaijan demonstrates positive dynamics in trade and financial globalization. Azerbaijan showed significant progress in the trade globalization index in 2000-2020, ahead of Russia and Turkey, and significantly ahead of Iran. Due to the export of energy resources, Azerbaijan shows higher indicators in trade globalization compared to financial globalization. Although Azerbaijan shows good results in the regional context, there remains a need for further progress in these indicators compared to its South Caucasus neighbors. To eliminate this phenomenon, Azerbaijan needs to apply more effective economic diplomacy to further development of the financial sector and attracting investment in non-energy sectors.

Economic diplomacy operates at different levels – mega, mesa, macro and micro – and can take the form of both multilateral and bilateral processes to address a variety of issues, as well as the following objectives:

- the need for countries to reassess their national interests in light of the evolving global order. This involves defining priorities for economic diplomacy and developing strategies to promote and protect these interests;
- identifying opportunities for cooperation and partnership that

bring economic benefits and also ensure the protection of national interests;

- influencing the legal framework of international economic organizations (IEOs) through diplomatic channels. By participating in the formulation of these rules, countries can advocate for policies that are consistent with their national interests and economic goals;

- providing government bodies with accurate and timely information about the external environment and any changes that may affect national economic policy;

- attracting resources to the country and using national resources effectively to ensure favorable conditions for trade, investment, taxation and other economic activities. This includes ensuring favorable trade deals, attracting foreign investment and promoting economic growth, as well as prioritizing national security and interests;

- the possibility of allocating financial, organizational, technical and human resources to support diplomatic efforts, including the involvement of experts in various fields⁶.

Thus, as world practice shows, one of the main factors contributing to the growth of economic diplomacy is the change in world economic centers. In recent years, there has been a gradual shift of economic power from traditional centers — the economies of Europe and the United States — to developing economies such as China, India and the BRICS countries. These changes require the state to adopt a more active and flexible policy regime in the international sphere, which, in turn, necessitates the use of economic diplomacy as a tool for protecting and promoting national interests.

2. Economic diplomacy has a positive impact on the socio-economic development of the country and its participation in foreign markets.

Economic diplomacy cannot be viewed simply as the use of economic levers in international relations. The desire to obtain economic gain distinguishes economic diplomacy, no matter what means it uses. It should be noted that the more functions economic diplomacy implements, the more tools it has to have at its disposal. On the other hand,

⁶ Мехтиева, К. Теория и практика экономической дипломатии в современных условиях// *ІРӨК YOLU*. – 2021. No.1, – с.79-90

economic diplomacy, as one of the state's functions to ensure interaction with governments, public organizations, and business circles, is becoming comprehensive and systematic. Depending on the situation in the world and the region, the state sets certain functions for economic diplomacy. Economic diplomacy today performs several important functions, among which the most significant are ensuring conditions for mutually beneficial economic cooperation, promoting the expansion of its forms, protecting the economic interests of the state, enterprises and entrepreneurs⁷. Another important function is considered to be the expansion of assistance tools (marketing, consulting, information and analytical, etc.) to structures (embassies, ministries, entrepreneurs) participating in economic relations.

Depending on the political and economic priority, economic diplomacy can strengthen or reduce the relationship and interaction. As the analysis of the ways to solve problems has shown, there is restrictive and stimulating economic diplomacy. Dynamism, openness, an expanded range of tools, offensive nature and multivariance are the distinctive features of modern economic diplomacy. We consider it important to note that the current period is characterized by a shift in the global balance of power, which is why economic diplomacy is gaining particular importance as a tool for supporting foreign policy. Depending on the situations, strategic goals, the directions and mechanisms of economic policy change. What goals economic policy should achieve also depends on the chosen direction. The choice of the direction of economic diplomacy also does not occur spontaneously, but is subject to certain principles.

Since the day of the declaration of independence of Azerbaijan, many normative legal acts have been adopted at the state level, providing for the conditions, their regulation, and procedures for the use of resources. Between 2001 and 2023, more than 751 regulatory legal acts pertain to memorandums, 103 regulatory legal acts relate to resource use regulation, and 95 regulatory legal acts concern strategies in this area.

Presenting a picture of the development of relations between states,

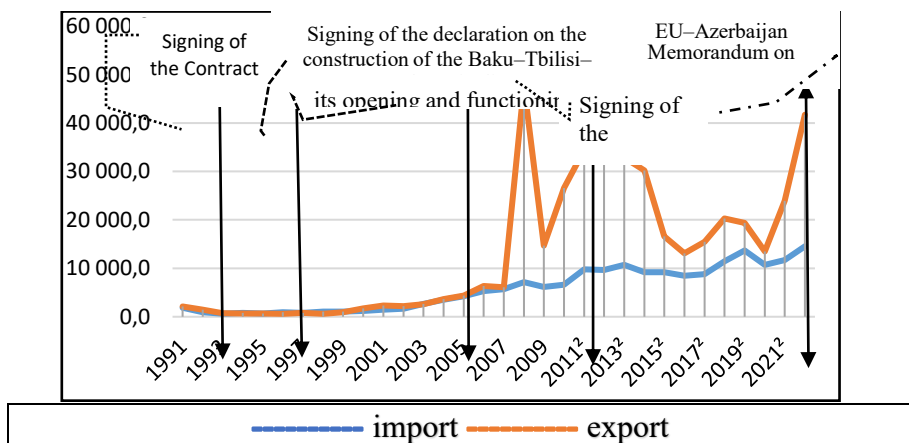
⁷Батурин, Л. М. Экономическая дипломатия в мировой политике: история и современность// Вестник ЮУрГУ. Серия «Социально-гуманитарные науки». – 2014. – Т. 14, № 3.

economic diplomacy acts as a mechanism for involving conflicting parties in global economic processes and thereby sets the task of resolving multilateral conflicts. The process of coordinating political and economic interests at the regional and sometimes continental level takes place. Competition is growing in scale. . In the context of global competition, not only states but also alliances, international organizations, and similar entities actively engage, increasingly becoming key actors in economic diplomacy. It is the diplomatic potential of the management structures of the interested parties and the ability to use this potential that ensure results in negotiation processes. For example, through the use of economic diplomacy, Turkey is reshaping the rules of the game by promoting the idea of a "belt of peace" and mutual benefit across Eurasia, the Balkans, the Caucasus, and Central Asia. Following its victory in the 44-day war of 2020, Azerbaijan is seeking reconciliation and the opening of the Zangezur Corridor through economic diplomacy. Turkey and Russia are among the participants involved in negotiations in this process.

Today, Azerbaijan is trying to implement its interests, but at the same time, adhere to the leading trends of world development and meet the interests of the world community. It is the allocation of financial, trade, information and energy areas of globalization that suggests that these are the areas that are built on the resource base of different countries. Projects for the exploitation of the country's natural resources have given impetus to the development of economic diplomacy with the countries of Europe and Asia. Using its experience in economic diplomacy and its geographically advantageous position, Azerbaijan has become the initiator of a reliable transport corridor for the transit of fuel and energy resources from Central Asia to Europe.

If during the occupation of the territories of Azerbaijan by Armenia the main direction of foreign policy was the information component, which conveyed information to the world about the rights to Karabakh, today, after the liberation of the main territories of Azerbaijan, the priority for the country has become the restoration of these territories and strengthening of economic ties, which brings economic diplomacy to the forefront. Mainly strengthening economic ties with countries (for example, Austria, Switzerland, Turkey, Kazakhstan, Malaysia), which are

modern regional financial centers. The main priority of the economic diplomacy of the Republic of Azerbaijan is a realistic assessment of its own capabilities and the development of methods for the most advantageous presentation and use of existing objective competitive advantages. First of all, these are factor advantages. Therefore, taking into account the national interests of the Republic of Azerbaijan, if the first step of economic diplomacy was to ensure the status of the leader of the region in industrial and transport development for the Republic of Azerbaijan, the second step should be to attract financial capital to the country, that is, to create primary opportunities for Azerbaijan to become the financial center of the region. Even the conclusion of the "Contract of the Century" would not have been possible thanks to energy reserves alone. Due to the government's consistent efforts on the global stage, a climate of trust toward the country and the project has been successfully fostered. Bilateral and multilateral relations of Azerbaijan with Central Asia, the CIS countries, the Arab-Islamic world, South-Eastern Europe, the EU countries, Asia, North and South America, and the African continent are developing on the principles of mutually beneficial economic cooperation. Comprehensive cooperation with neighboring countries is one of the priority areas in the development of bilateral relations.



Source: compiled by the author based on data from the websites stat.gov.az and e-qanun.az

Graphic 1. Graphic illustration of the impact of economic diplomacy on Azerbaijan's exports and imports

The result of successful economic diplomacy was the growth of GDP not only in the oil sector, but also in the non-oil sector:

1) for 2000-2005: the volume of GDP in the oil and gas sector was 15,263.5 million manat, and in the non-oil sector - 25,724 million manat. The growth of GDP in 2005 compared to 2000 in the oil and gas sector was 4.03 times, and in the non-oil sector - 1.98 times;

2) for 2005-2011: the volume of GDP in the oil and gas sector was 116,083.1 million manat, and in the non-oil sector - 98,559.6 million manat. The growth of GDP in 2011 compared to 2005 in the oil and gas sector was 4.16 times, and in the non-oil sector - 3.83 times;

3) for 2011-2022: the GDP volume in the oil and gas sector amounted to 335,133.7 million manat, and in the non-oil sector - 468,287.5 million manat. GDP growth in 2022 compared to 2011 in the oil and gas sector was 2.42 times, and in the non-oil sector - 2.65 times;

4) for 2011-2024: the GDP volume in the oil and gas sector was 416,047.7 million manat, and in the non-oil sector - 613,106.1 million manat. GDP growth in 2024 compared to 2011 in the oil and gas sector was 1.5 times, and in the non-oil sector - 3.25 times.

Bilateral cooperation with neighboring states also continues in trilateral formats as a mechanism for regional cooperation. The country's participation in various international structures — from the CIS and the Economic Cooperation Organization to obtaining observer status in the League of Arab States, the African Union, and the Organization of American States, as well as its partnership with the Shanghai Cooperation Organization and institutional interaction with the European Union — is perceived as a system of bilateral relations. The European Union's initiative to conclude a Strategic Partnership Agreement creates opportunities for transforming these relations into multilateral cooperation.

3. There are problems in the system of statistical indicators of the results of economic diplomacy and the sources of their formation.

When analyzing the results of economic diplomacy, it turned

out that there is a problem of discrepancies in the figures in the UNCTAD and CBA reports. According to UNCTAD, direct investments made by Azerbaijan in foreign countries are indicated in the amount of \$ 26.825 billion. In its reports, the CBA showed it in the amount of \$ 1.244 billion. It can be assumed that such a discrepancy in figures is due to the calculation methodology. In the last three years, the global economic environment has been trying to develop a unified calculation methodology in order to eliminate such inequalities. However, there is still a lack of information in the national statistical database, including the CBA statistical database. One of such shortcomings is the lack of information on investment abroad by economic sector. For example, the CBA reports indicate that in 2019, out of \$ 2.432 billion in investments made by Azerbaijan abroad, 40.3% (\$ 978.8 million) fell to the oil and gas sector. The remaining 59.7% are indicated as investments in other sectors. As the analysis showed, compared to 2018, in 2019, investments abroad increased by almost 38.1%, in the oil sector - by 54.5%, while in the non-oil sector - only 28.9%. The analysis of 2010-2020 also showed that only 30% of Azerbaijan's direct investments abroad are in the oil sector, and 70% in others⁸. However, none of the reports and open documents of the CBA and the State Statistics Service contain specific information on which sectors of the foreign economy these investments were made in. This also hinders the analysis of revenues from these investments by factors and other aspects. Thanks to investment diplomacy in 2010-2020, Azerbaijani companies were able to invest more than \$ 26 billion abroad. The capital of Azerbaijani residents in foreign countries by the end of 2020 amounted to \$ 26.825 billion. Compared to 2010, this indicator has increased by 4.6 times. The highest indicator was reached in 2015. Despite the growth of foreign investment in the economy of the Republic of Azerbaijan, there has been a decline in the dynamics of foreign investment since 2015.

⁸ https://unctad.org/system/files/official-document/wir2022_overview_en.pdf.
[Электронный ресурс]/ World Investment Report. –2022.

Table 1
Direct investment directed abroad, billion \$

	2010	2015	2016	2018	2019	2020	2021	2023
Foreign direct investments	-0.2	3.3	2.6	1.8	2.4	0.8	0,1	3.1
Repatriation of investments	-2.8	-3.4	-2.8	-3.2	-3.2	-4.5	-7.0	-6.7

Source: Table compiled by the author based on CBA data (02.02.2025), <https://www.cbar.az/page-43/external-sector-statistics>

Table 2
Azerbaijan's investments in foreign countries, in %

	2019	2020	2021	2019/2021 Growth/decline	2023	2021/2023 Growth/decline
Volume of investments abroad, billion \$	2,602	1,244	0.826	↓	3,117	↑
Türkiye	32.1	26.9	34.0	↑	58.2	↑
USA	2.0	13.8	8.0	↓	10.0	↑
Luxembourg	12.2	9.9	-	↓	-	↓
Montenegro	7.3	8.2	2.5	↓	-	↓
Russian Federation	5.4	7.6	2.4	↓	2.9	↑
Austria	5.1	7.5	0.6	↓	-	↓
Malta	4.0	6.7	5.9	↓	-	↓
Bahrain	-	3.6	-	↓	-	↓
United Kingdom	9.8	3.6	14.8	↑	5.0	↓
Georgia	2.9	3.1	7.8	↑	2.8	↓
Switzerland	1,2	2.8	3.5	↑	1.3	↓
UAE	0.7	1,1	0.9	↑	3.0	↑
Singapore	3.4	0.9	0.9	↑	0.4	↓

Table 2 Continued						
Netherlands	3.0	0.9	1,1	↑	3.2	↑
Liechtenstein	-	0.7	-	↓	-	↓
Ukraine	0,1	0.7	2,2	↑	0.8	↓
Germany	0.3	0.2	2.1	↑	1.3	↓
Israel	-	0.2	-	↓	0,1	↓
Cyprus	0.2	0.2	-	↓	-	↓
Kazakhstan	0.2	0.2	-	↓	0.2	=
Italy	0,1	0,1	0.7	↑	1,1	↑
Isle of Man	-	0,1	-	↓	-	↓
Spain	0,1	0,1	0.4	↑	0.8	↑
Moldova	-	0,1	-	↓	-	↓
Saint Lucia	-	0,1	-	↓	-	↓
Canada	-	0,1	0.3	↑	0.3	=
France	-	0,1	0.4	↑	0.6	↑
Uzbekistan	0,1	0,1	1.0	↑	0.7	↓
Czech Republic	-	0,1	0.5	↑	0.4	↓
China	-	0.01	0.5	↑	0.2	↓
Hong Kong, S.A.R. of China	-	-	1.0	↑	2.6	↑
New Zealand	-	-	1,2	↑	0,1	↓
Poland	-	0.01	0.4	↑	0,1	↓
Sweden	-	0.02	0.4	↑	0.5	↑
Vietnam	-	-	0.3	↑	-	↓
Denmark	-	-	0.3	↑	-	↓
Finland	-	-	0.2	↑	-	↓
Belarus	-	0.04	0,1	↑	-	↓
Other countries	9.8	0.2	5.7	↑	1,1	↓

Source: Table compiled by the author based on CBA data (02.02.2025), <https://www.cbar.az/page-43/external-sector-statistics>

An analysis of investment investments of Azerbaijani residents in the economies of different countries showed that Turkey occupies a leading position in this direction. Even during the pandemic, the level of investment in this country decreased, but after the pandemic, investment growth was restored. In general, for 2002-2021, Azerbaijan's

investment investments in Turkey amounted to more than \$ 20.1 billion. In just three years (2019-2021), more than one third of the investments of Azerbaijani residents were in this friendly country. In second place in terms of the volume of Azerbaijani investment investments is The United Kingdom (9%), Montenegro (6.6%) is in third place, followed by the United States, Russia, Malta, Austria, Georgia and other countries. The volume of investments in certain countries in 2021 has sharply decreased compared to 2020. Thus, investments in Russia and Montenegro decreased by almost 3.2 times, in the United States - by 1.7 times. A decrease in investment was also observed in relation to Luxembourg, Bahrain, Austria (almost 12.5 times), Liechtenstein. However, in some countries, there was an increase in investment. For example, since 2006, Azerbaijan has invested \$ 2.1 billion in Georgia. The volume of investments in Georgia in 2021 compared to the previous year increased by more than 2.5 times. The analysis showed that the main problem remains discrepancies in calculation methodology. There is a need to ensure transparency, accessibility, elimination of problems in data collection and calculation methodology, as well as regular (monthly) publication of data on Internet resources.

4. The analysis shows that the policy of economic diplomacy implemented by the state periodically eliminates the negative impact of global political and economic processes on the national economy, and ensures the implementation of direct and indirect measures in the direction of regulating international economic relations.

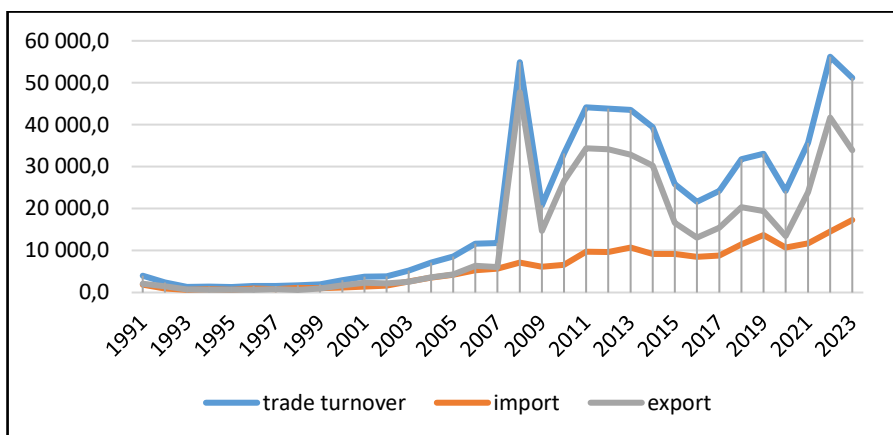
Over the past 20 years, Azerbaijan has accumulated experience in the field of economic diplomacy, covering areas such as international legal cooperation, bilateral and multilateral contractual framework in the economic sphere, foreign economic and foreign trade activities, investment cooperation, regional, continental integration, transnational megaprojects and other areas. If we consider relations at all levels, we can say that in 2019, Azerbaijan established diplomatic relations with 183 foreign countries, had embassies in 59 countries, consulates general in 9 cities, honorary consulates in 17 countries, representative offices in 19 international organizations. Embassies of 66

countries, 4 consulates of 3 countries, honorary consulates of 13 countries, representative offices of 21 international organizations functioned in Azerbaijan. In 2022, diplomatic missions of Azerbaijan operated in 77 countries of the world. Currently, representative offices of 88 countries and international organizations, and consulates of 15 foreign countries are accredited in Azerbaijan⁹.

From 1995 to 2000, Azerbaijan began large-scale economic reforms, which also entailed diplomatic changes in foreign economic policy. The number of bilateral trade agreements increased rapidly. However, the investment climate at that time was still in its infancy and early stages of development compared to neighboring countries. Therefore, the Azerbaijani government implemented privatization and trade liberalization programs in a short period of time in order to create a favorable environment for foreign investors. It was during this period that Azerbaijan focused on establishing trade and economic relations with the EU. Negotiations were launched to conclude a Partnership and Cooperation Agreement with the EU. Azerbaijan's trade and economic diplomacy with the EU during this period was relatively similar to the policies of neighboring countries. It should be noted that Georgia and Turkey also sought to establish closer economic ties with the EU through various agreements and negotiations. Also during this period, Azerbaijan focused on strengthening trade and economic ties with the CIS countries and actively participated in regional initiatives. The country actively participates in such initiatives as the Eurasian Economic Community, the Free Trade Zone of the Commonwealth of Independent States, the Organization of the Black Sea Economic Cooperation, the Organization of Economic Cooperation.

Thanks to the signed bilateral and multilateral agreements over the past 30 years, the growth of foreign trade turnover has amounted to 8.5 times, import growth - 6.2 times, and export growth - 10.5 times. As can be seen, exports have increased significantly more compared to other indicators. If we consider the commodity structure of exports, most of it is oil and oil products.

⁹ Xaricdə nə qədər səfirlik, konsulluq və nümayəndəliklərimiz var - SAY AÇIQLANDI. –05.07.2019. [Электронный ресурс]/<https://sitat.news/xaricde-ne-qeder-sefirlik-konsulluq-ve-numayendeliklerimiz-var-say-aciqlandi>



Source: <https://stat.gov.az/source/trade/> (02.02.2025)

Diagram 1. Dynamics of foreign trade turnover, million \$

In 1994, their share in total exports was 35.5%, while this figure was highest in 2008 - 97.1%. In 2021, it decreased to 88.4%. If we compare the balance of foreign trade turnover, it can be noted that compared to 1994, in 2021 it increased by 43.8 times. This indicates that Azerbaijan, being a strategic partner of many countries, fulfills an important mission to ensure energy security in the international arena. At the same time, economic diplomacy, focused on the interaction of various economic systems, provides for multilateral cooperation. An example is the solution of energy security issues, in which the key role is given to the protection and defense of the interests of not only the state, but also its entities, such as the State Oil Company of Azerbaijan (SOCAR).

The strategic economic goal in The beginning of independence was to ensure the inflow of necessary investments. From 1992 to the present day, more than 40 regulatory legal acts concerning the protection of foreign investments have been adopted in Azerbaijan. An analysis of the legal framework shows that since the signing of the act of independence, more than 450 documents have been adopted in the form of agreements, protocols, conventions, etc. on cooperation with countries of the world, corporations and various organizations in trade, economic and other spheres. As the analysis has shown, the main areas of investment diplomacy when signing such international

documents are: negotiations on the terms of the investment regime, compensation for losses, free transfer of capital and profits, issues of expropriation and subrogation, resolution of investment disputes, forms of state guarantees, insurance measures, as well as issues regulation of procedures for obtaining construction permits, purchasing land, registration periods for companies with foreign investments, specifics of tax audits, etc. It should be noted that all agreements, conventions and protocols have different structures, which allows us to conclude: significant differences in the content of bilateral investment treaties allow the country to retain certain leverage. In addition, these agreements serve as a basis for diplomatic negotiations and influence the determination of priority areas for investment both within the country and abroad, taking into account national interests. It was found that only in the field of eliminating or avoiding double taxation and preventing tax evasion, 87 regulatory legal acts were adopted, of which 57 are laws on the approval of relevant agreements, conventions and protocols between Azerbaijan and partner countries. As the analysis of the agreements showed, some agreements specify up to nine types of taxes, while others specify only two. This can be regarded as a positive result of the activities of national investment diplomacy. However, it is not always possible to apply the high achievements achieved in agreements with some countries to the negotiation processes and results with other countries. The analysis showed that the main objects of negotiations are: corporate income tax, personal income tax, property tax, land tax. Given Azerbaijan's membership in the Organization of Turkic States, it seems appropriate to ensure more favorable conditions for agreements on the elimination or avoidance of double taxation and the prevention of tax evasion with all member countries of this organization. This would strengthen economic ties within the association and increase the attractiveness of Azerbaijan as a business and investment partner.

5. Research conducted to assess the impact of economic diplomacy on the national economy shows that over the past 20 years in Azerbaijan, the result of effective economic diplomacy has been a certain positive relationship between GDP and trade turnover.

To analyze the impact of external economic factors on the economy of Azerbaijan, we assume that there is a hypothetical relationship between GDP (y) and trade turnover (x), expressed by a power function:

$$y = c_1 * x_1^{c_2}, \quad (1)$$

where y is GDP (in million US dollars), c_1 and c_2 are the model parameters, x_1 is the volume of foreign trade turnover (in million US dollars).

Since the parameters c_1 and c_2 are unknown and are subject to estimation using statistical data. To simplify the procedure for estimating model (1), taking its logarithm, we obtain the following form:

$$\ln y = \ln c_1 + c_2 * \ln x_1 + \varepsilon, \quad (2)$$

Here, the parameter c_2 characterizes the degree of sensitivity of GDP to changes in the volume of foreign trade. In other words, it shows by what percentage, on average, GDP will change with an increase in foreign trade turnover by 1%. The random component of the model ε is the combined effect of various factors that are not included in the model. In the context of this study, it is assumed that some of these hidden effects are also related to the qualitative manifestations of economic diplomacy. Thus, the value of ε may partially reveal the influence of qualitative aspects of economic diplomacy that are not subject to direct quantitative measurement.

The construction of a linear form of the equation allows us to apply the least squares method to estimate the parameters $\ln(c_1)$ and $\ln(c_2)$ based on the available statistical data for 1995–2023.

The estimated model has the following form:

$$\ln(\text{GDP}) = 1.37 + 0.91 * \ln(\text{Trade}) + \varepsilon \quad (3)$$

The main statistical characteristics of the model (3), developed using the Eviews software package, are presented in Table 3.

Table 3
Results of regression analysis

Dependent Variable: LOG_GDP				
Method: Least Squares				
Sample: 1995 2023				
Included observations: 29				
Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	1.369992	0.298769	4.585455	0.0001
LOG_TRADE	0.911976	0.031372	29.06970	0.0000
R-squared	0.969038	Mean dependent var		9.979927
Adjusted R-Squared	0.967892	SD dependent var		1.178967
SE of regression	0.211257	What is the info criterion?		-0.205013
Sum squared residue	1.204994	Black standard		-0.110717
Log likelihood	4.972690	Hannan-Quinn Criterion.		-0.175481
F-statistic	845.0477	Durbin-Watson stat		1.903625
Prob(F-statistic)	0.000000			

Source: developed by the author on the Eviews application package

According to model (3), it can be concluded that with an increase in foreign trade turnover by 1%, Azerbaijan's GDP increases by an average of 0.91%. This indicates a strong, but not complete, proportionality between the indicators. Thus, a 10% increase in foreign trade turnover leads to an increase in GDP by approximately 9.1%.

Therefore, in order to achieve the strategic economic goals of the state and its subjects on the world stage, it is necessary to take into account the relationship between GDP and the volume of foreign trade turnover within the framework of diplomatic negotiations on economic issues.

MAIN CONCLUSIONS

The study substantiates the following conclusions:

1. Economic diplomacy is the joint activity of the state, civil society and business circles to implement economic interests in the global economic system, which aims to increase the international competitiveness, image and status of both the country as a whole and its economic entities. To achieve this goal, diplomatic methods are used, as well as instruments of economic, administrative regulation and management.

2. Economic diplomacy in a time frame is implemented either as protection of the national economy or as an economic component of foreign policy. Depending on the situation, the set strategic goals, the directions and mechanisms of economic policy change. The directions and mechanisms of economic diplomacy depend on strategic tasks and the foreign economic situation. The wider the range of functions performed, the more tools are at the disposal of the relevant institutions.

3. The effectiveness of Azerbaijan's economic diplomacy may vary depending on various factors and specific events at different times, including geopolitical dynamics, global economic conditions and domestic politics. Active and timely measures in this area help minimize the negative effects of external factors and contribute to the country's sustainable economic growth.

4. Economic diplomacy acts as a mechanism for involving conflicting parties in global economic processes and thus sets the task of resolving multilateral conflicts. At the moment, there is no single international body that could resolve economic issues of conflicting countries. In this regard, it is necessary to institutionalize

this area at the national and supranational levels, including the development of organizational and legal mechanisms.

5. Expanding the functions of diplomatic missions is not enough to effectively implement the tasks of economic diplomacy. The promotion and protection of national economic ones should be institutionally ensured through the creation of a specialized state body vested with powers in this area. Such a body should have access to information and the right to make decisions on issues of attracting investment, labor resources, innovations and other strategic resources. In addition, it is advisable to create separate structures for marketing, analysis, examination and provision of state services to subjects of foreign economic activity.

6. The difference in taxes in the global economic environment often leads to misunderstandings of the object of taxation. Many countries indicate income tax in a single form, while some countries divide this tax into taxes on the income of individuals, legal entities, etc. Standardization of terminology and tax structure at the international level could significantly simplify the conclusion of bilateral tax agreements and increase the effectiveness of investment diplomacy.

7. Azerbaijan does not have an agreement on the avoidance or avoidance of double taxation and the prevention of tax evasion with many countries. Given its membership in the Organization of Turkic States, Azerbaijan should seek to establish favorable tax conditions with member states, including signing a corresponding agreement with Kyrgyzstan. This will strengthen integration ties and facilitate the movement of capital within the region.

8. Based on the conducted econometric analysis, it can be concluded that when the foreign trade turnover increases by 1%, Azerbaijan's GDP increases on average by 0.91%. This result indicates a strong but not fully proportional positive relationship between GDP and trade turnover. Thus, a 10% increase in foreign trade turnover leads to approximately a 9.1% increase in GDP.

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