ANALYSIS OF INVESTMENT PROMOTION IN AZERBAIJAN'S ECONOMIC RELATIONS WITH THE ORGANIZATION OF TURKIC STATES (OTS)

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Abstract

This article examines Azerbaijan's economic relations with the Turkic States Organization (OTS) countries and analyzes the financing of innovation-investment projects among them. The object of the research is the OTS member states, while the subject of the research focuses on the analysis of investment promotion in economic relations among OTS countries.

In accordance with the research objectives, attention is given to the following tasks:

1.Azerbaijan's economic relations with OTS countries;

2.Analysis of the competitiveness of export-oriented products;

3.Evaluation of investment promotion among OTS states.

The authors utilize PEST and SWOT expert assessment analyses based on statistical sources and academic articles to analyze investment promotion in Azerbaijan's economic relations with OTS countries.

By choosing the path of innovative development, the Azerbaijani government supports the enhancement of the country's competitiveness. Export-oriented products, based on technological innovations, contribute to the strengthening of Azerbaijan's industry and national economy, ensuring access to foreign markets. Investment promotion in innovative products and services plays a significant role in Azerbaijan's relations with OTS countries.

Based on these considerations, the authors examine the characteristics of mutual investment promotion between Azerbaijan and the OTS member states.

Key Findings Obtained by the Authors:

- The latest achievements in science serve as indicators of quality factors. Only innovations and the efficient use of investment resources contribute to achieving additional synergy effects.
- In modern conditions, intensifying economic growth plays a key role. The development of the innovative component of the economy provides a synergistic boost to other industrial sectors, making even seemingly insignificant investments highly profitable.
- Attracting investments from OTS countries that carry modern technologies establishes a new innovation-driven phase in Azerbaijan's economic development. This also leads to the formation of state policies that prioritize key sectors and allocate resources accordingly.
- The implementation of the aforementioned measures will not only enhance industrial competitiveness but also strengthen the overall national economy, contributing to both Azerbaijan's economic and political standing.

Keywords: investment promotion, investment projects, innovation activities, international economic relations, PEST and SWOT analysis

Method and Materials

The Turkic States Organization (OTS) was established in 2009. The OTS includes Turkey and the former Soviet republics of Azerbaijan, Kazakhstan, Kyrgyzstan, and Uzbekistan.

This study employs the observation method, statistical grouping, and statistical comparison methods. The authors utilize PEST and SWOT expert assessment analyses.

The statistical data used in the study covers the period from 2010 to 2022. Additionally, the 2023 indicators are presented regarding the share of Azerbaijan's main trade partners in import and export operations among OTS countries.

Introduction

A modified and improved product becomes a commodity when introduced to both domestic and foreign markets. It can be stated with confidence that an enhanced product in the domestic market successfully meets domestic consumer demand. However, when the updated and improved product enters foreign markets, it must compete with other similar products already present in those markets. Consequently, new innovative products and services engage in competitive struggles in the foreign trade sector and serve as a key criterion for measuring the competitiveness of international economic relations.

The share of foreign-financed projects aimed at the creation of innovation-based, high-tech products and the dissemination of services in Azerbaijan's GDP remains low. This, in turn, makes it challenging to implement innovations independently with limited financial resources. Since 2010, economic relations among OTS countries have developed, but their expansion has been closely tied to the restoration of Azerbaijan's formerly occupied territories since 2020.

Between 2020 and 2025, OTS countries have signed numerous bilateral and multilateral agreements with Azerbaijan regarding investment promotion. In line with these agreements, OTS countries have invested in sectors such as transportation, communications, telecommunications, and tourism.

Considering the relevance of the research, the authors aim to analyze Azerbaijan's economic relations with OTS countries, evaluate the characteristics, potential, and competitiveness of Azerbaijan's export-oriented products, and conduct an assessment of investment promotion among OTS states.

Azerbaijan's Economic Relations with OTS Countries

Currently, the impact of industrial production on strengthening the national economy is gradually shifting to the background, with priority now being given to the financial and service sectors. However, it is important to note that manufacturing has always played a leading role in integrating technological and organizational capabilities into the national economy. The increase in production potential remains crucial for addressing existing challenges [1, p.109-117].

Today, Azerbaijan's industrial enterprises produce more than 100 types of high-tech products and services. These include [2]:

- ❖ Metal processing and defect detection;
- ❖ Purification and regeneration of liquids, lubricants, and fuels;
- ❖ Installation and repair of construction equipment;
- ❖ Provision of construction machinery services;
- ❖ Electrotechnical industry;
- ❖ Shipbuilding industry;
- ❖ Automobile manufacturing, and others.

Currently, foreign innovative systems, software, updates, servers, and other high-tech products and services act as suppliers of innovative technologies in Azerbaijan [3]. The implementation of innovative systems requires a certain level of specialized workforce training. Furthermore, the testing of innovative technologies from a quality perspective is crucial before their widespread application.

Reforms, particularly projects involving innovation activities, demand the refinement of ongoing changes in the country. This is especially significant for the post-oil era, as fundamental technological transformations in oil production, refining, and machinery sectors necessitate directing investments toward these advancements. Real institutional reforms should primarily focus on industry, high-tech service sectors, and transport infrastructure to ensure sustainable economic development.

Let us examine the Industrial Production Index of OTS countries (Table 1).

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Table 1

Industrial Production Index of OTS Countries (%) (Compared to the Previous Year

OTS Countries	2010	2020	2021	2022
Azerbaijan	102.6	96.0	105.0	98.9
Kazakhstan	109.6	99.5	103.6	101.2
Kyrgyzstan	109.8	93.4	109.0	-
Uzbekistan	105.9	100.9	108.8	105.3
Turkey	113.2	102.2	116.4	106.2

Source: [4, p.629]

Between 2019 and 2021, Turkey was the only OTS country where the industrial production index experienced significant growth [4, p.645]. The increase in the industrial index is strongly correlated with fundamental innovations. The implementation of radical innovations in industry enhances the quality component of economic growth.

In 2020, Turkey's balanced economic structure can be characterized as follows:

- ● Industry: 25.6% of the national economy
- ● Manufacturing: 21.5%
- ● Services: 32.7%
- ● Transportation: 12.0%
- ● Trade: 16.3%
- ● Construction: 5.9%

In contrast, the former Soviet republics lack a balanced economic structure. In 2022, the share of industry in the national economies of some OTS countries was:

- ● Kazakhstan: 32.0%
- ● Kyrgyzstan: 18.9%
- ● Uzbekistan: 26.7%
- ● Turkmenistan:36,8%

Source: [4, p.629-645]

Table 2

Share of Azerbaijan's Main Trade Partners Among OTS Countries in Import and Export Operations in 2023

OTS countries	Import		Export	
	Import Share (%)	Rank	Export Share (%)	Rank
Turkey	13.3	3	15.8	2
Kazakhstan	1.2	15	0.3	23
Uzbekistan	0.8	20	0.1	30
Kyrgyzstan	-	-	0.2	29

Source: [5, p. 563-578]

Table 3

Per Capita Production and Export of Key Industrial Products

Products and Services	Unit of Measurement	Azerbaijan (2022)	Kazakhstan (2021)	Kyrgyzstan (2021)	Uzbekistan (2021)
Electricity generation	kWh	2877	6056	2262	2044
Oil production	m^3	3233.8	4519	41.2	60.1
Coal	kg	4629.6	2851	3.3	1541
Pig iron	kg	-	6116	458	145
Steel	kg	38.8	-	-	-
Passenger cars	units	0.2	-	-	-
Paper and cardboard	kg	6.7	-	-	-
Cotton fabrics	m^3	2.2	-	-	-
Wool fabrics	m^3	-	-	-	-
Leather footwear	pairs	0.1	-	-	-

Source: [5, p. 645-649]

The main industrial export products of CIS countries within the OTS include electricity, oil production, gas, coal, pig iron, steel, passenger cars, paper and cardboard, cotton fabrics, and wool fabrics (Table 3).

As seen in Table 3, the exported industrial products are primarily low-tech products. Among them, passenger cars are the only product classified as high-tech. Various measures are being taken to develop innovative entrepreneurship, which is a key element of the knowledge economy in the country. As a result, the Fourth Industrial Revolution is being implemented in Azerbaijan.

Let us analyze the external factors influencing the application of innovations in the Azerbaijani national economy using a PEST analysis (Table 4).

Table 4

PEST Analysis of Innovation Changes in Azerbaijan's National Economy

Positive Aspects	**Negative Aspects**
Political Factors	
➢ Large industrial facilities are being established in liberated territories; ➢ From East to West and North to South, modern and efficient railway transport routes are being developed; ➢ ICT, space research, automotive, and railway communications are being improved.	➢ The creation of smart cities and the implementation of large-scale innovative projects in liberated areas, as well as Azerbaijan's strategic role as a transportation hub, cause political concerns in neighboring countries (Armenia, Iran).
Economic Factors	
➢ Large and medium-sized businesses are developing in Azerbaijan; ➢ The metal processing, automotive, and household appliance manufacturing industries are becoming core sectors of real economy; ➢ Over the past 10 years, Azerbaijan has modernized its manufacturing industry infrastructure using its own financial resources; ➢ Certain scientific and technological exports receive preferential customs duties; ➢ Azerbaijan invests not only in its own national economy but also in various innovative projects in construction, tourism, agriculture, and transportation sectors of OTS countries; ➢ Participation in investment projects generates good dividends, making Azerbaijan an attractive investment destination for early returns.	➢ Innovation projects are mostly imitative, rather than groundbreaking.
Social Factors	
➢ The Azerbaijani government has implemented four state programs (2001-2025) to support students pursuing undergraduate and master's degrees abroad.	➢ Mismatch between the integration of highly qualified specialists into the economy and job availability.
Technological Factors	
➢ Azerbaijan's ICT sector's share in global service turnover is 14%; ➢ Azerbaijan is modernizing its telecommunications sector, including e-banking, e-commerce, and other digital services.	➢ Radical innovations are observed only in the ICT sector; ➢ Over the past 10 years, no significant improvements have been observed in knowledge-intensive sectors of economy.

It should be noted that Azerbaijani state institutions are increasingly focusing on monitoring local product exports and promoting them in both developed countries and OTS markets. The state plays a direct role in facilitating the export of export-oriented products and services to these markets.

Government agencies should not only address legal and financial aspects of industrial production but also engage in marketing research and advertising activities to ensure that products meet international standards [6]. The Azerbaijani government's measures aimed at ensuring the entry of export-oriented products into European markets significantly enhance the export potential of high-tech products and services.

1. Analysis of the Competitiveness of Export-Oriented Products

The main challenges affecting industrial growth in Azerbaijan include:

- The inefficient sectoral and technological structure of the industry (high-tech production accounts for only 2-3% of total output, whereas in developed countries, this figure is 15-17%).
- Low labor productivity.
- Limited competitiveness of local products in both global and domestic markets.

High material and energy consumption, dependence on imports, low utilization of state investments, poor coordination, and procurement of modern equipment for the production of non-innovative products.

The importance of competitiveness, productivity, and efficiency continues to grow. The uneven nature of technological progress is influenced by the pace of technological advancements or slowdowns (Table 5).

Table 5

Fixed Assets and the Role of Investments in the Total Financing Sources of Azerbaijan's Industry

	2018	2019	2020	2021	2022	Change in 2022 Compared to 2018 (%)
Structural Independence	1.70	1.44	0.98	1.56	-	
Azerbaijan's Economic Complexity (Rank)	124	120	121	115	-	
Total Investments in Fixed Capital in the Industrial Sector (%)	3.59	1.12	1.04	1.0	1.96	54.6
Production	4.51	1.06	1.0	1.03	2.18	48.3
Manifacturing	1.28	1.66	1.26	1.40	2.26	176.6

Source: [7, p. 688-695]

As shown in Table 5, the intensity of investment impact on the reproduction of fixed assets in industrial sectors is determined by the ratio of investments to fixed capital. The replacement period for outdated equipment is very short, which negatively affects industrial efficiency.

To improve the situation, active investment activities should be carried out to:

- Enhance production efficiency,
- Increase economic resilience,
- Improve the social well-being of the population.

The following section presents a review of investments, technological costs, and profits in Azerbaijan's industry for the period 2017–2022."

Table 6

Investments in Azerbaijan's Industry, Technological Process Costs, and Generated Profit (Million AZN)

Indicators	2010	2015	2020	2022	Change in 2022 Compared to 2010 (%)
Investments	4,276.0	2,015.0	24,732.6	68,434.7	Approx. 16 times increase
Total Profit	20,743.0	15,803.0	20,875.2	63,681.8	307.0%
Net Profit	20,008.0	14,318.0	18,280.8	61,154.5	305.6%
Expenditures on Technological Innovations	8,139.0	35,179.1	35,919.8	22,540.4	276.9%

Source: [8, p.11]

As shown in Table 6, the pandemic had a significant impact on Azerbaijan's industrial economic indicators. Over a four-year period, the following declines were recorded:

- Investments decreased by (-14.5%)
- Total profit decreased by (-18.0%)
- Net profit declined by (-21.0%) [5, p.102-103]

However, the cost of technological innovation nearly doubled [8, p.11].

The attraction of investments has created favorable conditions for entrepreneurial development. From 2003 to 2022, a total of $310.4 billion was invested in Azerbaijan's economy, of which $154.1 billion came from foreign investments.

For comparison:

- In 2002, the total investment in the economy was approximately $2.8 billion.
- In 2022, this figure increased to $17.1 billion [9].

Between 2003 and 2022, the total volume of foreign direct investments (FDI) amounted to $100.7 billion.

2. Analysis of Investment Promotion Among OTS Countries

This section examines mutual investments among Turkic-speaking states. Azerbaijan is actively attracting foreign investments for urban development, transport infrastructure, communications, industrial enterprises, and economic restoration in its newly liberated territories, supported by significant expenditures [10, p. 200–212].

Azerbaijan's most important partner is Turkey, with 111 investment applications currently submitted for projects in Karabakh. These investments aim to promote environmental protection and the development of modern engineering infrastructure. SOCAR (State Oil Company of Azerbaijan Republic) plans to implement new investment projects in Turkey's petrochemical sector, including:

- International petrochemical trade expansion,
- Increasing electricity and natural gas exports,
- Investments in enhancing logistics reliability,
- Extending storage systems,
- Sustainable aviation fuel operations.

Additionally, the agenda includes expanding energy efficiency projects in Turkey and accelerating decarbonization efforts through the development of eco-friendly products [11].

In March 2024, representatives from Azerbaijan and Kazakhstan discussed the establishment of a joint investment fund, the organization of joint production in industrial parks, the construction of a grain terminal at Alat Port, and cooperation in the shipbuilding sector. They also explored the potential involvement of Kazakh companies in reconstruction projects within Azerbaijan's liberated territories. Discussions extended to:

- Expanding oil and gas cooperation,
- Increasing transit volumes of Kazakh oil through various routes,
- Enhancing freight transportation via the Middle Corridor [12].

Over the past two years, mutually beneficial trade relations between Azerbaijan and Uzbekistan have significantly improved. The presidents of both countries have set a goal to increase bilateral trade to $1 billion within the next five years. In February 2023, a joint investment fund worth $500 million was established to support projects in:

- Gas-chemical industry,
- Energy,
- Agriculture,
- Food industry.

This fund also facilitates preferential conditions for the transportation of bilateral and transit cargo, offering up to 50% discounts on railway transportation through Azerbaijani infrastructure. In November 2023, a trilateral meeting between representatives of Azerbaijan, Uzbekistan, and Kazakhstan resulted in a joint communiqué focusing on:

- Cooperation in infrastructure development,
- Energy exchange,
- Export of ammonia and green hydrogen,
- Development of renewable energy sources [13].

The Azerbaijan-Kyrgyzstan Development Fund is set to become operational in fall 2024, with internal procedures already completed. Kyrgyzstan exports oils, agricultural products, and textiles to Azerbaijan. Azerbaijan is investing $850 million in fruit and vegetable processing and construction projects in Kyrgyzstan. Additionally, Azerbaijan plans to:

- Supply petroleum products to Kyrgyzstan,
- Develop tourism partnerships [14].

As previously mentioned, a competitive and sustainable economy based on innovation requires a certain level of economic complexity. A country's economic complexity reflects its current competitiveness and determines its potential for future growth. Therefore, to improve the level of economic complexity, it is essential to:

- Enhance national competitiveness,
- Ensure sustainable development through real structural changes.

The development and modernization of the economy necessitate structural transformations, driven not only by domestic investments but also through foreign investments (Table 7).

Table 7

SWOT Analysis of Investments Attracted to Azerbaijan's Industry from OTS Countries

Strengths	**Weaknesses**
Turkey and Kazakhstan are Azerbaijan's main investors, funding numerous innovative projects in the construction of cities, industrial facilities, and transport-communication infrastructure.	Uzbekistan and Kyrgyzstan signed agreements in 2024 to invest in industrial facilities in Azerbaijan's liberated territories.
Opportunities	**Threats**
Investments are being directed towards the ICT sector, industrial production, urban development, and the tourism industry.	Azerbaijan's investments in other Turkic republics exceed the investments made by Turkey and Kazakhstan in Azerbaijan.

Source: [15]

Although Azerbaijan's technology market can be considered "young" compared to that of developed countries, the country is growing, strengthening, and enhancing its dynamism. State support contributes to increased labor productivity, demonstrating the importance of government support for the innovation market.

Conclusion

The Azerbaijani government, by choosing the path of innovative development, actively supports the enhancement of the country's competitiveness. Export-oriented products, based on technological innovations, contribute to the strengthening of Azerbaijan's industry and national economy, ensuring access to foreign markets. In the context of investment promotion with OTS countries, the production and commercialization of innovative products and services hold a special place.

Based on the above, the authors have analyzed the characteristics of mutual investment promotion between Azerbaijan and OTS countries, highlighting the following key points:

- State support in the context of globalization and regionalization relies not only on initial phases but also on a targeted long-term strategy.
- Azerbaijan currently lacks a broad entrepreneurial culture that fosters the development and implementation of new production technologies. This is primarily due to the underdeveloped innovation market.
- Competition mainly affects sectors of the national economy that rely on low-level technologies (e.g., retail, restaurants, construction, tourism, etc.). It is crucial to establish state support for high-tech industries (such as microelectronics, biotechnology, shipbuilding, etc.) that will shape the country's future development.
- The latest scientific achievements are indicators of quality factors. Only through innovations and the efficient use of investment resources can additional synergy effects be achieved.
- In the current environment, the intensification of economic growth serves as a key factor. The development of the innovative component of the economy creates synergistic effects in other industrial sectors, allowing even modest investments to yield significant returns.
- The attraction of investments from OTS countries that carry modern technologies marks a new, innovation-driven phase in Azerbaijan's economic development. This fosters the establishment of state policies that highlight priority sectors and direct resources accordingly.
- The implementation of the above measures will contribute not only to the competitiveness of the industrial sector but also to the overall national economy, strengthening both Azerbaijan's economic and political positions on the international stage.

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