AN ASSESSMENT ON BILATERAL ECONOMIC RELATIONS TURKEY & AZERBAIJAN

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‘Azerbaijan’s joy is our joy and Azerbaijan’s sorrow is our sorrow.’”
Mustafa Kemal Ataturk

This study shortly deals with bilateral political and economic relations between Turkey and Azerbaijan, of which relations have acquired unique and irreplaceable dimension beyond brotherhood thanks to their common history, culture, religion and language. Within this frame the topic of article, there has been researched in depth as follows: short history of political and diplomatic relations between Azerbaijan and Turkey, bilateral foreign trade of the two states, energy cooperation of Azerbaijan and Turkey, cooperation of Azerbaijan and Turkey in transportation, investment and tourism as well. The topic of article is a current issue. On one hand, the world demands are increasing day by day and on the other hand, the world is shrinking due to fast developing technology and innovations. Considering such, that world we can apperceive the importance of two fields which sometimes interact with each other: energy and transportation. Within this frame, the joint projects of Turkey and Azerbaijan in these fields that will end in the future time have characteristics of creating a big reaction around the world. On this basis, the main aim of study was to reveal the intensive cooperation areas of Turkey and Azerbaijan, their bilateral foreign trade and to find out the problems underlying their bilateral economic relations despite those countries have pretty closed relations. The methodology of research. Literature research, historical method and comparison method have been used for this study.

Key words. Azerbaijan, Turkey, economic, export, import, pipeline, project.

Acest studiu se referă la relațiile politice și economice bilaterale dintre Turcia și Azerbaidjan, care au dobândit dimensiune unică și de neînlocuit dincolo de cooperare, datorită istoriei comune, culturii, religiei și limbilor lor. În cadrul temei acestui articol au fost cercetate în profunzime următoarele: scurt istoric al relațiilor politice și diplomatice dintre Azerbaidjan și Turcia, comerțul exterior bilateral al celor două state, cooperarea în domeniul energetic dintre Azerbaidjan și Turcia, precum și cooperarea dintre Azerbaidjan și Turcia în domeniile transportului, investițiilor și turismului. Tema articolului este actuală. Pe de o parte, cererile mondiale sunt în creștere zi de zi, pe de altă parte, omenirea se schimbă datorită dezvoltării rapide a tehnologiei și inovațiilor. Având în vedere acest fapt, noi înțelegem importanța acestor două domenii, care uneori interacționează unul cu celălalt: energia electrică și transportul. În acest context, proiectele comune dintre Turcia și Azerbaidjan în aceste domenii, care se vor încheia în perioada următoare, au caracteristici de a crea o mare reacție în jurul lumii. Astfel, obiectivul principal al studiului a fost de a dezvălui domeniile de cooperare intensivă dintre Turcia și Azerbaidjan, comerțul lor exterior bilateral și de a identifica problemele, care stau la baza relațiilor economice bilaterale, în ciuda faptului, că aceste țări au relații destul de închise. Metodologia cercetării. Studierea literaturii, metoda istorică și metoda comparată au fost utilizate în acest studiu.


Данное исследование касается двусторонних политико-экономических отношений между Турцией и Азербайджаном, которые приобрели уникальное и неповторимое измерение за пределами сотрудничества, благодаря общей истории, культуре, религии и языка. В рамках темы этой статьи были глубоко изучены следующие: краткая история политических и дипломатических отношений между Азербайджаном и Турцией, внешнеторговые двусторонние отношения этих двух стран, сотрудничество в энергетической сфере между Азербайджаном и Турцией, сотрудничество Азербайджана и Турции в области транспорта, а также инвестиций и туризма. Тема статьи является актуальной. С одной стороны, глобальный спрос растет с каждым днем, с другой стороны, мир меняется из-за быстро развивающейся технологий и инноваций. Учитывая этот факт, мы понимаем важность этих двух сфер, которые иногда взаимодействуют друг с другом: энергетика и транспорт. В этом контексте, совместные
projects of Turkey and Azerbaijan, which are considered to have a great influence in the world. Thus, the main goal of the research was to show the importance of the current period of bilateral relations between Turkey and Azerbaijan, their economic relations and the effects of this period on their relations. The main aim of the research was to study the development of bilateral relations between Turkey and Azerbaijan. Within this frame, the first steps of bilateral relations took place during the Ottoman Period exactly in 1514. The Battle of Baku in 1918 was the turning point at bilateral relations. Turkish support to Azerbaijani people during this war laid the foundations of current closed relations. During the Soviet Union period, their relations continued thanks to official visits of Turkish authorities despite they were part of different blocks. When examining the current republic period, Turkey was the first country which recognized Azerbaijan’s independency after dissolution of the Soviet Union. In this manner, the first steps of bilateral relations in the new era were taken in 1992. Until today, numerous bilateral cooperation agreements in various fields have been signed by both sides. Today Azerbaijan and Turkey are strategic partners and they are cooperating mostly on energy.

**Introduction.** Alliance, cooperation, partnership, created by closed relations are pretty necessary within the current international arena, where states always support each other through cooperation either materially and spiritually or in case of military violence. Accordingly having strong friend or even brother country for a state is an unavoidable fact under these circumstances what makes it stronger.

“We are one nation with two states”, said the third President of Azerbaijan H.E. Heydar Aliyev for Turkey. Friendship between Turkey and Azerbaijan arising from common culture, history, language, religion and mutual support as well as mutual understanding has transformed quickly into the brotherhood in time that lended credence to the statement of H.E. Heydar Aliyev. That is why the current brotherhood between Turkey and Azerbaijan should be considered as one of the best and the most successful of bilateral relations that can be a model to the world. Also, it can be counted as the most successful foreign policy of both Turkey and Azerbaijan. They have always supported each other and they have always attached special importance to each other which could be seen both in the past and today.

The reflection of brotherhood can be seen in bilateral relations at different fields through the signed cooperation agreements and joint projects that will be actualized in a couple of years. Today Azerbaijan and Turkey are Strategic Partners. Bilateral foreign trade is not at a low level, despite it is under the desired level for both Turkey and Azerbaijan. On the other hand, they are cooperating in energy and transportation fields intensively. The routes of the Trans-Anatolian Pipeline project and the Kars-Tbilisi-Baku Railway project offer alternative options in energy, energy transportation and railway transportation.
affecting the foreign trade and tourism that can change epochal the economic indicators as well as the balances in their own fields.

*An irreplaceable brotherhood.* Bilateral relations of Turkey and Azerbaijan are dated back to 1514, to the Ottoman Empire, when Azerbaijan had been conquered firstly by Sultan Selim I during the Battle of Chaldiran, nevertheless it had been out of the Empire’s power after a while that had changed hands with Iran a few times. Finally, Azerbaijan has been conquered for certain by Ottoman statesman and military commander Osman Pasha in 1585 which has been under the control of Ottoman Administration until 1734 during 149 years.

Nader Shah is known as founder of Afsharid dynesty (The Afsharid Dynasty was member of Iranian Dynsty of Turkish origin specifically Ashar tribe (Oguz Turks) from Khorasan, who ruled Persia in the 18th century) and Shah of Persia, who was one of the most powerful rulers in Iranian history took back Azerbaijan from Ottoman Empire. Then Ottoman Empire’s staying in the region was hindered by the Russian Empire and the Safavid Dynasty (The Safavid Dynasty was one of the most significant dynasties of Persia) therefore, Ottomans left region. After that, Azerbaijan was divided into small khanates and independent khanets such as Baku, Ganja, Karabagh, Shirvan, Sheki, Yerevan, Quba, Talish that were established in Azerbaijani region. The northern Azerbaijani khanets were not shared between the Ottoman and Russian Empires and Persia, which in the meantime had maintained their independence during a century. Finally, they were shared between Russia and Iran by the Treaty of Turkmenchay in 1828.

Political environment in Azerbaijan got a move after the Russian Revolution of 1905. The Musavat (Equality) Party was established in 1911. The February Revolution known as part of the Russian Revolution of 1917 and existence of the Ottoman Empire at Caucasus led Ottomans and the Musavat Party to make an alliance. In the meantime, Azerbaijan, Georgia and Armenia took a step for establishment of a possible Transcaucasian Federation, however, it didn’t happen due to ethnical and religious discrepancies.

An independent Republic of Azerbaijan was established in May 1918, whose which capital was Ganja. Then Baku which was under the governance of Bolshevists was captured by Azerbaijan Democratic Republic (ADR) forces with the help of Ottoman Empire Army who made Baku the capital. British Empire forces, together with Baku Commune, Centrocaspian Dictatorship and White Army occupied Baku in August 1918 who were fended off by ADR and the Islamic Army of the Caucasus (The Islamic Army of the Caucasus was a military unit of the Ottoman Empire formed on 10 July 1918 by the Ottoman Minister of War Enver Pasha which played a big role during the Caucasus Campaign of World War I). As is known to all this event was the Battle of Baku, known as the conclusive part of Caucasus Campaign and the beginning of Armenian-Azerbaijani War.

As stated above, the Independent Republic of Azerbaijan was established in 1918. After the Battle of Baku, British troops recentered to Baku and hold the republic under their control until August 1919, when they left the city at own requests. The new republic de facto was recognized by the Allied Powers on 15 January 1920. The Red Army occupied Azerbaijan in April 1920. Within the same month, Azerbaijan Soviet Socialist Republic was established, which participated to Transcaucasian Socialist Federative Soviet Republic in 1922. Azerbaijan became a republic of the Union of Soviet Socialist Republics on 5 December 1936 [1].

In the meantime, the Ottoman Empire was living its last years. It has tired out because of World War I and has been totally occupied by enemies. That is why in such chaotic years with regard to Turkish nation, Turks were preparing to enter to another war known as the Turkish War of Independence on 19 May 1919 under the leadership of Turkish army officer, revolutionary and the first president of Turkey H.E. Mustafa Kemal Ataturk. It concluded on 23 April 1923 with Turkish victory, dissolution of the Ottoman Empire and establishment of the Republic of Turkey.

The Battle of Baku was a turning point at bilateral relations in that period. The Ottoman Empire Army came to Azerbaijan to provide aid and save Baku. Then Azerbaijan had provided aid materially and morally to Turkish people during the Turkish War of Independence. In this manner, alongside of friendship arising from both Azerbaijan’s being under the control of the Ottoman Empire and common origin, language, religion, similar culture and traditions the first steps of current brotherhood have been taken at that period.

As concerns the republic period of both sides, bilateral relations date back to the Cold War period exactly to the end of 1960s, when Turkey’s former prime minister and president of that period H.E. Suleyman Demirel and H.E. Cevdet Sunay paid visits to Azerbaijan. Those visits played a big role at quality determination of bilateral relations [5]. It is necessary to remind that during the Cold War period
the world order consisted of two blocks: western and eastern and there were two super-powers: United States and Soviet Union. In this context, Turkey had turned its face to the West and had adopted western-oriented policies contrary to Azerbaijan. As stated above, Azerbaijan was one of the Union of Soviet Socialist Republics. Accordingly, there hasn’t been seen a visible development at bilateral relations between Turkey and Azerbaijan as well as other Soviet Union republics during the cold war period even so, thanks to common historical and cultural heritage together with visits bilateral relations haven’t come neither to a breakaway point nor a breaking point.

Azerbaijan had followed policies of “glasnost and perestroika” (The term “Glasnost” means “openness” and was the name for the social and political reforms to bestow more rights and freedoms upon the Soviet people. Its goals were to include more people in the political process through freedom of expression. Perestroika refers to the reconstruction of the political and economic system established by the Communist Party. Politically, contested elections were introduced to reflect the democratic practices of Western society and allow citizens to have a slight say in government. Economically, Perestroika called for de-monopolization and some semi-private businesses to function, ending the price controls established by the government for the past seven decades. The goal was to create a semi-free market system, reflecting successful capitalist practices in the economies of Germany, Japan, and the United States. These policies were created by the last leader of the Union of Soviet Socialist Republics Mikhail Gorbachev.

http://www.coldwar.org/articles/80s/glasnostandperestroika.asp during the cold war period and gained its independence on 1 September 1991. Then Soviet Union collapsed on 26 December 1991. Turkey was the first country that recognized Azerbaijan’s independence on 9 November 1991. Diplomatic relations between the both sides were established on 14 January 1992 by a protocol through which consulate general of Turkey in Azerbaijan was stepped up to embassy level. Embassy of Turkey has been operating since then and Embassy of Azerbaijan in Turkey has been operating actively since August 1992.

“We are one nation with two states” said the third president of Azerbaijan H.E. Heydar Aliyev in 1993. Bilateral political, economic, social and military relations between the two brotherly and friendly states have been continuing very well, that reveal the trueness of Heydar Aliyev’s statement. Within this frame alongside of numerous mutual high-level visits there are lots of mutually signed agreements and protocols on different fields. Some of them have been specified below by years:

- Agreement on Trade and Economic Cooperation (January 2, 1992);
- Treaty of Friendship, Good-Neighborliness and Cooperation between the Republic of Turkey and the Republic of Azerbaijan (January 24, 1992);
- Black Sea Economic Cooperation (BSEC) Agreement on Education, Culture and Communication Agreement (March 6, 1993);
- Agreement on Cooperation in the Fields of Science, Technique, Social, Culture and Economy (February 9, 1994);
- Agreement on Promotion and Mutual Protection of Investments (April 4, 1994);
- Double Taxation Avoidance Agreement (April 9, 1994);
- Turkey-Azerbaijan Social Security Agreement (July 17, 1998);
- The Second Protocol of Joint Economic Commission (January 31, 2002);
- Agreement on Cooperation between Azerbaijan and Turkey in the Field of Environment Security (October 14, 2004);
- Cooperation and Partnership Agreement (November 6, 2007)
- Memorandum of Cooperation between the Family and Social Policies Ministry of Republic of Turkey and State Committee for Family, Women and Children Affairs of Azerbaijani Republic (February 4, 2008);
- The Long-term Programme on Economic and Trade Cooperation and the Performance Plan (February 18, 2008) [6].

On the other hand, Agreement on Strategic Partnership and Mutual Assistance between Azerbaijan and Turkey came to the conclusion on 16 August 2010 during the former President of Turkey H.E. Mr. Abdullah Gul’s Azerbaijan visit. Also, Turkey and Azerbaijan signed a common statement on establishment of High-level Strategic Partnership Council (HSPC) during the 10th Summit of Turkic-speaking Countries. Hence the first HSPC Summit was held on 25 October 2011 and the last Summit was held on 16 March 2016 in Ankara.

The legal infrastructure keeps bilateral relations alive. In this context through important instruments
such as bilateral cooperation agreements and partnership councils at different fields, Turkey has established and developed its cooperation mechanisms as well as bilateral relations. Considering above-mentioned agreements between Turkey and Azerbaijan, we can talk about the provided legal infrastructures at political, economic and social fields between two countries. Besides the High-level Strategic Partnership Council adds another dimension to bilateral relations of Turkey and Azerbaijan, which is still developing at lots of fields. Within this frame, great numbers of bilateral cooperation agreements have been signed during the HSPC Summits. For example, five critical cooperation agreements were signed by both countries alone at the last summit in 2016. These are “Protocol on the exchange of military and civilian personnel for social and cultural purposes between the Republic of Azerbaijan and the Republic of Turkey”, “The Agreement on paid employment of family members of employees of diplomatic missions and consulates General of the Government of the Republic of Azerbaijan and the Government of the Republic of Turkey”, “The Agreement on cooperation between the Ministry of Justice of the Republic of Azerbaijan and the Ministry of Interior of the Republic of Turkey in the field of forensic science”, “The Agreement on mutual recognition and amendment of driving licenses between the Government of the Republic of Azerbaijan and the Government of the Republic of Turkey” and finally “Protocol on technical cooperation between the Government of the Republic of Azerbaijan and the Government of the Republic of Turkey” [2]. All these developments at bilateral relations highlight that Turkey and Azerbaijan cooperate not only politically and economically but also socially and militarily.

On the other hand, both Turkey and Azerbaijan play a leading role in development of cooperation forums, through which regional subjects are discussed. Within this frame, the Threeilateral Meeting of the Ministers of Foreign Affairs of Turkey-Iran-Azerbaijan’s role is very important. The last meeting was held on 5 April 2016 in Iran. The main aim of the meeting is the regional development. Accordingly, talks continue in the direction of exchange opinions on regional issues, contribution to the development of cooperation understanding on the basis of mutual advantage and the strengthening of regional prosperity, stability as well as security.

In respect to global dimension, Turkey and Azerbaijan meet at different international organizations as members, through which they can discuss and deal with both bilateral relations, national problems or global developments entirely. Both countries are members of Council of Europe (CE), United Nations (UN), Interpol, Organisation of Islamic Cooperation (OIC), Turkic Council (TC), Economic Cooperation Organization (ECO), Black Sea Economic Cooperation Organization (BSEC), International Monetary Fund (IMF), World Bank (WB), Organization of the Eurasian Law Enforcement Agencies with Military Status (TAKM), Organization of the Eurasian Law Enforcement Agencies with Military Status (TAKM) is an international organization of three Turkic countries alongside of Mongolia: Turkey, Azerbaijan and Kyrgyzstan which established on 25 January 2013 in Baku. Its main aim is to develop cooperation and solidarity between the law enforcement agencies with military status, Organization for Security and Cooperation in Europe (OSCE) and etc.

Within this frame, Turkey joins actively to the Minsk Group that was established by OSCE to seek a peaceful, fair and permanent solution for Azerbaijan and Armenia’s Nagorno-Karabakh conflict (Nagorno-Karabakh Autonomous Oblasti (currently Nagorno-Karabakh Republic) is an autonomous region established by the Soviet Union within the territories of Azerbaijan Soviet Socialist Republic in 1923. An ethnical conflict had started between Armenians who wanted to add the region to Armenian Soviet Socialist Republic and Azerbaijani who didn’t accept it during the recent years of the Soviet Union which had turned into hot war in 1988 and had continued until 1994. Numerous genocides had been lived during the war. Today Nagorno-Karabakh is internationally recognized as part of Azerbaijan, which is de facto under the domination of Nagorno-Karabakh Republic. Today it isn’t recognized neither by any country and international organizations as a result of occupation of the region by Armenian Armed Forces. The last armed conflict was seen between Azerbaijan and Armenian forces on 2 April 2016. After two days a new ceasefire was declared) in 1992, which is known as the most important foreign policy problem of Azerbaijan. Turkey has been keeping closed its Armenian border gate since 1993 due to the Armenian occupation of Azerbaijani territories. Turkey continues to consider OSCE Minsk Group process as an appropriate platform for conflict’s solution and believes that creative initiatives contribute and land assistance for solution [10].

Bilateral foreign trade is under its potential. Azerbaijan like all former republics of the Soviet Union encountered with important political, military, social and economic problems after gaining its independence in 1991. Production in Azerbaijan came to a stopping point due to reasons as collapse of the
economic structure, which obligated systematical dependency between the republics in the Soviet Union period, lack of economic, political and legal infrastructure as well as free market model and having old technology. Accordingly, it slogged on during the transitional period to the free market economy.

After providing political stability and ceasefire with Armenia, Azerbaijan has started to focus on its economy. It has fastly adapted innovations and has achieved to go through difficulties despite its import ways of intermediate goods for industry that have closed due to reasons as dissolution of economic structuring together with the Soviet Union based on experting, distribution of labour and Armenian war. Today, Azerbaijan is the world’s 76th largest economy by nominal Gross Domestic Product (GDP) and the 66th largest economy by GDP per capita (PPP).

In the meantime, Turkey has stopped import-substituting economy policies to move its capital movement to international level and has started to apply outward-oriented economy policies since 1980s through which it developed its economy and improved its bilateral economic relations. Also together with the other applied reforms, Turkey is one of the World’s 20 major economies today (18th by nominal GDP, 17th by GDP ppp).

As stated above, Turkey was the first country that recognized Azerbaijan’s independence and Azerbaijani-Turkish diplomatic relations were established at the beginning of 1992. In those years, Azerbaijan was struggling with hot war. After establishment of diplomatic relations with Azerbaijan, Turkey also started to attach importance to the Azerbaijan’s autonomous region -Nakhchivan. Within this frame, the Mutual Cooperation Protocol was signed in March 1992, during the visit of the 3rd President of Azerbaijan H.E. Heydar Aliyev who served as the chairman of the Supreme Assembly of Nakhchivan Autonomous Republic in that period. By this means, Turkey firstly provided economic, financial and technical assistance to Nakhchivan by giving credit valued at 100 million US$ and by educating 100 students per annum in Turkey. In this manner, first steps of bilateral economic relations also have taken. Besides total amount of the bilateral official development assistance provided by Turkey to Azerbaijan is 320 million US$ considering the last 12 years.

Within the frame of bilateral economic relations, foreign trade should be considered as one of the main items. In this context, when we generally observe the foreign trade indicators, we can see a regular development by taking into consideration the 5-year periods. Within this scope, bilateral foreign trade volume of Turkey and Azerbaijani was 326 million US$ in 2000 and increased twice as much, up to 800 million US$ in 2005 that was counted as 2.4 billion US$ in 2010 and with a small decline reached to 2.1 billion US$ in 2015 (See Table 1).

<table>
<thead>
<tr>
<th>Years</th>
<th>Export</th>
<th>Import</th>
<th>Volume</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>230</td>
<td>95</td>
<td>326</td>
<td>134</td>
</tr>
<tr>
<td>2005</td>
<td>528</td>
<td>272</td>
<td>800</td>
<td>255</td>
</tr>
<tr>
<td>2010</td>
<td>1,551</td>
<td>865</td>
<td>2,416</td>
<td>686</td>
</tr>
<tr>
<td>2011</td>
<td>2,064</td>
<td>262</td>
<td>3,232</td>
<td>1,802</td>
</tr>
<tr>
<td>2012</td>
<td>2,587</td>
<td>340</td>
<td>2,927</td>
<td>2,247</td>
</tr>
<tr>
<td>2013</td>
<td>2,961</td>
<td>334</td>
<td>3,294</td>
<td>2,627</td>
</tr>
<tr>
<td>2014</td>
<td>2,876</td>
<td>291</td>
<td>3,167</td>
<td>2,585</td>
</tr>
<tr>
<td>2015</td>
<td>1,899</td>
<td>232</td>
<td>2,131</td>
<td>1,667</td>
</tr>
<tr>
<td>2015 (January-March)</td>
<td>530</td>
<td>48</td>
<td>578</td>
<td>482</td>
</tr>
<tr>
<td>2016 (January-March)</td>
<td>233</td>
<td>64</td>
<td>297</td>
<td>169</td>
</tr>
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But contrary to the general development there has been seen an irregularity at foreign trade indicators taking into account the last 5 years. Bilateral foreign trade volume of Turkey and Azerbaijan was 2.4 billion USD in 2010 and it fell down to 2.3 in 2011. Then it showed a noticeable increase in 2012 and reached up to 3.1 billion USD in 2014. Finally, in 2015 it showed a visible decline valued at 2.131 billion USD. Decline is prominently remaining in the first quarter (Q1) of 2016 in comparison with Q1 of
the previous year.

Even if both Turkey and Azerbaijan have closed and brother relations, bilateral trade volume couldn’t catch the desired level. Foreign trade of the two countries falls behind its potential due to high tariff rates. In addition to this, the lack of a direct route is an expensive problem. Export of Turkish goods to Azerbaijan is provided via Georgia or Iran that requires high transport fees (See Map 1).

![Map 1. Current Borders of Turkey, Azerbaijan, Georgia and Iran](https://commons.wikimedia.org/)

Map 1. Current Borders of Turkey, Azerbaijan, Georgia and Iran


With reference to tariff rates, Russia has an important advantage at Azerbaijan’s import because it provides exportation of goods duty free. Besides EU is the largest trading partner and Russia is one of top 3 trading partners of both sides. Accordingly, Russia’s dominance at foreign trade of Azerbaijan and Turkey’s EU-Turkey Customs Union prevents improvement of Azerbaijan-Turkish foreign trade.

As stated above, Azerbaijan went through difficulties during the transition period to the free market economy. Oil and natural gas reserves played an important role at this situation. Azerbaijan invested in energy field and has entered to the new period since 2005, when oil incomes firstly reflected on the national revenue.

Accordingly, United Kingdom because of British Petroleum (BP) and United States because of oil investments come to the forefront at Azerbaijan’s import, however Turkey maintains its importance in the meaning of product range. Even though trade between the two countries doesn’t exactly reflect on statistics due to shuttle trade and border trade, it has a potential that will increase considerably in the future [6].

Including the shuttle trade and the border trade bilateral foreign trade volume of Turkey and Azerbaijan reaches around 4 billion US$ in the recent period, which is under potential for both parties as mentioned above. In this context two countries aim to increase it up to 10 billion US$ in the short term, exactly in 2017 [12].

With reference to export and import, Turkish export to Azerbaijan has had a showing tendency to increase since 1993 excluding 2014-2015 period through recognition of Turkish goods in Azerbaijan, low quality export goods of Iran known as one of the most important trade partners of Azerbaijan in comparison with Turkish export goods, import of Turkish companies from Turkey to open branches in Azerbaijan and marketing of these goods in domestic markets.

The main items of Turkish export to Azerbaijan are machines and mechanical devices and their spare parts, electrical machines and devices and their spare parts, furnitures, automotive, optical instruments and devices, motor land vehicles and their spare parts, mineral fuels, oil and its derivatives. When these products are converted into numbers, 86.69% of industry products, 9.02% of agricultural products, 2.93% of mining products and the rest of 1.35% of other products are creating the Turkish export.

Besides that, Turkey has export potential at another items such as salt, sulphur, stone, plaster and cement, paper, cardboard and its finished goods, soap, fruits and vegetables. On the other hand, export opportunities of hospital and medical equipments based on investments in health services which have become important recently and export opportunities of consultancy on environmental health and the construction business are evaluated within the frame of export potential.

As regards import, the main items of Turkish import from Azerbaijan are mining products, industrial commodities, agricultural products, fruits and vegetables. If we convert these products into
numbers, Azerbaijani import consists of 94% of mining products—mostly natural gas, 5.17% of industrial commodities, and the rest of 0.78% consists of agricultural and other products. Azerbaijani import doesn’t have much varieties in comparison with Turkish export. Turkey mostly imports natural gas from Azerbaijan and other import goods are mainly raw materials such as copper, aliminium, cotton and intermediate goods alongside agricultural products [6].

On the other hand, Turkey is the 5th biggest trading partner of Azerbaijan after US, Italy, Germany and Russia. Besides Turkey ranks the 14th at Azerbaijani export, while it takes the second place at its import.

**Energy cooperation could change balances.** Energy trade including oil and natural gas and its transportation could be considered as an important element of foreign trade. As it is known to all, the determining factor of Azerbaijani foreign trade is energy. Oil and natural gas have 90% share in export of Azerbaijan, while finished products create 80% of Azerbaijani import. Within this frame, Azerbaijan’s proven oil reserves are 7 billion barrels as of 2014 and its proven natural gas reserves are 991 billion cubic metres. Accordingly, Azerbaijani budget in this context depends on energy income.

Considering the energy outlook of Turkey, it is a foreign-dependent country in terms of oil and natural gas. According to Turkish Statistical Institute, Turkey imports 92% of crude oil. Besides Turkey imported 25 million tons of crude oil alone in 2015 that increased 43% comparing with the previous year. The reason of it is the increase of crude oil import from Iraq. In 2015, Turkey received 45.6% crude oil from Iraq which is two times more in comparison with 2014. Then Iran by 22.4%, Russia by 12.4%, Saudi Arabia by 9.6%, Colombia by 3.5%, Kazakhstan by 2.6% and Nigeria by 2.1% followed Iraq [3].

On the other hand, Turkey imports almost 99% of natural gas. Alongside of utilized natural gas towards heating, Turkey produces electricity by using 48% of natural gas. Additionally, if we observe the sectoral distribution of natural gas consumed by Turkey, the remaining is utilized 25% in industry, 19% in residence, 6% in services and 2% in other sectors including energy and transportation. Turkey was the second country after China in terms of growth of natural gas demand. Turkey imported approximately 51 billion cubic metres of natural gas alone in 2015. Also it mainly imported natural gas from Russia with 58%, then from Iran (18%), Azerbaijan (12%), Algeria (7.7%), Nigeria (2.4%) and imported 1.9% of natural gas as LNG and spot market [9].

Approximately 50% of the total income of Azerbaijani budget is provided from oil exportation and a large scale of income from natural gas exportation contributes to public revenue. Accordingly, pipelines to transport energy products are important for such a country that depends on energy.

On the other hand, Turkey has a potential to be an energy hub thanks to its geostategical location. As is known to all Turkey has a gate status opening to Europe and Asia. Accordingly, in energy field Turkey benefits from its location. While the west of Turkey consists of energy importing countries, the east of Turkey composed of energy exporting countries. In this context, Turkey is neighbouring with the Central Asia, Caspian Sea region, the Middle East and the South Mediterranean Sea region which have more than 75% of the world’s total hydrocarbon energy reserves. Turkey exists on the junction point of the East-West and North-South energy routes. That is why Turkey evaluates that important advantage by developing pipeline projects both to meet its energy need to a certain degree and to be an energy bridge transporting natural rich sources to the world markets.

Within this frame, Turkey and Azerbaijan cooperate both in energy trade and its transportation. As stated above, Turkey imports 12% of natural gas from Azerbaijan, which places it in top 3 oil importers of Turkey. Also within the frame of energy transportation the two countries cooperate notably through the Baku-Tbilisi-Ceyhan Pipeline, the South Caucasus Pipeline and the Trans Anatolian Natural Gas Pipeline.

Turkey becomes an intermediary through the Baku-Tbilisi-Ceyhan Pipeline (BTC). The Baku-Tbilisi-Ceyhan Pipeline is a crude oil pipeline with 1768 km length, connecting Baku and Ceyhan. Oil is carried from the Azeri-Chirag-Guneshli oil field in the Caspian Sea to the port on the South-eastern coast of the Mediterranean Sea in Turkey via Tbilisi (See Map 2). BTC was officially opened on 13 July 2006 in Turkey while it was opened in Baku on 25 May 2005 and the first oil reached to Ceyhan from Baku on 28 May 2006.
The BTC is called as the 21st century’s Silk Road. Crude oil is coming to Ceyhan from Baku via Georgia through pipeline and from there it is transported to the world markets by tankers. The total length of pipeline is 1768 km of which 443 km exists in Azerbaijan and 249 km is located in Georgia. Accordingly, Turkey has the tallest part of the pipeline.

On the other hand, pipeline has a capacity to carry 1 billion barrels in a day. Since the beginning of the pipeline’s operation, more than 2 billion barrels of crude oil have been carried and have been delivered by more than 2,600 tankers to the world markets. While the cost of project was about 3 billion US$, Turkish income from the pipeline passed over 3 billion Turkish Liras (more than 1 billion US$ as of today).

BTC Pipeline has 11 shareholders. The biggest one is BP with 30.1% is followed by State Oil Company of Azerbaijan (SOCAR) with 25%. Turkish Petroleum Corporation has 6.75% of share [7].

BTC was the source of inspiration in a way to construct new transport pipeline route, which is known as South Caucasus or Baku-Tbilisi-Erzurum Pipeline (BTE Pipeline). It is a natural gas pipeline that carries natural gas from Shah Deniz gas field in Azerbaijan to Turkey. It has been running parallel to the BTC pipeline. In this manner pipeline connects Azerbaijani, Turkey and Georgia as well (See Map 3).

BTE pipeline has been operating since July 2007. Its construction began in 2003. Its length is approximately 696 km. It was aimed to supply Azerbaijani natural gas to Turkey and Georgia at the first stage, however it was designed with larger capacity to supply and export natural gas from Azerbaijan to Europe via Turkey. Within this frame, via Turkey-Greece Interconnector (Nagorno-Karabakh Autonomus Oblasti (currently Nagorno-Karabakh Republic) is an autonomus region established by the Soviet Union
within the territories of Azerbaijan Soviet Socialist Republic in 1923. An ethnic conflict had started between Armenians who wanted to add the region to Armenian Soviet Socialist Republic and Azerbaijanis who didn’t accept it during the recent years of the Soviet Union which had turned into hot war in 1988 and had continued until 1994. Numerous genocides had been lived during the war. Today Nagorno-Karabakh is internationally recognized as part of Azerbaijan, which is de facto under the domination of Nagorno-Karabakh Republic. Today it isn’t recognized neither by any country and international organizations as a result of occupation of the region by Armenian Armed Forces. The last armed conflict was seen between Azerbaijanis and Armenian forces on 2 April 2016. After two days a new ceasefire was declared.

Azerbaijanis natural gas for the first time has been exported to Europe through mentioned pipeline that can be considered as an alternative. BTE pipeline has capacity to bring 16 billion cubic meters annually. Additionally, there is an opportunity to increase that capacity through technical changes.

After construction of the BTE pipeline, Turkey annually received natural gas from Azerbaijan in the amount of 6.6 billion cubic meters. Natural gas from Azerbaijan is more economic in comparison with Russian and Iranian natural gas. Iranian natural gas is the most expensive one. Within this frame, as of 2015, Turkey received natural gas from Iran in the amount of 490 US$ per thousand cubic meters, from Russia 335 US$ per thousand cubic meters and from Azerbaijan 335 US$ per thousand cubic meters [4].

With regards to shareholders, BTE pipeline is owned by the South Caucasus Pipeline Company known as consortium led by BP and SOCAR. The main shareholders of consortium are obviously BP with 28.8% share, Turkish Petroleum Corporation with 19% share and SOCAR with 16.7% share.

Another Azerbaijani-Turkish cooperative energy project known as the Silk Road of Energy is the Trans-Anatolian Natural Gas Pipeline (TANAP). It’s a natural gas pipeline that brings Azerbaijan natural gas to Europe through Turkey and Georgia (See Map 4). Accordingly, a large quantity of Caspian gas notably Azerbaijan gas will have been carried to western markets through TANAP considered as alternative route for the first time.

Map 4. Route of TANAP Project

This project aims to bring natural gas produced at Shah Deniz 2 Field and other fields of the Caspian Sea primarily to Turkey then to Europe. TANAP forms the Southern Gas Corridor by merging with the BTC pipeline and the Trans Adriatic Pipeline (TAP), (Turkey-Greece Interconnector is a first stage of Southern Gas Corridor developed within the context of EU’s Programme „Interstate Oil and Gas Transport to Europe” Southern Gas Corridor is an initiative of the EU for the gas supply from Caspian and Middle Eastern regions to Europe).

TANAP is the biggest performed energy investment in Turkey. Its length is 1850 km, which places it in one of the lengthiest natural gas pipelines of the world. At the same time TANAP is one of the world’s natural gas pipeline with the highest bearing capacity.

TANAP’s ground was broken in 2015. Turkish producers provide 80% of TANAP’s mainline pipes. Within the frame of TANAP project the first Azerbaijani gas will be delivered to Turkey in the middle of
2018 and to Europe in 2020 in parallel with TAP project. Annual capacity of TANAP will be 16 billion cubic meters at the first stage to gain functionality of which 6 billion cubic meters will be sold to Turkey and the rest will be exported to European markets. Together with the activation of other natural gas sources around Azerbaijan and Turkey the capacity will reach up to 23 billion cubic meters in 2023 and 31 billion cubic meters in 2026.

TANAP is carried out by a concorcium in the leadership of SOCAR. Its main shareholders are obviously SOCAR with 58%, from Turkey BOTAS the state-owned Petroleum Pipeline Company with 30% and BP with 12%.

TANAP is a project that contributes to European energy demand and diversity. Its contribution to Turkey is accession to Azerbaijan’s rich sources and new markets. On the other hand it provides new employment opportunities [11].

Energy is an important subject of today considering current conjunction of the world including the political or economic strategies towards energy. Azerbaijan and Turkey deeply cooperate on energy, which shows us how their partnership is strategic and close. In fact, their energy cooperation is more intensive than their foreign trade. Taking into account Turkish Azerbijani energy trade and energy transportation, we can see that they cooperate in natural gas field more than oil field. That can be because Azerbaijan’s natural gas reserves are richer than oil reserves. TANAP project is the most beautiful proof of it, which is for the benefit of both Turkey and Azerbaijan. Through this, Azerbaijan could reach to the new markets as well as to costumers to export its natural gas by adding variety and meeting the energy demand.

As stated above, Russia is the biggest natural gas supplier of Turkey. Turkey imported 58% of natural gas from Russia alone in 2015. Besides that, Russian natural gas is more expensive than Azerbaijan’s, but considering the recent political developments and tensions with Russia due to Turkey’s shoot-down of Russian warplane in 2015, Turkey could be in a difficulty in the context of natural gas supply. At this point, Azerbaijan could succor. Azerbaijan is providing through BTE 6.6 billion cubic meters of natural gas to Turkey, at the moment. Together with TANAP, quantity could increase and Turkey could receive at a cheaper price its natural gas need on a large scale, even in the future it could receive the whole need of natural gas.

On the other hand, Russia’s another major natural gas importer is EU notably Germany. Again through TANAP Azerbaijan’s cheaper natural gas could become an alternative to Russian’s. While Azerbaijan accesses to the European market, creates energy variety and meets Europe’s demand, it could be seen as an opponent by Russia in the context of energy supply. Within this frame TANAP project could change balances at energy.

The Iron Silk Road. Alongside of intensive energy cooperation between Turkey and Azerbaijan they also cooperate in transportation by constructing a new project which is known as Kars-Tbilisi- Baku Railway (KTB). In other words it is called as the Iron Silk Road.

KTB is a railway project to connect directly Turkey, Georgia and Azerbaijan (See Map 5). The total length of railway is 826 km and its total cost is around 450 million US$. Railway’s 76 km will be built in Turkey, 259 km will be built in Georgia and the rest will be built in Azerbaijan. Accordingly Azerbaijan will have the major part of railway. Project will be completed in 2017.

![Map 5. Route of KTB Rail Project](http://www.dailysabah.com)
KTB is a project that could change balances at transportation. This project is not only merging Turkey, Azerbaijan and Georgia but also merging London with Pekin. On one hand KTB railway will connect Turkey, Azerbaijan and Georgia, on the other hand a non-stop direct rail line will be built from Pekin to London. In this manner freight shipment between Europe and Central Asia is planning to be slides to the railway.

As is known to all Turkey has closed relations with Azerbaijan as well as with other Turkic republics, which were former Soviet Union members in the past. Before KTB railway project the railway network between Europe and Central Asia was coming to Armenia after Turkey which was dividing in Armenia into three parts: to arrive in Georgia through Kars (Turkey)-Gyumri (Armenia)-Ayrum (Armenia)-Marneuli (Georgia)-Tbilisi (Georgia) railway, to arrive in Azerbaijan through Ijevan (Armenia)-Qazakh-Baku or Kars-Gyumri-Nakhchivan-Meghri (Armenia)-Baku. Turkey’s Armenian border gates has been closed since 1993 due to Azerbaijan-Armenian conflict. As a result of this, access to Azerbaijan and accordingly to the Central Asia, Russia, Ukraine, Georgia and China by rail road becomes impossible. Turkey’s desire to reach to the Central Asia and ongoing conflict in Azerbaijan resulted with this project.

With the completion of this project, one million passengers and 6.5 million tons freight will be carried at the first stage that will reach up to 3 million passengers and 17 million tons freight in 2034 as predicted. Accordingly, alongside of contribution to cooperation in transportation field this project will increase the foreign trade, tourism and industry as well. Within this frame, transporting products will be known and transport fees could be eliminated or declined. Accordingly, it will promote foreign trade and will contribute to welfare [13].

As stated above, Turkey’s bilateral foreign trade volume with Azerbaijan is under its potential considering how their engagements are tight and closed. One of the main reasons is the high transport fees. Through KTB railway they will easily access to each other and they could merchandise with lower fees and their foreign trade volume could visibly increase.

Investment of Turkey doubles Azerbaijan’s. Turkey attaches importance to investments as many countries, however it is capable to attract foreign investments through economic stability and opportunities in this context. For example alone in 2015 inward foreign direct investment of Turkey was valued at 16.5 billion US$ that financed 51% of current deficit known as the soft belly of Turkey. It also has spirit of entrepreneurism. It’s outward foreign direct investments have been increasing since 2002 which have reached up to 6.5 billion US$ as of 2015. Within this frame Turkish companies abroad are mostly famous at construction, textile, furniture and food sectors.

With regards to investment relations of Turkey and Azerbaijan, the total investments of Turkish-capitalized companies in Azerbaijan amounted to 9 billion US$ as of 2015, whose investments predominantly have headed towards telecommunication, banking/insurance, transportation, food trade, textile, education, furniture and building materials. Within this frame Turkish companies in Azerbaijan come to the forefront at construction sector. Those companies have undertaken 347 projects up to now valued at 11 billion US$. As of today the total number of Turkish companies existing in various sectors of Azerbaijani market is more than 2600, which offers employment opportunity to more than 25 thousand of people in Azerbaijan.

On the other hand, Azerbaijan is also an attractive country in terms of investments that played a key role at freshening of Azerbaijani economy after Soviet dissolution. Azerbaijan become as a charming market for foreign investments significantly in terms of oil refinery and oil drilling, as a result of economic improvement. Accordingly, a major part of FDI in Azerbaijan is on this field. Besides 60% of capital investments are at hydrocarbon sector.

When examining the total Azerbaijani investments in Turkey, it have passed over 4 billion US$, however that amount is twofold less in comparison with Turkey’s. Azerbaijan’s investments in Turkey mostly have focused on energy and transportation considering the current projects. Within this frame SOCAR is the biggest foreign-investor of Turkey which is planning to invest 15 billion US$ until 2023. On the other hand 1171 Azerbaijani-capitalized companies in different sectors have been actively operating in Turkey as of 2015 [8].

Tourism is under the desired level. Azerbaijan’s economy has a double structure. On one hand, tendency of fast development was monitored at hydrocarbon and construction sectors, while on the other hand, investment lack at non-oil industry sector was monitored. As a result of this, there are problems at non-oil industry sector such as low employment, insufficient tax income and weak importation against to
exportation. That’s why seeking in the direction of establishment of organized industry regions, revision of transportation sector and development of tourism are in question by Azerbaijan to support non-oil economy. Accordingly tourism is among the potential sectors for promotion. Within this frame Azerbaijan declared 2016 as the „Year of Tourism”. With regards to Turkey tourism, it is one of the key element of Turkish economy. Turkey has lots of cities and coasts holding historical and cultural heritages alongside of resting areas. 36.4 million tourists visited Turkey alone in 2015, however it is 1.6% less in comparison with the previous year. One of the main reasons of this decline was warplane crisis with Russia. Majority of tourists visiting Turkey were coming from Russia. Russia’s embargo to Turkey within the frame of warplane crisis reflected negatively on total number of tourists visiting Turkey.

Considering bilateral touristic visits, number of Azerbaijani tourists visiting Turkey was around 650 thousand in 2015, while number of Turkish tourists visiting Azerbaijan was around 340 thousand, which is under the desired level as well as the potential. Within the frame of increasing the number bilateral visits as part of tourism both Turkey and Azerbaijan organize different activities. Lastly the Culture and Tourism Office of Turkish Embassy in Baku held a meeting in February 2016 with tourism agencies to evaluate the previous year and to work on 2016. On the other hand, Azerbaijan opened a tourism representation office in Turkey in March 2016 to contribute to the number of Turkish tourists visiting Azerbaijan.

**Conclusion.** Despite the bilateral political relations of Turkey and Azerbaijan have been continuing at high level and Turkey and Azerbaijan are strategic partners, it couldn’t catch the desired level. High tariff rates, transition fees, Russia’s dominance in both Turkish and Azerbaijani markets are some of the main reasons that hinder foreign trade to reach to its potential.

When examining cooperation of Turkey and Azerbaijan alongside foreign trade, two subjects come to the forefront: energy and transportation. Having said, their cooperation in those fields has the characteristics that could change the balances.

Within this frame through BTC of which major part was built in Turkey, Azerbaijani crude oil reaches to the world markets. In other respects, Azerbaijan is the third largest natural gas supplier of Turkey. Through BTE Turkey receives Azerbaijani natural gas, which will be connected with ongoing TANAP project. Through TANAP project Azerbaijan could reach to the new markets as well as to costumers notably Europe via Turkey to export its natural gas by adding variety and meeting the energy demand. Together with TANAP, quantity of the natural gas could increase and Turkey could receive at a cheaper price its natural gas need on a large scale; even in the future it could receive the whole need of natural gas. At this point, Russia could be stuck in a difficult position. Germany is one of the major natural gas importer of Russia. TANAP Azerbaijan’s natural gas could become an alternative to Russian’s. While Azerbaijan accesses to the European market creates energy variety and meets Europe’s demand, it could be seen as an opponent or a threat by Russia in the context of energy supply.

Turkey and Azerbaijan’s another joint project is KTB railway project. This project is not only merging Turkey, Azerbaijan and Georgia but also merging London with Pekin. In this manner, freight shipment between Europe and Central Asia is planning to be slide to the railway and passengers will be transported to these regions. Accordingly, this project could increase the foreign trade, tourism and industry as well. Within this frame, transporting products could be known and transport fees could be eliminated or declined. Accordingly, it could promote foreign trade and will contribute to the welfare of population.

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