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WARSAW ENTERPRISE
INSTITUTE



March
2023

SZYMON WITKOWSKI

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STATE OF PLAY



POLAND

AZERBAIJAN

WARSAW ENTERPRISE INSTITUTE

STATE OF PLAY POLAND–AZERBAIJAN

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In partnership with
AIR CENTER



CENTER OF ANALYSIS OF INTERNATIONAL RELATIONS
BEYNƏLXALQ MÜNƏSİBƏTLƏRİN TƏHLİLİ MƏRKƏZİ

WARSAW, 2023

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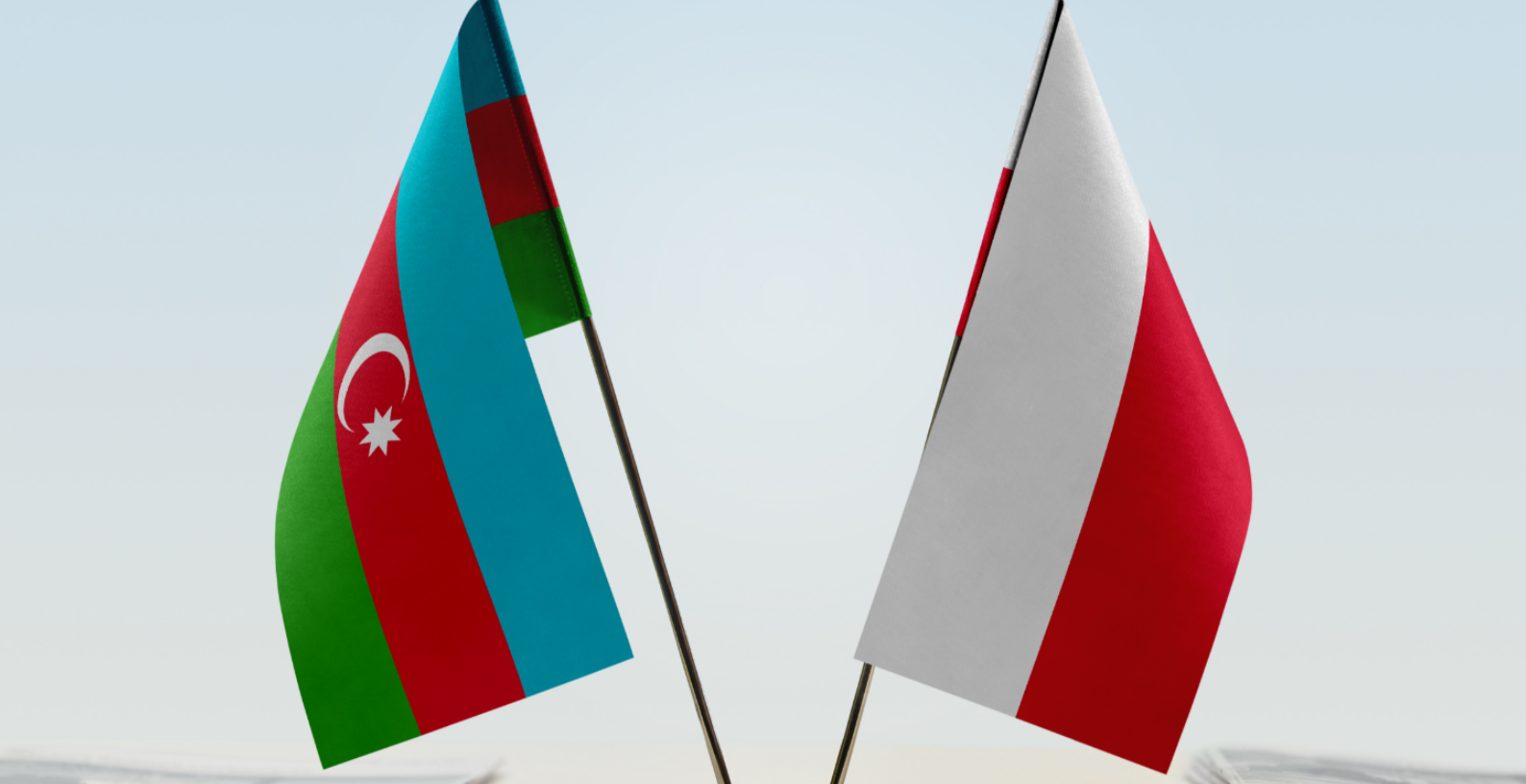
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Introduction

Dear All!

We present "State of Play" – a new series of publications on Poland's economic co-operation with countries outside the EU. Each publication will present the current state of economic relations with the selected country and assess the potential for their advancement, identifying specific industries, as well as possible institutional barriers.

The need to develop cooperation with other countries does not require extensive justifications. The war in Ukraine strongly affects not only security issues, but also the economy. The presence of a sanctioned Russia in global value chains will be limited even after the end of military operations. Countries that have so far had strong economic ties with it will have to redefine the directions of economic co-operation, whereas it is in the interest of countries such as Poland to participate in this process. By establishing valuable bilateral economic relations, we will not only ensure a more stable supply chain or give an additional boost to mutual

investment, but also facilitate the transfer of ideas. It is the innovative ideas that will be the strongest driver of development in the coming decades, benefiting the areas where they are most abundant. International trade, as the greatest economists in history have shown, benefits both parties, regardless of their initial state of wealth. If in 1989, Poland had not started trading with Western Europe, it would have still been a very poor country, while today it is one of the 25 countries in the world with the largest and fastest-growing GDP.

The "State of Play" publications will be a two-part series. The first part will present Poland's perspective, while the second part will present the perspective of the partner country through cooperation with friendly foreign think-tanks. This time we cooperated with the Center of Analysis of International Relations of Azerbaijan whose experts prepared the second part of this publication. We hope that it will be a valuable compendium of knowledge for Polish companies, as well as political decision-makers.



PROSPECTS FOR COOPERATION BETWEEN POLAND AND AZERBAIJAN

Szymon Witkowski

1. Executive summary

Poland and Azerbaijan share similar historical and economic experiences. Both countries were under the influence of the Soviet Union, and both have been rebuilding free market economies for more than three decades. Both countries also hold an extremely important position in their region. Unfortunately, trade between Poland and Azerbaijan is negligible. This

is despite the signing of numerous international agreements and cooperation at both the governmental and administrative levels. Meanwhile, the Azerbaijani economy urgently needs investors and is already cooperating with other European Union countries. In turn, due to its raw material abundance, Azerbaijan can be a guarantor of energy security for Poland.

2. The economies of Azerbaijan and Poland

1) Political, economic and historical conditions of Azerbaijan and Poland

The Republic of Azerbaijan is located in the South Caucasus, on the Caspian Sea. It borders Russia to the north, Georgia to the northwest, Armenia to the west, Iran to the south and, through the Nakhichevan Autonomous Republic (an exclave of Azerbaijan), Türkiye.

Poland is a country located in central Europe, bordering Germany to the west, the Czech Republic and Slovakia to the south, Ukraine and Belarus to the east, and Lithuania and Russia (Kaliningrad Oblast – a Russian exclave) to the northeast. To the north, meanwhile, Poland has access to the Baltic Sea.

A key year for Azerbaijan's history was 1918, when the Democratic Republic of Azerbaijan declared its independence. However, as early as 1920 the country became part of the Transcaucasian Soviet Socialist Federation, and in 1936 a separate Azerbaijani Soviet Socialist Republic was established within the USSR. Azerbaijan gained its independence from the Soviet Union on October 18, 1991.

Azerbaijan, therefore, like Poland, remained for years under the influence of the Soviet Union, and its market system was based on a centrally planned economy. Although Poland was never part of the USSR, it remained under Moscow's influence until 1989, when the first free elections were held in June. Until then, the Soviet Union had a direct influence on our country's internal and external policies, as well as on our economic system. It should therefore be emphasized that both Poland and Azerbaijan have similar experiences and had to go through a similar path of transformation to a free market economy.

Despite significant historical and geopolitical similarities, the current geopolitical situation of our countries is different. After the collapse of the Soviet Union, Poland strengthened its ties with the West, becoming a member of the North Atlantic Treaty Organization (NATO) on March 12, 1999, and a member of the European Union on May 1, 2004. Thus, Poland became a border country of both international organizations, and at the same time an important element of the European economy and the European security system. Poland is also a member of

almost every major political and economic organization in the Western world.

Azerbaijan faced significant problems after its independence from the USSR. First of all, part of its territory – the Karabakh region – along with neighboring districts, separated from the rest of the country. As a result of the armed conflict in 1992–1994, these regions were occupied by Armenia, despite the fact that they are internationally recognized as part of Azerbaijan. Although Azerbaijan de-occupied these territories in 2020, the regional situation is still tense which may lead to a deterioration of investment security in the eyes of investors. Nevertheless, the region is extremely attractive and rich in natural resources – primarily oil and gas, which makes it attractive for Foreign Direct Investment.

Azerbaijan's political system is a presidential republic. The country is a member of the Organization of Turkic States, a member of the United Nations, as well as the Council of Europe and many other organizations. It also participates in NATO's Partnership for Peace program. It is also a member of the organization of most former Soviet republics – the Commonwealth of Independent States.

2) Azerbaijan's economy

Azerbaijan is one of the most developed countries of the former Soviet Union. Its level of social and economic development is similar to many European countries. According to the International Monetary Fund, in 2022 the country's GDP was more than \$70 billion¹, and *per capita* GDP is nearly \$17,500².

Azerbaijan is located on an important transportation and trade route that connects the Caspian Sea region with Europe. It is a country rich in oil deposits and it is to the extractive industry that most of the country's economy is linked. The oil sector generates more than 40% of GDP and about 70% of the country's budget revenues. Foreign direct investment is also mostly located in the extractive sector³.

In 2020, Azerbaijan exported goods worth \$13.8 billion. Mainly these were oil, gas and petroleum products. Agricultural products – mainly tomatoes – and precious metals – mainly gold – were also exported. The largest recipients of Azerbaijani goods were European Union countries, primarily Italy (29.3%), as well as Greece (3.71%) and Croatia (3.38%). The second largest importer of goods from the country is Türkiye (18.8%). Only 0.037% of goods worth \$5.16 million were exported to Poland⁴.

Undoubtedly, the most important branch of Azerbaijan's economy is oil production. The Baku region and the bottom of the Caspian Sea (e.g., the area around Çilov and Artyom islands) are the richest in this resource. Çilov Island and the Kuran plain are also abundant in natural gas. Copper, alum and rock salt mining are also important to the economy. Azerbaijani industry – mainly refining and chemicals – also goes hand in hand with the extraction of raw materials. Pipelines from Baku to Novorossiysk, Ceyhan, and Supsa also play an important role.

Agriculture and the wine, oil, tea, fish and fruit and vegetable processing industries also play an important role for the economy.

¹ [https://en.wikipedia.org/wiki/List_of_countries_by_GDP_\(nominal\)](https://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)), (accessed on 08/01/2023).

² [https://en.wikipedia.org/wiki/List_of_countries_by_GDP_\(PPP\)_per_capita](https://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)_per_capita), (accessed on 08/01/2023).

³ https://www.paih.gov.pl/20221021/misja_gospodarcza_do_azerbejdzanu, (accessed on 08/01/2023).

⁴ <https://oec.world/en/profile/country/aze>, (accessed on 08/01/2023).



3) Poland's economy

Poland's estimated nominal GDP according to the International Monetary Fund for 2022 is \$716 billion. This makes Poland the 23rd largest economy in the world and the 6th largest in the European Union⁵. In turn, GDP *per capita* is more than \$42,000⁶. It is also worth pointing out that, according to EUROSTAT, Poland has one of the lowest unemployment rates in the entire EU. In October 2022 it was only 3%, while only the Czech Republic could claim a lower rate⁷.

Polish export in 2020 is estimated at \$261 billion. Unlike Azerbaijan, it is not concentrated around a single good, or even a single sector – it is relatively well diversified. A large share of exports, however, is accounted for by computer machinery and equipment, automobiles and auto parts, metals, agricultural and food products, and chemicals. Poland's largest trading partners are Germany (28%). The United Kingdom (5.8%), the Czech Republic (5.79%) and France (5.63%) are also significant buyers of Polish goods. Other importers of Polish products have an export share of no more than 5%. Azerbaijan, in turn, has a share of less than 0.5% in Polish exports.

Poland's economy is diversified and includes a wide range of industries. Certainly,

the automotive industry, the production of computers and household appliances, furniture, chemicals, and agricultural and food products, including confectionery, stand out. The production of metals and metal products and coal mining also play a large role in Poland⁸.

4) Business Contacts

Trade between Poland and Azerbaijan is limited. Only \$5.16 million worth of goods were imported to Poland from Azerbaijan in 2020, while \$125 million worth of goods were imported to Azerbaijan from Poland.

Azerbaijan mainly buys Polish machinery (gas turbines, agricultural machinery, broadcasting equipment), chemicals (mainly medicines, cosmetics and dentifrices), metal products (mainly for shaving) and agricultural products. Poland, in turn, imports vegetables and fruits (mainly walnuts and tomatoes), clay, packaging and wooden crates⁹.

Such limited exchange may be puzzling, since European Union countries are very important trading partners for Azerbaijan. At the same time, this means that this orientation is marked by a very high development potential that can benefit both countries.

⁵ [https://en.wikipedia.org/wiki/List_of_countries_by_GDP_\(nominal\)](https://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)), (accessed on 08/01/2023).

⁶ [https://en.wikipedia.org/wiki/List_of_countries_by_GDP_\(PPP\)_per_capita](https://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)_per_capita), (accessed on 08/01/2023).

⁷ <https://ec.europa.eu/eurostat/documents/2995521/15497496/3-01122022-AP-EN.pdf/eaaa1272-82e4-2456-ed30-e6f29f801bd8>, (accessed on 08/01/2023).

⁸ <https://zpe.gov.pl/a/gospodarka-polski-podsumowanie/DJBu33w2F>, (accessed on 08/01/2023).

⁹ <https://oec.world/en/profile/country/aze> ; <https://oec.world/en/profile/country/pol>, (accessed on 08/01/2023).

3. Relations between Azerbaijan and Poland

The potential for the development of economic exchanges is also recognized by the authorities of Azerbaijan and Poland. The authorities of both countries signed an agreement between the Government of the Republic of Poland and the Government of the Republic of Azerbaijan on economic cooperation on March 30, 2005. Pursuant to this agreement, the Polish-Azerbaijani Intergovernmental Commission on Economic Cooperation was established. The Commission's meetings have so far addressed issues of cooperation in the oil and gas sector, agriculture, transportation, finance and banking, environmental protection, among others.

The two countries also signed the Convention between the Government of the Republic of Poland and the Government of the Republic of Azerbaijan on the avoidance of double taxation and the prevention of tax evasion with respect to taxes on income and property in 1997.

Azerbaijan has also been included in the Poland Business Harbour program for IT professionals seeking employment in Poland (this program is now not directed exclusively to selected countries, although of course Azerbaijan is still its beneficiary).

In turn, the Agreement on Bilateral Cooperation between the Financial Supervision Commission and the State Securities Commission of the Republic of Azerbaijan is aimed at creating good conditions for investment and protecting investors' rights.

Poland, together with Lithuania, is also offering "twinning" for Azerbaijan under the "Increasing Road Safety in Azerbaijan" program. The main objective of twinning programs, which are an initiative of the European Commission, is to support public institutions and contribute to the development of modern administration¹⁰.

Also, extremely important for mutual relations are Polish economic missions to Azerbaijan, especially the "Azerbaijan-Poland Business Forum" initiative. During the 2019 meeting under this formula, important agreements were signed between:

- PARP and the AZ Small and Medium Business Development Agency;
- PAIH and regional partners (Azerbaijan Investment Company; National Confederation of Entrepreneurs (Employers') Organizations of the Republic of Azerbaijan;
- Polish and Azerbaijani companies¹¹.

The 2022 Forum saw the signing of a Memorandum of Understanding (MoU) between PAIH and the Azerbaijan Export and Investment Promotion Agency (AZPROMO). Its goal is to cooperate to further intensify economic relations between Poland and Azerbaijan¹².

In addition to government representatives, the economic missions are also attended by entrepreneurs who have the opportunity to establish mutual relations and learn about the investment conditions existing in Azerbaijan.

¹⁰ <https://www.cupt.gov.pl/aktualnosc/wspolpraca-miedzynarodowa/wspolpraca-blizniacza-twinning-dla-azerbejdzanu>, (accessed on 08/01/2023).

¹¹ <https://www.gov.pl/web/rozwoj-technologie/blizsza-wspolpraca-handlowa-miedzy-polska-a-azerbejdzanem>, (accessed on 08/01/2023).

¹² https://www.paih.gov.pl/20221021/misja_gospodarcza_do_azerbejdzanu, (accessed on 08/01/2023).

4. Prospects for further cooperation

Taking into account the indicated attempts to intensify economic relations between Poland and Azerbaijan, and the fact that both countries are extremely important economic players (not only in their respective regions), it may come as a surprise that trade exchange is so low. Seeking answers to the question of why this is the case, researchers point out that "The answer should be sought in a conglomerate of problems, consisting of a fluctuating economic situation, geographical distance and the resulting transport and communication difficulties, little experience in cooperation, lack of knowledge about the partner's market and uncertain investment conditions faced by potential exporters or investors interested in Azerbaijan [...]."¹³ Also, guidance for entrepreneurs, which is published with the participation of the Ministry of Foreign Affairs, can discourage investment – "We do not recommend investment activity unless the Polish entity has confidence in the local partner."¹⁴ Despite these difficulties, it is impossible not to see the opportunity for both countries that increased trade contacts can bring. Entrepreneurs from Azerbaijan show that they are capable of being trusted partners not only for companies from Türkiye, but also from EU countries. After all, the country's largest trading partner is Italy. This shows that it is possible to conduct successful ventures with Azerbaijani business.

PAIH indicates that Azerbaijan can be an excellent destination for Polish business

investment, especially in the construction, transportation, agrifood, pharmaceutical and medical, or waste management sectors¹⁵. Indeed, trade data indicate that these are the sectors with the largest trade relations, and the Azerbaijani economy is growing intensively in these sectors. They will be crucial to the country's future, as it will also need to develop industries other than the key current oil, gas production in the coming years.

Certainly, the supply of modern agricultural equipment and the exchange of know-how in this field could prove valuable to the Azerbaijani economy. Indeed, agriculture is, after the oil industry, the second important sector of the country's economy. Exports of agricultural products provide Azerbaijan with significant revenues, and agriculture meets most of the demand in the domestic market. Polish manufacturers of non-agricultural machinery, especially those related to the oil and gas industry, chemicals and automotive parts should also look for opportunities to establish a presence in the Azerbaijani market. This is because these are massively absorbed by the Azerbaijani economy. Unfortunately, while Azerbaijan's largest trading partner in goods exports are European countries, especially Italy, Azerbaijan buys most goods (as of 2020) from Türkiye (18.9%), Russia (18.9%) and China (8.72%)¹⁶.

Energy transition is another area where cooperation between the two countries could

¹³ A. Szczepańska-Dudziak, *Poland's economic diplomacy in relations with Azerbaijan in 2006–2015*, International Affairs 2019, no. 2.

¹⁴ Ibidem.

¹⁵ https://www.paih.gov.pl/20221021/misja_gospodarcza_do_azerbejdzanu, (accessed on 08/01/2023).

¹⁶ <https://oec.world/en/profile/country/aze?yearlyTradeFlowSelector=flow1>, (accessed on 08.01.2023).

be beneficial. Poland is already developing energy supplies from alternative sources, and in the coming years these activities will have to be significantly intensified. Azerbaijan, too, will have to make such steps in some time, and Poland's experience in this regard may prove very valuable to the market there.

Certainly, Poland can also be a supplier of IT services and technology to the Azerbaijani economy. This is because Poland is not only a large producer of electronic devices, but also a country where the IT services market and high-tech industries are developing intensely.

Given Poland's current needs for energy security and diversification of energy supplies, Azerbaijan could be an important partner for Poland in this very field. For years, there has been a concept of supplying Azerbaijani oil to Poland through the Baku–Supsa–Odessa–Brody–Gdansk pipeline. Allegations have been made in the literature in terms of the missed potential of the pipeline's construction as early as 2014¹⁷. Importantly, the implementation of this project is not unrealistic. As specialists point out, it is primarily associated with the construction of a section connecting the Ukrainian city of Brody with the Polish city of Adamow (about 400 km)¹⁸. This invest-

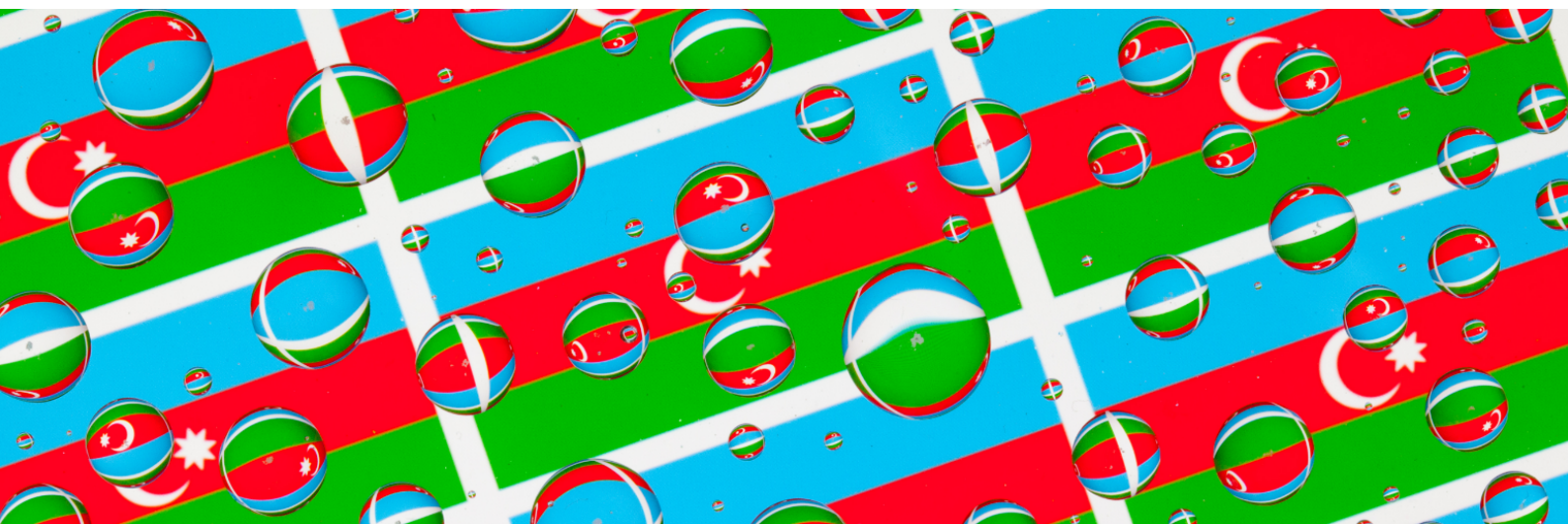
ment could feed the capacity of Central Europe's largest oil company, ORLEN, which is capable of processing Azerbaijani oil in its refineries. This would be an opportunity not only for complete independence from Russian crude, but also to create an alternative to Saudi supplies. Nonetheless, the investment may be hampered until Russia's assault on Ukraine ends.

Certainly, Azerbaijan's natural resource abundance would help Poland reduce the cost of acquiring oil. Since the Russian aggression in February 2022, markets have shown great volatility, which is reflected in prices. So far, Poland has been able to buy oil from Russia, but the geopolitical situation shows how much of a danger dependence on Moscow is. According to data from the Polish Organization of Oil Industry and Trade (POPiH), 60.9% of Poland's oil supplies came from Russia¹⁹. Meanwhile, an investment in the construction of a pipeline linking Azerbaijan with Poland could be relatively simple and inexpensive, while at the same time it would guarantee trade with a partner with similar historical experience, being a politically and economically stable country. Poland already has experience in similar and larger projects. For example, in 2022, the Baltic Pipe pipeline project was completed, which allows the import of Norwegian gas.

¹⁷ K. Gomółka, *Poland's trade exchange with Armenia, Azerbaijan and Georgia*, *Zeszyty Naukowe Uniwersytetu Szczecińskiego*, No. 838 Acta Politica No. 29, 2014.

¹⁸ <https://biznesalert.pl/niewiadomski-czas-dokonczy-budowe-ropociagu-odessa-brody-plock-felieton>, (accessed on 08/01/2023).

¹⁹ <https://konkret24.tvn24.pl/polska/kupujemy-caly-czas-rosyjska-rope-tak-nie-mniej-niz-przed-rokiem-6157680>, (accessed on 08/01/2023).



5. Summary

For many years, there has been talk about the need to strengthen economic relations between Poland and Azerbaijan. Poland is one of the largest European economies and certainly has great potential to build its presence in the Caspian Sea region. Azerbaijan's economy, in turn, needs investment for further development.

At the same time, Azerbaijan is extremely rich in natural resources, especially oil, which could be an opportunity to ensure Poland's energy security. For years, there have been concepts of using Azerbaijani resources, which are worth refreshing and putting into practice.

Most important, however, is the building of mutual trust and good relations between Polish and Azerbaijani businesses. Trade between our countries is currently very small, and this, counterintuitively, could prove to be a major opportunity for companies that choose to make the investment first. This is because they can gain the competitive advantage that pioneers in trade have. Perhaps all it takes is a small positive impulse for Polish and Azerbaijani businesses to join forces, which could bring a quantum leap in the value of trade.





POLISH-AZERBAIJANI ECONOMIC RELATIONS: CHALLENGES AND OPPORTUNITIES

Vasif Huseynov

1. Introduction

Azerbaijan and Poland have developed strong bilateral relations in various spheres over the years since the two countries freed themselves from the grip of the Soviet Union in early 1990s. The joint declaration on strategic partnership and economic cooperation signed by Azerbaijani President Ilham Aliyev and Polish President Andrzej Duda in 2017 has constituted a critical upgrade in the bilateral relations and laid basis for deeper cooperation between the sides in all areas including economy. According to the common assessment of the sides, the most promising areas of Polish–Azerbaijani cooperation include infrastructure

and logistics, construction, agriculture and agri-food processing, pharmaceutical sector, hydropower and new technologies. The two countries have so far realized relatively small part of the giant potential they have in mutual economic relations, but the initiatives of the recent years demonstrate that there is a strong political will to build upon the achievements of previous years. This section will cover the potential for greater economic cooperation between the two countries, challenges and opportunities thereby with a special focus on the Azerbaijani economy.

2. Potential for greater economic cooperation

On June 27, 2017, President of Poland, Andrzej Duda, in the course of Azerbaijani President Ilham Aliyev's visit to Poland, reaffirming the will of his country in deeper relations with Azerbaijan and acknowledging the challenges in this area, stated that "the potential in economic relation between Poland and Azerbaijan is still waiting to be explored". During this visit, the sides made a number of important initiatives which opened a new chapter in their relations and provided necessary instruments to overcome the existing problems and deficiencies. The joint declaration on strategic partnership and economic cooperation delineated major guidelines and tasks for future.

The progress achieved in Azerbaijan's economic growth has provided a good basis for the country's economic ties with

its partners, including Poland. Azerbaijan's economy has been on a steady upward trajectory since 2005. It has positioned itself as a strategic transportation hub between Europe and Asia. The economy grew 6.3 times between 2004 and 2021. During the same period strategic foreign exchange reserves grew 28.4 times.

Globally, Azerbaijan has become a strategic contributor to the world's energy security, equipped with a stable and sustainable economy backed by sizeable financial resources, and a strong geopolitical and geo-economics standing. The nation has been consistently driving international and regional cooperation, enabling a number of successful global projects. Its increasingly stronger economic power and international acclaim have enabled Azerbaijan to launch

a number of large-scale projects capable of transforming the South Caucasus and adjacent regional economies. Through successful implementation of these projects, Azerbaijan has effectively become a 'global player' underpinning the region's development vision, having a positive impact on the global economy.

Located at the intersection of the North-South and East-West transport corridors, Azerbaijan is currently recognized as an important transport and logistics center in the region. International transport corridors East-West, North-South and South-West,

passing through the territory of our country, are very convenient in terms of distance and time for the transportation of goods. The newly constructed highways and railways, international airports and the other infrastructure facilities, Baku-Tbilisi-Kars railway, the Baku International Sea Trade Port, Azerbaijan's largest merchant fleet on the Caspian Sea, a modern shipyard and roads that meet modern standards further expand the capabilities of these transport corridors. Against the background of these opportunities, the volumes of transit cargo will be grown significantly.

3. Challenges and opportunities

One major challenge is related with the dependency the Azerbaijani economy has encountered with oil and gas sector. The oil sector generates more than 40% of its GDP and nearly 70% of the budgets revenue, and more than half of foreign direct investment (FDI) is located in the mining sector. The Azerbaijani government has made various initiatives over the years to minimize this dependency and develop the non-oil branch of the economy. Some success has been achieved in this direction. For example, Azerbaijan's non-oil-and-gas exports reached \$3 billion in January-December 2022. The non-oil-and-gas exports amounted to \$2.99 billion in 2022, which is 10.3 percent more than in 2021, the Export and Investment Promotion Agency of Azerbaijan (AZPROMO) reports. Hence, this also creates an opportunity for the economic cooperation between Poland and Azerbaijan.

Azerbaijan is pursuing various initiatives to develop the economic areas not related to

oil and gas sector in which Poland appears as a valuable partner. The Polish Investment and Trade Agency (PAIH) states that the two countries consider cooperating particularly in the fields of construction, transport, agri-food, pharmaceutical and medical, or waste management. The Polish-Azerbaijani Business Forum and B2B talks held between the two countries and often with the participation of the state leaders open new perspectives in this area.

1) The location of Azerbaijan on key passage of the Middle Corridor creates opportunities for better connections with the partners in Asia and Europe

Against the backdrop of the efforts to bypass Russia in transportation between Europe and Asia, it is of great importance for the European Union to develop connections with the South Caucasus and Central Asia. In this context, it is worth mentioning that the EU has become an active investor in the

projects along the Middle Corridor. A recent study by European Bank for Reconstruction and Development (EBRD) concluded that an immediate investment of €3.5 billion is required to upgrade the infrastructure along this corridor and increase its capabilities.

The participating countries made a series of initiatives in 2022 to increase the capacity of the corridor and to overcome the challenges related to limited port capacities, cross-border delays and transportation costs. On July 5, a quadrilateral coordination council was established among Türkiye, Bulgaria, Serbia and Hungary for joint investment and improving cargo capacity and infrastructure which will be critical for the optimization of the section of the route passing through southern Europe. On November 25, the Ministers of Foreign Affairs and Transport from Azerbaijan, Kazakhstan and Türkiye signed a "Road Map for 2022–2027" for the development and operation of the Middle Corridor. In early December, the first train cargo from Uzbekistan reached Black Sea passing through the Caspian Sea and the South Caucasus marking the opening of a new chapter in regional connectivity. Keeping the momentum, in early

2023, Azerbaijan and Uzbekistan launched the first application of an electronic single transit permit for transport (eTIR) which is envisaged to further optimize the corridor. During his visit to Baku in 2019, President Duda has particularly mentioned the opportunities the transportation corridors promise to the Azerbaijan–Poland relations, stating that "Especially North and South, West and East, Multimodal transport operations between Europe and Asia should increase. I would like to note that Poland is also interested in participating in Trans-Caspian transport corridors. We would also like to further expand our connections in the south-western part of Europe".

In order to optimize the transit potential and attractiveness of the country, Azerbaijan has made a series of reforms. Towards this end, Economic Zones Development Agency (EZDA) under the Ministry of Economy was established which is a managing body of economic zones, including industrial and agricultural parks, industrial zones for SMEs, mandated with investment promotion through favorable regimes, infrastructure, and incentives for investors. EZDA supports residents of economic zones on various



governmental procedures via the “One-Stop Shop” system to facilitate investors’ activity. Moreover, EZDA supplies residents with modern and extensive infrastructure in economic zones by the principle of “Plug & Play”. The construction of modern infrastructure is subsidized by the state, which in turn enables entrepreneurs to focus more on investing in the project.

Another significant part of governmental support for residents of industrial parks is tax and custom duties incentives. The residents of industrial parks are exempted from corporate income tax, property tax, land tax, VAT for imported machinery and equipment for 10 years, and customs duties on imported machinery and equipment for 7 years.

One major step to stimulate the business environment in the country was the establishment of Alat Free Economic Zone (AFEZ). One of the key benefits of the AFEZ is the absence of any tax on a business in the AFEZ.

A qualified business in the AFEZ is not required to pay a value-added tax, withholding tax or any other corporate taxes. AFEZ legislation exempts foreign skilled personnel from personal income tax, social security payments and other similar taxes and payments. This is intended to reduce investor costs as well as attract foreign skilled personnel. There is no restriction on foreign ownership of AFEZ legal entities. A foreign parent company can own 100% of the shares in the AFEZ legal entity. A foreign company can successfully carry-on business without a requirement for a local partner.

2) The liberation of the territories formerly occupied by Armenia in 2020 created enormous economic opportunities for Azerbaijan and its international partner

The liberated territories of Azerbaijan possess various rich deposits of mineral resources such as gold, copper, mercury, chromite,

and lead-zinc and has a great potential for agriculture and tourism. The area attracts the attention of international companies also for the fact that the entire towns and villages are required to be rebuilt since Armenia has destroyed all the buildings and infrastructure during the period the area was under Yerevan’s control.

Reconstruction and development of liberated territories include the creation of a favorable business environment for economic recovery and stimulation of economic activity in the real sector, as well as the implementation of measures to strengthen regional specialization in the region. The formation of a competitive and sustainable economy, the development of public-private partnerships in this area and the application of the necessary incentives opened new growth perspectives and opportunities to businesses.

Pursuing the target of the reintegration of territories into the country and the regional economy, it is very important to build a modern road transport infrastructure within the territory and between the territory and other regions. One of the main targets in the restoration of the liberated areas is to build quality energy infrastructure and use the energy potential of the region as efficiently as possible.

As part of the completion of the process of forming a sustainable energy supply scheme and the formation of a green energy zone, new renewable energy power plants will be established in various potential areas. Taking into account the potential and geographical conditions of the liberated territories, the mining industry in the Kalbajar region, the processing industry in the Agdam region, the culture and tourism industry in Shusha, trade and logistics services in the Jabrayil region, agriculture in Gubadli, Zangilan, Lachin, Fuzuli and Khojavend region can be considered as

new "drivers" of the economy. The revival of the mining industry, which will be based on the profitable use of a wide range of natural resources, and the use of opportunities for international partnerships based on mutual benefit are the main vectors of economic recovery in these areas.

The construction and operation of hydro-electric power plants on such rivers as Tatarchay, Lev, Takagaya, Agchay, Garakhan, Maidanchay, Mikan, Khojatsu, Zabuh in the administrative districts of Kelbajar and Lachin have attractive opportunities to increase the possibilities for the effective implementation of projects in this area. Above mentioned projects covering about 27 hydropower stations, will have investment opportunities in the various forms of support and preferences.

The European Union and Azerbaijan have expressed interest also in promoting co-operation in the areas of renewable energy and connectivity in addition to the export of Azerbaijani oil and natural gas to the European market. The Azerbaijani territories liberated from the Armenian occupation in 2020 have significantly increased the Azerbaijan's renewable energy potential. For President Aliyev, "In the liberated areas of Karabakh and Eastern Zangazur, the potential of solar and wind power plants is 9,200 megawatts, and the potential of wind in the Caspian Sea is 157 gigawatts". Towards this end, the sides signed the "Agreement on strategic partnership on green energy" on December 17, 2022 in Bucharest which opened a new chapter in the EU–Azerbaijan relations by envisaging the export of Azerbaijani electricity to the EU via a subsea

cable under the Black Sea. This cable is expected to link Azerbaijan with Hungary via Georgia and Romania and create a scheme that will benefit also Ukraine and Moldova – the two regional countries that face serious challenges in the energy field due to the present situation with Russia. The involvement of the Polish companies in the production of the renewable energy in Azerbaijan can be considered as it promises to be beneficial for both sides.

All these offer opportunities for the involvement of the Polish companies in these areas and build partnership with the Azerbaijani counterparts. The high level of political relations between the two countries and their mutual support to each other's territorial integrity create an important basis for this partnership.

3) Tourism is another area that can contribute to the relations between the two countries

President Aliyev during President Duda's visit to Baku in 2019 attracted the attention to this field declaring that "In recent years, the development of tourism in Azerbaijan has become widespread. Polish citizens can come to our country on the basis of a simplified visa regime. I believe that mutual presentations should be held. That is, our people should get to know each other more closely so that tourism develops more rapidly and mutual visits are carried out". The direct flights launched between the two countries in 2022 have intensified mutual visits between the two countries and lay basis also for mutual investments and other economic initiatives.

4. Summary

Both sides agree that the existing level of trade turnover between Poland and Azerbaijan (111 million 32 thousand US dollars in 2021) does not reflect the true potential of the economic cooperation between the two countries. The leaders of both countries have demonstrated strong political will and interest to promote the economic bonds between their countries exploring new areas of cooperation and making various initiatives. The joint declaration on strategic partnership and economic cooperation signed by Azerbaijani President Ilham Aliyev and Polish President Andrzej Duda in 2017 is of great importance towards this end as this document upgraded the nature of their relations and opened new horizons for their cooperation. The economic growth Azerbaijan has achieved over the last years and the reforms the country has carried out to create better business environment and attract foreign

direct investment has laid favorable basis for this initiative. An important opportunity in this area is also generated by the fact that Azerbaijan is an important transit hub for the transportation between Europe and Asia. The interest Poland has demonstrated in the optimization of the Middle Corridor and the efforts Azerbaijan is making to upgrade the potential and capacity of this transportation route will be added value for the Azerbaijan-Poland relations. Last but not least, the Azerbaijani territories liberated from the Armenian occupation in 2020 offers new areas of economic partnership for these relations. Polish companies can involve in the mining industry, construction works, agriculture and renewable energy production in these territories which have been possible thanks to friendship and solidarity the two countries have achieved in political and diplomatic spheres.



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Photos: Canva.com

Fonts used:
Poppins, Staatliches, Intro Rust



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