

# Promising Directions of Investment Diplomacy of Azerbaijan

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*The purpose of the study is to identify promising areas of investment diplomacy in encouraging foreign investment in the economy of Azerbaijan. As a result of the study, the tasks of identifying areas of agreements with countries of the world to encourage foreign investment and identify areas belonging to attracting foreign investment have been solved. The author considers investments made in Azerbaijan; studies investments directed abroad. A limitation in the study was the lack of open information before 2000 on benefits and other measures in agreements between Azerbaijan and other countries, the lack of information on investment investments abroad by sectors of the economy, and the discrepancy in figures between the CBA and UNCTAD. The study used the methods of grouping, analysis and comparison. The legal framework, information from reports of international organizations, forums were used. The scientific novelty of the study is that the author considered new trends in the field of investment attractiveness and made proposals on the directions of Azerbaijan's investment diplomacy. The author found that agreements, conventions and protocols have a different structure and significant differences in the content of bilateral investment treaties allow the country to retain certain leverage. In the sectoral context, the largest flows of investments were directed to the development of industry, construction and transport. Since 2006, there has been an increase in investment in the transport sector; and since 2014 in construction. Despite the growth of foreign investment in these sectors, statistics still recorded an increase in the inflow of foreign investment in the sector of crude oil and natural gas production. Also, 30% of Azerbaijan's direct investment abroad is in the oil sector. In order to implement promising areas of Azerbaijan's investment diplomacy in the near future, it was proposed to introduce active investment diplomacy*

*Keywords: encouragement, investment, negotiations, agreement, investment diplomacy.*

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## **Introduction**

The economic development of the country is interconnected with investment activity and the protection of investments. When the financial and economic crisis is felt all over the world, wars occur, there is an inequality of countries in economic development, and national diplomacy faces the difficult task of attracting investments to the country and placing them abroad. This task often becomes the mission of economic diplomacy, and investment diplomacy, as its component, reveals the ways of implementation. Today, the tasks of investment diplomacy are:

- a) identification and analysis of sources of fundraising,
- b) comparison of the state of investment competitiveness of the country on the world stage,
- c) identification in advance of participants in investment activities with dishonest behavior and prohibition of their activities within the country,
- d) control of cash flows coming in the form of investments, restriction of some of their types, especially those of dubious origin,
- e) control of external debt in terms of economic security, etc.

Investments, on the one hand, are a financial source of the missing funds and, on the other hand, the basis for economic development. Therefore, the influx of foreign investment in developing countries becomes important. However, it is necessary to take into account both positive and negative aspects of attracting foreign investment. Studying studies on the role of investment diplomacy and its directions in national economies, we also noticed conflicting views on this issue. There are studies on both the positive and negative consequences of attracting foreign investment in national economies (Hasanov, 2013; Isayev, 2011; Sabiroglu, 2006).

According to the theory of “Debt Trap Diplomacy”, some authors believe that debt diplomacy is associated with the issuance of loans, attraction, as well as the implementation of direct investment (Chellaney, 2017). Although there is a difference between debt and investment. From the point of view of debt obligations, attracting investments is considered unprofitable. Considering the role of diplomacy, the emphasis here is on the conditions for attracting investments. Conditions are considered, a negative factor imposed by foreign investors-creditors, that can put the borrowing country in a dependent position. According to the IMF, only for 1999–2003. 56 countries of the world were forced to resort to the suspension of payments, and their total external debt at the end of 2005 reached 575 billion dollars (World Economic Outlook, 2006). Therefore, the decision-making process for investment activity differs from other political and economic decisions. Investment negotiations often involve economic liberalization, the suppression of capital controls, the introduction of a taxation system that actually exacerbates inequality by rewarding privileged investors, demands for the preservation of capital gains, and the privatization of strategically important, profitable state facilities. J. Gertz, S. Jandhyala, and L.N.S. Poulsen, using an original data set of US diplomatic actions in 219 separate investment disputes in 73 countries, found no evidence for the depoliticization hypothesis and concluded that US governments are just as likely to interfere in developing countries that have ratified investment treaties with the US as well as countries that have not (Gertz et al., 2018). Taking into account the interests of both the invested country and investors, research on investment processes in 2005–2018 reveals the factors that determine decisions on the placement of foreign direct investment and the risks of failure, as well as the risks of investors refusing to enter sectors of the foreign economy (Huang & Yang, 2022). Giacomo Damioli, Wildmer Daniel Gregory

found a positive relationship between diplomatic distance and M&A activity, meaning that weaker diplomatic relations are associated with an increase in domestic M&A and that cross-border acquisitions can be a way for an investment firm to mitigate the problems associated with weak diplomatic relations (Damioli & Gregory, 2022).

Most researchers agree that foreign direct investment worldwide:

- a) are more focused on the extraction and export of non-renewable resources, which negatively affects the structure of national economies and leads to the depletion of resources and the reduction of national wealth;
- b) during the period of privatization, they can be used to buy state property for nothing and to lose strategically important objects in national economies;
- c) can be used as a mechanism for laundering “dirty money”;
- d) can lead to an increase in external debt, dependence on the country, and a loss of foreign economic security,

invested for a short period of time in the so-called global financial products, for example, international stocks, in the interests of obtaining a high income for actually speculative reasons, which ultimately led to a financial crisis and the insolvency of national states to fulfill their debt obligations (declaration of default).

Certain studies cover more of the legal side of investment diplomacy, diplomatic actions, and investment disputes. Diplomatic engagement is believed to remain important in resolving disputes between investors and the state (Gertz et al., 2018). Elizabeth Blackwood and Stephen McBride have revealed that the struggle between the relative rights of capital and states remains tense and is one of the central factors explaining the impasse in the expansion of the scope of global economic governance institutions. And the collapse of multilateral initiatives, especially in the investment sphere, led to bilateral “solutions”. There are significant differences in the content of bilateral investment treaties, and most of them leave space for states to develop economic development policies and retain some leverage over the use of foreign investment (Blackwood & McBride, 2006). The question of “what is the state of Azerbaijan’s investment diplomacy, how successful is it and what leverage does it use to influence investment under the current conditions?” is considered relevant from the point of view of the country’s sustainable development prospects. However, a limitation in our study is that, until 2000, information on benefits and other measures under the agreement was not reflected in the openly provided information of the <https://e-qanun.az> portal. Therefore, in this article, we will try to analyze the information available in the public domain and:

- a) consider the mechanisms of Azerbaijan’s investment diplomacy;
- b) reveal the impact of bilateral investment agreements between Azerbaijan and its partners on the development of the national economy, to determine the perspective directions of Azerbaijan’s investment diplomacy for the near future.

## **Mechanisms of investment diplomacy to attract foreign investment**

From 1992 to this day, more than 40 legal acts related to the protection of foreign investments have been adopted in Azerbaijan. Thanks to the 1992 law “On the Protection of Foreign Investments” and a number of subsequent changes made to this law, the investment climate in Azerbaijan has become more prosperous. In 1994, the signed “Contract of the Century” and foreign investments attracted through it became the basis for a new vector of the country’s socio-

economic development. A number of measures taken in the recent past are also considered major incentives to create an enabling environment for foreign investment. According to the “Strategic Roadmap for the Prospects of the National Economy of the Republic of Azerbaijan”, approved by the Decree of the President of the Republic of Azerbaijan dated December 6, 2016, the priority is to ensure a favorable business environment until 2025 to attract investment flows. The Decree of the President of the Republic of Azerbaijan, I. Aliyev, “On a number of measures related to the promotion of investment activities and the protection of the rights of foreign investors” (2018) states that “foreign investors pay special attention to the presence in the country of a favorable investment protection system based on partnership. From this point of view, it is important to create a framework that allows for expanding investment opportunities”. At the same time, the main changes were measures to stimulate investment activity, mechanisms for protecting the rights of investors, the procedure for providing them with a state guarantee, and methods for resolving disputes through negotiations, court proceedings, and arbitration (subject to the provisions of international arbitration rules). But change is a dynamic process. They depend not only on favorable conditions within the country, but also on the development trends of the world economy. In the last 2-3 years, the ongoing reforms in the global economic environment have also affected investment activity.

The analysis of the legal framework showed that more than 457 legal acts in the form of agreements, protocols, conventions, etc. have been adopted since the signing of the Declaration of Independence. on cooperation with countries of the world, corporations, and various organizations in trade, economics, and other fields. With the growth of deeper integration into the world and regional economies, which is acquiring new forms of economic cooperation and a greater share of the investment component, the role and tasks of investment diplomacy are increasing.

Given the changes in the global economic environment, diplomacy uses the mechanism of signing a bilateral agreement. These agreements are often necessary to provide favorable conditions for foreign partners in their broad investment activities that protect their rights and the capital they have invested.

Azerbaijan has bilateral agreements on mutual protection of investments with Pakistan, Great Britain and Northern Ireland, Georgia, Kazakhstan, Ukraine, Kyrgyzstan, Poland, Italy, France, Iran, Lebanon, Moldova, Austria, Romania, Bulgaria, Saudi Arabia, Sweden, Tajikistan, Israel, and the OPEC Fund for International Development. Agreements on the promotion and protection of investments between the government of the Republic of Azerbaijan and the governments of these countries, depending on the interests of the parties, have a different structure and have different tasks. Adopted from the day of independence to this day, 23 laws on the approval of intergovernmental agreements on the promotion and protection of investments provide not only benefits, but also other measures to regulate investment activities in the countries that signed the agreement. However, a limitation in our study is that, until 2000, information on benefits and other measures under the agreement was not reflected in the openly provided information of the <https://e-qanun.az> portal. Therefore, we will analyze the available information.

The Investment Promotion and Protection Agreement between Azerbaijan and Austria has 25 articles, which mainly provide for regulation, settlement of disputes between the investor and the contracting parties, and final conclusions. At the same time, a claim to the courts (to the International Center for the Settlement of Investment Disputes, to a special arbitration court established in accordance with the arbitration rules of the UN Commission on International Trade Law, or to the International Chamber of Commerce in Paris) can be filed after 60 days

from notification to the contracting party, but a maximum of five years from the date on which the investor first became aware or should have become aware of the events considered as the beginning of the dispute. The agreement with Bulgaria has 14 articles, which mainly provide for conditions on the promotion and protection of investments, investment regimes, compensation for loss, expropriation, other obligations, transfers, subrogation, resolution of disputes between the parties, consultations, changes, etc. The agreement says, “If the investment income is reinvested, then the regime and rules for protecting the original investment will apply”. The agreement with Saudi Arabia provides for 12 articles, which mainly reflect the investment regime, the conditions for compensation, transfers, and dispute resolution. The agreement with Sweden has 11 articles and provides scope, incentives, protection and regime conditions, transfers, compensation, and deprivation of property, principles of subrogation, settlement of disputes between the parties, other obligations, and final conclusions. The agreement with the UAE has 17 articles and mainly deals with the terms of promotion and protection, transparency, regimes, exclusion, expropriation, compensation for losses, free transfer, subrogation, consultation, dispute resolution, and waiver of benefits. The agreement with Tajikistan has 12 articles, which mainly provide for the conditions of promotion and protection, transparency, regimes, compensation for losses, free transfer, subrogation, and dispute resolution. The agreement with Israel has 15 articles and mainly deals with the protection and promotion of investments, the conditions for the most favorable and national treatment, compensation for losses, free transfer, exceptions, expropriation, dispute resolution, guarantees and insurance, subrogation, and other more preferential rules.

As the above analysis showed, the main activities of investment diplomacy when signing agreements, conventions, and protocols are negotiations on the issues and conditions of the investment regime, compensation for losses, free transfer of funds, including profits, problems of expropriation and subrogation, dispute resolution, forms of guarantees, the degree of insurance, and regulation of procedures for obtaining a building permit, purchase of a land plot, terms for registering a company with foreign investments, partial tax audits, etc. However, all agreements, conventions, and protocols have a different structure, and therefore it can be concluded that significant differences in the content of bilateral investment treaties allow the country to retain certain leverage. Also, these agreements, which are the basis for diplomatic negotiations, have the power to influence the directions of investment both within the country and abroad, taking national interests into account.

### **Key priorities for attracting foreign investment**

Basically, investment diplomacy to attract foreign investment in the next 10 years considers several areas:

- a) formulating priorities for attracting investment, developing a strategy for attracting foreign investment, and reforming legislation;
- b) identification of potential partners and areas;
- c) creation of a favorable environment for meetings of investors, experts, and the host;
- d) Analysis of benefits and damages from attracting foreign investment.

When formulating priorities for attracting investments, they often use the priorities of the country’s development strategy for the next 5–10, or even 20–50, years. Speaking at the Forum in Davos in 2020, President of Azerbaijan I. Aliyev noted that “one of my goals as President

was to turn Azerbaijan into a self-sufficient, independent country. In other words, economic independence was the top priority because it is the foundation of political independence. Of course, different countries have different programs. The economies of some countries are more vulnerable than others. We take a pragmatic approach to every issue related to our representation in this or that international organization. What will it give us? If it gives us more economic stimulus, more business opportunities, more stability, and more security, of course we are considering it” (Aliyev, 2020).

The main priorities in attracting foreign investment in 2021–2022, however, were international transactions and international financing projects. Note that the world economy considers the state of direct investment flows, dividing them into pre-pandemic and post-pandemic. As the analysis shows, “by 2021, global FDI flows in the world will have almost recovered to pandemic levels, reaching \$1.6 trillion” (World Investment Report 2022). For comparison, we note that “in 2015, the flow of foreign direct investment worldwide increased by 36% and reached 1.7 trillion US dollars. In 2015, developed countries managed to attract 55 percent of foreign direct investment” (Strategic Road Map, 2016).

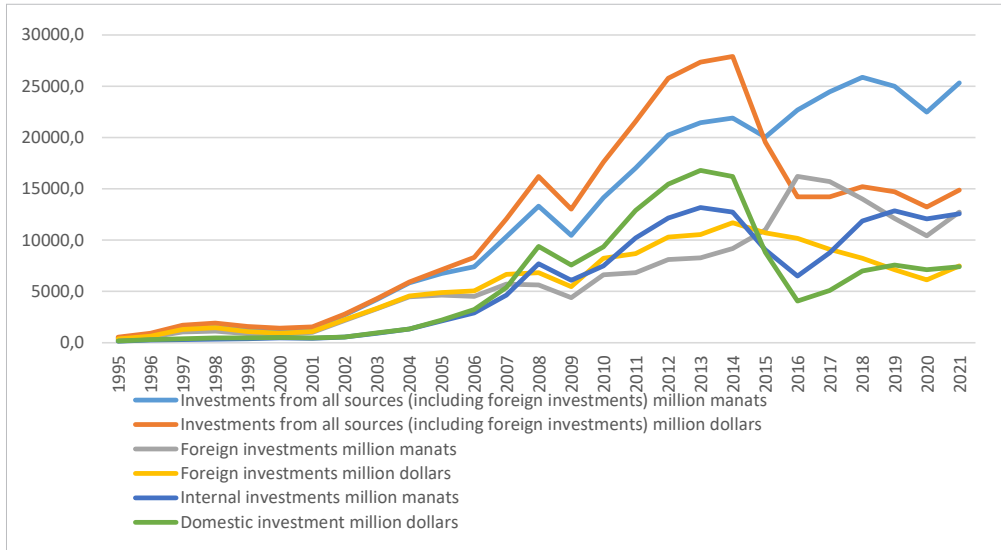
The main areas of investment in the post-pandemic world have become sectors related to sustainable development goals. It was in their dynamics that high growth was observed. The reason for this was favorable conditions for financing and incentives for infrastructure. Also, projects on the installation of renewable energy sources and investments in education infrastructure remained priorities in attracting foreign investment in Azerbaijan. But also, the growth of investment in project financing was observed in the extractive industries. On January 17, 2023, in Davos, President I. Aliyev, giving an interview to the Chinese TV channel CGTN (China Global Television Network), spoke about the priorities of investment diplomacy in the near future. He noted that “in general, the investment climate in Azerbaijan is very positive. Foreign and domestic investments are properly protected. We hope that there will be more investment in the non-energy sector, because most of the investment in our country is concentrated in the oil and gas sector. It’s natural, and we understand it. But now it is time for us to act, and not think about diversification. Therefore, investments directed to the non-energy sector, infrastructure, especially transport, and renewable energy sources are one of our priorities” (Aliyev, 2023 a). The statistics on investment investments are proof of President Aliyev’s words.

### **Analysis of the state of foreign investment in the economy of the Republic of Azerbaijan**

Over 27 years (1995–2021), 305.7 billion US dollars were invested in the economy of Azerbaijan, of which 154.5 billion (50.5%) are foreign investments. Compared to 1995, the volume of investment investments from all sources in dollars in 2021 increased by 27.4 times, foreign investment by 20 times, and domestic investment by 43.7 times. We also note that the financial crises of 2008 and 2017 and the subsequent pandemic had a negative impact on foreign investment, and there was a decline in investment in subsequent years.

In the sectoral context, the largest flows of investments were directed toward the development of industry, construction, and transport. Since 2006, there has been an increase in investment in the transport sector, and since 2014, in construction. Despite the growth of foreign investment in these sectors, statistics still recorded an increase in the inflow of foreign investment in the sector of crude oil and natural gas production (table 1).

Graph 1. Investments directed to the economy of Azerbaijan



Source: The graph was developed by the author based on the data of the SSC AR (18.01.2023), <https://www.stat.gov.az/source/finance/>.

The growth of foreign investment has long been observed in the extractive industry of Azerbaijan. On January 18, 2023, during the meeting of the President of the Republic of Azerbaijan, Ilham Aliyev, with the CEO of the BP Group in Davos, Bernard Looney, it was noted: “despite the great financial difficulties in the world, as a result of the successes achieved by Azerbaijan, it is possible to move energy projects to a new stage. Gas, expansion of renewable energy projects, and existing projects” (Aliyev, 2023).

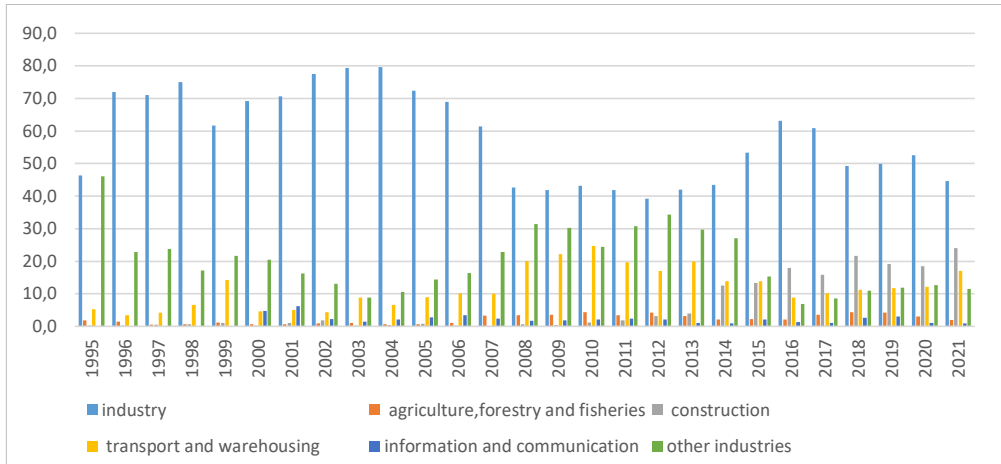


Chart 2. Investments by sectors of the Azerbaijan economy

Source: The graph was developed by the author based on the data of the SSC AR (18.01.2023), <https://www.stat.gov.az/source/finance/>.

Table 1. Foreign investments directed to fixed capital in industrial sectors, in %

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
All industry	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Foreign investment	80,2	70,9	58,3	47,3	43,5	44,8	39,6	44,2	53,3	55,9	67,6	73,9	65,9	47,0	47,6	42,4	42,2
Mining industry (share of total industry)	89,3	78,8	76,2	67,9	64,7	69,0	60,4	63,9	67,9	77,9	84,1	86,2	79,4	67,1	61,2	61,9	64,2
Foreign investment (their share in the mining sector)	86,1	82,3	73,7	66,2	60,9	63,8	58,4	64,6	75,9	70,4	77,2	79,3	74,6	61,4	60,7	65,6	64,0
Extraction of crude oil and natural gas (share of total industry)	86,4	75,8	75,6	66,5	60,8	68,6	56,3	63,3	67,6	77,6	83,8	86,0	79,2	66,8	60,9	60,9	63,0
Foreign investment (their share in the crude oil and natural gas sectors)	89,0	85,6	74,1	67,5	62,0	64,1	62,7	65,2	76,3	70,6	77,4	79,5	74,9	61,7	61,1	66,7	65,2
Manufacturing industry (share of total industry)	2,8	2,6	6,5	9,3	11,0	11,9	15,8	14,3	11,9	8,4	5,7	4,3	6,2	16,9	26,6	28,8	26,9
Foreign investments (their share in the manufacturing sector)	31,0	15,8	0,7	10,9	6,0	0,2	0,0	0,0	0,0	0,1	3,3	-	4,9	1,8	32,4	0,8	0,6
Production, distribution, and supply of electricity, gas, and steam (share in the entire industry)	7,2	15,1	11,7	14,3	14,0	9,9	14,3	9,4	6,5	5,5	3,4	3,7	8,2	7,1	5,3	5,4	6,4
Foreign investments (their share in the sectors of production, distribution, and supply of electricity, gas, and steam)	32,8	35,4	16,4	7,8	15,5	5,4	24,5	16,1	18,2	17,9	5,7	19,5	22,9	26,2	0,1	1,7	9,3
Water supply, waste treatment, and recycling (share in the entire industry)	0,7	3,5	5,6	8,6	10,3	9,2	9,5	12,5	13,7	8,2	6,9	5,8	6,2	8,9	6,8	3,9	2,5
Foreign investments (their share in the sectors of water supply, waste treatment, and recycling)	19,3	7,2	3,4	3,4	12,3	2,6	8,3	11,1	3,9	1,2	33,4	81,9	71,3	40,9	26,8	37,4	13,9

Source: The table was compiled by the author based on the data of the SSC-AR website as of January 18, 2023, <https://www.stat.gov.az/source/industry/>

## Analysis of the state of Azerbaijan’s investment investments abroad

Azerbaijan both imports and exports investments. Despite the fact that the Law on the Protection of Foreign Investments is considered the main law in this direction, from 1994 to 2018, bilateral agreements on mutual encouragement and protection of investments were signed between Azerbaijan and 24 countries around the world. Thanks to investment diplomacy, Azerbaijani companies were able to invest more than 26 billion US dollars abroad in 2010–2020. According to the World Investment Report 2021 of the United Nations Conference on Trade and Development (UNCTAD), the capital of Azerbaijani residents in foreign countries will amount to \$26.825 billion by the end of 2020 (World Investment Report, 2021). Compared to 2010, this indicator increased by 4.6 times in 2020. The highest shown was achieved in 2015. However, despite the growth of foreign investment in the economy of the Republic of Azerbaijan (for 2018-2021), a decline has been observed in the dynamics of Azerbaijan’s investment abroad since 2015.

Table 2. Export and import of investments, billions of dollars, USA

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Invested in Azerbaijan	2,9	3,3	4,4	5,4	6,3	8,0	7,5	7,3	5,7	4,1	4,3	4,5	4,8
Direct investments directed abroad	-0,3	-0,2	-0,6	-1,2	1,5	2,2	3,3	2,6	2,6	1,8	2,4	0,8	0,1
Repatriation of investments	-2,4	-2,8	-3,0	-3,3	-3,7	-3,6	-3,4	-2,8	-2,8	-3,2	-3,2	-4,5	-7,0

Source: Table compiled by the author based on CBA data (as of January 18, 2023), <https://www.cbar.az/page-43/external-sector-statistics>.

An analysis of recent years’ investments by Azerbaijan (its residents) in the economies of various countries showed that Turkey is firmly in the leading position in this direction. Even though during the pandemic the level of investment in this country decreased, after the pandemic investment growth was restored. In general, in 2002–2021, Azerbaijan’s investments in Turkey amounted to more than 20.1 billion dollars. In just 3 years (2019–2021), more than 1/3 of the investments of Azerbaijani residents have been in this friendly country. The main investment projects were energy projects, oil refining (investments in the amount of \$7 billion in the STAR plant), petrochemistry (investments in the amount of \$2.4 billion in the Petkim oil-chemical complex), gas distribution, port infrastructure (TANAP project), and other investments (Abbasova, 2021). The second place in terms of Azerbaijani investments is occupied by the United Kingdom (9%), and Montenegro is in third place (6.6%), followed by the USA, Russia, Malta, Austria, Georgia, etc. Although the volume of investment in 2021 compared to 2020 in certain countries has declined sharply, for example, the volume of investment in Russia and Montenegro decreased by almost 3.2 times, while in the USA it decreased by 1.7 times. The decline in investment also occurred in relation to Luxembourg, Bahrain, Austria (almost 12.5 times), and Liechtenstein. But in some countries, there was an increase in investment, for example, Azerbaijan has invested 2.1 billion dollars in Georgia

since 2006. The volume of investments in Georgia in 2021 increased by more than 2.5 times compared to the previous year.

*Table 3. Investments of Azerbaijan in foreign countries, in %*

	2019	2020	2021	Height// recession	2019- 2021
The volume of investments abroad is in the billions of dollars	2,602	1,244	0,826	↓	4,671
Turkey	32,1	26,9	34,0	↑	31,05
USA	2,0	13,8	8,0	↓	6,21
Luxembourg	12,2	9,9	-	↓	-
Montenegro	7,3	8,2	2,5	↓	6,65
Russian Federation	5,4	7,6	2,4	↓	5,48
Austria	5,1	7,5	0,6	↓	4,96
Malta	4,0	6,7	5,9	↓	5,05
Bahrain	-	3,6	-	↓	-
United Kingdom	9,8	3,6	14,8	↑	9,02
Georgia	2,9	3,1	7,8	↑	3,81
Switzerland	1,2	2,8	3,5	↑	2,02
United Arab Emirates	0,7	1,1	0,9	↑	0,82
Singapore	3,4	0,9	0,9	↑	2,28
Netherlands	3,0	0,9	1,1	↑	2,1
Liechtenstein	-	0,7	-	↓	-
Ukraine	0,1	0,7	2,2	↑	0,64
Germany	0,3	0,2	2,1	↑	0,61
Israel	-	0,2	-	↓	-
Cyprus	0,2	0,2	-	↓	-
Kazakhstan	0,2	0,2	-	↓	-
Italy	0,1	0,1	0,7	↑	0,25
Isle of Man	-	0,1	-	↓	-
Spain	0,1	0,1	0,4	↑	0,13
Moldova	-	0,1	-	↓	-
Saint Lucia	-	0,1	-	↓	-

Canada	-	0,1	0,3	↑	0,09
France	-	0,1	0,4	↑	0,11
Uzbekistan	0,1	0,1	1,0	↑	0,23
Czech republic	-	0,1	0,5	↑	0,10
China	-	0,01	0,5	↑	0,09
Hong Kong, a Special Administrative Region of China	-	-	1,0	↑	0,18
New Zealand	-	-	1,2	↑	0,21
Poland	-	0,01	0,4	↑	0,08
Sweden	-	0,02	0,4	↑	0,08
Vietnam	-	-	0,3	↑	0,06
Denmark	-	-	0,3	↑	0,05
Finland	-	-	0,2	↑	0,03
Belarus	-	0,04	0,1	↑	0,02
Other countries	9,8	0,2	5,7	↑	17,60

*Source: Table compiled by the author based on CBA data (as of January 18, 2023),  
<https://www.cbar.az/page-43/external-sector-statistics>*

An important problem is the discrepancy in the methodology of the calculations. The discrepancies between the data in tables 2 and 3 are due to the fact that table 2 provides information only on direct investment, while the data in table 3 take into account a portfolio and other investments. There is also a discrepancy between the figures in the UNCTAD and CBA reports. Since, according to reports, direct investments made by Azerbaijan in foreign countries were indicated by UNCTAD in the amount of 26.825 billion dollars in its reports, the CBA showed an amount of 1.244 billion dollars. It can be assumed that such a discrepancy in the numbers is still associated with the calculation methodology. In the last three goals in the global economic environment, they are trying to choose a single calculation methodology in order to eliminate such inequalities. However, there is still insufficient information in the national statistical database, including the statistical database of the CBA. One of these shortcomings is the lack of information on investment investments abroad by sectors of the economy. For example, the CBA reports indicate that in 2019, out of \$2.432 billion of investments made abroad by Azerbaijan, 40.3% (\$978.8 million) relate to the oil and gas sector. The remaining 59.7% of investments are listed as investments in other industries. As the analysis showed, in comparison with 2018, in 2019, investment investments abroad increased by almost 38.1%, in the oil sector by 54.5%, while in the non-oil sector the growth of investments was only 28.9%. The 2010-2020 analysis also showed that only 30% of Azerbaijan's direct investment abroad is in the oil sector, while 70% is invested in other sectors. However, none of the reports and other open documents of the CBA and the SSC show specific information about exactly in which sectors of the foreign economy these investments are made. And this limits the ability to analyze the amount of funds from these investments in the form of factor income, etc. Apparently, this

is due to the interests of states in the oil and gas sector. This problem can be traced not only to the economy of Azerbaijan. The World Investment Report 2022 states that “the recovery of investment in new projects in industry so far remains fragile, especially in developing countries” (World Investment Report, 2022). To eliminate such a negative phenomenon, the governments of countries are taking concrete actions. One of these important actions is the creation of a favorable investment climate and the protection of investments using various mechanisms.

This is very problematic for Baku, as output projections already predict the peak of oil production between 2012 and 2015 (Raballand & Genté, 2008). Furthermore, this high level of dependence makes the country vulnerable to sudden fluctuations in the market. Given its dependency on oil revenues, Azerbaijan urgently requires the inflow of foreign investment and technological know-how in order to delay the decline of its oil production and offset the impact of lower prices (Öge, 2015).

Perspectives and directions of negotiations in investment diplomacy for the next 10 years: the investment diplomacy must fight for the rules of the game – the most beneficial from the point of view of national interests in relation to investment. Therefore, successful negotiations are one of the most beneficial mechanisms for attracting foreign investment. In January 2023, President of the Republic of Azerbaijan Ilham Aliyev personally held several meetings with leaders of countries and famous corporations in Davos. As a result of negotiations with Damen Shipyards Group, CISCO, Fortesque Future Industries, Kromatix SA, Signify, Carlsberg Group, and Adani Group, the main directions of foreign investment were agreed. International investment banking and financial support, the attraction of large foreign investments through “The Goldman Sachs Group Inc.” and the European Bank for Reconstruction and Development in such areas as transport, logistics, information technology, renewable energy, and traditional energy were also objects of investment diplomacy during the talks in Davos. The main objectives of the talks were to identify prospects for cooperation. Many of these companies emphasized the importance of investment cooperation with Azerbaijan for them and indicated that this cooperation is considered successful for them and beneficial for both parties. And this is already an indicator of a positive image – the image of the country as an investment partner in the eyes of the world community.

As a result of investment diplomacy negotiations in the near future, new projects are expected in the following areas:

- a) in the field of acquisition and creation of tankers, dry cargo ships, and ferries for the development of transit transportation;
- b) implementation of the “Smart City” and “Smart Village” projects in all territories liberated from occupation;
- c) cooperation in the fields of education and cybersecurity;
- d) cooperation in the field of development and transmission of green energy, creation of production of wind and solar energy, green hydrogen;
- e) use of technologies that allow the use of glass parts of building facades as solar batteries due to special technologies and coatings;
- f) use of new lighting systems through smart projects and smart solutions in cities;
- g) cooperation in the field of saving energy consumption through the use of special technologies and in support of Azerbaijan’s green energy policy;
- h) further cooperation in the petrochemical, mining, and metallurgical industries and other areas of mutual interest.

## Conclusions

The foregoing allows us to conclude that:

- a) foreign investments, with their large volume, have not yet become the basis that contributes to meeting the requirements of sustainable development, including the development of a non-oil and green economy in the AR;
- b) investment indicators (volume, timing, etc.) do not always meet the investment needs of economic sectors and correspond to the country's development priorities;
- c) most of both attracted and invested investments are aimed at the oil and gas sector and do not take into account the requirements of the third century, including the development of high-tech and science-intensive industries;
- d) both attracted and invested direct investments can solve strategically important tasks and strengthen mutually beneficial cooperation between countries;
- e) bilateral diplomacy is more flexible than multilateral investment diplomacy, responds more quickly to changes in the investment climate, and, at the same time, can solve problems that have not been fully effectively resolved at the multilateral level;
- f) in the last decade, the number of issues that go beyond the problems of bilateral investment cooperation (global and regional projects) has been growing, and this has increased the level of importance of the representatives of the countries participating in the negotiations, the highest officials of the state;
- g) in parallel with agreements on the promotion and protection of investments, framework agreements, narrower sectoral and functional agreements on investments have been increasingly used;
- h) at forums and summits, the use of the country's image to promote itself and its residents abroad has intensified.

In order to implement promising areas of Azerbaijan's investment diplomacy in the near future, it is necessary to introduce active investment diplomacy. For this, you need:

- a) expand the mechanism of political support in matters of mergers and acquisitions of large domestic companies with foreign ones;
- b) creation of an institutional structure, for example, the Department of Foreign Investments and Economic Cooperation at the representative offices, taking into account the use of the initiatives of the regional representatives of the President;
- c) simplification of procedures for obtaining permission abroad to invest in advanced technologies and know-how;
- d) through specific financial entities (for example, banks), research of the investment climate abroad, risk reduction measures, and their branches around the world, assistance to domestic companies in investment investments, search for territories with promising markets for domestic companies;
- e) instead of controlling the scale and directions of investment, the use of monitoring the quality and quantity of investments, the analysis of statistical data, standards and requirements, risks, international legislation, benefits, and insurance systems;
- f) ensuring transparency, accessibility, the elimination of problems in data collection and calculation methodology, and ensuring monthly publication, including on the Internet.



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