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# Trade and economic relations between Bulgaria and Azerbaijan

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## *Abstract*

The purpose of this paper is to analyze the trade and economic relations between Bulgaria and Azerbaijan and identify opportunities for future growth. By investigating the bilateral cooperation dynamics, the study aims to provide insights into how the two countries can enhance their economic ties and promote mutual development.

The study utilizes a mixed-methods approach which enables a comprehensive examination of the trade and economic relations between Bulgaria and Azerbaijan, combining quantitative data analysis with qualitative insights.

The analysis reveals the current state of the bilateral economic relations between Bulgaria and Azerbaijan, indicating that the trade and investment volume has been relatively low. However, important trade complementarities exist and specific sectors, such as energy, tourism, ICT and agri-food products, show potential for future growth and diversification.

This paper contributes to the existing literature by providing a comprehensive analysis of the trade and economic relations between Bulgaria and Azerbaijan. The identification of specific sectors with potential for growth and export intensification adds novelty and practical relevance to the study. The findings offer valuable insights and recommendations for policymakers, researchers, and practitioners seeking to strengthen the bilateral economic ties between Bulgaria and Azerbaijan.

This study has limitations, such as its concentration on the years 2012 to 2021 and incomplete data. Future research could expand the temporal scope, integrate additional data sources, and examine the impact of external factors, such as geopolitical dynamics, on Bulgaria-Azerbaijan economic relations.

**Key words:** bilateral trade, comparative advantages, FDI, energy cooperation, transport infrastructure.

## *Introduction*

Bulgaria and Azerbaijan have had a long and multifaceted relationship built on trade and economic cooperation. In 2022, both countries celebrated the 30th anniversary of the establishment of bilateral diplomatic ties, marking a significant milestone in their partnership. Over the years, Bulgaria and Azerbaijan have taken numerous steps to further enhance their economic relations, including signing agreements and memorandums of understanding in different sectors. However, there is still significant room for improvement and opportunities for expansion in their trade and economic relationship.

In 2022 a landmark event of great importance for the bilateral relations occurred – the Interconnector Greece-Bulgaria (IGB) became operational providing Bulgaria with access to Caspian natural gas supplies through Azerbaijan's flagship project the Southern Gas Corridor. This new gas supply route diversifies Bulgaria's gas sources and reduces its dependence on a single supplier, which was previously the case with Russia. With the IGB, Bulgaria now has access to a range of gas suppliers, which reduces the risk of supply disruptions and price volatility. The introduction of the

IGB has also opened up new opportunities for regional cooperation and integration, as it allows for the transportation of gas to other countries in the region.

In addition, Azerbaijan has proven to be a reliable partner in the energy sector, and its gas exports to Bulgaria have been consistent and stable. This reliability is essential for Bulgaria's energy security and the country's ability to meet its energy needs. Therefore, Azerbaijan's role in ensuring Bulgaria's gas security is vital, and the collaboration between the two countries in the energy sector is likely to continue to grow in the future.

While the energy sector has traditionally dominated the Bulgarian-Azerbaijan economic partnership, there is great potential for the countries to expand their cooperation into other areas such as trade, investment, tourism, research, and education. In this paper, we examine the dynamics of exports, imports, and trade balance between Azerbaijan and Bulgaria over the last decade and analyze the product structure of their trade. We also evaluate the comparative advantages of both countries and identify sectors and products that have potential for export intensification in each other's markets. Finally, we look at other dimensions of their bilateral relations such as infrastructure development cooperation, foreign direct investment flows, tourism, and higher education and scientific collaboration.

The objective of the paper is to examine the Bulgarian-Azerbaijani foreign economic relations over the last decade, exploring their key drivers and potential for future growth. Through this analysis, the paper aims to provide insights into the nature and potential of the trade and economic relationship between the two countries, offering valuable information for policymakers, businesses, and researchers.

## ***Results and Discussion***

### **1. Overview of socio-economic trends in Bulgaria and Azerbaijan and factors influencing their bilateral economic relations**

Bulgaria and Azerbaijan are small open upper-middle income economies, comparable in terms of territory and population, located in Southeast Europe and the South Caucasus respectively. In the period 2003-2013 Azerbaijan experienced a significant economic boom due to its successful oil strategy and the resulting increase in oil revenues. This has allowed for the modernization of infrastructure, improvement of social welfare, increase of state-owned assets and strategic currency reserves. Things have however changed from 2014 after the sharp decline of oil prices and economic crisis experienced by major trade partners (Musayev, 2017).

Table 1 provides various economic and demographic indicators for Azerbaijan and Bulgaria for the years 2012 and 2021. Here are a few observations that can be made based on this data:

- Azerbaijan has experienced a decrease in GDP from 69.7 billion US dollars in 2012 to 54.6 billion US dollars in 2021 due to reliance on oil and gas exports, which leaves the economy vulnerable to fluctuations in global energy prices. Bulgaria's GDP has increased from 54.3 billion US dollars in 2012 to 80.3 billion US dollars in 2021. This suggests that the more diversified Bulgaria's economy has been growing faster than Azerbaijan's in recent years. While 10 years ago both countries were almost at par, in 2021 Bulgaria's GNI per capita in PPP terms (\$ 26 thousand) significantly exceeded the one of Azerbaijan (\$ 15.8 thousand).

- Azerbaijan's population has increased from 9.3 million in 2012 to 10.1 million in 2021, while Bulgaria's population has decreased from 7.3 million in 2012 to 6.9 million in 2021. Azerbaijan's increasing population could drive future economic growth by providing a larger pool of workers and consumers, while Bulgaria's declining population could be a significant drag on growth due to a potential shortage of workers and reduced demand for goods and services.

- Both countries have experienced an increase in inflation from 2012 to 2021, with Azerbaijan undergoing a larger rise from 2.9% to 21.2%, facing more inflationary pressures in recent years. Unemployment has increased in Azerbaijan from 5.2% to 6.6%, while it has decreased in Bulgaria from 12.3% to 5.4%, implying that the labor market has been improving in Bulgaria, which can have positive impacts on the economy and people's quality of life.

• Exports as a percentage of GDP have decreased in Azerbaijan from 53% to 46.7%, while they have increased in Bulgaria from 60.4% to 63%. Imports as a percentage of GDP have decreased in Bulgaria and increased in Azerbaijan from 2012 to 2021, but Bulgaria's import dependence is higher (62%) compared to Azerbaijan's (29.9%).

**Table 1 – General macroeconomic indicators of Azerbaijan and Bulgaria, 2011 and 2021**

Indicator/year	AZERBAIJAN		BULGARIA	
	2012	2021	2012	2021
Population (million)	9.3	10.1	7.3	6.9
Surface (sq.km)	86 600		111 000	
GDP (current US, billion)	69.7	54.6	54.3	80.3
GNI per capita, PPP (current \$, thousand)	15.9	15.8	16.1	26
Inflation (annual %)	2.9	21.2	1.1	6.2
Unemployment (%)	5.2	6.6	12.3	5.4
Exports (% of GDP)	53	46.7	60.4	63
Imports (% of GDP)	25.3	29.9	63.6	62
Fuel exports (% of goods exports)	93.4	88.4	16.2	6.0

Source: World Bank Development Indicators

We can say that both Bulgaria and Azerbaijan are experiencing stable macroeconomic terms in the recent years, which helps creating favourable conditions for expanding trade and investment between the two countries. Other factors facilitating Bulgarian-Azerbaijani bilateral economic relations include:

- Strong political relations: The relationship between Bulgaria and Azerbaijan was elevated to a strategic level in 2015 with the signing of the Joint Declaration on Strategic Partnership. It established a Strategic Dialogue between the two countries, that provide a framework for discussing and addressing barriers to trade and investment, as well as exploring opportunities for collaboration in areas such as energy, transportation, and agriculture, among others. Having a strategic partnership in place can help to lay the foundation for a more robust and sustainable economic relationship between the two countries in the future.

- Participation in international organizations: Both countries are members of the Black Sea Economic Cooperation (BSEC) – a regional organization, promoting peace, stability, cooperation, development of economic and trade relations in the wider Black Sea area. Furthermore, Bulgaria is a member of the European Union (EU), the main trading partner of Azerbaijan. Since 1999 the EU and Azerbaijan have a Partnership and Cooperation Agreement, which eliminates trade quotas between the two and aims to gradually approximate Azerbaijan's standards to those of the EU (European Commission, n.d.).

- Relative geographical proximity: Bulgaria and Azerbaijan are located comparatively close to each other – at the crossroads of Europe and Asia, the two countries are approximately 1,400 km apart, with Georgia and the Black Sea between them. Furthermore, the Trans-Caspian International Transportation Route (TITR), also known as the Middle Corridor, has become increasingly significant due to disruptions to traditional transport routes connecting Asia and Europe through Russia. The Middle Corridor provides a significant opportunity for Azerbaijan and Bulgaria to improve their trade and investment relations, as well as for other countries along the route.

- Complementarity in energy resources: Azerbaijan is a major oil and natural gas producing country, and Bulgaria is seeking alternative sources of energy. The finalization of the interconnector between Greece and Bulgaria, a key component of the Southern Gas Corridor, which provides a direct link between the gas-rich Caspian region and Europe, has enabled the transfer of natural gas from Azerbaijan to Bulgaria since 2022. It plays a key role in enhancing bilateral economic relations between Azerbaijan and Bulgaria, particularly in the energy sector.

- Cultural closeness: While there is limited direct cultural and historical connection between the two countries, there are some similarities in their historical experiences, such as both countries having been part of the Ottoman Empire and later being part of the Soviet sphere of influence. This could serve as a basis for increased cultural and historical understanding, building trust and facilitating cooperation.

- Shared dependence on foreign trade and investment: Both countries have economies that are heavily dependent on foreign trade and investment, which could help facilitate economic cooperation by creating a common interest in promoting those areas in their bilateral ties.

Several issues could hinder the development of strong bilateral ties between Bulgaria and Azerbaijan. These include differences in political systems, economic disparities, poorly developed institutions, and limited transport and communication networks. Furthermore, external factors such as the political and economic disruptions in the region and the involvement of other countries could also impact the development of bilateral ties.

Despite a number of agreements and initiatives, the volume of trade between Bulgaria and Azerbaijan remains relatively low. This could be due to a lack of awareness of the opportunities for trade and investment, as well as barriers to trade such as bureaucracy and red tape. Furthermore, though Azerbaijan has applied for a membership in 1997, it is still conducting negotiations with the WTO. The EU cannot enter into trade agreements with countries that are not members of the WTO. Thereby the present Partnership and Cooperation Agreement does not include elimination of tariffs and a creation of a free trade area between Azerbaijan and the EU. Azerbaijan's status as a non-member of the WTO is a barrier to increased trade and economic cooperation with the EU, including Bulgaria.

## **2. The Bulgarian-Azerbaijani trade relations: trends, structure, performance**

### **2.1. Dynamics of Bulgarian-Azerbaijan trade relations over the period 2012-2021**

Over the period 2012-2021, the trade relations between Bulgaria and Azerbaijan have been characterized by a fluctuating pattern, with both countries experiencing periods of growth as well as decline in their trade volume. According to the data from the International Trade Centre, the total merchandise trade turnover of Bulgaria with Azerbaijan in 2012 was USD 37.8 million, and it peaked in 2013 at USD 40.9 million. However, after that, the trade volume declined in the following years, reaching its lowest point in 2016 at USD 12.4 million. Since then, the trade volume has gradually increased, reaching almost USD 100 million in 2021. Bulgarian exports to Azerbaijan have fluctuated over the years. In 2013, the exports reached their highest point of USD 40.6 million, while in 2016, they decreased to USD 12.0 million, before gradually increasing again to USD 23.5 million in 2021. The imports from Azerbaijan to Bulgaria have been quite low (much less than USD 1 million annually), with the exception of 2019 when they reached USD 6.2 million. In 2021, after the Trans-Adriatic Pipeline (TAP) project became operational and the supply of Azerbaijani natural gas to the European market started, Azerbaijan's imports in Bulgaria surged to USD 76.4 million.

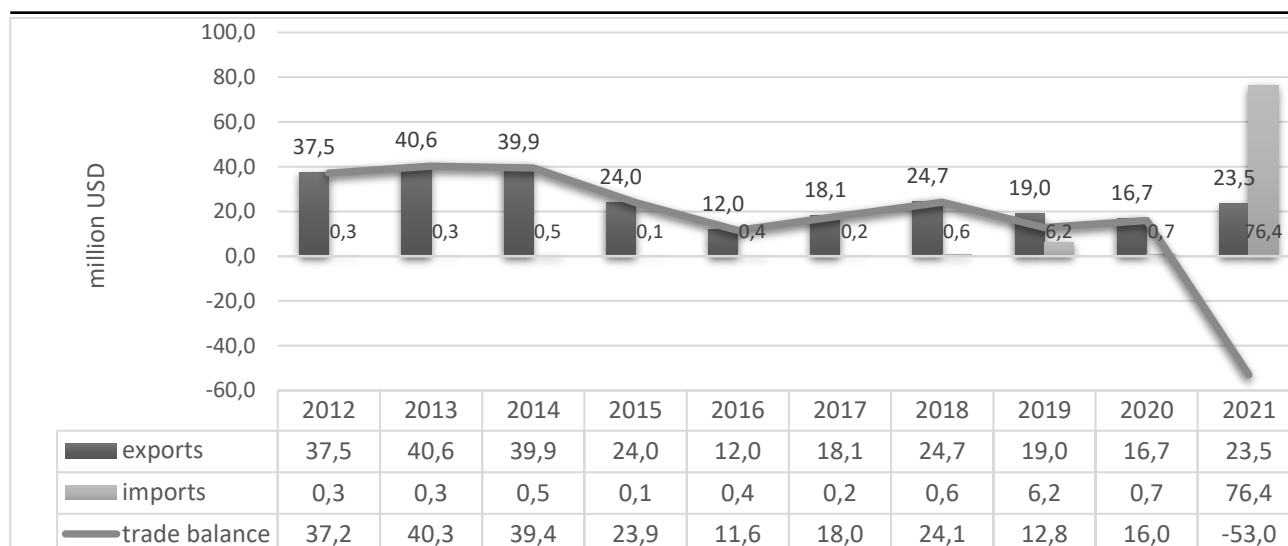


Figure 1 – Bulgaria's merchandise trade with Azerbaijan (2012-2021, million USD)

Source: International Trade Centre

The trade balance has been positive for Bulgaria throughout the period, except for the last year of the period when Azerbaijan's imports significantly exceeded Bulgaria's exports. The 2021 trade balance shows a significant shift in favour of Azerbaijan, with Bulgarian imports increasing 105 times compared to the previous year, while Bulgarian exports increased only slightly. While in 2013 Bulgaria recorded a positive trade balance of over USD 40 million, in 2021 Azerbaijan had a trade surplus with Bulgaria of USD 53.0 million.

Overall, the data shows that the trade relations between Bulgaria and Azerbaijan have been modest, with fluctuations in trade volume and a significant trade imbalance in favour of Bulgaria over the period 2012-2020, which has reversed in 2021. However, the surge in Azerbaijan's exports to Bulgaria in 2021 indicate potential for further growth and diversification of trade, that however would require purposeful efforts from the states' authorities and businesses.

## 2.2. Structure of Bulgaria's trade with Azerbaijan

The data on the product structure of Bulgarian exports to Azerbaijan gives insight into the types of goods that Bulgaria is exporting to Azerbaijan. Taking a 3-year average of data helps to smooth out year-to-year fluctuations and provide a more stable and reliable representation of overall trends.

Here are some observations based on Table 2:

- Pharmaceutical products were the top exported product from Bulgaria to Azerbaijan on average for 2019-2021, representing almost a quarter of total exports. This suggests that the pharmaceutical industry is the most important sector for Bulgarian exports to Azerbaijan.
- Paper and paperboard, tobacco products, and food preparations were also among the top exported products from Bulgaria to Azerbaijan. This could suggest that these goods are in demand in Azerbaijan and that there are opportunities for Bulgarian exporters in these sectors.
- Bulgaria's exports to Azerbaijan are diversified and include high-value products such as machinery and electrical equipment.

Looking at the product structure of Bulgarian imports from Azerbaijan, the data (Table 3) shows that mineral fuels and fertilizers account for the vast majority of the imports, with 70% and 15.7% of the value, respectively. This suggests that Bulgaria relies on Azerbaijan for its energy and agricultural needs. However, it also indicates a high degree of dependence on Azerbaijan for these key products.

**Table 2 – Product structure of Bulgarian exports to Azerbaijan, (2019-2021 av.)**

Product	Value Thousand \$	%
Pharmaceutical products	4863	24.6
Paper and paperboard; articles of paper pulp, of paper or of paperboard	1776	9.0
Tobacco and manufactured tobacco substitutes	1529	7.7
Preparations of cereals, flour, starch or milk; pastrycooks' products	1112	5.6
Miscellaneous edible preparations	1081	5.5
Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	1037	5.3
Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	1002	5.1
Essential oils and resinoids; perfumery, cosmetic or toilet preparations	971	4.9
Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	950	4.8
Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical...	723	3.7
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television...	641	3.2
Others	4054	20.5

Source: International Trade Centre

Other significant imports include aluminium (6.2%), used in Bulgaria's manufacturing and construction industries, machinery (3.3%) and organic chemicals (3%). The remaining imports are relatively small and include items such as textiles, cocoa preparations, and vegetables.

**Table 3 – Product structure of Bulgarian imports from Azerbaijan, (2019-2021 av.)**

Product	Value Thousand \$	%
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	19434	70.0
Fertilisers	4366	15.7
Aluminium and articles thereof	1726	6.2
Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	919	3.3
Organic chemicals	840	3.0
Other made-up textile articles; sets; worn clothing and worn textile articles; rags	189	0.7
Essential oils and resinoids; perfumery, cosmetic or toilet preparations	142	0.5
Cocoa and cocoa preparations	63	0.2
Tobacco and manufactured tobacco substitutes	35	0.1
Edible vegetables and certain roots and tubers	23	0.1
Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	21	0.1
Others	22	0.1

Source: International Trade Centre

Overall, the data exhibits that Bulgarian exports to Azerbaijan are diversified and include both high-value products and consumer goods. It also shows a high concentration of imported products, with the top two categories accounting for over 85% of the value of imports.

## 2.3. Potential sectors for trade expansion

### 2.3.1. Comparative advantages of Bulgaria and Azerbaijan in international trade in goods and services

Bulgaria and Azerbaijan can leverage their respective strengths and complementary economic profiles to increase their bilateral trade. By identifying and building upon their respective comparative advantages, both countries can foster greater trade and economic cooperation.

Table 4 shows the revealed comparative advantage (RCA) index of Bulgaria and Azerbaijan according to the Harmonized System (HS) classification on average for the years 2019-2021. Looking at the data for Azerbaijan, we can see that the country has a very strong comparative advantage in the category of Mineral products (section V) with an RCA index of 7.28. The country also has a comparative advantage in the category of Products of vegetable origin (section II) with an RCA index of 1.19, implying that it has a potential for exports in this category.

**Table 4 – RCA index\* of Bulgaria and Azerbaijan according to the HS classification (2019-2021 av.)**

Section	Chapters	Description	AZERBAIJAN	BULGARIA
I	01-05	Live animals; products of animal origin	0.05	0.72
II	06-14	Products of vegetable origin	<b>1.19</b>	<b>2.81</b>
III	15	Animal or vegetable fats and oils...	0.23	<b>2.75</b>
IV	16-24	Prepared foods; beverages...	0.17	<b>1.72</b>
V	25-27	Mineral products	<b>7.28</b>	0.80
VI	28-38	Chemicals and related industries	0.08	0.93
VII	39-40	Polymeric materials, plastics...	0.31	1.00
VIII	41-43	Genuine leather, natural fur...	0.11	0.54
IX	44-46	Wood and wood products; charcoal...	0.01	<b>1.38</b>
X	47-49	Pulp of wood or cellulosic materials...	0.02	1.00
XI	50-63	Textiles and textile products	0.28	<b>1.43</b>
XII	64-67	Shoes, hats, rain and sun umbrellas...	0.00	0.74
XIII	68-70	Articles made of stone, cement...	0.04	<b>2.38</b>
XIV	71	Pearls, precious or semi-precious stones...	0.28	0.09
XV	72-83	Non-precious metals and articles thereof	0.22	<b>2.37</b>
XVI	84-85	Machinery, electrical equipment...	0.01	0.71
XVII	86-89	Vehicles, transport devices...	0.00	0.46
XVIII	90-92	Optical instruments and apparatus...	0.02	0.61
XIX	93	Weapons, ammunition...	0.00	<b>18.33</b>
XX	94-96	Various goods and products	0.01	<b>1.40</b>
XXI	97, 99	Works of art, non-specified goods	0.01	0.14

\* The RCA index is a measure used to assess a country's competitiveness in a particular industry. The index is calculated by comparing a country's share of a particular product in its total exports to the share of that product in global exports. If a country's RCA index for a particular product is greater than one, it means that the country has a comparative advantage in producing and exporting that product. On the other hand, if the RCA index is less than one, it means that the country is not competitive in that product and may need to focus on other industries. The RCA index is a useful tool for countries to identify their strengths and weaknesses in international trade, and to determine where they should focus their promotional efforts.

Source: Author's calculations based on International Trade Centre

On the other hand, Bulgaria has an extremely strong comparative advantage in "Weapons, ammunition, and allied items" (HS section XIX) with an RCA index of 18.33, indicating that it is very competitive on the world market in this category. The country has a medium comparative advantage (RCA index higher than 2 but lower than 4) in the categories of "Products of vegetable origin", "Animal or vegetable fats and oils", "Articles made of stone, cement", "Non-precious metals

and articles thereof”. Other product groups in which Bulgaria exhibits some competitiveness on the world market are “Prepared foods; beverages”, “Wood and wood products”, “Textiles and textile products”, “Various goods and products”.

Table 5 shows the revealed comparative advantage (RCA) index and the relative trade balance (RTB) for selected service sectors in Azerbaijan and Bulgaria. The RTB column provides information on whether the country has a positive or negative trade balance in that particular sector. A negative RTB indicates that a country is importing more services than it is exporting, while a positive RTB indicates the opposite. The information in the table suggests that there may be opportunities for bilateral trade in the service sectors where one country has a higher RCA index and a positive RTB while the other country has a lower RCA and a negative trade balance. For example, Bulgaria has a higher RCA index in the ICT services, indicating that it has a comparative advantage in this sector, while Azerbaijan has a negative RTB in this sector, suggesting that it is importing more ICT services than it is exporting. This presents an opportunity for Bulgaria to export more ICT services to Azerbaijan. Similar is the situation with insurance and pension services as well as maintenance and repair services. While in construction services Bulgaria does not have a high RCA, it performs well in terms of trade balance and may take advantage of the growing demand on the Azerbaijani market.

**Table 5 – Comparative advantages of Bulgaria and Azerbaijan in services (2019-2021 av.)**

Service code	Description	AZERBAIJAN		BULGARIA	
		RCA	RTB*	RCA	RTB*
1	Manuf. services on physical inputs owned by others	0.01	-0.14	1.19	0.65
2	Maintenance and repair services n.i.e.	0.38	-0.32	1.44	0.54
3	Transport	2.90	0.09	1.14	0.17
4	Travel	1.58	-0.05	1.83	0.34
5	Construction	0.45	-0.96	0.29	0.73
6	Insurance and pension services	0.22	-0.78	2.41	0.27
7	Financial services	0.03	-0.52	0.15	-0.30
8	Charges for the use of intellectual property n.i.e.	...	...	0.23	-0.22
9	Telecommunications, computer, and information services	0.16	-0.12	1.60	0.57
10	Other business services	0.79	-0.47	0.61	0.26
11	Personal, cultural, and recreational services	0.30	-0.12	0.47	0.43
12	Government goods and services n.i.e.	0.71	-0.42	0.07	0.50

\* RTB is a measure of a country's trade performance, which compares the value of a country's exports to the value of its imports in a particular sector. It is calculated by subtracting the value of a country's imports from the value of its exports, and then dividing the result by the sum of the two variables. A positive value of the index indicates that a country has a trade surplus, which can be a sign of economic strength in the examined sector. Negative values indicate trade deficit, which can be a result of economic weakness.

Source: author's calculations based on International Trade Centre

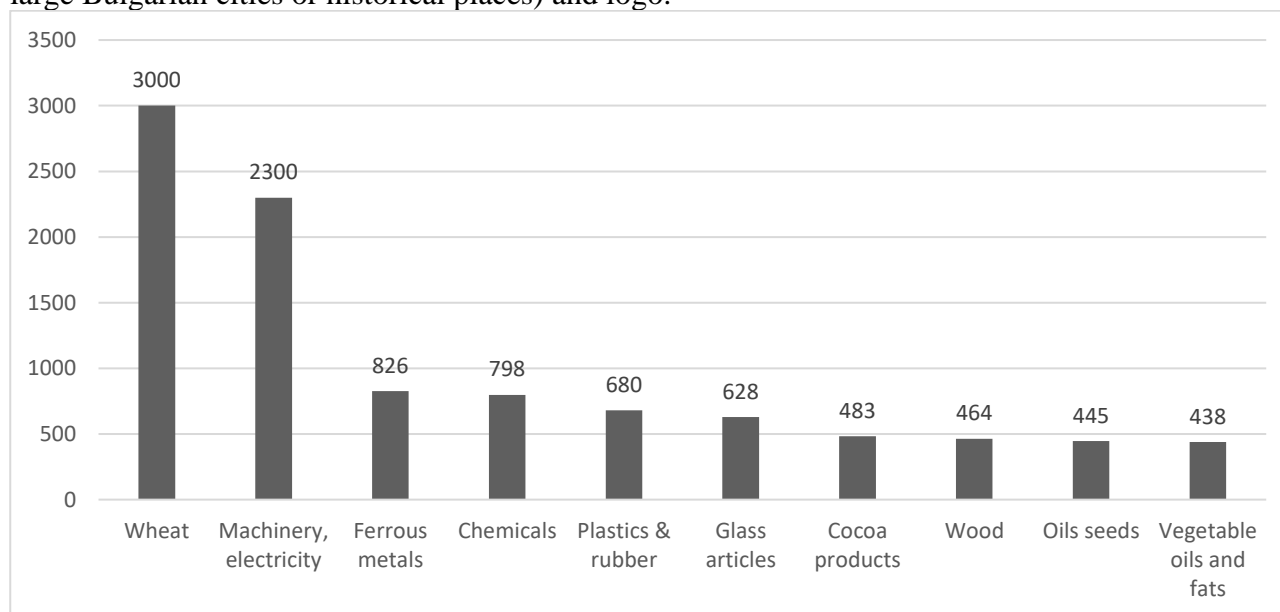
The large-scale internal construction investment program carried out by Azerbaijan, which provides for the construction of a number of infrastructure objects of national importance, including railway and road infrastructure, new port in Baku, construction of residential, office and business buildings, etc., creates significant opportunities for Bulgarian construction companies (Kostov, 2022).

The data in the table suggests that there may be opportunities for intra-industry trade in some of the services where both Bulgaria and Azerbaijan have a relatively high RCA index. This is the case with transport and travel services. Furthermore, the growing demand for digital services and the trend towards remote work and digitalization present opportunities for Bulgarian and Azerbaijani firms to collaborate in the provision of advanced digital services. By pooling their resources and expertise, they could offer more comprehensive and competitive solutions to clients in their respective countries and beyond related to cloud computing, data analytics, e-commerce, and cybersecurity.

### 2.3.2. Sectors with untapped potential

The Bulgarian Office for Commercial and Economic Affairs in Baku (OCEA-Baku) has identified several potential products that could help intensify Bulgarian exports to Azerbaijan. Among these products are food items and equipment for the food industry, wines and soft drinks, perfumes and cosmetics, medicines, clothing, shoes, furniture, sanitary equipment, building materials, electronic and electrotechnical goods, electric motors, machines, lifting vehicles (Kostov, 2022).

Bulgarian food products are well known in Azerbaijan and enjoy a traditionally high reputation in the CIS countries. Given the specifics of the business environment in Azerbaijan and the dominant positions of several big companies importing food products, it could be difficult for new entrants to gain a foothold in the market. OCEA-Baku recommends that Bulgarian companies seeking to enter the Azerbaijani market find a reliable and well-connected local partner. They can help navigate the business environment and assist with the right distribution channels and establishing relationships with key players in the market. Furthermore, it is recommended that Bulgarian producers brand their products specifically for the Azerbaijani market with well-known names (e.g. large Bulgarian cities or historical places) and logo.



Note: The ITC Export Potential Map is a tool developed by the International Trade Centre (ITC) to help businesses and policymakers identify new export opportunities in different markets around the world. The Export Potential Map is based on a statistical model that analyzes a country's export performance and the demand for goods in different markets, and then identifies products that have the potential to be exported to those markets based on their competitiveness, demand, and trade barriers.

Figure 2 – Top 10 Bulgarian sub-sectors with the highest unrealized potential on the Azerbaijani market (2022, thousand USD)

Source: ITC Export Potential Map

Opening specialized shops featuring Bulgarian products under the "Made in Bulgaria" brand can be a good strategy to increase the visibility and accessibility of Bulgarian products in Azerbaijan. These shops could showcase a variety of Bulgarian products such as food, wine, cosmetics, textiles,

and crafts. This would allow Azerbaijani consumers to have a one-stop-shop for Bulgarian products, making it easier for them to discover and purchase these products. To ensure success, it is important to conduct thorough market research and identify the target customers and their preferences, as well as to understand the local regulations and business practices.

Figure 2 shows the top 10 Bulgarian sub-sectors with the highest unrealized potential on the Azerbaijani market, based on the estimated export potential in 2022 according to the International Trade Center. Here is a brief overview of each sub-sector:

- Wheat: potential export value of 3 million USD.
- Machinery, electricity: potential export value of 2.3 million USD for machinery and electrical equipment, such as combine harvester-threshers and boards for electric control.
- Ferrous metals: potential export value of 826 thousand USD for iron and non-alloy steel products.
- Chemicals: potential export value of 798 thousand USD for miscellaneous chemical products.
- Plastics & rubber: unrealized potential of 680 thousand USD for plastic and rubber products.
- Glass articles: potential export value of 628 thousand USD for carboys and other glass containers.
- Cocoa products: potential export value of 483 thousand USD for chocolate and other cocoa preparations.
- Wood: potential export value of 464 thousand USD for particle board and other wood products.
- Oils seeds: potential export value of 445 thousand USD for oilseeds, such as sunflower seeds.
- Vegetable oils and fats: potential export value of 438 thousand USD for crude sunflower-seed or safflower oil.

The Bulgarian Office for Commercial and Economic Affairs in Baku (OCEA-Baku) has identified several potential products that could help intensify Bulgarian imports from Azerbaijan. Besides natural gas and oil, these include chemical products, metals, and agricultural goods such as cotton, vegetable oils, tea, tobacco, fruits, vegetables, juices, and sturgeon caviar (Kostov, 2022).

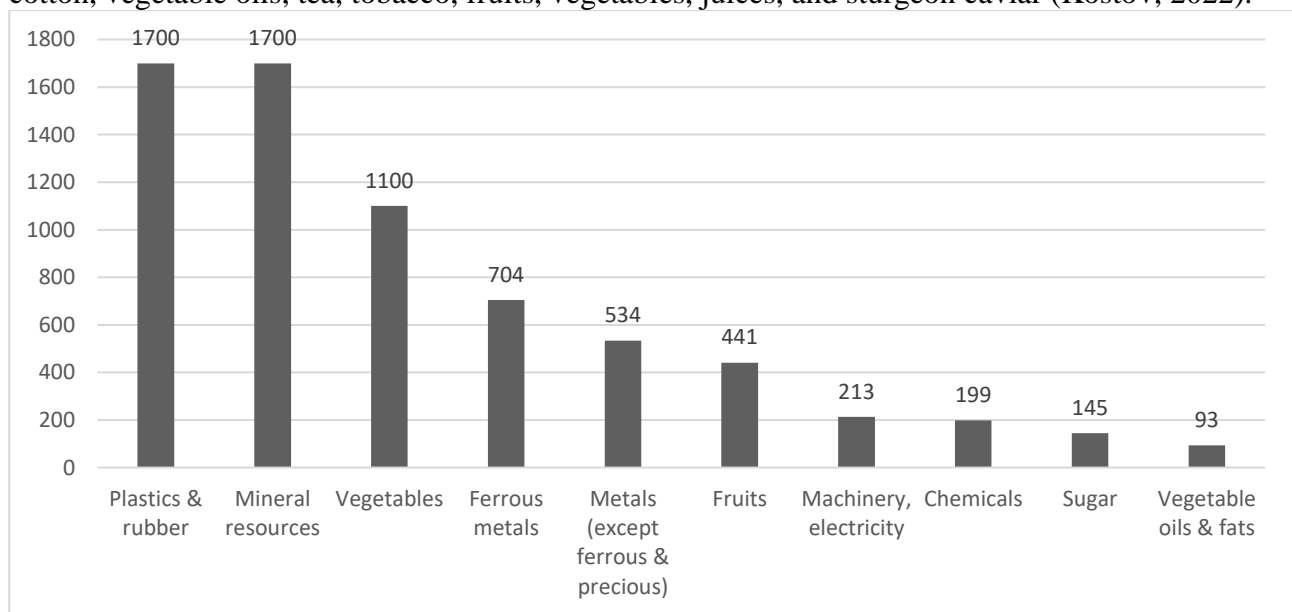


Figure 3 – Top 10 Azerbaijani sub-sectors with the highest unrealized potential on the Bulgarian market (2022, thousand USD)

Source: ITC Export Potential Map

According to the ITC Export Potential Map, the top 10 Azerbaijani sub-sectors with the highest unrealized potential on the Bulgarian market, based on the estimated export potential in 2022 are:

- Plastics & rubber (including polypropylene and polyethylene in primary forms) – \$1,700,000
- Mineral resources (copper ores & concentrates) – \$1,700,000
- Vegetables (tomatoes, potatoes, cucumbers) – \$1,100,000
- Ferrous metals (semi-finished products of iron or steel, ferro-silicon, bars and rods of iron) – \$704,000
- Metals (except ferrous & precious: unwrought aluminium, aluminium plates, unwrought lead) – \$534,000
- Fruits (pomegranates, grapes, apricots, apples, peaches, cherries) – \$441,000
- Machinery, electricity (electrical energy, parts for boring or sinking machinery) – \$213,000
- Chemicals (methanol, herbicides, etc.) – \$199,000
- Sugar (cane or beet sugar & chemically pure sucrose) – \$145,000
- Vegetable oils & fats – \$93,000.

### **3. Other forms of foreign economic relations of Bulgaria with Azerbaijan**

#### **3.1. Infrastructure development cooperation**

Bulgaria and Azerbaijan have been working together to develop infrastructure projects as the two countries have a shared interest in expanding transport, energy, and telecommunication infrastructure to increase connectivity and boost economic growth. In recent years, there have been several initiatives strengthening their cooperation in these areas.

One of the most significant infrastructure projects that the two countries have collaborated on is the Southern Gas Corridor (SGC) – a major energy infrastructure project transporting natural gas from the Caspian region to Europe. Azerbaijan is the main driver for the implementation of the SGC project, which is of key importance for the diversification of natural gas supply sources and routes for Europe. Bulgaria's involvement in the SGC project is mainly through the Interconnector Greece-Bulgaria (IGB) pipeline.

The IGB pipeline has faced significant delays and challenges since it was first proposed in the aftermath of the gas crisis in 2009. The project has encountered obstacles ranging from securing funding to obtaining permits and meeting regulations, as well as opposition from local communities and environmental groups. The COVID-19 pandemic has also had a significant impact on the project, affecting funding, procurement, and construction. However, the opening of the IGB on October 1<sup>st</sup> 2022 happened in a critical moment when Bulgaria was experiencing a shortage and extremely high prices of gas. Bulgaria started receiving Azeri gas at the price according to the long-term contract between Bulgargaz and SOCAR signed in 2013 for the import of 1 billion cubic meters of gas per year from the Shah Deniz II. The ensuing reduction in the price of natural gas for end customers by Bulgargaz following the opening of the IGB pipeline is a significant development and a clear indication of the benefits that the IGB pipeline is bringing to Bulgaria's energy sector (Zhelev, 2023).

The IGB pipeline currently has a maximum capacity of 3 billion cubic meters per year, which can meet Bulgaria's natural gas needs. However, the planned extension of the pipeline to 5 billion cubic meters per year would expand Azerbaijan's ability to supply gas to Southeast Europe, reduce dependence on Russian gas, and facilitate regional cooperation and integration. It has the potential to contribute to Bulgaria becoming a regional gas hub.

Another area of cooperation is the transport sector, given both countries have a strategic geographic location linking Europe with Asia. This includes the Trans-Caspian International Transport Route (TITR), also known as the Middle Corridor, a multimodal transport route that connects China and Central Asia to Europe via the Caspian Sea and the Black Sea. The route passes through Azerbaijan and Georgia, and then through Turkey, Bulgaria, and Romania. It is considered an alternative to the traditional Northern and Southern transport corridors and has great potential for

trade and investment between Asia and Europe, being the shortest path between Western China and the European Union (Kenderdine and Bucsky, 2021).

Bulgaria and Azerbaijan have expressed their interest in developing the TITR, and both countries have been actively involved in promoting and improving the route. The development of the TITR has the possibility to improve trade and investment between the two countries and increase their connectivity to other regions. It also provides an alternative route for the transportation of goods between Europe and Asia, which can reduce transportation costs and improve logistics, and in the light of the problematic shipping of cargo through Russia gains very high importance.

Azerbaijan has been actively involved in the project and has invested in the development of the Baku International Sea Trade Port, which serves as a hub for the TITR. A crucial aspect of the strategy to transform Azerbaijan into a significant global transportation hub is centered around the establishment of the Alat port, situated 65 kilometers south of Baku. Referred to as the "Jewel of the Caspian Sea", this port will consist of a logistics center and a free economic zone, and will have a capacity of 15 million tons of cargo and 100,000 containers per annum (Dimitrov, 2021).

Another important component of the Middle Corridor is the 826 km long Baku-Tbilisi-Kars (BTK) railway, which became operational in 2017 and connects Azerbaijan with Georgia and Turkey. Bulgaria has the potential to benefit from the new railroad route as a result of the recent construction of the Marmaray tunnel under the Bosphorus in Istanbul. The tunnel enables trains to travel from the European to the Asian side of Turkey, and Bulgaria could potentially serve as a connecting link on the Eurasian railway line that extends from Beijing to London (ibid.). Altogether, the cooperation of Bulgaria and Azerbaijan in the infrastructure development could provide both countries with an opportunity to take advantage of their strategic locations, thereby positioning as key players in the transportation of goods between Asia and Europe.

### 3.2. Bilateral investment relations

According to the data on bilateral foreign direct investment between Bulgaria and Azerbaijan, provided by the Bulgarian National Bank, the relationship between the two countries has been characterized by limited investment activity. By 2021, the accumulated Azerbaijani FDI in Bulgaria was just 5.4 million EUR, while the outward Bulgarian FDI stock in Azerbaijan was even lower (1.9 million EUR) – very low figures compared to the potential for growth and cooperation between the two countries. The available data does not provide a detailed breakdown of the sectors in which FDI is concentrated, but it suggests that investment activity has been focused mainly on the real estate sector.

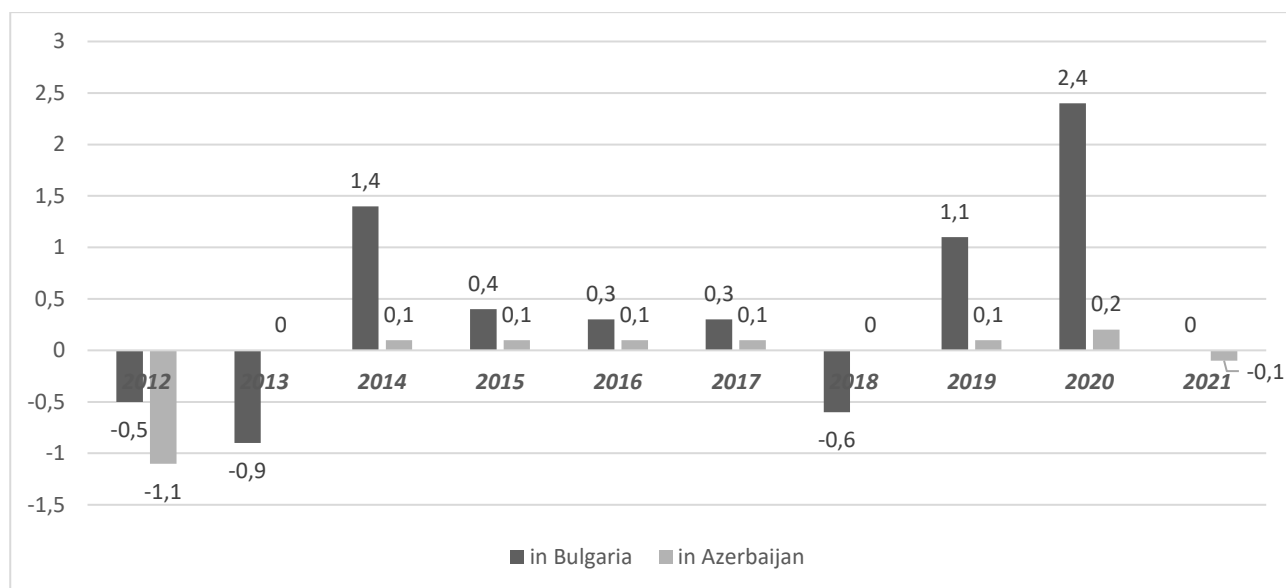


Figure 4 – Bilateral FDI flows between Bulgaria and Azerbaijan (2012-2021, million EUR)

Source: Bulgarian National Bank

Over the past decade, the net FDI flows from Bulgaria to Azerbaijan have been consistently hovering between 0 and 0.2 million EUR, with the exception of the beginning and the end of the period when the values turned even negative. FDI flows from Azerbaijan to Bulgaria have been also relatively low and volatile, with negative net values in 2012, 2013 and 2013, and a zero value in 2021.

Azerbaijan's investment policy abroad is primarily focused on utilizing its oil and gas reserves to generate economic growth. The country's State Oil Fund (SOFAZ) and State Oil Company of Azerbaijan (SOCAR) have opportunities to invest in foreign markets as part of a long-term strategy to efficiently utilize these reserves. There is a potential of Azerbaijani investment in Bulgaria in spheres where SOCAR has competitive advantages, such as construction, rehabilitation and modernization of gas storage facilities, gasification and gas distribution, oil refining and others. For example, Azerbaijan has become Turkey's largest single investor, with SOCAR building the STAR oil refinery in Izmir (Dechev, 2021). It should be noted that in connection with the COVID-19 pandemic and the addressing the large-scale effects of the Nagorno-Karabakh conflict, Azerbaijani investments abroad are temporarily frozen (Kostov, 2022).

There are several potential sectors for investment between Bulgaria and Azerbaijan that could be explored to deepen economic ties between the two countries. One obvious possibility is the energy sector, where Azerbaijan has expertise and resources in the oil and gas industry, while Bulgaria boosts vibrant renewable energy production. Other sectors with potential for investment include:

- transportation and logistics – the strategic location on the Black Sea and the Caspian Sea makes both countries key hubs for transportation between Europe and Asia;
- agriculture and food production – both countries have favourable conditions for certain crops and agricultural products;
- tourism – Bulgaria's experience and popularity as a tourist destination complements Azerbaijan's interest in developing its own tourism industry;
- information technology – Bulgaria's growing tech industry and Azerbaijan's favourable business environment could create synergies for collaboration and possibilities of establishment of joint ventures in areas such as software development and IT outsourcing.

Note: Oil-gas industry, logistics and trade, manufacture and processing of agricultural products, specialized tourism industry, telecommunication and communication technologies have been among the 11 strategic national sectors in the Decree of the President of the Republic of Azerbaijan No. 1897/2016.

Both countries have certain strengths in these areas and could leverage their expertise to create new investment opportunities and foster economic growth.

### **3.3. Bilateral international tourism flows**

Bulgaria and Azerbaijan have been working together to strengthen their cooperation in the field of tourism. In December 1999, the two countries signed an Agreement on Cooperation in the Field of Tourism, which came into effect in July 2000. The agreement provides for the exchange of information and experience on the development of tourism infrastructure, the promotion of tourism investment, and the organization of joint tourism projects and cultural events.

In March 2015, Bulgaria and Azerbaijan signed a Protocol for the expansion of cooperation in the field of tourism. The Protocol outlined several areas of cooperation, including the development of tourism exchange, the advertising of the national tourist product, the training and raising of qualifications of personnel in the tourism industry, investments in the tourism sector, and the expansion of transport links. The Protocol emphasized the importance of exchanging experience and information, promoting the exchange of experts and journalists specialized in the field of tourism, and encouraging the mutual participation of Bulgarian and Azerbaijani tourism organizations in international tourism exhibitions and other specialized events (Ministry of Tourism of Republic of Bulgaria, 2015).

Azerbaijan has invested heavily in developing its tourism infrastructure in recent years, particularly in the capital city of Baku, which is home to several world-class hotels, restaurants, and

cultural landmarks. Bulgaria has been actively promoting itself as a destination for spa, wine, gourmet, cultural and historical tourism, participating at various international exhibition events in Azerbaijan. However, the most popular destinations for Azerbaijani tourists in Bulgaria are the Black Sea coast and the capital city, Sofia.

Figure 5 shows the number of Bulgarian tourists visiting Azerbaijan and Azerbaijani tourists visiting Bulgaria from 2012 to 2021. In 2012, 381 Bulgarian tourists visited Azerbaijan, but the number dropped to 14 in 2013 and 43 in 2014. In 2017, the number of Bulgarian visitors in Azerbaijan reached its highest point at 2104, but it has decreased to 657 in 2019. Bulgaria's Ministry of Tourism stopped collecting data for outgoing tourism flows and there is no data for 2020 and 2021 but given that these years were under the COVID-19 pandemic, it could be inferred that the number has further dropped.

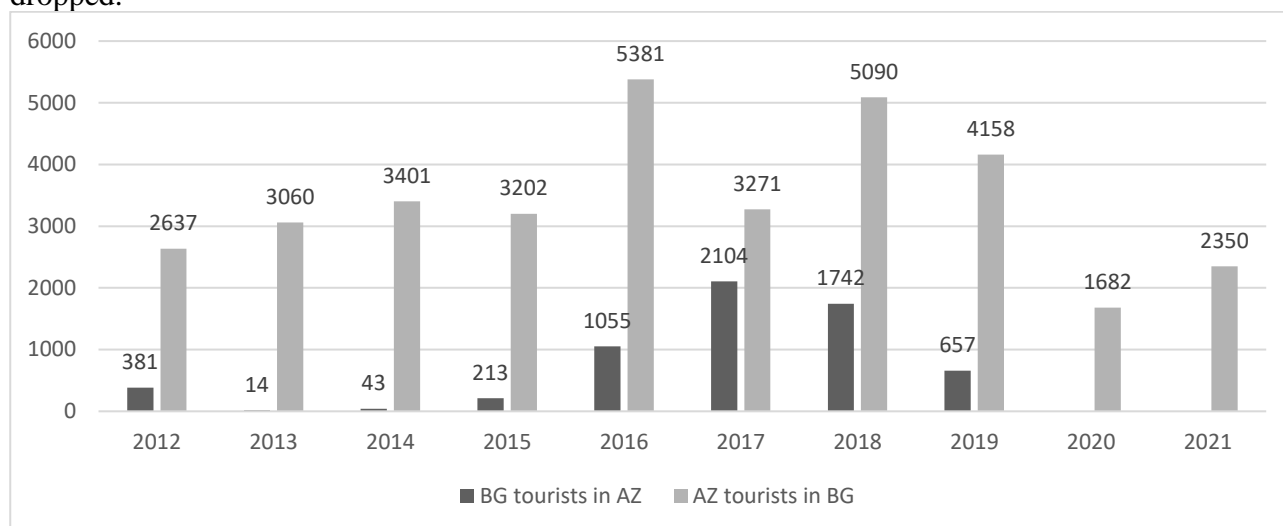


Figure 5 – Tourists exchange between Bulgaria and Azerbaijan (2012-2021)

Source: Ministry of Tourism of Republic of Bulgaria

The number of Azerbaijani tourists visiting Bulgaria has been consistently higher than the number of Bulgarian tourists visiting Azerbaijan in the past decade. The peak was in 2016 with 5381 Azerbaijani visitors. In the next years the number fluctuated with the lowest level reached in 2020 due to the COVID-19 pandemic. In 2021, 2350 Azerbaijani tourists visited Bulgaria placing Azerbaijan as the 49<sup>th</sup> largest market for Bulgarian tourism.

One of the major obstacles to bilateral tourism between Bulgaria and Azerbaijan is the lack of direct flights. Currently, there are no direct flights connecting the two countries, and travelers have to transit through other countries, which can be time-consuming and expensive. However, both countries have been discussing the possibility of launching direct flights (in 2018 Azerbaijan's low-cost carrier Buta Airways started a once per week direct flight that was terminated at the onset of corona pandemic), which would significantly boost tourism flows between the two nations. With the right policies and infrastructure in place, there is a great potential for further growth in bilateral tourism flows between the two countries.

### 3.4. Education and research cooperation

In 2017, on the occasion of celebrating 25 years of diplomatic relations between Bulgaria and Azerbaijan, the two countries signed a Memorandum of Understanding (MoU) on cooperation in the field of education. The document identified a number of common initiatives that would be promoted, including student and teacher mobility, joint programs between higher schools, and the development of cooperation between secondary schools of both countries through partnership programs. The document also advocates cross-cultural exchange, with both countries committed to promoting the study of each other's literature, history, and culture in their educational institutions.

Over the years, many universities from Bulgaria and Azerbaijan have signed agreements to establish cooperation in education and research. The MoUs typically cover areas such as student and faculty exchanges, joint research programs, and the sharing of educational resources and expertise.

In addition to educational cooperation, there have also been joint research projects between Bulgarian and Azerbaijani scientists. For instance, researchers from both sides have collaborated on projects studying earthquakes and seismic hazard assessment. Another joint project between Bulgarian and Azerbaijani scientists focused on the synthesis and study of lubricants, fuels, and cutting fluids additives as well as preventing corrosion inhibitors (Seyidov, 2019).

Apart from existing cooperation in education and research between Bulgaria and Azerbaijan, one potential avenue for future collaboration could be the inclusion of Azerbaijan in the operational program for bilateral cooperation of the Bulgarian National Research Fund. This would allow for joint bilateral projects to be developed and financed, further strengthening the scientific ties between the two countries.

The cooperation between the two countries can focus on areas such as sustainable development, biotechnology, information technology and renewable energy, which are pressing issues in both countries. Joint research projects can be developed in these areas, and findings can be shared and utilized to tackle common challenges. The program can also provide an opportunity for Bulgarian and Azerbaijani researchers to participate in joint workshops, conferences, and training programs. This can facilitate knowledge sharing, promote collaboration and networking, and foster a culture of innovation, creativity and mutual understanding.

## ***Conclusions***

In conclusion, the trade and economic relations between Bulgaria and Azerbaijan have seen some positive developments in recent years, particularly in the energy and infrastructure development cooperation. However, there remain challenges that need to be addressed to fully realize the potential of this partnership. Direct transportation links, closer alignment of legal frameworks and business cultures, and overcoming information asymmetries are among the areas that need attention to facilitate trade and investment between the two countries. The Bulgarian-Azerbaijani Intergovernmental Commission for Economic cooperation has an important role to play in addressing these challenges and strengthening economic ties between the two countries.

Furthermore, there is a need to expand the interaction between entrepreneurial organizations on both sides, such as chambers of commerce, industry associations and other relevant bodies. This will enable more active assistance to interested producers and exporters in finding partners, establishing business contacts, sharing information about demanded and offered goods. Joint implementation of projects, including in areas such as tourism, ICT, and education and science, can also lead to closer bilateral ties and greater economic success.

With both Bulgaria and Azerbaijan seeking to diversify their economies and strengthen their positions in the global market, there is ample room for cooperation and growth in the bilateral relations, leveraging on important trade complementarities. Continued efforts to deepen economic ties through mutual investment and trade promotion initiatives can help to further solidify the partnership between these two countries. Overall, the future of the trade and economic ties between Bulgaria and Azerbaijan looks promising, with opportunities for mutual benefit and collaboration expansion on the horizon.

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