

# Geo-Economics of the Republic of Azerbaijan and Its Economic Security

Shabnam Dadparvar<sup>1</sup>, Saeed Azizi<sup>2</sup>

<sup>1</sup>Caucasus Region Studies, Tianshui Normal University, Tianshui, China

<sup>2</sup>Political Science and Marxist Studies, Neijiang Normal University, Neijiang, China

Email: Shabnamd53@gmail.com, Azizi\_saeed@njtc.edu.cn

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## Abstract

Owing to its geopolitical position in the Caucasus region as well as its oil and gas resources, The Republic of Azerbaijan plays an important geoeconomic role in the energy transit to Europe. Therefore, this study aims to identify the most important geo-economic factors affecting the economic security indicators of the Republic of Azerbaijan from 2015 to 2018 and their impact on economic security indicators such as economic growth, inflation, and foreign direct investment in the Republic of Azerbaijan. For this purpose, a descriptive-analytical method with relevant statistics and data is used to explain Azerbaijan's economic situation. The hypothesis assumed in this study is that the energy resources and transit role of the Republic of Azerbaijan, regarding the geopolitical position of this country in the Caucasus region, are the most important components affecting the economic security indicators of the Republic of Azerbaijan. Also, some other factors, including the strategies implemented by leaders and political decision-makers, play a considerable role in this regard. Overall, the main objective of this study is to emphasize the geoeconomic components as sustainable factors in determining the economic advantages of this country.

## Keywords

Geopolitics, Geo-Economics, Economic Security, Caucasus, The Republic of Azerbaijan

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## 1. Introduction

The collapse of the Soviet Union and the end of the Cold War caused many changes in the international system and disturbed the geopolitical balance of the world in various power dimensions. These changes include reducing military

competitions and paying more attention to economic power in the form of a geoeconomic approach, promoting energy resources as one of the most important geopolitical variables in international politics. As a result, the production source controllers and energy transporting routes as well as the required technologies and tools of production, processing, and transition have proved determining parameters, as have energy consumption for maintaining global and regional superiority and challenging the competitors in the international arena (Sazmand & Kaviany, 2017: p. 86). From geopolitical and geoeconomic points of view, energy resources, in particular oil and gas, are of special significance to the main players of the international system, taking advantage of their desired security capabilities in order to determine and pursue their goals and priorities (Islami & Gharibi, 2018: p. 67). Considering the relationship between these two factors (i.e., goals and priorities), geo-economics seems to have somewhat overshadowed the scope and importance of geopolitical analysis so that the economy and its power of influence have overcome many components including geopolitical constraints (Jaeger & Brites, 2020: p. 24). Known as a strategic commodity, energy has been the basis of economic activity and the advancement of strategic goals, affecting human life quality worldwide. In today's world, transporting the energy and controlling thereof are viewed as two other factors that have made the energy issue even more critical. Therefore, countries located on the path of energy transport routes are also considered as holders and producers of energy and sometimes even more important than the others.

Accordingly, the existence of energy resources as one of the most important factors influencing the economic and military power of the countries is both a tool and a goal of obtaining power in the form of a geoeconomic approach (Islami & Gharibi, 2018: p. 79).

The Republic of Azerbaijan, along with Armenia and Georgia, forms the South Caucasus, a region located between the Caspian Sea in the east, the Black Sea in the west, Russia in the north, and Iran in the south. Regarding its size, population, fossil energy resources, and relatively suitable soil and water resources, Azerbaijan has the potential to grow and increase its national power. Therefore, this article seeks to identify the most important geoeconomic components affecting the economic security indicators of the Republic of Azerbaijan, including economic growth, inflation, and foreign investment in the period 2015-2018. The energy resources and transit role of Azerbaijan, considering the geopolitical position of the country in the Caucasus region, were regarded as the most important geoeconomic components that impact upon the economic security indicators of the Republic of Azerbaijan.

## 2. Conceptual Framework

Geo-economics seeks to explain the connection between geography and economics in the larger trends of international relations (Islami & Gharibi, 2018: p. 73). The term "geo-economics" was used for the first time by Edward Luttwak

who emphasized the economic capacity as an element of gaining power and a means of defending national interests (cited by Jaeger & Brites, 2020: p. 24). He proposed his theory in an article entitled “From geopolitics to geo-economics: the logic of conflict, the rules of business”, following the collapse of the bipolar system and the Cold War, regarding the supremacy of economics over militarism (Veisi, 2017: p. 106).

Geoeconomics as a field of knowledge derives from classical geopolitics. More specifically, it can be understood as the expansion of the geopolitical realm that applies to international economic relations. In this sense, geoeconomics is revealing geopolitics. From a contemporary perspective, geopolitics refers to the analysis of the distribution and configuration of power in the international system and its effects on the intergovernmental relations of international politics, as well as how the strategic space of the world is formed. Geopolitics and geoeconomics are both inherently related to interstate geostrategic competition (Jaeger & Brites, 2020: p. 24).

The purpose of geo-economics is to use economic tools to increase wealth, supply the national interests, take geopolitical advantages, and benefit from the communication networks and economic activities in the context of geography. In this discourse, energy and its associated issues, namely energy production and the diversity of energy types, have long been a subject of great interest (Ritchie & Roser, 2018: p. 6).

Another group of researchers sees geo-economics as an alternative to geopolitics in foreign policy for achieving geostrategic goals. For instance, Baru defines geo-economics as a two-way process in which various economic matters, such as reducing a country’s economic power, have geopolitical implications. It is of note that geopolitical changes such as the conquest of a particular territory also affect the economy. Therefore, geo-economics, as a strategy in foreign policy, considers the use of economic tools to achieve specific goals (Scholvin & Wigell, 2018: pp. 7-10). Geo-economics evaluates the relevant issues in the global background beyond the traditional borders of countries. The focus of such evaluation is on variables such as natural resources on a regional scale, the capabilities of the extractive industries and their exploitation in the context of the requirements of globalization, as well as the interaction with various financing and capitalist currents (Mercille, 2008: p. 329). Certainly, not all governments can build an equal capacity to gain geoeconomic power and use all their power simultaneously. Special structural backgrounds and preparations are needed to enable governments to benefit from geoeconomic tools (Blackwill & Robert, 2016: p. 27). Regarding the geoeconomic-oriented economics of the world, economic security is a factor that has become important in association with geopolitical indicators. At the macro level and in the present era, which is known as the geo-economics era, production, marketing, investment, research, and design are considered global issues. At the micro level, national power is no longer depends primarily and exclusively on the military dimensions of the government. The

reason is that economic security has taken precedence over military security and even overshadowed it. Indeed, national power in the context of the geoeconomic approach is a combination of some different elements and components such as human and technological resources, exportable capital, and effective and efficient production of new goods that influence decision-makers of the world economy and the tendency to mobilize the economic capacity and national goals (Hsiung, 1997: p. 203). A part of the importance of the geoeconomic issue has to do with redefining the role of the nation-state in the new era, which can be related to the border considerations between countries. According to some researchers, the views of people like Luttwak are opposed to the end of nation-state logic that is expressed in the modern globalization era by scholars such as Ohmae. Thus, some scholars like Luttwak believe that the importance of economic relations between countries cannot be ignored regarding the emergence of new issues in international politics, including the cross-border relations. Therefore, new conditions need creating a new vision and, indeed designing and presenting new terminology to explain the emerging situation of the recent age. The noteworthy point in this regard is to prioritize the vital interests of the countries in the economic field in parallel with the security and military issues and even prior to them (Ohmae, 1995).

### 3. Economic Security

The concept of security has various dimensions; military, economic, energy, and environmental. Economic security and economic policies can reduce the government's exposure to threats (Tamošiūnienė & Munteanu, 2015: p. 5). The experience of developed countries shows that the issue of economic security has now become an integral part of the foreign and domestic trade policies. Ensuring economic security reflects an economic situation in which no threat is expected from inside or outside the country and it can hinder sustainable development (Tamošiūnienė & Munteanu, 2015: p. 24).

If we consider different layers and examples for the concept of national security, economic security will surely be among its most important forms. The current world is described as a world in which the military concerns have been replaced with economic challenges such that nations rely more on economic tools rather than military ones, especially to ensure economic security, and promote national security (Nikkhoo, 2018: p. 57).

In the field of economics, energy as an axis of geo-economics plays an important role in determining regional and international security. Moreover, the supply of energy resources is a prerequisite for industrialization and the improvement of social welfare resulting from economic development. Therefore, the energy and transit position of a country is both a tool and a goal of gaining power in the context of a geoeconomic approach. Regarding the objective of this research, components such as foreign direct investment, economic growth, national income, and inflation are considered as contributing factors in economic

security.

As an essential element of economic security, investment security can contribute significantly to developing the economy and strengthening and expanding important financial and international resources as well as achieving balance of payments. The improvement of economic security by reducing uncertainty in the return on capital increases the level of investment and thus helps strengthen economic growth. Economic security provides the necessary basis for sustainable economic growth and investment development; however, economic growth and development require other factors in addition to economic security. In this vein, the risk level is one of the most important factors that affect foreign and domestic investment activities, regardless of the profit from the investment. Since investors do not operate in an unfavorable environment in terms of risk, creating confidence and security in countries is essential for increasing the participation of investors. Furthermore, providing a secure economic environment is a key factor in economic growth and sustainable development in developing countries.

National income plays a key role in the economic security of the society; an increase in national income means an increase in the country's per capita income or, in other words, a reduction in social problems, which is also related to the legitimacy of the state in the eyes of individuals in society. Increasing the national income also results in more economic power at the regional and international levels, which in turn enables countries to influence regional and global deals.

Inflation has decisive effects on development, production, and trade and can seriously jeopardize economic development. The detrimental effects of inflation are not limited to reducing the competitiveness of national products in domestic and global markets, reducing exports, increasing imports, and further trade deficits. Further, inflation has irreversible negative effects on the allocation of resources and factors of production. Advancing economic goals and increasing production growth requires controlling inflation. Reducing inflation not only affects growth and production but also has a huge impact on public satisfaction. The lower the price level, the higher the purchasing power of the society and the higher the welfare of the society, which itself helps to further strengthen economic security and national security (Nikkhou & Mušević, 2018: p. 58).

Azerbaijan's history has been significantly intertwined with energy resources (oil and gas). The first reliable information about oil extraction on the Absheron Peninsula, near Baku, dates to the 7<sup>th</sup> and 8<sup>th</sup> centuries. At the end of the 19<sup>th</sup> century, the oil industry provided significant capital in the region. At the end of the 19<sup>th</sup> century, the boom in the oil industry attracted significant investment in the region. At the beginning of the 20<sup>th</sup> century, Baku became one of the oil trading centers of the world, producing 50 percent of the world's oil. After the dissolution of the Soviet Union, the Azerbaijani government considered replacing the main infrastructures of the corridor for transporting its resources to Russia. Therefore, the government of Azerbaijan was partially integrated into the

world economy, especially in the field of energy exports, to strengthen its infrastructure (Giorgi, 2016). Azerbaijan is one of the oldest oil-producing countries in the world and has played a significant role in the development of the oil industry. The world's first paraffin plant was established in Azerbaijan in 1823 and the world's first oil field was drilled in this country in 1846. Azerbaijan was the site of the first offshore oil field "Dashlari Oil" in the shallow waters of the Caspian Sea, accomplished in 1951 and still producing oil. The largest hydrocarbon basins in the country are located on the shores of the Caspian Sea, particularly the Azeri-Chirag-Gunashli (ACG) fields. These basins produced 634,000 barrels per day in 2015, accounting for almost 75 percent of the total oil production of Azerbaijan in 2015. Given these facts, the position of Azerbaijan in the world is very important, especially in terms of ensuring energy security in Europe. Therefore, the role of this country in recent decades has been highlighted in the dimensions of the world economy and energy policy. Ali Hasanov, one of the greatest statesmen of the Republic of Azerbaijan, in his book "the energy potential of Azerbaijan" states that: "Regarding that the country is becoming a key player in the world's energy system, maintaining its position in international energy markets and being active in European energy security have a significant impact on regional and global geopolitics and geo-economics and strengthen the economic situation of the country" (Newtimes, 2019). Thus, the existence of energy resources is one of the factors considered in the case of countries. However, other factors, especially the geopolitical conditions of the countries, are also important factors that provide the ability to use energy efficiently. The existence of huge oil and gas energy resources next to the neighbors of countries that need energy, as well as the possibility of transporting this energy to the European countries, have made the Republic of Azerbaijan very important in terms of geo-economics. Certainly, the proper realization of this issue depends on the strategies and policies of decision-makers.

Under the geoeconomic approach, the economies of countries with energy resources can be analyzed in terms of both resources and energy transition lines. The Republic of Azerbaijan is important in this regard as it exports more than 90 percent of oil and gas and has important energy transition lines, especially to Europe.

Oil and gas production increased significantly in the first decade of the 21<sup>st</sup> century, following the discovery of the Shah Deniz gas field. As a result, the government and international companies have made significant investments in the energy sector of the country, constructed several new power plants, reconstructed and modernized gas networks, and improved the security of the resources (Iea.org, 2020). Some of the Azerbaijani oil and gas transportation lines:

- Baku-Tbilisi-Ceyhan (BTC) pipeline to transport oil and gas condensates from Shah Deniz, especially to Georgia and Turkey. Crude oil and gas condensates are also shipped from Turkmenistan and Kazakhstan via BTC. BTC has been operating since June 2006 and its current capacity is estimated at 1.2

million barrels per day (Garayev and Kerimov, 2020: p. 7). Through intense, tense, and lengthy diplomacy during the final years of the last century, the BTC oil pipeline entered the production phase at the beginning of the new century, making Azerbaijan a new and important player in European energy security. After establishing this pipeline, which carries 1 million barrels of oil per day, the energy resources around the Caspian region were introduced to the world market for the first time. Thus, economic ties were established between the Caspian Basin and Europe through Azerbaijan (Newtimes, 2019).

- The South Caucasus Pipeline (SCP) is a part of the Southern Gas Corridor project, which aims to diversify energy resources in Europe. Gas is also exported from the Shah Deniz field to Georgia and Turkey through the SCP (Kerimov & Garayev, 2020: p. 7). After the independence of Azerbaijan, attracting foreign investors was intended to that end, the Shah Deniz oil field contract was signed on June 4, 1996, in Baku and approved by the Azerbaijan parliament on October 17, 1996. The second contract, which was of financial and political importance, was signed after the development of the ACG oil field and is valid from 1996 to 2031. Currently, the structure of the investor group in the development of the Shah Deniz field is as follows: BP (28.8 percent), Russian LUKOIL (10.0 percent), Iranian NICO (10.0 percent), and Turkish TPAO (19.0 percent) (Azakov, 2018: p. 7).
- The Trans-Anatolian Natural Gas Pipeline (TANAP) Line is a southern gas corridor that will also be used to export Shah Deniz 2 gas to Europe. TANAP is also a part of the Southern Gas Corridor project that will transport gas produced in Shah Deniz 2 and other Caspian reserves to Turkey and Europe. TANAP will reach a maximum capacity of 31 bcm by 2026.
- The Western Route Export Pipeline (WREP) is used to transport crude oil from offshore production areas to the Supsa terminal on Georgia's Black Sea coast. Eight million barrels of oil were exported through WREP in the first quarter of 2018 (Kerimov & Garayev, 2020: p. 7).
- Baku-Supsa pipeline is transporting crude oil from Caspian offshore oil fields to Supsa and Georgia on the Black Sea, which is exported to European markets through tankers. It is 833 km long and has been in operation since 1999 (International Energy Agency, 2020).
- The North Export Pipeline (NREP) is used to transport Azerbaijani crude oil through Russia to Novorossiysk (Russia's port on the Black Sea). The maximum production capacity of this line is 105,000 barrels per day (Kerimov & Garayev, 2020: p. 7).

Investment in Azerbaijan has been improving in recent years. However, there are still significant challenges in this regard. During 2015-2018, the government of Azerbaijan has tried to integrate the country into the world market and attract foreign investment. The government has diversified the economy of the country by performing economic reforms and preparing the conditions for increasing economic growth. However, Azerbaijan's economy is still heavily dependent on

oil and gas production, which accounts for almost 91 percent of its export earnings (U.S. Energy Information, 2021). The flow of foreign direct investment in Azerbaijan has steadily increased in recent years, with the energy sector leading the way to the western countries. In 2017, the Production Sharing Agreement (PSA) for the main marine regions of the ACG field was extended until 2049. Therefore, Azerbaijan is expected to remain a strong oil producer with more investment and better recovery (Agayev, 2021, Bloomberg). Under the PSA agreement, SOCAR's share of the ACG Group increased to 25 percent. In 2017, more than 70 percent of Azerbaijan's total oil production, about 588,000 barrels per day, came from ACG fields. Meanwhile, in 2016, it had decreased to 630,000 barrels per day compared to 2017.

According to the UNCTAD Global Investment Report 2020, Azerbaijan has 1.5 billion dollars foreign direct investment in 2019, which is 1.4 billion dollars less compared to 2018. This decline is in line with the direct flow of foreign direct investment to economies in transition in Southeast Europe and the Commonwealth of Nations.

Following the sudden drop in the world oil prices in 2014, Azerbaijan's oil exports declined by 326 thousand tons or 13.4 percent in January 2015, compared to the previous month. Moreover, Azerbaijan suffered from declining sources of export earnings in this period. Although Azerbaijan has reduced its share of the oil industry in both its general income and GDP, it is still dependent on oil and natural gas export revenues. According to the official statistics of the Oil Company of the Republic of Azerbaijan (SOCAR), based on CESD, Azerbaijan exported 1,697,768 tons of crude oil through the BTC pipeline in January 2015. Meanwhile, in a certain period in 2015, compared to 2014, the country exported 507.169 thousand tons of crude oil through Baku and Novorossiysk and 254,107 thousand tons through the Baku-Supsa pipeline. In January 2015, 2.122 million tons of oil were exported from Azerbaijan to the world markets (Aliyeva, 2015).

With the development of Azerbaijan's oil and gas fields and export infrastructures, the importance of its position has increased. The drop in oil prices, however, will reduce the government's revenues. The State Oil Fund of the Republic of Azerbaijan was established in 1999 to manage foreign exchange and assets from oil and natural gas activities. At the beginning of 2016, this fund had 33.6 billion dollars in managed assets, which decreased by 9.5 percent compared to the beginning of 2015. In this period, oil revenues fell from 12.3 billion Manat in 2014 to 7.4 billion Manat in 2015, indicating a 40 percent reduction (Jabbarli, 2017).

In the main production field of Azerbaijan, in 2015, the ACG complex produced 634,000 barrels per day of condensates, which is about three-quarters of the total condensates production in Azerbaijan. BP, the largest shareholder in the Azerbaijan International Operations Company (AIOC), established the ACG to develop the fields. Completion of the BTC pipeline has changed Azerbaijan's

oil industry and improved the potential of its oil sector by providing access to global crude oil markets. Preliminary estimates show that, in 2016, the production and consumption of natural gas of Azerbaijan decreased by about 2.5 percent from 2015 to 2016. In 2016, Azerbaijan exported about 284 billion cubic feet (BCF) of natural gas. Extending the Baku-Tbilisi-Erzurum (BTE) pipeline to TANAP, then from Turkey borders into the Adriatic Sea in southeastern Europe and Italy and will be connected to the Trans Adriatic Pipeline (TAP). In 2017, the field produced about 360 BCF of natural gas and 19 million barrels of condensates (U.S. Energy Information Administration, 2019: pp. 4-5). In 2017, Azerbaijan produced about 800,000 barrels per day of oil and condensates, which is the largest amount of oil production in the Caspian Sea exported to the West. In 2017, the PSA production sharing agreement for the main offshore fields of ACG was extended until 2049, suggesting that Azerbaijan can remain a strong oil producer with more investment and marketing. As a result, under the PSA agreement, SOCAR's share in the ACG Group was increased to 25 percent. In 2017, more than 70 percent of the total oil production of Azerbaijan was supplied by ACG fields (about 588,000 barrels per day). Meanwhile, in 2016, it was 630,000 barrels per day (U.S. Energy Information Administration, 2019: p. 2).

In 2018, compared to 2017, the total energy supply increased by 5 percent and produced 15.6 million tons of oil. In 2018, Azerbaijan produced 87.7 percent of energy products: 66.4 million tons of oil equivalent made primary energy products, 8.8 percent oil processing products, 3.7 percent heat and electricity, 68.7 percent of all primary energy products made crude oil (including gas condensate), 30.8 percent natural gas, 0.5 percent energy products produced on renewable energy sources (The State Statistical Committee of the Republic of Azerbaijan, 2021).

Since the beginning of the 21<sup>st</sup> century, Azerbaijan has experienced a very high level of economic growth, which not only sets it as an economic model in the Caucasus region but also introduces Azerbaijan as having the fastest economic growth rate among the countries formed after the collapse of the Soviet Union. Only from 2000 to 2014, the GDP of Azerbaijan has increased more than 14 times from 5.27 billion dollars in 2000 to 75.24 billion dollars in 2015. However, due to the drop in oil prices in the world markets, Azerbaijan's GDP fell to 53.07 billion dollars (Falkowski, 2018: p. 44). The low world oil prices from 2014 to 2016 severely affected the Azerbaijani economy; it then resulted in the devaluation of the Azerbaijani national currency in 2015, followed by high inflation in 2016-2017 and the closure of several banks (International Trade Administration, 2019).

The world oil price has increased since late 2016 such that by the end of 2017 and the beginning of 2018, it soared to 65 dollars. The increase in the oil price to 65 dollars allowed the Azerbaijani economy to recover revenues and reserves in the country, which could affect the entire economy by the end of 2017. The mean oil price, which was around 57 dollars, allowed the country to balance the

economy with increasing oil revenues and helped save the economy from recession, with the GDP increasing by 1 percent in 2017 compared to the year before (Breban et al., 2018: p. 6). During this period, the Brent oil price reached 69.55 dollars, experiencing a 23.2 percent rise. With the improvement of oil prices, Azerbaijan's real GDP in 2018 grew by 1.4 percent, leading to a 1.4 percent growth in the non-oil sector and an increase in public investment (Export.gov, 2019). Meanwhile, the government had announced an inflation rate of 13.2 percent. Azerbaijan State Statistics Committee, which provides data on the consumer price index, reported that the inflation rate in 2017 had reached 12.5 percent compared to the same period in 2016. However, the inflation for 2018 was 2.3 percent and double-digit inflation occurred at the beginning and the end of 2015 due to the change in the Manat exchange rate. Moreover, the prices of consumer goods and services increased over a year by 12.9 percent compared to 2016. In 2017, the inflation rate was 16.9 percent for food products, 11.6 percent for non-food products, and 9.3 percent for services. Consumer price volatility also had negative public effects by reducing their purchasing power and increasing inflation (Breban et al., 2018: pp. 5-6).

The relationship between oil prices and GDP in Azerbaijan shows that its GDP in 2017 maintained the same rate of change in oil prices and increased with rising oil prices. Later, GDP showed an upward trend until the end of 2017. However, since the beginning of 2018, although oil prices have risen, GDP experienced a slight decrease thereafter. Changes in oil prices demonstrate the relationship between the growth of Azerbaijan's GDP and oil prices but the side effects of these indicators have been even greater due to the dependence of the non-oil sector on the oil sector, creating a domino effect for the economy of Azerbaijan. As a result, oil price fluctuations will change the economy of the country with a short period of delay.

#### 4. Conclusion

By ending the Cold War the nature of power has changed from military to economic power in the international system. Accordingly, this development shifted the attention of countries to the issue of security based on economic power in the form of a geoeconomic approach. Today, tensions and interactions between the countries indicate that the behavior of the countries in the international system is based on their economic power. Also known as the "land economy", geo-economics is rooted in geopolitics and evaluates the relationship between geography and economics. Geo-economics is one of the primary forces contributing to the each country's national security in international interactions. Furthermore, the existence of energy resources along with geopolitical factors, especially energy transportation lines, is one of the most important factors affecting the territorial economy of countries. In this regard, another variable that affects the national security of countries is economic security. Also, one of the reasons for paying attention to this issue in the present article is the relationship between

geoeconomic factors and their impact on economic security. Energy resources (especially oil and gas) and energy transportation lines, which attract investment in the energy sector, are important components of geo-economics. The Republic of Azerbaijan is located in the south of the Caucasus, bordered by the Caspian Sea to the east, Armenia and Georgia to the west, Russia to the north, and Iran to the south. After its independence, Azerbaijan has been able to achieve favorable economic growth using its oil and gas energy capacity.

The results of the present study stress the importance of energy resources including oil and gas industries and the investments made through the export of oil and gas by the Republic of Azerbaijan to its neighbors and even the supply of European energy in the field of oil in terms of geo-economics. In this study, which covers the period 2015-2018, indicators such as exports, foreign direct investment, economic growth, and inflation were considered and examined as factors affecting economic security. We also investigated the growth of these indicators in relation with oil and gas energy resources as well as energy transportation lines of the Republic of Azerbaijan. Since the production and exportation of crude oil and natural gas play an essential role in the economy of Azerbaijan, the decline in the price of oil in 2014 reduced government revenues. According to the State Oil Fund of the Republic of Azerbaijan (SOFAZ), at the beginning of 2016, the country had 33.6 billion dollars in managed assets, which is 9.5 percent less than that of early 2015. Also, according to SOFAZ, oil revenues declined from 12.3 billion Manat in 2014 to 7.4 billion Manat in 2015, indicating a 40 percent reduction. Preliminary estimates of 2016 showed that the gas consumption and natural gas production in Azerbaijan has decreased by about 2.5 percent from 2015 to 2016. Investments have been improved in 2017, when the Production Sharing Agreement (PSA) for the main offshore fields of Azerbaijan-Chirag-Gunashli (ACG) was extended until 2049, suggesting that Azerbaijan has experienced more investment and recovery.

Regarding the indicators of economic growth and inflation, the obtained data and results showed that the low world oil prices from 2014 to 2016 have strongly affected the Azerbaijani economy. The decline in world oil prices has led to the devaluation of the Azerbaijani national currency (Manat) in 2015, high inflation in 2016-2017, and the closure of several banks. In 2017, the Azerbaijani economy improved thanks to rising oil prices in a way that, compared to the previous year, its GDP increased by 1 percent in 2017 and its real GDP in 2018 grew by 1.4 percent.

The relationship between oil prices and economic security indicators in the present study, especially the economic growth index or GDP in Azerbaijan, shows that Azerbaijan's GDP in 2017 maintained the same rate of change in oil prices and increased with the rising of oil prices. Moreover, by the end of 2017, GDP maintained an ascending trend. However, since the beginning of 2018, although oil prices have been rising, this trend has slowed down thereafter. The fluctuations in oil prices demonstrate the connection between the growth of

Azerbaijan's GDP and world oil prices. Nevertheless, the side effects of these indicators are even greater because the dependence of the non-oil sector on the oil sector creates a domino effect on the economy in the case of Azerbaijan; Azerbaijan's economy will respond to any change in oil prices within a short time period. Other indicators (i.e., exports, production, foreign direct investment, and inflation) of economic security are also affected by the geoeconomic components of the Republic of Azerbaijan (i.e., oil and gas energy resources and transmission lines). Although with the decrease in oil prices, the volume of exports and subsequent government revenues decreased, the country could improve its economy with the investments made in 2017. Finally, it can be said that although the existence of energy resources is considered as a geoeconomic component of the Azerbaijani economy, the optimal use of these resources entails employing appropriate strategies and making proper investments in this field.

A noteworthy point in this regard is that the advantage of Azerbaijan is limited to having energy resources, regarding the special situation of this country in terms of geoeconomic approach in the specific situation of this country for exporting and transporting energy to European countries and the neighbors of Azerbaijan. Additionally, some other parameters are considered valuable in this regard because of strengthening and contributing to this issue. For instance, the growth of national income or the ability to attract foreign investment will be important as long as they can serve the mentioned goals. Undoubtedly, maintaining and promoting the position of Azerbaijan in terms of these indicators in this challenging region in terms of political, economic, and even military competition is an important issue for the future of this country.

### Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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