TURKIC STATES ECONOMY

Edited by Prof.Dr.Vusal Gasimli

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Editor: Prof. Dr. Vusal Gasimli

Publishing No.: 4963
Education No.: Economy 273
ISBN: 978-625-397-513-5
E-ISBN: 978-625-397-514-2
Edition: 1st Edition, September 2023

Nobel Publishing Group has been operating nationwide since 1984 and worlwide since 2011. Nobel publications are included in the catalogs of higher education institutions at national and international levels.

The responsibility of the chapters in the book belongs to the authors.

Executive Editor: Nevzat Argun -nargun@nobelyayin.com-
Publishing Coordinator: Gülfem Dursun -gulfem@nobelyayin.com-

Interior Designer: İrem Nur Özturhan -irem@nobelyayin.com-
Proofreader: Seval Sezer -seval@nobelyayin.com-
Cover Designer: Elvira Zeynalova-

Library Information Card

Gasimli, Vusal.

Turkic States Economy / Editor: Prof. Dr. Vusal Gasimli
1st Edition. X + 438 p. 16,5x24 cm. Includes references, no index.
ISBN: 978-625-397-513-5
E-ISBN: 978-625-397-514-2
1. Organization of Turkic States 2. Regional Value Chain 3. Zangezur Corridor

General Distribution

ATLAS AKADEMİK BASIM YAYIN DAĞITIM TİC. LTD. ŞTİ.
Address: Bahçekapı Mh. 2465 Sk. Oto Sanayi Sitesi No:7 Bodrum Kat, Şaşmaz/ANKARA
Phone: +90 312 278 50 77 - **Fax:** 0 312 278 21 65
Sales: siparis@nobelyayin.com- **E-Sales:** www.nobelkitap.com - esatis@nobelkitap.com
www.atlaskitap.com - info@atlaskitap.com

Points of Delivery and Sales: Alfa, Kırmızı Kedi, Arkadaş, D&R, Dost, Kika, Kitapsan, Nezih, Odak, Pandora, Prefix, Remzi

Printing and Binding: Meteksan Matbaacılık ve Teknik Sanayi Tic. Anonim Şirketi / Sertifika No.: 46519
Beytepe Köy Yolu No.: 3 06800 Bilkent-Çankaya/ANKARA

Organization of Turkic States

Center for Analysis of Economic Reforms and
Communication of the Republic of Azerbaijan

This book is a publication of the Center for Analysis of the Economic Reforms and Communications of the Republic of Azerbaijan in Collaboration with the Organization of Turkic States

AUTHORS OF THE BOOK

Vusal Gasimli, Ramil Huseyn, Rashad Huseynov, Joshgun Jafarov, Ayaz Museyibov, Ayhan Satiji, Agil Asadov, Fuad Ganbarov, Ruslan Sultanov, Dolores Tyulebekova, Bayan Abdrakhmanova, Yernar Serik, Kymbat Akhmetzhanova, Indira Beisekeyeva, Aziza Kassenova, Yugay Larisa Vikentievna, Koychueva Merim Turarovna, Abdiev Ilimbek Atantayevich, Mehmet Yuce, Muhammed Celik, Neslihan Kızıler, Yuksel Okşak, Khakimov Obid, Kholmukhamedov Muhsinjon, Asadov Khurshed, Usmonov Qahramon, Mamirov Aziz, Artikov Afzal, Olimjonov Odil, Kutbitdinov Yuri, Laszlo Vasa, Peter Barkanyi, Gunay Guliyeva, Erhan Turbedar.

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The book is edited by Vusal Gasimli
Coordinator: Ayhan Satiji

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PREFACE

The Secretary General of the Organization of Turkic States, H.E. Ambassador Kubanychbek Omuraliev

It is with great pleasure and pride that I introduce this remarkable book, "Turkic States Economy," which stands as a roadmap for economic cooperation and development among the members of the Organization of Turkic States (OTS). As the Secretary General of the OTS, I believe this publication holds immense significance in shaping the future of our region and beyond.

It is our responsibility to establish a pathway that incorporates economic integration and sustainable growth in the swiftly shifting economic environment of today. This book reveals the mechanics of foreign direct investment, trade flow, and the possible effects of large economic corridors in the OTS region as it explores through the complexities of our economic environment.

The Turkic World, with its rich historical and cultural ties, encompasses a diverse group of nations that share common goals and aspirations for progress. In the face of globalization's transformative impact and geopolitical shifts, it becomes imperative for us to explore avenues of collaboration that can lead to sustainable economic growth and shared prosperity. This book emerges as a comprehensive guide, spanning a multidisciplinary approach, to analyze various facets of the Turkic States' economies. From institutional arrangements and trade dynamics to investment patterns and economic corridors, the research conducted here is a testament to the scholars' dedication and expertise. Meanwhile, throughout its pages, "Turkic States Economy" lays the groundwork for understanding the complexities and nuances that shape our economic landscapes. By exploring country-specific profiles, this volume provides a nuanced understanding of each member state's economic strengths, challenges, and potential areas of cooperation.

As Secretary General of the OTS, I firmly believe that this academic endeavor will be a valuable resource for policymakers, scholars, practitioners, and all those interested in the economic landscape of the Turkic States. The insights presented in this book have the potential to shape economic policies, foster diplomatic ties, and drive sustainable development within our region.

I would like to express my sincere gratitude to the renowned scholars, organizations, and think tanks who have supported this academic endeavor. Their commitment to expanding our knowledge of the economics of the Turkic States is admirable, and they significantly advance the subject of regional economic studies. The readers of "Turkic States Economy" will find this volume to be both academically stimulating and inspiring in their pursuit of economic progress and cooperation.

Let's imagine a future where our shared strengths and aspirations lead us to greater economic resilience and prosperity as we examine the nuances of our respective economies. May this book act as a spark for additional discussion, cooperation, and investigation of the unrealized possibilities in the Turkic World. Together, as we embark on this journey of knowledge, let us forge a path that leads to a brighter and more interconnected future for the Turkic States and the broader global community.

Organization of Turkic States

INTRODUCTION

Prof. Dr. Vusal Gasimli

Executive Director of the Center for Analysis of Economic Reforms and Communications of the Republic of Azerbaijan

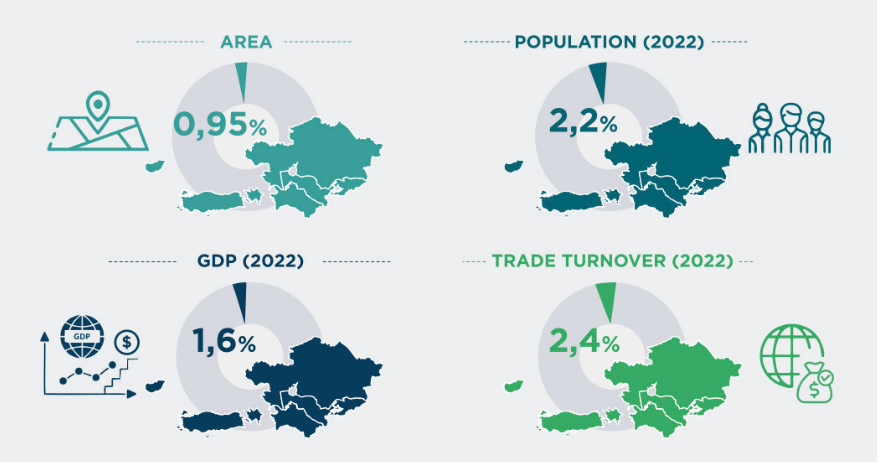
The book you are holding in your hand is a roadmap for Turkic States economic cooperation and development. The question of whether economic integration among the members of the Organization of Turkic States (OTS) is necessary and viable arises in a world where two opposing trends, globalization and fragmentation, are in competition.

The new world economic order represents a transformative period in the global economy, driven by globalization, power shifts towards emerging economies, technological advancements and climate change. As the world navigates these changes, it is crucial OTS countries to adapt and harness the opportunities presented by this new era. By embracing innovation, promoting inclusivity, and adopting sustainable practices, we can shape a more prosperous and equitable future for all. After the Cretaceous–Paleogene extinction event, which occurred approximately 66 million years ago, some organisms managed to adapt and survive. Just as organisms adapt to changes in their environment, economies must also adjust to the evolving global economic landscape. By fostering economic cooperation, promoting technology and innovation, supporting sustainable development, encouraging cultural exchange, and facilitating political cooperation among member states OTS's efforts could contribute to the adaptation and resilience of member economies in the new world order (Figure 1 and Figure 2).

Figure 1. General Overview of the OTS Members and Observers

Source: *CAERC, Turkic Economic Outlook*

Figure 2. Share of OTS Members and Observers in the World



Source: *CAERC, Turkic Economic Outlook*

The increasing rivalry among world major powers has negatively impacted the effectiveness of formal collaborations involving multiple nations. This trend is also evident in less structured platforms such as the G7, G20, and BRICS. However, amidst these challenges, new dynamics have emerged in the world. For instance, the official documentation highlights that the OTS operates through various principal organs, including the Council of Heads of State, the Council of Foreign Ministers, the Council of Elders, the Senior Officials Committee, and the Secretariat. The organization's activities are further supported by related and affiliated institutions such as the Parliamentary Assembly of Turkic Speaking Countries (TURKPA), the

International Organization of Turkic Culture (TURKSOY), the International Turkic Academy, the Turkic Culture and Heritage Foundation, the Turkic Business Council, the Turkic University Union, and the Turkic Chamber of Commerce and Industry.

The central question regarding Turkic States revolves around their utilization of existing integration platforms while simultaneously exploring new integration avenues within the Organization of Turkic States. This phenomenon aligns with what O'Reilly and Tushman refer to as ambidexterity. By shedding light on this aspect, the challenges faced by Turkic States have motivated us to undertake this research, which is backed by esteemed think tanks from all OTS members. The ultimate outcome of Turkic States' endeavors to achieve economic co-opetition, a combination of cooperation and competition, remains uncertain. The fact that competitors are increasingly collaborating to balance risks and rewards adds an interesting dimension. Nevertheless, there are numerous potential benefits to enhanced economic cooperation, making it an issue that policymakers are likely to prioritize in the foreseeable future.

Pankaj Ghemawat asserts that globalization has brought people, countries, and markets closer together to an unprecedented extent, leading us to believe that national borders are now obsolete remnants of the past (Ghemawat, 2007). However, upon a meticulous examination of the data, it becomes apparent that the world is far less integrated than previously believed. A recent document from MGI reveals that the growth in global flows is currently propelled by intangible assets, services, and talent. The prevailing geopolitical dynamics are presenting considerable obstacles to global cooperation, which typically serves as a safeguard against global risks. As per the Global Trends 2040 Report by the US National Intelligence Council, it is unlikely for any single nation to dominate all regions or domains, and a wider array of actors will engage in competition to advance their ideologies, objectives, and interests. The world, depicted as Separate Silos, appears fragmented into several economic and security blocs of varying sizes and strengths, with a focus on self-sufficiency, resilience, and defense. These blocs revolve around key powers such as the United States, China, the European Union (EU), Russia, and a few regional players. In this context, regional organizations like the Organization of Turkic States assume crucial responsibilities. By promoting resilience at the regional level, they can have a cascading effect on enhancing global resilience within the multilateral system, which operates on a rules-based order. "Turkic World Vision-2040" announces: "We are living in an age that requires a strategic vision to recognize and address the rapid changes worldwide and their impact on us." Raghuram Rajan, a professor of finance, said security considerations had become "a front for all kinds of protectionism."

The growth rate of the KOF Globalisation Index, which assesses the economic, social, and political aspects of globalization, has experienced a deceleration over the past decade. Among the members of the Organization of Turkic States (OTS), Hungary emerged as the most globalized economy, scoring 83.83 on the KOF Globalisation Index and securing the 17th position in 2019. It was followed by Türkiye (56^{th}), Azerbaijan (72^{nd}), Kazakhstan (81^{st}), Kyrgyzstan (91^{st}) and Uzbekistan (131^{st}).

Diverse preferences regarding globalization stem from factors such as geo-economics, geo-politics, and the varied affiliations of OTS members with different regional structures. As globalization continues and overlaps with membership in various blocs, the OTS itself is growing stronger, fostering intensified direct relations among member states. Initially established in 1991 as a summit for the heads of Turkic States, the organization was founded as the Cooperation Council of the Turkic Speaking States in 2009 and transitioned from a council to an organization in 2021. With its headquarters in Istanbul, OTS aims to promote comprehensive cooperation among Turkic States.

Akinci mentioned that in the middle of Eurasia, which has been under foreign rule/influence for the past 200 years, the historical Turkic Belt stretching from the Mediterranean to the Pacific has revived again. Turkic Belt is situated in the Mackinder's Heartland laying at the center of the world island, covering more than 4.8 million km^2, in other words, bigger than EU's territory. If OTS would be country, with its 174 million people, $1.4 trillion GDP and $856 billion trade turnover, it included into top-ten.

Huntington (2000), Sachs (2000), Porter (1990) argues how culture influences development. Common historic and cultural ties are a key factor not only in developing relations among the Turkic people, but also in the cooperation of other nations that share kinship ties throughout the modern world.

We used graph theory to identify pairwise relations between Turkic States, which are made up of nodes that are connected by edges: Azerbaijan represents a node with higher degree centrality in terms of inflowing and outflowing foreign direct investment, while Türkiye represents a node with high degree centrality in terms of foreign trade. High degree centrality resembles the red apple ("Kızıl Elma"), which represents the main goal that OTS members pursue.

Having used the gravity model, we introduced the trade among OTS members as a function of the geographic distance, countries' economic size and sharing border: More distance as proxy of transport costs negatively impacts on trade among OTS countries, while GDP and sharing border are positively correlated with trade.

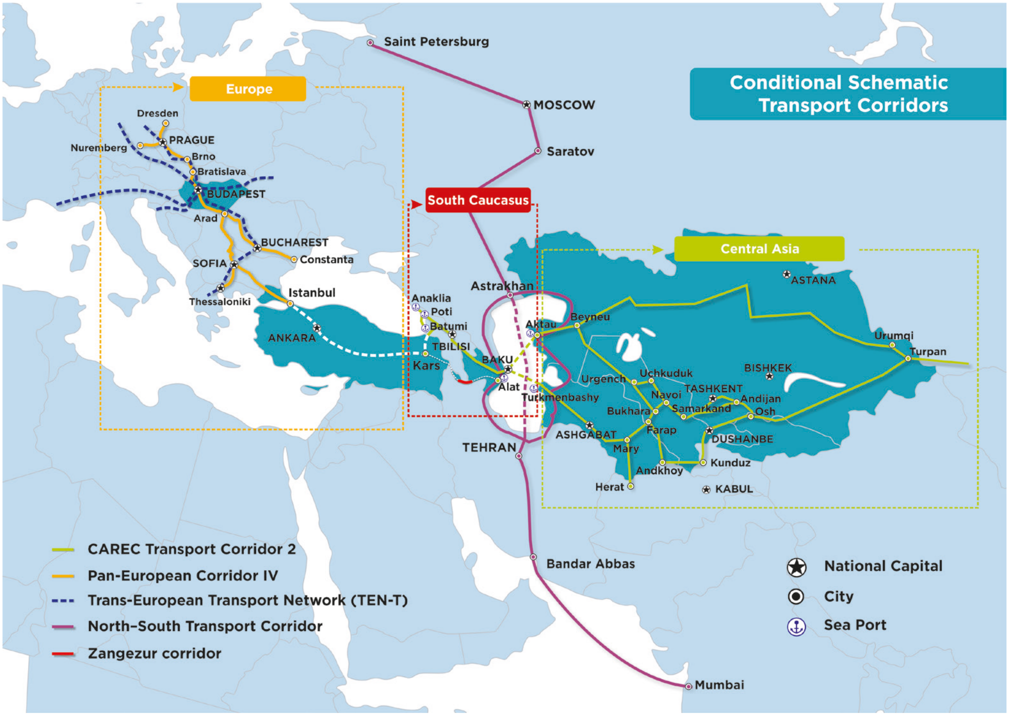
While the gravity theory is used to explain a variety of hypotheses, we found out that common language, as a powerful effect has the biggest impact on trade among others.

Radziyevska mentioned that the general number of regional agreements had increased quite significantly, from 445 in 2011 to 669 in 2018. The World Bank Group also encourages regional integration through trade, investment and domestic regulation; transport, ICT and energy infrastructure; macroeconomic and financial policy; the provision of other common public goods (e.g. shared natural resources, security, education). Based on the logic of the World Bank, we could say that members of the Organization of Turkic States within the regional integration could gain substantial economic gains, such as improve market efficiency; share the costs of public goods or large infrastructure projects; decide policy cooperatively and have an anchor to reform; have a building block for global integration; reap other non-economic benefits, such as peace and security. Satisfactory harmonizing policies and institutions may lead to efficient output, outcome and impact in terms of environmental, social and governance issues.

On the heart of Eurasia–Heartland, the Middle Corridor has potential to boost regional value chain (RVC) driven development, aligning context-specific RVCs with OTS's members' national development strategies. In this way, "Turkic World Vision-2040" can help OTS members to maximize their participation in Global Value Chains (GVCs). According to the World Bank, many diverse policy areas affect the success of GVCs. They include, among others, trade policy, logistics and trade facilitation, regulation of business services, investment, business taxation, innovation, industrial development, conformity to international standards, and the wider business environment fostering entrepreneurship.

There is enough potential to boost Turkic States intraregional trade share and global and regional value chain participation rates. Since regional value chains in the area covered by OTS covers simple networks, development towards value chains in high value added sectors is possible. Investment and trade agreements among OTS members and aligning them along the Middle Corridor and lowering regulatory burden promote effective regional value chains. In its turn, efficient regional value chains would mitigate and adapt risks stemming from supply shocks and enable sustainable economic development. Investment in green industries, environmental goods and services, also improving resource efficiency and reducing carbon footprint in line with SDG were reflected in appropriate agreements within the OTS.

Figure 3. Conditional Schematic Transport Corridors of the Turkic World



Source: *CAERC, Turkic Economic Outlook*

Business remains highly concerned about the persistent obstacles encountered within supply chains. The turmoil caused by recent disturbances after COVID-19, the growing intricacy of supply networks, and the rapid progress in data analytics have expedited the requirement for a fresh perspective on comprehensive planning from start to finish. Turkic States could frequently encounter difficulties in aligning their decision-making processes with the evolving dynamics across the entire value chain.

Empirical assessments show that deeper financial integration of OTS members would convert and allocate more savings into investments. Therefore, there is a room to improve regulations on financial interconnectedness and macroprudential arrangements. As investment frameworks become more ambitious in their climate policy, economies could pursue introducing a model agreement or "opt in" mechanism—a multilateral agreement where economies can flexibly join to modify old agreements—which includes substantive standards on environmental protection and access to investor–state dispute mechanisms in climate-related cases.

Islamic finance could serve as a catalyst for economic development and integration among Turkic States by providing a framework that aligns with Islamic values, mobilize savings, promote financial inclusion, support trade and investment, develop capital markets, and encourage collaboration. Its principles and practices contribute to sustainable and inclusive economic growth, while preserving cultural and religious identities within the region.

After analyzing social constructivism, which covers the roles of international organizations in norm-emergence, norm-creation and standard-setting, Ahmed Yesevi argued that OTS has acted as a successful teacher and norm-creator, as a result, Turkicness has become a collective identity, and the values of collaborative culture and collective action have been internalized.

Based on the Organization of Turkic States (OTS) Strategy for 2022-2026, economic cooperation among OTS members primarily focuses on trade facilitation. This includes measures such as exploring potential Free Trade Agreements in Services and Investment, digitizing trade procedures, ensuring transparent rules and regulations, and facilitating trade-related information exchange. OTS aims to collaborate with regional and international organizations to enhance trade facilitation, establish Turkic Trade Houses, and organize Turkic World Trade Exhibitions. The strategy places significant emphasis on private sector cooperation, with key objectives such as strengthening the role of the Turkic Chamber of Commerce and Industry (TCCI) in advancing economic opportunities, enhancing the institutional and legal frameworks of national chambers of commerce and industry, hosting Turkic Business Forums and business-oriented events, establishing sectoral assemblies, and promoting large-scale investment opportunities. The strategic vision for industrial development entails engaging in policy dialogues to modernize and diversify the industrial structure, promoting green transformation, cooperating with regional and international organizations in the field of industrial development, and establishing Engineering and Technology Centers. The OTS strategy also recognizes the importance of small and medium-sized enterprise (SME) development and outlines modalities for promoting SMEs in specific sectors. Financial cooperation within OTS involves the establishment of the Turkic Investment Fund, increasing the usage of national currencies in trade among member states, reducing costs associated with sending and remitting money to maximize the benefits of remittances, accelerating intra-regional investments in the banking sector, fostering cooperation among financial markets, creating a favorable environment for private sector participation in financing key infrastructure projects, and enhancing collaboration among financial institutions. The strategy places a strong emphasis on investment promotion, including improving the investment climate in member states, boosting intra-regional investment, initiating the development of joint regional brands/products in priority sectors, and encouraging the relocation of value chains or production from third countries to member states. Participation in Global Value Chains (GVCs) is also deemed significant. To facilitate the integration process, the strategy focuses on improving the labor market, promoting human capital development, and supporting intra-regional mobility of professionals.

Hence, the book, "Turkic States Economy", approaches the Turkic States as a whole economy and explains the relations among the Turkic States based on multidisciplinary and multidimensional approach. Moreover, the authors uniquely approach to the academic book in which a thorough examination of the macro- and microeconomic aspects of the economies of the Turkic States is presented in the first part of the book. This evaluation lays the groundwork for assessing the general state of affairs in the Turkic World, taking into account important economic indicators, trends, challenges, and prospects. The book also explores the distinctive features and dynamics of each independent Turkic State, examining its macroeconomic variables, trade patterns, investment climates, fiscal and monetary policies, and transportation and logistics industry. In order to comprehend the mechanisms of shared cooperation among Turkic States, areas of collaboration are identified and each state's unique position within the Turkic World is examined using a comparative methodology. Finally, the book explores the potential opportunities and future development perspectives within the Turkic World, shedding light on potential growth areas, innovative initiatives, and avenues for regional integration and sustainable development.

In the first chapter of the book, various aspects of the Turkic States' economy are being delved in particular focusing on the institutional basis and arrangements that shape their economic landscape within the framework of the Turkic World Vision-2040. The chapter also employs a gravity model approach to examine the factors influencing the multilateral trade flow among Turkic States, shedding light on the determinants of their trade dynamics. Additionally, the economic impact of the Zangezur Corridor on the Central Asian and South Caucasus region is explored, considering its potential to enhance economic relations between these regions and the European Union. Moreover, the chapter utilizes social network analysis and graph theory to analyze the dynamics of foreign direct investment within the Turkic World, providing insights into the interconnectedness and patterns of investment flows.

The second part of this unique work focuses on a country-specific analysis of the economies of Azerbaijan, Kazakhstan, Kyrgyz Republic, Türkiye, Uzbekistan, Turkmenistan, and Hungary within the context of their role in the Turkic World. The research takes into account a number of economic factors, including trade trends, investment patterns (especially net FDI), fiscal and monetary policies, GDP, GDP per capita, GDP based on PPP, GDP growth, and an overview of the transport and logistics industry. Moreover, the book investigates the trade relations of each country with the Turkic World, evaluates regional and national mega projects that impact their respective economies, and explores the cooperation and partnership status with other Turkic States. Additionally, potential areas of collaboration with other Turkic States for the future are identified and examined. By providing this country-specific analysis, the book serves as fascinating details about the economic environments of the Turkic States, their importance in the Turkic World, and the opportunities for cooperation and development both inside and outside the region.

All things considered, co-opetition can be a useful strategy in achieving economic integration and development among the Turkic States. By working together to achieve common goals while still competing in certain areas, the Turkic States can leverage their strengths and overcome their weaknesses. However, it will require careful planning and management to ensure that the benefits of cooperation and competition are balanced, and that all member states are able to benefit from the arrangement.

This book presents a comprehensive analysis of the challenges and opportunities facing the Turkic States in their quest for economic integration and development. It provides insights into the economic and social dynamics of the region, and identifies key strategies and policies that can help to achieve the goal of economic cooperation and development.

We hope that this book will serve as a valuable resource for policymakers, scholars, and practitioners. We believe that by working together and leveraging their strengths, the Turkic States can achieve sustainable development, and contribute to the prosperity and stability of the region and the world at large.

Its reading rush time and I hope this book will be read-in-one-sitting for book lovers all around the world, as well as, for those who are interested in the theme!

CHAPTER I

MACRO AND MICRO LEVEL ANALYSIS AND COMPARATIVE APPROACH OF SITUATION IN THE TURKIC WORLD

INSTITUTIONAL BASIS FOR ECONOMIC COOPERATION IN THE TURKIC STATES AND TURKIC WORLD VISION-2040

Dr. Ramil Huseyn,
Deputy Director of the Center for Analysis of Economic Reforms and Communications of the Republic of Azerbaijan

INTRODUCTION

The institutional basis for economic cooperation in the Turkic States has been shaped by a range of factors, including historical and cultural backgrounds, geopolitical contexts, and levels of economic development. Türkiye is the largest and most developed economy among these states. Azerbaijan is an oil-rich country that has been experiencing rapid economic growth in recent years, and whose government has implemented economic reforms aimed at diversifying the economy and reducing its dependence on oil revenues. Kazakhstan is the largest economy in Central Asia and has been implementing economic reforms to attract foreign investment and improve its business environment. Uzbekistan has recently undergone significant economic reforms aimed at liberalizing the economy and attracting foreign investment. Kyrgyzstan is a small economy with a heavy reliance on agriculture, and the government has been implementing economic reforms aimed at attracting foreign investment and improving the business environment.

The Turkic States are widely represented in numerous global and regional organizations, including the United Nations (UN), which has six Turkic States as members. The UN is the largest global organization dedicated to upholding international peace and security. Currently, five Turkic States have united within the framework of the Commonwealth of Independent States. All six Turkic States actively participate as members of the Organization of Islamic Cooperation.

In addition to the above organizations, six Turkic States have formed another important regional economic organization—the Economic Cooperation Organization (ECO, 2023). With regard to international trade relations, the Turkic States actively cooperate with the World Trade Organization (WTO, 2023). Moreover, the Republic of Kazakhstan, the Kyrgyz Republic, and the Republic of Uzbekistan engage in cooperative efforts within the frameworks of the Eurasian Economic Union and the Shanghai Cooperation Organization.

The Organization of Turkic States (OTS) is especially important as a regional organization that brings together the six Turkic States. The Republic of Türkiye, the Republic of Azerbaijan, the Republic of Kazakhstan, the Republic of Kyrgyzstan, and the Republic of Uzbekistan are full members of the OTS, while the Republic of Turkmenistan and Hungary hold observer status, along with the Turkic Republic of Northern Cyprus.

In recent years, cooperation among the Turkic States has significantly advanced. The Samarkand Declaration, adopted at the conclusion of the Ninth Summit of Heads of State, held in Uzbekistan on November 11, 2022, underscored their determination to deepen and expand cooperation within the framework of the OTS, based on shared history, language, culture, traditions, and the values of the Turkic peoples. Notably, the number of countries participating in these cooperative efforts has increased from four in 2018, to seven at present, highlighting the growing role and significance of collaboration.

These summit meetings by Turkic heads of state have contributed to the gradual construction of institutions for cooperation among the Turkic States. Between 1992 and 2009, eight summit meetings were held, followed by five summit meetings from 2009 to 2017. And in the last six years, six meetings of heads of state have taken place (Amervey, 2022). These encounters have laid the foundation for the progressive formalization of cooperative mechanisms among the Turkic States. It is undeniable that the OTS can play a pivotal role, surpassing that of other international organizations, in the economic development and strengthening of the independence of the six member and three observer Turkic States. In this regard, the enactment of the *Turkic World Vision-2040*, a document initiated and adopted by the OTS, occupies a place of exceptional importance. One of the aims of this crucial document is to contribute to the economic integration of the Turkic World (Vision-2040, 2021).

COOPERATION BY TURKIC STATES WITHIN THE FRAMEWORK OF INTERNATIONAL ECONOMIC ORGANIZATIONS

At present, multilateral economic cooperation among the Turkic States is growing. These states are actively engaged as members of various global and regional economic organizations, fostering cooperation within their respective frameworks. For example, the Turkic States are actively strengthening their collaboration with the World Trade Organization (WTO) to enhance trade relations. The Republic of Türkiye, the Republic of Kazakhstan, and the Kyrgyz Republic are already established members of the WTO (WTO, 2023). Meanwhile, the Republic of Azerbaijan, the Republic of Turkmenistan, and the Republic of Uzbekistan are in the process of negotiating their membership as observer states, demonstrating their intent to deepen their involvement and benefit from the advantages of WTO membership.

Table 1. Some of the Global and Regional Organizations of which the Turkic States are Members or Observers

Economic Cooperation Organization	Eurasian Economic Union	Organizations of Turkic States	Commonwealth of Independent States	Shanghai Cooperation Organization	World Trade Organization	Organization of Islamic Cooperation
Türkiye, Azerbaijan Republic, The Republic of Kazakhstan, Kyrgyz Republic, Turkmenistan, The Republic of Uzbekistan	The Republic of Kazakhstan, Kyrgyz Republic	Türkiye, Azerbaijan Republic, Republic of Kazakhstan, Kyrgyz Republic, Republic of Uzbekistan	Azerbaijan Republic, Republic of Kazakhstan, Kyrgyz Republic, Republic of Uzbekistan	Republic of Kazakhstan, Kyrgyz Republic, Republic of Uzbekistan	Türkiye, Republic of Kazakhstan, Kyrgyz Republic	Azerbaijan Republic, Republic of Kazakhstan, Kyrgyz Republic, Turkmenistan, Republic of Uzbekistan
	Observer state -Republic of Uzbekistan	Associate Member -Turkmenistan, Turkish Republic of Northern Cyprus	Observer member- Turkmenistan		Observer -Republic of Azerbaijan, Turkmenistan, Republic of Uzbekistan	

One of the regional organizations of which all six Turkic States are members is the Economic Cooperation Organization (ECO, 2023). This organization was initially established in 1964 under the name Regional Cooperation for Development (RCD) by Iran, Pakistan, and Türkiye. In 1985, it was renamed the Economic Cooperation Organization (ECO). Subsequently, in 1992, following the dissolution of the Soviet Union, five former Soviet republics, namely, the Republic of Azerbaijan, the Republic of Kazakhstan, the Republic of Kyrgyzstan, the Republic of Turkmenistan, and the Republic of Uzbekistan, joined the organization (ECO, 2023).

Since 2012, the Turkic Council has enjoyed close relations with the Economic Cooperation Organization. At the ECO Summit held on October 16, 2012, the heads of state "welcomed the Council's endorsement of observer status to the Cooperation Council of Turkic Speaking States" (Summit Declaration). Observer/ Dialogue Partnership status was granted by the Economic Cooperation Organization to the Turkic Council for an initial period of three years, which will be renewed every three-year period (Turkic Council, 2020, p.121). In 2018 the Council of Ministers approved the renewal of the Turkic Council's observer status for the second time (Turkic Council, 2020, p.121).

Of the regional organizations in which the Turkic States participate, the Organization of Turkic States is the youngest. The Organization of Turkic States, or, under its former name, the Cooperation Council of Turkic-Speaking States (Turkic Council), is an international organization established by the Nakhchivan Agreement among Azerbaijan, Kazakhstan, Kyrgyzstan and Türkiye, signed in Nakhchivan on October 3, 2009 (Turkic Councıl, 2019; Schnitzer, 2017). Uzbekistan announced its intention to join on April 30, 2018, and became a member of the OTS on September 14, 2019. Hungary and Turkmenistan joined this organization as observer states, and, in 2022, the Turkish Republic of Northern Cyprus was granted the same status.

The most important development in formalizing administrative structures for cooperation among the Turkic States occurred at the summit of heads of state held in Istanbul in 2021. The Turkic Council became the Organization of Turkic States (OTS) and was transformed into a full-fledged international organization. Its stated purpose is to strengthen the unity of peoples who speak the same language and live in a similar cultural environment, as well as to create a new regional all-Turkic union for the strengthening of political, trade and economic relations (OTS, 2023a). With the establishment of the OTS, the Turkic World has become actively engaged in implementing its regional policy.

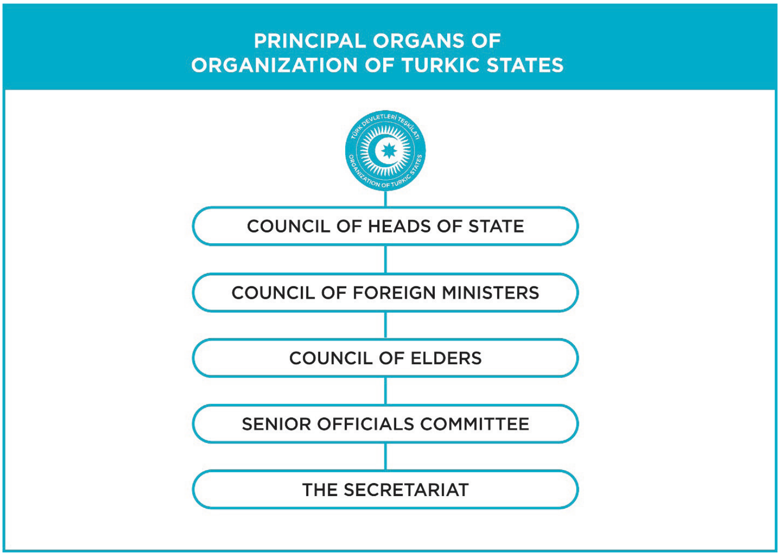
THE INSTITUTIONAL STRUCTURE OF COOPERATION AMONG TURKIC STATES

The Ninth Summit of the Heads of State was held in Samarkand, Uzbekistan, on November 11, 2022, where participants adopted the new Rules of Procedure for the OTS. Further, the *2022-2026 OTS Strategy* was endorsed as part of the *Turkic World Vision-2040*.

Currently, the administrative and functional mechanisms of the OTS are being formed. The OTS has three centers, Istanbul, Baku and Astana. The general secretariat is located in Istanbul, the parliamentary assembly in Baku, and Astana hosts the Turkic Academy. There is a representative office in Budapest. The heads of state of the countries meet once a year officially and once unofficially in different cities. The main decision-making body of the OTS is the Council of Heads of State. The country holding the current chairmanship of the organization also serves as chair of the Council.

ORGANIZATION CHART

Principal Organs of the Organization of Turkic States



The Council of Foreign Ministers (CFM) discusses issues relevant to the current activities of the Turkic Council, presents international issues for discussion in the frame of the CHS meetings, and approves the staff matrix and financial report of the Secretariat. The CFM meets on a regular basis outside the Summits.

In addition, the OTS brings together member countries through its many high level institutions for the purpose of political dialogue, technical cooperation, and joint action. These institutions include the Council of Ministers of Foreign Affairs, the Committee of High Ranking Persons, and ministerial conferences. The Council of Foreign Ministers oversees general operations and financial matters. The Committee of High Ranking Persons coordinates work (tasks) and sends draft documents to the Council of Foreign Ministers for acceptance and to the Council of Heads of State for approval. The structure and responsibilities of the Organization's Council of Elders have recently been extended, and it now functions as a permanent advisory body (Amervey, 2022).

Within the framework of the OTS, the Secretariat acts as the executive institution in implementing the decisions of the heads of state and assists the governments in implementing the measures agreed upon in other high level forums. It also provides input into the decisions taken by the heads of state.

The Senior Officials Committee (SOC) is an authorized decision-making body of the Turkic Council. Its main purpose is to coordinate the activities of the Secretariat, as well as to consider and endorse draft documents, initiated by the Secretariat before their submission for adoption by the CFM and approval by the CHS.

The affiliated organizations of the Turkic Council are:

- TURKPA;
- TURKSOY;
- Turkic Academy;
- Turkic Culture and Heritage Foundation (Turkic Council, 2020).

The OTS serves as an umbrella for organizational dialogue, technical support and joint political negotiations with its many high-level institutions. The Foreign Affairs Management Council and the Committee of Senior Officials have remarked on its role in achieving several goals. The External Management Board oversees general operations and financial matters. Cases and documents related to the projects of the Committee of High Ranking Persons are forwarded to the Council of Foreign Affairs and as well as to the Council of Heads of State.

Recently, several bilateral documents related to strategic cooperation have been signed between Turkic States. For example, the *Agreement on Strategic Partnership and Mutual Assistance between the Republic of Azerbaijan and the Republic of Türkiye* was signed on August 16, 2010. The *Shusha Declaration of Alliance* between the Republic of Azerbaijan and the Republic of Türkiye was signed by the Presidents of Azerbaijan and Türkiye in Shusha on June 15, 2021 (Shusha Declaration, 2021). The Declaration is significant for stating that efforts will be combined for the advancement of mutual activities aimed at the sustainable development of the Turkic World at the regional and international levels.

In order to further strengthen Turkic solidarity, Türkiye and Azerbaijan will promote the activities carried out within the framework of the Cooperation Council of Turkic Speaking States, the Turkic Academy, the Turkic Culture and Heritage Foundation, TURKSOY, and the Parliamentary Assembly of Turkic Speaking Countries. At the same time, dozens of important bilateral agreements were signed, including the *Agreement on Trade and Economic Cooperation* between Azerbaijan and Kazakhstan, the *Agreement on Industrial Cooperation* between Azerbaijan and Uzbekistan, and the *Agreement on the Promotion and Mutual Protection of Investments* between Azerbaijan and Kyrgyzstan.

It is clear that the *Turkic World Vision-2040* is fulfilling a vital role in strengthening the cooperative endeavors among the Turkic States.

CONTRIBUTION OF THE *TURKIC WORLD VISION-2040* TO THE DEVELOPMENT OF ECONOMIC RELATIONS BETWEEN MEMBER COUNTRIES

At the Istanbul summit meeting of Turkic States, held on November 12, 2021, the heads of the states reached significant decisions towards unity of the Turkic World, and the *Turkic World Vision-2040* document was adopted. Amreyev, the Secretary General of the Organization of Turkic States, regards the adoption of the program spelled out in this document as a historic moment because it signifies the countries' commitment to implementing decisions crucial for the Turkic World. It serves as a roadmap to building a better future together through more open, systematic, and purposeful relations (Amreyev, 2022). Achieving the goals outlined in this document by 2040 can substantially contribute to the integration of the Turkic World, as it spells out aspects that will ensure future cooperation and unity across multiple fields.

The document calls for:

- Achieving full trade integration;
- Creation of a single investment space;
- Creating conditions for better use of digital technologies and the implementation of digital integration;
- Improvement of transport and energy connections.

In particular, within the framework of the *Turkic World Vision-2040,* member and observer states aim to become a strong regional economic group connecting the East-West and North-South trade corridors, thereby increasing the volume of trade. Various measures to facilitate trade are envisioned, such as eliminating tariff and non-tariff restrictions and increasing the share of the national currencies used in trade. This demonstrates their intention to work together toward reducing dependence on foreign currency and simplifying and harmonizing customs and transit procedures at border crossings (Vision-2040, 2021).

In addition, the Turkic States will liberalize their transport sectors and remove non-physical barriers to transport along the International East-West Central Transport Corridor, which crosses the Caspian Sea. The signatory states of the *Turkic World Vision-2040* have demonstrated their commitment to supporting the Fourth Industrial Revolution, utilizing digital technologies and artificial intelligence across various sectors and closely monitoring global processes. One significant aspect of the document is the establishment of strategic cooperation in the field of energy among the member states. The aim is to develop efficient cross-border electricity connections through an integrated grid system to meet the increasing electricity demand within the member states.

The OTS has also set ambitious goals in the tourism sector. Through collaborative tourism projects, efforts will be made to transform the member states into a regional tourism hub and fully leverage their tourism potential. They have committed to supporting investments in tourism infrastructure and the service sector to enhance the quality of tourism products and services.

The *Turkic World Vision-2040* also contains a special focus on agriculture. The document places importance on the development of sustainable agriculture in the region, increasing self-sufficiency in food production, and ensuring food security. Cooperation in the field of agriculture will be strengthened to enhance the potential for ecologically clean, sustainable, and organic agricultural practices. Furthermore, effective collaboration with international organizations in the agricultural sector is envisioned (Vision-2040, 2021).

The second part of *Turkic World Vision-2040* focuses primarily on economic matters, with economic integration being the central theme of the document. The Economic and Sectoral Cooperation section contains various subheadings, including economic cooperation, transport and customs, information and communication technologies, energy, tourism, health, environment, and agriculture.

The strengthening of the OTS signals the formation of a new economic powerhouse in the region. More than 155 million people reside in member countries of this organization, and their GDP amounted to $1138.5 billion US in 2021. In other words, these countries, representing two percent of the world's population, account for 1.2 percent of global GDP and 2.5 percent of trade turnover. Amreyev, the Secretary General of the Organization of Turkic States, emphasizes a number of significant initiatives aimed at simplifying trade, the liberalization of trade services, and the development of digital trade, which hold the potential to further enhance trade volumes. Total product exports among the OTS countries was $13.9 billion

US in 2016, and this figure reached $25.9 billion US in 2021 (Amreyev, 2022). The *OTS Trade Facilitation Strategy* has already been prepared, and efforts are underway to establish the Research Center for Trade Cooperation in Turkic States. To further strengthen economic cooperation among the Turkic States, the Republic of Kazakhstan has taken the initiative in creating a special economic zone called "TURANCEZ" in Turkistan. There is also backing for the establishment of the Turkic World Investment Forum as a platform facilitating B2B relations between investors from OTS member countries and third parties. The multilateral development of economic relations within the framework of the OTS will have a positive impact on improving the welfare of the region's peoples.

There is also significant potential for the Turkic States to expand trade relations with each other. Realizing the provisions of the *Turkic World Vision-2040* will create many new opportunities; thus it is in the interests of the Turkic States to pursue the goals outlined in the vision. Among the other provisions for increasing trade, the member states commit to establishing a safe transport connection between East and West through the International East-West Central Corridor, which passes through the Caspian Sea. Member states also declared their joint commitment to promoting the Zangezur Corridor, using a variety of international economic platforms. The inclusion of the Zangezur Corridor as a component of the OTS is not only important for Azerbaijan's interests, but also for the economic development of all OTS members (Huseyn, 2022).

The Summit of the Heads of State held in Samarkand on November 11, 2022, was important in a number of ways for the development of the OTS. This meeting focused on deepening economic cooperation, improving transport links, and advancing digitization to boost the socio-economic development of member countries. The adoption of a decision to create a simplified customs corridor between the members of the OTS was emblematice of the progress made at the meeting (Samarkand Declaration, 2022).

In conclusion, the present time provides increasingly favorable conditions for various forms of integration in the Turkic World, and this process will significantly contribute to improving the well-being of its peoples. The OTS serves as an important platform globally for strengthening cooperation and integration, by establishing itself as an international organization with a functional mechanism for further collaboration. The *Turkic World Vision-2040* addresses strategic issues from a comprehensive survey of the interests of the Turkic States. The realization of the objectives outlined therein will significantly advance the sustainable economic development of member states, foster complete trade integration, and establish a unified investment space. The initiative in establishing the Turkic Investment Fund aligns with these objectives. The strategy objective for the years 2022-2026 (Strategy, 2022) will be particularly important in implementing the *Turkic World Vision-2040*.

Specifically, the joint promotion of the Zangezur Corridor internationally and the declaration of the willingness of OTS members to support restoration, reconstruction, and reintegration efforts in liberated territories are vital issues from the standpoint of our country's interests. Simultaneously, the recent agreements on the creation of the International Combined Freight Transport and the Simplified Customs Corridor will further elevate the significance and efficiency of the Middle Corridor, thus contributing to the economic development of Azerbaijan. The Samarkand Declaration, signed at the Ninth Summit of the OTS (November 11, 2022), is particularly meaningful in this regard.

In our opinion, it is crucial to continue to implement the provisions of the documents adopted in subsequent stages, based on the *Turkic World Vision-2040*. Efforts should be intensified with a view to creating effective mechanisms that facilitate the full realization of the goals defined in these documents.

THE FACTORS AFFECTING TURKIC STATES' MULTILATERAL TRADE FLOW: A GRAVITY MODEL APPROACH

Rashad Huseynov,
Deputy Director of the Center for Analysis of Economic Reforms and Communications of the Republic of Azerbaijan

Foremost gratitude is extended to Ms. Afsana Haydarova for her invaluable contribution

INTRODUCTION

International trade is recognized as a driver of inclusive economic growth and poverty reduction in the 2030 Agenda for Sustainable Development, as well as an important means of achieving the SDGs (UNCTAD).

This part of the book explores the determinants of trade flows between Turkic States. To this aim, a gravity model is applied to annual bilateral trade between six countries throughout 2000–2021. The model is augmented with variables that are relevant in determining the volume and direction of trade using random effects approach. It is expected that this study will make contribution to the literature in terms of the following points. It is the first estimations made with the largest panel data set for Turkic States using the gravity model. Second, this study employs dummy variables created by considering economic and social conjuncture.

LITERATURE REVIEW

Although there has been a large volume of research conducted to examine the determinants of bilateral trade in case of many countries, trade blocks, regions etc., to best of our knowledge there are no academic paper has been published that aims to assess the determinants of the bilateral trade among Turkic States. Nonetheless, for some of the Turkic States there are few analyses are available in academic literature.

Antonuccia and Manzocch (2006) applied the gravity model to Türkiye's trade flows over 1967–2001. They also checked whether this type of models fits Türkiye's geographical pattern of trade in goods. Their main findings include: First, the gravity model provides a good fit of Türkiye's trade patterns, and second despite the 1963 Association Agreement and the customs union launched in 1996, there is no evidence of additional trade between Türkiye and the EU.

Julian and Hakan (2017) also applied gravity model in case of Türkiye. Authors analyzes the Turkish export and import flows with regard to regional clusters and bilateral trade costs by using a panel data gravity model. They used an unbalanced panel data for 180 countries over the period 1960–2012, compiled from the DOTS database and extended estimations by running the data at four different time intervals, each representing different economic or political regimes in Türkiye. Authors also repeated the same exercise at sectoral level for 176 countries over the period 1994–2010, using the BACI database. The gravity model is particularly good in explaining Türkiye's export and import flows, according to aggregate estimates, and all nearby regions, including the EU27, have a major influence on those flows. Additionally, we discover that the EU Customs Union has a mixed impact on Turkish exports and imports. Estimates at certain time intervals support aggregate estimates, while evaluations at the sectoral level show that while some regions contribute favorably to all or most sectors, others contribute poorly or provide mixed results.

Yuldashev and Moon (2018) use the gravity model to analyze Uzbekistan's trade patterns, and numerous policy inferences are drawn from this data. The estimated trade flows between Uzbekistan and the Ukraine, Russia, China, and South Korea are significantly higher than the actual flows, whilst the estimated trade flows between Uzbekistan and its neighbors (Tajikistan, Kazakhstan, Kyrgyzstan, and Azerbaijan) are significantly lower. This argues that Uzbekistan should work to boost trade with its neighbors, whether by participation in a free trade agreement among Central Asian nations or by strategically utilizing its neighbors who border the Caspian Sea and the Arabian Sea.

Allayarov et al. (2018) looked into the variables influencing Kyrgyzstan's bilateral trade flows with its primary trading partners and made an effort to forecast Kyrgyzstan's trade potential. The gravity model is used to evaluate Kyrgyzstan's trade with its 35 largest trading partners from 2000 to 2016. Then, the coefficients generated from the gravity-model estimation are utilized to forecast Kyrgyzstan's trade potential. The findings show that trade is positively impacted by Kyrgyzstan's and its partners' GDP, but negatively impacted by partners' population and distance. Predicted trade potential shows that Russia, China, Kazakhstan, Uzbekistan and Tajikistan still have a sizable amount of opportunity for trade.

Khitakhunov et al. (2017) determined the impact of Customs Union (Belarus, Kazakhstan and Russia) on regional trade with application of gravity model. By using data for the period of 2000–2015, authors show that impact of Customs Union on regional trade was negative, but insignificant. These results can be explained by the structural problems of the regional economy, unfavorable external conditions, low level of economic diversification and a short period of the Customs Union functioning.

Zeynalov (2017) examines how bilateral trade is impacted by similarities in economic size and institutional standing. The author wants to know if similarities in country size and institutional structure facilitate more bilateral trade between nations. The study finds that similarity of income size is required for growing bilateral trade across countries. It does this by using panel data of Azerbaijan's bilateral trade with 50 different countries from 1995 to 2012, estimating by random and fixed effects as well as the Poisson Pseudo Maximum Likelihood. The key result is that trustworthy nations prefer to trade more with each other and less with less trustworthy nations because high-quality rule of law and more corruption control increase confidence in international trade. Trade between unreliable nations is more than that between trustworthy nations. Bilateral trade between nations is reduced when institutional quality performance varies widely between nations. The findings indicate that a long-term agreement is one of the key indicators for exports of natural resources; as a result, distance may not have a substantial effect on bilateral trade relations.

Using the gravity model, Choi et al (2019) examines sustainable trade between China and Kazakhstan while applying the gravity approach. Their research shows that, rather than the absolute distance, the distance between the importer and exporter in relation to other trading partners has a considerable negative impact on trade volumes. Trade volumes are also influenced by other elements, such as the design and accessibility of free trade zones and unobservable elements associated to the features of the checkpoints. They build an enhanced gravity model that takes spatial effects and unique aspects of the commerce between China and Kazakhstan into account in order to arrive at these results.

Recently, Kimsanova and Herzfeld (2022) modified a Melitz-type structural gravity model for a small and open economy to examine the impact of agricultural policies (credit subsidies and tariffs) on agricultural trade flows. They examined bilateral agricultural trade flows between Kyrgyzstan and its 69 trading partners from 2007 to 2018. Using the Poisson Pseudo Maximum Likelihood estimator, they find that credit subsidies effectively increase international trade flows, whereas agricultural tariffs significantly reduce Kyrgyzstan's exports.

RESEARCH METHODOLOGY

There are various types of trade models that applies to ex post assessments and the gravity model falls under the category of an empirical model that examines the factors that influence interactions between trade partners. Tinbergen (1962) and Pöyhönen (1964) were the first to apply the gravity model to the study of international trade flows. The phrase "gravity model" refers to the Newtonian gravity concept, which means that elements are drawn together by a force that is inversely proportional to their square of the distance apart and proportional to their mass:

$$T_{ij} = \frac{G_i\, M_i\, M_j}{D_{ij}^2} \text{ .... (1)}$$

where T_{ij} is the force between masses, G_i is the gravitational constant, M_i and M_j are the masses of the elements, D_{ij}^2 and is the distance between the two masses.

While translating philosophy of the equation (1) into the trade theory means that the volume of exports from one country to another is directly proportional to that country's economic size because that size determines the supply and demand for exports and imports. Conversely, the distance between these countries is inversely proportional to that volume of exports because the cost of trade in goods increases with distance between partners.

According to the gravity models and their descriptions, the capacity of a market is represented by a country's GDP, while the production opportunities are reflected in the GDP of the exporting country. In general, the relationship between these two factors and trade volume is direct. Trade partners' distances are inversely proportional to one another.

The model developed for the purposes of this study is given below, where we have applied the basic structure of the gravity model, which is extended to account other variables including the dummy variables. This will allow us to better assess the determinants of the trade flows between countries under the loop of this study.

$$lnTR_{ijt} = a + \beta_1\, lnGDP_{it} + \beta_2\, lnGDP_{jt} + \beta_3\, lnDIS_{ij} + \beta_4\, lnPPL_{jt} + \beta_5\, lnPPL_{it} + \beta_6\, lnIMO_{ij} + \beta_7\, lnEXO_{ij} + \beta_8\, LNG_{ij} + \beta_9\, BRD_{ij} + \beta_{10}\, lnERT_{ij} + \varepsilon_{ijt} \quad (2)$$

- where $lnTR_{ijt}$ is the natural logarithm form of trade between partner countries over the years,
- $lnGDP_{it}$ and $lnGDP_{jt}$ represent natural logarithm of countries *i`s* and *j`s* GDP over the years,
- DIS_{ij} is the distance between country *i* and *j,*
- $lnPPL_{jt}$ and $lnPPL_{it}$ represent natural logarithm of population of country *j* and *i* over the years,
- $\beta_6\, lnIMO_{ij}$ and $\beta_7\, lnEXO_{ij}$ natural logarithm of trade openness of importer and exporter country over the years,
- BRD_{ij} is the dummy variable indicating the common border between countries *j* and *i* (if there are common border between *i* and *j* then 1, otherwise 0),
- LNG_{ij} is the dummy variable indicating the common (or very similar) language between countries *j* and *i* (if there are common language between *i* and *j* then 1 otherwise 0). Here, we are not considering the official languages rather very closely speaking language such as Azerbaijani and Turkish languages,
- $lnER_{ij}$ is the natural logarithms of exchange rate between *i* and *j*. The exchange rate variable is taken as annual exchange rate of the trading partner with respect to the USD,
- ε_{ijt} is the error term with white noise that is serially independent, homoscedastic and normally distributed.

The model has been estimated using random effect (GLS) approach. The rationale for employing random effect is based on its efficient estimates, which help in overcoming the shortcomings of OLS (Khayat, 2019). For instance, the fixed effect model is not used in this study because it is based on the assumption of homogeneity, which deviates from the study due to its inclusion of various developed and developing countries. The estimation of the model has been conducted using the Eviews.

DATA

The study covers all of the six Turkic States (Azerbaijan, Türkiye, Kazakhstan, Turkmenistan, Kirgizstan, Uzbekistan). The data used in the model are panel data and ranges between 2000-2021. The data for the economic indicators (annual) such as GDP, exchange rate and population has been taken directly from the World Bank. On the other hand, data for bilateral trade over the years has been taking from the UNCOMTRADE database. Some of the data were not available readily from any public sources. For instance, trade volume between Turkmenistan and Uzbekistan throughout 2010-2019 were not available, however, to overcome this shortcoming, we have extrapolated the volume of trade between these countries based on the past years. Also, GDP at current prices for Turkmenistan for 2020 and 2021 was not available. For the purpose of the study, we have used a forecast data for these years based on international institutions estimations.

The data on distance between countries are estimated to be the distance between capital cities of these countries and data on this has been adopted from the CEPII (Centre d'Études Prospectives et d'Informations Internationales). To be able to construct the data on dummy variables, we have referred some of the legislative acts, rules and regulations. To measure the openness of countries, we use a proxy where we first sum up total export and import and then divide it to the real GDP.

The bilateral exports and imports flow (average) of six countries are demonstrated in Table 1. The table is divided into two parts, the upper part shows the exports flow from country i to country j, and the lower part demonstrates the imports inflow of country i from country j.

Table 1. Bilateral Exports and Imports (Average) in Million USD in Six Turkic States

		Azerbaijan	Türkiye	Kazakhstan	Turkmenistan	Kyrgystan	Uzbekstan
Export	Azerbaijan		882.55	54.18	55.24	8.08	11.59
	Türkiye	1,457.07		737.63	869.84	245.62	506.56
	Kazakhstan	179.52	1,230.87		92.82	421.71	1,031.04
	Turkmenistan	71.62	355.06	76.04		5.06	136.36
	Kyrgystan	2.86	54.90	212.76	4.17		104.51
	Uzbekstan	11.60	672.17	486.27	53.80	203.72	
		Azerbaijan	Türkiye	Kazakhstan	Turkmenistan	Kyrgystan	Uzbekstan
Import	Azerbaijan		931.82	158.23	93.59	1.62	29.36
	Türkiye	304.14		1,134.28	366.51	58.87	642.67
	Kazakhstan	53.07	650.96		90.41	191.05	583.25
	Turkmenistan	62.81	944.59	99.06		4.66	54.03
	Kyrgystan	4.99	128.48	388.79	5.23		110.70
	Uzbekstan	5.32	676.91	1,136.92	147.46	47.68	

Source: *Author's elaboration based on UNCOMTRADE data*

The descriptive statistics for all variables used in the empirical analysis are provided in Table 2. It has depicted the means, standard deviation, minimum and maximum for the dependent variable and the independent variables for the entire sample.

Table 2. Complete Dataset Summary Statistics

Variables	Mean	Std. Dev	Min	Max
$lnTR_{ijt}$	19.07	1.89	13.78	22.05
$lnGDP_{it}$	23.81	1.24	21.03	26.18
$lnGDP_{jt}$	25.07	1.85	21.03	27.58
$lnDIS_{ij}$	13.54	1.25	10.55	16.15
$lnEXO_{ij}$	-1.41	1.64	-5.48	0.48
$lnIMO_{ij}$	-0.82	1.04	-5.48	0.48
$lnPPL_{jt}$	16.73	1.03	15.32	18.25
$lnPPL_{it}$	16.24	0.76	15.32	17.36
$lnERT_{ij}$	6.00	2.45	-0.24	9.26

Source: *Author's elaboration based on data collected from different sources*

EMPIRICAL RESULT

Before providing the results of the regression analysis, we present correlation matrix between all variables. It is found that, there is no evidence of multicollinearity based on the explanatory variables.

Table 3. Correlation Matrix of Dependent and Explanatory Variables

	LNTR_ijt	LNGDP_it	LNGDP_jt	BORDER	LANG	LNERT_ij	LNEXO_ij	LNIMO_ij	LNPPL_it	LNPPL_jt	LNDIS_ij
LNTR_ijt	1										
LNGDP_it	0.41	1.00									
LNGDP_jt	0.69	0.20	1.00								
BORDER	0.25	0.12	-0.25	1.00							
LANG	0.24	-0.12	0.08	0.47	1.00						
LNERT_ij	-0.14	0.23	-0.26	-0.09	-0.50	1.00					
LNEXO_ij	0.18	-0.23	-0.08	0.07	0.17	-0.03	1.00				
LNIMO_ij	-0.30	-0.44	-0.27	-0.18	-0.27	0.24	0.04	1.00			
LNPPL_it	0.63	0.04	0.91	-0.37	0.00	-0.32	0.11	-0.21	1.00		
LNPPL_jt	0.25	0.57	-0.08	0.12	0.00	0.05	-0.01	-0.12	-0.14	1.00	
LNDIS_ij	0.31	0.87	0.29	-0.11	-0.20	0.13	-0.27	-0.31	0.18	0.55	1.00

Source: *Author's elaboration*

The results of the estimation from the regression of random effect for bilateral trade as the dependent variable are presented in Table 4. It is worth to note that, all the variables of interest were estimated with the expected sign and the estimates for the gravity equation's "traditional" variables are consistent with previous studies in the academic literature, demonstrating that the sample is representative. Estimation results deliver relatively low fit with an R-square of 0.59. This suggests that 59% of the variations in the dependent variable are explained by independent variables. One should note that, a high R-square does not necessarily indicate the models' goodness of fit because adding a predictor to a model increases R-square (Kimsanova and Herzfeld, 2022). From the table it can be seen that all variables are significant at the 5% level except the variables related to the exchange rate, language and trade openness of imported country. In addition, F statistics also indicates that the model is significant at the level of all variables of estimates.

Table 4. Regression Results of the Gravity Equation

Explanatory variables	Coefficient	P values
Constant	-25.00	0.000
$lnGDP_{it}$	0.42*	0.000
$lnGDP_{jt}$	0.68*	0.000
$lnDIS_{ij}$	-0.62*	0.0011
$lnPPL_{jt}$	0.59*	0.000
$lnPPL_{it}$	0.91*	0.0002
LNG_{ij}	-0.01	0.980
BRD_{ij}	1.55*	0.000
$LnERT_{ijt}$	0.05	0.1375
$LnIMO_{it}$	0.16	0.1741
$LnEXO_{ijt}$	0.06	0.000
R^2	0.60	
Adjusted R^2	0.59	
F statistics	47.39	
No of observations	330	

Note: *i –exporter, jimporter.* **Source:** *Author's estimation*
** significant at 5% level*

In our analysis of the results, we consider that all other variables remain constant. In case of the countries' GDP coefficients, positive sign observed and the estimated coefficients are significantly different from zero, which is consistent with the academic literature. It is estimated that 1 percent increase in GDP of importer and exporter countries will lead to 0.42 percent and 0.46 percent increase in trade turnover among the Turkic States, respectively. As expected, distance coefficient is statistically significant, with a negative sign, proving that geographical distance is a significant resistance factor for bilateral trade among Turkic States. The result suggests that 1 percent reduction in distance between countries will result an increase in trade by 0.62 percent. Additionally, the regression results show that the coefficients for population has positive sign in our analysis, which means that population size has progressive relationship with the trade volume. This implies that the population rise in importing and exporting countries by 1 percent will contribute to trade growth by 0.59 and 0.91 percent, respectively. Empirical evidence suggests that countries that share the same language (or very similar) should have more trade with each other. However, the results of our estimations does not support this evidence, since relevant coefficient is not significant. This can be explained by the fact that some of the Turkic States use Russian language as a communication tool instead their own language. Having common borders also another determinant of the trade among Turkic States. Namely, having common border will push trade up by 1.55 percent.

Obviously, for the trade openness, the more open the country is, the more trade would be liberalized.

However, trade openness variable for importers is not a significant factor in explaining trade among the countries of interest. On the other hand, it is estimated that 1 percent increase in openness in exporting countries can cause increase of trade by 0.06 percent. This indicates that trade among these countries are fairly liberated nonetheless, there is still a room for further deepening the trade liberalization to promote trade.

On the outset, these results reinforce the validity of the gravity model of trade as a backbone of the empirical research on international trade.

CONCLUSION

The study used an extended version of the gravity model to analyze the determinants of trade among six countries while employing panel data analysis approach over the period 2000-2021. Random effects methodology is applied. The study concluded that GDP for importer and exporter, population for importer and exporter, destination countries were significant and signed positively. Furthermore, the study found that distance between countries has a negative impact on bilateral trade flows whereas common border increases significantly trade between countries.

FOREIGN DIRECT INVESTMENT AND TRADE DYNAMICS IN TURKIC WORLD IN THE CONTEXT OF SOCIAL NETWORK ANALYSIS AND GRAPH THEORY

Joshgun Jafarov,

Chief Specialist of the Center for Analysis of Economic Reforms and Communications of the Republic of Azerbaijan

INTRODUCTION

Economic integration and global economic activities heavily rely on trade and foreign direct investment (FDI) flows. Understanding and analyzing these dynamics are crucial for fostering economic ties and identifying opportunities for growth. This paper explores the dynamics of FDI in the Turkic World using social network analysis and graph theory. The aim is to investigate the mutual investments and trade relations among Turkic States and identify key players in the network.

In this paper, graph theory is introduced as a versatile tool to study economic networks, including trade and financial networks. Social network analysis and graph theory are applied to analyze FDI and trade networks in the Turkic World, where nodes represent countries and edges represent investment or trade connections. Thus, the centrality measures employed in the analysis, such as degree centrality (input and output), closeness centrality, betweenness centrality, and eigenvector centrality. These measures allow for the evaluation of node influence, distance, bridging roles, and relative effects within the networks.

The results demonstrate the centrality measures of Turkic States in both FDI and trade networks. Azerbaijan emerges as the main FDI hub, followed by Kazakhstan and Kyrgyzstan. In trade relations, Türkiye stands out as the central node due to its high degree centrality, indicating a wide variety of exported goods. The analysis also highlights the relationship between centrality and the relative comparative advantage index in trade.

LITERATURE REVIEW

The promotion of economic integration depends heavily on trade and investments in global. Trade gives nations the opportunity to specialize in the production of commodities and services in which they have a comparative advantage and to access a greater variety of goods at cheaper rates. Also, investments are crucial for integrating global value chains because they offer the resources required to build and sustain effective connections across various value chain segments. The fastest-growing economic activity in the global economy during the past 20 years have been international trading and foreign direct investment (FDI) flows. Since these two domains are considered important elements of economic integration, the analysis is empirically based on an analysis of the current situation in these areas.

Graph theory has numerous applications, ranging from engineering to sociology, and from biology to economics. There are many uses for graph theory in many different domains, including economical analysis, where it is used to study the characteristics and connections of economic networks.

The investigation of trade networks can also be conducted through graph theory. The nodes in a trade network are countries, and the edges between them are the trading connections between those countries. For example, L. De Benedictis, S. Nenci, G. Santoni, L. Tajoli, and C. Vicarelli (2014) investigated global trade relations and used centrality metrics to measure a country's influence within the global trade system via graph theory.

The study of financial networks is another area in which graph theory is used in economics. For instance, L.G.Lai, N.Thu.Quynh, A. Bayhaqi conducted social network analysis of FDI among 21 APEC countries and investigated relation between FDI and GVC participation.

Social networks are one of the most crucial concepts in graph theory. A set of items and the kind and scope of the connections, linkages, or interactions between and among them are collectively referred to as a social network. Data charts like line graphs and bar graphs are not considered graphs as used in graph theory. As opposed to this, it describes a collection of vertices (i.e., points or nodes) and edges (i.e., lines) that link the vertices. The term "directed graph," often known as a "digraph," refers to a graph in which each edge may, when appropriate, be given a direction. We used this type of graph to analyze foreign direct investments relations of Turkic States. This helps us identify FDI hubs in Turkic World countries.

We must keep in mind that a typical method of social network analysis directed graphs only takes into account binary relations, meaning that an edge connecting two vertices is either present or not. These graphs consider only one type of connection between nodes. So, the aforementioned plain technique leaves out some information regarding reciprocal links when there are many types of interactions between certain nodes. The usage of directed graphs in the circumstance of trade network does not produce results that are appropriate for our objectives since the trade relationship data covers more than one sort of relationship data. Multigraphs are graphs that allow for numerous edges and edge loops. Therefore, the trade relations between the countries of the Turkic World were analyzed using the multigraph approach.

In conclusion, graph theory has various uses in economics, like social network analysis, financial network analysis, and trade network analysis. Graph theory can shed light on these networks' behavior, structure, and effects on economic results. For this reason, the economic prospects among Turkic States were investigated using the elements of graph theory.

METHODOLOGY

Centrality measures are parameters used to evaluate the influence of nodes on relationships across the constructed FDI network. The most commonly used centrality measures are degree centrality (by input and output types), closeness, betweenness, and eigenvector centrality parameters.

- Degree centrality: Degree centrality aims to determine the number of direct connections of a node on the network and is a parameter used to identify the mğgain "players" on the network. Degree centrality, considered the simplest measure of centrality, can be calculated based on the following formula:

$$C_D'(p_k) = \frac{\sum_i^n a(p_i, p_k)}{n-1}$$

C_D is the degree centrality of any kth element, nn is the number of nodes in the network, p_k is any given kth node element in the network, p_i is the other network elements. n-1 in the formula determines the maximum possible number of connections for any element. With the activation function a, the result is converted to 0 or 1, depending on whether any node in the network is linked to other elements or not. Degree centrality has two types: input and output degree centrality types, according to the types of connections that enter the node element at the input and output.

- Closeness centrality: Closeness centrality measures the average "distance" from a node to all other nodes in the network and is used to identify a node that are more influential to all nodes in the network.

Closeness centrality can be calculated using the formula below.

$$C_C'(p_k) = \frac{n-1}{\Sigma_i^n d(p_k, p_i)}$$

$C_C$is the closeness centrality of any p_k -th element, nis the number of nodes in the network, $p_k$is any given k-th node element in the network, p_i is the other network elements. The d function determines the shortest distance of any k-th node element to all other connected node elements. In the FDI network, Azerbaijan has a closer average investment flow distance to other node elements in the context of closeness centrality.

- Betwennes centrality: Betweenness centrality determines how many times an arbitrary node in the network participates in the shortest distances of other nodes, or, in other words, how many times it plays the role of a bridge in the shortest inter-node distances. Betweenness centrality can be calculated using the following formula:

$$C_B'(p_k) = \sum_{s,t \in V} \frac{\sigma(s,t / p_k)}{\sigma(s,t)}$$

C_B— is the betwennes centrality of any p_k -th element, V -is the set of all nodes, σ (s, t)is all the shortest distances on the corresponding nodes, σ (s, t / $p_{k)}$ -is the shortest distance with the participation of the p_k-th node.

- Eigenvector centrality, also known as eigencentrality, measures a node's degree of centrality while accounting for the transitive effects of other nodes. In other words, this measure allows for the evaluation of relative effects, taking into account the "popularity" of the respective nodes in the centrality calculation. Links with high-influence nodes have a greater positive effect on the centrality measure than low-influence nodes. To calculate the eigenvector centrality, first an adjacency matrix including all nodes is constructed. After that, centrality scores are determined, which determine the influence of the vertices of the matrix in which each node is located:

$$x_v = \frac{1}{\lambda} \sum_{t \in M(v)} x_t = x_t = \frac{1}{\lambda} \sum_{t \in V} a_{v,t}\, x_t$$

If we define A=(av,t) as the adjacency matrix (consisting of values 1 if the corresponding vertices are connected and 0 otherwise), the above expression can be defined in eigenvector form as follows:

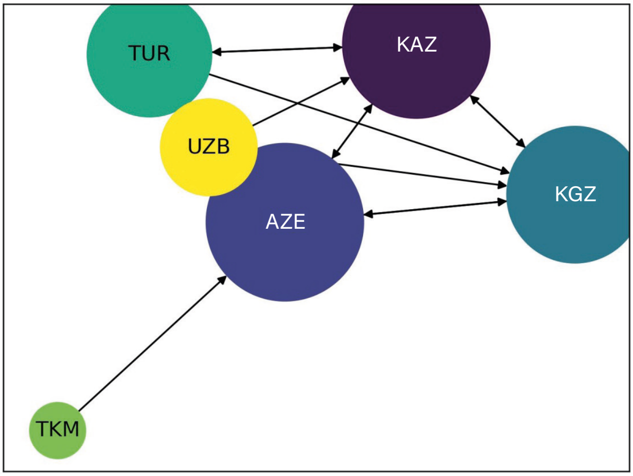
$$A = \lambda x$$

The non-negative greatest entries of the eigenvalues that can be obtained from the last mentioned formula are obtained through the Perron-Frobenius theorem, and the mentioned eigenvector centrality measure is calculated.

RESULTS

Foreign direct investments are considered one of the most widespread forms of economic integration. Mutual investments among Turkic World nations are crucial for fostering economic ties. The authors conducted a social network analysis using the capabilities of graph theory in the evaluation of foreign direct investments among the countries of the Turkic World. The Coordinated Direct Investment Survey (CDIS) database provided by the International Monetary Fund was used for the analysis. The given database indicates the current status of mutual foreign direct investments as of the end of the period. In the analysis, in order to avoid the effects of the pandemic on the world economy, 2019 was taken as the base period, and the network was built based on the data of that period. The social network analysis treats each country that makes up the Turkic World as a separate node. In the social network analysis, 15 direct investment links were identified for 6 countries of the Turkic World based on the database data. In the network built on the basis of these investment connections, the size of countries or nodes is scaled according to their degree centrality (Figure 1).

Figure 1. FDI Network among Turkic States



The parameters of the network according to different types of centrality by country are given in Table 1.

Table 1. Centrality Measures in the FDI Network of Turkic World

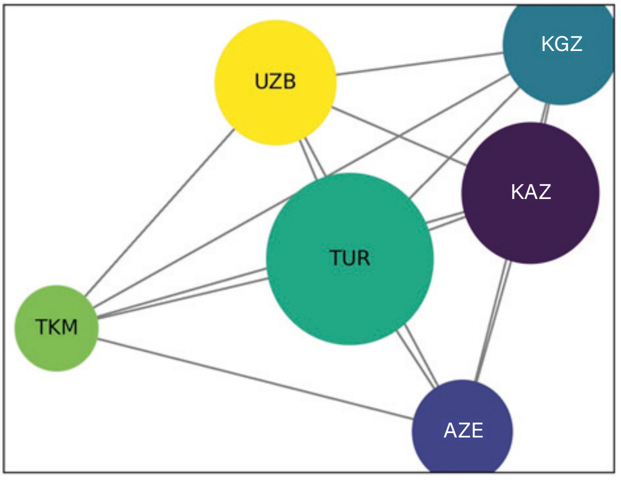
	Degree centrality	In-degree	Out -degree	Closeness centrality	Betwennes centrality	Eigenvector centrality
Azerbaijan	1,6	1	0,6	1	0,2	0,532
Türkiye	1	0,4	0,6	0,625	0,0	0,389
Kazakhstan	1,4	0,8	0,6	0,83	0,05	0,532
Uzbekistan	0,6	0	0,6	0,0	0,0	0,0
Kyrgyzstan	1,2	0,8	0,4	0,83	0,0	0,532
Turkmenistan	0,2	0	0,2	0,0	0,0	0,0

Source: *Calculated by authors using NetworkX library in Python: Hagberg, A., Swart, P., & S Chult, D. (2008). Exploring network structure, dynamics, and function using NetworkX.*

As a result of the analysis, it was found that Azerbaijan has the highest share of degree centrality among the countries of the Turkic World, as well as in both of its types. This shows that Azerbaijan is the main active participant in foreign direct investments in the Turkic World. Kazakhstan, Kyrgyzstan, and Türkiye share the next three places in terms of this centrality. Moreover, Azerbaijan and Kazakhstan have the highest level of centrality, according to the analysis of the betweenness centrality measure.

Azerbaijan, Kazakhstan, and Kyrgyzstan are the countries with the highest value in terms of eigenvector centrality measure in the FDI network.

Figure 2. Trade Network among Turkic States



In addition, an analysis of the trade relations of the countries of the Turkic World was carried out using the BACI CEPII dataset. The BACI CEPII dataset contains bilateral trade flows at the product level for 200 countries and 5000 products using harmonized system nomenclature (6-digit code). In order to avoid the effects of the economic shocks that occurred during the pandemic and its aftermath, the data from 2019 was used as the base period in the analysis of trade relations, as it was in the case of FDI. Because trade relations include different groups of products in the harmonic system, social network analysis was performed in this case using the MultiGraph approach. The analysis shows that there are 25,799 trade relations at the level of various products among the countries of the Turkic World (Figure 2).

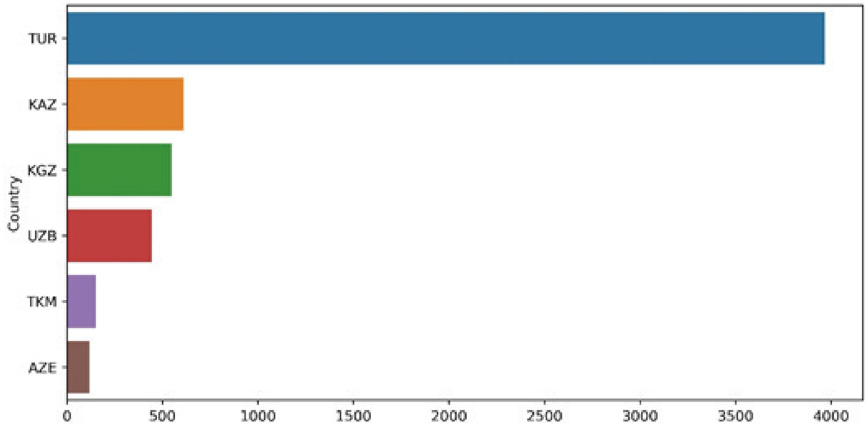
In the multigraph approach, it is considered appropriate to calculate only one measure of centrality—degree centrality. Table 2 shows the degree centrality levels of the countries in the trade network.

Table 2. Degree Centrality Levels in the Trade Network of Turkic World

Country	Degree centrality
Türkiye	3141.6
Kazakhstan	2117.6
Uzbekistan	1651.8
Kyrgyzstan	1508.6
Azerbaijan	1127.6
Turkmenistan	772.4

Source: *Calculated by authors using NetworkX library in Python: Hagberg, A., Swart, P., & S Chult, D. (2008). Exploring network structure, dynamics, and function using NetworkX*

Figure 3. Countries by the Number of Products with RCA> 1



Source: *Calculated by the author*

If we also look at the number of products for which countries have a relative comparative advantage by product group in Turkic trade, we can see that there is a relationship with degree centrality. Thus, countries with a high degree of centrality participate in trade with more types of products in terms of the relative comparative advantage index (Figure 3).

CONCLUSIONS

Thus, we can conclude that FDI and mutual trade relations are one of the important elements of economic integration. The results of the analysis show that Azerbaijan, Kazakhstan, and Kyrgyzstan are the main FDI hubs in Turkic investment relations. Azerbaijan is the main FDI center from the point of view of both inward and outward investments in Turkic World. As for trade relations, Türkiye is the main center in the countries of the Turkic World for import-export relations. Türkiye exports a wide variety of goods compared to other countries in the Turkic World, and this is due to the country's higher comparative advantage in number exporting goods. In order to expand economic relations, Turkic policymakers can pay special attention to integration relations in areas that have advantages in trade and investment issues. In modern times, the objective of achieving a high degree of centrality in economic relations can be paralleled with the concept of "Kizil Elma", widely used in ancient Turkic mythology.

THE ECONOMIC IMPACT OF ZANGEZUR CORRIDOR ON CENTRAL ASIAN AND SOUTH CAUCASUS REGION AND THE PERSPECTIVES OF ECONOMIC RELATIONS BETWEEN THE CENTRAL ASIA, SOUTH CAUCASUS AND THE EU

Ayaz Museyibov,
PhD c. at UNEC

Ayhan Satiji,
Head of Turkic World Research Center at the Center for Analysis of Economic Reforms and Communications of the Republic of Azerbaijan, Phd c. at UNEC

INTRODUCTION

The South Caucasus and Central Asia region primarily encompasses landlocked nations due to their geographical positioning. This attribute presents a significant prospect for fostering enhanced regional connectivity among the countries of South Caucasus and Central Asia. With the aim of achieving regional integration and cooperation within the economic sphere, these states are diligently working towards establishing the foundational components necessary to bolster economic collaboration through a diverse array of institutional frameworks and developmental strategies. A pivotal institutional and operational structure that the countries in the South Caucasus and Central Asia have embraced involves the active promotion of economic corridors within the region. The establishment of these multifaceted connectivity corridors functions as a catalyst for the expansion of trade relations and the cultivation of deeper cooperation among the nations in the region. These efforts are enabled by their collective initiatives.

Throughout history, the Central Asia and South Caucasus regions have held a fundamental position in the formation and consolidation of economic connections bridging Europe and Asia. This essential role can be traced back to the trade pathways established within these regions under the framework of the Silk Road. Given its historical origins and enduring significance in trade interactions, the Silk Road has consistently been a focal point for numerous trade agreements. In contemporary times, this trajectory remains of paramount importance, contributing significantly to trade affiliations between the East and West, as well as the North and South. Pradhan (2017) offers multiple explanations for the indispensable role that Central Asia and South Caucasus assume in forging secure and sustainable economic affiliations with both Western and Eastern counterparts. These regions serve as essential transit routes for trade flow between China and Europe. Furthermore, the region's abundance of valuable natural resources, including oil, gas, cotton, and uranium, serves to interconnect trade agreements with economic relationships, rendering the region a main trade hub. Consequently, driven by these economic motivations, Central Asia and South Caucasus serve as crucial conduits for fostering economic engagements within the contexts of Eastern and Western, as well as Southern and Northern trade relationships. To summarize, Central Asia and South Caucasus possess a rich historical heritage in facilitating trade along the Silk Road between Europe and Asia. Presently, these regions retain their pivotal roles in forging and enhancing economic connections between the East and the West, as well as the North and the South, by virtue of their strategic geographical location and abundant natural resources.

Objectives of the Research

The number of Turkic States cooperating and having economic ties has significantly increased, which has intensified economic linkages. Because of this, the importance of transportation routes has increased for the Turkic States. One of the crucial transportation routes connecting the West and East, as well as the North and South, is the Zangezur Corridor, which runs through Azerbaijan. The Turkic States place a lot of emphasis on it because of its strategic location and potential to ease trade and transit.

With the trilateral agreement between Azerbaijan, Armenia, and Russia, the start of transport communications in the South Caucasus region was announced on November 10th, 2020. It is impossible to overstate the importance of this deal, which has received plaudits from academics, legislators, economists, and a variety of other experts who see it as a great opportunity. Iulian Chifu, Director of the Center for Conflict Prevention and Early Warning in Romania, is one such expert who has stressed the significance of this strategy.

"I think that the best perspectives come from the dialogue between Azerbaijan and Armenia and the added value of the offer of developing the corridor of transportation and trade that would enable Armenia to enter and reintegrate in the region, with the perspective of opening the borders with both Türkiye and Azerbaijan" (Iulian Chifu, 2021).

As a result, projects for urgent development have been started to restore the historic Zangezur Corridor. According to a statement made by Baghirov in 2021, "Despite its short length and area coverage on the global map, the corridor holds significant geopolitical importance and is likely to have a substantial impact on the region's transportation infrastructure, which has developed over the past few decades" (p 1). Consequently, it is essential to look at how the Corridor will affect the South Caucasus and Central Asia given its substantial geopolitical and economic benefits for the countries in the region. Along with improving trade diversification with foreign markets, the Zangezur Corridor also improves regional connectivity between the North and South, West, and East.

METHODOLOGY

The stated research project aims to explore the economic perspective of the Zangezur Corridor on the economic relations of South Caucasus and Central Asia countries, as well as between the South Caucasus and Central Asia region and Europe. To achieve this objective, an interdisciplinary methodology is considered vital, given that the study involves cross-country analysis. The inclusion of economic, social, and political factors into the methodology will significantly aid in measuring the economic impact of the Zangezur Corridor.

The process of collecting data is contingent upon the utilization of both qualitative and quantitative methodologies. In this study, a secondary data collection process has been employed, which involves the examination of existing literature and documents. However, it is important to acknowledge that there have been numerous interviews and publications regarding the realization of the Zangezur Corridor. As such, relevant and pertinent interviews from various stakeholders have been referred to in this study.

The study incorporates descriptive statistical analysis and corresponding economic indicators to examine the impact of the Zangezur Corridor within a regional context encompassing Europe, South Caucasus, and Central Asia. This analysis is supported by data from various reputable sources, including the World Bank, UN trade statistics, and Eurostat. Through this comprehensive approach, the study aims to provide a detailed understanding of the implications of the Zangezur Corridor on the broader economic landscape of the regions under consideration.

CONCEPTUAL FRAMEWORK

Zangezur Corridor: Its Impacts on South Caucasus and Central Asia Region

Evidently, extensive trans-regional initiatives occupy an important role in bolstering economic connections and serve as a substantial driving force in establishing robust integrative relationships encompassing producer, transit, and consumer nations. These multifaceted, extensive corridors hold significant strategic importance in bridging the divide between the East and West, yielding noteworthy economic implications. Consequently, by fortifying international legal, economic, and cultural bonds, and fostering mutual comprehension, undertakings such as the Zangezur Corridor possess the potential to facilitate enhanced collaboration and security within the region. The gravity of these infrastructural endeavors and their potential contributions to overall economic and societal stability establish a contemporary economic framework advantageous to all participating stakeholders. The nations within the domains of South Caucasus and Central Asia stand to benefit by gaining access to technological advancements and economic advantages through their interactions with developed European counterparts. Simultaneously, European nations stand to cultivate new economic partnerships and secure transport routes.

According to remarks presented by the Minister of Transportation and Infrastructure in Türkiye, the Zangezur Corridor has been put forth as a potentially viable substitute route for the Suez Canal, functioning as a transit nexus connecting Europe and Asia (Turgunov, 2021). This proposal has arisen in response to the recent closure of the Suez Canal, prompting a renewed consideration of the Middle Corridor's potential. The Zangezur Corridor is of particular importance owing to its capacity to enhance the diversity of the Middle Corridor, positioning itself as a feasible alternative option.

Moreover, the Zangezur Corridor enjoys convenient access to a comprehensive array of economic and trade-related infrastructure, encompassing multimodal transportation amenities, free economic zones, collaborative entities, and information and communication technology (ICT) solutions, thereby facilitating unimpeded economic activities. This contention finds endorsement from multiple authorities, including Turgut Kerem Tuncel, a Senior Analyst at the Center for European Studies, who underscores the significance of the Zangezur Corridor as a plausible substitute route.

"Zangezur Corridor has huge significance not only in the region but also beyond. Zangezur Corridor will offer shorter roads not only to Azerbaijan and Türkiye but also to Iran and Georgia. It will also provide a link between Iran and Russia, Armenia and Azerbaijan" (azernews.com, 2021).

Furthermore, it is noteworthy that the incorporation of the Zangezur Corridor will yield profound implications for the Belt and Road Initiative (BRI) launched by China. The establishment of this corridor will elevate the South Caucasus and Central Asia nations into a main transportation and logistical conduit for the BRI undertaking. The emergence of developmental and diversification prospects stemming from the Zangezur Corridor will amplify the value of the East-West pathway, engendering heightened interest across a spectrum of countries, encompassing Southeast Asia, Central Asia, and the European Union. Thus, the Zangezur Corridor transcends its role as merely facilitating access between Nakhchivan and the wider Azerbaijani region; it emerges as a prospect to interlink the Caspian and Mediterranean basins, Southeast and Central Asia, and Europe. Consequently, the Zangezur Corridor assumes a critical function in broadening the North-South trajectory, offering a more concise and resource-efficient alternate route.

Moreover, contemporary incidents like the Evergreen ship grounding in the Suez Canal, incurring $9.6 billion in losses, underscore the necessity for alternative transportation pathways, exemplified by the Zangezur Corridor, within the Eurasian transport framework. These alternatives come into focus in light of global economic and commercial interconnections, with approximately 12 percent of global trade transiting through the Suez Canal exclusively. The execution of the Zangezur Corridor is poised to exert far-reaching ramifications, both economically and strategically, extending to the region and beyond. It constitutes an important transportation and logistics pathway, enriching the existing trade routes by ensuring more streamlined and efficient movement of commodities and merchandise.

A record 584 billion euros worth of trade was also transacted between China and the European Union (EU) in 2020. Given this substantial volume of trade, China and the EU are eager to investigate alternate routes, such the Zangezur Corridor. Similar to this, the Zangezur Corridor, which facilitates 6.2 billion US dollars' worth of trade between Türkiye and Central Asia, is extremely significant. With a 24 billion US dollar trade turnover, the potential economic ties between China and Türkiye might also yield significant benefits. There is also a potential to improve commercial links between Türkiye and Russia thanks to the Corridor.

It is of significance that the Zangezur route, aligned with the Middle Corridor and offering avenues for diversification, garners support from China. Within a letter addressed to the President of the Republic of Azerbaijan, Ilham Aliyev, Chinese leader Xi Jinping underscored the successful and effective evolution of cooperation between the two nations in the "One Belt, One Road" initiative. Furthermore, Xi Jinping conveyed a willingness to further augment bilateral camaraderie and collaboration. Notably, Europe has evinced its economic interest in the Zangezur Corridor by designating the Port of Baku as the "Green Port." Moreover, the Russian South Caucasus Railway Company, vested with control over Armenia's railways, exhibits commercial interest in the Zangezur Corridor. As this corridor ushers in novel transportation prospects, it also accrues advantages for Tehran, which refrains from investing in an expensive railway route from Armenia to Iran, projected at an approximate cost of 3.5 billion US dollars.

The initiation of the Zangezur Corridor, along with the revival of the historic Alat-Julfa railway line and its integration into the Kars-Igdir-Julfa railway line, as outlined in the memorandum inked between Azerbaijan and Türkiye, will culminate in the establishment of a unified transport and logistics network. This amalgamation will usher in a reduction in transportation expenses and time for import-export and transit activities between the two nations, owing to the seamless railway and highway links between Türkiye and Azerbaijan. In addition, it is poised to broaden the scope of economic trade interactions, expediting the realization of foreign trade objectives.

It is significant to mention that President Ilham Aliyev of Azerbaijan informed the regional leaders about the Zangezur Corridor at the 15th Economic Cooperation Organization (ECO) Summit, which was held on November 28, 2021, in Turkmenistan. He also suggested that the ECO member states might utilize this new transportation infrastructure. Recep Tayyip Erdogan, the president of Türkiye, also stated his support for combining efforts in the area of the Baku-Tbilisi-Kars railway and the Türkiye-initiated Trans-Caspian International Transport Route (Middle Corridor), which crosses the Caspian Sea. The Zangezur Corridor, which will create a direct transportation link between Türkiye and the area, was another point he stressed.

The deliberations of strategic significance revolved around the potentialities in transportation and logistics within South Asia and the South Caucasus. Notably, the Presidents of Uzbekistan and Turkmenistan affirmed the keen interest of Central Asian nations in leveraging the novel transport corridors, including the transit capabilities presented by Azerbaijan. Furthermore, a notable accomplishment lies in the incorporation of the Zangezur Corridor into the European context, an achievement materialized by the member nations of the Ashgabat agreement, and it should be noted that:

"Ashgabat Agreement was signed between Turkmenistan, Uzbekistan, Kazakhstan, Iran, Oman, India and Pakistan to develop transport links in the Eurasian region and ensure cooperation with other transport corridors. The international cargo transportation through these countries to the Eurasian markets via Zangezur Corridor can play a special role in increasing the economic potential of the Karabakh region" (Jafarov, 2021).

Adding Chain: Potentials of the Zangezur Corridor

A multitude of road and railway networks exists with the potential to markedly amplify the significance of the Zangezur Corridor, thereby engendering substantial economic gains for the regional nations. In alignment with this, the President of Türkiye emphasized that "the Zangezur Corridor will be important for the entire region. The roads and railways laid there will create commercial and economic opportunities for all countries in the region" (Erdoghan, 2021), underscoring the undeniable reality that route diversification mitigates trade-related risks.

Moreover, it is noteworthy that Turkmenistan has entered into an agreement encompassing the exchange of Turkmen gas, which was signed by Azerbaijan, Iran, and Turkmenistan. This accord has engendered new markets along the North-South and East-West routes, piquing the interest of other regional stakeholders. The diversification of transportation routes, complemented by the presence of railway transportation and the accords inked among Azerbaijan, Iran, and Turkmenistan, augments the trade arrangements and connectivity among the regional nations. In this context, the President of the Republic of Azerbaijan asserts confidently:

"Azerbaijan has made an important contribution to the implementation of regional projects, such as transport corridors East-West, North-South, North-West. We are currently working on the Zangezur transport corridor, which will become part of the East-West corridor connecting Asia and Europe through the territory of Azerbaijan. I invite partner countries in the Asia-Pacific region to study the potential of this regional project" (Ilham Aliyev, 2021).

Possible Favorable Implications for the Middle Corridor

The Trans-Caspian International Transport Route, commonly referred to as the Middle Corridor, serves as a pivotal trade conduit connecting the Eastern and Western realms. Its trajectory commences from Southeast Asia and China, traversing through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, and culminating in Europe. Anchored in the historical Silk Road, the Middle Corridor strives to augment trade relations by emulating the direction of its historical predecessor. An initiative catalyzed by the People's Republic of China (PRC), this endeavor stands as a testament to China's efforts to foster economic integration within the expansive Eurasian region. As a predominantly road and rail freight transport network, the Middle Corridor plays a crucial role in fostering collaboration and trade among the nations encompassed by its passage. The realization of the Middle Corridor holds significant implications for Türkiye and Central Asia, offering them a channel to partake in China-Europe trade linkages and, consequently, generating considerable enthusiasm within these regions.

The South Caucasus and Central Asia domains have been progressively aligning with numerous other corridors, thus allowing for their integration into the Middle Corridor and broader trade frameworks. Beyond bolstering trade relations, the Middle Corridor has also emerged as a catalyst for infrastructural advancements and holistic regional integration. The diverse array of transportation modes traversing multiple countries within this region has further eased the process of their convergence and integration.

As highlighted in a comprehensive analysis conducted by Kenderdine and Bucsky (2021) under the purview of the Asian Development Bank, the collaborative efforts of the European Union (EU) and the countries traversing the Middle Corridor yielded a collective volume of goods exceeding 120 million tons in 2018, with 2.2 million tons being transported via railway networks. This study underscores the vast potential that exists within the rail transportation segment of the Middle Corridor, with projections indicating that rail transport capacity could accommodate over 80 million tons. Enhancing interconnectivity among the nations situated along this corridor stands to augment its competitive edge. The inclusion of new economies into the fold of trade relations orchestrated by the Middle Corridor holds the promise of further amplifying its latent potential.

In this context, the Zangezur Corridor emerges as a main avenue for diversifying the trade route and bolstering its efficacy. By providing an additional link to the Middle Corridor, the Zangezur Corridor contributes significantly to engendering a comprehensive network of connectivity across the region. Thus, the implementation and integration of the Middle Corridor into the broader fabric of the region's transportation networks are poised to yield an array of benefits. These include the augmentation of trade relations, the propulsion of economic integration and development, and the accrual of substantial advantages for the countries ensconced along the trajectory of the Middle Corridor.

Integrative Development Opportunities between Special Economic Zones in the Region and Zangezur Corridor

Anticipated within the Zangezur Corridor is a prospect of substantial economic gains for the specialized economic zones entrenched within its purview. As previously underscored, a significant milestone was achieved on July 1st, 2021, when Azerbaijani authorities ceremoniously inaugurated the pioneering Alat Free Economic Zone (AFEZ). This zone is strategically poised to be intricately interlinked with the recently erected Baku International Seaport, strategically situated near the hamlet of Alat, nestled approximately 50 miles to the south of Baku's capital nexus (Museyibov, 2021). Noteworthy strides have been registered since 2018 in the advancement of institutional and regulatory frameworks associated with the AFEZ, which aspires to evolve into one of the preeminent free economic zones encompassing the Caspian Sea's waterfront expanse. Encompassing an estimated span of 850 hectares, the AFEZ is envisaged to elicit value-added contributions while invigorating the landscape of export-driven manufacturing. Museyibov's exposition (2021) serves to accentuate the multi-dimensional pertinence of the AFEZ:

"AFEZ will attract investors to Azerbaijan that will provide innovative technology services and contribute to the dynamic and sustainable development of the country's economy. The success of Alat may stimulate the creation of other such zones in Azerbaijan, including perhaps in cities or towns on the border with Iran, Russia and Georgia. The location of the AFEZ at that intersection of north-south and east-west international transport corridors creates rich economic potential for the associated new Baku port, which is offering efficient, fast transit for cargo crossing the Caspian Sea. Indeed, Azerbaijan is seeking to develop an extensive logistics chain in Alat along the northern, southern, eastern, and western directions that will cover land, water and air transit" (Museyibov, 2021).

Furthermore, it is important to keep in mind that Kazakhstan (Aktau and Atyrau) and Turkmenistan (Ashgabat) also have sizable economic zones within the South Caucasus and Central Asia. The free economic zones in Kazakhstan, Aktau and Atyrau, have been operational since 2022, and their function can be viewed as an addition to the Azerbaijan Free Economic Zone. Furthermore, the Ashgabat region has enormous economic potential going forward. Given the foregoing, it is clear that the Zangezur Corridor will make it easier for economic value flows between the South Caucasus and Central Asia region's special economic zones and other nearby nations. Therefore, there is no doubt that this development will positively impact the future development and advancement of these zones.

The Road to Zangezur: Implemented Mega Infrastructure Projects in South Caucasus

Preceding the advent of the Zangezur Corridor, Azerbaijan traversed an extensive and demanding trajectory within the Caucasian landscape, marked by the triumphant realization of numerous colossal undertakings (Museyibov, 2021). A watershed moment materialized in November 2019 when the TANAP (Trans Anatolian Natural Gas Pipeline) was ceremoniously inaugurated, spanning an impressive expanse of 1,850 kilometers from the Turkish precinct of Erdahan, ultimately culminating in Europe (Museyibov, 2019). TANAP, aptly considered the foundational backbone and linchpin of the sprawling Southern Gas Corridor, extending across a vast span of 3,500 kilometers, interconnects Azerbaijan to the European continent. The core objective underpinning the Southern Gas Corridor pertains to elevating Europe's energy security by extending access to gas resources emanating from the South Caucasus and Central Asia. Ergo, the sphere of influence of this initiative extends beyond Azerbaijan, enveloping other regional players such as Turkmenistan and Kazakhstan, conferring upon them the prospect of partaking in this enterprise and gaining a foothold within the expansive European markets.

Picture 1. Southern Gas Corridor. Extraction from www.sgc.az/en

Upon the junction of the Trans-Adriatic Pipeline (TAP) with TANAP at the borders of Greece, a historic milestone is achieved: The direct transportation of natural gas from the South Caucasus and Central Asia regions, sourced from the Caspian Sea, to the markets of the European Union (EU). Within the composite fabric of the Southern Gas Corridor, comprising seven nations inclusive of three EU member states, the important "Shah Deniz 2" gas condensate field shall emerge as the cornerstone orchestrating the transit of Azerbaijani gas to European consumers through the pipes of TANAP. Winding through Azerbaijan, Georgia, and Türkiye, TANAP forges a connection with the TAP line, threading its way through Bulgaria, Greece, Macedonia, Albania, Serbia, and Bosnia and Herzegovina. The blueprint envisions a prospective amplification in TANAP's capacity in forthcoming years, scaling from 16 billion cubic meters to 31 billion cubic meters. This expansion is set to materialize the much-anticipated arrival of Caspian gas on European shores, engendering novel prospects and pathways. The valorization of diversifying natural gas sources has attained greater prominence amid escalating demand for low-carbon energy solutions. Consequently, the advocacy for pioneering ventures and developmental imperatives hails from steadfast suppliers, most notably Azerbaijan, emerging as a stalwart in the natural gas sector. Museyibov (2019) accentuates the Caspian gas's contribution to Europe's energy security, remarking that "the import of these undertakings transcends the benefits conferred upon the populations of Türkiye, Azerbaijan, and neighboring lands; they concurrently bestow a constructive imprint upon Europe's energy security and reinforce the standing of the Turkic realm" (Museyibov, 2019).

On November 29, 2021, an important accord was inked between two prominent countries in the South Caucasus and Central Asia region—Azerbaijan and Turkmenistan—pertaining to the reciprocal exchange of gas via Iran. The ratified agreement outlines a gas swap of 1.5 to 2 billion cubic meters (bcm) per annum, to be funneled from Turkmenistan through Iran to Azerbaijan. This development assumes paramount significance in the context of diversifying energy routes within the region and orchestrating their convergence toward European territories. The transportation of Caspian oil, emanating from Azerbaijan, Kazakhstan, and Turkmenistan, traversing the Baku-Tbilisi-Ceyhan pipeline (inaugurated in 2006), has positioned the South Caucasus and Central Asia region as a premier avenue for diversification and as an alternative avenue for cooperative energy transit to Europe. Furthermore, the inauguration of the Baku-Tbilisi-Erzurum gas pipeline in 2007, a collaborative endeavor involving two stalwarts of the South Caucasus and Central Asia landscape—Azerbaijan and Georgia—assumes an important role in interlinking the energy conduits of Europe and Asia. Incepted under Azerbaijan's stewardship, the "Baku-Tbilisi-Kars railway, which interconnects the railway systems of the South Caucasus and Central Asia region (Azerbaijan, Georgia) with that of Türkiye, was operationalized in 2017" (president.az, 2020), effectively materializing as a cohesive and enduring transport corridor.

Furthermore, in the year 2019, Azerbaijan embarked on two distinct agreements with Kazakhstan and Turkmenistan, focused on the "Coordination of activities by communication operators of Azerbaijan and Kazakhstan concerning the joint construction of fiber optic transmission lines along the Caspian Sea bed on the Azerbaijan-Kazakhstan route, their ownership, and utilization" (as documented by abc.az, 2019). These accords delineate a comprehensive blueprint for the deployment of extensive kilometers of fiber-optic communication infrastructure within the depths of the Caspian Sea. The envisioned project holds the promise of making substantial contributions to the realization of the Trans-Eurasian Super Information Highway (TASIM) initiative in the forthcoming times.

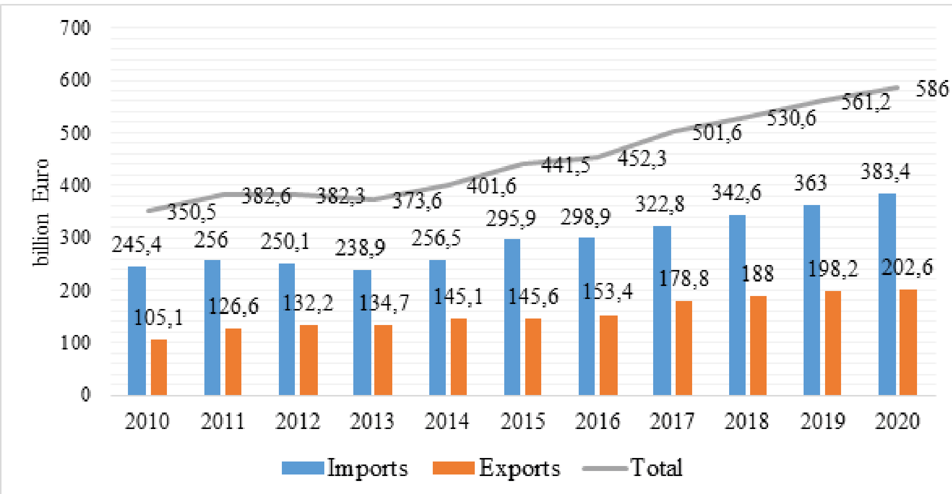
It is of particular significance to highlight that TASIM constitutes a main regional initiative, aiming to establish a cross-border fiber-optic network spanning from Frankfurt to Hong Kong, encompassing the entire expanse of Eurasia. This transcontinental conduit is slated to traverse multiple countries in the South Caucasus and Central Asia region, encompassing Azerbaijan, Georgia, Kazakhstan, and China, before culminating in Türkiye and further extending to Germany. Consequently, the establishment of the Trans-Caspian fiber-optic artery within the framework of this program will significantly contribute to the establishment of a digital thoroughfare between Europe and Asia, facilitated through Azerbaijan. Converging with the energy and transportation hub, and with the participation of fellow Turkic nations, this initiative will culminate in the inception of a Digital Corridor, or Digital Hub.

FINDINGS

Strategic importance of Zangezur Corridor

Azerbaijan holds two prominent advantages, primarily rooted in its economic comparative edge and the potential of the Zangezur Corridor in the foreseeable future. Initially, the strategic geographic placement of Azerbaijan offers significant economic leverage, given its close proximity to nations like Russia, Türkiye, Iran, and Central Asia, all of which possess substantial local markets. The collective economic size of these nations exceeds $3 trillion, underscoring the substantial prospects associated with the economic viability of the Zangezur Corridor (Museyibov, 2021). Secondly, Azerbaijan finds itself strategically positioned at the crossroads of international cargo pathways, facilitating exchanges between the Eastern and Western hemispheres as well as the Northern and Southern regions. Consequently, the nation has emerged as a prominent transit hub within its regional vicinity, strategically located on one of the main arms of the contemporary "Silk Road," linking China and Europe. According to statistical data from Eurostat, the trade volume of goods between Europe and China has exhibited steady growth since 2010, with the trade turnover between the European Union and China in goods surpassing 600 billion euros in 2020, as demonstrated in the illustrated graph (Graph 1).

Figure 1. EU Trade with China in Goods, 2010-2020

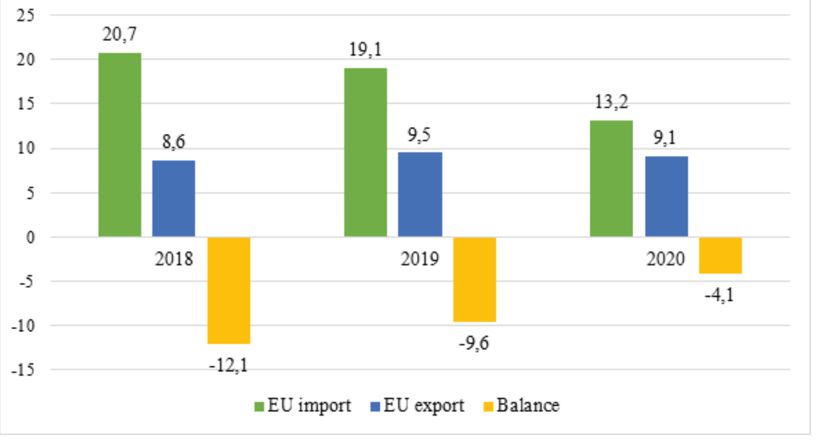


Source: *Eurostat (online data code: ext_st_eu27_2019sitc and DS-018995)*

Amidst the emergence of the COVID-19 pandemic, a noticeable upward trajectory in global trade has been observed. Within this context, the strategic importance of the Zangezur Corridor takes on profound significance, particularly when viewed through an economic lens. The corridor holds the potential to considerably mitigate the costs associated with trade activities between the Eastern and Western regions. Against the backdrop of recent geopolitical and geoeconomic shifts in the Eurasian realm, exemplified by events like the Russia-Ukraine conflict, these evolving dynamics offer windows of opportunity for reshaping the transportation of goods along the Middle Corridor. Furthermore, the ongoing construction of the Rasht-Astara railway, establishing a link between Iran and Azerbaijan, emerges as one of the most pivotal undertakings in the area. As a crucial element of the transcontinental International North-South Transport Corridor (NSTC), spanning from India to Europe, this north-south route along the Caspian coast is anticipated to invigorate trade not just between Iran and Azerbaijan, but also with a multitude of other nations. According to sources (Ady.az, January 15, 2021), the railway tracks connecting Azerbaijan's Astara station with the Iranian city of Astara have already been concluded, while Iran remains tasked with finalizing the railway link between the coastal city of Anzali and Rasht (APA, December 14, 2020).

Additionally, according to statistical information produced by the European Union (EU), commerce between the EU and Central Asia has been projected to be worth between 20 and 30 billion euros, as shown in Figure 2. While the EU exported commodities worth 8.6 billion euros in 2018, it bought goods worth 20.7 billion euros. The COVID-19 pandemic has had a negative effect on economic connections, but they still play a big part in easing the transportation route between the East and the West.

Figure 2. European Union and Central Asia: Trade in Goods, Billion Euro



Source: European Commission. https://ec.europa.eu/trade/policy/countries-and-regions/regions/central-asia/

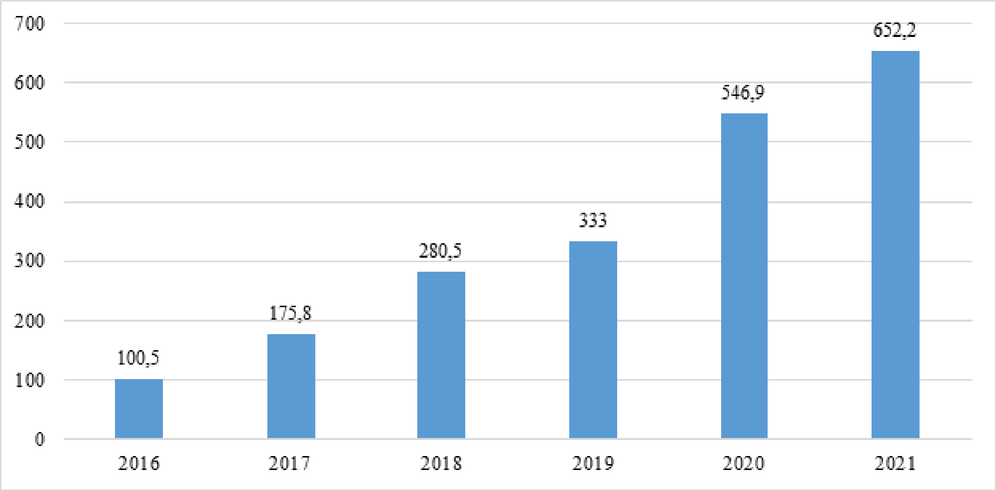
Conversely, the Baku-Tbilisi-Kars Railway, operational since 2017, stands as the most direct and dependable link connecting Europe to Asia through the South Caucasus, as outlined in a report by President.az on October 30, 2017. In 2014, the Trans Kazakhstan railway route was established, bridging the PRC and the port of Aktau, spanning nearly 1,000 km that courses between Zhezkazgan and Beyneu. Another noteworthy occurrence in 2018 was the commencement of a train journey from Slavkov in Poland, traversing Ilyichevsk in Ukraine, Batumi in Georgia, Baku in Azerbaijan, Turkmenistan, and culminating in Bandar Abbas in Iran. This expedition, spanning over 5,000 km, concluded within 12 days.

Furthermore, the region's nations are taking substantial measures to diversify their trade pathways connecting the East and West. In 2019, a train carrying more than 40 containers embarked on a voyage across the Caspian Sea from Xi'an, ultimately reaching Baku. This route proceeded through the Marmaray Tunnel, ultimately arriving in Prague. This route emphasizes the significance of both the Middle and Southern Corridors, as it interlinks and plays a complementary role between the two.

Moreover, the trade route between China and Europe holds paramount importance due to its consistent growth in trade volume. Consequently, the traffic volume of container trains on this route has demonstrated an upward trajectory over recent years. The United Transport and Logistics Company (UTLC), a collaborative venture involving Russia, Kazakhstan, and Belarus, operates by utilizing a route across these three nations to ferry container block trains between China and Europe, and vice versa.

According to data furnished by UTLC (as depicted in Figure 3), the volume of twenty-foot equivalent containers (TEUs) in transportation has experienced substantial multiplication over the past six years. In this brief span, the traffic volume surged from slightly over 100 thousand TEUs to 652.2 thousand TEUs. It is important to highlight that even the advent of the COVID-19 pandemic did not adversely impact this volume growth, further underscoring the reinforcement of trade relations between China and Europe. Hence, a critical necessity arises to diversify East-West routes and bolster interconnectivity among regional countries to facilitate the expansion of trade and commercial activities.

Figure 3. Traffic Volume, Thousand TEUs



Source: *United Transport and Logistics Company–Eurasian Rail Alliance.* https://utlc.com/en/

Furthermore, the strategic significance of the Zangezur Corridor is unmistakable, particularly concerning the truck trade turnover between Türkiye and the Middle East. Current estimates place the volume of truck turnover at approximately 120,000 trucks, which covers a relatively longer distance and time compared to the potential Zangezur Corridor route (Gasimli, 2021). The implementation of the Zangezur Corridor would streamline customs procedures between Türkiye and Azerbaijan. Specifically, the opening of the corridor would eliminate stringent customs controls and duties, facilitating seamless passage for trucks through Azerbaijan, Türkiye, and Armenia. It is also conceivable that the countries in the region could experience a notable increase in truck turnover, potentially ranging from 40% to 50%. As underscored by Vasily Koltashov, the Head of New Society Institute, "By establishing the functioning of one corridor, it will be possible to integrate into other programs, creating and initiating them" (azernews.az, 2021).

Moreover, it is important to note that during the era of the USSR, Azerbaijan played a pivotal role in facilitating the transportation of substantial quantities of goods, up to 3 million tons, via the Zangezur Corridor. This corridor served as a crucial railway trade route from Culfa (located in Nakhchivan) to Iran. The revitalization of the Zangezur Corridor has the potential to unlock a range of new economic prospects for Azerbaijan and other nations in the South Caucasus and Central Asia regions. This development will play a decisive role in connecting the East-West trade route, with various ports serving as vital hubs along the route. Notably, the Baku International Sea Trade Port, well-equipped to accommodate large transportation vehicles and facilitate rail transport of goods to Türkiye via the White Sea, stands out as a significant port in this context. The Director of the Baku International Sea Trade Port has emphasized the immense potential for collaboration between the port and counterparts in Kazakhstan and Turkmenistan, further underscoring the regional significance of this development.

Furthermore, the implementation of the Zangezur Corridor brings forth an array of opportunities. The comprehensive reconstruction process entails the establishment of special economic zones in Azerbaijan. Additionally, the countries in the region boast free trade areas and special economic zones that will facilitate the movement of goods. Moreover, the Zangezur Corridor assumes a complementary role to the Belt and Road Initiative (BRI) in the region. The nations in the region have continually pursued regional cooperation aligned with strategic objectives, aimed at fostering economic growth and cultural exchanges. Among these cooperative endeavors, communication holds particular prominence. Azerbaijan has entered separate agreements with Kazakhstan and Turkmenistan in the field of communication operators. The construction and advancement of another infrastructure project, namely optic transmission lines along the Caspian Sea, align with the strategic trajectory of the TASIM initiative. Consequently, the Zangezur Corridor presents opportunities not only for South Caucasus and Central Asian countries but also for other Eurasian nations that are either direct or indirect stakeholders in the project.

Table 1. SWOT Analysis of Zangezur Corridor

SWOT ANALYSIS OF ZANGEZUR CORRIDOR	
Strength	Weaknesses
Geographically shortest link between Europe and Asia	Lack of information available for stakeholders within the region
Existing infrastructure potential in terms of railways and roads	Uneven and in need of improvement, transport infrastructure across countries along the corridor
Abundance of energy resources within the corridor	
Accessible technical specifications data for railway lines	
Opportunities	Threats
Existence of special economic zones in the region countries along the corridor	Presence of intricate ethnic and religious tensions in the region
The new corridor serving as a complementary component to the Belt and Road Initiative (BRI)	Unstable political environment within the Eurasian region
Potential for future opportunities in oil, gas, and optical cable channels, in addition to highways and railways	Extended recovery period for infrastructure readiness due to pandemic-related challenges
Advancement of regional cooperation to achieve strategic goals	Shortage of skilled personnel for operational tasks
Promotion of economic and cultural exchanges and collaborations among corridor countries	Inadequate coordination in the development of infrastructure projects
Positive economic growth prospects for Central Asian, South Caucasus, and European countries, leading to increased import and export activities	
Enhancement of mutual cooperation within the Organization of Turkic States and corridors passing through	

Current Status of Developing Infrastructure for the Zangezur Corridor

Due to its strategic geographical position that intersects the East-West and North-South axes, Azerbaijan is well-placed to establish global relationships. This advantageous location, historically tied to the Silk Road, positions Azerbaijan along the China-Europe route, benefitting not only the country but also its neighboring countries in the regions of South Caucasus and Central Asia. This placement has led to a significant portion of international freight traffic transiting through Azerbaijan, facilitating trade between China and Europe.

During the Soviet era, transportation routes through Aghband to Ordubad were vital for connections between Azerbaijan and Armenia. A parallel railway further supported the movement of heavy cargo. The emergence of the Zangezur Corridor introduces a novel geo-economic dimension, traversing Aghband, passing through Armenia, and extending towards Türkiye and Europe. This corridor revives old transportation routes, including railways and highways, presenting a contemporary transport and logistics route.

The term "new" characterizes the Zangezur Corridor due to its recent prominence following the trilateral agreement among Azerbaijan, Armenia, and Russia. The ceasefire agreement of November 10, 2020, mandates the reopening of the east-west passage by Azerbaijan as the Zangezur Corridor. This development stands to benefit the Gulf, South Caucasus, and Central Asia regions, offering an alternative route to Europe via the Zangezur Corridor. Consequently, the introduction of this innovative global and regional corridor is poised to accelerate the growth of South Caucasus and Central Asia.

During the XV Summit of the Economic Cooperation Organization (ECO) in November 2021, President Ilham Aliyev of Azerbaijan declared the realization of the Zangezur Corridor. This announcement was accompanied by intensified preparations for the development of railway and highway networks connected to the corridor. Notable projects include the "Victory Road," connecting Fuzuli to Shusha, and various highway constructions to enhance Azerbaijan's access to transport corridors. President Aliyev also initiated the construction of a railway route connecting Horadiz to Aghband, underscoring Azerbaijan's commitment to the Zangezur Corridor project.

CONCLUSION AND RECOMMENDATIONS

The nations within South Caucasus and Central Asia are actively engaged in pursuing economic integration through the diversification of their transportation routes. The region's connectivity landscape has been further enriched by significant infrastructure undertakings, such as the novel pipeline spanning from the Mediterranean to the PRC through the South Caucasus and Caspian Sea, as well as the railway linkage connecting Europe to the PRC, among other initiatives. Nonetheless, there exists untapped potential for the development of additional novel transport corridors.

Effective execution of these new projects necessitates the commitment of South Caucasus and Central Asia countries to implement reform policies. These reforms will foster new business practices, amplify regional trade, and contribute to bolstered connectivity. It is paramount for the region to adopt coherent actions and shared strategies, with active participation and dedication from international and regional organizations. The Organization of Turkic States together with its members and observers, by orchestrating appropriate communication and coordination protocols, can facilitate the inclusion of other pertinent global and regional stakeholders. The implementation of this initiative seeks to augment regional connectivity and cultivate mutually beneficial economic relationships with neighboring countries. Noteworthy stakeholders with vested interests in the project encompass Türkiye, Russia, the PRC, the and European Council.

CHAPTER II

ANALYTICAL DESCRIPTION OF TURKIC STATES

COUNTRY SPECIFIC PROFILE OF THE REPUBLIC OF AZERBAIJAN

AZERBAIJAN COUNTRY SPECIFIC PROFILE

Dr. Agil Asadov,
Head of Department at the Center for Analysis of Economic Reforms and Communications of the Republic of Azerbaijan

GENERAL OVERVIEW OF AZERBAIJAN ECONOMY (2010-2021 PERIOD)

The Republic of Azerbaijan has undergone a significant developmental trajectory since gaining independence. Researchers have classified the economic progress and achieved dynamics of the country into various stages based on different criteria. In the initial years following the restoration of state independence, Azerbaijan faced numerous challenges, including war, the influx of over one million refugees and internally displaced persons due to Armenia's military aggression, the deterioration of trade relations between former Soviet Union republics, and subsequent sharp socio-economic decline. Regional instability, inadequate economic management, and inefficiency of existing economic institutions further exacerbated the economic crisis during this period.

Upon the return of the national leader Heydar Aliyev to political power, strategic reforms were implemented to restore political stability, transition to a market economy, and establish effective economic relations. These reforms laid the groundwork for favorable conditions that facilitated high-quality and dynamic economic growth.

Land reforms on a large scale, privatization of state property, and the development of small and medium enterprises formed a solid foundation for strengthening and advancing market-based economic relations in the country.

In the early 21st century, Azerbaijan entered an era of software-based development. Regional and sectoral development programs were prepared and successfully executed from the outset. By actively investing a portion of the oil revenues into the country's economy, Azerbaijan rapidly transformed into a high-medium income nation. The socio-economic infrastructure underwent comprehensive renewal, and Azerbaijan ranked 37th globally in terms of competitiveness. The measures taken, coupled with the increase in natural resource prices, laid the groundwork for a breakthrough stage of economic development, with an average annual GDP growth rate of 16.9%.

The oil revenues generated by the "Contract of the Century" signed on September 20, 1994, propelled progress in Azerbaijan by fostering the development of various sectors such as construction, services, public administration, defense, and social security. Through a growth model that successfully facilitated an important phase of economic expansion, the country's economy tripled in size during the early 21st century. Price stability was maintained, significant foreign currency reserves were accumulated due to increased foreign currency income, and the national currency exchange rate remained competitive, preventing excessive appreciation.

The growth experienced by Azerbaijan following its independence was largely driven by oil production and prices. The growth rate in Azerbaijan started to rise in the late 1990s, coinciding with a significant increase in oil production and exports. During the period of 2005-2008, the growth rate reached double-digit figures, aligning with the peak of commodity prices. However, the growth rate weakened after the global financial crisis, averaging 3.2% during 2010-2014.

Consequently, both the energy and non-energy sectors experienced economic contraction in 2016, with a 3.1% decrease in real GDP and a 4.4% decrease in non-oil/gas GDP.

Although the growth rate gradually started to recover after 2016, it significantly slowed down during 2015-2019, with an average annual growth rate of 0.4%. The economy of the country suffered an additional blow from the COVID-19 pandemic in 2020, resulting in a 4.2% decrease in GDP.

Following the global crisis, Azerbaijan continued to accumulate physical capital through significant investments in natural gas exploration and the development of transportation infrastructure. Since 2010, the contribution of the labor force to GDP growth has increased by 25% due to accelerated labor force growth.

Although Azerbaijan experienced a fourfold increase in per capita wealth from 2000 to 2014, the decline in oil revenues since 2015 has resulted in a decrease in asset value. Capital derived from depleting natural resources accounted for 57.3% of the country's total wealth in 2011, slightly declining to just over 50% in 2018. This indicator places Azerbaijan higher than many other resource-rich countries. Capital per capita has tripled since the late 1990s, driven by substantial investments in energy and infrastructure. The share of produced capital in total wealth has nearly doubled since the 2010s.

While Azerbaijan has integrated well into global energy markets, the same cannot be said for non-energy markets. The oil and gas sector dominates the country's commodity exports, with its share in total exports increasing from 68.8% in 1999 to 89.5% in 2019. Although the value of non-energy exports, primarily agricultural products such as tomatoes, fruits, nuts, cotton, and non-monetary gold, increased between 1999 and 2019, their share of total exports declined from 31.2% to 10.5%. During this period, non-energy exports accounted for only around 3% of GDP on average, indicating a relatively low level of export market stability for non-energy products. While the country has seen growth in service exports such as tourism, transportation, and computer and information services, the COVID-19 pandemic severely impacted the tourism sector. Going forward, changes in trade policy, including tariff reductions and non-tariff measures, as well as membership in the World Trade Organization (WTO), may be crucial for promoting non-energy exports.

International Bank for Reconstruction and Development and the World Bank research (2022) indicates that the GDP dynamics, a crucial macroeconomic indicator reflecting a country's development, did not demonstrate the same level of dynamic growth observed in previous years during the period from 2011 to 2021. Notably, there were fluctuations in oil production during 2011 and 2012, resulting in a minimal annual GDP growth of 0.1% and 2.2%, respectively. Despite these modest figures, the slight increase in GDP in 2011, attributed to the non-oil sector's contribution, can be viewed as a positive outcome, particularly considering the prevailing global economic crisis at that time.

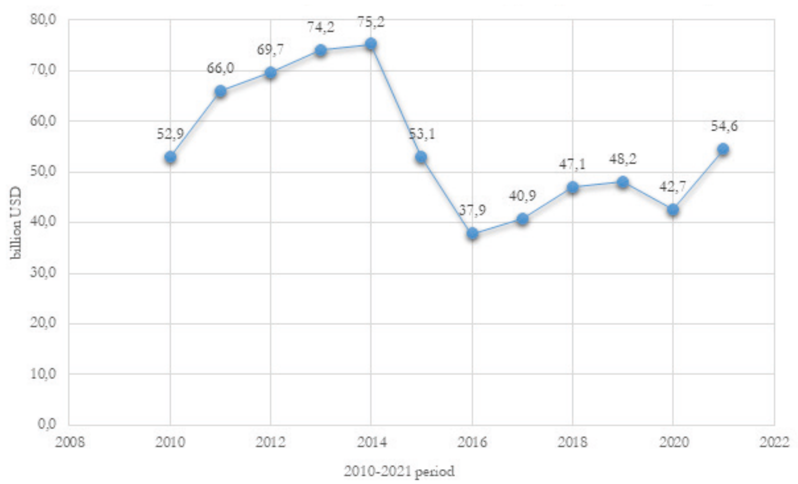
Table 1. Dynamics of Gross Domestic Product (2010-2021 Period)

Year	GDP, billion USD	GDP Per Capita, USD	GDP Per Capita PPP	An increase compared to the previous year (%-with)
2010	52,9	5922,0	14,678	5,0
2011	65.95	7285.0	14,804	0.1
2012	69.68	7594.3	15,957	2.2
2013	74.16	7977,4	17,188	5.8
2014	75.24	7990,8	17,443	2.8
2015	53.07	5561.5	14,938	1.1
2016	37.87	3928.6	14,371	-3.1
2017	40.87	4198.5	14,121	0.2
2018	47.11	4797.8	14,549	1.5
2019	48.17	4864.0	15,051	2.5
2020	42.69	4280.8	14,478	-4.2
2021	54.62	5452.5	15,842	5.6

Source: *The State Statistics Committee of the Republic of Azerbaijan, (2021)*

Table 1 clearly illustrates the dynamic changes in GDP over the period under consideration. From 2010 to 2014, there was a significant increase in GDP, amounting to 22.3 billion dollars. Subsequently, wave-like fluctuations were observed between 2014 and 2020. During this period, there was a substantial decline in GDP from 2014 to 2016, with a decrease of 37.4 billion dollars, accounting for approximately 50% of the 2014 figure. However, positive growth was experienced from 2016 to 2019, resulting in a GDP increase of 10.3 billion dollars. In 2020, there was a further decrease of 5.5 billion dollars compared to 2019. However, starting from 2021, the economy entered a self-recovery phase, leading to an 11.9 billion dollar increase in GDP compared to 2020. In summary, the dynamics of GDP during the mentioned period can be characterized as follows:

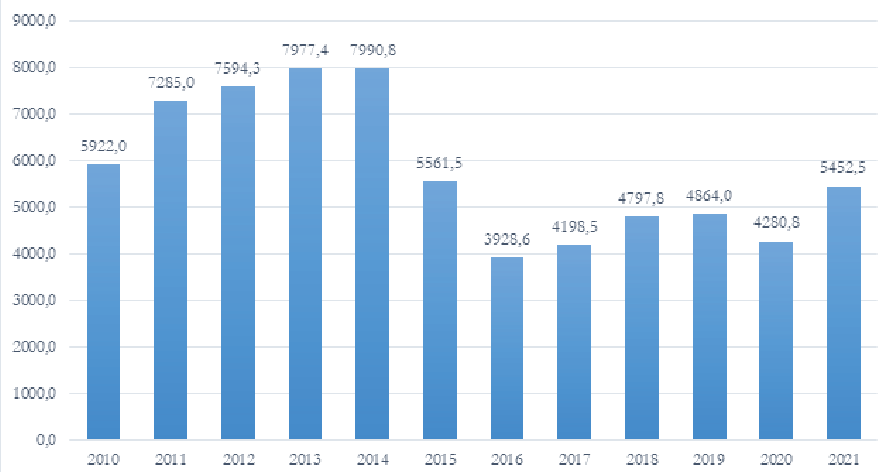
Figure 1. GDP of the Republic of Azerbaijan (Billion USD)



Source: *The State Statistics Committee of the Republic of Azerbaijan (2022)*

In 2015, global economic growth was adversely affected by various factors, including instability in the world economy, a slowdown in China's economic growth rate, and frequent fluctuations in global stock exchanges. Additionally, the persistently low oil prices on the world market had a significant impact on Azerbaijan's GDP, leading to a decrease in its value. Specifically, the average price of Brent oil in 2015 was $52.5, representing a substantial decrease of approximately 47% compared to the previous year. It is important to note that while this decline had an impact on overall GDP, it did not significantly affect the per capita indicators of GDP.

Figure 2. GDP Per Capita, USD



Source: *The State Statistics Committee of the Republic of Azerbaijan (2022)*

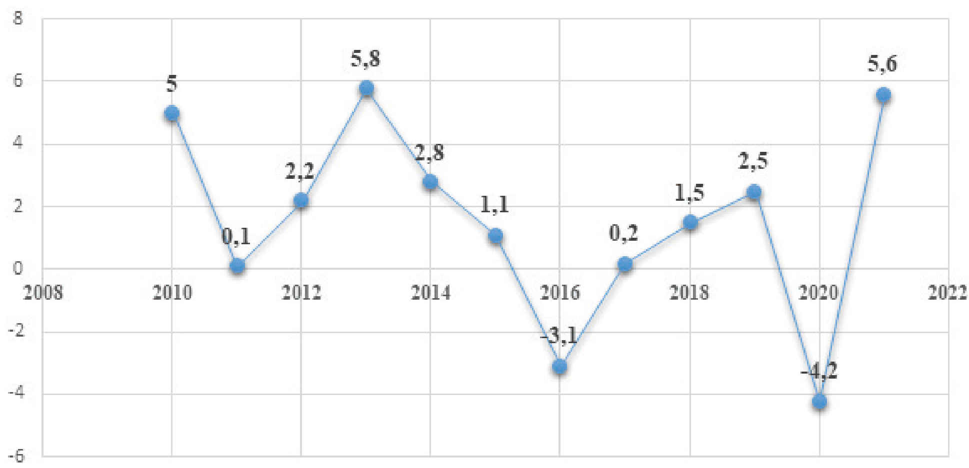
Figure 3. GDP Per Capita, PPP, USD

Source: *The State Statistics Committee of the Republic of Azerbaijan (2022)*

In 2018, Azerbaijan experienced monetary and financial stability, accompanied by a substantial increase in oil revenues compared to the previous year. The country also achieved a positive balance of $8.0 billion in foreign trade turnover and a surplus of 4.7 billion manats in the general budget. Despite a considerable 29.1% increase in state budget expenditures and a significant rise in budget investments by up to 80%, the real GDP growth rate in Azerbaijan was only 1.4% in that year.

However, the outbreak of the COVID-19 pandemic in 2020 had a profound impact on the global economy, including Azerbaijan. The pandemic led to a contraction in both the economy of Azerbaijan and the global economy, resulting in a significant decrease in economic growth. Although Azerbaijan's GDP decreased in 2020 due to the pandemic, the country witnessed a recovery in this indicator in 2021, surpassing the levels recorded in 2019 and experiencing positive growth.

Figure 4. GDP Dynamic, Compared with the Previous Year in Percent



Source: *The State Statistics Committee of the Republic of Azerbaijan (2022)*

In addition to the observed changes in macroeconomic indicators, in general, the processes taking place in the national economy of Azerbaijan in 2010-2021, the observed fluctuations can be classified according to the following stages.

Period of economic development and progress (2010-2014) – This period is characterized by a notable shift in the relative importance of the non-oil sector in driving economic growth. From 2010 onwards, certain fluctuations, largely influenced by oil price dynamics, were observed in the broader growth trajectory that had been established in the early 21st century. Prior to 2010, the traditional oil sector had been the primary driver of economic expansion, but between 2011 and

2014, the non-oil sector emerged as the main contributor to growth. According to data from the State Statistical Committee (SSC), the non-oil sector experienced a growth rate of 6.9% in 2014, accompanied by growth rates of 8.8% in the construction sector and 7.6% in the service sector. An analysis of the sectoral shares in GDP reveals that natural resources accounted for 37% of economic growth in 2014, followed by the construction sector at 14%.

An important observation during this period is the decline in the overall economic growth rate following 2011. SSC data indicates that the average economic growth rate from 2004 to 2010 stood at 16.9%, whereas it decreased to an average of 2.7% per year between 2010 and 2014. Despite increased investments in the economy, a weakening of economic activity has been evident since 2011. The model of active capital accumulation appears to have reached its saturation point after this period.

Since the latter part of 2014, the economy of Azerbaijan has been affected by the adverse repercussions of a sharp decline in global oil prices in the world commodity markets. These negative effects have been particularly pronounced since the second half of 2015.

Period of low oil prices (2014-2016) – Since late 2014, the economy of Azerbaijan has been confronted with the adverse consequences stemming from a significant decline in global oil prices within the world commodity markets, alongside the economic downturn experienced by trade partners. The repercussions of these developments began to manifest in the second half of 2015. Primarily, the negative effects were observed in the balance of payments, subsequently transmitting to economic activity through channels of financing economic growth. The exchange rate of the national currency underwent a nearly twofold depreciation against the US dollar, thereby generating a range of risks concerning financial stability, while the fiscal burden associated with servicing public debt escalated. To revive economic activity, the government of Azerbaijan has implemented numerous measures aimed at enhancing economic policies and expediting institutional reforms.

Recovery period (March 2017-2020) – Under the Decree issued by President Ilham Aliyev on December 6, 2016, entitled "The main directions of the strategic road map for the main sectors of the national economy and economy," Azerbaijan embarked on a path of economic recovery and stabilization. Through the consistent implementation of the measures outlined in the strategic road maps, the economy initially rebounded from the adverse impacts of external shocks and experienced short-term stability. Subsequently, from 2017 to 2018, it entered a phase of recovery, followed by a period of development until March 2019-2020. Notably, Azerbaijan's commendable progress in terms of reforms earned it a place in the list of the most reforming countries worldwide for two consecutive years, as highlighted in the "Doing Business" report. In this context, Azerbaijan managed to climb to the 25th position among 190 countries. The year 2019 witnessed remarkable social reforms, along with substantial transformations in public administration and the economy. However, the COVID-19 pandemic hindered the economy's transition into the peak phase of the economic development cycle. Aligning with global trends, Azerbaijan's economy experienced a recession in 2020, contracting by 4.3 percent. Nevertheless, in the "Doing Business-2021" report, Azerbaijan was recognized as the most reforming country globally in 2020, affirming its commitment to ongoing improvements.

Crisis management period (started from March 2020 and ended in April 2021) – Under the leadership of President Ilham Aliyev, Azerbaijan has demonstrated exemplary crisis management in the face of multiple challenges, including the COVID-19 pandemic, drought, low oil prices, and military provocations by Armenia. By mid-2021, the recession was halted, and the country resumed economic growth. Azerbaijan has not only made significant contributions to the global fight against the pandemic but has also been at the forefront of vaccination efforts, showcasing its commitment to public health and wellbeing. In 2020, the ratio of total public debt to GDP in Azerbaijan was approximately four times lower than the global average. Surveys conducted by the European Bank for Reconstruction and Development (EBRD) indicate the potential for a debt crisis in 30 percent of middle-income countries and 50 percent of low-income countries. However, Azerbaijan has been able to maintain debt sustainability by relying on its own resources rather than external ones to address the external shocks it has faced.

In 2020, additional financial provisions amounting to 2.3 billion manats were allocated within the framework of budget transparency, utilizing the "fiscal space" to balance declining revenues and increasing expenses of the state budget. The implementation of a flexible countercyclical budget policy, which temporarily suspended the application of the budget rule, proved effective in combating the crisis. Monetary policy was also adjusted in 2020, with an easing of the policy stance, an increase in the money supply, and a reduction in the discount rate. These measures were undertaken alongside fiscal expansion. The primary objective of fiscal and monetary policies was to strike a balance between macroeconomic stability and economic activity.

Through the mobilization of 3.5 billion manats in response to the pandemic, Azerbaijan was able to mitigate the economic recession, maintain macroeconomic stability, support employment, assist entrepreneurs, expand the scope of social projects, restructure bank loans, and provide guarantees and subsidies. Another significant achievement during this period was the restoration of Azerbaijan's territorial integrity by its Armed Forces under the leadership of the Supreme Commander-in-Chief, President Ilham Aliyev. This milestone marked a glorious chapter in the overall history of Azerbaijan. As a result, Azerbaijan has entered a post-pandemic and post-conflict period, paving the way for new opportunities and challenges.

Economic growth recovery period (started from May 2021) – Azerbaijan's policy is characterized by its pragmatic approach, which takes into account the country's economic potential and the evolving challenges of the time. A significant strategic milestone was achieved with the approval of the document "Azerbaijan 2030: National Priorities for Socio-Economic Development" by President Ilham Aliyev's decree on February 2, 2021.

The document outlines five national priorities to be pursued in the new strategic stage:

1. a steadily growing, competitive economy
2. a dynamic, inclusive society based on social justice
3. areas of modern innovations and competitive human capital
4. the great return to the territories liberated from occupation
5. a clean environment and country of "green growth."

In 2021, one positive development observed in Azerbaijan's national economy was the increase in strategic currency reserves. Despite the challenges posed by the pandemic and the war, the country managed to raise its strategic currency reserves to 53 billion dollars, surpassing pre-pandemic and pre-war levels.

Azerbaijan stands as one of the least indebted countries globally, with a relatively low ratio of public debt to GDP in 2021. The country has the capacity to fully repay all its foreign debts within a short period if necessary.

Starting from May 2021, Azerbaijan's economic decline came to a halt, and the growth rate has been accelerating each month. In 2021, the economy grew by 5.6 percent, marking the highest growth rate in the past eight years. The added value increased by 7.2 percent, with the oil and gas sector seeing a growth of 1.8 percent. Industry contributes significantly to GDP production, accounting for

42.5 percent, well above the global average of 24.8 percent. Notably, Azerbaijan achieved a record-breaking 20 percent growth rate in the non-oil and gas industry, a milestone in the country's history of independence. Importantly, this economic growth occurs alongside a stable national currency, low foreign debt, and substantial strategic foreign exchange reserves.

In 2021, while the global trade growth forecast stood at 10.8 percent, Azerbaijan experienced a notable increase of 47.2 percent in non-oil exports. The per capita non-oil exports rose from USD 170 in 2015 to USD 270 in 2021, suggesting that the target of USD 450 by 2025 is within reach. Efforts to improve tax and customs administration, transitioning from forced to voluntary compliance, combating the shadow economy, and promoting transparency and accountability are gradually yielding positive results.

The positive trade balance in Azerbaijan further confirms the successful recovery process of the national economy in 2021. The country has maintained a positive trade balance since the beginning of the year, with exports increasing by 37.7% and imports by 6.4% in the last year. As a result, a positive balance of $7.5 billion was achieved in foreign trade, which is 2.2 times higher than the previous year. Notably, Azerbaijan's foreign trade balance remained positive throughout the entire year.

In 2021, non-oil sector exports from Azerbaijan reached $2.7 billion, marking a significant increase of 47.2% compared to the corresponding period in 2020.

There has been a satisfactory expansion of export destinations, particularly to European Union (EU) countries. Azerbaijan has established strategic partnership agreements with nine EU member states and presented the report "Business Environment in Azerbaijan-2021" at the European Union-Azerbaijan Business Forum. The aim of the report is to monitor the achievements of EU-Azerbaijan economic cooperation more effectively and further enhance the business environment. The EU remained Azerbaijan's main trade partner in 2021, with a trade turnover exceeding $15 billion. Around 80% of European companies present in Azerbaijan expressed their interest in conducting economic activities in the country, while 53% planned to expand their operations. Furthermore, 54% of these companies expressed interest in investing in the Karabakh and Eastern Zangezur economic regions, with 14% already participating in investment projects.

CIS countries continue to play a significant role in Azerbaijan's foreign trade. These independent states, which were once part of the former union, maintain their integration relations. Iran, the United Arab Emirates (UAE), and Saudi Arabia were among the top three Gulf countries with which Azerbaijan conducted the most trade operations in 2021.

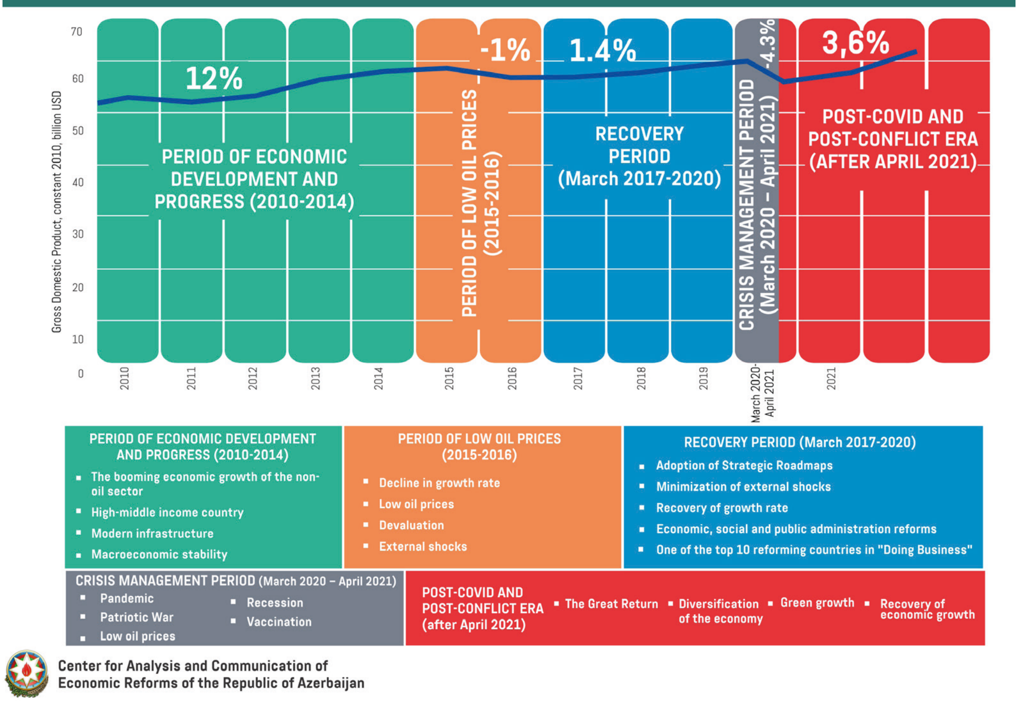
The energy sector is an important area of cooperation between Azerbaijan and the European Union. Azerbaijan has become a reliable partner of the EU in energy security matters, as emphasized in meetings during President Ilham Aliyev's visit to Brussels. The completion of the Southern Gas Corridor in December 2020, initiated by Azerbaijan, has enabled the transportation of natural gas produced from the "Shah Deniz" field in the Azerbaijani sector of the Caspian Sea to central European countries. Azerbaijan has already exported over 7 billion cubic meters of natural gas to the European Union through this route. The country aims to increase gas exports to Europe to 9 billion cubic meters in 2022 and further to 11 billion cubic meters by 2023.

The economic policy of Azerbaijan is currently focused on the revitalization of territories that were freed from occupation and the elimination of the consequences of Armenian vandalism. President Ilham Aliyev has emphasized the goal of turning these territories into a "paradise." Restoring the liberated territories and ensuring the return of displaced individuals are top priorities for Azerbaijan in the new strategic phase from 2021 to 2030. Significant efforts are being made to demine the affected areas, restore cities and villages, and construct necessary infrastructure. Azerbaijan, as the victorious state that brought the enemy to its knees and achieved their capitulation, is determined to implement swift and high-quality restoration and construction projects. Completed projects such as the Zafar Road, Fuzuli International Airport, and various energy infrastructures demonstrate the republic's ability to handle the tasks of restoring the liberated territories and resettling displaced individuals. The state budget for 2021 allocated 2.2 billion manats for the revitalization of the freed territories, and continuous efforts are underway to attract private entrepreneurs to invest in newly established industrial zones, agriculture, services, and industry sectors. Over 900 business plans have been received from entrepreneurs interested in starting businesses in these areas.

In the new strategic phase, Azerbaijan aims to further expand upon the successes achieved thus far. The first of the five national priorities outlined in the document "Azerbaijan 2030: National Priorities for Socio-Economic Development" focuses on building a competitive economy with sustainable growth. This approach aims to increase national income per capita and improve living standards by creating high-paying jobs. A strategy covering the next five years (2022-2026) has been prepared with the participation of relevant institutions to achieve these goals. During this period, the priority will be to build an innovation-based economy and increase the production of "green energy." The total funding required for the strategy, excluding the financing of the liberated territories, amounts to nearly 20 billion manats, with 10.8 billion manats allocated from the state budget. If successfully implemented, the strategy predicts an average annual GDP growth rate of 3.9% and a non-oil GDP growth rate of 5% in the country from 2022 to 2026.

Overall, consistent steps are being taken in Azerbaijan to achieve the selected goals outlined in the adopted programs and strategies. The progress can be seen in specific figures, and the various stages of the national economy since the country's independence can be characterized accordingly.

GRAPHIC 1:
STATES OF THE NATIONAL ECONOMY IN THE YEARS OF INDEPENDENCE
(2010-2021 YEARS)



FOREIGN TRADE OF THE REPUBLIC OF AZERBAIJAN (2010-2021 PERIOD)

In the modern era, access to foreign markets and active participation in global economic processes are crucial for the existence and progress of individual states. The scale effect of the economy highlights that successful development is attainable for any national economy, especially smaller ones, only if they have access to markets of sufficient size. In the context of globalization and trade wars, Azerbaijan recognizes the need to redefine its foreign economic activities and explore new possibilities for accessing foreign markets. Joining global value chains and attracting foreign direct investments that seek efficiency, strategic facilities, and markets are considered appropriate strategies. Azerbaijan's domestic market, with a population of 10 million people, cannot generate sufficient demand for economic growth alone. Therefore, connecting to global value chains and focusing on export orientation are necessary to accelerate economic growth.

Strategic roadmaps outline the goal of increasing non-oil sector exports from the current $200 per person to at least $450 per person by 2025. This requires an annual increase of 15-20% in non-oil exports. The average import demand of Azerbaijan's economy is $1,000 per person, while the country currently exports $2,000 per person, with 90% of exports comprising oil and gas products. Given the decreasing value and fluctuating prices of oil and gas, the growth of non-oil exports is considered strategically important for economic security and macro stability.

The formation and development of Azerbaijan's foreign economic relations can be divided into two important stages. The first stage occurred from 1992 to 1994 when the country experienced the rapid collapse of the existing socio-economic system and embarked on the search for a new system. The second stage began in 1995 when political and economic stability gradually strengthened, marked by the end of internal political strife, the adoption of the first independent Constitution, and the completion of initial reforms.

Since declaring independence, Azerbaijan has implemented an "open door" policy in its foreign economic relations. The country has taken significant steps to establish equal and mutually beneficial relations with all countries as a member of the United Nations and an independent subject of international relations. Azerbaijan has actively participated in international organizations and taken its place in the international division of labor. It has signed bilateral and multilateral agreements with numerous countries to establish and regulate foreign trade relations. The structure and geography of Azerbaijan's foreign trade circulation have undergone significant changes during its years of independence, reflecting the country's growing engagement with the global economy.

The second stage of Azerbaijan's foreign economic relations began on September 20, 1994, with the signing of the "Contract of the Century" involving leading transnational corporations in the oil and gas sector. This agreement not only asserted Azerbaijan's status as the sole owner of underground and surface resources as an independent state but also played a significant role in attracting international economic power centers' attention and integrating the country into the global economy.

Building on this foundation, Azerbaijan has developed extensive foreign economic relations as part of a well-planned strategy. In a relatively short period, the country has achieved dynamic progress, transforming from a nation dependent on foreign investments to one that directs investments abroad.

According to information from the State Statistics Committee, Azerbaijan's natural and legal entities engage in trade operations with 170 countries worldwide. The country exports its products to 114 countries and imports products from 156 countries. Analyzing statistical data, the trade turnover of Azerbaijan from 2010 to 2021 can be described as follows.

Table 2. Dynamics of Foreign Trade Turnover of the Republic of Azerbaijan

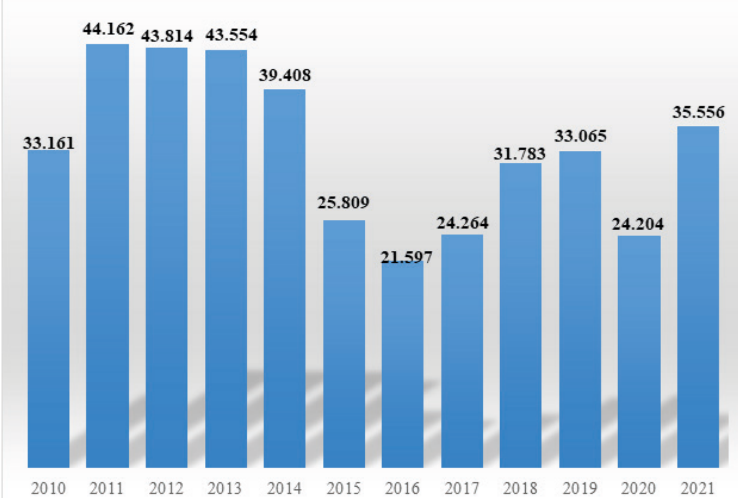
Year	In Million USD				In actual prices compared to the previous year, in %		
	Trade Turnover	Import	Export	Trade Balance	Trade Turnover	Import	Export
2010	33161	6601	26560	19960	106,5	105,0	106,9
2011	44162	9756	34406	24650	104,0	145,3	92,6
2012	43814	9653	34161	24508	95,5	96,9	95,1
2013	43554	10713	32842	22129	102,7	109,1	100,7
2014	39408	9188	30220	21032	95,7	85,4	99,0
2015	25809	9217	16592	7376	99,9	99,5	100,1
2016	21597	8489	13108	4618	92,7	89,6	94,4
2017	24264	8783	15481	6697	89,3	83,8	92,9
2018	31783	11466	20317	8851	100,5	100,2	100,7
2019	33065	13668	19398	5730	96,1	93,5	97,6
2020	24204	10732	13472	2740	78,1	64,0	88,0
2021	35556	11706	23851	12145	105,0	90,0	117,0

Source: *The State Statistics Committee of the Republic of Azerbaijan (2021)*

The presented data indicates that the trade turnover exhibited a notable increase in 2012, followed by a declining trend starting from 2013. However, in 2021, there was a substantial increase of 2395 million US dollars compared to the year 2010. Throughout the reporting period, imports experienced a significant rise of 5105 million dollars, whereas exports witnessed a decrease of 2709 million dollars. Although non-oil products contribute to a certain share of the trade turnover, the main decline in exports can be attributed to the decrease in oil prices on the global market.

It is worth noting that the global economy, including Azerbaijan's economy, experienced fluctuations after 2012. The absence of clear upward or downward trends in statistical indicators suggests the presence of these fluctuations. The figure below illustrates a sharp decrease in foreign trade turnover during the period of 2014-2016, followed by a positive trend from 2016 to 2019. However, there was a slight decrease of approximately 9 million dollars in 2019-2020. In the subsequent period of 2020-2021, a noticeable increase of 11.3 million dollars was recorded. Ultimately, towards the end of 2021, stability was achieved, and the trade turnover surpassed the level observed in 2010.

Figure 5. Foreign Trade Turnover of Azerbaijan, mln USD



Source: *The State Statistics Committee of the Republic of Azerbaijan (2021)*

The dynamics described in the volume of trade turnover finds its expression in trade geography. Today, the Republic of Azerbaijan has trade relations with 5 continents of the world.

Table 3. Geographical structure of imports in Azerbaijan, mln. USD

Year / Regions	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Import	6.601	9.756	9.653	10.713	9.188	9.217	8.490	8.783	11.466	13.667	10.733	11.706
Including:												
Europe	3.508	5.646	4.797	6.104	5.051	5.019	4.529	4.319	5.499	6.736	5.219	5.372
Asia	2.585	3.182	3.791	3.673	3.224	3.092	3.179	3.395	4.748	5.087	4.553	5.382
America	462	891	1.005	824	879	1.065	714	992	988	1.477	886	854
Africa	23	14	35	84	7	13	19	25	183	33	27	28
Oceania	23	23	25	28	26	27	48	53	48	335	47	69
Geographical structure of imports, in % compared to the previous year												
Europe	53,1	57,9	49,7	57,0	55,0	54,5	53,3	49,2	48,0	49,3	48,6	45,9
Asia	39,2	32,6	39,3	34,3	35,0	33,5	37,5	38,7	41,4	37,2	42,4	46,0
America	7,0	9,1	10,4	7,7	9,6	11,6	8,4	11,3	8,6	10,8	8,3	7,3
Africa	0,3	0,1	0,4	0,8	0,1	0,1	0,2	0,3	1,6	0,2	0,3	0,2
Oceania	0,4	0,3	0,2	0,2	0,3	0,3	0,6	0,5	0,4	2,5	0,4	0,6

Source: *The State Statistics Committee of the Republic of Azerbaijan (2021)*

In 2021, the import figures show that Europe and Asia had nearly equal shares, accounting for approximately 45.9% and 46% respectively. Over the period of 2010-2021, there have been notable changes in the import shares across different continents. The share of Europe in imports decreased by 7.2%, while Africa experienced a slight decrease of 0.1%. On the other hand, the share of Asia increased by 6.8%, America by 0.3%, and Oceania by 0.2%.

Overall, there was a significant increase in total imports across all continents during the period of 2010-2021, with a growth rate of 77.3%. The highest import figure was recorded in 2021, reaching 11.7 billion dollars.

Table 4. Geographical Structure of Exports in Azerbaijan, mln. USD

Regions \ Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total	21.360	26.571	23.908	23.985	21.829	12.729	13.458	15.320	19.489	19.635	13.733	22.207
Including:												
Europe	12.626	19.000	12.650	12.934	12.495	7.385	8.212	9.918	11.924	11.812	8.252	15.464
Asia	6.355	5.019	9.199	9.573	7.800	4.488	4.820	4.559	6.372	7.525	5.047	5.693
America	2.024	2.289	1.611	993	994	562	183	657	1000	168	39	369
Africa	329	263	417	475	539	294	243	185	193	89	324	659
Oceania	26	162	31	391	471	622	276	688	560	41	71	21
Geographical structure of exports, in % compared to the previous year												
Europe	59,1	71,5	52,9	54,0	57,2	58,0	61,0	64,7	61,2	60,2	60,1	69,6
Asia	29,7	18,9	38,5	39,9	35,7	35,3	35,8	29,8	32,7	38,3	36,7	25,6
America	9,5	8,6	6,7	4,1	4,6	4,4	1,4	4,3	5,1	0,9	0,3	1,7
Africa	1,6	1,0	1,8	2,0	2,5	2,3	1,8	1,2	1,0	0,4	2,4	3,0
Oceania	0,1	0,0	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,2	0,5	0,1

Source: *The State Statistics Committee of the Republic of Azerbaijan (2021)*

As evident from the statistical data, Azerbaijan exports its products to five continents, with Europe holding the largest share in the export structure at 69.6%. Between 2010 and 2021, exports to Europe increased by 10.5%, while exports to Africa experienced a 1.4% growth. However, exports to Asia and the Americas declined by 4.1% and 7.8% respectively. In general, during the period of 2010-2021, Azerbaijan's export development exhibited a wave-like pattern, with alternating periods of growth and decline.

The total volume of exports increased by 4.0% over the 2010-2021 period, with the highest figure of 26.6 billion dollars recorded in 2011. The fluctuations in the price of oil in subsequent years had an impact on the dynamics of exports, reflecting the influence of oil prices on Azerbaijan's export performance.

In addition to implementing a balanced policy, Azerbaijan is recognized globally as a supporter of peace and stability. Special attention is given to cooperation with

Turkic-speaking countries, encompassing economic, political, cultural, and strategic aspects. The development of mutual relations and cooperation in all directions are among the priorities of Azerbaijan. Therefore, it is relevant to examine the foreign trade relations of Azerbaijan using the example of the Organization of Turkic States.

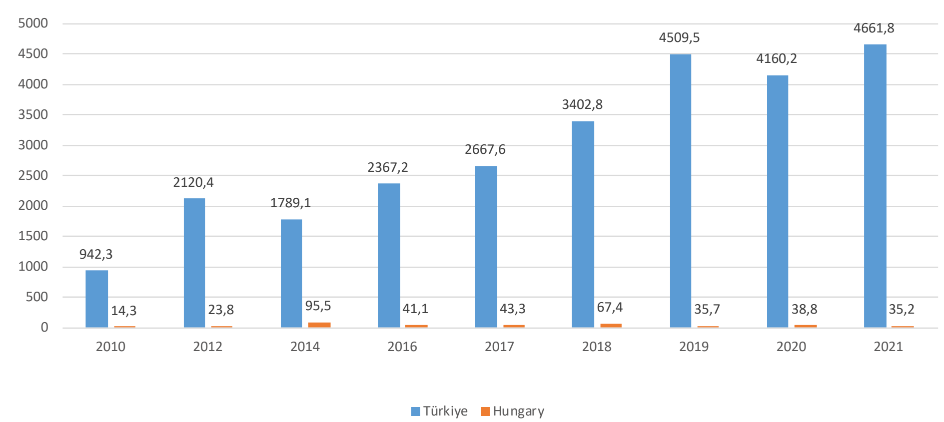
Table 5. Trade Turnover with OTS of the Republic of Azerbaijan, Million US Dollars

Country \ Year	2010	2012	2014	2016	2017	2018	2019	2020	2021
Total	1610.4	2677.7	2275.7	2707	3048.6	3874.2	5088.8	4537.8	5059
Türkiye	942.3	2120.4	1789.1	2367.2	2667.6	3402.8	4509.5	4160.2	4661.8
Hungary	14.3	23.8	95.5	41.1	43.3	67.4	35.7	38.8	35.2
Kazakhstan	338.1	393.4	250.9	124.4	142	221	230	142	136
Kyrgyz Republic	41.5	28.9	27.5	6.7	1,7	6	5,9	5,8	9
Uzbekistan	32.6	19.6	61.5	15.3	30	44	82	82.3	112
Turkmenistan	214.6	91.6	51.2	152.3	164	133	225.7	108.7	105

Source: *The State Statistics Committee of the Republic of Azerbaijan (2021)*

Statistical data clearly indicates that trade turnover with Turkic States has significantly increased from 2010 to 2021. During this period, the total trade turnover with member countries of the Organization of Turkic States increased by 3.1 times or $3,448.6 million. Notably, trade turnover with Türkiye experienced a substantial rise, reaching 5.0 times or 3,719.5 million manats. The figure below provides a clearer representation of the dynamics of Azerbaijan-Türkiye trade turnover.

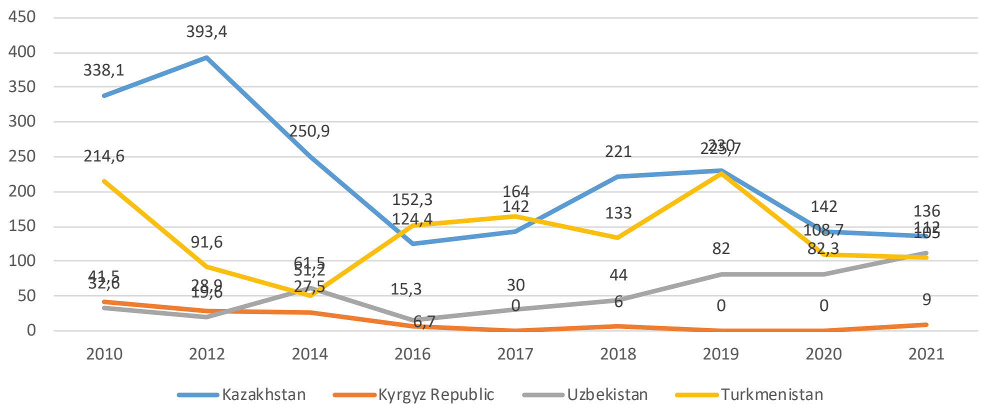
Figure 6. Trade Turnover of Azerbaijan with Türkiye and Hungary, mln in US Dollars



In particular, an increase of 20.9 million dollars or 2.5 times was recorded in the trade turnover with Hungary in 2010-2021. As for the Central Asian republics, the trade turnover with Kazakhstan reached its highest level in 2012 with an indicator of 393.4 million dollars, and decreased by 202.1 million dollars in 2010-2021. In 2010-2021, a decrease of 109.6 million dollars was registered in the trade turnover with Turkmenistan, excluding the jump in 2019. The turnover with Kyrgyzstan decreased by 32.5 million dollars or 4.6 times, while the turnover with Uzbekistan increased by 79.4 million dollars or 3.4 times.

In general, the trade cycle with Central Asian countries can be described in the form of a diagram as follows.

Figure 7. Trade Turnover of Azerbaijan with Central Asian Countries, mln. in US Dollars



When comparing the members of the Organization of Turkic States (OTS), it is clear that during the period of 2010-2021, the foreign trade balance of Türkiye, Kyrgyzstan, and Uzbekistan was negative, indicating that their imports exceeded their exports. On the other hand, Azerbaijan and Kazakhstan had a positive trade balance, signifying that their exports exceeded their imports. Turkmenistan, however, experienced both positive and negative trade balances during this period. The table below provides a clear overview of these trade balance indicators within the OTS.

Table 6. Import and Export of OTS Members Comparatively, billion in US Dollars

Countries		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Azerbaijan	Export	21,4	26,6	23,9	24,0	21,8	12,7	13,5	15,3	19,5	19,6	13,7
	Import	6,6	9,8	9,7	10,7	9,2	9,2	8,5	8,8	11,5	13,7	10,7
	Balance	14,8	16,8	14,2	13,3	12,6	3,5	5,0	6,5	8,0	5,9	3,0
Türkiye	Export	113,9	134,9	152,5	151,8	157,6	144,0	142,7	157,2	177,2	180,8	169,6
	Import	185,5	240,8	236,5	251,7	242,2	207,0	198,6	233,8	231,2	210,3	219,5
	Balance	-71,6	-105,9	-84,0	-99,9	-84,6	-63,0	-55,9	-76,6	-54,0	-29,5	-49,9
Kazakhstan	Export	60,3	84,3	86,4	84,7	79,5	46,0	36,7	48,5	61,1	58,1	47,5
	Import	31,1	36,9	46,4	48,8	41,3	30,6	25,4	29,6	33,7	39,7	38,9
	Balance	29,2	47,4	40,0	35,9	38,2	15,4	11,3	18,9	27,4	18,4	8,6
Kyrgyz Republic	Export	1,8	2,2	1,9	2,0	1,9	1,5	1,6	1,8	1,8	2,0	2,0
	Import	3,2	4,3	5,6	6,0	5,7	4,2	4,0	4,5	5,3	5,0	3,7
	Balance	-1,4	-2,1	-3,7	-4,0	-3,8	-2,7	-2,4	-2,7	-3,5	-3,0	-1,7
Uzbekistan	Export								4	9	29	23
	Import								26	35	53	59
	Balance								-22	-26	-24	-36
Turkmenistan	Export	9,7	16,8	20,0	18,9	19,8	12,1	7,5	7,8	11,7	...	...
	Import	8,2	11,4	14,1	16,1	16,6	14,1	13,2	10,2	5,3	...	...
	Balance	1,5	5,4	5,9	2,8	3,2	-2,0	-5,7	-2,4	6,4	...	...

Source: *The State Statistics Committee of the Republic of Azerbaijan (2020)*

From the perspective of economic theory, the equality of import and export is considered more appropriate. Having a negative balance is appropriate if the products imported into the country are not intended for final consumption, but for the future.

When a similar comparison is made on the example of the top 10 countries in the foreign trade relations of the Republic of Azerbaijan, the following picture is obtained. As you can see, most developed countries have a "+" (positive) balance. Looking at the first three, it is clear that the export from Azerbaijan to China during 2010-2021 is 1019.7 billion dollars or 64.6%, and import from China is 664.1 billion dollars or increased by 47.6%. Exports to the USA are 153.1 billion dollars or 12.0%, import from the USA 367.4 billion dollars or 18.7%, export to Germany 118.8 billion dollars or 9.4%, while imports from Germany amounted to 114.5 billion dollars or increased by 10.8%. Including, during the considered period, exports to Japan amounted to 131.6 billion dollars, and import from Japan is 61.2 billion dollars, import from Italy 64.1 billion dollars, exports to France 28.6 billion dollars, import from France 26.1 billion dollar has decreased.

Table 7. Import and Export of Azerbaijan (First Ten), billion in US Dollars (in Ascending Order by Export)

Countries		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
China	Export	1578,3	1899,2	2048,9	2210,3	2343,2	2282,4	2136,7	2280,4	2501,3	2498,5	2598,0
	Import	1396,2	1742,9	1818,2	1949,3	1963,1	1680,8	1589,5	1842,3	2134,0	2069,0	2060,3
	Balance	182,1	156,3	230,7	261,0	380,1	601,6	547,2	438,1	367,3	429,5	537,7
USA	Export	1278,5	1480,3	1545,7	1579,1	1623,4	1503,1	1451,0	1546,7	1664,2	1641,1	1431,6
	Import	1969,2	2265,9	2336,5	2329,1	2412,6	2315,3	2250,2	2409,5	2542,7	2498,4	2336,6
	Balance	-690,7	-785,6	-790,8	-750,0	-789,2	-812,2	-799,2	-862,8	-878,5	-857,3	-905,0
Germany	Export	1261,6	1477,0	1408,4	1451,6	1492,5	1323,7	1334,4	1448,2	1560,5	1489,4	1380,4
	Import	1056,2	1256,2	1164,6	1192,8	1209,3	1052,9	1055,3	1162,9	1284,3	1234,0	1170,7
	Balance	205,4	220,8	243,8	258,8	283,2	270,8	279,1	285,3	276,2	255,4	209,7
Netherlands	Export	492,7	569,5	554,7	567,7	574,2	473,9	470,2	527,8	726,7	708,6	674,7
	Import	440,0	507,8	500,6	513,1	508,2	424,9	412,3	464,9	645,5	635,7	596,3
	Balance	52,7	61,7	54,1	54,6	66,0	49,0	57,9	62,9	81,2	72,9	78,4
Japan	Export	769,8	822,6	798,6	714,6	690,2	624,8	644,9	698,1	737,9	705,6	638,2
	Import	692,4	854,1	885,6	832,4	811,9	648,0	607,6	671,9	748,3	720,8	631,2
	Balance	77,4	-31,5	-87,0	-117,8	-121,7	-23,2	37,3	26,2	-10,4	-15,2	7,0
South Korea	Export	466,4	555,2	547,9	559,6	572,7	526,8	495,4	573,7	605,7	542,6	512,6
	Import	425,2	524,4	519,6	515,6	525,5	436,5	406,2	478,5	534,7	502,8	467,6
	Balance	41,2	30,8	28,3	44,0	47,2	90,3	89,2	95,2	71,0	39,8	45,0
Italy	Export	446,9	523,3	501,5	517,6	528,0	457,0	462,9	510,6	549,5	537,7	496,1
	Import	487,0	558,8	489,1	477,3	470,4	410,9	406,8	456,8	503,2	475,0	422,9
	Balance	-40,1	-35,5	12,4	40,3	57,6	46,1	56,1	53,8	46,3	62,7	73,2
France	Export	517,0	585,3	558,6	568,5	568,5	506,2	501,4	535,0	582,2	571,0	488,4
	Import	608,7	712,9	667,3	673,3	670,1	573,2	571,9	624,0	676,4	654,7	582,6
	Balance	-91,7	-127,6	-108,7	-104,8	-101,6	-67,0	-70,5	-89,0	-94,2	-83,7	-94,2
Belgium	Export	407,1	476,0	446,6	467,8	473,4	397,9	398,2	430,1	468,7	446,9	419,9
	Import	391,3	466,8	439,5	451,9	453,8	375,6	379,4	409,1	454,9	427,7	396,1
	Balance	15,8	9,2	7,1	15,9	19,6	22,3	18,8	21,0	13,8	19,2	23,8
Mexico	Export	298,1	349,6	370,9	380,1	397,7	380,6	373,9	409,5	450,7	460,6	417,0
	Import	301,5	350,9	370,7	381,2	400,0	395,2	387,1	420,4	464,3	455,2	383,0
	Balance	-3,3	-1,3	0,2	-1,1	-2,3	-14,6	-13,2	-10,9	-13,6	5,4	34,0

Source: *The State Statistics Committee of the Republic of Azerbaijan (2020)*

During the period of 2010-2021, Azerbaijan experienced a negative trade balance in its relations with the United States, France, and Mexico. Notably, the United States primarily exports civil aircraft, spare parts, heavy machinery parts, diesel engines, power supplies, transformers, cars, air filters, oil filters, and other products to Azerbaijan. France, on the other hand, predominantly exports trains, railway and subway equipment, essential oils, perfumes and cosmetics, pharmaceuticals, nuclear reactors, electrical equipment, automobiles, furniture, lighting products, and various other goods.

Research indicates a significant increase in vehicle imports from Mexico to Azerbaijan. The number of imported vehicles from Mexico rose from 5 in 2016 to over 100 in 2017, exceeding 600 in 2018, and reaching 1,467 vehicles in 2019.

According to statistics, Mexico exported around 3.3 million cars in 2019, produced by Nissan, General Motors, Volkswagen, Toyota, Kia, Honda, Mazda, Ford, and other companies, to various countries worldwide.

In general, the import and export structure of the Republic of Azerbaijan is diverse, encompassing various goods and commodities.

Table 8. Commodity Structure of Import and Export in Azerbaijan, million in US Dollars

Commodity groups		2017	2018	2019	2020	2021
Live animals and animal products	Import	255,9	278,9	299,5	322,8	313,8
	Specific weight in import, in %	2,9	2,4	2,2	3,0	2,7
	Export	12,6	12,1	23,2	19,4	16,1
	Specific weight in export, in %	0,1	0,1	0,1	0,1	0,1
Products of plant origin	Import	559,5	560,3	745,7	714,5	788,8
	Specific weight in import, in %	6,4	4,9	5,5	6,7	6,7
	Export	518,3	584,7	625,9	624,3	658,6
	Specific weight in export, in %	3,4	3	3,2	4,5	3
Fats and oils of animal or vegetable origin	Import	148,3	140,9	141,2	161,9	221,8
	Specific weight in import, in %	1,7	1,2	1	1,5	1,9
	Export	17	16,9	18,4	24,7	32,2
	Specific weight in export, in %	0,1	0,1	0,1	0,2	0,1
Prepared food products, alcoholic or non-alcoholic beverages, vinegar, tobacco	Import	753,9	723,5	739,6	704,7	890,4
	Specific weight in import, in %	8,4	6,3	5,4	6,6	7,6
	Export	111	90,7	104,6	91,4	109,2
	Specific weight in export, in %	0,7	0,5	0,5	0,7	0,5
Mineral products	Import	407	766,3	868,3	318	365,4
	Specific weight in import, in %	4,7	6,7	6,4	3	3,1
	Export	13912	17924	17853	12028	19695
	Specific weight in export, in %	90,8	92	90,9	87,6	88,7
Chemical industry products	Import	831,3	977,1	1123,6	1140,8	1310,1
	Specific weight in import, in %	9,5	8,5	8,2	10,6	11,2
	Export	79,6	78,1	102,9	85,3	245,4
	Specific weight in export, in %	0,5	0,4	0,5	0,6	1,1
Plastics and products made from them products, rubber, tire, from them manufactured products	Import	428	481,7	537,6	463,5	537,4
	Specific weight in import, in %	4,9	4,2	3,9	4,3	4,6
	Export	102,5	119,3	180	165,7	442,8
	Specific weight in export, in %	0,7	0,6	0,9	1,2	2,0
Raw hide, tanned leather, natural fur, products made from them	Import	19,3	28,1	29,7	17,7	22,6
	Specific weight in import, in %	0,2	0,2	0,2	0,2	0,2
	Export	15,2	13,3	11,9	8,4	12,2
	Specific weight in export, in %	0,1	0,1	0,1	0,1	0,1
Firewood, cork and products made from them, charcoal, wicker products	Import	213,8	298,2	286,3	259,2	325
	Specific weight in import, in %	2,4	2,6	2,1	2,4	2,8
	Export	1,1	0,3	0,7	0,8	1,1
	Specific weight in export, in %	0,0	0,0	0,0	0,0	0,0
Wood pulp, paper and cardboard, products made from them	Import	144,3	162,5	197,2	195,5	212,1
	Specific weight in import, in %	1,6	1,4	1,4	1,8	1,8
	Export	5,4	9,9	7	4,4	4,9
	Specific weight in export, in %	0,0	0,1	0,0	0,0	0,0

Textile materials and products	Import	316	431	461,7	401,9	496,6
	Specific weight in import, in %	3,6	3,8	3,4	3,7	4,2
	Export	76,8	135,2	185,4	182,1	303
	Specific weight in export, in %	0,5	0,7	0,9	1,3	1,4
Shoes, hats, umbrellas, steel, feathers, artificial flowers	Import	71,6	86,1	96	74	87,7
	Specific weight in import, in %	0,8	0,8	0,7	0,7	0,7
	Export	0,4	0,2	0,8	0,9	0,4
	Specific weight in export, in %	0,0	0,0	0,0	0,0	0,0
Stone, gypsum, cement, asbestos, mica, ceramic and glass products	Import	190,6	232,5	241,2	206	251,4
	Specific weight in import, in %	2,2	2	1,8	1,9	2,1
	Export	7,9	4,8	3,2	2,8	14,6
	Specific weight in export, in %	0,1	0,0	0,0	0,0	0,1
Pearls, precious or semi-precious stones, precious metals and products made from them, jewelry, coins	Import	30,8	839,1	2149,5	14,1	121,5
	Specific weight in import, in %	0,4	7,3	15,7	0,1	1
	Export	141,5	146,7	174,4	198,6	205,6
	Specific weight in export, in %	0,9	0,8	0,9	1,4	0,9
Low-value metals and products made from them	Import	1060,8	1409,7	1288,8	1165,3	1115,1
	Specific weight in import, in %	12,1	12,3	9,4	10,9	9,5
	Export	245,1	252,5	232	208,5	375,5
	Specific weight in export, in %	1,6	1,3	1,2	1,5	1,7
Machines, mechanisms, electro technical equipment, their parts	Import	1866,7	2589	2661	2536,7	2749,1
	Specific weight in import, in %	21,3	22,6	19,5	23,6	23,5
	Export	50,4	64,6	77,7	67,2	55,5
	Specific weight in export, in %	0,3	0,3	0,4	0,5	0,3
Surface vehicles, floating vehicles and transport equipment	Import	598,2	818,8	1199,9	1028,5	1293
	Specific weight in import, in %	6,5	6,8	7,5	9,0	8,4
	Export	11,5	9,4	10,9	4,4	7,9
	Specific weight in export, in %	0,1	0,0	0,1	0,0	0,0
Optics, photography, cinematography, measurement, control, medical instruments and apparatus, watches, musical instruments	Import	175,8	214,2	2503,6	240,1	243,5
	Specific weight in import, in %	2,0	1,9	1,9	2,2	2,1
	Export	6,8	12,3	17,3	9,1	15,8
	Specific weight in export, in %	0,0	0,1	0,1	0,1	0,1
Various industrial goods	Import	233,1	297,6	293,1	244,3	307,4
	Specific weight in import, in %	2,7	2,6	2,1	2,3	2,6
	Export	2,4	1,8	3,9	3,6	6,1
	Specific weight in export, in %	0,0	0,0	0,0	0,0	0,0
Works of art, collectibles and antiques	Import	2,1	0,4	0,7	0,6	0,2
	Specific weight in import, in %	0,0	0,0	0,0	0,0	0,0
	Export	0,1	0,1	0,1	0,1	0,2
	Specific weight in export, in %	0,0	0,0	0,0	0,0	0,0

Source: *The State Customs Committee (2022)*

Upon examining the commodity structure of Azerbaijan's import and export, it becomes evident that the top five commodities with the highest share in total imports in 2021 are as follows:

- Machines, mechanisms, and electrotechnical equipment, including their parts, accounting for 23.5%.

- Chemical industry products with a share of 11.2%.
- Low-value metals and products made from them with a share of 9.5%.
- Land vehicles, floating vehicles, and transport-related devices with a share of 8.4%.
- Ready-made food products, including alcoholic or non-alcoholic beverages, vinegar, and tobacco, also with a share of 7.6%.

In terms of exports, mineral products hold the largest share at 88.7%. Other significant export commodities include plastics and products made from them (2.0%), rubber and products made from them (1.7%), textile materials and products (1.4%), and chemical industry products (1.1%).

Research and analysis, along with the realities of the modern world, suggest that Azerbaijan should prioritize the export of services in addition to goods. Before the COVID-19 pandemic, tourism services constituted a significant portion of exports. Today, Azerbaijan has the potential to expand its export opportunities in various sectors such as information-communication, transport-logistics, education, healthcare, financial-banking, construction, space services, and creative exports.

The creative and cultural industries (CCI) also hold potential for expansion. CCI is a rapidly developing sector in the global economy, encompassing music, dance, theater, design, architecture, fashion art, crafts, fine arts, film, video, photography, literature, publishing, advertising, TV and radio broadcasting, games, and creative technologies. Studies conducted worldwide, including the United Nations Conference on Trade and Development's Creative Economy Outlook 2002-2015, indicate that the CCI sector experienced an average annual growth of 7.3% during the examined years, with global exports more than doubling from $208 billion in 2002 to $509 billion in 2015.

Azerbaijan has a rich tradition of creative and cultural industries, encompassing ancient crafts, music, literature, film, painting, photography, and more. With the liberation of Karabakh from occupation and the declaration of Shusha as the cultural capital of Azerbaijan, new opportunities arise for the development of the creative sector. The new non-oil export strategy aims to make exports more profitable, diversify the export geography, involve more small and medium-sized enterprises (SMEs) in exports, and leverage the potential opportunities in the liberated territories. The tourism and recreational resources of the Kalbajar-Lachin region, the agricultural potential of Karabakh and Eastern Zangezur, and the realization of the Zangezur Corridor will further enhance the non-oil export prospects of Azerbaijan in the near future.

MONETARY AND FISCAL POLICY IN AZERBAIJAN

Prof. Dr. Fuad Ganbarov
Head of Division, Institute of Economy of Azerbaijan
National Academy of Science (ANAS)

Monetary Policy: Monetary policy in the Republic of Azerbaijan is one of the main tools for achieving macroeconomic stability. The institution that implements the monetary policy in the country is the Central Bank of the Republic of Azerbaijan.

The monetary policy tools implemented by the Central Bank are reflected in Article 29 of the Law of the Republic of Azerbaijan "On the Central Bank of the Republic of Azerbaijan." The main instruments of monetary policy are the following:

- Open market operations;
- Determination of interest rates;
- Mandatory reserve norms;
- Refinancing of credit institutions;
- Deposit operations; and so on.

Open market operation is the main instrument for regulating the money supply in developed countries. This operation is carried out by buying and selling government bonds to the population, and Central Bank notes to commercial banks. When the Central Bank implements a strict money credit policy, it reduces the money supply in circulation, especially the money reserves of commercial banks, by selling government securities to the population and commercial banks, thereby reducing economic activity in the country. Such a policy is usually implemented when inflation is high in the country. At the same time, when the Central Bank supports economic activity, the mentioned process is reversed. In this regard, let's take a look at the table below regarding the open market operation.

Table 1. Open Market Operation (Million Manats)

Years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Government bonds	269.7	159.4	204.6	161.4	200.3	122.6	277.5	739.8	980.9	1141.3	1712.2	2500.2
CBAR notes	40	91.2	120.0	20.0	27.0	-	109.6	925.6	1008.3	700.0	650.0	200.0
Total	309.7	250.6	324.6	181.4	227.3	122.6	387.1	1665.4	1989.2	1841.3	2362.2	2700.2

Source: *Central Bank of the Republic of Azerbaijan (2021)*

The available data indicates that despite a significant increase in the volume of the securities market in Azerbaijan, projected to grow by 8.7 times in 2021 compared to 2010, it remains relatively small. Consequently, the Central Bank typically relies on two key instruments, namely refinancing and reserve ratio, to effectively regulate the money supply. By employing these tools, the Central Bank has demonstrated its ability to promptly mitigate inflationary pressures in recent years.

In response to periods of elevated oil revenues, the Central Bank has implemented mandatory reserve norms, particularly emphasizing foreign currency reserves, to prevent excessive appreciation of the national currency against foreign currencies. Although some adjustments have been made to this policy, the reserve ratio pertaining to foreign currency reserves continues to be relatively high.

Table 2. Mandatory Reserve Requirements of the Central Bank, in %

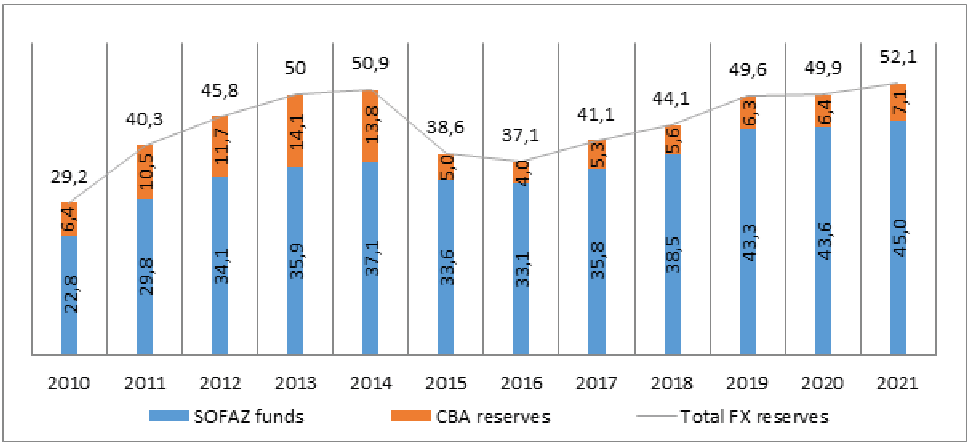
	On deposits of legal entities		On liabilities of nonresident banks and financial institutions, including international financial institutions		On deposits of households	
	in national currency	in foreign currency	in national currency	in foreign currency	in national currency	in foreign currency
01.03.2009-01.01.2011	0.5	0.5	0	0	0.5	0.5
01.01.2011-01.05.2011	0.5	0.5	0.5	0.5	0.5	0.5
01.05.2011-01.07.2011	2	2	2	2	2	2
01.07.2011-31.01.2012	2	3	2	3	2	3
01.02.2012-31.07.2014	3	3	3	3	3	3
01.08.2014-28.02.2015	2	2	2	2	2	2
01.03.2015-02.03.2016	0.5	0.5	0.5	0.5	0.5	0.5
03.03.2016-31.07.2022	0.5	1	0	0	0.5	1
01.08.2022-31.12.2022	4	5	0	0	4	5

Source: *Central Bank of the Republic of Azerbaijan (2021)*

Foreign Exchange Reserves: Strategic currency reserves play a pivotal role in ensuring macroeconomic stability within the context of Azerbaijan. These reserves encompass the foreign exchange reserves held by both the State Oil Fund of the Republic of Azerbaijan (SOFAZ) and the Central Bank. Central Bank maintain foreign currency reserves for a variety of purposes, with particular emphasis on supporting daily interventions in the exchange rate and achieving the desired exchange rate target within fixed or corridor exchange rate regimes. Similarly, in Azerbaijan, the primary objective of reserve holdings is to sustain the existing exchange rate regime during times of crisis and uphold exchange rate stability.

Nevertheless, the primary strategic currency reserves in Azerbaijan are held by SOFAZ, which accumulates funds from oil revenues. Established by Presidential Decree No. 240 on December 29, 1999, and governed by Statute No. 434, approved on December 29, 2000, SOFAZ was established with the aim of effectively managing revenues derived from joint oil field development projects with foreign companies. Its purpose is to allocate these funds toward projects of significant socio-economic importance for the country's development. The regulations governing SOFAZ authorize the utilization of its funds to address critical national issues and to construct and rehabilitate strategically vital infrastructure facilities crucial to the country's socio-economic progress. Additionally, SOFAZ also transfers funds to the state budget, further contributing to the overall fiscal stability of Azerbaijan.

Figure 1. Reserves of CBAR and SOFAZ (billion USD)



Source: *Central Bank of the Republic of Azerbaijan (2021)*

The upward trajectory of foreign exchange reserves witnessed since 2016 has extended into 2021. This growth can be attributed to both the accumulation of funds within SOFAZ and the augmentation of currency reserves held by the CBAR.

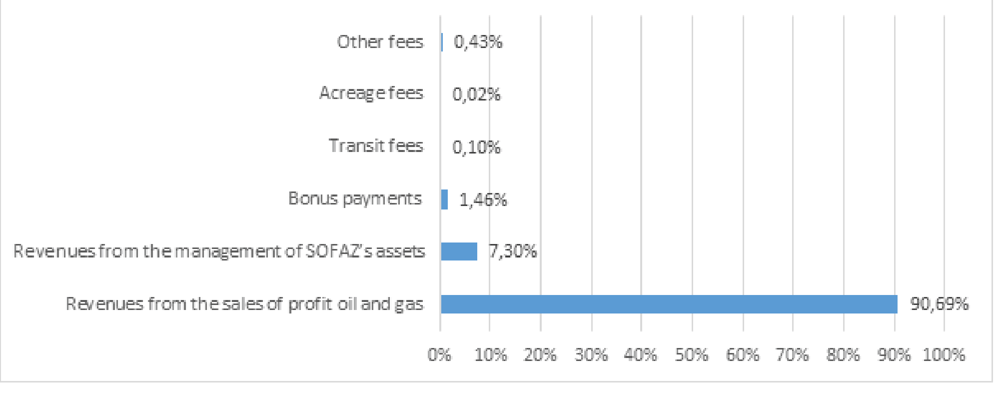
Specifically, the foreign exchange reserves of the CBAR have exhibited consistent growth since 2016, culminating in a noteworthy figure of 7.1 billion US dollars by the end of 2021. Consequently, the overall volume of foreign exchange reserves has attained its highest point in the past five years. Notably, Azerbaijan's strategic foreign exchange reserves in 2021 have experienced a substantial increase of 78.5% compared to the levels recorded in 2010, reaching a total of 52.1 billion US dollars.

It should be noted that since its establishment, SOFAZ's revenues have been formed at the expense of the following sources:

– revenues from the sale of hydrocarbons, crude oil, gas (profitable oil and gas);
– bonus payments received by investors to SOCAR or the authorized state body in connection with the signing and execution of oil and gas contracts;
– account payments paid by foreign investors to the government of the country for the use of land plots on oil fields;
– revenues from the transit fee;
– from the sale of assets and other incomes to the contracts awarded to the Azerbaijani side in accordance with the agreements concluded with foreign companies;
– income from the management of the assets of the National Oil Fund (interest income, income from revaluation of assets, dividends, etc.).

According to statistical data, 90.69% of the Fund's income in 2010-2021 was income from the sale of profit oil and gas, 7.3% was income from the management of foreign exchange reserves, and 1.46% was bonus payments.

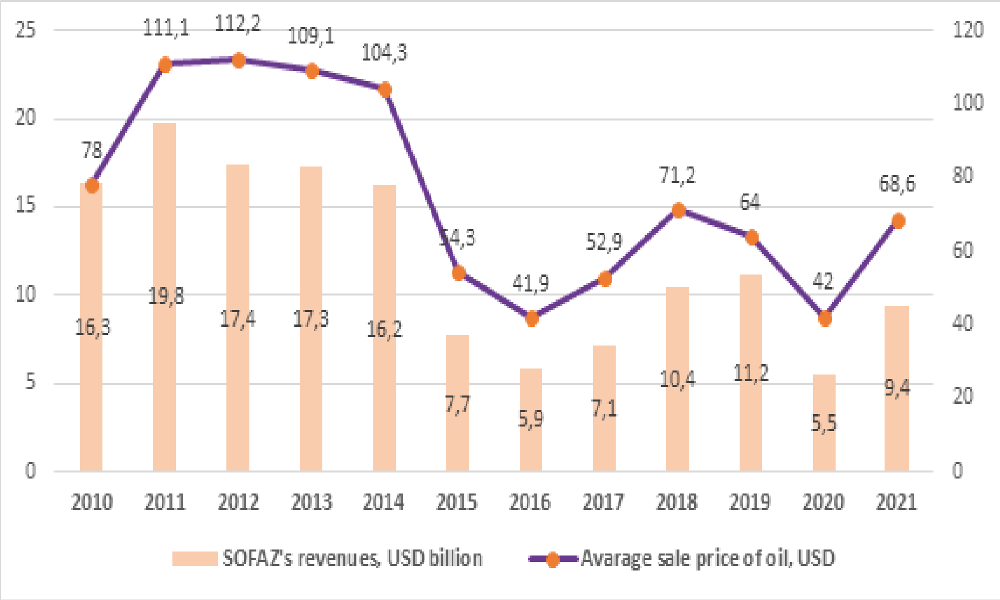
Figure 2. The Structure of SOFAZ Revenues in 2010-2021



Source: *State Oil Fund of the Republic of Azerbaijan (2021)*

Since the main part of SOFAZ's income is from the sale of crude oil, the increase in oil prices in the world market had a serious impact on the formation of the Fund's income.

Figure 3. SOFAZ Revenues and the Average Selling Price of Oil



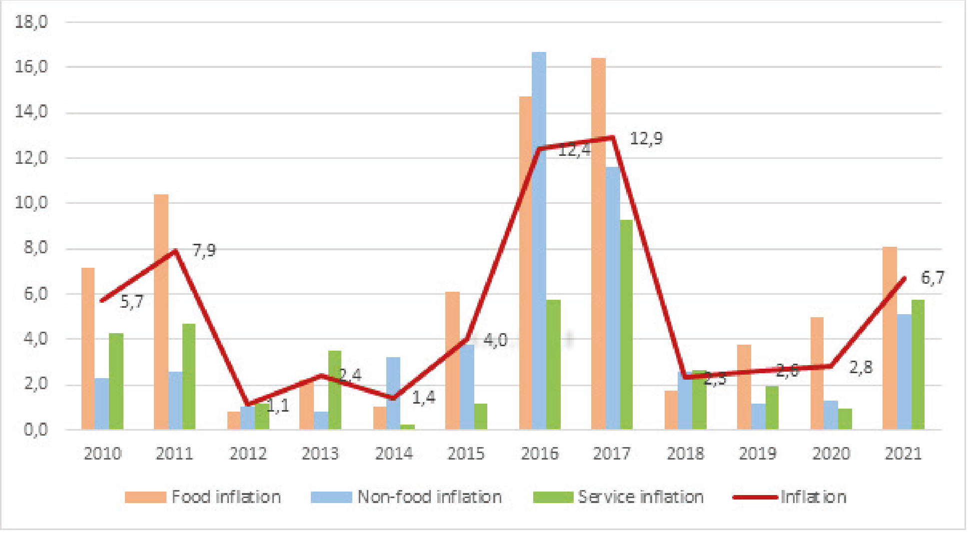
Source: *State Oil Fund of the Republic of Azerbaijan (2021)*

Inflation: Attaining price stability within the Republic of Azerbaijan constitutes a primary objective for the Central Bank. Over the past 15 years, the country experienced its highest inflation rate during the period following the devaluation of the national currency in 2015-2016. Notably, the surge in budget expenditures, exchange rate instability in 2015-2016, and price fluctuations witnessed in global raw material and commodity markets during specific intervals collectively contributed to heightened inflationary volatility.

Since 2018, measures have been implemented to curb price increases, although a resurgence occurred in 2021 due to global influences. In recent years, the country has witnessed rapid shifts in economic indicators, substantial growth in demand, and fluctuations in consumer goods prices as a result of accelerated economic expansion. Consequently, these factors exerted significant inflationary pressures during this period:

- Heightened demand outpacing supply due to increased population income.
- Fiscal expansion prompted by rising oil prices.
- Import-related inflation originating from partner countries, influenced by elevated global energy prices.
- Inflation is driven by expenditure increases in the state budget.

Figure 4. Inflation (in % Compared to the Corresponding Period of the Previous Year)



Source: *Central Bank of the Republic of Azerbaijan (2021)*

In 2021, inflationary pressures have increased in most countries of the world, which is mainly explained by the temporary supply-demand mismatch due to the pandemic, the rapid growth of global stock prices, disruptions in the value chain, and the increase in transportation and logistics costs. Cost factors of foreign origin, directly and indirectly, affected the price increase in the country.

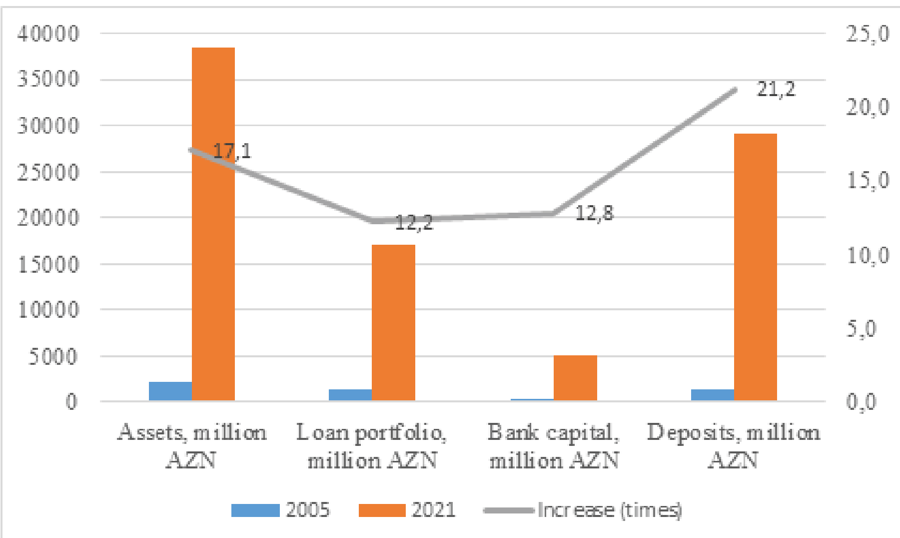
In recent years, the Central Bank has been implementing its money lending policy based on inflation targeting. From 2022, monetary policy improvement will be implemented within the framework of a condition-based phased transition strategy to the hybrid inflation targeting regime in the long term in order to increase the ability to influence inflation. For this, initially, the necessary preparations for the transition to the new regime will be carried out, and the realization of the basic conditions will be the main priority.

Banking Sector: Over the past 15 years, the growth of the economy and the rise in nominal income among the population have exerted a significant influence on the development of Azerbaijan's banking sector. Alongside the sector's expansion, increased competition and the Central Bank's minimum capital requirement, which rose from AZN 10 million to AZN 50 million in 2010, have played pivotal roles in shaping the banking landscape. However, the devaluation of Azerbaijan's national currency, the manat, in 2015 had a profound impact on the banking sector, resulting in the closure of several banks.

To illustrate, in 2005, the country housed 44 operating banks, which increased to 45 by 2010 with the establishment of an additional bank. However, following the 2015 devaluation, 15 banks closed down, reducing the number of banks to 30. In 2020, an additional four banks were closed, leaving the country with 26 remaining banks, two of which are state-owned. Among these banks, 12 have foreign capital, while there are two local branches of foreign banks.

The sector's service network comprises 479 branches, 97 departments, and 2,907 ATMs, and employs 20,300 individuals. Throughout this period, the banking sector has experienced substantial growth across all key indicators. For instance, in 2021, compared to 2005, the sector's assets increased by 17.1 times, credit investments by 12.2 times, bank capital by 12.8 times, and deposits by 21.2 times. Notably, there was a 5.2% increase in the number of branches (24 branches), a 7% increase in the number of ATMs (192 ATMs), and an 8.6% increase in the number of employees (1,621 employees).

Figure 5. Development of the Banking Sector of Azerbaijan



Source: *The graphic was prepared by the author based on the data of CBAR, Azerbaijan Banks Association.*

There has been a notable improvement in efficiency indicators within Azerbaijan's banking sector. For instance, the proportion of bank assets to GDP increased from 18% in 2005 to 41.4% in 2021, while credit investments as a percentage of non-oil GDP rose from 23.8% to 29.6% during the same period. Another significant indicator is the decrease in the dollarization of loan investments. In 2005, foreign currency loans accounted for 62.3% of total loans, but by 2021, this figure had declined to 25.8%.

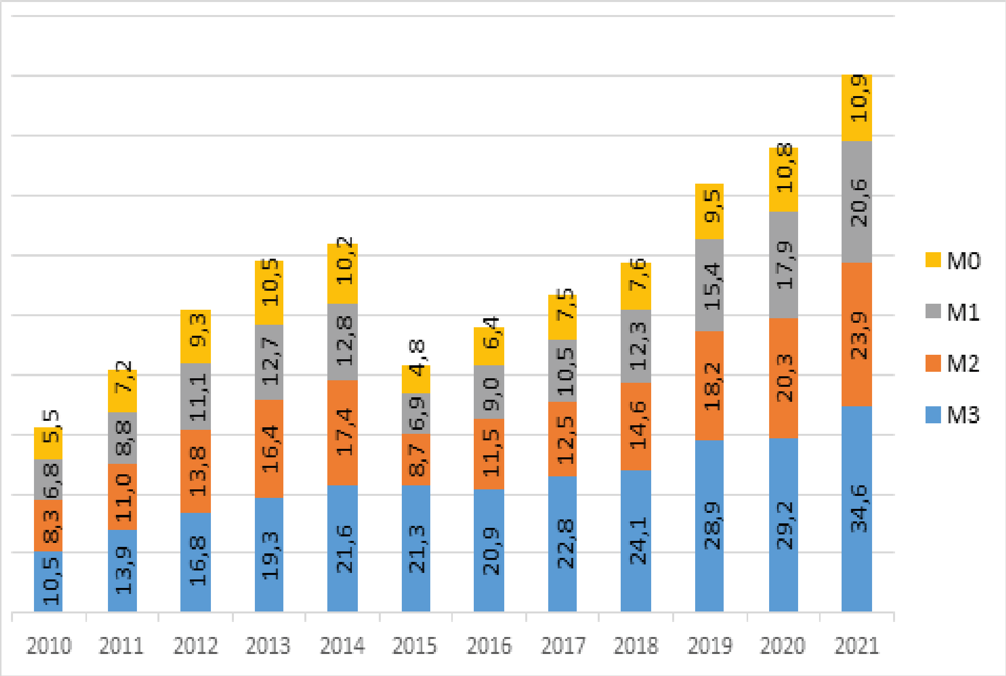
To foster the development of the country's banking system and enhance public trust, Azerbaijan established the Deposit Insurance Fund, following international practices. The primary criterion for deposit protection within the Deposit Insurance Fund is the annual interest rate. Each year, the Fund's Board of Trustees, in coordination with the Central Bank, determines the upper limit for the interest rate on insured deposits, with deposits exceeding that rate not being protected. In Azerbaijan, protected deposits are set at 100,000 manats, but deposits with interest rates above 12% are not covered. Additionally, deposits in foreign currency equivalent to 100,000 manats or more than 2.5% are not protected.

Under the "Azerbaijan 2030: National Priorities for Socio-Economic Development" strategy, covering the period of 2022-2026, the first stage focuses on enhancing the participation of the banking sector in financing the economy, expanding financial inclusion, and increasing accessibility of financial services for the population and businesses. The strategy also aims to improve the mechanism for insuring investor and creditor risks through public-private sector cooperation, as well as expanding the scope of guarantee mechanisms for business loans. With the digitization of financial services, there will be a concerted effort to enhance financial literacy among the population and businesses in the areas of investments and information and communication technology (ICT).

Furthermore, the strategy aims to stimulate the establishment of a network of long-term collective investors, deepen the insurance and corporate securities market, and promote a competitive, innovative, and accessible payment environment. The goal is to expand the use of non-cash payment instruments throughout the country and encourage inter-bank competition in social payments, allowing freedom in the choice of banks for pension and allowance disbursements. As a result, financial depth indicators are expected to continuously improve, with a projected 25% increase in transaction volumes of economic entities in the national payment system, and non-cash transactions accounting for 55% of payment card transactions.

Money Supply: One of the main tools for stimulating economic growth in Azerbaijan is increasing the money supply. In 2021, the wide money supply in manat increased by 2.9 times compared to 2010 and reached 23.9 billion manats. Although the money supply was reduced in 2015-2016 in order not to create additional pressure on the exchange rate of the manat, it started to increase starting from 2017.

Figure 6. Dynamics of Monetary Aggregates, Billion AZN

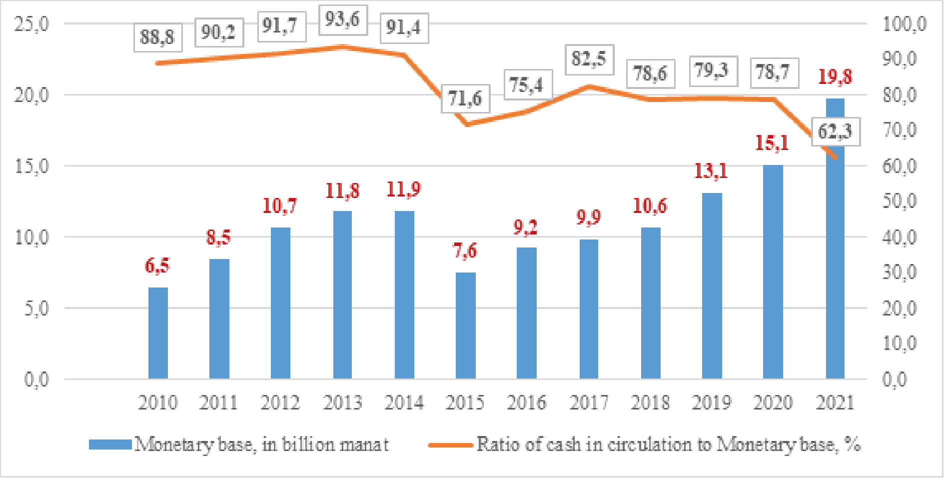


Source: *Central Bank of the Republic of Azerbaijan (2021)*

The dynamics of the monetary base serves as a crucial factor in assessing the effectiveness of monetary policy. In Azerbaijan, the size of the monetary base experienced a threefold increase in 2021 compared to 2010, indicating significant growth. A key indicator related to this is the ratio of the money supply in circulation to the monetary base. While this indicator reached its peak level of 94% in 2013, it has gradually declined over time, reaching 62% in 2021. This decline can be attributed to the Central Bank of the Republic of Azerbaijan's efforts to promote non-cash payments within the country.

The Central Bank's support for non-cash payments aligns with the implementation of the "State Program for the Expansion of Digital Payments in the Republic of Azerbaijan in 2018-2020." This program played a role in reducing the proportion of cash in the overall money supply. By encouraging digital payment methods and providing incentives for their adoption, the specific weight of cash in circulation has decreased. This shift towards digital payments not only contributes to the efficiency and convenience of financial transactions but also influences the monetary base composition in the country.

Figure 7. Dynamics of the Monetary Base



Source: *Central Bank of the Republic of Azerbaijan (2021)*

Exchange Rate: One of the regulatory tools of monetary policy in Azerbaijan is the application of exchange rate regimes. In general, the exchange rate policy applied in Azerbaijan can be divided into the following stages.

Table 3. Exchange Rate Regimes in Azerbaijan

Bicurrency basket mechanism	March 2008-January 2011
Targeting the USD/MANAT bilateral exchange rate	From January 2011 to 2014
Free floating exchange rate regime	From 2015 to April 2017
Floating adjustable exchange rate regime	After April 2017

In 2015, the Central Bank of Azerbaijan implemented a floating exchange rate regime, discontinuing its intervention in the foreign exchange market to prevent the depreciation of the national currency, leading to the devaluation of the manat. On February 21, 2015, the Central Bank made the decision to devalue the manat, resulting in a 34.0% reduction in its exchange rate against the US dollar. Prior to the devaluation, 1 manat was equivalent to 0.78 dollars, but after the devaluation, 1 dollar became equal to 1.05 manats. This devaluation marked the third largest devaluation of the manat, following the devaluations in 1994-1995 and 1999.

However, the devaluation in 2015 was not the final one. The sharp decline in oil prices in the global market from July 2015 onwards further intensified the pressure on the foreign exchange market and the exchange rate of the manat. Consequently, on December 21, 2015, the Central Bank decided to adopt a “floating exchange rate” regime for the manat. This decision constituted the fourth largest devaluation of the manat, resulting in 1 dollar being equivalent to 1.55 manats.

Nonetheless, the depreciation of the manat against the dollar persisted, and by the end of 2017, 1 dollar equaled 1.7 manats.

The recent devaluations in Azerbaijan can be attributed to various factors, which can be categorized as follows:

- Fiscal reasons
- Increasing state budget revenues
- Safeguarding the funds of the Oil Fund
- Preventing the depletion of the Central Bank's reserves
- Enhancing the competitiveness of the non-oil sector
- Boosting exports from the non-oil sector
- Promoting local production by imposing restrictions on imports

Table 4: Nominal and Real Effective Exchange Rate of AZN against Foreign Currencies (December 2000=100)

Year	Nominal Exchange Rate (NER)		Real Exchange Rate (RER)	
	General	Non-oil sector	General	Non-oil sector
2000	100,0	100,0	100,0	100,0
2010	104,2	123,2	127,7	115,3
2015	89,7	132,9	110,0	107,6
2016	66,3	96,3	91,3	86,3
2017	65,9	97,3	94,3	89,8
2018	72,6	108,9	99,6	95,4
2019	73,4	109,3	99,0	93,4
2020	75,6	116,2	100,3	97,1
2021	85,4	130,3	113,6	109,2

Source: *Central Bank of the Republic of Azerbaijan (2021)*

Although the stability of the Azerbaijani manat is currently maintained, the sharp depreciation of national currencies in the main partner countries lowers the competitiveness of goods and services exports. As can be seen from Table 4, although the real effective exchange rate of the manat decreased after the 2015 devaluation, it increased again in 2021. Thus, the nominal effective exchange rate of the manat in the non-oil sector increased by 30.3% compared to 2000, and the real effective exchange rate increased by 9.2%.

Fiscal Policy: Over the past 15 years, the state budget in Azerbaijan has played a crucial role in driving the non-oil economy, supporting regional development, and facilitating the renewal of economic and social infrastructure, as well as reducing unemployment and poverty. The country's economic growth has predominantly relied on stimulating domestic demand, primarily through state budget expenditures. Notably, the implementation of extensive social programs has led to a substantial increase in aggregate expenditure in the economy, encompassing consumption, investment, and government spending, thereby serving as the primary driver of domestic demand expansion. Consequently, the expansion of budgetary outlays and the subsequent growth of domestic demand and money supply have significantly contributed to price increases within the country.

In 2021, government spending continued to play a significant role in bolstering domestic demand. Throughout the year, state budget expenditures amounted to AZN 27.4 billion, reflecting a 2.33-fold increase compared to 2010. Within the state budget expenses, 27.8 percent, equivalent to AZN 7,635 million, was allocated towards funding education, healthcare, and social expenditures, indicating a 2.8-fold increase compared to 2010. In aggregate, socially-oriented expenses, such as the labor compensation fund, pensions, social benefits, as well as medicine and food expenses based on economic classification, totaled AZN 10.3 billion, constituting 37.6 percent of the actual state budget expenditures. Comparing these figures to 2020, these costs have risen by AZN 642.9 million, representing a 6.7 percent increase.

The 2021 state budget initially projected an oil price of $40 per barrel, which was later revised to $55 per barrel. A budget deficit of AZN 1.03 billion was recorded in 2021. However, it is essential to focus on the deficit-to-non-oil (gas) GDP ratio rather than the GDP itself for a more insightful analysis. The non-oil budget deficit of the state budget in Azerbaijan accounts for approximately 28 percent of the non-oil GDP. During the period of low oil prices from 2015 to 2017, this figure experienced a decline of 11.3 percentage points to reach 17.8 percent. However, as oil prices began to rise again in subsequent years, the deficit started to increase once more.

Table 5. Expenditures of the State Budget, million AZN

	2010	2015	2020	2021	2021/2010, times
Coststotal	11765	17785	26416	27422,4	2,33
General public services	794	1773	3533	3973	5,00
Court, law enforcement agencies	669	1106	1826	2034	3,04
Defense costs	1185	1701	3755	4541	3,83
Education	1181	1605	2774	3092	2,62
Healthcare	429	703	1688	1379	3,21
Social protection and social security	1123	1857	3113	3164	2,82
Culture, art, information, physical education	168	272	342	372	2,21
Financing the economy	4827	6409	5546	5501	1,14
Other expenses	1389	2359	3839	3366,4	2,42

Source: *The State Statistics Committee of the Republic of Azerbaijan (2021)*

In 2021, the state budget in Azerbaijan recorded revenues amounting to 26,396.3 million manats, indicating a 2.31-fold increase compared to 2010. Within these revenues, 48.7 percent, equivalent to 12,860 million manats, were generated by the non-oil sector, while the remaining 51.3 percent derived from the oil sector. By contrast, in 2010, the non-oil sector's share in total budget revenues accounted for 34.4 percent, corresponding to 3,926 million manats. This demonstrates that the income of the non-oil sector experienced a notable growth of 3.28 times in 2021 compared to 2010.

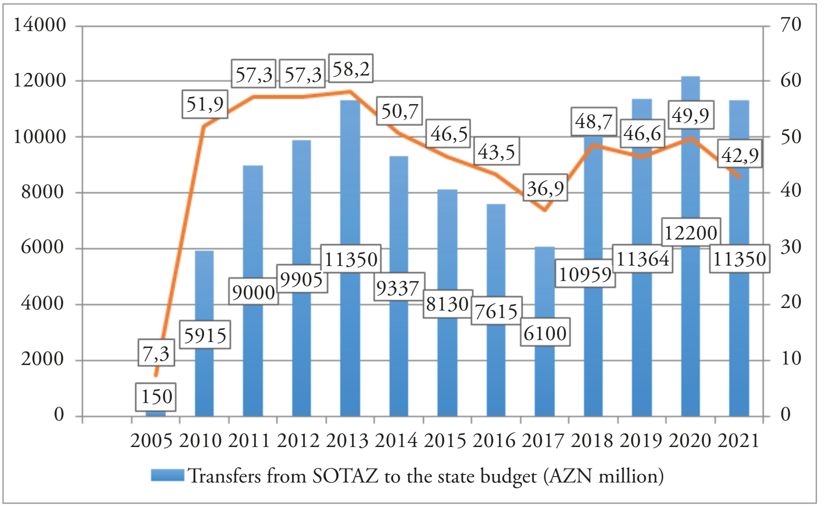
Table 6. Revenues of the State Budget, million AZN

	2010	2015	2020	2021	2021/2010, times
Income-total	11403	17498	24681	26396,3	2,31
Income tax	590	982,5	1151	1194,5	2,02
Income tax	1430	2211	2352	2958,4	2,07
Land tax	35	48,7	40,8	45,7	1,31
Property tax	102	148,2	186,8	211,3	2,07
VAT	2082	3455	4818	5214,5	2,5
Simplified tax	65,5	168	309	299,7	4,58
Excise duty	515	648	898,2	1105,9	2,15
Road tax	25	80	104,9	119,1	4,76
Mining tax	130	116	130,1	138,4	1,06
Custom duties	218	387	1017	1205	5,53
Revenues from the State Oil Fund	5915	8130	12200	11350	1,92
Other inputs	295,5	1124	1474	2553,8	8,64

Source: *The State Statistics Committee of the Republic of Azerbaijan (2021)*

One of the crucial contributors to the generation of state budget revenues and the execution of diverse social and infrastructure projects in Azerbaijan is the State Oil Fund of Azerbaijan (SOFAZ). Following the establishment of SOFAZ, the initial direct transfer to the state budget occurred in 2003. Despite witnessing a significant 47 percent surge in budget revenues during the onset of the oil boom era, the amount of direct transfers from SOFAZ remained relatively stable until 2009. However, from 2009 to 2013, the volume of direct transfers experienced rapid growth, eventually becoming the primary source of income for the state budget. The proportion of transfers, which constituted merely 2.9 percent of the total income in 2008, escalated to 47.6 percent in 2009. Furthermore, from 2010 to 2015, this proportion fluctuated between 50 and 58 percent, solidifying its significance in the budgetary context.

Figure 8. Transfers from the State Oil Fund to the State Budget



Source: *Central Bank of the Republic of Azerbaijan (2021)*

The allocated transfer amount in the Fund's budget for 2020 was initially set at 11,350 million AZN. However, following revisions to the budget, this amount was increased by 850 million AZN, reaching a total of 12,200 million AZN. This revised transfer amount accounted for 98.3 percent of the total expenses of SOFAZ. In 2021, the Oil Fund's transfers to the state budget amounted to 11,350 million manats, representing 42.9 percent of the total budget revenues. It is important to note that the practice of the Fund making substantial transfers to the state budget serves at least two significant macroeconomic functions:

1. *Mitigating Volatility:* By covering nearly half of the budget expenditures, these transfers effectively reduce the impact of oil price fluctuations on the budget. This contributes to fiscal stability by absorbing negative shocks and ensuring a more stable financial position.
2. *Currency Stability:* The Fund's provision of a steady supply of currency to the market helps balance occasional excess demand throughout the year. This equilibrium between supply and demand helps prevent minor devaluations in the exchange rate of the national currency, the manat.

In conclusion, Azerbaijan has implemented monetary and fiscal policies aimed at promoting economic growth, maintaining price stability, and ensuring fiscal sustainability. The country has effectively managed its monetary base, reducing dollarization and promoting non-cash payments. Additionally, the government has played a crucial role in driving economic expansion through increased budget expenditures and support for the non-oil sector. However, the country has also faced challenges, including the impact of oil price fluctuations on fiscal stability. Overall, Azerbaijan's monetary and fiscal policies have contributed to sustained economic growth and financial resilience.

COUNTRY SPECIFIC PROFILE OF THE REPUBLIC OF KAZAKHSTAN

Ruslan Sultanov
Chairman of the Board, Economic Research Institute JSC

Dolores Tyulebekova
Director of the World Economy Research Centre, Economic Research Institute JSC

Bayan Abdrakhmanova
Director of the Centre for Strategic Analysis, Economic Research Institute JSC

Yernar Serik
Director of the Center for Trade Policy Development, Economic Research Institute JSC

Kymbat Akhmetzhanova
Deputy Director of the Centre for Strategic Analysis, Economic Research Institute JSC

Indira Beisekeyeva
Deputy Director of the World Economy Research Centre, Economic Research Institute JSC

Aziza Kassenova
Head of the Secretariat of the Kazakhstan National Contact Point, Economic Research Institute JSC

INTRODUCTION

The Republic of Kazakhstan is one of the largest states in the Turkic World. Having proclaimed state sovereignty on 16 December 1991, Kazakhstan chose the path of building a democratic and rule-of-law state based on a market model of economy. Over the 30 years of independence, the country has carried out a number of reforms in all sectors of the economy and other aspects of the functioning of the state.

In 2012, the country's leadership set a goal for Kazakhstan to become one of the 30 strongest economies in the world. The emergence of a new development strategy was driven by geopolitical changes in the world and a slowdown in the global economy, which posed new challenges and opportunities for the country.

The Kazakhstan-2050 Strategy identified seven priority areas for the country's development:

1. Economic policy: Comprehensive pragmatism based on the principles of profitability, return on investment and competitiveness.
2. Comprehensive support for entrepreneurship, the driving force of the national economy.
3. The new principles of social policy: Social guarantees and personal responsibility.
4. Knowledge and professionalism-benchmarks for education and retraining.
5. Strengthening statehood and the development of democracy.
6. A coherent foreign policy: Promoting national interests and contributing to regional and global security.
7. Kazakhstan's new patriotism -the basis for the success of a multi-ethnic and multi-confessional society.

In 2018, the Republic of Kazakhstan Strategic Development Plan 2025 was approved, with the aim of achieving quality and sustainable economic growth leading to improved living standards.

In 2021, it was updated into the National Development Plan of the Republic of Kazakhstan 2025 in order to offset the effects of the coronary crisis and develop the drivers of accelerated economic growth for a more sustainable and inclusive economy.

In its foreign policy Kazakhstan is guided by the multi-vector principle defined by the first President of the Republic of Kazakhstan N. Nazarbayev in the early 1990s as "the development of friendly and predictable relations with all states that play an important role in world affairs and are of practical interest to our country."

Kazakhstan is a member of a number of international organizations: The United Nations, the Organization for Security and Cooperation in Europe, the Shanghai Cooperation Organization, the Organization of Islamic Cooperation, the Collective Security Treaty Organization, the Commonwealth of Independent States, the Eurasian Economic Union and others.

At the same time, one of the key areas for Kazakhstan's foreign policy is the Turkic World. Kazakhstan has strong and friendly relations with the states of Central Asia and the Middle East region, based on common historical and cultural traditions, as well as a huge economic potential for cooperation.

As a member of international associations such as the Organization of Turkic States, the International Organization of Turkic Culture (TURKSOY) and the

Economic Cooperation Organization, Kazakhstan aims at comprehensive cooperation to strengthen stability, security and further develop trade, economic and cultural relations with Turkic States and other countries of the world community.

GDP, GDP per CAPITA, GDP Based on PPP, GDP Growth

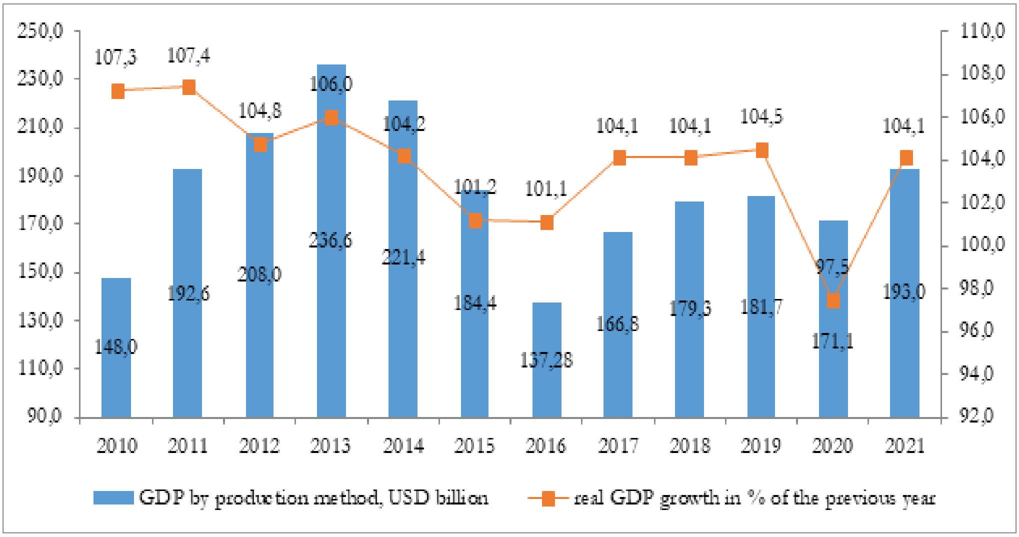
Kazakhstan's determined course towards urgent systemic economic reforms, large-scale privatization, development of entrepreneurship, as well as favorable global market conditions have enabled positive developments in the economy.

Over the last 12 years, Kazakhstan's economy, after overcoming the effects of the 2007-2009 global crisis, has demonstrated growth. The key role in post-crisis economic growth has been played by the services sector, which has accounted for up to 70% of total GDP growth in recent years.

In 2011, supported by robust agricultural and service sector productivity and continued public investment spending, GDP growth peaked at 7.4%. Kazakhstan confidently moved into third place in the world in terms of GDP to investment ratio after India and China.

In December 2012, Kazakhstan ranked among the fifty largest economies in terms of GDP; in 2013, it ranked 50th among 148 countries (between Italy and Portugal) in the Global Competitiveness Index of the World Economic Forum. Thus, the general objective of becoming one of the world's fifty most developed countries has been achieved.

Figure 1. Dynamics of Kazakhstan GDP at Current Prices and IFO GDP for 2010-2021



Source: *Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

Economic growth slowed to 4.2% in 2014 at the end of the commodity supercycle and then declined to 1.1% in 2015-2016 due to the impact of unfavorable external factors. Oil prices collapsed by almost a factor of two. This change in the oil market affected all oil-exporting countries, including Kazakhstan. The national currency devalued, real incomes declined and inflation accelerated. These are difficult times for Kazakhstan; GDP fell to $137.3 billion in 2016, which means that Kazakhstan's economy has sagged by almost 40% in three years.

However, amid instability and recession in its partner countries, Kazakhstan achieved continued GDP growth of 1.2% in 2015 and 1.1% in 2016.

The adjustment of the national currency exchange rate has had a negative impact on manufacturing industries, affecting an increase in the cost of imported raw materials and components. The most vulnerable sectors were engineering sectors, including automotive, aircraft manufacturing and railway equipment manufacturing. In addition, there was a decline in investment and credit activity in the country.

In this regard, given the need to increase the availability of credit facilities in the national currency for the manufacturing and machine-building sectors in particular, the Government of the Republic of Kazakhstan has adopted a set of measures for the period of 2015-2016 aimed at supporting medium- and large-sized businesses.

Kazakhstan's economy has withstood the shocks of low oil prices and a slowdown in the economies of key trading partners and has gradually adapted to the new realities. GDP growth reached 1.1% in 2016, exceeding the official forecast of 0.5%. The continued overall resilience of the economy in 2015-2016 meant that specific anti-crisis, stabilization steps were taken in the right direction.

In 2017, the country returned to a strong growth trajectory after overcoming the negative effects of the global crisis. Growth has been sustained through counter-cyclical macroeconomic policies, using the National Fund to support business activity and employment.

The Budget Code has been amended to allow public funds to flow more quickly into the economy. Public-private partnerships have been revived. The new Tax Code came into force on 1 January 2018. Penalties have been lowered and the grounds for tax audits have been reduced. Incentives in e-commerce, automobile manufacturing, geological exploration, raw material processing and investment attraction are provided. Tax procedures for SMEs and agribusiness are simplified.

Investors have started to plan for long-term investments, as there is a statutory guarantee of consumption for 3 years or more.

The external environment also had a positive effect on domestic economic activity. Factors in the positive external environment were higher oil and metal prices and an improvement in the economic situation of Kazakhstan's main trading partners -the EU, Russia and China.

Stable growth in all sectors of the economy, international recognition and political stability became the basis for the prosperity of Kazakh society.

Thus, Kazakhstan's economy grew again in 2018 to $179.3 billion, up from 30.6% in 2016 ($137.28 billion). In the GDP structure, the share of services increased to 57.8% in 2018, up from 51.7% in 2010, while the share of manufacturing increased from 11.3% to 11.8%. Trade, transport, real estate and financial activities accounted for the bulk of the services sector.

GDP growth was 4.5% in 2019. The economy's growth was boosted by higher budget expenditure to 20.4% in 2019 of GDP and high investment activity.

At the same time, 2020 was filled with challenges. The spread of the pandemic coronavirus infection and the measures taken to contain it led to the worst full-scale crisis in a century.

Against the backdrop of global negative trends, Kazakhstan's economy, like many other countries, declined by 2.5%. The main objective of the government has been to offset the negative effects of the coronavirus pandemic and the global crisis and to maintain employment. As part of the Comprehensive Plan to Restore Economic Growth by the End of 2020, specific sectoral measures aimed at stimulating business activity and supporting employment and incomes have been implemented.

The epidemiological situation was under control, although certain restrictions remained in place to ensure the safety of citizens.

Despite the crisis, the national economy has proved resilient, with growth in the real sector, including manufacturing, construction and agriculture, being the main factor. The manufacturing sector grew by 3.9 per cent, including 2.6 per cent in metallurgy, 4 per cent in food processing, 47 per cent in pharmaceuticals, 16.3 per cent in mechanical engineering, including 52.5 per cent in car manufacturing, and 15 per cent in light industry.

Construction rose by 11.2% and housing starts by 16.8%. The agricultural sector achieved a steady growth of 5.6%.

The mining sector saw limited growth amid the need to implement the OPEC+ agreement. The sector's physical volume index (PVI) was -3.7%.

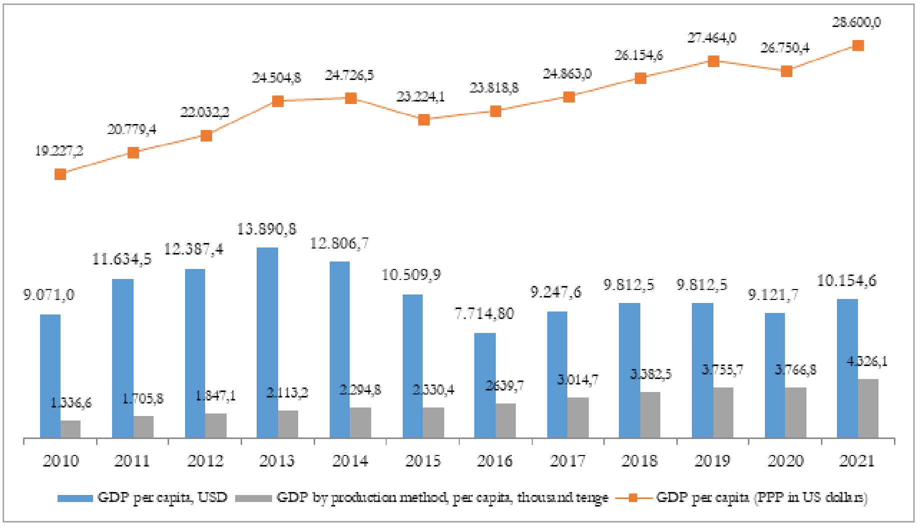
The integral impact of the pandemic and the global recession has shaped a "new reality", radically changing Kazakhstan's basic development scenario. In this context, the redrafted National Development Plan 2025 was adopted in 2021, which formed the main parameters of the country's new economic course in the medium term, aimed at levelling the effects of the coronary crisis and developing accelerating economic growth drivers for a more sustainable and inclusive economy.

The implementation of concrete measures has made it possible to achieve a dynamic sustainable growth trajectory of 4.1% at the end of 2021.

The key driver was the real sector (3.5%). The services sector also showed a positive trend, growing by 3.9%. Growth in the following sectors was observed: Information and communication - by 12.9%, trade - by 9.2%, construction - by 7.6%, manufacturing - by 5.5%, electricity - by 4.8%. Foreign trade turnover increased by 11.4%.

GDP per capita has fluctuated significantly over the past 12 years, from a peak of $13,890.8 in 2013 to a fall of $7,714.8 in 2016 (Figure 2). However, in local currency equivalent, GDP per capita has grown steadily by an average of 11.4% annually over this period.

Figure 2. GDP Per Capita in Kazakhstan 2010-2021



Source: *Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, World Bank*

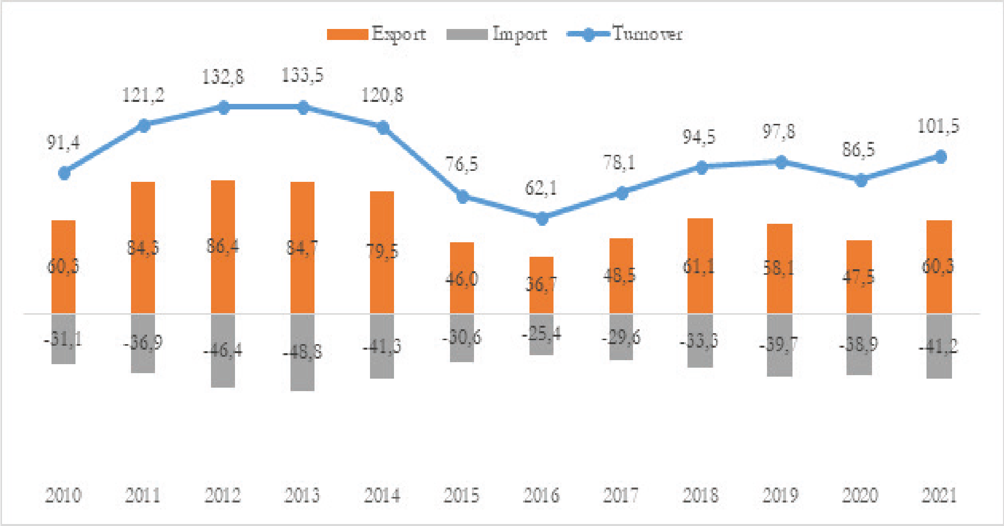
In 2021, Kazakhstan ranks 58th among 179 countries with a value of $28,600 in terms of GDP per capita (PPP), according to the World Bank.

GDP per capita (PPP) has increased by almost 50% in 12 years (from 19,227.2 in 2010 to 28,600 in 2021).

Trade Trends Based on Last Decade (Total Export and Import, Turnover Etc.)

Foreign trade performance is one of the main indicators in Kazakhstan's economy. Since 2010, Kazakhstan's foreign trade has increased from 91.4 billion USD to 101.5 billion USD, i.e. by 11.1%. At the same time, the volume of crisis years 2015-2017 fell to 62.1 billion USD. Foreign trade peaked in 2012-2013, a period of high oil and metal prices. In the covidual year 2020, Kazakhstan's trade with the outside world declined to USD 86.5 billion. Through years of huge flows of oil revenues, the State Budget and the National Fund were replenished with much-needed and important financial resources in difficult years for Kazakhstan. These funds have helped the country to survive three global crises since the beginning of the 21st century without major shocks.

Figure 3. Dynamics of Kazakhstan's Foreign Trade in Goods since 2010



Source: *State Revenue Committee Ministry of Finance of the Republic of Kazakhstan and Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

With regard to exports, which are directly dependent on world oil and metal prices, Kazakhstan's exports in 2021 practically repeated 2010 levels, amounting to USD 60.3 billion. At the same time, due to growth in imports by almost a third, the share of exports in turnover fell from 66% in 2010 to 59% in 2021. In other words, the country started to import more, even though export revenues did not increase.

Of Kazakhstan's top 10 major trading partners in 2010, 7 remained by 2021. The three new major countries are Türkiye, Uzbekistan and South Korea, which were not in the top 10 in 2010. The UK, Austria and Canada dropped out of the list. In general, there were 18 countries in the top 10 of Kazakhstan's trading partners during the analyzed period.

Also note that the number of trading partner countries has dropped from 141 to 132 countries.

Table 1. Kazakhstan's Main Trading Partners from 2010 to 2021, USD million

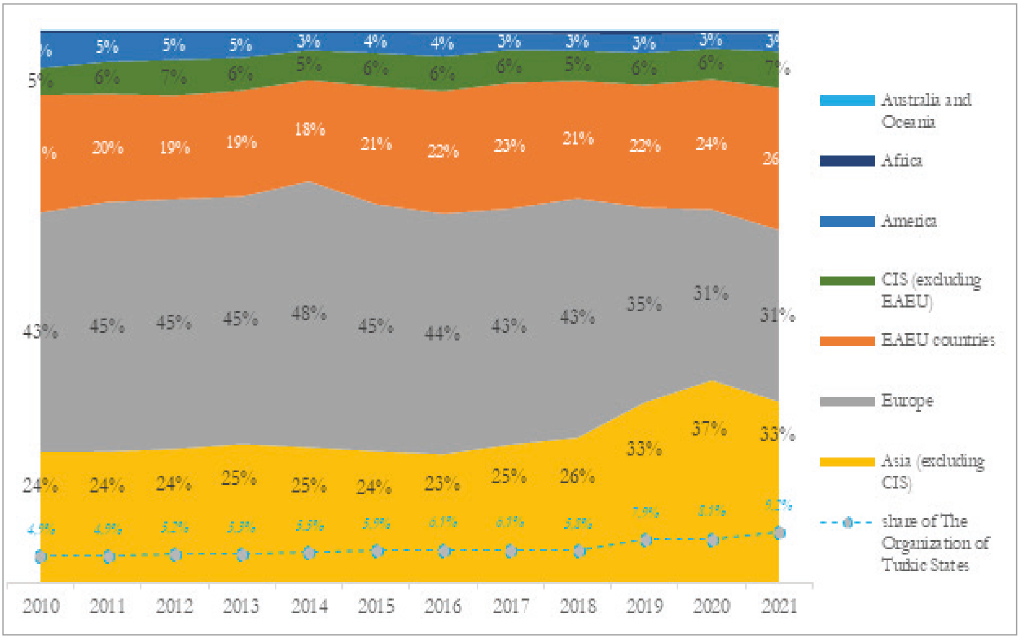
Partners	2010		2015		2019		2020		2021	
	$mln	share	$mln	share	$mln	share	$mln	share	$mln	share
Total Turnover	91 398	100%	76 524	100%	97 775	100%	86 470	100%	101 513	100%
Russia	17 974	19,7%	15 077	19,7%	19 983	20,4%	18 775	21,7%	24 243	23,9%
China	14 084	15,4%	10 568	13,8%	14 792	15,1%	15 799	18,3%	18 195	17,9%
Italy	11 166	12,2%	9 311	12,2%	9 957	10,2%	7 582	8,8%	9 676	9,5%
Netherlands	4 461	4,9%	5 293	6,9%	4 636	4,7%	3 390	3,9%	4 612	4,5%
France	4 932	5,4%	3 352	4,4%	4 349	4,4%	2 813	3,3%	3 059	3,0%
Switzerland	1 413	1,5%	2 788	3,6%	2 824	2,9%	1 760	2,0%	1 302	1,3%
Türkiye	1 855	2,0%	2 017	2,6%	3 238	3,3%	3 082	3,6%	4 110	4,0%
Germany	3 594	3,9%	2 329	3,0%	1 793	1,8%	2 080	2,4%	2 213	2,2%
South Korea	759	0,8%	1 377	1,8%	6 545	6,7%	5 911	6,8%	2 644	2,6%
Ukraine	2 027	2,2%	2 001	2,6%	1 135	1,2%	785	0,9%	1 027	1,0%
Uzbekistan	1 572	1,7%	1 668	2,2%	3 415	3,5%	2 931	3,4%	3 901	3,8%
USA	2 198	2,4%	1 906	2,5%	2 246	2,3%	1 700	2,0%	2 223	2,2%
Romania	1 404	1,5%	1 420	1,9%	1 828	1,9%	1 338	1,5%	1 570	1,5%
Austria	2 751	3,0%	614	0,8%	182	0,2%	162	0,2%	163	0,2%
Spain	1 021	1,1%	1 439	1,9%	2 369	2,4%	1 406	1,6%	1 829	1,8%
UK	2 116	2,3%	1 232	1,6%	1 122	1,1%	1 047	1,2%	1 164	1,1%
Japan	1 100	1,2%	1 443	1,9%	1 477	1,5%	1 217	1,4%	1 119	1,1%
Canada	2 666	2,9%	512	0,7%	477	0,5%	370	0,4%	496	0,5%
Poland	1 594	1,7%	1 130	1,5%	804	0,8%	677	0,8%	760	0,7%
Grece	1 009	1,1%	1 279	1,7%	1 379	1,4%	1 422	1,6%	1 346	1,3%
India	317	0,3%	462	0,6%	1 865	1,9%	2 375	2,7%	2 003	2,0%
Other Countries	11 384	12,5%	9 305	12,2%	11 359	11,6%	9 849	11,4%	13 859	13,7%

Source: *State Revenue Committee of the Ministry of Finance and Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

However, the top three partners have not changed in recent decades. Their share in trade turnover has even increased from 47.3% to 51.3%, mainly due to an increase in the share of Russia and China in Kazakhstan's trade from 19.7% to 23.9% and 15.4% to 17.9% respectively whereas Italy's role in Kazakhstan's foreign trade declined from 12.2% in 2010 to 9.5%.

Overall, there has been a decline in the share of European countries in the country's trade turnover. Since 2010, the share of European countries has fallen from 43% to 31%. The formation of the Eurasian Economic Union allowed the EEU countries to increase their share of trade with Kazakhstan from 21% to 26%. However, the largest increase during the analyzed period occurred in trade with Asian countries, from 24% to 33%.

Figure 4. Regional Breakdown of Kazakhstan's Foreign Trade 2010-2021



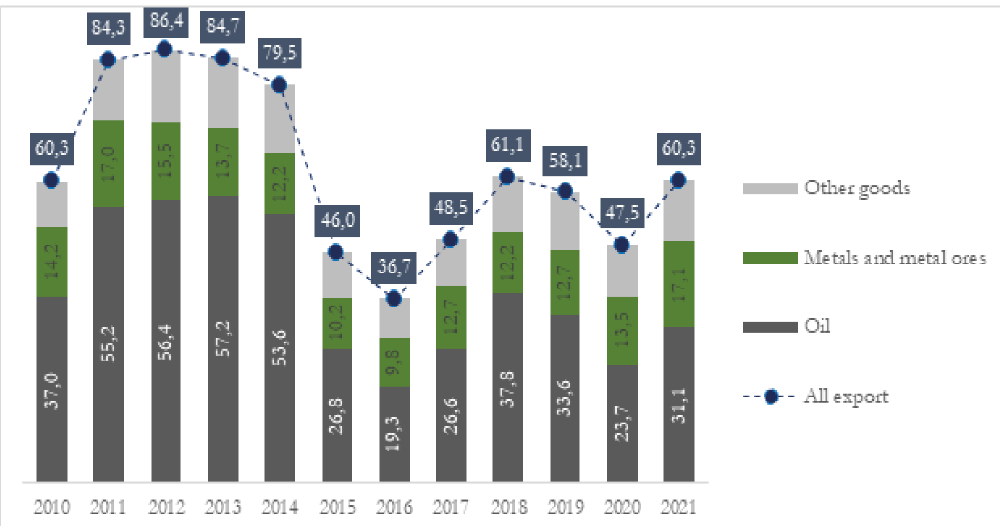
Source: *State Revenue Committee of the Ministry of Finance and Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

It is worth adding that due to the deepening of trade relations with Uzbekistan and Türkiye, the share of The Organization of Turkic States in Kazakhstan's trade turnover has been growing continuously since the second decade of the 21st century, and in 2021 it was 9.2% against 4.9% in 2010. The value of Kazakhstan's trade with the The Organization of Turkic States countries increased 2.1-fold, from USD 4.5 billion to USD 9.3 billion.

Exports from Kazakhstan

Kazakhstan's exports have remained virtually unchanged since 2010, amounting to USD 60.3 billion, repeating the results of 2010. Exports peaked in 2012 at USD 86.4 billion, when the country earned USD 56.4 billion from oil shipments. In 2016, supplies from Kazakhstan dropped to USD 36.7 billion, the lowest level since 2010. Due to the predominance of oil, gas and metals in Kazakhstan's export structure, the value of exports is highly volatile and correlates with global prices for these commodities. For example, in 2015 compared to 2014, Kazakhstan's commodity exports fell by 42% (from USD 79.5 billion to USD 46.0 billion), as a result of a 47.2% drop in Brent oil prices (from USD 96 per barrel in 2014 to USD 51 per barrel in 2015) and copper by 19.7% (from $6.9 to $5.5 kt per ton). This pattern continues year on year.

Figure 5. Dynamics of Kazakhstan's Exports, USD billion 2010-2021



Source: *State Revenue Committee of the Ministry of Finance and Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

Since 2010, the share of oil and metals in the structure has fallen by only 5 percentage points, from 85% to 80%. A poorly diversified export basket creates ideal conditions for significant price shocks, which can be a real threat to the country's economic security in a period of low energy and metal prices, as Kazakhstan's economy has seen three times since the beginning of the 21st century.

Table 2. Main Export Commodities of Kazakhstan from 2010 to 2021, million USD

№	Products	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	All Products	60 271	84 336	86 449	84 700	79 460	45 956	36 737	48 503	61 111	58 066	47 541	60 340
1	Oil	37 023	55 173	56 438	57 250	53 627	26 773	19 296	26 584	37 803	33 585	23 704	31 090
2	Copper cathodes and cathode sections	1 859	2 733	2 491	2 674	1 331	1 562	1 510	2 004	2 249	2 277	2 360	2 858
3	Ferroalloys	1 931	1 936	1 875	1 722	1 840	1 357	1 400	2 205	2 203	1 886	1 658	2 281
4	Rolled metal	1 703	2 016	1 274	1 165	1 188	761	934	1 439	1 380	961	1 053	1 941
5	Natural uranium	2 146	2 274	2 616	2 236	2 007	2 248	1 721	1 334	1 290	1 509	1 744	1 729
6	Iron ores	1 394	2 193	1 613	1 566	1 108	405	389	512	483	665	1 058	1 643
7	Copper ores and concentrates	617	607	484	587	825	311	460	1 093	1 185	1 154	1 464	1 623
8	Wheat	890	582	1 581	1 254	960	689	694	660	972	1 003	1 151	1 436
9	Natural gas	851	2 417	2 193	1 957	1 884	1 746	1 284	1 578	2 171	2 506	1 876	1 287
10	Petroleum products	1 923	2 321	3 024	3 152	2 977	1 384	854	1 169	1 254	1 033	650	911
11	Liquefied petroleum gases	901	1 364	1 311	1 423	1 409	636	452	707	844	665	590	810
12	Silver in raw form	334	618	956	644	463	482	584	538	450	436	614	745
13	Aluminium unalloyed	431	530	441	455	335	365	334	461	558	496	449	720
14	Zinc	552	447	528	459	550	539	504	803	279	637	579	677
15	Other ores and concentrates of precious metals	25	38	42	39	60	25	1	5	18	595	712	611
16	Sulphur	166	499	440	268	319	328	154	159	382	309	187	463
17	Wheat flour or wheat/rye flour	536	551	601	580	562	494	505	469	448	362	490	434
18	Refined copper, unrefined	0	0	0	0	366	345	291	321	157	324	350	390
19	Semifinished iron or non-alloy steel products	415	455	452	96	183	100	156	197	247	244	212	310
20	Other goods	6 575	7 582	8 089	7 173	7 465	5 407	5 210	6 263	6 736	7 417	6 642	8 380

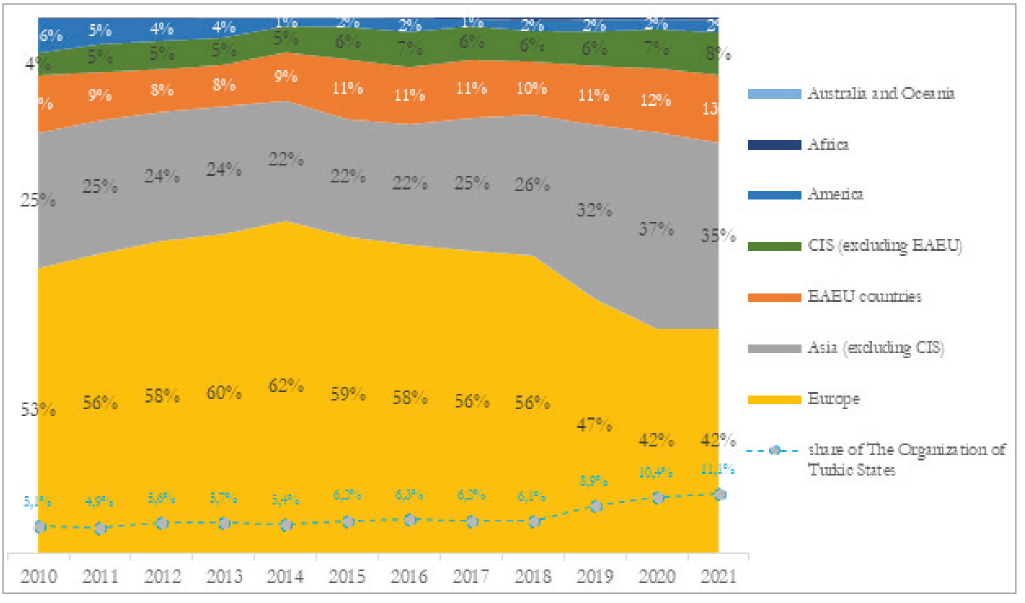
Source: *State Revenue Committee of the Ministry of Finance and Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

Changes in the Geography of Exports

In contrast to the commodity structure, the country's export destinations have changed significantly in the second decade of the 21st century.

When the oil boom started, the lion's share of Kazakhstan's goods went to Europe. In 2010-2014, Europe's share of Kazakhstani exports was as high as 58-62%. However, by the end of the second decade, Kazakhstan started supplying Europe with around 42% of its exports. This is primarily due to a certain reorientation of supplied oil to South Korea and India. Accordingly, Kazakhstan began to cooperate more with Asian countries, supplying mostly metals, oil and agricultural products; the share of Asian countries increased from 25% to 35%. Kazakhstan not only sells oil and metals to Asian countries, but also exports natural gas, agricultural products (wheat, barley, seeds, cotton), and flour in significant volumes. In recent years, exports of vegetables, vegetable oil, meat and other food products have been increasing rapidly. Of course, the Chinese market, consuming more and more Kazakhstani goods (more than 42% of the Asian destination), is setting the main pace. Other countries are not lagging behind; for example, exports to South Korea almost tripled in 2019 compared to 2017, and to Türkiye and India doubled.

Figure 6. Regional Export Structure of Kazakhstan 2010-2021



Source: *State Revenue Committee of the Ministry of Finance and Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

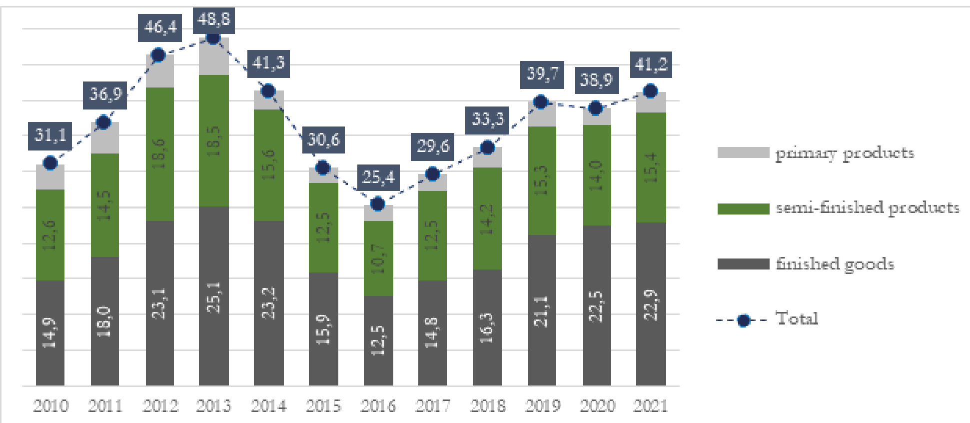
The share of EEU countries in exports, despite open borders, increased by only 2 percentage points from 11% to 13%. This is due to the fact that the EEU are mainly consumers of Kazakhstani non-commodities, which cannot yet compete with commodities in terms of export revenues. By increasing trade relations with Uzbekistan, the share of CIS countries (excluding EEU countries) in Kazakhstan's exports has also increased, from 4% to 8%. Uzbekistan has traditionally been an importer of Kazakhstani metal, fertilizers, wheat, flour, vegetable oils and other agricultural and food products. Recent developments in the liberalization of the neighboring economies and the active actions of the two governments in developing trade and economic relations inspire optimism for the accelerated development of trade between the countries.

Also due to the decline in shipments to the USA and Canada, the share of the Americas fell from 6% to 2%. Africa and Australia have never accounted for more than 1% of RoK exports.

Imports Into Kazakhstan

Kazakhstan's imports have increased by 32.3% since 2010, from USD 31.1 billion to USD 41.2 billion. Imports peaked in 2013 at USD 48.8 billion, and by 2016 supplies to Kazakhstan had fallen to USD 25.4 billion, the lowest level since 2010. Imports to Kazakhstan, unlike exports, are the most diversified and Kazakhstan purchases more finished goods (56% share in imports). Finished goods are the main driver of imports into the country-imports of finished goods have increased by 54% since 2010.

Figure 7. Dynamics of Imports to the RoK 2010-2021, billion USD



Source: *State Revenue Committee of the Ministry of Finance and Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

The main imports are computers, smartphones, cars, medicines and vaccines, clothing, bodywork and car parts, aircraft, agricultural machinery and other oilfield equipment.

Main Importers

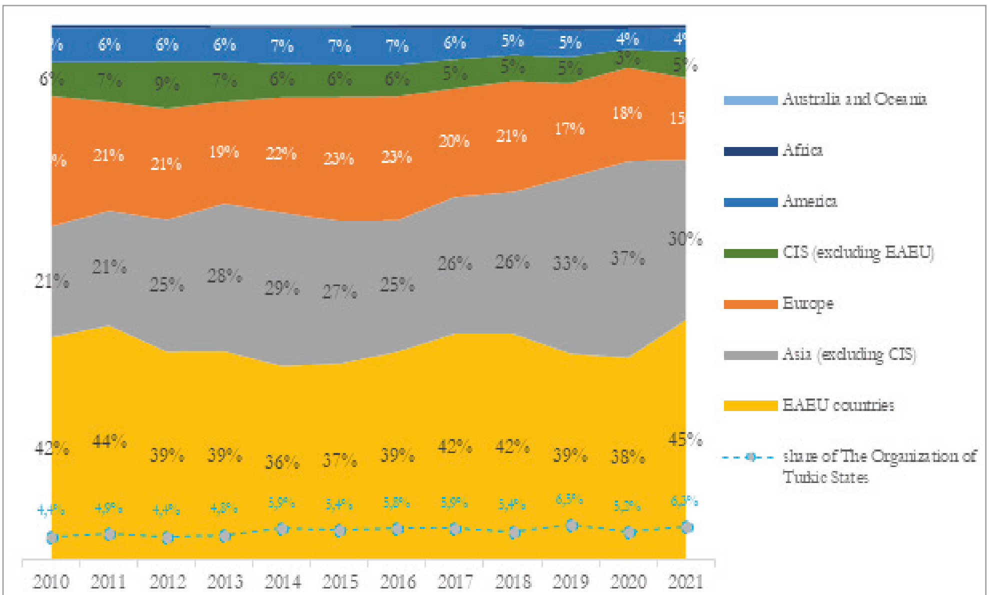
By country, the largest increases in imports were recorded from Russia and China - by USD 5.1 billion and USD 4.4 billion respectively. That is, Russia and China accounted for 94% of the increase in imports since 2010. Note that imports from these countries account for 62% of total imports into Kazakhstan. And their share in 2010 was 52%.

The import growth from Russia is primarily due to the creation and functioning of the Eurasian Economic Union, within which all restrictions on the movement of goods within the association have been lifted. However, despite the fact that the growth of Kazakhstan's imports from Russia from 2010 to 2021 amounted to 44%, the share of goods from Russia in Kazakhstan's total imports increased by only 4 percentage points from 39% to 43%.

Here we can note the general trend of increasing Kazakhstan's imports from third countries. For example, imports from China to Kazakhstan increased more than 2 times during the period under review, amounting to 8.2 billion USD in 2021. This is due to the implementation of investment projects in the territory of the Republic of Kazakhstan, which are mainly provided with imported equipment and other necessary investment goods from China. It is also worth noting the import growth of consumer goods from China, which, among other things, is due to the real growth in the incomes of the population of Kazakhstan, which increased 1.7 times in the period from 2010 to 2021.

Also note the growth of supplies by more than 500 million USD from Türkiye and Uzbekistan. At the same time, supplies from Italy and Ukraine dropped by more than 800 million USD.

Figure 8. Structure of RoK Imports 2010-2021



Source: *State Revenue Committee of the Ministry of Finance and Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

The intensification of supplies from China and Russia to the Kazakh market, increased the shares of Asian and EEU countries in Kazakhstan's imports from 21% to 30% and from 42% to 45% respectively. While the other regions, amid the activity of the two powers, have reduced their share of the Kazakhstan market.

Investment (NET FDI)

Over the past 10 years, annual gross Direct Foreign Investment inflows to Kazakhstan have steadily exceeded the USD 20 billion level. The exceptions are 2015 and 2020, when global oil prices showed a significant drop *(from USD 112 per barrel of Brent in June 2014 to USD 38 per barrel of Brent in December 2015). Thus,* FDI gross inflows fell to USD 15.4 billion at the end of 2015. As oil prices recovered, FDI gross inflows also recovered. As the COVID-19 pandemic spread, gross FDI inflows were expected to fall to USD 17.1 billion. At the end of 2021, gross FDI inflows stood at USD 23.7 billion.

Given the limited domestic investment flows, attracting foreign direct investment (FDI) is one of the key objectives of the Government of Kazakhstan. Moreover, apart from financing, FDI is crucial for knowledge imports, integration into global value chains, and significantly increases export competitiveness through productivity gains.

According to the National Bank, in the period from 2010 to 2021, the gross inflow of FDI into Kazakhstan amounted to about **USD 272.7 billion**, of which **30.6% or USD 82.2 billion was** from **the oil and gas sector.** In general, the primary sector (development, production, transportation) of Kazakhstan's economy has been financed by external funds to the tune of USD 156 billion since 2010. It should be noted that in addition to the oil and gas sector, the current analysis includes such sectors as mining and quarrying, agriculture, forestry and fishing, wholesale trade in solid, liquid and gaseous fuels and similar products, pipeline transportation, geological exploration and survey activities as '**commodity sectors**'. These sectors also represent the extractive sector of Kazakhstan's economy.

The significant drop in investment flows into the commodity sectors of the economy has provided an opportunity to change the structure of FDI. The share of the commodity sector fell from **66.5%** in 2010 to **54.5%** in 2020. This trend has continued in 2021, with the share of investment in the commodity sectors falling to **45.1%**. However, when analyzing the structure of FDI since 2010, a reduction in weighting to 50% is normal -it probably all depends on project financing in the oil and gas sector. As the Tengizchevroil Future Expansion Project (TCO) is expected to be completed and fully operational by 2023, we can expect the share of the commodities sector in the FDI structure to decline further in the near term.

Table 3. Breakdown of Gross FDI Inflows to Kazakhstan by Commodity and Non-Commodity Sector, billion USD

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total 2010-2021
Gross inflow of FDI, total	22,2	26,5	28,9	24,1	23,8	15,4	21,4	21,0	24,3	24,4	17,1	23,7	272,7
I. FDI in the commodity sectors of the economy	14,8	14,9	14,4	13,3	15,0	9,5	12,8	11,3	14,9	15,2	9,3	10,7	156,0
FDI in the commodity sectors of the economy to gross FDI, %	66,5	56,4	49,9	55,1	62,9	61,6	59,8	53,9	61,5	62,1	54,5	45,1	57,2
II. FDI in non-resource sectors of the economy*	7,5	11,5	14,5	10,8	8,8	5,9	8,6	9,7	9,3	9,3	7,9	13,0	116,8
FDI in non-commodity sectors* to gross FDI, %	33,5	43,6	50,1	44,9	37,1	38,4	40,2	46,1	38,5	37,9	45,5	54,9	42,8

** Without mining and quarrying (B), agriculture, forestry and fishing (A), wholesale of solid, liquid and gaseous fuels and similar products (GB1), pipeline transportation (HA1) and geological exploration and survey activities (MC1)*

Source: *National Bank of the Republic of Kazakhstan*

Significant slowdown in FDI inflows for exploration activities. There has been virtually no foreign-funded exploration activity in Kazakhstan since 2016. Prior to 2016, about USD 5-9 billion of FDI was attracted for this work. By comparison, only USD 140.3m of foreign direct investments will be attracted for exploration work in 2020, and by the end of 2021 only USD 27.9m. In this regard, the RK Ministry of Ecology, Geology and Natural Resources together with IHS Markit is developing a marketing strategy that will help to attract major foreign investors to Kazakhstan's exploration industry .

Continuous growth of FDI in metal ore mining. Over the past 5 years, there has been an upward trend in foreign investment in metal ore mining. Thus, while in 2017 347.3 million USD investments were attracted, in 2020 it was 1.4 billion USD (a 4.1-fold increase) and for 2021 it was 2.9 billion USD. This is probably due to the fact that some large metallurgical companies in Kazakhstan have changed jurisdictions and are financing their projects as foreign investors. We should also not forget about the final phase of construction of the mining and processing plant (MPP) in the Karaganda region and the expansion of production at the Aktogay MPP, which are financed by foreign investors to the tune of USD 1.4 billion.

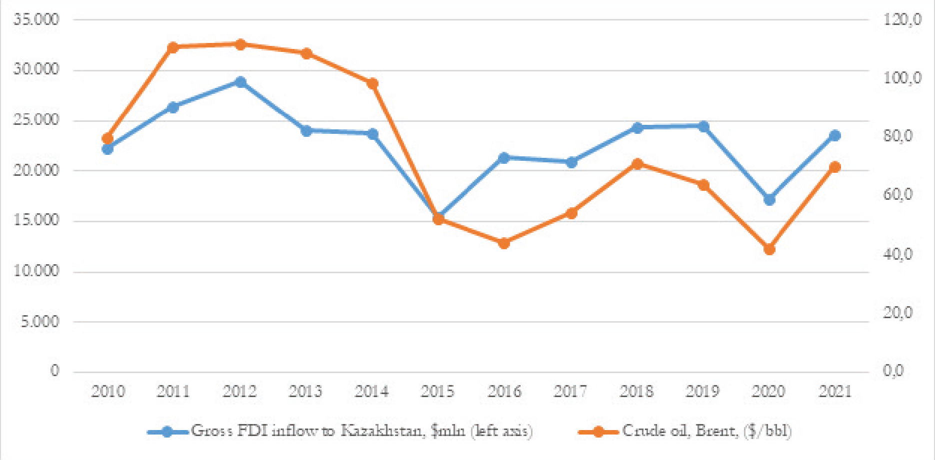
The real share of manufacturing in the FDI structure does not exceed 3%. According to the general classifier of types of economic activity methodology, any products of the metallurgical industry belong to the manufacturing sector. However, the structure of Kazakhstan's metallurgy industry is almost 90-95% made up of primary processing products (copper, aluminum, zinc, etc.), so this industry can be attributed to the extractive sector. If we take a methodological approach, during the period under review manufacturing attracted FDI worth USD 43.0 billion or about 16% of gross FDI inflows. Of this amount, USD 35.3 billion went to the metallurgical industry. The remaining amount is directed to food production, pharmaceuticals, petroleum products, computers, vehicles, rubber and plastic products and so on. **This means that foreign investors are still only interested in investing in the extractive sectors of Kazakhstan's economy**.

The structure of FDI flows into Kazakhstan has not changed significantly over the last decade. Kazakhstan has a significant dependence on **resource-oriented FDI**, which implies a significant risk due to the lack of economic diversification.

To summarize, FDI in Kazakhstan shows an almost **mono-industry structure**, concentrated mainly in sectors related to extraction, primary processing and transportation of minerals, and virtually absent in progressive activities.

The correlation coefficient between the oil price and gross FDI inflows between 2010 and 2020 is 0.80. As noted above, FDI in the RoK exhibits an almost mono-industry structure, concentrated mainly in the sectors related to oil production, primary processing and transportation. Therefore, **the dynamics of FDI in the RoK are closely linked to global oil prices**. This relationship confirms the theory that foreign investors invest not only in sectors where development and prices are rising, but also reduce funding when the situation deteriorates sharply.

Figure 9. Dynamics of FDI Gross Inflows into the Country and the Oil Price

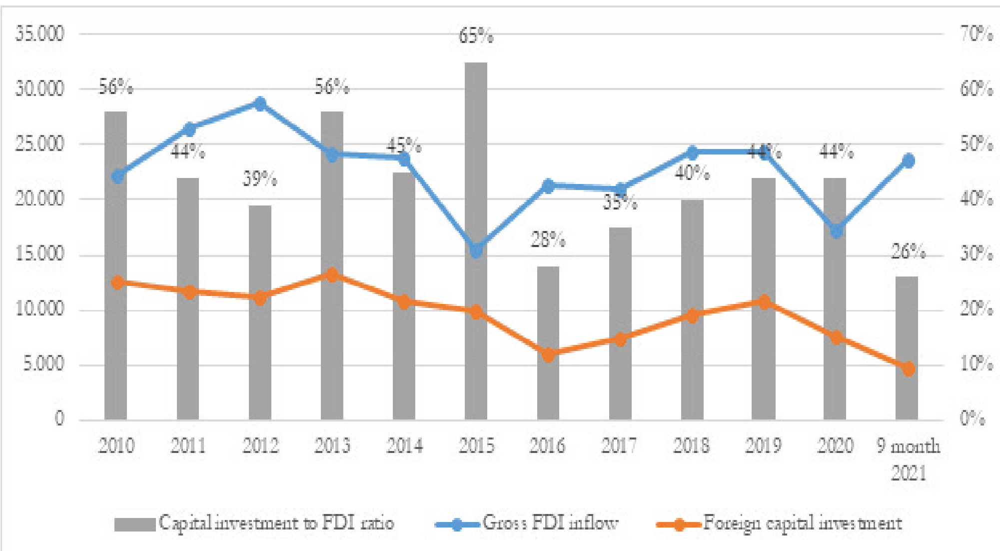


Source: *National Bank of the Republic of Kazakhstan*

The volume of external investment in fixed assets has almost halved in 10 years. Over the last 10 years, foreign investment in fixed asset renewal in the economy of Kazakhstan has fallen 1.8 times from USD 12.6 billion in 2010 to USD 6.8 billion in 2021. The ratio of foreign investment in fixed capital to gross FDI inflows is also falling, having been 56% in 2010 and 26% in 2021. Moreover, only 38% of foreign fixed investment is directed towards non-commodity sectors of the economy (47% in 2013).

The predominance of the raw materials sector in the investment structure is due to the greater profitability of the energy sector. Secondly, as the practice of investing countries shows that national politicians prioritize the development of domestic companies and the production of high-grade products. Thirdly, according to the theory of economies of scale, the demographic factor of Kazakhstan doesn't have the necessary optimum for the localization of foreign production.

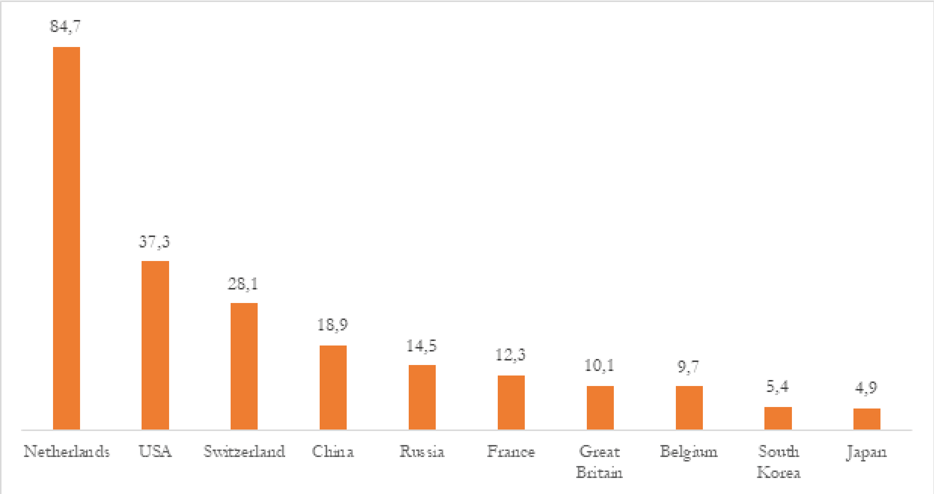
Figure 10. Dynamics of External Fixed Investment



Source: *National Bank of Kazakhstan and Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

The country structure of FDI has also remained unchanged since 2010. Six countries account for more than 72% of investments (Netherlands, USA, Switzerland, China, Russia and France). In 2015, the share of these countries was as high as 83%. At the same time, there is no information in the National Bank's statistics on which sectors of the Kazakh economy these countries are investing in. However, there is data on the external liabilities of Kazakhstan residents by type of their economic activity and the main countries.

Figure 11. Top 10 Major Investors in Kazakhstan's Economy since 2010, billion USD



Source: *National Bank of the Republic of Kazakhstan*

Since 2010, **the Netherlands** has invested about USD 84.7 billion in the RoK economy. The Netherlands has invested mostly in the mining sector and is, together with the USA, the main investor in this sector. That is 41 percent of FDI in the mining sector comes from the Netherlands. In addition, the Netherlands is the main investor in the manufacturing sector with a share of 44% of all FDI by 2021. The country is also represented as the main foreign investor in sectors such as financial and insurance activities (share 15%), information and communication (21.5%), trade (23%) and electricity (72%).

As of 1 January 2022, there were some 658 companies with Dutch capital, of which 531 were small, 53 were medium-sized and 74 were large. The largest number of Kazakh-Dutch enterprises is concentrated in wholesale and retail trade and manufacturing with 68 and in professional, scientific and technical activities with 103.

The second largest investor in Kazakhstan's economy **is the US**, with some 37.3 billion USD of investment in Kazakhstan's economy since 2010 of US origin. US investors are more interested in the mining sector, where they have about 30% of all FDI. A small amount of direct investment from the US is recorded in financial and insurance activities (share of 6.6%) and exploration (9.8%).

As of 1 January 2022, there are about 695 companies with US capital in the country, of which 658 are small, 15 are medium-sized and 22 are large. Almost identical to the Dutch enterprises, 168 Kazakh-American enterprises are concentrated in wholesale and retail trade, 181 in other services and 83 in professional, scientific and technical activities. There are only 36 US companies in the manufacturing industry.

In third place, **Switzerland** invested 28.1 billion USD in Kazakhstan's economy. Switzerland, in contrast to the Netherlands and the USA, has invested the most in Kazakhstan's manufacturing industry, accounting for 19% of all FDI in the sector. Swiss investors are also present in the financial and insurance sector of Kazakhstan, with a share of 6.5% of all FDI.

306 companies with Swiss capital are registered in Kazakhstan, of which 267 are small companies, 15 are medium-sized companies and 24 are large companies. Almost a third of them are registered in wholesale and retail trade (92), 51 companies in other services, and 36 companies in professional, scientific and technical activities. There are only 18 Swiss companies in the manufacturing industry.

Chinese and Russian investors are ranked 4th and 5th by capital investments and have the highest representation in registered joint ventures in the territory of the RoK-2,959 and 11,515 respectively. Gross inflow of Chinese investors since 2010 amounted to 18.9 billion USD (6.9% of total FDI in the RoK), Russian FDI-14.5 billion USD (5.3%). About 50% of Kazakh-Chinese and Russian businesses are registered as wholesale and retail trade representatives. Investments from these countries are present in almost all investment-intensive sectors of the country's economy.

Fiscal and Monetary Policies

Fiscal Policies

Kazakhstan has undertaken a number of serious fiscal reforms since independence.

As a result of many years of efforts to improve budget policy, a clear budget system has been established, specific budget procedures have been defined, the budget process is clearly regulated and functions according to the principles of "performance-based budgeting."

An important reform of Kazakhstan's budget system was the establishment of the National Fund of the Republic of Kazakhstan in 2000, with the aim of accumulating financial resources for future generations through the accumulation of oil revenues, as well as reducing the dependence of the national budget on world commodity markets. The National Fund has become an important instrument for maintaining macroeconomic stability in the country.

The creation of the National Fund during the "peak" price levels in commodity markets made it possible to offset the external shocks of the 2000s crises by providing funds for large-scale anti-crisis programs.

The budget process at all levels of government is regulated by the Budget Code of the Republic of Kazakhstan, adopted in 2008. The budget of the country is formed for a three-year period and consists of the following levels:

1. the national budget;
2. the regional budget, the budgets of the city of national importance and the capital;
3. district (cities of regional importance) budget;
4. the budgets of a district town, village, township, rural district.

In 2013, the Concept of New Fiscal Policy of the Republic of Kazakhstan was adopted, which defined the main approaches to the formation of fiscal policy until 2020 and measures aimed at ensuring comprehensive reforms in the sphere of public finance.

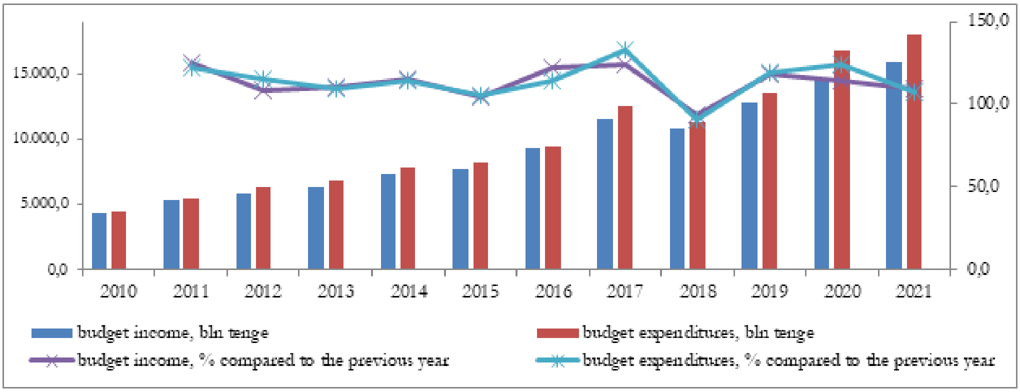
Over the last 12 years, the national budget has grown 4.2 times from KZT 4. 4 trillion to KZT 17.9 trillion. The maximum growth in state budget revenues was recorded in 2011, 2017 and 2020. Similarly, expenditures have grown rapidly in these periods.

In 2015, with falling oil prices, state budget revenues grew only slightly (+5.6%). While in 2018, there was no revenue growth at all.

Tax revenues traditionally come from tax revenues with a higher share of VAT and CIT.

In Kazakhstan, the VAT rate has been 12% since 2009 to date. Before that time, the rate varied from 13-20% in different years.

Figure 12. State Budget for 2010-2021



Source: *Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

As a result of the outstripping growth of budget expenditure over revenue in the 2010-2021 periods, the state budget balance has developed into a deficit.

External and internal shocks between 2014 and 2020 have negatively affected public finances and put pressure on the budget.

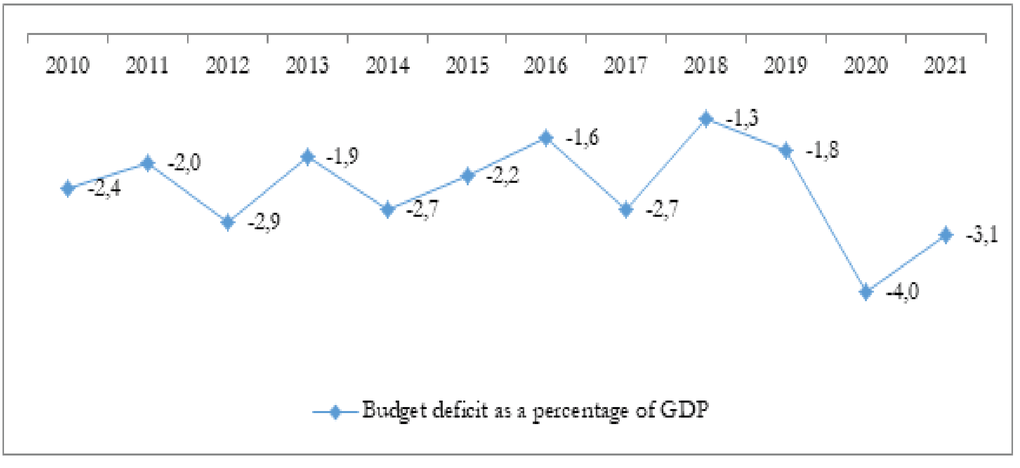
Fiscal policy during this period was implemented with quantitative limits on budget balance (budget deficit and non-oil budget), expenditure (guaranteed transfer), the National Fund financial assets floor and debt level as defined in the Republic of Kazakhstan Fiscal Policy Concept and the National Fund Concept. In order to ensure the balance of the state budget and the National Fund, fiscal policy should have been formed based on the gradual reduction of the budget deficit from 2018 to 1.0% of GDP, the non-oil deficit in 2020 to 7.0% of GDP, the size of the non-reduced balance of funds in the National Fund is maintained at 30% of GDP, the public debt in 2020 year not to exceed 27.0% of GDP.

In the context of lower commodity revenues in a period of low prices, the policy of maintaining expenditure, which had been inflated in a period of high oil prices, continued to support economic activity at an acceptable level.

These fiscal measures increased the country's budget deficit, which was financed partly from the National Fund and partly from borrowed funds.

Thanks to transfers from the National Fund, which accounted for a third of government revenues, the deficit remained moderate and did not exceed 3 per cent of GDP until 2020.

Figure 13. State Budget Deficit (Surplus) for 2010-2021



Source: *Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

The effects of the COVID-19 pandemic also hit the economy and public finances hard, similar to the scale of the 2014-2015 crisis. The budget deficit in 2020 increased to a record 4% of GDP (2.2 trillion tenge).

Due to the decline in economic activity, non-oil tax revenues have decreased. The implementation of fiscal support measures for small and medium-sized enterprises has also been a consequence of the decline in state budget revenues.

In 2020, the government exempted small and medium-sized businesses from taxes and social charges levied on the payroll for six months. "Individual entrepreneurs working under the general taxation procedure" were exempted from paying individual income tax until the end of the year. The VAT rate on sales and imports of socially important foodstuffs was lowered from 12% to 8% until 1 October 2020. A deferral of all taxes and other compulsory payments and social security payments was provided until June 1, 2020. In addition, certain business entities were exempted from paying property tax.

In order to support budget expenditure, the state used the resources of the National Fund by withdrawing an additional transfer in addition to the planned guaranteed amount.

As part of the Government's anti-crisis program for 2020, measures have been taken to support the economy and, above all, to meet social obligations, additional transfers from the National Fund have been attracted.

The National Fund was used to strengthen social support for citizens, including raising incomes and supporting low-income people, solving housing problems of low-income citizens, improving education and health care, and regional development.

The recovery of economic activity in 2021 had a positive impact on the amount of tax revenues to the budget, leading to a budget revenue increase of 9% compared to 2020, amounting to 15.8 trillion tenge. Budget expenditures increased by 7.3% due to higher spending on education, healthcare and social assistance.

Thus, the fiscal channel to support the economy has worked effectively in the face of the deep economic crisis caused by the spread of COVID-19.

The main priority of fiscal policy in the medium term is to improve the discipline and efficiency of budget expenditure, as well as to increase the real growth of non-oil budget revenues.

In this regard, in 2022, the Concept of Public Finance Management of the Republic of Kazakhstan until 2030 was adopted, the implementation of which is designed to ensure budget balance, limit the growth of the debt burden on the budget, and preserve the functions of saving the National Fund.

Monetary Policies

The main objective of Kazakhstan's monetary policy since independence to date has been to ensure price stability. The achievement of this objective is one of the most important conditions for long-term sustainable economic development of the country. In addition, along with ensuring price stability, the National Bank of Kazakhstan creates conditions for maintaining financial stability, mitigating the impact of external shocks on the economy and preventing the accumulation of imbalances in the financial system.

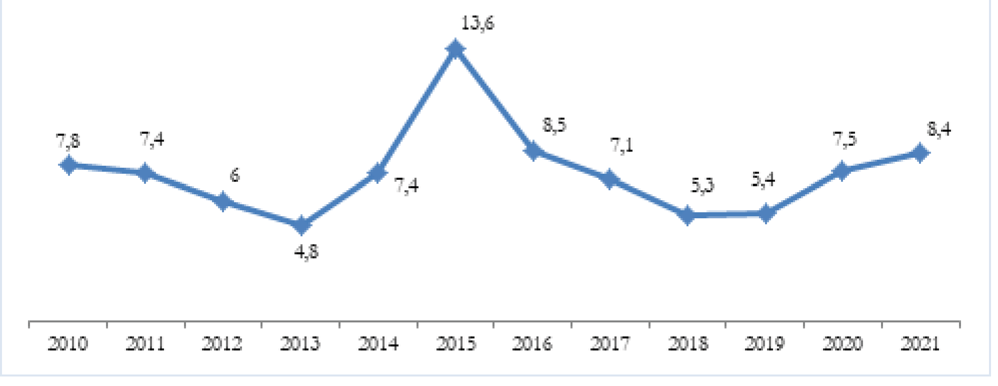
Monetary policy in Kazakhstan has passed a number of important milestones in its development, reflecting key macroeconomic trends over the past twelve years.

The macroeconomic situation began to stabilize gradually in 2010-2011 as a result of the recovery and revival of the global economy, renewed growth in prices and demand for Kazakhstan's main export goods, and anti-crisis measures taken by the government. This conditioned the return of the monetary policy priority of maintaining price stability.

In 2010-2014, the main objective of the National Bank of Kazakhstan has been to ensure price stability, which implies keeping inflation within a corridor of 6.0-8.0%.

The measures taken helped to keep inflation within the target corridor. The actual annual inflation rate for 2010-2014 was within the target corridor and declined to 4.8% in 2013.

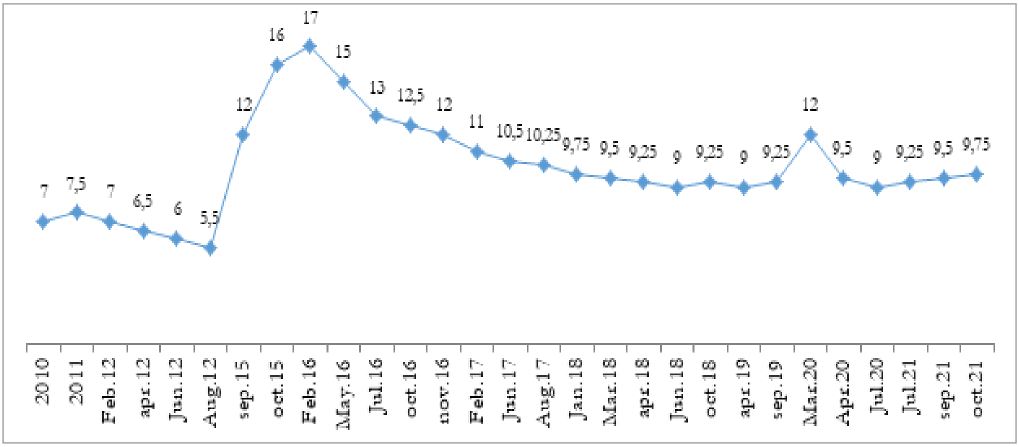
Figure 14. Inflation Rate from 2010 to 2021 (%, December to December of Previous Year)



Source: *Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

Some increase in inflationary pressures due to imbalanced aggregate demand and supply as well as volatile global commodity markets, the National Bank raised the refinancing rate to 7.5% in 2011.

Figure 15. Refinancing Rate from 2010 to 2021, %

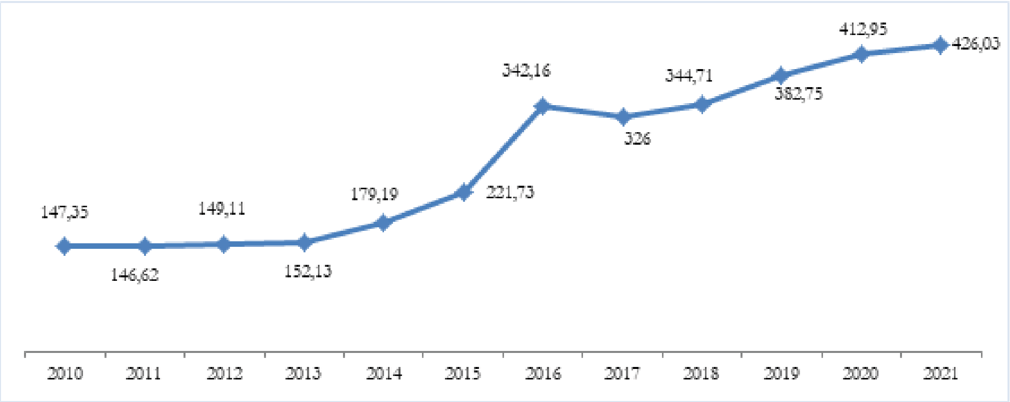


Source: *National Bank of the Republic of Kazakhstan*

The ensuing slowdown in inflation allowed the National Bank to gradually reduce the official refinancing rate from 7.5% to 5.5% per annum in 2014.

The domestic foreign exchange market developed with minimal involvement of the National Bank in maintaining the exchange rate of the tenge. During the period of the currency corridor introduced on 4 February 2009 and effective until 28 February 2011, the tenge exchange rate remained stable. In February 2011 the tenge fluctuation corridor was abolished and a managed floating exchange rate regime was introduced.

Figure 16. Official Exchange Rate of Tenge to US dollar on Average for 2010-2021, Tenge



Source: *National Bank of the Republic of Kazakhstan*

In 2014, the global economic situation was significantly affected by the reduction in the US financial sector bailout programs, which triggered capital outflows from developing to developed countries. As a result, pressure on developing countries' currencies increased.

The overvalued real exchange rate of the tenge has reduced competitiveness and worsened foreign trade conditions for Kazakh exporters.

As a result, devaluation expectations intensified in Kazakhstan's economy and the volume of speculative transactions increased. In this regard, the National Bank carried out significant currency interventions and the level of the country's foreign exchange reserves decreased. In this regard, on 11 February 2014 the National Bank decided not to maintain the exchange rate at the previous level, to reduce the volume of currency interventions and to reduce intervention in the process of formation of the exchange rate of tenge. The exchange rate was set at 179 tenge per US dollar.

This led to a slight acceleration in inflation as a result of higher prices for imported goods as well as devaluation expectations, which increased as a result of the fall in the world price of Brent crude oil. Nevertheless, inflation stood at 7.4% at the end of 2014, within the target range of 6-8%.

Against the background of a sharply weakened national currency, the prices of basic goods and services rose accordingly.

In this environment, the National Bank abandoned exchange rate protection in August 2015 and announced a move to an inflation targeting regime with a flexible exchange rate. Over the next four months, the exchange rate was highly volatile and the tenge lost more than half of its value in US dollar terms. The pricing process in the foreign exchange market remained poorly structured, which contributed to some flight at extremely low trading volumes. As a result, inflation rose to 13.6% in 2015, the highest since 2010.

Inflation targeting is a monetary policy regime in which price stability is the ultimate goal. The National Bank's main and only monetary policy instrument is the base rate. By setting the level of the base rate, the National Bank determines the target value of the interbank short-term rate to achieve the objective of price stability in the medium term.

Under inflation targeting and a floating exchange rate, inflation continued to fall to 5.3% in 2018 and 5.4% in 2019.

The COVID-19 pandemic led to an increase in prices for a number of commodities in the country due to the introduction of restrictive measures in China and Europe, which are important trading partners for Kazakhstan, as well as the subsequent introduction of a hard lockdown in Kazakhstan. Thus, since the beginning of 2020, inflation showed an increase from 5.5% to 7.5%.

The global economy continued to recover in 2021, with rising inflation as a result of pandemic supply-demand imbalances, high commodity and food prices. The annual inflation rate for 2021 was therefore 8.4%.

At the end of 2022, the National Bank forecasts inflation at 13-15%. The forecast is based on the implementation of a set of government measures to control and reduce inflation, which focuses on the balanced development of consumer markets.

Inflation will gradually slow down to 7.5-9.5% in 2023, taking into account monetary policy measures, the gradual reduction of external inflationary pressures and the planned implementation of a countercyclical fiscal rule.

Overview of Transport and Logistics Sector

The Republic of Kazakhstan is one of the largest states, covering an area of 2.7 million sq. km. One of the disadvantages of the country's geographical location is the lack of access to the open sea, which predetermines the need to develop a transport and logistics complex.

Currently, Kazakhstan's most important task is to position itself in the world market as a transcontinental economic bridge for the interaction of European, Asia-Pacific and South Asian economic systems. Permanent trade links have been formed, which contribute to increasing international transport flows.

Kazakhstan's transport complex is highly developed and represented by all modes of transport.

Air transport has enormous potential for development and utilization of the country's transit capacity. In the early years of independence, Kazakhstan became a party to the Chicago Convention on International Civil Aviation, committing itself to strict compliance with the standards and recommendations of the UN specialized agency, the International Civil Aviation Organization (ICAO).

There are 18 airports in the country, of which 17 are approved for international flights (16 are ICAO compliant). Airports are mainly located in regional centers and cities of national importance. There are 55 airlines operating in the country, of which 7 airlines provide scheduled flights.

The total length of the country's road routes is 96,000 km. It should be noted that this network is the largest in the Central Asian region and covers public roads of international, republican, regional and district importance.

One of the main documents that laid the foundation for the further development of Kazakhstan's transit potential was the 2016 Transport Strategy. Not only the construction and modernization of roads, but also their integration into global transport communications were identified as key objectives.

In addition, in order to implement the President's Address "Nurly Zhol - Way to the Future" in 2014, the State Program for Infrastructure Development "Nurly Zhol" for 2015-2019 was developed and adopted. The purpose of the program, in continuation of the previously outlined course, was to form a unified economic market by integrating macro-regions of the country on the basis of building efficient infrastructure on the hub principle, integrating transport infrastructure into the international transport system, and realizing transit potential to ensure long-term economic growth of Kazakhstan.

According to the responsible agency, 12,000 km of roads are to be built and reconstructed by 2025, which will improve the coverage of the national road network.

In terms of rail transport links, the operational length of Kazakhstan's railways is 16,000 km (19th in the world), including 5,000 km of double track and more (31%) and 4,200 km of electrified lines (26%), which is also the largest in this area among Central Asian countries.

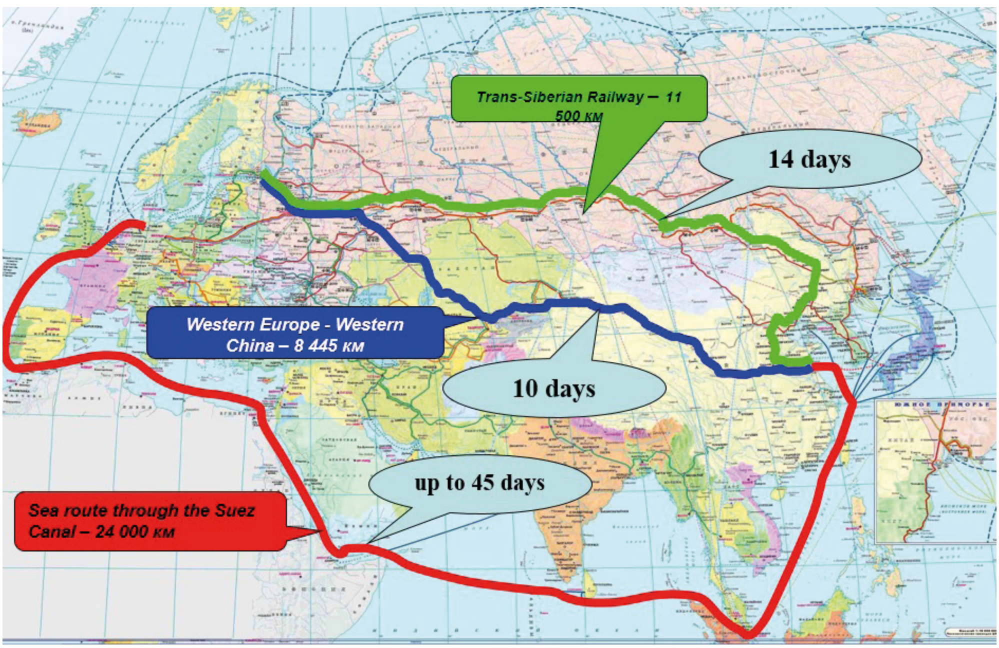
Water transport in Kazakhstan is of great importance for a country with no access to the open world ocean. Cargo transportation through the Caspian Sea provides the main flow of cargoes by water transport, thus providing the shortest access to the world commodity markets. The transport and logistics complex in the Caspian Sea waterway is represented by the seaports of Aktau, Bautino and Kuryk, which are strategic infrastructure hubs for transit and export-import flows.

At present, the ports' throughput capacity is about 27 million tons per year, which makes it possible to meet the strategic needs of the country in transporting export and transit cargo in the Caspian direction. The organization of interaction between the ports of Aktau and Kuryk with the transport infrastructure of the Caspian littoral states has enabled direct access to the Mediterranean and Persian Gulf markets and proved to be competitive with traditional transport routes.

The development of Kazakhstan's transport and logistics complex is an integral part of achieving the country's strategic objectives of joining international corridors and effectively using its transit potential.

Kazakhstan has a vast territory through which China's transit flows to Europe, as well as Central Asian countries towards Russia and beyond. One such transit project is the international transport corridor "Western Europe-Western China", which passes through Kazakhstan and Russia with access to Western European countries.

Map 1. The International Transport Corridor "Western Europe-Western China"



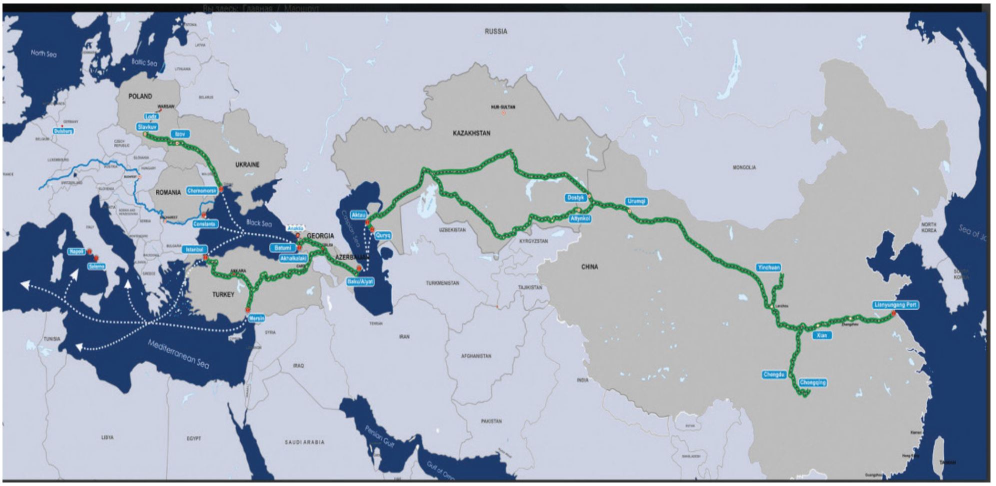
Source: *Made by authors*

The main positive features of the project compared to existing alternative corridors (the road Trans-Siberian route or the route through the Suez Canal) are its length and the time taken for transit. This road would significantly reduce the delivery time of goods from China to Europe. In addition, the Europe-Russia-Kazakhstan-China route is the shortest route with a minimum number of participating countries and borders.

At the same time, today, apart from traditional transport connections through the territory of Russia, there are alternative logistical directions for Kazakhstan. In the context of geopolitical crises associated with the disruption of established global economic ties, the need to diversify commodity flows is an urgent issue.

In this regard, an Agreement on the Establishment of a Coordination Committee for the Development of the Trans-Caspian International Transport Route was signed in Astana in 2013, and subsequently the International Association "Trans-Caspian International Transport Route" was established. The corridor was officially launched in early 2017.

Map 2. The Trans-Caspian International Transport Route (TTIM) Runs through China, Kazakhstan, the Caspian Sea area, Azerbaijan, Georgia and Onwards to Europe



Source: *Official website of the International Association "Trans-Caspian International Transport Route"*

As part of the Trans-Caspian International Transport Route (TITR), a container line from Aktau port to Baku/Alyat port (Azerbaijan) has been in operation since 2019. A similar container line between the ports of Aktau and Caspian (Iran) will open in 2020. Increased container traffic requires modernization of port infrastructure and establishment of a container drain at Aktau port.

The transport of energy resources is an important part of the cooperation between the Turkic States. The creation of supply chains for oil and gas from Central Asian countries to Europe is one of the objectives of regional cooperation.

It is reasonable to assume that, based on its energy resources, Kazakhstan is of particular interest to Western investors in the Central Asian region. Azerbaijan, in turn, is also one of the energy exporting states. Projects to transport oil and gas from the Caspian region to Europe have been under study since the early 1990s. However, the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE) gas pipeline have the greatest potential.

From a geo-economic point of view, Türkiye's transit potential has gained in importance along these routes. Ankara sees the Turkic World as one of its main partners, and its cooperation with it ensures Türkiye's emergence as a major energy transit bridge from north to south and from east to west. In addition, Türkiye's advantageous geographical position as a major alternative to the diversification of the Russian transportation route, makes it active in implementing and participating in projects to supply Central Asian energy riches to European markets.

The Baku-Tbilisi-Ceyhan pipeline, designed to transport Caspian oil to the Turkish port of Ceyhan, has a capacity of 1.2 million barrels of oil per day. The commissioning of the pipeline has enabled more active development of the Caspian basin's resources. In Azerbaijan, this is primarily the development of the Azeri-Guneshli field block, and in Kazakhstan-Kashagan.

Therefore, it is crucial for the owners to ensure the participation of Kazakhstan, which exports its oil to the West through the CPC (Caspian Pipeline Consortium) pipeline and the Russian port of Novorossiysk, as well as through the Transneft system. On average, about 100,000 tons of Kazakh oil per year are shipped via the BTC .

In this regard, this route could become an alternative for transporting Kazakh oil to EU countries, provided there is an Eskene-Kuryk-Baku oil pipeline, which would deliver oil from the Kazakh port of Kuryk to Baku port by oil tankers.

The operation and maintenance of the Baku-Tbilisi-Erzurum (BTE) gas route has similar objectives. However, the participation of Central Asian states in this project is possible with the Trans-Caspian gas pipeline under the Caspian Sea. This project has been repeatedly discussed at the level of Heads of State, but as of today it is still under discussion. One of the unresolved issues in the implementation of the Trans-Caspian pipeline has been the unresolved status of the Caspian Sea and the consequent lack of agreement by the littoral states on the use of the seabed for the construction of infrastructure.

The legal status of the Caspian Sea was settled in 2018 through the signing of the Convention on the Legal Status of the Caspian Sea. Article 7 of the convention establishes the width of territorial waters "not exceeding in width 15 nautical miles measured from the baselines", where "the outer boundary of the territorial waters is the state boundary." Whereas previously it was the unsettled status of the Caspian Sea that created barriers to the full exploitation of all potential opportunities, under Article 14 of the signed document "the Parties may lay submarine cables and pipelines on the bottom of the Caspian Sea."

In view of the above, it is worth noting that the transport and logistics complex is one of the priority areas of Kazakhstan's economic development. Over the years of independence, the country has not only preserved the transport complex, but also reached a qualitatively new level in modernization and construction of communication links. At the same time, the development of international corridors and Kazakhstan's participation in them as a transit country remains a priority.

ROLE OF INDIVIDUAL COUNTRY IN THE TURKIC WORLD

Trade Relations with the Turkic World

The main trend in contemporary relations is the deepening of integration processes, ranging from global interaction to the creation of small groupings. At the same time, bilateral relations within the framework of such associations play an important role. In addition, countries with similar economies or other attributes (historical, geographical, ethnic, etc.) are predisposed to closer integration, deepening bilateral relations.

According to the Foreign Policy Concept of the Republic of Kazakhstan 2020-2030, one of the priorities for economic diplomacy is the development of trade, economic and investment cooperation at the regional and local levels.

In this respect, trade relations with the Turkic World contribute to the realization of this objective on a national scale.

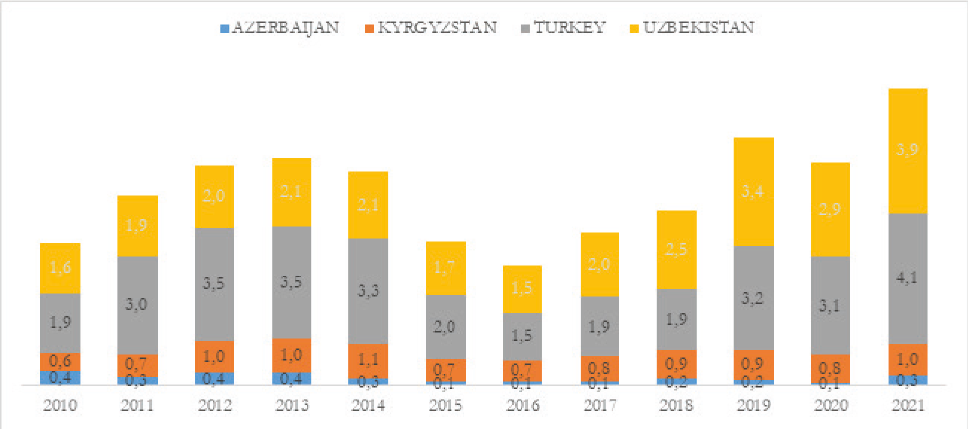
In 10 years, the share of countries with the Turkic World (hereinafter referred to as TM) in Kazakhstan's trade turnover has almost doubled.

Since 2010, Kazakhstan's trade with TM countries has increased by 2.1 times, from USD 4.5 billion to USD 9.3 billion in 2021. However, in terms of TM countries, trade with Uzbekistan (+2.5 times), Türkiye (+2.2 times) and Kyrgyzstan (+65%) was positive, while trade with Azerbaijan decreased by 25%.

Such growth ensured TM's share in Kazakhstan's trade turnover by 2021 at 9.2%, up from 4.9% in 2010. And at the end of the first half of 2022, TM's share in Kazakhstan's trade turnover reached 9.5%.

Taking into account that the Kazakh government wants to increase trade with Türkiye and Uzbekistan from the current 4 billion USD to 10 billion USD, and with Kyrgyzstan from 1 billion USD to 2 billion USD, the share of the Organization of Turkic States countries in trade turnover could reach 22-23% if these goals are reached.

Figure 17. Dynamics of Kazakhstan's Trade Turnover with The Turkic World, billion USD



Source: *Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

Azerbaijan is considered one of the fastest growing economies among the CIS countries and is Kazakhstan's key trade and economic partner in the South Caucasus.

To date, Kazakhstan and Azerbaijan have signed a Free Trade Agreement of 10 June 1997, an Agreement on Cooperation in the Field of Maritime Trade Shipping of 20 October 2011.

Also on 24 August 2022, during the visit of the President of Kazakhstan K. Tokayev to Azerbaijan, an agreement on trade and economic cooperation between the two countries was signed. According to this agreement, each party creates favorable conditions for cooperating business entities in the territory of its state and in accordance with the legislation of its state, and refrains from actions that may harm the interests of the other party. In addition, the parties contribute to the establishment of direct contacts between business entities, regardless of their organizational and legal form and form of ownership. The Agreement should thus contribute to the further development and strengthening of existing bilateral trade and economic relations between the countries.

However, Azerbaijan is not currently a party to the WTO or the CIS Free Trade Area Treaty.

It is worth noting that the territories of Azerbaijan and Kazakhstan are washed by the waters of the Caspian Sea. A significant part of trade turnover is accounted for by maritime traffic on the Caspian Sea, and therefore both countries are making efforts to establish a modern transit and transport maritime infrastructure.

In addition, in order to establish trade and economic relations, a "Trade House of Kazakhstan" in Azerbaijan was established in September 2020, and a "Trade House of Azerbaijan" in Astana was opened in May 2021. These trading houses facilitate the sale of products in the territory of the two countries.

Also in August 2022, the Business Council between Kazakhstan and Azerbaijan was created as a platform for dialogue between the business circles of the two countries. The council consists of 24 businesses from both Kazakhstan and Azerbaijan.

The ongoing bilateral work certainly contributes to an increase in mutual trade between the two countries.

From 2010 to 2021 trade turnover between Kazakhstan and Azerbaijan fell by 25%-from 445 to 332 million USD, and Azerbaijan's share in Kazakhstan's trade turnover fell from 0.49% to 0.33%. Accordingly, Azerbaijan fell from 29th place to 34th among Kazakhstan's main trading partners.

The reduction of goods turnover was mainly due to the reorientation of Kazakhstan's wheat exports to Central Asian countries and Afghanistan. So, if wheat exports from Kazakhstan to Azerbaijan in 2010 amounted to USD 230 million, then in 2021 this figure was only USD 26 million.

Table 4. Kazakhstan's Trade Dynamics with Azerbaijan from 2010 to 2021

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Kazakhstan's trade turnover with Azerbaijan	million USD	445	299	400	438	252	126	137	140	221	173	109	332
	Share	0,5%	0,2%	0,3%	0,3%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,1%	0,3%
	Location	29	34	30	31	38	42	40	41	38	41	45	34
RK exports to Azerbaijan	million USD	342	237	346	364	220	110	106	106	175	153	84	288
	Share	0,6%	0,3%	0,4%	0,4%	0,3%	0,2%	0,3%	0,2%	0,3%	0,3%	0,2%	0,5%
	Location	27	29	27	27	34	35	34	36	35	34	33	31
RK imports from Azerbaijan	million USD	103	62	53	74	32	16	30	34	46	20	25	44
	Share	0,3%	0,2%	0,1%	0,2%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%	0,1%
	Location	30	38	49	45	60	64	49	52	46	57	57	49

Source: *Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

Kazakhstan's exports to Azerbaijan fell by 16%, from USD 342 million to USD 155 million over the period under analysis. Azerbaijan's share in Kazakhstan's exports fell from 0.57% to 0.48%. The country fell from 27th place among the main markets for Kazakhstani goods to 31st place.

Azerbaijan has traditionally been an importer of Kazakhstani floating vessels, wheat, oil products, rolled steel, rails, rice and foodstuffs. The export statistics are somewhat distorted by data on exports of special purpose floating crafts and spare parts (in August 2021, exports of such goods amounted to USD 125 million). It is probably the facts of exports for repair of floating assets. While in 2010 the structure of exports consisted mainly of raw materials (73%) and semi-finished goods (23%), and the amount of finished goods was at 4%, by 2021 the share of finished goods in shipments to Azerbaijan was already 68%.

As for imports, they have also more than halved since 2010, falling from USD 103 million to USD 44 million. Azerbaijan's share in Kazakhstan's imports fell from 0.33% to 0.11%. The country ranked 30th among major suppliers of goods in 2010 and 49th by 2021. If in 2010 the structure of imports consisted mainly of finished goods (81%), by 2021 from Azerbaijan is purchased mainly semi-finished products (57%). In addition to traditional fruits and vegetables, Azerbaijan supplies the Kazakh market with ethylene and propylene polymers, nuts and packaging materials.

Trade relations between **Kyrgyzstan** and Kazakhstan are regulated both bilaterally and multilaterally. On a bilateral basis, the Free Trade Agreement signed on June 22, 1995. On a multilateral basis, cooperation is implemented within the framework of such associations as the EEU, the CIS and the WTO.

Since 2015, Kyrgyzstan has become a full member of the EEU and, accordingly, a partner of Kazakhstan within the framework of this regional association. Trade and economic relations between the two countries are regulated in accordance with the EEU Treaty, as well as other international treaties concluded within the EEU framework. The main advantage of the EEU as a regional association is free movement of goods, works (services), capital and labor without any restrictions or obstacles (barriers) in the territories of the EEU member states.

Despite virtually barrier-free trade within the EEU and relatively little bilateral trade between 2010 and 2021, trade between Kazakhstan and Kyrgyzstan increased by only 65%-from USD 589 million to USD 971 million. During this time, Kyrgyzstan's share of Kazakhstan's trade rose from just 0.6% to 1.0%. Accordingly, Kyrgyzstan rose from 26th to 21st place among Kazakhstan's main trading partners. Note that in early 2022 Bishkek hosted the 10th meeting of the Kazakh-Kyrgyz Intergovernmental Council, in which the parties agreed to increase the level of mutual trade to USD 2 billion.

Table 5. Kazakhstan's Trade Dynamics with Kyrgyzstan from 2010 to 2021

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Kazakhstan's trade turnover with Kyrgyzstan	million USD	589	695	1 005	1 028	1 056	701	669	765	900	940	849	971
	Share	0,6%	0,6%	0,8%	0,8%	0,9%	0,9%	1,1%	1,0%	1,0%	1,0%	1,0%	1,0%
	Location	26	25	21	20	22	19	19	21	20	19	18	21
RK exports to Kyrgyzstan	million USD	423	461	641	677	705	519	437	517	657	624	581	625
	Share	0,7%	0,5%	0,7%	0,8%	0,9%	1,1%	1,2%	1,1%	1,1%	1,1%	1,2%	1,0%
	Location	24	25	20	20	21	20	19	22	20	19	18	21
RK imports from Kyrgyzstan	million USD	166	234	363	351	351	182	231	248	244	316	268	346
	Share	0,5%	0,6%	0,8%	0,7%	0,9%	0,6%	0,9%	0,8%	0,7%	0,8%	0,7%	0,8%
	Location	25	20	15	19	17	22	17	19	18	15	18	16

Source: *Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

During the analyzed period, Kazakhstan's exports to Kyrgyzstan increased by 48%, from USD 423 million to USD 625 million. Kyrgyzstan's share in Kazakhstan's exports also increased from 0.7% to 1.0%. The country rose from 24th place among the main markets for Kazakhstani goods to 21st place.

Kazakhstan supplies a wide range of goods to the Kyrgyz market, from foodstuffs and tobacco products to engineering goods. Whereas in 2010 the structure of exports consisted mainly of raw materials (28%) and semi-finished goods (43%), by 2021 the main export commodities are finished goods (53%).

Since 2010 imports from Kyrgyzstan have more than doubled, from USD 166m to USD 346m. However, Kyrgyzstan's share of Kazakhstan's imports has risen from only 0.5% to 0.8%. The country ranked 25th among major suppliers of goods in 2010 and 16th by 2021. Whereas in 2010 the structure of imports consisted mainly of semi-finished goods (51%), by 2021 it is mainly raw materials (44%) that are being purchased from Kyrgyzstan. In 2021, Kazakhstan mainly buys precious metal ores, glass, ceramic tiles, flour confectionery products and dairy products from Kyrgyzstan.

Türkiye is the first state to recognize Kazakhstan's independence. Türkiye is one of Kazakhstan's top five trading partners and is one of the most important and reliable partners on the Eurasian continent.

On a bilateral basis the Agreement between the Government of the Republic of Kazakhstan and the Government of the Republic of Türkiye on Trade, Economic and Technical Cooperation of 10 September 1997, the Agreement on Long-term Trade and Economic Cooperation between the Government of the Republic of Kazakhstan and the Government of the Republic of Türkiye of 22 May 2003 are in force between the two countries. In addition, within the framework of the visit of the President of Kazakhstan K. Tokayev to Türkiye on 10 May 2022 signed the Terms of Reference to the Agreement on Trade in Services between the Republic of Kazakhstan and the Republic of Türkiye .

In terms of multilateral cooperation, Kazakhstan and Türkiye are members of the WTO. In addition, Türkiye is a member of the OECD, with which Kazakhstan has been cooperating for 14 years and seeks membership.

Between 2010 and 2021, trade turnover between Kazakhstan and Türkiye grew 2.2-fold, from USD 1.9 billion to USD 4.1 billion. During this time, Türkiye's share in Kazakhstan's trade increased from 2.0% to 4.0%. Accordingly, Türkiye rose from 12th to 5th place among Kazakhstan's main trading partners.

Table 6. Kazakhstan's Trade Dynamics with Türkiye from 2010 to 2021

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Kazakhstan's trade turnover with Türkiye	million USD	1 855	3 035	3 512	3 529	3 292	2 017	1 469	1 880	1 894	3 238	3 082	4 110
	Share	2,0%	2,5%	2,6%	2,6%	2,7%	2,6%	2,4%	2,4%	2,0%	3,3%	3,6%	4,0%
	Location	12	10	10	9	7	8	10	9	13	8	6	5
RK exports to Türkiye	million USD	1 237	2 305	2 706	2 603	2 272	1 276	851	1 151	1 239	2 420	2 132	2 964
	Share	2,1%	2,7%	3,1%	3,1%	2,9%	2,8%	2,3%	2,4%	2,0%	4,2%	4,5%	4,9%
	Location	12	10	10	9	10	8	12	9	12	8	6	5
RK imports from Türkiye	million USD	619	729	807	926	1 019	742	618	730	655	817	951	1 146
	Share	2,0%	2,0%	1,7%	1,9%	2,5%	2,4%	2,4%	2,5%	2,0%	2,1%	2,4%	2,8%
	Location	8	8	9	11	9	7	7	7	9	8	7	5

Source: *Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan*

During the analyzed period, Kazakhstan's exports to Türkiye increased 2.4-fold, from USD 1.2 billion to USD 3.0 billion. Türkiye's share in Kazakhstan's exports increased from 2.1% to 4.9%. The country rose from 12th place among the main markets for Kazakhstani goods to 5th place.

Türkiye has traditionally been an importer of Kazakhstani oil and metals. While in 2010 the structure of exports consisted mainly of raw materials (36%) and semi-finished products (63%), and the amount of finished goods was at 1%, by 2021 only the share of raw materials and intermediate goods had changed. In exports, the share of unprocessed raw materials has become 61% and semi-finished goods 38%. Türkiye does not need processed goods from Kazakhstan.

As for imports, they have increased by 85% since 2010, from USD 619 million to USD 1,146 million. Türkiye's share in Kazakhstan's imports rose from just 2.0% to 2.8%. The country ranked eighth among major suppliers of goods in 2010, and fifth in 2021. While in 2010 the structure of imports consisted mainly of semi-finished goods (52%), by 2021 mainly finished goods (59%) will be purchased from Türkiye. In addition to carpets and clothing, Türkiye supplies the Kazakhstani market with medicines, machinery and equipment, and household appliances.

Uzbekistan ranks second among Kazakhstan's CIS trading partners. The potential for trade development with Uzbekistan is due to geographical proximity, established transport infrastructure, as well as the existence of a free trade regime between the countries. Based on bilateral and multilateral agreements signed between Kazakhstan and Uzbekistan, there is free trade without customs duties and restrictions.

Trade relations between Kazakhstan and Uzbekistan are governed by the CIS Free Trade Zone Treaty of 18 October 2011 (signed as a special arrangement), to which Uzbekistan acceded on 31 May 2013.

There is also a bilateral intergovernmental Free Trade Agreement between Kazakhstan and Uzbekistan, signed on 2 June 1997.

In December 2020, Uzbekistan was granted the status of an observer state to the EEU, which allows Uzbekistan to participate in various events organized by the EEC. The President of Uzbekistan regularly attends meetings of the Supreme Eurasian Economic Council and can make proposals to the EEU.

Recent developments in the liberalization of the neighboring economies and the active engagement of the two governments in developing trade and economic relations are encouraging for an accelerated development of trade between the two countries. In addition to the elimination of existing barriers to bilateral trade, additional flights between the countries are currently being launched, bus services are being expanded, and new rail routes are planned to be launched in the near future. Based on the results of the III Forum of Kazakhstan-Uzbekistan Regional Cooperation held in Turkestan at the end of 2021, the countries aim to increase trade turnover to 10 billion USD in the next 4-5 years.

Between 2010 and 2021, trade between Kazakhstan and Uzbekistan grew 2.5-fold, from USD 1.6 billion to USD 3.9 billion. During this time, Uzbekistan's share of Kazakhstan's trade increased from 1.7% to 3.8%. Accordingly, Uzbekistan rose from 14th to 6th place among Kazakhstan's main trading partners.

Table 7. Kazakhstan's Trade Dynamics with Uzbekistan from 2010 to 2021

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Kazakhstan's trade with Uzbekistan	million USD	1 572	1 903	1 983	2 115	2 102	1 668	1 513	1 985	2 484	3 415	2 931	3 901
	Share	1,7%	1,6%	1,5%	1,6%	1,7%	2,2%	2,4%	2,5%	2,6%	3,5%	3,4%	3,8%
	Location	14	15	16	16	14	11	9	7	8	7	7	6
Kazakhstan exports to Uzbekistan	million USD	1 099	1 138	1 178	1 145	1 084	942	925	1 249	1 640	1 997	2 138	2 844
	Share	1,8%	1,3%	1,4%	1,4%	1,4%	2,1%	2,5%	2,6%	2,7%	3,4%	4,5%	4,7%
	Location	15	16	16	14	14	12	8	8	9	10	5	6
RK imports from Uzbekistan	million USD	473	765	805	970	1 018	726	588	736	844	1 419	793	1 056
	Share	1,5%	2,1%	1,7%	2,0%	2,5%	2,4%	2,3%	2,5%	2,5%	3,6%	2,0%	2,6%
	Location	13	7	10	10	10	8	8	6	7	6	9	6

Source: *BNS*

Kazakhstan's exports to Uzbekistan increased 2.6-fold, from USD 1.1 billion to USD 2.8 billion during the period under analysis. The share of Uzbekistan in Kazakhstan's exports increased from 1.8% to 4.7%. The country rose from 15th place among the main markets for Kazakhstani goods to 6th place.

Uzbekistan has traditionally been an importer of Kazakhstani metal, fertilizers, wheat, flour, vegetable oils and other agricultural and food products. While in 2010 the structure of exports consisted mainly of raw materials (41%) and semi-finished products (56%), and the amount of finished goods was at the level of 2%, by 2021 the share of finished goods in supplies to Uzbekistan was already 21%. It is true that some goods are re-exported, as the statistics show exports of goods such as smartphones, which, unfortunately, are not produced in Kazakhstan.

As for imports, they have also more than doubled since 2010, from USD 473 million to USD 1,056 million. Uzbekistan's share of Kazakhstan's imports increased from 1.5% to 2.6%. The country ranked 13th among major suppliers of goods in 2010 and sixth by 2021. Whereas in 2010 the structure of imports consisted mainly of raw materials (61%), by 2021 it is mainly finished goods (45%) from Uzbekistan. In addition to fruit and vegetables, Uzbekistan has started supplying the Kazakhstani market with cars, car bodies, ethylene polymers, bricks and household appliances.

Regional and National Mega Projects Impacting the Economy

Kazakhstan's economic course since independence has been aimed at establishing an efficient market economy, with a focus on competitive private enterprises that are highly resilient to external and internal crises and rapidly adaptable to the changing global economic environment and able to provide a decent standard of living for the country's population.

The source of long-term economic growth to effectively implement, among other things, the state's social obligations to provide jobs and encourage private businesses in the small and medium-sized enterprise category are large enterprises and national mega-projects.

Thus, during the period of independence, according to public information from regional akimats, more than 130 major projects worth 4,425.95 billion tenge have been implemented in Kazakhstan in various sectors of the economy.

Some of them are:

- construction of a copper ore mining and smelting facility commissioned in 2017 in the East Region of Kazakhstan.
- modernization and reconstruction of the Shymkent oil refinery with a capacity of 6 million tons of products.
- construction of a mining and processing complex in the Pavlodar region with a capacity of 100,000 tons of concentrate per year, starting in 2015.
- gas-processing plant-2 in the Aktobe region (launched in three stages: 2008, 2015, and 2018), with a capacity of more than 500,000 tons of gas, 4m tons of marketable gas, and 3m tons of marketable oil per year.
- opening of a tourist and hotel complex in Aktau (Mangystau Region).

- launch of a wind power plant (according to green standards) in the Akmola region with a capacity of -100 MW.
- a hydrocarbon stabilization and purification unit in the West Kazakhstan region with a capacity of 2.57 million cubic meters per year in 2011.
- construction of a cement plant in Almaty region in 2020.
- launch of a mining and processing complex and the Koktaszhal deposit in the Karaganda region with a capacity of 3 million tons of ore per year.
- construction of an international airport in the Turkestan region.
- the opening of a large-panel reinforced concrete factory in Astana in 2016 with a capacity of 134,000 cubic meters per year.
- construction and commissioning of a cement plant in the Kyzylorda and Zhambyl regions with a capacity of 2 million tons of cement per year.
- a small-section rolling mill with a capacity of 450,000 tons per year was built in Kostanay.
- in Almaty, an automotive plant (launching in 2 phases) with a capacity of 45,000 units per year was opened as part of an industrial zone.
- launch of flour products, pasta production in the North-Kazakhstan region in 1998.

It should be noted that many projects have been implemented jointly with the Organization of Turkic States. Türkiye has a specific weight in partnerships, but a large volume of joint companies and projects of Organization of Turkic States are presented in the category of small and medium-sized businesses (as Kazakhstan has the most favorable regime for this category of entrepreneurship).

Within the framework of Kazakhstan-Türkiye cooperation 61 projects amounting to 2 billion tenge have been implemented, most of them in Almaty city and Almaty region-21 projects, in Shymkent city and Turkestan region-12 projects and in Astana city-7 projects.

For example, "Swissgrow Tarim Gida Ambalaj" organic mineral fertiliser production, "LC Waikiki" shop chains opening and operating, "Anadolu Endustri Holding" soft drink production, "Nobel Pharmaceuticals" pharmaceuticals production, "Royal Hijyen ve Saglik Urunleri nappy production", YDA airport construction and operation, "Aselsan Elektronic" electronic and electro-optical devices production and others.

In 2020, taking into account the new reality both in the world and at home, Kazakhstan has formed a "new agenda" of economic development of Kazakhstan until 2025 (actively reforming approaches in the state sectoral policy). For example, in the sphere of agriculture 7 large ecosystems with a focus on the food industry, as well as the development of the fishing industry are to be formed.

This year, 51 agro-industrial projects (production and processing of meat, cereals, milk and others) worth 48.7 billion tenge have been launched, creating more than 0.9 thousand new jobs. Sixty agricultural cooperatives have been established, including 55 cooperatives for the production and processing of livestock products.

In industry and infrastructure, more than 1,000 projects are expected to be launched, creating more than 5,000 new jobs.

East Kazakhstan, Karaganda and Pavlodar regions are leaders in implementing major projects in metallurgy, and reindustrialization of these regions with the creation of high-tech, knowledge-intensive industries and technical services is planned.

In the energy sector, new contracts for the production and supply of equipment around major subsoil users (the Kashagan, Tengiz and Karachaganak fields) have been concluded, and a fiberglass plant is planned to be launched.

The volume of investment in major projects launched in 2022 exceeds KZT 2 trillion:

1. Almaty-reconstruction of cable networks of Almaty city and construction of CCGT at CHP-2 of Almaty city with capacity up to 400 MW;
2. Akmola Region-Ereymentau Wind Power LLP project;
3. Aktobe Region-Introduction of a 57 MW gas turbine plant at Aktobe CHP JSC;
4. Almaty Region-Korinskaya HPP-2 LLP;
5. Atyrau region-construction of 500 thousand tons per year of polypropylene and the Kashagan gas processing plant;
6. Zhambyl Region-VES Shengeldy 1 and 2 LLP;
7. West Kazakhstan Region-construction of 396 MW gas turbine units by Batys Power LLP;
8. Karaganda Region-replacement of obsolete turbine unit at Topar Main Distribution Power Plant LLP with an input of 130 MW;
9. Kostanay region-KazWindEnergy;

10. Mangystau Region-construction of the 2nd string of the Beyneu-Zhanaozen pipeline;
11. Pavlodar Region-rehabilitation of 500 MW Unit 1 at Yekibastuz GRES-1 LLP;
12. Turkestan Region-Arm Wind LLP and Construction of 1000 MW CCGT.

These kinds of large projects are expected to play a key role as a central element of value creation and contribute to sustainable economic growth.

It is necessary to mention the "Trans-Caspian International Route" or "Middle Corridor" among the regional initiatives influencing on the economy. As mentioned in section 1.5. the launch of this corridor took place in 2017.

At the same time, due to the geopolitical situation in the Eurasian region, which, among other things, provoked disruptions in supply chains, interest in the Trans-Caspian Route is increasing. It is an alternative way of delivering goods from China to Europe.

The flow of freight traffic for 7 months of 2022 amounted to 845.2 thousand tons, an increase of 171% compared to the same period last year. The flow of freight traffic by containers amounted to 17.6 thousand TEU, an increase of 33%. This was reported in the Kazakhstan railway organization.

According to the data from "NC "Kazakhstan Temir Zholy" JSC, the potential of transportation of Kazakhstan's freights only along the Middle Corridor is estimated at more than 4 million tons per year. In the context of changed international supply chains, logistics operators of the Northern Route of China Europe can also switch their volumes to this route.

In this regard, it is worth believing that this regional project is also one of the promising ones that will connect the region and ensure the stability of economic affairs.

Cooperation and Partnership Status with Other Turkic States

As part of the processes of globalization and the opening up of economic borders, every state is faced with the issues of attracting investment for efficient and prudent development in all areas of the economy. In addition, a country's economic policies are adjusted to international regulations, the interests of foreign investors, competitiveness in international markets, and most importantly, the economic security of the country itself.

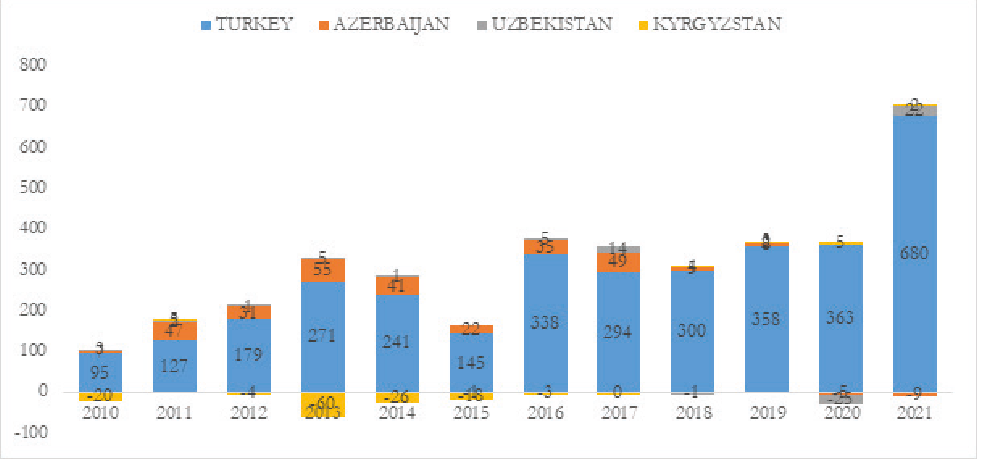
Cooperation and collaboration in the real sector of the economy is reflected in the level of investment attracted, the share of existing and operating enterprises established jointly with foreign partners and the implementation of joint projects. The countries of the Turkic World are no exception to this model.

According to the Concept of Investment Policy of the Republic of Kazakhstan until 2026, the main goal of investment policy is to create favorable conditions for the activities of foreign and domestic investors and the implementation of investment projects .

Between 2010 and 2021, the gross inflow of direct foreign investment from the Turkic World was 3.6 billion USD. The main Turkic investor is Türkiye, whose investments amounted to 3.4 billion USD, with the remaining 0.2 billion USD distributed between Azerbaijan, Uzbekistan and Kyrgyzstan. Moreover, gross FDI from Kyrgyzstan has been negative since 2010.

In 2021, the maximum gross FDI inflow from the Turkic World was recorded at USD 695 million.

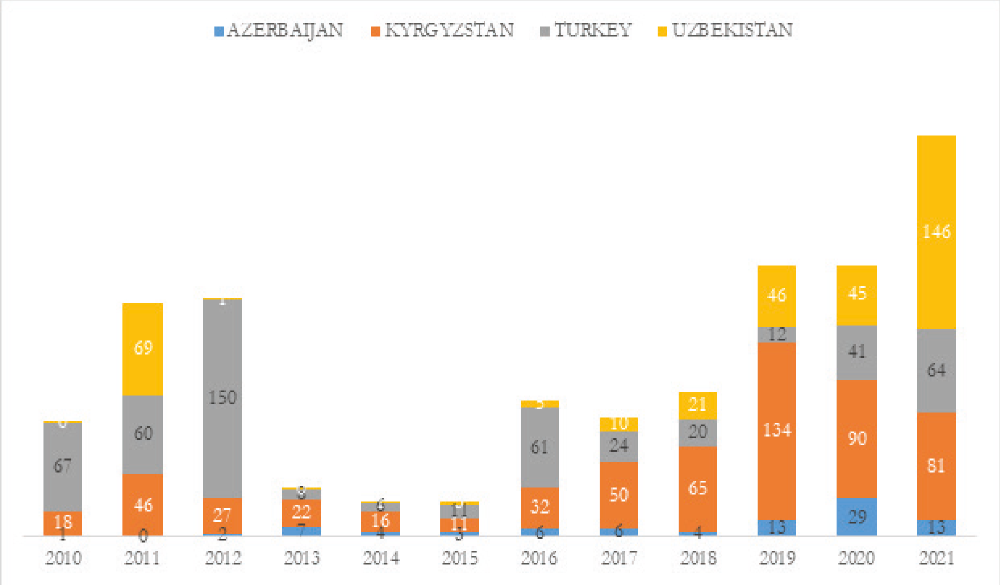
Figure 18. Gross Inflow of Foreign Direct Investment to the Republic of Kazakhstan from Foreign Direct Investors from the Countries of the Organization of Turkic States, USD million



Source: *National Bank of Kazakhstan*

From 2010 to 2021, the gross outflow of Kazakh investments to the Turkic World was 1.5 billion USD. The main recipients are Kyrgyzstan (USD 590 million), Türkiye (USD 524 million) and Uzbekistan (USD 349 million). The gross outflow of investments to Azerbaijan since 2010 was only 87 million USD.

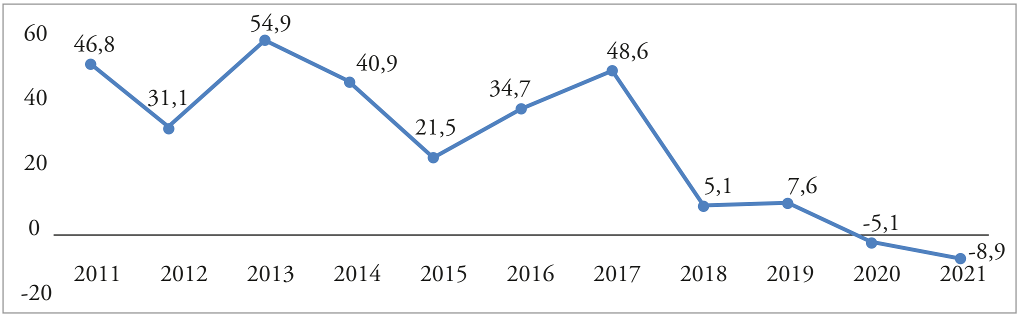
Figure 19. Gross Outflow of Direct Investments Abroad from Kazakh Direct Investors in the Countries of the Organisation of Turkic States, USD million



Source: *National Bank of Kazakhstan*

With regard to **Azerbaijan**, it can be noted that the gross inflow of foreign investment in Kazakhstan for the period from 2011 to 2021 amounted to 277.3 million USD. The gross outflow of FDI from Kazakhstan for the same period amounted to 85.9 million USD.

Figure 20. Gross Inflow of Foreign Investment from Azerbaijan to Kazakhstan over the Period 2011-2021



Source: *National Bank of Kazakhstan*

The number of operating legal entities, branches and representative offices with joint ownership between Azerbaijan and Kazakhstan as of 1 January 2022 is 126 enterprises (62.4%) out of 202 registered. The increase in active enterprises in 2022 relative to the same period of the previous year was 0.8%.

Table 8. Sectoral Distribution of Existing Joint ventures with Azerbaijan as of 1 January 2021-20V2

Directions	2021	2022	Growth 2021/2022, %
Agriculture, forestry and fisheries	4	5	25%
Mining and quarrying	4	3	-25%
Manufacturing industry	15	15	0%
Electricity, gas, steam and air supply	0	0	0%
Water supply; sewerage system, control	0	0	0%
Construction	20	17	-15%
Wholesale and retail trade; repair of motor vehicles and motorbikes	47	47	0%
Transport and storage	3	3	0%
Accommodation and food services	0	2	100%
Information and communication	3	2	-33,3%
Finance and insurance activities	0	0	0%
Real estate transactions	5	7	40%
Professional, scientific and technical activities	10	11	10%
Administrative and support services activities	2	1	-50%
Education	0	0	0%
Health and social services	3	3	0%
Arts, entertainment and recreation	1	1	0%
Provision of other services	8	9	12,5%
Total	125	126	0,8%

Source: *Compiled by the authors on the basis of data from the Bureau of National Statistics of Kazakhstan*

In terms of sectors, the largest number of companies are in trade (47 companies or 37.3% of the total), construction (17 companies or 13.5%), manufacturing (15 companies or 11.9%) and professional, scientific and technical activities (11 companies or 8.7%).

The biggest increases were in the accommodation and catering (100%), finance and insurance (40%) and agriculture, forestry and fisheries (25%) sectors.

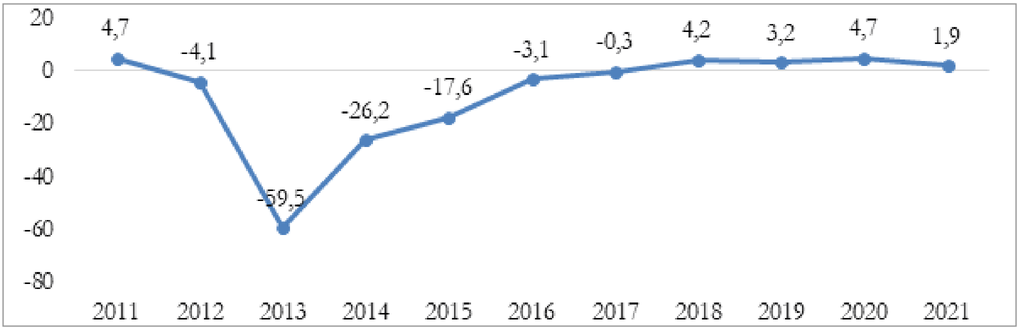
Also, as of 1 January 2022, there are 769 legal entities, branches and representative offices with Azerbaijani participation in Kazakhstan. The main areas of their activities are trade, construction and manufacturing. It is also worth noting that out of the total number of legal entities listed above, only 7 are medium-sized and 5 are large.

In addition, 3 projects worth 45.8 million USD are jointly implemented in Kazakhstan in Mangystau region -Azersun Holding Logistics Centre, Aktau Steel valve plant and Baku Grain Terminal JV LLC, and 2 projects worth 63.8 million USD are implemented in Mangystau region- medical center and plant for production of cables and transformers.

Regarding **Kyrgyzstan,** it is noted that the gross inflow of FDI to Kazakhstan from Kyrgyzstan for the period from 2011 to 2021 amounted to 92.2 million USD.

The gross outflow of FDI from Kazakhstan for the same period amounted to 572.5 million USD.

Figure 21. Gross Inflows of Foreign Investment from Kyrgyzstan to Kazakhstan for the Period 2011-2021



Source: *National Bank of Kazakhstan*

The number of operating legal entities, branches and representative offices with joint ownership between Kyrgyzstan and Kazakhstan as of 1 January 2022 is 236 enterprises (61.4%) out of 384 registered. The decrease in operating enterprises in 2022 relative to the same period of the previous year was 0.42%.

Table 9. Sectoral Distribution of Existing Joint Ventures with Kyrgyzstan as of 1 January 2021-2022

Directions	2021	2022	Growth 2021/2022, %
Agriculture, forestry and fisheries	9	9	0%
Mining and quarrying	3	3	0%
Manufacturing industry	21	22	4,7%
Electricity, gas, steam and air supply	3	3	0%
Water supply; sewerage system, control	0	0	0%
Construction	9	16	77,7%
Wholesale and retail trade; repair of motor vehicles and motorbikes	72	75	4,1%
Transport and storage	13	16	23%
Accommodation and food services	15	14	-6,6%
Information and communication	8	13	62,5%
Financial and insurance activities	2	2	0%
Real estate transactions	8	10	25%
Professional, scientific and technical activities	10	6	-40%
Administrative and support services activities	22	19	-13,6
Education	0	2	100%
Health and social services	3	2	-33,3%
Arts, entertainment and recreation	8	8	0%
Provision of other services	31	35	12,9%
Total	237	236	-0,42%

Source: *Compiled by the authors on the basis of data from the Bureau of National Statistics of Kazakhstan*

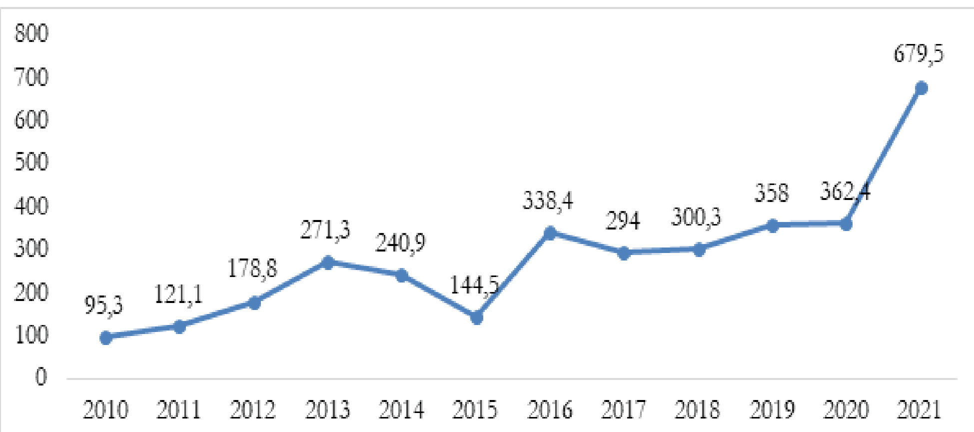
In terms of industry, the largest number of companies are in trade (75 companies or 31.8% of the total), other services (35 companies or 12.9%), manufacturing (22 companies or 9.3%) and administration and support services (19 companies or 8%).

The biggest increases were in education (100%), construction (77.7%) and information and communication (62.5%).

Also as of 1 January 2022, there are 2,025 legal entities, branches and representative offices with Kyrgyz participation in Kazakhstan. The main areas of their activities are trade, professional, scientific and technical activities. It is also worth noting that out of the total number of legal entities listed above, only 6 are medium-sized and 1 is large.

It is worth noting that the gross inflow of FDI to Kazakhstan from **Türkiye for the period from** 2011 to 2021 amounted to 3.3 billion USD. The gross outflow of FDI from Kazakhstan for the same period amounted to 456.6 million USD.

Figure 22. Gross Inflow of Foreign Investment from Türkiye to Kazakhstan for the Period 2011-2021



Source: *National Bank of Kazakhstan*

The number of active legal entities, branches and representative offices with joint ownership between Türkiye and Kazakhstan as of 1 January 2022 is 454 enterprises (56%) out of 810 registered. The increase in active enterprises in 2022 compared to the same period of the previous year is 1.33%.

Table 10. Sectoral Distribution of Existing Joint Ventures with Türkiye as of 1 January 2021-2022

Directions	2021	2022	Growth 2021/2022, %
Agriculture, forestry and fisheries	24	21	-12,5%
Mining and quarrying	1	1	0%
Manufacturing industry	82	85	3,7%
Electricity, gas, steam and air supply	4	5	25%
Water supply; sewerage system, control	2	3	50%
Construction	81	85	4,9%
Wholesale and retail trade; repair of motor vehicles and motorbikes	105	104	-0,9%
Transport and storage	10	12	20%
Accommodation and food services	20	25	25%
Information and communication	5	5	0%
Finance and insurance activities	7	5	-28,6%
Real estate transactions	15	14	6,6%
Professional, scientific and technical activities	17	17	0%
Administrative and support services activities	7	10	42,9%
Education	4	4	0%
Health and social services	16	19	18,8%
Arts, entertainment and recreation	8	5	-37,5%
Provision of other services	40	34	-15%
Total	448	454	1,33%

Source: *Compiled by the authors on the basis of data from the Bureau of National Statistics of Kazakhstan*

In terms of sectors, the largest number of enterprises is represented by trade (104 enterprises or 22.9% of the total), manufacturing (85 enterprises or 18.7%), other services (34 enterprises or 7.5%) and accommodation and catering (25 enterprises or 5.5%).

The largest increases were in water supply; sewerage, controlling education (+50%), administrative and support services (+42.9%), accommodation and catering services (+25%) and electricity, gas, steam and air (+25%).

Also, as of 1 January 2022, there are 3,281 legal entities, branches and representative offices with Turkish participation operating in Kazakhstan, which have implemented, are implementing or are in the process of implementing 144 projects worth USD 5.8 billion. Their main fields of activity are trade, construction, manufacturing, accommodation and catering services. It is also worth noting that out of the total number of legal entities listed above, 43 are medium-sized and 19 are large.

Economic cooperation with Türkiye involves the implementation of more than 25 projects in various economic sectors worth a total of USD 2.5 billion regionally:

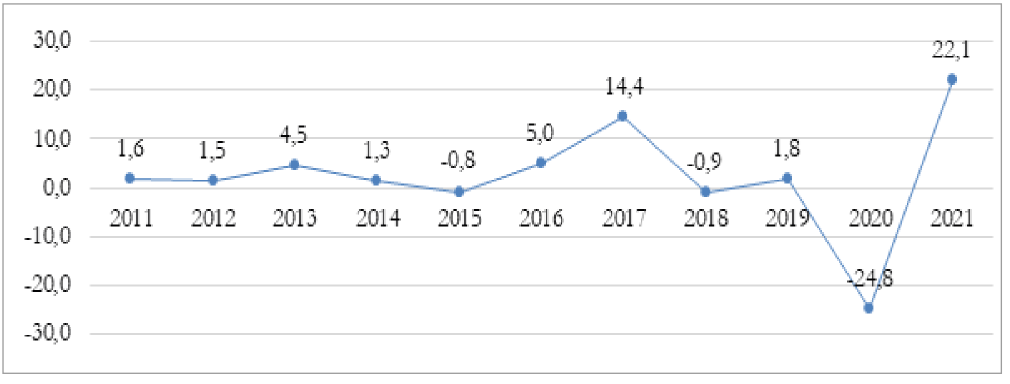
– 9 projects in Almaty city and Almaty region totaling USD 1.1 billion (in road construction, airport, hospitals, pharmaceutical production and other);
– 3 projects in Astana with a total value of USD 400 million;
– 4 projects in Turkestan province and Shymkent with a total value of USD 335 million.

Projects are also being implemented in the North Kazakhstan and Zhambyl regions for a total of USD 550 million, and one project is an inter-regional project in the subsoil use sector for a total of USD 15.4 million.

As already mentioned in section 2.2, 61 projects worth $2 billion have been commissioned under Kazakhstan-Türkiye cooperation, it should be noted that besides major cities, projects are presented in such regions as Mangystau, North Kazakhstan, Karaganda, Kostanay, Aktobe, Atyrau and Pavlodar regions in various fields from hospital construction to supermarket chains.

With regard to **Uzbekistan**, we note that the gross inflow of FDI to Kazakhstan for the period from 2011 to 2021 amounted to 25.7 million USD. The gross outflow of FDI from Kazakhstan for the same period amounted to USD 349.1 million.

Figure 23. Gross Inflow of Foreign Investment from Uzbekistan to Kazakhstan over the Period 2011-2021



Source: *National Bank of Kazakhstan*

The number of operating legal entities, branches and representative offices with joint ownership between Uzbekistan and Kazakhstan as of 1 January 2022 is 401 enterprises (59.8%) out of 670 registered. The decrease in the number of operating enterprises in 2022 relative to the same period of the previous year was 3.14%.

Table 11. Sectoral Distribution of Existing Joint Ventures with Uzbekistan as of 1 January 2021-2022

Directions	2021	2022	Growth 2021/2022, %
Agriculture, forestry and fisheries	19	18	-5,3%
Mining and quarrying	6	7	16,7%
Manufacturing industry	50	47	-6%
Electricity, gas, steam and air supply	0	0	0%
Water supply; sewerage system, control	5	5	0%
Construction	24	25	4,2%
Wholesale and retail trade; repair of motor vehicles and motorbikes	151	150	-0,7%
Transport and storage	14	15	7,14%
Accommodation and food services	10	11	10%
Information and communication	13	12	-7,7%
Finance and insurance activities	3	8	166%
Real estate transactions	19	18	-5,3%
Professional, scientific and technical activities	27	25	-7,4%
Administrative and support services activities	9	8	-11,1%
Education	7	5	-28,6%
Health and social services	3	1	-66,7%
Arts, entertainment and recreation	7	6	-14,2%
Provision of other services	47	40	-14,9%
Total	414	401	-3,14%

Source: *Compiled by the authors on the basis of data from the Bureau of National Statistics of Kazakhstan*

In terms of industry, the largest number of enterprises are in trade (150 enterprises or 37.4% of the total), manufacturing (47 enterprises or 11.7%), other services (40 enterprises or 10%), construction and professional, scientific and technical activities (25 enterprises or 6.23% respectively).

The largest increases were in the financial and insurance sector (+166%), mining and quarrying (+16.7%) and accommodation and catering services (+10%).

Also as of 1 January 2022, there are 1,479 legal entities, branches and representative offices with Uzbek participation in Kazakhstan. The main areas of their activities are trade, construction and manufacturing industry. It is also worth noting that out of the total number of legal entities listed above, only one is medium-sized and one is large.

Within the framework of economic cooperation with Uzbekistan, six joint projects worth USD 10.5 million have been implemented. Shymkent -cotton-fibre processing spinning mill, JV Alliance, production of BAIRKA hygienic paper products, in Kostanay region- assembly production of RAVON cars with JSC Uzavtosanoat, production of buses at Saryarka Auto Prom with SAMAUTO (SAZ), production of MAN trucks at SaryarkaAvtoprom LLP with MAN Auto-Uzbekistan JSC and in Turkestan Region-construction of Qojakent Tekstil textile factory.

Also, 4 projects worth 43.6 million USD are being implemented in Shymkent city -Construction of plant for production of medicines and hygiene products together with Dentafill Plyus LLC, in Kostanay region- production of TURAN tractors together with Tashkent Agro Tractor and Chevrolet Nexia cars by small-knot method with UzavtoSanoat JSC, and trucks production in Karaganda region -UZ TRACK AND BUS MOTORS LLC.

It is worth noting that in cooperation with all the above-mentioned countries, there is a decreasing trend in the number of active joint ventures. Only with Azerbaijan and Türkiye the number of operating joint ventures has shown an increase compared to the same period last year. However, despite the overall growth in the sectoral distribution, there has been a decrease in the number of active joint ventures.

Also, among the legal entities implementing projects, the sectors of trade, construction and manufacturing prevail. Thus, it can be concluded that activities with Turkic World countries in the rest of the economy are poorly diversified. On the one hand, this is due to the implementation of one of the main objectives of the Investment Policy Concept of the Republic of Kazakhstan until 2026, where the emphasis is mainly on attracting investment in the manufacturing sector .

Potential Cooperation Areas with Other Turkic States for the Future

Based on Kazakhstan's fruitful and multifaceted cooperation with the Turkic World, it can be noted that there is enormous potential for deepening cooperation in almost all sectors of the economy.

For example, there are long-term and strategic plans with **Azerbaijan** to develop transport and logistics infrastructure that will increase the volume of cargo flow between the two countries and the transit potential. In the current geopolitical circumstances, the Trans-Caspian international transport route, which passes through Kazakhstan, Azerbaijan, Georgia, Türkiye and European countries, represents a great opportunity for Kazakhstan to realize its transit potential.

In spite of the existing problems in using this route at full capacity, such as under capacity, scarcity of shipping facilities, compound pay scale provision, and so on, the participating countries are making every effort to further develop it.

For example, currently the company "Semurg Invest", which is the developer of the port of Kuryk, plans to build a grain terminal with a capacity of 850.000 tons per year. The construction of the terminal is at the finishing stage, which will allow to increase the capacity to 1.5 million tons per year.

Moreover, according to the data of the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan, Kazakhstan Temir Zholy, the Port of Kuryk and Kaspi Grain Way signed a trilateral cooperation agreement on the construction of a terminal in the port of Kuryk. The launch of a terminal with a capacity of 1 million tons per year with a one-time storage of 25,000 tons of grain crops is planned in 2022.

In compliance, after the completion of these projects, the total capacity for grain transshipment in the port of Kuryk with the help of specialized grain terminals will be at least 2.5 million tons per year.

In addition, Kazakhstan added two more Kazakh vessels to the four existing vessels (2 Kazakh, 2 Azerbaijani) to freight traffic on the Aktau route/Kuryk-Baku in the summer of 2022.

In addition, the development of this area will give impetus to improving trade and economic relations. Both countries have reserves for increasing trade.

There are also great prospects in the investment sphere. There is a positive investment climate in both Kazakhstan and Azerbaijan, with plans for major investment projects.

There is potential for cooperation with **Kyrgyzstan** in the energy sector, namely hydropower, solar energy and the development of alternative energy sources.

Special attention is given to the fields of information technology and digitalization. The development of the transport and logistics complex of the two countries is also a priority for joint cooperation and partnership. The development of this complex will increase trade turnover between the two countries, reduce the number of intermediaries, reduce the cost of products to the end consumer and increase the speed of delivery.

The spheres of tourism, education and cultural-humanitarian relations also have great potential for cooperation between the two countries.

With **Türkiye,** Kazakhstan has great potential to develop areas such as the green economy, IT technology, space activities and industrial production.

It is also worth noting that traditional areas of cooperation include manufacturing and processing industry, construction and agro-industry. At the moment, these areas are still relevant for joint cooperation, partnership and development.

In addition, the transport and transit partnership also has the potential to develop the full use of the Trans-Caspian International Transport Route, expand the geography of airlines between the two countries and increase the number of scheduled flights.

The fields of digitalization, healthcare, geology, advanced technology, tourism and education, namely cooperation in technical training, have opportunities for joint cooperation.

Industry, agriculture, construction and transport have priority in cooperation and partnership with **Uzbekistan.** In industry, great attention is paid to mechanical engineering, light industry and chemical industry. Both countries have implemented projects in these spheres, but notwithstanding their implementation. These areas are also investment-attractive, which in turn makes them potential for deeper cooperation.

Energy and agriculture are stable areas of cooperation between the two countries, which will give a major boost to mutual trade. In addition, there are opportunities for joint projects, including advanced processing of meat, vegetables and fruit.

The transport and infrastructure sector is also seen as a promising area for closer cooperation. There is potential for building an infrastructure base between the countries, given the shared land border, by launching an inter-state goods pipeline system.

In addition, both countries have the potential to provide food to the Central Asian region. In this respect, the development of the transport and infrastructure sector should contribute to this.

A large multiplier effect and benefit is also projected from the implementation of the International Centre for Industrial Cooperation at the border of the two countries, which should in fact become the largest trade and industrial hub in Central Asia.

The fields of new technologies, digital applications, banking and education are also attractive areas for joint cooperation.

The tourism sector requires the two countries to focus on launching additional flights between capitals and major cities, expanding bus services, opening new railway routes and removing barriers and obstacles at the border crossings by the population of the two countries. In the future, there is a possibility of building high-speed railway lines between the two countries, which would strengthen the tourism potential.

Overall, it is worth noting that joint cooperation and collaboration, as well as the implementation of potential projects between the countries, will increase trade turnover, attract investment, realize the latent potential of the countries, and strengthen inter-state relations more closely, both at the state and civilian levels.

CONCLUSION

The strengthening of interaction among Turkic States, including through the renaming of the Cooperation Council of Turkic Speaking States into the Organization of Turkic States in 2021, was a landmark event that determined the vector for deepening and expanding cooperation among member countries.

President Tokayev's visit to Azerbaijan in August 2022 also once again demonstrated the focus on the development of interstate relations. During the visit, a number of strategically important documents were signed, confirming the commitment of the two countries to a mutually beneficial partnership.

Originally, the idea of a strategic partnership among the Turkic World had not only historical and cultural ties, but also a huge potential for economic cooperation. In this regard, this direction of foreign policy for the Republic of Kazakhstan is an integral part of the principle of multi-vectors.

Kazakhstan, as a sovereign state adhering to democratic values and principles of international law, pursues an active foreign policy aimed at mutually beneficial partnership with all states of the world. Being a part of the Turkic World, the priority for the Republic of Kazakhstan is to maintain peace and stability in Central Asia and the Middle East, deepen cooperative ties with partner countries, diversify and optimize commodity flows, including through participation in international corridors.

In this regard, the interaction between the scientific communities of the Turkic World is of no small importance, and it can also become a driver for developing new areas of cooperation between the countries of the region, as well as serving as a basis for significant decisions at the interstate level on the basis of joint scientific research.

COUNTRY SPECIFIC PROFILE OF THE KYRGYZ REPUBLIC

Yugay Larisa Vikentievna,
Researcher, National Institute for Strategic Studies under the President of the Kyrgyz Republic

Dr. Koychueva Merim Turarovna
Head of Department at the National Academy of Sciences of the Kyrgyz Republic

Abdiev Ilimbek Atantayevich
Researcher at the National Academy of Sciences of the Kyrgyz Republic

Foremost gratitude is extended to Dr. Matanat Musayeva and Vusala Jafarova for their invaluable contributions as coordinators in crafting the country-specific profile of the Kyrgyz Republic.

The world is searching for a new paradigm for the transition from a linear to a regenerative economy, to technologies that will stop destroying the environment and use environmentally friendly processes and materials through changes in industry, transport, and urban economy.

Since the 2000s, the center of the world economy has shifted in a natural way and is moving to a new, integral world economic structure with the center in Southeast Asia.

The growing role of Russia and China in global politics testifies to the emergence of a polycentric world. This process accompanies the reformatting of the international system, the reorientation of priority vectors of interregional interaction, the emergence of a new ideological and scientific worldview.

PURCHASING POWER PARITY GROSS DOMESTIC PRODUCT (GDP PPP), GDP PER CAPITA, BASED ON GDP PPP, GDP GROWTH

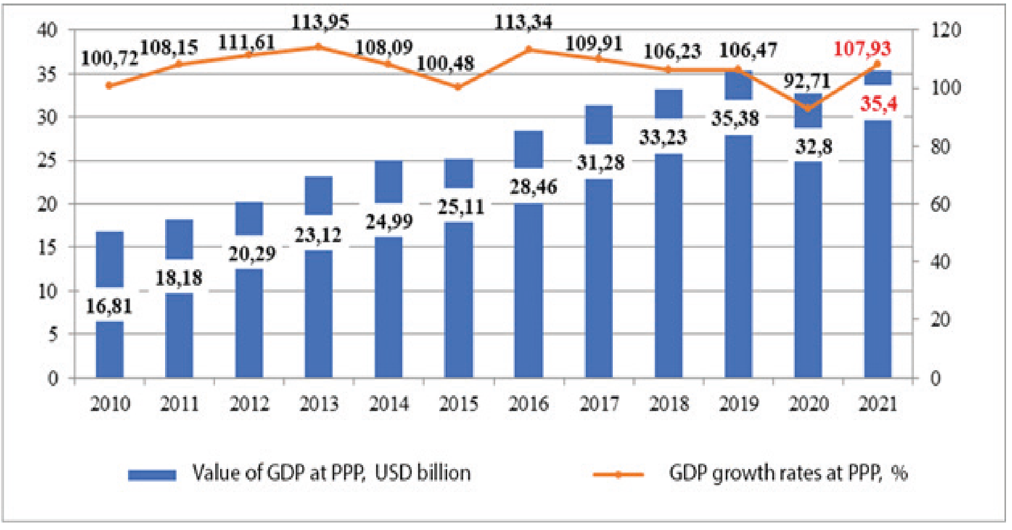
GDP at PPP in the Kyrgyz Republic for the Period 2010-2021

Positive trend is observed in dynamics of gross domestic product at purchasing power parity, that increased by 2.1 times over the analyzed period of 2010-2021.

According to World Bank estimate, GDP at PPP in the Kyrgyz Republic amounted to 35.40 billion US dollars in 2021, and 32.80 billion US dollars in 2020 -if compared to the previous one, it is increased by 7.93% or 2. 60 billion$.

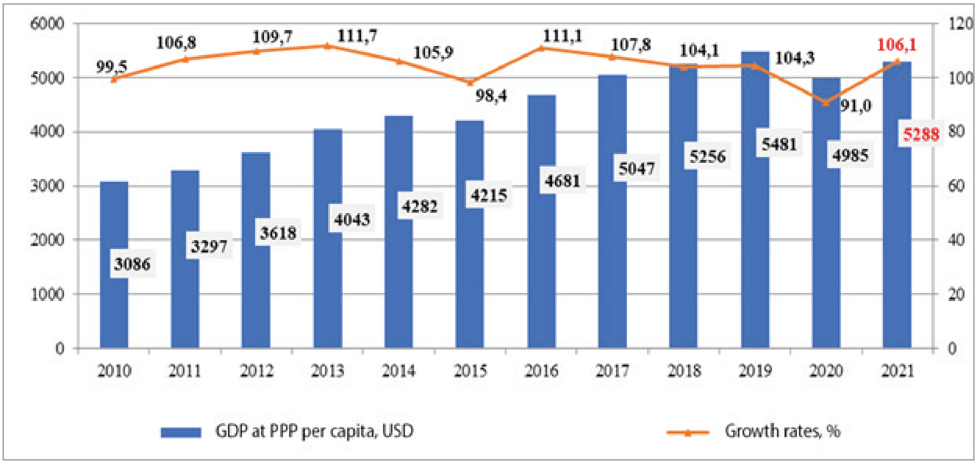
The current value of GDP at PPP is the absolute maximum for the twelve-year period of observation by the World Bank. At the same time, the absolute minimum value of GDP at PPP was noted in 1995 -6.39 billion US dollars. Figure 1 shows the volume of GDP at PPP for the period 2010-2021.

Figure 1. Dynamics of Changes in GDP and GDP Growth Rates at PPP in the Kyrgyz Republic for the Period 2010-2021, billion USD



The dynamics of changes in GDP at PPP in the period from 2010 to 2021 demonstrates a predominantly positive nature of changes, with an average growth rate of slightly above 7% per year. The maximum relative increase in GDP at PPP in terms of the previous year was recorded in 2013 (+13.34%, +2.83 billion US dollars), and the maximum fall -in 1994 (-18.38%, -1 .49 billion USD). In absolute terms, the maximum increase was recorded in 2016 -by USD 3.35 billion, and the maximum drop- in 2020, then it decreased by USD 2.58 billion.

Figure 2. Dynamics of Changes in GDP at PPP Per Capita and their Growth Rates for the Period 2010-2021, USD

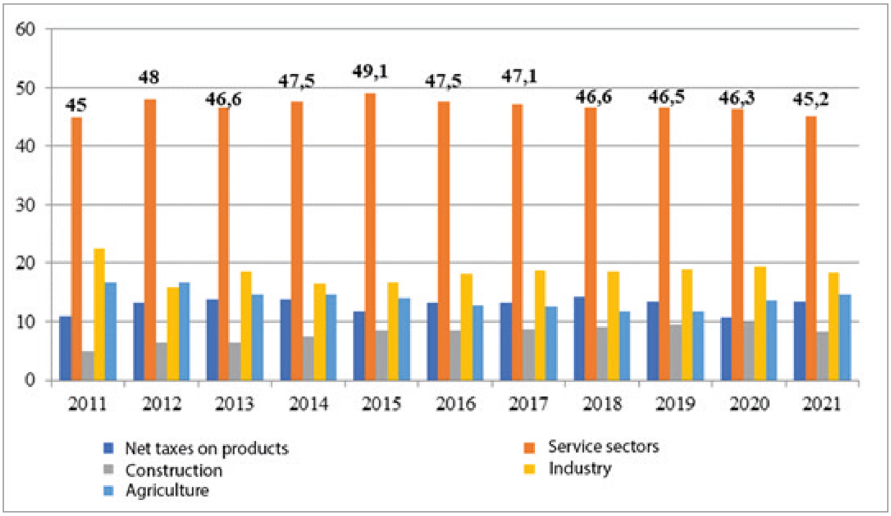


National Statistical Committee of the Kyrgyz Republic. (2021). Dynamics of changes in GDP at PPP per capita and their growth rates for the period 2010-2021. Retrieved from http://stat.kg/en/statistics/nacionalnye-scheta/

The change in the structure of the gross domestic product had significant impact on the growth of the economy, which is primarily associated with an increase in volumes in the sectors of commodity production and services.

Figure 3 shows the structure of the GDP of the Kyrgyz Republic. The largest share in the structure of the country's gross domestic product falls on services, industry and agriculture.

Figure 3. Structure of the GDP of the Kyrgyz Republic for the Period 2010-2021, in %



National Statistical Committee of the Kyrgyz Republic. (2021). Structure of the GDP of the Kyrgyz Republic for the period 2010-2021, in %. Retrieved from http://stat.kg/en/statistics/nacionalnye-scheta/

TRADE TRENDS OF THE LAST DECADES

Each country builds its economy with the set of goods and services depending on its economic potential and competitive advantage. International economic relations contribute to the development of productive forces, efficient use of resources, and provide access to regional and world markets.

Trade and economic ties between the CIS countries should be rationalized and strengthened. And also, to be facilitated by the real work of political and economic interstate institutions.

The Kyrgyz Republic has experienced economic and political crises more than once throughout the entire period of its independence. Reliability, stability, and dynamism have not yet been observed in the development of the republic. Until now, a stable sectoral structure has not been formed. An important role in ensuring sustainable economic growth is played by entry into the world economy, including integration within the framework of the Turkic economies. Kyrgyzstan should conduct active foreign economic activity, taking part in various international economic (regional, interregional, etc.) organizations and strengthening bilateral and multilateral ties.

Since gaining independence, Kyrgyzstan has chosen a model of export-oriented development of the economy, objectively taking into account the limited natural, economic and financial resources, the lack of sea transport routes, and the narrowness of the domestic market.

Initially, country joined many authoritative international economic and financial organizations, which helped to solve the problems of the initial stage of building a new system of foreign economic relations. During the period of reforms, new industries were created due on the sake of attracted foreign investment. However, not all of them were successful due to the fact that many loans provided by international financial organizations were too "tied"; there was no transparency in attracting investments; implemented projects were not sufficiently developed; often there was no expertise and independent evaluation of projects.

The liberalization of the foreign trade regime contributed to an increase in trade turnover, caused a change in the direction of commodity flows and the sectoral structure of trade turnover. The strategic course of the modern trade policy of Kyrgyzstan, which was initially aimed at the effective integration of the country into the world economy and international trade, determined the country's accession to the World Trade Organization (WTO) in 1998, and later to the Eurasian Economic Union (EAEU) in 2015.

Today, Kyrgyzstan acts in the regional and world markets as an exporter of electricity, gold, agricultural products, food and light industry products and a number of other goods. The republic imports energy carriers (petroleum products, natural gas, coal), fertilizers and other chemical products, machinery, mechanisms, transport and other fixed assets, consumer electronics, consumer goods, products of chemical and related industries, etc.

The transition to market relations and the liberalization of foreign trade relations, the foreign trade was largely reoriented to non-traditional markets and new partners. If at the beginning of the 1990s, trade relations with the countries of the former USSR prevailed in the trade turnover, then in subsequent years they began to decline. The most important tasks at that time were the establishment of business and partnership relations in foreign markets, the search for new partners both in the old and new foreign markets, with which broad and stable trade and economic relations had not yet been established.

Previously, three sectors dominated the sectoral structure of exports and imports: Mechanical engineering, light and food industries. After the collapse of the USSR, imports of products of the chemical industry and agriculture decreased. In exports, engineering sector experienced a decline. In 1994, the export volumes of this industry decreased by 3 times compared with 1990. The reasons were the rupture of economic ties and the problems in making interstate payments. Lack of competitiveness of the products of the engineering industry hampered to enter the world markets.

During initial years of reforms, the leading role in regulating foreign trade belonged to the state, trade was carried out through bilateral agreements, and even had a barter character. The liberalization of the foreign trade regime increased the foreign trade turnover and led to a change in the sectoral structure of trade turnover. In the 1990s, Kyrgyzstan's trade growth rates were quite high due to its liberalization and a significant influx of foreign financial assistance. At the same time, the structure of the trade balance was dominated by imports of goods.

Since the 2000s, the focus on trade with non-CIS countries continued to grow, with a reduction in the share of post-Soviet countries in the total volume of export-import operations. This, to a certain extent, was facilitated by Kyrgyzstan's accession to the WTO.

Supplies from the CIS countries continue to dominate so far. This is explained by the dependence on the import of energy resources from these countries, mainly from Kazakhstan, Russia, and Uzbekistan.

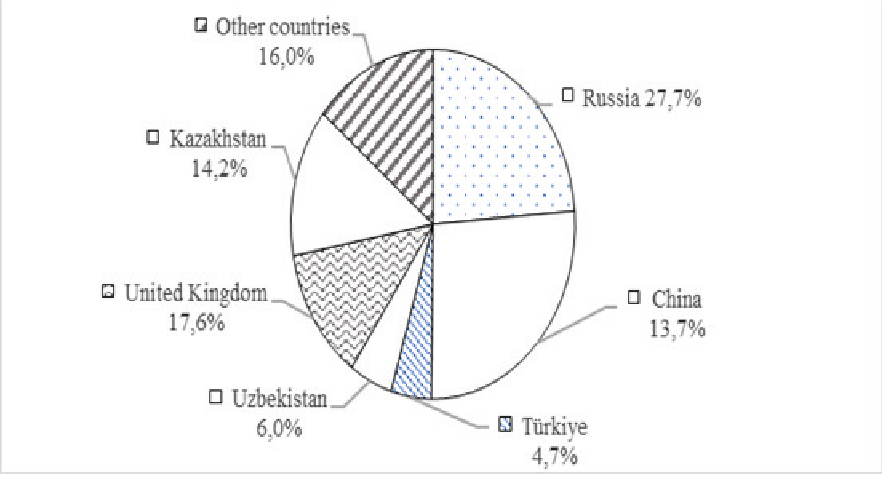
Before the economic reforms, the main trading partners were Russia and Ukraine. Currently, Russia has retained its position in the market, but at the same time its share has somewhat decreased due to the change in the geography of trade flows. Ukraine, back in the early 90s, "conceded" in trade turnover to more "convenient" countries such as Kazakhstan and Uzbekistan, the reason for which was the problems with the transportation of goods. The main imports from Kazakhstan and Uzbekistan are oil products, gas, and exports are electricity and agricultural products.

2021 was characterized by an increase in imports of goods compared exports. As a result, the trade balance deficit increased by 63.4 percent compared to 2020, amounting to $2.4 billion.

Export of goods (in FOB prices) for the research period increased by 40.8 percent and amounted to USD 2.8 billion. Exports excluding gold increased by 33.9 percent to $1.4 billion, driven mainly by increases in supplies of rolled glass, fruit, clothing, fabrics, textile yarn, vegetables, and "Portland cement." At the same time, a decrease was observed in the export of live animals, ores and concentrates of precious metals, butter, cheese and cottage cheese.

Imports of goods (in FOB prices) in 2021 amounted to $5.2 billion, an increase of 50.2 percent. There was an increase in the cost volume of imported oil products by 59.7 percent, mainly due to higher average contract prices for supplies. In addition, supplies of clothes, fabrics, shoes, cars, fruits and nuts, and meat increased in the research period year. Along with this, there was a decrease in imports of medicines, flour, iron and steel, internal combustion engines and cigarettes.

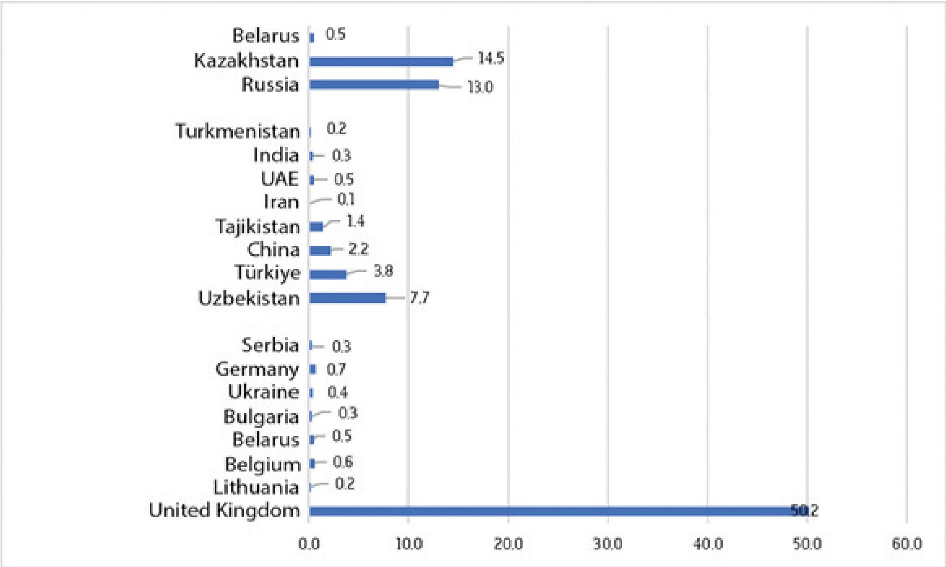
Graphic 1. External Trade Country Specific Information



Source: *National Statistical Committee of the Kyrgyz Republic. (2022). External trade. Retrieved from http://stat.kg/ru/statistics/vneshneekonomicheskaya-deyatelnost/*

In 2021 export-import operations were carried out with 134 countries of the world. The main trading partners were China, Russia, Great Britain, Uzbekistan, Türkiye.

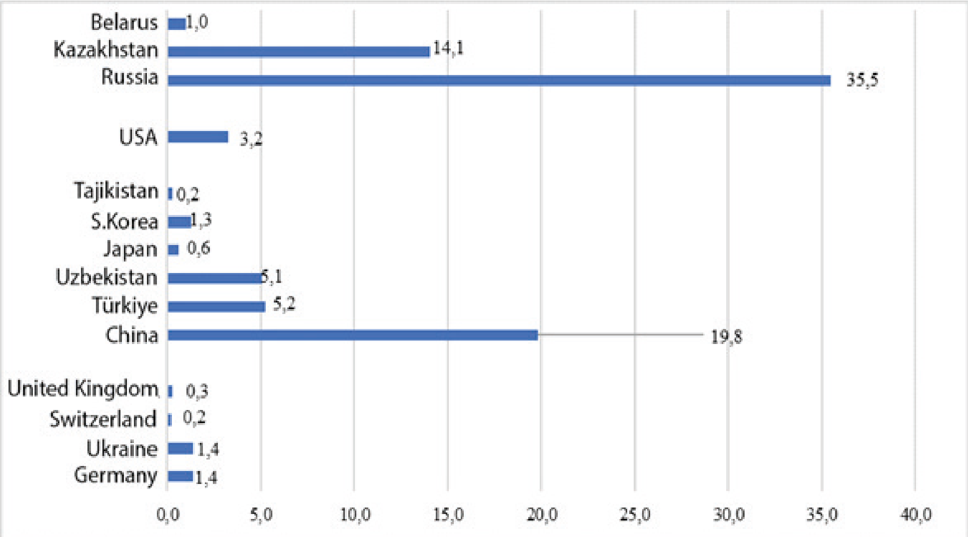
Figure 4. Country Specific External Trade



Source: *National Statistical Committee of the Kyrgyz Republic. (2022). External trade. Retrieved from http://stat.kg/ru/statistics/vneshneekonomicheskaya-deyatelnost/*

In imports, a large share falls on Russia, Kazakhstan, China and Türkiye.

Figure 5. Imports-Country Specific Information



Source: *National Statistical Committee of the Kyrgyz Republic. (2022). External trade. Retrieved from http://stat.kg/ru/statistics/vneshneekonomicheskaya-deyatelnost/*

A significant export item is tourism and travel, financial services.

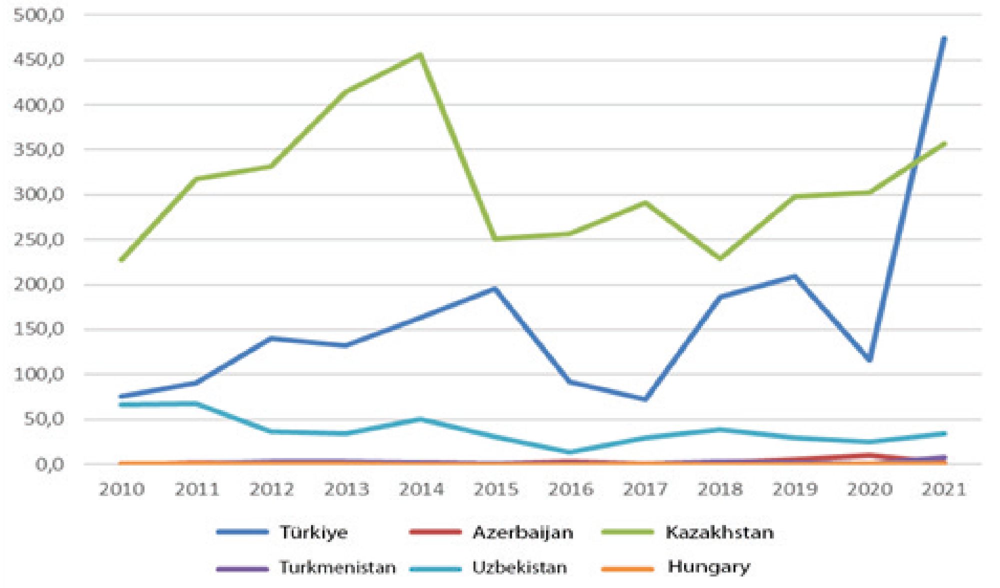
FOREIGN DIRECT INVESTMENT OF THE KYRGYZ REPUBLIC

The inflow of total foreign direct investment (FDI) in 2021 amounted to more than 1 billion US dollars. In particular, the main share of growth is accounted by: i) reinvested profit in the amount; and ii) loans received from non-residents. By type of economic activity, the inflow of foreign direct investment was shared by traditional sectors: i) professional, scientific and technical activities; ii) manufacturing industries; and iii) mining.

The main volume of FDI is directed to enterprises: i) manufacturing industries; ii) mining operations; iii) geological exploration; iv) the sphere of financial intermediation and insurance; v) wholesale and retail trade, and vi) information and communications. Total volume of incoming FDI is shared by China, Türkiye, and Great Britain. The largest volumes of FDI from the CIS countries shared by Russia and Kazakhstan.

FDI from Türkiye increased significantly in 2021 and amounted to $474.1 million and is the highest since 2010. FDI from Kazakhstan increased in 2020 to $302.1 million, and in 2021 amounted to $357.2 million. FDI from Azerbaijan and Turkmenistan amounting to $1.4 million and $8.1 million respectively.

Figure 6. Inflow of FDI from Turkic States



Source: *National Statistical Committee of the Kyrgyz Republic. (2022). Investments. Retrieved from http://stat.kg/en/statistics/investicii/*

Table 1. Structure of Foreign Investment Inflows by Type of Economic Activity for Q12021, 2021, Q1 2022.

	Inflow			Outflow		
	1Q.2021	2021	1Q.2022	1Q.2021	2021	1Q.2022
Total	112 090,5	1 006 091,2	277 982,7	479 106,7	779 878,5	283 629,5
Manufacturing industries	12 515,6	228 945,8	161 404,2	394 445,0	337 504,7	19 009,0
Professional, scientific and technical activities	59 284,2	316 755,0	16 514,2	41 921,7	199 857,2	5 016,2
Wholesale and retail trade; car and motorcycle repair	8 546,5	92 470,9	15 745,1	12 190,7	41 546,9	4 449,5
Mining	15 813,1	211 904,6	30 723,5	13 493,5	39 924,0	236 226,4

Source: *National Statistical Committee of the Kyrgyz Republic. (2022). Investments. Retrieved from http://stat.kg/en/statistics/investicii/*

Table 2. Structure of FDI Inflows by Territory for Q1 2021, 2021, Q1 2022.

	Inflow		Outflow			
	1Q2021	2021	1Q2022	1Q2021	2021	1Q2022
Total	112 090,5	1 006 091,2	277 982,7	479 106,7	779 878,5	283 629,5
Jalal-Abad region	70 194,0	359 833,3	39 579,4	31 711,0	87 848,8	238 944,4
Issyk-Kul region	298,0	5 843,9	27 394,0	328 186,9	150 020,0	456,8
Chui area	8 339,2	203 926,8	76 531,7	59 700,0	219 115,5	14 834,9
Talas region	-	81 845,5	41 643,0	1 708,7	1 300,4	4,3
Bishkek	31 890,8	329 551,1	87 734,6	56 470,7	285 102,7	28 001,4

Source: *National Statistical Committee of the Kyrgyz Republic. (2022). Investments. Retrieved from http://stat.kg/en/statistics/investicii/*

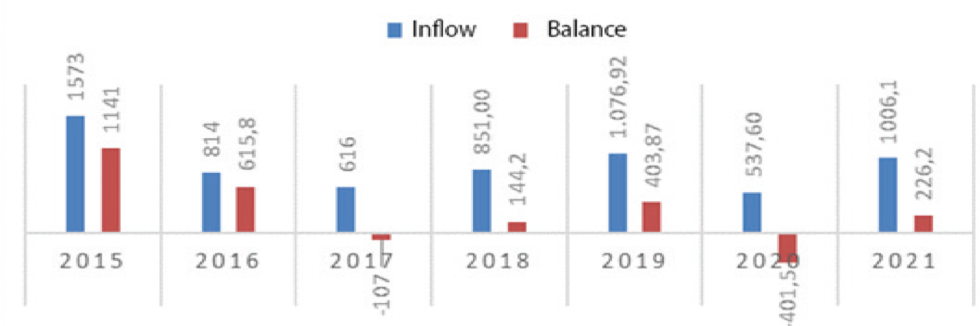
Table 3. Structure of FDI Inflows by Countries for 1Q2021, 2021, 1Q2022

	Inflow		Outflow			
	1Q2021	2021	1Q2022	1Q2021	2021	1Q2022
Total	112 090,5	1 006 091,2	277 982,7	479 106,7	779 878,5	283 629,5
China	53 117,8	334 738,6	75 360,6	93 916,3	303 614,3	25 493,2
Netherlands	10 901,8	64 888,9	24 410,9	14,6	16 174,9	1 452,3
Türkiye	16 060,0	237 912,5	20 017,0	8 092,3	72 998,5	234 192,8
Kazakhstan	8 162,2	65 619,8	12 187,5	3 178,4	31 776,7	3 042,6
Russian Federation	6 384,3	147 210,3	49 879,3	27 245,8	92 498,6	2 305,4

Source: *National Statistical Committee of the Kyrgyz Republic. (2022). Investments. Retrieved from http://stat.kg/en/statistics/investicii/*

The decrease in hydrocarbon prices on the global market, which led the main partners to decrease their investment activities in the Kyrgyz Republic, was the cause of the reduction in FDI in the country.

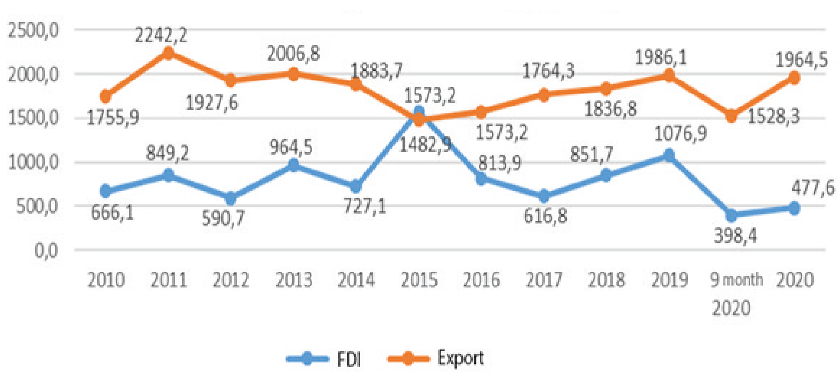
Figure 7. FDI Inflow and Balance



Source: *National Statistical Committee of the Kyrgyz Republic. (2022). Investments. Retrieved from http://stat.kg/en/statistics/investicii/*

FDI is currently concentrated mainly in the manufacturing industries of the mining industry, in the form of loans received, as well as reinvested profits from traditional countries -China, Canada and the United Kingdom, and the share of equity capital in them has an incomparably low share. The correlation of foreign direct investment with the exports is associated with the mining industry and export of precious metals.

Figure 8. FDI and Exports of the Kyrgyz Republic 2020



Source: *National Statistical Committee of the Kyrgyz Republic. (2022). Investments. Retrieved from http://stat.kg/en/statistics/investicii/*

High FDI performance in 2015 led to creation of the Russian-Kyrgyz Development Fund and attraction of infrastructure loans. But given inertia has a downtrend to date.

Exports depend on the dynamics of FDI flows, as they have a large share in the export of mining products. The reason for the decline in FDI inflows since 2015 is the large investments made by Türkiye, China and Russia, as well as the decrease in direct investment from Canada in the Kumtor gold mine. In 2015, FDI inflows into the country were the highest since early 1991, reaching $1,573 million.

One of the reasons for the reversal of FDI dynamics after 2015 is that countries such as China, Russia and Türkiye in 2015 invested the largest amount of financial resources they have ever invested since the independence of the Kyrgyz Republic.

In 2015, FDI from China amounted to $474 million, of which $250 million went to the Junda refinery project. Russia invested 515 million US dollars in 2015, of which 500 million US dollars were directed to the capitalization of the Russian-Kyrgyz Development Fund (RKDF). Türkiye invested US $111 million in 2015.

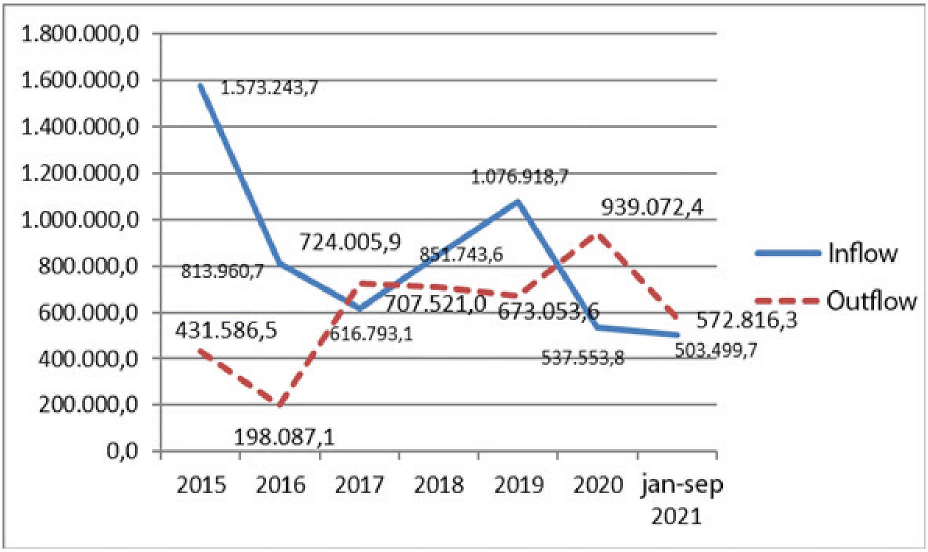
In 2015, 48% of the total FDI directed to two projects: the capitalization of the RKDF and the construction of the Junda plant.

In 2015, FDI inflows would have been only $10 million more than in 2016 without the implementation of these investment projects. It follows that half -or quarter- billion projects can significantly affect the dynamics of FDI inflows.

The decline in foreign direct investment from Canada due to a decrease in capital investment in the Kumtor gold mine was reflected in the dynamics of FDI inflows.

FDI from Canada declined sharply after 2016, at $5 million in 2017 and 2018. It is worth noting that, on average, FDI from Canada in the period from 2010 to 2016 per year were at the level of 188 million US dollars, which accounted for almost a quarter of FDI per year.

Figure 9. Investments



Source: *National Statistical Committee of the Kyrgyz Republic. (2022). Investments. Retrieved from http://stat.kg/en/statistics/investicii/*

Outflow of FDI

In 2018, the largest share in terms of FDI outflow was under the item "loans received" in the amount of USD 343.9 million, then "reinvested profits" in the amount of USD 156.1 million and "trade loans" in the amount of 105, 2 million USD, traditionally maintaining a low level of attraction of investments in the form of equity capital. Lending-based investment carries additional costs in the form of embedded country risks, transaction costs, price changes, and the impact of the repayment schedule of borrowed funds.

The outflow of the reinvested profit is also associated with the completion of the process of technical and financial expansion of enterprises, respectively, an outflow begins over time in particular, this has been observed since 2017 (2017-257.4 million USD; 2018-156.1 million USD, 2019-USD 80.7 million, 2020-USD 411.0 million).

In 2019, the outflow of foreign direct investment decreased. In 2020, there was a record increase in the outflow of FDI. The main outflow of foreign direct investment (more than 91%) was observed from the sphere of geological exploration, manufacturing, mining and construction.

The outflow of foreign direct investment to non-CIS countries increased, mainly due to the outflow to Switzerland, Korea, the UK, Germany and China.

The largest share in the total outflow of foreign direct investment accounted for China, the UK, South Korea and Switzerland. The outflow of FDI in the CIS countries had the largest historical volume in 2018 in the Russian Federation.

The largest volume of outflow of FDI is directed to:

- 507.35 million USD to countries outside the CIS, decreased by 21.5% compared to the same period in 2020, (share of the total outflow-88.6%);
- USD 65.45 million to the CIS countries, decreased by 9.8% compared to the same period in 2020 (the share of the total outflow is 11.4%).

The largest outflow of FDI is directed to the following countries:

1) China;

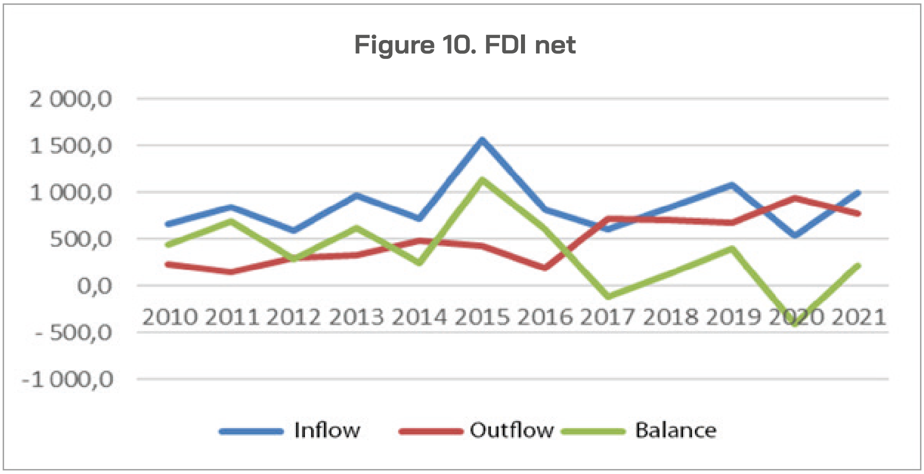
2) Türkiye;

3) Kazakhstan;

4) UK;

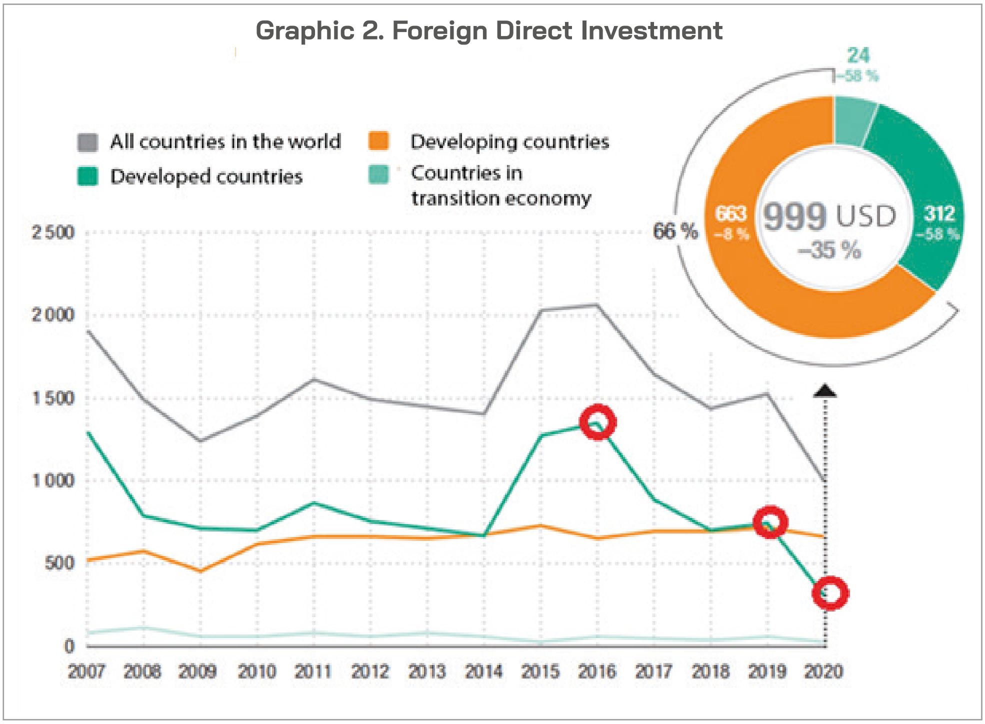
5) Russian Federation.

Net foreign direct investment in the period from 2010 to 2021 was as follows:



Source: *National Statistical Committee of the Kyrgyz Republic. (2022). Investments. Retrieved from http://stat.kg/en/statistics/investicii/*

FDI started to increase in 2020 in the country. But in transition economies, FDI fell by 58% in 2020 to $20 billion. In the Commonwealth of Independent States (CIS), where much of the investment is in the extractive industries, the coronavirus pandemic has exacerbated long-standing problems and economic vulnerabilities, such as a heavy reliance on investment in the extractive industries.



Source: *United Nations Conference on Trade and Development. (2022). World Investment Report 2022,1-220. Retrieved from https://unctad.org/system/files/official-document/wir2022_en.pdf*

FISCAL AND MONETARY POLICY OF THE KYRGYZ REPUBLIC

Fiscal Policy

Fiscal (fiscal) policy is the maneuvering of taxes and government spending in order to influence the economy.

The difficult situation of the economy predetermines fiscal policy aimed at stopping the decline in production and at stimulating production (for example, in the form of separate tax benefits for producers), at mobilizing financial resources for the purpose of their effective investment in certain sectors of the economy, in one hand and at containment of all social programs, reduction of defense spending, etc. on the other hand.

For the correct implementation of the tasks set for fiscal policy, a clear and deep approach to understanding the essence, goals and mechanism for implementing fiscal policy and its elements is required.

The successful implementation of economic reform is largely due to the achievement of financial stabilization. And this is primarily the result of a competent fiscal policy of the state.

Depending on the situation in the economy, there are two main areas of fiscal policy:

- stimulating fiscal policy;
- contractionary fiscal policy.

Kyrgyzstan, like other countries, underwent all stages of the development of fiscal policy.

The first Tax Code of the country was adopted and introduced in 1996, which was aimed at streamlining the interaction between economic entities and the tax system. This Code was a single legislative base in the country's taxation system. Prior to this, the Kyrgyz Republic was guided by the Laws of the Kyrgyz Republic "On the State Tax Service", "On the Basics of the Tax System of the Kyrgyz Republic", "On Taxes from the Population", "On Taxes from Enterprises, Associations and Organizations."

During tax reforms, it was necessary to ease the tax pressure by lowering tax rates and reducing the number of taxes, for example, from 16 taxes to 8 and several tax benefits were canceled.

Several stages of reforming the tax policy in Kyrgyzstan were as follows:

Stage 1. 1991-1995 a period of transformation, which is characterized by radical transformations of the entire socio-economic system, the transition to the creation of a market economy. At this stage, the process of forming the legislative base of the country's tax system begins;

Stage 2. 1996-2000 the period of the beginning of reforming the tax system, characterized by the process of developing the first Tax Code of the Kyrgyz Republic;

Stage 3. 2001-2005 a period characterized by the implementation of fundamental reforms, such as lowering rates, the abolition of a progressive differentiated system, etc.;

Stage 4. 2006-2008 the period during which the reforms of the tax system continue, the development and adoption of a new Tax Code of the Kyrgyz Republic, as a result of which the taxation system was already aimed at stimulating entrepreneurial activity;

Stage 5. 2009-to date a period characterized by the development and adoption of a new edition of the Tax Code of the Kyrgyz Republic (January 2022). This stage provides for the simplification of the tax system, making it understandable and stable. The result of modern tax policy should be the legalization of income of enterprises and the exit from the shadow sector of the country's economy.

The development of entrepreneurial activity is the main employer and locomotive in the development of the economy in the current realities. The main task of the state is to stimulate entrepreneurship, reduce the possibility of legal and illegal tax evasion. The consequence of this will be the solution of the problem of legal employment of the economically active population.

According to the Code, Kyrgyzstan has a general tax regime and special tax regimes. The country has national and local taxes.

National taxes are taxes that are obligatory for payment throughout the territory of the Kyrgyz Republic. These include:

1) Income tax;

2) Value added tax;

3) Sales tax;

4) Excise tax;

5) Taxes for the use of subsoil;

6) Income tax.

The current state of the taxation system, taking into account world trends and the flow of time, tries to actively implement innovative methods of interaction with taxpayers, creating at the same time equal conditions for conducting business activities and reducing the shadow economy in the country.

The purpose of the Tax Code, introduced by the Law of the Kyrgyz Republic "On the Implementation of the Tax Code of the Kyrgyz Republic" dated January 18, 2022, is to optimize tax administration, ensure the stability of the tax system, further improve the digitization of tax procedures, create equal conditions for conducting business and reduce shadow component of the economy.

The Code envisages two main approaches to taxation:

- general tax regime, which provides such basic taxes as profit tax, sales tax, value added tax (VAT) without a registration threshold. The general tax regime is applied to large business entities with a turnover of over 30 million soms;
- a simplified system of taxation based on a single tax. The simplified taxation system is applied to small and medium-sized enterprises with a turnover of less than 30 million soms. Thus, subjects applying this regime will be able to pay only one tax and submit one report on a quarterly basis.

MONETARY POLICY OF THE KYRGYZ REPUBLIC

The activity of the National Bank of the Kyrgyz Republic (NBKR) is aimed at achieving and maintaining price stability by means of the appropriate monetary policy. At the same time, the National Bank used a wide range of monetary policy instruments.

NBKR implements inflation targeting policy. The target orientation of the monetary policy was to keep inflation within the single-digit indicator in the medium-term period, indicated in the Statement of the National Bank of the Kyrgyz Republic on monetary policy for 2021.

In the reporting year, the main tasks of the National Bank in conducting monetary policy were limiting inflationary processes in the country and ensuring a balanced level of liquidity in the banking system in order to strengthen monetary and credit transmission.

The National Bank is working on improving the transmission mechanism of the monetary policy by improving the efficiency and flexibility of monetary instruments and maintaining conditions for the active functioning of the interbank money market.

Table 4. The Main Tasks of Monetary Policy of NBKR in 2021

Improvement of the interest channel of the transmission mechanism of monetary policy	Increasing the efficiency and flexibility of monetary policy instruments	Maintaining the activity of the interbank money market
Ensuring balanced liquidity in the banking system	Improvement of economic models in order to make strategic and tactical decisions in the field of monetary policy	Implementation of an active communication policy

Source: *The National Bank of the Kyrgyz Republic. (2021). The National Bank of the Kyrgyz Republic on monetary policy for the year 2022, 1-5. Retrieved from https://www.nbkr.kg/DOC/30122021/000000000057901.pdf*

The discount rate of the National Bank is the main instrument of monetary policy and serves as a benchmark for the value of funds on the money market. Decisions on the key rate were made according to the schedule of meetings of the Board of the NBKR for 2021 on the basis of a medium-term forecast of the development of the economy, by using methods of economic modeling.

The National Bank, along with the changes in the interest rate, also adjusted the limits of the interest corridor: The overnight deposit rate, which is the lower level, was increased from 2.75 to 5.50 percent, the overnight loan rate, which determined the upper limit, was increased from 5.75 to 8.50 percent.

In order to limit the monetary component of inflation, the National Bank regulates the level of excess liquidity in the banking system by conducting operations on the open market and placing the free resources of commercial banks on "overnight" deposits in the National Bank.

Withdrawal of excess liquidity from the banking system is carried out mainly at the expense of notes of the National Bank.

Operations on the Open Market

Notes of the National Bank were the main instrument used by the National Bank on the open market. Notes are discount securities of the National Bank of different maturities, placed on an auction basis for the purpose of regulating liquidity in the banking system. In the reporting period, the market of notes of the National Bank was represented by 7-, 14-, 28-, and 91-day notes.

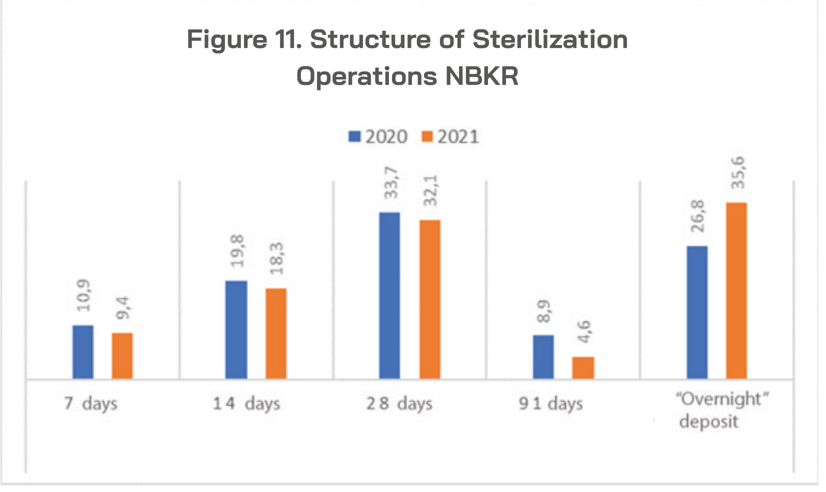
For 2021, the amount of notes offered by the National Bank amounted to 305.8 billion soms. At the same time, the volume of demand for notes amounted to 311.0 billion soms, which slightly increased compared to 2020 (307.2 billion soms). The total volume of note sales amounted to 280.2 billion soms, which is more than 1.3 percent of the indicator of 2020. The largest volume of sales came from National Bank notes with a circulation period of 28 days (34.7 percent). The volume of sales of notes with a circulation period of 7 and 14 days was 31.5 and 32.5 percent respectively, and for 91 daysas 1.3 percent.

The weighted average yield of NBKR notes was relatively stable during the reporting period, no significant fluctuations were observed, and the average weighted yield of notes increased to 5.7 percent, and the volume was 18.5 billion soms. The main holders of notes at the end of the reporting period were commercial banks (87.2 percent), institutional investors (11.6 percent), legal and natural persons-residents (1.2 percent).

Operations on the Interbank Money Market

The National Bank continued to take measures to strengthen the influence of the transmission mechanism on the rates of the money market. As a result, the short-term interest rates of the money market had a more structured character and demonstrated a general direction with the dynamics of the interest rate, which were within the interest rate corridor.

In the conditions of the predominance of short-term excess liquidity in the banking system, the money market was characterized by the highest activity of its participants in the short segment.



Source: *The National Bank of the Kyrgyz Republic. (2021). Structure of Sterilization Operations NBKR. Retrieved from https://www.nbkr.kg/index1.jsp?item=137&lang=RUS*

Credit Policy

In order to reduce temporary gaps in short-term som liquidity, "overnight" credits were provided to commercial banks within the current window of permanent access, the gross volume of which amounted to 20.8 billion soms in the reporting year.

In the conditions of the growth of excess reserves in the banking system in 2021, the National Bank limited operations to provide long-term som liquidity by means of refinancing instruments in order to contain inflationary pressure in the country.

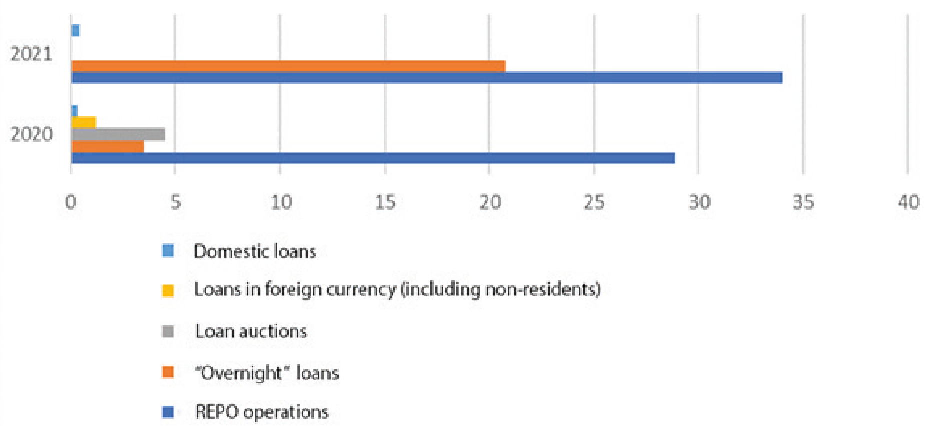
Communication Policy

Against the backdrop of rising inflationary expectations, the National Bank conducted a more active communication policy. At the same time, special attention was paid to highlighting the factors of inflation and potential risks of the development of the economic situation in the Kyrgyz Republic and in the trading partner countries.

Interbank Credit Market

The total volume of operations on the interbank credit market (including credits issued by the NBKR) amounted to 55.2 billion soms in 2021. The volume of repo operations amounted to 34.0 billion soms, the weighted average interest rate was 5.7 percent, the average weighted term of operations was 5 days, and the term of loans in foreign currency was 5 days.

Figure 12. Volume of Transactions on the Domestic Interbank Credit Market (Billion soms)



Source: *The National Bank of the Kyrgyz Republic. (2021). Volume of transactions on the domestic interbank credit market. Retrieved from https://www.nbkr.kg/index1.jsp?item=137&lang=RUS*

Market of Government Securities

In 2021, the Ministry of Finance of the Kyrgyz Republic did not hold auctions for placement of 3 and 6 month Treasury Bills. Thus, the short-term segment of the Central Bank was represented exclusively by State Securities with a maturity of 12 months. Since November 2021, the Ministry of Finance of the Kyrgyz Republic has for the first time issued Government Short-Term Bonds (GSTB) with terms of circulation of 15 and 20 years. At the end of the reporting year, Government Short-Term Bonds with a maturity of 2 to 20 years were in circulation.

Bank Refinancing Operations

Bank refinancing is one of the tools designed to maintain the liquidity of commercial banks and smooth fluctuations. Instruments of refinancing of the National Bank are represented by the following types:

- "intraday" credit provided in national currency on an interest-free basis during the operating day under collateral to increase the efficiency of the payment system;
- "overnight" credit provided in national currency per day on a paid basis under collateral security to maintain short-term liquidity of banks;
- 7-day credit provided in national currency for seven days on a paid basis under collateral for maintaining short-term liquidity;
- credit auctions for the purpose of refinancing and maintaining liquidity, conducted in national currency with the purpose of providing commercial banks with credit resources in national currency on a paid basis for maintaining liquidity and lending to individual sectors of the economy and regions;
- credit for maintaining liquidity, provided on a paid basis under collateral security for the purpose of protecting the integrity of the banking system, maintaining the liquidity of the bank and protecting the interests of depositors;
- credit provided to commercial banks in order to mitigate the negative effects of the COVID-19 pandemic;
- credit provided on a paid basis under collateral security to international organizations created by the Kyrgyz Republic together with other states within the framework of the EAEU;
- credit of last resort, provided in exceptional cases to commercial banks experiencing serious financial problems;
- credit provided to the Agency for the Protection of Deposits of the Kyrgyz Republic in order to ensure the financial stability of the deposit protection system of the Kyrgyz Republic, to protect the interests of depositors, to prevent systemic risk and to ensure the stability of the banking system.

The National Bank has limited holding of credit auctions against the backdrop of rising inflationary pressure in the Kyrgyz Republic. This measure is caused by maintaining a high level of excess liquidity in the banking system. At the same time, commercial banks were able to access of monetary policy instruments with permanent access tools -“intraday” credits and “overnight” credits. During the reporting period, the gross volume of “intraday” credits and “overnight” credits amounted to 401.2 million soms and 20,821.7 million soms, respectively.

Operations on the Domestic Currency Market

In 2021, the situation in the foreign exchange market worsened further due to spread of the coronavirus infection. The support measures taken via monetary and fiscal instruments in the leading economies of the world, for recovery of affected the global financial and commodity markets. Participation of the National Bank in foreign exchange auctions depended on the situation in the domestic foreign exchange market and was carried out within the framework of the current floating exchange rate regime.

Steady demand for foreign currency and pressure on the exchange rate determined the active participation of the National Bank in foreign exchange auctions.

Swap Transactions

The volume of swap transactions conducted by commercial banks both on the domestic market and with non-resident banks amounted to USD 1.4 billion. The National Bank did not conduct any swap operations in the period under review.

Mandatory Reserve Requirements

Mandatory reserve requirements (MRR) are one of the instruments of monetary regulation. MRR is the amount of money that commercial banks and microfinance companies that attract deposits are required to deposit in reserve assets on terms established by the National Bank.

The amount of required reserves for liabilities in foreign currency in the context of maintaining measures to de-dollarize the economy remained unchanged at the level of 14.0 percent.

The amount of MRR for liabilities in “som” and for liabilities in five currencies (the currencies of the EAEU member countries and the Chinese yuan) was kept at the level of 4.0 percent. The amount of required reserves for bank liabilities on unallocated precious metal accounts of customers remained the same -at the level of zero. The minimum threshold level of funds in the correspondent account with the National Bank for commercial banks to perform MRR on a daily basis has been maintained at the level of 70.0 percent of the amount of the bank’s required reserves determined for the corresponding period.

International Reserve Management

According to the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic, banks and banking activities", the National Bank independently forms, owns and manages all international reserves, taking into account liquidity priorities and ensuring their safety.

The volume of gross international reserves at the end of 2021 amounted to the equivalent of USD 2,977.6 million, having increased by USD 169.5 million or 6.0 percent over the year. The composition of the international reserves of the National Bank includes assets in gold, Special Drawing Rights (SDR) and a portfolio of foreign currencies.

Table 5. Structure of International Reserves (at the End of the Period) (Percentage)

	2020	2021
Currency portfolio	59,3	67,5
Gold	36,2	19,9
Special Drawing Rights	4,5	12,6

Source: *The National Bank of the Kyrgyz Republic. (2021). Structure of international reserves (at the end of the period). Retrieved from https://www.nbkr.kg/index1.jsp?item=137&lang=RUS*

The foreign exchange portfolio of international reserves in 2021 included Australian dollars, British pounds sterling, US dollars, euros, Canadian dollars, Chinese yuans, Russian rubles, Singapore dollars, Swiss francs, South Korean wons, Japanese yens, as well as other currencies for servicing transactions Cabinet of Ministers of the Kyrgyz Republic.

The counterparties of the National Bank are central banks, international financial institutions and foreign commercial banks. In order to maintain the required level of liquidity, as well as to improve the efficiency of managing international reserves, work with reserve assets was carried out on a portfolio basis. The division of currency portfolios into working and investment ones ensured the maintenance of the optimal level of profitability of reserves. The assets of the working portfolio were placed in the most liquid instruments and used for operations in the domestic interbank foreign exchange market, as well as for payments by the National Bank and the Cabinet of Ministers of the Kyrgyz Republic in foreign currency, including servicing the state external debt. The investment portfolio was managed in accordance with the approved reference portfolio of international reserves. The National Bank placed international reserves in securities and term deposits. The securities portfolio included government securities of certain countries, short-term and medium-term investment instruments of international financial institutions.

Term deposits were placed in international financial institutions, foreign central and commercial banks with a high international rating.

The monetary policy pursued in 2021 helped curb inflationary processes in the country amid the negative impact of external imbalances. Inflation was mainly due to non-monetary factors, the main of which was the rise in prices in the world food markets. Price volatility for basic food commodities has been high throughout 2021, with food inflation accelerating most sharply in the middle of the year.

According to the National Statistical Committee of the Kyrgyz Republic, in 2021, the overall level of consumer prices in annual terms (December 2021 to December 2020) increased by 11.2 percent. At the same time, the average annual inflation for the period from 2019 to 2021 amounted to 6.5 percent and was within the medium-term target of the National Bank.

At the end of 20211, the M2X monetary aggregate (broad money supply, including deposits in foreign currency) increased by 19.1 percent to KGS 339.8 billion. The main impact on the increase in this indicator was the growth of deposits by 33.4 percent, including an increase in deposits in the national currency -by 35.2 percent and deposits in foreign currency- by 30.9 percent. The indicator of money outside banks practically did not change during the reporting year, having increased by 0.5 percent. The broad money supply in the national currency (M2 monetary aggregate) increased by 15.6 percent, to KGS 253.2 billion as of the end of 2021.

REGIONAL AND NATIONAL MEGAPROJECTS AFFECTING THE ECONOMY OF KYRGYZSTAN

"Kumtor" Gold Mine

One of the major projects that has a significant impact on the economy is the operation of the Kumtor gold mine.

The Kumtor gold deposit was discovered in 1978, and a feasibility study (FS) for the development of the deposit was prepared by "GINALMAZZOLOTO" of the Main Department of Precious Metals and Diamonds under the Council of Ministers of the USSR in 1989. However, the development of the deposit was delayed due to the high cost of the project -995.4 million Soviet rubles (about 1.46 billion USD at that time).

After gaining independence, the country got the opportunity to attract foreign investment in the development of the country's mineral deposits. The proposals of several investors were reviewed. Finally, the government gave preference to the proposal of the Canadian corporation Cameco, one of the world's largest uranium producers. On December 4, 1992, the parties signed the General Agreement on the Kumtorzoloto project in Toronto.

On April 4, 2022, an agreement was signed with Centerra Gold Inc. involving the transfer of the Kumtor deposit to Kyrgyzstan. President of the Kyrgyz Republic S.N. Zhaparov called this event historical. One of the key points of the agreement was the transfer of a 26% shares of "Centerra", owned by Kyrgyzaltyn OJSC, to a Canadian company.

President of the Kyrgyz Republic S.N. Zhaparov called the terms of the agreement the most optimal and beneficial for the interests of the state "taking into account the current global crisis and the state of Kyrgyzstan." At the end of March 2022, the Cabinet of Ministers approved a draft agreement on the global settlement of mutual claims between Kyrgyzstan and the Canadian company Centerra Gold Inc. at the Kumtor gold deposit.

At the end of July 2022, the procedure for the exchange of documents confirming the process of transferring Kumtor to the ownership of Kyrgyzstan took place at the Embassy of the Kyrgyz Republic in the UK. On the territory of the embassy, in the presence of international legal representatives of the parties and an escrow agent, a full package of legal documents was handed over, including all necessary deeds of transfer, powers of attorney and certificates for registration of a complete transfer of ownership of 100 percent of the shares of Kumtor Gold Company and Kumtor Operating Company in favor of Kyrgyzaltyn OJSC.

Kyrgyzstan was recognized as the owner of the gold produced at the mine since May 15, 2021. Centerra Company pays a dividend of approximately $11 million. Kyrgyzstan takes over the management of the Kumtor reclamation fund. Centerra terminates all lawsuits initiated against the Kyrgyz side: In the United States (terminated on July 27), Sweden and Canada (letters of withdrawal of claims sent on July 28).

In 2022, Kyrgyzstan plans to receive an income of $500 million from the Kumtor gold mine. Over the past 20 years of operation of the enterprise, the country received only symbolic dividends, while in the seven months of 2021, profit from Kumtor amounted to $323 million. This mine is estimated at $3 billion according to the most conservative estimates. According to experts, in the next 10 years, Kyrgyzstan will receive $5 billion in profit from Kumtor, having produced 160-200 tons of gold.

In 2020, 14.5 billion soms were transferred to the state budget in the form of taxes and mandatory payments. At the end of 2020, the mine generated a profit of

USD 981.6 million, a profit from production activities was received in the amount of USD 394.4 million, and 17.7 tons of gold were sold.

One of the key points of the agreement was the transfer of a 26% share in Centerra, owned by Kyrgyzaltyn OJSC, to a Canadian company.

Kyrgyz-Chinese-Uzbek Railway

The China-Kyrgyzstan-Uzbekistan railway project was discussed even before Chinese President Xi Jinping outlined his vision for the One Belt, One Road initiative. Once the project is implemented, it will link a new trade route through the port of Alyat (Azerbaijan) to the Baku-Tbilisi-Kars railway and access to the Persian Gulf. Despite negotiations that have been going on for a quarter of a century, the problems remain the same: The difficult and mountainous terrain, the lack of investment and the lack of a clear idea on how to make this railroad pay off.

Before talking about the possibility of Uzbekistan investing in the construction of the railway, Kyrgyzstan promoted the idea of Russia's participation in the project as a partner. Former President of Kyrgyzstan S.Sh. Jeenbekov stated that the issue of Moscow's participation was discussed in the "3 + 1" format after Russia undertook to conduct a feasibility study worth $3 million. In April 2020, Russian Foreign Minister Sergei Lavrov said at a forum hosted by the Russian government that Moscow, Beijing and Bishkek were "developing a common approach to developing Kyrgyzstan's railway network." This network will become "not just a transit point for moving to Uzbekistan, but will pass through the settlements [of Kyrgyzstan] and thereby help create parallel production and economic opportunities."

There is interest in the North-South route, partly due to congestion at the Polish-Belarusian border, freight carriers will eventually have a choice. The railway will significantly reduce time and make the route through Uzbekistan competitive and attractive for major players involved in international trade. Uzbekistan and Azerbaijan are interested in the construction of this railway.

To build the China-Kyrgyzstan-Uzbekistan railway on its own resources will be associated with additional costs, and worsen external public debt situation of the country.

In June 2021, the state media of China and Uzbekistan opened a combined line, linking the three countries. The first train launched on the new route delivered 230 tons of electrical appliances to the Sino-Kyrgyz border, where they were loaded onto trucks, which then headed to the Uzbek border, where the goods were reloaded onto trains. On the return, the train brought more than 500 tons of Uzbek cotton fabric.

The construction and development of new railway routes is a statement of the Kyrgyz Republic in the field of railway transport in the region and a real step towards a gradual increase in the competitiveness of the transport complex of Kyrgyzstan. At present, a group of specialists from China is carrying out research work related to the construction of the railway.

The construction of this railway line by Kyrgyzstan will allow:

- to expand opportunities for realizing the country's export potential;
- to create a transit overland communication in the direction of Asia-Europe;
- significantly reduce the distance of transportation of export-import goods;
- to increase cultural and economic exchange between the countries-participants of the project.

Preliminary feasibility study data show that the construction will take place in upper lands with high-altitude areas. Due to the difficult mountainous terrain, 48 tunnels with a total length of 48.9 km will have to be drilled. Among them are Fergana (14.1 km), Torugart (3.4 km), Kurshab (1.7 km). It will also require the construction of such large engineering structures as bridges, sidings, precinct and transfer stations. The track gauge in Kyrgyzstan and China is different: 1520 mm and 1435 mm respectively. Therefore, in the area of the Tuz-Bel pass, Kyrgyzstan insists on building a station where wagons will be rearranged from gauge to gauge, cargo will be weighed, trains will be formed, and containers will be sorted.

The Kyrgyz Republic is ready to take decisive action to increase the volume of trade. Today, projects for the construction of logistics centers near the Kyrgyz-Uzbek borders are in the active implementation phase. Particular attention is paid to the construction and launch of a trade and logistics center in the city of Kyzyl-Kiya, linking the Fergana and Batken regions. The relevant state bodies agreed on almost all issues on the implementation of the China-Kyrgyzstan-Uzbekistan railway construction project, which will connect us with the countries of South Asia. In the future, must actively use the transport potential of this highway.

National Holding "Heritage of the Great Nomads"

In December 2021, National Holding Company "Heritage of the Great Nomads", JSC was formed with 100% of the shares belonging to the state.

The holding will receive unused mines for development without undergoing competitive process. To this end, in August 2021, amendments were adopted to the subsoil law, according to which companies with 100% state participation will receive plots without a tender. In the future, company should enter the stock market to raise funds independently.

The National Holding "Heritage of the Great Nomads" intends to implement more than 30 major projects in the mining industry, hydropower, education, tourism and other areas. The authorized capital will amount to more than 180 million US dollars, and the budget is approved in the amount of 282 million dollars. So far, a number of projects are being implemented by holding, including geological exploration of 4 out of 12 mine deposits.

JSC "Kyrgyzindustriya"

In the established joint-stock company, the sole shareholder of the company is the state. One of the main tasks of establishing a company is the efficient and transparent distribution of funds from the activities of subsidiaries and own activities through the annual and quarterly reports. Also, the main goal and task of the enterprise OJSC "Kyrgyzindustriya" is to revive and literally recover the country's industry.

Selection of financing for economic development projects throughout the country will be carried out in the competitive process. As a result, jobs are expected to be created in the following categories:

- 30 projects of national level significance;
- 300 projects of regional and city level importance;
- 3000 projects of local level importance (districts, settlements and so on).

The activity covers industry, mainly factory and plant and using machine technology, light industry, heavy industry, manufacturing means of production -metal processing and mechanical engineering. Currently, more than 30 business plans for the development of industry developed. It is planned to develop more than 130 business projects for the construction and development of enterprises in the country.

In Kyrgyzstan, in recent years, the industry has declined, many plants, factories and enterprises have closed, although some are working, they are "afloat." Industry is a branch of the national economy, a field of activity, a sector of the economy, including the production and marketing of goods and services, as well as covering related sectors and the consumer audience. The activity covers industry, mainly factory and plant and using machine technology, light industry, heavy industry, manufacturing means of production -metal processing and mechanical engineering. Currently, more than 30 business plans for the development of industry and industry of the country have been developed. Plans to develop more than 130 business projects for the construction and development of enterprises in the country JSC, "Kyrgyzindustriya" promptly and independently carries out activities to attract investment, interacts with international corporations. The presence of a single shareholder represented by the state gives citizens and investors guarantees of successful development and reduces risks.

FUTURE POTENTIAL AREAS OF COOPERATION WITH OTHER TURKIC STATES

Climate Agenda

At the 15th meeting of the UN Convention on Biological Diversity (CO-15), Kyrgyzstan stated it takes an active position regarding the sustainable development of mountainous countries and the impact of climate change. Kyrgyzstan made a proposal to declare 2022 the International Year of Mountains at the 76th session of the UN General Assembly, and to hold the Bishkek+25 Global Summit in 2027.

Adaptation to the consequences of climate change is a task of particular importance for Kyrgyzstan and the Turkic States. The solution is possible only with the full realization of the potential of regional cooperation and interaction. Climate change affects the state of water resources, the melting of glaciers.

Water resources are at the heart of the Sustainable Development Goals, and sustainable development at all levels depends on water security. This initiative is expected to be supported by the fraternal Turkic States.

To ensure energy security, Kyrgyzstan intends to implement a number of projects for the construction of hydroelectric power stations on its territory, which are environmentally friendly sources of energy. Access to modern, clean and affordable energy services in developing countries is critical to achieving the global development goals set out in the 2030 Sustainable Development Goals (Goal 7: Affordable and clean energy).

The implementation of hydropower projects in Kyrgyzstan will satisfy the needs of the countries of Central Asia in hydropower, thereby creating favorable conditions for the sustainable development of the entire region. In this regard, the Kyrgyz Republic is directly involved in the implementation of the CASA-1000 project.

At the same time, the absence of an energy alternative in the domestic market of the country may have negative consequences due to the gradual depletion of traditional energy sources, an increase in the cost of capital investments in the construction of generating capacities in the tightened environmental requirements.

In this regard, there is a need to use alternative, efficient and economical ways of energy supply. One such method is the development of small and medium-sized energy and other renewable energy sources.

For this purpose, the Kyrgyz Republic is interested in further development of cooperation in the field of direct investment in the energy sector, the construction of hydroelectric power plants and the development of renewable energy sources. Country is ready to discuss the participation of all interested Turkic States in these areas.

Digital Platform

The potential for cooperation with the Turkic States lies in the joint implementation of the digital agenda. It is important to comprehensively develop education about security and risks at all levels in the context of the digitalization of society, to form a "healthy digital culture" among the population, and also to use the potential of young people through the development of start-up projects and business incubators in the digital economy. The Turkic States can jointly unify transport, customs digital systems, security systems, as well as conduct trainings in this direction

World Pandemic

Coronovirus infection COVID-19, the spread of other types of viral infections remain the most dangerous phenomenon of our time, their consequences cause irreparable losses to people living on the planet.

The global pandemic tested the strength and unity of the Turkic World. The result of the joint led to solidarity of our Turkic people, who came to the aid of each other in difficult times, who managed to overcome this test together and unitedly. Merit in overcoming these difficulties belongs to the leaders of all member states of the Organization of Turkic States.

Security in the Region

At present, the global geopolitical situation continues to remain tense.

First of all, it is deeply connected with Afghanistan and border issues between Kyrgyzstan and Tajikistan. This situation is of concern to the countries of Central Asia. Kyrgyzstan adheres to the position that all issues should be resolved peacefully and diplomatically.

Turkic Investment Fund

Kyrgyzstan initiates the idea of creating a platform called "Central Asian region of the world" for the Turkic World as a whole and the international community. The Central Asian region is considered the leading region in the world in terms of demographics.

The Organization of Turkic States, along with the discussion of political, trade, economic, cultural, humanitarian, social and humanitarian issues, opens up great opportunities for improving our relations and contacts, multilateral relations, and provides an excellent platform in the international arena. The Turkic Investment Fund, initiated by the Organization of Turkic States and supported by Kyrgyz Republic today, will become a real instrument of our mutual economic relations and play a great role as a mechanism for the implementation of bilateral and multilateral projects.

World Nomad Games

The World Nomad Games, were held in Kyrgyzstan and Türkiye. This game is a vivid example of the symbiosis of national identity, which was expressed in the general unity of the Turkic peoples, with the popularization of their culture, originality to the whole world. Further development and popularization of Turkic culture will spread soft power, which is interconnected with the economic aspects of development. This platform needs to be expanded as an initiative for recognition in the world in terms of tourism, cultural orientation, together with other Turkic States.

The coronavirus pandemic prevented the 4th World Nomad Games in 2021 to be held in Türkiye, it was planned to organize the games jointly with the 8th "Organization of Turkic States" Summit. By decision of the Turkish side, the IV World Nomad Games were held in the city of Iznik, Türkiye from September 29 to October 2, 2022.

THE IMPACT OF CULTURE ON THE ECONOMY OF THE KYRGYZ REPUBLIC

GDP average growth rate was 4.4% during 2000-2019. This allowed the country to reach category of lower middle income category by 2014. Three decades ago, after the collapse of the Soviet Union, Kyrgyzstan was one of the poorest countries in Central Asia. The opening up of the economy, the reduction of state control, and the deregulation of markets led to a reallocation of resources from agriculture in rural areas to services in urban centers. The structural shift from agriculture to the service sector boosted productivity and increased labor incomes, although the opportunity to reap the benefits of redistributing factors of production was exhausted by the end of the millennium as the growth curve of urbanization flattened and labor migration out of the country swallowed up the surplus agricultural labor force. Economic growth was supported by favorable terms of trade amid high commodity prices. On the supply side, growth was driven by commodity exports (gold) and the expansion of non-tradable sectors (services and construction). On the demand side, GDP growth was supported by remittances from labor migrants and household consumption. Economic growth has helped improve the well-being of the population: The poverty rate has fallen by 50% (from 60% in 2000 to 30% in 2010), but since then there has been little reduction in the number of the poor.

The Kyrgyz economy is characterized by low degree of diversification and is dependent on commodity exports. Gold provided 8% of GDP, 36% of exports and 25% of government revenue. In addition, there is only one gold mine, and it is planned to stop mining in a few years. The Kyrgyz Republic is also among the countries of the world most dependent on remittances from labor migrants.

The economic approach allowed Kyrgyzstan to enter the category of countries with lower middle income. However, it is not a sufficient tool for further lifting the country up the income ladder. Economic growth in the country was mainly driven by the accumulation of factors of production (mainly capital growth) and, to a very small extent, by the growth of total factor productivity (TFP).

The main contribution to economic growth was made by capital accumulation (49%), while the contribution of labor and human capital averaged 38%. The contribution of total factor productivity to economic growth in 2000-2019 was only 13%.

To open a new era of faster and more sustainable economic growth, country needs to strengthen the development of the private sector so that it supports economic diversification and increased productivity.

Devirsification of the economy is envisaged to fit into the cultural component of the Kyrgyz people. These areas are related to the green economy, climate finance -living in harmony between man and nature, attracting climate finance, the religion of Islam- in terms of developing the basis for Islamic finance and investment, creative economy -the nomadic traditions of Kyrgyzstan.

Green Economy

The state policy framework of the republic contributes to the development of a green economy. It stimulates private sector in the transition to green business principles. The state policy agenda envisages:

- involvement of mass media, especially state and public media, to raise awareness of business and the population, and promote green agenda to serve formation of responsible environmental consciousness and change the culture of thinking;
- providing activities to raise awareness of the private sector for introducing green practices through special training structures focusing on the regions;
- revision of state standards and construction codes and regulations of the Soviet period, which are outdated and create a barrier to the application of green economy principles in terms of energy efficiency and energy saving in the construction sector;
- promotion of green fiscal measures in the new edition of the Tax Code of the Kyrgyz Republic and development of mechanisms for their implementation by the participation of the private sector;
- ensuring the sustainability and continuity of the state policy to promote green economy principles, including issues in the energy and agriculture sectors;
- promotion of data-based measures for the development green economy;
- promotion of potential green measures to support sustainable business on the EAEU area;
- activation of processes to attract sustainable financing in the Kyrgyz Republic, including the creation of green financial corporation;
- development of a green taxonomy to attract green funding in the Kyrgyz Republic;
- Consolidation of efforts and activation of the participation of the private sector in the development of measures for adaptation to climate change and development of a sustainable private sector;
- development of financial instruments and involvement of the financial sector in the implementation of the climate agenda and the green economy.

Fundamentals for Islamic Finance and Investing

JSC "EcoIslamicBank" commercial bank and an Islamic financing window operate in the country, based on Islamic principles of financing. The funding of commercial structures is not based on the interbank liquidity market, but is carried out independently, which requires further organization of interaction, including the framework of the Turkic States.

Creating a basis for attracting Islamic investments on the basis of an investment company and investing in the real sector of the economy is currently under review. Currently, "Ijara" leasing company, operates in the republic based on Islamic principles of financing.

Creative Economy-Nomadic Traditions of Kyrgyzstan

A vivid example of the implementation of the creative economy of Kyrgyzstan in the segment of children's creative content is presented by the "D Billions" team, a musical band that performs children's songs on various topics and publishes its content on international platforms. The musical group has three YouTube channels in Russian, English and Spanish. All new songs are published on Spotify, Amazon, iTunes, Apple Music, Deezer, Yandex.Music, "Vkontakte" and TikTok platforms. The English language channel has over 18 million subscribers and over 5 billion views. The first video for the English-language segment of YouTube was published on August 9, 2019 and has collected 25 million views so far. Thanks to the colorful picture and perky music, D Billions videos have earned huge popularity among preschoolers.

INFORMATION ON COOPERATION BETWEEN KYRGYZSTAN AND OTHER TURKIC STATES

Following the results of the Eighth Summit of the Heads of State of the Cooperation Council of Turkic Speaking States (CCTS), the presidents of the participating countries decided to sign the final document-"Turkic World Vision-2040" on November 12, 2021, in Istanbul.

The main goal of the concept is the creation of prosperous societies in the Turkic States. Nevertheless, this concept goes beyond economic integration as it focuses on various areas of good governance such as support for economic and social reforms, rule of law, inclusive structures, transparency, efficiency, gender equality, accountability and anti-corruption.

The vision of the Turkic World-2040 is a strategic document, which is a so-called roadmap for deepening cooperation between the Turkic-speaking states for the next two decades in priority areas, in particular in the field of security, transport and customs, information and communication technologies, energy, tourism, healthcare, environment, agriculture, culture, education and science, youth and sports, work with diasporas, etc. The implementation of the directions laid down in this document will influence the comprehensive deepening of relations between the participating countries.

According to the National Statistical Committee of the Kyrgyz Republic in 2021, the volume of foreign trade turnover of the Kyrgyz Republic amounted to 7229.1 million dollars and increased by 27.0% compared to 2020.

The export of Kyrgyzstan amounted to 1658.9 million dollars and decreased by 15.9%, without gold, exports amounted to 1350.9 million dollars and increased by 37%, imports amounted to 5570.1 million dollars and increased by 49.8%.

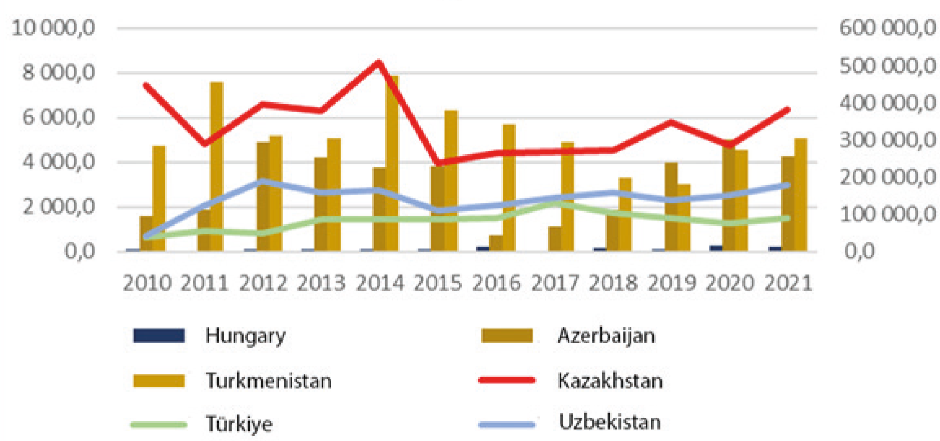
Table 6. Foreign and Mutual Trade of the Kyrgyz Republic by Countries for January-December 2021. Million Dollars

Country name Trade turn-over	January-December 2020				January-December 2021				Growth rate 2021 to 2020			
	Export	Import	Balance	Trade turn-over	Export	Import	Balance	Trade turnover (%)	Export (%)	Import (%)	Balance (%)	
Kazakhstan	809,5	285,9	523,6	-237,7	1059,5	374,7	684,8	-310,0	130,9	131,1	130,8	130,5
Uzbekistan	341,9	152,9	189,0	-36,1	496,9	180,1	316,8	-136,6	145,3	117,8	167,6	378,6
Turkmenistan	11,8	4,6	7,2	-2,6	37,8	5,1	32,8	-27,7	321,6	111,0	455,1	1050,6
Azerbaijan	6,9	5,0	1,9	3,1	9,9	4,3	5,6	-1,3	142,5	84,9	294,8	-42,8
Türkiye	269,6	74,7	194,9	-120,2	412,2	90,6	321,6	-230,9	152,9	121,4	165,0	192,1

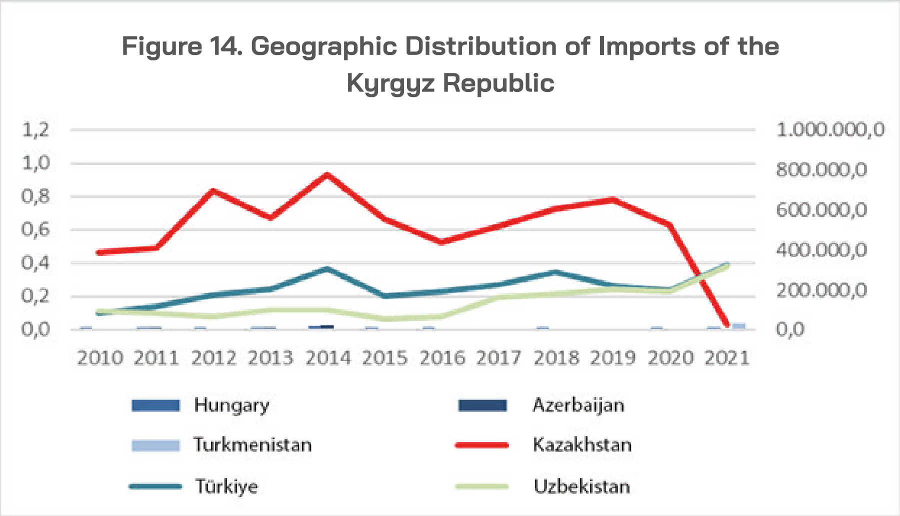
Source: *Ministry of Economy and Commerce of the Kyrgyz Republic. (2022). Foreign and mutual trade of the Kyrgyz Republic by countries for January-December 2021. Retrieved from https://mineconom.gov.kg/ru/direct/13*

The largest shares of the country's trade turnover fall on Kazakhstan, Uzbekistan and Türkiye, at the same time, the Republic of Türkiye and Kazakhstan are active in investment projects of Kyrgyzstan in the field of mining, communications, banking, etc.

Figure 13. Geographic Distribution of Exports of the Kyrgyz Republic



Source: *National Statistical Committee of the Kyrgyz Republic. (2022). Geographic distribution of exports of the Kyrgyz Republic. Retrieved from http://www.stat.kg/ru/statistics/vneshneekonomicheskaya-deyatelnost/*



Source: *National Statistical Committee of the Kyrgyz Republic. (2022). Geographic distribution of imports of the Kyrgyz Republic. Retrieved from http://www.stat.kg/ru/statistics/vneshneekonomicheskaya-deyatelnost/*

At the Fourth Consultative Meeting of the Heads of State of Central Asia, the Heads of State also decided to approve the Concept of Interaction between the States of Central Asia within the framework of multilateral formats, as well as the Regional Green Agenda Program for Central Asia and the Roadmap for the Development of Regional Cooperation for 2022-2024.

In relations with the Turkic States, Kyrgyzstan adheres to partnership. The strategic partnership, includes broad areas of interaction, such as logistics, agriculture, hydropower, mining, tourism and IT.

Kyrgyzstan-Uzbekistan relations covered following areas for 2021-2022:

- Export to Uzbekistan of dairy, meat and leather products, cattle and potatoes;
- In September 2022, following a business forum, entrepreneurs from Kyrgyzstan and Uzbekistan signed 11 contracts amounting for more than $10.3 million. Agreement was signed between SPZ-Bearings JV and Kyrgyz Wind System OJSC for the supply of bearings to Kyrgyzstan. The contract was signed for a year, with amount of $2 million. Hyundai Elevators Kyrgyzstan, as part of the agreements reached with Tashpulat Stroy Invest LLC, agreed to supply elevator equipment to Uzbekistan for $1 million, and the Uzbek company, in turn, exports building materials to the Kyrgyz Republic for the same amount.
- Mental arithmetic school of the Academy of Growth network, which is popular in Kyrgyzstan, is opening in Samarkand region. This was made possible thanks to the agreement with ALSAEDA LLC.

- A preliminary agreement was reached on the construction of a cottage boarding house on the shores of Lake “Issyk-Kul.” Tashpulat Stroy Invest LLC to become a private investor.
- International Business Forum “Dialogue of Women Entrepreneurs of the Kyrgyzstan-Uzbekistan” was held in September 2022, in Bishkek, attended by more than 100 entrepreneurs from the two countries.
- In bilateral relations, the issue of creating a multimodal transport and logistics corridor “China-Kyrgyzstan/Tajikistan-Uzbekistan-Turkmenistan-Iran-Türkiye-Europe” is under review. The Uzbek side proposed to simplify the processes of crossing checkpoints in Central Asia. Today, testing of the E-PERMIT electronic system with Türkiye already began and the use of the E-TIR electronic book with Kazakhstan fully introduced.
- Uzbekistan and Kyrgyzstan are planning to open a joint venture for the production of “smart” meters in cooperation with the Energy Company for production of electricity metering devices “Uzelectroapparat-Electroshield” and JSC “Regional Electric Networks.”
- Kyrgyzstan plans to launch a joint tourism project with Uzbekistan.
- Pilot launch of a container train started along the new transit route Kashgar-Osh-Andijan-Galaba-Khairatan (China-Kyrgyzstan-Uzbekistan-Afghanistan) in September 2022.
- In 2023, it is planned to start construction of the China-Kyrgyzstan-Uzbekistan railway.
- A project for the construction of the Kambar-Ata HPP-1 was discussed between Kyrgyzstan and Uzbekistan and an agreement was signed on the joint preparation of an investment project.
- Head of the Cabinet proposed to create joint ventures, livestock clusters, logistics centers and a free economic zone in the border area.
- Within the framework of the Uzbek-Kyrgyz Development Fund, the following are proposed for implementation: Construction of a trade and logistics center for border trade in the city of Kyzyl-Kiya, construction of the Irkeshtam-Daraot-Korgon-Uch-Korgon highway, connecting this center with the multimodal transport corridor China-Kyrgyzstan-Uzbekistan.
- Uzbek businesswomen plan to produce basalt fiber in Kyrgyzstan.
- Production of textile buckles in the Jalal-Abad region, the establishment of cooperation in the pharmaceutical industry, hydropower and other promising areas of cooperation are considered at the meetings of entrepreneurs.

- The capital of the Uzbek-Kyrgyz Development Fund is planned to be increased to $200 million.
- Uzbekistan financed the construction of a school in the Batken region for $3.5 million.

The following directions took place in Kyrgyzstan-Türkiye relations for 2021-2022:

- It is planned to open a new textile factory in 2023 on the basis of an old enterprise -the former Kara-Balta Carpet Factory. The project will be implemented by Dekna Bishkek Textile with an investment of $25 million. The investor invested about $400,000 in the construction of the factory. The future enterprise is unique due to the cluster approach, as it involves almost waste-free production by processing waste from the finished textile fabric into threads and further materials for fabrics. Based on the results of the launch of the first stage, it is planned to expand the activities of the enterprise and create a whole textile cluster.
- The Turkish group of companies OSTIM are implementing renewable energy projects in Kyrgyzstan in the field of renewable energy sources and environmental technologies, united in the OSTIM Enerjik Cluster.
- Across the Kyrgyz Republic, 789 hectares transformed to create industrial zones. The head of the Cabinet of Ministers of the Kyrgyz Republic called on Turkish investors to invest in them in order to create industrial clusters based on the experience of Türkiye.
- Cooperation is underway by Turkish companies to invest in Kyrgyzstan for wind and solar.
- Turkish Company plans to build a plant for the production of hybrid walls in Kyrgyzstan.
- It is planned to train personnel, increase the export of Kyrgyz agricultural products to Türkiye by reducing customs duties on the main products (meat, honey, beans).
- The Cabinet of Ministers of the Kyrgyz Republic has taken measures to attract foreign investment in projects in the field of hydropower, tourism, agriculture and other areas. The management of ASKON expressed interest in a trip to Kyrgyzstan to study the conditions for opening an enterprise. ASKON Entrepreneurs Association is an organization of Turkish entrepreneurs, uniting 9 thousand people and 20 thousand companies. The Association is headquartered in Istanbul, with representation in 34 different cities in Anatolia region and offices in major cities around the world such as Brussels, New York, Beijing, Jeddah and Jakarta.

- As part of a visit to the largest Turkic plant of the company Sasa in Adana, JSC Kyrgyzindustria proposed Mehmet Sheker, a member of the board of Erdemoglu holding, to create a joint venture for the production of hosiery products in Kyrgyzstan.
- In Malatya, the Kyrgyz side proposed to promote the export of Batken apricot.
- Creating a Turkish-Kyrgyz Development Fund was discussed at the level of the Minister of Finance of Türkiye and the Embassy of Türkiye in Kyrgyzstan.
- The Union of Contractors of Türkiye, whose members are the largest Turkish construction companies that carry out the construction of such facilities as roads, tunnels, hydroelectric power plants, hospitals, government agencies, airports both in Türkiye and abroad, equipped with the latest technology and using the latest technologies in their production expressed interest in expanding the activities of Turkish companies in the regions of Kyrgyzstan in order to implement joint projects for the construction of strategic facilities.
- The Ministry of Internal Affairs of Türkiye provides Kyrgyzstan with technical assistance in personnel training.
- Türkiye proposed to open an industrial production zone and a Kyrgyz-Turkish Development Institute.
- A decision was made to liberalize bilateral and transit traffic by amending the "Land Transportation Agreement" signed between Türkiye and Kyrgyzstan in 1992, a legal liberalization process was initiated and a protocol to amend the agreement was initialed.
- A Turkish company plans to build a waste processing plant in Osh and Bishkek.
- Implemented social projects include the construction of the Kyrgyz-Turkish Hospital "Friendship" in Bishkek.

The following directions took place in Kyrgyzstan-Azerbaijan relations for 2021-2022:

- Within the framework of the state visit of the President of Azerbaijan Ilham Aliyev to Kyrgyzstan, an agreement was reached and signed between the Cabinet of Ministers of the Kyrgyz Republic and the Government of Azerbaijan on the establishment of the Kyrgyz-Azerbaijani Development Fund.
- Business meeting between Kyrgyzstan and Azerbaijan was held In January 2022, in Bishkek, as part of a visit by an expert group of the Republic of Azerbaijan to the Kyrgyz Republic, during which B2B and B2G meetings were held with domestic companies.

- Kyrgyzstan and Azerbaijan agreed to intensify joint dialogue and promote further investment cooperation. President of Kyrgyzstan Sadyr Japarov and President of Azerbaijan Ilham Aliyev signed a Declaration on strategic partnership between the Kyrgyz Republic and the Republic of Azerbaijan.
- It is planned to open a Trade House of Kyrgyzstan in Baku to promote food, agricultural and clothing products.
- A meeting was held of large companies in the fields of oil production, construction, tourism, energy, telecommunications, high technology, agriculture, mining, insurance, such as SOFAZ, SOCAR, AZERGOLD, AZVIRT, LU-MUN HOLDIN, NEQSOL HOLDING, AZERSUN HOLDING, PASHA HOLDING.
- Transport specialists of Kyrgyzstan and Azerbaijan discussed international transportation.

The following directions took place in Kyrgyzstan-Turkmenistan relations for 2021-2022:

- Bilateral cooperation in the energy sector is engaged with the supply of Turkmen natural gas and electricity to Kyrgyzstan.
- Turkmenistan and Kyrgyzstan discussed the creation of a joint fund.
- Kyrgyzstan is in favor of deepening cooperation with Turkmenistan in the energy sector.
- India-Kyrgyzstan trade route is being discussed through the territory of Turkmenistan.

The following directions took place in Kyrgyzstan-Kazakhstan relations for 2021-2022:

- The construction of a solar power plant with a capacity of 300 MW started in the Issyk-Kul region of Kyrgyzstan and with an investment of $300 million, TechnoGroupService, implementing projects in the field of renewable energy, will build a solar power plant and related infrastructure for generation for the Kyrgyz company Bishkek Solar electricity.
- The construction of a joint Kyrgyz-Kazakh industrial trade and logistics complex launched. On the basis of this industrial trade and logistics complex, it is planned to implement projects for the production of canned beans, processing and pre-sale preparation of meat, the production of para-pharmaceuticals and dietary supplements in the form of capsules from freeze-dried mare's milk, the production of clothing and dairy products.
- Kazakhstan offers Kyrgyzstan hundreds of types of goods and products with the support of Kazakh Export, cooperation in the areas of trade and investment, transit and transport, as well as water and energy balance.

- Kyrgyzstan and Kazakhstan creates registry of promising investment projects.
- The Kazakh Trade and Economic Mission in Bishkek of manufacturers of goods and services operating in the food industry, metallurgy, logistics, engineering, pharmaceuticals, chemical industry agreed to execute export contracts for the supply of salt, flour and pasta, beer and soft drinks from the Republic of Kazakhstan to the Kyrgyz Republic. beverages, confectionery and dairy products.
- It is planned to open trade and logistics centers for agricultural producers and cargo transit in the border areas of the Kyrgyz Republic and the Republic of Kazakhstan.
- 1,000 tons of selected Kazakh wheat seeds were transferred to Kyrgyzstan.

The following directions took place in Kyrgyzstan-Hungary relations for 2021-2022:

- The Hungarian-Kyrgyz Development Fund established. The Fund is an effective platform for attracting investments and implementing investment projects, and its creation will contribute to the development of small and medium-sized businesses in the Kyrgyz Republic.
- Hungarian companies are interested to supply ATMs and build power plants in the Kyrgyz Republic.

In the current challenging conditions, the most important tasks are to overcome challenges and join forces for sustainable development, cooperation in the development of new technologies -develop the use of renewable energy sources and development of hydrogen energy, construction of hydro facilities, development of the green capital market for the implementation of projects related to green technologies.

COUNTRY SPECIFIC PROFILE OF THE REPUBLIC OF TÜRKİYE

AN ASSESSMENT OF GDP PER CAPITA IN TÜRKİYE

Prof. Dr. Mehmet Yüce
Dean of Faculty of Economics of the Turkic World at Azerbaijan State University of Economics (UNEC)
Dr. Muhammed Çelik
Research Assistant at Bursa Uludag University

GENERALLY GDP AND SITUATION IN TÜRKİYE

Gross Domestic Product (GDP) is the total monetary value of final goods and services produced within a given period. GDP is significant because it provides essential information about the size and performance of the economy. GDP, which can be expressed as everything in an economy, includes all outputs produced within the borders of the country in the calculation. These calculations include non-market elements such as government-provided defense or training services. However, not all production activities are included in GDP. For example, unpaid work at home or by volunteers and black market activities are not included in the calculation because they are difficult to measure and accurately assess. In this case, a bakery that produces bread for its customers will contribute to GDP, but if it bakes the same loaf for its family, it will not contribute to GDP. However, the materials to be used in cooking this product can be included in the GDP.

On the other hand, in the calculation of gross domestic product, wear and tear on the machines, buildings and the like used in output production are not taken into account, but subtracting these depreciations from the GDP will provide the net product (Callen, 2020a).

a) Evaluation of Türkiye's GDP Growth Status

Türkiye is currently the 19th largest economy in the world with a GDP of approximately USD 720 billion. A member of the OECD and G20, Türkiye is a donor of Official Development Assistance (ODA), which has been on a steady upward trend with its economic development (OECD, 2021a). Between 2002 and 2017, Türkiye made significant progress with reforms that moved it into the upper-middle-income group and prevented poverty. The share of citizens below the poverty line, whose daily income reached USD 5.50, decreased by three quarters between 2002 and 2018 to 8.5 percent. However, with the decline in reform measures over the last decade, growth has been fuelled by credit growth and demand stimulus, increasing vulnerabilities. Unexpected global and regional instabilities and COVID-19 effects also negatively affected the reform process. While the government's timely economic responses to the adversities in the COVID-19 process were seen as successful, the loose monetary policy and credit expansions were criticized. Despite these criticisms, Türkiye was among the few countries among the G20 and OECD members to achieve a growth rate in 2020. However, the policies pursued resulted in aggressive inflation in the following periods, and key economic contexts such as youth unemployment and poverty were triggered negatively (World Bank, 2022a).

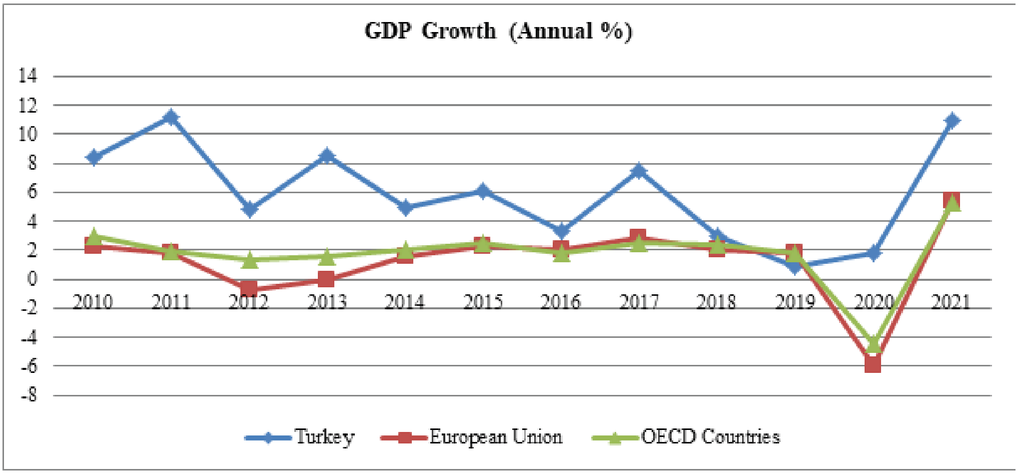
When we analyze the general situation of the global economy, we will see a similar trend. In this context, when an evaluation is made based on annual GDP growth, there is a definite slowdown of 25% in the USA and 25% in the euro area in 2023, while European economies have also realized significant production declines. In Asia, while China is expected to weaken due to the COVID-19 effect and the weakening of the property market, 2023 is seen as a year of recovery. On the other hand, although the tight monetary policies and easing supply bottleneck seem to alleviate inflation in the coming years, rising energy prices, increases in labor costs, and ongoing wars in various regions, especially the wars in Russia and Ukraine, will significantly slow down the rate of disinflation. Inflation is expected to decline from 8.2% in 2022 to 6.2% in 2023 in G20 economies and from 6.2% in G20 advanced economies this year to 4% in 2023. Global GDP stagnated in the second quarter of 2022 and output in the G20 economies declined. In terms of the impact of the current situation on GDP from a political policy perspective, there are various effects stemming from the Ukraine war in Europe. At this point, gas prices, which are one of the important dynamics of production in Europe, increased more than three times in the last year and increased by an average of ten times from 2010-2019. These changes have also triggered oil, coal, and electricity prices in terms of restoring the supply-demand balance, and the ratio of energy expenditures to GDP across the economy is likely to increase significantly in 2022, especially in Europe. In Europe, many economies are expected to grow weakly at best in the second half of 2022, and some recovery for the remainder of 2023 by the first quarter of 2023 (OECD, 2021a: 3-7).

In the table below, the growth rates of GDP in Türkiye and the European Union, and OECD countries are examined. As is known, GDP growth is expressed as the percentage value of the annual growth rate of GDP at market prices based on constant local currency.

GDP Growth Indicator: Türkiye and Comparison of European Union and OECD

Countries

Table 1. Türkiye's Comparative Annual Growth Status with EU and OECD Countries (Annual %)



Source: *World Bank. (2022). "GDP growth (annual %) - Türkiye, European Union, OECD members." Retrieved from https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2021&locations=TR-EU-OE&start=2010*

Table 1 shows the percentage value of annual GDP growth and Türkiye's position among EU and OECD countries between 2010 and 2021. Except for 2019, Türkiye is above the EU and OECD average and has a fluctuating course. This fluctuating course can be explained by the j curve formed in the Turkish economy. The fact that the declines in GDP growth rates and then progresses with the time-dependent development of income can be presented as a simple indicator that the Turkish economy has a "j curve" trend (Greenaway et al., 2002: 241; Emsen and Değer, 2007: 164). Looking at the general growth data, it will be seen that Türkiye has a growth rate above the EU average and OECD countries average, except for 2019. The only results that have brought about this process are the existence of a stable government administration, the solution of the basic infrastructure problem by focusing on infrastructure investments, providing access to European standards in many areas, bringing a new breath to the institutions or organizations that have lost their functionality in practice with reformist policies, making them compatible with the European Union criteria, making the legislations suitable for the conditions of the day, and efforts to integrate into the global competition by aligning with international examples have significantly gained growth stability. On the other hand, transfer expenditures applied to households, investment incentives for investors, and production incentives for producers have been important policies.

By the last quarter of 2020, a "V" shaped base was achieved without additional monetary policies thanks to tight fiscal policy, stable investment and export growth. At the same time, the tax system, public procurement and public financing resources have been used diligently in order to reduce the dependence on imports and domestic production on imports. With the effect of this process, the GDP growth rate during the COVID-19 period was higher than the EU and OECD countries (Irwin, 2020). Although inflation caused a decline in incomes in real terms, the expectation of future inflation continued to stimulate growth by increasing the demand for consumer goods. Increases in merchandise exports, tourism revenues, weakening of the currency and continued external demand led to a strong continuation of the growth process (World Bank, 2022b).

The strong support made by the government to the market during the COVID-19 period had positive effects on the growth data. Some of these supports can be explained as follows. In March 2020, the government announced an Economic Stability Development Program of 100 billion TL, corresponding to 2.1% of GDP. With the measures added in the following months, the support package reached

503.4 billion TL, corresponding to 10.6% of the total GDP, in mid-November. From mid-March; three main public banks, Ziraat, Halk, and Vakıf Bank, provided companies with 36-month maturity, 6-month grace period, and low 7.5% interest rate capital loans, provided that their current employment levels are maintained. Public banks also offer loans to tradesmen and craftsmen with a maturity of 36 months and an interest rate of 4.5%, while a "tradesman credit card" of TL 25,000, equivalent to USD 4,000 on the date of the announcement, was also put into use. The State Credit Guarantee Fund (CGF) increased the loan guarantee limits from 25 billion TL, which is equivalent to 7.7 billion USD, to 50 billion TL, and for the first time, consumer loan guarantees were given to individuals. As such, CGF's total loan leverage capacity has reached 500 billion TL, reaching 14% of GDP. When evaluated in terms of export credits, measures were taken to increase the volume and extend the maturity of export credits, and 70% of these measures were for SMEs. In addition, to support the domestic industry, additional customs duties between 2% and 50% have been applied for several goods with a total of around 5000 product groups (Republic of Türkiye Treasury and Finance Bank, 2020; OECD, 2021a: 20). About public procurement, which is one of the important levers of growth and which corresponds to approximately 12% of GDP, many measures have been taken to ensure sustainability regarding businesses that fulfill their obligations to perform in parallel with world examples (Çelik and Yüce, 2022: 967-1000).

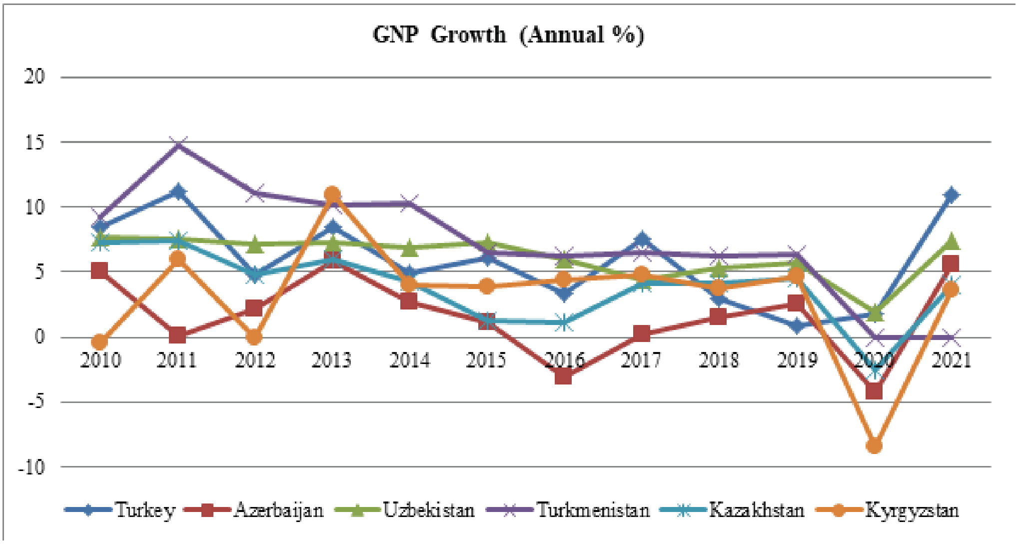
Another aspect that positively distinguishes Türkiye from some OECD countries is the reduction in general government debt from 76 percent of GDP in 2001 to 38 percent in 2008. This significant achievement also led to a significant reduction in risk premiums during the relevant periods and was respected in the field of fiscal policy (OECD, 2021a: 38). However, in recent years, Central Bank policies and other political and economic developments have triggered external pressures, leading to a significant depreciation of the Turkish lira. This led to a widening of the current account deficit while bank's reserves and the country's CDS premium rose again (World Bank, 2022b). Although the depreciation of the local currency in this process caused significant pressure on companies, the government tried to mitigate this effect by using significant financial resources during this process. However, despite these fiscal resources, the central government fiscal deficit narrowed as nominal government revenues increased due to high inflation. In addition, the correlation between net capital inflows and GDP, which is used as a policy tool, reached a high coefficient of 0.54 between 1999 and 2010, then decreased to -0.17 between 2010 and 2016 and increased again to 0.22 between 2016 and 2019 (OECD, 2021a: 44).

It should be noted that the Turkic economy was also affected by the COVID-19 shock through supply and demand channels. Looking at the impact on supply, there has been a significant drop in supply, with quarantine decisions in the early stages of the pandemic, as well as workers who contracted the virus and were unable to come to work. The negative impact on demand can mostly be explained by factors reflecting the new consumption habits of households with limited social interaction. In the process, problems in commercial connections, disruptions in supply chains, and the depreciation of the local currency, which increases borrowing costs, are among the important determinants affecting these channels (Çakmaklı vd., 2021: 2-3). According to the report prepared by TUIK (2022), when the factors that provide GDP formation in 2021 are analyzed, it is seen that information and communication activity increased by 20.2%, other services by 20.3%, real estate activities by 3.5%, the total value added of service activities by 21.1%, professional, administrative and support service activities by 17.3% and industry by 16.6%, public administration, education, human health, and social service activities by 7.0% compared to the previous year. Despite this increase, finance and insurance activities exhibited a decreasing trend of 9.0%, agriculture by 2.2%, and construction by 0.9% (TUIK, 2022). The 2021 and 2023 medium-term program forecasts a slightly positive GDP growth of 0.3% in 2020, followed by 5.8% in 2021 and 5% in 2022 and 2023 (NEP, 2020). Türkiye's discovery of natural gas reserves in the Black Sea may have a positive impact on structural balances. This is because Türkiye's annual energy imports constitute the most significant share of the structural trade deficit. Natural gas imports account for about 2% of GDP (OECD, 2021a: 28).

GDP Growth Indicator Comparison of Türkiye and Organization of Turkic States Members

Although Türkiye is a country with strong relations with Europe due to its geography, it also maintains economic and political relations with other actors in the region. A special form of these relations is the policies that integrate with the bond of brotherhood and these relations are crowned with the Organization of the Turkic World. The geography of the member countries of the Organization and the relations between the members of the Organization of Turkic States, which have developed rapidly in the field of economy in recent years, carry this Organization to an important position for Türkiye. In Table 2 below, Türkiye's growth data are analyzed in comparison with other members of the Organization of Turkic States. In addition, when the OECD GDP data are examined, collective data about many regional organizations and unions can be accessed (such as the Arab League Organization). In contrast, data on the Turkic Republics are included separately. At this point, to increase the awareness of the Organization of Turkic States, common data should be created as the Organization of Turkic States in international relations and these data should be shared with international organizations regularly.

Table 2. Comparative Annual Growth of Türkiye with Other Members of the Organization of Turkic States (Annual %)



Source: *World Bank. (2022). "GDP growth (annual %) - Türkiye, Azerbaijan, Turkmenistan, Kyrgyz Republic, Kazakhstan, Uzbekistan." Retrieved from https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2021&locations=TR-AZ-TM-KG-KZ-UZ&start=2010*

When the GDP growth data of Türkiye and other members of the Organisation of Turkic States between 2010 and 2021 in Table 2 are examined, it is seen that the growth and contraction data of the countries are parallel in most of the years. When these data are evaluated, Kyrgyzstan's weakest growth data is realized, while the highest growth data is generally observed in Turkmenistan, but growth data have decreased over the years. The most stable growth data is observed in Uzbekistan. When the data for Türkiye are evaluated, it is seen that it exhibits fluctuating growth data above the average of the other members of the Organisation of Turkic States. In the 2019-2020 period, although a downward fluctuation occurred except for Türkiye due to the impact of the global crisis and the COVID-19 pandemic, strong growth data emerged in 2021 with the highest data for Türkiye.

If the factors affecting the GDP growth data of the Organisation of Turkic States are mentioned in general, the value added from natural resources has a significant share in the growth data in countries other than Türkiye and Kyrgyzstan. In our evaluation of the European Union and OECD countries, we have examined that natural resources are among the many factors affecting the calculation of GDP growth data other than production and how much the natural resource crisis affects the growth data of these countries. Therefore, it is clear that natural resources in these countries are very important for stable GDP growth data. On the other hand, although there are various political risks in terms of the geography where the countries are located, the fact that the countries in the region are included in many economic projects of China, which is rising with its economy, will also make significant contributions to the GDP data in the coming years. In this context, Türkiye is also involved in China-based economic projects as it is on the transit route to Europe and is also a center for exporting natural resources to Europe. In addition, the trade volume of the member countries of the Organisation with each other has been increasing rapidly over the years. The young and constantly increasing labor force of the countries also make significant contributions to the growth data (Yüce, 2022: 7-52). When all these economic factors are evaluated together, they will provide significant contributions to GDP growth rates for Türkiye and other member states of the Organisation.

Finally, if a general evaluation is to be made, creating opportunities in terms of changing the economic conditions in Türkiye should be supported by new economic policies and institutional reforms. It will be possible to summarize these policies and reforms under three headings. International and Turkish experience shows that micro and macro-level and institutional reforms lead to positive developments in middle-income countries (Gönenç, 2017). The first of the policies and reforms that can be put forward in this context is the removal of barriers that distort competition in the product market, more flexible practices in the labour market and incentive arrangements in taxation will support the free market. Secondly, institutional and educational reforms should be implemented to improve institutional quality. Thus, governance capability will be enhanced. These changes will contribute to the growth of GDP per capita in the medium term (OECD, 2022a: 3). Finally, changes will consist of an integrated market liberalisation package consisting of a combination of the first two reforms. These arrangements will also be important for the growth of GDP per capita (OECD, 2021a: 14). Finally, changes are made that will consist of an integrated market liberalization package, which is a combination of the first two reforms. These arrangements will be important for the growth of GDP per capita (OECD, 2021a: 14).

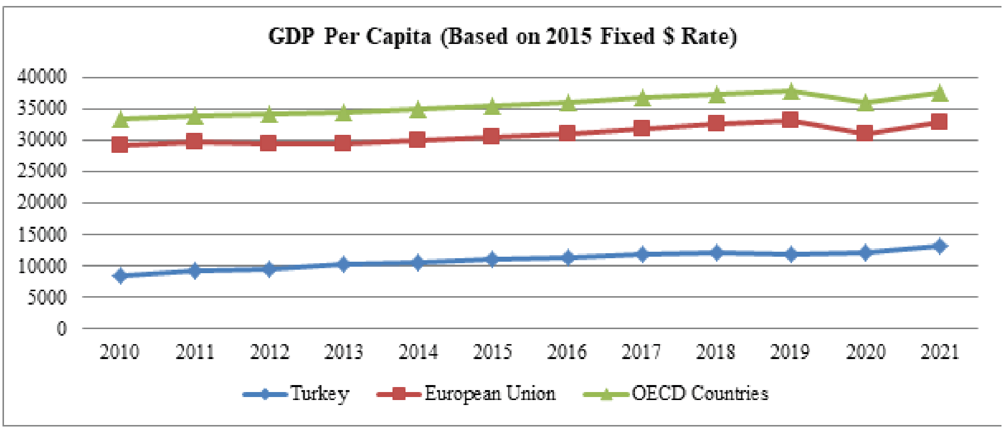
SHARE OF INCOME PER CAPITA IN TÜRKİYE'S GDP

GDP per capita, which is calculated by dividing a country's GDP by its population, is an important financial measure for the economy (OECD, 2012: 1). In its most basic form, GDP per capita reveals how much each citizen receives from the economy. These data are used to analyse the welfare of countries together with their growth data. When the world is analysed in general, it will be seen that small rich countries and developed industrial countries have high GDP per capita (Brock and Rathburn, 2022). Along with these countries, countries with various natural resources also have relatively higher GDP per capita.

GDP per Capita: Türkiye and Comparison of the European Union and OECD Countries

Table 3 shows the share of GDP per capita in dollars and Türkiye's position among EU and OECD countries between 2010 and 2021.

Table 3. Share of GDP per Capita Türkiye and the European Union and OECD Situation in Their Countries (Based on 2015 Fixed $ Rate)



Source: *World Bank. (2022). "GDP per capita (current US$) - Türkiye, European Union, OECD members." Retrieved from https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=TR-EU-OE*

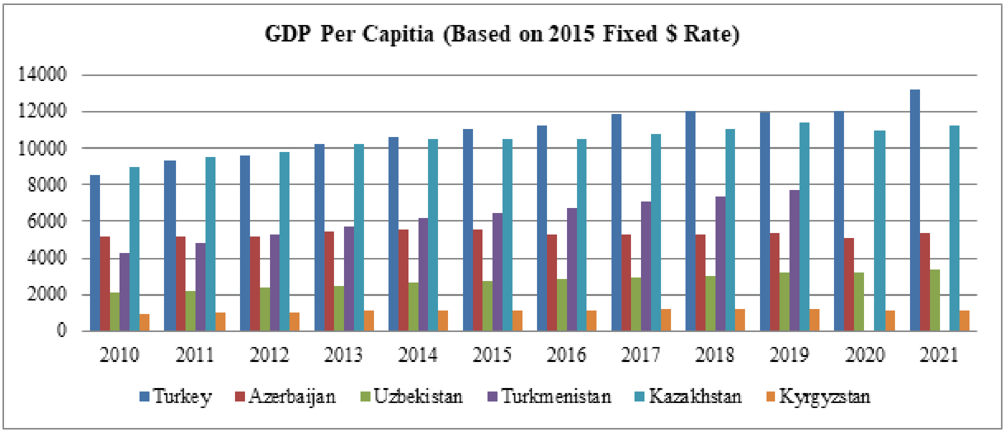
It is observed that Türkiye's GDP per capita is below the EU and OECD averages in the relevant years. While per capita income in Türkiye has an increasing trend between 2010-2013, it has a decreasing trend after 2013 until 2020. In 2013, the GDP per capita for Türkiye was 12,614.8 USD, which shows the peak point in the graph. This rise is based on indicators such as reformist policies pursued in public policies, changes in public financial management, fiscal rule proposals, and economic openness (Candan, 2007: 204). On the other hand, it can be argued that the effects of exchange rate volatility and depreciation of the TL, monetary policies, and political economy are at the root of the consecutive decline as of 2014. Türkiye's recent decline in reform momentum and credit booms, and the promotion of demand-side growth have increased vulnerabilities, leading to a slowdown in productivity growth (World Bank, 2022b).

In 2020, the per capita income in Türkiye was 8,536.4 USD, which shows the bottom point for Türkiye in the graph, and a decreasing momentum in the EU and OECD member countries. This declining momentum can be explained by the devastating impact of the COVID-19 pandemic in 2020 which changed some paradigms in all countries and brought new challenges to fragile economies. It can be stated that this effect was triggered especially in countries where development problems and the capacity to respond to unexpected challenges are relatively slower (Martinho, 2021: 61). The relatively smaller GDP per capita loss in Türkiye can be attributed to Türkiye's preference for money supply expansion rather than fiscal transfers. Türkiye continued to pursue expansionary policies in the M2 money supply, especially in the 2019-2020 period, with expansionary policies in credit volume during the pandemic. While Türkiye pursued expansionary monetary policy in this period, it followed limited fiscal policies (Kuzucu, 2022: 270). The effect of these policies on the budget deficit can also be presented as an indicator that Türkiye experienced less GDP per capita loss than other countries.

On the other hand, informal workers and self-employed persons have been the group most affected by the measures taken against the COVID-19 outbreak. Because this group owes most of their earnings to the continuity of social life. While the share of these employees in total employment is between 30-40 percent in Türkiye, it is around 20 percent in OECD countries (OECD, 2020: 5). In this process, especially the effective use of online trade and takeaway services by citizens has had compensatory effects for these segments (Sarıca and Özbay, 2022; 586-589; Petek and Cebecioğlu, 2021: 183-186). Tourism is another field that was hit hard in this process. The tourism sector corresponds to 7 percent of the country's employees, and in some tourism regions, this rate rises to 14 percent (Akçiğit and Akgündüz, 2020: 16).

While Türkiye entered the COVID-19 crisis period with sound public finances, it also entered with off-balance sheet commitments. In particular, the concessional loans provided to enterprises and the public through public banks in this period strengthened the contingent liabilities to public finance. In this process, a more flexible, competitive, and governance-oriented approach in the labor and product markets will improve the quality of the labor market. Structural reforms will increase production and thus the labor force. In the process, the promotion of digital transformation will also support Türkiye's potential. On the other hand, public procurement, which is an important part of public services, and the utilization of significant potentials in the service sector and agriculture sector will support development. According to a survey conducted by the OECD, a reform package implemented in line with the above-mentioned considerations could increase Türkiye's GDP per capita by more than 10 percent within 10 years (OECD, 2021a: 17).

Table 4. Comparison of the Per Capita Share of GDP in Türkiye and Other Members of the Organizations of Turkic States (Based on 2015 Fixed $ Rate)



Source: *World Bank. (2022). "GDP per capita (constant 2015 US$) - Türkiye, Azerbaijan, Uzbekistan, Turkmenistan, Kyrgyz Republic, Kazakhstan." Retrieved from https://data.worldbank.org/indicator/NY.GDP.PCAP.KD?end=2021&locations=TR-AZ-UZ-TM-KG-KZ&start=2010*

Table 4 shows the situation in Türkiye and the Turkic States between 2010 and 2021 in dollar terms of GDP per capita. While there is a convergence between Kyrgyzstan and Uzbekistan, there is a relative convergence between Turkmenistan and Azerbaijan until 2014.

However, the Central Bank of Azerbaijan (CBA) carried out two devaluations in 2015, and the weakening of financial sector soundness, inflationary pressure, and budget deficits are also important determinants explaining the declining momentum in the process (IMF, Republic of Azerbaijan, 2016). Türkiye and Kazakhstan have relatively higher GDP per capita than other Turkic States. While GDP per capita in both countries peaked in 2013, Kazakhstan peaked in 2016 and Türkiye bottomed out in 2020. In Türkiye and Kazakhstan, the central governors were dismissed during the relevant years. If this decision affects the independence of central banks, it can be stated that there is a danger of supporting short-term growth instead of long-term growth and price instability (Bloomberg, 2015; Topçu, 2020: 426). This decreasing momentum can be explained as a reflection of these effects. However, the impact of the pandemic in Türkiye in 2020 should also be mentioned.

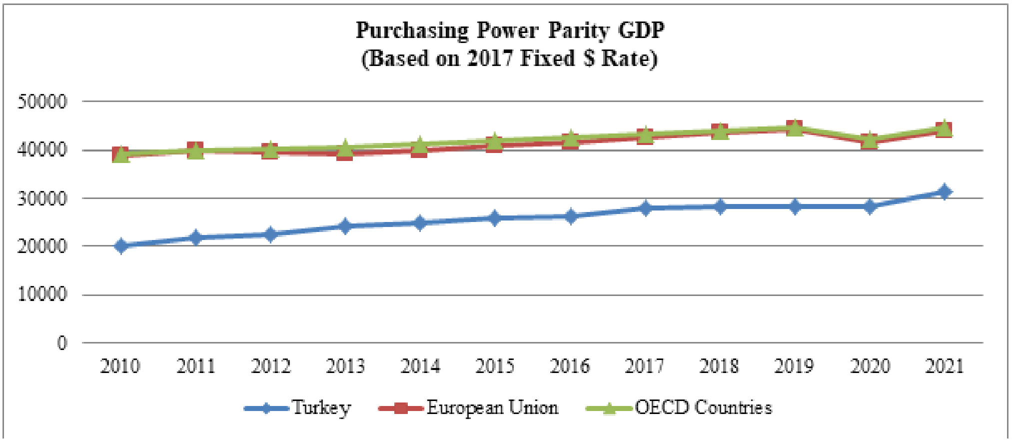
STATUS OF TÜRKİYE ACCORDING TO PURCHASING PARITY

It is defined by the World Bank (2022) as the gross domestic product (GDP) per capita expressed in current international dollars converted with a purchasing power parity (PPP) conversion factor. The conversion factor expressed here is a spatial price deflator and currency converter that controls price level differences between countries (World Bank, 2022). The main advantage of purchasing power-based comparison is that the output of goods and services in different countries does not change whenever exchange rates between countries change (Vachris and Thomas, 1999). This indicator can be expressed as an adjusted exchange rate that eliminates differences in the price level of countries.

The Situation of Türkiye in Terms of Purchasing Parity and Comparison of the European Union and OECD

Table 5 shows the value of GDP in dollars according to Purchasing Power Parity and Türkiye's position among EU and OECD countries between 2010 and 2021.

Table 5. Situation in Türkiye and European Union and OECD Countries in Terms of Purchasing Power Parity (Based on 2017 Fixed $ Rate)



Source: *World Bank. (2022). "GDP per capita, PPP (constant 2017 international $) - Türkiye, European Union, OECD members." Retrieved from https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?end=2021&locations=TR-EU-OE&start=2010*

Türkiye's GDP, according to purchasing power parity, which was 1 trillion 268 billion USD in 2010, has an increasing momentum of 2 trillion 591 billion USD in 2021. According to Table 5, Türkiye has a lower GDP according to Purchasing Power Parity between 2010 and 2021, below the averages of EU and OECD countries. However, it should be noted that when the average values are analyzed between the mentioned years, although Türkiye is below the average, it has a stable purchasing power increase and has a parallel development course with the EU economies, and the average of OECD countries. However, as we mentioned in the above headings arising from COVID-19 in 2020, the fluctuations in economies together with the worldwide economic effects and the effects on Türkiye, as well as the fluctuations in economies, erode the purchasing power of households that cannot consume with the effect of increasing inflation. In this period, Türkiye has provided significant support to those with reduced purchasing power by making various social transfers.

In general, as of mid-March, the minimum old-age pension, which was equivalent to 230 US dollars at the exchange rate at the time of the announcement, was increased from 1,000 TL to 1,500 TL. One-off cash support of 1,000 TL per family, equivalent to 154 US dollars at the exchange rate at that time, was provided to those in need. By the end of October, 6.3 million families were provided with allowances. These transfers were additionally provided to families already receiving support. Some municipalities introduced regulations allowing for the cancellation of market debts of households in arrears for public services such as water and natural gas. According to the announcement of the Ministry of Treasury and Finance, 40 billion TRY of SSI and 29.4 billion TRY of tax payments were delayed. One hundred twenty-two billion TL of corporate and individual loan payments were postponed, and within the scope of the Basic Needs Support Loan, public banks provided non-repayable loans for the first six months to citizens with a monthly income below 5000 TL (Aygün, Köksal, and Uysal, 2020: 1-11).

In the related period, public banks started to offer "basic needs support loans" with a concessional interest rate of 6% for up to 3 years up to TL 10,000 (USD 1,500) to low-income households with a monthly income of up to TL 5,000 (income below USD 770) (OECD, 2021a: 20). Despite several measures taken, there is a belief that the weakening of external demand will lead to a further slowdown in economic activity in the second half of 2022, which will result in significant losses in purchasing power. In 2021, despite the recovery trend of the labor market and the economy, the poverty rate is projected to remain above pre-2019 levels due to high inflation, which affects the lowest-income households the most, as households spend a larger share of their income on basic consumption items such as food, which are exposed to above-average inflation. This poses the risk of continued losses in terms of purchasing power parity (World Bank, 2022b).

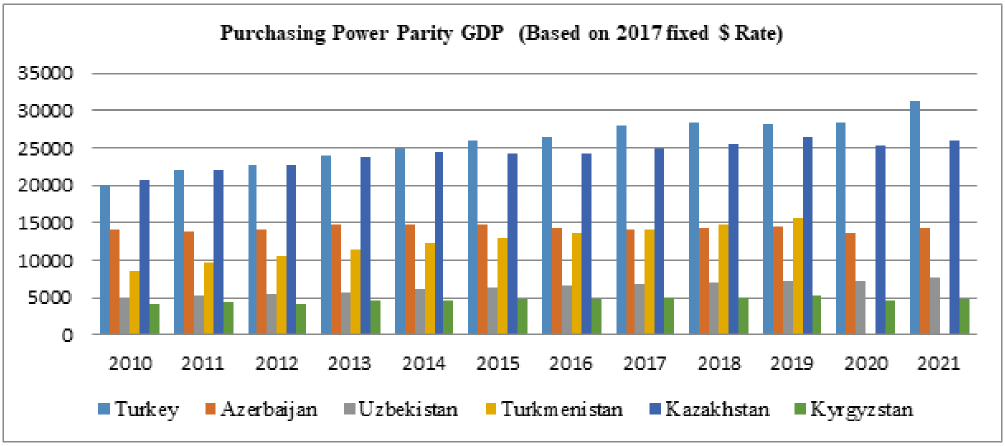
In general, there is a significant difference between Türkiye's GDP per capita in Table 3 and the GDP per capita based on Purchasing Power Parity in Table 5. It should be noted that the discrepancy between GDP per capita and Purchasing Power Parity-based rates is increasing in emerging markets (Callen, 2020b). The gap in the data for EU countries in Tables 3 and 5 is smaller. This difference in Türkiye can be attributed to the ratio of low-skilled labor in the country's production (Ark, 2005: 189). From this point of view, it should be stated that the Turkish economy is based on service and labor-intensive sectors (Kaya, 2006: 81; OECD, 2022b).

Along with the high share of labor-intensive sectors in Türkiye, the wages earned are also low to the average of the EU and OECD countries compared, which leads to a gap between GDP per capita and Purchasing Power Parity GDP. In addition, when the share of the minimum wage labor force in Türkiye is compared with the shares of the minimum wage labor force in the EU and OECD countries, it will be seen that there are significant differences. While the number of minimum wage workers in Türkiye is quite high compared to the countries, it remains well below the European Union average (Eurostat, 2022). In addition, national and international price movements, the competitiveness of money, globalization, and the power to create added value are also related to the formation of this difference (Aslan and Kanbur, 2007: 18).

Comparison of Türkiye with Other Members of the Organization of Turkic States in terms of Purchasing Parity

Table 6 shows the value of GDP in dollars according to *Purchasing Power Parity* and the situation in Türkiye and other countries of the Organization of Turkic States between 2010 and 2021.

Table 6. Situation in Türkiye and Other Members of the Organization of Turkic States in Terms of Purchasing Power Parity (Based on 2017 Fixed $ Rate)



Source: *World Bank. (2022). "GDP per capita, PPP (constant 2017 international $) - Türkiye, Azerbaijan, Uzbekistan, Turkmenistan, Kyrgyz Republic, Kazakhstan." Retrieved from https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?end=2021&locations=TR-AZ-UZ-TM-KG-KZ&start=2010*

Türkiye's Gross Domestic Product per capita, according to Purchasing Power Parity (PPP), is higher than that of other countries of the Organisation. Kazakhstan's purchasing power parity is similar to and closer to that of Türkiye, but differentiated from other member countries. However, it is noteworthy that Turkmenistan and Uzbekistan have an increasing momentum.

DIRECT FOREIGN INVESTMENTS: EVALUATION OF TÜRKİYE'S YEARS OF 2011-2021

Prof. Dr. Mehmet Yüce, *Dean at UNEC*
Dr. Neslihan Kızıler, *Lecturer at Bursa Uludag University*

INTRODUCTION

The global economy is comprised of "economic units that consist of differentiated production and consumption patterns as per different states." There is a different distribution of labor and capital between countries as well (Gerber, 2018; Karagül, 2018). Changes in the economic, cultural, and technological areas after the 1980s have also changed how companies conduct business. The presence and growth efforts of businesses have become more difficult under competitive conditions. This situation has caused companies to look for different ways (Farina & Gegez & Küçükaslan, & Er, 2013). Changes in transportation, production technology, incentive policies regarding international integration formations, and the races of countries to attract domestic and foreign capital to their countries in this process, desires to gain access to wider markets facilitated businesses' access to international markets (Keegan & Green, 2013).

In general, countries look for investments due to various reasons such as entering new markets, making use of production factors cheaply, and increasing their political impact on other countries (Aydın, 2018). On the other hand, countries also enter foreign markets by using "exports" as a strategic tool. But the advantages that cannot be obtained by means of exports are provided with foreign direct investments. Particularly, foreign investments economically contribute to the invested country by creating a positive impact with its effects such as increasing the fixed capital stock in the country, reducing the balance of payments deficit, improving competition, and increasing GDP. Besides, foreign direct investments provide advantages to the investing country as well.

Türkiye, which has an important place in the global economy, is suitable with regards to sectoral diversity, wide production opportunities, modern logistics infrastructure, strategic placement, and qualified workforce, and constitutes a center of attraction in terms of foreign direct investments. Generally, foreign direct investments consist of direct capital investments that cover long-term decisions and long-term portfolio investments (Karluk, 2013; Aydemir & Arslan & Uncu, 2012). Mainly in recent years, the country's power to attract investment has increased even more in the uncertainties and transformation process of the world economy (Aydemir et al., 2012).

After the year 2000, Türkiye entered a dynamic reform process to improve the investment environment. With the "Foreign Direct Investments Law" numbered 4875, which became effective in the year 2003, the confidence of investors in Türkiye has increased even more. In the last decade, the composition of foreign direct investment has expanded in terms of sector and source countries. But COVID-19, which emerged in the year 2019 and influenced the whole world, affected the supply chains and manufacturing sectors in a negative way which caused a reduction in production activities. In the year 2021, the size of the investment was reflected in Türkiye in parallel with the decline in the world. However, Türkiye continues to constitute an important production and export base with its strategic location and growing economy (The Republic of Türkiye Presidency Investment Office 2021-2023 Türkiye International Direct Investment Strategy Report, 2021).

In this study, the reasons for preference for direct investment in Türkiye, the sectors and country compositions invested in-between the years of 2011-2021, and the share of foreign direct investment in the world are revealed with relevant data.

DIRECT FOREIGN INVESTMENTS AND TÜRKİYE

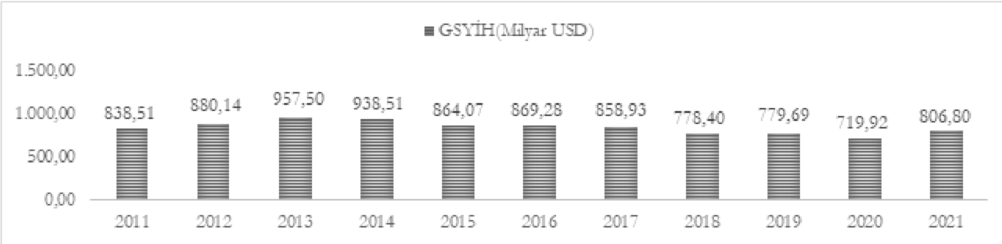
Entry of foreign direct investments into Türkiye dates back to the old times. Foreign direct investments are an important tool for developing countries to increase their current resource potential and in their search for development and growth in the absence of capital accumulation. On the other hand, among the reasons why developing countries attract large amounts of foreign direct capital, there are particulars such as a more attractive economic environment compared to other countries, high domestic demand, and potential growth tendency. Because the absence of political, social, and economic stability is also the criterion sought by countries that will make foreign direct investments. Investors will be able to prefer indirect investments if the country to be invested has risks (Eğilmez, 2018; Yavan, 2012).

Türkiye adopted a closed, protectionist economic policy until the occurrence of the Great Depression in the year 1929 and afterward until 1946. After the year 1950, foreign economic aid caused Türkiye to adopt a new policy that was open to loans. As a result of this situation, it can be stated that foreign direct investments have started to turn to Türkiye. On the other hand, the pursuit of planned economic growth at the end of the 1950s accelerated the entry of direct investments. With the decisions dated 24th of January, 1980, which included export-based development strategies, ways to eliminate the economic crisis that the country was experiencing were searched for. On the other hand, while strict protective measures regarding capital transfers and investments of investors before the year 1980 were prevented by legal regulations, liberalization of foreign exchange legislation with the enactment of Decision numbered 32 in the year 1989 made international capital movements become easier (Aydın, 2018). With Foreign Direct Investment Law Numbered 4875, which entered into force in the year 2003, facilitating regulations such as increasing foreign direct capital and protecting the rights of foreign investors have been introduced.

In this regard, it is possible to explain the reasons for making foreign direct investments in Türkiye under general headings (T.R. Ministry of Commerce Foreign Investment Report, 2022).

1. Growing Economy: When Türkiye's GDP figures for the last decade are analyzed, it is seen that the size was 838.51 billion dollars in the year 2011 and reached the value of 938.51 billion dollars in the year 2013, constituting the highest level of the last decade. But even though the negative reflections of the COVID-19 process, which influenced the whole world in the year 2019, were felt, it is observed that the foreign direct investment figures reached the value of 806.80 billion dollars in the year 2021. However, it can be stated that the GDP figures follow a stable course in general.

Graphic 1. Türkiye's GDP at Current Prices (2011-2021) (billion USD)



Source: *Statista-The Statistics Portal. (2021). "Türkiye's GDP at Current Prices (2011-2021)." Retrieved from https://www.statista.com/*

2. Strategic Location: Türkiye's being located at the intersection of Europe, Asia, and Africa facilitates access to global markets. Besides, comprising a connection point in terms of land, air, rail, and sea routes and being located close to major markets creates an advantage for the countries that will make investments. Being a base for multinational companies, the country is among the reasons why it is preferred as a center for production, export, and management.

3. Ease of Access to Regional and International Markets: When they make investments, companies also consider whether they are members of international and regional integrations such as the free trade area and customs union that the host country has signed with third countries. Because Türkiye's membership in international and regional integrations (Customs Union, FTA, bilateral agreements, WTO, commercial economic agreements, etc.) is a reason for companies to prefer it directly.

4. Population Structure: Investors, who are faced with a decreasing population whose average age is increasing in Europe, consider Türkiye's young and well-educated population as an important advantage. Türkiye offers opportunities to investors with its young, dynamic, educated, and strong infrastructure and increasing population, which form the basis of a strong labor market and vibrant domestic market.

According to the Turkish Statistical Institute (TUIK), the population of Türkiye, which was at the level of 83.6 million in the year 2020, is expected to reach the level of 86.9 million in 2023 and the level of 100.3 million in the year 2040. It is anticipated that the population will continue with its growth momentum and that it will reach its peak of the level of 107.6 million in the year 2069.

5. Providing Ease of Doing Business: Türkiye's investment legislation offers equal treatment to all investors, besides its conformity with international standards and simplicity. The basis of the investment legislation is comprised of "Law No. 5084 on the Promotion of Investments and Employment", "The Law on Foreign Direct Investments No. 4875", "The Implementation Regulation of the Law on Foreign Direct Investments", multilateral and bilateral agreements and various laws and related sub-regulations regulating the promotion of investments on a sectoral basis. On the other hand, the tax policies of the host country are also one of the important particulars that the investor will evaluate. Ease of bureaucratic procedures is also important for companies to conduct their activities efficiently. These titles constitute trust in terms of countries that make foreign direct investments in Türkiye.

6. Incentives: Incentives constitute an important instrument for the country to be invested in as they attract foreign investments. Türkiye offers a comprehensive investment incentive program that supports minimizing start-up costs and accelerating investment returns for both greenfield and expansion investment projects. These incentives can also be adapted to projects in priority sectors classified as important areas for technology transfer and economic development. In addition to the support programs it offers to investors, R&D and innovation projects, and additional employment, Türkiye also supports exporters through various grants, incentives, and loans.

SECTORAL DISTRIBUTION OF FOREIGN DIRECT INVESTMENTS IN TÜRKİYE

In Türkiye, tax and employment-oriented supports are provided in the sectors of automotive, machinery, aviation and defense, energy, agriculture, infrastructure, and finance. As can be seen from Table 1, it can be mentioned that the highest increase was observed in the service sector, manufacturing sector, agriculture sector, energy sector, and mining sector in the year 2021. While the service sector ranks first in the ranking with a value of 5.4 billion dollars and 72% of the total investment, it is followed by the manufacturing sector with a value of 1.7 billion dollars and a share of 23% in the total investment.

In the area of services, wholesale and retail trade, telecommunications and finance-insurance sectors constitute the sub-sectors with the highest investment inflows, respectively. In the field of manufacturing, the vehicles, chemistry, computer, electronic, and optical products sub-sectors have the highest investment inflows.

Table 1. Sectoral Investments in Türkiye (Year of 2021)

SECTOR	2021 (Million $)	2021 (% SHARE)
AGRICULTURE	144	1,9%
MINING	51	0,7%
PRODUCTION	1.799	23,7%
Food & Beverage Tobacco	173	2,3%
Chemical	292	3,8%
Refined Petroleum Products	138	1,8%
Base Metal Industry	95	1,3%
Computer-Electronic and Optical Products	258	3,4%
Non-Metallic Products	4	0,1%
Textile-Clothing-Leather	29	0,4%
Rubber-Plastic	107	1,4%
Transport vehicles	412	5,4%
Paper	98	1,3%
Machinery-Equipment	62	0,8%
Furniture	130	1,7%
Wood And Wood Products	1	0,0%
ENERGY	129	1,7%
SERVICES	5.467	72,0%
Finance And Insurance	379	5,0%
Telecommunication	945	12,4%
Wholesale And Retail Trade	3.338	44,0%
-Transportation and Storage	232	3,1%
-Build	101	1,3%
-Real Estate Activities	77	1,0%
-Human Health and Social Service Activities	46	0,6%
-Accommodation and Food Service Activities	67	0,9%
OTHER SERVICES	282	3,7%
WATER SUPPLY, WASTE MANAGEMENT	2	0,0%

Source: *T.R. Ministry of Trade*

COUNTRIES MAKING DIRECT FOREIGN INVESTMENTS TO TÜRKİYE

Following the pandemic, countries that were looking for a safe harbor in their investments have started to attach importance to criteria such as development levels and legislation.

Even though investment inflows to Türkiye generally follow a fluctuating pattern, it is seen that mainly European countries make investments. As it is shown in Table 2, while the highest investment was made in the year 2012 with a value of 10.7 billion dollars, it decreased to 7.5 billion dollars in the year 2021 due to the pandemic and global recession expectations.

As shown in Table 2, while Britain ranked first with a value of $2,044 billion in the year 2012, it was followed by Austria, Netherlands, Luxembourg, Germany, Switzerland, USA, Saudi Arabia, Azerbaijan, and Lebanon. In 2021, England took first place with 1.436 billion dollars and the ranking changed to the USA, Netherlands, Switzerland, United Arab Emirates, Germany, Luxembourg, Japan, Qatar, Azerbaijan, and France.

Table 2. Countries Making Direct Investments to Türkiye (billion USD)

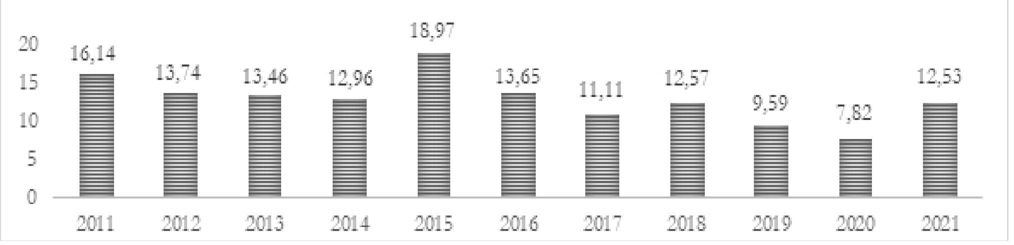
	COUNTRIES	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	Holland	1.381	918	2.022	1.183	1.016	1.727	855	1.169	598	1.014
2	USA	439	326	334	1.620	340	180	435	340	813	1.180
3	Britain	2.044	300	1.051	588	974	328	445	874	474	1.436
4	Germany	491	1.970	606	355	492	312	298	467	287	466
5	Austria	1.519	667	31	83	344	320	465	75	57	103
6	Luxembourg	1.186	278	565	1.254	336	96	350	135	425	351
7	Spain	193	581	74	2.305	318	1.460	224	215	87	67
8	Belgium	39	60	38	863	13	223	212	69	73	83
9	France	86	217	287	165	90	107	313	158	168	135
10	Azerbaijan	338	803	884	839	661	1.005	510	566	186	150
11	Greece	58	68	52	48	0	0	8	3	4	0
12	Russia	11	1.433	723	747	723	5	5	16	1	3
13	United Arab Emirates	52	176	115	80	26	54	12	33	65	495
14	Italy	154	148	488	180	87	128	523	94	977	39
15	Switzerland	454	204	149	178	339	53	177	264	162	540
16	Japan	106	439	257	314	454	193	88	305	149	259
17	Train	46	469	8	350	420	113	294	570	400	150
18	Kuwait	271	185	197	7	73	67	137	69	60	61
19	Saudi Arabia	439	39	10	17	21	12	10	13	12	12
20	Lebanon	315	573	35	0	152	2	4	41	3	1
Total value of countries ranking in first 20		9.622	9.854	7.926	11.176	6.879	6.385	5.365	5.476	5.001	6.545
Others		0	0	0	11	5	0	0	0	0	0
TOTAL GLOBAL VALUE		10.761	10.523	8.632	12.181	7.579	7.401	6.699	5.881	5.791	7.592

Source: *T.R. Ministry of Trade*

EVALUATION OF DIRECT FOREIGN INVESTMENTS IN TÜRKİYE

Total foreign direct investment in Türkiye between years of 2011 and 2021 is $142.54 billion as shown in Chart 2.

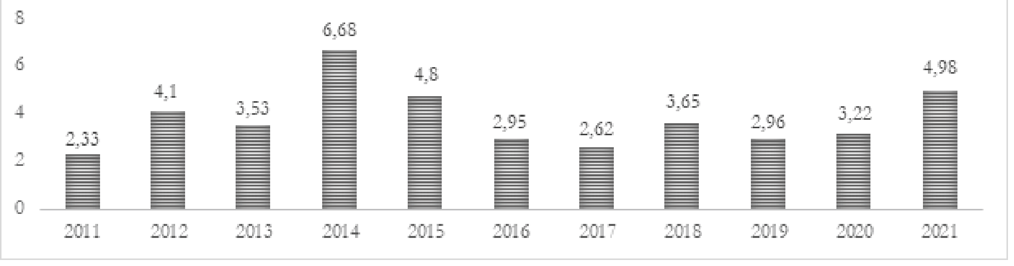
Graphic 2. Foreign Direct Investment Inflows to Türkiye (2011-2021) (billion USD)



Source: *United Nations Conference on Trade and Development. (2021). "Foreign Direct Investment Inflows to Türkiye (2011-2021)." Retrieved from https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en*

Total foreign direct investment outflow from Türkiye between years of 2011 and 2021 is 41.82 billion dollars as shown in Graphic 5.

Graphic 3. Foreign Direct Investment Outflows from Türkiye (Years of 2011-2021) (billion USD)



Source: *United Nations Conference on Trade and Development. (2021)."Foreign Direct Investment Outflows from Türkiye (years of 2011-2021)." Retrieved from https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en*

It is also seen that there is a direct foreign investment outflow from Türkiye between the years of 2011-2021. As shown in Table 3, when the data of the last decade are evaluated, it is seen that the highest output was in years of 2014 and 2021.

Table 3. Share of Türkiye in World Foreign Direct Investment (million USD)

Years	Direct Foreign Investment Inflow in the World	Direct Foreign Investment Inflow in Türkiye	Share of Türkiye in Direct Foreign Global Investments (%)
2011	1.610.398	16.140	1,00
2012	1.468.753	13.740	0,94
2013	1.459.043	13.460	0,92
2014	1.402.523	12.960	0,92
2015	2.063.638	18.970	0,92
2016	2.045.424	13.650	0,67
2017	1.632.639	11.110	0,68
2018	1.448.276	12.570	0,87
2019	1.480.626	9.590	0,65
2020	963.139	7.820	0,81
2021	1.582.310	12.530	0,79

Source: *They are compiled from date of UNCTAD.*

Between years of 2011 and 2021, Türkiye's share in global foreign direct investment has remained close to one percent between years of 2011 and 2015. But while it was around 0.70% in years of 2016-2017, Türkiye's share increased to 0.80% in year 2021 which enabled a regular investment inflow.

Table 4. Share of Türkiye in World Foreign Direct Investment (Outflow) (million USD)

Years	Global Direct Foreign Investment Outflow	Direct Foreign Investment Outflow from Türkiye	Share of Türkiye in Global Direct Foreign Investments (%)
2011	1.628.482	2330	0,14
2012	1.292.298	4100	0,32
2013	1.446.485	3530	0,24
2014	1.375.838	6680	0,49
2015	1.722.754	4800	0,28
2016	1.596.716	2950	0,18
2017	1.610.113	2620	0,16
2018	941.293	3650	0,39
2019	1.123.894	2960	0,26
2020	780.480	3220	0,41
2021	1.707.594	4980	0,29

Source: *They are compiled from data of UNCTAD.*

Between years of 2011-2021, Türkiye's outflow in Global Direct Foreign investment size is around %0,3 on average.

CONCLUSION

With the elimination of borders with globalizing trade, developing countries are trying to attract foreign capital to their countries due to the lack of domestic savings. Foreign direct capital does not only contribute to the capital insufficiency of countries, but it also contributes to the country's economy by providing know-how, technology transfer, and employment directly. Foreign direct investment is preferred by developing countries due to its direct contribution to production capacity and positive contribution to macroeconomic levels such as inflation, employment, and balance of payments. But besides contributing to macroeconomic development, investments can also have negative impacts due to technological dependence and constant capital requirements.

In this study, foreign direct investments in Türkiye between the years 2011-2021 have been examined and relevant investments in Türkiye were evaluated. A constantly growing economy, the importance of the strategic location, the ease of access to regional and international markets, the population structure, the ease of doing business, the incentives, and the possibility of sectoral opportunities have constituted the reasons for the inflow of foreign direct investments to Türkiye.

Furthermore, Türkiye continues to be an investment attraction center with its widespread R&D centers, intense state incentives in this area, production of innovative products, and strong technological infrastructure. Foreign direct investments continue to increase rapidly, with easy land, sea, and air transportation to Europe, Asia, and the Middle East, constituting a logistics base.

When the foreign direct investment data of Türkiye between the years of 2021 and 2021 are evaluated, it can be stated that it has reached the level of 142 billion US dollars. In this process, although the pandemic period that influenced the entire world took place, foreign direct investments coming to Türkiye reached the values before the pandemic period, again. The particular that Türkiye's investment environment provides investors with ease of conducting business and being a reliable base shows that investments will increase in the years to come.

FINANCIAL POLICY PURSUED IN TÜRKİYE: 2010-2021

Prof. Dr. Mehmet Yüce, *Dean at UNEC*

INTRODUCTION

Fiscal policy can be defined as the adjustments to be made in terms of the magnitude and composition of public expenditures and revenues to achieve basic macroeconomic objectives in an economy. Fiscal policy is the sum of policies implemented by the government to create full employment, economic stability, and a fair distribution of wealth and income in the economy by using fiscal policy tools (public expenditures, taxes, debts, and budget).

The definition of fiscal policy is based on two key elements:

- Specific economic and social objectives to be achieved,
- Financial instruments of which magnitude and composition must be adjusted accordingly.

Fiscal policy has been at the forefront of the political instrument clusters that have been used in almost all countries since Keynes. It is possible to express the significance of fiscal policy by summing it up under three headings.

- First of all, it is derived from the importance of fiscal policy objectives in the overall economy.
- The second is the power of financial instruments. As it is known, the degree of influence of firms on economic decisions under perfect competition conditions is negligible. However, the state, which is in a position to act in line with autonomous political decisions regardless of the price mechanism, can affect the general economy by using financial instruments.

- Thirdly, the state implements other policies, such as monetary policy, foreign trade policy, industrialization policy, and so on, to achieve its basic economic policy goals and objective apart from its fiscal policy. However, among these policies used, fiscal policy has a more dominant role in terms of both scale and impact.

Fiscal policy has all along been effective in the establishment and development of the economic structure in Türkiye. Although the liberal economic policy was adopted during the establishment period of the Republic of Türkiye, the mixed economic system dominated in practice due to the economic conjuncture of the period, and public investment came to the fore. The Republic of Türkiye intensively resorted to fiscal policy tools for the revival of the private sector, which was on the verge of collapse in the economic devastation created by the disintegration of the Ottoman State. Although there have been important developments in the private sector in the following years, the role of the state in the economy has always been at the forefront with the incentive policies it has implemented.

The 1960s had especially distinct importance for the development of Türkiye. With the establishment of the State Planning Organization in 1960, a new era began in the Turkish economy in terms of making economic decisions and adopting a course of action for economic policies. In this period, the state was accepted as the locomotive of economic and social development throughout the Five-Year Development/Progress Plans created by the State Planning Organization, which was established and affiliated with the Prime Ministry, and became the biggest supporting power for the development of the private sector. The private sector, public sector, and external and outsourced resources have been determined as three sources of accumulation for the realization of the development plans. Within the scope of the import substitution industrialization policy adopted and pursued in this period, domestic production was supported, certain incentives, primarily financial supports, were provided to the determined investments, and a protective policy was followed.

Another turning point in the economic field in Türkiye was the January 24 decision, which was implemented in 1980. After the 1960s, the import substitution economic policies pursued for about 20 years, as well as the political instability experienced, caused bottlenecks in the economy, inflation reached triple digits, production shrinkage and engrossing unfolded, and economic instability prevailed in the country. As a solution to get rid of this vicious circle, it was envisaged to abandon the import substitution policies and create the infrastructure of an open economic policy. Within this framework, neoliberal policies, which went down in the history of Turkish economics as the "24 January" Decisions and obligated the Turkish economy to undergo a radical transformation, were implemented. In compliance with this policy, the understanding of the social state was put an end to, and foreign trade was supported through the surplus of goods created by narrowing the domestic demand with the tight monetary and fiscal policies implemented, the increase in wages was slowed, foreign capital inflows were encouraged, the private sector was tried to be structured competitively. To implement these decisions, a three-year stand-by agreement was signed with the IMF. With this agreement, some practices were implemented to minimize the role and intervention of the state in the economy and to make the open, free market economy operative. Along with the tight monetary and fiscal policy implemented, interest rates were increased, wages were kept under restriction, SEE (State Economic Enterprises) products were marked up, and the value of the national currency was lowered against the exchange rate.

Although there was an economic recovery at the beginning, especially with the funds provided by the IMF, the January 24 stability program could not reach its intended goals. Especially in this period, as a result of weakened public control, the informal economy reached high levels, the rentier economy developed, public resources were wasted due to practices such as fictitious exports, serious decreases were experienced in tax revenues, and public debts were no longer manageable. The vicious cycle of public debt, especially due to unmanageable budget deficits, triggered a new crisis period in public finance. Furthermore, the unhealthy structure of the financial system, especially in public banks, has become unsustainable. One of the biggest factors in the failure of the January 24 Decisions was the fact that the economic structure, which had been following a protectionist policy for many years and was shaped according to these policy priorities, did not undergo a radical transformation to adapt to an open economy. For this reason, the Turkish economy was exposed to crises at certain intervals in the 1990s, and in the 2000s, it faced a stronger crisis with the political instability experienced.

The 1990s was a period of crisis not only for Türkiye but also for the whole world. Political tensions in the Middle East in the 1990s, the Asian financial crisis in 1997, and the financial crisis in Russia in 1998 had a grave impact on Türkiye. In addition to these crises, the earthquakes that took place in Türkiye in 1999 made the Turkish economy, which was already on the verge of degradation, even more fragile. Certain economic recovery programs for stabilization have been put into practice against this vulnerability. Success to an extent was achieved for a short time, especially with the stabilization program based on the fixed exchange rate which was put into practice on December 9, 1999. After this program, the economy partially recovered. In this process, interest rates fell, inflation receded, markets revived, and growth resumed after a two-year hiatus. However, the November 2000 crisis initiated a new era in the economy.

The coalition government of the period made a radical transformation to overcome this crisis. In this period, as a result of the stand-by agreement with the IMF, a two-stage stabilization program was put into practice on April 14 and May 15. While the name of the program in question was "national program" at first time, it was later defined as "The Program for Transition to a Strong Economy." Kemal Derviş, who has international experience in the implementation of this program, has been appointed as the minister of economy. With the Transition to a Strong Economy Program, the fixed exchange rate regime was abandoned, and an attempt was made to establish the infrastructure for the restructuring of the public administration and the economy to quickly eliminate the emerging crisis of confidence and instability and to prevent this situation from recurrence. This program emphasized the principle of effective use of both monetary and fiscal policies. In particular, the contractionary fiscal policy was implemented and in this context, an effort was made to dissolve the debt stock by creating a primary budget surplus. One of the most important practices that marked this period was the strengthening of the financial structures of banks. Although the government changed in the elections held after this policy, which was put into practice in 2002, the policies adopted by the new government were implemented for a long time without making any significant concessions from this program. Thus, the economic structure of the 2000s was formed on the axis of this program.

Following the coming to power of the Justice and Development Party, the political stability achieved in the country was also reflected in the economy, fiscal discipline was ensured in the short term, and stability was realized in public financial management. In the first period of the Justice and Development Party, a program of transition to a strong economy was implemented in general. However, in the following periods, the fiscal discipline was loosened with the effect of internal and external factors, and the financial balance began to deteriorate, especially with the effect of COVID-19. In this study, the years 2010-2021 will be discussed within the scope of the financial structure that was shaped especially after the program of transition to a strong economy and differentiated with different implementations in the following periods.

FINANCIAL POLICIES IMPLEMENTED IN TÜRKİYE

Financial Policies Pursued in 2000-2010

Türkiye started the new year with two crises in 2000-2001, which went down as the most severe crisis in the country's economic history. In addition to the economic crises experienced in this period, quite vexing political events took place both in the domestic and outside world in the same period. The internal and external economic and political crises that emerged in this period left their mark on the period. As stated above, we entered this period with the fiscal adjustment program based on the IMF's technical and financial support exchange rate anchor and aiming to reduce inflation to single digits at the end of 2002. However, one year after this program came into effect, the targeted goal could not be achieved and the November 2000 crisis broke out. With the February 2001 crisis experienced after this crisis, the said program was abandoned and the Transition to a Strong Economy Program, which included a return to the floating exchange rate regime, was adopted. A year after the implementation of this program, general elections were held and the coalition government that implemented this program was overthrown and lost its presence in the parliament. The stand-by agreements signed by the Justice and Development Party government, which came to power alone after the 2002 elections, with the IMF in 2002 and 2005, outlined the general framework of macroeconomic policies that are expected to be implemented until 10 May 2008. Within this framework;

- Tight fiscal policy and reduction of public debt stock,
- Central Bank policy based on tight monetary and (open since 2006) inflation targets,
- Structural reforms in banking and other areas, especially to ensure financial sector stability, had been implemented (Voyvoda, 2012: 2).

In the first stage of the program, which was implemented in three stages, it was announced that the financial sector would be controlled in the first stage, in the second stage, the targets for eliminating the external deficit and reducing inflation would be announced, and in the last stage, the growth rate would be increased with practices aiming at structural change (Kol and Karaçor, 2012: 387). On the other hand, as in other stand-by agreements, contractionary fiscal policies were implemented about these agreements, on the one hand, it tried to increase the export with the production surplus to be formed by shrinking the domestic demand, on the other hand, the public debt stock was tried to be deleveraged by creating a "determined primary surplus" in the budget. Here, in addition to the contractionary fiscal policy, the contractionary monetary policy was also implemented. With the fund to be created by creating a primary surplus in the public budget, it is aimed to ensure debt management and reduce interest by creating an element of trust in the country. Thus, the fall in interest rates will not only stimulate consumption expenditures but also create a healthy investment environment and the economy will enter a "sustainable" growth path. Therefore, a kind of "expansionary fiscal contraction" process has been put forward (Voyvoda, 2012: 2).

The results of the fiscal policies put into practice between 2002-2006 to provide stability reflected credit on the economy. As it is known, the aim of the tight fiscal policy followed in this period is to permanently reduce the ratio of public debt stock to national income and public deficits, to reach a balanced budget structure, to provide a primary budget surplus in line with the sustainable debt burden target, to contribute to the creation of a sustainable growth environment and to combat inflation has been supporting. As a result of the tight fiscal policies followed on this axis, stability in the public economy has been ensured, the public sector's borrowing needs have been reduced by reducing public deficits, the ratio of public debt stock to national income has been reduced to a reasonable level, efficiency in debt management has been achieved and inflation has been brought under control. Another striking factor in this period is that Türkiye's balance of services has always had a surplus with the effect of tourism, transportation, and construction services. On the other hand, except for 2001, the Current Account Balance had a continuous deficit.

However, the crisis that emerged in the US mortgage market in August 2007, which was referred to as the "mortgage crisis" in the literature, intensified in the last quarter of 2008 and affected all world markets, and made it necessary to make some changes in the fiscal policy. During this period, which coincided with the fact that Türkiye has just come out of the 10-year IMF close supervision (May 2008), Turkish economy relatively escaped this crisis lightly. In the face of this crisis, Türkiye has been more resilient due to the policies it has implemented before. As a result of the fiscal discipline policies and measures taken after the 2001 crisis, the power of the financial sector of the Turkish economy to resist the global financial crisis has increased. However, the real sector of the economy could not show the same strength against the crisis. The Turkish economy was also affected by the problems experienced in domestic and foreign demand and data such as production, exports and unemployment was negatively affected for this reason. Particularly, the uncertainties experienced due to the deterioration of the environment of trust, the increasing risk perception and the narrowing in credit facilities, and the financial crisis caused a decline in economic activities (Karakurt, 2010: 186).

In the face of the contraction and recession in the economy due to this crisis, expansionary monetary and fiscal policies were implemented in Türkiye as well as in the rest of the world. Within the scope of the expansionary monetary policy, interest reduction and policies to stimulate liquidity were implemented, while tax reductions (Value Added Tax and Special Consumption Tax) were made within the scope of expansionary fiscal policies, and an incentive package was put into practice based on regions and sectors. However, because the fiscal incentive programs implemented in Türkiye are relatively narrower than in other countries, public finance indicators have been affected less negatively. In addition, in 2010, the public fiscal policy was carried out by realizing the institutional and structural improvements envisaged within the framework of the Medium Term Program (MTP), so that the expansionary effect of the fiscal policy implemented during the crisis period was tried to be reduced. In this context, it is envisaged that there will be a gradual fiscal tightening starting in 2011.

Financial Policies Pursued in 2010-2015

The Turkish economy has been one of the countries that emerged the fastest from the 2009 global crisis. For this reason, a rapid growth process has started since 2010. However, increasing borrowing and growing foreign exchange deficit made the economy fragile. Therefore, Türkiye entered 2010 with the effect of the 2008 crisis, although it was alleviated. For this reason, the adverse effects of the expansionary fiscal policy implemented due to the financial crisis in 2010 were tried to be eliminated in the public finances and the necessary measures were taken to re-establish discipline in public finances. The central government budget performance, which was adversely affected by the global crisis in 2009, improved beyond expectations in 2010 due to the faster-than-expected growth of the economy. The main source of the improvement in the consolidated budget balance was the increase in tax revenues due to the rapid growth trend in the economy and tax adjustments.

In addition, the relative slowdown in the rate of increase in primary expenditures and the decline in interest expenditures due to the decline in domestic borrowing interest rates also positively affected the budget balance (TOBB, 2011: 88).

As stated above, the Turkish economy, like other economies, was negatively affected by the crisis and shrank in 2009. However, thanks to the monetary and fiscal policy implemented and the strong banking sector, it displayed a more stable outlook compared to many countries. While a recovery was achieved in the global economy in 2010, a gradual financial tightening has been achieved since 2011. In Türkiye, within the framework of the Medium Term Program (MTP), the fiscal policy was carried out by fiscal discipline and a positive performance was achieved in the public finance balances in 2011. Despite the negative developments in the global economy, the central government budget performed well in 2011 with the effect of the fiscal tightening. Furthermore, additional income was obtained with the regulation regarding the restructuring of some public receivables. Thus, with the additional income provided, the public sector borrowing requirement decreased. Due to the strong recovery in the economy, the significant increase in taxes on imports also contributed positively to the budget balance. However, the most unfavorable development experienced in this period was the dynamic of the high rate of growth achieved in 2010-2011, driven by domestic demand based on private sector consumption and investment expenditures. This structure caused the external balance to deteriorate rapidly and the ratio of the current account deficit to gross domestic product reached 10% in 2011. As the economic fragility caused by the growth due to domestic demand reached an unsustainable level, the government has resorted to balancing policies since mid-2011.

In 2012, Türkiye tried to maintain its economic balance in an environment of uncertainty stemming from the ongoing recession in the European economies and the political and economic problems prevalent in its neighboring countries. In 2012, the recovery in the global economy could not reach a sufficient level, and basic macroeconomic and financial problems continued. On the other hand, the fiscal policy in Türkiye was carried out by the fiscal discipline within the framework of the Medium Term Program (MTP) and Medium Term Fiscal Plan (MVMP), but the slowdown in the rate of increase in tax revenues and the increase in primary expenditures due to the slowdown in economic activity did not affect public finance balances amount of deterioration. The rapid growth seen in the economy in 2012, 2010, and 2011 gave way to slower growth. While this slowdown in the economy naturally affected revenues negatively, expenditures exceeded the targets (TOBB, 2013: 129, 130).

In accordance with the budget discipline and tight fiscal policy it has implemented, Türkiye has improved its public financial balances, except in 2009, when the effects of the global crisis deepened. Fiscal discipline was ensured to a great extent with the effect of the financial measures put into practice to limit the negative effects of the global crisis on the economy. The ratio of budget deficit to GDP, following a better course than many developed and developing countries' economies, remained below the 3% Maastricht criterion except for 2009 and 2010. The upward trend in general government revenues continued in 2013. The general government revenues, which increased by 13.4% in 2012, increased by 15.6% and reached 619,524 million TL in 2013 (TOBB, 2014: 104). The upward trend in general government revenues continued in 2014 and a 10.2% increase was realized in public revenues.

One of the important agenda items of 2015 was the G20 Summit, held in Antalya on 15-16 November, under the term presidency of Türkiye. According to the Medium-Term Program for 2015-2017, it was announced that the fiscal policy will be implemented in a way that will help to support economic stability, control the current account deficit by increasing domestic savings, combat inflation and increase the growth potential. Observing the sustainability of the fiscal policy by keeping the public sector borrowing requirement and non-interest expenditures under control, and ensuring the continuation of the gains made in the past period in the field of public finance in the future are stated as the basic principles. Public finance was one of the areas where the Turkish economy performed relatively well in 2015 as well. This year, too, public revenues increased by 15.5% (TOBB, 2016: 109).

Table 1. Central Government Budget Balance (Current Prices, million TL)

				Change (%)		Ratio to GDP		
Compenents	2013	2014	2015	2014	2015	2013	2014	2015
Budget expenses	408.225	448.752	505.992	9,9	12,8	26,0	25,7	25,9
Expenses excluding interest	358.239	398.839	452.987	11,3	13,6	22,9	22,8	23,2
Interest expenditures	49.986	49.913	53.006	-0,1	6,2	3,2	2,9	2,7
Budget revenues	389.682	425.383	483.386	9,2	13,6	24,9	24,3	24,7
Budget balance	-18.543	-23.370	22.606	26,0	- 3,3	-1,2	-1,3	-1,2
Non-interest (primary) balance	31.443	30.400	26.544	-15,6	14,5	2,0	1,5	1,6

Source: *Ministry of Finance, Turkish Statistical Institute*

Financial Policies Pursued in 2016-2021

In the Medium Term Program, Medium Term Fiscal Plan, and 2016 Year Program, the main objective of the revenue policies for the period of 2016-2018 has been determined as providing the finance needed by the public to fulfill the duties undertaken by healthy and continuous sources. Expenditure policies aimed to increase growth and make it more inclusive through structural reforms in an environment where macroeconomic stability is maintained and current account deficit and inflation are gradually reduced; for this purpose, increasing domestic savings, encouraging a growth structure based on private investments and industrial transformation, increasing the competitiveness and productivity level of the economy have been determined as the main priorities (Ministry of Finance, 2016: 11, 13). Despite the negativities experienced at home and abroad in 2016, a growth rate of 2.9 percent was achieved. Since the global crisis in 2016, Türkiye has managed to achieve growth for seven years in a row. In 2016, an increase of 12.5% was achieved in public revenues.

In the Medium-Term Fiscal Plan for the period of 2017-2019, it is stated that the fiscal policy will be implemented in a way that will contribute to the preservation of economic stability, increase the growth potential, keep the current account deficit under control, and encourage domestic savings and investments, in line with the main objectives and priorities of the economic policy. While maintaining the unity of the fiscal policy, it is aimed to protect the gains made in the field of public finance and to reduce the public sector borrowing requirement. It is aimed to allocate central government budget resources for these purposes and to use them economically and efficiently. It was stated that the fiscal discipline will continue to be supported by structural reforms.

The expansionary fiscal policy implemented in the first eight months of 2017 contributed to growth through public investment and consumption expenditures, as well as the measures are taken and incentives given. It demonstrated a strong growth performance of 5.1 percent in the first half of 2017, especially with the effect of financial incentives put into practice to stimulate the economy, supportive macroprudential policies, loans provided through the Credit Guarantee Fund, and the positive external conjuncture. With this growth performance, Türkiye has become the third fastest-growing country after China and India among the G20 countries (Ministry of Finance, 2017: 35). However, the growth trend showed a downward trend after 2017 and its growth was below 1 percent in 2019.

In the Medium-Term Fiscal Plan for 2018-2020, it is stated that the fiscal policy will be implemented in a way that will contribute to the preservation of economic stability, increase the growth potential, keep the current account deficit at a sustainable level, increase domestic savings and encouraging investments in line with the main objective and priorities of the economic policy and monetary policy targets. It is aimed to improve the ratio of public expenditures and revenues to national income and to increase its efficiency, increase the share of tax revenues in public revenues, ensure health and continuity in income sources, control the public sector borrowing requirement, and protect the gains made in the field of public finance with sustainable fiscal policies.

In 2018, public finance policies were carried out to meet structural, cyclical, and social needs, while supporting the fiscal space and the fight against inflation. In this period, important regulations that increased public revenues were put into effect, decisions were taken to save public expenditures, and tax regulations contributed to the fight against inflation. On the other hand, cash and tax incentives supporting investment, production, employment, and exports were provided, and regulations reinforcing income distribution and social justice were implemented. Economic and social incentives created some cost on financial balances, and the 12-month cumulative central government budget deficit, which was 47.8 billion TL at the end of 2017, rose to 73.4 billion TL as of August (Ministry of Treasury and Finance, 2018: 29).

In the Medium Term Fiscal Plan for 2019-2021, the main objective of the fiscal policy is explained as reducing the expenditures on goods and services, capital, current transfers, and interest within the scope of the central government budget, and increasing revenues. It is aimed to carry out the fiscal policy in coordination with the monetary policy, in line with the targets on the current account deficit and growth, especially on inflation. It is envisaged that the government-controlled/administered, price, wage, and tax adjustments will be determined to support the decline in inflation to a large extent. It was emphasized that the predictability of fiscal policy would continue to be strengthened. In this framework, the recovery in economic activity was supported through fiscal incentives and measures as well as public expenditures as an instrument of the fiscal policy that was tried to be implemented.

According to the New Economic Program (2020-2022), announced in 2020, the fiscal policy is aimed to contribute to the fight against inflation and growth. On the other hand, it is envisaged that a partial tightening will be achieved through efficient use of resources and saving in designated areas. However, the COVID-19 pandemic, which broke out in China on November 17, 2019, and started to affect Türkiye in March 2020, made expansionary fiscal policies, contrary to what was envisaged in the New Economy Program. Due to the COVID-19 pandemic, fiscal policies have come to the fore and used effectively in the fight against the social and economic effects of the epidemic in Türkiye as well as in the world. In this context, extensive tax and monetary assistance were implemented. This practice naturally created a contractionary effect on public revenues and an expansionary effect on public expenditures. Thus, the support and incentives provided within the scope of the expansionary fiscal policy measures increased the expenditures of the central government budget more than anticipated, adversely affecting the budget balance.

To prevent the negative effects of the COVID-19 epidemic in 2020, the Ministry of Treasury and Finance made some arrangements with the Economy Stability Shield Package announced. Within the scope of the package, sectoral reductions were made in tax rates, the implementation of the accommodation tax was postponed, the existence of force majeure was accepted for taxpayers operating in sectors that were severely affected by the epidemic, and the submission and payment periods of concise, VAT and social security declarations were extended, and all income taxpayers were included in the scope of force majeure, credit conditions were loosened. The scope of the package has been expanded with new measures taken in line with emerging needs (TOBB, 2021: 124).

Within the scope of the Medium-Term Program (2021-2023), it is foreseen that in 2021, in proportion to the success achieved in the fight against the epidemic, the budget revenue collection will increase and a partial tightening will be made by making savings in the areas determined by the efficient use of resources. Furthermore, income -and expenditure-oriented policies were implemented throughout the year, taking into account inflation and demand conditions. In 2021, within the scope of combating the economic and social effects of the epidemic, there was an increase in expenditures due to the measures implemented to support the real sector and households. However, a strong recovery was observed in income collection as a result of the widespread use of vaccination and the gradual relaxation of the measures taken against the pandemic. In 2021, revenues exceeded expectations, and expenditures were in line with the targets (Strategy and Budget Department, 2021: 37).

Table 2. Central Government Budget Balance (Current Prices, million TL)

				Change (%)		Ratio to GDP		
Components	2019	2020	2021	2020	2021	2019	2020	2021
Budget expenses	1.000.027	1.203.737	1.599.642	20,4	32,9	23,2	23,9	22,2
Expenses excluding interest	900.087	1.069.775	1.418.790	18,9	32,6	20,8	21,2	19,7
Interest expenditures	99.940	133.962	180.852	34,0	35,0	2,3	2,7	2,5
Budget revenues	875.280	1.028.446	1.407.399	17,5	36,8	20,3	20,4	19,5
Budget balance	-124.747	-175.291	-192.243	40,5	9,7	-2,9	-3,5	-2,7
Non-interest (primary) balance	-24.807	-41.329	-11.391	66,6	-72,4	-0,6	-0,8	-0,2

Source: *Ministry of Finance, Turkish Statistical Institute*

CONCLUSION

Fiscal policy has assumed a very effective function in Turkish economic structuring and operation. Especially in the 2000s, when crises were frequently experienced, fiscal policy instruments were frequently used to alleviate the effects of the crises and to overcome the crises. In this context, stand-by agreements were made with the IMF. The last stand-by agreement with the IMF was on May 11, 2005, which ended on May 10, 2008. This agreement was also the last stand-by agreement between Türkiye and the IMF. There have been many economic and financial programs implemented in different periods in Türkiye. However, among these programs that went down in economic history were the January 24 Decisions implemented in 1980 and the "Transition to a Strong Economy Program" implemented after the 2001 crisis. With the January 24 Decisions, which provided a radical transformation in the Turkish economy, the import substitution economic structure was abandoned and neoliberal policies were implemented. With this policy, the understanding of the social state was put an end to, and foreign trade was supported through the surplus of goods created by narrowing the domestic demand with the tight monetary and fiscal policies implemented, the increase in wages was slowed, foreign capital inflows were encouraged, the private sector was competitive tried to be structured. The Transition to a Strong Economy Program, which is an orthodox stabilization program, aimed to reduce the need for public sector borrowing by ensuring discipline in public finances and providing a solid structure for the banking and financial system, especially for public banks.

THE POTENTIAL OF FOREIGN TRADE AND LOGISTICS SECTOR IN TÜRKİYE

Associate Professor Yüksel Okşak,

Bursa Uludag University, Inegol Faculty of Business Administration, International Business and Trade

INTRODUCTION

Throughout the historical process, the science of economics has sought solutions for meeting unlimited human needs with limited resources. Resources are not equally distributed all over the world, so people resorted to barter to meet their needs. With the development of transportation vehicles and possibilities, the barter method has evolved into the concept of foreign trade over time. Foreign trade is a major source of income for countries. Since the limited trade could not develop the phenomenon of foreign trade, liberalization steps in trade were taken over time. The World Trade Organization (WTO) is one of the biggest steps taken in the name of trade liberalization. Free trade; brings countries closer to each other, converging countries become able to follow each other more closely and thus countries can contribute to their level of development. Developing countries create positive results in the direction of increasing per capita income. The increase in per capita income causes the diversification of individuals' tastes and preferences. This is one of the reasons that push countries to foreign trade. Moving the trade to the international dimension has made it possible to use the existing limited resources more effectively and efficiently. The transportation of products from one country to another has undoubtedly revealed the logistics factor, and the logistics sector, which has developed over time, has played an important role in the development of international trade.

The logistics sector is one of the fastest changing and developing sectors. Factors such as the increase in investments with the developing technology and a continuous increase in the foreign trade volume, liberalization of trade, changes in the competitive structure and globalization accelerate the change and development of the logistics sector (Waters, 2003). When the concept of globalization is considered from an economic point of view, it means that there is a multifaceted interaction between the world economy and the economies of the countries or the integration of the world in a single market (İyibozkurt, 1994).

Establishment of the World Trade Organization (WTO), North American Free Trade Agreement (NAFTA), European Union (EU), European Free Trade Agreement (EFTA), Latin American Free Trade Agreement (LAFTA), Association of South East Asian Nations (ASEAN), such economic integrations are important steps towards the liberalization of trade. The increasingly liberalized trade has accelerated the pace of change and development in the logistics sector. This adventure, which started with transportation activities, has evolved into logistics operations as a whole.

The globalization of trade over time allows the trade of goods and services between countries to increase. Logistics services enable the flow of trade in goods and services. In this way, goods and services produced in different countries can reach customer potential in different geographies. Logistics, which is of great importance for businesses to hold on in global markets, provides significant benefits to companies in terms of customer satisfaction and costs.

THE RELATIONSHIP BETWEEN FOREIGN TRADE AND LOGISTICS IN THE GLOBAL MEANING

The importance of foreign trade is especially evident in increasing the economic growth rates of countries and their share in worldwide markets. The sustainability of a country's foreign trade depends on the export of products with high added value and its potential to spread to various markets. In addition, in recent years, foreign trade transactions have increased the importance of logistics, and countries have felt the need to integrate the foreign trade policies and strategies they designed with logistics strategies (Erkan, 2014).

The continuity of trade is possible as long as it is accessible. The way to do this is possible with logistics processes. Within the scope of foreign trade transactions, logistics acts as a service sector. No matter how large the targeted market share is, if that market cannot be reached, the size of the market will not matter. Reaching the market becomes possible only with an effective logistics operation.

Customers in developed and developing countries are now demanding to have quality products at cheap costs, which has changed today's competitive approach. From this point of view, today's competitive companies have abandoned structures with a single production location and aimed to reach resources and consumers spread over wider geographies (TUSİAD, 2012).

Logistics functions as a competitive element for companies. The product delivered in the right place, at the right time, and in the right way creates customer satisfaction, which is one of the most important parts of foreign trade.

THE PERSPECTIVE OF FOREIGN TRADE OF TÜRKİYE

Türkiye is an important country for international trade, as it is located in a center that unites the Asian and European continents. Türkiye, which has constantly renewed and self-improving transportation systems, has a great importance in global trade. In addition to the regional and international relations in which it plays an active role, Türkiye continues to increase its importance in trade significantly with its peaceful political identity.

Table 1. Foreign Trade Values of Türkiye Between 2018-2021 (Thousand US$)

	Export	Import	Foreign Trade Balance	Foreign Trade Volume	Export to Imports Coverage Ratio (%)
2018	177 168 756	231 152 483	-53 983 726	408 321 239	76,6
2019	180 832 722	210 345 203	-29 512 481	391 177 924	86,0
2020	169 637 755	219 516 807	-49 879 052	389 154 562	77,3
2021	225 219 237	271 422 954	-46 203 716	496 642 191	83,0

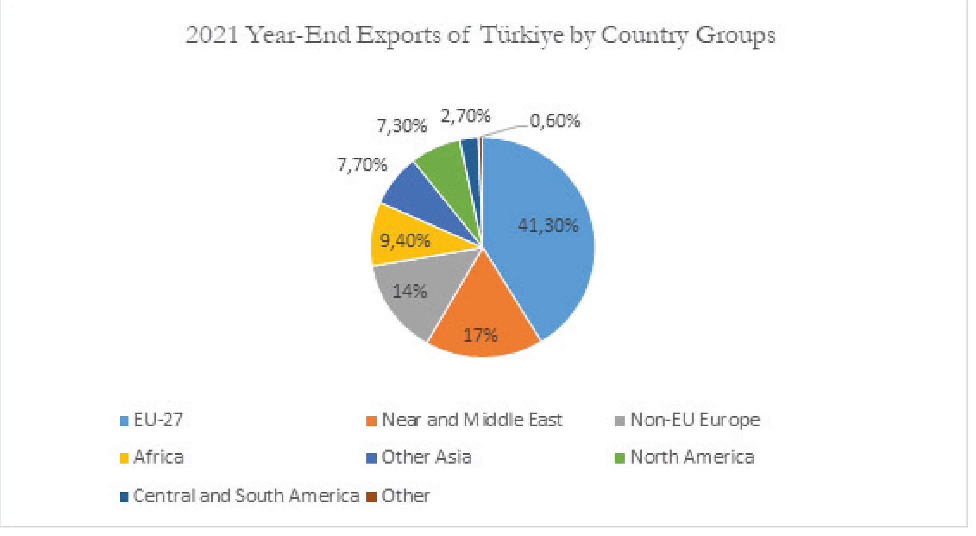
Source: *Prepared by utilizing TUIK data*

Türkiye's trade volume, which attaches importance to international trade and has experienced significant developments in this direction, has gained great momentum in recent years and reached a total trade volume of 497 billion dollars in 2021 with 225 billion dollars in exports and 271 billion dollars in imports. In the light of these data, the ratio of exports to imports in 2021 is 83%.

While interpreting this table, it is necessary to take into account a number of negative situations we experience globally. The year 2020 has been a year in which extraordinary movements were experienced both in the growing and developing Turkish economy and in all developed and developing countries. Because the COVID-19 pandemic process has caused major breaks in the global economy. Disruptions in supply chains, logistics problems, uncertainties in energy and oil caused stagnant processes in both production and foreign trade.

By 2021, the world was still under the influence of the pandemic process and the above-mentioned problems for 2020 were still on the agenda. So much so that these problems were integrated with costs that were hard to bear. While many developed and developing countries are suffering these pains, including the year 2021, Türkiye; it shines as one of the rare countries that did not compromise on the growth-based economy model and managed to cope with the crisis. As a matter of fact, in 2021, Türkiye reached a high level in the export item and maintained its place on the agenda with its exports of 225 219 237 USD.

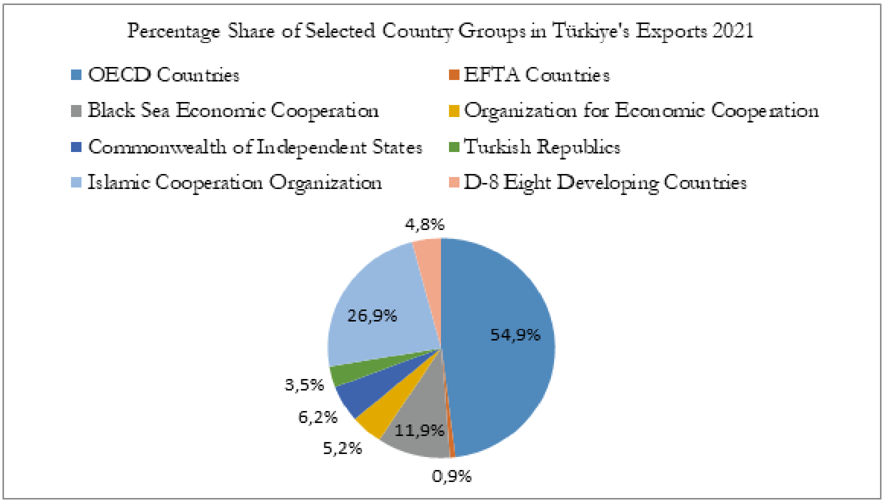
Figure 1. End of 2021 Exports of Türkiye by Country Groups



Source: *Prepared by utilizing TUIK data*

The largest share in Türkiye's exports belongs to EU-27 countries. EU-27 countries, which have a rate of 41.3%, are in the first place, while the Near and Middle East countries are in the second place with 17% and non-EU European countries are in the third place with 14%. Based on the first three rankings, it is possible to say that European countries have a total share of 55.3% in Türkiye's exports and that this ratio has a great importance in Türkiye's total exports.

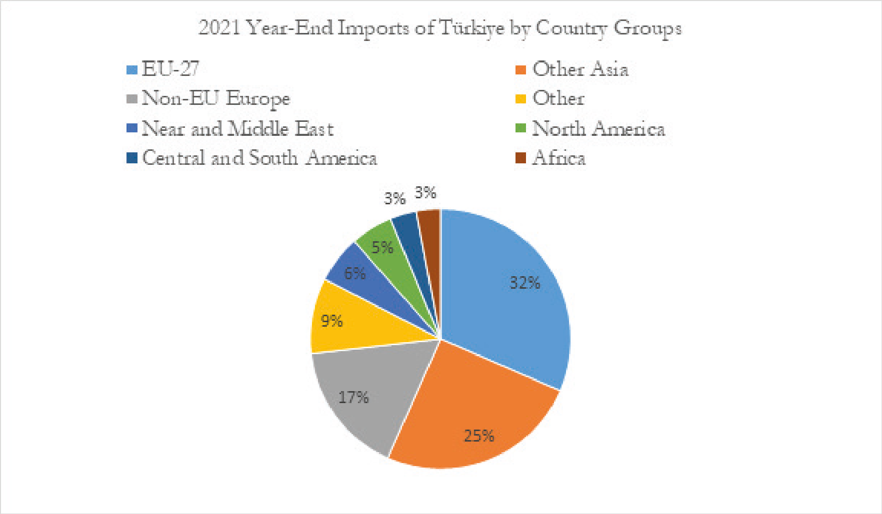
Figure 2. Percentage Share of Selected Country Groups in Türkiye's Exports (2021)



Source: *Prepared by utilizing TUIK data*

When we examine the share of selected country groups in Türkiye's exports, EFTA countries have the least share with 1%, while OECD countries have the highest share in Türkiye's exports with 54.9%. Considering that the EU-27 countries have the highest export rates on the basis of country groups, it should not be surprising that the share of OECD countries is so high. While the Organization of Islamic Cooperation takes the second place with 26.9%, the Black Sea Economic Cooperation takes the third place with 11.9%. The share of Turkic States in Türkiye's exports has been determined as 3.5%.

Figure 3. 2021 Year-End Imports of Türkiye by Country Groups

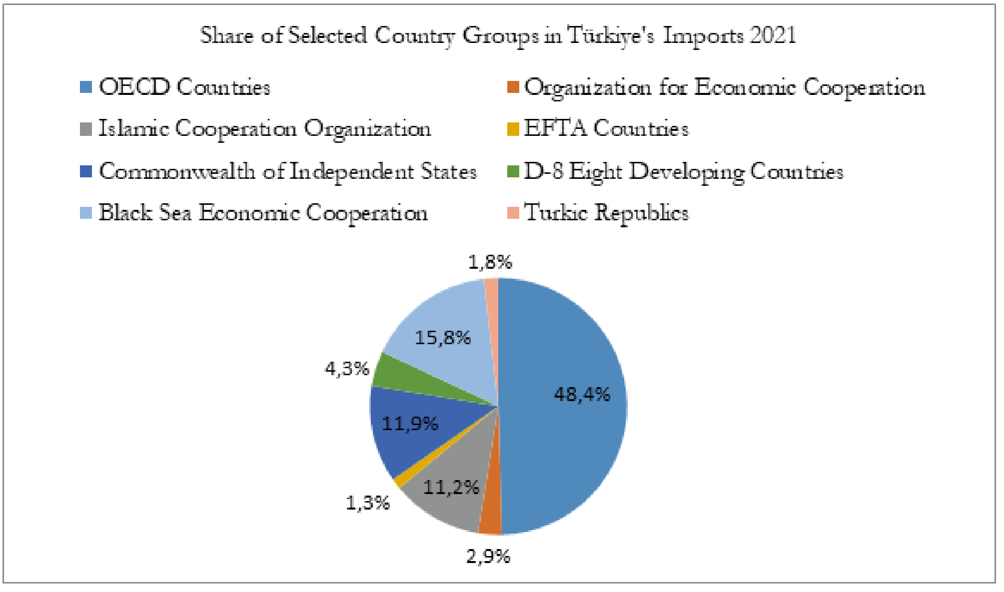


Source: *Prepared by utilizing TUIK data*

When we examine the country groups from which Türkiye imports, the largest share is the EU-27 countries with 31.5%. EU-27 countries are also prominent in exports, as you can see in Figure 3. Based on these two graphs, it is possible to say that EU-27 countries are effective in both Türkiye's exports and imports.

After the EU-27 countries with 31.5%, Türkiye's imports are in the second place with 25.1% in Other Asia countries and in the third place with 16.5% from the European countries outside the EU. In general, it is possible to say that the EU-27 and other European countries have a 48% share in Türkiye's imports.

Figure 4. Percentage Share of Selected Country Groups in Türkiye's Imports (2021)



Source: *Prepared by utilizing TUIK data*

When we look at the selected country groups that are the subject of Türkiye's imports, OECD countries rank first with 48.4%, just like in exports. Ranking third in Türkiye's exports, the Black Sea Economic Cooperation ranks second with a share of 15.8% in imports, while the Commonwealth of Independent States ranks third with 11.9%. The share of the Turkic States in Türkiye's imports is 1.8%.

As can be seen, the share of Türkiye and other Turkic States in both exports and imports is low compared to other country groups. There are many attempts to increase the trade volume of Turkic States with each other. Especially the "Türkiye-Turkic Republics Economy and Trade Conference" held in Istanbul on November 11, 2021 is one of the most up-to-date studies. On the occasion of the thirtieth anniversary of the independence of the Turkic States, they came together to further the commercial and economic cooperation between the Turkic States. This conference, hosted by the Ministry of Trade of the Republic of Türkiye and organized by the Foreign Economic Relations Board (DEIK), is of great importance in terms of improving the trade volume between Türkiye and the Turkic States. Republic of Türkiye Minister of Trade Mehmet Muş, Deputy Prime Minister of Uzbekistan and Minister of Investments and Foreign Trade Sardor Umurzakov, Minister of Economy of Azerbaijan Mikayil Cabbarov, Minister of National Economy of Kazakhstan Asset Irgaliyev, Minister of Economy and Trade of the Kyrgyz Republic Daniyar Amangeldiev, President of DEİK Nail Olpak, 450 people from the official institutions and organizations of the relevant countries, non-governmental organizations, public and private sector representatives attended. Turkic Council Secretary General Bagdad Amreyev also sent a video message to the conference (DEİK, 20.06.2022).

LOGISTICS PERSPECTIVE OF TÜRKİYE

Türkiye is a country that is a bridge between the Middle East, Turkic States and Europe, whose conjuncture in the world is closely followed on the way to becoming a transit country and trade center. As it is a transit route for road, sea, air, rail and pipeline transportation, its logistics importance is increasing (Oğuz, 2019). In Türkiye, which is located at a point where the Asian, European and African continents converge, all modes of transportation can be used, including airway, road, rail, sea and pipeline transportation.

Especially the extraordinary situations experienced at the beginning of the COVID-19 process caused logistical disruptions in Türkiye as well as in all countries. In 2020, many of the global-scale companies could not provide the service and supply they wanted from China, so they turned their direction to Türkiye in their purchasing processes. The tendency of purchasing towards Türkiye causes Türkiye to add another value to its rising added value.

There is no doubt that the rise of Türkiye's star is not only related to its geopolitical position. The service quality of a country's supply chain and logistics operations is directly proportional to the importance that country attaches to transportation and infrastructure services. Table 2 shows the distribution of public investments in Türkiye in the last 5 years by sectors. It is seen that the transport-communication sector has the largest share compared to other public investments.

Table 2. Distribution of Public Investments in Türkiye by Sectors

Years	Transportation-Communication	Agriculture	Mining	Production	Energy	Tourism	Housing	Education	Health	Other Public Services	Total
2021	42.474.438	11.983.015	14.371.251	1.601.873	16.832.829	310.849	769.684	19.827.542	10.381.036	19.731.798	138.284.315
2020	25.214.688	5.177.882	3.535.921	1.022.664	11.864.480	350.277	454.944	11.089.400	6.105.178	12.319.519	77.134.953
2019	20.320.646	4.931.893	2.104.322	841.059	7.713.110	343.492	406.194	10.815.002	4.975.517	12.937.488	65.388.723
2018	28.921.703	10.109.912	2.805.790	1.021.320	5.706.217	504.896	590.003	14.026.303	7.248.652	17.118.703	88.053.499
2017	23.924.694	10.180.467	1.836.706	1.137.176	4.962.361	493.557	604.777	13.477.040	7.430.716	16.345.595	80.393.089

Source: *Central Bank of the Republic of Türkiye, (Thousand TL)*

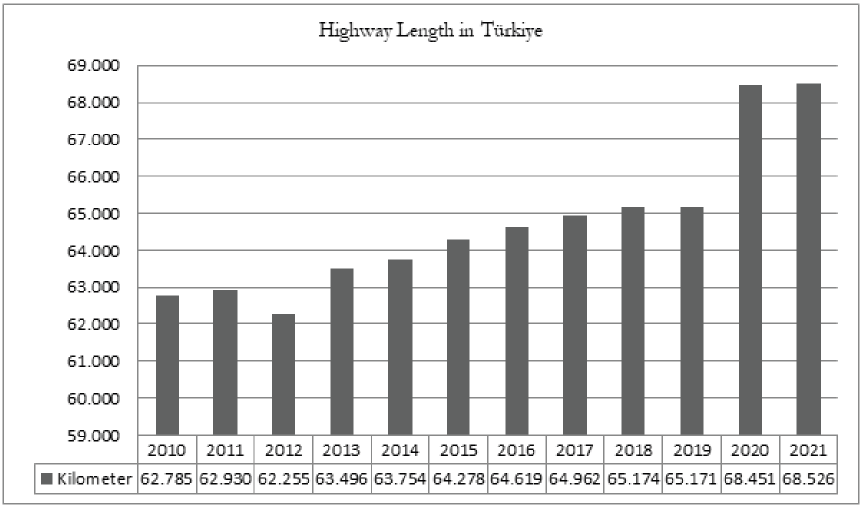
The border gates and ports that were closed during the pandemic process, and the canceled flights and reduced cargo volumes in the airline caused disruptions in the understanding of sustainable supply chain. Looking at the pandemic process from a supply chain perspective, it is possible to say that the importance of diversifying suppliers and target markets has increased. In particular, Türkiye has become one of the trending markets with the rise in freight costs after the container crisis. Türkiye gained an advantage with the 10-fold increase in the freight difference between Türkiye and the Far East in transports to the EU, and the logistics sector started to take initiatives to increase the number of lines to meet the demand (KMPG, 2021).

The logistics sector is one of the service export sectors and has a high foreign exchange earning potential. With the increase in global trade, the importance of logistics activities is gradually increasing. Effectiveness of logistics activities; it contributes to the spread of trade to wide geographies, attractive markets for foreign direct investments, diversification of exports and thus economic growth.

Road Transport in Türkiye

When the transportation modes are compared with each other, road transportation is the most preferred mode of transportation in Türkiye due to its low investment costs and being suitable for door-to-door transportation. As of January 1, 2022, the road network under the responsibility of the General Directorate of Highways is 68,526 km, including 3,532 km (5%) highway, 30,965 km (45%) state roads and 34,029 km (50%) provincial roads. 28,546 km (41.65%) of the total road network is divided road (Republic of Türkiye Ministry of Transport and Infrastructure, 2021).

Figure 5. Length of Highway in Türkiye



Source: *Republic of Türkiye Ministry of Transport and Infrastructure General Directorate of Highways Website, Road Network Information*

Türkiye is a party to many international agreements that are important in international road transport. Road transport in Türkiye takes place within the framework of these international agreements. Some of these agreements are as follows:

- Agreement on International Transport of Perishable Foodstuffs and Special Equipment to be Used in This Transport Activity (ATP)
- European Agreement on the Work of Personnel Working in Road Transport Vehicles (AETR)
- Agreement on the Convention for the International Carriage of Goods by Road (CMR)
- Customs Convention on the International Carriage of Goods under the Auspices of TIR Carnets (TIR)
- European Agreement on the International Carriage of Dangerous Goods by Road (ADR)

Table 3. Companies Carrying out Domestic and International Transport

Years	Number of Firms	Number of Vehicles
2017	465.242	1.168.753
2018	472.947	1.241.857
2019	452.607	1.193.050
2020	456.865	1.272.291
2021	525.801	1.351.536

Source: *Republic of Türkiye Ministry of Transport and Infrastructure, Reaching and Accessing Türkiye Report 2021*

The number of companies engaged in domestic and international transportation increased by 60,559 in total from 2017 to 2021, reaching 525,801. It shows parallelism with the number of vehicles and the number of companies. The number of vehicles, which was 1,168,753 in 2017, increased by 182,753 and reached 1,351,536 in 2021.

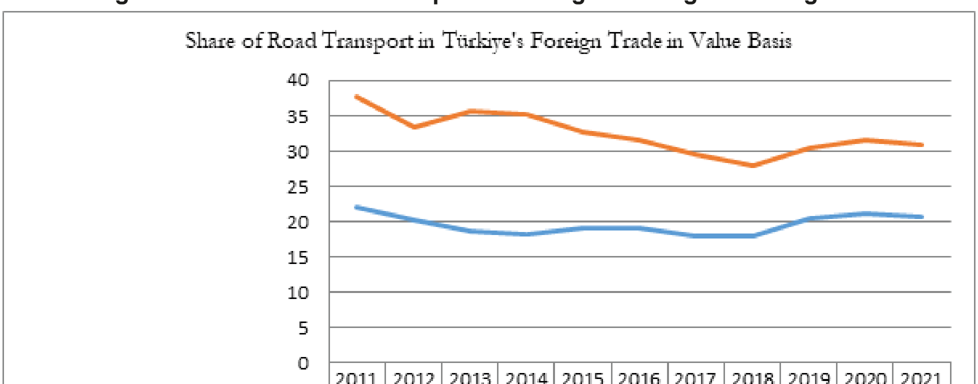
Türkiye; it is a country that is gaining importance worldwide because it is located at the junction of the Asian, European and African continents, and is also on the transit route of the international highway corridors connecting Central Asian countries and Russia to Europe.

Table 4. International Road Corridors in Türkiye

Itineraries	Length (km)
Trans-European North-South Motorway (TEM)	6.940
European Agreement for E-Roads Main Traffic Routes (UN/ECE/AGR)	9.353
Black Sea Economic Cooperation (BSEC)	4.472
Economic Cooperation Organization (ECO)	9.914
Economic and Social Commission for Asia and the Pacific (UN/ESCAP)	5.268
Europe, Caucasus and Asia Transport Corridor (TRACECA)	11.582
Eurasian Road Links (EATL)	5.663
Trans Europe (TEN-T) Comprehensive Road Network	16.799
Trans Europe (TEN-T) Core Road Network	9.212

Source: *Republic of Türkiye Ministry of Transport and Infrastructure, Reaching and Accessing Türkiye Report 2021, p. 147*

Figure 6. Share of Road Transport in Türkiye's Foreign Trade by Value



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Share of Road Transport in Import Freight (%)	21,97	20,26	18,69	18,23	19,09	19,16	18,01	17,88	20,56	21,14	20,79
Share of Road Transport in Export Transport (%)	37,6	33,35	35,66	35,29	32,7	31,62	29,59	28	30,36	31,61	30,85

Source: *Prepared by utilizing TUIK data*

It is possible to say that the share of road transport in Türkiye's foreign trade is high, especially until 2015. As Türkiye, whose share in world trade is increasing gradually, prefers alternative modes of transportation besides road transportation, it is possible to observe a normal decrease in the value of road transportation. Subsequently, Türkiye's acceleration of railway investments within the scope of railway transportation, which gained importance in global trade with the COVID-19 process, has caused the share of road transport in exports and imports not to increase in the last three years.

As of 2021, the top five countries in terms of value in road export transportation from Türkiye are respectively; Germany, Iraq, Romania, Bulgaria and Poland. The top five countries by weight are respectively; Iraq, Syria, Romania, Germany and Georgia. The countries that are in the top five in terms of value in road import transportation are respectively; Germany, Italy, China, Iran and Romania. The top five countries by weight are respectively; Iran, Iraq, Germany, Bulgaria, and Uzbekistan took place.

Air Freight in Türkiye

In general, the unit price of the cargo used in air transportation is quite high compared to the unit price of the cargo used in other transportation types. The most striking negative side of air transport, which stands out with its fast and reliable transportation features, is its high cost. In particular, air transport provides significant contributions to the development of global trade, as it allows to overcome distances that are kilometers apart in a short time.

The airline industry makes significant contributions to the national economy, regardless of cargo and passenger transportation (Republic of Türkiye Ministry of Transport and Infrastructure, 2021). According to the data announced by the International Civil Aviation Organization (ICAO), the airline industry has a direct and indirect economic contribution of 2.7 trillion USD to the world economy (ICAO, Aviation Benefits Report).

Due to its geographical location, Türkiye is only 4 hours' flight away from countries where 1.6 billion people live, with a GNP of 38 trillion USD and a trade volume of 7.05 trillion USD (Republic of Türkiye Ministry of Transport and Infrastructure, 2022). However, air transport in Türkiye ranks third after sea and road transport in terms of the value of the transported cargo.

Map 1. Türkiye-Junction Point in Transportation

Source: *Republic of Türkiye Ministry of Transport and Infrastructure, 2022 Budget Presentation*

Turkish Airlines (THY), our national pride among airline companies around the world; 43 countries, 116 cities in Europe; 40 countries and 61 cities in Africa; 13 countries and 36 cities in the Middle East; 9 countries and 22 cities in America; it has the title of the airline with the highest number of flights by flying to 43 cities from 22 countries in Asia and the Far East (THY, 9A'21 Results Summary).

Table 5. Number of Airline Companies and Aircraft in Türkiye

Airline Companies	2020	2021
Turkish Airlines	341	356
Pegasus Airlines Inc.	93	90
Güneş Ekspres Airlines Inc.	58	55
Onur Air Airlines Inc.	23	14
Touristic Air Transport Airlines Inc.	13	15
Hürkuş Airlines Transportation and Trade Inc.	8	8
Tailwind Airlines Inc.	5	5
MNG Airlines and Transportation Inc.	5	7
ACT Airlines Inc.	5	5
ULS Airlines Cargo Transportation Inc.	3	3
Total	554	558

Source: *SHGM Web Site, Statistics*

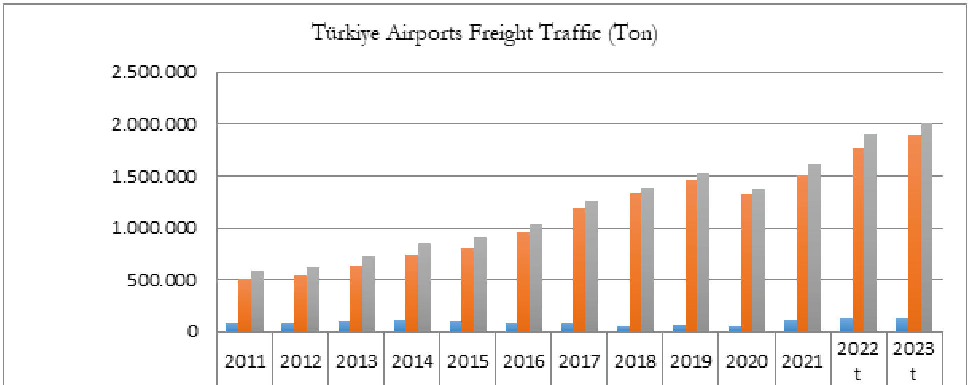
Türkiye's total aircraft fleet in 2021 shows an increase of approximately 0.7% compared to the previous year. In addition, while the aircraft cargo capacity was 1,136,866 kilograms in 2011, this capacity increased by 128% to 2,593,450 kilograms after 10 years (SHGM, Annual Report 2021).

Map 2. Civil Air Customs Gates Map of Türkiye

Source: *Republic of Türkiye Ministry of Education, Transport Service Area, Air Transport*

Türkiye is a party to many international agreements, apart from its own legislation in force within the scope of air transport. The International Civil Aviation Agreement, signed in Chicago in 1945 and to which 152 countries are parties today, among these international agreements is the Convention on the Unification of Certain Rules Concerning International Carriage by Air (Montreal Convention), which was signed in 1999 and superseded the Convention on the Unification of Certain Rules Concerning International Carriage by Air (Warsaw Convention). In addition, Türkiye is a member of the European Civil Aviation Conference (ECAC) and the European Organization for Safety of Navigation (Eurocontrol) and is among the founding members of ICAO.

Figure 7. Freight Traffic at Airports in Türkiye (Tonnes)



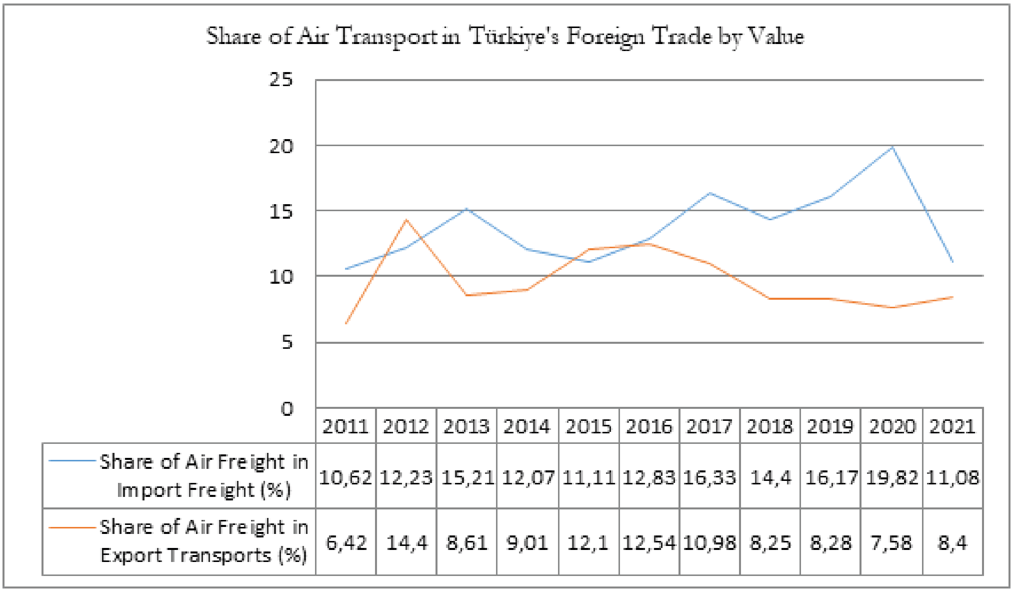
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 t	2023 t
Domestic line	76.26	84.43	100.0	104.9	101.4	81.58	75.25	52.80	65.66	51.04	111.4	126.8	129.5
International line	508.2	539.6	631.8	737.3	803.3	951.3	1.180	1.335	1.456	1.317	1.504	1.772	1.884
Total	584.4	624.0	731.9	842.2	904.7	1.032	1.256	1.388	1.522	1.368	1.615	1.899	2.014

Source: *State Airports Authority "Airports Freight Traffic Statistics in Türkiye (2002- 2021)"*

According to the "Türkiye General Airport Freight Traffic Statistics" published by the General Directorate of State Airports Authority (DHMI), which is responsible for regulating the civil aviation sector in Türkiye, international freight traffic has been increasing continuously between the years 2011-2021. Although there was a decrease of approximately 9% due to the pandemic in 2020, it successfully overcame this process by showing an increase of 14% in 2021 compared to the previous year. In the report, which also includes the expectations for 2022 and 2023, it is expected that international cargo traffic will increase by 25% in 2023 when compared to 2021.

Within the scope of the "17th ACI Europe Awards" organized by the Airports Council International (ACI), it was deemed worthy of the "Europe's Best Airport" award; Istanbul Airport, which became operational in 2019, is of great importance in Türkiye's air transport. An increase in Istanbul Airport cargo traffic is expected by the end of 2022, with Turkish Cargo taking all of its air cargo transportation activities to the SmartIST facility at the Mega Cargo Facility at Istanbul Airport. At the beginning of 2022, Turkish Cargo consolidated all of its air cargo transportation activities in its Mega Cargo Facility SmartIST. Designed to be the largest industrial building under a single roof at Istanbul Airport, SmartIST will have reached an annual capacity of 4 million tons on an area of 340,000 square meters when all phases are completed. Equipped with smart technologies such as Automatic Storage Systems and Robotic Process Automation, the facility will carry Turkish Cargo's service quality much further in terms of operational speed and quality. At the same time, the Augmented Reality and Unmanned Land Vehicles projects planned to be used in the future will contribute to SmartIST's technology. This mega facility will also underline Istanbul's continent-wide location and will be a gateway for trade between East and West. Thus, most of the air cargo traffic in the world will be drawn to the new hub at Istanbul Airport, thereby transforming Istanbul into the logistics center of the world (Turkish Cargo, 2022).

Figure 8. Share of Air Freight in Türkiye's Foreign Trade by Value



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Share of Air Freight in Import Freight (%)	10,62	12,23	15,21	12,07	11,11	12,83	16,33	14,4	16,17	19,82	11,08
Share of Air Freight in Export Transports (%)	6,42	14,4	8,61	9,01	12,1	12,54	10,98	8,25	8,28	7,58	8,4

Source: *Prepared by utilizing TUIK data*

The value-based share of air transport in Türkiye's foreign trade has fluctuated over the years. With the exception of the years 2012 and 2015, the share of air transport in exports is lower than the share in imports.

As of 2021, the top five countries in terms of value in air export shipments from Türkiye are respectively; USA, UAE, Iraq, United Kingdom and Germany, while the top five countries by weight are respectively; TRNC, UAE, USA, Netherlands and Germany took place. No country other than Iraq is a border neighbor of Türkiye.

As of 2021, the top five countries in terms of value in air import shipments to Türkiye are respectively while China, USA, UAE, Belgium and Germany take place, the top five countries by weight are respectively; China, USA, India, Germany and South Korea took place. In terms of value and weight in imports, the position of China and the USA did not change, and they took the first two places.

Sea Freight in Türkiye

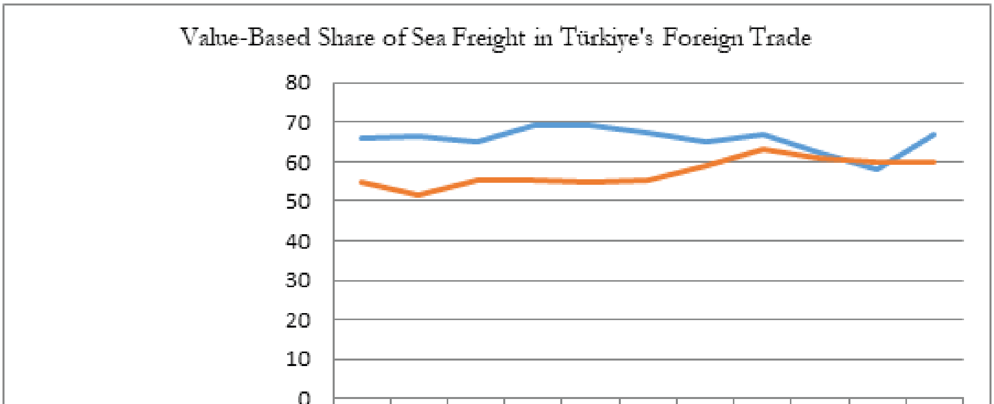
The time sensitivity is very low in maritime transportation, which is generally preferred for the transportation of large volumes of cargo and where the unit price is relatively lower than other transportation modes.

In 2020, approximately 89% of the cargoes transported in the world were carried by sea. In Türkiye, approximately 94% of the cargoes transported for import purposes and 82% of the cargoes transported for export purposes were carried out by sea in 2020. In the light of these data, it is seen that the volume of cargo made by sea on a global basis has grown 20 times in the last half century. In the logistics sector, maritime transportation has a high share in monetary terms. This makes the maritime industry the most strategic sector in global trade (Republic of Türkiye Ministry of Transport and Infrastructure, 2021).

In 2021, the total DWT capacity of foreign and national flagged vessels in Türkiye ranks 16th in the world, and Turkic and foreign flagged vessels constitute 1.32% of the DWT capacity in the world. Greece with 17.64% of the total DWT capacity in the world ranks first, China with 11.56% in the second place and Japan with 11.43% in the third place (UNCTAD, Review of Maritime Transport 2021).

During the period from 2011 to 2021, the cargo handled at Turkish ports has increased in volume on a TEU basis over the years. While the TEU handled in 2011 was 6,523,506, it increased approximately 93% in 2021 and became 12,591,470 (General Directorate of Maritime Affairs, 2021).

Figure 9. Share of Sea Freight in Türkiye's Foreign Trade by Value



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Share of Sea Freight in Import Freight (%)	65,85	66,31	65,28	69,11	69,14	67,22	65,1	67,09	62,47	57,96	66,91
Share of Sea Freight in Export Shipments (%)	55,05	51,57	55,1	55,11	54,64	55,39	58,99	63,31	60,82	60,04	60,01

Source: *Prepared by utilizing TUIK data*

While the share of maritime transport in terms of value in Türkiye's import shipments was around 65% on average between 2011 and 2019, a decrease in this rate is observed in 2019 and 2020 due to the effect of the pandemic. This rate, which was 57.96% in 2020, entered the recovery process in 2021 and increased to 66.91%.

While the share of maritime transport in export shipments in terms of value reached the highest level in 2018 compared to other years, reaching 63.31%, it has been around 60% in the last three years.

With the exception of 2015 and 2020, the total value of export cargo transported by sea on a value basis is constantly increasing. At the end of 2021, this value was recorded as 133,752,639 USD. By the end of 2021, the total value of import cargoes transported by sea was 157,390,322 USD.

The top 5 countries in the value-based ranking of the cargoes that Türkiye exports by maritime transport are respectively; USA, UK, Italy, Spain and Germany. Ranking of the first five countries on the basis of weight is USA, Israel, Italy, China and Spain. As of the end of 2021, the USA ranked first in seaborne exports in terms of both value and weight.

Table 6. Top Five Countries in Türkiye's Seaway Import Freight (2021)

Arrangement	By Value	By Weight
1	China	Russia
2	Russia	-
3	Germany	USA
4	USA	Ukraine
5	Italy	Brazil

Source: *Prepared by utilizing TUIK data*

According to TUIK data, the value of the "Hidden Country", which is the second country by weight in imports, was not specified, so this country was not included in the ranking.

Railway Transportation in Türkiye

Railway transportation, which stands out as a more environmentally friendly, economical and safe mode of transportation compared to other types of transportation, is the least preferred mode of transportation in international freight transportation in Türkiye. In recent years, Türkiye has been taking both national and international initiatives to increase the share of rail transport.

Türkiye has a total of 9,194 km of conventional trunk lines, of which 8438 km are main lines, 756 km are second, third and fourth lines. With the addition of 2,396 km of secondary lines, 1.963 km of station roads and 433 km of junction lines, the total conventional line length reaches 11,590 km. The length of the High Speed Train line is 1,213 km. The total railway length is 12,803 km, together with the Conventional and High Speed Train lines (State Railways of the Republic of Türkiye, 2020).

There are railway connections at 13 ports, including Haydarpaşa, Derince, İzmir, Bandırma, Mersin, Samsun, İskenderun, Tekirdağ, Zonguldak, Yılport, Evyap, DP World and Nemport Ports (Republic of Türkiye Ministry of Transport and Infrastructure, 2021).

Rail transport gained popularity due to the negative effects of road transport along with the coronavirus process. At the end of 2020, the amount of freight carried on the railway increased by 35% compared to the previous year. Countries that come to the fore in railway export transportation; China, Iran, Georgia and Azerbaijan (State Railways of the Republic of Türkiye, 2020).

Rail freight transport between Türkiye and Russia was launched on 13 December 2018. As of October 9, 2019, on the Türkiye-Russia trips over the Baku-Tbilisi-Kars (BTK) railway line, the transport of coiled sheet and billet iron, which was previously transported by sea, started to be carried out by block trains. On January 29, 2021, the first export block container train loaded with white goods was sent off to Moscow on the Baku-Tbilisi-Kars (BTK) line (Republic of Türkiye Ministry of Transport and Infrastructure, 2021).

Marmaray, whose first phase was put into service in the ninetieth year of the proclamation of the republic, and which is attributed as the "Project of the Century" with its 153 years of history, is important for the railway transportation. The first freight train passed through Marmaray in November 2019. The first freight train, which departed from China and used Marmaray to go to Europe, managed to transport electronic products from China to Czechia in 18 days with 42 container-loaded wagons. As of September 30, 2021, a total of 1,197 freight trains passed through Marmaray, both domestically and internationally, and 512,738 tons of freight were transported (Republic of Türkiye Ministry of Transport and Infrastructure, 2021).

There is an increase in railway freight transportation in Türkiye every year. Although the increase in global trade is shown as a reason for this increase, Türkiye's increase in railway transportation investments in recent years is another reason. In particular, reciprocal block train services operated between Türkiye-Europe, Türkiye-Middle East, Türkiye-Central Asia are of great importance in rail freight transportation. There are 8 transportation corridors that Türkiye is involved in with its projects (Turkish Republic State Railways, 2020). These transport corridors are as follows:

1. One Belt One Road Project-Middle Corridor
2. Economic Cooperation Organization Corridors (ATI, ITI Container Trains)
3. TER (Trans European Railway) Project
4. TAR (Trans Asian Railway-Unescap) Project
5. TEN-T (Trans Europe Network-Transportation)
6. PAN-European Transport Network
7. TRACECA (European Caucasus Asia Transport Corridor)
8. Lapis Lazuli Transit Transport Corridor.

One Belt One Road Project-Middle Corridor

The initiative of the One Belt One Road Project, whose main purpose is to establish a transport infrastructure, trade and investment link between the important economies on the Asia-Europe line, was voiced by the Chinese President Xi Jinping in 2013. While the Silk Road Economic Belt forms the land route of this initiative, the Maritime Silk Road constitutes the sea route.

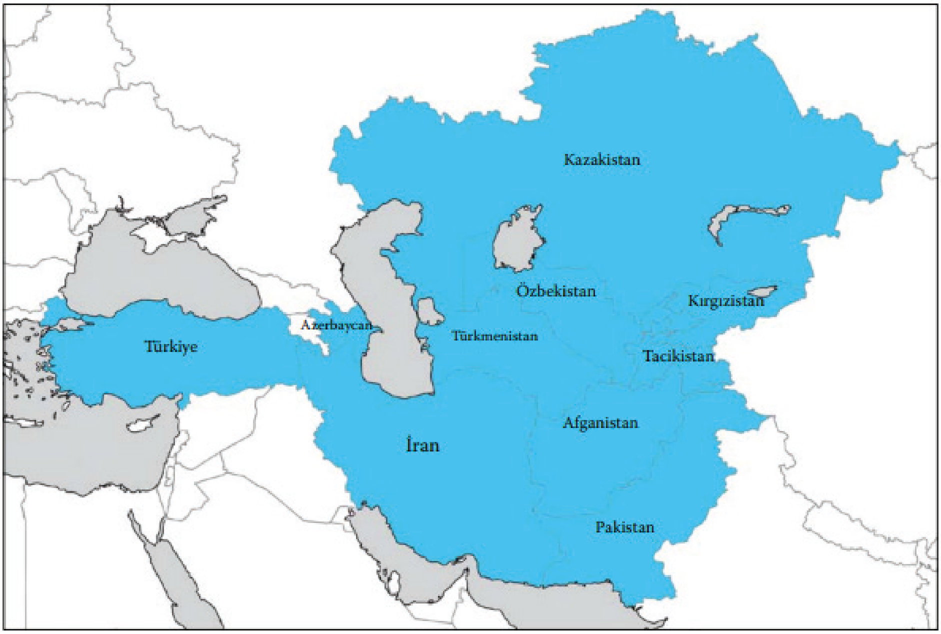
Within the scope of the Silk Road Economic Belt, there is a land transportation network consisting of road, railway, oil and gas pipelines and other infrastructure projects starting from Central China and extending through Central Asia to Moscow, Rotterdam and Venice. Instead of a single route, corridors consisting of land bridges in the direction of Asia-Europe constitute the most important point of this project. These corridors; China-Mongolia-Russia, China-Central and Western Asia, China-Indo-China Peninsula, China-Pakistan, China-Bangladesh-India-Myanmar. Türkiye, on the other hand, is located on the China-Central and West Asian Corridor, which is called the "Central Corridor."

At first glance, the Belt and Road Initiative may seem like a transportation infrastructure investment. However, this project is a global economic cooperation project covering underdeveloped and developing countries and aiming at maximum economic benefit. So far, China has made investments in around 110 economic zones in 52 countries, and over 100 countries have declared that they support this project.

It is expected that the total investments to be made in the middle corridor, in which Türkiye is located, will reach 8 trillion dollars and only 40 billion dollars for the transportation infrastructure. The Middle Corridor is aimed at reviving the historical "Silk Road." In the past, with the agreement signed between Türkiye and China for the integration of Türkiye's lands in this corridor into the system, a budget of 40 billion dollars was foreseen at the first stage and it was planned to spend 750 million dollars for investments every year. "The Draft Memorandum of Understanding on the Harmonization of the Silk Road Economic Belt, the 21st Century Silk Road at Sea and the Middle Corridor Initiative" and the "Türkiye-China Railway Cooperation Agreement Draft" were signed between Türkiye and China. On the other hand, the Ashgabat Declaration, signed in 2016 with the participation of the Ministers of Transport of Turkmenistan, Azerbaijan and Türkiye, is a very important step towards strengthening Türkiye's position within the scope of the One Belt One Road Project. These steps have been supported by the investments of Marmaray and Yavuz Sultan Selim Bridge, which have been operational, and continue to be supported by the Istanbul Airport, Baku-Tbilisi-Kars, Edirne-Kars Railway projects. With these concrete steps, Türkiye has been included in the land leg of the One Belt One Road Project. On the other hand, the acquisition of Kumport, which is the third largest container handling port in Türkiye, with the subsidiary of COSCO Pacific, which is a Chinese establishment and one of the world's largest logistics enterprises, was recorded as a very concrete development. With this purchase, Türkiye has been included in the sea leg of the One Belt One Road Project (UTİKAD, 2022).

Economic Cooperation Organization Corridors (ATI, ITI Container Trains)

Map 3. Economic Cooperation Organization Region



Source: *Center for Middle East Strategic Studies-The Future of the Organization for Economic Cooperation (ECO), 2012*

As seen in the map above, the Economic Cooperation Organization (ECO) countries cover a large geographical area. The geographical area in question is seven million square kilometers and contains a significant population of 350 million in total. This population consists mostly of Muslims. The ECO region is strategically located in an important region of the world with its access to the Persian Gulf, the Indian Gulf, the Black Sea and the Mediterranean (Center for Middle East Strategic Studies, 2012).

Cargo transportation continues from Türkiye to Turkmenistan, from Uzbekistan to Tajikistan, from Kyrgyzstan to Kazakhstan with the ECO Container Train in Istanbul-Tehran-Ashgabat-Tashkent-Almaty (ATI), which started operating on January 20, 2002. Islamabad-Tehran-Istanbul (ITI) ECO Container Train, which started its operations on August 14, 2009, consists of 14 commercial trains, 8 of which are from Türkiye and 6 from Pakistan, and 15 humanitarian aid trains. A total of 29 trains have been operated so far. Since 2011, the operation of the train has been suspended. The reasons for not achieving the desired performance on this line can be summarized as the fact that the transportation time is much higher than the specified, the waiting times at the border crossings are longer than the specified, the technical problems arising from the infrastructure differences, and the technical and administrative problems in the region between Pakistan and Iran (UTIKAD Railway Sector Report, 2018).

TER (Trans European Railway) Project

It is a project designed by the United Nations Economic Commission for Europe between the member states of the "European Agreement on International Main Railway Lines (AGC)." The aim of this project is to make an effective combined transportation system operational in a wide area from Northern, Western and Central Europe to the Middle East and Africa. There are 17 member states: Armenia, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Georgia, Greece, Italy, Lithuania, Poland, Romania, Russian Federation, Serbia, Slovak Republic, Slovenia and Türkiye. Being one of the first three countries to establish the TER Project together with Hungary and Romania, Türkiye has a special importance due to its geographical location and plays an active role in the TER Project. Türkiye has been a member of TER since 1992.

TAR (Trans Asian Railway-Unescap) Project

Within the scope of the "United Nations Social Commission for Asia-Pacific (UNESCAP)", the aim of this project is to create an integrated rail freight transport network that will cover Europe and Asia. The project currently consists of a network with a total length of 117,500 km and has 28 members. The TAR Project consists of 4 main corridors: North, South, East Asia and South-North. Türkiye is on the Southern corridor. This corridor runs from Europe to Southeast Asia. It connects Türkiye, Iran, Pakistan, India, Bangladesh, Myanmar and Thailand and reaches Yunnan city of China and Singapore via Malaysia.

TEN-T (Trans Europe Network-Transportation)

Map 4. Trans-European Transport Network

Source: *UTIKAD, 2018*

The main purpose of TEN-T; to establish the physical infrastructure of the "Single European Transport Area" in order to facilitate the free movement of persons, goods and services between member states. To achieve this aim;

- Network concept has been brought to infrastructure investments,
- It is planned to establish intersection centers (nodes) for the intermodal connection of different transportation modes,
- Technical standards have been determined for existing and planned investments,
- In order to increase the efficiency and effectiveness of the infrastructure to be established, the understanding of making use of the highest level of interoperability has been adopted.

PAN-European Transport Network

In the studies led by the European Union, a transportation plan and policy covering the whole Europe is developed in line with the requirements for the integration of Central and Eastern European countries into the EU, and within this framework, priority transportation projects are determined and financial resources are directed to these projects. As a result of these studies, which have been going on since 1991, 10 priority Pan-European Transport Corridors have been determined in this region, covering roads and railways.

These corridors have been designated to complement the priority Trans-European Corridors (TEN-T) within the EU. A multimodal approach is adopted based on socio-economic and environmental analyzes in the pan-European corridors. These determined projects are reconsidered as they join the Union.

TRACECA (European Caucasus Asia Transport Corridor)

It is an east-west corridor that has been shaped and developed for multi-modal transportation with the aim of revitalizing the Silk Road. On September 8, 1998, the "Multilateral Basic Agreement" (MLA) was signed for the development of the Europe-Caucasus-Asia Transport Corridor by the Heads of State and Government of 12 countries, with the participation of Türkiye, Ukraine, Moldova, Romania and Bulgaria. This agreement forms the basis for the implementation of the TRACECA Programme. Although Turkmenistan is a participant in the Tacis-TRACECA Program, it is not a party to the MLA. In 2009, Iran also signed the MLA and became a TRACECA member.

TRACECA, supported by the European Union, complements the Pan-European Transport Corridors and aims to regulate international transport. The TRACECA project was initiated in May 1993 within the framework of the studies for the development of new transport corridors for the Caucasus and Central Asian Republics as an alternative to the routes centered on Russia in the north and Iran in the south.

With this project, the land and railways starting from Almaty on the historical Silk Road and traversing the Kyrgyzstan-Uzbekistan-Turkmenistan route, via the Caspian Sea and through Azerbaijan, Georgia's Poti and Batum ports, and the Baku-Tbilisi-Kars Railway Project, with the completion of the Turkish railway network and it is envisaged that it will be connected to the ports of Ukraine, Romania and Bulgaria by sea connection, and to be connected to the Pan-European Transport Corridors.

Within the scope of the project, a train-ferry line was established on the Black Sea between Türkiye and the Russian Federation with the Ferry-Linked Railway Transportation Project between the Samsun Port, which is included in TRACECA, and the Kavkaz Port of Russia, from Russia to Türkiye and from Türkiye to Russia. It was aimed to carry the transports to be made by creating a bridge between Samsun and Kavkaz Ports and Samsun-Kavkaz Train Ferry Line was put into service on February 19, 2013. By changing the bogies of the wagons loaded on ferries from Kavkaz port at Samsun port, it was ensured that the cargoes reach the Mediterranean, European, Asian and Middle Eastern countries via railway as transit. The Marmaray

Project was put into service on October 29, 2013, the Ankara-Istanbul High Speed Train Line was put into service on July 25, 2014, and the Baku-Tbilisi-Kars Railway Line was put into service on October 30, 2017. An uninterrupted, fast and economical railway connection was provided from Europe to Asia.

Lapis Lazuli Transit Transport Corridor

With the Lapis Lazuli Project, it is aimed to create a transit corridor between Afghanistan-Turkmenistan-Caspian Sea-Azerbaijan-Georgia by using the ports in the Black Sea or by using the Baku-Tbilisi-Kars railway to Europe via the Bridges in the Bosphorus and Marmaray.

The main priorities under the initiative in the medium and long term are:

- Improve road conditions and transit facilities along major highways,
- To expand the railway connections between Afghanistan and Türkiye,
- Upgrading multimodal land ports at priority locations in each of the five Lapis Lazuli Route countries,
- To perform a Cost-Benefit Analysis to establish Cross-Border Economic (Tax Free) Zones between countries along the Corridor.

PIPELINE TRANSPORTATION IN TÜRKİYE

Liquid or gaseous products such as crude oil and natural gas are transported in pipeline transportation, where initial investment costs are high as in railway transportation. Among its advantages are its reliability and the ability to carry large volumes of products.

Türkiye is in a very important position in pipeline transportation and has a geo-strategic position between the countries in the region that have three-quarters of proven oil and natural gas reserves and consumer markets in Europe. In this axis, Türkiye has an important role in terms of being a bridge in gas transmission. Because 70% of the world's reserves are located in the neighboring countries to the south and east of Türkiye. Especially the EU's increasing natural gas demand and meeting this demand through Türkiye make pipelines even more important for Türkiye. This privileged natural bridge position provides Türkiye with opportunities in terms of energy security, and also imposes responsibilities. Türkiye aims to become Europe's fourth main artery for natural gas after Russia, Norway and Algeria. It also takes initiatives to assume the role of a reliable transit country between producer and consumer countries on the East-West and North-South axis and to acquire a dynamic energy terminal position. Türkiye aims to deliver the hydrocarbon resources of the wide Caspian Basin and the Middle East to Europe through Türkiye and Türkiye in a reliable and uninterrupted manner.

Trans Anatolian Natural Gas Pipeline Project (TANAP Line)

Trans-Anatolian Natural Gas Pipeline Project (TANAP), one of the most important indicators of the successful cooperation between two brother countries Türkiye and Azerbaijan, in the field of energy, together with the South Caucasus Pipeline (SCP) and the Trans Adriatic Pipeline (TAP) it forms the most important link of the Gas Corridor. TANAP, the longest (1811 km) and largest diameter (56") natural gas pipeline in the Middle East and Europe, aims to transport the natural gas produced in Azerbaijan's Shah Deniz Field first to Türkiye and then to Europe.

TANAP starts from Türkgözü village of Ardahan province Posof district on the Turkish-Georgian border, Ardahan, Kars, Erzurum, Erzincan, Bayburt, Gümüşhane, Giresun, Sivas, Yozgat, Kırşehir, Kırıkkale, Ankara, Eskişehir, Bilecik, Kütahya, Bursa, Balıkesir, Çanakkale, Tekirdağ and it passes through 20 provinces, including Edirne, and ends in the İpsala district of Edirne on the Greek border. Connecting to the TAP Natural Gas Pipeline, which will transfer natural gas to European countries from this point, TANAP aims to contribute to the natural gas supply security and diversity of Türkiye and the European Union.

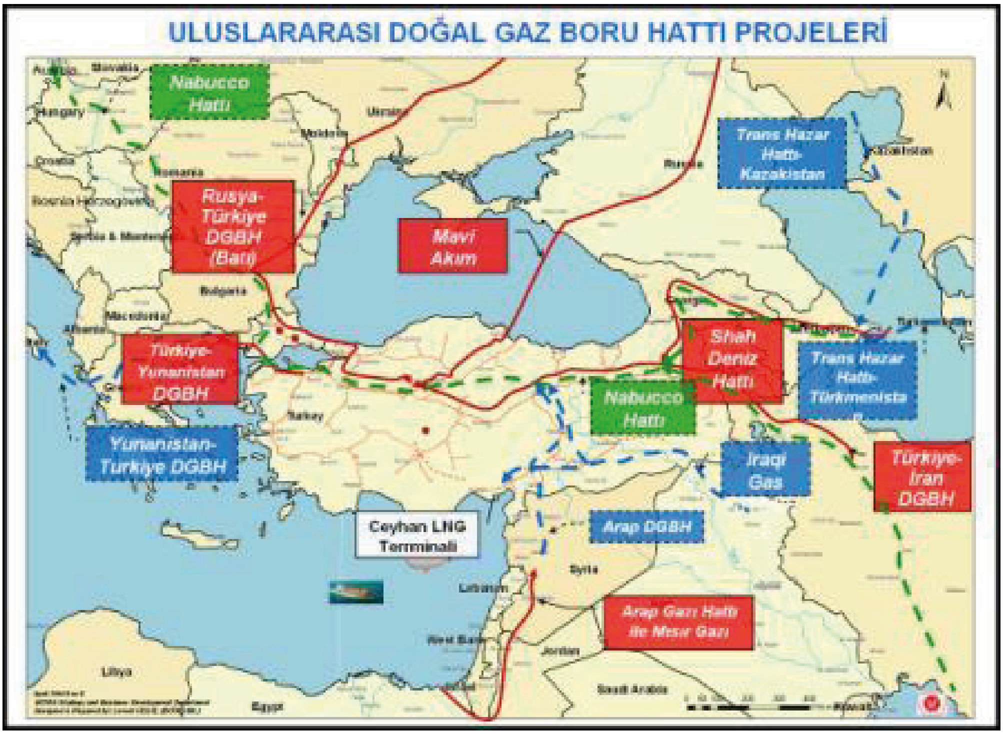
Map 5. TAP and TANAP Pipeline

Source: *CNNTÜRK. (2022). Retrieved from https://www.cnnturk.com/*

TAP (TRANS ADRIATIC) Natural Gas Pipeline Project

With its connection to TANAP, the TAP line, which allows the transport of Azerbaijani natural gas to Europe; 550 kilometers of it passes through Greece, 215 kilometers through Albania, 105 kilometers through the Adriatic Sea and 8 kilometers through Italy, with a total length of 878 kilometers. TAP, together with the Trans-Anatolian Natural Gas Pipeline (TANAP) and the South Caucasus Pipeline, forms the European leg of the Southern Gas Corridor, a value chain of 40 billion dollars.

Map 6. International Pipelines Connecting Türkiye



Source: *Suat Akdağ, 2022*

Trans Caspian Pipeline

The Trans-Caspian Pipeline, which will be instrumental in transporting Turkmenistan natural gas to Europe, realizes this goal by merging with TANAP. As shown in Map 7, Türkiye is at the transit center of international pipeline projects. Turkmen gas is directly transported to Europe via the Trans-Caspian Pipeline.

The Middle Corridor Initiative, of which Türkiye is a part, constitutes the transportation direction of the east-west connection over the Caspian. It connects to the Caucasus from Türkiye, and from there to Central Asia and China by crossing the Caspian Sea. The new connection corridor that will connect Azerbaijan and Türkiye strengthens this initiative. It is possible to say that the Middle Corridor Initiative will support the energy security of the Trans-Caspian pipeline-connected Southern Gas Corridor and create opportunities for an east-west connection via the Caspian Sea, thanks to its new transport connections.

Map 7. Trans Caspian Pipeline

Source: *Scamadviser. (2022). Retrieved from https://www.scamadviser.com/check-website/stringfixer.com*

Conclusion and Suggestions

- The COVID-19 pandemic process in recent years and the accompanying economic crises have once again revealed the importance of global trade.
- Political crises experienced together with economic crises have brought different alternatives to trade.
- The border gates, which were closed with the pandemic, and the thousands of ships waiting at the port once again showed how important logistics processes are for sustainable trade.
- In the global trade conjuncture, Türkiye is rapidly advancing in the position of being the "Logistics Base of the World", especially in recent years, with the importance it attaches to transportation and infrastructure investments.
- Türkiye's geopolitical position, peaceful political attitude, and success in mega projects lead to successful global trade and logistics integration.

- It is observed that Türkiye is generally in trade with Europe in trade. It is a desirable situation that the cooperation in mega projects such as TAP and TANAP with the Turkic States will also be reflected in commercial relations.
- In addition to the ongoing COVID-19 disease, the ongoing wars in different parts of the world, especially in Ukraine, and the increasing protectionism around the world adversely affect global trade and cause not only a decrease in trade volumes, but also a change in the direction of trade. Türkiye is a country that can adapt itself to changing conditions and supports this adaptation with transportation and logistics investments.
- The European Union has implemented the Global Gateway Project. In this context, with an investment of 300 billion euros, it is aimed to strengthen digital connections with transportation and energy infrastructures through projects in different parts of the world. Such projects emerge as complementary elements to the Belt and Road Initiative for Türkiye. Such large-scale projects add strength to Türkiye's logistics power.
- The war in Ukraine increases the logistical importance of Türkiye in the region. Exporters who prefer the northern line between China and Europe, although this line does not pass through Ukraine, are likely to give up and return to the Middle Corridor because it uses Russia, and this is especially true for the transportation of high-value products.
- The ongoing war in Ukraine also affects naval logistics. Since it was not possible for ships of certain sizes to sail into the Black Sea due to the war, Turkish ports are in the position of being the last point to handle Black Sea operations. This situation allows Türkiye to come to the fore in maritime logistics.
- Türkiye; with its advantageous position provided by its geopolitical position and investments in the transportation sector, it is a country suitable for intermodal transportation. Intermodal transport system; it is very important for global trade and is the system where logistics is used most effectively.
- The trade of six independent Turkic States with each other has shown a serious development in recent years. Each Turkic State has a different abundance of underground and aboveground resources. Turkic States are rapidly advancing towards becoming the "Six Shining Stars of the Future" with their shared geography and common cultural values.

TÜRKİYE'S RELATIONSHIPS WITH THE TURKIC WORLD

Prof. Dr. Mehmet Yüce, *Dean at UNEC*

INTRODUCTION

The concept of the Turkic World refers to the Turkic States and Turkic peoples that are widely spread over the lands of Middle Asia, Anatolia, Caucasia, Russia-Siberia, the Middle East, Iran, and the Balkans. This geographical area, located in Asia and Europe, is a distinguished region in the geopolitical heart of the world, stretching along the passageway of commerce between the East and the West. With its population of over 300 million, internal revenue of 1,6 trillion dollars, and foreign trade volume of 1 billion dollars, the Turkic World holds a significant socioeconomic power. The term Turkic World encompasses not only the independent Turkic States but also the autonomous republics and the Turkic communities living in different countries. However, the present study will approach the mutual relationships only between the countries that are members and/or observers of the Organization of Turkic States in general terms. While the Turkish Republic of Northern Cyprus is an observer member of the Organization of Turkic States, it is not included in the present study due to its specific condition.

The Organization of Turkic States, composed of states of the same family nourished by a shared history and civilization, was formed due to a long and meticulous work and great effort with its institutionalism process still going on. The Turkic Republics that declared their independence upon the dissolution of the USSR were institutionalized as the Cooperation Council of Turkic Speaking Countries (shortly the Turkic Council) with the Nakhchivan Agreement in 2009 after a long process of summits that had been started in 1992 and hosted by Ankara. The founding members of the Turkic Council are Azerbaijan, Kazakhstan, Kyrgyzstan, and Türkiye. In the 7th Summit held in Baku in 2019, Uzbekistan joined the Council as a full member.

The inclusion of Uzbekistan, a significant country whose center is also the heart of Asia, expanded the Council's sphere of influence. Similarly, during the 6th summit organized in Kyrgyzstan in 2018, Hungary joined the Turkic Council as an observer. Hungary, the Turkic-origin country at the westernmost point of the Turkic World, was included in the Turkic World family with a strategic decision. The observer status of Hungary in the Turkic Council took the cooperation among the member states of the Council to a new level. When the Turkic Council opened a Representation Office in Hungary, Hungary began to mean more than an observer in the eyes of the member states of the Turkic Council. According to the member states of the Council, Hungary will undertake a key role in establishing cooperation between the Turkic States and Europe. This inclusion was evaluated as an excellent opportunity for the economy-based "Opening to East" policy started in 2010 by Viktor Orban's government in Hungary to gain functionality. Thereby, a new door was opened for opportunities and benefits to the entire members and observer states of the Turkic Council. It was a fresh impetus when Turkmenistan, which had stayed away from this organization for years due to its neutrality policy, joined as an observer member in the 8th summit organized in 2021 in Istanbul. As a matter of fact, the inclusion of Turkmenistan brought geographical integrity among the Turkic States. It opened up new opportunities for cooperation in the energy field. Another significant outcome of the 8th summit was the establishment of the Organization of Turkic States, which could represent the rise of collaboration among the Turkic States to a strategic level. In addition, the "Turkic World Vision-2040" document was adopted at this summit, constituting a strategic roadmap for multi-dimensional cooperation among the Turkic States. The Turkic Council became the Organization of Turkic States, gaining a new structure. In the 9th summit held in 2022 in Samarkand (the first summit of the Turkic States), the Turkish Republic of Northern Cyprus was given an observer member status, which created the opportunity for the Turkic States to physically come together within the body of the Organization of Turkic States. Thus, offering a multi-lateral chance of cooperation and acting with an understanding of open diplomacy and multi-faceted foreign policy, the Organization of Turkic States has become a new strategic power as a manifestation of the joint will in building the future that is nourished by a shared history and civilization as a tremendous economic power and an important platform to serve for world peace in the Eurasia Region, as well as being a brotherly meeting.

As a continuously developing platform with constructive dialogue and coordination established with the global and regional powers with conflicting interests beyond harmonizing the interests of its member states (Purtaş, 2022: 9), the Organization of Turkic States has five full members and three observer members. Based on the IMF data, the overall socioeconomic sizes of the Turkic States are as follows:

Table 1. Socio-Economic Outlook of the OTS Member States (2021)

State	Population Million People	GDP (Real)	GDP Billion $	Current Account Balance	Unem-ployment (%)	CPI (%)	IPC ($)	Foreign Trade Volume Billion $
Türkiye	86,6	11.4	946.01	-1,7	12	36,1	10,9	496.7
Azerbaijan	10,4	5,6	55.97	15,2	6	12,0	5,4	34,0
Kazakhstan	19,6	4.1	218.01	-2,9	4,9	8,4	11,1	102,0
Uzbekistan	35,5	7.4	80.97	-7,0	9,5	10,0	2,3	38.0
Kyrgyzstan	6,9	3.7	55.97	-8,7	9,0	11,2	1,4	0.73
Turkmenistan	6,1	4.6	66.63	0,6	-	21,0	10,9	7.00
Hungary	9,7	7,1	182,28	-3,2	4,1	7,4	18,7	280.0
Total	174,8	43,9	1.605,84	-7,7	45,5	106,1	60,7	958,43

Source: *International Monetary Fund. (2022). "World Economic Outlook." Retrieved from https://www.imf.org/en/Publications/WEO*

TÜRKİYE'S POLITICAL RELATIONSHIPS WITH THE TURKIC STATES

Türkiye holds the status of the country functioning as a catalyst in the Organization of Turkic States. With its historical experience, being the heir of an Empire, having a deep-rooted state tradition, long-established relations with the Eastern-Western blocs, well-balanced relations built with the Russian Federation in addition to being a NATO member, significant moves in the defence industry, experience in a free-market economy and its potential in manufacturing and production, Türkiye is both a guide for the other Turkic Republics and a door opening to the west for the Turkic Republics of the Soviet Heritage. In addition, having deep-rooted experience in manufacturing and production, Türkiye is a complementary economic power where the Turkic Republics, rich in raw-material and energy resources, can put these resources to good use.

Türkiye immediately acknowledged the five new Turkic Republics, which declared their independence upon the dissolution of the USSR and with which it had ethnicity and religion bonds, opened embassies, and got into multi-lateral cooperation with these brother countries that have a shared history and culture. Changing its classical foreign policy paradigm, Türkiye adopted an idealism-based nationalist approach. Developing relationships with the Turkic Republics was included among the primary objectives of Turkish foreign policy.

Türkiye's geostrategic and geopolitical location was redefined on the axis of the "Turkic Home", stretching from the "Adriatic to the Great Wall of China." It guided the newly-founded Turkic Republics in the presence of international institutions and organizations. Particularly Turgut Özal, the President of the time, developed sincere relations with the new Turkic Republics, built personal friendships with the heads of state, provided as much economic support as circumstances permitted, and led the way for the Turkish entrepreneurs to make investments in the region.

Türkiye is currently cooperating with the Turkic republics in many fields, primarily in the economy.

In addition to having a common history-civilization and the same ethnicity, the structure is shaped by several factors such as the degree and fragility of the relationships of these countries with Russia, the geopolitical and geostrategic location of the region, demographics, status that these countries defined for themselves and national identity has played a critical role in Türkiye's relationships established with the post-Soviet Turkic Republics. This relationship, shaped by multiple factors, gained an increasing impetus according to the conjuncture, while it followed a decreasing course at times. In general terms, the relationship which started romantically went into a period of stagnation in time; however, it regained acceleration with the increase in Türkiye's regional and global activity. Today, on the other hand, Türkiye has established a relationship at the strategic cooperation level with all the Turkic States.

One aspect of the cooperation between Türkiye and the Turkic World has undoubtedly been the active role that it has played in the process that was initiated by the *Summit of the Heads of Turkic Speaking States* and finalized with the Organization of Turkic States, which was the concrete representation of the Turkic States' will of acting together politically. The Turkic Council was established due to a long process and hard work. To ensure cooperation among the Turkic Stated that declared their independence after the dissolution of the Soviet Union in 1991, the *Summit of the Heads of Turkic Speaking States* was held in 1992 in Ankara with the efforts of Türkiye. This summit constituted the first step towards the Turkic Council to be set up in 2009 and the Organization of Turkic States to be established in 2021. The summits aiming to develop the relations among the Turkic States at the highest level continued from 1992 to 2010, and 10 summits were held in total. In the *9th Summit of the Heads of the Turkic Speaking States* held in Azerbaijan, the "Nakhchivan Agreement" on the Establishment of the Council was signed by Türkiye, Azerbaijan, Kazakhstan, and Kyrgyzstan. Following the 10th Summit of the Heads of Turkic Speaking States that took place in İstanbul on 15-16 September 2010, the establishment of "The Cooperation Council of Turkic Speaking States" or shortly the "Turkic Council" was officially declared.

The establishment of the Turkic Council meant a new era began in the relationships among the Turkic States. Although the projected image was that the Turkic Council would be active mainly in cultural issues, the formation of this organization meant the existing relations among the Turkic States were institutionalized; in other words, it was the declaration of political will showing that the Turkic States would get into cooperation in various areas. Upon the establishment of the Turkic Council, eight summits were held within the body of this institution. In the 6th summit of the Turkic Council in 2018, Hungary was accepted as an observer. Uzbekistan became a full member of the Council in the 7th summit organized in Baku in 2019. Thereby, empowered by the participation of Uzbekistan as a full member, the Council obtained a new structure upon including Hungary as an observer state and enlarged its sphere of influence into the European Union territory. Alternative areas of cooperation emerged in various fields among the member states of the Turkic Council, whose area of activity reached out to the European Union territory with the opening of the Representative Office in Budapest and the impetus gained with this structure. Türkiye has always made constructive contributions to forming these areas of cooperation and developing cooperation opportunities.

In the war, which was started by Azerbaijan upon the attack of Armenia on the lands of Azerbaijan in 2020 and lasted for 44 days, Türkiye directly and firmly stood by Azerbaijan. The victory at the end of this unity affected Türkiye and Azerbaijan specifically. The Turkic World, generally, opened up a new period in the political relationships of Azerbaijan with the other Turkic States. Deepening between Azerbaijan and Türkiye at the beginning and spreading over the other Turkic Republics later with a domino effect, this relationship caused the Turkic Council to be reshaped. The new understanding Türkiye developed in the defence industry, like the UAVs and UCAVs successfully used in Azerbaijan, Syria, and some other regions, has also made considerable contributions to the process.

In the 8th summit held in İstanbul, where the presidency was handed on to Türkiye from Azerbaijan, a historic decision was taken to change the name of the Turkic Council to the "Organization of Turkic States." This decision was not solely a change of expression but also a change in the paradigm. With this step taken by the powerful common will of the Turkic States, the concepts of the "Turkic States" and “Turkic World” came into use in official documents for the first time. In addition, one of the most important outcomes of this summit was granted an observer status to Turkmenistan, which stayed aloof from such organizations in the Turkic World, claiming permanent neutrality. Upon the participation of Turkmenistan as an observer, Turkic States came together under the umbrella of the Organization of Turkic States. Moreover, the “Turkic World Vision-2040”, which outlined the future perspective of the Organization of Turkic States and served as a multi-faceted cooperation plan, was approved at this summit. Thereby, the Turkic States that hold great potential with their long experiences, deep-rooted identities, governance capabilities, and military capacities from a common culture and civilization revealed their will to act together politically. In other words, a new geostrategic power has emerged in the heart of the Eurasia territory.

TÜRKİYE’S ECONOMIC RELATIONS WITH THE TURKIC STATES

Türkiye recognized the independence of all Turkic Republics, with no exception, after the dissolution of the USSR, built diplomatic relationships, and got into economic cooperation with them. Many protocols were signed with each of these countries separately to establish the legal infrastructure of the collaboration. The partnership that started immediately after independence has increasingly maintained until today. Although the volume of the economic cooperation between Türkiye and Turkic States has not reached the desired level yet, Türkiye has been included among the first five partners of the Central Asian Turkic Republics in terms of investment and foreign trade. In addition, when bilateral relations are examined, the bilateral economic ties between Türkiye and Azerbaijan have become remarkable due to the comment investments in the energy field. The level of economic cooperation between Türkiye and Azerbaijan has led to a business partnership of strategic deepness between the two countries, particularly with investments in the field of energy. Concerning the energy field, the projects of the BTC pipeline, BTE natural gas pipeline, TANAP, and TAP have been realized between Türkiye and Azerbaijan. These vast projects have changed the existing energy map. The fact that Azerbaijan has become prominent in energy supply, significantly as a result of the energy crisis faced by the West due to the Russia-Ukraine War, has increased the strategic importance of these projects and further strengthened the energy cooperation between Azerbaijan and Türkiye. The volume of cooperation in the economy between Türkiye and the Turkic States is presented in the Table 2 below.

Table 2. Foreign Trade Volume of Türkiye with the Turkic States (2021) (billion US Dollar)

States	Export	Import	Volume
Azerbaijan	2,34	0, 751	3,09
Kazakhstan	1,28	1,59	2,88
Kyrgyzstan	0,749	0,86	0,836
Uzbekistan	1,84	1,80	3,64
Turkmenistan	0,985	0,711	1,70
Hungary	1,40	1,65	3,04
Total	8,594	7,362	15,186

Source: *Republic of Türkiye Ministry of Trade Ticaret Bakanlığı, 2022*

Türkiye is the western door of Azerbaijan and the only safe country that can convey the energy resources of Azerbaijan to the West. As an energy consumer at the same time, Türkiye is a serious and reliable customer for Azerbaijan. It is necessary to evaluate the foreign trade relations between Türkiye and Azerbaijan in two main axes: "Energy shipments" and "other products outside the energy sector." To meet its own energy needs and to enable gas transportation to Europe across its lands, pipelines between Türkiye and Azerbaijan have been activated. The integration of the lines related to the Southern Gas Corridor with Europe is essential, so the Trans-Atlantic Natural Gas Pipeline Project has particular importance in this context (Ekici, Arpa, 2021: 278). Certain import items of Türkiye besides natural gas from Azerbaijan are miscellaneous products such as cotton (non-carded or non-combed), raw aluminium, petroleum oils and oils from bituminous minerals, acyclic alcohols, and their halogenated, sulphonated, nitrated or nitrosated derivatives (first forms). Primary goods exported by Türkiye to Azerbaijan, on the other hand, are helicopters, airplanes, etc., space vehicles (including satellites), space launch vehicles and suborbital vehicles, medicines to be used in treatment and protection (dosed), washing, cleaning preparations (soaps excluded), other nuts (fresh/dried) (shells taken off/peeled) and buildings or construction parts of iron and steel, iron or steel sheets, bars to be used in construction (Ministry of Trade, 2021: 14). The fact that Türkiye's export to Azerbaijan is not restricted to one or few products, but has various means that the potential of the commercial cooperation is high between the two countries and that the foreign trade volume shall go far above the current level once this potential is put into action (Yüce, 2022: 276).

When commercial and economic relationships between Kazakhstan and Türkiye are examined, it isn't easy to assert that the positive developments in the political and cultural domains are fully reflected in commercial relations. Türkiye-Kazakhstan investment relations and developments in trade have yet to reach the desired level. Türkiye's share of 5% in the annual foreign trade volume of

Kazakhstan is the clearest indicator of this. In addition, Türkiye is not included among the first ten countries where Kazakhstan makes direct investments. Investment relations between the two countries have even fallen behind their commercial ties. In this regard, the obstacles to improving the commercial relationships between the two countries must be eliminated urgently. The fact that Türkiye is not among the countries where Kazakhstan makes direct foreign investments and their investment relations fall even behind the commercial ties reveals that the political relationships are not reflected in the economic relations between Türkiye and Kazakhstan. However, it is a fact that the level of development in economic relations since Kazakhstan's independence cannot be underestimated (Yüce, 2021: 241). Looking into the indicators of the commercial and economic ties between Türkiye and Kazakhstan, it is seen that their foreign trade balances are close to each other. It could be suggested that there are deficits in trade with Kazakhstan since copper and products of copper origin are dominant in Türkiye's import from Kazakhstan, and Türkiye is an oil-importing country.

Upon the improvement of the foreign relations between Uzbekistan and Türkiye, especially when Shavkat Mirziyoyev came into power, a new era began in the commercial relationships between the two countries. Based on this development, the bilateral trade volume of 1 billion 242 million dollars in 2016 almost doubled in 2020, reaching 2,1 billion dollars, and increased to 3,6 billion dollars in 2021. Two thousand seventy firms are operating with Turkish capital in Uzbekistan, and in the first six months of 2022, Uzbekistan became the country to open the highest number of companies. Primary goods exported by Türkiye to Uzbekistan include cleaning materials, medicines, trailers, plastic products, and food processing machines. In contrast, mainly imported goods are copper, copper alloys, plates, cotton yarn, raw zinc, petroleum oils, fertilizers, tin, gold, raw lead, and silk. The primary goods imported by Türkiye from Uzbekistan are refined copper. Copper alloys (raw), cotton yarn (except for sewing yarn) (cotton ratio of >=85% by weight and not ready for retail), copper wires, raw zinc, and ethylene polymers (Ministry of Trade, 2022: 12). The foreign trade balance between the two countries is close to each other.

The foreign trade volume between Türkiye and Kyrgyzstan is relatively low. In 2021, Türkiye's export to Kyrgyzstan was 749 million dollars, while its import was 86 million dollars. In the foreign trade between the two countries, Türkiye had a foreign trade surplus of 663 million dollars. The main products exported by Türkiye are jewelry products and accessories (of precious metals or metals covered with precious metals), other knitted fabric, helicopters, airplanes, etc., space vehicles (including satellites), space launch vehicles and suborbital vehicles, medicines to be used in treatment or protection (dosed) and buildings and construction parts of iron or steel and iron or steel sheets, bars to be used in construction. Primary goods imported include cotton (non-carded or non-combed), dried legumes (shelled) (split into two), raw lead, gold (including gold covered with platinum) (unprocessed or semi-processed or powder form), and other nuts (fresh/fried) (shells taken off/peeled) (Ministry of Trade, 2022: 12). Türkiye is included among the first five countries to make investments in Kyrgyzstan. It is possible to assert that significant developments have been seen in the relationship between the two countries. However, it is impossible to say that the foreign trade between Kyrgyzstan and Türkiye is at the expected level in terms of quality and amount.

While detailed statistical data concerning the economy of Turkmenistan cannot be reached, it is possible to express that the economic relations between Türkiye and Turkmenistan are developing and becoming diversified thanks to the significant share of Türkiye in Turkmenistan's foreign trade and the large-scale projects carried out by the Turkish contracting firms settled in the country. Turkmenistan is where Turkish companies undertake projects, most in Central Asia. Moreover, the country that invests in Turkmenistan the most in Türkiye. Turkish contracting companies that have implemented many tasks, such as residences, industrial sites, and cultural and sports facilities, are still in the leading position in the sector today (Kayalı, 2018: 163). Türkiye-Turkmenistan foreign trade volume occurred as 1,7 billion dollars in 2021. Foreign trade was on behalf of Türkiye, albeit tiny.

On balance, Türkiye is an essential partner of the Turkic States in export and import. At the same time, it is impossible to mention a highly significant foreign trade capacity considering the amounts and its share within the total foreign trade. The 2021 data from the World Trade Organization reveals the following table.

Table 3. Türkiye's Share in the Foreign Trade of the Turkic States (2021)

States	Import (Billion $)	Share (%)	Export (Billion $)	Share (%)
Azerbaijan	2,81	12,6	1,84	15,7
Kazakhstan	2,13	4,5	0,927	2,4
Uzbekistan	1,63	11,6	1,65	6,9
Kyrgyzstan	0,090	5,4	0,321	5,6
Turkmenistan	0,710	23,1	0,984	25,8
Total	7,37	8,4	5,72	6,9

Source: *World Trade Organization*

CONCLUSION

Upon the dissolution of the USSR, Türkiye immediately recognized the new Turkic Republics with which it has ethnicity and religious bonds, opened embassies, and was involved in multilateral cooperation with these brother countries that had a shared history and culture. Changing its classical paradigm of foreign trade, Türkiye dealt with the issue with an idealism-based nationalist approach and included developing relationships with the Turkic Republic into the primary objectives of Turkic foreign policy. Türkiye's geostrategic and geopolitical location was redefined on the "Turkic Home" axis, stretching from the "Adriatic to the Great Wall of China." It provided guidance for the newly established Turkic Republics in line with international institutions and organizations. Particularly Turgut Özal, the President of the time, developed sincere relationships with the Turkic Republics, built personal friendships with the heads of state, provided as much economic support as circumstances permitted, and led the way for the Turkish entrepreneurs to make investments in the region.

The new Turkic Republics appreciated Türkiye's approach to the Turkic World. Since Russia, dealing with the problems brought about by the newly-dissolved USSR, was coping with its domestic issues, it did not closely involve Türkiye's policies about the Turkic World initially. On the other hand, the USA and the West supported Türkiye's approach to the Turkic World as they wanted to penetrate this territory through Türkiye. The resulting cyclical political atmosphere formed a reasonable ground for Türkiye to enhance and institutionalize relationships with the Turkic Republics.

Many bilateral agreements were made between Türkiye and the Turkic Republics to set the legal basis for establishing cooperation after the independence. In the later period of the process, in addition to the bilateral agreements, a need for multilateral cooperation emerged to establish the institutional infrastructure for the Turkic Republics to act together. In this respect, the process of the Summits of Turkic Speaking Countries was initiated in 1992 with the attempts of Türkiye. In 1993, with the agreement signed by the Ministers of Culture of Azerbaijan, Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and Türkiye, the International Organization of Turkic Culture (TURKSOY), known as the UNESCO of the Turkic World, was established. The Cooperation Council of Turkic Speaking States was set up with the Nahkchivan Agreement signed on 3 October 2009 by Türkiye, Azerbaijan, Kazakhstan, and Kyrgyzstan. The participation of Turkmenistan, which had stayed away from this organization for years due to its neutrality policy, as an observer member in the 8th summit organized in 2021 in Istanbul created a fresh impetus. This summit marked the historic step of changing the name of the Cooperation Council of Turkic Speaking States to the Organization of Turkic States. Türkiye has played a significant role in all these developments and formations.

COUNTRY SPECIFIC PROFILE OF THE REPUBLIC OF UZBEKISTAN

Dr.Khakimov Obid, *The head of the group of authors, the Director of the Center for Economic Research and Reforms (CERR)*

Asadov Khurshed, *Deputy Director of CERR*

Kholmukhamedov Muhsinjon, *Deputy Director of CERR*

Mamirov Aziz, *Head of Division at CERR*

Usmonov Qahramon, *Former Head of Division at CERR*

Artikov Afzal, *Senior Researcher at CERR*

Olimjonov Odil, *Senior Researcher at CERR*

Kutbitdinov Yuri, *Senior Researcher at CERR*

Kutbitdinov Yuri, *Senior Researcher at CERR*

ANALYSIS OF ECONOMIC DEVELOPMENT OF UZBEKISTAN

GDP, GDP Growth, GDP by PPP, GDP Per Capita

In 2021, the Gross Domestic Product (GDP) of the Republic of Uzbekistan in current prices amounted to $69.2 billion. Compared to 2020, it increased in real terms by 7.4%.

Over the past eleven years (2021 compared to 2010), the country's GDP increased in real terms by 90.9%, while the average annual economic growth for 2011-2021 was 6.1%.

Compared to 2010 ($49.8 billion) nominal GDP in USD terms increased by 39.2% (average annual growth for 2011-2021 4.1%).

Table 1. GDP of the Republic of Uzbekistan for 2010-2021

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
GDP at current prices, billion USD	49.8	60.2	67.5	73.2	80.8	86.2	86.1	62.0	52.6	59.9	59.9	69.2
GDP per capita in current prices, USD	1,742	2,052	2,267	2,419	2,628	2,753	2,704	1,914	1,597	1,784	1,749	1,983
GDP by PPP, billion USD	156.2	171.5	180.5	190.6	199.8	209.1	216.5	221.6	239.0	257.2	264.8	297.8
GDP per capita by PPP, USD	5,469	5,845	6,062	6,303	6,495	6,680	6,797	6,841	7,253	7,659	7,734	8,528

For 2010-2021, the GDP growth rates of the Republic of Uzbekistan are characterized by the following indicators. As can be seen, with the exception of 2017 and 2020, the GDP growth rate in Uzbekistan has always been higher than 5%. The slowdown in economic growth in 2017 is due to the initiated reforms to liberalize the economy (mainly monetary policy and foreign trade activities), outlined in the Action Strategy for the five priority areas of development of the Republic of Uzbekistan in 2017-2021. Thanks to effective reforms and as a result of the formation of favorable external and internal conditions for the country's economy, a steady increase in economic activity was observed in all sectors of the economy over the next 2018-2019. GDP for 2020 declined due to restrictions imposed in connection with the coronavirus pandemic.

Table 2. The Growth Rate of the GDP of the Republic of Uzbekistan for 2010-2021 (in % of the Previous Year)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
GDP overall	7.1	7.5	7.1	7.3	6.9	7.2	5.9	4.4	5.4	5.7	1.9	7.4
Agriculture, forestry and fisheries	6.1	6.1	7.0	6.4	6.0	6.1	6.2	1.2	0.3	3.1	2.9	4.0
Industry	5.9	4.4	5.7	7.5	4.5	5.3	5.4	5.2	10.8	5.0	0.9	8.7
Construction	4.2	8.1	14.5	18.4	17.6	18.8	7.2	6.0	14.3	22.9	9.5	6.8
Services	9.6	10.0	7.8	6.8	7.4	7.6	5.9	6.0	5.2	6.0	0.7	9.2
Net taxes on products	4.1	6.6	4.3	6.7	6.1	6.5	5.7	5.7	5.9	4.7	1.6	6.7

According to World Bank estimates, the GDP of the Republic of Uzbekistan at purchasing power parity (PPP) for 2021 amounted to $297.8 billion. Compared to 2010 ($156.2 billion), nominal GDP by PPP increased by 90.6% (average annual growth for 2011-2021 6.1%).

In 2021, in the sectoral context, the real growth rates of Gross Value Added (GVA) were in agriculture 4.0%, industry 8.7%, construction 6.8%, services 9.2%. Compared to 2010, the GVA of agriculture increased by 61.2%, industry by 84.9%, construction in 3.8 times, services in 2.0 times.

In the period from 2010-2021, the structure of the country's economy has changed significantly. Compared to 2010, the share of industry in the GDP structure increased from 16.5% to 25.8%, construction from 4.8% to 6.2%, while the share of agriculture decreased from 26.9% to 25.0%, services from 39.9% to 35.7%, net taxes on products from 12.0% to 7.2%.

Table 3. The Structure of the GDP of the Republic of Uzbekistan for 2010-2021 (as a % of the Total)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
GDP-overall	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture, forestry and fisheries	26.9	29.7	29.0	27.8	28.7	29.2	29.3	28.7	26.8	24.6	25.1	25.0
Industry	16.5	15.5	16.0	16.6	17.2	17.4	17.8	18.8	22.6	25.7	25.4	25.8
Construction	4.8	4.3	4.4	4.7	4.9	5.1	5.1	4.8	5.2	5.8	6.2	6.2
Services	39.9	39.3	39.4	40.5	39.4	39.2	39.0	36.8	34.7	35.3	35.8	35.7
Net taxes on products	12.0	11.3	11.2	10.4	9.8	9.1	8.8	11.0	10.7	8.5	7.4	7.2

By the end of 2021, the contribution of agricultural growth to GDP growth was 1.0 percentage points (in 2020 0.7 percentage points, in 2010 1.1 percentage points), industry 2.2 percentage points (in 2020 0.2 percentage points, in 2010 1.4 percentage points), construction 0.4 percentage points (in 2020 0.5 percentage points, in 2010 0.3 percentage points), services 3.3 percentage points (in 2020 0.3 percentage points, in 2010 4.0 percentage points), net taxes on products 0.5 percentage points (in 2020 0.1 percentage points, in 2010 0.4 percentage points).

In 2021, GDP per capita at current prices was $1,983, compared to 2020, increased by 5.3% in real terms. Compared to 2010, GDP per capita grew by 56.1% in real terms (the average annual growth for 2011-2021 was 4.1%).

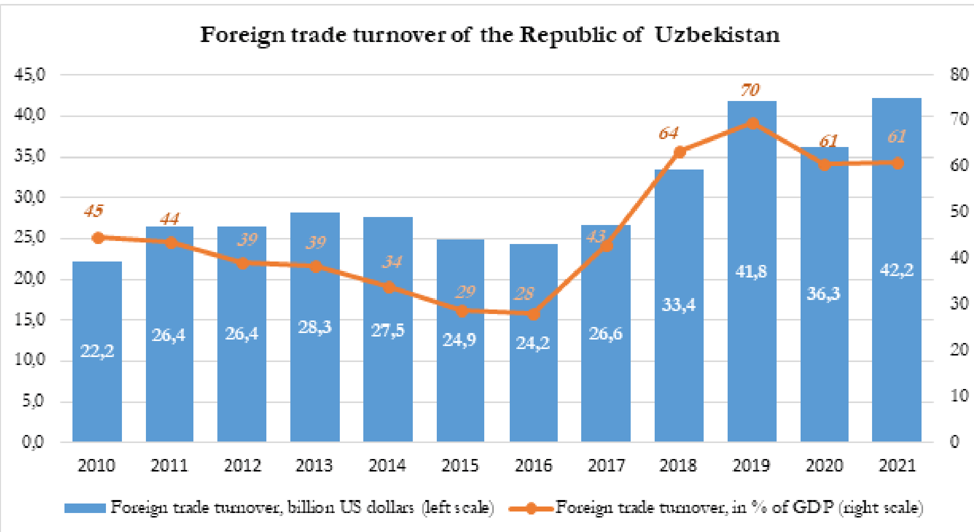
Compared to 2010 ($1,721), nominal GDP per capita in dollar terms increased by 13.8% (average annual growth for 2011-2021 is 2.2%). In 2021, GDP per capita by PPP amounted to $8,528, compared to 2010 ($5,469), it increased by 55.9% (the average annual growth for 2011-2021 was 4.2%).

Trends in Trade Development

While the economy of Uzbekistan is one of the fastest growing in the region, the country's foreign trade is also showing positive dynamics and is growing at a much faster pace.

According to the data of the State Statistics Committee of the Republic of Uzbekistan, in 2021, the foreign trade turnover of the Republic of Uzbekistan amounted to $42.2 billion, compared to 2020 ($36.3 billion), increased by 16.3% and compared to 2010 ($22.2 billion) in 1.9 times.

Since 2017, thanks to reforms aimed at liberalizing prices, providing enterprises with free access to foreign exchange, liberalizing foreign trade and unifying the exchange rate, Uzbekistan's foreign trade began to show rapid growth. If the average annual growth rate of foreign trade in 2010-2016 was 2-3%, then in 2017-2021 this figure reached 12-13%. In the period 2010-2021, the volume of foreign trade in relation to the country's GDP increased from 45% to 61%.



Source: *State Committee of the Republic of Uzbekistan on Statistics*

Of the total volume of foreign trade turnover, exports amounted to $16.7 billion (by 2020 an increase of 10.3%, by 2010 by 27.9%), and imports $25.5 billion (by 2020 an increase of 20.6%, by 2010 in 2.8 times).

By the end of 2021, the balance of foreign trade turnover amounted to a passive balance in the amount of - $8.8 billion. This indicator in 2020 was -$6.1 billion, and in 2010 a positive balance in the amount of $3.8 billion.

As a result of the impact of the coronavirus pandemic on international markets, Uzbekistan's foreign trade turnover decreased by 13.2% in 2020, although the country's GDP growth remained positive and amounted to 1.9%. At the same time, exports decreased by 12.9%, and imports -by 12.8%.

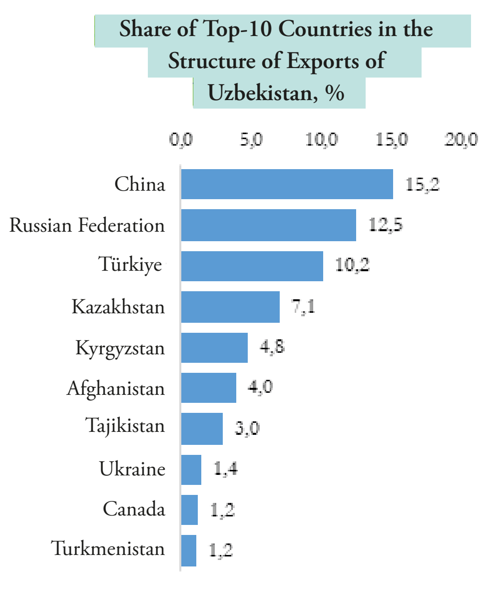
In 2021, the largest volumes of Uzbekistan's foreign trade turnover (top 10 countries) were recorded with the Russian Federation (17.9%), China (17.7%), Kazakhstan (9.3%), Türkiye (8.1%), the Republic of Korea (4.5%), Kyrgyzstan (2.3%), Turkmenistan (2.1%), Germany (1.8 %), Ukraine (1.7%), Afghanistan (1.6%).

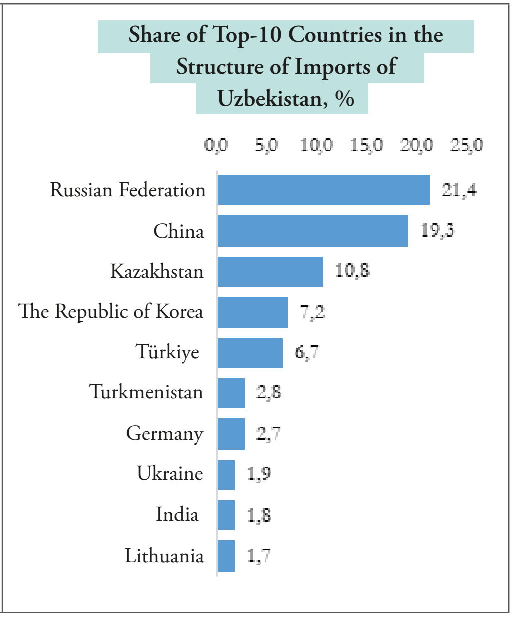
The cumulative volume of trade with these 10 countries makes up a significant part of Uzbekistan's foreign trade (68.4%). It should be noted that for the period 2010-2021, the first the five countries remain unchanged -China, Russia, Kazakhstan, Türkiye and Korea. At the same time, over this period, the share of China in the foreign trade of Uzbekistan increased from 9.8% to 17.7%, Kazakhstan-from 8.5% to 9.3%, Türkiye-from 4.4% to 8.1%. Despite the nominal growth of trade turnover, the share of Russia decreased from 27.7% to 17.9%, Korea- from 7.3% to 4.5%.

Thanks to the foreign policy course aimed at rapprochement with neighboring states, Uzbekistan's trade turnover with the countries of Central Asia increased by almost 2.3 times-from $3.1 billion in 2010 to $7.1 billion in 2021. At the same time, the share of neighboring countries in the foreign trade of Uzbekistan increased from 13.9% to 16.7%.

The largest shares of Uzbekistan's exports account for China (15.2%), the Russian Federation (12.5%), Türkiye (10.2%), Kazakhstan (7.1%), Kyrgyzstan (4.8%), Afghanistan (4.0%), Tajikistan (3.0%), Ukraine (1.4%), Canada (1.2%), Turkmenistan (1.2%).

The top 10 countries from which imports are carried out include: The Russian Federation (21.4%), China (19.3%), Kazakhstan (10.8%), The Republic of Korea (7.2%), Türkiye (6.7%), Turkmenistan (2.8%), Germany (2.7%), Ukraine (1.9 %), India (1.8%), Lithuania (1.7%).





Source: *State Committee of the Republic of Uzbekistan on Statistics*

From the first days of its independence, Uzbekistan has been actively cooperating with the countries of the Turkic World -Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan and Türkiye. Interaction with the countries of the Turkic World is a priority of the foreign policy of the Republic of Uzbekistan. A strategic partnership has been established with each of the states.

In 2021, the foreign trade turnover with the countries of the Turkic World amounted to $9.3 billion (the share in the total volume of foreign trade turnover was 22.1% vs. 15.0% in 2010). Exports to the countries of the Turkic World amounted to $3.9 billion (23.7% vs. 14.4% in 2010), imports $5.4 billion (21.1% vs. 16.0% in 2010).

Table 4. Foreign Trade Turnover of the Republic of Uzbekistan by the Countries of the Turkic World (million USD)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Foreign Trade Turnover-Overall	22,199.2	26,365.9	26,416.1	28,269.6	27,530.1	24,924.0	24,232.2	26,566.1	33,430.0	41,751.0	36,256.1	42,170.5
Of which:												
Countries of the Turkic World	3,340.1	4,751.3	4,652.6	5,087.9	5,723.9	4,396.3	3,468.6	4,072.3	5,730.0	7,327.6	6,641.1	9,305.1
Azerbaijan	72.3	86.6	25.3	38.1	82.8	40.6	21.5	32.5	47.2	73.9	83.8	118.9
Kazakhstan	1,883.6	2,803.3	2,845.4	3,144.9	3,496.4	2,697.1	1,898.9	2,055.7	2,919.6	3,335.0	3,005.8	3,920.6
Kyrgyzstan	147.6	160.1	141.1	203.2	225.9	136.0	167.4	253.7	402.9	820.3	907.2	953.6
Türkiye	967.3	1,188.5	1,219.1	1,347.7	1,505.7	1,202.7	1,171.7	1,552.5	2,057.5	2,544.0	2,106.3	3,410.0
Turkmenistan	269.3	512.8	421.6	354.0	413.1	319.9	209.1	177.9	302.8	554.4	538.2	902.0
Export - Overall	13,023.4	15,021.3	13,599.7	14,322.7	13,545.7	12,507.4	12,094.6	12,553.7	13,990.7	17,458.7	15,102.3	16,662.8
Of which:												
Countries of the Turkic World	1,873.3	2,880.3	2,793.8	3,338.0	3,896.6	2,870.9	1,848.5	2,211.1	2,661.8	3,476.7	2,868.2	3,930.7
Azerbaijan	38.4	34.1	16.1	28.2	48.5	25.5	16.3	27.6	35.6	52.2	54.2	76.0
Kazakhstan	886.5	1,673.3	1,676.8	2,083.4	2,487.7	1,849.4	945.0	1,057.6	1,352.2	1,393.0	908.4	1,178.4
Kyrgyzstan	105.2	94.2	72.9	159.2	164.1	99.9	121.5	178.3	269.7	669.6	760.5	792.0
Türkiye	722.5	910.2	854.6	896.8	966.3	790.1	686.2	877.8	944.8	1,217.6	1,019.0	1,692.4
Turkmenistan	120.7	168.6	173.3	170.3	230.1	106.0	79.5	69.9	59.5	144.3	126.1	191.9
Import - overall	9,175.8	11,344.6	12,816.5	13,946.9	13,984.3	12,416.6	12,137.6	14,012.4	19,439.3	24,292.3	21,153.8	25,507.7
Of which:												
Countries of the Turkic World	1,466.8	1,871.0	1,858.8	1,749.9	1,827.3	1,525.4	1,620.1	1,861.2	3,068.1	3,850.9	3,773.0	5,374.4
Azerbaijan	33.9	52.5	9.2	9.9	34.3	15.1	5.2	4.9	11.6	21.7	29.5	42.9
Kazakhstan	997.1	1,130.0	1,168.6	1,061.5	1,008.7	847.7	953.9	998.2	1,567.4	1,942.0	2,097.3	2,742.2
Kyrgyzstan	42.4	66.0	68.2	43.9	61.8	36.1	46.0	75.4	133.1	150.7	146.7	161.6
Türkiye	244.8	278.3	364.5	450.9	539.5	412.6	485.5	674.7	1,112.8	1,326.4	1,087.3	1,717.6
Turkmenistan	148.5	344.2	248.3	183.8	183.0	213.9	129.5	108.0	243.3	410.1	412.1	710.1

The structure of the foreign trade turnover of the Republic of Uzbekistan with the countries of the Turkic World for 2010-2021 is shown in the following table.

Table 5. Structure of the Foreign Trade Turnover of the Republic of Uzbekistan by Member Countries of the Organization of Turkic States (in % of total)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Foreign Trade Turnover-Overall	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Of which:												
Countries of the Turkic World	15.0	18.0	17.6	18.0	20.8	17.6	14.3	15.3	17.1	17.6	18.3	22.1
Azerbaijan	0.3	0.3	0.1	0.1	0.3	0.2	0.1	0.1	0.1	0.2	0.2	0.3
Kazakhstan	8.5	10.6	10.8	11.1	12.7	10.8	7.8	7.7	8.7	8.0	8.3	9.3
Kyrgyzstan	0.7	0.6	0.5	0.7	0.8	0.5	0.7	1.0	1.2	2.0	2.5	2.3
Türkiye	4.4	4.5	4.6	4.8	5.5	4.8	4.8	5.8	6.2	6.1	5.8	8.1
Turkmenistan	1.2	1.9	1.6	1.3	1.5	1.3	0.9	0.7	0.9	1.3	1.5	2.1
Export-Overall	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Of which:												
Countries of the Turkic World	14.4	19.2	20.5	23.3	28.8	23.0	15.3	17.6	19.0	19.9	19.0	23.6
Azerbaijan	0.3	0.2	0.1	0.2	0.4	0.2	0.1	0.2	0.3	0.3	0.4	0.5
Kazakhstan	6.8	11.1	12.3	14.5	18.4	14.8	7.8	8.4	9.7	8.0	6.0	7.1
Kyrgyzstan	0.8	0.6	0.5	1.1	1.2	0.8	1.0	1.4	1.9	3.8	5.0	4.8
Türkiye	5.5	6.1	6.3	6.3	7.1	6.3	5.7	7.0	6.8	7.0	6.7	10.2
Turkmenistan	0.9	1.1	1.3	1.2	1.7	0.8	0.7	0.6	0.4	0.8	0.8	1.2
Import-Overall	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Of which:												
Countries of the Turkic World	16.0	16.5	14.5	12.5	13.1	12.3	13.3	13.3	15.8	15.9	17.8	21.1
Azerbaijan	0.4	0.5	0.1	0.1	0.2	0.1	0.0	0.0	0.1	0.1	0.1	0.2
Kazakhstan	10.9	10.0	9.1	7.6	7.2	6.8	7.9	7.1	8.1	8.0	9.9	10.8
Kyrgyzstan	0.5	0.6	0.5	0.3	0.4	0.3	0.4	0.5	0.7	0.6	0.7	0.6
Türkiye	2.7	2.5	2.8	3.2	3.9	3.3	4.0	4.8	5.7	5.5	5.1	6.7
Turkmenistan	1.6	3.0	1.9	1.3	1.3	1.7	1.1	0.8	1.3	1.7	1.9	2.8

Compared to 2020, the foreign trade turnover with the countries of the Turkic World increased by 40.1%, compared to 2010 in 2.8 times. At the same time, exports, compared to 2020, increased by 37.0%, compared to 2010 in 2.1 times. Imports increased by 42.4% (by 2020) and in 3.7 times (by 2010), respectively.

During the period 2010-2021, the share of the Turkic World countries in Uzbekistan's foreign trade turnover changed as follows: The share of Kazakhstan increased from 8.5% to 9.3%, Türkiye increased from 4.4% to 8.1%, Kyrgyzstan from 0.7% to 2.3%, Turkmenistan from 1.2% to 2.1%. Azerbaijan's share remained at 0.3%.

In 2010-2021, the share of Türkiye in Uzbek exports increased from 5.5% to 10.2%, Kazakhstan from 6.8% to 7.1%, Kyrgyzstan from 0.8% to 4.8%, Turkmenistan from 0.9% to 1.2%, Azerbaijan from 0.3% to 0.5%. At the same time, the share of Türkiye in the total volume of imports of the republic increased from 2.7% to 6.7%, Turkmenistan from 1.6% to 2.8%, Kyrgyzstan from 0.5% to 0.6%. The share of Kazakhstan decreased from 10.9% to 10.8%, Azerbaijan from 0.4% to 0.2%.

In 2021, the share of industrial goods in the commodity structure of Uzbekistan's total exports was 26.0% (in 2010 12.4%), gold 24.7% (20.1%), services 15.5% (10.3%), food and live animals 8.2% (8.1%), chemicals and similar products 6.8% (4.9%), mineral fuels, lubricants and similar materials 5.5% (22.3%), various finished products 4.7% (1.2%), machinery and transport equipment 4.2% (5.4%), non–food raw materials (except fuel) 3.1% (13.3%), beverages and tobacco 0.2% (0.3%), animal and vegetable oils, fat and wax 0.01% (0.01%), other goods 1.2% (1.7%).

In the commodity structure of imports, the largest share is accounted for machinery and transport equipment 32.4% (in 2010 38.8%). The following positions are occupied by industrial goods 18.5% (15.8%), chemicals and similar products 14.3% (10.6%), food and live animals 9.8% (5.2%), services 6.9% (5.3%), mineral fuels, lubricants and similar materials 6.1% (6.0%), various finished products 5.4% (3.4%), non–food raw materials (except fuel) 4.5% (2.8%), animal and vegetable oils, fats and waxes 1.6% (1.7%), beverages and tobacco 0.4% (0.5%), other goods 0.1% (9.9%).

By the end of 2021, the structure of Uzbekistan's exports to the countries of the Turkic World is dominated by industrial goods with a share of 47.5%. The share of machinery and transport equipment is 13.0%, food and live animals 9.6%, various finished products 8.6%, chemicals and similar products 8.5%, services 8.2%, non–food raw materials (except fuel) 3.4%, mineral fuels, lubricants and similar materials 0.7%, beverages and tobacco 0.5%, other goods 0.1%.

The structure of imports from the countries of the Turkic World is as follows: industrial goods 19.9%, food stuffs and live animals 19.0%, machinery and transport equipment 18.7%, mineral fuels, lubricants and similar materials 18.6%, non–food raw materials (except fuel) 9.1%, chemicals and similar products 7.7%, various finished products 3.3%, services 2.1%, animal and vegetable oils, fats and waxes 1.5%, beverages and tobacco 0.1%, other goods 0.1%.

Table 6. Commodity Structure of Foreign Trade with the Countries of the Turkic World in 2021 (in % of total)

	Azerbaijan		Kazakhstan		Kyrgyzstan		Türkiye		Turkmenistan		Total	
	export	import	export	import	export	import	export	import	export	import	export	import
Overall	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food products and live animals	13.7	12.3	17.5	34.4	15.3	9.8	1.5	3.1	7.3	0.1	9.6	19.0
Beverages and tobacco	0.0	0.6	1.2	0.2	0.6	0.6	0.0	0.0	0.0	0.0	0.5	0.1
Non-food raw materials, except fuel	4.9	29.8	4.8	15.9	1.0	8.9	3.4	1.5	4.8	0.2	3.4	9.1
Mineral fuels, lubricating oils and similar materials	0.4	18.4	0.5	10.5	1.2	27.3	0.6	0.4	0.0	91.5	0.7	18.6
Animal and vegetable oils, fats and waxes	0.0	0.2	0.0	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
Chemicals and similar products	1.6	18.6	8.1	2.4	6.9	1.3	7.5	17.5	29.0	4.9	8.5	7.7
Industrial goods	45.7	17.3	15.0	25.3	33.9	41.5	81.4	16.7	4.6	2.0	47.5	19.9
Machinery and transport equipment	26.5	0.7	34.6	6.2	4.2	6.8	2.6	47.8	2.2	0.4	13.0	18.7
Various finished products	4.1	0.3	5.1	0.5	34.1	1.1	0.2	9.3	1.6	0.2	8.6	3.3
Other goods	0.0	0.0	0.0	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Services	3.2	1.9	13.1	1.4	2.4	2.8	2.8	3.5	50.4	0.9	8.2	2.1

Foreign Direct Investment (FDI)

According to the State Statistics Committee, in 2021, the development of FDI and loans in the Republic of Uzbekistan amounted to $8.2 billion, compared to 2020, it has grown 2.8 times (3.4 times compared to 2010).

In 2021, the share of FDI and loans in GDP reached 11.9%. In 2010-2021, this indicator ranged from 2.8 to 11.9% and averaged 4.7%.

Of the total volume of FDI and loans to Uzbekistan, the share of the Turkic World countries accounts for 12.9% ($1.1 billion), in particular, Türkiye 11.1% ($909.6 million), Kazakhstan 1.0% ($80.1 million). Compared to 2020, foreign direct investment and loans from the Turkic World increased by 16.9%, and compared to 2010in 12.8 times.

Table 7. Implementation of FDI and Loans to the Republic of Uzbekistan (million USD)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Overall	2,381.6	1,874.7	1,941.1	2,059.4	2,374.8	2,387.6	2,479.6	2,493.3	1,618.1	6,512.5	2,951.7	8,212.9
Of which:												
Countries of the Turkic World	82.9	49.7	23.0	15.3	13.4	5.0	13.1	8.3	22.7	587.3	908.5	1,062.2
Azerbaijan	0.3	0.2	0.4	0.1	0.1	0.0	0.1	0.1	0.3	3.6	6.1	60.7
Kazakhstan	48.4	18.1	6.2	3.9	0.2	0.1	0.5	2.0	1.3	45.3	49.0	80.1
Kyrgyzstan	0.0	0.2	0.5	0.0	-	-	-	0.1	3.2	16.3	11.5	6.4
Türkiye	34.3	31.2	15.9	11.3	13.1	4.9	12.6	6.2	17.0	506.8	838.9	909.6
Turkmenistan	-	-	-	-	-	-	-	-	0.9	15.3	2.9	5.3

At present, 13,877 enterprises with the participation of foreign capital are operating in Uzbekistan, including 7,760 foreign enterprises and 6,117 joint ventures.

Of the total number of enterprises with the participation of foreign capital, 29.1% operate in the field of trade, 27.3% in manufacturing, 8.2% in construction, 5.1% in agriculture, 5.1% in professional, scientific and technical activities, 4.1% in the field of accommodation and catering services, 3.5% in the management and provision of support services, 3.4% information and communication services, 3.3% in real estate transactions, 2.7% in transportation and storage and 8.2% in other industries.

The number of enterprises with the participation of the capital of the Turkic World countries is 3,791 units (27.3% of the total number of enterprises with the participation of foreign capital), including foreign enterprises 2,256 units (29.1%), joint ventures 1,535 units (25.1%).

There are 1,981 enterprises in the country with the participation of Turkic capital, 1,126 enterprises of Kazakh capital, 276 enterprises of Kyrgyz capital, 238 enterprises of Azerbaijani capital, 170 enterprises of Turkmen capital.

Table 8. Number of Operating Enterprises with the Participation of Foreign Capital in the Republic of Uzbekistan (as of May 1, 2022, units)

	Total	including:	
		foreign enterprises	joint ventures
Overall	13,877	7,760	6,117
Of which:			
Countries of the Turkic World	3,621	2,156	1,465
Azerbaijan	238	152	86
Kazakhstan	1,126	653	473
Kyrgyzstan	276	151	125
Türkiye	1,981	1,200	781
Turkmenistan	170	100	70

Fiscal and Monetary Policy

Fiscal Policy

The fiscal policy of the Republic of Uzbekistan for 2010-2021 can be divided into two stages: For 2010-2016 and for 2017-2021.

Fiscal policy in 2010-2016 had the following aspects: High tax burden, lack of government bond instruments, traditional approach to the implementation of state budget expenditures, limited level of independence of local budgets, etc.

Despite the state budget surplus that existed at that time, the budget system developed at a slow pace, and the structure of income and expenses was practically preserved from year to year.

In 2016, the State budget revenues amounted to 41 trillion sums, and expenses 40.9 trillion sums. Compared to 2012, revenues increased by 1.9 times, expenses by 2 times. The state budget surplus for 2016 amounted to 132 billion sums.

In 2016, the main revenues of the state budget were formed at the expense of the value added tax of 11.9 trillion sums (29% of total state budget revenues), personal income tax 4.1 trillion sums (10.1%), excise tax 6.3 trillion sums (15.2%), tax for the use of mineral resources 2,517.7 billion sums (6.1%).

In the structure of expenditures, social expenditures had the largest share 58.9% (24.1 trillion sums), centralized investments and economic expenditures amounted to 5.1% (2.1 trillion sums).

Along with the reforms initiated in 2017, cardinal measures have also been implemented in the field of fiscal policy. These reforms were aimed at the following goals:

- reducing the tax burden and improving the provision of tax and customs benefits;
- increasing the real income and purchasing power of the population, reducing the number of low-income families and reducing the stratification between population groups;
- increase of salaries in the public sector, pensions, scholarships and social benefits;
- wide use of public debt instruments;
- strengthening the independence of local budgets.

In particular, many tax reforms were carried out in 2018-2021:

- a flat personal income tax rate of 12% was introduced;

- citizens' insurance contributions to the Pension Fund have been canceled (the rate was 8%);
- the social tax rate was reduced from 25% to 12%;
- mandatory deductions from the turnover of legal entities to state trust funds have been canceled (the rate was 3.5%);
- the value added tax rate was reduced from 20% to 15%;
- the tax rate on dividends was reduced from 10% to 5%;
- payers who had an annual turnover of over 1 billion sums transferred to the payment of generally established taxes;
- the corporate property tax rate was reduced from 5% to 2%;
- a number of tax and customs privileges were canceled.

One of the key reforms aimed at reducing the tax burden and simplifying the tax system was the introduction of a new version of the Tax Code. Since 2018, a course has been taken to phase out tax benefits and preferences. With the introduction of the new version of the Tax Code from the first day of 2020, most of the tax benefits were canceled. But COVID-19 forced the government to turn to tax breaks as part of an unprecedented government stimulus package in the fight against the pandemic in order to support the population and the economy.

Against the background of the above changes and a number of factors, the structure and size of state budget revenues have changed significantly in 2016-2021.

In 2021, the revenues of the state budget of the Republic of Uzbekistan amounted to 164.8 trillion sums, and compared to 2016 increased by 4 times. Thus, in comparison with 2016, the share of direct taxes in the structure of state budget revenues increased from 24% to 35.8%, resource taxesfrom 12.9% to 14%, while the share of indirect taxes decreased from 51.5% to 34.2%.

In 2016-2021, state budget expenditures were also reformed. The reforms were aimed at:

- significant increase in wages of public sector employees;
- improvement of infrastructure, mainly in rural areas;
- improvement of inter-budgetary relations;
- attracting grants for social and other projects;
- ensuring public participation in the allocation of budget funds, etc.

Over the past ten years (2021 compared to 2012), state budget expenditures have increased 9 times. Compared with 2012, the share of social expenditures in the structure of state budget expenditures decreased from 58.9% to 48.9%, centralized investments increased from 5.4% to 16.2%.

In 2021, the revenues of state trust funds amounted to 32.9 trillion sums (growth by 41% by 2020), and expenses 28.7 trillion sums (growth by 12% by 2020).

Starting in 2019, the Government of Uzbekistan began issuing Eurobonds on the London Stock Exchange. Their total cost amounted to $3,155 billion and 2 trillion sums.

In order to increase the independence of local budgets, a number of measures have been implemented to increase their income and expenses. In particular, the revenues and expenditures of local budgets are legally fixed, for example, the turnover tax is left at the disposal of local budgets. The excise tax on alcoholic beverages, cigarettes and mobile communications is redistributed between regions based on the proportion of the population of the corresponding region.

The practice has been introduced, according to which part of the expenditures of local budgets is directed to projects, based on the results of votingthe project "Tashabbusli budget" *(Initiative budget)*. So, in 2021, more than 41 thousand citizens voted on the information portal "Ochik budget" *(Open budget)*. As a result, 407 billion sums were allocated for the implementation of more than 1.5 thousand projects.

In general, in 2021, the consolidated budget revenues amounted to 204.5 trillion sums (growth by 26% by 2020), and expenses245.2 trillion sums (30%). The consolidated budget deficit was covered by loans from international financial institutions, Eurobonds, etc.

Monetary Policy

The beginning of the implementation in 2017 of a new course of reform and development of the country's economy, aimed at economic liberalization and the preferential use of market mechanisms of macroeconomic regulation, predetermined the vector of development of the banking system and priorities in the field of monetary policy for the medium term.

The concept of development and implementation of the monetary policy of the Central Bank of the Republic of Uzbekistan for the medium term has been developed taking into account the dominant role of the communication channel in the formation of public opinion and the practical application of the inflation targeting regime.

Inflation Policy

The main task of the Central Bank in 2010-2018 was to maintain the exchange rate of the national currency at a stable level. Since 2019, the main task of the Central Bank has been to ensure the stability of pricing, the banking system and payment systems.

In 2010-2016, the exchange rate targeting regime was practically applied. As a result of the introduction of new monetary policy mechanisms in 2020, the annual inflation rate decreased from 15.2% in 2019 to 11.1% in 2020. From January 1, 2020, interest rates on loans issued by commercial banks in national currency began to be set at a level not lower than the Central Bank refinancing rate, and from January 1, 2021, commercial banks were granted the right to independently determine interest rates.

The positive impact of reforms in this area is also evidenced by the estimates of the World Bank, according to which a decrease in inflation allowed the Central Bank to reduce the base rate from 16% to 14%. The growth of lending to the economy slowed from 52% in 2019 to 34% in 2020.

Despite the decline in the capital adequacy ratio and the growth of problem loans, the financial system of Uzbekistan has sufficient capital (above the minimum requirements of Basel III) to cope with potential credit shocks.

In November 2019, the Law "On the Central Bank of the Republic of Uzbekistan" was adopted in a new edition, in which the main task of the Central Bank is to ensure price stability in the economy.

In order to accelerate the transition to inflation targeting, Decree of the President of the Republic of Uzbekistan No. 5877 dated November 18, 2019 "On improving monetary policy with a phased transition to an inflation targeting regime" provided for the transfer from 2020 of monetary policy to an inflation targeting regime with the goal of reducing the inflation rate to 10% in 2021 and a permanent inflation target of 5% in 2023.

The money supply as of January 1, 2022 amounted to 140.2 trillion sums and increased 5 times compared to the beginning of 2014.

Table 9. Money Supply, in billion sums

01.01.2014	01.01.2015	01.01.2016	01.01.2017	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.01.2022
28,376	32,698	40,642	50,227	70,816	80,165	91,266	107,604	140,184

By the end of 2021, inflation was formed at the level of the intermediate targetthe target and amounted to 10%. The main factor in the formation of the inflationary environment in the past year was a significant increase in prices for food and fuel and energy products. The price increase is explained on the one hand by global inflationary trends, and on the other by factors related to competition and supply in the domestic market.

The core inflation rate by the end of 2021 was also slowed to 8.8%, the lowest in the last five years. According to the results of a survey conducted in December last year, the inflation expectations of the population and entrepreneurs for the next 12 months were replaced by a downward trend after an upward trend in September-November and amounted to 15.7% and 14.9%, respectively.
The key factors of inflationary expectations were the rise in the price of gasoline, an increase in transport costs and an increase in prices for basic foodstuffs and imported goods.

Foreign Currency Policy

From 2010 to 2016, the country had an official exchange rate, an exchange rate and a "black market" rate, that is, an unofficial foreign exchange rate. This led to the "cash problem."

Until 2017, one of the main justified criticisms from the international business community against the Uzbek economy was an inefficient monetary policy based on non-market rules.

One of the key decisions in this direction were practical steps to gradually liberalize the domestic foreign exchange market with the introduction of market principles for the formation of the exchange rate of the national currency.

Accordingly, following the Decree of the President of the Republic of Uzbekistan No. 5177 "On priority measures to liberalize monetary policy", the Decree of the President of the Republic of Uzbekistan No. 3272 "On measures to further improve monetary policy" was adopted and a set of measures to further improve monetary policy in the period for 2017-2021 and phased transition to inflation targeting mode.

The next important step was the adoption of the Decree of the President of the Republic of Uzbekistan No. 5296 "On measures to radically improve the activities of the Central Bank of the Republic of Uzbekistan" dated January 9, 2018, according to which the priority goal of the Central Bank's activities is to ensure the stability of the price level. In addition, this document provides for strengthening the independence and development of the institutional base of the Central Bank.

In the emerging new macroeconomic realities, during the period of transformation and revision of the main approaches to economic policy, the correct perception and support from the population of qualitative transformations in the monetary sphere, as well as the trust and expectations of the business community, are crucial.

On September 5, 2017, the free exchange of the national currencysum was introduced. As a result, the "cash problem" in the country was eliminated.

Credit Policy and Commercial Banks

Overall, 2021 year was a year of economic recovery after a sharp slowdown in 2020. According to preliminary data, the gross domestic product in 2021 grew by 7.4% in real terms. At the same time, fiscal expenditures and loans from commercial banks directed to the economy were the main factors supporting economic and investment activities.

Loans allocated by commercial banks to the economy over the past year increased by 31% compared to 2020, and the repayment rate of loans significantly improved to 71%. Loans to individuals also increased by 42%, supporting consumption and demand for housing from the population.

In the field of reforming the banking system, tasks were set to ensure the stability of the level of capitalization and deposit base of banks, the expansion of lending. Almost all the goals were achieved.

In 2018-2020, the number of credit institutions in Uzbekistan increased by 55 units. As of January 1, 2021, the assets of commercial banks reached 366.1 trillion sums, an increase of 120% compared to 2017. The total volume of loans issued to economic sectors amounted to 277 trillion sums, an increase of 150% compared to 2017. The real growth of loans during this period averaged 38.6% per year, and the growth of deposits 18.5%.

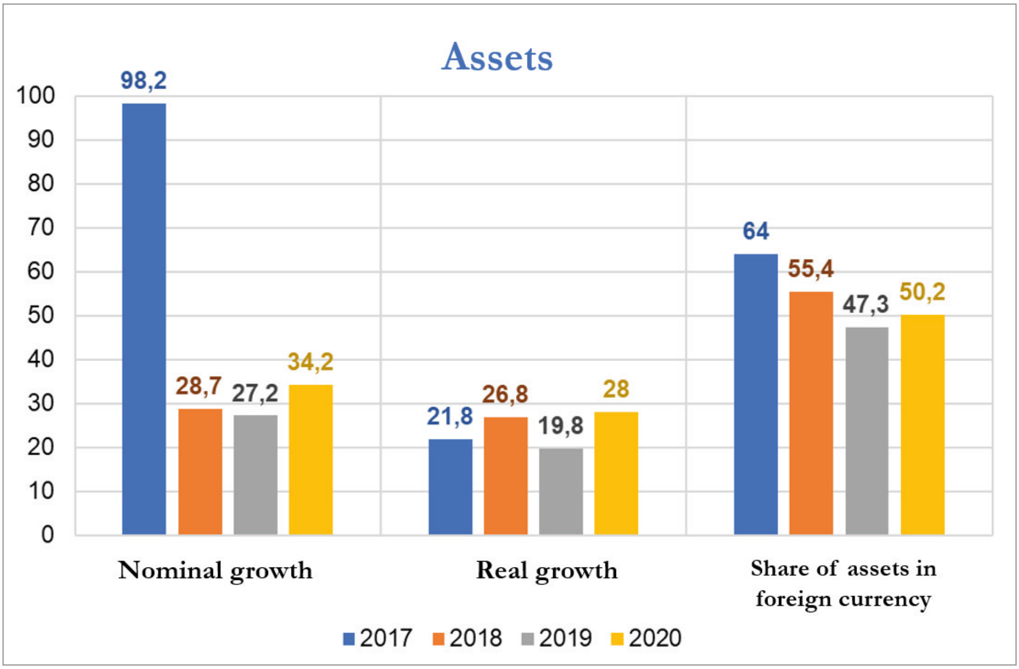
At the same time, the level of dollarization in the banking sector has significantly decreased. If the share of foreign currency assets in the total assets of banks in 2017 was 64%, then in 2020 it decreased to 50.2% (the share of loans in foreign currency decreased from 62.3% to 49.9%, and the share of deposits in foreign currency from 48.4% to 43.1%). It is planned to reduce the level of dollarization of the economy from 50.2% in 2021 to 45% in 2022.

Due to the ongoing reforms, domestic commercial banks began to enter the international capital market for the first time in history. Uzpromstroy Bank, the National Bank for Foreign Economic Affairs, and Ipoteka Bank issued Eurobonds to attract long-term capital, attracting funds from the London Stock Exchange. The German Financial Development Institute (Deutsche Investments- und Entwicklungsgesellschaft mbH, DEG) and Triodos Investment Management invested in the authorized capital of Ipak Yuli Bank through the purchase of shares.

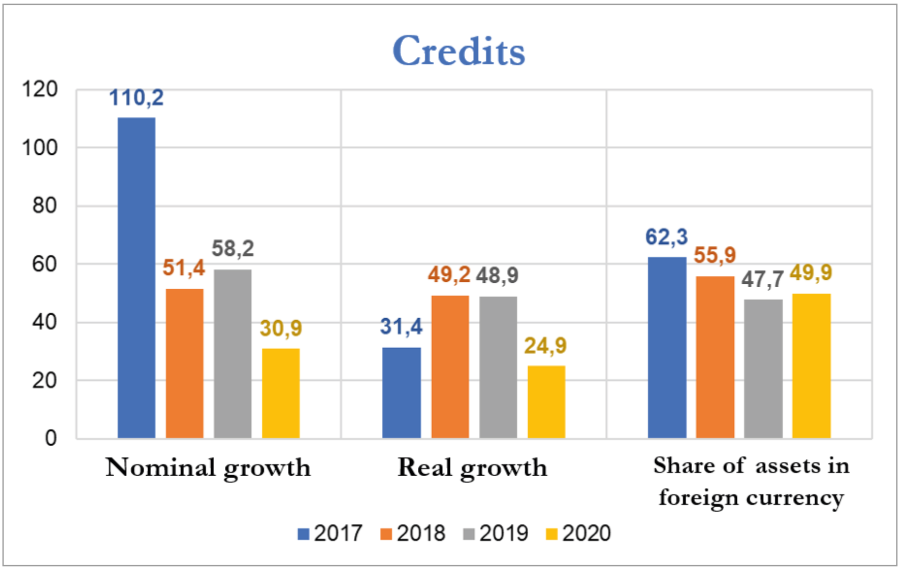
The real growth of loans averaged 38.6% per year. As of January 1, 2021, the total amount of loans to the economy amounted to 277 trillion sums and increased by 150% compared to 2017.

During this period, the average annual real growth rate of deposits was 18.5%.

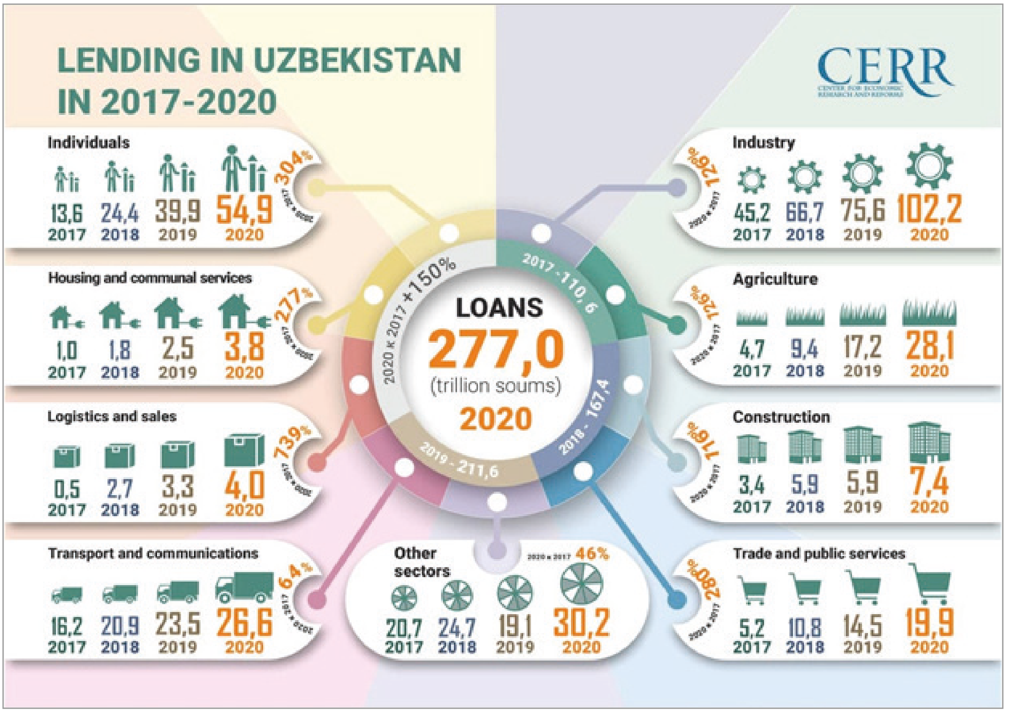
At the same time, the nominal growth rate of assets compared to 2019 was 34.2%, and the real growth rate (excluding devaluation) was 28%. It should be noted that the share of foreign currency assets in the total assets of banks is gradually decreasing. If in 2017 this figure was 64%, then in 2020 it decreased to 50.2%.



Source: *Central Bank of the Republic of Uzbekistan (in %)*

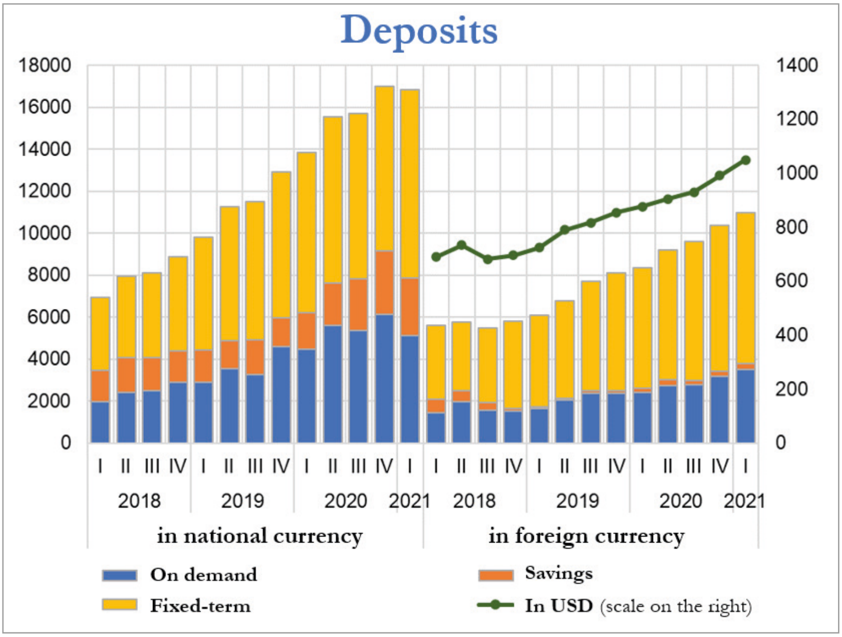


Source: *Central Bank of the Republic of Uzbekistan (in %)*



Source: *Center for Economic Research and Reforms*

As of January 1, 2021, the total volume of deposits in the banking system amounted to 114.7 trillion sums, of which 27.4 trillion sums (24%) deposits of individuals, 87.3 trillion sums (76%) deposits of legal entities.



Source: *Center for Economic Research and Reforms*

For the first time in the history of Uzbekistan, after the government successfully placed sovereign Eurobonds in the amount of $1 billion in February 2019, several commercial banks entered the international capital market in order to attract long-term capital.

In particular, in November 2019, Uzpromstroy Bank took the first step among commercial banks by issuing Eurobonds in the amount of $300 million to the London Stock Exchange. In October 2020, the National Bank for Foreign Economic Affairs raised $300 million from the London Stock Exchange. In November, Ipoteka Bank also issued Eurobonds worth $300 million and became a participant in the international capital market.

Moreover, large-scale reforms aimed at increasing the investment attractiveness of the financial sector in recent years have helped to increase the interest of foreign investors in the banking sector:

- in 2018, a joint-stock company managed by the Swiss company Respons Ability Investments AG and specializing in development investments bought 7.66% of Hamkor Bank shares from IFC.
- in 2019, Halyk Bank of Kazakhstan established a branch of Tenge Bank in Tashkent.
- TBC Bank (Georgia), which acquired PayMe in April 2019, opened its branch in Tashkent a year later as the first digital bank in Uzbekistan.

– in 2020, the DEG and Triodos Investment Management invested in the authorized capital of Ipak Yuli Bank by purchasing new issued shares in the amount of $25 million.

Despite the aforementioned reforms, large-scale reforms will be continued in the fiscal and monetary sectors in Uzbekistan, the main goal of which will be to reach the improvement of the living standards of the population, to increase investment attractiveness, as well as to ensure financial stability.

Overview of the Transport and Logistics Sector

Stable and efficient functioning of the transport sector is a prerequisite for high rates of economic growth, ensuring the integrity of the country and national security, improving the quality of life of the population, rational integration of Uzbekistan into the world economy.

Transport services represent a broad economic system covering all passenger and cargo transportation services by air, land and water transport.

Transport and communication relations are one of the most important issues for Uzbekistan. In this regard, Uzbekistan is strategically focused on the development of the transport industry and implements a wide range of measures aimed at improving the transport infrastructure at the national and regional levels, as well as consistently working on its integration into the international transport system.

It is known that Uzbekistan has no direct access to the ocean, and the number of such countries in the world is 44. However, 42 of them cross the border of one country to access the ocean. To reach the ocean, Uzbekistan has to cross the territory of two countries.

For Uzbekistan, the closest way to get to the ocean is through Afghanistan. In this sense, Uzbekistan is currently fully interested in developing multifaceted relations with Afghanistan and in ensuring peace and stability.

It is noteworthy that in recent years, through the efforts of Uzbekistan, an atmosphere of good neighborhood, mutual trust, friendship and respect has been formed between the countries of Central Asia. The main goal of this is to ensure the deep integration of our region into the global economy by creating transport and transit corridors.

On February 1, 2019, the Ministry of Transport of the Republic of Uzbekistan was established to improve the public administration system in the field of transport, increase investment efficiency and export potential of the country, strategic development of transport communications and ensure their sustainable functioning. The Ministry has developed and submitted draft Laws on transport and "Strategies for the Development of the Transport System of the Republic of Uzbekistan until 2030", which are important for the development of all types of transport and road infrastructure of the country.

Currently, Uzbekistan has a huge transport potential and unique opportunities to meet the needs of the country in the movement of both cargo and passengers in all directions and by all possible modes of transport.

Dynamics of Key Indicators

As of January 1, 2022, there are 18,251 enterprises and organizations operating in the field of transport. Compared to the same period in 2021, their number increased by 950 units, and the growth rate was 5.5%.

Table 10. The Number of Operating Enterprises and Organizations in the Field of Transport Services

Sector	2013	2014	2015	2016	2017	2018	2019	2020	2021
Transportation and storage	8,404	8,931	9,892	10,881	11,996	13,330	15,360	17,301	18,251

In January-December 2021, the number of newly created enterprises and organizations in the field of transport services amounted to 2,646 units, which is 63.5% more than in 2013.

Table 11. The Number of Newly Created Enterprises and Organizations in the Field of Transportservices

Sector	2013	2014	2015	2016	2017	2018	2019	2020	2021
Transportation and storage	1,618	1,438	1,299	1,666	1,833	2,115	2,956	2,399	2,646

Over the past eleven years, the volume of freight and passenger traffic in our country has increased significantly. In particular, the total volume of cargo transportation in 2021 amounted to 1,420.2 million tons (186.1% compared to 2010), while cargo turnover reached 74.8 billion tons/km (123.8%).

Including:

- road cargo transportation in the amount of 1,282.0 million tons, cargo turnover 19.1 billion tons/km;
- railway freight 72.0 million tons, cargo turnover 24.6 billion tons/km;
- air cargo transportation 9.1 thousand tons, cargo turnover 303.5 million tons/km;
- pipeline cargo transportation 66.2 million tons, cargo turnover 30.8 billion tons/km.

Table 12. Cargo Transportation and Cargo Turnover by Means of Transport for 2010-2021

Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Cargo transportation, million tons	763.1	827.5	858.7	930.0	1,000.4	1,070.5	1,132.5	1,146.2	1,243.0	1,319.8	1,366.7	1,420.2
By railway	56.9	59.2	61.5	63.7	65.7	67.2	67.6	67.9	68.4	70.1	70.6	72.0
By road	652.5	708.4	732.7	801.3	868.9	943.3	1,002.8	1,013.1	1,102.2	1,177.7	1,238.2	1,282.0
Pipeline cargo transportation	53.7	59.9	64.5	65.0	65.8	60.0	62.2	65.1	72.4	72.0	57.9	66.2
By air	29.5	30.7	24.0	22.0	23.0	24.6	26.5	26.4	13.1	10.4	5.3	9.1
Cargo turnover, billion tons/km	60.4	62.6	66.4	65.8	66.2	65.8	65.3	66.9	71.3	72.6	66.9	74.8
By railway	22.3	22.5	22.7	22.9	22.9	22.9	22.9	22.9	22.9	23.4	23.6	24.6
By road	9.1	9.9	10.5	11.2	11.9	12.8	13.3	13.6	14.6	15.9	16.2	19.1
Pipeline cargo transportation	28.9	30.1	33.0	31.5	31.2	30.0	28.9	30.2	33.6	33.2	26.8	30.8
By air	168.0	162.5	121.9	116.3	125.1	131.1	132.2	156.9	123.5	119.0	219.0	303.5

Also, by the end of 2021, the volume of passenger traffic by road, railway, air and electric transport amounted to 6.03 billion passengers (148.1% compared to 2010), and by the end of 2020 –5.3 billion passengers (130.1% compared to 2010).

Table 13. Passenger Transportation and Passenger Turnover by Mode of Transport for 2010-2021

Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Passengers transported, million people	4,072.0	4,507.8	4,763.0	4,909.9	5,169.9	5,380.0	5,560.4	5,679.0	5,951.5	6,025.1	5,295.9	6,029.7
By railway	14.5	14.9	15.9	17.4	19.1	20.1	20.5	21.1	22.1	22.9	6.2	7.9
By road	3,962.6	4,410.9	4,663.9	4,815.8	4,079.0	5,293.2	5,480.8	5,591.3	5,852.8	5,915.2	5,248.5	5,914.2
By air	1.9	2.1	2.5	2.4	2.3	2.2	2.1	2.2	2.6	3.2	0.9	3.0
Passenger turnover, billion pass/km	83.8	92.4	100.2	106.9	113.2	120.1	126.0	130.0	135.3	140.1	118.3	137.0
By railway	2.9	3.0	3.4	3.7	3.8	3.8	4.0	4.3	4.3	4.4	1.8	3.1
By road	74.5	82.5	89.3	95.5	101.9	109.1	114.9	117.7	121.6	124.1	113.2	127.9
By air	5.8	6.2	7.0	7.2	7.0	6.8	6.7	7.5	8.8	11.0	3.0	5.3

In recent years, there has also been an increase in the dynamics of transportation of export-import and transit cargo (international cargo transportation) of Uzbekistan by road.

In January-June 2022, international freight traffic amounted to 24.8 million tons, which is 104.0% compared to the same period in 2021. Including export cargo transportation that amounted to 7.4 million tons, which is 0.9% less compared to the corresponding period of 2021. And import cargo transportation amounted to 12.2 million tons and increased by 9.5% compared to the corresponding period of 2021.

Cargo transportation by railway amounted to 19.1 million tons (98.1% compared to the corresponding period of 2021), and by road 5.7 million tons (129.7%), by air transport 33.7 thousand tons (127.9%).

Also, automobile transport plays a significant role in the transportation of goods and passengers. In January-June 2022, 12 new local bus routes and 33 directions of fixed-route taxis were opened to provide transport services to the population and further improve the system of passenger transportation by vehicles in cities and towns.

As a result of the reforms carried out in the country, a total of 32 regular international bus routes have been launched to neighboring countries such as Kazakhstan, Kyrgyzstan, Tajikistan and Russia in order to create convenience for the population and tourists.

In order to expand the geography of international routes, work is underway to open 7 more regular international bus routes in the future.

In recent years, construction and reconstruction works have been carried out at a total of 70 bus stations. In 2019, work was fully completed in accordance with international requirements and standards for the reconstruction of the Tashkent Bus Station, capable of serving 5 thousand passengers per day on international and local routes, which was put into operation. In January-June 2022, 285 new buses and minibuses were purchased and placed on routes, according to the approved program.

Also, in January-June 2022, the movement of buses was restored on international routes between the cities of Uzbekistan and Kazakhstan, Kyrgyzstan and Tajikistan.

In the Field of Railway Transport

Uzbekistan's position in Central Asia allows it to function as a crossroad for rail routes connecting north to south, and east to west. In recent years, the country strived to become a central transit destination, that will provide alternative routes for Eurasian rail transportation. Through infrastructure improvements, investments, and international agreements, Uzbekistan aims to unfold its full potential.

In 2016 Uzbekistan celebrated the opening of a new railway line that connects the Angren basin with Fergana valley, the easternmost region of the country. Before the launching of the new line, trains heading to Fergana valley had to cross borders with Turkmenistan twice. As a result, a trip that was supposed to take place within the country's borders ended up being international due to poor rail infrastructure. The Angren-Pap railway line, a 123-kilometres infrastructure project, changed the situation, providing a route that includes Central Asia's longest mountain pass, Qamchiq Tunnel.

Following the upgrade in Uzbekistan's railway network, the possibilities appearing are numerous. First of all, the developments played a crucial role in launching the China-Kyrgyzstan-Uzbekistan multimodal service. China was pushing for this connection to start operating since it was considered significant for the progress of the Central Asian trade. Currently, the service includes two legs of rail transportation and one of road, since Kyrgyzstan's rail infrastructure is still underdeveloped. All parts concerned are looking forward to improvements in Kyrgyzstan's rail network that will allow the service to use only trains.

With these advances, Uzbekistan will have the chance to acquire a more central role in the trade of the Caucasian region. With a train service from Uzbekistan to Türkiye already launched, the landlocked country can now claim more space in the routes towards southeastern Europe and the Mediterranean Sea.

Among the immediate goals of Uzbekistan also lies the direct linking with seaports. The country has already built a railway line to Mazar-e-Sharif in Afganistan, enabling further connections to the Persian Gulf and the Indian Ocean.

What remains now is to see whether all these attempts will prove beneficial for the country's role in rail transportation. One thing is for sure so far: Uzbekistan is taking the right steps in becoming an important transit country, not only in regional Central Asian trade but also in the broader New Silk Road. Hopefully, the implemented changes will allow it to provide an alternative solution in the Asia-EU connection, and become a pivotal transport and logistics hub in Central Asia.

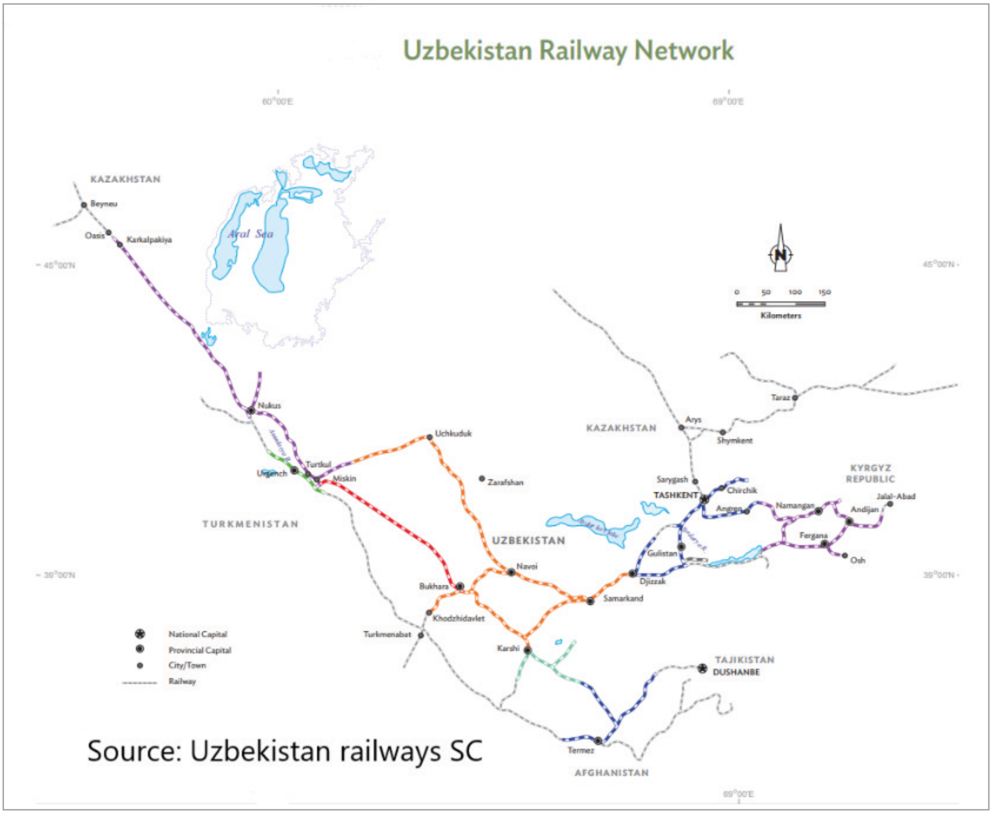
In January-December 2021, 72.0 million tons of cargo were transported by railway, the growth rate, compared to the same period in 2020, amounted to 101.9%.

If compared with January-December 2020, the freight turnover of railway transport increased by 887.7 million tons/km and reached 24.6 billion tons/km. At the same time, passenger turnover increased by 1,327.3 million passenger-km and amounted to 3,122.2 million passengers/km.

In the first half of 2022, investments totaling $778.7 million were disbursed within the framework of 224 investment projects in the transport industry.

In particular, in connection with the opening of the Angren-Pop railway section in recent years, the movement of passenger trains on new routes Tashkent–Andijan, Andijan–Moscow, Andijan–Khiva, Andijan–Bukhara, and Andijan–Termez has been introduced.

As a result of the opening of a new railway section Bukhara–Misken for the development of passenger traffic, the travel time of trains Tashkent–Kungrad, Tashkent–Shavat, Tashkent–Khiva, Andijan–Khiva was reduced from 2 to 4 hours. Regular train services have been launched on the domestic route Bukhara–Khiva and on the new international routes Tashkent–Kazan, Tashkent–Moscow, Andijan–Ufa and Termez–Moscow.



As a result of electrification of the Qarshi–Kitob railway section on the Tashkent–Kitob route, the "Afrosiyob" high-speed train was launched. In addition, as a result of electrification and reconstruction of the Kokand–Namangan railway section, the movement of electric trains along the Kokand–Namangan route has been launched. In order to create convenience for the residents of Bekobod and Khavast, an electric train on the Tashkent–Bekobod route has been launched.

In the Field of Aviation

In 2021, cargo transportation by air amounted to 8.3 thousand tons, which is higher than the level of 2020 by 58.4%. Cargo turnover for the period under review increased by 38.6% and amounted to 303.5 million tons/km.

In 2019, as part of the reform of the aviation system, joint-stock companies Uzbekistan Airways and Uzbekistan Airports were established on the basis of Uzbekistan Airways and their charters were approved. Eleven international airports of the country were evaluated, which as a result were transformed into limited liability companies.

In 2019, a new terminal of the Termez Airport with a capacity of 400 passengers per hour was put into operation. In recent years, Uzbekistan Airways has purchased 3 new Boing-787 aircraft and 2 new A-320 NEO aircraft, as a result of which the number of modern aircraft of the company has reached 29.

In order to expand the geography of flights and increase the number of flights, in 2019:

- new routes Tashkent–Jakarta–Tashkent and Tashkent–Tbilisi–Tashkent were launched, operating flights twice a week;
- the number of flights to Türkiye on the Tashkent–Istanbul–Tashkent route has reached 17 per week;
- increased the number of flights to Jeddah from 7 to 14 per week;
- in order to develop international cooperation and create convenience for passengers, in 2019;
- signed new interline agreements with Air India (India) and Malindo Air (Malaysia);
- the current code-sharing agreement with Alitalia (Italy) has been revised and new routes have been added;
- from August 1, 2020, the “Open Skies” mode has been introduced to provide foreign airlines with Fifth Freedom of the Air at international airports of the regions and the Republic of Karakalpakstan as well as Seventh Freedom of the Air for cargo airlines at Navoi and Termez international airports.

In the Field of Road Management

During 2019, work was carried out on 10,211.5 km of highways (101.2% of the plan) for the construction, reconstruction, repair, maintenance and equipping of highways of the republic in the amount of 5,021.2 billion sums (104.2% of the plan). In 2020, works on reconstruction, repair and maintenance of highways in the amount of 4,57 trillion sums (104.1% of the plan) were carried out, reconstructed and repaired 6,178.8 km of highways (100.6% of the plan).

Within the framework of investment programs in the first half of 2022, the Committee on Highways spent a total of $157.1 million in the framework of 92 projects. It should also be noted that in recent years, within the framework of 7 road projects, various sections of the A-380 Guzar–Bukhara–Nukus–Beyneu highway have been completely reconstructed and put into operation, including 40 km in the Republic of Karakalpakstan, 142 km in the Khorezm region, 125 km in the Bukhara region, in the Surkhandarya regionsections of 100 km of the M-39 Tashkent–Termez highway.

Implementation of the Transport Services Export Plan

In 2021, transport services were provided for a total of 67.2 trillion sums, which is 6.4 times more than in 2010.

Table 14. The Volume of Transport Services Rendered in 2010-2021 (in Trillion Sums)

Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Transport services	10.5	13.6	16.5	20.6	23.8	26.8	30.6	36.2	44.2	54.5	53.7	67.2

THE ROLE OF UZBEKISTAN IN THE TURKIC WORLD

Trade and Economic Relations of Uzbekistan with the Countries of the Turkic World

Since the first days of its Independence, the Republic of Uzbekistan has been actively cooperating with the countries of the Turkic World: Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan and Türkiye. Uzbekistan's relations with these countries have experienced various periods of decline, rapprochement and development.

After the election of Shavkat Mirziyoyev as President of Uzbekistan, relations with the countries of the Turkic World have changed dramatically. Breakthrough decisions were made. The positive dynamics of relations in recent years demonstrates a completely new level of interaction between Uzbekistan and the countries of the Turkic World.

As part of the implementation of the idea “From an Action Strategy to a Development Strategy”, Uzbekistan intends to continue the course of strengthening the atmosphere of mutual understanding and respect, good–neighborliness and strategic partnership, including within the framework of the Organization of Turkic States (OTS).

Uzbekistan considers OTS as an effective mechanism of regional cooperation with great unrealized opportunities and unifying potential.

OTS was created and is developing not only on the basis of the common language and religion, historical and cultural ties of the Turkic States, but also due to their interest in deepening dialogue and cooperation, primarily in the field of economy and sustainable development, developing joint adequate responses to modern challenges.

Interaction with the countries of the Turkic World is a priority of the foreign policy of the Republic of Uzbekistan. A strategic partnership has been established with each of the states.

Uzbekistan's joining the Cooperation Council of Turkic-speaking States in 2019, transformed into the Organization of Turkic States in 2021, was a reflection of natural historical processesit meets the fundamental interests of the people of Uzbekistan. All participating countries welcomed this event with satisfaction. Officials and experts point to the historical role of the Uzbek people in the fate of the Turkic peoples, the huge potential and importance of Uzbekistan for the organization, as well as the country's feasible contribution to its strengthening. OTS has become a full-fledged international structure with Uzbekistan joining it.

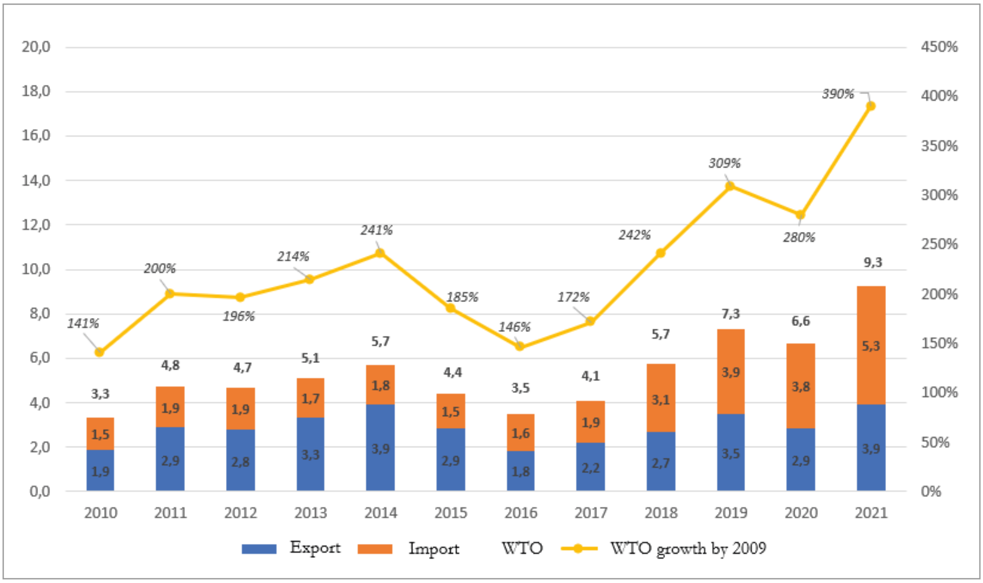
Today, not only political, cultural and spiritual ties have reached a new level, but also trade and economic relations and investment cooperation.

In this regard, the concept document "Turkic World Vision-2040" adopted by the Heads of States will contribute to the creation of prosperous societies in the Turkic States, their formation of a strong regional economic group connecting the East, West, North and South trade corridors to promote regional and global economic stability.

The dynamics of the development of ties in these areas shows that over the past five years, the volume of mutual trade with the countries of the Turkic World has increased on average almost three times, more than two and a half thousand joint ventures have been created. Transport links are expanding, and the number of visa-free tourist trips is growing.

In particular, from 2010 to 2021, trade with Azerbaijan increased 2.6 times (average annual growth 23.6%), Kazakhstan 3.0 times (12.4%), Kyrgyzstan 6.0 times (21.4%), Turkmenistan 4.7 times (21.7%) and Türkiye 5 times (16.7 %).

Graph 1. Uzbekistan's Trade with the Countries of the Turkic World in 2010-2021 (billions USD)



In 2010-2021, Uzbekistan's trade turnover with the countries of the Turkic World increased 3.9 times. Their share in Uzbekistan's foreign trade is 22%. In 2021, Uzbekistan conducted trade operations with the countries of the Turkic World in the amount of $9.3 billion.

Major trading partners among the countries of the Turkic World are Kazakhstan (the first trading partner within the framework of OTS) and Türkiye (the second trading partner within the framework of OTS).

The share of the member countries of the Organization of Turkic-speaking States in the total trade turnover of Uzbekistan is 22%, Kazakhstan 9.2%, and Azerbaijan 14.5%. At the same time, by nominal value, Türkiye accounts for the largest volume of trade with the Organization's countries almost $10 billion. This indicates that the foreign trade of the Turkic States is mainly focused on their traditional markets.

A high share of raw materials remains in the structure of trade turnover of the Organization's countries raw materials account for 50%, medium-tech products 26%, low–tech 19%, and high–tech only 5%. Technological products are mainly exported by Türkiye and Uzbekistan (to Central Asian countries).

In addition, there is a high degree of dependence of the Turkic States on imported food. For example, Azerbaijan increased food imports by 19.9% (up to $1.6 billion) in 2019. A similar situation is observed in Kyrgyzstanthe share of food products and agricultural raw materials in the structure of the country's imports increased from 7.6% in 2019 to 10.3% in 2020. Kazakhstan also remains dependent on imports for a number of food products, while for some of them (sugar, chicken meat, etc.), the consumer market is covered by more than 80% at the expense of foreign products.

If we take into account that Uzbekistan intends to increase trade with Kazakhstan to $10 billion, with Türkiye to $5 billion and with Kyrgyzstan up to $2 billion, then when these tasks are fulfilled, the share of the OTS countries in trade turnover may exceed 25%.

In 2021, the mutual trade turnover between Uzbekistan and Azerbaijan increased in 1.42 times.

At the end of 2019, the trade turnover amounted to $73.9 million (an increase of 56.6% compared to 2018). In 2020, it grew almost 4 times compared to 2016 (average annual growth 41.6%) and exceeded $83.8 million. At the end of 2021, the Uzbek-Azerbaijani trade turnover not only recovered after the pandemic, but also exceeded the level of 2019 by 60.8% and reached $118.8 million (increased by 41.8% compared to 2020), and 5.5 times compared to 2016 (average annual growth 41.6%).

The mutual trade turnover between Uzbekistan and Kazakhstan has grown 1.3 times. In 2021, Kazakhstan became the third foreign trade partner of Uzbekistan.

At the end of 2019, the trade turnover amounted to $3.3 billion (an increase of 14.2% compared to 2018). In 2020, it grew by 58.3% compared to 2016 (the average annual growth is 13.7%). At the end of 2021, the Uzbek-Kazakh trade turnover not only recovered after the pandemic, but also exceeded the level of 2019 and reached $3.91 billion (increased by 30.1% compared to 2020), and 2.1 times compared to 2016.

Uzbekistan's trade with Kyrgyzstan increased in 1.05 times. In 2021, Kyrgyzstan was among the top ten major foreign trade partners of Uzbekistan.

At the end of 2019, the trade turnover amounted to $820.3 million (an increase of 2 times compared to 2018). In 2020, it grew 5.4 times compared to 2016 (an average annual growth of 56.1%) and exceeded $907.2 million. In 2021, the Uzbek-Kyrgyz trade turnover reached a pandemic level, exceeding the indicators of 2019 and reaching $952.6 million (increased by 5% compared to 2020), and 5.7 times compared to 2016 (average annual growth 45.9%).

The mutual trade turnover between Uzbekistan and Turkmenistan increased by 1.64 times. In 2021, Turkmenistan entered the top ten major foreign trade partners of Uzbekistan.

At the end of 2019, the trade turnover amounted to $554.4 million (an increase of 83.1% compared to 2018). In 2020, it grew (2.6 times) compared to 2016 (an average annual growth of 33.9%) and exceeded $538.2 million. In 2021, the Uzbek-Turkmen trade turnover recovered after the pandemic.

Moreover, it exceeded the level of 2019 and reached $881.9 million (increased by 63.9% compared to 2020), and 4.2 times compared to 2016 (average annual growth 39.9%).

Over the past 5 years, the mutual trade turnover between Uzbekistan and Türkiye has grown 2.9 times. In 2021, Türkiye became the fourth foreign trade partner of Uzbekistan.

At the end of 2019, the trade turnover amounted to $2.5 billion (an increase of 23.6% compared to 2018). In 2020, it doubled compared to 2016 (an average annual growth of 17.9%) and exceeded $2.1 billion. At the end of 2021, the Uzbek-Turkic trade turnover not only recovered after the pandemic, but also exceeded the level of 2019 and reached $3.4 billion (increased by 60.9% compared to the same period in 2020, and tripled compared to 2016 (average annual growth 26.5%).

Based on the foregoing, it can be concluded that the renewed foreign policy of Uzbekistan, implemented under the leadership of President Shavkat Mirziyoyev, aims to strengthen, including economic cooperation with all countries of the world. This strengthened trust and mutual understanding also between the countries of the Turkic World. Along with this, the geographical proximity of Uzbekistan to Azerbaijan and Türkiye, contiguity of Uzbekistan with all the countries of Central Asia made it possible to expand trade, economic and investment partnership, cooperation ties, as well as interaction in the transport sector.

Regional and National Mega Projects Affecting the Economy

Investment cooperation between Uzbekistan and the countries of the Turkic World is developing dynamically. Major projects are being implemented within the framework of cooperation in this area.

The volume of investments of Turkish entrepreneurs in the economy of Uzbekistan in 2016-2021 amounted to $2.3 billion. If in 2016 the volume of Turkish investments amounted to 0.4% of the total volume of foreign investments, then in 2020 this figure reached 9.3%, and in 2021 11.1%. By the end of 2021, Türkiye has become one of the three largest countries investing in the economy of Uzbekistan. In 2021 alone, it invested a total of $1.18 billion.

The analysis of investments by industry showed that the largest share (65%) is invested in the manufacturing industry. A high share of investments was in agriculture (13% of the total investment). Investments in housing and communal services and nutrition accounted for 9.3%, construction 6.5%, public administration, wholesale and retail trade 1.5% and 1.3%, respectively. Turkish entrepreneurs have invested in water supply, sewerage and waste collection as well as in healthcare.

50 projects worth $594.55 million have already been implemented, 39 projects worth $985.88 million are under implementation, 21 projects worth $758.4 million are still scheduled to be completed.

The activity of business circles has significantly intensified. The number of joint ventures has increased fivefold and exceeded two thousand. The sum of investments of Turkish companies increased 70 times.

As of the beginning of 2022, five major energy projects with a total capacity of 1.4 thousand megawatts have been implemented jointly with Turkish companies over the past year. The second combined-cycle unit of the Navoi thermal power plant with the participation of the Turkish company Calik Enerji has been put into operation. As part of Recep Tayyip Erdogan's visit to Uzbekistan in March 2022, a 240-megawatt thermal power plant was launched in the Qibray district of Tashkent region and also the construction of a thermal power plant in the Khavast district of the Sirdaryo region has started.

Since 2019, about $401 million of Turkish investments have been attracted to Uzbekistan's agriculture for the implementation of 66 projects. Forty-two of them have been launched. More than 80 types of agricultural products, in addition to cotton and grain, are evaluated in terms of exports.

An important area of interstate relations is cooperation within the TRACECA program (Transport Corridor Europe-Caucasus-Asia), effective use of the potential of the Baku-Tbilisi-Kars and Navoi-Turkmenbashi-Baku-Tbilisi-Kars railways. This will allow Uzbekistan to provide access to the Mediterranean Sea.

At the same time, over the past five years, after Uzbekistan began large-scale reforms in all spheres of life, regional cooperation and interaction between the countries of the region in various areas, including in the water and energy sector, has significantly expanded. There is also an expansion of cooperation in the energy sector with Kazakhstan and Turkmenistan. Together with Tajikistan, Uzbekistan plans to build 2 hydroelectric power plants with a capacity of 320 megawatts on the Zarafshan River, and also expressed its readiness to participate in the construction projects of the Kambar–Ata (Kyrgyzstan) and Rogun (Tajikistan) hydroelectric power plants.

Nevertheless, the potential for developing cooperation between the countries of the region in order to eliminate problems in the development of the water and energy complex of Central Asia and increase the efficiency of its functioning remains very high. In particular, in this direction it is advisable to consider such issues as the possibility of establishing norms for the joint use of transboundary water resources by the countries of the region, the formation of a single energy market of Central Asian countries, the creation of an international regional center for water and energy regulation.

An important step in developing common approaches of the countries of the region to the rational and efficient use of resources can be the adoption of the regional program "Green Agenda", which will lay the foundation for sustainable "green" development of the entire region.

In 2020, the total volume of trade turnover of the OTS countries amounted to more than $815 billion. The mutual trade of the Organization's participants with a potential market of 160 million people in the same year amounted to only $33.2 billion (more than 4% of their total foreign trade). At the same time, domestic imports accounted for $21 billion.

In this regard, Uzbekistan believes that the priority task in cooperation between the countries of the Turkic World is to create the most favorable conditions for establishing direct, mutual understanding and trust-based ties between entrepreneurs. In this regard, it is proposed to organize joint technology parks, innovative startup companies and venture funds as well as a joint investment fund and open trading houses of Turkic-speaking countries.

At present, more than 40% of the population of the member and observer countries of the OTS is young people. Therefore, in order to widely involve talented and educated youth in entrepreneurship, President Shavkat Mirziyoyev initiated the creation of a Forum of Young Entrepreneurs within the framework of the OTS and hold its first meeting in Uzbekistan.

Today's indicators of trade turnover between the member countries of the OTS lag several times behind the potential level of mutual trade, the issue of creating favorable and attractive conditions for expanding trade relations within the Organization is becoming one of the key tasks for the medium term.

In this context, it is safe to say that the Research Center for Trade Cooperation between the countries of the OTS, the creation of which was initiated by the President of the Republic of Uzbekistan, can act as an effective tool for identifying growth points in the field of trade relations.

The activities of this Center should be aimed at preparing concrete proposals and a joint Action Plan on the elimination of trade barriers, the widespread introduction of electronic commerce, increasing the volume of exports and imports, and will also allow joint efforts to identify existing and emerging problems that hinder the expansion of mutual trade. This, in turn, will contribute to the development of innovative solutions to deepen multilateral trade within the framework of OTS.

The implementation of the Memorandum of Understanding on the exchange of information and experience in the field of activities of various economic zones, the idea of creating Turkic Trading Houses will increase the volume of trade, export potential and investment between the member countries and observer countries of the organization.

The demand of the time is to strengthen production cooperation. It seems expedient to create Engineering and Technology Centers on the basis of existing specialized organizations of the OTS countries. Their activities will be aimed at the formation of value chains and the development of joint projects based on the principles of competitiveness.

Such projects can be financed at the expense of the joint Investment Fund, the need for the creation of which was mentioned by President Shavkat Mirziyoyev.

The development of cooperation, primarily with Türkiye, on the implementation of digitalization processes in various fields and the creation of a permanent platform for experts and IT specialists to exchange experience and transfer innovations to create “smart” cities.

The development of road transport along the corridor Russia-Kazakhstan-Uzbekistan-Turkmenistan-Iran-Oman-India, including the railway and automobile bridges Turkmenabad-Farab (across the Amu Darya River) as well as the expansion of cooperation in civil aviation, can also contribute to the development of regional transport connectivity. Türkiye’s accession to this route will increase its importance.

The formation of a transport communications system within the framework of OTS will ensure the growth of continental cargo transportation in Eurasia and strengthen the transit potential of Central Asia at the intersection of transport corridors from east to west and from north to south.

In addition, joint work is being carried out on the Uzbekistan-Turkmenistan-Caspian Sea-South Caucasus transport route. This corridor is also designed to provide access to the Black Sea ports of Georgia, Türkiye, Romania and other countries.

One of the promising projects is the construction of the Uzbekistan-Kyrgyzstan-China railway.

In order to further develop trade and economic cooperation between the OTS countries, it is important to pay special attention to transport and transit issues.

It is important to further develop existing and create new transcontinental transport corridors from China to Europe, passing through the territory of the OTS countries.

In order to establish systematic cooperation in this area, it is necessary to develop a "Program of Interconnectedness of the Member Countries of the Organization of Turkic States in the Transport Sector." This Program will help to find effective solutions for the development of interregional multimodal corridors, simplification of border crossing procedures, digitalization of customs, sanitary and other types of control, search for effective solutions to optimize transport and transit tariffs.

The importance of implementing major transport and communication projects lies in the fact that they create wide opportunities for entering the markets of Europe, China and South Asia, as well as the effective use of the potential of the new Baku–Tbilisi–Kars railway.

The preparation and adoption of the Program will be of crucial importance in realizing the integration potential of the organization.

The parties cooperate within the framework of major regional energy projects, such as the TUTAP (Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan) electricity supply network, the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline, which are considered as key areas in ensuring regional stability and sustainable development.

Thanks to the modernization of Uzbekistan's energy sector, 20 projects worth $12 billion will be launched jointly with Türkiye on the basis of public-private partnership until 2026. These solutions will provide an additional 71 billion kilowatt-hours (kWh) of electricity. Twelve billion cubic meters of natural gas per year will be saved.

It is important to cooperate in environmental issues and environmental protection, first of all, to improve the situation around the Aral Sea. Joint efforts are required in the transition to a new, innovative and technological model of development, including the introduction of "green", environmentally friendly, energy-saving and safe technologies, the implementation of initiatives to mitigate the consequences of environmental crises and environmental protection for sustainable development. Initiatives are aimed at forming a permanent Platform of experts and IT specialists as well as an environmental protection structure of the Turkic States with headquarters in the Aral Sea region, the region most affected by the environmental disaster.

There are ample opportunities for cooperation in the field of tourism.

Cooperation and Partnership with the Turkic States

Uzbekistan's cooperation with the Turkic States is actively conducted both within the framework of the OTS and at the regional level. Central Asian countries (except Tajikistan) Uzbekistan, Kazakhstan, Kyrgyzstan are members of the Organization of Turkic States, Turkmenistan as an observer country.

The President of the Republic of Uzbekistan has repeatedly noted in his speeches that Central Asia is the main priority of the country's foreign policy. In particular, in his speech in Parliament in November 2021 at the inauguration ceremony, he reiterated that the main task remains to further strengthen the relations of good neighborliness and strategic partnership, primarily with the Central Asian countries.

Subsequently, the priority of the Central Asian countries in the foreign policy of the Republic of Uzbekistan was reflected in many strategic documents, as well as initiatives and practical actions of the Head of State. In particular, in the "Development Strategy of the New Uzbekistan for 2022-2026" in the section devoted to foreign policy, a separate goal is highlighted: "Raising to a high level of close cooperation in the field of security, trade and economic, water, energy, transport and cultural and humanitarian spheres in Central Asia."

Among the main directions for the implementation of this goal, in particular, it was noted to ensure the annual regular organization of "Consultative meetings of the heads of states of Central Asia" and active participation in them as well as the organization of work on the development of a "Strategy for regional cooperation in Central Asia."

It should be noted that the initiative of holding regular consultative meetings of the heads of states of Central Asia was subsequently supported by all the heads of states of the region. The first meeting was held in March 2018 in Astana, the second in November 2019 in Tashkent, on August 6, 2021, the third consultative meeting was held in the Awaza tourist zone of Turkmenistan.

Uzbekistan-Azerbaijan

Uzbekistan, along with trade and economic cooperation with Azerbaijan, pays great attention to cooperation in the transport sector, in particular, on the project of the trans-Caucasian transport corridor "Europe-Caucasus-Asia" (TRACECA), the role of which is increasing for Uzbekistan, in the conditions of new geopolitical realities, as one of the main transport routes for the delivery of goods to European countries.

On November 5, 2021, the President of Uzbekistan held a telephone conversation with the President of Azerbaijan, during which topical issues of strengthening Uzbek-Azerbaijani strategic partnership relations and expanding multifaceted cooperation were discussed as well as issues of interaction in the transport and communication sphere. The steady dynamics of the growth of mutual trade indicators and the number of joint projects in various sectors of the economy were noted. As successful examples of cooperation, the launch of car production in the city of Hajigabul as well as projects in the field of agriculture and sericulture are given.

In April 2022, the President of Uzbekistan received the Chairman of the Azerbaijani Parliament, who was on a visit to Tashkent. During the meeting, it was noted that tangible results have been achieved in the development of bilateral cooperation in recent years. According to the State Statistics Committee of Uzbekistan, over the past 5 years, despite the pandemic, the trade turnover between Uzbekistan and Azerbaijan has increased 4 times from $29.0 million to $118.9 million, and over the 10 months of this year, the volume of mutual trade has increased 1.5 times from $95.9 million to $142.9 million.

As of November 1, 2022, the number of joint ventures established in Uzbekistan with the participation of Azerbaijani capital amounted to 254 units, of which 30 enterprises have been established since the beginning of this year.

Uzbekistan-Kazakhstan

During the visit of the President of Uzbekistan to Kazakhstan in December 2021, the leaders of the two countries signed a historic documentthe Declaration on Allied Relations between the two countries.

During the visit, 22 documents were signed, including agreements in the customs sphere, on the establishment of the International Center for Industrial Cooperation "Central Asia" as well as documents on further expansion of cooperation in the fields of trade, investment, energy, transport communications.

Roadmaps have been adopted to expand interregional cooperation between the khokimiyats *(mayor administrations)* of Tashkent and Turkestan regions, the cities of Tashkent and Astana, Navoi and Kyzylorda regions for 2022-2023.

Priority areas of economic cooperation are identified in such areas as attracting investments, agro-industrial complex, transport and logistics, energy, pharmaceuticals, construction industry, industrial cooperation through the creation of new joint ventures in various sectors of the economy.

The goals have been set by expanding the range and volume of mutual supplies of demanded products by replacing imports from third countries, to increase the volume of mutual trade in 2022 to $5 billion and in the next 5 years to $10 billion.

In order to expand the supply of agricultural products, it is planned to create agro-clusters, wholesale distribution and logistics centers and promote the Agroexpress project.

On the eve of the visit, the Third Forum of Interregional Cooperation was held in Turkestan and meetings of the Business Council in the capital of Kazakhstan, at which investment and trade agreements worth about $6.6 billion were signed.

As of November 1, 2022, the number of joint ventures established in Uzbekistan with the participation of Kazakhstan's capital amounted to 1214 units, of which 160 enterprises have been established since the beginning of this year.

In Kazakhstan, with the participation of Uzbek capital, joint ventures have been established for the assembly of cars, buses and agricultural machinery in Kostanay, textile enterprises in Turkestan and Shymkent, a project is being worked out to create a joint venture for the production of household appliances in Turkestan.

Uzbekistan-Kyrgyzstan

During the last official meeting of the leaders of Uzbekistan and Kyrgyzstan (in March 2021, President Sadyr Japarov was on an official visit to Tashkent), the main attention was paid to the further expansion of trade and economic cooperation, the task was set to bring mutual trade turnover to $2 billion.

During the visit, 22 documents were signed, including the "Plan of practical measures to expand and deepen industrial cooperation", which provides for the implementation of almost 50 joint projects, an agreement on the establishment of an Uzbek-Kyrgyz Investment Fund with an initial capital of $200 million, documents on mutual electricity supplies as well as cooperation in the field of construction in Kyrgyzstan hydropower facilities, in particular under the project "Construction of the Kambarata HPP-1."

The Uzbek-Kyrgyz business forum was held, agreements were reached on the implementation of specific industrial cooperation projects in the field of trade, industry, agriculture, transport, infrastructure with a total cost of over $900 million, in particular, practical implementation of projects on the organization of assembly plants of passenger cars, agricultural and trailer equipment, household appliances in Kyrgyzstan as well as the creation of joint ventures in the textile sector and the production of construction materials in the border area.

Roadmaps have been agreed on for further expansion of interregional cooperation, in particular between Andijan and Osh, Namangan and Jalal-Abad regions, Ferghana region and Batken, Naryn regions.

With the participation of Uzbek capital, joint production facilities for the production of plastic windows and doors, as well as household appliances have been established in the Osh region of Kyrgyzstan.

As of November 1, 2022, the number of joint ventures established in Uzbekistan with the participation of Kyrgyz capital amounted to 301 units, of which 48 enterprises have been established since the beginning of this year.

Uzbekistan-Türkiye

The President of Türkiye paid an official visit to Uzbekistan on March 29-30, 2022. During the visit, the Presidents of Uzbekistan and Türkiye held the second meeting of the “Uzbek-Turkish Council for Strategic Cooperation of the Highest Level” and signed a Joint Statement following its results. Taking into account the achieved scale of cooperation between Uzbekistan and Türkiye, the Presidents of the two countries agreed to raise the status of bilateral relations to a comprehensive strategic partnership.

During the talks, issues of trade and economic cooperation were discussed, including in the field of investment, transport, textile industry, energy, agriculture, healthcare, on which a joint roadmap will be developed for the full implementation of all agreements reached.

An important area of cooperation between Uzbekistan and Türkiye was determined to further increase trade, economic and investment ties through the implementation of cooperative projects and programs, the establishment of close cooperation in the development of the mechanism of public-private partnership.

In recent years, the mutual trade turnover between the countries has grown 2.5 times and exceeded $3.6 billion, the number of joint ventures has increased 5 times and exceeded 2,000 and the volume of Turkish investments in Uzbekistan has increased 70 times.

The heads of states noted the availability of opportunities to bring the indicator of mutual trade to $5 billion at the first stage and up to $10 billion in the future.

During the visit, 9 documents were signed at the level of governments, ministries and departments of the two countries, providing for further expansion of multifaceted Uzbek-Turkish cooperation, including the "Preferential Trade Agreement" and the "Protocol on the Advance Exchange of Information on the Movement of Goods and Vehicles Across State Borders."

The Presidents of Uzbekistan and Türkiye took part in the launch ceremony of a modern thermal power plant in the Tashkent region and launched a project to build a similar station in the Sirdaryo region. Both projects are implemented by the Turkish company Cengiz Enerji.

The capacity of the thermal power plant built in the Qibray district of the Tashkent region is 240-megawatts, the power plant will generate 2 billion kWh of energy per year. The capacity of the new thermal power plant in the Khavast district of the Sirdaryo region will be 22 megawatts, it will generate 1.7 billion kWh of electricity per year.

Over the past year, 5 major energy projects have been implemented jointly with Turkish companies, which are in demand by the dynamically developing economy of Uzbekistan. In particular, the total capacity of these stations, including today's projects, will reach 1.4 thousand megawatts.

As of November 1, 2022, the number of joint ventures established in Uzbekistan with the participation of Turkish capital amounted to 2130 units, of which 288 enterprises have been established since the beginning of this year.

Uzbekistan-Turkmenistan (Observer Country in OTS)

During the official visit of the Head of Turkmenistan to Uzbekistan on October 4-5 in 2021, the leaders of the two countries identified new "growth points" for expanding trade, economic and investment cooperation in the long term, planned the implementation of joint projects for the assembly of cars and agricultural machinery, electrical products, building materials, deep processing of cotton and fruit and vegetable products as well as the creation of logistics infrastructure and clusters in the field of tourism. It was instructed to prepare a roadmap with specific mechanisms and deadlines for the implementation of the agreements reached.

In total, 23 documents covering almost all areas of cooperation were signed during the visit, including "Agreements on the Establishment and Regulation of the Uzbek-Turkmen Border Trade Zone", providing for the creation of a shopping center in adjacent territories, on increasing the volume of trade and expanding mutually beneficial partnerships between enterprises and companies, and "Protocol on the organization of exchange preliminary information on goods and vehicles transported across the customs border."

The leaders of the two countries set a goal to increase the volume of bilateral trade and diversify the range of mutual supplies of products that are in demand in the markets of the two countries. Therefore, the replacement of imports from third countries of the products that Uzbekistan and Turkmenistan produce for export, as well as the opening of trading houses will also contribute to the solution of this problem.

As part of the development of cooperation between the regions, primarily the border Lebap and Dashoguz velayats *(administrative unit)* of Turkmenistan and the Bukhara and Khorezm regions of Uzbekistan, a new mechanism of interregional cooperation has been launched "Forums of Regions", the first proposed to be held in 2022 in Khiva.

Agreements have been reached to intensify cooperation in the field of transport and the development of transit corridors, in particular, to expand the use of the unique capabilities of the Turkmenbashi seaport.

As of November 1, 2022, the number of joint ventures established in Uzbekistan with the participation of Turkmenistan's capital amounted to 169 units, of which 20 enterprises have been established since the beginning of this year.

Possible Areas of Cooperation with the Turkic States in the Future

Initiatives of Uzbekistan on Promising Areas of Cooperation of the Turkic-Speaking States at the Regional Level and within the Framework of OTS

In his speech at the Summit of the Leaders of the Central Asian countries in Awaza in August 2021, the President of the Republic of Uzbekistan put forward a number of new initiatives and outlined the following directions for expanding mutual economic cooperation:

- to improve the model of economic cooperation of the countries of the region and to look for new growth points and drivers of development for the long term;

- to eliminate existing barriers to the transition to a full-fledged free trade regime, increase intra-regional trade;
- jointly create long value chains through the development of industrial cooperation, innovation and digital technologies;
- to adopt an agreement on the general directions of regional trade and economic cooperation;
- effectively use the transport and transit potential of the region, which can become a key transit hub on the Eurasian continent, promote the construction of the trans-Afghan corridor Termez–Mazar-i-Sharif–Kabul–Peshawar and the China–Kyrgyzstan–Uzbekistan railway;
- to expand mutually beneficial cooperation in the energy sector, pay special attention to the introduction of "green" energy and energy-efficient technologies;
- to hold regular meetings of ministers of agriculture of the countries of the region, to develop a regional food security monitoring system;
- to develop a regional program "Green Agenda for Central Asia", which would contribute to the adaptation of the countries of the region to climate change, as well as the wider introduction of resource-saving technologies;
- to promote the practical implementation of the joint program "One Tour-the Whole Region" covering the entire spectrum of tourist destinations.

These areas of cooperation are harmoniously complemented with the initiatives that the President of the Republic of Uzbekistan announced in his speech at the Summit of the OTS held in November 2021 in Istanbul. In particular, the following directions of economic cooperation of the Turkic-speaking states were proposed:

- to develop a strategy of economic cooperation for the near and medium term, which would take into account the specifics of the Member States of the Organization;
- to create a Center for Research on Trade Cooperation of the Turkic States, which will develop proposals for the elimination of trade barriers, the widespread introduction of e-commerce and an increase in exports and imports;
- to strengthen cooperation in the field of industrial cooperation and the implementation of major investment projects, to establish an Investment Fund and a Development Bank of the Turkic Council, to create Engineering and Technology Centers on the basis of specialized organizations of the member states in order to develop joint projects in this direction, to hold the "Week of Industry of the Turkic States" in Uzbekistan in 2022;

- to develop transport corridors and jointly implement major projects to create logistics infrastructure, increase the transport and transit potential of the region, provide access through Central Asia to major world markets, including China, India, Pakistan and other Asian countries as well as from Azerbaijan and Türkiye to European countries;
- to develop a "Program of Interconnectedness of the Member Countries of the Organization of Turkic States in the Transport Sector";
- to create a permanent Platform of experts and IT specialists for the exchange of experience and transfer of innovations for the creation of smart cities, to hold an expert conference in 2022;
- to expand tourist exchange, develop a roadmap for the implementation of the projects "Tourism in the Turkic World" and "Tabarruk Tourism";
- to create, in cooperation with the UN, a structure for the protection of the environment of the Turkic States, to place its headquarters in one of the areas of the Aral Sea region most affected by this ecological disaster.

Promising Joint Projects in the Transport Sector

In the new geopolitical realities, in which the established supply chains of products are disrupted, the diversification of international transport routes is of particular importance.

In this regard, the cooperation of the Turkic-speaking countries in the transport sector through the joint creation of international transport corridors and international transport infrastructure in the region will contribute to reducing risks and transport costs in the supply of export products to world markets.

In particular, the joint implementation of the Mazar-i-Sharif–Kabul–Peshawar railway project will significantly reduce the time and cost of cargo transportation between the countries of South Asia and Europe through Central Asia.

This railway will provide access to the Pakistani seaports Karachi, Qasim and Gwadar and will connect the South Asian railway system with the Central Asian and Eurasian railway systems and significantly increase the transit potential of the countries of the region.

In addition, the implementation of this project will significantly increase the volume of transit traffic through the countries of the region, which will increase their income from providing transit of goods through their territories.

According to preliminary estimates, the length of this railway will be about 670 km. The project implementation period can be up to 5 years. It is planned to attract $4.8 billion of credit funds to implement the project.

An important joint project in the transport sector that meets the interests of Uzbekistan and Kyrgyzstan is the construction of the Uzbekistan–Kyrgyzstan–China railway. The creation of the shortest joint transport corridors for the export/import of goods to/from China will reduce the time and costs of their delivery. In particular, the construction of the Uzbekistan–Kyrgyzstan–China railway, in comparison with the routes currently used, will reduce the distance for the delivery of goods to/from China by 900 km and the travel time by 7-8 days.

Uzbekistan, together with Kazakhstan, plans to build a railway and a highway along the Uchquduq-Kyzylorda route as well as a high-speed railway Turkestan–Shymkent–Tashkent.

The expansion of cooperation between Uzbekistan and Kazakhstan in the transport sector on the formation of through transport routes in the North-South direction and back with a single tariff policy can significantly increase the transit potential of the two countries.

The expansion of cooperation between Uzbekistan and Azerbaijan in the transport sector will allow Uzbekistan to effectively use the TRACECA transport corridor for the delivery of goods to European countries as an alternative to the northern route, the use of which is becoming dependent on the geopolitical situation in the world.

In the southern direction, Uzbekistan's interests are served by the speedy completion, together with Turkmenistan, of the formation of the Uzbekistan–Turkmenistan–Iran–Oman transport corridor, the creation of which is provided for by the Ashgabat Agreement of 2016.

COUNTRY SPECIFIC PROFILE OF HUNGARY

Prof. Dr. László Vasa
Professor, Senior Researcher
Hungary Institute of International Affairsand Budapest Metropolitan University

Péter Bárkányi
Ph.D. Candidate, Researhcer
Széchenyi István University, Doctoral School of Regional and Business Administration Sciences

COUNTRY SPECIFIC PROFILE OF HUNGARY

INTRODUCTION

In 2018, Hungary reached a high point in its institutionalized relationship with the Turkic Council by becoming an observer member at the Cholpon-Ata summit in Kyrgyzstan. A year later in September 2019, the Turkic Council's European Representation Office was officially opened with the participation of member states' Foreign Ministers, where Hungary demonstrated its representation of the community's interest in Europe, and its dedication to further institutional development.

The Hungarian government also pledged to open embassies in every country of the council and establish a strategic partnership with them at a bilateral level. This goal has been recently accomplished. The Organization of Turkic States (OTS), a group of Central Asian and Caucasian Turkic-speaking countries, is a key economic partner for Hungary. Despite criticism, cooperation with these countries is a logical and organic aspect of Hungary's multivectoral foreign economic policy.

In April 2012, as part of the Kálmán Széll Plan 2.0, the Hungarian government adopted a new "Eastern Opening" foreign trade strategy with the goal of diversifying the geographical distribution of its exports. One of the key objective of this strategy is to support the growth of Hungarian exports to rapidly developing Central Asian countries. The strategy is not meant to be against western countries. It emphasizes that Hungary should also continue to strengthen its traditional economic and trade ties with western European countries and the newer members of the EU.

The Hungarian "Eastern Opening" Strategy outlined the development of three sets of tools to support the diversification of exports by geography:

1. One of the new directions in foreign trade is to enhance the role of economic diplomacy.

2. The network of foreign trade diplomats will be reinforced.

3. The government will establish a partially state-owned trading company to assist small and medium-sized enterprises in accessing foreign markets.

The product structure of exports must also be diversified, focusing on the following areas: Healthcare, pharmaceuticals, agriculture, food, automobiles, electronics, creative and innovative industries, green industries and services. The aim is to increase cooperation between the state export financing banks (MEHIB and EXIM), the Ministry of Foreign Affairs and Trade, the Hungarian Investment Promotion Agency (HIPA) and the Hungarian Export Promotion Agency (HEPA). The role of chambers, committees and business forums is emphasised, and new sections have been created within the Hungarian Chamber of Commerce and Industry, such as the Hungarian-Turkic and Central Asian sections. In addition, Hungarian-Kazakh, Hungarian-Kyrgyz and Hungarian-Uzbek business councils have been established. Joint economic committees are active, and the frequency of high-level government meetings and business forums is increasing.

In 2015, the "Eastern Opening" Strategy was complemented with a focus on expanding economic relations with Africa and Latin America, known as the "southern opening" foreign trade strategy. Hungary holds significant influence in Central and Eastern Europe and is considered a middle power in global affairs. Its foreign policy is grounded in four key principles: Cooperation with the Atlantic nations, integration with Europe, support for international development and adherence to international law. The Hungarian economy is relatively open and heavily relies on foreign trade.

Hungary has been a member of the United Nations since December 1955 and is also a member of the European Union, NATO, OECD, Visegrád Group, WTO, World Bank, AIIB, and IMF. Hungary held the presidency of the Council of the European Union for half a year in 2011 and will hold it again in 2024. In 2015, Hungary was the fifth-largest non-DAC donor of development aid in the world, representing 0.13% of its Gross National Income. The war in Ukraine greatly impacts all other significant trends in European foreign policy and this also applies to Hungarian foreign policy. The focus is on minimizing the economic impact of EU sanctions and prioritizing the country's security.

Despite this, Hungary continues to pursue its long-term strategies and efforts to diversify its political and economic relations. The government's foreign policy actions place a greater emphasis on strengthening cooperation with the Turkic States. Due to the war in Ukraine, the importance of the Turkic States has increased significantly, as the region will most likely become increasingly important as an energy source, Türkiye, as a safe transit country, can be decisive for Hungary's energy imports.

Characteristics of Hungarian Economic Development

Table 1. Hungary's Characteristic Economic Indicators, 2010, 2021

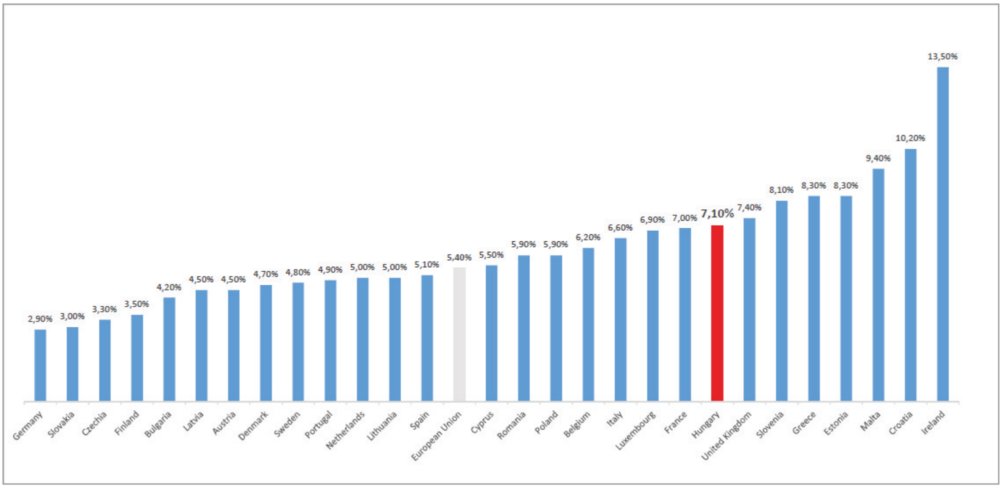
Economic indicators	2010	2021
Employment rate (%)	57.0	73.1
Gross wages (THUF)	203	439
Employer wage costs (%)	28.5	13
Investment rate (GDP %)	20.1	27.1
Relative level of development (%)	66	76
Fx share of government debt (%)	53	20

Source: *Convergence Programme of Hungary*

In 2021, Hungarian economic policy has focused on controlling the pandemic and restarting the economy, as well as protecting jobs, preserving families' income security, and supporting businesses. Based on available data, government measures aimed at restarting the economy have been successful. Hungarian GDP has grown by 7.1% in 2021, significantly exceeding the projected growth forecast of 4.3%. Hungary had the seventh-highest growth rate among EU member states.

This has created an opportunity for Hungary to continue on a path of growth, and also has resulted in an increase of Hungary's relative level of development to 76% of the EU average according to the National Reform Programme of Hungary 2022.

Figure 1. Annual GDP Growth Rate in Selected European Countries in 2021



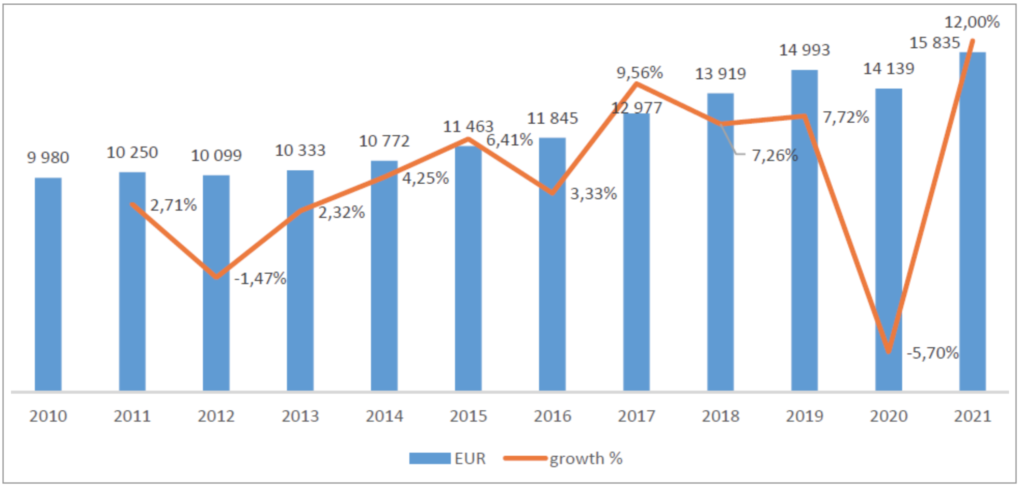
Source: *Statista*

The Hungarian economy's growth performance during the entire decade of 2010 was more favorable in international comparison than in the previous decade. The Hungarian economy grew at an average rate of 3% per year between 2010 and 2019, which is on par with the average growth rate of the EU's Central and Eastern European member states and marks an improvement from the previous decade's domestic performance. In 2009, at the end of the previous decade, there was a global economic crash similar to the one experienced in 2020 due to the COVID-19 pandemic.

Between 2010 and 2021, Hungary's economy underwent a significant transformation, primarily as a result of a shift in economic policy at the beginning of the decade. The unsustainable growth model that characterized the period before 2010 was replaced with development supported by internal demand and employment.

The Hungarian GDP volume exceeded its level in 2010 by 37.6% at the end of 2021. GDP per capita at purchasing power parity increased from 66% of the EU average in 2010 to 76% in 2020, indicating a significant improvement in the level of relative development.

Figure 2. GDP Per Capita in Hungary 2010-2021



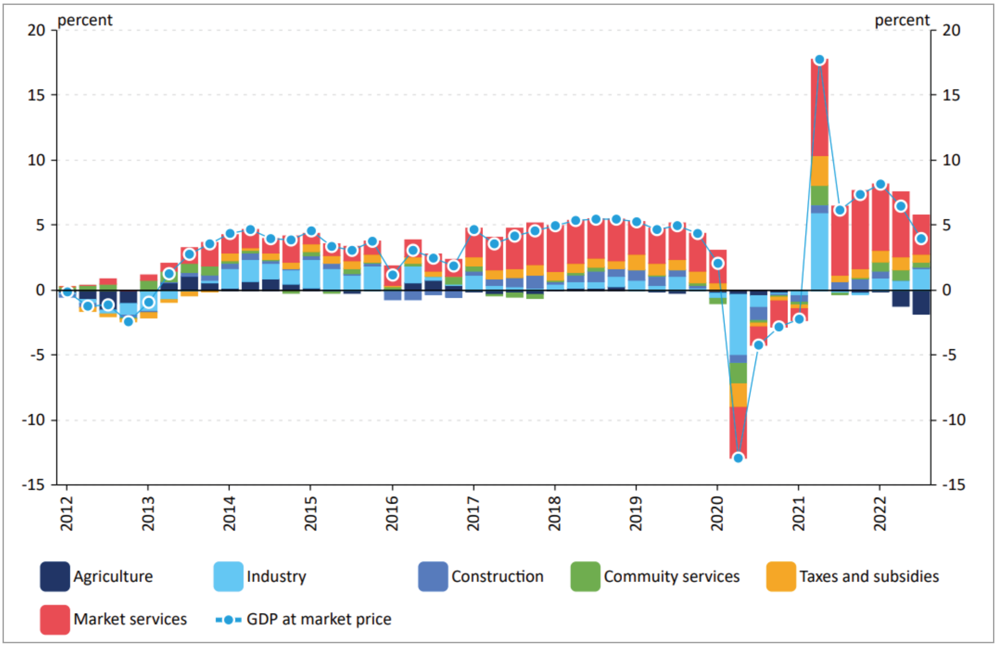
Source: *Statista*

Labour productivity in Hungary has been improving dynamically following labor market reforms. Hungary has also made significant improvements in the competitiveness of its tax scheme. In the most recent international tax competitiveness ranking, Hungary was ranked 13th among OECD countries, surpassing Austria, Slovenia, and the United States. Taxes on work have undergone significant reform in the past decade, resulting in a decrease in the tax wedge by over 7 percentage points to 41.2% from 2016 to 2022. Based on the agreement with the Standing Consultation Forum of the Private Sector and the Government (PGF), employer taxes have decreased from 28.5% to 13%, and the number of tax types has also been reduced. In addition to the reduction of taxes on wages, the corporate income tax has been cut to 9% since 2017, which is unique in the EU. Therefore, the Hungarian tax system is providing more favorable conditions for investments, companies, and employees, which is reflected in the economy's performance. Hungary's debt ratio consistently declined in the eight years before the pandemic.

However, due to economic measures taken in response to the coronavirus crisis, the indicator temporarily increased in 2020, but decreased again the following year. In terms of debt financing, a positive development is the significant decline in the external exposure of Hungarian debt over the past decade, as the ratio of non-residents within total general government debt has decreased from 65% at the end of 2011 to 32% at the end of 2021, while the ratio of foreign currency fell from 53% to around 20%.

The competitive business and tax environment, as well as the government's investment promotion activities, also contributed to the increase in the Hungarian investment rate from 20.1% in 2010 to the 27.1%. With this result, Hungary is ranked second among EU countries.

Figure 3. Decomposition of GDP Growth (Production Approach)



Source: *Hungarian National Bank*

As an indication of a healthy development structure, the higher investment rate is attributed to the combined performance of all three sectors. Notably, investments in the corporate sector grew at the highest rate, which ensures the sustainability of economic growth. The financial position of households has also improved significantly, with disposable income increasing at a rate above the EU average between 2010 and 2021. The income structure of households is also showing improvement.

The ratio of income from work has steadily increased, accounting for 65.3% of total income in 2010 and 74.6% in 2020. Consumption took a dynamic turn in 2013 and in 2020 it was 41% higher in real value than in 2010. The saving rate of households also stabilized at a high level in international comparison, allowing consumption to increase while maintaining a balanced financial position, in contrast to the period before 2008. Household savings more than tripled from HUF 19,000 billion in 2010 to HUF 62,000 billion at the end of 2021, indicating an increase of 1.5 times in real value.

In 2010, the government aimed to create 1 million new jobs in the next 10 years. By 2021, the number of employed persons had reached 4.7 million from 3.8 million, thus the 57% employment rate of people aged 15-64 in 2010 rose to above 73% in 2021, which is an outstanding result in EU comparison. The unemployment rate decreased from 10.9% 12 years ago to 3.7% by the end of 2021, despite the crisis caused by the coronavirus. The ratio of households without a member with employment fell below the EU average in the second half of the decade. Initially, public employment contributed to improving the indicator, but its decrease was subsequently driven by positive changes in the primary labor market.

The job prospects of freshly graduated 20-34-year-olds have significantly improved, and there are also notable results in the employment of women as a result of family-friendly economic policies. While the employment rate for women was only around 60% in 2010, it exceeded 68% last year. The positive labor market trends led to significant improvements in relation to income.

By 2021, both gross and net monthly wages more than doubled since 2010. Thus, in the typically low inflationary environment of the past decade, the rise in real wages exceeded 60% during the reviewed period. The poverty rate has been decreasing for years in Hungary according to data for 2020, the at-risk-of-poverty rate in Hungary was the fifth lowest among EU Member States.

Favorable trends in corporate investment contributed to the highest increase in the number of employees in R&D since 2010 in European comparison in 2020, namely, 42 thousand people worked in the sectortwice as many as a decade earlier. This change is mainly attributable to the foreign-owned R&D centers in the manufacturing industry. By 2020 GDP-proportional R&D expenditures increased to 1.61%, which equaled 1.13% in 2010. Although Hungary increased its innovation performance as well, together with other Central Eastern European countries, it is still ranked among moderate innovators in EU comparison.

The above indicators reflect the positive shift of the Hungarian economy, the strengthening of the economy's productivity and competitiveness, and the improved living conditions of Hungarian households. The growth performance of the Hungarian economy is based on a diverse range of sectors, with most already exceeding their pre-pandemic levels of output. This can be attributed in part to the government's effective response to the pandemic which ensured the country's operability and increased the resilience of the economy. Among the sectors, services had the highest contribution to GDP growth in 2021.

Additionally, industrial production also increased despite disruptions in international supply chains, which highlights the international competitiveness of the sector. Construction also showed rapid growth in recent years, even surpassing the record volumes of 2019. Overall, from a production perspective, agriculture had a negative growth contribution of -0.1%, while industry (1.9%), construction (0.8%), services (3.5%), and net product taxes (1.0%) had positive growth contributions to GDP. On the expenditure side, consumption was the main driver of growth, due to the record high employment levels, increasing real wages and policies that enhance income. GDP growth was also boosted by investments, particularly corporate investments.

It's worth noting that net exports also had a positive impact on Hungarian economic growth, driven by the gradual return of foreign tourists in the service sector and an increase in the export of goods resulting from increased production.

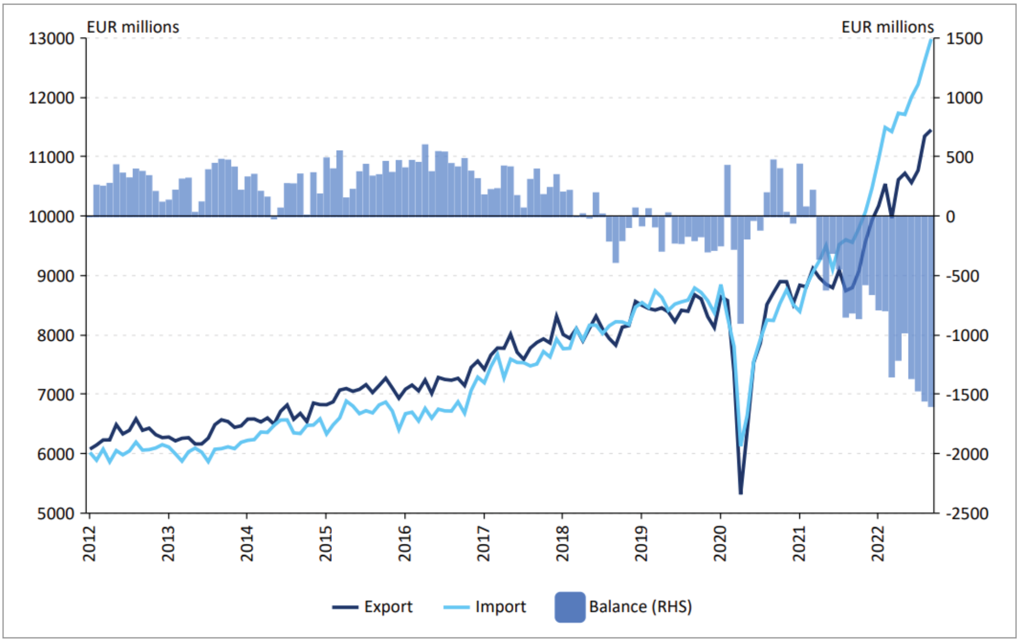
Characteristics of Hungarian Foreign Trade

The decline in foreign trade caused by the coronavirus pandemic rebounded in the first half of 2021, in line with the increase in industrial production. The growing export of goods offset the restrictions and decline in service exports due to travel limitations. However, in the summer of 2021, a decrease in industrial output resulting from global supply chain disruptions impacted export performance.

Despite this, the volume of exported goods was still 10.4% higher than in 2020 and 9.1% higher than in 2019. In terms of value, all main groups of traded goods showed growth in 2021. The export of services continued to recover as the epidemiological situation improved in Europe, particularly in sectors heavily affected by the pandemic such as tourism and transport services. The export of services grew by 9.8% over 2020, but still fell short of the volume for 2019 by 15.4%.

The volume of imports of goods increased by 8.8% compared to the previous year, but its value increased significantly by around 21%, mainly due to the sharp increase in energy import costs since the summer of 2020. This increase in energy prices led to a rise in imports worth around HUF 1,100 billion, or 2% of GDP, compared to 2019. Despite external demand recovering from the coronavirus crisis, supply constraints also impacted Hungarian foreign trade, causing the trade balance to worsen from the summer of 2021 and leading to a further decline in the foreign trade surplus for the whole year. This was mainly caused by a decrease in automotive exports from the second half of 2020, due to capacity limits and a decrease in the terms of trade caused by the significant increase in energy imports. However, the increase in export of services as a result of reopening partially offset the trade deficit. Foreign trade still contributed 1.4% to GDP growth.

Figure 4. Change in Export and Import Volumes



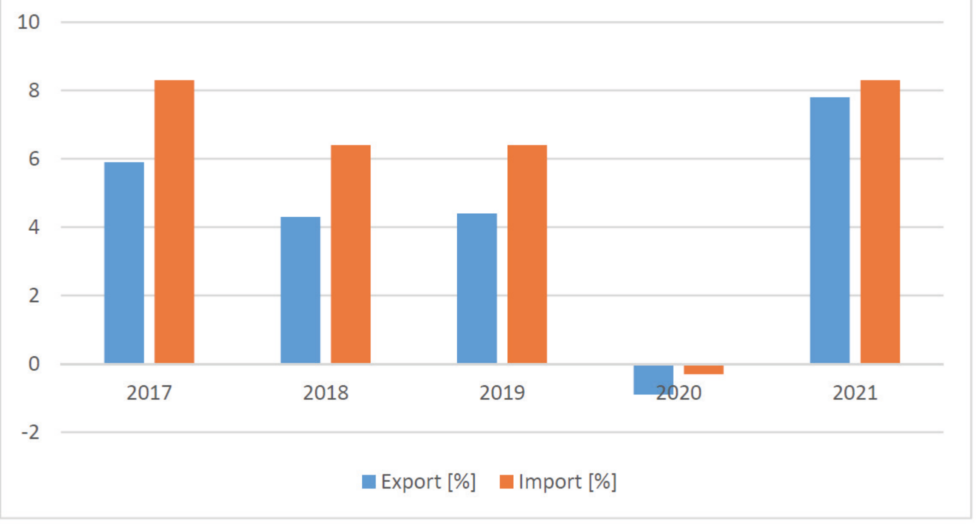
Source: *Hungarian National Bank*

The foreign trade trends in Hungary are being negatively affected by the Russian-Ukrainian War, sanctions-related commodity shortages, and a deteriorating external environment. As a result, the volume of exports may not increase as strongly, and rising commodity and energy prices are making trade less favorable. While the balance of services may improve mainly due to the recovery of international transport and tourism, the foreign trade balance may temporarily show a deficit. However, in the medium-term, the recently announced large-scale investments worth around HUF 4,400 billion are a cause for optimism and are expected to significantly boost exports and potentially lead to a foreign trade surplus once again.

In 2021, the country focused on recovering from the crisis caused by the coronavirus pandemic, which was reflected in the performance of national economies and international trade. The ratio of foreign trade turnover to GDP reached 160%, which was an increase from the previous year and even higher than in 2019. The turnover of goods reached nearly 137% of the value of the gross domestic product, and its balance contributed nearly 1 percentage point to the GDP volume increase. Foreign trade in services also played a role in supporting the growth of the national economy, with the share of services in the total foreign trade turnover increasing since the outbreak of the pandemic. However, it still only accounted for 15.7% of the total in 2021.

The balance of foreign trade in 2021, according to the ESA2010 methodology, saw a decrease of HUF 584 billion compared to the base period at current prices. This decline was partly due to a significant increase in imports. The foreign trade statistical balance of product turnover dropped to 34% of 2020, and its value according to national accounts decreased by HUF 945 billion, which had a negative impact on the growth of the gross domestic product. However, the balance of services improved by slightly more than HUF 360 billion compared to the previous year. The majority of this increase came from items related to tourism, which saw an increase of HUF 170 billion compared to 2020. The remaining balance was made up of transport services and processing services, with transport services seeing a 40% increase, while there was no increase in the processing balance compared to the previous year.

Figure 5. Changes in the Volume of Foreign Trade Product Turnover



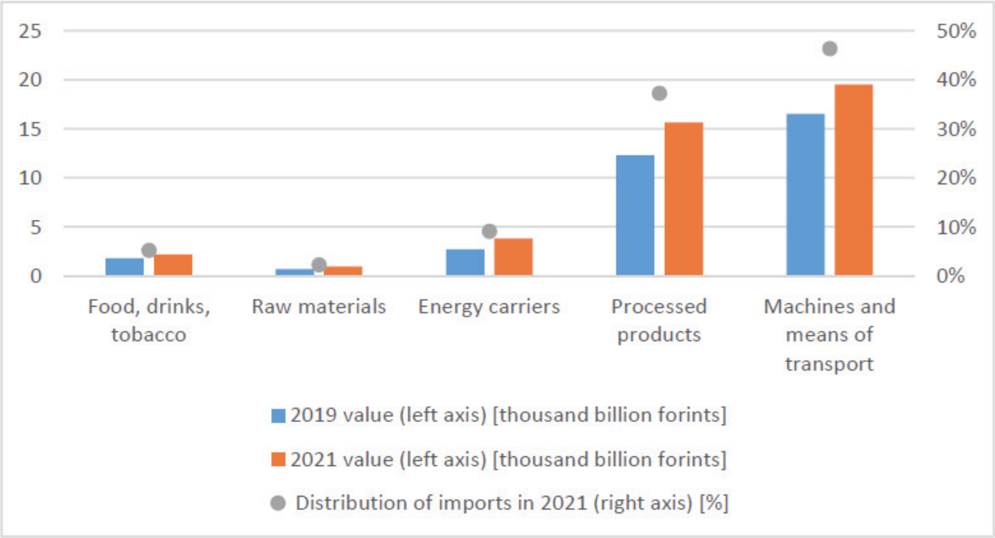
Source: *Hungarian Central Statistical Office*

Based on preliminary data, the volume of exports of foreign trade products increased by 7.8% and imports by 8.3%. After the stagnation in foreign trade volume in 2020, caused by the pandemic, the growth is directly linked to the improvement of supply and demand conditions as the economy resumed.

According to preliminary data, the value of exports increased by 16% to 42.8 thousand billion forints, while imports increased by 21% to 42.1 thousand billion forints. This represents a 14% increase in exports and 18% increase in imports in euros, with values of 119.3 billion euros and 117.4 billion euros, respectively. Compared to 2019, the value of the euro increased by 9.4% in exports and 12% in imports. The surplus of foreign trade in products was 681 billion forints (1.9 billion euros), which is 1.3 thousand billion forints (3.7 billion euros) less than the previous year and 732 billion forints (2.4 billion euros) less than in 2019.

Looking at the product output in HUF, there was an increase in all major product groups compared to both the previous year and 2019. However, when considering foreign trade volume, there was a decline in the trade of raw materials and energy carriers in 2021 compared to the year before the pandemic. Only the latter commodity group saw a decrease in 2020. The two main product groups with the largest turnover in exports were machinery, transport equipment, and processed products. In 2021, as in 2019, their share accounted for more than half of the former and almost a third of the total export turnover for the latter commodity group.

Figure 6. Development of the Value of The Most Exported Products



Source: *Hungarian Central Statistical Office*

Within the main product group of machinery and transport equipment, the export of road vehicles stood out in terms of value. The second most important group of goods was electrical machines, devices, and instruments. The main growth driver was the foreign trade of electric batteries and their components, as well as electrically insulated wires and cables within the automotive and electronics industries. Within the product group of sound recording and playback devices for news broadcasting, the main export products were wired telephones, teletypewriters, and their components, as well as television sets. In terms of export value, the second-most significant group of goods was processed products, with medicines and pharmaceutical products making up the largest share of their turnover.

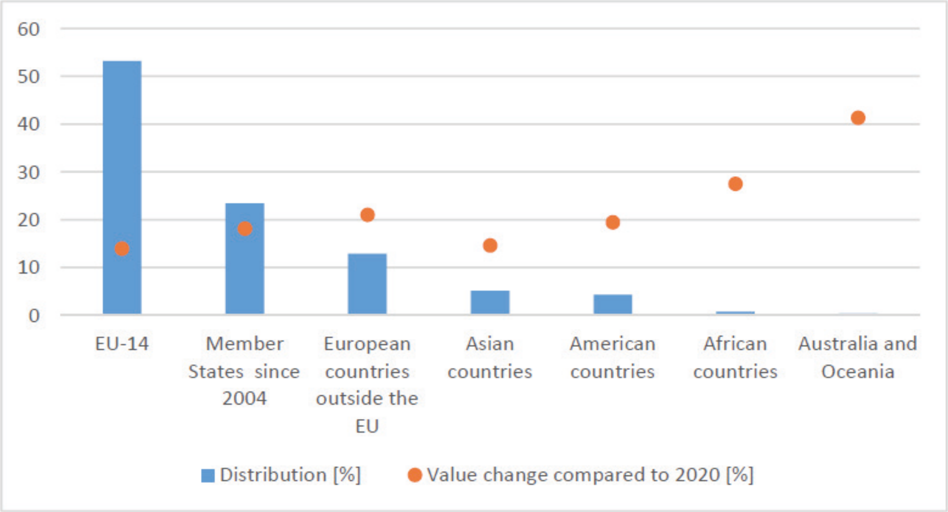
Figure 7. Development of the Value of The Most Imported Products

Source: *Hungarian Central Statistical Office*

From 2019 to 2021, the volume of import traffic increased continuously, with the exception of 2020. In 2021, the increase in the volume of machines and means of transport was the most significant at 12%. However, there was a decrease of 4.1% in the volume of energy carriers compared to 2020. In 2021, machinery and transport equipment had the largest share of the total turnover at 46%, and processed products had 37%. In the main product group of machinery and transport equipment, the driving force behind import growth was the trade in products related to the electronics industry, electrical machines, devices, and road vehicles. Electrical machines and devices accounted for almost a third of the import turnover of this main product group, which can be attributed to the volume of trade in electric batteries and their components, as well as electrically insulated wires and cables. In the processed products, the import of screws and finished goods made of iron and steel was significant within the other metal products product group. Within the iron and steel product group, the import of flat-rolled iron products stood out.

Since 2019, the value of foreign trade with the European Union (EU27_2020) has increased by 19% in exports and 20% in imports. In the last 2 years, trade with countries outside the European Union has increased by 34% in both directions. In 2021, compared to the previous year, exports with the member countries of the European Union (EU27_2020) continued to increase. The turnover increased by 15% for exports and 23% for imports. In terms of performance, the share of the EU reached 77% for exports and 72% for imports. In terms of partner countries, Germany had an outstanding product foreign trade balance of 1,430 billion forints in 2021, similar to previous years. However, China had a significant liability of 2,217 billion forints in 2021, which was 627 billion forints higher than in 2019. All of our ten most important export destination countries, with the exception of the United Kingdom, were EU member states. Among our foreign trade partners, Germany stood out with a share of 27% of the total turnover (28% in 2019) and product turnover to this region increased by HUF 1.2 thousand billion, or 11%, mainly due to the expansion of the export of road vehicles, electrical machines and devices, as well as broadcasting equipment. In relation to our ten most important partners, nearly 67% of total exports were concentrated in both 2020 and 2019.

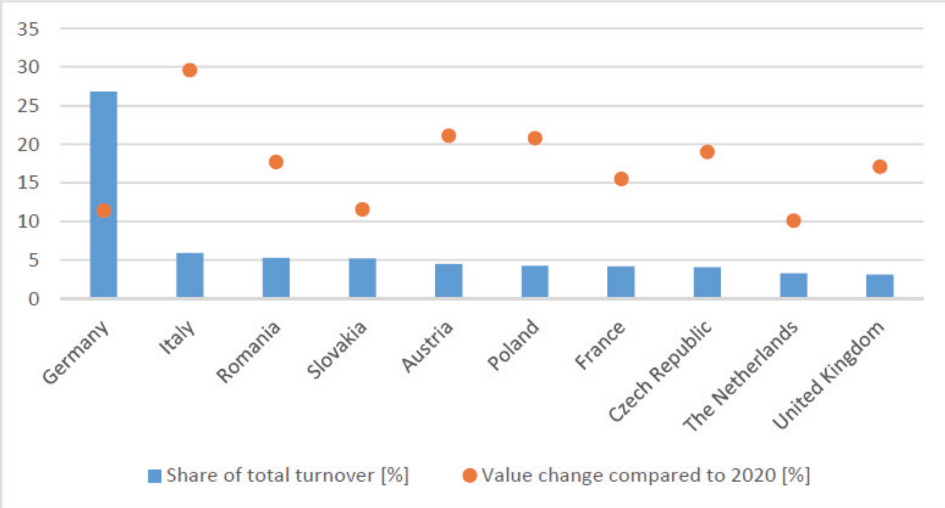
Figure 8. Development of Foreign Trade Product Turnover According to Country Groups



Source: *Hungarian Central Statistical Office*

Geographically speaking, the export of the main product groups is still highly concentrated as most of their exports typically go to the five most important destination countries. Among them, Germany stands out as it had the largest share not only in 2021 but also in previous years, mainly in terms of machinery and transport equipment as well as processed products.

Figure 9. The Ten Most Important Export Destination Countries, 2021



Source: *Hungarian Central Statistical Office*

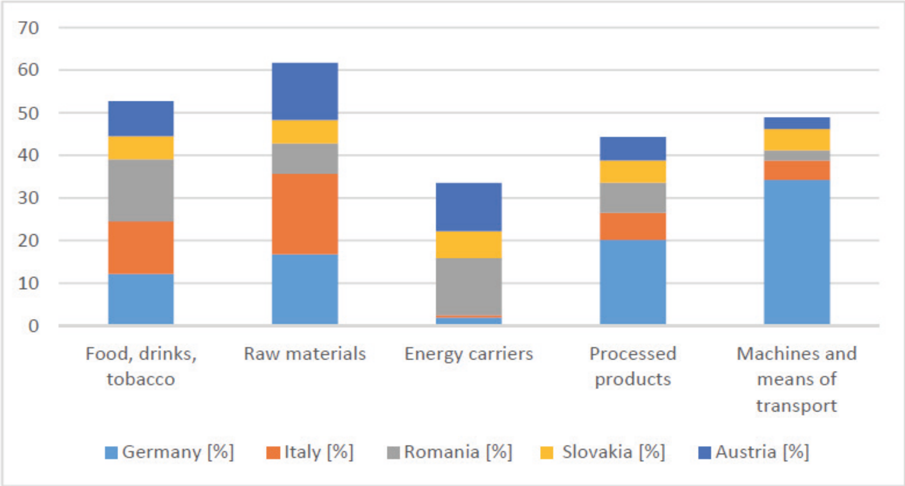
The outstanding assets of road vehicles and energy generating machines and equipment both contributed to the formation of the surplus characteristic of 2021, with 2.9 and 1.1 thousand billion forints, respectively. Examining the entire year, the balance of the main product group of machinery and transport equipment was HUF 55 billion less than the previous year, but HUF 263 billion higher than in 2019.

The main product group of processed products closing in 2021 with a deficit of 2.0 thousand billion forints, a decrease of 51 billion compared to 2020, but an improvement of 1.8 thousand billion forints compared to 2019, when a deficit of 3.9 thousand billion forints arose for this main product group.

Trade in energy carriers for the whole of 2021 closed with a deficit of HUF 2.4 thousand billion, a decrease of HUF 1.3 thousand billion compared to the previous year, and an increase of HUF 643 billion compared to 2019.

The balance of the food, beverage and tobacco product group showed a surplus throughout the period, ending with HUF 84 billion more assets than in 2020 and HUF 229 billion more than the previous year. In 2021, the balance of raw materials was balanced and characterized by a low asset compared to the other main commodity groups. On an annual level, the balance of this main group of goods improved by HUF 45 billion compared to 2020 and HUF 76 billion compared to 2019.

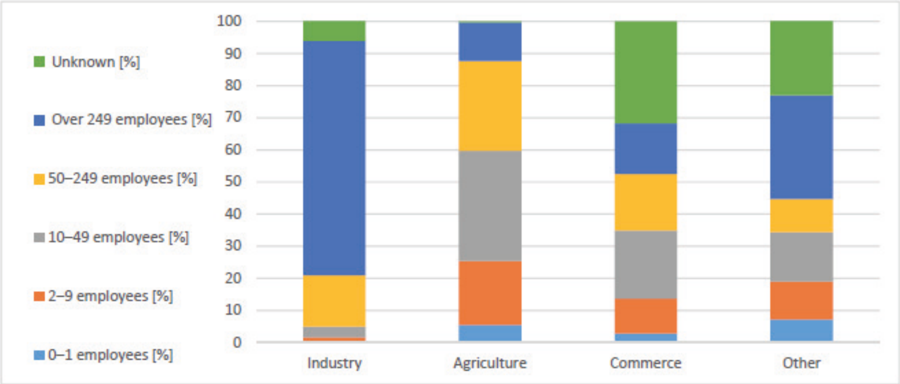
Figure 10. The Share of the Five Most Important Export Destination Countries in the Export of the Main Product Groups, 2021



Source: *Hungarian Central Statistical Office*

The balance of foreign trade product turnover decreased by HUF 1.3 thousand billion compared to the previous year, reaching HUF 681 billion in assets. The overall balance deterioration was mainly caused by the decrease in the surplus of machinery and means of transport and an increase in the deficit in the foreign trade turnover of processed products and energy carriers. The deficit in energy carriers is particularly significant, reaching HUF 1.3 thousand billion.

Figure 11. Distribution of the Value of Product Exports by Sector and Number of Employees of the Exporter, 2021



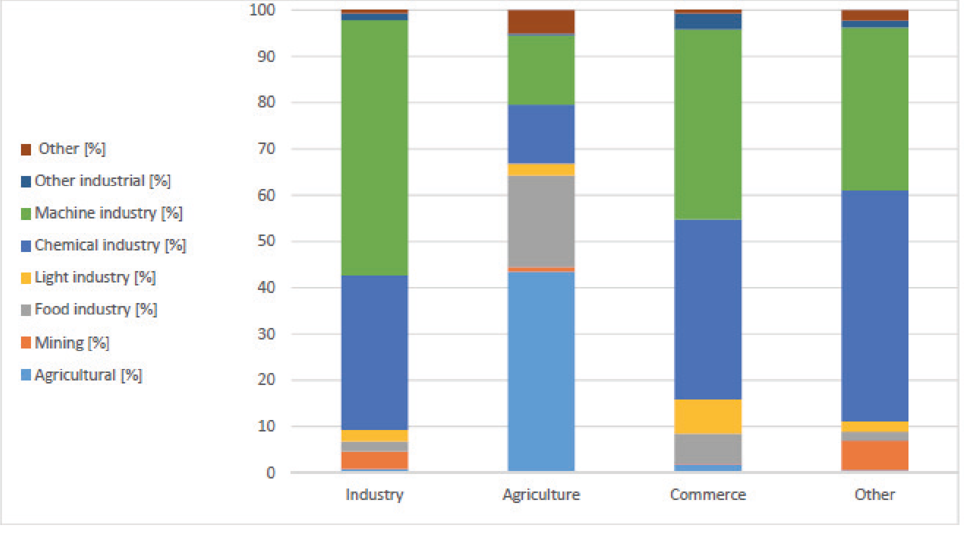
Source: *Hungarian Central Statistical Office*

The number of enterprises engaged in foreign trade exceeded 89 thousand, with 9 out of 10 being micro and small enterprises (less than 50 employees) and 6% being medium and large enterprises. In about 3% of enterprises, the number of employees is unknown. Small and medium-sized enterprises had a share of 23% for exports and 35% for imports. Large companies (companies with 250 employees and over) played a decisive role, with a share of around 50% in both directions, which was further increased by the bulk of the turnover of companies with an unknown number of employees, as most of them are units of international large companies that are not registered (non-resident) in Hungary. Industrial companies accounted for 61% of exports and 54% of imports, while commercial companies accounted for almost a quarter of the export turnover and more than an eighth of the import turnover.

The distribution of trade according to staffing categories varies by sector and direction. In industry, large companies dominate, with more than three-quarters of exports, while almost three-quarters of imports came from companies employing at least 250 people. However, in agriculture, more than 60% of the export turnover was related to small and medium-sized enterprises (10-249 persons), and almost 60% of the import turnover was related to micro and small enterprises (0-49 persons).

According to data, foreign trade is highly concentrated among a small number of companies. The 100 companies with the highest turnover accounted for 53% of exports and 46% of imports. The top 1000 enterprises in imports and the top 500 enterprises in exports are both responsible for approximately 78% of the turnover, indicating that exports are more concentrated than imports.

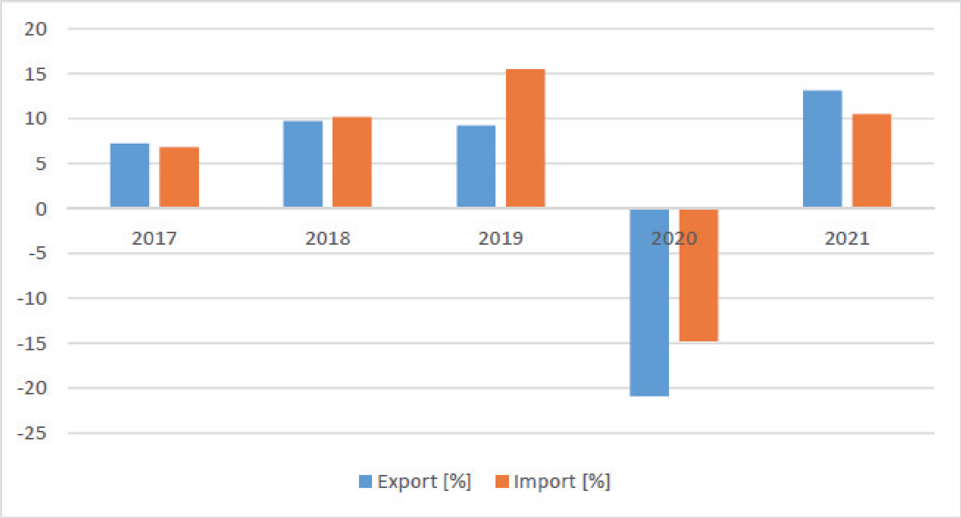
Figure 12. The Structure of Product Exports by Sector, 2021



Source: *Hungarian Central Statistical Office*

In the two-way turnover of enterprises dealing with industry and trade, machinery and chemical products played a significant role. Agricultural entrepreneurs mainly imported agricultural and food industry products, and a smaller proportion of machinery and chemical products for their operations. Machinery and equipment were also used for investments, and a significant portion of food imports were for commercial sales. The majority of exports consisted of agricultural products, with a smaller portion made up of chemical and food products.

Figure 13. Change in Value of Service Foreign Trade Turnover Calculated in HUF (Compared to the Previous Year)



Source: *Hungarian Central Statistical Office*

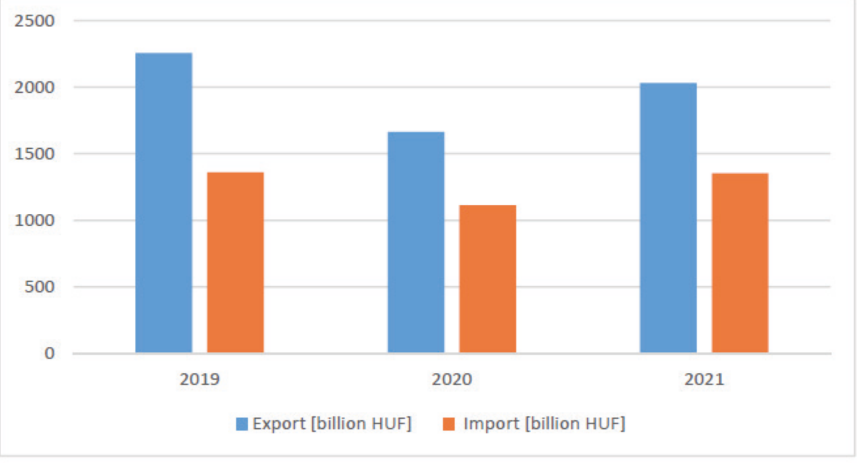
The export of services amounted to HUF 7.9 thousand billion, and the import to HUF 5.9 thousand billion. The asset of foreign trade in services was HUF 2.0 thousand billion, HUF 358 billion more than in 2020, which was mainly contributed by the balance improvement of HUF 173 billion in tourism and HUF 126 billion in transport services. When looking at the total turnover, export revenues measured in forints at current prices increased by 13% and import expenses by 11% compared to the previous year. The value of exports increased by HUF 920 billion and imports by HUF 562 billion compared to 2020. In terms of exports, the strongest annual growth of 26% occurred in tourism, followed by the growth of government services not classified elsewhere, by 24%. On the import side, the growth of wage labor services is in first place, with 26%, followed by tourism with 24%. The annual balance of foreign trade in services decreased by HUF 573 billion compared to 2019 before the epidemic.

The revenue of transport services amounted to HUF 2,030 billion and expenditure to HUF 1,352 billion, which at current prices meant a 22% increase in both exports and imports compared to the low base of 2020.

The service group's balance sheet ended the year with HUF 678 billion in assets, which was HUF 126 billion higher than the previous year, but HUF 218 billion lower than in 2019.

Revenues and expenses of transport services were 10% and 0.5% lower than two years earlier. Among the individual forms of transport, the balance of air transport increased by HUF 138 billion and that of road transport by HUF 28 billion compared to 2020. On both the export and import side, the majority of the total transport service, as in 2020, was provided by road transport services. Its revenues increased by 10% and its expenses by 12% compared to the previous year, and they slightly exceeded the year before the epidemic (+3.1 and 4.6%).

Figure 14. Evolution of the Export and Import Value of Transport Services



Source: *Hungarian Central Statistical Office*

In terms of transport services, the second most significant group for both exports and imports was air transport, accounting for 30% of exports and 28% of imports. The revenues and expenses of this service group increased by 62% and 34% respectively compared to the limited turnover of 2020, but they were still significantly lower (37% and 26% respectively) than pre-pandemic values.

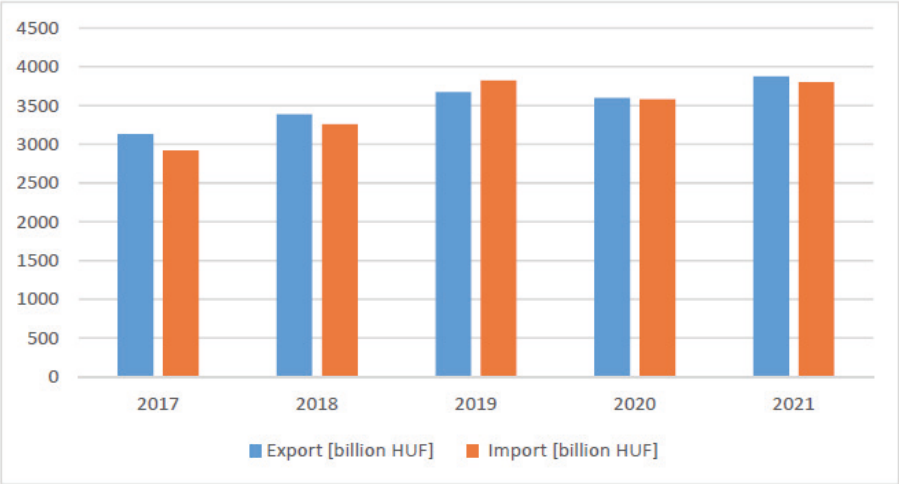
The third most significant area for both exports and imports was the group of other additional transport services, which saw a slight change (12% for exports and 15% for imports) compared to 2020, but an increase of 5.0 and 3.0 percentage points respectively compared to 2019.

The revenues and expenses of this group exceeded those of both 2019 and 2020, due to the drastic increase in shipping prices in 2020.

The share of European countries in road transport is outstanding due to geographical reasons, with 98% of revenues and 97% of expenses realized in this relation.

The two largest export destination countries in 2021 were Germany and Austria, with revenues of 23% and 17%, respectively. On the import side, Germany was the most important partner (24%), followed by Slovakia and Austria, with 11% and 10%, respectively. 88% of the revenues and 79% of the expenses of air transport were generated in relation to European countries. The largest share in exports was represented by Germany (11%), Romania (10%), and Poland (8.4%), and in imports by Germany (11%), China (10%), and Italy (10%).

Figure 15. Export and Import Value of Business Services

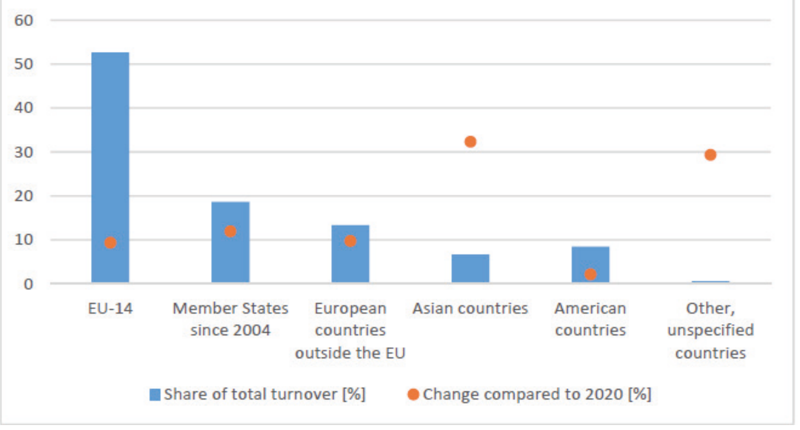


Source: *Hungarian Central Statistical Office*

The business services had an income of HUF 3,875 billion and an expenditure of HUF 3,799 billion, making up 49% and 64% of the total service foreign trade turnover respectively. Compared to 2020, the income of business services increased by 7.7% and the expenditure by 6.1% at current prices. The service group's assets of HUF 76 billion improved by HUF 58 billion compared to the previous year and were HUF 226 billion higher than in 2019. Within business services, the export of other business services, which had the largest share, increased by 6.0% and its import by 4.9% compared to 2020. However, the balance was decreased by HUF 26 billion. In 2021, the income of business services exceeded HUF 204.1 billion, and its expenditure was HUF 21.2 billion lower than in 2019, resulting in an overall improvement of HUF 225.4 billion in the annual balance.

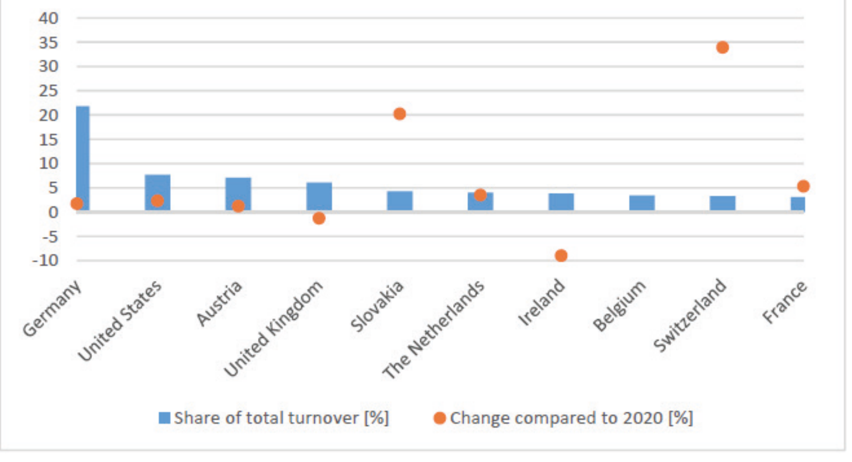
In 2021, as the pandemic subsided and restrictions were relaxed, the balance of trade in services saw a 21% increase, resulting in an active amount of HUF 2044 billion. The total value of exports increased by 13% and was in surplus in all relationships. Exports to member states of the European Union increased by 12% compared to the previous year, making up 64% of total exports. Exports to non-EU countries increased by 14%, while exports to the United States increased by 24% and to Asia by 5% compared to 2020. Similarly, the total value of imports increased by 11% and was in surplus in all relationships. Imports from EU member states increased by 10%, making up 71% of total imports. Imports from non-EU countries increased by 12%, while imports from the United States increased by 2% and from Asia by 32% compared to 2020.

Figure 16. Development of Service Foreign Trade Export Turnover by Country Group, 2021



Source: *Hungarian Central Statistical Office*

Figure 17. The Ten Most Important Export and Import Destination Countries, 2021

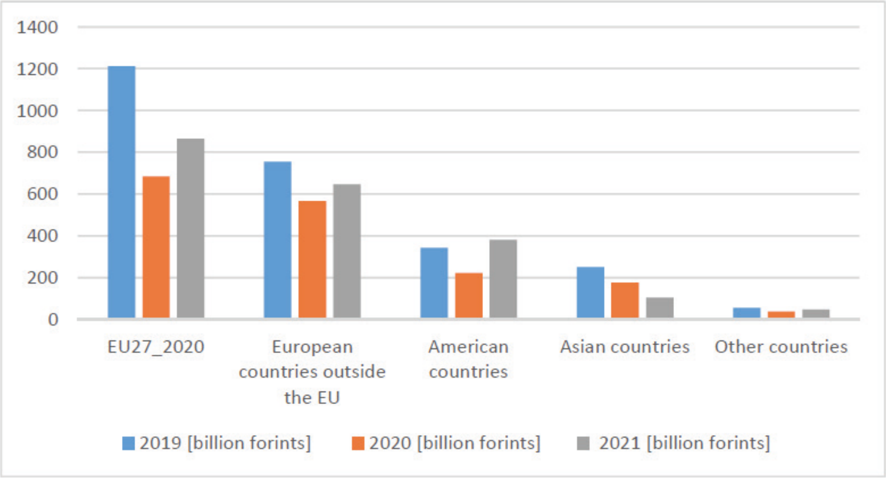


Source: *Hungarian Central Statistical Office*

The top 10 export destinations accounted for 67% of total export turnover, and the majority of these were EU member states. Our most significant trade partner remained Germany, accounting for 20% of total turnover with a value of HUF 1554 billion. Except for the Netherlands, the turnover of all highlighted countries increased compared to 2020. The growth in total export turnover was mainly driven by the increase in exports to Germany, the United States, and Romania. For imports, the top 10 partner countries accounted for 65% of the total turnover, with the majority being EU member states. Similarly, trade with Germany was the most significant, accounting for 22% of imports. The overall growth in total import turnover was mainly due to the increase in imports from Belgium, Switzerland, Slovakia, and Germany.

On the export side, the highest concentration of services was in labor services, government services, and business services. In the case of labor services and government services, the top 5 target countries accounted for 70-80% of the total turnover of the given service group, but in the case of business services, it also approached one-sixth. On the import side, the highest concentration of business services was in personal, cultural, and intellectual property-related services, financial services, and telecommunications services.

Figure 18. Development of the Services Foreign Trade Balance by Country Groups, 2021



Source: *Hungarian Central Statistical Office*

The balance of service foreign trade in 2021 was HUF 2044 billion, which was a HUF 358 billion increase from the moderate amount in 2020, but a HUF 573 billion decrease from the surplus in 2019. The balance was positive in all country groups. The majority of the total assets, about 75% (HUF 1512 billion), came from European countries, particularly from the EU14 member states, and about 20% came from American countries. In 2021, the largest surplus in foreign trade in services was recorded with the United States, at HUF 338 billion. Other countries with significant surpluses include Germany, the United Kingdom, Austria, and Switzerland, each with surpluses exceeding HUF 200 billion. Compared to the base year, the balance of foreign trade in services improved the most with our main partner countries, particularly with Germany and the United States, by HUF 150 billion and HUF 139 billion respectively. Compared to 2019, a moderate increase in balance was observed with these countries, at HUF 8.8 billion and HUF 40.7 billion respectively. However, a significant decline in balance was also observed with several priority countries, such as the United Kingdom, Romania, and Slovakia.

The exports of services foreign trade from small and medium-sized enterprises (0-249 employees) accounted for 38% while large companies (employing more than 249 employees) accounted for 46%. Generally, the predominance of large companies is also seen across service groups, however, in the case of fees received/paid for the use of intellectual property, almost half of the turnover is from small and medium-sized enterprises. In contrast, 70% of the export of personal, cultural and entertainment services were represented by micro-enterprises with 0-9 employees. In terms of imports, 39% of the value of services used from abroad can be attributed to small and medium-sized enterprises (0-249 employees), nearly half to large enterprises employing more than 249 employees. In most service groups, the role of large companies is decisive, but in the case of transport services, as well as personal, cultural and entertainment services, small and medium-sized enterprises dominate, while in the case of construction and installation services, medium-sized enterprises employing 50–249 people represented almost two-thirds of the trade.

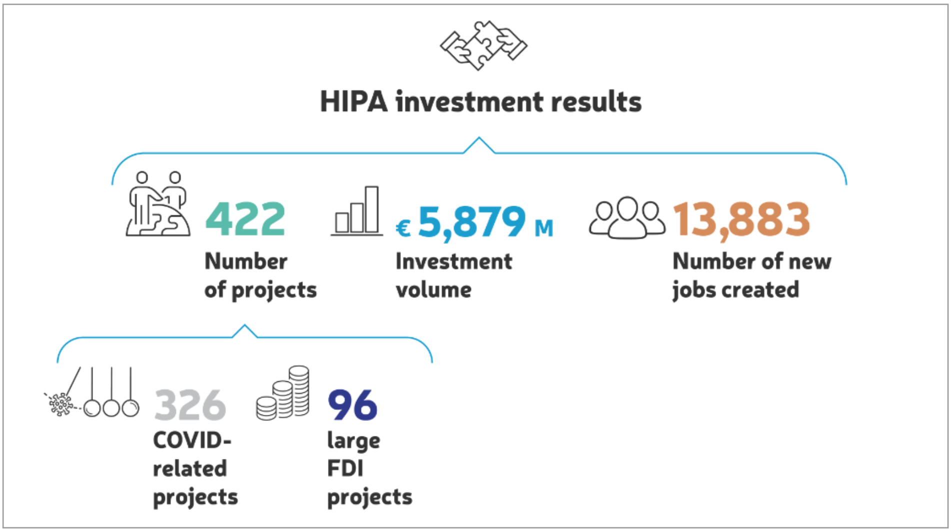
The current state of Hungary's foreign trade is being hindered by the Russian-Ukrainian War, sanctions resulting in commodity shortages, and a deteriorating external environment. This is likely to slow down the growth of exports and make the terms of trade more difficult due to rising prices for commodities and energy. However, there is potential for improvement in the balance of services, particularly through the recovery of international transport and tourism. In the short term, this may result in a deficit in the foreign trade balance. But, the recent announcement of large scale investments valued around HUF 4,400 billion gives reason for optimism and could potentially boost exports, resulting in a surplus in foreign trade once again.

Overview of FDI in Hungary

In 2021, Hungary saw the realization of approximately HUF 15,000 billion worth of development, resulting in a 5.9% year-over-year increase in investments. Despite this, developments have risen by a total of 71% since 2010, with the Hungarian investment rate growing from 20.1% in 2010 to 27.1% in 2021. As a result, Hungary is still ranked second among EU countries in terms of investments. This is demonstrated by the 8% increase in corporate developments in 2021, which contributed to the overall growth in investments. Among this, investments in manufacturing rose by 9.5% compared to the previous year, making it the largest sector accounting for 25% of total investment. There was also double-digit growth in subsectors such as mechanical engineering, automotive, metals, food and textiles. Additionally, companies in the service sector also saw dynamic growth in investments, with projects in trade surpassing the previous year's activity by 18%.

It is expected that corporate development projects announced after the outbreak of the coronavirus pandemic will continue to increase in the upcoming quarters. However, with escalating geopolitical tensions, there is a risk that some projects may take longer to implement than planned and there may be a temporary decrease in new investment decisions in the short term due to uncertainty and disruptions in the supply chain. The development projects of large companies announced since early 2020 are valued at around HUF 4,400 billion, representing over 7% of Hungary's annual GDP, which highlights the country's ability to attract capital. In the medium term, these investments could increase Hungary's export performance by HUF 13,000-22,000 billion annually, equivalent to 27-45% of current annual exports of goods. Overall, these investments are expected to generate a total GDP surplus of 13-18 percentage points in the coming years.

Figure 19. Investment Results of HIPA, 2021



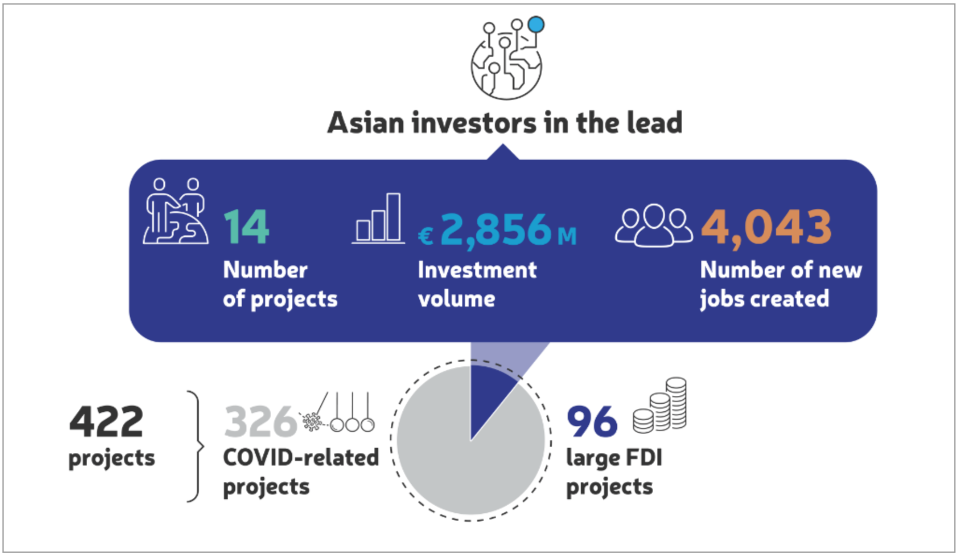
Source: *Hungarian Investment Promotion Agency*

The Hungarian Investment Promotion Agency (HIPA) managed projects also reflect the positive trends. In 2021, the government's investment promotion policies directly led to the implementation of 422 projects, resulting in investments worth EUR 5.9 billion and creating 13.9 thousand jobs in Hungary. Of these, 96 large-scale foreign direct investment projects worth EUR 5.3 billion were also approved last year, which will generate 12 thousand new jobs in the near future. Additionally, the successful tenders of 326 medium-sized and large companies participating in the support program for restarting the economy will lead to investments valued at EUR 0.6 billion.

The success of investment promotion is evident in the growth of industries with development potential, such as electromobility. In 2020, the production of batteries made up 51.9% of total investment value, followed by the automotive industry at 12.5%, and the food industry at 11.1%. This positive trend has continued into 2021, with a rise in high-value-added developments such as business service centers, infocommunication investments, and R&D. Additionally, there is a significant presence of foreign direct investment from the Far East, with Asian investors accounting for 60% of the annual investment volume. A notable number of large-scale projects also originate from Germany and the USA.

The total value of investments in battery manufacturing in Hungary has reached HUF 2,800 billion, and the trend is positive, with companies announcing plans for multiple phases of development, typically with higher investment values. This indicates that companies who have relocated to Hungary have found it to be a successful decision. The expansion of production chains is also a positive sign, as the large investments made in recent years have attracted additional upstream developments in the battery production industry, valued at over HUF 1,000 billion.

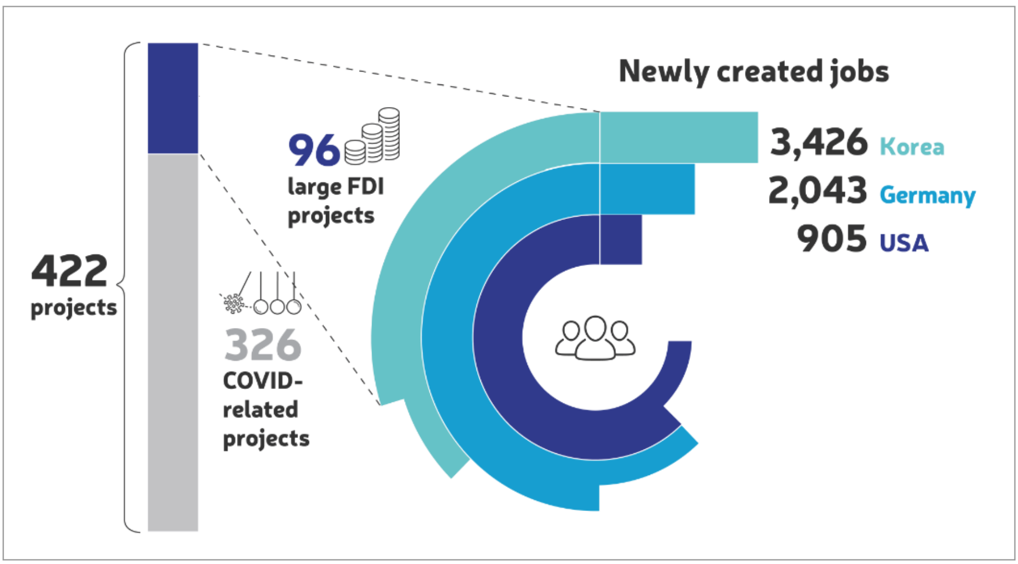
Figure 20. Asian Investors have Ramped up Involvement in Large FDI Projects



Source: *Hungarian Investment Promotion Agency*

Based on current announcements, domestic battery production plants in Hungary are expected to have a significant share of European sales in the coming years. The two plants in Komárom operated by SK Innovation, as well as the recently announced plant in Iváncsa, will have a combined capacity of 47 gigawatt hours. Additionally, Samsung SDI's plant in Göd, also from South Korea, will add an additional 40 gigawatt hours of capacity. This will bring Hungary's total capacity to 87 gigawatt hours, making it the second largest electric vehicle battery manufacturer in Europe after Germany. The investments announced for battery production are expected to increase the GDP by about 1.8%. As key players in Hungary's value chain, the performance of SK Innovation and Samsung SDI will likely have a significant effect on exports. With the rise in manufacturing capacities, surplus export sales of HUF 5,000-9,000 billion per year could be generated, which could add an additional 4-5% to economic growth. These investment projects could provide a one-time boost of 5-7% to GDP growth in Hungary.

Figure 21. FDI Projects in Hungary, 2021



Source: *Hungarian Investment Promotion Agency*

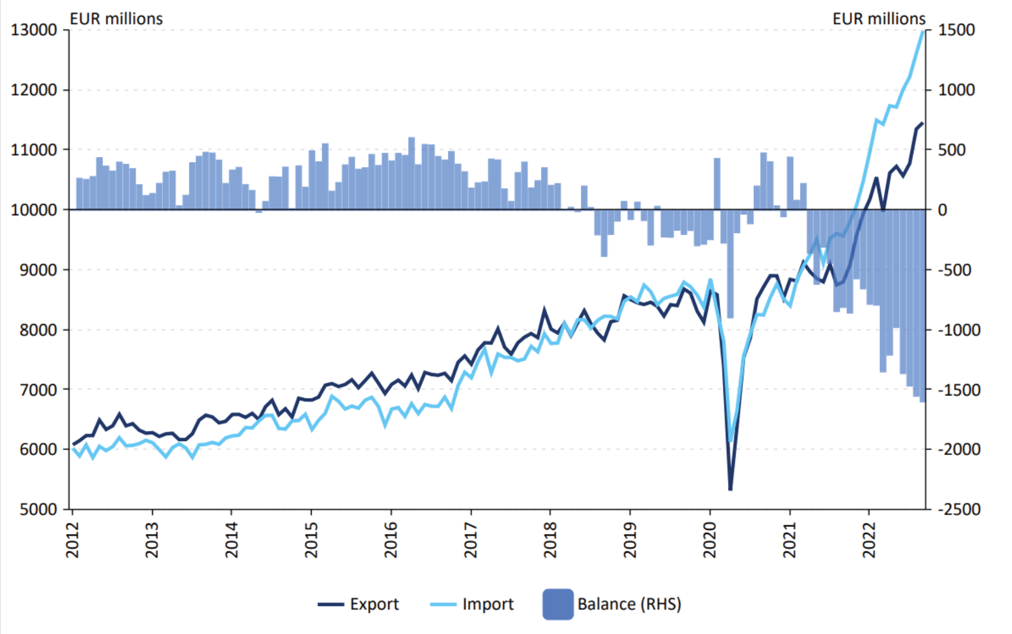
In 2021, government developments worth nearly HUF 3,200 billion were implemented in the economy, leading to a 3.5% nominal increase in public investments year-over-year. This keeps Hungary's domestic public investment rate at 5.8% of GDP, which is among the highest in the EU. Hungary will have access to a record amount of EU funds in the 2021-2027 period, including EUR 22.5 billion for cohesion and EUR 11.9 billion for agricultural policy, as well as a non-refundable amount of EUR 8.5 billion from the Next Generation EU funds, and a credit line of EUR 10 billion. This amounts to more than EUR 50 billion, which on average corresponds to 2.4% of GDP per year. This high investment rate, coupled with ongoing large-scale capacity expansions and an attractive corporate environment, lays the foundation for Hungary's investment performance to remain steady in the forecast horizon.

In summary, Hungary's automotive industry is a significant contributor to the country's economy, employing a large number of people and accounting for a significant portion of exports. Additionally, sectors such as electronics, ICT, pharmaceuticals, medical technology, and renewable energy are becoming increasingly important as the country focuses on research and development and innovation. The food industry is also traditionally significant. Furthermore, Hungary's skilled workforce has made it a prime location for the establishment of shared service centers in recent years. Hungary's successful performance was acknowledged by global leaders as well. The Budapest Metropolitan Area was named the top investment location in the "Best to Invest Top Metros" category in Site Selection Magazine's "Global Best to Invest 2021" report. Hungary also placed second in the "Best to Invest per Capita" and "Overall Best to Invest" categories, outperforming other countries in the Visegrád Four group, further demonstrating Hungary's strong investment promotion efforts.

The Impact of the Geopolitical Situation on the Hungarian Economy

The Hungarian National Bank's (NBH) analysis suggests that the Hungarian economy began 2022 with strong growth, building on favorable conditions at the end of 2021. However, the ongoing coronavirus pandemic and the outbreak of the Russian-Ukrainian War have negatively impacted international and domestic economic prospects. The war and imposed sanctions have hindered foreign trade and disrupted international production chains, leading to higher raw material and energy prices, uncertainty, inflation, and a decrease in real earnings. The overall economic growth has been moderated as a result. The extent of the war's economic impact is dependent on the duration of the conflict and the sanctions policies implemented. The majority of the impact is yet to be seen.

Figure 22. Change in the Hungarian Export and Import Volumes

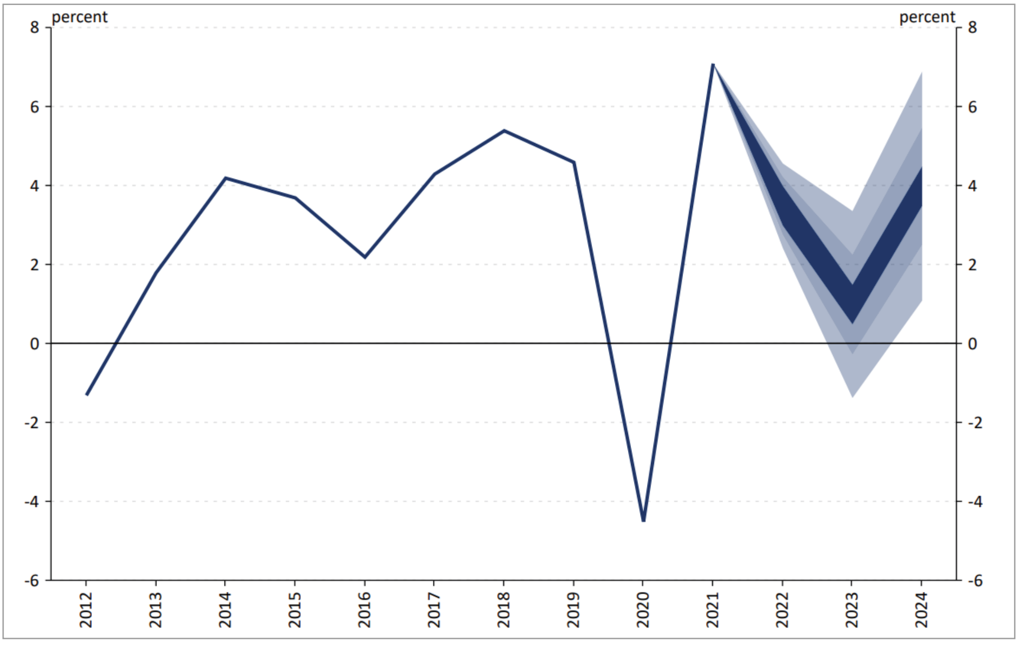


Source: *Hungarian National Bank*

The primary cause of the decline in Hungarian exports and import markets is the disruption of foreign trade and international production chains. The direct and indirect impact of Russia and Ukraine on Hungarian trade is relatively small, accounting for only 3.2% of Hungarian goods exports and 3.4% of goods imports. However, the partnership with Russia is crucial for Hungary and the European Union due to the composition of the product trade. Russia and Ukraine play a significant role in the market for energy carriers and raw materials that are essential for the production of various industrial goods, microchips and passenger cars, which exacerbates supply chain difficulties. Russia is a major producer of palladium and nickel, accounting for 20% and 10% of the world's exports respectively. Additionally, Russia and Ukraine are significant players in the export market for agricultural products, particularly grain products, representing 26% of the world's wheat exports and 11% of all grain exports. As a result of the war and sanctions, a significant decline in demand for Hungarian goods in foreign markets is expected. The main challenges for production and exports may include a shortage of chips, critical raw materials, and an increase in delivery time and costs. The war will also lead to a temporary increase in the current account deficit in 2022. This is due to weaker external demand for exports and higher energy prices for imports, leading to a deterioration in the foreign trade balance. Investments may also grow at a slower pace than expected due to the rising cost of energy and raw materials caused by the war, uncertain economic conditions, and reduced external demand.

Hungarian banks have strong capitalization and their lending capacity can support the financing of businesses, however, the uncertainty in the economy and decreased risk appetite may limit the growth of corporate credit. Geopolitical tensions are resulting in higher prices for raw materials, transportation costs, and increased operating costs for businesses, leading to delayed or reduced investments. Investment activity may recover once the geopolitical tensions are resolved. Although investments may not grow as much as expected, it is likely that the investment rate will remain high and stabilize around 26-27% of GDP.

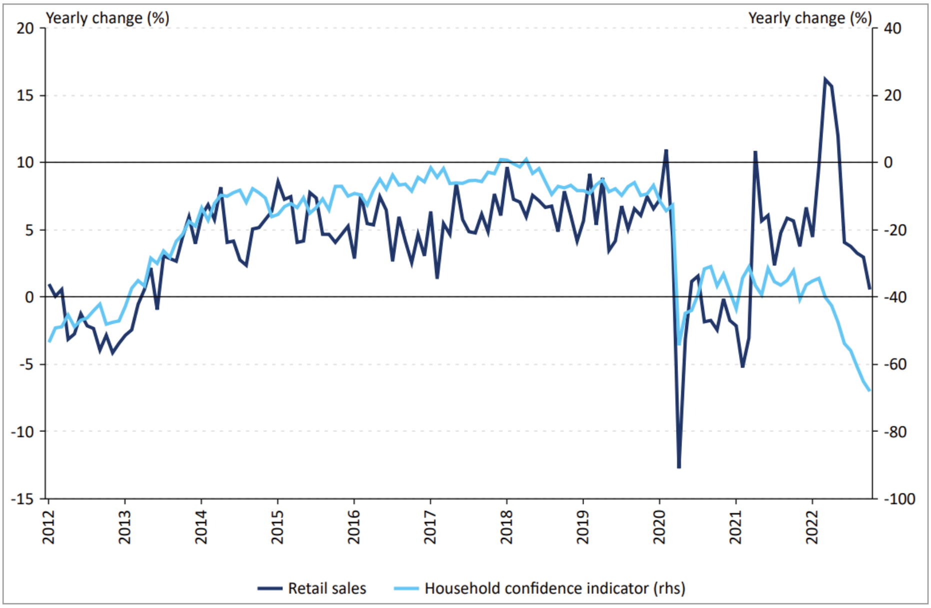
Figure 23. Fan Chart of the GDP Forecast in Hungary



Source: *Hungarian National Bank*

The growth of household consumption in 2022 is slower than previously predicted due to the impact of the war. The increase in income has been limited by higher prices, and the growth of household lending has slowed significantly due to uncertainty. However, with a double-digit increase in wages, consumption may expand by 3.9-5.7%, and government measures to increase household income can ensure that real wages rise despite the inflation.

Figure 24. The Hungarian Retail Sales and Confidence Index



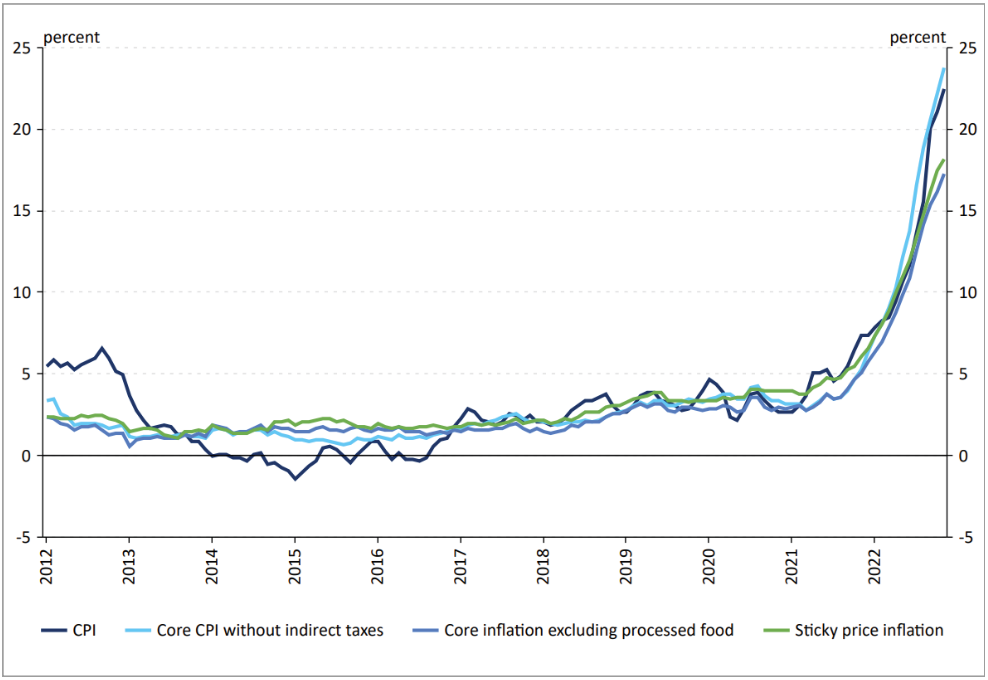
Source: *Hungarian National Bank*

In 2022, the government implemented additional payments such as the restoration of the 13th-month pension, wage increases in certain industries, a personal income tax discount for people under 25, and child-rearing benefits, resulting in a net additional income of nearly HUF 2,000 billion for households. Despite the inflationary environment, overall real income is expected to grow moderately in 2022. This may have led to an increase in consumption and a decrease in the savings rate.

The outbreak of the Russian-Ukrainian War had immediate financial and commodity market effects due to the role of the two warring countries in the markets for raw materials, energy carriers, and agricultural products. Even before the war, high prices for raw materials and energy, as well as transportation costs, were reflected in the prices of food and manufactured goods and eventually spread to consumer prices for a wide range of products. The acceleration of inflation was also significant globally, with inflation rates in most developed economies far exceeding central bank targets. By February, the indicator had risen to 7.9% in the United States, 5.5% in Germany, and 6.2% in the Eurozone as a whole. Despite initial expectations for moderation, the war, sanctions against Russia, and geopolitical tensions led to a further significant increase in raw material prices and the international inflationary environment, resulting in a higher and prolonged inflation trajectory in Hungary.

The expected inflation development depends on the extent and duration of geopolitical and market tensions as well as the government's response to them. The introduction of price ceilings for fuels and certain foodstuffs has been crucial in terms of inflation expectations and also had a psychological impact. Since the outbreak of the war, regional central banks have also raised their inflation forecasts and are forecasting inflation to exceed the inflation target.

Figure 25. Development of Inflation and Underlying Inflation Indicators in Hungary

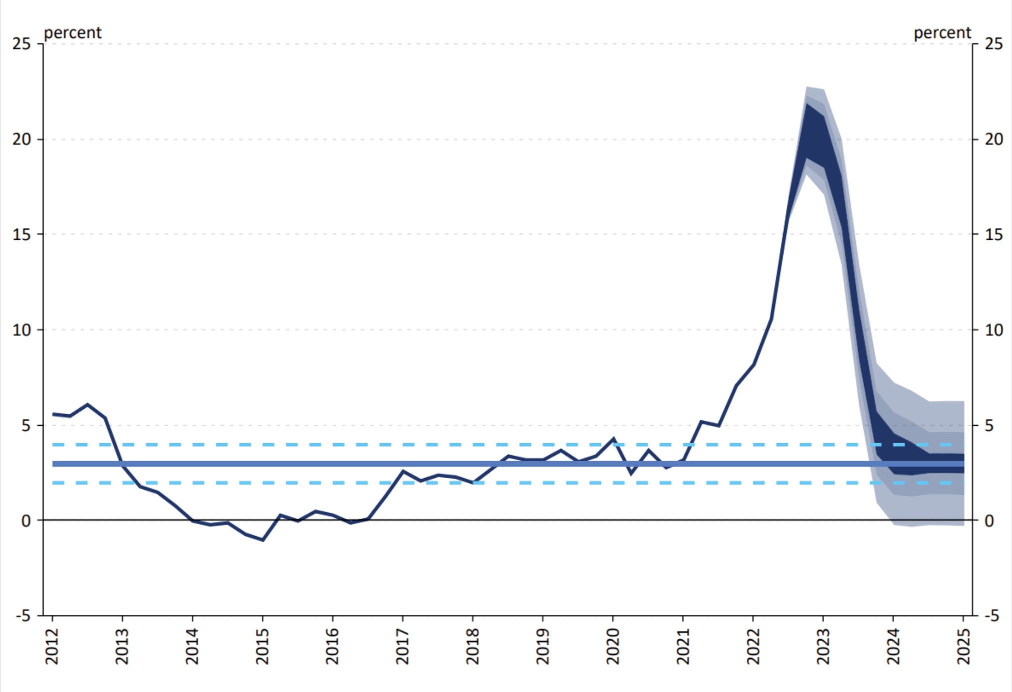


Source: *Hungarian National Bank*

In Hungary, core inflation continued to rise until the end of the year, as cost factors fed into consumer prices. If the intensity of the war decreases and the market shock also eases, inflation will moderate due to the base effect and the expected correction in raw material prices. Anchoring inflation expectations at a level consistent with the inflation target plays a crucial role in achieving price stability after the repeated price shock has passed. In the medium term, as the economic impact of the war and sanctions wears off, the dynamic expansion of the Hungarian economy can continue in an inflationary environment consistent with the inflation target. Hungary's medium-term growth potential remains strong, the Hungarian economy can expand by 4.0-5.0% in 2023 and by 3.0-4.0% in 2024.

Inflation is expected to return to the Central Bank's tolerance band in the second half of 2023 as a result of the subsidence of the first-round effects of war tensions, the mitigation of external inflationary effects, and proactive central bank measures, and then reach the central bank target of 3 percent in the first half of 2024.

Figure 26. Fanchart of the Inflation Forecast in Hungary

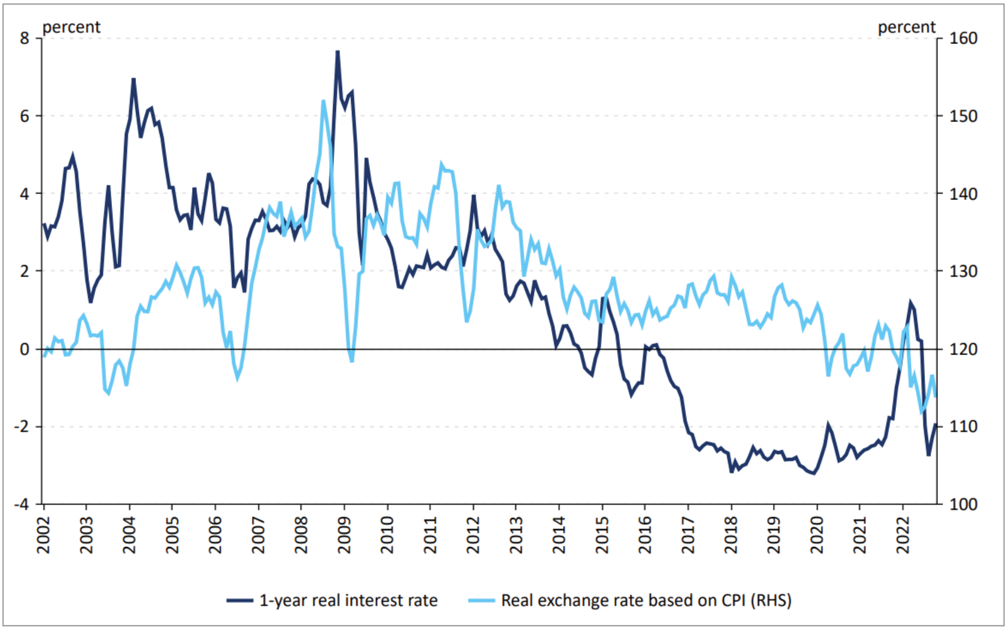


Source: *Hungarian National Bank*

The consumer price index is expected to be between 3.3-5.0% in 2023, and in line with the inflation target from 2024. The war also increases risks for the budget. Despite the rapid recovery of the Hungarian economy and announced fiscal consolidation, the government planned a deficit of 4.9% for 2022, lower than previous plans. However, the war conflict and resulting market tensions have increased the budget deficit, which can be covered by favorable economic conditions and previous expenditure rescheduling. However, the long-term persistence of the war conflict poses a risk, which can be managed by using the internal reserves of the budget. According to expectations, mainly due to economic growth, the reduction of the public debt ratio may continue until the end of the forecast horizon. The indicator may gradually decrease from its value of 77.3% at the end of 2021 to 70% by the end of 2024.

In 2021, Hungary's fiscal policy focused on supporting economic recovery from the COVID-19 pandemic and maintaining low inflation. The government implemented various measures to boost economic growth, such as increasing public investment and cutting taxes. The Hungarian government has also announced a series of measures to support the economy and businesses during the pandemic, such as a reduction in the corporate income tax rate and the introduction of a "tax bonus" for companies that maintain or increase employment during the crisis. In terms of public finance, Hungary's budget deficit is projected to increase in 2021 due to the pandemic-related measures and the economic downturn. However, the government aims to maintain a balanced budget over the medium term and keep public debt under control. Overall, Hungary's fiscal policy in 2021 is geared towards supporting economic recovery and maintaining stability, while also keeping an eye on the long-term sustainability of public finances. Additionally, the government has announced a large-scale "Economic Protection Action Plan" (EPA) aimed at supporting businesses and households affected by the pandemic. The plan includes measures such as tax deferrals, loans and grants for affected businesses, and financial support for households. The EPA was announced in 2021 as a response to the economic impacts of the COVID-19 pandemic. Includes a wide range of measures aimed at supporting businesses and households affected by the crisis. One of the key elements of the plan is the provision of financial support for businesses. This means tax deferrals, loans and grants to help companies cover costs and maintain operations during the pandemic. Additionally, a "tax bonus" was introduced for companies that maintain or increase employment during the crisis. There are measures to support households, such as a temporary increase in the minimum wage and financial aid for those who have lost their jobs or experienced a significant reduction in income as a result of the pandemic. The plan also includes a number of measures to support the healthcare sector, such as increasing funding for hospitals and healthcare workers, and providing financial support for the production of personal protective equipment. There are measures to support the tourism and cultural sectors, which have been particularly hard hit by the pandemic. This includes support for hotels and other accommodation providers, and for the arts and cultural events. In addition to these specific measures, the EPA also includes a broader commitment to support economic recovery, such as through investment in infrastructure, increasing the availability of credit, and promoting innovation and technology development.

Figure 27. Monetary Conditions in Hungary



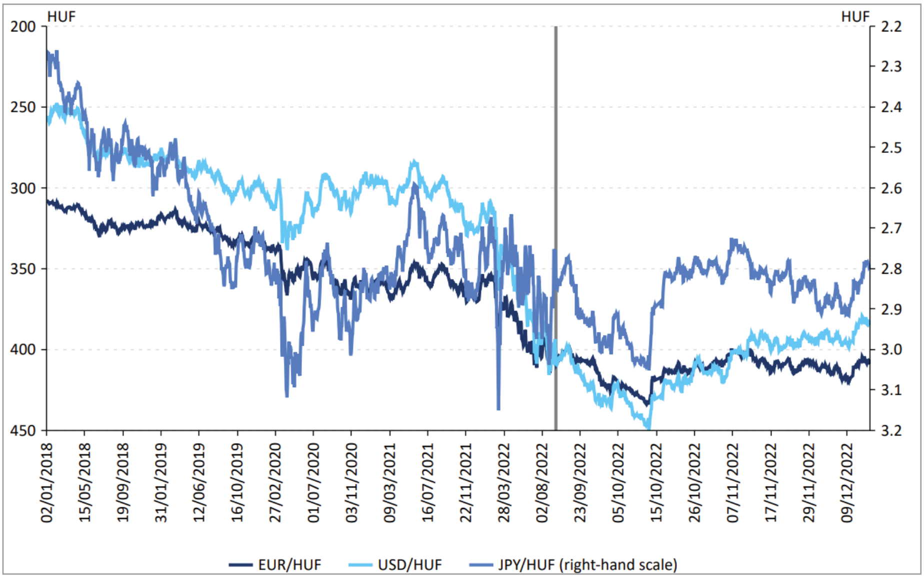
Source: *Hungarian National Bank*

The Hungarian monetary policies in 2021-2022 have been focused on supporting economic recovery, maintaining stability in the financial system and keeping the inflation rate close to the target range. The HNB has been implementing monetary policies aimed at maintaining stability in the financial system and supporting economic recovery from the COVID-19 pandemic.

One of the main tools of the NBH's monetary policy is setting interest rates. In 2021, the kept its key interest rate at a record low of 0.6% to support economic recovery and encourage lending to households and businesses. Also used unconventional monetary policy measures such as quantitative easing to provide additional support to the economy. Also introduced a number of measures to support the banking sector and encourage lending to households and businesses, such as providing liquidity to banks and offering favorable terms for lending.

In terms of exchange rate policy, the NBH has been allowing the Hungarian forint to float against other currencies, with the aim of maintaining stability in the foreign exchange market, also intervened in the market to prevent excessive volatility and to maintain the competitiveness of the Hungarian economy.

Figure 28. HUF Exchange Rate



Source: *Hungarian National Bank*

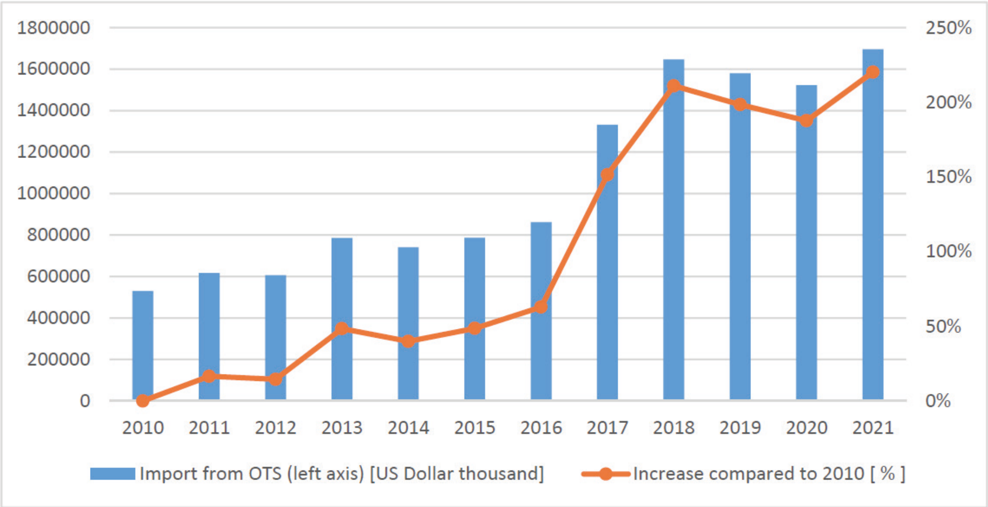
HUNGARY FOCUS ON THE TURKIC STATES IN THE REGION

Since early 2022, the war in Ukraine has dominated the attention of European foreign policy. As a result, Hungary is primarily focused on mitigating the negative effects of EU sanctions on its economy and ensuring the country's security. However, this does not mean that the Hungarian government has abandoned long-term strategies for diversifying its political and economic relationships. Cooperation with Turkic States, which are part of Hungary's "Eastern Opening" strategy, is becoming increasingly important. This policy aims at diversifying trade, investment, and technology transfer. It is not about turning away from the West and towards the East, but rather about reducing dependence on the West and balancing Hungarian growth. The war in Ukraine has also elevated the significance of relations with Turkic States, as the region is likely to become increasingly important as an energy source, and Türkiye's role as a secure transit country for Hungary's energy imports is now undeniable.

On November 10, 2022, in Samarkand, during the OTS summit, Hungarian Foreign Minister Szijjártó emphasized the importance of peace and stated that "the rhetoric of war is stronger than the rhetoric of peace, the voice of those who advocate peace is quieter than those who stir up tensions", re referred to the organization as a "forum for peace." He viewed the OST as a crucial platform for promoting East-West cooperation, which he believed was essential for global security.

He expressed Hungary's desire to increase its involvement in the group and highlighted also the significant increase in trade between Hungary and the countries of OTS, noting that it has grown by 2.5 times for the past twelve years and is currently valued at 4.5 billion euros.

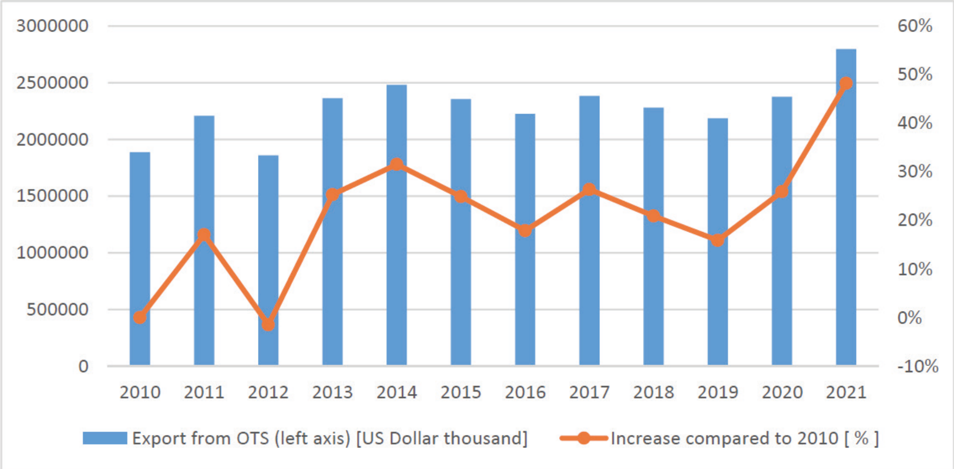
Figure 29. Dinamics of Hungarian Import from OTS States, 2010-2021



Source: *Trade Map. (2021). "Dynamics of Hungarian import from OTS states, 2010-2021." https://www.trademap.org/Index.aspx*

In 2021, on the trademap.org list of 208 markets supplying products imported by Hungary, Türkiye ranked 22nd, Kazakhstan ranked 38th, Uzbekistan ranked 93rd, Azerbaijan ranked 94th, Turkmenistan ranked 99th, and Kyrgyzstan ranked 130th.

Figure 30. Dinamics of Hungarian Export from OTS States, 2012-2021



Source: *Trade Map. (2021). "Dynamics of Hungarian export from OTS states, 2012-2021." Retrieved from https://www.trademap.org/Index.aspx*

In 2021, on the trademap.org list of 223 markets buying products exported by Hungary, Türkiye ranked 18th, Kazakhstan ranked 53rd, Uzbekistan ranked 59th, Azerbaijan ranked 69th, Kyrgyzstan ranked 96th and Turkmenistan ranked 101st.

Türkiye is the most important member of the OTS, with a population and a gross national product exceeding that of the other member countries combined, and is currently one of the most important transit countries for Eurasian trade. It is followed by Kazakhstan and Uzbekistan, which have significant economic power and potential. Azerbaijan's gas potential and Turkmenistan's vast gas reserves, the fourth largest in the world, could become increasingly attractive in the near future and, through cooperation under the OTS, more accessible to the European Union. Kyrgyzstan, although less rich in raw materials, is of strategic importance as a source of rivers feeding the whole Central Asian region and as a potential source of hydropower, in which Hungary can play a significant role.

Conclusions

Hungary is a small country with an open economy, highly integrated into the world economy, and closely connected to the European Union. Nevertheless, it is in the country's fundamental interest to participate in other economic integrations and cooperations in order to diversify foreign economic relations. The Organization of Turkic States includes significant countries with which Hungary's economic and cultural relations are very active for historical reasons.

The role of the Turkic States in the Caucasus and Central Asia in the world economy is increasing due to their geographical location, mineral resources and enlightened reforms; the synergies of closer economic and political cooperation with Central Europe, including Hungary, which is considered the economic powerhouse of Europe, can be significant.

Hungary can be an excellent partner for the Turkic States as a European bridgehead, and the Turkic States can be an important base point for Hungary for economic activities in Central Asia. In particular, the growing importance of the Middle Corridor can open up new trade and investment opportunities for the OTS countries, but the options arising in the field of digital transition and fintech can also be mentioned. As both OTS countries and Hungary can be regarded as bridges between the East and the West, so, in this sense, connecting the bridges could provide excellent business opportunities e.g. in the field of logistics or innovative industries.

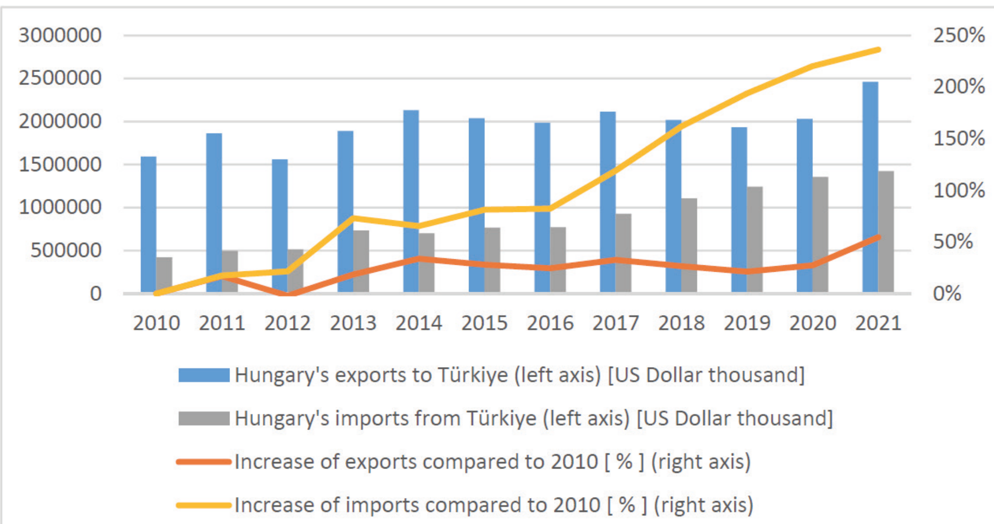
Taking into account the specific characteristics of each OTS country, each of them could be an even more excellent partner for Hungary, given the increasingly successful cooperation under the OTS since the implementation of the "Eastern Opening" policy.

An Overview of Hungary's Relations with Türkiye

Hungary and Türkiye have diplomatic relations since 1924, many important politicians have visited both countries over the years. The Hungarian Embassy is located in Ankara, while the Hungarian Consulate General operates in Istanbul. There are also Hungarian honorary consuls in Tekirdağ, Kütahya, Izmir, Antalya, Kayseri, Izmit and Adana. The Embassy of Türkiye is located in Budapest, and there are also Turkish honorary consuls in Szeged and Szigetvár.

Türkiye ranked 18th among Hungarian exports in 2021. The bilateral trade in goods increased by 14.8 % in 2021 to reach USD 3.89 billion. Compared with 2020, Hungary's trade surplus would increase by more than 50% to reach \$1.04 billion in 2021.

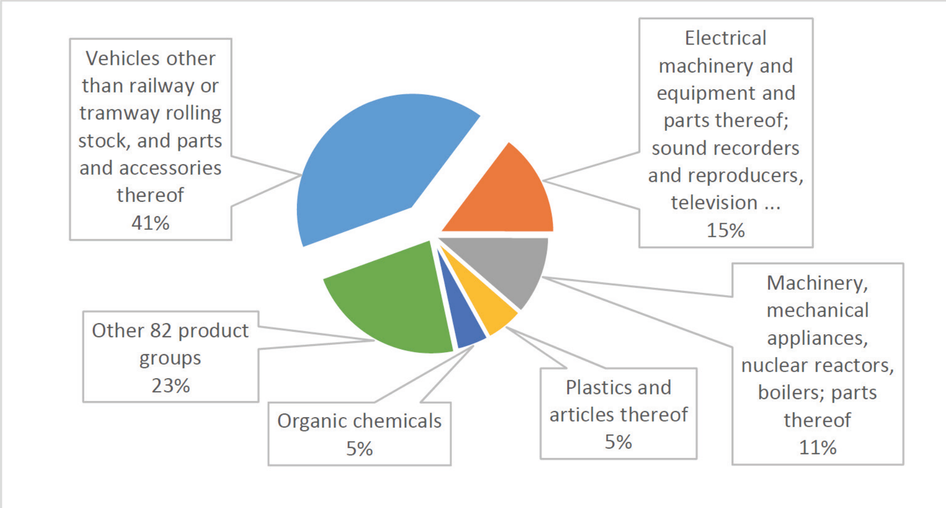
Figure 31. Development of Hungarian Exports and Imports, Türkiye, 2010-2021



Source: *Trade Map. (2021). "Development of Hungarian exports and imports, Türkiye, 2010-2021." Retrieved from https://www.trademap.org/Index.aspx*

Compared to 2020, exports to Türkiye have increased by 21.3% to 2.46 billion dollars. This was mainly due to an increase in exports of machinery and transport equipment, which accounted for 67% of exports. Other exports included manufactured goods.

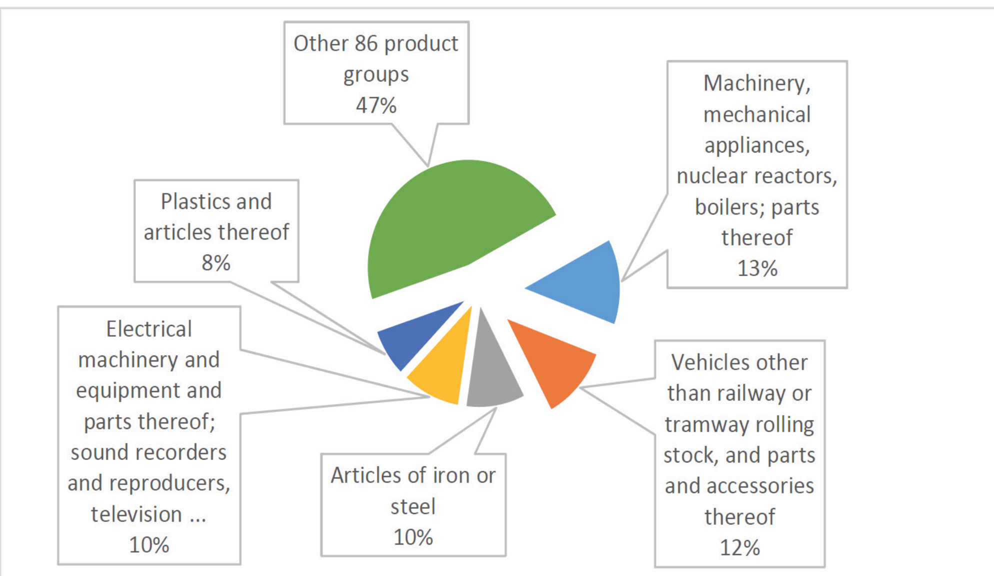
Figure 32. Hungarian Exports to Türkiye, 2021



Source: *Trade Map. (2021). "Hungarian exports to Türkiye, 2021." Retrieved from https://www.trademap.org/Index.aspx*

After an increase of 5%, imports exceeded 1.42 billion dollars, in connection with which an increase of 19.2% in the import of machinery and transport equipment can be highlighted. At the same time, processed manufactured goods, which accounted for 60.7% of imported goods, fell slightly on an annual basis.

Figure 33. Hungarian Imports from Türkiye, 2021



Source: *Trade Map. (2021). "Hungarian imports from Türkiye, 2021." Retrieved from https://www.trademap.org/Index.aspx*

Since 1981, the two countries have signed many important bilateral agreements. A bilateral economic cooperation treaty dates from 2005, while a partnership treaty dates from 2013. Perhaps that is due to their common position on many regional issues. On the other hand, due to its geographical location, Hungary's role for Türkiye could become even more important in the future, especially in terms of logistics and energy.

Economic relations between Hungary and Türkiye have been established on the basis of contractual and institutional conditions, and several agreements are currently in force between the two nations. These include an agreement on economic cooperation, mutual encouragement and protection of investment, environmental protection, animal health, civil and commercial legal assistance, road transport and aviation agreements. Cooperation in the economic, energy, technical-scientific and agricultural fields is facilitated by interdepartmental committees with the participation of professional associations and companies. Hungary also offers a good opportunity to enter the 500 million market as a member of the European Union. The Hungarian government's investment incentives offer further significant potential for Turkish companies in the logistics, construction and IT sectors, among others.

According to the Exim classification, Türkiye belongs to category 6, which means that the financing of business projects can be funded on an individual basis. In 2015, Exim opened its representative office in Istanbul in Polat Ofis. This is the same location as the Consulate General, Hungarian Institute and local HEPA office. The ALX Group in Türkiye as well operates three other HEPA foreign market offices in Ankara, Izmir and Bursa. A credit line of 195 million euros for Hungarian-Turkish cooperation was opened by the Hungarian Eximbank in 2019.

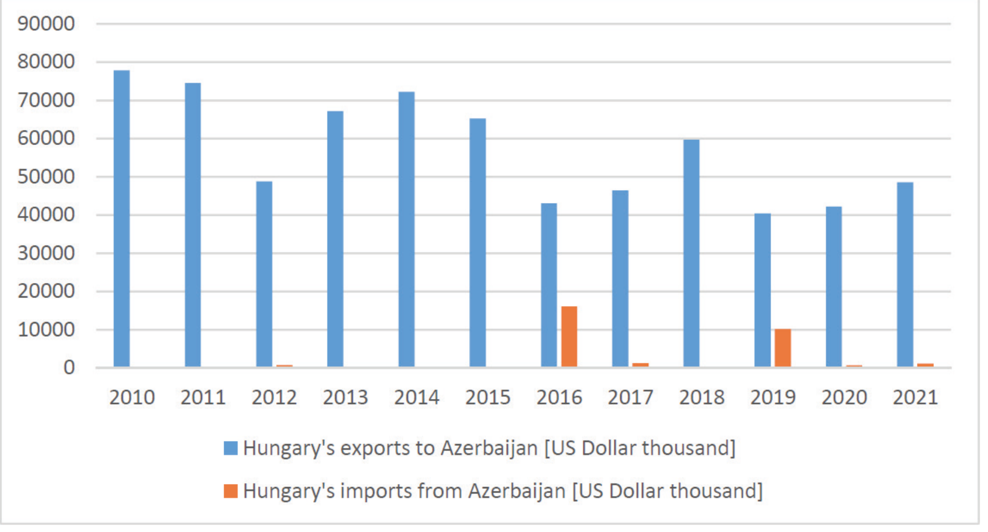
Hungary is now home to many important Turkish investors. Including Ekol Logistics Szolgáltató Ltd., the largest transport company in Hungary and Türkiye. Celebi Ground Handling Hungary Földi Kiszolgáló Ltd. has a significant share of the ground handling market at Liszt Ferenc International Airport. Metyx Composites technical textile products producer Metyx Hungary Ltd. is a rapidly growing division of Telateks A.S. Yaris Kabin Hungary Ltd. is a manufacturer of cabs for tractors and earth-moving equipment in Iváncsa. The first European glass packaging plant of the Sisecam Group, with an investment value of HUF 73 billion, is located in Kaposvár.

An Overview of Hungary's Relations with Azerbaijan

Hungary recognised independent Azerbaijan in 1991, the year it was founded. Diplomatic relations were established between the two countries in 1992. A permanent Hungarian embassy has been operating in Baku since 2009, and the Azeri embassy was opened in Budapest in 2004. According to Exim's Country Risk Classification and Insurability Rules, Azerbaijan is assigned to Country Risk Category 5, i.e. ST and M/LT are eligible for financing or insurance. A credit line of 80 million euros for Hungarian-Azeri cooperation was opened by the Hungarian Eximbank in 2019.

In 2021, Azerbaijan was Hungary's 69th export and 94th import partner. The balance of trade between Hungary and Azerbaijan was 47405 thousand US dollars.

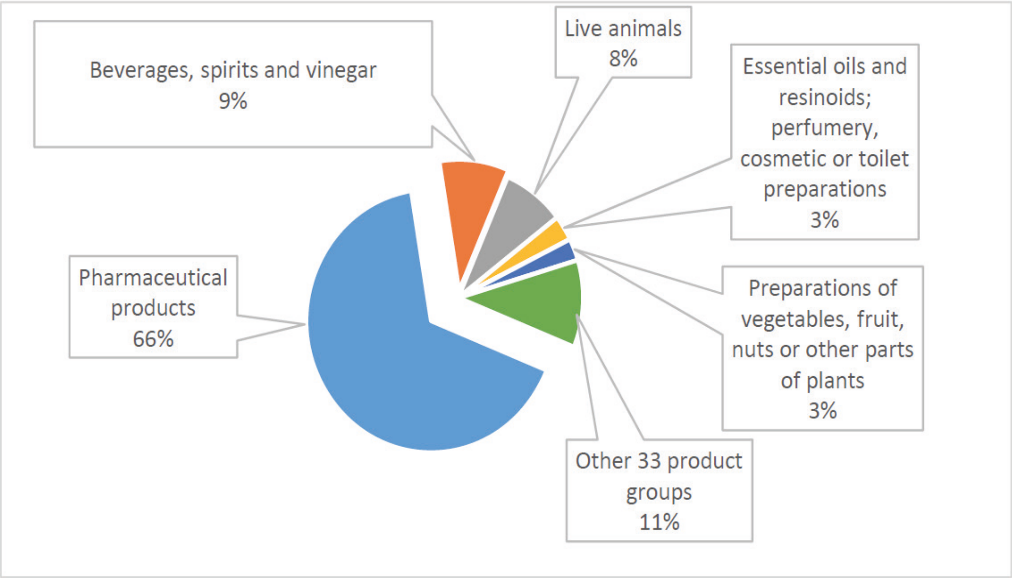
Figure 34. Development of Hungarian Exports and Imports, Azerbaijan, 2010-2021



Source: *Trade Map. (2021)."Development of Hungarian exports and imports, Azerbaijan, 2010-2021."Retrieved from https://www.trademap.org/Index.aspx*

The value of exports in 2021 was 48595 thousand USD, and the growth in the value of exports between 2020 and 2021 15%. In 2021, Hungary's top 3 exports, accounting for 66% of total exports, were medicine and pharmaceuticals, 6% beverages and 6% live animals.

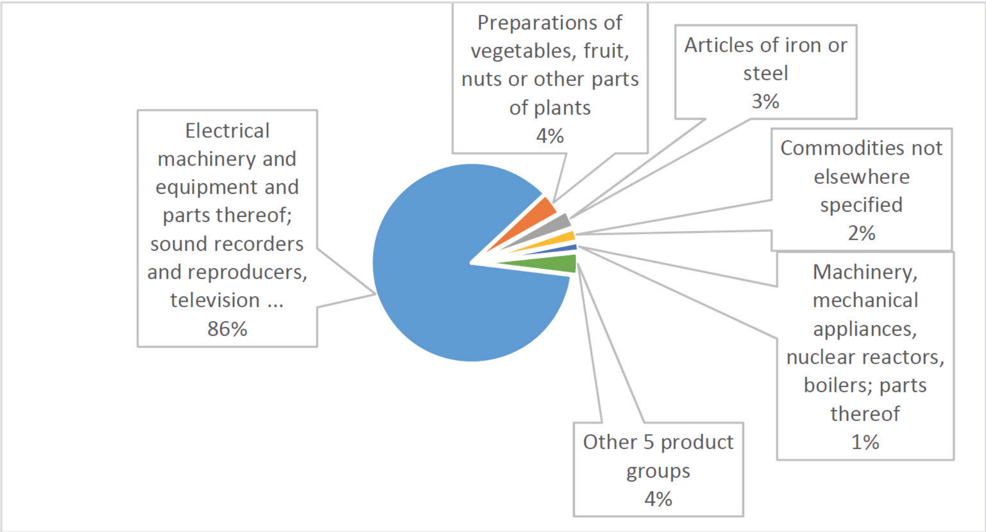
Figure 35. Hungarian Exports to Azerbaijan, 2021



Source: *Trade Map. (2021)."Hungarian exports to Azerbaijan, 2021." Retrieved from https://www.trademap.org/Index.aspx*

In the same year, the top three imported products were broadcasting, electrical machinery and equipment (86%), general purpose industrial machinery, preparations of vegetables, fruit, nuts or other parts of plants (4%) and articles of iron or steel (3%).

Figure 36. Hungarian Imports from Azerbaijan, 2021



Source: *Trade Map. (2021)."Hungarian imports from Azerbaijan, 2021." Retrieved from https://www.trademap.org/Index.aspx*

One of the key forums for the development of economic relations is the Hungarian-Azerbaijani Intergovernmental Economic Joint Committee, whose legal basis is the bilateral Economic Cooperation Agreement signed in 2008. An agreement on the avoidance of double taxation was signed in the same year, and agreements on mutual assistance in disaster prevention, inter-ministerial cooperation in the fields of justice, taxation, inter-ministerial military cooperation, meteorology and patent cooperation were signed in 2012.

During the Azerbaijani President's visit to Hungary in 2014, a joint declaration on strategic cooperation and several new bilateral agreements were signed. As part of the strategic partnership, the two countries signed an aviation document, following which WizzAir resumed its Baku-Budapest flight in March 2016. A co-operation agreement in the field of higher education has been signed, under which Hungary will have access to 200 Azeri scholarship students. At the same time, they also adopted an agreement on sport and youth, as well as an agreement on tourism.

Since 2016, Hungarian exports have been on a growth path, in which the activation of high-level political and specialised ministries, the activities of Hungarian economic diplomacy and the boom in trade development activities have played an important role. In 2016, during the Hungarian Prime Minister's visit to Baku, an agreement was reached to change the structure of Hungarian-Azerbaijani economic cooperation, i.e. to focus on the sale of export products and services with high added value. Five areas have been identified in which the relationship can be further strengthened: The IT sector, the development of infrastructure, water management, energy and agriculture.

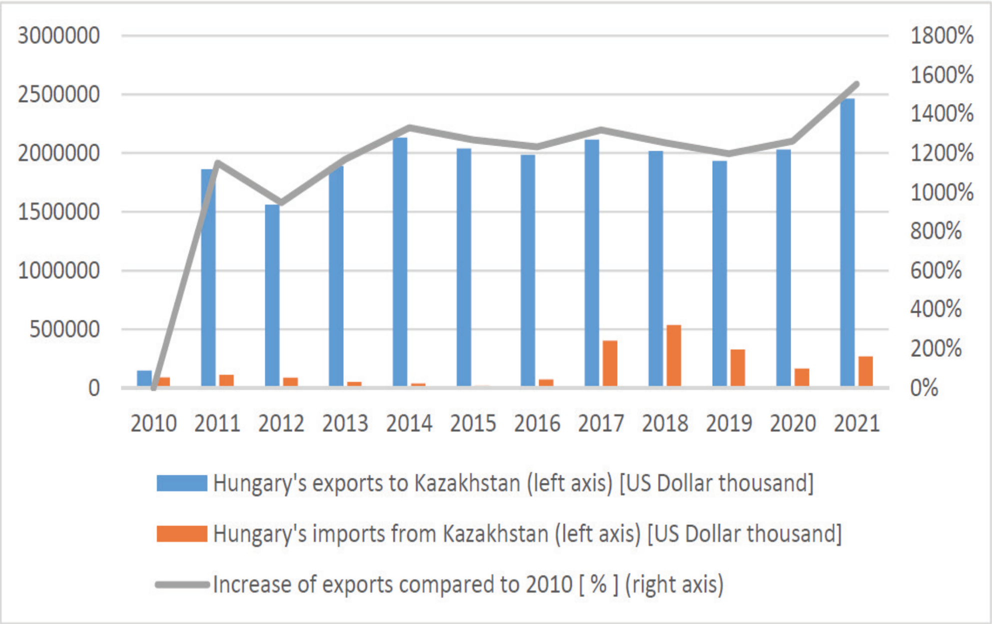
As a result of the Ukrainian-Russian War, the creation of Hungary's energy security in 2022 has become a priority, in which Azerbaijan can play a prominent role. At the end of the year, the contract for the construction of the 1,195-kilometre submarine power link was signed in Bucharest. It will enable electricity generated mainly from wind and solar energy to be transported from Azerbaijan, among other countries, to Hungary. Their capacity may reach 1000 megawatts. Another advantage is that it will be possible to connect Romania and Georgia with an optical cable suitable for high-speed Internet data transmission.

An Overview of Hungary's Relations with Kazakhstan

Hungary was one of the first countries to recognise Kazakhstan's independence in 1991 and established diplomatic relations with Kazakhstan in the spring of 1992. The Hungarian Embassy is located in Astana. The Consulate General and the Visa Application Centre are located in Almaty. There are 4 honorary consuls of Hungary in Kazakhstan (in Aktobe, Almaty, Atirau and Simkent), and an honorary consulate will be opened in Pavlodar in the near future. Kazakhstan also opened an embassy in Budapest in 1993, an honorary consulate was opened in Karcag in 2012.

Kazakhstan was Hungary's 44th trading partner in 2021, accounting for 0.2% of Hungary's total external trade. It ranked 53rd for exports, with a weight of 0.1%, and 38th for imports, with a share of 0.2%.

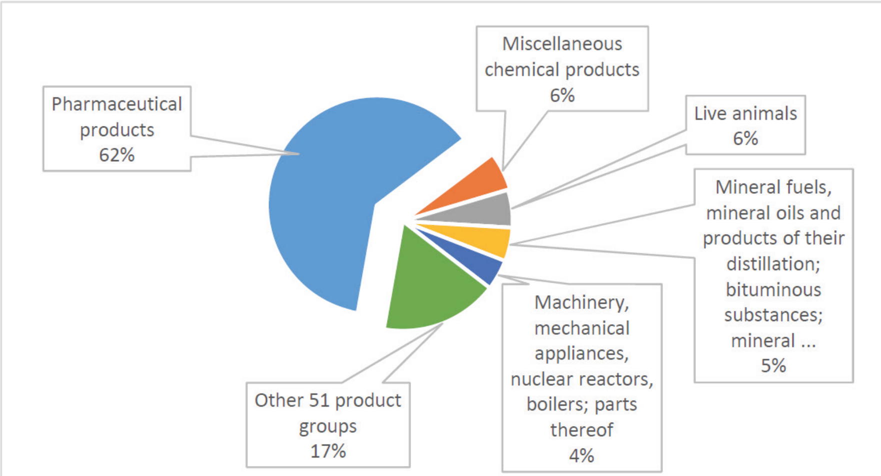
Figure 37. Development of Hungarian Exports and Imports, Kazakhstan, 2010-2021



Source: *Trade Map. (2021)."Development of Hungarian exports and imports, Kazakhstan, 2010-2021."Retrieved from https://www.trademap.org/Index.aspx*

In 2021, Hungary's top 3 exports, accounting for 62% of total exports, were medicine and pharmaceuticals, 6% live animals and 6% miscellaneous chemical products.

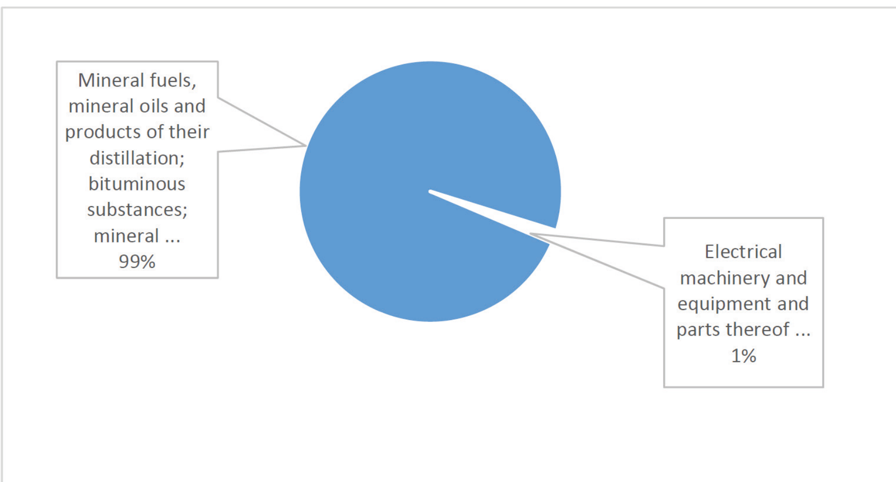
Figure 38. Hungarian Exports to Kazakhstan, 2021



Source: *Trade Map. (2021)."Hungarian exports to Kazakhstan, 2021." Retrieved from https://www.trademap.org/Index.aspx*

In the same year, only two imported products were mineral fuels (99%) and electrical machinery, and equipment (1%).

Figure 39. Hungarian Imports from Kazakhstan, 2021



Source: *Trade Map. (2021)."Hungarian imports from Kazakhstan, 2021." Retrieved from https://www.trademap.org/Index.aspx*

Compared to the first 10 months of 2021, in the same period of 2022 the turnover of goods decreased by 9%, Hungarian imports decreased by 29%, but exports increased by 27%. In 2022 (last month of 2022 not surveyed), medicines and pharmaceutical products accounted for 48% of Hungarian exports, mineral fuels for 9%, and electrical machines, devices and instruments, their electrical components for 8%. Of the imports, 94% were mineral fuels, 4% were natural and artificial gas, and 1% were communication, recording and playback equipment.

The Declaration on Strategic Partnership was signed in 2014 and the Hungarian-Kazakh Strategic Council was established in 2015. The 5th meeting of the Strategic Council was last held in Astana in autumn 2021, and the next meeting will be held in Budapest in the course of 2023. The high-level meetings effectively dynamise cooperation. A meeting of the Presidents took place in Budapest in 2007 and in 2010 at the summit of the OSCE in Astana. Ministerial meetings were held in the Kazakh capital in spring 2019 and on the sidelines of the OTS Summit in autumn 2022. In 2019, the Speaker of the National Assembly of Hungary participated in the IV. Meeting of the Speakers of the Parliaments of the Eurasian Countries in Astana. The Deputy Speaker of the National Assembly visited Kazakhstan in autumn 2022. During his working visit to Kazakhstan in the spring, the Hungarian Foreign Minister held talks with the Kazakh Deputy Prime Minister and the Minister of Foreign Affairs. At the meeting of the energy ministers of the Organisation of Turkic States in Almaty in the autumn, he conferred with the Kazakh energy minister. Several bilateral agreements have been concluded and are in preparation, including: The Agreement on the Protection and Exchange of Classified Data, the Air Transport Agreement, the Investment Promotion and Protection Agreement and the Framework Partnership Agreement between the Hungarian Parliament and the Mazhilis of Kazakhstan.

According to the Exim classification, Kazakhstan belongs to category 5, which means that the financing of business projects is guaranteed. A credit line of 80 million euros for Hungarian-Kazakh cooperation was opened by the Hungarian Eximbank in 2019. An increasing number of Hungarian companies are setting up successful projects in Kazakhstan. MOL's investment in the Kazakh hydrocarbon exploration and production business is approximately $200 million, making it the largest Hungarian investor in the country to date. Richter has been present in Kazakhstan's pharmaceutical market since 1996, with sales of $24.9m in 2022. Globália Ltd. is working on the preparation of solar power plant construction projects in Kazakhstan, and in the summer of 2022 it established its own limited liability company in the country under the name KazGlobal. Elwa Ltd. and Saint Gobain Construction Products Hungary Ltd. plan to enter the Kazakh market with innovative glow-in-the-dark roofing materials called "flAVATAR" and "Weber-Neon", which can provide an alternative solution to traditional decorative lighting. The LAC Holding PLC. and K-Agro Holding started hybrid maize production in Kazakhstan in May 2022, using special seeds developed in Hungary.

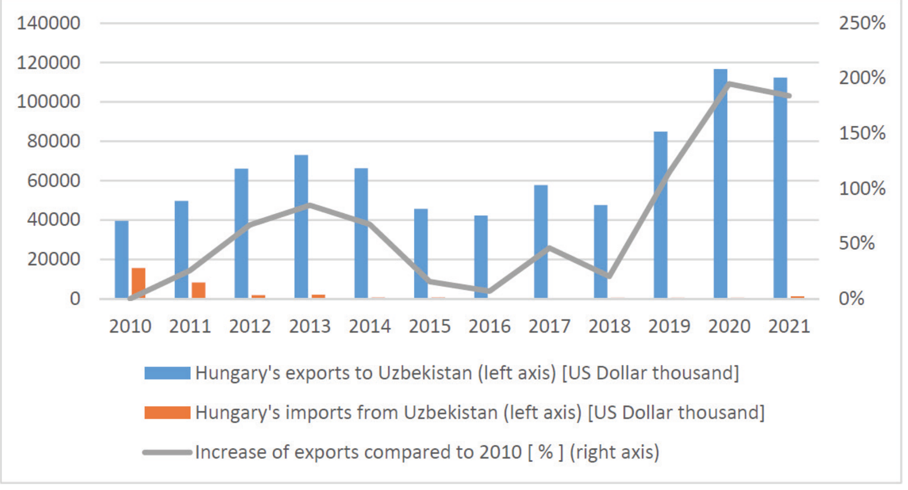
There is a further good opportunity for co-operation in the field of nuclear education in Kazakhstan. This is because the peaceful use of nuclear energy is the main driver for decarbonising Kazakhstan's economy in the areas of fintech and water, as well as green energy. Hungarian engineering know-how can add a significant amount of value to the supply of green energy to smaller communities.

An Overview of Hungary's Relations with Uzbekistan

Uzbekistan has been one of Hungary's most important trading partners in the Central Asian region since 2016, which is why an embassy and consulate were opened in Tashkent in 2017. According to Exim's Country Risk Classification and Insurability Rules, Uzbekistan is assigned to Country Risk Category 5, i.e. ST and M/LT are eligible for financing or insurance. Uzbekistan is due to open its embassy in Hungary in the near future; until then, the embassy responsible for the region is based in Vienna. A credit line of 80 million euros for Hungarian-Uzbek cooperation was opened by the Hungarian Eximbank in 2019.

In 2021, Uzbekistan was Hungary's 59th export and 93th import partner. The balance of trade between Hungary and Uzbekistan was 111169 thousand US dollars.

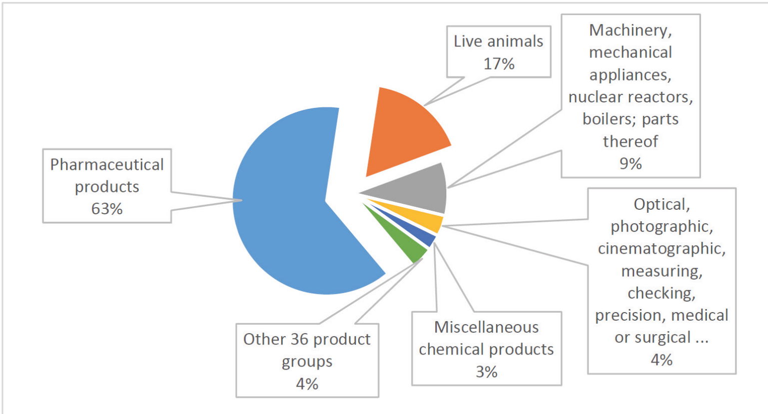
Figure 40. Development of Hungarian Exports and Imports, Uzbekistan, 2010-2021



Source: *Trade Map. (2021)."Development of Hungarian exports and imports, Uzbekistan, 2010-2021."Retrieved from https://www.trademap.org/Index.aspx*

In 2021, Hungary's top 3 exports, accounting for 63% of total exports, were medicine and pharmaceuticals, 17% live animals and 9% machinery, mechanical appliances.

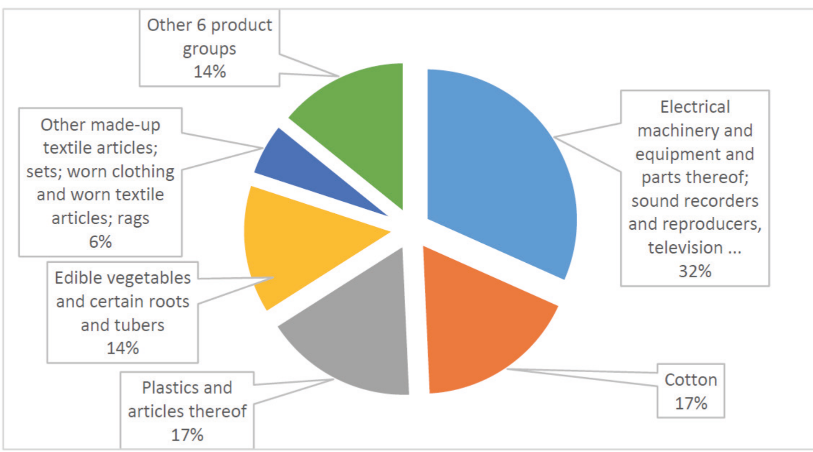
Figure 41. Hungarian Exports to Uzbekistan, 2021



Source: *Trade Map. (2021)."Hungarian exports to Uzbekistan, 2021." Retrieved from https://www.trademap.org/Index.aspx*

In the same year, the top three imported products were electrical machinery, and equipment (32%), plastics raw materials (17%) and cotton (17%).

Figure 42. Hungarian Imports from Uzbekistan, 2021



Source: *Trade Map. (2021)."Hungarian imports from Uzbekistan, 2021." Retrieved from https://www.trademap.org/Index.aspx*

The foreign economic relations between Hungary and Uzbekistan have been developing dynamically in recent years thanks to the strengthening of cooperation. Despite the pandemic, trade between the two countries increased by 36% in the first 10 months of 2020 compared to the same period last year, and by 38% in 2021 compared to 2020. In Hungarian-Uzbek trade growth between 2017-2021, Hungarian exports increased by 25% and imports by 70%. It is worth noting that Hungarian exports of aluminium and products made from it increased by 270%, glass and glassware, optical glass by 270% and various chemical products by 167%. In imports, the turnover of food-grade fruit and nuts, nuclear reactors, boilers, machines and mechanics and cotton increased by 65%.

Thanks to the "Uzbekistan Action Strategy 2017-2021" , economic diplomatic relations between the two countries have been revived, which can be confirmed by the above figures. Perhaps the best example of this is the visit of the president of Uzbekistan to Hungary in 2022, after 20 years. The implementation of Hungary's foreign trade strategy "Opening to the East" was accelerated for Uzbekistan's "Action Strategy 2017-2021" and the subsequent "New Development Strategy of Uzbekistan 2022-2026" .

Hungarian-Uzbek bilateral presidential meetings have been held in Uzbekistan, first in 1997 and then in 2011. In 2013, the Hungarian Foreign Minister met in Tashkent with the Uzbek Minister of Health and Foreign Economic Relations. Among the agreements signed were a cooperation agreement between Hungary's Eximbank and Uzbekistan's HamkorBank, the Pest County Chamber of Commerce and Industry and the Tashkent Regional Chamber. The document between the National Chamber of Agriculture of Hungary and the Association of Farmers of Uzbekistan has been approved. It was decided to set up an Uzbek-Hungarian trading house. Negotiations have begun to establish cooperation between the two countries' medical schools. Uzbekistan sent 650,000 protective masks to Hungary in 2020. In the same year, the Hungarian Foreign Minister visited Uzbekistan to negotiate Hungarian companies entering the Central Asian market. In early 2021, the Deputy Prime Minister of Uzbekistan visited Budapest in connection with the sixth co-chair meeting of the Hungarian-Uzbek Intergovernmental Committee for Economic Cooperation, where he also met the Hungarian Prime Minister. As a result of negotiations on protection against the coronavirus pandemic and the development of economic relations, an agreement was reached on Hungary's participation in Uzbekistan's water management, renewable energy and electricity network modernisation projects. Hungarian companies can also be part of the modernisation of Uzbek agriculture through the development of processing capacity in the food industry. The Hungarian Prime Minister met the President and Prime Minister of Uzbekistan in Tashkent in the spring of 2021. In Tashkent, a total of nine agreements were signed. This gave Hungarian companies the opportunity to transform and modernise strategic sectors in Uzbekistan. At the same time, Eximbank is providing a credit line of one hundred million dollars for the development of Hungarian-Uzbek relations. At the same time, in the same place, the Hungarian Foreign Minister negotiated the use of the patented Hungarian Heller-Forgó system for the cooling system of the Uzbek nuclear power plant in the project. Agreement was reached to launch four Hungarian investments worth $150m in the areas of vegetable oils, feed production and cattle breeding. The Uzbek-Hungarian Research Centre for the Potato has been opened. The work plan for the development of the Uzbek and Hungarian agricultural sector, the food supply and the livestock sector has been finalised. In addition, a framework agreement has been concluded on water management. In 2022, during the visit of the Hungarian Prime Minister and members of the government to Tashkent, it was agreed to launch cooperation programmes in the fields of nuclear energy, water management and agriculture, as well as border protection. With a view to further expansion, the Hungarian Eximbank has opened a credit line of 105 million euros. In the summer of 2022, the President of the Republic of Hungary received the credentials of the Head of Mission of the Republic of Uzbekistan based in Vienna. In the autumn of 2022, the Hungarian Minister of Technology and Industry discussed opportunities for industrial and military cooperation with the Uzbek Deputy Prime Minister in Zalaegerszeg. It was signed by the Prime Minister of Hungary and the President of Uzbekistan in a joint declaration. A further sixteen co-operation agreements have been signed between a number of ministries and institutions. In December 2022, Hungary's OTP Bank acquired Ipoteka Bank, Uzbekistan's fifth largest bank.

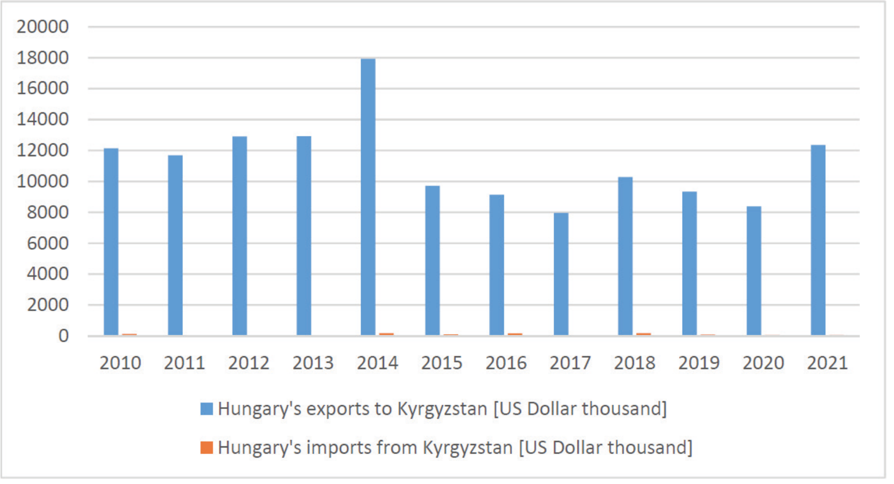
The Hungarian Eximbank provides financing for mutually beneficial cooperation between Hungarian and Uzbek companies, the legal background of which is settled thanks to economic diplomacy. Development programmes in Uzbekistan offer excellent opportunities for Hungarian companies with high added value.

Overview of the Hungarian Relations with Kyrgyzstan

Diplomatic relations with Kyrgyzstan were established in the spring of 1992, and the Hungarian Embassy was opened at the beginning of 2020. From 2021 onwards, the Hungarian consular office represent several countries in visa matters, thus facilitating relations between Kyrgyzstan and the Schengen area. The Kyrgyz embassy in Budapest was opened in 2021, and an honorary consulate also operates in Hungary. The Honorary Consulate of Hungary in Kyrgyzstan operates in Os, and the Honorary General Consulate operates in Bishkek. HEPA does not have a foreign market office in Kyrgyzstan and carries out its export promotion activities in cooperation with the Foreign Trade Attaché.

Kyrgyzstan was Hungary's 100th trading partner in 2021, with a 0.004% share of Hungary's total external trade. It ranked 98th in Hungarian exports with a weight of 0.009% and 133rd in imports with a share of 0.00005%.

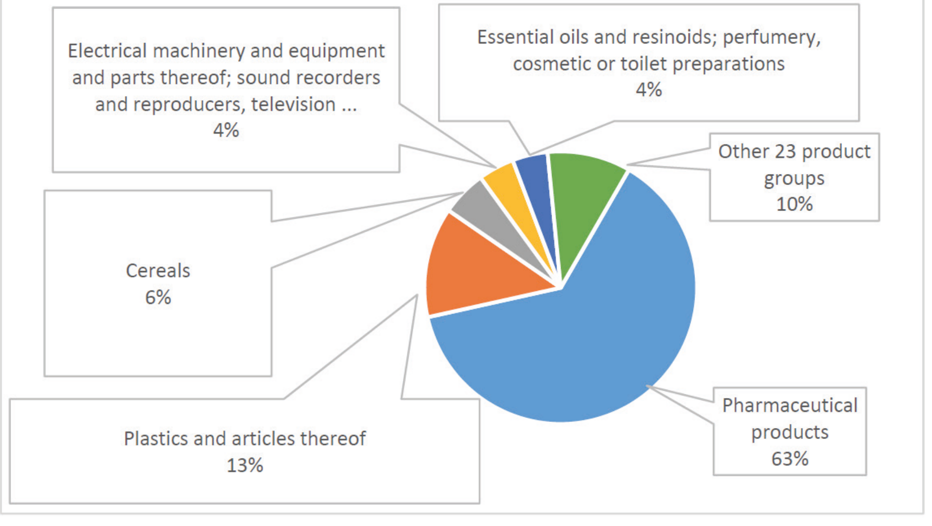
Figure 43. Development of Hungarian Exports and Imports, Kyrgyzstan, 2010-2021



Source: *Trade Map. (2021)."Development of Hungarian exports and imports, Kyrgyzstan, 2010-2021."Retrieved from https://www.trademap.org/Index.aspx*

In 2021, Hungary's top 3 exports, accounting for 63% of total exports, were medicine and pharmaceuticals, 13% plastic raw materials and 6% cereals and cereal preparations.

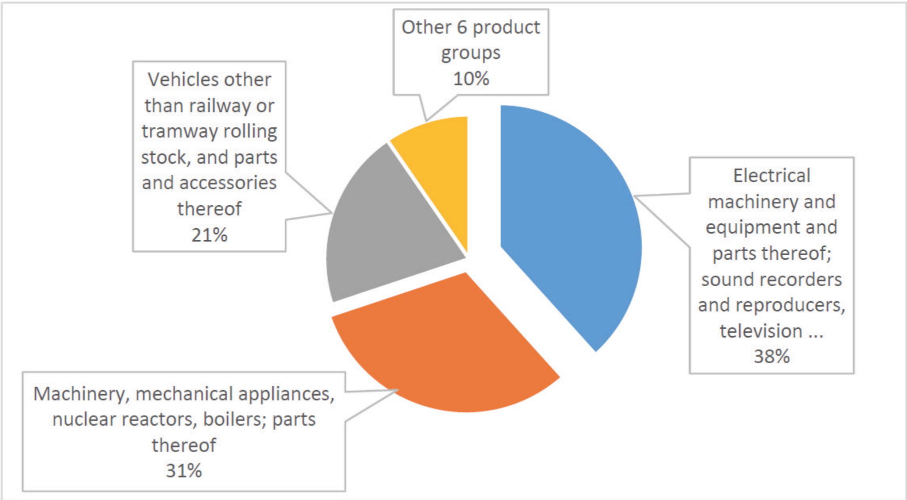
Figure 44. Hungarian Exports to Kyrgyzstan, 2021



Source: *Trade Map. (2021)."Hungarian exports to Kyrgyzstan, 2021." Retrieved from https://www.trademap.org/Index.aspx*

In the same year, the top three imported products were broadcasting, sound recording and reproducing equipment (38%), general purpose industrial machinery, equipment and parts (31%) and road vehicles (21%).

Figure 45. Hungarian imports from Kyrgyzstan, 2021



Source: *Trade Map. (2021)."Hungarian imports from Kyrgyzstan, 2021." Retrieved from https://www.trademap.org/Index.aspx*

Compared to the first 11 months of 2021, in the same period of 2022 the turnover of goods increased by 59%, Hungarian imports by 669% and exports by 56%. In 2022 (last month of 2022 not surveyed), medicines and pharmaceutical products accounted for 35% of Hungarian exports, miscellaneous manufactured goods for 29%, and communication, recording and playback equipment for 11%. Of the imports, 71% were miscellaneous manufactured articles, 25% were tobacco and tobacco products, and 3% were communication, recording and playback equipment.

High-level meetings effectively dynamise cooperation. In 2020, 15 agreements were signed at the Heads of State meeting in Budapest, raising the relationship between the two countries to the level of a strategic partnership. The Hungarian-Kyrgyz Development Fund was established when the Hungarian Foreign Minister met in Biskek in 2021. In 2022, the Hungarian Prime Minister invited the President of the Kyrgyz Republic to visit Hungary during a bilateral meeting between heads of government on the sidelines of the OTS Summit. In the same year, the Deputy Speaker of the Hungarian National Assembly took part in the plenary session of the 11th Parliamentary Assembly of Turkic-speaking Countries in Cholpon-Ata. Afterwards, he held talks with the Kyrgyz President and Speaker of Parliament, as well as with the heads of the Kyrgyz Ministries of Culture and

Education. In the spring of 2022, during the visit of the Hungarian Minister of Foreign Affairs to Bishkek, where he took part in the Second Session of the Strategic Council, he held negotiations with the President of the Kyrgyz Republic, the Minister of Foreign Affairs and the Head and Co-President of the Ministry of Economy. In September 2022, another meeting of foreign ministers took place on the sidelines of the UN General Assembly in New York.

In 2017, a cooperation agreement was signed between EXIM and the Russian-Kyrgyz Development Fund to strengthen trade relations. Kyrgyzstan is in category 7 of EXIM's classification, which means that it is not eligible for financing for a number of business projects. The Hungarian-Kyrgyz Development Fund can provide financing in priority sectors for the Kyrgyz economy through loans, equity financing and other financial instruments. In 2022, 12 project proposals were formulated following the adoption by the Fund's Board of Directors of the basic documents required for the operation of the Fund. A credit line of 27 million euros for Hungarian-Kyrgyz cooperation was opened by the Hungarian Eximbank in 2019.

Several bilateral agreements have been concluded and are in preparation, including: Cooperation in the fields of environmental protection, data protection, tourism, forensic expert activities, legal agreement between the Ministries of Justice, agreement between the Aviation Agreement and the Directorates General of Aviation, archives cooperation, agreements between universities.

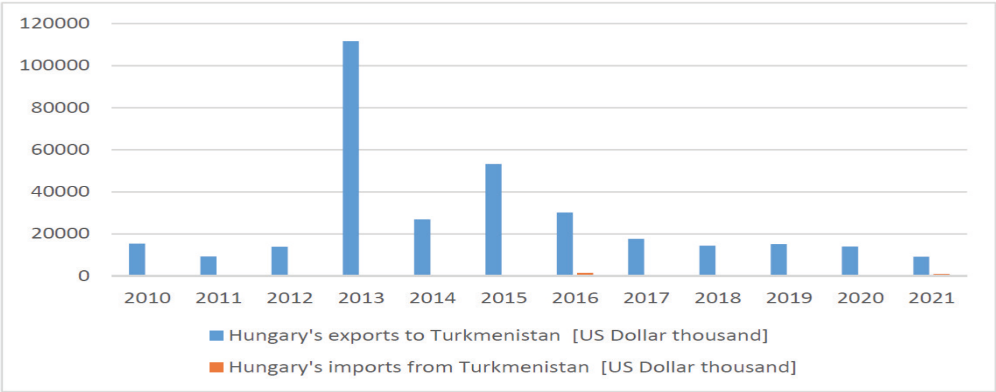
Both countries attach great importance to scientific and educational cooperation: In 2021, Hungary increased the number of quotas for university education for Kyrgyz students in Hungary to 200 places under the Stipendium Hungaricum Programme. From 2021, the Hungarian language is also taught at Osi State University. In addition, they are also planning to start Hungarian studies. In 2022, distance learning of the Hungarian language began in Bishkek at the Arabayev and Kyrgyz International Universities. A "Central Asian European University", whose campuses would be run by a European country, is being planned by the Kyrgyz side. This could start with the creation of a Hungarian campus, which could be used as a model for other countries to join the university.

An Overview of Hungary's Relations with Turkmenistan

Hungary has no direct diplomatic representation in Turkmenistan. The Hungarian embassy in Uzbekistan, based in Tashkent, and the consulate have been accredited in Turkmenistan. The nearest Turkmenistan embassy to Hungary is in Vienna. Turkmenistan is in category 7 of EXIM's classification.

The trade balance between Hungary and Turkmenistan in 2021 was 8234 thousand USD. Turkmenistan was Hungary's 101st export and 99th import partner.

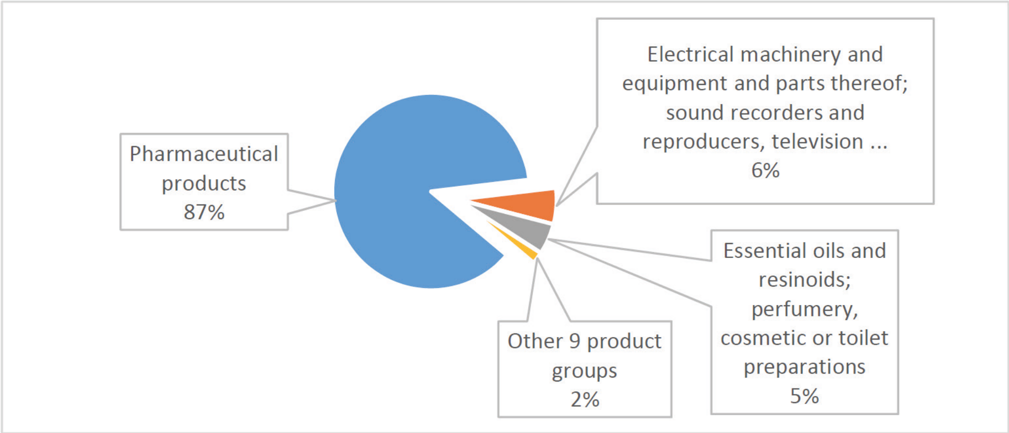
Figure 46. Development of Hungarian Exports and Imports, Turkmenistan, 2010-2021



Source: *Trade Map. (2021)."Development of Hungarian exports and imports, Turkmenistan, 2010-2021."Retrieved from https://www.trademap.org/Index.aspx*

In 2021, Hungary's top 3 exports, accounting for 87% of total exports, were medicine and pharmaceuticals, 6% electrical machinery and equipment and parts and 5% essential oils and resinoids.

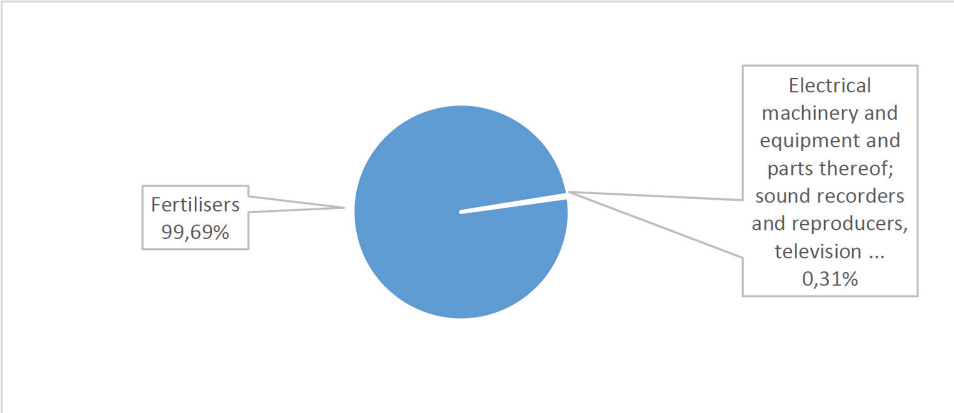
Figure 47. Hungarian Exports to Turkmenistan, 2021



Source: *Trade Map. (2021)."Hungarian exports to Turkmenistan, 2021." Retrieved from https://www.trademap.org/Index.aspx*

In the same year, the imported products were fertilisers (99,69%) and electrical machinery and equipment and parts (0,31%).

Figure 48. Hungarian Imports from Turkmenistan, 2021



Source: *Trade Map. (2021)."Hungarian imports from Turkmenistan, 2021." Retrieved from https://www.trademap.org/Index.aspx*

An extremely important area of successful cooperation with Turkmenistan is building and maintaining relations at the highest level. In 2011, the President of the Republic of Hungary paid a personal visit to Ashgabat in connection with the opening to the East formulated the previous year. In 2013, the Hungary-Turkmenistan Intergovernmental Economic Committee was established under the chairmanship of the Hungarian Minister of Foreign Affairs. In February 2014, an agreement on economic cooperation was signed between the two countries. In June of the same year, Hungary was granted observer status in the Parliamentary Assembly of the Turkic States (TURKPA), ahead of Uzbekistan and Turkmenistan. In June, the Turkmen president became the first EU member state to visit Hungary with a 30-member business delegation, and declared that Hungary could play a leading role in providing access for Turkmen gas to the European market. Agreements were signed on educational, scientific and cultural cooperation, as well as between the tax authorities of the two countries, and the foreign affairs cooperation programme for 2014-2015 was approved. In 2016, a Hungarian construction company, Baumetall Design Ltd., also took part in the construction of the Turkmen capital's airport. At the meeting of the Hungarian-Turkmenian Intergovernmental Economic Committee in Budapest in 2020, it was agreed that the parties would establish closer cooperation in the pharmaceutical industry and in agriculture, with special emphasis on the exchange of Hungarian water management technologies in Turkmenistan. At the same time, the Hungarian Export Development Agency, the Ministry of Finance and Economy of Turkmenistan and the Union of Industrialists and Entrepreneurs of Turkmenistan organised a business forum attended by around one hundred entrepreneurs, during which the major Turkmen companies specialising in poultry farming signed agreements with the leading Hungarian poultry producer Aviagen Ltd.

In 2022, the President of Turkmenistan extended his sincere congratulations and best wishes to the President of Hungary and all the people of the country on the occasion of the national holiday of Hungary-St. Stephen's Day on 20 August.

CONCLUSION

The current state of global affairs is one of instability and difficulty, and it is understandable that individuals are concerned about what is happening. The statement that "problems and challenges know no boundaries" is more relevant today than ever before. Even the most powerful nations cannot solve complex regional and global problems alone. This calls for increased cooperation and collaboration on a wide range of issues, including conflict prevention, climate change mitigation, refugee crisis management, counter-terrorism, food and energy security, epidemic and pandemic response, and economic crisis management. Lack of cooperation and collaboration often leads to a waste of resources and can exacerbate existing problems. The ongoing war in Ukraine and the impact of the COVID-19 pandemic have shown that no actor in the international system is immune to global crises. It is also becoming increasingly clear that effective problem-solving in times of crisis requires the active involvement not only of government officials, but also of civil society and academia.

Hungarian foreign policy has demonstrated a significant focus on the Central Asian region and Türkiye, which can be attributed to two factors. Firstly, the implementation of the "Eastern Opening" policy, which aims to diversify trade and investment, has been a key driver of Hungary's engagement with these countries, with a greater focus on investment flows from Hungary to these countries than vice versa. Additionally, Hungarian companies are expanding internationally, following a period of inward internationalization driven by foreign multinational companies operating in Hungary. Secondly, Turkic States have the potential to play a crucial role in Hungary's energy security, particularly in light of the ongoing war in Ukraine.

COUNTRY SPECIFIC PROFILE OF TURKMENISTAN

Associate Professor, PhD. Gunay Guliyeva,
Head of Department at the Center for Analysis of Economic Reforms and Communications of the Republic of Azerbaijan

The territory of Turkmenistan, situated in the heart of the Eurasian continent, spans 488,099 square kilometers and is home to a population of 6,031 million. According to the World Bank's classification, Turkmenistan has been categorized as an upper-middle income country since 2012. It shares borders with Kazakhstan to the north, Uzbekistan to the northeast, Afghanistan to the southeast, Iran to the south, and the oil-rich Caspian Sea to the west. The official state language of Turkmenistan is Turkmen, and its national currency is the Turkmen new manat (TMT).

Turkmenistan, characterized as a desert nation, boasts a flourishing agricultural sector and substantial reserves of natural gas and oil. It is estimated to possess approximately 10 percent of the world's gas reserves, ranking it as the fourth largest gas resource globally. Notably, cotton and wheat cultivation play a significant role in the country's agricultural practices. In addition to cotton and natural gas, Turkmenistan is abundant in petroleum, sulfur, iodine, salt, bentonite clays, limestone, gypsum, and cement, which serve as potential raw materials for the chemical and construction industries. Due to its predominantly arid environment, agriculture primarily relies on intensive cultivation practices conducted on irrigated lands, with approximately half of the irrigated land dedicated to cotton production.

Figure 1. Map of Turkmenistan

ECONOMY OF TURKMENISTAN AFTER INDEPENDENCE

Following the dissolution of the Soviet Union, Turkmenistan, like other newly independent states, faced significant economic and political challenges. Unlike its counterparts, Turkmenistan exhibited a higher degree of economic reliance on the Soviet Union market and imports. Key commodities, such as cotton and natural gas, were predominantly exported to other Soviet republics, particularly Russia and Ukraine.

Turkmenistan's rich oil resources had attracted attention from Soviet leaders as early as 1933. This led to the discovery and subsequent exploitation of major oil fields within the republic, including the state-owned "Nebitdag" field in the same period, followed by the "Gumdag" and "Gotur Tepe" deposits in 1948 and 1957, respectively, and the "Barsa-Gelmes" deposits in 1962. These fields produced an annual output of 12-15 million tons of crude oil, which were primarily exported.

In the initial years of independence, Turkmenistan's economy experienced a decline due to substantial structural changes and political instability. However, economic growth gradually materialized in the 2000s. In terms of current prices, the country's GDP reached 3.2 billion US dollars, 3.7 billion US dollars, 4.5 billion US dollars, and 5.3 billion US dollars in 2001, 2002, 2003, and 2004, respectively. The industrial sector accounted for 38 % of GDP, services for 41.1 percent, and agriculture for 20.9 % in 2005, according to estimations. Additionally, the private sector's contribution to the GDP was estimated at 25 percent in the same year.

In 2003, Turkmenistan faced significant challenges, including a high unemployment rate and unresolved issues such as water and food shortages inherited from its declining economy. Despite a somewhat deteriorating economic situation after the breakup from the Soviet Union, Turkmenistan managed to maintain a relatively stable standard of living compared to other former Soviet republics. Government subsidies helped keep staple food prices affordable, although inflation remained a concern. Notably, President Niyazov's decree in 1993 provided households with virtually free natural gas, water, and electricity indefinitely, while gasoline and fuel prices remained low compared to neighboring republics. Turkmenistan's economic stability can be attributed to its relatively small population and abundant resources, particularly natural gas and oil.

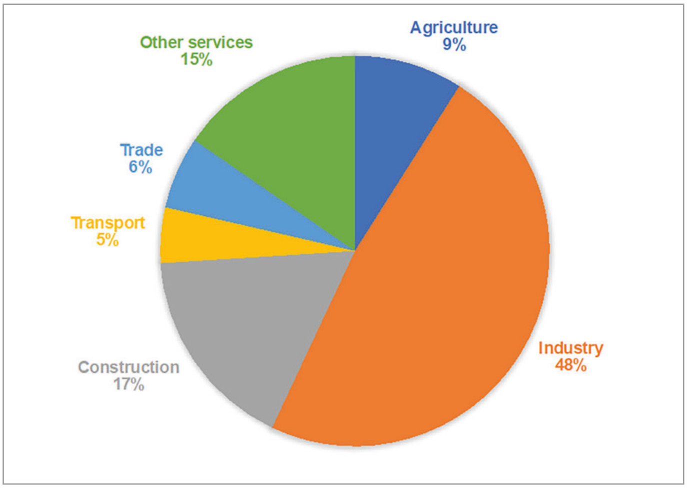
Upon assuming office in early 2007, President Berdimuhamedov introduced noticeable changes to Turkmenistan's economy. The constitution established a presidential republic, defining the president's role as the head of state responsible for state administration, domestic governance, and foreign policy management.

ECONOMY OF TURKMENISTAN IN CONTEMPORARY PERIOD: KEY MACROECONOMIC INDICATORS

National and state programs are being implemented to promote the development of Turkmenistan's economy, which encompasses various sectors including electric power, chemical and petrochemical industries, oil and gas production, oil refining, machine building, metal processing, building materials, as well as light and food production enterprises. Since gaining independence, Turkmenistan's GDP has heavily relied on extractive industries, particularly oil and gas.

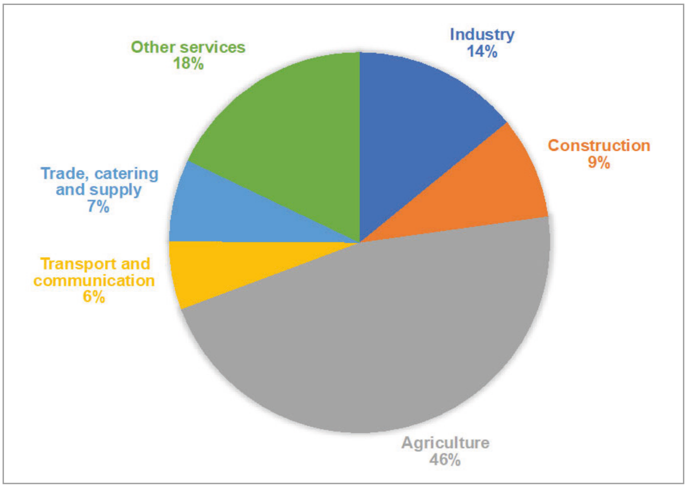
According to the IMF, Turkmenistan's GDP reached its highest point in 2014, reaching 55.5 billion US dollars. During that year, the oil and gas sector contributed nearly half of the country's GDP (Figure 2), despite employing only 14% of the workforce (Figure 3).

Figure 2. Contribution of Various Sectors to Turkmenistan's GDP (2014)



By comparison, in 2014, the agricultural sector employed 46% of the labor force, while agriculture contributed only 9% to GDP (Figure 3). From this, it can be concluded that the production sector in Turkmenistan is capital-intensive, requires large investments, and agriculture is labor-intensive and is carried out in a more extensive form.

Figure 3. Percentage of Total Employed by Sector in Turkmenistan (2012)

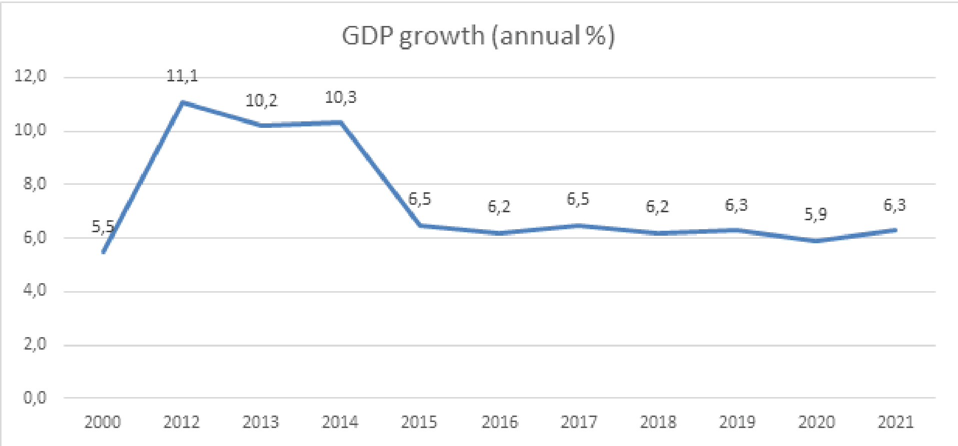


Due to the global economic shocks triggered by the steep decline in oil prices in 2014, Turkmenistan experienced a decrease in GDP growth from 10.3% in 2014 to 7% in 2015. The contraction continued in 2016, resulting in a 24.9% decrease in GDP to $41.7 billion compared to 2014. This decline was primarily attributed to the reduction in natural gas and oil production as well as budget investments. Furthermore, the drop in natural gas prices and the suspension of gas exports to Russia and Iran contributed significantly to this substantial decrease.

From 2015 to 2019, Turkmenistan's gross domestic product witnessed an average annual growth rate of 6%, driven mainly by public investments and gas exports (Graph 1). However, the global outbreak of the COVID-19 pandemic in 2020 caused setbacks in the worldwide economy. Amidst these economic challenges and the decline in global demand for energy resources, the prices of major energy products plummeted sharply. When measured in US dollars at the official exchange rate, the gross domestic product in 2020 was approximately on par with the pre-crisis level of 2014. However, when considering real exchange rates, the GDP amounted to only one-fifth of its previous level. The nominal GDP per capita averaged $7,500 (based on the official exchange rate) in both 2018 and 2019.

In 2021, the economic contraction gave way to a period of growth, with GDP reaching $63.4 billion. This expansion was primarily driven by a significant increase in natural gas prices, which soared to record highs comparable to those observed in 2014.

Figure 4. GDP Growth Rate 2000-2021



Source: *WorldBank database*

In 2021, the economy of Turkmenistan grew by 4.5 percent as a result of the increase in the demand for oil and gas in the world market, the increase in the world prices of those resources, as well as the increase in the production of wheat, which is the main agricultural product. According to the forecasts of the International Monetary Fund, in 2022 and 2023, the economy of Turkmenistan will grow by 1.7 percent, and in the private sector and the service sector, this growth is expected to be 5 percent.

The growth rate of Turkmenistan's gross domestic product is expected to exceed 8% in 2024-2025. This was said by the Minister of Economy and Finance of Turkmenistan, Muhammetgeldi Serdarov, during his speech at the international forum on the attraction of foreign investments in the oil and gas sector of Turkmenistan.

MAIN CHARACTERISTICS OF THE ECONOMY OF TURKMENISTAN

Despite some increase in the private sector's share in certain segments of the economy, the public sector and state's role continue to dominate both the economy and the formal labor market in Turkmenistan. Foreign direct investment primarily focuses on the hydrocarbon sector. To achieve the country's medium and long-term development goals, it is crucial to promote economic openness, enhance the regulatory environment for businesses, expedite the corporatization and privatization of state-owned enterprises, invest more in human capital, and foster the development of the private sector.

Turkmenistan operates under a centrally planned and managed economic system, where the state maintains control over key sectors such as oil and gas, electricity, cotton production and processing, telecommunications, and most manufacturing industries. The state has established control for cotton and grain, regulating their buying and selling prices below the global market level. Foreign direct investment in industries such as textiles, food, and electronics remains low, except for the oil and gas sector, where production sharing agreements are prevalent, particularly in capital-intensive and technology-intensive offshore operations.

The "Galkinish" project stands as one of the most ambitious investment initiatives aimed at expanding the industry's resource base. It represents the world's largest gas field with reserves of approximately 27 trillion cubic meters, surpassing the "Yashlar" and "Garakyol" fields.

Antimonopoly legislation in Turkmenistan is relatively underdeveloped. The Law of August 15, 2009, "On State Support to Small and Medium Enterprises", along with its subsequent amendments from May 1, 2016, includes provisions prohibiting anti-competitive pricing, market sharing, and imposing limitations on market access.

Turkmenistan currently has five preferential trade agreements in effect. While the average tariff rate on trade stands at 2.9 percent, non-tariff barriers, compounded by state involvement in various sectors, impede trade flows, slowing down the process.

SOCIAL AND ECONOMIC DEVELOPMENT

Turkmenistan is among the upper middle income countries. The government has implemented a broad socio-economic reform program with the aim of raising the standard of living of the population to the level of developed countries. Despite these achievements, the country's human potential is still not fully utilized.

About half of the country's workforce is employed in the agricultural sector, but it accounts for only 8 percent of GDP. At the same time, the nature of the country is very fragile, which in turn requires extremely limited drinking water resources and a high sensitivity to climate change.

Turkmenistan is currently ranked 111th in the world according to the UN Human Development Index. Despite significant progress in addressing the needs of women, youth, persons with disabilities, children, and other vulnerable groups, stark differences in rural-urban living standards, and wide disparities by region, wealth quintile, gender, disability, ethnicity, and vulnerability to natural disasters persist. The impact of economic progress has been felt differently in various parts of the country, and ensuring inclusiveness requires both greater socio-economic focus and additional government efforts.

The government provides a wide range of goods and services to the public for free or at minimal cost. Since 2010, the number of beneficiaries of cash transfers (benefits) has increased significantly to 40-50 percent.

Poverty levels and opportunities for participation in society During the Bertelsmann Transformation Index 2022 reporting period, the standard of living has deteriorated significantly due to the sharply strained socioeconomic situation, including during the COVID-19 pandemic. According to the statistics of Turkmenistan, people facing relative poverty (less than 50% of the average income) made up 7.2% of the population in 2018.

Hydrocarbons, which constitute over 90 percent of Turkmenistan's exports, generate disproportionately fewer jobs compared to the volume of exports. Conversely, although agriculture contributes only 8 percent to GDP, it provides employment for nearly half of the population. While official unemployment rates are reported to be low, there is evidence of a shortage of skilled workers in both developing and existing economic sectors. It is crucial for the country's economic development to create more inclusive and high-quality employment opportunities for the unemployed and underemployed. Traditional sectors that have contributed to economic growth, such as agriculture and certain industries (chemicals, textiles), are considered underperforming in terms of job creation.

Overall, the implementation of Turkmenistan's socio-economic development strategy, particularly in the oil and gas industry, will significantly enhance the country's economic strength. The economy's high level of investment activity has led to rapid growth in the construction sector. In addition to large-scale state construction projects aimed at industrial, recreational, and cultural development, such as the Avaza National Tourism Zone, residential construction projects are also underway in the country.

The construction and modernization of various facilities, including educational institutions, healthcare centers, cultural institutions, residential buildings, and infrastructure, are planned across all regions of the country as part of relevant programs from 2019 to 2025. The 19th international exhibition "My White City Ashgabat," held on May 25, 2020, showcased Turkmenistan's achievements in urban planning, architecture, and urban infrastructure development, while also presenting opportunities for future cooperation.

According to Turkmenistan's Socio-Economic Development Program for 2019-2025, the construction sector's share in the total GDP is projected to increase to 11.5 percent within seven years. Investments in fixed capital are estimated at 229.3 billion TMT. During this period, the commissioning of 289 facilities is planned, including 36 after reconstruction and modernization.

Furthermore, within the framework of the National Rural Program, Turkmenistan aims to build 13 hospitals, 20 health centers, 163 preschools, 201 secondary schools, 16 cultural centers, 11 water treatment plants, 13 sewage treatment facilities, and residential buildings totaling 1,896,000 square meters. The plan also includes the commissioning of seven facilities within the next seven years.

MONETARY AND FISCAL POLICY

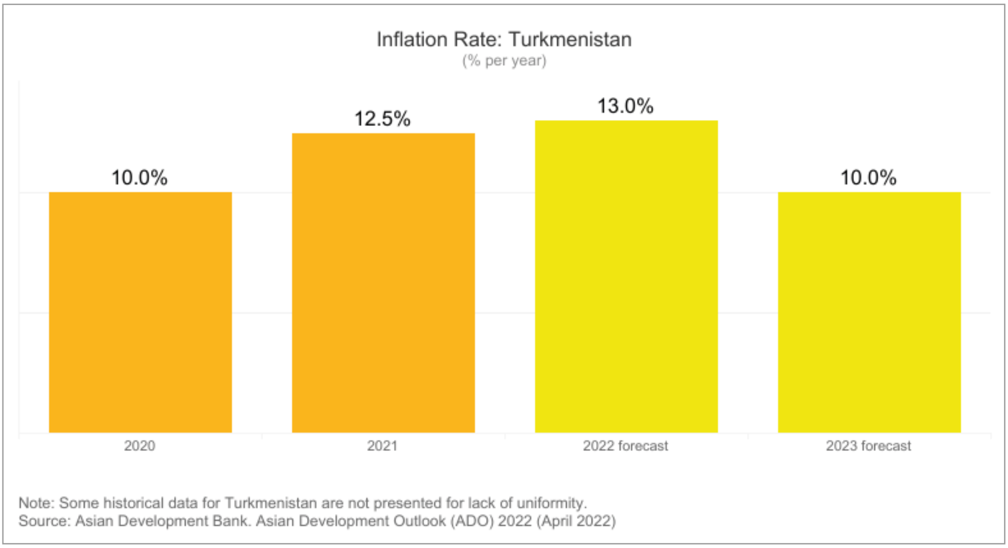
After gaining independence, Turkmenistan embarked on the gradual establishment of independent financial institutions to replace the centralized Soviet system it had relied on. The national currency, the Turkmen manat, was introduced in November 1993 by the Central Bank of Turkmenistan, with an initial exchange rate of two manats to one US dollar and one manat to 500 rubles. The Central Bank follows a fixed exchange rate policy, with the value of the Turkmen manat determined by the state. The country's main currency reserves are held in US dollars to maintain the stability of the national currency.

Turkmenistan's economy heavily relies on natural gas exports, which contribute a significant amount of foreign currency. However, in response to turmoil in the international oil and gas market and the sharp depreciation of the Russian ruble (as Russia is a major trading partner), the Central Bank decided to devalue the Turkmen manat on January 1, 2015. This resulted in an exchange rate of 3.50 manats per US dollar.

While the foreign currency generated from gas exports helped sustain the exchange rate at 3.5 manats per US dollar, the decline in export revenues has put pressure on the country's foreign currency reserves, leading to upward pressure for currency devaluation.

According to government statistics, inflation in Turkmenistan stood at approximately 13% in both 2019 and 2020.

Figure 5. Inflation 2020-2023



Since the official inflation data for Turkmenistan in 2021 is not available, different estimates have been provided by international organizations. The IMF estimated the annual inflation rate in Turkmenistan to be 15% in 2021, while the Asian Development Bank (ADB) estimated it at 12.5% for the same year. The IMF's forecasts for annual inflation in the country are 17.5% for 2022 and 10.5% for 2023.To address the adverse impacts of the global financial crisis, the Turkmen government implemented various measures. Since 2008, they established a Stabilization Fund (SF), transferred fiscal and monetary functions to the State Development Bank of Turkmenistan (SDB) and SF, implemented a simple fiscal rule, and introduced State Programs. The SF and TDIB, together with the government, are responsible for fiscal and monetary policies, including interest rate policies and credit facilities.

During the period of 2014-2015, the public sector in Turkmenistan demonstrated a strong fiscal balance. The government continued to implement an expansionary fiscal policy within the framework of the "2012-2016 Socio-Economic Development Program." In 2014, government expenditures increased by approximately 12%, while revenues grew by 8%. A significant portion of state revenues came from taxes on hydrocarbon exports, which account for about 35% of GDP and around 80% of fiscal revenues.

According to official statistics, significant reductions in state budget expenditures, particularly on state investments and administrative apparatus, resulted in a mostly balanced state budget starting from 2018. The implementation of a restrictive foreign exchange policy led to a decrease in imports, contributing to an official reduction in the previous high current account deficit observed from 2015 to 2017 during the period of 2018-2020.

Turkmenistan reportedly allocated around $10 billion to host the 2017 Asian Indoor Games (AIMAG), which accounted for approximately 21.5% of the national GDP in 2017. Additionally, the government has been undertaking over 2,500 construction projects since 2019, with a total expenditure of more than $37 billion, equivalent to around 14-17% of the GDP each year.

The government of Turkmenistan, in collaboration with the United Nations, has developed an action plan for 2020 and 2021, which includes projects worth about $1 billion. These projects are primarily financed by the Asian Development Bank (ADB), the World Bank, and the European Bank for Reconstruction and Development (EBRD). The allocated funds aim to support disadvantaged population groups ($500 million), modernize and expand supply infrastructure (approximately $200 million), and provide loans and assistance to small and medium enterprises, self-employed individuals, and farmers ($200 million) to finance essential budget expenditures.

The latest strategy for Turkmenistan, known as the Country Design Entry (CEN) 16-17 FY, focuses on enhancing cooperation in areas such as financial sector development and improved macroeconomic statistics. Through non-lending operations, the World Bank Group (WBG) shares relevant international knowledge, experiences, and best practices to support Turkmenistan's development agenda and its efforts to integrate into the global economy.

FOREIGN ECONOMIC RELATIONS AND TRADE

The foreign policy concept of Turkmenistan, as a neutral state, is based on the main provisions of the Constitution of Turkmenistan. It outlines the country's strategy, tactics, documents, criteria, and directions in its relations with other states, international organizations, and other subjects of international relations.

Turkmenistan obtained Permanent Neutrality Status in 1995 with the objective of making a significant contribution to peace by continuously adapting its foreign policy and approach to the prevailing realities. On March 20, 2008, President Gurbanguly Berdimuhamedov signed a decree endorsing the key aspects of Turkmenistan's foreign policy strategy for 2008-2012, which pursues a policy of positive neutrality. President Berdimuhamedov emphasized the importance of expanding cooperation with neighboring countries such as Iran, Uzbekistan, Kazakhstan, Azerbaijan, Afghanistan, and others.

On February 8, 2017, President Gurbanguly Berdimuhamedov announced the "Foreign Policy Concept of Turkmenistan for 2017-2023". This concept encompasses a range of cooperation formats, including collaboration with the UN, addressing environmental issues, engaging in environmental and water diplomacy, ensuring the safe and sustainable transfer of energy resources, developing transport corridors, and transforming Central Asia into a continental transport hub. It also focuses on fostering economic and humanitarian relations with international organizations to promote peace, security, and development. Turkmenistan aims to actively cooperate in regions such as the Caspian Sea, Central Asia, the Caucasus, Africa, the European Union, Latin America, Russia, China, the USA, Ukraine, and the Caucasus while strengthening relations with similar regions.

Turkmenistan is actively expanding its foreign economic relations with other countries. Presently, Turkmenistan has trade relations with over 100 countries worldwide. The 2022 report of the Bertelsmann Transformation Index highlights Turkmenistan's accomplishments in foreign policy, including its participation in the Inland Transport Committee (ITC) of the European Economic Commission in 2021, membership in the UNICEF Board of Directors from 2018 to 2020, and participation in the UNESCO Intergovernmental Committee on Physical Education and Sport from 2018 to 2021.

Among the significant events of 2020, the implementation of the "Development Program of Foreign Economic Activity of Turkmenistan for 2020-2025" stands out. Despite having a relatively closed economy, Turkmenistan is actively working to expand its foreign economic relations with other countries.

Turkmenistan continues to place great importance on expanding cooperation with international institutions such as the International Monetary Fund, World Trade Organization, World Bank, European Bank for Reconstruction and Development, Asian Development Bank, Islamic Development Bank, and others. Turkmenistan has obtained observer status in the World Trade Organization, which will create favorable conditions for the country's trade and economic relations at the regional and international levels.

The vast natural gas and oil reserves of Turkmenistan continue to attract foreign companies to engage in business activities in the country. However, the government of Turkmenistan has yet to implement all the necessary reforms to create an attractive business environment. For example, onshore natural gas production sharing agreements are not permitted. Nonetheless, Turkmenistan has signed a trade and investment framework agreement with the United States and other Central Asian countries, establishing a regional forum to discuss methods of improving the investment climate and expanding trade within Central Asia.

The United States and Turkmenistan have a mutually beneficial trade agreement. The US government maintains that the Soviet-era double taxation convention between the United States and Turkmenistan remains valid and enforceable. In July 2017, the government of Turkmenistan signed a Model 1 Intergovernmental Agreement (IGA) with the United States to enhance international tax compliance and implement the provisions of the Foreign Account Tax Compliance Act.

In 2019, Turkmenistan completed the construction of the section of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline passing through its territory. On August 31, 2020, a signing ceremony for the Memorandum of Understanding on land provision for the Afghanistan segment of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project was held in Kabul.

Furthermore, on September 30, 2020, a significant signing ceremony took place in Kabul, involving agreements on the construction of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline, the Turkmenistan-Afghanistan-Pakistan electricity and fiber-optic communication line (TAP), and the construction of railways between Turkmenistan and Afghanistan. These practical steps have contributed to a steady increase in foreign investments and the number of joint ventures in the economy of Turkmenistan year by year.

December 2020 marked the 11th anniversary of the commissioning of the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline, the world's largest energy pipeline.

Turkmenistan has several main trading partners, including China, Türkiye, Russia, and the United Arab Emirates. The country's major imports come from Türkiye, Russia, China, and the United Arab Emirates, and consist of machinery and equipment, vehicles, metals, and chemical products. Turkmenistan's primary exports are oil, cotton, and related products, with a significant portion of its natural gas being exported to China.

Turkmenistan has achieved self-sufficiency in basic food products and has developed a diverse range of high-quality products competitive in foreign markets. This has led to domestic food abundance and effective solutions to import substitution problems, strengthening Turkmenistan's export positions.

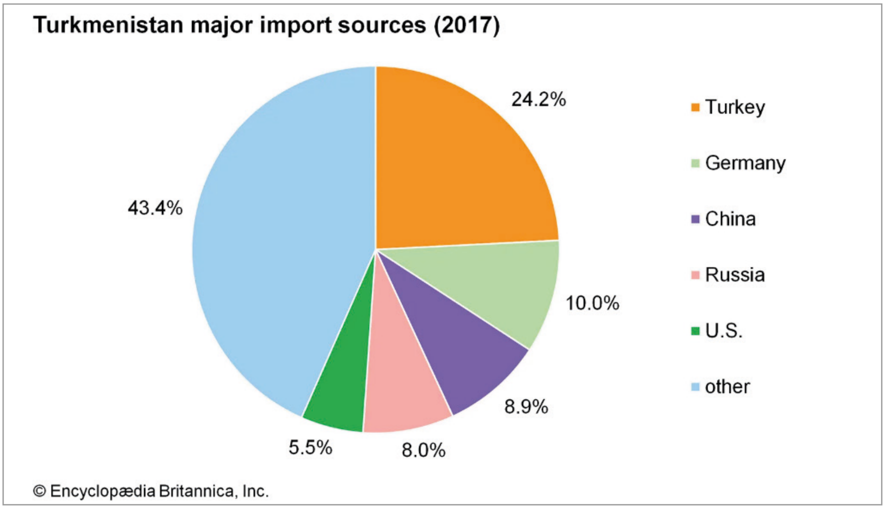
The textile industry in Turkmenistan has experienced significant growth and now includes modern high-tech equipment. Over 60 textile complexes and enterprises equipped with advanced and highly productive machinery have been built and are in operation. Approximately 80 percent of the textile products produced are exported to countries such as the European Union, the USA, Canada, Russia, Türkiye, Hungary, China, the Baltic countries, Ukraine, and others.

In 2020, Turkmenistan gained membership in two important UN bodies: The UN Commission for Social Development for 2021-2025 and the UN Commission for Science and Technology Development for 2021-2024. This recognition demonstrates international support for the government's measures aimed at ensuring the stable development of the national economy.

In terms of exports, hydrocarbons accounted for 86.3 percent of Turkmenistan's total annual exports in 2020, with natural gas representing 76.5 percent of that share. The remaining portion included exports of ships (2.82%), cotton (2.5%), fertilizers (2.5%), plastic (2%), and other commodities. Export volumes experienced a decline from $20.3 billion in 2014 to $8 billion in 2016, primarily due to lower natural gas prices and the suspension of gas exports to Russia and Iran.

In 2021, Turkmenistan's total goods exports amounted to $9.2 billion, with 93.2 percent attributed to the export of natural gas and oil ($8.6 billion). Natural gas, oil, and oil products constitute the majority of the country's export commodities. The Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline, operational since the end of 2009, has reduced Turkmenistan's dependence on gas trade with Russia. To diversify gas exports geographically and across sectors, Turkmenistan is implementing projects such as the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline and expanding the gas chemical industry. However, these projects face occasional medium and long-term obstacles.

Figure 6. Turkmenistan Major Import Sources (2017)



ECONOMIC RELATIONS BETWEEN TURKMENISTAN AND AZERBAIJAN

Diplomatic relations between Azerbaijan and Turkmenistan were established on June 9, 1992. The respective embassies of Azerbaijan in Turkmenistan and Turkmenistan in Azerbaijan began operating on October 18, 2002, and June 8, 1999, respectively. The two countries celebrated the 30th anniversary of their diplomatic relations in 2022.

The relations between Turkmenistan and Azerbaijan have been particularly strong in recent years. Several key initiatives have been undertaken within the framework of these relations, including the expansion of transport corridors such as the Europe-Caucasus-Asia (TRASEKA) Transport Corridor, the Lapis Lazuli (Afghanistan-Turkmenistan-Azerbaijan-Georgia-Türkiye) Transport Corridor, and the Caspian Sea-Black Sea transport corridors. Additionally, the two countries have discussed the planned installation of a fiber-optic cable between Turkmenistan and Azerbaijan along the bottom of the Caspian Sea. Both countries have also considered the construction of a Trans-Caspian gas pipeline, spanning approximately 300 km, to transport Turkmenistan's natural gas to Europe through Azerbaijan, Georgia, and Türkiye. These projects have been discussed at various times by both countries.

In 2017, during the official visit of the President of Turkmenistan to Azerbaijan, the heads of state signed the Declaration on Strategic Partnership between the Republic of Azerbaijan and Turkmenistan. Furthermore, in 2017, Azerbaijan, Turkmenistan, Afghanistan, Georgia, and Türkiye signed the Transport and Transit

Cooperation Agreement, also known as the Lapis Lazuli Route Agreement. The two countries also engage in multilateral cooperation. Azerbaijan, Türkiye, and Turkmenistan hold trilateral meetings at the foreign minister level, and four such meetings have already taken place.

Inter-parliamentary friendship groups between Azerbaijan and Turkmenistan operate in the Milli Majlis (National Assembly) of Azerbaijan and the Majlis of Turkmenistan. Over 100 documents have been signed within the framework of cooperation between Azerbaijan and Turkmenistan, highlighting the extensive nature of their collaboration.

Azerbaijan and Turkmenistan have established cooperation in various fields, including transport, logistics, agriculture, energy, pharmaceuticals, and tourism. The Joint Intergovernmental Commission on economic and humanitarian cooperation between the two countries has been operational since 2008, facilitating collaboration and coordination.

In 2019, a special meeting between the foreign ministers of Azerbaijan, Turkmenistan, Georgia, and Romania took place to discuss the creation of the "Black Sea-Caspian Sea" international transport route. A declaration was adopted during the meeting. Additionally, an agreement was signed in 2019 between Azerbaijan and Turkmenistan for the construction of the Siyazan-Turkmenbashi fiber-optic cable line under the Caspian Sea along the Azerbaijan-Turkmenistan route.

A significant milestone in regional energy cooperation was marked by the signing of a memorandum of understanding between Azerbaijan and Turkmenistan in January 2021. This memorandum pertains to the joint exploration, development, and exploitation of hydrocarbon resources in the "Dostluq" field in the Caspian Sea, opening a new chapter in regional energy cooperation.

On November 28, 2021, a tripartite agreement on mutual gas supply (swap) was signed between Azerbaijan, Iran, and Turkmenistan during the 15th summit of the Economic Cooperation Organization (ECO) in Ashgabat. The agreement, signed in the presence of the presidents of all three countries, enables Turkmenistan to supply 1.5-2 billion cubic meters of gas annually to Azerbaijan through Iran.

Notable events include the meeting between President Ilham Aliyev of Azerbaijan and President Sardar Berdimuhamedov of Turkmenistan in Ashgabat on June 29, 2022. During the meeting, they discussed the Convention on the legal status of the Caspian Sea signed in 2018 and highlighted ongoing cooperation agreements in transportation, shipping, environmental security, and other areas related to the Caspian Sea.

President Ilham Aliyev emphasized the increase in cargo flow between Turkmenistan and Azerbaijan via the Caspian Sea, emphasizing its significance for both countries and neighboring regions. Investments have been made in modern seaports and railway infrastructure in both Turkmenistan and Azerbaijan to facilitate transportation and trade.

Guvanch Aghadjanov, the deputy chairman of the state concern "Turkmengaz," stated that the development of the "Dostluk" (Drujba) field in the Caspian Sea by Turkmenistan and Azerbaijan would enable the export of natural gas to the west. The Memorandum of Understanding signed between the two governments in early 2021 governs the exploration, development, and exploitation of the Friendship field, setting the framework for cooperation in this area.

Table 1. Volume of Trade Turnover, Export and Import between Turkmenistan and Azerbaijan (million USD) 2010-2020

Year	Trade	Export	İmport	EXP%	IMP%
2010	225,85	13,13	212,72	0,11%	1,83%
2011	58,74	12,18	46,56	0,10%	0,40%
2012	93,31	30,86	62,45	0,26%	0,54%
2013	87,81	45,57	42,24	0,39%	0,36%
2014	52,73	12,45	40,28	0,11%	0,35%
2015	53,29	18,51	34,78	0,16%	0,30%
2016	156,92	36,31	120,61	0,31%	1,04%
2017	161,15	103,80	57,36	0,89%	0,49%
2018	128,39	103,16	25,23	0,89%	0,22%
2019	215,57	191,12	24,45	1,64%	0,21%
2020	105,15	84,78	20,37	0,73%	0,17%

ECONOMIC RELATIONS BETWEEN TURKMENISTAN AND TÜRKİYE

After the dissolution of the USSR, Türkiye became the first country to recognize Turkmenistan on October 27, 1991, and opened its embassy in Ashgabat on February 29, 1992. Türkiye has been a strong supporter of Turkmenistan's permanent neutral status.

Since Turkmenistan's independence, nearly 600 Turkish businessmen and Turkish companies registered in Turkmenistan have played a significant role in the country's development. In recent years, Turkmenistan has become a central hub for Turkish contractor companies in Central Asia, with Turkish companies undertaking over 1400 projects in various sectors. Turkish contracting companies have implemented projects worth more than 50 billion US dollars in Turkmenistan, making it a leading country in Central Asia for Turkish contractors. The textile industry is one area where Turkish companies have been particularly active in Turkmenistan.

On November 7, 2014, the presidents of Türkiye and Turkmenistan held a joint press conference in Ashgabat, where President Berdimuhamedov expressed gratitude to Türkiye for its support in the field of transport and highlighted the ongoing development of trade and economic relations. President Berdimuhamedov emphasized the preference for Turkish companies in implementing billion-dollar projects in Turkmenistan. Trade volume between the two countries exceeded $5 billion in September 2014, and there is great potential for further improvement in trade relations. The cooperation in tourism, culture, education, and efforts by TIKA (Turkish Cooperation and Coordination Agency) in the field of history and culture were also praised.

Türkiye holds significant economic influence in Turkmenistan. Türkiye is one of Turkmenistan's main export destinations, along with China and Afghanistan, and is a major source of imports. Turkish foreign direct investment in Ashgabat reached about a fifth of all foreign direct investment by 2013, amounting to approximately $32 billion. Turkmenistan seeks alternative export routes to reduce its reliance on China for gas exports, and Europe has been considered as an alternative. In this regard, Türkiye can serve as a transit center and a potential alternative partner for Turkmenistan.

During President Recep Tayyip Erdogan's visit to Turkmenistan to attend the summit of the Economic Cooperation Organization (ECO) on November 27, 2021, eight agreements were signed between Türkiye and Turkmenistan. These agreements covered various areas of cooperation, including foreign affairs, central banks, public broadcasters, health, medicine, education, and horse riding. The leaders expressed their determination to further strengthen relations, with a focus on increasing the trade volume between the two countries to 5 billion dollars. Discussions were held during the meeting to enhance cooperation in land and air cargo transportation, as well as in the energy sector.

Table 2. Turkmenistan-Türkiye Bilateral Trade (million Dollars) 2010-2020

Year	Trade	Export	Import	EXP%	IMP%
2010	1.572,69	364,47	1.208,21	3,13%	10,37%
2011	1.953,42	370,48	1.582,94	3,18%	13,59%
2012	1.855,18	286,33	1.568,85	2,46%	13,47%
2013	2.917,62	744,36	2.173,26	6,39%	18,66%
2014	3.230,55	720,85	2.509,71	6,19%	21,55%
2015	2.684,68	598,54	2.086,15	5,14%	17,91%
2016	1.933,94	482,67	1.451,28	4,14%	12,46%
2017	1.644,52	459,71	1.184,81	3,95%	10,17%
2018	891,41	358,03	533,39	3,07%	4,58%
2019	1.114,63	325,26	789,37	2,79%	6,78%
2020	1.135,48	301,31	834,17	2,59%	7,16%

ECONOMIC RELATIONS BETWEEN TURKMENISTAN AND UZBEKISTAN

Turkmenistan and Uzbekistan share a common history, culture, values, language, and customs, which have strengthened the bond between the two nations. The embassy of Turkmenistan in Tashkent was established in 1996, while the embassy of Uzbekistan in Ashgabat was opened in 1995.

In 2022, Uzbekistan and Turkmenistan celebrated the 29th anniversary of the establishment of diplomatic relations. Uzbekistan exports a range of products and services to Turkmenistan, including agricultural machinery, fresh and processed fruits and vegetables, mineral fertilizers, construction materials, chemicals, finished textile products, and various services. Turkmenistan, on the other hand, imports oil and oil products, mechanical equipment, propylene polymers, and other chemical products from Uzbekistan. Despite the challenges posed by the global pandemic, the trade turnover between the two countries reached 527 million US dollars in 2020, which is nearly three times higher than the figure recorded in 2017 (177 million US dollars). According to the State Statistics Committee of Uzbekistan for 2020, Turkmenistan is among the top ten countries in terms of volume and growth of Uzbekistan's exports of goods and services, particularly in areas such as agricultural machinery, fresh and processed fruits and vegetables, mineral fertilizers, construction materials, chemicals, and finished textile products.

The Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline, with an annual capacity of up to 55 billion cubic meters, serves as the main energy route in the region, connecting the two countries. In addition, both countries are involved in the implementation of the Uzbekistan-Turkmenistan-Iran-Oman transit corridor project. The transport sector is also a priority area of cooperation, as the integrated road and railway networks of both countries facilitate transit functions for third countries. This is exemplified by the "Turkmenabad-Farab" road and railway bridges that cross the Amudarya River.

The shared history, culture, and traditions between the Uzbek and Turkmen peoples provide a solid foundation for cultural and humanitarian cooperation. The Turkmen diaspora in Uzbekistan consists of 192,000 citizens, and there are 44 schools in Uzbekistan that offer education in the Turkmen language. The Ministry of Public Education in Uzbekistan publishes textbooks in the Turkmen language for these schools. Furthermore, specialists in Turkmen philology are trained at Karakalpak State University, and Turkmen language teachers receive training at Nukus State Pedagogical Institute named after Ajiniyaz. These efforts contribute to the preservation and promotion of Turkmen language and culture within Uzbekistan.

Table 3. Trade Turnover, Export and Import Volumes between Turkmenistan and Uzbekistan (million USD) 2016-2020

Year	Trade	Export	Import	EXP%	IMP%
2016	179,19	120,01	59,18	1,03%	0,51%
2017	155,82	99,46	56,37	0,85%	0,48%
2018	263,42	225,73	37,69	1,94%	0,32%
2019	427,45	369,98	57,47	3,18%	0,49%
2020	452,22	373,51	78,71	3,21%	0,68%

ECONOMIC RELATIONS BETWEEN TURKMENISTAN AND KYRGYZSTAN

Turkmenistan and Kyrgyzstan maintain dynamic and strategic relations, encompassing various spheres of cooperation such as trade and economy, education, culture, and sports. Regular communication and established relations between the Ministries of Foreign Affairs of both countries serve to enhance their political and diplomatic interactions.

In 2014, the Intergovernmental Commission on trade, economic, scientific-technical, and humanitarian cooperation between Kyrgyzstan and Turkmenistan was established. Subsequent meetings of the Kyrgyz-Turkmenistan Intergovernmental Commission were held in 2015 and 2018, during which the parties identified key sectors of cooperation, including fuel and energy, transport and communication, agriculture, trade, and entrepreneurship.

A joint business forum between Kyrgyzstan and Turkmenistan was held in 2015, which saw the participation of more than 100 local entrepreneurs and representatives from various industries. Within the framework of the forum, 12 protocols of intent were signed during bilateral negotiations.

In 2021, the trade turnover between Kyrgyzstan and Turkmenistan exceeded 28 million US dollars, marking a significant increase compared to the previous year. The main export products from Kyrgyzstan to Turkmenistan include electrical goods, chemical products, agricultural products, and food products. On the other hand, imports from Turkmenistan to Kyrgyzstan consist of electricity, automobile gasoline and aviation kerosene, construction materials, textiles, and agricultural products.

In the first half of 2022, trade cooperation between Kyrgyzstan and Turkmenistan continued to progress positively, with the trade turnover reaching 37.4 million US dollars from January to April, according to the National Statistics Committee of the Kyrgyz Republic.

During the Turkmen-Kyrgyz Economic Forum, which took place during the visit of the President of Kyrgyzstan to Turkmenistan, representatives from the business sectors of both countries signed approximately 20 agreements for the supply of various products, further promoting economic collaboration.

Table 4. Volume of Trade, Export and Import between Turkmenistan and Kyrgyzstan (million USD) 2010-2020

Year	Trade	Export	Import	EXP%	IMP%
2010	6,65	2,11	4,55	0,02%	0,04%
2011	5,59	1,12	4,47	0,01%	0,04%
2012	6,08	1,06	5,02	0,01%	0,04%
2013	10,43	2,40	8,03	0,02%	0,07%
2014	7,21	1,71	5,50	0,01%	0,05%
2015	6,94	1,59	5,35	0,01%	0,05%
2016	10,21	1,88	8,32	0,02%	0,07%
2017	10,36	3,67	6,69	0,03%	0,06%
2018	10,15	4,11	6,04	0,04%	0,05%
2019	5,62	0,44	5,19	0,00%	0,04%
2020	4,70	1,32	3,38	0,01%	0,03%

ECONOMIC RELATIONS BETWEEN TURKMENISTAN AND KAZAKHSTAN

Diplomatic relations between Kazakhstan and Turkmenistan were established on October 5, 1992, and both countries have consulates in each other's territory to facilitate diplomatic activities.

The bilateral relations between Kazakhstan and Turkmenistan are supported by a comprehensive legal framework consisting of over 50 documents. Key agreements include the "Agreement on Friendly Relations and Cooperation" (May 19, 1993), the "Declaration on Future Cooperation" (February 27, 1997), and the "Strategic Partnership Agreement" (April 18, 2017).

High-level interactions between the two countries have taken place over the years. For instance, President G. Berdimuhamedov of Turkmenistan participated in various events in Kazakhstan, including the 10th anniversary celebration of Astana in 2008, the IFAS Summit in Almaty in 2009, and the OSCE Summit in 2010. In December 2009, President N.A. Nazarbayev of Kazakhstan visited Turkmenistan, where he joined other heads of state to inaugurate the "Turkmenistan-Uzbekistan-Kazakhstan-China" gas pipeline, facilitating the transportation of natural gas to China. In May 2013, President G. Berdimuhamedov of Turkmenistan paid a state visit to Kazakhstan, during which the Kazakhstan-Turkmenistan section of the "Kazakhstan-Turkmenistan-Iran" railway was opened, aiming to boost cargo transportation in the region.

In April 2017, President G. Berdimuhamedov of Turkmenistan made a state visit to Kazakhstan, resulting in the signing of ten documents, including the Agreement on strategic partnership, the Agreement on the demarcation of the Kazakhstan-Turkmenistan state border, and an intergovernmental agreement on the Intergovernmental Commission. During this visit, President Berdimuhamedov was awarded the "Dostluq (Dostık)" order of the first class.

Trade relations between the two countries have also seen positive developments. In 2019, the trade turnover exceeded 145.9 million dollars, with Kazakhstan exporting wheat, flour, chemical fertilizers, and metallurgical products to Turkmenistan, while importing textiles, mineral, and chemical products from Turkmenistan.

Cooperation in the fields of transport, communication, and space is progressing dynamically. The Kazakhstan-Turkmenistan-Iran railway is a notable example of successful collaboration in the transport sector. Furthermore, considering Turkmenistan's plans to develop satellites and Kazakhstan's expertise in the space sector, there is potential for cooperation in space-related endeavors between the two countries.

Table 5. Trade Turnover, Export and Import Volumes between Turkmenistan and Kazakhstan (million US Dollars) 2010-2020

Year	Trade	Export	Import	EXP%	IMP%
2010	105,82	9,02	96,80	0,08%	0,83%
2011	186,12	62,90	123,23	0,54%	1,06%
2012	344,39	168,85	175,54	1,45%	1,51%
2013	391,24	205,32	185,91	1,76%	1,60%
2014	489,63	114,46	375,18	0,98%	3,22%
2015	181,52	60,10	121,42	0,52%	1,04%
2016	275,51	202,26	73,25	1,74%	0,63%
2017	100,09	41,66	58,42	0,36%	0,50%
2018	104,02	12,17	91,85	0,10%	0,79%
2019	151,21	28,08	123,13	0,24%	1,06%
2020	129,27	48,02	81,24	0,41%	0,70%

Turkmenistan and the Organization of Turkic States

While Turkmenistan is an observer of the Organization of Turkic States, it actively participates in events aimed at promoting cultural and humanitarian relations among Turkic-speaking countries.

In 2019, the Turkic Chamber of Commerce and Industry (TTSP) was established to foster economic cooperation among Turkic States. The Turkish Trade

Minister, Ruhsar Pekcan, has encouraged Turkmenistan and Uzbekistan to join TTSP, envisioning increased economic collaboration. It is estimated that with the accession of Turkmenistan and Uzbekistan, the volume of trade turnover between TTSP member countries could rise from 6.5 billion US dollars in 2018 to approximately 9 billion dollars.

The eighth Summit meeting of the Organization of Turkic States, held in Istanbul on November 12, 2021, addressed the topic of granting observer status to Turkmenistan. This decision aimed to strengthen the collective potential of the Turkic World and promote multifaceted interactions within the organization. Former President Gurbanguly Berdimuhamedov highlighted the importance of enhancing economic and trade relations, particularly in the fields of transport and energy, within the Organization. He also expressed the need to expand cooperation with other international and regional structures, such as the United Nations (UN), the Organization of Islamic Cooperation (OIC), and the Economic Cooperation Organization (ECO). President Berdimuhamedov proposed initiatives like the Caspian Sea-Türkiye-Europe electric grid system project to intensify cooperation and the establishment of transport and logistics corridors for reviving the Great Silk Road. Furthermore, he advocated for the formulation of a comprehensive strategy for Turkic States in this direction.

CONCLUSION

TURKIC ECONOMIC COOPERATION: SOME CONCLUDING REMARKS AND FUTURE DIRECTIONS

Dr. Erhan Türbedar
Vice-President of the Turkic Academy
eturbedar@gmail.com

FACING THE CHALLENGES OF THE 21ST CENTURY

Interdependence is what governs international relations in today's world. Countries are inevitably tied together by global value chains, investments, trade, transport and energy infrastructure, innovations, people, and much more. Further, resolving issues whose nature and dimension exceed the national borders, such as conflicts, migrations, organized crimes, terrorism, human trafficking, environmental threats, and diseases like the COVID-19 pandemic, requires transnational cross-border cooperation. These are the challenges that no country can handle alone, and this interdependence calls for the corresponding modern approaches in foreign policymaking and the socio-economic programs of countries worldwide.

However, in recent years, multilateral cooperation has not produced effective results at the desired levels. Some countries have tended to ignore their commitments to international organizations and the international norms. In recent years, it is as if history was heading back toward the era of great-power politics, interstate rivalries, and geo-economic competition. Therefore, the architecture of rules-based global economic governance established in the 20th century is at risk. Some believe that changes in the existing world order are inevitable, that transition to a much more multipolar world is happening, and that the world economy is in danger of fragmenting into competing blocs.

Indeed, the World Trade Organization could not prevent the new trade restrictions implemented in recent years. Moreover, making unanimous decisions within many other international organizations has become almost impossible. There is no clear evidence that globalization is being abandoned. Nevertheless, international trade and the multilateral system that supports it are under attack, and their future will depend on states' decisions.

Despite a slowdown in universal multilateral cooperation, new patterns of regional cooperation are proliferating. Almost all countries have joined some regional organizations. In 2021 there were 213 intergovernmental and 7515 nongovernmental regionally oriented membership organizations globally, according to the Union of International Associations. In the same year, Azerbaijan participated in 241 regionally oriented membership organizations, Hungary in 1592, Kazakhstan in 307, Kyrgyzstan in 157, Türkiye in 1339, Turkmenistan in 85, and Uzbekistan 186 regionally oriented membership organizations. A growing literature is centered on the belief that regional organizations are becoming essential actors in world politics. Further, regional organizations may avert bottlenecks in universal multilateral cooperation formats by easier defending common interests with fewer countries and producing faster responses to common challenges that increasingly affect citizens.

The ability of countries to act in partnership will be vital to overcome many existing and upcoming challenges. Currently, the global economy is undergoing significant challenges. The world has been moving backward in the last five years concerning most SDGs of the 2030 Agenda for Sustainable Development. Before the COVID-19 outbreak, the world economy grew slower, and substantial risks arose. Heaviness in the world economy was present due to different risk factors, including the rising threat of protectionism, vulnerabilities in emerging markets, Brexit, and growing geopolitical factors.

In 2020, COVID-19 became the world's most challenging crisis since World War II. The global economy decreased to -2.8% in 2020, far worse than during the 2008-2009 Global Financial Crisis. More than three years after the COVID-19 outbreak and efforts for economic recovery, the world economy remains under pressure from mutually reinforcing shocks and interconnected crises.

The recovery from the economic difficulties resulting from the outbreak of COVID-19 was quickly disrupted by the Russian-Ukrainian War. The domino effect of this war had a global impact, driving up already soaring food and energy prices. Consequently, persistent inflation, aggressive monetary tightening, pressure on supply chains, rapidly shifting macroeconomic conditions, and heightened uncertainties have challenged sustainable growth in many countries.

On the other hand, the world is in the midst of a significant transformation. The trend of rapid technological change known as the Fourth Industrial Revolution has been ongoing for many years. However, the COVID-19 pandemic has brought digital transformation to the point of no return. Digitalization is no longer optional, but it has become an imperative both for governments and national economies. The following two decades will witness unprecedented technological development, affecting almost every aspect of daily life. The world will become further interconnected, and digitalization and artificial intelligence will affect economic activities in all sectors of the economy. Moreover, climate change will intensify risks to human and national security. The future, then, offers myriad opportunities and poses risks for which countries must be prepared.

SIGNIFICANT MILESTONES OF TURKIC COOPERATION

In recent years, the cooperation of the Turkic States under the umbrella of the Organization of Turkic States (OTS), including related (the International Organization of Turkic Culture-TURKSOY and the Parliamentary Assembly of Turkic StatesTURKPA) and affiliated organizations (the Turkic Academy, the Turkic Culture and Heritage Foundation, the Turkic Chamber of Commerce and Industry and the Turkic Investment and Development Fund) has been on the rise in scale and scope. Moreover, Turkic cooperation geographically expanded, and each sovereign Turkic country today benefits from and contributes to the cooperation process. All Turkic States expect to benefit from stronger partnerships, expanded economic opportunities, improved connectivity, and greater stability and security.

Constructive discussions at the highest level on different issues have become an instrument for promoting bilateral and multilateral relations, developing common stances, and reaching consensus on possible solutions. Foreign policy preferences of Turkic States have become more coherent, and their position in the international community has grown stronger.

Turkic cooperation organizations have proven their ability to address various challenges by providing strategic direction, promoting knowledge sharing and mutual learning, supporting reforms related to the global development agenda, and initiating and implementing activities to promote the integration of Turkic States. More importantly, the Istanbul-based OTS Secretariat has proven its worth in coordinating the overall cooperation process of Turkic States and managing the policymaking in response to evolving needs. Further, thanks to numerous technical meetings with representatives of Turkic States in various working groups, networks, and coordination bodies, the agenda of Turkic cooperation is more effectively communicated to national administrations.

One of the turning points of the Turkic cooperation efforts was the 2019 OTS Summit of Heads of State held in Baku. At this summit, the member states decided to shift their relationship from cooperation to gradual sectoral integration. The decisive turning point in Turkic collaboration was the 2021 Istanbul Summit of Heads of State, which adopted the Turkic World Vision-2040 (Vision-2040), paving the way for systematic work on Turkic integration with clearly defined long-term goals. The 2022 Samarkand Summit of Heads of State has further strengthened this positive momentum and adopted the Organization of Turkic States Strategy for 2022-2026 (Strategy 2026), marking a first step for implementing the Vision-2040.

Vision-2040 has set bold goals translating the will and the interests of Turkic States into a unique vision for the future that will largely shape the strategic orientation of Turkic cooperation. The goals of Vision-2040 are strategic, visionary, and in line with the global development agenda, but also authentic and supportive of the history, tradition, identity, resources, and specific development needs of Member States.

The economic component of Vision-2040 brings an ambitious agenda for gradually integrating sector-specific areas among the OTS member states, aiming to deepen economic relations. Key economic goals of Vision-2040 include full trade integration, promoting OTS member states as an investment-friendly destination, facilitating capital flows and mobility of the highly skilled workforce, improving transport and energy connectivity, and supporting the convergence of specific sectoral policies and regulatory frameworks. Supporting the regional innovation ecosystem, the green transformation of industrial sectors, improving human capital, and better integration into global value chains are also among the priorities of Vision-2040. By implementing this document, OTS member states are expected to use the benefits provided by the potential of the fourth revolution and digital economy and better serve and digitally connect their people and businesses.

Strategy 2026 is a policy tool and roadmap that 1) sets the stage for implementing Vision-2040 and 2) aligns Turkic cooperation efforts with the priority areas and long-term goals identified in Vision-2040. For this reason, the strategic intentions and goals contained in Strategy 2026 are the most ambitious since OTS's inception. Therefore, the 2022-2026 time horizon should represent an important milestone in Turkic cooperation.

Strategy 2026 recognizes trade, investment, transport, customs, and energy as essential sectors with significant potential for joint action and improved economic outcomes. Other specific objectives of the Strategy 2026 include promoting a coordinated stance on foreign and security policy issues; creating favorable conditions for employment, agricultural and industrial development, tourism, and digital connectivity; expanding interaction in science, technology, education, culture, health, diaspora, youth, and sports; and promoting cooperation between humanitarian organizations and the media.

Strategy 2026 also attaches the utmost importance to green development, good governance, and environmental protection, which are now global concerns. It also closely aligns with the 2030 Agenda for Sustainable Development, both in terms of the topics covered and the concept of accelerating progress through better collaboration in areas of common interest. In addition, Strategy 2026 enables knowledge sharing and mutual learning through training and capacity-building programs, helping to build human capital and strengthen the capacity of relevant administrations to deliver better policy outcomes.

As a result, the consolidation of relations between Turkic States and the underlying architecture and strategic cooperation documents supporting the deepening of their economic ties are more visible today. Still, adequate institutional and human resource capacity is essential to improve governance at all levels and to achieve more satisfactory collaborative outcomes. Furher, promoting inter-institutional coordination in each Turkic country is essential to support the expressed political will with the practical implementation process.

Effective implementation also requires that the OTS Secretariat play effective coordinating and streamlining role in integrating strategies and work programs of affiliated and related organizations within the context of Strategy 2026 and Vision-2040 to ensure that they work in accordance with agreed regional priorities. A substantive coordination process will enable greater coherence and complementarity, avoid duplication of effort, and contribute to effectively using existing resources and structures.

DEEPENING ECONOMIC RELATIONS

Deepening economic cooperation could be a new beginning for Turkic States and a direct response to the effects of the current economic crisis and the challenges of the 21st century. In the coming period, within the framework of implementing strategic directions and goals of Strategy 2026 and Vision-2040, OTS has to explore new ways of working together, supporting the smart, sustainable, and inclusive economic development of Turkic States and providing a framework for increased growth, jobs, and competitiveness based on the rule of law. In this context, the recently established Turkic Network of Official Economic Policy Research Centers (ERCNET) shall be supported to grow into a robust platform that promotes economic relations, greater economic integration, and long-term growth engines for Turkic economies.

Over the past 30 years, Turkic States have significantly improved their ability to perform better through increased economic activity. The GDP of Turkic States has risen steeply, reflecting their thriving economies. Nevertheless, Turkic States have a heterogeneous structure in terms of economic development. The different levels of economic development can be explained by many factors, including difficulties in transitioning from a centrally planned economy to a liberal economy, geographical constraints, differences in structural and macroeconomic reforms, private sector dynamics, urbanization levels, and the like. The differences in the level of economic development mean that the commitments of some Turkic States may not always be matched by the tools needed to achieve the objectives of Strategy 2026 and Vision-2040, and the lack of appropriate institutional, human, and financial capacities may be an obstacle to more satisfactory results of Turkic economic cooperation.

In 2022, the total GDP in current prices of Turkic economies has reached $1.5 trillion. Turkic economies accounted for 3.1% of global GDP in 2022. Still, the current level of economic relations between Turkic States is far from satisfactory. Calculation based on the official data reported to the IMF shows that the international trade of Turkic States expanded over the 2010-2021 period, reflecting their increasing integration into the global economy. However, the total export of goods among Azerbaijan, Hungary, Kazakhstan, Kyrgyzstan, Turkic Republic of Northern Cyprus, Turkmenistan, Türkiye, and Uzbekistan was $27.9 billion in 2021. That year Turkic economies exported only 6% of their goods to each other and 94% to the rest of the world. Further, service exports between these economies remain symbolic, amounting to only $3 billion in 2021 (Figure 1). Table 1 comparatively shows intra-group merchandise trade levels of different country groups.

Figure 1. Export of Goods and Services between Turkic States (billion $)

Source: *IMF Direction of Trade Statistics for export of goods. OECD Balanced International Trade in Services for export in services.*

Note: *Calculation includes member states (Azerbaijan, Kazakhstan, Kyrgyzstan, Türkiye, and Uzbekistan) and observers (Hungary, Turkmenistan, and the Turkic Republic of Northern Cyprus) of the Organization of Turkic States. TRNC export of goods data from TRNC Ministry of Economy and Energy. Data for TRNC export of services not available.*

Table 1. Intra-group Exports of Goods as a Percentage of Total Exports of Goods to the World *(2021)*

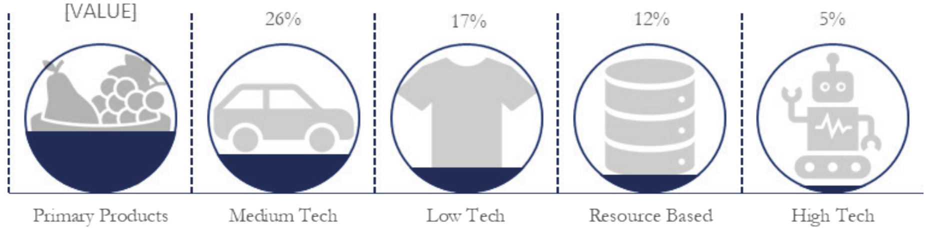
G20 (Group of Twenty)	75,9%
OECD (Organisation for Economic Cooperation and Development)	71,2%
APEC (Asia-Pacific Economic Cooperation)	69,7%
EU (European Union)	59,7%
NAFTA (North American Free Trade Agreement)	49,7%
EAC (East African Community)	21,8%
ASEAN (Association of Southeast Asian Nations)	21,4%
OIC (Organisation of Islamic Cooperation)	20,9%
CIS (Commonwealth of Independent States)	14,6%
African Union	12,7%
GCC (The Cooperation Council for the Arab States of the Gulf)	10,7%
OPEC (Organization of the Petroleum Exporting Countries)	10,4%
OTS (Organization of Turkic States)	6%

Source: *UNCTAD based on UNCOMTRADE.*

Note: *"Intra-group" is defined as the intra-trade of the group, which is the trade between all group members.*

On the import side, most Turkic economies must import high-value-added goods, such as new technologies, required for economic modernization. However, calculations show that only Türkiye and Hungary partially source such technology products (Figure 2). High-technology products are generally supplied from distant advanced economies, explaining the limited intra-group trade among the Turkic States.

Figure 2. Technological Classification of Intra-Group Exports of Turkic States (Regional Level, 2020)

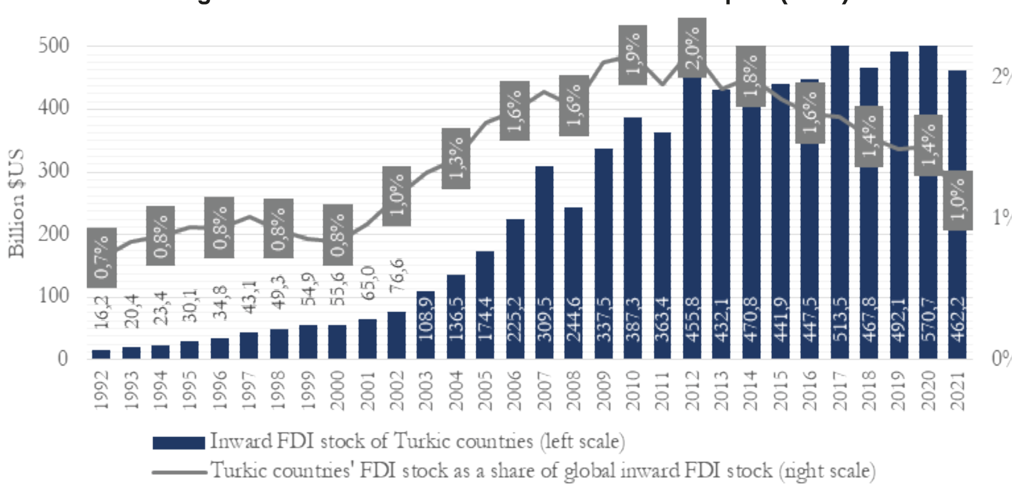


Source: *Uncomtrade statistics*

Note: *Azerbaijan, Hungary, Kazakhstan, Kyrgyzstan, Türkiye and Uzbekistan are included.*

Many Turkic States are integrated with the world economy, mainly through their natural resources. Azerbaijan, for example, is one of the ten most energy export-dependent economies in the world. Hydrocarbons account for about 95% of total exports, energy revenues account for about 70% of the state budget, and the extractive sector accounts for 40% of the GDP of Azerbaijan. In Kyrgyzstan, gold production generally drives overall GDP growth. Outside of gold mining, the industrial sector of Kyrgyzstan is insufficiently developed. The Turkmenistan economy depends largely on gas exports to China, which account for the bulk of government revenues, and to a lesser extent on oil and cotton exports. Resource abundance has greatly benefited these economies. However, poorly diversified resource-driven economies may face significant systemic risks. At the macro level, resource dependence implies high vulnerability to external shocks, especially when government revenues heavily depend on export earnings. More diversified economies tend to be more resilient to external shocks and able to generate sufficient levels of highly productive employment.

Figure 3. Number of Markets and Products in Export (2021)



Source: *WITS based on Uncomtrade*

Note: *This indicator gives the number of partner markets and number of products exported. A market is counted if the exporter ships at least one product to that destination in the given year with a trade value of at least $10,000. A product is counted if it is exported to at least one destination in the selected year with a value of at least $10,000.*

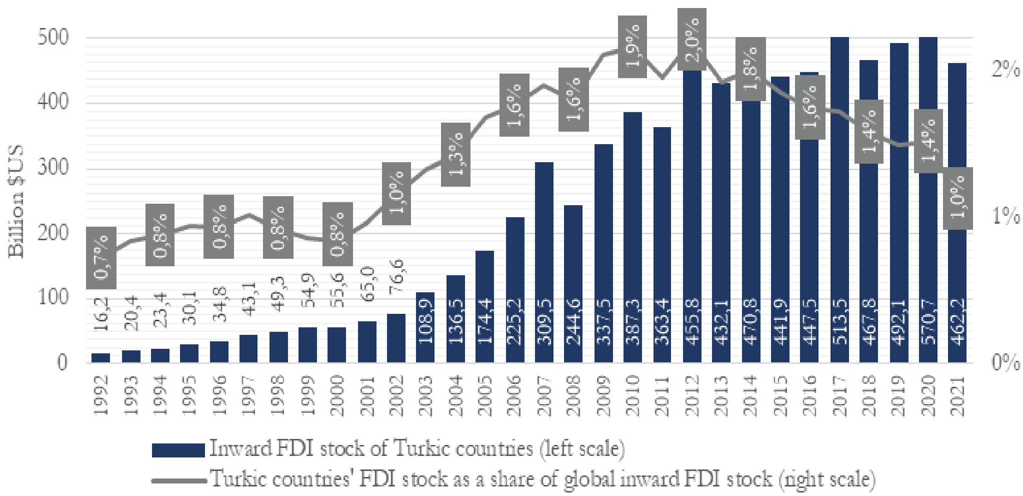
Figure 3 shows that the exports of Azerbaijan, Kyrgyzstan, Turkmenistan, and Uzbekistan are concentrated in a limited number of export markets and a limited number of export products compared to Türkiye and Hungary. According to this indicator, Türkiye was the most integrated in the world economy in 2021, reaching 139 markets and offering 3,553 products. Hungary followed closely behind Türkiye with access to 125 markets and offering 2,935 export products. The number of partner markets and the number of exported products were lowest in the case of Kyrgyzstan and Turkmenistan (Figure 3). This indicator is a call for Azerbaijan, Kyrgyzstan, Turkmenistan, and Uzbekistan to intensify their reforms to diversify their economies. A significant increase in the intra-group exports of the Turkic economies will also depend significantly on the success of the diversification of the economies.

Foreign trade is closely related to foreign direct investment (FDI). Firms gradually expand internationally, often testing foreign markets through exports, and after becoming sufficiently familiar with foreign markets, they decide to engage in FDI. Therefore, it could be argued that discriminatory trade measures imposed on partner countries tend to hinder foreign firms' FDI decisions. Nevertheless, some recent evidence from the literature on international trade suggests that FDI promotes exports from the host economy. In addition, local firms can gain access to new foreign markets through linkages with MNEs through arrangements such as subcontracting.

Governments of Turkic States, in general, accept FDI as a vital long-term source to alleviate domestic capital accumulation constraints and advance national development goals. Consequently, recent years have witnessed increased openness of Turkic economies to FDI. Governments seek to attract FDI by creating a more appropriate climate for investment and providing different incentives and facilities to foreign investors.

The inward FDI stock of Turkic States has significantly increased in the last three decades. It reached almost $570.7 billion in 2020, from $16.2 billion in 1992. The fast growth of FDI stock in Turkic economies is particularly evident after 2000. However, in the last years, the worsening FDI performance has been reflected by decreasing shares of Turkic States in global FDI stock, which reduced from 2% in 2012 to 1% in 2021 (Figure 11).

Figure 4. Foreign Direct Investment Instock of Turkic Economies and Share in World Total (Billion $ and Percent)



Source: *UNCTAD, FDI/MNE database*

Note: *Azerbaijan, Hungary, Kazakhstan, Kyrgyzstan, Turkmenistan, Türkiye and Uzbekistan are included.*

Turkic governments need to strengthen investment incentives by learning from best practices, providing certainty and predictability to investors, and introducing more effective policies, regulations, and investment promotion measures. In this regard, investment promotion agencies must be more flexible to adapt to the rapidly changing global economy and technological innovations. Investment promotion agencies should also become involved in Turkic cooperation structures and play a bridging role in transferring know-how to improve the investment climate.

Figure 5: Intra-OTS Foreign Direct Investment Stock (Billion $)

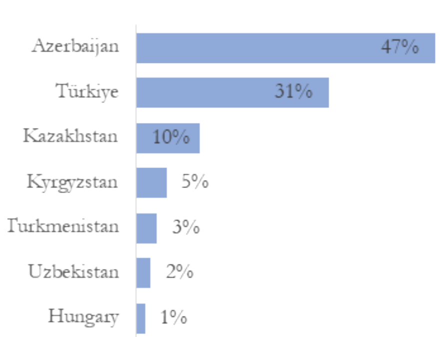
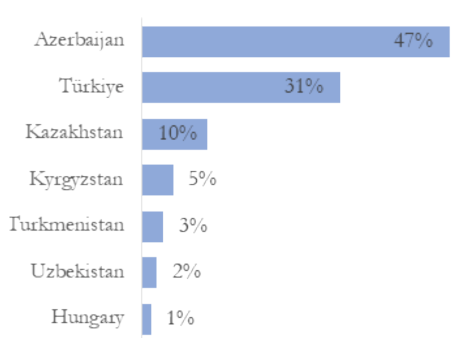


Figure 6: Distribution of intra-OTS FDI Stock by Origin of Recipients (% of total)



Source: *IMF Coordinated Direct Investment Survey*

Note: Azerbaijan, Hungary, Kazakhstan, Kyrgyzstan, Turkmenistan, Türkiye and Uzbekistan are included. The figures are prepared based on reported bilateral inward FDI stock data. Mirror data for Turkmenistan and Uzbekistan for which bilateral inward FDI stock data is not available. Mirror data are data reported by counterpart economies, which is information reported by the partner countries as their outward FDI. For a given economy A with inward investment from economy B, its mirror data would be the outward FDI reported by B in economy A.

Intra-group investment is also an important indicator for assessing the degree of economic integration of a group of countries. The foreign direct investment (FDI) stock between Turkic States amounted to $13.8 billion in 2021, accounting for almost 3% of the total FDI stock of Turkic States (Figure 5). A growing number of bilateral economic agreements and treaties signed between Turkic States, such as the important agreements signed during the Uzbekistan-Kazakhstan Interregional Economic Forum in Tashkent (December 2022), give reason to hope for higher amounts of investment between Turkic States in the coming years. In 2021, FDI between Turkic States was heavily concentrated in Azerbaijan -47% (or $6.6 billion), 31% ($4.2 billion) in Türkiye, and 10% ($1.4 billion) in Kazakhstan (Figure 6).

FUTURE DIRECTIONS FOR TURKIC ECONOMIC COOPERATION

In the last decade, Turkic cooperation has reached a significant milestone with a strong track record. Inspired by historical brotherly ties, common language, culture, and traditions, Turkic States have maintained a climate of cooperation and friendship in recent years and achieved feasible results in many fields in response to their evolving needs.

Today, the consolidation of relations among Turkic States and the underlying architecture of cooperation is more than visible, and governments are increasingly engaged in the search for common interests. Moreover, Turkic States are aware that regional cooperation is one of the ways to address many global challenges that increasingly and more directly affect citizens. As reflected in various resolutions and decisions, the governments of the Turkic States have recognized that they have responsibilities to each other and that they face many common challenges.

Despite such achievements, the Turkic States require a good deal of patient work to face the challenges of the 21st century. The adoption of the Turkic World Vision-2040 is one of those historical moments when countries decide to build a better future through more open, systematic, and focused relations with each other. Vision-2040 offers the long-term context for the development and integration efforts of the Turkic World. This new vision, supported by Strategy 2026 and different sectoral plans, provides an excellent opportunity to ensure continuity in Turkic economic cooperation and advance in achievements.

However, to achieve the goals of Vision-2040, Turkic States must agree on 1) the policies needed at the national and regional levels, 2) the development of a comprehensive set of indicators to measure progress toward the goals, and 3) a governance process for implementing the five-year strategic plans. In this context, additional consultation and/or monitoring mechanisms will need to be established in most priority areas of collaboration to facilitate the tracking, recording, monitoring, and management of an increasing number of activities.

To enhance the potential of Turkic cooperation, the OTS Secretariat should play important coordinating and streamlining role in integrating strategies and work programs of related and affiliated institutions in the context of Vision-2040 and Strategy 2026 to ensure that they work according to the identified priorities. The complementary strengths, synergies, and coordination among Turkic cooperation organizations are essential for effective implementation.

Unfortunately, trade and investment between Turkic States remain at unsatisfactory levels. However, under Vision-2040, Turkic States are expected to build their own economic area by enabling the unimpeded flow of goods, services, capital, and highly skilled labor and by intensifying cooperation in key sectors such as transport, energy, and trade, where interdependence is evident and inevitable.

National administrations are the cornerstone of implementing Vision-2040 and Strategy 2026, as most of the implementation will occur at the national level. Governments shall participate in coordination and monitoring activities actively. They should also establish high-level coordination within the country, which shall be provided by the MFAs.

In order to maintain the momentum of economic integration, Turkic cooperation should be better explained to both national administrations and citizens. In this regard, the OTS Secretariat and related and affiliated organizations must develop closer relations with the mainstream and specialized media in Turkic States to raise the profile and visibility of Turkic cooperation and integration.

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