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## Germany-Azerbaijan Economic Relations and the Role of SMEs

### Abstract

The economic relationship between Germany and Azerbaijan has steadily evolved, with both countries benefiting from a diverse range of sectors. Germany is one of Azerbaijan's major trade partners within the European Union, with the two nations enjoying strong cooperation in areas such as energy, trade, investment, and technology. The bilateral ties are particularly important in the energy sector, with Azerbaijan supplying oil and gas to Germany, while Germany offers advanced technologies and expertise in various industries, including manufacturing, automotive, and green energy.

Small and Medium Enterprises (SMEs) play a crucial role in strengthening these economic ties. In Azerbaijan, SMEs are a significant driver of job creation, innovation, and economic diversification. As the Azerbaijani economy seeks to diversify beyond its oil dependency, SMEs are critical for the development of non-oil sectors, including technology, agriculture, and services. German investments and partnerships are essential in this process, as German SMEs bring in best practices, cutting-edge technologies, and management know-how that help Azerbaijani SMEs scale up and enhance their competitiveness in both local and international markets.

**Keywords:** *economic, trade, small, energy, bilateral, technological, investment*

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## Almaniya-Azərbaycan iqtisadi əlaqələri və KOBİ sahiblərin rolu

### Xülasə

Almaniya və Azərbaycan arasındaki iqtisadi münasibətlər davamlı olaraq inkişaf edir və hər iki ölkə müxtəlif sektorlardan faydalanan. İki ölkə arasında enerji, ticarət, investisiya və texnologiya kimi sahələrdə güclü əməkdaşlıq olduğu üçün Almaniya Azərbaycanın Avropa İttifaqı daxilində əsas ticarət tərəfdaşlarından biridir. İkitərəfli əlaqələr, xüsusilə enerji sektorunda vacibdir, çünki Azərbaycan Almaniyaya neft və qaz tədarük edir, Almaniya isə istehsal, avtomobil və yaşıl enerji də daxil olmaqla müxtəlif sahələrdə qabaqcıl texnologiyalar və təcrübə təklif edir.

Kiçik və Orta Müəssisələr (KOBİ) bu iqtisadi əlaqələrin gücləndirilməsində mühüm rol oynayır. Azərbaycanda KOBİ-lər iş yerlərinin yaradılması, innovasiya və iqtisadi şaxələndirmənin əhəmiyyətli hərəkətverici qüvvəsidir. Azərbaycan iqtisadiyyatı neftdən asılılığından kənara çıxmağa çalışdıqca, KOBİ-lər texnologiya, kənd təsərrüfatı və xidmətlər də daxil olmaqla qeyri-neft sektorlarının inkişafı üçün vacibdir. Alman investisiyaları və tərəfdaşlıqları bu prosesdə vacibdir, çünki alman KOBİ-ləri Azərbaycan KOBİ-lərinin həm yerli, həm də beynəlxalq bazarlarda rəqabət qabiliyyətini artırmasına və genişləndirməsinə kömək edən ən yaxşı təcrübələr, qabaqcıl texnologiyalar və idarəetmə biliklərini götərlər.

**Açar sözlər:** *iqtisadi, ticarət, kiçik, enerji, ikitərəfli, texnoloji, investisiya*

## Introduction

The economic relations between Germany and Azerbaijan have witnessed significant growth over the past few decades, becoming an essential aspect of both nations' economic strategies. As Germany is one of Azerbaijan's key trade partners within the European Union, the two countries share a strong partnership that spans across various sectors, including energy, technology, trade, and investment. This cooperation plays a vital role in fostering Azerbaijan's economic diversification and development.

Among the critical components of Azerbaijan's economic growth are Small and Medium Enterprises (SMEs). SMEs are essential drivers of innovation, job creation, and economic diversification, particularly in Azerbaijan's non-oil sectors, where there is an active push to reduce reliance on the oil and gas industry. In this context, Germany's expertise and investment in SMEs have proven invaluable, bringing advanced technologies, management practices, and international business experience to Azerbaijan's growing economy.

Through various bilateral initiatives and frameworks, such as the Azerbaijan-Germany Chamber of Commerce, the two countries continue to strengthen their economic ties, opening up new opportunities for trade and business partnerships. This paper explores the role of SMEs in the economic relations between Germany and Azerbaijan and examines how these businesses contribute to fostering mutual prosperity and economic stability. By examining the current dynamics and the impact of SME-driven growth, the paper sheds light on the promising future of bilateral economic cooperation.

## Research

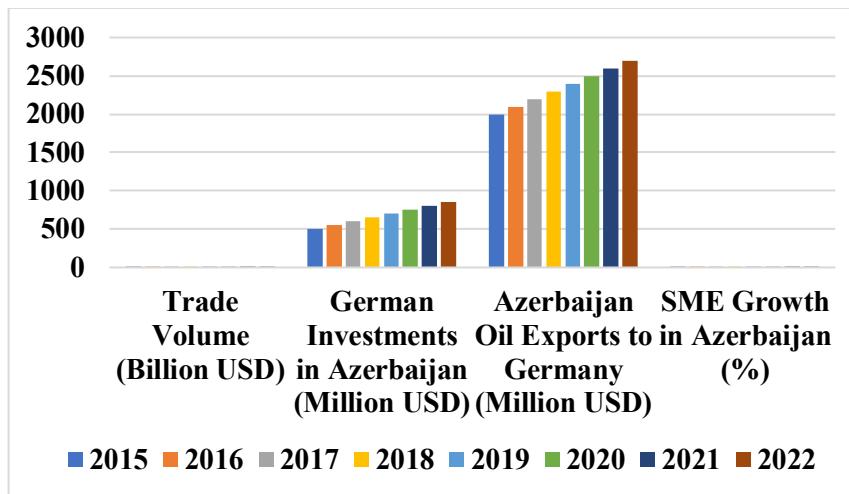
The economic relationship between Germany and Azerbaijan has evolved into a multifaceted and strategic partnership, marked by strong cooperation in energy, trade, investment, and technology. Germany, as one of Azerbaijan's key trade partners within the European Union, plays a significant role in supporting Azerbaijan's economic transformation, especially as the country seeks to diversify away from its traditional oil-dependent economy. One of the most critical sectors in this transformation is the growth and development of Small and Medium Enterprises (SMEs), which have emerged as key players in driving innovation, economic diversification, and job creation (Abasova, Shamkhalova, 2020; azeriobserver.az, 2020; Azerbaijan-News.az, n.d.).

Germany's involvement in Azerbaijan's SME sector has been instrumental in providing both direct investment and technological expertise. Through joint ventures, German companies have introduced advanced manufacturing processes, automation technologies, and management practices that help Azerbaijani SMEs enhance their competitiveness, efficiency, and productivity. The transfer of knowledge from Germany's highly developed SME sector has been crucial for the capacity-building efforts in Azerbaijan, enabling local businesses to integrate more effectively into global value chains (Federal Ministry for Economic Affairs and Energy of Germany, n.d.). The role of trade agreements and bilateral cooperation frameworks, such as the Azerbaijan-Germany Chamber of Commerce, cannot be overstated. These institutions foster a conducive environment for SMEs to engage in cross-border collaborations, share best practices, and access international markets. The exchange of knowledge and expertise through these channels has led to the development of new business opportunities, both within Azerbaijan and in the broader European market (Ministry of Economy of the Republic of Azerbaijan, 2025; Nwobodo, 2024).

Germany and Azerbaijan have a long-standing and growing economic relationship, with bilateral trade reaching around 1.7 billion euros in 2024, making Azerbaijan one of Germany's key economic partners in the South Caucasus. Germany imports Azerbaijani crude oil and exports machinery, vehicles, and industrial equipment to Azerbaijan, showing mutual commercial dependency. Germany ranks among the top trade partners of Azerbaijan, accounting for about 3% of Azerbaijan's overall foreign trade, and trade turnover has steadily increased in recent years. Both countries are actively working to expand cooperation in sectors beyond energy, including logistics, digitalization, and green technologies. German companies see investment opportunities in Azerbaijan's strategic location and emerging markets, while Azerbaijan benefits from German expertise and foreign direct investment.

Institutional frameworks such as the German-Azerbaijani Chamber of Commerce and the High-Level Working Group on Trade and Investment support ongoing economic dialogue and collaboration (Partnering in Business, n.d.; Novita, Lina, 2024).

**Graphic 1.** Germany-Azerbaijan Economic Relations and SME Growth.



Source: *Federal Foreign Office*, 2025.

The graphic 1 illustrates the economic relations between Germany and Azerbaijan from 2015 to 2022, focusing on trade volume, German investments in Azerbaijan, oil exports, and SME growth (AzerNews, 2022; Masters, 2024).

The first axis shows the steady increase in trade volume and German investments, with both indicators showing a positive upward trend over the years, highlighting the growing economic cooperation. On the second axis, SME growth in Azerbaijan is represented, demonstrating a consistent rise, reflecting the importance of small and medium enterprises in diversifying Azerbaijan's economy. The oil export data, which remains much higher compared to other metrics, showcases Azerbaijan's ongoing reliance on energy exports, particularly to Germany (Trend.az, 2025).

## Conclusion

In conclusion, the economic relations between Germany and Azerbaijan have seen significant growth, marked by increased trade, investment, and collaboration across various sectors. Germany has emerged as a key partner, contributing to Azerbaijan's economic diversification, especially through technological innovation and investment in SMEs. Over the years, German investments have helped modernize Azerbaijani industries, particularly in manufacturing and energy sectors, while the steady rise in trade volume reflects the growing strength of this bilateral relationship.

At the same time, SMEs in Azerbaijan have played a crucial role in fostering economic growth and innovation. With the support of German expertise and investment, these enterprises have contributed to the diversification of Azerbaijan's economy beyond its traditional oil and gas sectors. The steady growth in the SME sector highlights the effectiveness of government policies, bilateral cooperation, and international partnerships in driving sustainable economic development.

However, challenges remain, particularly in areas like access to financing and further improving infrastructure. Yet, the overall trajectory of economic cooperation between Germany and Azerbaijan, coupled with the active role of SMEs, provides a strong foundation for continued growth and diversification. This partnership not only benefits both countries economically, but also contributes to the broader goal of fostering regional stability and prosperity.

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