



The Ministry of Education of the Republic of Azerbaijan

Facilitating trade between Azerbaijan and EU: Customs Perspective

Author: Nihad Suleymanov
Supervisor: Anar Suleymanov

UNEC SABA
Azerbaijan State University of Economics



JUNE 2018

Acknowledgement

I would first like to express my sincere gratitude to my thesis advisor Anar Suleymanov. He consistently allowed this paper to be my own work, but steered me in the right the direction whenever he thought I needed it.

I would also like to thank everybody, who were involved in the validation survey for this research project, especially our dean Aida A. Guliyeva. Without their passionate participation and input, the validation survey could not have been successfully conducted.

Table of Contents

Table of Contents

INTRODUCTION.....	4
CHAPTER 1. EVOLUTION OF TRADE THEORIES AND GLOBAL TRADE FACILITATION AGENDA	6
1.1 Theories on international trade.....	6
1.2 Concept of Trade Facilitation	18
1.3 Trade facilitation in WTO and WCO Agenda	28
CHAPTER 2. AZERBAIJAN-EU TRADE: STATE OF PLAY AND PERSPECTIVES FOR FUTURE DEVELOPMENT.....	37
2.1 Policy framework on Azerbaijan-EU trade.....	37
2.2 Trade performance review : Key statistics on trade	46
RESULTS AND CONCLUSION	52
BIBLIOGRAPHY.....	54

INTRODUCTION

Trade was very important for human beings from their first day, in terms of striving to live. It brought wealth to the nations and triggered them to trade goods more efficiently and less costly. Through the years, many theories on trade were developed by economists and professors. This research work gives information about them and continues to focus on trade facilitation – the main purpose of the governments and organizations in today's world, to smooth their trade flow and as a consequence everybody benefit from it.

Trade facilitation is especially important for developing countries, as well as Azerbaijan. Although achieving it can be more difficult for developing countries than it is for developed ones, even a small decrement in cost of trade transactions can leave a positive effect on trade. Azerbaijan have done many things in the purpose of facilitating trade, including reforms, decrees by the President of Azerbaijan and etc.

This research work analyses the trade statistics between Azerbaijan and European Union, and underlines the works that have been done in terms of providing smooth flow of trade between them.

European Union is at the first place among the Azerbaijan's trade partners. EU's proportion in Azerbaijan's exports and imports indicators, underlines how EU is important for Azerbaijan. For a developing country, it is quite normal being in the interest of integrating in a highly developed economy as EU, because especially in the era of globalization, integration with highly developed world would do the trick for economic and social development.

On the other hand, Azerbaijan is also an important country for European Union. Azerbaijan is located in the crossroads of Europe and Asia, in the ancient Silk Road which is the place that a new network of trading and logistics centres are emerging. This makes Azerbaijan a key country while

the international trade transactions happen. Moreover, Azerbaijan has a rapidly developing economy.

Negotiating comprehensive agreements, scheduling meetings in the area of trade between Azerbaijan and EU highlight how topical this theme is.

Missions of this research work are:

- How theories on international trade evolved and what nations must do to benefit from trade
- What is trade facilitation and concept of it in Global Agenda
- The current economic situation in Azerbaijan and the works that have been done to facilitate trade with EU, supported by official statistics and analyses of them.

CHAPTER 1. EVOLUTION OF TRADE THEORIES AND GLOBAL TRADE FACILITATION AGENDA

1.1 Theories on international trade

The main purpose of theory of economy or any other science is to explain the causes of events that are related to this science's subject and reveal reason-result relations between these events. Explaining results of goods and service trading is the main purpose of international trade theories. International trade theories are mainly trying to answer these 3 questions:

- Why countries are getting attracted to foreign trade – What does a country benefit from foreign trade, in comparison to closed economy?
- How can the main point of foreign trade be defined; Which goods a country has to export and import?
- How the ratio between a country's import prices and export prices or foreign trade limits are being formed?

Entities or people trade because they believe that they will benefit from exchange. They may want or need the services or goods. Although it seems very simple, a great deal of business strategy, policy and theory constitute international trade. To better understand how modern worldwide trade has developed, it's critical to understand how countries traded with each other historically.

Over time, in term of explaining mechanisms of global trade, economists developed different theories. The primary historical theories are classical ones and they are from a perspective of country-based, or a country. By the mid-twentieth century, theories started to move to explain trade as of a firm perspective, rather than a country perspective. These theories are called modern and are company-

based or firm-based. Both of these categories, modern and classical, consist of some international theories.

Table 1.

Classical Country-Based Theories	Modern Firm-Based Theories
Mercantilism	Country Similarity
Absolute Advantage	Product Life Cycle
Comparative Advantage	Porter's National Competitive Advantage
Heckscher-Ohlin	

Classical or Country-Based Trade Theories

Mercantilism

One of the earliest endeavors to develop economic theory was mercantilism which was developed in the sixteenth century. According to this theory, amount of a country's gold and other precious metals holdings determine its wealth. Mercantilists said that a country must promote its exports and discourage imports. This will lead an increase in its gold and precious metals property. In other words, if, other countries' people sell less to you (import) than they buy from you (export), then they must pay you more gold and silver. The goal of every country was to avoid a trade deficit - a circumstance when the value of imports is more than the value of exports, and to obtain a trade surplus - a circumstance when the value of exports is much more than the value of imports.

In the 1500s, rulers of new nation-states wanted to reinforce their nations by building national institutions and larger armies. By expanding trade

and exports, these rulers were capable of collect more gold, silver and wealth for their nations. One method that many of these nations encouraged exports was to set restrictions on imports. This is a strategy that called protectionism and still used today.

By using their colonies, countries expanded their wealth in an effort to manage more trade and gather more riches. Britain, the Netherlands, Spain, France, and Portugal were successful in building big colonial empires which created extensive wealth for their nations.

Although mercantilism is an old trade theory, it stays as a part of modern thinking. Countries such as China, Taiwan, Germany, Japan, Singapore still discourage imports and favor exports as a form of neo-mercantilism. This is a combination of restrictions and protectionist policies and domestic-industry subsidies. Nearly all countries imposed a form of protectionist policy for the purpose of protecting key industries in the economy. While export-oriented companies typically support protectionist policies which favor their firms or businesses, other consumers and companies are hurt by protectionism. Restrictions on import, result in higher prices for consumers, that pay more for foreign-made services or goods. Free-trade advocates underline how free trade profits all members of the community, while only select industries benefit from mercantilism's protectionist policies, at the expense of customers and other companies, outside and within of the industry.

Absolute Advantage

Adam Smith questioned the dominant mercantile theory of its time in "The Wealth of Nations", in 1776. Recent versions were edited by economists and scholars. A new trade theory - absolute advantage was offered by Smith. This theory had a focus on the ability of one nation to manufacture a good more effectively than another country. Smith advanced an idea that

trade between nations shouldn't be restricted or regulated by intervention or government policy. He stated that a natural flow of trade must happen according to market forces. Let's talk about workers in Azerbaijan and Georgia and each of these workers produce A commodity and B commodity in a work day as mentioned quantities below:

Table 2.

Commodity that a worker can produce in one day

	C commodity (quantity)	D commodity (quantity)
Country A	60	40
Country B	30	90

If country A can produce C commodity faster and cheaper than country B, then country A has an advantage and must focus on producing that good. Similarly, if country B is better at producing D commodity, it must focus on specialization on that commodity as well. By specialization, countries could create efficiencies, as their labor force could become more skilled labor by doing the same job. Production could also become more effective because there would be a motivation to make better and faster production methods that can result in increasing the specialization.

According to Smith's theory, with increased efficiencies, communities in both countries could benefit and trade ought to be encouraged. Smith's theory said that a nation's wealth must not be judged by the amount of its gold and silver, it must be judged by the living standards of the people.

Comparative Advantage

There's an advantage for some countries in many areas, because, they can be better at manufacturing both commodities. But another country may

not own any useful absolute advantage. An English economist David Ricardo introduced the comparative advantage theory in 1817. Ricardo reasoned that specialization and trade can still take place between two countries, even if Country A has an absolute advantage in producing both products.

Comparative advantage happens when a country is not able to make a product more effectively than the other country, though, it can manufacture that product more efficiently and better than it does other products. There is a subtle difference between these two theories. Absolute advantage focuses on the absolute productivity, while comparative advantage looks at the relative productivity differences.

Table 3.

Goods that can be producde in a work day

	Silk (meter)	Wine (liter)
Country A	90	30
Country B	10	15

As we can see from the example, Country A has a comparative advantage in both goods. Because both silk and wine can be produced in this country with less expenses. According to absolute advantage theory, at this moment, trade must not occur and Country A must produce both of the products. But according to comparative advantage theory, trade relations can still be created and both of the countries can benefit from it.

Although, Country A has a comparative advantage on both goods, the ratios are not same between these goods. Country A has 9 times more advantage on silk and 2 times more advantage on wine. At this moment, Country A has a comparative advantage on silk, therefore, it must focus on specializing on producing silk and import wine from Country B.

Conditions for Country B is quite different, hence, this country has a disadvantage on both goods. So, instead of producing both goods at the same time, focusing on wine (where the ratio is fewer than it is in silk) can be better for this country and as a result, both of the countries can benefit from the trade.

Heckscher-Ohlin Theory (Factor Proportions Theory)

The theories of Ricardo and Smith did not help out countries define which goods would give a state an advantage. Both theories supposed that open and free markets would lead producers and countries to define which products they could make more efficiently. In the beginning of 1900s, Swedish economists Ohlin and Heckscher focused their concentration on how a state could obtain a comparative advantage by producing goods that utilized factors which were in abundance within the country. A country's production factors - labor, capital, and land, that provide the reserves for investment in equipment and plants are the main things this theory is based on. They defined that the price of any resource or factor was a function of demand and supply. Factors which were in high demand relative to supply could be more expensive; factors in high supply relative to demand could be cheaper. Factor proportions theory is also called for their theory. This theory said that countries would create and export goods that required factors or resources that were in high supply and, hence, cheaper production factors. In contrast to this, countries would import products that required resources which were in limited supply, but higher demand.

For example, India and China are home to large, cheap pools of labor. Therefore, these countries have become ideal locations for labor-intensive industries such as garments and textiles.

Leontief Paradox

In the early 1950s, American economist Leontief studied the economy of United States thoroughly and noted that the US was abundant in capital, hence, ought to export capital-intensive products. However, actual data showed the opposite in his research: The US was importing more capital-intensive products. As stated by factor proportions theory, the US must be importing labor-intensive products, but in fact, it was exporting them. Because of the reverse of what was predicted by the factor proportions theory, Leontief's analysis became famous as the Leontief Paradox.

In the following years, economists said that the labor in the US was both more productive and available in steady supply than it was in the other countries; therefore, it was reasonable to export labor-intensive products. Over the decades, a lot of economists used data and theories to give an explanation and minimize the effect of the paradox. However, it is clear that international trade is very complex and is affected by often-changing and numerous factors. It is impossible to explain the trade clearly by a single theory, and our comprehension of international trade theories still continues to evolve.

Modern or Firm-Based Trade Theories

In contrast to country-based, classical trade theories, the firm-based, modern theories appeared after the World War II. Instead of economists, they were developed mostly by business school professors. With the development of the multinational company (MNC), firm-based theories also evolved. The country-based theories didn't sufficiently address the growth of either intra-industry trade or MNCs, which refers to trade that happens between two countries of products produced in same industry. For example, Japan imports Mercedes-Benz vehicles from Germany and exports Toyota automobiles to Germany.

Unlike the country-based, classical theories, the category of firm-based, modern theories incorporates other service and product factors, including customer and brand loyalty, quality, and technology, into understanding of the trade flows.

Country Similarity Theory

Swedish economist Linder introduced the theory of country similarity in 1961, as he focused on to explain the main concept of intra-industry trade. Linder's theory said that consumers would have similar preferences, if the countries they live in, are in the similar or same stage of development. In his theory, Linder said that the companies and producers first produce for the domestic consumption. When they start exporting, the companies frequently find that markets which look like to their domestic market, in terms of buyer preferences, try to offer the most potential to be successful. Linder's theory of country similarity then says that the most trade in manufactured products will be between countries that have similar per capita incomes; intra-industry trade shall be common. Country similarity theory is frequently most useful in comprehension trade in goods where the important factors are product reputations and brand names in the consumers' decision-making and buying process.

Product Life Cycle Theory

Harvard Business School professor, Raymond Vernon developed the theory of product life cycle in the 1960s. The theory was originated in the marketing field and said that a product life cycle is consist of three distinct stages:

1. New product
2. Maturing product

3. Standardized product

The theory supposed that production of the new goods will happen completely in the country of origin of its innovation. This was a very useful theory in the 1960s, to explain the United States' manufacturing success. After World War II, the globally dominant producer was US manufacturing in many industries.

It was also used to explain how the product life cycle of personal computer (PC). In the 1970s, the personal computer was a new product and became a mature product during 1990s. Today, the personal computer is in the third - standardized product stage. The majority of production and manufacturing process is done in Asian countries and Mexico because they are low-cost countries.

According to product life cycle theory, it is kind of difficult to give an explanation of existing trade patterns where manufacturing and innovation appear all over the world. For example, international companies even carry out research and technological development in the developing markets where facilities and highly skilled labor are usually cheaper. Even though research and technological development is normally associated with the new or first product stage and hence completed in the origin of country, these emerging-market or developing countries, such as China and India, offer both new research facilities and highly skilled labor at a considerable cost advantage for international firms.

Global Strategic Rivalry Theory

The theory of global strategic rivalry was based on the economists: Kelvin Lancaster and Paul Krugman's work and developed in the 1980s. This theory focused on multinational companies and their efforts to get a competitive advantage in their industry against other international firms. Firms will face global competition in their industry and they must gain competitive

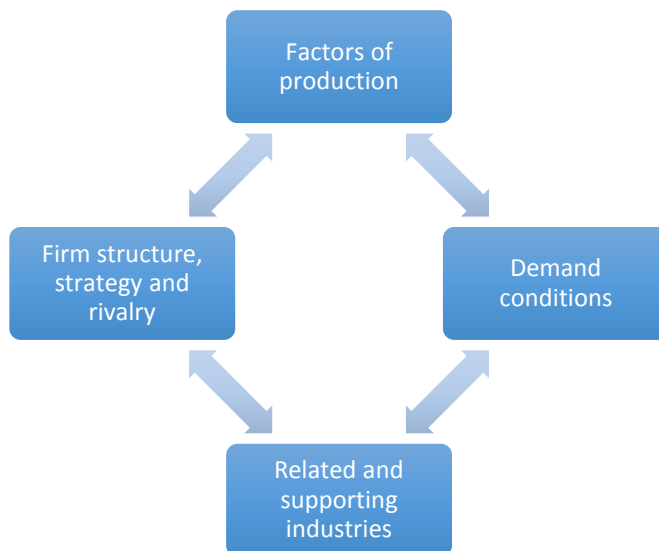
advantages in order to prosper. There are some barriers to entry for the industry. These barriers are obstacles that a new firm may meet when it tries to enter a new market or an industry. The barriers to entry these enterprises may seek to optimize comprise:

- development and research,
- the ownership of intellectual land rights,
- economies of scale,
- unique business methods or processes, also extensive experience in industry,
- convenient access to raw materials or the control of resources.

Porter's National Competitive Advantage Theory

In 1990, a new model was developed by Michael Porter, a Harvard Business School professor to give an explanation of national competitive advantage. According to Porter's theory, the capacity of industry to upgrade and innovate affect a nation's competitiveness in that industry. Giving an explanation of why some nations are more competitive than others in certain industries was the main focus of the theory. Porter identified four determinants which he linked together, to explain his theory. These are the determinants:

- Factors of production
- Demand conditions
- Related and supporting industries
- Firm structure, strategy and rivalry



1. Factors of production

Factors of production include the inputs essential for producing services and goods. There are some factors when you carry out a business. The basic factors include labor and natural resources; while advanced factors are technology, investment in education, infrastructure.

A part of the specialized factors is formed by the skilled personnel. If a country is gifted with these factors of production, then it will be successful in the international market. However, there can be countries that have specialized and advanced factors but lack basic factors.

For example, South Korea is lack of natural resources, however, have specialized engineers. So the countries which lack in natural resources try to develop new processes or methods that result in a national comparative advantage.

2. Demand conditions

Demand conditions refer to the size and nature of the products' customers in the home market. The domestic organizations are persuaded by the high demand conditions in the origin of a country and it make them

continually improve the product. If the demand for a product in the domestic market is more than it is in the foreign market, then it can have an impact on the demand of customers of the foreign market.

3. Related and supporting industries

Related and supporting industries involve leader industries of a particular product in the country. The help in innovation by these industries helps corporations under them to manufacture at low cost. Additionally, one industry's growth influences the other one's growth as well. For example, the development and growth of the automobile industry may enhance the growth opportunities for the steel industry.

4. Firm structure, strategy and rivalry

The structures, strategies, and rivalry are very significant for an organization to be successful. The structure helps in controlling operations, the strategies help in defining new goals, and rivalry helps in creating innovative ideas in organizations.

In addition to these determinants, Porter also said that chance and government play a role in the industries' national competitiveness. Governments can increase the competitiveness of entire industries or firms by their policies and actions.

Porter's theory and other firm-based, modern theories offer an interesting explanation of international trade trends. However, they remain minimally tested and relatively new theories.

Which one of these theories is dominant today?

While trade theories helped businesses, economists, and governments understand international trade better and how to manage, promote, and regulate it, these theories are sometimes contrasted by real-world occasions.

Countries do not have an absolute advantage in many parts of services or production and, actually, production factors are not accurately distributed between countries. There is a disproportional benefit of some factors in some countries. The United States has enough arable land for the usage of great range of agricultural products. The US also has got an extensive access to capital. It's labor force is not the cheapest, but it is one of the best educated ones in the world. These advantages helped the US become the richest and largest economy in the world. However, the US also import a high volume of services and goods, as its consumers use their riches to buy what they want and need – much of which is presently manufactured in foreign countries that have looked for make their own comparative advantages by their cheap land, labor, or production costs.

So, it is not clear that any of these theories is dominant all over the world. Practically companies and governments use a mixture of these theories to develop strategy and interpret trends. Just as all of these theories have evolved through the past 500 years, they will still continue to change as new factors influence international trade.

1.2 Concept of Trade Facilitation

What is trade facilitation?

Trade facilitation includes all steps that can be done to facilitate and smooth the trade flow. This term is used to broadly to cover all kinds of non-tariff barriers, including impediments to labor mobility and product testing, but in the World Trade Organization, it is defined like this:

“the simplification and harmonization of international trade procedures including the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade”.

The Doha Round negotiations on trade facilitation includes freedom of transit, formalities and fees related to transparency and exporting and importing of trade regulations – that essentially about border procedures like transport formalities and port and customs procedures.

In a broad view, trade facilitation has to tackle challenges along the complete value chain because of the economic impact of every process in production-distribution-consumer chain in time and cost of bringing goods and services into the trading system. This detailed definition of trade facilitation states the costs involved from the production of goods and services to the delivery of them to foreign buyers which later comprises all of the transaction costs indirectly and directly pertained to the international trading system. From this view, it can be seen that although the goods movement at and over borders is a significant part of the international trading system, this is not the sole challenge that has an effect on the total cost of delivery along the whole supply chain.

So, trade facilitation measures have to help countries with not only border problems, more than them and be designed in a way to help countries in reducing total trade costs, making them able to compete in both regional and world markets. According to this broader sense, trade facilitation includes all regulatory measures and different reasons of high trade costs affecting the flow of exports and imports, including:

- Physical infrastructure;
- Customs control measures;
- Quality control inspections;
- Logistics and transportation costs;
- Additional market entry barriers;
- Technical regulations.

Trade facilitation's modern view covers many factors that are pertained to measures and traditionally known as non-tariff barriers. These barriers

include customs surcharges, non-automatic licensing, pre-shipment inspections, transfer delays, technical regulations and inadequate infrastructure.

What does it matter?

As a result of progressive reduction of quotas and tariffs, international trade has grown quickly in recent years. If trade increases, it means more goods cross the borders and have to comply with Customs formalities. This has frequently overload national administrations trying to manage raised traffic without any extra resources. Simultaneously, businesses are more informed about costs included in receiving goods across borders, for example waiting time.

Changing business practices also focused on the speed of delivery. “Just-in-time” production is dominant today. In an environment like this, for example, where automobile manufacturers depend on continuous receiving of essential components, firms can not wait for exported or imported goods to be stuck in border for a long time because of over-complicated or needless trade requirements and procedures.

One question is about costs inherent in the trade’s enlarged complexity. International rivalry and globalization stimulate global companies to use a diversity of locations for sourcing of components, manufacture and final commodities. Preferential trade agreements added rapid increase of complex rules of origin to the mix.

In these situations, even methods which used to be satisfactory have to be revised, whereas problems caused by inefficient methods are made worse. Inefficiency in border procedures, either complicated paperwork that is not necessary or shortage of customs officers, is costly, for both businesses and governments – costs that are finally turned over to the customer or taxpayer.

Governments face with smuggling, problems while implementing trade policy and lost revenue as a result of inefficient border procedures. These costs can be, for example, because of failure in collecting correct statistic or in defining the origin of products.

Businesses suffer from direct border-related costs and indirect costs. Direct border-related costs include expenses from supplying documents and information. Indirect costs are the costs caused by lost business opportunities, procedural delays and deficiency of predictability in regulations. These costs can range from 3% to 15% of the traded goods' value, according to the surveys carried out.

Making the country less attractive to investment and leading to poor export competitiveness are also the results of inefficient border procedures. But the actions that were taken to increase efficiency of border procedures already show its results. There is an important rise in Customs revenue of the countries which implemented reforms in this area, in spite of the decrease in duties caused by trade liberalization.

What are the benefits of trade facilitation?

Better customs and border management, competitive and open markets in service and logistics sector, harmonised regional standards and improved infrastructure can lessen trade costs and enhance competitiveness which can improve performance of export and creation of more job and trade opportunities that result in poverty alleviation and increase in economic growth. The benefits of trade facilitation programmes enhance when several areas are upgraded at the same time. For example, infrastructure upgrades along with customs reforms. Economies can get benefit from overall trade facilitation in these ways:

- Increase GDP
- Minimize trade costs for exporters and importers

- Reduce transportation costs
- Upgrade tariff collections
- Increase investment and trade opportunities

Everyone gains from easier, faster and less costly trade:

- Government: Efficient border procedures helps government to process more goods, improve control over exports and imports. All these procedures lead an increase of government revenues.
- Private sector: The competitiveness and efficiency of the private sector can be increased by the improved infrastructure and a decrement in overall trade costs besides the entire value chain. Domestic small and medium enterprises can get opportunities to participate in international trade as a result of the reduction in trade costs.
- Consumers: If trade costs decrease and competitiveness of domestic industries increase, they will have a positive impact in consumers' purchase. Low costs for producers mean lower prices for consumers.

Even little reductions in transaction costs, like lengthy border procedures, make trade increase considerably. That is true for both poor and rich countries, but developing countries gain more from trade facilitation because of the inefficiency in their current systems. The other reason is that the most seriously affected by inefficient procedures are small and medium enterprise and agro food trade, which are the fundamental for these countries' economy. Considering how different types of traders and different sectors of economy are affected from reduction in transaction costs, OECD research indicates that developing countries gain nearly 65% of total world well-being benefits from trade facilitation. But if only OECD countries undertake trade facilitation alone, developing countries would lose.

Table 4.

Scenario results on income effects of one per cent reduction of trade
transaction costs (million USD and per cent of total)

	Country diversity	Country and sector diversity	Country, sector and trader diversity	OECD only
Worldwide income gains	41 844	42 247	43 259	14 053
-due to direct cost reduction	7 689	8 119	8 250	2 650
-due to indirect cost reduction	34 155	34 128	35 009	11 402
OECD	37%	37%	35%	103%
OECD Asia- Pacific	7%	7%	7%	22%
OECD Europe	17%	17%	17%	45%
OECD North America	13%	12%	11%	36%
Non-OECD	63%	63%	65%	-3%
Former Soviet Union	7%	7%	7%	-1%
Middle East and North Africa	11%	11%	11%	0%
Latin America and	13%	13%	13%	-1%

Caribbean				
Non-OECD Asia-Pacific	24%	24%	24%	-1%
Sub-Saharan Africa	7%	7%	7%	0%
Rest of world	1%	1%	1%	0%

(Source: OECD Secretariat)

Trade facilitation also brings reliable and more efficient tax collection, that is very important for developing countries which finance their public administrations by trade taxes. For example, Madagascar, Cote d'Ivoire and Lesotho collect more than 30% of their government revenue from trade taxes. Actually, one of the central incentives to reform is prospect of increased revenue.

What are the costs?

The benefits of trade facilitation are so obvious, but why some of the countries are not willing to obtain it in multilateral negotiations? The one of the reasons is that improving their inefficient customs system, for developing countries, may require many demands on limited resources. The other reason stands beside this willingness is that governments need to finance some reforms before they get any benefit (for example: increased trade and revenue), although early benefits can be used to pursue more reforms.

A specific cause for anxiety is that it is hard to say how much reforms governments need to fund or how effective trade facilitation will cost before they get the benefit.

Governments normally do not start to facilitate trade by itself. Trade facilitation is commonly part of a reform effort and driven by elements like

trade agreement or entrance to regional grouping or the transition into the market economy. Hence, there isn't any exact distribution of financing to trade facilitation by itself, making it more problematic to measure specific costs. However, though in the countries which have the least efficient systems, customs reforms are more complicated, even simple improvements can bring important relative gains.

There are some costs while introducing trade facilitation measures. These costs include:

- institutional changes,
- introducing new regulations,
- training,
- infrastructure, and equipment.

Some trade facilitation measures demand to install new units. These units can be a central enquiry point or a risk management team, which may require extra staff. Institutional costs emerge from them. This also includes costs when because of training requirements, redeployment of existing staff happens.

Trade facilitation measures may demand new amendments or legislation to existing laws, requiring specialized staff in regulatory work and time. Regulatory costs emerge from them. But reforms which don't require legislative changes mainly appear to be handled at operational level, so involve little extra costs.

The most important component of trade facilitation is training, since the entire process is mainly about changing how border agencies do their business. Countries may employ new skilled staff, train existing staff or as exchanges with other agencies and ministries, import trained staff. The costliest option is employing new skilled staff. Most of the countries that undertake reforms choose to train existing employees. This is a long but less

costly process. Because, at the same time, staff have to do their normal duties.

Infrastructure and equipment's role in trade facilitation must not be exaggerated although they are most costly elements. Most infrastructure and equipment must be seen as implementation tools which must be cautiously combined and sequenced with human resource, institutional or regulatory changes. Communication technology and information may help improve effectiveness and efficiency but will only produce trade facilitation if simplification of burdensome red tape happens before the system gets automated. Simultaneously, insufficient infrastructure and equipment make some facilitation measures more difficult to implement. These measures can be risk management or pre-arrival processing.

How is trade facilitation achieved?

Transparency in the procedures and regulations, and non-discrimination, predictability and consistency in their application are required to make trading procedure more easy to navigate. Traders must also have an opportunity to give feedback on whether the system works or has a problem.

Transparency of appropriate domestic regulations, practices and procedures is widely known as necessary for providing that regulatory objectives are attained efficiently while simultaneously increasing the benefits expected from investment and trade liberalization. Businesses need to be able to completely understand the constraints and conditions for getting an entrance and operate in a market. Among the transparency measures, issuing advance rulings, establishing enquiry points or internet publication will involve some training and inception costs but cost savings in some other areas counterbalance them.

The concept of openness is something that governments usually keep official consultative arrangements with the stakeholders. These can be

government agencies, trading community and importers' associations. Countries which were surveyed, declared that this did not required any additional costs since the participation of stakeholders was central to the customs' operation.

Consistency and predictability in the application of rules and procedures is also important. Traders need to know what to expect in their everyday dealings with Customs and other border agencies and how to act if a problem arises. The introduction of appeal procedures in the countries that do not already have them in place will entail some institutional costs and these are usually absorbed in the countries' court systems.

Predictability and consistency in the application of procedures and rules is also vital. Traders have to know what they will meet from dealings with Customs, as well as other border agencies and how they will react in case of a problem occurs. The appeal procedure will involve some costs in the countries which do not have them in place yet. These costs are normally absorbed in the court systems of the countries.

Simplification of border procedures is the main purpose of trade facilitation. One of the methods is to lessen waiting time at the borders. This happens by letting transporters and traders file the documentation for their shipment before it reaches to the border. Automation on Customs side is required for it and doing it online is the most efficient way. However, even a little usage of early filing of documents created significant savings in the number of workers which took a part in processing documents and lessened border crossing times.

Risk assessment is another useful tool. It is a technique to evaluate and control the risk and used when violation happens in border controls by an individual shipment. Risk assessment lets Customs authorities to dedicate minimum attention to low risk shipments and travellers, letting the replacement of Customs resources on intensive controls for shipments and

travellers judged to represent unknown, or a higher risk. Systems like this also get rid of unnecessary burdens on traders by reducing bottlenecks and downscaling physical inspection at border crossings. Requiring investment in specialist training and infrastructure makes it one of the costliest trade facilitation measures. But on the other hand, it also makes important benefits, not just in lessening the number of inspection needed cargoes, also in accelerating the advance documentation processing.

For governments, co-operation issue exists between Customs authorities and the other border agencies, e.g. agriculture, sanitary, or police authorities. Though there is not any formal framework to make sure inspections are executed by different authorities at the same time, in many countries, it happens in practice.

1.3 Trade facilitation in WTO and WCO Agenda

For the first time, trade facilitation was involved in the World Trade Organization (WTO) agenda in 1996, at the Singapore Ministerial Conference. The main motivation for the involvement was to quicken the clearance and movement of goods in international transit and trade. At the end of the conference it was requested from the WTO Council for Trade in Goods (CTG) to do more analytical work to expand the scope of the current WTO rules in the trade facilitation area. Trade facilitation measures also included in the Doha Ministerial Declaration (2001) when the WTO Council for Trade in Goods was requested to take a look again the GATT 1994 Article V, Article VIII and Article X relating to trade facilitation and identify WTO member countries' trade facilitation priorities and needs. The CTG's previous analytical work was expanded to the substantive negotiations modalities presently in Doha Agenda Work Program (2004) – Annex D.

Increasing the capacity of least developed and developing countries to participate in international trade system, simplifying border procedures and reducing physical bottlenecks is the trade facilitation negotiation's purpose under the Doha Round of MTN (Multilateral Trade Negotiations). Two main areas are the main focus of the negotiations. These are the substantive trade facilitation rules (Article V, Article VIII and Article X of GATT 1994) and the incorporation of differential and special treatment provisions. According to Annex D, the purpose of negotiations must be clarifying and upgrading Article V, Article VIII and Article X and increase capacity building and technical assistance in these areas on the basis of needs assessment concluded for all least developed and developing member countries. At the moment, Article V, Article VIII and Article X contain these provisions:

- *Article V – Transit of Goods:* This article describes the meaning of transit, specifies freedom of transit and lets members of WTO control transit traffic within their lands unless the traffic is unnecessarily restricted or delayed. The principle of non-discrimination similarly applies to regulations, formalities and charges concerning with transit traffic in like products carried through the same way under the same circumstances.
- *Article VIII – Export and import fees and formalities:* The article clearly puts limit on charges and fees members can levy on exports and imports to the estimated cost of the services offered. The article recognizes the need to simplify formalities, fees and documentation requirements on exports and imports applicable for licensing, statistics services, inspections and analytics and quarantine, quantitative restrictions, exchange controls, documentation and certification, fumigation and sanitation too.

- Article X – *Administration and publication of trade regulations*: The article mentions the publication requirements for regulations, administrative rulings, laws and judicial decisions applicable to import duties, taxes, the other charges, product valuations, prohibitions and restrictions of exports and imports, agreements and the transfer of payments affecting international trade. All regulations, rulings, laws and decisions must be managed in a uniform manner is also required.

WTO member countries suggested some trade facilitation measures for clarify and improve the mentioned articles:

- Article V: Improved coordination and cooperation among border authorities, publication of requirements for documentation and transit formalities and the simplification of requirements and formalities, coordination and cooperation of requirements for documentation.
- Article VIII: Proper notification and publication of fees, automated methods of payment for fees, prohibition of the gathering of unpublished fees, elimination of pre-shipment inspections and the use of single-window, uniform customs code, international standards.
- Article X: Regular notification of trade regulations, establishment of single national focal points or enquiry points, internet publication of information, allowing for a set time or reasonable period between force of trade regulations entrance and publication.

In terms of differential and special treatment provisions Annex D identify that these provisions have to go out of traditional transitional periods for application of commitments and that timing and extent of entrance into commitments have to be based on the application capacities of each least

developed and developing WTO member country. Least developed and developing countries must only be obliged to be responsible for 5 commitments for their individual development, institutional and administrative capabilities and trade and financial needs, and must not be required to make an investment in infrastructure projects out of their means.

The World Customs Organization is another operative body that is interested in the trade facilitation field within the customs world. Many recommendations and instruments that cover principles of trade facilitation have been drafted by the WCO. Some notable examples are Kyoto Convention that came into force in the year of 1974, and then Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures adopted in the year of 2006 (1999, WCO 2006). The other recent instrument is the Framework of Standards to Secure and Facilitate Global Trade which makes direct reference to the principles of trade facilitation, accepted in the year of 2005 (WCO 2005). The World Customs Organization is also home for the Harmonized Commodity Code Description and Coding Systems (HS). Moreover, in cooperation with the World Trade Organization, the World Customs Organization helps in ensuring consistency in technical interpretation of non-preferential origin rules and valuation rules.

The GATT articles are of direct relevance to the customs world. There are some recommendations from the WCO about trade facilitation to the WTO.

Trade facilitation recommendations for Article V:

- Instead of mandating official regulatory declarations, admit commercial documents (for example: transport and invoice documents)
- Ensuring non-discrimination of goods
- Setting clear and simple procedures for identifying goods
- Obligation to regulatory cooperation
- Usage of international agreements

Recommendations for Article VIII:

- Simplification and standardization of trade and customs documents
- Simplification of managing trade procedures
- Using risk management techniques
- Common data models
- Compliance to international customs conventions
- Regulatory fees shall not exceed expenses
- Confluence of regulatory controls and coordinated intervention
- The concept of Single Window
- Usage of information technology
- Time guidelines (instructions) for border clearance

Recommendations for Article X:

- Active provision of information
- Efficient and fair appeal and tribunal procedures
- Available publication of requirements and procedures
- Procedures for advance and binding rulings
- Usage of memoranda of understanding between traders and regulatory bodies

Trade facilitation and security discussions (Browning 2003, WCO 2007) also identify similar themes where extra security requirements cover usage of new technologies in reporting-IT systems and physical inspections (e.g. scanners), introduction of advance notification, ability to get the information created up and down the Supply chain and more targeted controls. Recommendations on trade facilitation considered by regulators to counterbalance these extra burdens are equally extensive. These are some of the trade facilitation themes in the supply chain security considerations:

Generic themes in trade facilitation and security focused initiatives:

- Expansion of the partnership programs
- Standardization of data requirements
- Replacing the paper documents by the usage of electronic reporting systems
- Using risk management techniques
- Special treatment of individuals and authorized firms
- Mutual recognition and cooperation of controls between governments and agencies

Mercator Programme

In terms of ensuring uniform implementation of the WTO TFA, Mercator Programme was started by the WCO in June 2014, using the WCO tools and instruments as most of the Trade Facilitation Agenda provisions belong to Customs.

The TFA Working Group was established by the World Customs Organization, inviting Member Customs Administrations, international organizations which take a place in border management, academia and other stakeholders, trade ministry delegates and private sector.

The Trade Facilitation Working Group meets two times in a year and more than 200 representatives attend to each session. Each TFA article was examined by this group and in terms of uniform implementation of the TFA provisions new tools were developed, drawing on the current WCO tools, instruments and Members' best practices.

Regional awareness-raising workshops were organized by the World Customs Organization for its 6 regions which include all its Members, inviting Customs organizations, private sector, trade ministries and non-governmental

and governmental international organizations to raise awareness of Trade Facilitation Agreement and the necessity of its implementation through World Customs Organization tools. It also improved partnership with business associations for Business-Customs partnership, also with international organizations: transport sector, phyto-sanitary sector and sanitary sector to ensure base for border agency cooperation. Regional workshops' second round is focused mostly on issues relating to technical implementation.

Diagram 1.

Diagram. Dual-track approach

	Needs assessment	Planning	Delivery	Monitoring
Tailor-made track	TRS	Strategic planning	CB/TA delivery	TRS
	Various diagnostic reports			Performance indicators
	Self-assessment			
	Annual Survey			
Overall track	Regional workshops with other government agencies		National workshops with other government agencies	

The diagram indicates a dual-track approach. Both tailor-made track and overall track provide support. Overall track focuses on the available WCO instruments and tools which is related to implementation of Trade Facilitation Agreement contents. It is planned to cope with wider interests, comprising awareness raising at national, regional and global level, also updating, enhancing and developing existing trade facilitation tools and standards.

Tailor-made track is based on the Members' individual requirements and follows the World Customs Organization Capacity Building method of needs diagnostics/assessment, after that strategic planning and implementation, then monitoring and evaluation. Supporting validating results on needs assessment, action planning, establishing NCTFs, technical help in some specific areas, and etc. are comprised in tailor-made track.

Dublin Resolution

The Ministerial Decision underlines the WCO's role in management and implementation of the TFA. Implementing the TFA completely, will stimulate recovery and economic growth, reduce the poverty and improve revenue collection. Customs' role is very important in trade facilitation and many WTO Members' Customs administrations contributed positively to the World Trade Organization Trade Facilitation negotiations that now resulted in the TFA.

According to the Dublin Resolution (2013), WTO Agreement is fully in accordance with WCO programmes and tools on trade facilitation, comprising the WCO Economic Competitiveness Package, that incorporates, between other things, the Data Model, the Coordinated Border Management

Compendium, the Revised Kyoto Convention, Authorized Economy Operator programmes and the Time Release Study.

Implementing the TFA will reduce red tape, encourage Customs modernization, provide for harmonized, seamless and simplified procedures to let goods to be transferred through the supply chain more rapidly, at lower cost and more easily, and improve social protection and revenue collection. The implementation of the TFA rides on efficient and capable Customs and demands the national Customs authorities' empowerment.

The Policy Commission resolves that the World Customs Organization is/will:

- dedicated to implement the TFA efficiently
- contribute Members in identifying their needs, comprising benefit of donor funding, for the purpose of enhancing capacity building for implementation of the TFA
- base its technical capacity/assistance building on the existing World Customs Organization tools, tools that are under expertise and preparation in Member administrations, and also will comprise the tailor-made assistance in order to meet Members' specific and identified needs
- directly get involved with the World Trade Organization in order the future implementation and governance of the TFA, especially in framework of the World Trade Organization TFC to be found
- together with other international organizations and the business community, further
- enhance the provision of technical assistance/capacity building in an efficient and
- coordinated manner to achieve Customs reforms and modernization, and to support
- implementation of the Trade Facilitation Agreement;

- together with the business community and the other international organizations, extra improve provision of technical capacity/assistance building in a coordinated and efficient manner in the purpose of achieving Customs modernization and reforms, and help to implement the TFA
- further improve its communication activities to rise its and Customs administrations' profile among business and political leaders.

CHAPTER 2. AZERBAIJAN-EU TRADE: STATE OF PLAY AND PERSPECTIVES FOR FUTURE DEVELOPMENT

2.1 Policy framework on Azerbaijan-EU trade

The foreign policy of Azerbaijan

Azerbaijan's geographical location is very important as it is located in the place where the east meets the west, rich in oil, gas and many other natural reserves. This is the place where the world's leading countries' are interested in. That makes Azerbaijan follow the right foreign policy to protect its independence and strengthen it.

When Azerbaijan identifies its foreign policy, it must take into consideration to protect its own national interests, keeping its leading position in the region, also continuing its partnership relations with its neighbour and

other countries that are interested in the region as it is location in very complicated, also strategically important zone.

The main directions of Azerbaijan's successful continuing foreign policy are:

- Recovering Azerbaijan's sovereignty and territorial integrity as soon as possible, provision of security, political independence and eliminating risks against the territorial integrity.
- The development of pluralistic democracy and market economy based upon law.
- Developing the neighbourhood and beneficial relations with neighbour countries.
- Eradication of consequences of Armenia's military harassment against Azerbaijan.
- Strengthening stability and security in the region.
- Developing the different spheres of country's economy by benefit from Azerbaijan's important strategic-geographical location as it is located in the crossroads of the East and the West.
- Integration into European and Transatlantic security and co-operation structures, including the European Union, the Western European Union, the Council of Europe and NATO.

Through the past 10 years, government achieved the considerable progress in the way of these goals. According to analysis conducted these accomplishments relied on many important factors.

It comprises provision of national stability in the country and having long termed nature, achievements gained in economy and as a result if this increasing country's economic power, eradication of the foreign dependence completely and strengthening professional tactic in foreign policy. As a result of implementing successful foreign policy, the fact of Azerbaijan as a leader

country in the region turned out to be reality and, also foundation of energy projects and transport infrastructure were laid which are very significant for both region, as well as Asia and Europe.

The economy of Azerbaijan: Current situation

At the moment, Azerbaijan has many diplomatic representatives and councils abroad, including 72 embassies, 5 missions at the international organizations in other countries. There are also 124 embassies of foreign countries, 22 offices of international organizations and 12 honorary consulates in Azerbaijan.

There are some critical challenges caused from the decline in oil prices, crisis in financial sector and high inflation. In the purpose of improving the environment that private sector can development, the Azerbaijani government tries to solve these challenges by quicken reforms. Strategic Roadmap was launched by the government in December 2016, to develop national economy and its 11 key sectors. Medium-term and long-term goals were set by these strategy documents for sustained development and reforms.

Azerbaijan is trying to get a benefit from its geographical location to boost trade and transit. Hence, one of the sponsors of North–South and East–West transport corridors is Azerbaijan. Baku–Tbilisi–Kars railway project became operational in October 2017, which makes a connection between the Caspian region and Turkey. As an increasing importance of the transport corridor Europe-Caucasus-Asia (TRACECA), this project strengthened Azerbaijan’s position and its role as an important transit country in the region. Trans Adriatic Pipeline (TAP) and The Trans Anatolian Natural Gas Pipeline (TANAP) are planned to export Azerbaijani gas to Europe, beyond Turkey.

With the OPEC agreement the production volumes were decreased, which was resulted in 7.2% reduction in oil GDP. This led economy of

Azerbaijan to decline by 1.3% in the first six months of 2017. But although the distress in banking sector, non-oil economy enlarged by 1.7%, as a result of powerful performance of manufacturing sectors and the agriculture.

In the first 3 months of 2017, current account recorded 4.4% surplus of GDP, caused by contraction in exports and imports. Non-oil exports grew up by 11% amid increasing external demand for products of agriculture. The Azerbaijani manat has accumulated against US dollar by 4.4% since the end of 2016, reflecting its increased liquidity absorption operations and powerful external position.

The economy affected negatively by the problematic financial sector. In the first 6 months of 2017, there was a contraction in credit by 15.6%, and also quality of assets got worsen. According to the official statistics, in June 2017 non performing loan ratio grew up to 13%, in comparison with 9% at the end of 2016. The client deposits (household and corporate) shrank by 4.4% throughout the first 7 months of 2017, though the rise was seen in manat deposits during April, May and June in 2017.

There was an expansionary fiscal policy in the first 6 months of 2017 because of public investment. In spite of this, the fiscal balance that is consolidated (comprising: The Nakhchivan government, Oil Fund's balances and social protection fund) recorded surplus at 0.3 percent of GDP in the first 6 months of 2017, as expanded investment was greater than offset by being higher than income which is expected. In the first 6 months of 2017, non-oil deficit made up 22% of GDP.

SWOT analysis of trade and logistics in Azerbaijan (According to the Strategic Roadmap)

Strengths:

- Implementation of important infrastructure projects like a construction of a new port complex and establishment of new railways with neighbour countries
- Availability of some concession mechanisms according to the legislation

Weaknesses:

- Low potential of qualified personnel in logistics
- Financial deficit; useless equipment
- Installation of the modern business model in enterprises
- The potential load capacity of ships floating in the Caspian Sea is low, the number of windy days is high and the depth of the sea is not too much
- Lack of high labour productivity
- Services of marketing, distribution and sale are at a inadequate level
- Lack of the innovative activities

Opportunities:

- Establishment of free economic zones in the new Baku Port which is located in the Alat in Garadagh district of Baku and logistics hub in H. Aliyev Int. Airport and an opportunity of creation of additional value on transit
- State support on the area of trade and logistics
- Availability of human resources, especially potential young generation
- Rising the volume of trade in the region and around the world
- Availability of infrastructure for business activity and continuing improvement of infrastructure
- Opportunity of ensuring macroeconomic stability in the country

- The opportunity of attracting foreign investors for the support of the planned projects
- The country is geographically located in a favorable location and the potential of being a trade and logistics hub
- Nearness to the major regional markets

Threats:

- Increasing demand of environmental protection
- Stagnation in financial markets
- Delays in the construction of infrastructure projects
- Probability of weakening of the investment activity as a consequence of decline in oil prices
- Stability problem of the currency exchange rate, which is a key factor for foreign investors
- Strong competition in corridor as results of alternative routes like Transsiberian-Kazakhstan which connects Europe with China and Central Asia and the sea transportation, as well as the connection of the railroads of Turkmenistan and Iran

It can be seen from this analysis that there is an enough infrastructure for business activity, and state support at high level and volume of trade is rising at the region. Although there is a lack of qualified personnel in logistics, potential young generation can solve this problem in the future.

Implementation of trade facilitation in Azerbaijan, by statistics

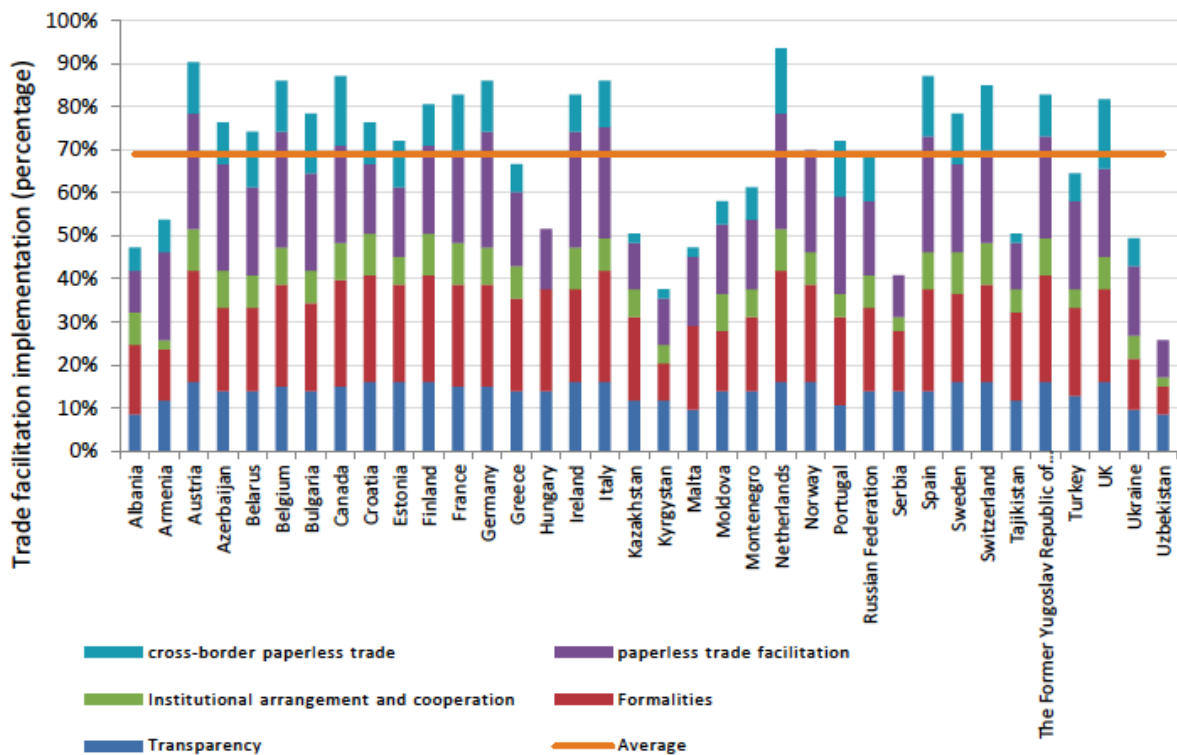
Azerbaijan had a significant positive results in the implementation of trade facilitation in last years.

The chart below illustrates levels of paperless trade and trade facilitation measures by countries. All of the categories' implementation level

is comprised in each country's overall implementation rate and these categories proportionate to the 100 percent – full implementation score of all measures.

Chart 1.

Overall implementation of TF measures in UNECE member countries



(Source: Global Trade Facilitation and Paperless Trade Survey 2017)

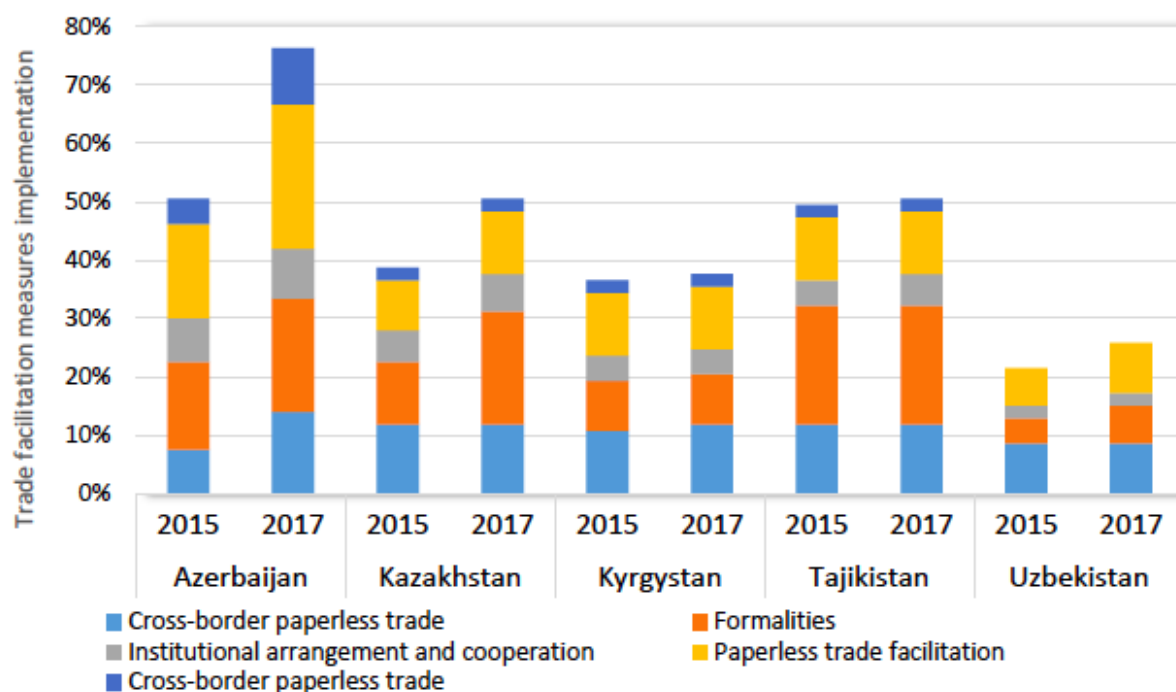
As it can be seen from the chart, Azerbaijan got over the average number by 75.27%, which a very good indicator if taking into consideration that half of the member states are under that average number (70%).

Most of the results of the EU member countries exceed the average number too. Hence, successful implementation of TF in both Azerbaijan and EU member countries can boost trade and make the flow of goods between them more easily and smoothly.

The next chart shows evolution of implementation of TF in Azerbaijan and 4 Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan).

Chart 2.

Evolution in Azerbaijan and Central Asia



(Source: Global Trade Facilitation and Paperless Trade Survey 2017)

Azerbaijan and 4 Central Asian countries showed development in implementation of all five categories of paperless trade and trade facilitation measures. The main portion of progress was formed by the category of Formalities. Overall, Azerbaijan made the most progress from 2015 to 2017. Azerbaijan doubled its progress in the categories Transparency and Cross-border paperless trade by achieving 75.27% - the maximum score of implementation in 2017.

Azerbaijan-EU relations

Azerbaijan's relations with European Union date back to 1991 and are ruled by the Partnership and Cooperation Agreement since 1999. The agreement provides comprehensive cooperation in the areas of economic matters, political dialogue trade, investment, culture and legislation. Azerbaijan was comprised in the European Neighborhood Policy as a southern Caucasus country since 2004, and was also included in the Eastern Partnership Initiative since 2009. In July 2016, a protocol on participation of Azerbaijan in European Union Programmes and Agencies was approved.

A mandate was adopted by the Council in November 2016, for the European Commission (EC) and the High Representative for Foreign Affairs and Security Policy to discuss, as a representative of the European Union and its member countries, a wide-ranging agreement with Azerbaijan Republic. It is expected from the new agreement to substitute the PCA and take shared challenges and objectives into account the Azerbaijan and EU face today. On 6 February 2017, President Aliyev visited Brussels and after it, on 7 February 2017, discussions on the new agreement were started. The new agreement will comprise the principles confirmed in the European neighborhood policy 2015 review and and propose a renewed basis for mutually beneficial collaboration and political dialogue between Azerbaijan and the European Union. Moreover, Azerbaijan's legal framework of relations with EU also comprises: The EU-Azerbaijan Action Plan, "Protocol of Intention" on establishing the working group on Southern Gas Corridor, Agreement between Azerbaijan and European Union on the facilitation of issuance of visas and etc.

Investment, trade and economic relations with EU

The Partnership and Cooperation Agreement regulate the Azerbaijan-EU trade relations. The European Union is Azerbaijan's main export and the second biggest import market. The EU's share in Azerbaijan's total exports

and imports were 53.96% and 22.12% respectively in 2017. Azerbaijan's imports from the EU, which worth 1.9 billion USD in 2017, is mainly composed of transport equipment and machinery while Azerbaijan's exports to the EU, which were worth of 7.4 billion USD, in 2017, consist primarily gas and oil (portion in total exports: 98%). Taking into account that the PCA is a non-preferential agreement, neither Azerbaijan nor the EU is allowed tariff preferences. The Partnership and Cooperation Agreement does however start economic cooperation which aimed at making business links stronger and developing market-based practices and rules for trade in services and goods. Furthermore, gradual approximation of the Republic of Azerbaijan's legislation and procedures is envisaged with the most significant international and EU trade-related laws.

2.2 Trade performance review : Key statistics on trade

According to Economic Complexity Index (ECI), Azerbaijan is 70th largest export economy in the world and the 104th most complex economy. Crude petroleum, refined petroleum, raw sugar, natural gas and other nuts are the top exports of Azerbaijan. Top imports are large iron pipes, cars, valves and jewelry.

Table 5.

Foreign trade turnover of Azerbaijan in 2017

Indicators	In thousand USD	In millions of USD	Custom weight of exports and imports, in percentage
Foreign trade	22 593 631.99	22 593.63	100.00

turnover			
Export	13 811 624.44	13 811.62	61.13
Import	8 782 007.55	8 782.01	38.87
Foreign trade balance	5 029 616.89	5 029.61	

In 2017, the total foreign trade turnover was 22593631.99 USD. 13811624.44 USD of this number was exports, while 8782007.55 dollars were spent on imports. Trade balance was 5029.61 USD which is known as a good balance indicator.

Table 6.

Exports of countries individually

Name of the country	Exports	
	In thousand USD	Comparison to the total export – by %
TOTAL	13 811 624.44	100.00
CIS countries	1 050 074.48	7.60
The others	5 309 241.81	38.44
EU member countries	7 452 308.15	53.96
Austria	137 552.91	1.00
Croatia	174 262.89	1.26
Czech Republic	556 854.86	4.03
France	337 371.06	2.44

Germany	450 462.03	3.26
Greece	159 548.22	1.16
Italy	4 406 425.24	31.90
Portugal	446 343.32	3.23
Romania	267 229.91	1.93
Spain	258 765.53	1.87

The value of exports with the EU member countries was 7 452 308.15 USD, which consisted the 53.96 % of total exports of Azerbaijan in 2017. Italy played an important role in Azerbaijan's exports, by 31.90 % of total number. Other 3 countries are Czech Republic, Germany and Portugal.

Table 7.

Imports of countries individually

Name of the country	Imports	
	In thousand USD	Comparison to the total export – by %
TOTAL	8 782 007.55	100.00
CIS countries	2 396 235.94	27.29
The others	4 442 841.19	50.59
EU member countries	1 942 930.42	22.12
Czech Republic	107 640.29	1.23
France	154 722.05	1.76
Germany	443 657.44	5.05
Great Britain	239 859.98	2.73
The Netherlands	87 897.46	1.00

Italy	318 669.48	3.63
--------------	------------	------

The value of Azerbaijan's imports from the European Union was 1 942 930.42 USD. 5.05% of this number belongs to Germany, followed by Italy and Great Britain by 3.63% and 2.73% respectively.

Table 8.

Imports and Exports between Azerbaijan and the EU in last 3 years and first 3 months of 2018

Years	Imports, in thousand USD	Exports, in thousand USD
2018 (January-March)	536 150.94	1 566 451.42
2017	1 942 930.42	7 452 308.15
2016	2 171 722.76	7 816 864.0
2015	2 943 189.9	10 978 471.26

As it can be seen from the table, there were differences between the total amount of imports and exports. Exports were higher compared to imports in all years, though both of them showed a decline in last 3 years.

Table 9.

Main goods in imports

	The name of the product	Quantity	Statistical value (thousand USD)	Comparison to the total import – by %
	Total imports	-	8 782 007.55	100

1	Food products (tons)	-	1 403 818.51	15.99
2	Tobacco and tobacco products (thousand USD)	-	166 527.87	1.90
3	Cement (tons)	30 504.58	6 966.36	0.08
4	Pharmaceutical products (tons)	15 650.07	249 015.83	2.84
5	Plastics and products made of it (tons)	181 538.62	318 227.10	3.62
6	Wood and products made of it (thousand USD)	-	212 848.91	2.42
7	Ferrous metals and stuffs made of them (tons)	804 809.52	885 767.10	10.09
8	Machinery, mechanisms, electrical apparatus, equipment and their parts (thousand USD)	-	1 866 664.76	21.26
9	Vehicles and their parts (thousand USD)	-	1 078 789.51	12.28
10	Furniture and its parts	-	85 313.34	0.97
	Others	-	2 508 068.25	28.55

As it can be seen from the table, a fifth of imports was on machinery, mechanisms, electrical apparatus, equipment and their parts. The imported amount of food products is 15.99%, followed by vehicles and their parts by

12.28%. Black metals and stuffs made of them consist 10% of the total imports in 2017. Rest of them changes between 0.08% and 3.62%.

Table 10.

The main goods in exports

	The name of the product	Quantity	Statistical value (thousand USD)	Comparison to the total export – by %
	Total export	-	13 811 624.44	100
1	Crude oil (tons)	27 227 902.15	10 706 817.77	77.52
2	Oil products (tons)	835 452.74	339 159.34	2.46
3	Natural gas (thousand cubic meters)	7 543 483.34	1 193 712.38	8.64
4	Electric energy (thousand kW/hr)	1 160 196.03	50 968.96	0.37
5	Fruits and vegetables (tons)	548 998.73	502 826.59	3.64
6	Tea (tons)	1 734.96	10 232.65	0.07
7	Vegetable and animal fats and oils (tons)	15 753.23	17 046.85	0.12
8	Sugar (tons)	61 206.76	39 515.08	0.29
9	Alcoholic and non-alcoholic beverages (thousand USD)	-	21 923.11	0.16

10	Chemical industry products (tons)	325 259.11	79 562.43	0.58
11	Plastics and products made of it (tons)	147 873.89	101 120.08	0.73
12	Cotton fiber (tons)	24 655.69	33 753.40	0.24
13	Cotton yarn (tons)	7 028.61	15 922.59	0.12
14	Ferrous metals and stuffs made of them (tons)	163 994.87	82 885.92	0.60
15	Aluminum and aluminum products	59 579.85	117 674.28	0.85
	Others	-	498 503.02	3.61

Azerbaijan's exports in 2017 was heavily depended on crude oil – 77.52 %. The rest of the products consisted very small amount of the total exports. Additionally, natural gas and fruit and vegetables differ from the others, by 8.64% and 3.64% respectively.

RESULTS AND CONCLUSION

Facilitating trade is among the main goals of all countries in today's world. By the successful implementation of trade facilitation and paperless trade measures such as transparency, paperless trade facilitation, formalities, institutional arrangement and cooperation, cross-border paperless trade,

governments can boost trade and make the goods flow more smoothly, faster and less cost. Trade facilitation has a positive effect on the economy:

- GDP is increasing
- Trade costs for exporters and importers are decreasing
- Transportation costs are decreasing
- Trade opportunities and investment are increasing
- Tariff collections is improving

Beside the effect on economy, government, private sector and consumers also benefit from trade facilitation. Government revenues are increasing by improving control on exports and imports. Private sector benefits from the decreasing trade costs and improved infrastructure. It also creates opportunities for small and medium enterprises to participate in international trade. Reduction in trade costs and increase in competitiveness of domestic industries mean low costs for producers and as a result lower prices for consumers. So that is the reason behind the question why every country tries to achieve trade facilitation?

But how can it be achieved? – In terms of navigating nuts and bolts of trade procedure more easily, transparency in their procedures and regulations, consistency, non-discrimination and predictability in their application are required, and, they can be achieved only by the successful implementation of trade facilitation.

Azerbaijan continues its successful way on facilitating trade. Reforms on this area and decrees by the President of Azerbaijan on trade, strengthen Azerbaijan's position in the region and making the trade between Azerbaijan and other countries more smoothly, faster and less costly.

European Union is one of the Azerbaijan's main trade partners. The Partnership and Cooperation Agreement regulate the Azerbaijan-EU trade relations. Statistics that, 53.96% of total exports and 22.12% of total imports

of Azerbaijan were traded with EU in 2017, highlight the importance of trade between these two partners again.

BIBLIOGRAPHY

1. Willemien Viljoen – The evolution of the trade facilitation concept, best practices and the Tripartite Comprehensive Tripartite Trade and Transport Facilitation Programme (CTTTFP)

2. Mason A. Carpenter and Sanjyot P. Dunung – International Business (2011)
3. Organisation for economic co-operation and development (OECD) – The costs and benefits of trade facilitation (oecd.org)
4. Charles W. L. Hill – International Business 8e
5. World Customs Journal (April 2008, Volume 2, Number1)
6. United Nations Economic Commission for Europe - Trade
7. Facilitation - The Challenges for Growth and Development (United Nations New York and Geneva 2003)
8. Trade Facilitation and Paperless Trade Implementation - UNECE Regional Report 2017 (United Nations - New York and Geneva, 2017)
9. The WTO Trade Facilitation Agreement and the WCO Mercator Programme - approach to implementation
10. Trade facilitation - principles and benefits (tfig.unece.org)
11. Theories of international trade – Article by Prakash Kumai (economicdiscussion.net)
12. Azərbaycan Respublikasının milli iqtisadiyyat perspektivi üzrə Strateji Yol Xəritəsi
13. Azərbaycan Respublikasında logistika və ticarətin inkişafına dair Strateji Yol Xəritəsi
14. Foreign policy (azerbaijans.com)
15. A look at the 25-year period of independence and modern foreign policy priorities (mfa.gov.az)
16. Azerbaijan (focus-economics.com)
17. Economic reforms and rapid development (azerbaijans.com)
18. Azərbaycan Respublikası Xarici Ticarətinin Gömrük Statistikası (customs.gov.az)
19. Azerbaijan exports (1998-2018) (tradingeconomics.com)

20. European Union External Action – EU-Azerbaijan relations
(eeas.europa.eu)
21. EU-Azerbaijan – Eastern Partnership: supporting reforms, promoting
change (consilium.europa.eu)
22. Azerbaijan (atlas.media.mit.edu)
23. Azerbaijan and European Union (mfa.gov.az)