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**The foreign trades impact on Azerbaijan Economy**

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# INTRODUCTION

Over the last 20 years, the economy of the republic has been focused, mainly, on the production and export of oil and gas raw materials. The collapse of prices for these products in world markets also hit the economy of the republic. Negative consequences are not overcome until now. The growth of the gross national product was at a minimum level (less than 2% per year), the payment balance of the republic only in the first quarter of 2018 reached a positive level. Another serious challenge to the monocultural development of the economy is the development of scientific and technological progress, which in the long run minimizes the consumption of oil resources, creates favorable conditions for the development of alternative, clean and renewable energy sources. Under the circumstances, an objectively necessary conclusion is the development of the non-oil sector of the economy that would make it possible to use the resource and human factors of the economy and the republic more fully and ensure its sustainable development and competitiveness. This can be achieved only on the path to diversification of the national economy, its innovative development.

The purpose of this work is to study the theoretical concepts of economic diversification, the experience of foreign countries in creating a multi-sectoral economy, the study of modern challenges to the development of the national economy and the development of proposals on institutional and structural problems of the development of the non-oil economy of Azerbaijan.

The object of the research is the current state of development of the national economy, challenges facing it in the second decade of the XXI century.

The subject of the research are theoretical and practical issues of the development of the diversified, multifunctional, stable, export-oriented economy of the republic.

# CHAPTER I. METHODOLOGICAL BASIS OF FOREIGN TRADE

# 1.1. International trading theories and their practical value

International trade theories are simply different theories to explain international trade. Trade is the concept of exchanging goods and services between two people or entities. *International trade* is then the concept of this exchange between people or entities in two different countries.

People or entities trade because they believe that they benefit from the exchange. They may need or want the goods or services. While at the surface, this many sound very simple, there is a great deal of theory, policy, and business strategy that constitutes international trade.

In this section, I’ll learn about the different trade theories that have evolved over the past century and which are most relevant today. Additionally, I’ll explore the factors that impact international trade and how businesses and governments use these factors to their respective benefits to promote their interests.

To better understand how modern global trade has evolved, it’s important to understand how countries traded with one another historically. Over time, economists have developed theories to explain the mechanisms of global trade. The main historical theories are called *classical* and are from the perspective of a country, or country-based. By the mid-twentieth century, the theories began to shift to explain trade from a firm, rather than a country, perspective. These theories are referred to as *modern* and are firm-based or company-based. Both of these categories, classical and modern, consist of several international theories.

Developed in the sixteenth century, mercantilism was one of the earliest efforts to develop an economic theory. This theory stated that a country’s wealth was determined by the amount of its gold and silver holdings. In it’s simplest sense, mercantilists believed that a country should increase its holdings of gold and silver by promoting exports and discouraging imports. (Immanuel Wallerstein ,2014) In other words, if people in other countries buy more from you (exports) than they sell to you (imports), then they have to pay you the difference in gold and silver. The objective of each country was to have a trade surplus, or a situation where the value of exports are greater than the value of imports, and to avoid a trade deficit, or a situation where the value of imports is greater than the value of exports.

A closer look at world history from the 1500s to the late 1800s helps explain why mercantilism flourished. The 1500s marked the rise of new nation-states, whose rulers wanted to strengthen their nations by building larger armies and national institutions. By increasing exports and trade, these rulers were able to amass more gold and wealth for their countries. One way that many of these new nations promoted exports was to impose restrictions on imports. This strategy is called protectionism and is still used today.(Paul R. Krugman, 2016)

Although mercantilism is one of the oldest trade theories, it remains part of modern thinking. Countries such as Japan, China, Singapore, Taiwan, and even Germany still favor exports and discourage imports through a form of neo-mercantilism in which the countries promote a combination of protectionist policies and restrictions and domestic-industry subsidies. Nearly every country, at one point or another, has implemented some form of protectionist policy to guard key industries in its economy. While export-oriented companies usually support protectionist policies that favor their industries or firms, other companies and consumers are hurt by protectionism. Taxpayers pay for government subsidies of select exports in the form of higher taxes. Import restrictions lead to higher prices for consumers, who pay more for foreign-made goods or services. Free-trade advocates highlight how free trade benefits all members of the global community, while mercantilism’s protectionist policies only benefit select industries, at the expense of both consumers and other companies, within and outside of the industry.

In 1776, Adam Smith questioned the leading mercantile theory of the time in *The Wealth of Nations*.Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: W. Strahan and T. Cadell, 1776). Recent versions have been edited by scholars and economists. Smith offered a new trade theory called absolute advantage, which focused on the ability of a country to produce a good more efficiently than another nation. Smith reasoned that trade between countries shouldn’t be regulated or restricted by government policy or intervention. He stated that trade should flow naturally according to market forces. In a hypothetical two-country world, if Country A could produce a good cheaper or faster (or both) than Country B, then Country A had the advantage and could focus on specializing on producing that good. Similarly, if Country B was better at producing another good, it could focus on specialization as well. By specialization, countries would generate efficiencies, because their labor force would become more skilled by doing the same tasks. Production would also become more efficient, because there would be an incentive to create faster and better production methods to increase the specialization.

The theories of Smith and Ricardo didn’t help countries determine which products would give a country an advantage. Both theories assumed that free and open markets would lead countries and producers to determine which goods they could produce more efficiently. In the early 1900s, two Swedish economists, Eli Heckscher and Bertil Ohlin, focused their attention on how a country could gain comparative advantage by producing products that utilized factors that were in abundance in the country. Their theory is based on a country’s production factors—land, labor, and capital, which provide the funds for investment in plants and equipment. They determined that the cost of any factor or resource was a function of supply and demand. Factors that were in great supply relative to demand would be cheaper; factors in great demand relative to supply would be more expensive. Their theory, also called the factor proportions theory, stated that countries would produce and export goods that required resources or factors that were in great supply and, therefore, cheaper production factors. In contrast, countries would import goods that required resources that were in short supply, but higher demand.

In the early 1950s, Russian-born American economist Wassily W. Leontief studied the US economy closely and noted that the United States was abundant in capital and, therefore, should export more capital-intensive goods. However, his research using actual data showed the opposite: the United States was importing more capital-intensive goods. According to the factor proportions theory, the United States should have been importing labor-intensive goods, but instead it was actually exporting them. His analysis became known as the Leontief Paradox because it was the reverse of what was expected by the factor proportions theory. In subsequent years, economists have noted historically at that point in time, labor in the United States was both available in steady supply and more productive than in many other countries; hence it made sense to export labor-intensive goods. Over the decades, many economists have used theories and data to explain and minimize the impact of the paradox. However, what remains clear is that international trade is complex and is impacted by numerous and often-changing factors. Trade cannot be explained neatly by one single theory, and more importantly, our understanding of international trade theories continues to evolve.

# 1.2. Instruments of state regulation of foreign trade

The WTO membership is a matter for each country combining very complicated procedures in it, which is defined by some characteristic features and it may be lasted from 3 up to 15 years. The WTO membership of Azerbaijan is directly related to the improvement of legislation. Presently there are laws in the fields of regulation, intellectual property and investments that don’t meet any international standards and WTO very requirements. The WTO membership will enable the country to forecast the country’s trade policy, the level of transparency will be increased, the international trade partners’ number will be increased and the economic disputes will be settled more effectively. It is to be noted that the main moments discussed within the agricultural agreement make important the determination of subsides upper limit and tariffs (Richard Peet, Unholy Trinity, 2003 tarixsiz).

According to the researches made by the WTO membership secretariat under the Ministry of Economic Development of the Azerbaijan Republic and as the analysis made in the field of foreign economic relations indicate, the investors are looking for countries with favorable investment environment and whose investment policy is subject to forecasting. And the WTO membership exerts considerable positive influence on attracting of foreign investments, as the foreign entrepreneur deposits fearlessly investment to the countries where the “national regime” is applied, the other key principle of the WTO (no discrimination amongst local and foreign entrepreneurs). From this standpoint, Azerbaijan, setting close contacts with other member states’ representatives will provide information regarding changes arisen in the country regularly. The position, to be taken by Azerbaijan while negotiations, is determined mainly in 4 key directions:

• on commodities trade;

• on services trade;

• on the intellectual property

• on the matters deviating from WTO rules.

Before disclosing the principles of these positions it is to be noted that to prevent the undertaking of obligations not corresponding to the country’s economic interests simultaneously with negotiations there will be preferred the arrangements such as conducting of business consultation and providing the transparency in the membership process (The World Bank Group WTO Accession 2005).

a) The weakest and fields with export potential of the industry, as well as the priority directions on the separate commodities have to be determined and to protect them within the transitional period, the customs duties, credits, subsidies and the tax concessions have to be used effectively. To preserve the relative level of average customs duties at the same rate, the commodities whose production is not rational are to be applied the lowest duty and the other goods – the higher import customs duty. The upper limit indices (bound tariffs) providing the security of the industrial fields which with the protection of customs duties is required have to be developed and the higher rate of decreasing after the membership in comparison with the decreasing rate of the main trade partners, including countries, which are considered competitors on the same commodities is to be controlled. Taking into account that the development of the industry is impossible only based on customs duties there have to be conducted all-inclusive and comprehensive micro-economic analysis on the corresponding fields. The decreasing of the prime cost, increasing of the quality and the creating of sale opportunities for the produced commodity are to be provided. These researches contain ideas expressed by the governmental representatives, foreign experts and donor organizations, as well as the young specialists of the universities. There has to be reached the approval of the higher limit rates of the import customs duties on the commodities with great importance for the agricultural area. There will be used all sources in drawing up of a schedule reflecting the level of internal support and its kinds in the agriculture. There will be conducted corresponding investigations and prepared offers to use the kinds of subsides imposed restrictions in a maximal level after the process of membership. The concessions provided according to the special and differentiated regime applied to the developing countries within the GATT have to be investigated systematically and there will be researched their use in Azerbaijan (https://www.wto.org/english/thewto\_e/acc\_e/nl\_e/2018\_07\_acc\_newsletter\_e.pdf tarixsiz).

b) There will be drawn up an ACC5 map to be submitted to the WTO secretariat on the services and trade. This map has to contain a policy, the regime of concessions and advantages applied to the foreign and local entrepreneurs in all fields of services within the country. Simultaneously with preparation of documents we have to analyze the services. For example, despite the availability of the high qualified accountants in Azerbaijan, the full liberalization of this market for the foreign experts may lead to negative social results. The main goal of this analysis is to clear up the existing situation, to determine the scale of liberalization and to carry out its future initial estimation. And it will enable to provide right recommendations and to make decision in strict compliance with internal markets’ interests while consultation with the local business circles. The results of negotiations held within the multilateral trading system related to the liberalization of the service fields are tracked down permanently. It is of important significance from the standpoint of preparation of right answers to the offers of undertaking nature by the member states in connection with new conditions.

c) Now we can suggest that negotiations related to the intellectual property will not be difficult for Azerbaijan. So, in accordance with WTO requirements, Azerbaijan is a member of the majority of Conventions in the field of protection of intellectual property. At the same time, the adjusting of the national legislation in the field of copyright has been already conducted. Whenever, there are envisaged to take some other arrangements. These include there have to be made works in direction of joining of WIPO the agreements on Performances and Phonograms, as well as the copyright and the Rome Convention. Besides, it is to be noted that there will be carried out certain works on coordinating of the industrial property legislation to the TRIPS rules. There were approved new laws on “on protection of the right of integral schema topologies” and “on legal protection of folklore”. Azerbaijan takes active part in drawing up and approval of the international Convention regarding the Folklore’s legal protection and it has already sent its proposal to WIPO. In the course of carrying out of works, the special attention has to be paid to the facts of appropriation of intellectual property kinds, literary and musical works of Azerbaijan by Armenia and it has reach the punishment of Armenia through settlement mechanism of disputes pertained to WTO (https://www.economy.gov.az/en/article/wto/21561 tarixsiz).

d) The matters deviating from the rules of WTO are pertained to the WTO optional agreements’ category. But while the last membership processes, the developed WTO members have endeavored to undertake obligations regarding the application of the mentioned agreements and in majority of cases they have reached it. Therefore, there will be paid special attention to mastering of the WTO optional rules and their readiness for making efforts on undertaking of obligations as per the aforementioned rules. On the principle, despite it is not of great importance, it is required to have time and to attract some resources in the most important stage of membership and it will exert considerable influence on the key negotiations.

As the membership process embraces about all fields of the economy, all state authorities have to be involved to this process. The experts employed by the mentioned structure units have to carry out important functions as information supply and preparation of documents. In each organization, at least one employee has to engage in WTO matters directly and in the full working time. Especially, it is to be noted that a competent institution, responsible for coordination of all works and organizations and having sufficient man power has to carry out its activity in the state authority being the coordinator of the WTO membership process. The mentioned institution has to have powers to set contact with the WTO secretariat, the Azerbaijani Mission in Geneva, as well as with the corresponding institutions of the foreign countries apart from the working groups existing inside the country. Taking into account the experience of the other member countries, it is to be noted that there will be founded a Group of negotiations consisting of high qualified, experienced experts. The Group will be included, besides diplomats having great experience in the field of conducting of negotiations, the high qualified professionals in all fields. The Group of Negotiations has to provide the setting of contacts with WTO secretariat, creating of contacts as well as conducting of bilateral consultations besides reviewing the membership documents and WTO requirements within the time before the main stage. It may play a considerable part in laying of foundation for an agreement to be reached during the bilateral negotiations. The Azerbaijani Mission in Geneva has to serve as a bridge or the intermediary by and between the Group of Negotiations with the WTO secretariat, as well as the Missions of other countries located in Geneva. At least one diplomat in the Mission has to be responsible directly for WTO matters. If we take into account that from December of the current year, there will be conducted negotiations on important documents as it was agreed in the Cancun Round in Geneva within the framework of WTO, it would be very important to appoint the Mission head before this term having experience in WTO field. Generally, providing of the sufficient transparency in the membership process, providing the community with information on timely basis may prevent some nonconstructive positions. The media representatives have to be invited to all arrangements organized by the WTO secretariat, the membership Commission, as well as the Group of Negotiations to light up these actions. At the same time, it would be very important to organize the training courses and workshops dedicated to the processes arisen in WTO, the philosophy of this organization and the course of the membership process of Azerbaijan for the media, as well as representatives of public associations in Azerbaijan (http://amcham.az/wp-content/uploads/2016/11/impact\_FINAL.pdf tarixsiz).

Before undertaking of obligations offered to Azerbaijan within the negotiations, there will be conducted discussions and consultations with the representatives of the business and public associations. In this connection, it will be purposeful to establish the Consultation Board consisting of representatives of the corresponding units under the Commission. As a result, the mentioned conception notes that teaching of the WTO subject in the higher school’s classrooms will enable to forming high qualified experts at an early date. The matter causing intense discussions amongst the experts is the possibility of using the preventive actions after WTO membership. In this connection we have to note that the WTO rules don’t prohibit wholly the protectionism, enable the increasing of customs tariffs, don’t impose prohibition on the quantitative restrictions and licensing and allow subsidizing of some fields. But all these items have to be carried out based on principles prescribed strictly by general rules and legal norms. Therefore, the joining of Azerbaijan to WTO will not weaken the existing possibilities of our state in regulating the foreign trade, quite contrary, will create legal conditions for protection of national importers and exporters interests and will enable to the transition of the multilateral trade practice joined by many other countries. So, we have to accept and recognize the WTO membership of Azerbaijan as a means promoting the extension of the current period’s economic reforms and thereby summarizing the transition period in the short run, but not a goal for membership under the favorable conditions. According to the ideas of the experts of the Ministry of economic Development, the end of actions listed in the aforementioned conception will be occupying of its worthy place by Azerbaijan in the world trading system, including in the international labor share, developing the economic relations with the other states, stimulating of economic development and finally providing of the economy’s transformation. The goal of the Azerbaijan Republic’s government to be WTO member and the main matters to be preferred by it while negotiations may be classified as follows:

1. Speeding up integration process to the world economic system;

2. availing of concessions granted by the WTO members one to another;

3. Carrying out of trade transactions based on general rules recognized by WTO with the majority countries of the world;

4. reaching the increasing of assistance to the economic reforms in the country by the international organizations, as well as the countries;

5. Involving of foreign investments in a great amount after application of the WTO rules.

The general pro and cons of the Azerbaijan membership to WTO may be estimated from various points of view and the corresponding attitude on this matter is not characterized only by computing the advantages circle of the country and the classification of these advantages on various sectors are very important. In the present conditions, the a matter of argument has not taken place around the bipolar approaches regarding the WTO membership, but also find out ways securing the more advantages of Azerbaijan from WTO accession to WTO. The matters of widening the coverage geography of WTO differing by its leading role and activity in the world economy globalized rapidly within the last time are amongst the most actual subjects, which involving and disturbing both the researchers and practical persons in the various level’s scientific discussions. The WTO making every effort in the filed of maximum liberalization of the international trade, creating favorable conditions of free competition, preventing the quantitative restrictions, making trade policy clear and transparent serves the effective organization of the trade turnover in the base of application of national regimes based on the free access to the markets, including through preventing the quantitative restrictions applied on importation,, as well as the securing the publicity and transparency in the foreign trade regime of the member states. Presently, the import customs duties are changing around 0-15% and their average rate – 7-8%, our country has undertaken obligations before ICF to adjust the average percentage rate as 5-6% diapason. I would like to give corresponding examples in the person of countries, the practice of which is familiar to me. Let’s pay attention: the import customs duties in Kirghizia was changing around 050% at on the eve of WTO accession and the average percentage was equal to 10,74 %. The country has achieved the concession of preserving the upper limit of duties on the level of 50% while accession process within 3 years and the average percentage rate on duties reduced from 2000 was 5,4% in 2003. And in Turkey, despite this country is considered the WTO establishers as a GATT founder, the higher rate of the import duties being effective seasonably on some agricultural goods reaches even 200%. As to China, the customs duties was changing around 0-65 % at the eve of WTO accession and to preserve this rate while the accession this country was granted the additional concession term up to 2010. Generally, for information purpose we have to note that the transitional term for the tariff concessions while WTO accession was 9 years in Latvia, 7 years in Kirghizia, 5 years for Georgia and 4 years for Moldova. This term is 12-25 years for certain countries (China, India etc.).

The WTO accession of Azerbaijan is directly related to the improvement of the legislation. Presently, there are such laws in the fields of regulation, intellectual property and investments, they don’t meet the requirements of international standards and the requirements of WTO. The WTO accession will enable the country to forecast the country’s trade policy, thanks to which the transparency will be increased, the number of international trade partner will be increased and the economic disputes will become more effective. It is to be noted that the main moments discussed within the framework of agricultural agreements include the determination of the upper limit of subsides and tariffs deposited to this field.

Each year, the European Union countries allot direct subsidies for exportation of the agricultural products in the average amount of 350 billion USD and the enterprises engaging in processing of these products are using these subsidies. Concretely, the typical average Sweden farmer receives subsides amounting to 33 thousand USD, and the USA and Japan farmers – 20 thousand USD. In such a case, it is difficult to protect the agrarian market by the lower customs duties and subsidies. According to the statistic results of 2004, the agricultural sector in the structure of gross output being 11,4% has reached a primacy amongst the nonpetroleum sectors. In the case if we transform the development of the nonpetroleum sector to one of priorities of the state’s policy, the agrarian sector will be faced with this danger. It is right that we have the right to receive concession from WTO to a lot subsidies for the agriculture and its upper limit may be up to 10 % of the agricultural production capacity (presently the upper limit of these subsidies for the developing countries is determined 10% and for the developed countries – 5%). Certainly, this limit may be considered admissible. But, the matter is that it is incredible the allotment of such subsidies from the state budget to the agrarian sector. Presently, the Republic of Kazakhstan has faced with this problem and it has obtained the right to increase this figure up to 5% in the case of allotment of subsidies for agriculture in the amount of 0,01 %. But, the feeble opportunities of the budget prevented to use this right. Taking into account that the agriculture is the main filed of engagement in Azerbaijan and the persons employed in this sector have created economic units to meet their personal needs, but not for commercial purpose, we can forecast as regards the extension scale of the danger. In such a case, it is known beforehand that the sector of agriculture will be faced with problems while WTO membership of Azerbaijan. Generally, the filed to be exposed to the adaptation decay in this context will not be restricted only with the agrarian sector. The situation of the financial, banking, insurance and other service sectors regulated within many years bewaring of the foreign capital has not be outside the attention. A t all accounts, our problems will embrace the industrial processing field and it is beyond any doubts, as, this field is governed by the neat commercial rules. We have take into account that the tendency of price boost of energy carriers within the last time would restrict the possibilities of the agrarian and industrial fields both in the quality and the price competition. In connection with the WTO accession we may be deprived from the provisions assistance transported to a country where we cannot intervene. But this prohibition will not be applied to the institutions, such the World Bank and UNO. For example, if there is arisen a state of emergency in a country and one of member states intends to help it with provisions, it will be applied some restrictions. For this purpose the country with intends to render assistance has to provide sufficient argument and has to adjust its decision with the member states. The WTO secretariat has reached this conclusion after the experience in Ethiopia. So, this country has delivered provisions assistance within 10 years and there was not created any favorable conditions for stimulating the activity of farmers. To prevent other WTO members not to face with such problems, the WTO is applying a prohibition in this connection. It is appropriate to mention here that the non member states are entitled to render assistance to the member states.

The only area which can escape this danger may be the petroleum sector, as at any version it will be gullibility to think about Azerbaijani oil not set free to Europe. Besides, the WTO has no special conditions in connection with the petroleum sector. The matter is that according to the agreement reached between WTO and OPEC (Organization of Petroleum-Exporting Countries) presented as a gentleman agreement, for the time being the petroleum matters are not in the centre of attention of a country regulating the global trade rules. Form this point of view factually the conditions related to the petroleum sector are not a subject of discussions regarding the Azerbaijan WTO accession. But, as the last discussions organized by WTO indicate, this matter will become topical within the immediate future. It became topical after membership of Saudi Arabia to WTO. The matter is that the mentioned state is the biggest oil producer and this country’s economy depends directly on oil. Besides, the intention of Russia considered the second biggest oil producer of the world to join the WTO at an early date informs of including the “petroleum matter” to the WTO agenda. From this point of view, the suggestion that there will be formed special conditions of WTO in connection with the petroleum sector is increasing. Therefore, the mater whether Azerbaijan will escape these potential conditions is related to when our country will joint this organization. If the membership matter is stayed too long, the suggestions regarding escaping the petroleum sector from the process are reduced.

The another factor, which may affect our existing starting situation at the eve of accession is not to realize the responsibility of the WTO membership in the developing countries, the little experience in the context of coordination and the personnel shortage. So, it will be very important to set operative and effective activity at the eve of accession on the fields embracing various fields. The responsibility for this activity may not be imposed only on the secretariat on WTO membership. On the other hand, besides well-experienced diplomats, the shortage of high qualified professionals on all fields whom there will be held discussions, non availability of the professionals for proving the damping operations in the field of international business and commercial law will create other critical problems for Azerbaijan both at the eve and after membership process.

The absence of structural and perspective analysis of the national economy at the eve of the country’s WTO accession, the competent scientific-research papers on preparation of the competition tolerance indexes of the fields and kinds of products offer conditions for scientifically grounded arguments in approval of decisions while answering the negotiations and inquiries and at the same time restrict the state officials’ manoeuvre possibilities. To mitigate the problem’s affection it will be crucial and necessary to provide the dexterous operation of all structural units beginning from the parliament as for this process. In the course of implementation, it will be crucial to exchanges ideas with the business structures and scientific-research enterprises, as well as the experts. As to the mentioned process, it’s conducting within the framework of cooperation with Mass Media Means and NGOs and upon conditions of transparency doesn’t give place to the former ones by its importance. As to the NGOs and the scientific-research enterprises, it will be vital to strengthen their activity in direction of investigation. The subject-matter of researches made by them includes the labor division within the country, the assignment of the goods absolute priority from the point of view of the problem of exportation and opportunities for replacement of goods. This stage has to reveal feeble and strong aspects of the competitive ability both at the eve of WTO membership and in perspective and the competition endurance indexes. And the obtained practice will help us to increase the advantages and to reduce disadvantages and to provide the fair trade. The other reason which causes difficulties may be the attitude of our allied neighbor. The fact of our main and perspective trade partner’s (Russian) success in WTO membership process, which has rounded off negotiations and stepped to the final stage of signing the protocols, affords ground for its accession to this organization before Azerbaijan. In such a case, it is certainly that after Russian accession to WTO it will start to negotiations with Azerbaijan on some obligations. We have to be ready to the trade pressures of Iran our neighbor. The non membership of this state WTO may aggravate the situation and deepen up the adaptation regress in some areas that may create favorable conditions for it to grasp Azerbaijani markets, which are not able to endure against the competition. We have to take into account that for Iran it is not only a simple economic interest, but also a matter proceeding from political and strategic targets. But it doesn’t mean that we have to step aside from this process. At any case the pros which will be obtained after WTO accession for the community, consumers and exporters. As it was noted above, the main principle of WTO is to prevent discrimination in the foreign trade and to provide the free access for the member states markets. The importance of these principles for Azerbaijan remains above suspicion. Indeed, the quantitative restrictions applied to the import operations imply a serious impediment in the field of using the opportunities of business areas engaging in foreign trade for development of the national economy. Presently, the number of these quantitative restrictions is 7.

There are serious problems in connection with securing the transparency and publicity in this process. Subject to the facts implying the increase of the latent turnover’s capacity of the foreign trade year by year and the nude fact of discrimination, the WTO possibilities along the lines of settlement of these problems look like irreplaceable. If we take into account that namely because of problems caused by the latent turnover of the foreign trade, each year the state budget looses funds in millions dollars and moreover the access of other goods to the national market outside the customs clearance plays considerable part in forming of unfair conditions for competition and finally in infringement of the free entrepreneurship, then the implementation of arrangements proceeding from WTO’s main principles may assist in settlement of many problems rooted in the foreign trade. We are of the opinion that paying special attention to the advantages of the WTO membership doesn’t mean speaking about the one-way bet pros of the membership. It is far from reality not only for Azerbaijan, but also for the developed countries with the stoping width. The membership “fees” for WTO makes conditional on offering up a sacrifice.

Taking into account that WTO membership is a complicated process and it pays different dividends for various countries and causing some difficulties in the national economy, it would be better to speak concretely about positive and negative results of membership to this organization for the Azerbaijan State. But it would be more expedient to group the pro and cons to be obtained as a result of this process from the traditional points of view of exporters (producers) and importers (consumers). Certainly, in the both contexts, the society will have some pro and cons, we have to express attitude in this connection. According to our opinion, increasing of advantages of the WTO membership depends considerably on the national economy’s structure and development level.

Therefore, firstly our economy has to be ready for this process, to mobilize opportunities of diplomacy and to introduce a right approach to the matter. There are other facts to be considered that the membership to WTO is not a purpose, but a means. Through WTO we may increase our possibilities to become integrated to the world economy, liberalize our foreign trade, as well as prevent the quantitative and technical restrictions, simplify the customs control procedures, to increase transparency, speed up the involvement of progressive techniques and technologies, know-how, patents and other leading innovations to our country, adjust our laws to the internationally recognized standards and to protect our copyrights. On the other hand, we pin our hopes on the fact that after the WTO membership the world’s leading banks and insurance companies will invest moneys in the member state economy and finally there will be formed normal financial system, big moneys and long term credits will resolve the capital problems of the non-petroleum sector of the national economy. At the same time, it is to be noted that the WTO doesn’t prohibit the protectionism, allows increasing of tariffs and subsidies, but all these have to be within the framework of norms agreed and approved as a result of negotiations. “The WTO operates with governments” – it is one of key principles of the organization. In this case, does this principle mean that the mentioned organization will not cooperate with structures, as well as business institutions remained outside the government?

The official answer to this question of WTO is simple: not at all! The matter is that one of the key issues discussed in the field of membership to WTO includes namely the entrepreneurs’ advantages and disadvantages. And the matter is not only in great amount of entrepreneurs pro and cons. Certainly, each state is interested in deriving of great profits of any change. In a transitional country as Azerbaijan, deriving profits of entrepreneurs of the WTO membership is very important and certainly it doesn’t depend on the mentioned organization, but on the level of organization of this activity. The WTO membership means the forming of improved legislative base.

The economic development, as well as the industrialization is directly related to the country’s foreign trade policy. This matter if real: all countries follow closely the global foreign trade policy aiming at achieving successes in and benefiting by the foreign trade. The basic features of the economic system rested upon frequently by us and subject-matter of discussions held in the international arena include conducting of systematic and rapid modifications in the state administration system. From this point of view, on a global sense, it will be very important to achieve imperative positions for Azerbaijan and certainly in the case of presence of some delays in this field it increases the probability of negative influences of speedy modifications in the global arena for Azerbaijan.

# CHAPTER II. SITUATION OF FOREIGN TRADE IN AZERBAIJAN AND ITS ASSESSMENT

# 2.1. Foreign trade dynamics of Azerbaijan

Disregarding plenitude of normal assets, the extension of the oil business has been ruined by its old framework and the "frustratingly moderate" development of products through the significant ports, as indicated by the U.S. Office of Trade in 2002. The economy is attempting to use the nation's huge riches in non-renewable energy sources with a specific end goal to dislodge the poverty that affects around 45% of its populace who lives on under US$2 every day. Apparently, 80% of Nigeria's vitality incomes stream to the legislature, 16% spreads operational expenses, and the rest of the 4% go to financial specialists. In any case, the World Bank has assessed that because of debasement 80% of oil incomes advantage just 1% of the populace (19).

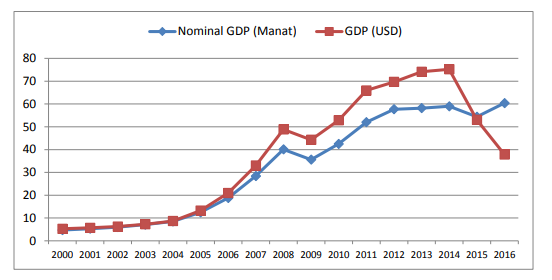
Current GDP per capita of Nigeria extended 132% in the Sixties achieving a pinnacle development of 283% in the Seventies. Be that as it may, this demonstrated unsustainably and it, therefore, shrank by 66% in the Eighties. In the Nineties, enhancement activities at long last produced results and decadal developments were reestablished to 10%. Because of expansion, per capita GDP, in 2012, remains lower than in 1960 when Nigeria proclaimed freedom. Nigeria is positioned 30th (40th in 2005, 52nd out of 2000), on the planet as far as GDP (PPP) starting at 2012, and third biggest inside Africa (behind South Africa and Egypt). The Gross Domestic Product per capita in Nigeria was last recorded at 1052.34 US dollars in 2012. This is equal to 8 percent of the world's normal. From 1960 until 2012, Nigeria GDP per capita found the middle value of 686.2 USD achieving a record low of 431.0 USD in 1968 and an unsurpassed high of 1052.3 USD in 2012 (6).

The issue is the overdependence on the capital-escalated oil area, which gives under 25% of GDP, in spite of giving 95% of remote trade profit and around 65% of government incomes. Nigeria delivers just around 2.7% of the world's oil supply (Saudi Arabia: 12.9%, Russia: 12.7%, USA: 8.6%). As per the CBN (2013), unrefined petroleum creation, including condensates and flammable gas fluids, is evaluated at a normal of 1.88 million barrels for each day. With 35 billion barrels of demonstrated oil holds and another 5 billion being developed, oil is the soul of the Nigerian economy. It has an expected 159 trillion cubic feet of demonstrated petroleum gas holds, making the nation one of the main ten flammable gas gifts on the planet (12).

A few procedures are available to an economy in its endeavor to accomplish maintainable monetary advancement, contingent upon its chronicled foundation and asset blessing. One such technique is the asset drove system. Nigeria is extremely wealthy in unrefined petroleum and has procured 6 billion of petrodollars. Unfortunately, Nigeria has not seen anything like a similar kind of monetary achievement that helped Canada, the United States and Australia industrialize in the Mid-twentieth Century. That is on the grounds that in these propelled economies; oil creation never rose to such a level as to overwhelm the whole economy. Then again, in Nigeria, oil is the significant business (20).

The decrease in oil costs since 2014 combined with bringing down oil generation in Azerbaijan has converted into a consistent decrease in Gross Domestic Product of Azerbaijan, coming to - 3.1% out of 2016. Then again, the effect of the development division, which saw a 30,7% decrease in 2016 likewise exacerbated the GDP development. Subsequently, ostensible GDP of 2016 has turned out to be 60.4 billion manats ($37.8 billion dollars US). The offer of non-oil creation in GDP has expanded by 2.5% and achieved 62.6%1 in the initial 9 months of 2017.

**Chart 2.1. GDP of Azerbaijan (billion manats&dollars)**



**Source:** State Statistical Committee of the Republic of Azerbaijan; World Bank, 2017

As observed from the chart above, GDP of Azerbaijan as far as dollars had a lofty drop starting from 2014. The fundamental purpose for this pattern is the depreciation of national money which happened in February and December 2014. Therefore, swelling set in 2014 which has prompted, as can be seen in the diagram, to a sharp disparity between GDP as far as manats and dollars. The national bank has expanded financing costs, which make taking advances expensive, keeping in mind the end goal to diminish the total request and stem elevated amounts of swelling (20).

Amid these months, sends out were 4.4 billion dollars while imports were 6.2 billion dollars, which has prompted an outside exchange overflow of 1.8 billion. For a similar time of 2016, sends out were 5.8 billion dollars and imports were 5.5 billion dollars, adding up to a 0.3 billion dollars exchange excess. This bigger exchange surplus in 2017 has prompted an inflow of remote monetary forms which the economy urgently needs. It is significant that contrasted with 2016, sends out have diminished by 25%, in the interim imports saw a 12% expansion. The fundamental purpose for the diminishing of aggregate fares is because of oil sends out, which saw a lessening of 43.17%. Then again late debasements have made neighborhood items more focused on outside business sectors and the reduction in trades was in part counterbalanced by the expansion in fares of horticultural items, particularly cotton, which was sent out 6.68 times additionally amid the initial 9 months of 2017 contrasted with a similar period in 20162. Imports of meat, drain, and pharmaceutical items have had the biggest increment amid the previously mentioned period.

As of August 2017, outside stores of the national bank remain at 5.1 billion dollars, a 21.6% expansion from 4.19 billion dollars in August 2016. It is vital to call attention to that the primary purpose for this expansion is the 7.5 billion dollars exchanged from the State Oil Fund to the Central Bank. This was the primary exchange from SOFAZ to the Central Bank.

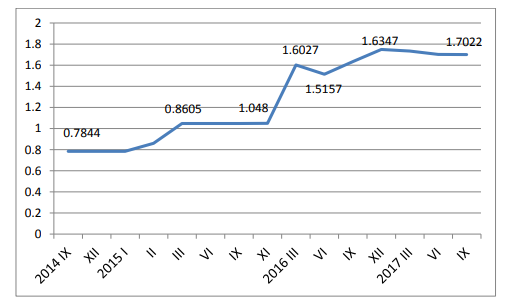
Spending incomes and uses for the time of January – September 2017 have been 12.04 billion manats (6.92 billion dollars) and 12.78 billion manats (7.35 billion dollars), separately, which created a spending deficiency of 738.6 million manats, 42% more than the spending shortage of a similar time of a year ago.

Expanded oil costs prompted an expansion of outside stores of the State Oil Fund of Azerbaijan by 8.67% since the start of 2017 and right now remain at 36.02 billion dollars starting at 1 October, 20173. This implies 87.6% of all outside money holds are packed in SOFAZ, 2,4% not exactly in September of 2016.

The outside obligation of Azerbaijan on 1 July, 2016 was 7.63 billion dollars or 20% of the aggregate GDP. Starting at 1 July 2017 it is 7.17 billion dollars, which is 18.9% of aggregate GDP, 1,1% not as much as a year ago.

The official conversion scale of AZN starting at 1 September 2017 was 1$ to 1.7002 AZN, as indicated by the Central Bank. Aside from a sharp increment in January – February, the conversion scale of a dollar to manat has been pretty much stable amid the initial 10 months of 2017. Notwithstanding this dependability, the populace keeps on having low trust in the cash due to the huge downgrades of a year ago (20).

**Chart 2.2. Official Exchange Rate of AZN to USD**



**Source:** Central Bank of Azerbaijan, 2017

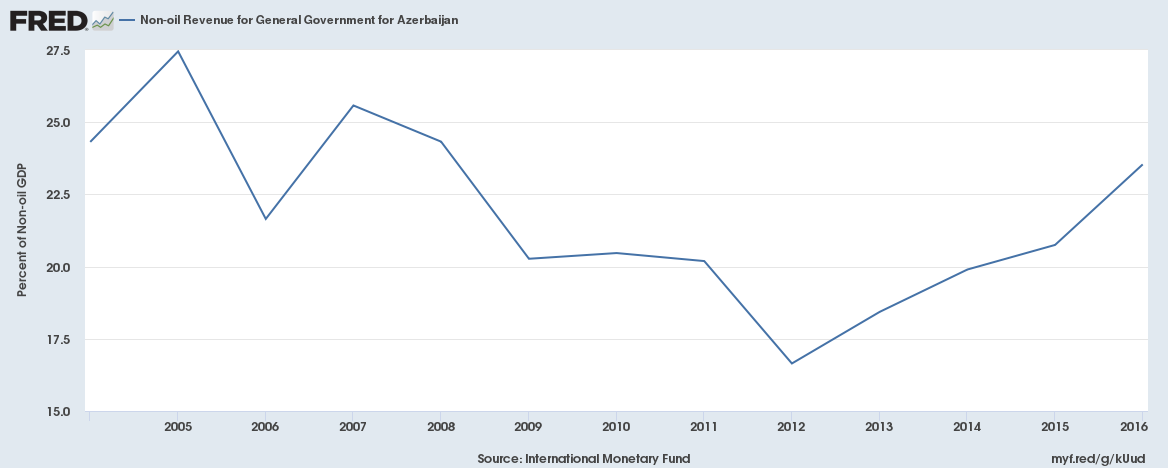
Oil GDP decreased by 3.4 % in Azerbaijan. Mean GDP extended by 2.2 % in light of non-oil advancement Growth Domestic Production (GDP) accomplished 53.7 billion manats ($ 68.9 billion US) in the underlying eleven months of 2014 in Azerbaijan-State Statistics Committee reports. Total national output extended by 2.2% appeared differently in relation to a comparative time of prior year. Total national output per capita was 5710.7 manat (7 281.3 US dollars) in the indicated period.

Non-oil part expanded by 6.5% contrasted with the relating time of earlier year, its offer in GDP expanded from 56.9% in the earlier year to 59.8%. Notwithstanding, oil-gas GDP declined by 3.4% contrasted with the comparing time of a year ago (1).

60.2 of GDP was delivered underway zone, and in addition, 42.6% in industry, 12.5% in development, 5.1% in farming, ranger service and angling and 32.5% of it was an offer of administration fields. 24.3% of significant worth included generation in administrations fields was given in terms of professional career and support of transport implies, 14.9% by transport and distribution center, 6.5% by convenience of sightseers and cooking administrations, 5.5% by data and correspondence administrations, 48.8% by social and other administration fields rendering administrations to financial elements. Net of assessment to the item and import was shaped 7.3% of GDP (4).

In the showed period, add up to modern yield was 29.8 billion manat ($ 38,2 billion US) in Azerbaijan. 38.4 million tons oil and 17.0 milliard cubic meter attractive gas and different items were delivered in the mining area with 70.4% industry item. The volume of generation in a non-oil segment of industry expanded by 6.6% contrasted with January-November of earlier year, it was diminished by 3.0% in the oil-gas division. 92.7% of aggregate industry creation was an offer of merchandise (items), 7.3% mechanical administrations, 80.1% of items were delivered in private area.

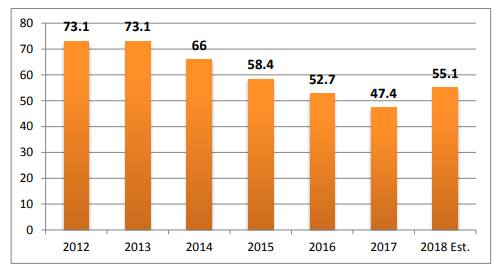
**Figure 2.1. Non – oil revenue for General Government for Azerbaijan**



**Source:** International Monetary Fond

Incomes of the 2018 spending plan are evaluated to be 20.13 billion manats ($11.84 billion dollars US). For 2018 spending incomes are assessed to be over 24% contrasted with the incomes of 2017. Oil segment alone will add to 89.3% out of this expansion. The contracting offer of the oil division in spending incomes since 2013 will be turned around one year from now, with an expansion of 7,7%, and will by and by turn into the biggest wellspring of income for the state spending plan, estimations say. It must be noticed that while anticipating the spending incomes for 2018, the cost of 1 barrel of oil has been acknowledged as $45 US. This is to be utilized as a benchmark cost by the legislature, especially for income collection. By having a lower benchmark the administration imagines a most dire outcome imaginable of oil at $45 US, while assesses by different associations, for example, the World Bank or the IMF put that estimation higher. Everything over the benchmark will involve an expansion in additional income; this brings the topic of income allotment. Following the drop in oil in 2014, the administration diminished both spending and apportioned real incomes to accomplish monetary union. In any case, as will be demonstrated as follows, the administration plans to expand use with the expanding income. As it were, we can hope to see an arrival to the strategy of high spending distinctively of the pre-oil droop, viably deserting the procedure of monetary union since 2014. The development of GDP at 1.5% for one year from now is required to be filled by this arrival to high spending, especially for capital consumption, a division the administration expectations will stimulate the economy (18).

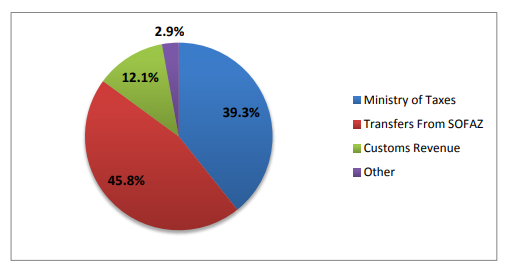
**Chart 2.3.Share of oil sector in state budget**



**Source:** Ministry of Finance of the Republic of Azerbaijan, 2017

55.1% of the spending incomes will be created from the oil part. Of that sum, coordinate exchanges from SOFAZ constitute 83.1% while the staying 16.9% comes as tax collection of oil organizations.

**Chart 2.4. State Budget Revenue Shares**



**Source:** Ministry of finance of The Republic of Azerbaijan, 2017

As indicated by estimations, 66.7% of non-oil area incomes will be created as duty incomes, while 26.9% will originate from the State Customs Committee and the staying 6.4% from different sources. This features the significance of the offer of in general spending incomes that SOFAZ exchanges will give to the state spending plan, with figuring putting this figure at around 45.78% of the assessed spending plan for 2018.

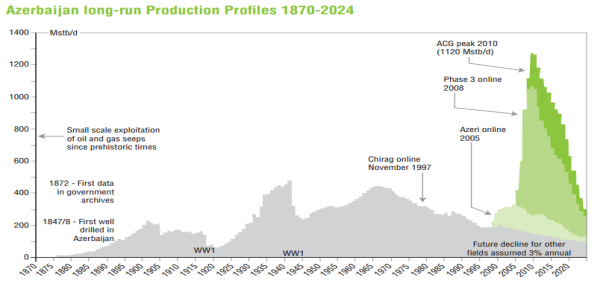
# 2.2. Legislation of state regulation of foreign trade in Azerbaijan

Strategic Road Maps on the national economy and the main sectors-economies are called upon to ensure the economy's competitiveness, its inclusion and enhancement of social welfare on the basis of sustainable economic development in Azerbaijan. Responding to global challenges, as a result of investment mobilization, favorable environment for free competition, access to markets and development of human capital, Azerbaijan will strengthen its positions in the global economy and will join the list of high-yielding countries. The key directions of the strategic road map on the national economy and the main sectors of the economy were approved by the President of the Republic of Azerbaijan, Mr. Ilham Aliyev on December 6, 2016 and in the appropriate order, strategic road maps for the national economy and 11 sectors of the economy, in the general consisting of 12 documents, were transferred to the Analytical and Communication Center with instructions to conduct monitoring, evaluation, and communications on the implementation of these strategic road maps. The strategic roadmap for the future of the national economy covers short-, medium- and long-term periods, and consists of an economic development strategy and action plan until 2020, a long-term vision for the period until 2025, and a vision vision beyond 2025 (Rovshan Aghayev, Zhorab Ismayil, Azer Mehtiyev 2013).

This document covers not only the goals and principles of development, but also global trends in all areas, 360-degree diagnostics of the economy and SWOTanalysis of the current situation, planned measures, required investments and indicators of results. Focusing on the priorities selected in the short term, it is planned to create a foundation for economic growth in the medium- and long-term periods. The strategic roadmap will contribute to all factors of economic development, including communication opportunities and cooperation with local and international representatives of the private sector. Public investments will act as a catalyst, and the private sector will be the locomotive of economic development. The main features of the prospects for the national economy Over the past 10 years Azerbaijan has modernized its infrastructure due to its successful oil strategy, the economy of non-resource resources has been developed due to the existing incomes; social security improved; increased state assets, as well as created strategic foreign exchange reserves that exceed the level of GDP. Beginning in 2014, as a result of the sharp decline in oil prices and the economic crisis facing trade partners, amid the ongoing processes in the country, in particular, the slowdown in economic growth, institutional and structural reforms, the balance of payments deficit and the non-oil budget, changes in the financial and banking sectors, there was a need in Azerbaijan for a new approach to economic development. The structure of the national economy can be resumed through further improvement of the business environment, the application of a new policy within the framework of the medium-term strategy, the restoration of the financial and banking system, and the improvement of monetary policy based on floating exchange rates, external markets. For this reason, four strategic goals were chosen within the national economic perspective. Achieving these goals and implementing road maps for 11 sectors will open the possibility for sustainable economic development by balancing the real and financial sectors. In accordance with the first strategic goal, fiscal stability will be ensured in Azerbaijan and a monetary policy based on the floating exchange regime will be formed (Musabekov R. 2009).

Coordination of fiscal and monetary policies will ensure macroeconomic stability. Within the framework of the national economic perspective, the second task is to increase productivity in the activities of legal entities with a large shareholding belonging to the state and ensuring a dynamic economic development through privatization. The third goal is related to the development of human capital, as the development of the labor market will be coordinated in accordance with the national economic perspective. Finally, the fourth goal is to further improve the business environment. Also covered are general issues of ensuring the stable development of 11 sectors established in the context of the national economic perspective. In the medium and long term, the economy of Azerbaijan will develop in an environment where it will be exposed to various changes. Tracking such influences and their understanding is mandatory in terms of overcoming difficulties and taking advantage of the opportunities that they have caused. Although the probability of occurrence of unpredictable processes is high, however, the first indicators of the impact of several global trends on the global economy in recent decades are already visible. In all likelihood, four of these impacts will be extremely important for Azerbaijan: moving the global center of economic power to Asia into emerging markets, a significant impact of technological innovation, a changing geopolitical configuration, and a change in the price of oil and gas. A new approach to economic growth: a strategic choice The choice of "growth points" for the future economic growth of the country is an important strategic decision. As a result of the reduction in the opportunities for the formation of value added in the model of intensive capital accumulation, in the new strategic period, there are two choices for the country towards a future growth approach: a. labor-intensive growth model b. growth based on productivity and efficiency. Integration into the global value chain, transformation to an economic growth approach based on productivity and efficiency, in an appropriate and logical period, can become an obvious strategic choice, in terms of the quality of economic growth and sustainability. However, using the opportunity by combining both models in the short and medium term could provide a transition to a strategic choice model in a shorter timeframe. It is especially necessary to take into account the fact that the labor force in the regions of Azerbaijan, in comparison with the city of Baku, is largely cheap, and this creates a huge potential for the development of a labor-intensive cluster in the regions (Yuzbasheva G.Z 2003).

Nevertheless, the strategic choice is to build an approach to growth based on productivity. This requires a high-quality institutional environment, accessible sources of financing, proper segmentation and specialization of business and, most importantly, training in the field of human capital in intensive order. Improving the business environment. Improving the effectiveness of mechanisms for state regulation of entrepreneurial activity, further improving the quality of tax and customs administration, minimizing restrictions on entering the market, and at the same time providing conditions for free competition will improve the business environment. At the same time, limiting the commercial activities of the public sector (production, transport, communications, financial services, etc.), the expansion of opportunities for private initiative is very important. Expanding the sources of financing for a new growth approach is one of the important issues on the reform agenda. First of all, it is necessary to confirm the potential of public and private sources of financing, and make significant efforts to encourage foreign investment. Government funding. First of all, it is necessary to finance priority sectors of development. Further, these same areas can be financed through sector lending by the National Entrepreneurship Support Fund and other sources of funding. Investing in private savings. Improving the business environment can stimulate enterprises and households to invest their savings as investments, contributing to economic development. Expansion of foreign sources of financing. Acceleration of judicial and legal reforms, ensuring the rule of law in the country can give an impulse for further expansion of entrepreneurship initiatives of foreign investors. Along with the implementation of these reforms, the holding of investment fairs abroad intensively, the provision of specific incentives for investing in priority sectors (under the same conditions as for domestic investors) can facilitate the provision of foreign financing In order to ensure the effectiveness of the new growth model, it is necessary to improve and modernize economic policies.



The strategic review until 2020 aims to promote the development of the foundations for building the economy for 2025 and beyond. Along with the preservation of Azerbaijan's important role in energy security and the development of transport and logistics corridors in Europe, the economy will progressively develop in the areas envisaged in the Strategic Roadmap. The main goal is to increase the diversification and specialization of the economy, increase revenues and distribute them equitably by creating greater value in the non-primary sector. Over the past ten years, profit for oil has increased the level of employment. Nevertheless, due to the fact that the labor intensity in the oil sector is weak, the number of employees directly involved in this sector is only 1 percent of the total workforce. The 2020 strategic review also includes further expansion of market entry opportunities. Improving trade infrastructure and increasing trade openness should be so harmonized with the policy of protecting domestic markets so that as a result of rational use of natural resources, a significant part of the funds remain in the country and fairly distributed (Anar Ahmadov. 2014).

It is envisaged to apply the "golden rule" to solve the dependence of the main macroeconomic indicators, in particular, the state budget on unsustainable oil revenues. Thus, an equitable distribution of accumulated oil revenues between generations will be 46 ensured, and the volume of SOFAZ transfers to the state budget will be linked to the needs of sustainable economic development. Price stability, achieved through monetary policy, will increase confidence in the national currency, help in shaping a disciplined fiscal policy and will have a positive impact on economic growth. In short, the tasks of monetary policy, the objectives of the growth of the fiscal framework and economic growth will support each other on a reciprocal basis. The depth of financial markets, as well as the variety of services, their quality and profitability will increase.

Strategic overview for the period after 2025 The review for the period after 2025 envisages the formation of a strong competitiveness and an inclusive economy based on the development of high technology and an optimal economic structure that ensures an improvement in the social security situation and the achievement of a high level of the human development index. Commentary on strategic vision Strong middle class, deep specialization in areas with competitive advantages, effective integration with the world economy, ensuring national economic security and developed infrastructure will be the main pillars of the strategic vision for the period after 2025. Azerbaijan will be committed to implementing urgent, decisive and transformed measures that will make the world sustainable and strong in accordance with the United Nations Sustainable Development Goals. 52 In the period after 2025 the main driving force of Azerbaijan's economy will be a competitive labor force. In particular, more attention will be paid to the employment of youth and women. Through institutions that ensure the implementation of flexible policies in the labor market, social dialogue will be developed and inclusive employment will be increased. The development of human capital in Azerbaijan, not only in accordance with the requirements of the national economy, but also with the requirements of a globalized world economy, will create conditions for regulating migration, which will lead to greater preservation of value in the country (Mikheeva, N. N. 2016).

# CHAPTER III. DİRECTİONS OF IMPROVEMENT OF FOREIGN TRADE REGULATION OF AZERBAIJAN

# 3.1. Features of the regulation of foreign trade in Azerbaijan

A strong, highly specialized and innovative workforce will play an important role in strengthening Azerbaijan's position in global value chains. Enhancement of opportunities in the field of technologies, create conditions for the workforce of Azerbaijan, carry out export activities in a number of spheres in the provision of services. The development of professional skills, as well as the effective use of labor resources, will result in the achievement of the level of labor productivity in Azerbaijan in the level of the countries of Eastern Europe in accordance with the relevant indicators. In general, starting from 2025, in the course of implementing labor market regulation, attention will be paid to the impact of high technologies, including the introduction of intelligent machines and systems, as well as factors such as the expansion of communication capabilities. In the period after 2025, Azerbaijan will pay much more attention to environmental protection, as reducing carbon dioxide emissions will create conditions for cleaner air, water and soil from an ecological point of view. Proceeding from the principle of energy efficiency, the energy spent on the production of each unit of GDP will be minimized, and in the period after 2025 the share of renewable energy will be increased in the energy balance of Azerbaijan. In addition, taking as a basis for environmental balance, an effective system for waste management will be developed, including hazardous gases, wastewater treatment and management of radioactive waste.

Until 2025, the Strategic Road Map provides an average annual real growth of more than 3 percent of GDP, and in addition the creation of more than 450,000 new jobs Achieving the share of foreign direct investment sent to non-oil GDP by 2025 from the current 2.6 percent to 4 percent. Foreign investors play a very important role in the diversification of the economy. Thus, the contribution of foreign investors includes not only fixed capital, but at the same time, the introduction of new skills, technologies and networking opportunities necessary to enter new industries and value chains. Diversification of the economy requires attracting the largest number of investments in the non-oil sector. An increase in the share of exports of the non-oil sector from $ 170 per capita in 2015 to $ 450 per capita in 2025. In 2015, the import demand in the Azerbaijani economy was $ 1,000 per capita. To ensure balance with imports, in 2015 Azerbaijan exported goods in the amount of 1500 US dollars per capita, and 90 percent of these goods were oil and gas products. Balancing the export of goods and services with imports is extremely important for the economic independence and stability, however, in order to reduce dependence on oil prices, it is necessary to export more non-oil products. Creation by 2025 of up to 150 thousand additional jobs in the sector of trade in goods and services, such as the production and tourism sector (Neffke, F., Henning, M. and Boschma, R. 2011).

Providing new jobs to citizens is always a priority of the state. However, in some sectors, the economic impact is much greater than in others. In order to diversify exports, in the sectors of trade in goods and services engaged in the production of goods (for example, industrial goods or food) or services (tourism or transportation) that can be sold at a new international level, the creation of new jobs is mandatory. Participants in the trade in goods and 56 services face international competition, and this usually leads to rapid growth in productivity. Reducing the dependence of the state budget on SOFAZ transfers. Today, every second manat spent in the state sector (about 50 percent) is financed by transfers from SOFAZ. This figure should be reduced to 15 percent by 2025. The amount by which SOFAZ can make a transfer is closely related to its revenues and new oil prices. This dependence is one of the main reasons for the serious impact of oil price fluctuations on the economy of Azerbaijan. To increase the share of private investment in the economy, it is very important to have a stable growth rate and the state budget should be less dependent on transfers from the Oil Fund.

To achieve these goals, successful implementation of the strategic goals and priorities envisaged in the strategic road maps of the national economy and in 11 sectors of the economy is necessary. At the same time, in order to implement the envisaged measures, it is necessary to mobilize investments and other resources, in order to ensure effective monitoring and evaluation.

According to the estimates, to achieve the set priorities by 2020, it will be necessary to invest in the economy, amounting to 27 billion manat. This amount reflects total funds for all sectors, within the framework of strategic road maps. The envisaged amount will be provided at the expense of all types of public and private sources (local and foreign). In addition to the goals for the economy of Azerbaijan until 2020, these investments will serve as a foundation, in terms of impact on the goals foreseen for the future. The identification of new strategic goals for priority or other economic sectors will assist in achieving higher goals for Azerbaijan, in line with the positive trajectory of priorities within the Strategic Roadmap.

# 3.2. The main directions of Foreign trade policy of Azerbaijan

Foreign trade policy is an important component of the general economic policy. When implementing the foreign trade policy actions, the target of the state is to achieve certain goals. In this part Azerbaijan’s foreign trade policy and integration of Azerbaijan’s economy to the world economy after the gaining independence will be presented.

Commencement of the independent development of Azerbaijan after the collapse of the Union of Soviet Socialist Republics (the USSR) became a turning point in its social and economic development. Goal-oriented policy was launched in the field of reforms in economy, enlargement of trade and economic relationships with other states, involvement of foreign investment in the country. Under the Soviet Union, Azerbaijan was integrated to the unified “complex of economy”; and foreign economic relationships were under the monopoly of the central government and managed from that level.

After the collapse of the USSR, the foreign trade turned to be a very important factor in the development of Azerbaijan. In this period, Azerbaijan’s dependence on foreign markets significantly increased (Bayramov V.. & G. Abbas., 2012).

Priorities of Azerbaijan’s foreign trade policy consists of maintaining the country’s image as an attractive country for foreign capital, improvement of the structure of exports and imports, development of the non-oil sector through utilization of opportunities abroad, increasing employment in export sectors, preserving the value of the manat, continuation of efficient cooperation with international financial institutions, sustaining control over the level of foreign debts, reduction of Azerbaijan’s dependence on foreign capital and oil revenues (17).

Successful completion of transition to a market economy, growth rate of the economy and efficient integration with the world economy requires a maximum degree of liberalization in foreign trade policy. In this regard, the Republic of Azerbaijan tries to liberalize foreign trade policy (Ahmadov, Ingilab, Stella Tsani, and Kenan Aslanli., 2011).

Currently, Azerbaijan participates in various regional groups in Eurasia to minimize dependency on any geographical region. These regional groups are:

* Commonwealth of Independent States (CIS);
* Economic Cooperation Organization (ECO);
* Organization of the Black Sea Economic Cooperation (BSEC);
* Organization for Democracy and Economic Development (GUAM).

Besides the above regional groupings, integration to the European Union (EU) is an important priority among Azerbaijan’s foreign economic policies. Increased integration with EU would enable Azerbaijan to use its available resources more efficiently and would also enable the country gain an improved access to modern technology, investments and foreign capital and also develop a non-oil sector. To this aim, the Action Plan within the framework of European Neighbourhood Policy between the Republic of Azerbaijan and the EU was endorsed in November 2006. Expressing its strategic interests in the South Caucasus region, the European Union intends to maintain a multilateral cooperation with Azerbaijan, especially in the field of energy.

Accordingly, a Memorandum of Understanding on Strategic Partnership in the field of Energy was signed between the Republic of Azerbaijan and the European Union on November 7, 2006.

**Table 3.1. Geographical structure of imports, thousand US dollars**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Geographical regions** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Total** | **5266 744,0** | **5 713 525,3** | **7 169 980,9** | **6 123 110,5** | **6 600 611,6** | **9 755 968,7** | **9 652 870,6** | **10 712 502,5** | **9 187 697,6** | **9 216 677,1** | **8 489 140,4** | **8 782 007,5** |
| **Reimport** |  |  |  |  |  |  |  |  |  |  |  |  |
| Europe | 3219 270,7 | 3 290 667,7 | 4 179 234,7 | 3 459 353,9 | 3 507 694,9 | 5 645 076,9 | 4 797 767,7 | 6 103 547,7 | 5 051 353,3 | 5 019 083,1 | 4 528 536,3 | 4 318 198,3 |
| Asia | 1663 111,8 | 1 957 418,1 | 2 511 626,8 | 2 172 821,4 | 2 585 183,8 | 3 182 139,2 | 3 790 729,3 | 3 673 393,3 | 3 224 153,1 | 3 092 305,8 | 3 179 400,6 | 3 394 445,1 |
| America | 324 257,2 | 434 088,2 | 431 898,7 | 439 271,7 | 461 839,3 | 891 618,5 | 1 004 869,5 | 823 642,0 | 879 444,9 | 1 065 332,5 | 713 901,8 | 991 927,5 |
| Africa | 47 497,9 | 17583,4 | 36 519,2 | 34 132,5 | 22 866,5 | 14 397,3 | 34 741,4 | 84 210,3 | 7 010,7 | 13 285,1 | 19 271,8 | 24 535,9 |
| Oceania | 12 606,4 | 13767,9 | 10 701,5 | 17 531,0 | 23 027,1 | 22 736,8 | 24 762,7 | 27 709,2 | 25 735,6 | 26 670,6 | 48 029,9 | 52 900,7 |

**Source:** The State Statistical Committee of the Republic of Azerbaijan

After gaining independence, Azerbaijan started to sign contracts with Western countries about oil production and transportation of oil. The first contract to be signed was Azeri-Chirag-Guneshli - International Contract signed on September 20, 1994, ratified in Parliament on December 2, and went into effect on December 12. Because of its potential reserves estimated at 6 billion barrels (950,000,000 m3) of oil, this project is often referred to as the "Contract of the Century". The projected investment for this project is $13 billion. After the contract, in 1995, Azerbaijan International Operating Company (AIOC) was organized and was composed of eleven major international companies: BP (UK), Amoco (US), LUKoil (Russia), Pennzoil, (now Devon of US), UNOCAL (US), Statoil (Norway), McDermott (US), Ramco (Scotland), TPAO (Turkey), Delta Nimir (now Amerada Hess of US), and SOCAR (Azerbaijan). However, the problem of how to deliver the oil to European markets existed.

This problem was solved by the agreement for the construction of the Baku-Tbilisi- Jeyhan pipeline among Azerbaijan, Georgia and Turkey in 1998. The pipeline was officially opened in July 13, 2006 and now transports crude oil 1,760 km (1,094 miles) from the Azeri-Chirag-Guneshli oil field in the Caspian Sea to the Mediterranean Sea. The Baku-Tbilisi-Jeyhan pipeline is expected to make a major contribution to the world energy supply with its more than 1 million barrels per day capacity. This pipeline may also transport oil from Kazakhstan's Kashagan oil field as well as from other oil fields in Central Asia. The government of Kazakhstan announced that it would build a trans-Caspian oil pipeline from the Kazakhstani port of Aktau to Baku (Ageeva, S., Suslov, N.,2011).

**Table 3.2. Export of energy products (in volume terms)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| Crude oil, thsd ton | 44 507,9 | 39 028,7 | 36 756,5 | 36 707,8 | 35 227,3 | 35 109,9 | 34 972,4 | 32 845,2 |
| Natural gas, million cubic metre | 6 187,2 | 6 817,4 | 6 616,7 | 7 308,0 | 8 093,2 | 8 145,2 | 8 049,1 | 8 856,9 |
| LPG, thsd ton | 155,9 | 109,4 | 90,0 | 92,5 | 35,1 | 15,5 | 58,8 | 82,4 |
| Motor gasoline, thsd ton | 196,8 | 96,5 | 60,1 | 24,6 | 13,4 | 4,7 | 4,5 | 7,0 |
| Kerosene - type jet fuel, thsd ton | 114,6 | 78,9 | 146,0 | 131,3 | 196,7 | 236,5 | 236,3 | 181,0 |
| Naphtha, thsd. Ton | 64,5 | - | - | - | - | - | - | - |
| Diesel fuel, thsd ton | 1 569,4 | 1 359,1 | 1 139,0 | 1 084,8 | 1 523,2 | 1 655,0 | 1 228,1 | 603,2 |
| Fuel oil - low sulphur, thsd ton | 184,3 | 213,1 | 107,1 | 228,3 | 236,8 | 113,4 | 23,4 | 12,5 |
| Petroleum coke, thsd ton | 389,9 | 262,5 | 192,9 | 214,7 | 286,7 | 263,9 | 172,7 | 257,3 |
| Bitumen, thsd ton | 14,0 | 20,0 | 11,1 | - | 3,2 | - | - | - |
| Lubricants, thsd ton | 80,8 | 72,6 | 49,4 | 40,5 | 36,3 | 14,9 | 9,4 | 20,9 |
| Other petroleum products, thsd ton | - | - | - | 27,2 | 25,8 | 25,8 | 1,9 | 10,8 |
| Electricity, million kWt hour | 462,4 | 804,8 | 680,3 | 495,6 | 489,3 | 265,0 | 1 095,5 | 1 282,5 |

**Source:** The State Statistical Committee of the Republic of Azerbaijan

**Table 3.3.Import of energy products (in volume terms)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| Crude oil, thsd ton | - | - | - | - | 0,1 | - | - | 62,6 |
| Natural gas, million cubic metre | - | - | - | - | - | - | 298,4 | 2 109,9 |
| Natural bitum and natural asphalt, thsd ton | 0,7 | 0,3 | 1,4 | 4,5 | 1,1 | 7,1 | 1,0 | 1,6 |
| LPG, thsd ton | 0,1 | - | - | 0,1 | - | - | - |  |
| Motor gasoline, thsd ton | 0,4 | 1,0 | 0,3 | 0,2 | 193,6 | 45,8 | 81,0 | 130,4 |
| Diesel fuel, thsd ton | 0,1 | 0,1 | 3,1 | 2,0 | 0,9 | 12,4 | 3,9 | 1,2 |
| Kerosene - type jet fuel, thsd ton | - | - | - | - | - | - | - | 82,2 |
| Other kerosene, thsd ton | 0,5 | 0,3 | 19,6 | 28,4 | 4,5 | 14,5 | 10,6 | 2,5 |
| Fuel oil | 0,2 | - | - | 9,5 | 20,9 | 135,0 | 186,7 | 197,6 |
| Petroleum coke, thsd ton | 0,1 | 0,1 | - | - | 0,1 | 4,0 | 0,1 | 0,8 |
| Bitumen, thsd ton | - | - | - | 20,5 | 0,1 | - | 4,8 | 7,1 |
| Lubricants, thsd ton | 26,5 | 26,1 | 20,5 | 27,3 | 37,0 | 37,3 | 26,2 | 32,8 |
| Other petroleum products, thsd ton | - | - | - | 34,0 | 19,2 | 31,9 | 15,9 | 10,7 |
| Electricity, million kWt hour | 99,8 | 128,0 | 140,9 | 127,3 | 124,1 | 107,5 | 114,4 | 107,8 |
| Other fuel products, thsd ton | 9,9 | 9,3 | 10,6 | 11,0 | 7,0 | 8,8 | 5,4 | 6,4 |

**Source**: The State Statistical Committee of the Republic of Azerbaijan

Azerbaijan is taking steps for efficient integration to the world economy and multilateral trade system as well as World Trade Organization (WTO), for the purpose of developing its foreign trade. Azerbaijan aims to become a member of this organization during the upcoming years (Darrat, A.F., 2006).

**Table 3.4. Dynamics of foreign trade turnover**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Years** | **In million US dollars** | | | | **percentage change from previous year \*)** | | |
| **Turnover** | **imports** | **exports** | **balance** | **turnover** | **imports** | **exports** |
| **2010²** | 33 160,7 | 6 600,6 | 26 560,1 | 19 959,5 | 106,5 | 105,0 | 106,9 |
| **2010** | 27 960,8 | 6 600,6 | 21 360,2 | 14 759,6 | 120,0 | 105,0 | 125,3 |
| **2011²** | 44 161,7 | 9 756,0 | 34 405,7 | 24 649,7 | 104,0 | 145,3 | 92,6 |
| **2011** | 36 326,9 | 9 756,0 | 26 570,9 | 16 814,9 | 103,9 | 145,3 | 88,7 |
| **2012²** | 43 813,5 | 9 652,9 | 34 160,6 | 24 507,7 | 95,5 | 96,9 | 95,1 |
| **2012** | 33 560,9 | 9 652,9 | 23 908,0 | 14 255,1 | 89,3 | 96,9 | 86,2 |
| **2013²** | 43 554,1 | 10 712,5 | 32 841,6 | 22 129,1 | 102,7 | 109,1 | 100,7 |
| **2013** | 34 687,9 | 10 712,5 | 23 975,4 | 13 262,9 | 106,3 | 109,1 | 105,1 |
| **2014²** | 39 407,5 | 9 187,7 | 30 219,8 | 21 032,1 | 95,7 | 85,4 | 99,0 |
| **2014** | 31 016,3 | 9 187,7 | 21 828,6 | 12 640,9 | 94,1 | 85,4 | 98,0 |
| **2015²** | 25 809,0 | 9 216,7 | 16 592,3 | 7 375,6 | 99,9 | 99,5 | 100,1 |
| **2015** | 21 945,8 | 9 216,7 | 12 729,1 | 3 512,4 | 104,3 | 99,5 | 106,3 |
| **2016²** | 21 596,6 | 8 489,1 | 13 107,5 | 4 618,4 | 92,7 | 89,6 | 94,4 |
| **2016** | 21 946,7 | 8 489,1 | 13 457,6 | 4 968,5 | 112,9 | 89,6 | 129,7 |
| **2017²** | 24 257,6 | 8 782,0 | 15 475,6 | 6 693,6 | 89,3 | 83,9 | 92,9 |
| **2017** | 22 593,6 | 8 782,0 | 13 811,6 | 5 029,6 | 80,0 | 83,9 | 77,6 |

**Source:** The State Statistical Committee of the Republic of Azerbaijan

Another aspect of cooperation that the Republic of Azerbaijan pursues with international economic organizations consists of those with specialized the United Nations (UN) agencies on development of industry and agriculture with an international focus. Consequently, cooperation with United Nations Industrial Development Organization (UNIDO), Food and Agriculture Organization of the United Nations (FAO), and International Fund for Agricultural Development (IFAD) is of high importance (Boschma, R. and Capone, G. 2015).

# CONCLUSION

In the conditions of globalization and integration of the world economy, the orientation of the national economy only on the production of raw materials is extremely inefficient. Ensuring the sustainable development of the national economy requires diversification, i.e. the development of industries producing ready-made, export-oriented products. All this will allow the republic to receive additional foreign currency. In the long term, Azerbaijan sets a goal to reach the level of highly developed countries of the world, but the sectoral economy does not allow it to be achieved, so only the diversified economy helps to achieve this. All developed countries of the world set a goal to produce products with high added value, i.e. production of high-tech, science-intensive products.

Unfortunately, the existing structure of the Azerbaijani economy is oriented toward the production of raw materials, mainly oil and gas. The prices for oil and gas are extremely volatile, besides they do not provide the conditions for stable economic development, for the implementation of science and technology achievements. It is necessary to take into account the factor of economic situation around the republic and the condition of its neighbors, primarily with Armenia. To this end, Azerbaijan must diversify its economy, since the country has a very great potential in the form of a natural factor and the geographical position of the country also creates exceptional opportunities for this. For achieving the set goals it is important to use foreign experience of economic diversification and first of all of such countries as Kazakhstan, Indonesia, Malaysia.

Diversification should allow Azerbaijan to develop industries necessary to meet its needs, in addition to ensure its vital interests. It is enough to say that about 50% of all agricultural products consumed in the republic are imported, and engineering products of about 80%, it follows that the foreign exchange resources received in the sale of oil and gas goes for imports, which is extremely ineffective. Taking into account all the above, the government of the republic is taking serious measures to diversify the national economy, in particular, the President signed a decree 58 to develop a plan for a strategic road map for the development of the national economy, which provides 11 directions for the development of key industries that should establish finished and export-oriented products.In accordance with this plan, it is planned to create industrial clusters in all regions of the republic, this is done to reduce differences in the levels of development of regions, to ensure a stable level of their industrial development and ultimately provide the republic with the necessary industrial products. However, this does not mean total refusal to develop oil industry, since there are very large reserves associated with the transition from the export of raw materials to the export of finished products. Suffice to note that at present there is such a situation that the gasoline produced in the republic is of extremely low quality and price. As our studies have shown, the development of a post-oil diversified economy requires considerable financial resources and institutional and structural changes at the legislative level, i.е. creation of favorable economic conditions for the development of a multi-sectoral and export-oriented economy, including attracting capital from local and foreign investors.

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