AZERBAIJAN STATE UNIVERSITY OF ECONOMICS

INTERNATIONAL SCHOOL OF ECONOMICS

UNDERGRADUATE THESIS

PROBLEMS AND THEIR SOLUTIONS IN EXPORT IN THE FRAMEWORK OF MADE IN AZERBAIJAN

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FIRST PART

1. INTERNATINAL TRADE, COMPONENTS AND BOT

1.1.INTERNATIONAL TRADE

International commerce is the cross-border exchange of products and services. It's also the first type of foreign business transactions carried out by most businesses since importing or exporting requires the least commitment and risk to the resources of the company. For example, the excess production capacity of a company can be used to produce for export. This is a cheap way to test the market acceptance of a product prior to investing in local production facilities. In the last decade, international trade in services has grown at an annual rate of around 18 percent compared to about 9 percent for the commodity trade. Trade in services accounts for 25% of global trade in 2004 (WTO, 2004a). In some countries, such as the Netherlands and Panama, services account for approximately 40% or more of the total trade in goods. Typical exports of services include transport, tourism, banking, advertising, construction, retail and mass communications. International trade allows producers and distributors to search for products, services and components produced abroad. Their acquisition is due to cost advantages or to advanced technical methods applied abroad; methods which, for example, help lower production costs and in turn, induce increased consumption thus leading to higher profits. Trade also allows companies to acquire resources not available at home. Exports are creating high-wage jobs. In a recent salary statistics study, the United States The Office of the Trade Representative found that US workers employed in export related jobs earn 17% more than the average US employee. For manufacturing and service industries, export-related wages are higher. While jobs related to services usually pay less than manufacturing jobs, service jobs in the export sector have been found to pay in the general economy more on average than manufacturing jobs.

International trade played an important role in the nineteenth century in North America and Australia and in the second half of the twentieth century in East Asian economies. Growth in East Asia helped improve living standards and reduce inequality as the new prosperity was widely shared among people. For example, the level of poverty in Malaysia and Thailand decreased from almost 50% in the 1960s to less than 20% in 2000. The promotion of exports is central to the success of these countries. Governments provided loans, restricted imports and established export marketing institutions. As their exports to rich countries increased, their economies grew 7-8 percent per year.

Trade determinants: Several studies were carried out to identify key factors affecting exports. A significant factor in export behavior is the trading and exchange rate scheme (import tariffs, quotas and exchange rates), an entrepreneurial class presence, improved government efficiency, and safe access to transport (and transportation costs) and marketing services. Example: Studies of the nature, composition and determinants of Singapore's technology exports suggest that the country is mainly influenced by an open trade and investment regime and development-oriented economic policy. For more than thirty years Singapore's economy has been continuously growing and significantly increasing its exports, with only two short and mild recessions in the mid 1970s and mid 1980s.

A recent study of export determinants underscores the importance of FDI and the overall quality of the institutional structure. Foreign direct investment contributes to the formation of capital and supports the development and export of knowledge industries. Major benefits of international trade: acquiring a wide array of goods and services, reducing production costs, increasing income and employment, learning about advanced techniques and the safe use of raw materials abroad. Trade Determinants: Major export determinants. Presence of a business class; access to transportation, marketing and other services; exchange rates; government policies on trade and exchange rates.

Major import determinants. Per capita income, import prices, exchange rates, policy on government trade and exchange rates and foreign exchange availability.

1.2.COMPONENTS OF INTERNATIONAL TRADE

EXPORT

Exportation is a component of global trade by transporting goods from one country to another country for future sale and trade. Exports are an essential component of international trade for country's economy, as the sale of these products increases its gross domestic output.

Exports are one of the oldest forms of economic transfer between countries with fewer trade restrictions, including tariffs or subsidies.

The ability to expand goods supports an economy and a significant portion of its annual incomes from exports to other countries is derived from most of the biggest companies in advanced economies. The promotion of economic trade and the encouragement of exports and imports is a key role of diplomacy and foreign policy among governments.

Exports facilitate international trade and stimulate domestic business by creating jobs, production and incomes. According to Research Giant Statista, China, the United States, Germany, Japan and the Netherlands are the biggest exporting countries in the world (in terms of dollars) as of 2017. China's export goods, mainly electronic equipment and machinery, approximately amount to $ 2.3 billion. The US exports' value is around $1.5 trillion, mainly capital goods. Exports of Germany, amounting to about $1.4 billion, and the Japanese, which total around $698 billion, are dominated by motor vehicles. The Netherlands export products values approximately $ 652 billion.

KEYPOINTS

- Export is one of the oldest forms of economic transactions and take place across nations on a large scale.
- Sales and profits can be increased by exporting and it will bring an opportunity to acquire significant share in global market participation.
- Exporting companies typically face greater financial risk. Exporting companies typically are more exposed.

Advantages of Export:

For a variety of reasons, businesses export goods and services. If products create new markets or expand existing ones, exports can increase sales and profits and can even provide an opportunity to gain a significant global share of the market. Exporting companies spread business risk to multiple markets. Foreign exports can often reduce costs per unit by expanding operations to respond to increased demand. In addition, foreign export companies gain new knowledge and expertise that can enable them to discover new technologies, marketing practices and insights into foreign competitors.

Exports and Its Barriers:

Any law, regulation, policy or practice of government designed to protect domestic products from foreign competition or to stimulate artificially the export of particular domestic products is a trade obstacle. Government-imposed measures and policies that restrict, prevent or impede international exchange of goods and services are the most common external trade barriers.
Exporting companies are facing a unique range of challenges. Extra costs are realized when companies allocate significant resources to foreign market research and product modification in order to meet local requirements and regulations. Exporting companies typically face higher financial risk. Domestic customers ' payments are more straightforward than inherently more complicated payments such as open accounts, credit letters, prepayments and consignments.

Example of Exports

Bourbon, a type of whiskey native to the USA (in fact it is defined by a US Congressional resolution as a "distinctive product of the United States") is one example of American exports worldwide. Moreover, the liquor labeled Kentucky bourbon must be made in the state of Kentucky, similar to the way in which a sparkling wine is produced from France's Champagne region, to be known as' Champagne. It developed a global thirst for American bourbon in general and Kentucky bourbon in particular in the twenty-first century. In 2018, however, trade wars between the U.S. and the European Union and China resulted in tariffs raising 25 percent on the spirit of corn, leaving a sour taste in the mouths of many distillers, exporters, and distributors.

Ways for Countries to Increase Exports

Through increasing trade protectionism, countries often increase exports. and this isolates their businesses from global competition for a while. They raise import tariffs (taxes), making them more costly. This strategy's problem is that other countries will soon be retaliating. In the long run, a trade war is hurting global trade. Indeed, this was one of the Great Depression's causes.

Consequently, governments are now more likely to provide their industries with subsidies. The subsidy reduces the cost of business so that prices can be reduced. There is a lower risk of retaliation in this strategy. The government can say that the subsidies are temporary if other countries complain. India claims, for example, that the subsidy enables its poor to afford basics such as fuel and food. Certain emerging markets are protecting new industries. They give them an opportunity in developed markets to catch up with technology.

Trade agreements are a third way for countries to boost exports. Once protectionism has reduced trade for all, countries see the wisdom of tariff reduction. The WTO succeeded to create a global trade agreement But the USA and the EU did not complete their agricultural subsidies. Countries are therefore relying on bilateral and regional agreements.

By lowering their currency value, most countries increase exports. That's having an effect as subsidies. It lowers commodity prices. Central banks are lowering interest rates or printing more money. They also buy foreign currency in order to increase their value. Those currency wars are better won by countries like China and Japan.

The United States can produce everything it needs, but in emerging market countries occurs shortage between goods produced and consumers. In China, India, and other developing countries, the cost of living is low. They can pay less for their workers, creating a comparative advantage.

The United States is a free, capitalist-based market economy. These low-cost imports are costing American jobs. Companies in the United States can not both pay a living wage and compete on the price.

Countries Export Products

There is a competitive advantage for businesses to export goods and services. That means that they are better at providing that product than any other company.

They also export things that mirror the comparative advantage of the country. Countries have comparative advantages in their natural ability to produce commodities. For instance, coffee growing in Kenya, Jamaica, and Colombia has the right climate. That gives an edge in exporting coffee to their industries.

The comparative advantage of India is population. Its employees speak English and know the laws of English. As affordable call center workers, these skills give them an edge.

Exports' Impacts to the Economy

Most countries want their exports to increase. Their businesses would like to sell more. If they sold everything they produced to the population of their own country, then they also want to sell overseas. The greater their competitive advantage is the more they export. They gain expertise in goods and services manufacturing. They also gain knowledge of selling to foreign markets.

Governments are promoting exports. Exports raise jobs, raise wages, and raise living standards for residents. People are becoming happier and more likely to support their national leaders

Exports also increase reserves of foreign exchange held in the central bank of the nation. Foreigners pay in their own currency or the U.S. dollar for exports. It can be used by a country with large reserves to manage the value of its own currency. Wether they have enough foreign currency to flood the market with their own currency. In other countries, that lowers the cost of their exports.

Countries also use reserves of currency for liquidity management. That means they can control inflation more effectively, which is too much money chasing too few goods. They use the foreign currency to buy their own currency to control inflation. That reduces the supply of money, adding value to the local currency.

3 Ways to increase Exports that Countries use

Countries are trying to increase exports in three ways. First, to give an advantage to their industries, they use trade protectionism. This is usually a tariff that raises import prices. They also provide subsidies for lower prices on their own industries. But once they do that, with the same measures, other countries retaliate. For everyone, these trade wars lower international trade. The Smoot-Hawley tariff, for example, reduced trade by 65% and aggravated the Great Depression.

Countries also increase exports through trade negotiations. The World Trade Organisation, among its 149 members, has tried to negotiate a multilateral agreement. It nearly succeeded in the so-called Doha agreement. But they refused to eliminate their farm subsidies by the European Union and the United States.

As a result, most countries have relied for years on bilateral or regional trade agreements. But in 2015, the Trans-Pacific Partnership was negotiated by the Obama administration. The Trump administration fell out in 2017. But without the United States, the other countries completed the agreement.

The third way countries are boosting exports is to lower their currency value. This makes their export prices in the receiving country comparatively lower. By lowering interest rates, central banks do this. It is also possible for a govern ment to print more currency or buy foreign currency to increase its value. Count ries that try to compete in currency wars are accused of devaluing their currenci es.

EXPORT MODEL:

In the last 40 years or so, economic development has been dominated by what have been called export-led growth or industrialization export promotion strategies. The export-led growth framework, which many perceived as a failing development strategy, replaced the framework of import substitute industrialisation. While the new development strategy, including Germany, Japan and Eastern and Southeast Asia, has been relatively successful, current circumstances reveal a new framework for development.

Far from being a deliberate development strategy, import substitution to export-led growing import substitution became a dominant strategy following the 1929 benchmark collapse until the 1970s. The decrease in effective demand following the crash contributed to a decrease in international trade of around 30 percent between 1929 and 1932. Under these dire economic circumstances, countries around the world have implemented protectionist policies for trade, including import tariffs and quotas, to protect their domestic industries. In the wake of World War II, several Latin American and East and Southeast Asian countries have purposefully implemented strategies on import substitution.

Yet the post-war period saw the beginning of a significant trend to further international trade openness in the form of export promotion strategies. After the war both Germany and Japan rejected policies to shield infant industries from foreign competition by taking advantage of US reconstruction aid and instead promoted their foreign exports through an undervalued exchange rate. The conviction was that greater openness would encourage the dissemination of productive technology and technical expertise.

As a result of the success of both the German and Japanese post-war economies and the belief that the import substitution framework was not achieved, export-led growth strategies grew to popularity in the late 1970s. The new International Monetary Fund (IMF) and World Bank institutions, which provides financial aid to underdeveloped countries, encouraged to spread the new framework by making aid conditional on the willingness of governments to open up to international trade. By the 1980s, a number of developing countries which had previously followed import substitution strategies began to liberalize trade and, instead, adopted the export-oriented model. The period between around 1970 and 1985 saw the adoption and subsequent economic success of the export-led growth paradigm by the East Asian Tigers— South Korea, Taiwan, Hong Kong and Singapore. Although a underrated exchange rate had been used to make their exports more competitive, they realized the implication that foreign acquisitions of technology were much more necessary to compete in the automotive and electronic industries. The East Asian tigers have been largely successful because of their ability to promote and implement foreign technology more efficiently than the competitors. Foreign Direct Investment (FDI) supported their ability to acquire and develop technology.

A number of South East Asian newly industrialized countries followed the example of East Asian Tigers as well as a number of Latin American countries. Perhaps best illustrated by the experiences of Mexico that began with trade liberalization in 1986, which led to the launch of the North American Free Trade Agreement (NAFTA) in 1994, is this new export-led growth wave.

NAFTA has become the model for a new export-led growth model. Instead of using export promotion in developing countries to facilitate the development of the domestic sector, the new system was a framework for multinational corporations (MNCs) in developing country low-cost manufacturing centers to offer cheap exports to the developed countries. While developing countries benefit from new jobs and technology transfers, the new model damages the process of domestic industrialisation. The World Trade Organization (WTO) is set to expand this new paradigm in 1996. The accession of China to the 2001 WTO and its export-led growth are an extension of the Mexican model, although China has been far better off than Mexico and other Latin American countries, gaining the benefits of a greater openness to international trade. This is partly because of its increased application of import tariffs, stricter capital controls and its strategic ability to adopt foreign technology to build its own domestic technological infrastructure. However, China remains dependent on MNCs which show that 50.4% of Chinese exports are from foreign companies, and if joint ventures are included, they amount to 76.7%.

While export-led growth has been the dominant economic development model since the 1970's, there are indications that its effectiveness can be exhausted. The export framework is based on foreign demand, and developed nations have not recovered strength since the global financial crisis of 2008 to be the main provider of global demand. In addition, emerging economies are now a much larger part of the global economy, making it difficult for all to adopt export-led growth strategies— not all countries can be net export-led. A new development strategy that fosters domestic consumption and a better balance between exports and imports appears to be necessary.

During the period in which most developing countries followed import substitution policies, the export-driven model may have worked for some countries, replacing domestic production of manufactured goods with raw materials. There are amount of export-led growth restrictions when many countries, including China, start using it.

• It is difficult for all nations to increase exports between 8% and 10% per year when the world economy is growing at 2% or 3% per year. There is no trade surplus for every country.

• The United States, the leading importing nation, can not continue to run large trade deficits. In 2005, US current account deficits recorded $790 billion (almost 6.5% of GDP). Other potential global export destinations, Japan and the European Union, also depend on a policy of export promotion in order to sustain economic growth and are unwilling to run high deficits.

• China and other Eastern Asian economies have failed to take action to open up their markets to absorb increased exports from the world. Foreign currency reserves were estimated at $2.22 trillion in 2005 from China, Japan, South Korea, Taiwan, Malaysia, Singapore, and Indonesia. Without additional sources of economic growth, a long-term focus on the US market is unsustainable.

• Many multinationals experience flat or declining revenue growth as a result of decreased demand reflecting natural export growth limitations.

IMPORT

An import is a good or service brought from another country. The word "import" derives from the word "port," as goods are frequently shipped abroad via boat. Imports form the backbone of international trade, along with exports. If the value of imports of a country exceeds its export value, the country will have a negative trade balance (BOT), also known as a trade deficit.

Since 1975, the United States has had a trade deficit. According to the US, it stood at $49.3 billion in November 2018. Economic Analysis Bureau and the United States. Office of the Census.

Basis of Import

Countries are the most likely to import goods or services that could not be produced as efficiently or effectively by their domestic industries as the exporting country. Countries could also import, within their borders, raw materials or goods and services not readily accessible. For instance, as they could not produce it domestically or could not produce enough even to meet demand, most countries import oil. International trade and tariff negotiations often determine which commodities and equipment are cheaper to import.

With economic growth and the widespread availability of international trade agreements between the U.S., other countries and trading blocks, U.S. imports grew from $ 473 billion in 1989 to $ 2.3 trillion in the second half of 2018.

trade agreements and dependency on imports from countries with lower labor costs always appear to be responsible for a significant percentage of the decrease in the importing country's production jobs. International trade opens the potential to import goods and equipment from less expensive areas of production and reduces the dependence on domestic products. Between 2000 and 2007, the impact on production jobs was obvious and further intensified by the Great Recession and subsequent slow recovery.

KEYPOINTS

• Imported products are goods and services transported from another country into one country.
• Countries are most likely to import products and services which could not be produced as efficiently and effectively by their domestic producers as the exporting country.
• International trade agreements and tariff schedules also determine less expensive imports of commodities and equipment.
• Economic experts and policy experts disagree with imports ' positive and negative consequences.

Imported goods are foreign products and services purchased by a country's residents. Citizens, entrepreneurships and government include residents. Whatever the imports are or how they are sent, it doesn't matter.

You can ship, email or even hand-carry your bag in a personal aircraft. It is imported when it is manufactured in a different country and purchased by domestic residents.
• Tourism products and services are also considered as import. You import souvenirs you have bought in your trip when you visit other countries.

Trade Deficit:

A trade deficit occurs when a country's import products exceed its export products. A trade surplus occurs when a country's export products exceed its import products. And if a country faces with a trade deficit, to pay for the increased imports, it should borrow from the other countries. It could be regarded as the beginning of a household. For purchasing automobile, apartment, or furniture, the people must borrow. Their earnings is not sufficient to meet the expenses essential to improve their living standards.

But, a country shouldn't borrow such as the young people, to balance its trade deficit. A balanced economy is expected to be a exporter at some stage. Trade surplus at this point is better than a trade deficit.

Let's ask Why? Exports, as defined by the gross domestic product, stimulate the economic outgoing. They are stimulating the economy, create new job places and raise wages.

Secondly, trade deficit (import exceed export) makes country dependent on the other countries' economical and political power. This is especially correct when it imports goods or services like food, oil and gas, and industrial equipment. It is risky when a country depends on foreign country to keep its population fed and its factories humming. For instance, when OPEC blockaded its oil production, the Usa faced a downturn.

Third, countries with high levels of imports should multiply their reserves of foreign currency. Thats the way of the import payments. The domestic currency value, inflation, and interest rates can be negatively impacted.

Fourth, domestic businesses must stay competitive because of imports. Failure will be unavoidable for small entrepreneurs who can't compete

And last but not least, exports help domestic businesses gain a competitive advantage. Entrepreneurs experienced by exporting, to produce a wide range of internationally requested products and services.

1.3.BALANCE OF TRADE

Trade balance is the difference for a given period between the value of the imports and exports of a country. Trade balance is the largest component of the balance of payments of a country. Economists use the BOT to measure a country's economy's relative strength. Trade balance is also referred to as the balance of trade or the balance of international trade.

There is a trade deficit in a country that imports more goods and services than it exports in terms of value. Conversely, there is a trade surplus in a country exporting more goods and services than it imports. The BOT calculation formula can be simplified as the total import value minus the total export value.

CALCULATION OF BOT:

For instance, if the U.S. imported $1.5 trillion in goods and services in 2017 but exported only $1 trillion in goods and services to other countries, the U.S. had a trade balance of -$500 billion or a trade deficit of $500 billion.

$1.5 trillion in imports— $1 trillion in exports= $500 trillion in trade deficits

Indeed, a country with a large trade deficit borrows money to pay for its goods and services, while a country with a large trade surplus borrows money from deficits. In some cases, the trade balance may correlate with the political and economic stability of a country because it reflects that country's amount of foreign investment.

Imports, foreign aid, domestic spending abroad and domestic investments abroad included debit items. Credit items include exports, domestic economy foreign spending, and domestic domestic economy foreign investment. By subtracting credit items from debit items, economists reach a country's trade deficit or trade surplus over a month, quarter, or year.

Examples for BOT:

There are countries where a trade deficit is almost certain. For example, because of its dependence on oil imports and consumer products, the United States has had a trade deficit since 1976. In contrast, China has recorded a trade surplus since 1995, a country that produces and exports many of the world's consumer goods.

A trade surplus or deficit is not always a viable indicator of the health of an economy, and in the context of the business cycle and other economic indicators it must be considered. Countries, for example, prefer to export more in a recession to create jobs and demand in the economy. Countries prefer to import more in times of economic expansion to promote price competition, limiting inflation.

Germany, Japan, China, and South Korea had the largest current account balance trade surpluses in 2017. The biggest trade deficits were the United States, the United Kingdom, Canada, and Turkey.

1.3.1.What is a deficit in trade

A trade deficit is an economic measure of international trade where the imports of a country exceed their exports. A trade deficit is an outflow to foreign markets of domestic currency. It is also called a negative trade balance (BOT).

Trade deficit= Total import value–Total export value

How Trade Deficits Are Tracked:

The "current account" that tracks goods and services leaving (exports) and those entering (imports) is one of the chief data silos in this item. The current account shows direct transfers like foreign aid, asset income like foreign direct investment (FDI) and the BOT.

Typically, a trade deficit occurs when a country does not produce enough goods for its residents. In some cases, however, a deficit may indicate that consumers in a country are rich enough to buy more goods than their country produces.

KEYPOINTS

• A trade deficit is an economic measure of international trade that exceeds the country's exports.

• It represents an outflow to foreign markets of domestic currency. It is also called a negative trade balance (BOT).

1.3.2.What is a Trade Surplus

A trade surplus is a positive trade balance economic measure where the exports of a country exceed its imports.

Trade Balance= Total Export Value— Total Import Value If the result of the above calculation is positive, trade surplus occurs. A trade surplus is a net inflow from foreign markets of domestic currency. It is the opposite of a trade deficit, which is a net outflow, and occurs when the result of the calculation above is negative. The Bureau of Economic Analysis reports trading balances in the United States on a monthly basis.

A trade surplus can create employment and economic growth, but within an economy it can also lead to higher prices and interest rates. The trade balance of a country can also impact the value of its currency on global markets, as it allows a country to control most of its own currency through trade. A trade surplus in many cases helps to strengthen a country's currency relative to other currencies, affecting currency exchange rates; however, this depends on the proportion of a country's goods and services compared to other countries, as well as other market factors.

A trade deficit is the opposite of a trade surplus. When a country imports more than it exports, a trade deficit occurs. Typically, a trade deficit also affects currency exchange rates the opposite. The currency demand of a country in terms of international trade is lower when imports exceed exports. In the international markets, lower demand for a currency makes it less valuable.

While trade balances in most cases have a major impact on currency fluctuations, there are a few factors that countries can manage to make trade balances less influential. Countries can manage a portfolio of foreign account investment to control currency volatility and movement. Countries can also agree on a fixed currency rate which keeps their currency's exchange rate constant at a fixed rate. If a currency is not attached to another currency, it is considered that its exchange rate is floating. Floating exchange rates are highly volatile and subject to currency market whims on a daily basis, which is one of the largest trading arenas on the global financial market.

1.4.DOCUMENTATION

1.4.1.EXPORT DOCUMENTATION

Export documentation is at the core of all transactions of international trade. In provides accounting records to exporters and importers; shipping and logistics companies with instructions on what to do with freight information; and banks with payment collection instructions and accounting tools. Due to the special characteristics of international trade, export documents are more complex than those used for domestic sales: geographic distance, different customs laws, different means of transport, higher risks, etc. The documents required for each shipment will depend on the terms of sale agreed between seller and purchaser (Incoterms).

1.4.2. International purchase order

International transactions are usually based on the purchase order of the purchaser. The issue of an international purchase order is usually preceded by an exchange of information between exporter and importer on the price, quality and quantity of products, etc. The seller may issue an informal price quote or a more detailed proforma invoice once the transaction details have been agreed. If the buyer accepts the price of the seller and other conditions, a purchase order is issued by the buyer. Depending on the circumstances, the International Purchase Order may constitute a binding offer or a binding acceptance. The purchase order is often the main contract form in international transactions involving a large commercial buyer and constitutes the first legally binding offer. In such cases, the transaction will be accepted by the seller's signature of the purchase order.

1.4.3. International commercial invoice

The International Commercial Invoice is the main export documentation document because it contains all the international sales information. An International Commercial Invoice details the item, quantity, price for the products / services sold, terms of delivery and payment, as well as the taxes and other expenses that may be included in the sale. With the original of the International Commercial Invoice, the importer declares to his country's tax authority the amount to be paid, to whom it will pay, and the agreed payment method. This document is for the exporter a documentary proof of the sales it made in foreign markets. The International Commercial Invoice is part of the customs declaration in operations with third countries, on which the taxes and tariff rights applied must be paid when the products enter the country. This document is used as a transaction declaration and tax exemption in operations with EC countries to comply with the basic conditions of tax settlement. The exporter prepares this document and addresses it to the importer and the customs clearance of imports.

1.4.4.Packing list

The Packing List is a more detailed version of the invoice, but without information about the price. It must include, among other things, the following: number of invoices, quantity and description of the goods, weight of the goods, number of packs, and marks and numbers of shipping. A copy of the Packing List is often attached to the shipment itself and another copy is sent directly to the consignee to assist with the receipt of the shipment. Despite not being required in all transactions, some countries and some buyers require it. The exporter prepares this document and addresses it to the importer, the carrier and the customs clearance of imports.

1.4.5.IRREVOCABLE LETTER OF CREDIT L/C

The bank of the importer agrees with the exporter (called "the beneficiary") in an Irrevocable Letter of Credit L / C that the exporter will be paid if it can prove that it has shipped the proper goods by providing the corresponding documents required by the Letter of Credit. Exporters such as Letters of Credit because advance payment assurance ensures that the seller does not waste much time preparing or transporting an order to a purchaser who essentially refuses to accept or pay for the goods. Can not amend or cancel an Irrevocable Letter of Credit without the consent of all Parties. The terms "Credit Letters" and "Documentary Credit" have the same meaning. Exporters, importers and bankers in some places around the world (USA, Asia) generally prefer to use the phrase "Credit Letter" or the abbreviation "L / C," while "Documentary Credit" or "D / C" are preferred in other regions (Europe).

1.4.6.CMR document

The CMR transport document is an international consignment note used by both drivers, operators and forwarders that governs the responsibilities and responsibilities of the parties to an international road freight contract. The carrier usually completes the form, but when the goods are collected, the sender-in other words the exporter-is responsible for the accuracy of the information and must sign the form. The consignee will also sign the delivery form, which is essential to enable the carrier to confirm the delivery of the goods and justify payment for their services. The CMR transport document is not a title document, so it is non-negotiable. This document is drawn up by the exporter and the freight forwarding agent and sent to the importer and the carrier.

1.4.7.BILL OF LADING B / LA Bill of Lading

B / L is the document issued to a shipper by the carriage agent, signed by the captain, agent or owners, furnishing the written proof of goods receipt (cargo), conditions under which transportation is carried out (contract for carriage) and commitments to deliver the goods to the legally binding holder at the prescribed port of destination. Therefore, a Bill of Lading is also a receipt of commodities and a contract to supply it as freight. There are various types of LA bill and a number of regulations which concern them as a group of documents. Because this is a negotiable instrument, while the goods are in transit, the Bill can be endorsed and transferred to a third party. This document is prepared by the shipping company and is sent to the exporter, the shipping company and the importer.

1.4.8.AIR WAYBILL AWB Air Waybill

AWB is a non-negotiable cargo transport document from airport to airport. The Air Waybill should name the consignee (who can be the buyer) and must not be issued "on orders" and/or "on approval" as it is not a property title of the product. Because they are not negotiable and because they are not proof of the title to the goods, sellers often consign air shipments to their sales agents or freight forwarding agents in the buyer's country in order to maintain a certain control of goods not paid in cash in advance. The Air Waybill is not a negotiable paper. It only indicates acceptance of goods for transport. This document is produced by the IATA Transport Agency or airline itself, and is addressed to an international transport document covering two or more modes of transport such as transport by road and by sea, for instance the exporter, airline and importer.

1.4.9.MULTIMODAL BILL OF LADING FBL

A Multimodal Bill of Lading FBL. It is also used as a carriage contract and receiving the goods. When issued "in accordance with the order," the Multimodal Bill of Lading is the title and can therefore be negotiated. In general, Lading multimodal bills are not negotiable documents. This document can only be issued by authorized forwarders integrated in the FIATA (International Federation of Freight Forwarders Associations). It is addressed to the exporter, the Multimodal Transport Operator and the importer.

1.4.10.CERTIFICATE OF ORIGIN

The country in which the product has originated or in which a preponderance of manufacture or value has been added has been certified with the Certificate of Origin. It also constitutes an exporter's declaration. Almost every country in the world considers the origin of imported goods when determining the duty on the goods. However, the exporter's own company letterhead certification will be sufficient. The origin is not the country from which the goods were shipped, but the country from which they were made. Where the products were manufactured in two or more countries, the last substantial economically justified work or processing is obtained in the country of origin. It is a common practice that if more than 50% of the cost of manufacturing the goods originate in a single country, the "national content" is over 50%, this country is accepted as the country of origin. The Chambers of Commerce are the main agent for the supply of certificates or origins in most countries. However, this privilege may also be extended in some countries to other entities, such as ministries or customs authorities.

1.4.11.INSPECTION CERTIFICATE

The Pre-shipment inspection certificate is a document issued by an authority which indicates that goods have been inspected before shipment and the inspection results (typically according to industry, customers, government or carrier specifiments). Inspection certificates are normally obtained from neutral testing organizations (for example, government agencies or independent service companies such as SGS or the Veritas office). In some cases the certificate can be issued by the manufacturer or supplier, but not by the forwarder or logistics company.

1.5.TRADE ORGANIZATIONS AND THEIR FUNCTIONS

1.5.1.Essential trade organizations

1. The creation of a permanent trade organisation, the World Trade Organization (WTO).

2. Introducing WTO rules governing trade in services, intellectual property related to trade and investment measures.

3. The significant increase in regional trade agreements such as NAFTA, MERCOSUR, etc. 4. Developing countries ' growing role in world trade.

5. Increased participation in export trade among small and medium-sized enterprises.

6. The dynamic role of services in today's economy and ongoing growth in services trade.

7. Globalization, competitive pressures and value-added business reorganization and relocation.

8. The US current-account deficit and global imbalances are growing.

9. Fast economic growth and pressure on limited resources in many countries. Business adjustment after 9/11 to security costs.

The GATT / WTO

Main objectives of the GATT:

- Non-discrimination
- Liberalization of trade and settlement of trade differences between members

The uruguay GATT Round and WTO

A significant result of trade negotiations in the Uruguay Round (1986-1994): tariff cutbacks, new trade rules for unfair business practices, the extension of the

GATT coverage to trade in services, intellectual property and trade-related investment measures and the creation of the WTO.

Scope of cover; North American Free Commerce Agreement (NAFTA):

- market access for goods
- investment
- protection of intellectual property
- government procurement
- safeguards
- standards and dispute resolution
- NAFTA: preliminary assessment Increased overall trade between member countries, increased US trade deficit with members on commodities trade, and increased foreign investment.

EUROPEAN UNION

Major objectives:

- the establishment of free trade
- common external tariffs between members
- the abolition of restriction on the free circulation of all production factors
- the establishment of common policies in the fields of transport
- agriculture
- competition

EU institutions:

- European Council
- European Commission
- European Parliament
- Court of Justice

Other trade agreements:

- The Southern African Customs Union (SACU)
- The European Free Trade Area
- Southeast Asian Nations Association (ASEAN)
- MERCOSUR
- Central Americans Common Market (CACM)
- the West African Economic Community (ECOWAS)
- The Andean Pact
- The Caribbean Common Market (CARICOM)

1.5.2.ADVANTAGES AND DISADVANTAGES OF FREE TRADE

Since 1980, the orthodox economic growth recette has reduced barriers to trade and capital free flow. International institutions such as the IMF and the World Bank have argued that a free-market development approach will lead to faster growth and poverty reduction. Market integration has largely been achieved through regional free trade agreements and unilateral liberalisation. Deregulation, shrinking communications and transport costs and the IT revolution have also been facilitated. Some developing countries have benefited from the liberalization of trade. China's trade-to-GDP ratio doubled. The volume of trade in Brazil, Mexico and other middle-income countries has risen sharply. Many of the manufactured goods often were exported as part of the world's production networks. In China, the number of the poor (under $0.70 a day) fell from 250 million in 1978 to 34 million in 1999. Likewise in India, from 330 million in 1977 to 259 million in 1999, the figure decreased. But the laissez-faire approach in many other countries appears to have worsened growth and income distribution rates. For example, in 1980, the medium income in the richest 10% of countries was 77 times higher than in the poorest 10%. By 1999, the gap had increased to 122 times. Many studies show that, for example in Latin America, trade liberalization has resulted in widening wage gaps, decreased real wages for unskilled workers and increased joblessness. Trade liberalization and deregulated markets in many countries have brought about rapid structural changes, which often result in lower wages, working conditions and living standards. Today's challenge is to ensure that trade liberalization works for the poor. This calls for a broad reform of national institutions and policies.

SECOND PART

2. FOREIGN TRADE IN AZERBAIJAN

2.1. CURRENT SITUATION OF FOREIGN TRADE IN AZERBAIJAN

As the Economic Complexity Index (ECI) states, Azerbaijan is the world's 77th largest export economy and the 84th most complex economy. Azerbaijan exported $14.3 billion in 2017 and imported $8.1 billion, which resulted in a good balance of 6.17 billion dollars. Azerbaijan's GDP was $40.7 billion in 2017, and its per capita GDP was $17.4 billion.

Crude oil ($ 11.7 billion); petroleum gas ($ 1.29 billion); refined oil ($ 323 billion); acyllic alcohols ($ 57.4 million); raw aluminium ($ 56.2 billion) are Azerbaijan's top exports using the 1992 revision of the Harmonized System. Their top imports are cars (312 million dollars); refined oil (245 million dollars); wheat, packaged medicines (212 million dollars); radiodiffusive equipment (158 million dollars).

Italy ($ 4,71 billion); Turkey ($ 1,22 billion) ;Canada ($ 780 million); Czech Republic ($ 765 million); Germany ($ 700 million) are the highest level export locations from Azerbaijan. Russia ($ 1,4 billion); Turkey ($ 1,18 billion); China ($ 789 million); Germany ($ 453 million); Ukraine ($ 409 million) are the main import origins.

Azerbaijan borders with Turkey, Georgia, Iran, and Russia, Armenia.

2.2. IMPORT, EXPORT AND BOT IN AZERBAIJAN

EXPORT

Azerbaijan exported $14.3 B in 2017, making Azerbaijan the world's 77th largest exporter. During the last five years, exports of Azerbaijan have dropped from $27.9B in 2012 to $14.3B in 2017 at an annual rate of-13.6 %. The latest exports are driven by crude oil, which accounts for 82.3% of Azerbaijan's total exports, followed by oil gas which represents 9.1%.

Crude oil, oil products, natural gas, fruits and vegetables, plastic material, ferrous metals and products made of them, aluminum and aluminum products, sugar, chemical industry products, cotton yarn and plant oil mostly constituted the exports

Main commodities exported in 2016				
Description	Million USD		Difference, %	Difference, million USD
	2015	2016		
Energy and oil products				
Crude oil	8 866.16	6 504.52	-26.64	-2 361.64
Natural gas	1 505.02	970.68	-35.50	-534.34
Oil products and other fuel	776.42	430.97	-44.49	-345.45
Electricity	17.23	28.34	64.48	11.11
Industrial goods				
Plastic	112.45	98.98	-11.98	-13.47
Aluminum and products from it	86.15	98.06	13.82	11.91
Ferrous metals and products from them	34.71	96.08	176.81	61.37
Products from previous metals, imitation jewelry, coins	83.22	77.21	-7.22	-6.01
Chemical industry products	79.99	55.89	-30.13	-24.10
Water-borne vehicles	0.13	44.05	33 784.62	43.92
Equipment, mechanical facilities and spare parts	36.13	27.34	-24.33	-8.79
Coal-based tar oils and products	22.31	21.33	-4.39	-0.98
Copper and products from it	9.89	19.45	96.66	9.56

Land transport-tation vehicles and spare parts	2.22	16.34	636.04	14.12
Ore, slag and ash	6.43	15.91	147.43	9.48
Salt, sulfur, sand and stone, masonry materials, lime and cement	9.88	15.15	53.34	5.27
Electrical machi-nery and equip-ment, spare parts	23.10	11.75	-49.13	-11.35
Textile products	10.63	10.77	1.32	0.14
Optic, photogra-phic, control and measuring equipment	17.40	6.94	-60.11	-10.46
Lead and products from it	1.38	6.49	370.29	5.11
Paper and card-board products	4.63	4.39	-5.18	-0.24
Products from nonprecious metals	1.33	3.04	128.57	1.71
Airborne vehicles	150.30	0.00	-100.00	-150.30
Agricultural and processing products				
Fruits	220.25	243.76	10.67	23.51
Vegetables	91.68	129.03	40.74	37.35
Sugar	212.09	62.03	-70.75	-150.06
Alcoholic and nonalcoholic beverages	25.83	18.73	-27.49	-7.10
Cotton yarn	14.39	18.01	25.16	3.62
Vegetable and animal oils	153.34	17.11	-88.84	-136.23

Unprocessed skin and tanned leather	12.18	15.09	23.89	2.91
Vegetables, fruits, hazelnuts and walnuts	10.86	11.41	5.06	0.55
Tobacco products	9.41	8.90	-5.42	-0.51
Food residue and waste	3.94	7.91	100.76	3.97
Tea	19.50	6.18	-68.31	-13.32
Cocoa and products from it	7.65	4.94	-35.42	-2.71
Oilseed crops	1.36	2.88	111.76	1.52
Grain crops	0.06	2.62	4 266.67	2.56
Other	89.49	31.00	-65.36	-58.49
Total	12 729.14	9 143.28	-28.17	-3 585.86

In January-February 2019, foreign trade volumes amount was $5.3 billion, up 45.2% from the same period previous year.

According to the state customs committee, in just two months the volume of exports from Azerbaijan totalled $3.15 billion, which is approximately 40% more than in 2018 in the same period , whereas a 49% increase in imports amounted to $2.16 b.

As a result there was a surplus of $986,317, which is 30% more annually.

Export and import businesses are developing and expanding national economies and form the basis of profitable businesses. The economy of a country develops through the export of wealthy resources and the import of products that it needed. Countries would like to become exporters instead of importers.

The export potential is part of the country's economic potential, as a consequence of the complete use of the production capacity of the country's economy and its separate industries, to produce and export various kinds of material products and services which comply with the demands of global market consumers

although the export of non-oil products is also showing an increasing trend, currently, oil and gas are the main export share.

Azerbaijan exported 5,78 m tons of crude oil between January and February 2019, 58% higher than in the same period of 2018.

The total export value was $2.6 b (up 42.5% in one year).

Azerbaijan also exported almost 92.570 tons of oil products valued $ 48.5 m during the current period. These figures decreased respectively by 2.3 times and 2.2 times over a year.

The share of the value of exported products(2016): Table 1

The share of the value of exported products	PERCENTAGE
Italy	19,9%
France	9%
Germany	8,7%
Taiwan	7,9%
Israel	6,2%
Russia	5%
Czech Republic	4,8%
Georgia	4,7%
Turkey	4,2%
Portugal	3,5%
India	3%
Thailand	2,6%
Indonesia	2%
Turkmenistan	2%
Spain	1,7%
Switzerland	1,6%
Tunisia	1,5%
Romania	1,4%
Croatia	1,3%
Lebanon	1%
Other countries	8%

PROCESS OF EXPORT

Goods intended to be taken out of customs area need to be declared before being taken out.

Goods intended to be taken out of customs area need to be declared before being taken out.

Information required for short export declaration must at least be reflected on the customs declaration presented before taking goods out of the customs area.

Appropriate executive power bodies determine the regulations related to declaring goods before taking them out of the customs area.

In the circumstances mentioned in the legislation customs, clearance of the goods taken out of the customs area is done by applying the following:

charging customs duties

prohibitions regarding the protection of national security, public order, life and health of people, as well the protection of the objects of intellectual property, animals and plants, the environment, cultural, historical and archaeological treasures of nations

Goods are permitted to be taken out on the condition that the goods are in the same condition as they were at the time of approval by customs authorities.

Domestic goods taken out of the customs area permanently are under the procedure of customs export.

IMPORT:

Azerbaijan imported 8.1 billion dollars, making it the world's 104th largest importer in 2017. In the last five years Azerbaijan's imports declined from $13.7B in 2012 to $8.1B in 2017 at an annual rate of-9.8 %. The latest imports are hold by cars representing 3,86 percent of Azerbaijan's total imports, followed by crude oil accounting for 3,03 percent. The value of imported products is mostly dominated by machine, mechanism and electrical devices, equipment and their parts, food products, articles made of ferrous metals, vehicles and their parts, plastic and products made of plastic, pharmaceutical products, wood and wooden products, tobacco products, and furniture and their parts.

Main commodities imported in 2016

Description	Million USD		Difference, %	Difference, million USD
	2015	2016		
Food products	979.49	1 322.08	34.98	342.59
Including:				
Wheat	*296.83*	*295.02*	*-0.61*	*-1.81*
Sugar	*124.49*	*152.76*	*22.71*	*28.27*
Vegetable and animals oils	*83.83*	*144.14*	*71.94*	*60.31*
Fruits and vegetables	*58.05*	*135.00*	*132.56*	*76.95*
Alcoholic and nonalcoholic beverages	*63.30*	*58.43*	*-7.69*	*-4.87*
Butter and milk-based oils	*22.39*	*48.38*	*116.08*	*25.99*
Tea	*16.32*	*44.73*	*174.08*	*28.41*

Meat	*19.86*	*38.62*	*94.46*	*18.76*
Milk	*5.76*	*8.03*	*39.41*	*2.27*
Machinery, facilities, electrical equipment	2 460.70	2 013.38	-18.18	-447.32
Ferrous metals and products from them	1 586.75	1 118.50	-29.51	-468.25
Transport vehicles and spare parts	1 217.12	813.92	-33.13	-403.20
Other chemical industry products	434.32	515.58	18.71	81.26
Plastic	204.77	281.70	37.57	76.93
Oil, oil products and energy carriers	152.21	273.72	79.83	121.51
Clothes and garments	45.48	211.53	365.11	166.05
Pharmaceuticals	270.68	196.38	-27.45	-74.30
Firewood and timber	229.78	189.42	-17.56	-40.36
Optical, photographic, measurement, medical and surgical equipment	238.87	183.24	-23.29	-55.63
Tobacco and cigarettes	297.61	153.12	-48.55	-144.49
Furniture and parts	100.75	111.48	10.65	10.73

Paper, cardboard and products from them	62.80	105.63	68.20	42.83
Rubber and products from it	54.98	95.77	74.19	40.79
Tools and other products from nonprecious metals	71.54	86.17	20.45	14.63
Glass and products from it	77.33	74.80	-3.27	-2.53
Footwear, socks and similar products	8.00	67.76	747.00	59.76
Ceramic products	48.57	63.75	31.25	15.18
Products from stone, gypsum, cement, asbestos and similar materials	87.71	53.05	-39.52	-34.66
Livestock	51.67	28.70	-44.46	-22.97
Cement	29.48	17.92	-39.21	-11.56
Other	744.94	738.09	-0.92	-6.85
Total:	**9 216.68**	**8 532.45**	**-7.42**	**-684.23**

Source: State Statistical Committee of the Republic of Azerbaijan

The share of the total value of products imported to our country(2016) Table 2:

The share of the total value of products imported	PERCENTAGE
Russia	18,4%
Turkey	13%
China	6,4%
United Kingdom	6,3%
USA	6,1%
Italy	4,5%
Singapore	4,4%
Germany	4,2%

Japan	4,1%
Ukraine	3%
Norway	2,8%
France	1,8%
Brazil	1,7%
Iran	1,6%
Kazakhstan	1,6%
Croatia	1,2%
The Netherlands	1,1%
Austria	1,1%
South Korea	1%
United Arab Emirates	1%
Other countries	14,7%

IMPORT DOCUMENTATION

Importers should provide the following to the State Customs Committee: signed importcontract(s), customsdeclaration(s),permit(s) of the respective stateentity(s) if applicable, lading bill; packing sales invoice; origin certificate and the quality certificate of imported goods.

Goods imported or re-exported into Azerbaijan are subject to local duties and taxes while import. Once process has finished and the products are re-exported, a drawback process may recovers the taxes and duty paid. There is no formal application procedure and the mechanism is complicated to use. The State Customs Committee should, usually in 2 years, develop the time for procedures and re-export the products. It may also specify a min number of final product to ensure that the goods imported are used for the intended purpose.

Import provisions for products and facilities are an essential part of PSAs in the energy industry. Goods, instruments, equipment, supplies and services required for successful achievement of the PSA objectives are usually excluded from import taxes and duties. Foreign businesses registered in Azerbaijan and providing services to companies or international sub-contractors involved in PSAs may also be excluded from duties and VAT on products and equipment being imported. In all cases, each situation is governed by the specific conditions of the PSA.

TRADE BALANCE

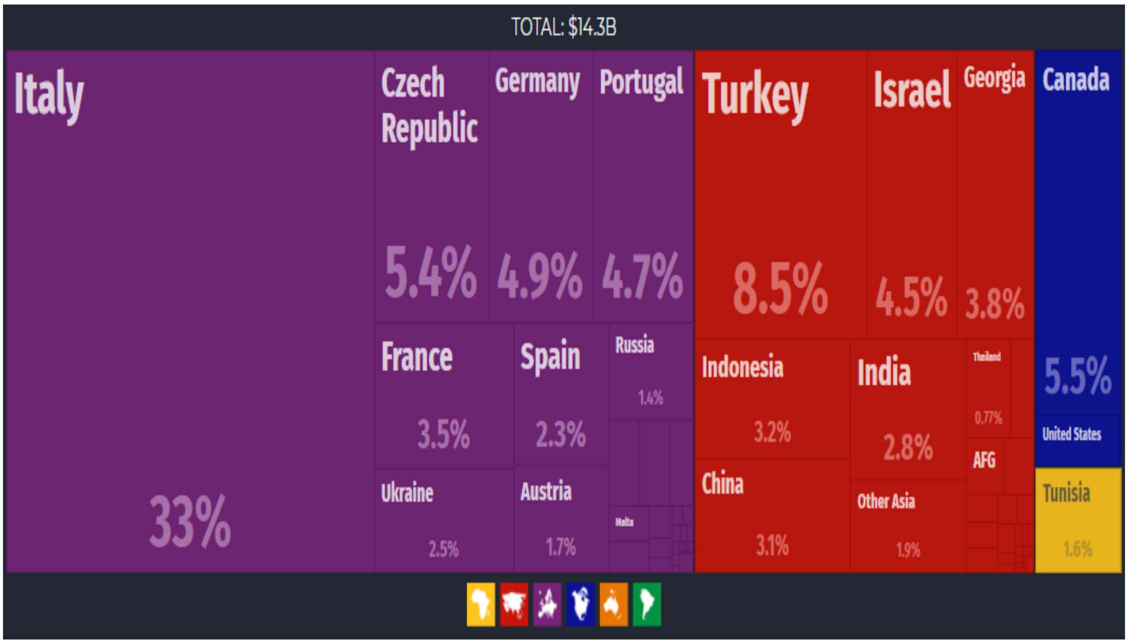
Azerbaijan had a positive trade balance of 6,17 billion dollars in exports in 2017. They had a negative trade balance of $ 301 million in imports, compared to their commercial balance in 1995.

2.3.ECONOMIC COMPLEXITY OF AZERBAIJAN

Destinations

Azerbaijan's main export destinations are Italy ($ 4.71 billion) ; Turkey ($ 1.22 billion); Canada ($ 780 million); the Czech Republic ($ 765 million); Germany ($ 700 million). Between January and June in 2016 natural and legal persons in Azerbaijan carried out commercial operations with partners from 163 countries, products were exported to 100 countries and imported from 154 countries.

Trend based on the State Statistical Committee reports that Italy, Russia, Turkey, Germany, France, Taiwan, the USA, China, the UK, Israel, Czechia, Georgia, Singapore, Japan, India, Portugal, Ukraine, Norway, Thailand, Switzerland and Croatia constituted 81.9% of the foreign trade.



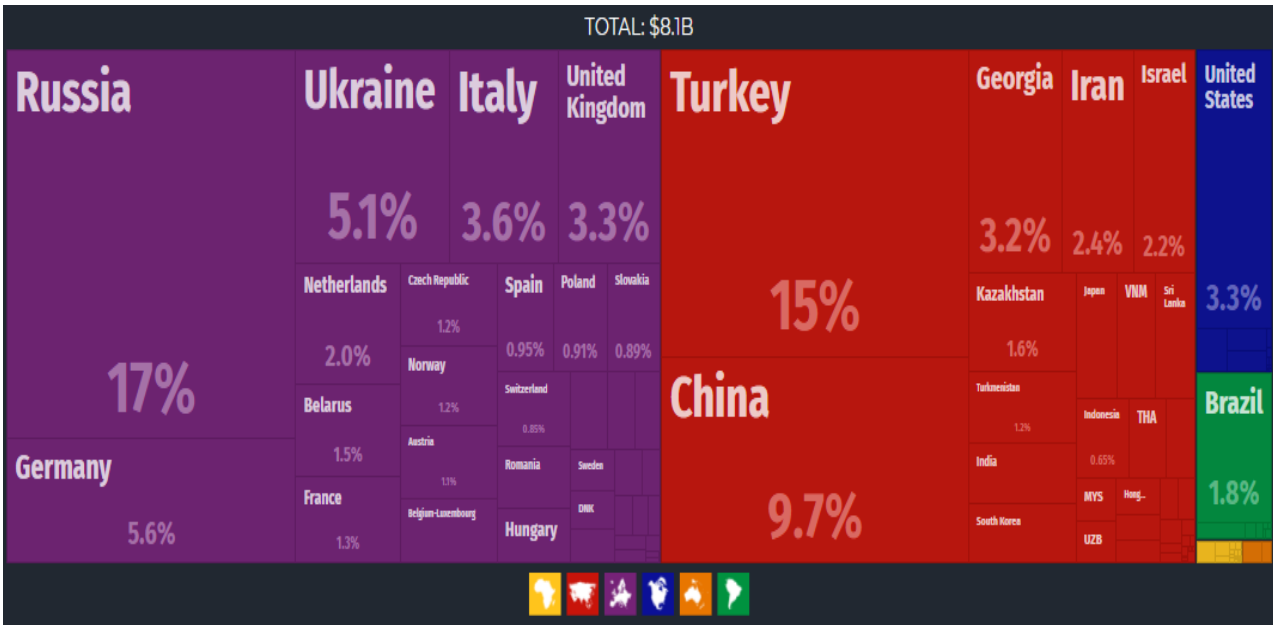
Regions In Thousands USD	2014	2015
Total	21 828 608,9	12 729 138,5
Europe	12 494 567,7	7 384 636,2
Asia	7 800 307,6	4 488 095
America	994 137,7	561 912,9
Africa	539 124,8	293 872,5
Oceania	471,1	621,9

This table shows the value of the products exported from Azerbaijan.

As it seems table above, crisis negatively affected exportation in 2015.

Origins

Russia ($ 1.4billion); Turkey ($ 1.18billion); China ($ 789 million); Germany ($ 453 million); Ukraine ($ 409 million) are the most frequently imported countries to Azerbaijan.



PRODUCT SPACE

Product space is a network of products that can likely be co-exported and used to forecast the evolution of the export structure of a country.

The economy of Azerbaijan is the 84th most complex nation with an Economic Complexity Index (ECI) of-0.655. Azerbaijan exports 35 products with an demonstrated comparative advantage (That means that its share in global exports is higher than expected due to the size of its export market and the size of the product's international market).

Table 3 shows the export products’ value from Azerbaijan in 2017

PRODUCT NAME	EXPORT VALUE
Animal and vegetable bi-product	$12,4 million
Animal hides	$26,7 million
Animal products	$13,1 million
Arts and antiques	$414 000
Chemical products	$87,2 million
Foodstuffs	$69,8 million
Footwear and headwear	$615 000
Instruments	$11,6 million
Machines	$70,5 million
Metals	$223 million
Mineral products	$13,5 billion
Miscellaneous	$2,69 million
Paper goods	$5,58 million
Plastics and rubbers	$35,5 million
Precious metals	$17,3 million
Stone and glass	$7,98 million
Textiles	$53,2 million
Transportation	$22,4 million
Vegetable products	$105 million
Weapons	$1,37 million
Wood products	$1,2 million
TOTAL	$14,3 billion

3. PROBLEMS AND THEIR SOLUTIONS IN EXPORT OF AZERBAIJAN

3.1.PROBLEMS IN AZERBAIJAN

Though it has not been a long time that Azerbaijan earns huge amount of profits from its resources, this time period is enough to cause the risk of "resource curse" in the country. Amount of resource economy forms 70% of the country's budget and 90% of export. 98% of the natural resources concentrated in Baku and because of the dependency on resource economy, the share of the goods produced in Baku holds 80% of the general export of the country.

Resource curse mean to dependency of country's export on its natural resources. In such resource economy, country's exportation could be seen high in statistics, but it's not good as it seems. Because in any depreciation of resource's market price will negatively affect country's economy.

Because of the downsizing prices of oil and gas in world market (started in 2014), Azerbaijan experimented 3-4 times loss of resource profit in 2015-2016 with the compare of last 5 years. And this failure signals country do not heavily depend on resource economy policy. So many academic researches done and was shared so many examples on the basis of "resource curse" in last 50 years. But there weren't any countries that take care about their "resource curse" economy and they went to crisis during the falling prices of their main export resources.

Regard of this, one of the most important points to avoid such failures is diversification in Azerbaijan's export and provide non-resource profit flow into the country. Manat's devaluation in 2015 showed that, while currency depends on country's resource profit, creating long term growth in the economy and macroeconomical stabilization is not possible.

What happened in Azerbaijan's export potential after the crisis? Which trends are essential for the non-resource product's structure and volume? Let's try to answer these questions.

From 1st glance to Azerbaijan's export structure we could list 6 problems:

1st problem: Diversification

Looking through the foreign trade statistics broad assortment of export products could be found. In the base of 6 trade codes, 1180 kinds of products that amounted 13,812 billion USD exported from country in 2017. (Listed only products which are keeps more than 1000 USD export value). But 30 kinds of products of exported 1180 products are 96,5% (or 13,334 billion USD). 5 of these 30 kinds of exported products belongs to oil and gas sector, other 25 kinds belongs to non-oil sector. Roughly to put, 2,6% export product kinds forms

96,5% of all export from country.Below, table shows the assortments of products that are included in Azerbaijan's "Export Basket":

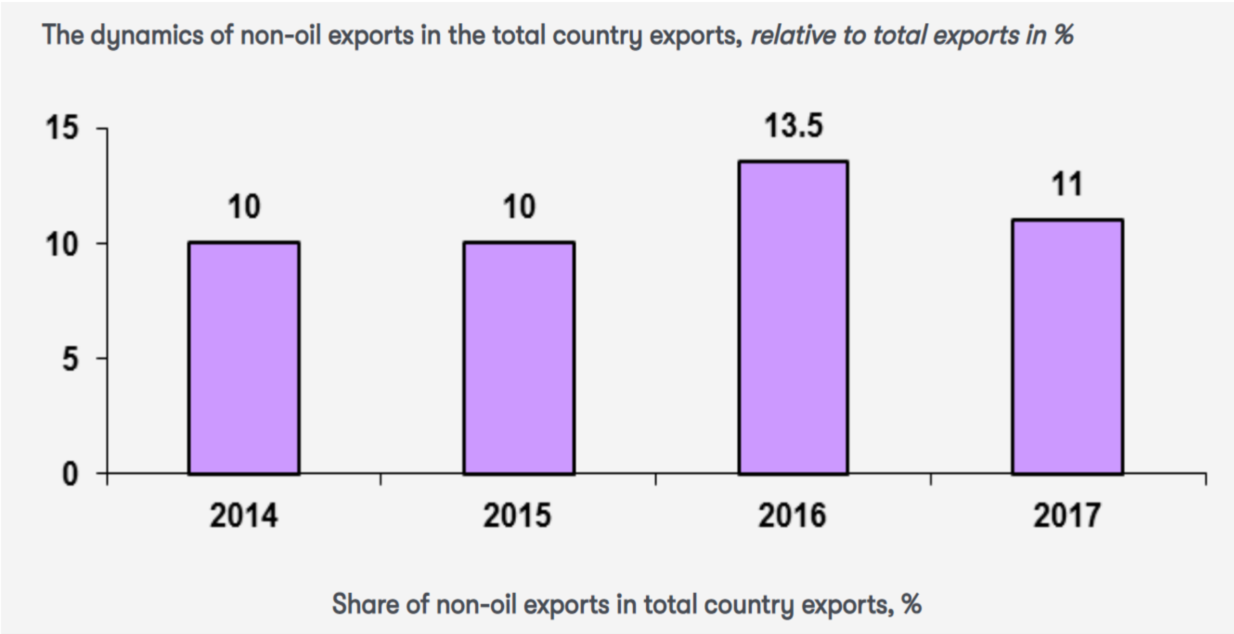
Description	Code	Export value, ths USD
Potatoes, fresh or chilled	070190	25822
Tomatoes, fresh or chilled	070200	151595
Turnip-like onions	070310	15672
Cucumbers and gherkins, fresh or chilled	070700	10716
Shelled hazelnuts	080222	114532
Apples, fresh	080810	30873
Cherries and wild cherries, fresh, other	080929	23155
Persimmons, fresh	081070	90981
Cane or beet sugar and chemically pure sucrose	170199	39443
Spirits obtained by distilling grape wine or grape marc (cognac, grappa, brandy, other)	220820	14058
Copper ores and concentrates	260300	19494
Oils and other products of the distillation of high temperature coal tar	270799	34596
Crude oil	270900	10706818
Jet fuels	271051	82187
Heavy distillates or gas oil for other distillate range products	271061	241872
Natural gas in gaseous state	271121	1193712.4
Petroleum coke, not dehydrated	271311	15468.47
Electrical energy	271600	50569
Methanol (methyl alcohol)	290511	42779
Polyethylene – specific gravity <0.94 in primary form	390110	75353
Other substances in primary form obtained by polymerization	391190	21596
One thread cotton yarn	520512	32548
Gold (not used for coin-minting and other raw forms); Gold (used for coin-minting)	710812,710820	139015.7
Semi-finished products of iron or non-alloy steel containing, by weight, >= 0,25% of carbon	720720	22733
Tubes and pipes, having circular cross-sections and an external diameter of > 406,4 mm, of flat-rolled products of iron or steel	730539	9543
Refined copper cathodes and sections of cathodes	740311	12003
Aluminium, not alloyed, unwrought	760110	22666
Unwrought aluminum alloys	760120	28563
Plates, sheets and strip, of non-doped aluminum, of a thickness of > 0,2 mm	760611	22616
Plates, sheets and strip, of aluminum alloys, of a thickness of > 0,2 mm	760612	42889
Total value of export products		13334000.0

By looking through the assortment of exported products in 2017, 10 of 31 exported product kinds are belong to metallurgy industry, 8 kinds of product belongs to Agriculture, 5 of them oil industry, 3 kinds of exported products belongs to chemistry industry and 2 to food industry.

According to these facts, Azerbaijan has very limited diversification potential in export.

2nd problem: Limited amount of non-oil export

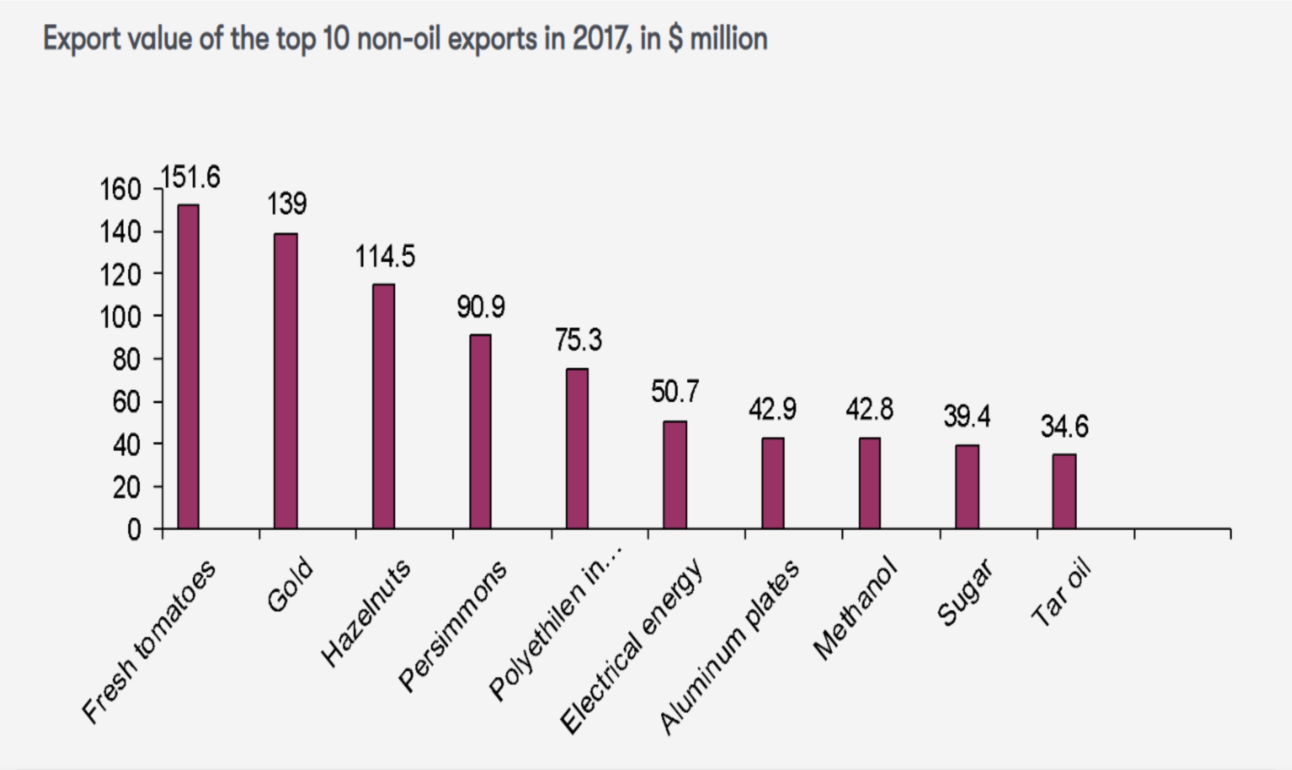
The amount of non-oil products export is 1,538 billion USD and this number forms just 11% of the country's export.



As it seems from the diagram above, there was not any remarkable changes in the export of non-oil products according to country's general export. If the export of non-oil products formed 10% of country's export in 2014, this number upped just 1% and export of non-oil products became 11% of country's all export.

Although the export of non-oil products in 2017, is 150 million USD more with the compare of 2015 (+11%) and 300 million USD with the compare of 2016 (+22%), but is 170 million USD less with the compare of 2014 (-10%). Strange point is; Because of the downsizing prices of oil products in the world market, export of oil products dropped. Parallel to this, export of non-oil products also dropped and its difficult to give an economical explanation to this relevance.

Another interesting point: Weakness of export diversification shows itself by the concentration export of oil and gas products, that, 90% of export belongs to oil and gas products. In other side, 71% of the 1150 kinds of export products fall in the share of 25 kinds of export products.



Also, 10 kinds of non-oil export products (sugar, electric energy, gold, unprocessed polyethylene, tomatoes, tar oil, methanol, persimmons, hazelnuts, aluminum plates) which have much more shares than other products, holds 51% of country's non-oil export (781,7 million USD).

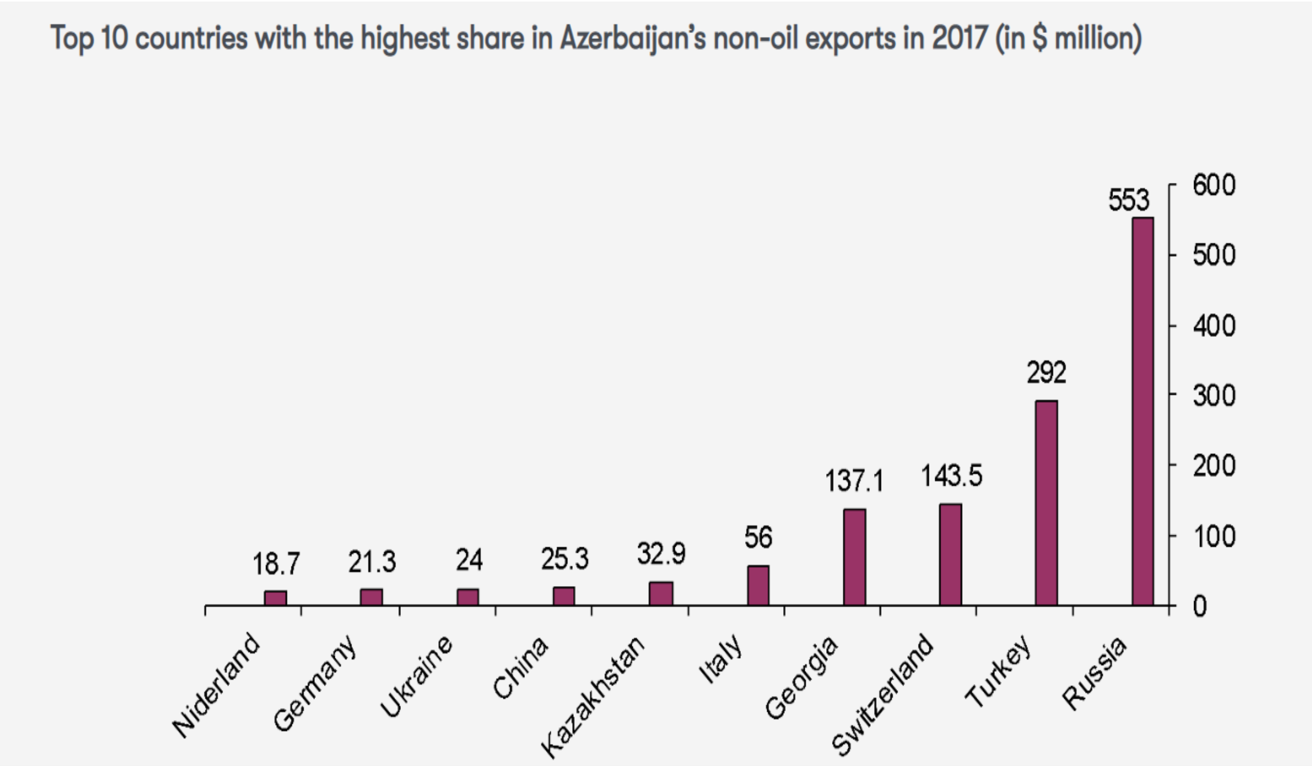
As it seem in the diagram above, the amount of non-oil products' export is not much enough. The highest percentage of dependency from a kind of product is 10 (with the amount of 151,6 million USD tomato).

Average value of 95%(more than 1100 kinds of non-oil products) non oil export products' was 500 000 USD or less.

3rd problem: geographical limitation

Because of strategical importance, Azerbaijan needs to diversify exports' geographical accessibility, but not only increase volume of the export. Countries have not been insured from crisis and disasters. From this side, diversifying exports' geographical accessibility insures exporting country from risks and threats.

In 2017, Azerbaijan had foreign trade relations with 187 countries, but 77% of non oil product's export was shared by 5 countries: Georgia Russia Turkey Italy and Switzerland.



Top 10 countries which have much more shares than others in Azerbaijan's export, hold 85% of foreign export in 2017. This fact is the indicator of country's limitation of export's geographical accessibility. Some non oil products exported only one or two countries:

99,7% of tomato Russia

100% of gold Switzerland

73% of hazelnut Italy and Russia

94% of fig Russia

89% of electrical energy Georgia and Russia

Non-oil export's dependency from one country (Russia) is 35% and dependency from 3 countries (Turkey, Russia and Switzerland) is 65%. So, these indicators are enough high (high risky according to geographical diversification)

4th problem: exporter shortage

According to official statistics thousands of entrepreneurs took part in the foreign trade relations. But, from announced information, it seems that, 54% (822 million USD) of country's export formed by 20 companies. In addition, 10 companies which have most shares in export, holds country's more than 30% foreign export. This situation shows that profit from non-oil export divided unequal among exporter entrepreneurs and only a few companies benefits from export.

5th problem: limited potential of private sector

100% of export benefits of oil products is definitely belongs to government's monopoly. Though there is a little export volume of non-oil products, government owns most of it. E.G. 1/3 (approximately 500 million USD) part of the non-oil export belong to government in 2017. Just 65% of non-oil export's benefits circulated around the private sector. In addition, 33% of non-oil export belongs to top 10 companies in private sector.

6th problem: technological limitation

Approximately all products (Including oil and gas products) exported from country belong to 3rd and 4th quality groups (low quality level and middle-low quality level), if the products classification is taken to consideration according to their complexity and quality level on the basis of international standards (low quality level, middle-low quality level, middle-high quality level and high quality level).

According to this classification, products written below included into low level quality group:

- Beverages
- Tobacco products
- Produced raw materials which not passed through conversion phase (written below)

1. Products of weaving industry
2. Clothing items

3. Leather and leather products
4. Paper and paper products
5. Furniture

Evaluation according to foreign trade statistics shows that, approximately 94%-95% of all exported products and 50%-55% of non-oil exported products included into low level quality group in 2017.

Exported products included into middle-low level quality group (written below):

- Oil products
- Rubber products
- Plastic products
- Products of metallurgy industry

Products included into middle-low level quality group, holds just 4%-5% of all export and 35%-40% of country's non-oil export.

Products included into middle-high and high level quality groups, written below:

- Products of chemistry industry
- Machineries
- Inventories
- Medical and stomatology inventories
- Automobiles
- Electrical device
- Armor and military inventories
- Space industry
- Inventories and devices of air transportation
- Medication industry

If the products of chemistry industry and armor also considered, products according to these groups could hold only 1%-2% of all export.

3.2. SOLUTIONS

Trade Assignment:

Export tasks are coordinated to define opportunities for new markets, to strengthen national products ' position on current target markets, and to introduce new goods and services to those markets.

The Minister of the Economics defines countries and dates of business trips based on non-oil export opportunities, exporter requests and worldwide economic and trade interactions with the respective countries.

A visit of 6 days is attended by a max of 30 exporters and each exporter is presented only by one individual.

The location and materials for business meetings,
transport and translate services and hotel reservations will be organized, and all costs will be paid by the government budget.

For each of the following export tasks, implementation application should be declared 15 days before the contest and distributed in announcements. The committee developed by the Ministry of the Economy, after the deadline for implementation application, coordinates the contest on a predefined date and analyzes the application to decide.

Applications be evaluated on the basis of the following features:

applications with the minimum pass mark have the right to take part in the mission.

The results will be broadcasted in only 2 working days after the contest.

Researching Markets:

Market analysis is coordinated with the goal of increasing market share and penetrating new markets for the export of non-oil products on current markets.

Market research is performed by experienced local and foreign legal or natural persons on the basis of exporters ' applications and in accordance with the target markets set out by the Ministry of Economy,.

A maximum amount of 30 000 AZN should be paid per 1 market research by the government budget.

For each of the following market research, implementation application should be declared 15 days before the contest and distributed in announcements.

Note! Note! In the announcement, target markets are stated.

The committee developed by the Ministry of the Economy, after the deadline for implementation application, coordinates the contest on a predefined date and analyzes the application to decide.

Applications be evaluated on the basis of the following features:

applications with the minimum pass mark have the right to use accessible research.

The results will be broadcasted in only 2 working days after the contest.

Participating in worldwide exhibitions and fairs with the “made in Azerbaijan” brand:

Participation under model of "made in Azerbaijan" at worldwide exhibition and fairs promotes the local non-oil goods and services in abroad.

The following year's list of exhibitions and fairs is determined annually by the Ministry of Economy on the basis of export potential for non-oil products, exporter's demands and global economic and trade relations with nations concerned.

Attendance is coordinated annually in 10 worldwide exhibitions / fairs under the national stand.

Recruitment venues in exhibition / fair halls, design, preparation and installation, transport of products are coordinated in this mechanism and all costs are covered by the government budgets.

For each of the following participation in exhibitions and fairs, implementation application should be declared 15 days before the contest and distributed in announcements. The committee developed by the Ministry of the Economy, after the deadline for implementation application, coordinates the contest on a predefined date and analyzes the application to decide.

Applications be evaluated on the basis of the following features:

applications with the minimum pass mark have the right to take part in the exhibition and fair.

The results will be broadcasted in only 2 working days after the contest.

Individually participating in international exhibitions and fairs:

Individual attendance in worldwide exhibitions or fairs is structured under the name of "Made in Azerbaijan," in order to promote the national non-oil products in abroad.

The Ministry of Economics shall determine the list of exhibitions and fairs for the following year each year based on the export potential for the non-oil products, export requests and international economic and trade relations with the respective countries.

This mechanism take account of the costs incurred for hiring places at fair halls, designing, preparing and installing the stand and transporting the products for up to six months until the application. The state budget covers 50 percent of the above-mentioned expenses up to 10000 AZN.

In order to receive payment, the exporter should make an initial request regarding his intention to participate individually in one of the international fairs.

Decisions are taken on the basis of the following criteria: the application is evaluated in only ten working days. In the event of a mere deficiency, the applicant will be advised to remove it n only two working days. Following the removal of the deficiencies, the operation is continued and the decision on participation is taken.

Candidates received positive decisions at the initial phase must reapply for payment by applying another application in only 30 working days after the event.

The preceeding documents must be attached: they are evaluated in only 30 working days according to the "Republic of Azerbaijan's Administrative Procedural Code." If there are shortages, the applicant is notified that it will be removed within five working days. If the applicant could remove the problems within next 10 working days then the process starting to go on again.

If a positive decision is taken after the application is examined, payment should be transferred to the applicant's bank account in national currency in only 20 working days.

Note! Note! Applications and documents must be sent to AZPROMO directly

Promotion of domestic products with the name of “Made in Azerbaijan” by government-owned legal person:

Promotion by the government-owned legal person, of "Made in Azerbaijan" is coordinated for the wide-scale implementation and recognition in foreign countries of local, non-oil products with one name.

Government-owned legal entities should promote' Made in Azerbaijan ' by their representatives and branches situated in abroad. The Ministry of Economics determines the list of entities.

Costs related to promotion of ' Made in Azerbaijan ' should be covered within 20 working days, on the basis of documents provided by these entities.

Through competition, exporters whose goods will be promoted are selected.

For each of the following mechanism, implementation application should be declared 15 days before the contest and distributed in announcements.

Note! Note! Countries in which the "Made in Azerbaijan" brand is promoted and their respective international subsidiaries and representatives are included to the announcement.

The committee developed by the Ministry of the Economy, after the deadline for implementation application, coordinates the contest on a predefined date and analyzes the application to decide.

Applications be evaluated on the basis of the following features:

applications with the minimum pass mark have the right to use this mechanism.

The results will be broadcasted in only 2 working days after the contest.

Replacing “Made in Azerbaijan” stents in “Duty Free” shops and stores operating in abroad:

The goal of "Made in Azerbaijan" shelves placed in the "duty free" stores running in abroad, is to introduce and represent local non-oil products with one single name in abroad on a broad scale.

The Ministry of Economy determines "Duty Free" stores, shops and goods for promotion on the basis of the export potential of non-oil products, exports ' applications and global economic and business relations with respective countries.

The State budget covers the costs of coordinating shelves, transportation of products and customs clearance.

Shops and' duty-free's will be based on the following criteria: up to 2 shops and' duty-free' stores can be selected annually.

Exporters whose goods are promoted are competitively selected.

For each of the following mechanism, implementation application should be declared 15 days before the contest and distributed in announcements.

Note! Note! Duty free stores, shops and goods listed in the announcement

The committee developed by the Ministry of the Economy, after the deadline for implementation application, coordinates the contest on a predefined date and analyzes the application to decide.

Applications be evaluated on the basis of the following features:

applications with the minimum pass mark have the right to use this mechanism.

The results will be broadcasted in only 2 working days after the contest.

Advertising in public spaces and on international media:

The advertising of the "Made in Azerbaijan" brand in public places and international media is coordinated to promote domestic non-oil goods with a single name “Made in Azerbaijan” in large masses in abroad.

This mechanism covers all expenses of advertisement organization.

Countries where the "Made in Azerbaijan" will be announced, public areas and mass media will be established by the Ministry of the Economy on the basis of non-oil export capabilities, export requests and international economic and commercial links with the respective countries according to the following criteria: exporters whose goods will be announced will be chosen by competition.

For each of the following mechanism, implementation application should be declared 15 days before the contest and distributed in announcements.

Note! Note! Goods and services, mass media and countries are listed in the announcement

The committee developed by the Ministry of the Economy, after the deadline for implementation application, coordinates the contest on a predefined date and analyzes the application to decide.

Applications be evaluated on the basis of the following features:

applications with the minimum pass mark have the right to use mechanism

The results will be broadcasted in only 2 working days after the contest.

Getting International Certificates for products' exportation:

Financial support for receiving certificates and patents on non-oil products in foreign countries is intended to promote national products in the world under the brand name of "Made in Azerbaijan."

This mechanism takes account of the costs of receiving certificates and patents in abroad and of registering trademarks until six months before submitting the application. The amount covered by the national budget is 50% of the cost of up to 60000 AZN.

For each of the following mechanism, implementation application should be declared 15 days before the contest and distributed in announcements.

Note! Note! Certificates, goods and services and countries are listed in the announcement

The committee developed by the Ministry of the Economy, after the deadline for implementation application, coordinates the contest on a predefined date and analyzes the application to decide.

Applications be evaluated on the basis of the following features:

applications with the minimum pass mark have the right to use mechanism.

The results will be broadcasted in only 2 working days after the contest.

Applicants received positive decisions at the first phase should apply again to receive payment by other application within 30 working days of receipt of the certificate or patent.

The application should be accompanied by the following documents: the documents analyzed according to "Administrative procedural code of the Republic of Azerbaijan" within 30 working days. If mere deficiencies are detected, the applicant is advised to correct them within 5 working days. In the following 10 working days, the applicant corrects the problems and the process goes on again.

If the positive decision is taken after analysis of the application, the payment should be transferred within 20 working days to the applicant's bank account in national currency.

Note! Note! Requests and documents should be submitted directly to AZPROMO

R&D project and programs:

Funding of R&D project and programs is coordinated to generate and develop new export-focused goods or production techniques, reduce production expenses and add value to current products.

This mechanism takes into account 50 per cent of all costs for one project up to 100000 AZN. Ten such events could be held annually.

R&D programs and projects should be carried out by local or foreign experienced legal or natural persons, on the basis of exporters ' applications.

For each of the following mechanism, implementation application should be declared 15 days before the contest and distributed in announcements.

The committee developed by the Ministry of the Economy, after the deadline for implementation application, coordinates the contest on a predefined date and analyzes the application to decide.

Applications be evaluated on the basis of the following features:

applications with the minimum pass mark have the right to use this mechanism.

The results will be broadcasted in only 2 working days after the contest.

Coordination of customer phase in Azerbaijan:

The ministry of economy sets out the dates of the customer missions and the foreign persons to attend, with the relevant information on its official site, in consideration of Azerbaijan's economic and trade relations and export potential of non-oil products as well as exporter demands.

Each client mission may not exceed 6 days and number of clients should not be more than 10 people. On each consumer mission only one member may represent the customer.

The number of shopping missions should not be more than 20 times through current year. The ministry of economics covers all costs with all organizational issues related to business visitors to Azerbaijan (hotel arrangements, international air and internal transportation (excluding taxis), translation services, rental of premises and meeting equipment).

The foreign individuals who take part in the customer mission are determined in accordance with the measure recommended by the Ministers Cabinet.

CONCLUSION

Because of the dependency on natural resource economy, exportation decreased more than 2 times during the crisis in 2015 in Azerbaijan. After this failure in exportation, government adopting on essential decisions to avoid resource economy and develop more healthier exportation.

For developing healthier exportation, government analysis the problems of export in Azerbaijan and develops solutions to these problems. Source of problems could be either government or entrepreneurs. Governmental problems such as complexity of documentation, weak support to entrepreneurs etc. and entrepreneur problems such as exporter shortage could harm the quality of export system.

From the 1st glance, we could list several problems of exportation in Azerbaijan:

1. Diversification. 2,6% export product holds 96,5% of all export of country. It means that exportation is not diversified and this 2,6% products have strong impact on the export of Azerbaijan.
2. Limited amount of non-oil export. It also signals the weak diversification of export products. Roughly to put, country’s economy heavily depended on the oil sector and few falling of oil prices will show itself in the economy of country.

3. Geographical limitations. It avoids accessibility of country to the global market. If a country has trade relations with only a few foreign countries, any political issue or changes with these countries will show itself in domestic economy. So, diversifying geographical accessibility will help country to develop healthier exportation.
4. Exporter shortage. 20 companies holds 54% of the export of Azerbaijan. It means that only a few entrepreneurs could benefit from export and will decrease other entrepreneurs production.
5. Limited potential of private sector. 100% of oil products export and approximately 35% of non-oil export hold by government. It also decreases the potential of entrepreneurs.
6. Technological limitation. Export products of Azerbaijan mainly belongs to 3^{rd} or 4^{th} complexity and quality level group which are respectively middle-low and low level of complexity and quality. Government makes decisions to encourage entrepreneurs to develop the products complexity and quality level, not only size of the export.

These problems strongly hit the government's exportation, as we could broaden this list. Government make some decisions and ordinances to handle with these problems such as

1. Trade assignments to find out new opportunities to enter global market and promote national products.
2. Researching markets to find out new global markets to export national products
3. Participation in worldwide exhibitions and fairs with the "made in Azerbaijan" brand to advertise domestic products in abroad
4. Individually participating in worldwide exhibitions and fairs also help to advertise and promote domestic products in abroad
5. Promotion of domestic products with the name of "Made in Azerbaijan" by government-owned legal person to enter global

market and sell domestic products under the one name: Made in Azerbaijan.

6. Replacing “Made in Azerbaijan” stents in “Duty Free” shops and stores operating in abroad also helps to promote Azerbaijani domestic products in foreign countries.
7. Advertising in public spaces and on international media will make national product well-known in large masses in abroad.
8. Getting International Certificates for products’ exportation is a key access to the global market
9. R&D project and programs help to find out new production techniques and reduce costs
10. Coordination of customer phase in Azerbaijan helps to develop trade relations with other countries.

Also government continue to analysis and develop exportation of Azerbaijan and growth it year-by-year.

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