

**THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN**

**AZERBAIJAN STATE UNIVERSITY OF ECONOMICS**

**INTERNATIONAL GRADUATE AND DOCTORATE CENTER**

**MASTER DISSERTATION**

**ON THE TOPIC**

**“AZERBAIJAN-EU TRADE RELATIONS: DIRECTIONS OF  
IMPROVEMENT”**

**HUSEYN ALIYEV GUDRAT**

**BAKU – 2019**

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**Head of the Center  
Assoc. Prof., Dr. Ahmadov Fariz Saleh**

“ \_\_\_\_\_ ” \_\_\_\_\_ **2019**

**MASTER DISSERTATION**

**ON THE TOPIC**

**“AZERBAIJAN-EU TRADE RELATIONS: DIRECTIONS OF  
IMPROVEMENT”**

**Code and name of Programme: 060401 World Economy**

**Specialisation: International Trade**

**Group: 850**

**Master  
Aliyev Huseyn Gudrat**

**Scientific Supervisor  
PhD, Doc Rzayev Anar Yashar**

**Program manager  
PhD Najafova Kamala Akif**

**Head of the Department  
PhD, Doc. Kalbiyev Yashar Atakishi**

**BAKU – 2019**

## **Elm andı**

Mən, Əliyev Hüseyn Qüdrət oğlu and içirəm ki, “Azərbaycan – Avropa İttifaqı ticarət əlaqələri: inkişaf perspektivləri” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

## Xülasə

**Tədqiqatın aktualığı:** Qloballaşan dünyada Azərbaycanın əsas ticarət partnyorlarından olan Avropa İttifaqı ilə olan ticarət əlaqələrinin xarici ticarət əlaqələri strukturunda əhəmiyyətli yeri vardır. Bunu nəzərə alaraq, ölkənin Aİ ilə ticarət əlaqələrinin müasir inkişaf meyillərinin nəzərə alınması vacibdir.

**Tədqiqatın məqsəd və vəzifələri:** Dissertasiya işinin əsas məqsədi Azərbaycanın Avropa İttifaqı ölkələri ilə ticarətində mövcud vəziyyəti, inkişaf meyillərini, problemləri araşdırmaq və əlaqələrin inkişafı istiqamətində tədqiqatın nəticəsinə uyğun müxtəlif istiqamətlərdə müvafiq təkliflərin verilməsindən ibarətdir. Tədqiqatın vəzifələri isə Azərbaycanın Aİ ilə ticarətdə hazırkı vəziyyəti, inkişaf meyillərinin istiqamətlərinin aşkarlanması, qanunvericilik bazasının, ixrac və idxal strukturunun optimallaşdırılması istiqamətində analizlərin aparılması və qarşıya qoyulan məqsədə çatmaq üçün təhlillərin aparılmasından ibarətdir.

**İstifadə olunmuş tədqiqat metodları:** Dissertasiya işinin hazırlanması zamanı tədqiqat metodu kimi analiz metodundan istifadə olunmuşdur. Azərbaycanın Avropa İttifaqı ölkələri ilə ticarətinin mövcud vəziyyətinin qiymətləndirilməsindən, trendlərin və problemlərin analizindən sonra isə ticarət əlaqələrinin genişləndirilməsi istiqamətində təkliflər verilmişdir.

**Tədqiqatın informasiya bazası:** Tədqiqatın hazırlanmasında informasiya bazası kimi ilkin mənbələrdən, elmi-tədqiqat əsərlərindən, Avropa İttifaqının bu istiqamətdə nəşr etdiyi müxtəlif məlumatlardan, bir sıra konfransların və görüşlərin materiallarından, habelə müxtəlif internet resurslarından istifadə olunmuşdur.

**Tədqiqatın məhdudiyyətləri:** Tədqiqatın aparılmasında əsas məhdudiyyət Milli Statistika sistemi ilə Avropa Statistika Sisteminin uyğunsuzluqları, habelə müxtəlif təyinatlı analizlər aparmaq üçün informasiyanın məhdud və ya heç olmamasıdır.

**Tədqiqatın nəticələri:** Tədqiqatın nəticələrinə əsasən Aİ ilə ticarət əlaqələrinin genişləndirilməsinə, ixrac-idxal strukturunun optimallaşdırılmasına və hüquqi bazanın təkmilləşdirilməsinə dair potensial mövcuddur və bu istiqamətdə təkliflər verilmişdir.

**Nəticələrin elmi-praktiki əhəmiyyəti:** Əldə edilmiş nəticələr ilə Azərbaycanın Aİ ilə ticarətində artıma, qeyri-neft ixracının potensial artımına və ölkəyə daha çox pul vəsaitinin gəlməsinə nail ola bilərik. Ticarətin ölkə iqtisadiyyatının təməllərindən olduğu düşünülərsə, tədqiqatın praktiki əhəmiyyəti böyükdür.

**Açar sözlər:** Azərbaycan, Avropa İttifaqı, ticarət.

## ABBREVIATIONS

|               |  |
|---------------|--|
| <b>BOP</b>    | Balance of Payments                                |
| <b>BTA</b>    | Bilateral Trade Agreement                          |
| <b>BTC</b>    | Baku-Tbilisi-Ceyhan                                |
| <b>BTE</b>    | Baku-Tbilisi-Erzurum                               |
| <b>CIS</b>    | Commonwealth of Independent States                 |
| <b>ENP</b>    | European Neighborhood Policy                       |
| <b>EPC</b>    | Eastern Partnership Countries                      |
| <b>EU</b>     | European Union                                     |
| <b>FDI</b>    | Foreign Direct Investment                          |
| <b>GATT</b>   | General Agreement on Tariffs and Trade             |
| <b>GDP</b>    | Gross Domestic Product                             |
| <b>GSP</b>    | Generalized System Preferences                     |
| <b>IMF</b>    | International Monetary Fund                        |
| <b>IPA</b>    | Investment Promotion Agency                        |
| <b>ITO</b>    | International Trade Organization                   |
| <b>MTA</b>    | Multilateral Trade Agreement                       |
| <b>NAFTA</b>  | North American Free Trade Agreement                |
| <b>SCIP</b>   | Sumgait Chemical Industry Park                     |
| <b>SCP</b>    | Southern Caucasus Pipeline                         |
| <b>SGC</b>    | Southern Gas Corridor                              |
| <b>SOCAR</b>  | State Oil Company of Azerbaijan Republic           |
| <b>STP</b>    | Sumgait Technologies Park                          |
| <b>TANAP</b>  | Trans-Anatolian Natural Gas Pipeline               |
| <b>TAP</b>    | Trans-Adriatic Pipeline                            |
| <b>UK</b>     | United Kingdom                                     |
| <b>UN</b>     | United Nations                                     |
| <b>UNCTAD</b> | United Nations Conference on Trade and Development |
| <b>USA</b>    | United States of America                           |
| <b>WTO</b>    | World Trade Organization                           |

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## INTRODUCTION

**Actuality of the work.** In a globalized world, Azerbaijan is also pursuing economic reforms to meet modern challenges and trends, trying to progress through the most balanced way in foreign economic policy and trade relations. In this sense, trade relations with the European Union - one of the main trade partners of Azerbaijan have a significant role in the structure of foreign trade relations. Therefore it is important to take into account the modern trends in trade relations of the country with the EU.

**Statement of Problem and level of learning.** Problems of Azerbaijan's trade with EU countries and their elimination have always been a matter of public policy. In this sense, various agreements and treaties between the states have been signed. If we taking into consideration the role of the European Union in the economy of Azerbaijan and the benefits of expanding these ties to Azerbaijan, this topic has not been researched by scientists too much. This problem or issue has not been investigated by European or other world scientists, because Azerbaijan is a small trade partner of the EU. This is a much more local problem, and therefore the investigation of the problem is duty of Azerbaijanis.

**The purpose and missions of research.** The main purpose of the research is to provide relevant recommendations in various fields in line with the outcome of the research on Azerbaijan's current state of trade, development trends, problems and the development of relations with EU countries, to optimize import structure of Azerbaijan from European Union, to make increase non-oil sector export to EU countries and to develop this sector, to make recommendations on legislation and custom policy. The mission of the research arise from purpose is to analyze the current state of trade with the EU, trends of development trends in Azerbaijan, to analyze legislation, to analyze current export and import structure of Azerbaijan and EU, and to make analyzes to achieve the goal.

**Subject and Object of the study.** The object of research is a foreign trade policy under existing economic conditions. The subject of research is the economic

relations resulting from the effectiveness of foreign trade policy and the macroeconomic impact of this policy on the local economy.

**Research methods.** The method of analysis, induction and deduction methods as methods of research were used in the master dissertation. Following the analysis of the current state of trade with the EU countries, analysis of trends and problems, recommendations and suggestions were made to expand trade relations. Besides these, SWOT analysis was conducted, historical and comparative data was investigated.

**Research database.** Key concepts of economics in classical and neo-classical schools on economic theory and international trade relations, main theories of famous economists, the official statistics and data of the Ministry of Economy, Ministry of Agriculture, Ministry of Finance, the Central Bank of the Republic of Azerbaijan, State Statistical Committee, State Customs Committee, as well as European Statistics Committee and other related government and non-governmental organizations were used during research.

**Limitations of research.** The main limitation of research is differences between European Statistics and National Statistics. The differences between Azerbaijan State Customs Committee data and State Statistics Committee data also have made problem for research. The weakness of the database for different-purpose analysis, weak coordination between state bodies and the lack of research by European scientists are among the limitations of research.

**The practical importance** of the study is that with the obtained results, we can achieve the growth of trade with the EU countries, the potential increase in non-oil exports and the income that comes to the country.

**The structure and length of dissertation.** Master dissertation consists of Introduction, 3 Chapter, Results and Recommendations, References and Appendix. To improve the accuracy of the research 4 tables and 7 graphs were used in the dissertation. The total length of dissertation covers 90 pages.



## **Chapter I. Theoretical basis and management mechanisms of international trade relations.**

### **1.1. The role of foreign trade relations in the economic development of countries.**

The most flexible, traditional mechanism used by countries for centuries to create economic relations is foreign trade. "Foreign trade" combines import and export operations. In other words, foreign trade is a system between nations or countries is those products, commodities, services that are being traded to some other country outside a particular country's borders. Foreign trade is characterized by 3 main indicators: goods turnover, goods structure and geographical structure.

Foreign trade turnover - combines the value of import and export of countries involved in international commodity exchanges. Value and physical volume of foreign trade is different. The value of foreign trade is measured at the exchange rates prevailing at the current time (variable prices). The physical volume of foreign trade is measured by constant prices. On the basis of it, the real dynamics of foreign trade are determined at comparable prices.

Foreign trade relations are one of the key indicators for determining the level of economic development of each country. Increasing the competitiveness of the products in the world markets, ensuring their free access to these markets, imports of essential goods for the domestic consumer market ultimately affects the economic power of the countries.

Further acceleration of globalization processes in the world economy has made countries more active in international economic specialization. The modern development of the global economic system embodies the further expansion and development of international trade, its liberalization, dynamic change of trade and economic relations in terms of both geographical and commodity structure. Foreign trade is a source of income for all countries, and it makes opportunity for economic development and growth. Foreign trade coordinates many types of international cooperation and creates certain dependency among countries.

Foreign trade is the traditional, historically first and most advanced form of international economic relations. Formation of foreign trade relations has an ancient history. The development of it comes from XV-XVIII centuries. From this time the expansion of the domestic market, the turnover of commodities and services go beyond the national markets, and then world market was formed, which further enhances the development of foreign trade. Foreign trade has a broad structure. It incorporates structures such as management, finance, credit, price, information, commercial and etc.

Foreign trade facilitates further expansion and deepening of international division of labor, rational use of existing resources, expansion of scientific and technical cooperation between countries, the material and spiritual needs of the peoples of the world. The economic progress of the society, ensuring the security of world countries and achieving economic growth in the countries are linked to international trade.

So why do countries make trade with each other? The objective necessity of this kind of communication is explained in several factors such as, unequal distribution of economic resources among the countries, the need for a combination of resources or technology for the efficient organization of the production process, the foreign trade as a substitute for international mobility of national resources and etc. Thus, let's explain factors in detail that drive countries to trade.

- Production surplus. Before industrial revolution the main problem of economy was the need to increase the production, after the industrial movement finding marketplace and expanding international market was a major problem. Production surplus require countries to enter foreign trade. It is caused by the demand for goods and ability to produce. In other words, a country produces some goods more than its own in the country, and eventually leads it to the world market through international trade. The world market offers goods to countries. Sometimes, when a country specializes in a particular product, it produces more

than that product and exports it to the world market. And then changes this product to the product which country needs.

- Lack of domestic production. One of the major factors leading to foreign trade is that certain goods are not produced in some countries or they are insufficient to meet domestic demand. Unequal distribution of natural resources, lack of technical knowledge and experts, differences in economic development causing production inadequacy and naturally lead countries to foreign trade. Economic resources are unequally distributed among countries. In other words, countries are significantly different from each other in terms of economic provision and economic potential. It means that one country can have plenty of land, the other can have labor force. Countries differ from one another in their ability to specialize in capital, oil, land, mineral resources, labor, and other factors such as climate or location. For example, China has cheap labor, therefore it is easy to specialize in labor-abundant sectors. Korea has the ability to effectively produce science-intensive products because of well trained workforce. But New Zealand, on the contrary, has a large land area and sheep, but there is a workforce shortage. New Zealand has a comparative advantage on goods such as wool and meat. If there weren't be foreign trade relations, most countries would remain without certain products. For example, Singapore has no coal, Sweden has no aluminum, and Belgium has no oil.

As a result of the mutual connection of these factors, some countries specialize in the production of various commodities, and thus in every country there is a need for products from other countries. Thus, no country in the world can satisfy all its needs.

- Price differentials. Obviously, production costs are different in each country and labor productivity is not the same in all countries. This leads to difference in the cost of products and ultimately international prices.

While technological and country-specific production factors affecting production costs, also contribute to the difference in productivity among countries. Countries do not prefer to export all the goods they produce, they just sell goods

that are cost-efficient and they import products which can be produced in country at a higher cost due to productivity differences. Large domestic demand and hence a relatively high price means that the country is the importer of that commodity. Every country that follows this condition can use the advantages of the international division of labor to make the country's socio-economic progress.

- Differentiation of goods (different goods in different countries). The goods produced by enterprises within the industry are similar to each other but not identical. External appearance and usage of goods are different. Because the consumer choices are different. Therefore countries trade with one another, and they mutually gain from this process.

Foreign trade increases competitiveness and boosts productivity. It also creates profitable political relations among countries.

There is completely perfect role of foreign trade in the country's economy. Successful and balanced trade provides significant contribution for emerging nations and has great impact on developed countries as well. Here are some results of successful trade:

- If a country exports more than imports, it means country has positive trade balance, source of foreign currency helps a nation's BOPs (trade surplus countries build up US\$ reserves)
- Trade is a crucial way of financing imports of essential goods such as capital equipment / technologies and energy supplies
- High demand which is injection into the circular flow of income and spending leads to positive export multiplier effects
- Rising employment in export field and related industries that can lead to increasing per capita incomes and also stronger Human Development Index scores
- Decreased prices for consumers helps to rising real incomes, for example, by opening up markets to a new competition

International trade, as a major factor of openness, has made an increasingly significant contribution to economic growth, but trade also has risks:

- Volatile global prices affecting revenues and profits which generate from exporting process

- Exports can be affected by geo-political uncertainty and problems, it takes high risks. Cyclical shifts in demand is an important factor as well.

- Unemployment problems also carry high risk. Opening up an economy to trade, liberalization may cause rising structural unemployment in some industries

Foreign trade accounts for one of the best part of a country's GDP. It is also one of important sources of revenue for a developing country:

- Reduces dependence on existing markets
- Maintains cost competitiveness in the domestic market
- Enhances the domestic competitiveness
- Gains a global market share
- Takes advantage of international trade technology
- Enhances potential for expansion of business
- Expands sales potential of the existing products

Foreign trade has become one of the crucial factors in the economic policies of most countries. It is impossible to provide economic development, to reach an economic goal, to move to market economy, to integrate into the world economy, to survive from economic crises without foreign trade. It is important to choose proper, justified direction of foreign trade in the strategy of international trade and protection of national interests.

In the XXI century, transition of several countries to the market economy system opens up prospects for expanding international trade. Thus, the formation and development of the national economy of the states largely depends not only on domestic opportunities, but also on significant external factors - broader and rational use of all forms of international economic relations, especially foreign trade relations.

We see signs of foreign trade relations every day. Different expensive cars, colorful clothes, large smart TVs, big smartphones, cleaners and etc. They all are small examples that remind us at any moment how foreign trade enters our lives

Foreign trade is a form of contact on the basis of international division of labor among the producers from different countries. Modern international relations are characterized by the dynamic development of world trade, and fresh and specific features emerge in the development of national economies.

Under the influence of scientific and technical progress structural changes in the economies of different countries occur, the production and co-operation of production strengthens the mutual dependence of national economies. Thus, foreign trade relations become more active.

### **1.2. Trade building mechanisms of countries.**

All international trade researcher and policy makers try to answer two main questions: 1. How to build trade? and 2. Which trade building mechanisms should be used by countries?

It is clear that international trade should be built so that it can bring benefits to country. At first glance, it seems that all possible ways can be used to earn profit. But countries sometimes have priorities rather than profit. Thus, countries can use different ways to build foreign trade and several mechanisms can be used.

Multilateral and bilateral agreements, foreign direct investments (FDI), knowledge and technology transfer, franchising are some mechanisms that country can use when thinking about to build significant foreign trade. These mechanisms are kind of umbrella which countries engage in foreign trade operate under this.

Countries use different mechanism for to make a significant foreign trade. One of the best way to do it is bilateral trade agreement. Trade agreements between countries are either bilateral or multilateral. While bilateral agreements involve two countries, multilateral ones involve more than two countries. Agreements mainly focus on to liberate economy, usually they are intended to eliminate barriers between participating parties. Thus, this interaction increase degree of economic integration as a consequence. BTAs award two countries with favored foreign trade. They do it by giving access to each other's market without any restrictions

and trade barriers. This leads to more trade and growth. Agreement makes business operations easy and standardized, beside this it enlarges operation field.

Each bilateral agreement has common standards which covers different areas.

Main function of BTAs is to eliminate tariffs and any other trade taxes. It gives companies which operate in both countries price advantage. Experience shows that it works best when each country specializes in different industries. Vice versa, effectiveness will decrease.

When countries agree with each other, it means that they will not dump their products at a cheap cost. Due to gain market share which is unfair companies do this.

They decrease prices, destroy their competitors and after all, raise prices.

Governments also avoid from using subsidies. Because it gives some companies unfair advantage when exporting process. But governments mainly subsidize strategic industries. For example, energy, transport and agriculture. This lowers cost, product producers get benefit and consumers gain as well.

Bilateral trade agreements standardizes some operations such as labor standards, some regulations, environmental protections and other issues. It is clear enough that if regulations are weak things like subsidy gives domestic country's exporter a competitive advantage on some product over foreign producers.

One of the important measures within this type of agreement is that countries adopt each other's copyright and intellectual property laws and they don't steal each other's innovation and innovative products.

Bilateral agreements have a number of advantages. Core function of BTA is to increase trade between countries. They also open markets to companies, firms or industries which is successful. As these parties take benefit, they create new job opportunities. Thus, it will add new jobs to economy.

Another pro of bilateral agreements is that country's consumers benefit from cheap products as well. People will get and benefit lower cost exotic fruit and vegetables (too expensive products) without agreement.

Bilateral trade agreements are easy to negotiate than multilateral ones. Because BTAs involve just 2 countries. It seems that they can see its effect faster and getting benefits quickly. Suppose several countries negotiate on MTAs but it fails, the most of the countries will negotiate a number of bilateral trade agreements instead.

But like any other agreements BTAs also have some cons. Firstly, we know that unsuccessful companies leave market after liberalization of country's economy. Thus, bilateral trade agreements cause some companies to go out of business and lose marketplace. These companies cannot compete with other powerful industry in the foreign country. They lose their advantage on price when protective restrictions, trade barriers and tariffs are removed. And it will lead to unemployment, because employees of less successful companies go out of market.

World largest bilateral trade agreement was signed between the European Union and Japan recently. This deal will hurt United States auto and agricultural exporters.

Another trade building mechanism is multilateral trade agreement. Multilateral trade agreements are commerce treaties between three nations or more. MTAs reduce tariffs and make importing and exporting processes easier for businesses. They are difficult to negotiate because they involve many countries. But bilateral agreements are easier. Because they are between two countries. Wide scope of this agreements makes them stronger than other sorts of agreements once all parties sign. Bilateral agreements do not have as huge an effect on economic growth as does multilateral ones.

MTAs make all parties treat one another the same. No country can allow superior trade deals with better conditions to one country than it does to another. Size of the multilateral agreements is bigger than bilateral agreements. It works very well in developing countries. Emerging countries take benefit from the Most Favored Nation Status which make them best trading partner.

MTAs as BTAs increase trade for every participant. Export with low tariffs and other trade taxes make companies enjoy.



Most countries would prefer to have one ratified agreement covering many countries at the same time. Therefore, they make multilateral trade agreements. For emerging markets, another benefit applies. Bilateral trade agreement tends to favor best economy and puts a disadvantage on the weaker economy. But multilateral ones help emerging markets which make their economy stronger. Gradually, developing markets becoming developed and their welfare increase. This create new customers for participant countries and the world economy over time.

But complexity of multilateral trade agreement is its disadvantage. It is hard to negotiate in long talks, it consumes more time and sometimes despite the length of negotiation participants cannot agree. Multilateral agreements also demand broad explanation to the public. Because public sometimes misunderstands details of agreement. Thus, it can lead to protests, controversy and etc. MTAs similar to every trade agreement also gives disadvantage on country's less successful companies and small business. They cannot compete with giant multinational companies.

Some of the regional trade agreements are multilateral. For example, North American Free Trade Agreement (NAFTA) which one of the biggest multilateral trade agreements. Because of cheap labour from Mexico and cheap raw materials from Canada NAFTA benefits mostly USA.

CAFTA-DR, Trans-Pacific Partnership, former GATT are some of the significant examples of multilateral trade agreements.

Foreign Direct Investment (FDI) is also significant part of trade building mechanisms. In some of the developing countries foreign direct investment (FDI) has a poor reputation. In some cases of these countries, FDI is presented as identical to postcolonial exploitation of raw materials and cheap labor. Nonetheless, recent data presents that FDI in emerging countries proceed into manufacturing sectors which are medium and high-skilled sectors. These capital flows correspondingly raised income levels. Many developing countries have built their growth and development on FDI flows.

Every country wants to attract quality FDI. For this process country should be open to foreign investors and their interaction into the host country economy. Quality FDI has characteristics which make it qualitative among other investments. It is characterized as:

- make contribution to the host country economy via creation of decent jobs which has value-adding effect on the economy;
- increasing skill base of domestic economies;
- helping to the tech and knowledge transfer and know-how;
- enhancing competitiveness of local companies and facilitating their access to the markets;
- performing in a socially, culturally and operating in an environmentally responsible way.

To obtain this, countries cannot just stay and observe what international market forces may bring to them. On the contrary, there is a need for a special policy to abolish internal deficiencies that prevent domestic and foreign firms from integrating effectively into world-wide supply chains.

Good strategy and mechanism for attracting FDI always works and bring these flows into the country's economy. Significant strategy successfully turn into quality FDI. There are several strategies for attracting FDI:

- Liberalize market and make processes easy for FDI inflows. Eliminate or reduce restrictions on foreign direct investment. Countries should imply same fair, transparent conditions for all types of companies and firms, and provide open market as well. These kinds of conditions including free access to imports and ease of doing business, free labour market which is flexible and strong protection of IPR.

- Establish Investment Promotion Agency (IPA). If this agency works well then it will make easy connection between host country's economy and foreign investors. IPA aims to link these parties. Agency also satisfy investors and take care of investments of them and search for potential reinvestments.

- Think twice and more when you target some activity or sectors. In the local economy maybe investment decisions depend on a number of multinational investors.

- Set up infrastructure required by investor. Make transport facilities such as ports, airports. Significant supply of energy, reliable and skilled labour force, high-skilled workers and cooperation with quality investors is needed.

- Encourage first-time investors and create easy market for them.

- For the internationalisation of economy encourage investors from diaspora

- Set up development program which links local country (supplier) and foreign investors (customer).

- Easy access to credit by local country financial markets.

- Wait and see how domestic economy gradually change structurally. Countries should be patient about it. Because foreign investors come in waves. First foreign investors make low-skill demanded investments, secondly, semi-skilled and then high –skilled such as data processing or computer technology and its peripherals. FDI contribute to diversifying and uplifting domestic production with this transformation.

When country seeks to attract foreign investment it should not insist that all inflow FDI be at the most sophisticated technical level. Some firms which operate internationally with middle-level technology can provide enough benefits for both host country economy and domestic suppliers. When involving FDI it is better not to subsidise specific firms but creating dependable and reliable infrastructure.

It is clear fact that developed countries have great impact on developing ones. Attracting FDI is also one of the subsectors that we see vital roles of developed countries or other external donors. Despite strong infrastructure of government there is always need to support growth and development programs in emerging economies. Sometimes programs are not enough and still need to go beyond such as financial aid and poverty reduction programs. Beside this, if developed countries also interested in flow of investment then they should improve

functioning of financial markets over the world, so, it will enable emerging economies to harness their investment. Financial market development is crucial for better transmission and it will lead to help overcoming problems which developing countries face about deficiency of financial market. Thus, this procedure can help to increase FDI inflows to the developing host countries.

Policy makers can do everything significantly but still might be no flow of investment. In this case, countries should implement effective promotion strategy. In the side of IPA specific and expensive expertise are actively required. Professional staff should be hired and paid at internationally competitive salaries. The cost of all these expensive procedures can be paid by external donors such as developed countries. Moreover, emerging countries need help in learning how to use IPAs effectively for marketing their countries to multinational investors.

Knowledge and technology transfer has been a great issue of concern for policy makers for making foreign trade effective. These areas of research contribute greatly to economic development, and for those reasons developing countries are hungry for knowledge and technology transfer (Hendrix. A. Odigie, Richard Li-Hua – Unlocking the Channel of Tacit Knowledge Transfer).

Emerging countries mostly interest in technology transfer and involves in adoption of it. Some people think that it is just transfer of knowledge or technology from country to country. But it is more than it. The gains of it are huge and there is significant effect on country's development and economic growth. For these massive reasons governments and big companies invest in it.

Technology transfer is massive tool to make foreign trade. It is type of mechanism that country makes trade. There are several benefits of it. Firstly, we can say that it brings globalization of industries. Economic vibrancy is seen when the transfer occurs between developed nations and developing countries. Another good side of transfer is that domestic market become more international. Thus, if country set up proper infrastructure, then local market could compete with large industries. But sometimes lack of infrastructure, skilled workers, legal protection and rights, wrong attitudes or environmental problems are barriers to transfer.

Knowledge transfer is a main mechanism of tech-transfer, because without knowledge there wouldn't be any technology transfers. Many economists have defined this term in many ways, there are lots of assumptions and definitions, but it is clear enough that knowledge transfer led to economic development.

Because of enormous benefits countries invest in knowledge transfer. From the community which involve in knowledge to the skill and ability of workers knowledge transfer increase benefits rapidly.

Sometimes because of policy un-settlement knowledge transfer faces hardship. If government and policy institutions work with Research & Development institutions then this hardship can be over. It is only achievable in emerging economies if academic, business companies and politicians.

For technology and knowledge transfer government executives have to enable free access to FDI, joint ventures, liberalized legal policy and etc. If country wants to adopt technology or knowledge transfer it should implement such a policy that provides licensing, franchising, flow of investment and so on.

Emerging countries should strengthen their Intellectual property policy to get foreign investment. These tools also help to get more market share on world economy.

Emerging countries like Azerbaijan should collaborate with other emerging countries like China and India for transfer of knowledge and technology. The reason is these countries were the situation which Azerbaijan is now. Thus, these countries are keen on collaboration and cooperation that includes knowledge technology transfer. If appropriately be transferred these mechanisms, this will be huge impact on economy and development will significantly increase.

In order to increase the effectiveness of foreign trade in the international economic relations of the country, transport and infrastructure development is strongly needed. Development of transport facility and infrastructure, also expanding the opportunities of foreign trade relations using modern technology and innovation technologies in export-oriented production help to attract investment flows and to build foreign trade efficiently.

### **1.3. International regulation in the trade relations.**

Governments try to regulate foreign trade activities by setting up favorable economic conditions for foreign trade operations that help to realize specific socio-economic development issues, and eliminate administrative restrictions which increase the efficiency of the economy. Policy makers liberalize economy and eliminate operations that can have a negative impact on the country's economy.

The development of foreign trade relations along with the regulation of international trade at the national level has been accompanied by the emergence of various forms of inter-countries interaction in this area recently. This tendency is conditioned by several reasons:

- deepening the internationalization of economic life;
- expansion of goods, service, production markets;
- development of transnational corporations;
- establishment of numerous international organizations.

As a result the regulatory measures and mechanisms of a country have a direct impact on the economies of other countries and these countries, in turn, take action to protect their producers and consumers. This reveals the necessity of the implementation of the regulation at the international level.

International regulation of trade can be implemented on the following bases:

- bilateral agreements;
- multilateral regional agreements signed within regional organizations;
- multilateral conventions regulated by global organizations

Trade relations among countries are regulated by trade agreements and conventions which are concluded among the countries within the executive power (between governments) and approved by the legislature (parliament). Such contracts and agreements, which define the principles and procedures of bilateral trade are usually signed for a period of 5 to 10 years and periodically revised and extended.

First of all, it is necessary to mention the customs union when speaking about the intergovernmental regulation of international trade on a second basis. The Customs Union which is now numbering 20 in the world is a legally binding agreement between two or more states. According to this agreement, the states entering into the union implement a common tariff policy towards each other and third countries. From economic point of view, customs unions provide for the establishment of a single economic space which means the abolition of customs borders within that space.

Organizations dealing with international trade regulation may be split into two groups according to their profile and scope:

- 1) international organizations generally dealing with various problems of international trade;
- 2) international organizations regulating trade with one or several related goods and services

GATT / WTO, UNCTAD, UNCITRAL, International Chamber of Commerce includes first group. The World Trade Organization (WTO) has a leading role in regulating international trade with goods and services.

In the late 19th and early 20th centuries, due to the rapid expansion of the scope of international economic relations, new international and non-qualitative international economic system. The new system along with many positive aspects, also had the disadvantages. So often, there are contradictions and disputes among the countries, and this leads to commercial wars. On the other hand, the ongoing economic crises also harmed the world economic system.

The world economic crisis, which took place in 1929-1933 once again proved the necessity of multilateral regulation of macroeconomic policy. Lack of organizations that define "rules of the game" in international trade and currency-finance spheres during the pre-war years a number of countries were pushing for separatist actions that further aggravated the global economic crisis. In the upcoming crisis, the Holi-Smut law was adopted in the United States, with an average rate of customs duties up to 44.7%, and then up to 59.1% in 1932. After

that, many western countries have significantly increased their customs duties, which has been extremely negative for the world economy: in 1929-1932 the volume of world trade decreased almost by 60%. At the same time, in those years, the basis of international trade was bilateral trade agreements, and their lack was not limited to a limited number of commodities. Consequences of closed bilateral agreements were sometimes unexpected: third-party manufacturers who did not compromise on their own were making profits from this contract.

A number of attempts have been made to regulate trade relations until the Second World War. As an example, the Convention on the Facilitation of Customs Formalities (1923), the International Trade Arbitration Convention (1924), and others can be shown. In 1927, the League of Nations called for an international conference on trade, and attempted to establish a document on the rules and regulations of international trade. But these attempts did not succeed.

Nevertheless, establishment of the world economy (especially, world trade) was one of the main goals of the newly established United Nations (UN) which it could obtain principal agreements on this issue. It was decided to convene an international conference on trade and employment with the UN Economic and Social Council resolution of 18 February 1946. It was held in Havana. There, the text of the Havana Charter, which sets out a number of general principles of international trade and the establishment of the International Trade Organization (ITO), has been developed and agreed. The objectives of the organization were to comply with 3 paragraphs: to implement the Charter of Havana, to study the problems of international trade and to act as "judges" in the debates of the Charter states. International Monetary Fund (IMF) and the World Bank have been set up to regulate international currency-credit and financial relations during 1944 Bretton Woods conference. The third "column" of the created system should be ITO. The ITO should deal with trade, economic development, employment and investment policies in a multilateral ways. While working on the Havana Charter during the Geneva Conference in August-October 1947, 23 countries represented in the conference, including the United States, Canada, Great Britain, France, India,



Brazil and other less developed countries, have started to negotiate a mutual reduction of the level of customs tariffs, which significantly hinders. As a result, firstly 23 countries adopted "General Agreement on Tariff and Trade" (GATT) and this agreement started on January 1, 1948. GATT had to operate until the end of the ratification process of the ITO Charter and then be converted to a part of it.

However, due to the fact that several countries, especially the US parliament, did not ratify the ITO convention, the establishment of an organization that regulates the world trade has delayed for 47 years. The reason why the US parliament did not ratify the charter was the principle of the distribution of votes. The United States considers that every country should have voice due to its part in the world trade. Europeans defended the principle of "one country - one voice". Over the years, world trade has been regulated within GATT, with the rounds of trade negotiations being held at that time. In general, within the GATT, 8 trade negotiations were held in 1947-1994, aimed at the liberalization of international trade and the elimination of trade barriers. (Table 1)

Table 1. Rounds of trade negotiations within GATT

|   | Name of round | When      | Results  | Number of participants |
|---|---------------|-----------|--|------------------------|
| 1 | Geneva        | 1947      | Rates of customs duties were reduced, non-tariff barriers were eliminated and measures on non-tariff regulation were started   | 23                     |
| 2 | Annecy        | 1949      |  | 13                     |
| 3 | Torquay       | 1951      |  | 38                     |
| 4 | Geneva        | 1956      |  | 26                     |
| 5 | Dillon        | 1960-1961 |  | 26                     |
| 6 | Kennedy       | 1964-1967 | It was decided to reduce the level of customs duties by an average of 35% over 5 years and to carry out anti-dumping measures  | 62                     |
| 7 | Tokyo         | 1973-1979 | To reduce the customs duties rates by stages from January 1, 1980 (about 33% of industrial products), mitigation of non-tariff barriers and closing of framework agreements                          | 102                    |
| 8 | Uruguay       | 1986-1994 | Significant decisions on tariffs, non-tariff measures, trade in services, dispute resolution, intellectual property, trade and environment have been taken and the creation of WTO has been decided. | 123                    |

Source: WTO's official website: [www.wto.org](http://www.wto.org), 2019.

As a result of the first round of Geneva Round 10 billion dollars have been spent on 1/5 of world trade. 45 thousand tariff discounts were made. During the negotiations, it was also agreed that these concessions should be accompanied by the adoption of a number of trade rules enshrined in the IPO Charter.

However, gradual elimination of quantitative restrictions restored the priorities of customs tariffs. Therefore, Annecy Round of 1949 and Torquay Round of 1951 focused on regulating trade regulation by custom tariffs.

The Geneva Round was held in 1956, and it was no surprise that no efficient decision was taken during this round.

In 1958, the new proposals, called "Dillon Proposals," were put forward. Based on these proposals, trade negotiations were called Dillon-Rounds within the GATT in the 1960-61, but they did not succeed. It should be noted that according to Dillon proposals, the rates were supposed to be reduced by 20%.

The Kennedy Round starts in 1964 with suggestions made by US President John Kennedy in 1962. These talks were the reaction of the Americans to the creation of a common market of Europeans. As a result of the negotiations, it was decided to reduce the tariffs by 35% for five years (1968-72) and to carry out anti-dumping measures.

The Tokyo rounds (1973-1979) were different from previous rounds for many tracks. First of all, it is worth mentioning that in those talks a record number of participants - 102 countries took part. On the other hand, experts often rate this round as the first attempt to reform the international trade system. Negotiations were very difficult. During this round, attempts continued which target to reduce tariffs within GATT. Among the results obtained, averaging 1/3 times lower customs duties on 9 major world markets can be seen as a result of the average level of tariffs dropped from 40% to 4.7% when establishing GATT. The results of the Tokyo Round in other areas were unambiguous. Thus, the participants of the round could not solve the fundamental problems of trade with agricultural products and could not agree on a new agreement on "defense measures" (restrictions on

imports of emergency). At the same time, negotiations resulted in a number of agreements on non-tariff measures.

After the Tokyo Round, positive results of GATT's work on establishing an international trading system have begun to show itself. The following positive outcomes of the existence of GATT can be mentioned over the years. Liberalization, development and strengthening of trade achieved during the period of its limited activity and time. Thus, as a result of consistent reduction of tariffs average annual growth rate of 8% of world commodity exports in 1950s, 1960s and 1970s achieved. Also, as a result of GATT's global exports, the world's exports in the 1950-1975s increased 14.5 times in current prices. On the other hand, the impetus to trade liberalization led to the fact that during the "GATT era," the growth rates of trade always exceeded the growth rates of production. The continuation of the new members of the GATT proved that the multilateral system of world trade created within the GATT was perceived as a means of development by the states, a means of reforming the economy and trade. In general, from the mid-1970s, it is economically or otherwise resistance to naturally increasing protectionist pressure in crisis conditions can also be attributed to GATT's services.

Along with all, the negative aspects of GATT's activities were also demonstrated. The reduction of customs tariffs, as well as the economic crises that governments have faced in the expansion of foreign competitors in the 1970s and early 1980s forcing new defense measures to protect them. High levels of unemployment, closer shutdown of factories and plants in Europe and North America urged its governments to conclude bilateral agreements on the division of markets with their rivals and start the "subsidy race."

These changes have diminished the confidence in GATT and its effectiveness. Except for the deterioration of the situation in the world trade, it is clear at the beginning of the 1980s GATT, unlike the 1940s, does not reflect the reality of world trade. Firstly, world trade has become a more complex mechanism compared to 40 years ago and began to play a more important role. Secondly, global trade developed in the direction of globalization, international investment

reached its peak. This was also investment policy on the trade aspects of its policy. Thirdly, trade in services not covered by the GATT rules involved more and more countries' interests. Liberalization of trade in agriculture did not produce any results. Despite the fact that after the Tokyo Round average weighted rate of the imported customs tariffs of developed countries was about 55%, the average indicators did not reflect the real situation. Thus, the share of rates for customs tariffs, which exceeded 10% in the European Union, Japan and the United States, decreased by 21.5%, 17.1% and 16.0% respectively. It also applies to high rates mainly for food, textile and ready-to-wear imports. These products were the main export items of developing countries. Existing problems in the field of copyright protection required discussion of intellectual property rights and aspects of trade. Finally, organizational structure of GATT and its dispute resolution system led to suspicions. Factors which mentioned above and others led to the fact that members of GATT were convinced that new initiatives needed to strengthen and further develop the international trade system.

In September 1986, new multilateral trade negotiations began within the framework of GATT. The negotiations were opened with the adoption of the Declaration on the launch of a new round in Punta del Este, Uruguay, and the Uruguay Round. The main areas of the talks were:

- Lowering customs barriers;
- Improvement of GATT system (reduction and elimination of many non-tariff barriers, including textile business sector, agriculture, trade in natural products, into the GATT system);
- Agreement on WTO establishment;
- Developing a General Agreement on Trade in Services
- Aspects of trade with intellectual property rights;
- Trading aspects of investment policy.

The main part of the talks was held in Geneva. There were more than 500 official meetings during talk and more than 1,500 proposals and working papers were discussed.

The Final Act of Negotiations includes agreements (contracts on agricultural products, services, textiles and garments, subsidies and compensation fees, intellectual property rights, etc.), as well as agreements on the reduction of tariff and non-tariff restrictions in international trade reflected. In addition, there are 27 regulations that add and modify the agreements and treaties previously adopted within the GATT framework. Thus, main outcome of the Uruguay Round was the creation of the WTO.

At present WTO has 164 members and 23 countries, including Azerbaijan, have observer status in this organization. At the same time, several international organizations have an observer status at the WTO.

The purpose of the WTO is to liberalize international trade and to build solid foundations, thus, to boost economic development and at the same time improve the standard of living of people. This is achieved through the development and implementation of trade agreements and regulations among member countries and the implementation of negotiations aimed at the liberalization of international trade.

There are two fundamental principles that the WTO expects to regulate international trade and trade policy:

- avoid discrimination in trade;
- ensure access to markets.

The principle of non-discrimination in trade is achieved through the application of the most favorable regime (the country creates the same trade conditions for all WTO member states) and the national regime (which does not allow discrimination on domestic markets for imported goods). Access to markets is accompanied by the application of the regimes which mentioned above, as well as eliminating quantitative restrictions. Other WTO principles are based on:

- liberalization of international trade;
- settlement of trade disputes by negotiation;
- clear and transparent trade policy;
- establishment of solid foundations of trade;

- assistance to free competition
- protection of domestic market based on WTO rules
- trade-political concessions

The functions of WTO are set out in Article III of the agreement on the establishment of the WTO:

- Control over the adoption of multilateral trade agreements that form the legal basis of WTO and the implementation of multilateral trade agreements;
- Arranging trade negotiations between WTO member states and ensuring their implementation;
- Observation of trade policies implemented by WTO member countries;
- Cooperation with other international organizations;
- Receiving new members;
- Facilitate trade disputes between member countries;
- Collecting, studying and presenting information on development and use of international trade and trade policy mechanisms.

The WTO organizational structure is defined in Article IV of the WTO Agreement.

The General Council, consisting of the representatives of the member countries, is responsible for the implementation of the WTO's current affairs. The functions of the General Council include the regular monitoring of the implementation of the agreements and decisions taken by the ministers, the settlement of disputes, and the periodic review of trade policy.

Three specialized councils assist the General Council in the implementation of these functions: commodity trading council, council on trade aspects of intellectual property rights, and council for trade in services. These councils control the implementation of multilateral trade agreements in the appropriate fields. The WTO Executive Body is the Secretariat. The Secretariat's main aim is to assist member states in organizing multilateral trade negotiations, to study trade

policies and to provide legal advice on trade disputes. The Secretariat also provides technical assistance to developing countries.

Agreements signed within the WTO cover almost all aspects of international trade policy and international commercial practice, which include:

- customs tariff regulation;
- application of antidumping regulation and compensation fees;
- use of subsidies and compensation measures;
- non-tariff restrictions;
- quantitative regulation and licensing of export and import, ban on imports and exports;
- activities of state commercial enterprises;
- customs unions and free trade zones;
- customs formalities, fees, foreign trade documents;
- internal taxes, fees, rules relating to domestic trade;
- trade protection measures;
- technical barriers to trade;
- sanitary and phytosanitary measures;
- rules on the origin of the commodity;
- trade in services;
- trade aspects of protection of intellectual property rights, including trade in counterfeit goods;
- trade in textiles and garments;
- trade in agricultural products;
- implementation of public procurement;
- trade with civil aviation;
- trade aspects of investment measures;
- protection of international trade and environment.

It should be noted that multilateral regulation of international trade in services within the WTO is carried out on the basis of the "General Agreement on Trade in Services" (GATS).

The basic principles of GATS are:

1. The principle of the most favorable regime (prohibits discrimination against services and subjects providing services). Within 10 years of membership in the WTO it is possible to overcome this regime.

2. Transparency of regulation. Each country should have a special survey service that provides information about existing legislation in the field of trade in services to other countries.

3. Recognition of service provider classification (certificates, licenses, etc.).

4. Rules that restrict competition in the field of services.

5. Obligations to liberalize services market:

- access to markets; The WTO member country may limit the share of foreign participation, the number of local representations, the number of transactions or services rendered, the number of those involved in the sector or the number of manufacturers operating in this market.

- national regime; During the negotiations, the parties will determine the areas in which the principles of national treatment are to be applied, and the conditions necessary at this time.

The list of commitments on access to the services market covers 12 sectors and 155 subsectors, and there are four ways to implement each of them:

- through the border;

- exporter country;

- through a branch office in the importing country;

- go to the importing country for some time to serve the employees.

The United Nations Conference on Trade and Development (UNCTAD) was established in 1962 by the decision of the UN Economic Council. As the initiators of the organization, several emerging economies, including socialist countries,



have pointed out that less attention is paid to trade problems in the third world countries.

Aims of UNCTAD as follows:

1) to support the development of world trade, to provide a stable world and mutually beneficial mutually beneficial cooperation;

2) development of recommendations, principles, organizational and legal conditions and mechanisms for the effective functioning of modern international trade;

3) to participate in the coordination of the activities of the UN system of economic development.

There are six committees in the structure of the UNCTAD that specialize in different areas. The most effective outcome of UNCTAD's activity is the adoption of the "Integrated Program for Raw Materials". At present, UNCTAD does not play a major role in the regulation of international trade which 15-20 years ago, but still protects its potential. Now together with other UN departments and agencies, UNCTAD measure progress by the Sustainable Development Goals, as set out in Agenda 2030. UNCTAD support implementation of "Financing for Development", as mandated by the global community in the 2015 Addis Ababa Agenda, together with 4 other major institutional stakeholders: the World Bank, IMF, WTO, and UNDP. Ultimately, UNCTAD is serving citizens of world countries.

The United Nations Commission on International Trade Law (UNCITRAL) was established in 1964 to coordinate and unify international trade law. The Commission's assets may include the United Nations Convention on Contracts for the Offloaded Transport ("Hamburg Rules"), the United Nations Convention on Contracts for the International Sale of Commodities (the Vienna Convention on Trade in Goods), and so on.

In general, the commission is mainly engaged in the preparation of various legal norms on international trade in goods, international payments, international trade arbitration and maritime freight.

The International Chamber of Commerce (ICC) was established in 1922 and in general, carries out subsidiary function. It publishes guidelines for international commercial terms ("INCOTERMS"), spreads rules, traditions and norms of international trade, and carries out its mediation mission in establishing links between traders and entrepreneurs of different countries and their chambers of commerce.

There are a group of companies specializing in the regulation of international trade in a number of goods and services:

- The Organization of Petroleum Exporting Countries (OPEC);
- Association of Iron Ore Exporting Countries (APEF);
- Intergovernmental Council of Copper Exporting Countries (CIPEC)
- European Coal and Steel Community;
- Union of Banana Exporting Countries;
- Provisional International Civil Aviation Organization (PICA0);
- International Maritime Organization (IMO);
- World Tourism Organization (UNWTO).

Thus, the international community strives to provide greater dynamics of international trade in goods and services, and strives to maximize profit from this area for all countries.

## **Chapter II. The current state and assessment of trade relations of the Republic of Azerbaijan with the European Union.**

### **2.1. The geographical structure of trade relations of Azerbaijan with EU countries.**

Close economic cooperation between Azerbaijan and the European Union in trade relations shows itself as much as in all other spheres. First of all, we should mention that our economic and trade relations with the European Union were established in 1991. Many agreements and treaties signed after that agreement have created a great basis for the development of bilateral trade and economic relations.

As we know, economic relations between the two parties are great process, especially trade relations, which are more flexible and dynamic. In terms of more accurate and effective analysis, we will first look at the geographical structure of trade relations in this section. Here we will look at what countries dominate in the trade between Azerbaijan and the European Union over the years, will analyze what commodity is traded and will evaluate the geographical structure of trade.

We will carry out extensive analysis of the current period - 2011-2017 to assess the geographical structure.

The European region has always been a leader in the import of Azerbaijan. It is not surprising that Italy which has always been a leader in export of Azerbaijan, has entered this region. What we say is more clearly and dynamically mentioned in the table below.

**Table 2. Geographical structure of imports in 2011-2017 (thousand, \$)**

| <b>Geographical regions</b> | <b>2011</b>        | <b>2012</b>        | <b>2013</b>         | <b>2015</b>        | <b>2017</b>        |
|-----------------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
| <b>Total</b>                | <b>9,755,968.7</b> | <b>9,652,870.6</b> | <b>10,712,502.5</b> | <b>9,216,677.1</b> | <b>8,782,007.5</b> |
| Europe                      | 5,645,076.9        | 4,797,767.7        | 6,103,547.7         | 5,019,083.1        | 4,318,198.3        |
| Asia                        | 3,182,139.2        | 3,790,729.3        | 3,673,393.3         | 3,092,305.8        | 3,394,445.1        |
| America                     | 891,618.5          | 1,004,869.5        | 823,642.0           | 1,065,332.5        | 991,927.5          |
| Africa                      | 14,397.3           | 34,741.4           | 84,210.3            | 13,285.1           | 24,535.9           |
| Oceania                     | 22,736.8           | 24,762.7           | 27,709.2            | 26,670.6           | 52,900.7           |

Source: Azerbaijan State Statistics Committee, 2019.

Now, we will consider the geographical structure of our exports and the specific shares of the regions. For this, please refer to the following table and get acquainted with:

**Table 3. Geographical structure of exports in 2011-2017 (thousand, \$)**

| <b>Geographic regions</b> | <b>2011</b>         | <b>2012</b>         | <b>2013</b>         | <b>2015</b>         | <b>2017</b>         |
|---------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Total</b>              | <b>26,570,898.3</b> | <b>23,907,983.7</b> | <b>23,975,416.8</b> | <b>12,729,138.5</b> | <b>13,811,624.4</b> |
| Europe                    | 18,999,839.4        | 12,649,692.4        | 12,933,748.7        | 7,384,636.2         | 8,551,860.1         |
| Asia                      | 5,019,134.1         | 9,198,923.3         | 9,573,360.5         | 4,488,095.0         | 4,476,817.3         |
| America                   | 2,288,621.2         | 1,610,830.5         | 992,851.8           | 561,912.9           | 597,461.9           |
| Africa                    | 263,141.5           | 417,244.0           | 475,064.9           | 293,872.5           | 184,796.5           |
| Oceania                   | 162.1               | 31,293.5            | 390.9               | 621.9               | 688.6               |

Source: Azerbaijan State Statistics Committee, 2019.

It seems from the table that as in the geographical structure of Azerbaijan's imports, the European region is in the first place in its geographical structure of exports.

Now we take consider the geographical structure of import and export of Azerbaijan for each year in 2011-2017 by the European Union's separate group of countries.

Azerbaijan has traded \$36.3 billion valued trade with 149 countries of the world in 2011. The total value of the 6233 types of imported goods was \$9.7 billion, while the total export value in 2082 varieties was \$26.7 billion. \$15.8 billion of exports are trade with the European Union. This is approximately 59 percent of the trade. In the import structure \$2.7 billion of \$9.7 billion is import from EU countries. Trade surplus was \$16.8 billion in favor of Azerbaijan.

The main commodities in exports were crude oil with 86.2% share, and oil products with a weight of 5.75%. The situation in imports is different. The first place in the total imports were the foodstuffs with 11.09%, the second place was 31.13% machines, mechanisms, electrical apparatus, equipment and their parts, and third place - 17.32% vehicles and their parts. The high volume and value of export of Azerbaijan in 2011 are explained by the high oil prices.

Let's take a look at the share of import and export operations due to countries. Italy occupies the first place in export with 35.15%. Italy has been one

of the biggest trade partners of Azerbaijan throughout history. Most of the trade relations with the EU countries are related to this country. The second place is occupied by France with 15.19% and the third - US by 6.79%. Out of the top three export partners two countries are from European Union, it clearly demonstrates the importance of EU countries in the export relations.

The situation in import is quite different. Russia holds the first place with 16.82%, followed by Turkey and Germany with a share of 13.35% and 8.66%, respectively. In the top ten from EU countries France has 6.24%, UK 4.98% and Italy 2.61% share.

In 2011, Azerbaijan's trade with the EU was mainly about exporting oil and oil products, while importing machinery and equipment.

In 2012, our country traded \$33.6 billion worth of goods with 155 world countries. The total value of the imported goods in the 6421 varieties decreased by 1% compared to last year, and exports in 2273 varieties decreased by 10%. The main reason is that oil prices have dropped by about 7% in the world market. Trade was still positive in terms of high oil exports.

Crude oil was still transported to Europe via the Baku-Tbilisi-Ceyhan pipeline. Supsa pipeline hold second place in these years.

93% of the export was the oil and gas sector. In the imports, the previous tendency and commodity groups repeat themselves.

46.8% of the total export which was valued 23.9 billion dollars was export to the European Union in 2012. For comparison, export to the CIS countries is only 5.2%. This shows again the importance of the European Union in the export structure of Azerbaijan. Compared to 2011, the decline in exports to Europe in 2012 was due to the price of the main export product - oil. In the import structure EU countries are ahead of again with 27.7%.

The main export countries were Italy, India, France, Indonesia, Israel, USA, Germany, Russia and Greece. Turkey, Russia and Germany are again in the top three in the import structure of country. If the highest share of exports from the European Union countries was Italy with 23.21%, in the import the highest was

Germany with 8.08%. Oil has been the main export product and machines and equipment have been main import products in this year.

In the case of high oil prices in the world markets, total trade turnover increased by 3.35% compared to last year in 2013. While the main commodities in exports were still oil and oil products, tea-growing, considered as one of the traditional areas of Azerbaijan, increased significantly this year and was at the forefront of agricultural production for its share in exports. And export of sugar reached the fruits and vegetables which is the largest non-oil sector export. The main share in the import was machinery, machinery and electrical appliances with a weight of 25.75%. The main reason for this is the increasing of government purchases because of high oil revenues. One of the biggest boosts in imports were black metals and articles made of them. Their place was followed by vehicles and food industry.

Now let's look at the dynamics of imports and exports across countries and regions. Export to EU countries was 48.02% of total export which was total valued \$30 billion in 2013. The share of the European Union in imports was 35.13%, therefore we can say this organization is not only Azerbaijan's big export partner but also is a big import partner.

Major shares of EU countries in the export structure of Azerbaijan to EU are as follows: Italy 24.98%, Germany 5.66%, France 4.72%, Greece 3.38%, Portugal 2.19%, United Kingdom 2.02%, Austria 1.67%. In the import structure leading EU countries hold positions as follows: United Kingdom 12.45%, Germany 7.68%, France 3.97%, Italy 2.33%, and the Netherlands with 1.69%. It is clear from this data that the major trade partners of Azerbaijan from the European Union both in export and import are Italy, France, Germany and the United Kingdom. Trading with these super powers of EU bring profits to the country.

In the total trade turnover and export, 4 out of 10 main partners, and 3 out of 10 in import are EU countries. Azerbaijan's big part of export to the EU countries are mineral fuels, lubricants and related materials. The second place is food and

live animals. The main portions of import from European countries are machinery and transport equipment and miscellaneous manufactured articles.

2014 has repeated its previous year with trends and trends in both export and import, as well as with its trade partners. Exports and imports with the European Union, as well as trade partners and commodity groups in these countries were almost identical.

2015 was one of the most important years for Azerbaijan. Thus, the price of oil in the world markets has dropped sharply and reached \$48.72 at the end of the year. Our oil-based economy was affected by this process naturally. Reserves of State Oil Fund of the Republic of Azerbaijan declined rapidly and balance of payments was in minus. Thus, the devaluation of manat was unavoidable. Because of the manat was more expensive than other currencies, our export potential was weakening and devaluation was expected to make increase non-oil export. In the latter part, even more puffed imports were expected to decline.

Now let's analyse trends in Azerbaijan's trade in this year. The volume of trading operations in Azerbaijan in 2015 decreased by 33.44% to \$20.6 billion in 2014. The reason for this is the sharp decline in revenues in the background of the drop in oil prices, as we have already mentioned. For this reason, exports have dropped by almost 2 times. Imports have not changed - \$9.2 billion. Trade surplus dropped and declined to 2.2 billion USD. The share of oil and oil products in exports decreased and the non-oil sector developed. Thus, fruits and vegetables, vegetable and animal oils and fats, sugar and chemical products have significantly increased in the structure of export.

In this case, the share of exports to the European Union increased by 59.1% in total exports. Interesting changes in the geographical structure of exports to the European Union have shown itself. Initially, it should be noted that the share of Italy in exports fell to 19.73% due to the decline in oil exports. Instead, Germany's share increased and reached to 10.71%. Germany is followed by France with 7.56%, Czech Republic with 4.81%, Austria with 3.57%, Portugal with 3.23%, Spain with 2.77% and Croatia with 1.74%. Now let's analyze what we export to

our main export partners from the European Union. 28% of crude oil exports was to Italy, 11% to Germany and 7.8% to France. Mostly oil were exported to trade partners such as Czech Republic, Austria, Spain, Portugal and Croatia as well. Additionally, Azerbaijan's main export product after crude oil and its products were fruits and vegetables, sugar, vegetable and animal oils and tea. Now let's pay attention to the structure of export with European Union countries in detail. Azerbaijan export fresh fruits to Italy, Germany, Poland, Spain and Netherlands. Here is some products which has big share in export and are exported to the European Union. Tea to Germany, fresh fruit and vegetables mostly to Poland and Germany, canned fruits and vegetables to Germany, kerosene fuel for jet engine to Greece and Netherlands, heavy distillates or gas oils for other purposes to Malta and Italy, black oil fuel to Italy, acyclic alcohols and their derivatives to Netherlands, Italy, France and Romania.

Total import was \$2.9B and share of import from EU are as follows: Germany 7.48%, Italy 6.37%, Great Britain 6%, France 2.3%, Austria 1.28% and the Netherlands 1.12%. Now let's analyze which goods and group of goods we import from Europe. So, here is what we import and from which country. We import computing machineries, block and device from Czech Republic, electrical transformers from Belgium, tractors from Germany, Netherlands, Italy, lorries from Germany, special purpose motor vehicles from Italy, detergents from Czech Republic, rubbers tiers from Germany, natural grape wine and grape juice from France, Italy and Germany, medicaments from Romania, Germany, Poland, France, Italy, Switzerland, Austria, furniture from Italy, metal structure, tube fitting iron, hot roller iron from Germany, Italy and Great Britain, mineral water from Hungary, confectionary from Poland and sausages from Germany. It is clear that we import too many products from EU.

Italy and Germany also occupy the first places in the trade turnover of Azerbaijan. The total share of these two countries is 23.04%. Italy, Germany and France occupied the top three positions in export structure in 2015. In the top five of import there were EU countries too, such as Germany and Italy.



Now, let's analyze the geographical structure of Azerbaijan's trade with the European Union in 2016. First of all, we should note that 2016 was an extremely difficult year for Azerbaijan's economy and its trade. The sharp decline in oil prices continued this year and even dropped to \$26.

The volume of total trade transactions of Azerbaijan with world countries continued to decline sharply and dropped to \$17.7 billion in 2016. Import amounted to \$8.5 billion and export \$9.1 billion. The trade surplus was \$0.6 billion and this was one of the lowest in the country's economy. Exports of gas have increased along with a decline in oil exports and its share in export reached to 10.6%. Enjoyable factor is the increase in the share of fruit and vegetable exports up to 4%. Non-oil industry developed, exports of aluminum, ferrous metals, plastics and chemical products increased in 2016.

During this year, exports to the European Union countries accounted for 43.22% of total exports and 26.04% of total imports. Leading export partners in trade with EU countries are Italy, France, Germany, Portugal and Croatia, and leading import partners are Italy, Germany and the UK. Because of the sale of oil which is the main product sold to the European Union has decreased, Germany and Italy give their first places in the total trade turnover to Russia and Turkey.

Now let's define the main export and import products and the geographical structure of these products. The main export products were crude oil, gas, petroleum products, fruits and vegetables, plastics and its products, aluminum, ferrous metals and its products. 29% of crude oil exports to Italy, 11% to Germany, 7.5% to France, 4.6% to Portugal, 4.5% to Czech Republic, 3.8% to Spain and 2.6% to Croatia. As we can see, the vast majority of crude oil is exported to European Union countries. There is no big share of EU in export of petroleum gas. In the refined petroleum exporting to EU 24% takes place by Italy, 4.6% by Malta and 2.3% Belgium-Luxembourg. In 2016 our fresh fruit which has big portion in non-oil export mainly are exported to these EU countries: 40 mln.dollars fruit to Italy, 24.5 mln.dollars fruit to Germany, 2.3 mln.dollars fruit to Poland. Fresh vegetables are not traded well to EU. We also export in 2016 122 mln.dollars

canned fruit and vegetables to Germany, 25 mln.dollars to Netherlands. Azerbaijan also export in this year fruit juice and vegetables to Poland, Germany, Greece, France and Czech Republic. 504.6 mln.dollars gypsum were exported to Italy. Jet fuels and automobile petroleums also were exported to some EU countries such as France, Luxembourg and Italy. 1.3 billion dollars rough aluminium traded to Switzerland either.

In geographical structure of Azerbaijan import in 2016 we see that mostly we import from EU countries are medicaments, iron, tubes, transport vehicles, non-ferrous metals and their products, metal structures and etc.

We import medicaments from Germany, France, Poland, Romania, Greece, Italy, Hungary and Spain, tube fittings of iron from Italy, Germany, Great Britain, Romania, metal structures from GB, Germany, France and Nedherlands, buses and lorries from Germany and so on.

Azerbaijan is the 77th largest export economy in the world and the 84th most complex economy according to the Economic Complexity Index (ECI). In 2017, Azerbaijan exported \$14.3B and imported \$8.1B, resulting in a positive trade balance of \$6.17B. In 2017 the GDP of Azerbaijan was \$40.7B and its GDP per capita was \$17.4K. In 2017 Azerbaijan trade with 187 world countries. Price of oil increased again and Azerbaijan export increased as well. It is because our country oil export went up. Italy has regained its place in the trade turnover. Italy's share in total exports had been 31.9%. In the main export countries structure, the Czech Republic rose to the fourth place, with a share of total exports 4.03%. In the export Germany got 3.26%, Portugal 3.23%, France 2.44%. Share of EU tightened in 2017 in import structure. Thus, in the main countries of imports, Germany got just 5.05%, Italy 3.63% Great Britain 2.73% and France only 1.76%.

According to State Customs Committee datas, in 2017 main goods and commodities in export were crude oil, gas, fruit and vegetables, chemicals, electricity, tea, sugar, aluminum and ferrous metals and products. The situation has changed in import too. Imports have increased in the background of increasing oil revenues. Import was so puffed because of government purchases. Import was

consist of: machinery, electrical appliances and equipment 21.25%, food products 15.99%, vehicles and their parts 12.28%, ferrous metals and parts thereof 10.09%.

We see below which countries in the trade with the EU are priorities. Thereby, we research where our main export products are exported to.

- Crude oil (which is 82%) – Italy 40%, Czech Republic 6.5%, Portugal 5.8%, Germany 5.7%, France 4.2%, Spain 2.8%, Austria 2.1%
- Gas (9.1%) – Turkey 74%, Georgia 25%. After Baku-Tbilisi-Kars we expect Azerbaijan petroleum gas also will be exported to EU countries.
- Refined petroleum (2.3%) – Total value to EU countries \$81.9M, Italy 8.4%, Belgium-Luxembourg 4.8%, Malta 1.7%.
- Chemicals - \$91.4M to EU countries, acyclic alcohols to Romania 6%, Italy 5.9%, Belgium-Luxembourg 2.6%
- Pitted Fruits – 98% to Russia. It is another product that we should develop to export to EU.
- Other nuts – Total 37.7 mln.dollars, to EU \$33.1M – Germany 65%, Poland 11%, Czech Republic 2.6%, France 2.3%.
- Raw Aluminium – Italy 16%, Spain 4.3%, Switzerland 1.9%.
- Iron pipes – Total value \$33.2M, to Europe \$19.7M, to Austria 3.6%, Italy 2.3% of total value.

Now, we will look at special share of the main import products of Azerbaijan in the gross import and its geographical structure:

- Cars – 3.9% (Total \$312M, Europe \$155M, Germany 25%, Slovakia 11%, Czech Republic 3.2%)
- Refined petroleum – 3% (Total \$245M, Europe \$117M, Romania 9.2%, Belgium-Luxembourg 6.3%, Germany 2.5%)
- Packaged Medicaments – 2.6% (Total \$213M, Europe \$155M, Germany 10%, Switzerland 7.3%, Hungary 7.1%, Slovenia 5.1%, Italy 4.6%, Austria 4.5%,
- Broadcasting Equipment – 2% (Total \$158M, Europe \$55.8M, Netherlands 3.8%, Czech Republic 3.4%)

- Valves – 1.5% (Norway 28%, Italy 8.7%, Romania 6.5%, France 5.7%, Netherlands 3.3%)
- Iron Pipes - 1.5% (Norway 28%, UK 20%, Italy 8.3%, France 7.2%)
- Tractors – 1.3% (Italy 9.3%, Germany 5.9%, UK 2%)

So, we analyzed geographical structure of trade with EU countries. We see main partners and products which are traded and this analysis will make great contribution to the ongoing research.

## **2.2. The current state of trade relations on goods of Azerbaijan with EU.**

Azerbaijan has been trading with the European Union for more than 25 years. Of course, in this period, there were various changes, increases and decreases in quantitative and qualitative relations in bilateral relations. Here we will try to track the processes taking place between the two parties in the past years and analyze from a variety of perspectives, and in the end, we will give an assessment of trade relations. But before we have to consider the followings.

As we mentioned above, Azerbaijan's trade relations with the European Union began in 1991. In 1996 The Partnership and Cooperation Agreement (PCA) was signed, but this agreement came into force in 1999. From this time the volume of aids and cooperation increased as well. On November 14, 2006 second important agreement came into force. This was The European Union-Azerbaijan Action Plan. After Action Plan in 2006 Memorandum of Understanding was adopted. This strategic partnership aimed development in the field on energy between the EU and Azerbaijan. Then Eastern Partnership Declaration signed in 2009. Different frameworks and protocols signed about Southern Gas Corridor in 2011, in this year also EU's European Neighbourhood and Partnership Instrument between Azerbaijan and Commission adopted and signed.

These agreements, protocols and frameworks aimed different spheres but also trade development. It will ensure partnership on trade, good-governance, tourism, energy security, integration and adoption of developed countries policy

and etc. Also a number of twinning project was recorded. Azerbaijan has received \$333 million worth of humanitarian, technical, food and emergency assistance of EU since independence.

European Union also supports different type of technical assistance programs and economic reforms. One of the program is Technical Assistance to the Commonwealth of Independent States (TACIS). This assistance program was created in 1991 due to support post-soviet countries. One of the crucial projects of TACIS is Transport corridor Europe - Caucasus – Asia (TRACECA) which was established in 1993. Another project was Interstate oil and gas transportation to Europe – INOGATE.

Over the years EU and Azerbaijan became gradually closer. In these years economic integration and political cooperation enlarged. Agreements enhanced trade and investment, economy and legislation, tourism and culture. European Union is a key investor in our economy. It is around 4.8 billion euro. ENP also supports it. Our country gets assistance to join WTO but it is not available yet. Azerbaijan has advantage on trade with EU before 2014. Because Azerbaijan enjoyed Generalized System of Preferences. GSP enabled exporters from Azerbaijan to pay less or no duties on their exports to the EU countries. But after 2014 Azerbaijan was classified as upper-middle income country by the World Bank. Thus, our country was removed from the list of GSP beneficiary countries so, it made export somehow hard.

In this section, we will analyze the current state of trade relations between Azerbaijan and the European Union. Thus, let's consider the situation of the trade relations of Azerbaijan with the EU for the last 5 years (2014-2018). Given the importance of trade relations for the contemporary and future perspectives, we will examine the earlier stages relatively narrow, and the latter to broader.

Thus, the initial stage of trade relations between Azerbaijan and the European Union has its own characteristics, because it covers the early years of Azerbaijan's independence. The existing production method has collapsed and new business relationships have been formed. It has had an impact on Azerbaijan's

relations with foreign countries, including trade. Of course, the weak domestic production in the first years, the waiting position in the recovery of economic relations resulted the greater share of imports in the trade balance. In these years, the volume of import and export transactions with the European Union was considerably smaller, after the establishment of diplomatic relations, this figure started to increase rapidly.

Now, let's analyze in more detail. According to State Customs Committee data, Azerbaijan has traded \$31B valued trade with 150 countries. For comparison, in 1992, Azerbaijan has traded with just 55 countries and its value was just 1 billion USD. 33.78% or \$3.1 billion of total imports (\$9.2 billion) and 52.99% or \$11.6 billion of total exports (\$21.8 billion) was share of the European Union in 2014. Trade surplus with EU was \$8.5B. The composition of the products exported to the countries of the world is similar to the products exported to the European Union. So, Azerbaijan sold to EU countries mostly crude oil in 2014. Azerbaijan. According to Europe Statistics data, there are chemicals and related products, mineral fuels, lubricants and related materials, food and live animals, crude materials, inedible, beside crude oil in structure of products which Azerbaijan exported to EU countries.

According to the Europe Statistics data, imports of machinery and transport equipment, manufactured goods, miscellaneous manufactured articles, pharmaceuticals, transport equipment, food and clothing were imported from the European Union during this period.

According to the State Customs Committee data, Azerbaijan has traded in 2015 with 165 countries of the world, as well as with all 28 EU countries. The sharp drop in oil prices at world stock exchanges and, as a result, after devaluation the country's exports have fallen sharply. Export fell by 47.66% as compared to 2014-\$11.4B. Export to the European Union countries have also decreased due to reduction of the share of oil in total exports and commodity structure. However, the specific weight of export to the European Union was 59.1% of total exports.

Imports during this period were \$9.2B. Share of import from EU countries was 31.92% which is total valued \$2.9B.

According to the State Customs Committee data, Italy and Germany ranked first and second in the total trade turnover with 13.77% and 9.27% respectively. In the structure of total trade turnover there are also EU countries such as France, the Czech Republic and United Kingdom. Let's take a look at the leading EU countries in the export:

- Italy – \$2.3B – 19.73%
- Germany – \$1.2B - 10.71%
- France – \$864M - 7.56%
- Czech Republic – 4.81%
- Austria – 3.57%
- Portugal – 3.23%
- Spain – 2.77%

EU countries also play an important role in imports. Five of the top 15 countries in the lead are EU countries:

- Germany – \$690M - 7.48%
- Italy – \$588M - 6.37%
- UK – \$553M - 6%
- France – 6.3%
- Austria – 1.28%.

The composition of export and imported goods was approximately identical.

According to the data of State Customs Committee, Azerbaijan total trade turnover in 2016 is \$17.7B. We can not say that the steady decline in oil prices and the subsequent devaluation did not affect the economy at all. Thus, during the year there was a decline in both the volume of total trade transactions and both exports and imports. Trade surplus has been just +610 million USD. In addition to the non-oil sector, the gas industry has also developed against the backdrop of declining

crude oil exports. Thus, the share of crude oil in export was 71.14% and natural gas - 10.62%.

As the share of oil in the total export of Azerbaijan has diminished, the share of crude oil exported to the EU has also diminished automatically. As a result, the share of exports to EU countries was 43.22% of total exports. The share of EU countries in imports was only 26.04%. The biggest importer of Azerlight - Italy's share in trade has also declined. Thus, Italy has given the first place in the total volume of trade with Azerbaijan to Turkey and Germany has given the second place to Russia. During this year, Croatia can also reach the top 15 in terms of its total trade volume (1.61%). Germany has lost his position in the export structure and has fallen to 4<sup>th</sup> place (6.68% share). Import from EU has also weakend. In the import structure just UK and France could reach to top 5, Italy only got 3.89% and gained 6<sup>th</sup> place.

As a result of the development of the non-oil sector during the period, these goods and commodity groups, which showed the largest increase in exports are shown (how many times it has increased compared to the previous year):

- Cereals – 40 times
- Photographic and cinematographic goods – 154 times
- Articles of leather – 16 times
- Knitted or crocheted fabrics – 197 times
- Zinc and articles thereof – 12 times
- Other base metals; cermets – 29 times
- Ships, boat and floating structures – 351 times.

These are goods and commodities which show greater increase in import:

- Furskins and artificial fur manufactures thereof – 26 times
- Raw hides and skins, leather, furskins and articles thereof – 8 times
- Articles of apparel and clothing accessories, knitted or crocheted - 17 times
- Ships, boat and floating structures – 4.5 times
- Railway and tramway locomotives, rolling stock – 4.5 times



The country's economy has experienced re-growth in 2017. The main reason for this is the high oil price during the year. Let's analyze the year 2017 slightly different from others. Let's look at the key export and import partners from the EU countries during this period.

Firstly we should mention that according to State Customs Committee data, Azerbaijan total trade turnover was 22.9B USD in 2017. Export share was 61.13%, import share was 38.87%. 53.96% (\$7.4B) of total exports (\$13.8B) was with the European Union countries. Total import from EU countries was \$1.942B which is 22.12% of total import.

In the trade turnover, Italy has returned to the top position in this period, which is associated with the increasing export of oil. Trade turnover with Italy valued 4.725B USD which is 20.91 percent of total trade turnover. Germany was 5<sup>th</sup> – 3.96% of total trade turnover. Czech Republic was 9<sup>th</sup> – 2.94% of total trade turnover. France was in 13<sup>th</sup> and Portugal was in 15<sup>th</sup> place.

Now, let's look at the main EU countries which leading import and export:

Total export: 13.811 billion USD

EU countries: 7.452 billion USD (53.96%)

1. Italy – 31.90% of total export. Crude oil - \$4.66 billion - 99 % of total export to Italy. After crude oil, refined petroleum - \$27.2M – 0.58%, raw aluminium – 0.19%, acyclic alcohols - 0.07%, aluminium plating – 0.03%, tanned equine and bovine hides – 0.03%, iron pipes – 0.01%, jewellery and aircraft parts – 0.01%.

2. Czech Republic - 4.03 % of total export. Crude oil is core product that is exported to country. Total valued \$759M – 99.1% of total export. The structure of exports to the Czech Republic after crude oil is as follows: Aluminium plating – 0.34%, packing bags – 0.31%, other nuts – 0.13%, precious metal scraps – 0.08%, fruit juice – 0.02% and rubber pipes less than 0.1%.

3. Germany – 3.26 %. Crude petroleum - \$671M – 96%, other nuts - \$24.3M – 3.5%, machinery – \$1.24M, metals - \$1.14M, footstuffs (fruit juice and flavored water) - \$542K, instruments \$197K.

4. Portugal – 3.23 %. Crude petroleum – 100%.

5. France – 2.44%. Crude petroleum – 99.3%, packing bags – 0.3%, other nuts - 0.17%, machinery – 0.09%, wine, fruit juice, surveying equipment plastic lids, cars, flavored water, shaped paper less than 0.01%.

6. Romania – 1.93%. Acyclic alcohols – 66%, refined petroleum – 23%, large construction vehicles – 5%, forging machines – 4.6%.

7. Spain – 1.87%. Crude petroleum – 99%, raw aluminium – 0.72%, scrap iron – 0.35%, textiles, acyclic alcohols and other nuts less than 0.1%.

8. Greece – 1.16%. Acyclic alcohols – 78%, other nuts – 13%, fruit juice – 7.8%, refined petroleum – 0.54%.

9. Austria – 1%. Crude petroleum – 99.2%.

10. Netherlands – 0.63%. Total export value \$63.7M, crude petroleum - 67%, acyclic hydrocarbons – 16%, petroleum resins - 5.5%, excavation machinery – 3.9%, other nuts, metals, equipment less than 2%.

Now let's look at our import structure from EU:

Total import: 8.782 billion USD

Import from EU: 1.943 billion USD (22.12%)

1. Germany – 5.05%. Total \$453M. Cars 17%, packaged medicaments 4.8%, cranes 4.1%, railway maintenance vehicles 3.8%, soybean meal 3%, postage stamps 2.4%, textile fiber machinery 2.3%, perfumes 2.3%, human or animal blood 2.3%, lifting machinery and centrifuges 1.5%, refined petroleum 1.3%, delivery trucks 1.3%, cheese 1.1%, liquid pumps 1.1%, harvesting machinery 0.99%.

2. Italy – 3.63%. Total \$290M. Furniture 5.7%, iron pipes 3.6%, valves 3.5%, packaged medicament 3.4%, tractors 3.3%, iron structures 2.6%, heating machinery 2.4%, washing and bottling machines 2.1%.

3. United Kingdom – 2.73%. Total \$269M. Iron pipes 9%, jewellery 7.7%, gas turbines 5.9%, excavation machinery 5.2%, other iron products 4.8%, machinery having individual functions 4.2%, centrifuges 2.6%, light fixtures 2.4%, liquid pumps 2.2%.

4. France – 1.76%. Iron pipes 8.1%, valves 6.1%, electric locomotives 4.9%, perfumes 4.9%, packaged medicaments 4.3%, utility meters 3.9%, scented mixtures 3.7%

5. Czech Republic – 1.23%. Iron railway products 33%, cars 9.9%, computers 6.5%, broadcasting equipments 5.3%, other iron bars 3%, telephones 3%.

6. Netherlands – 1%. Prefabricated buildings 8.6%, broadcasting equipments 3.8%, industrial fatty acids, oils and alcohols 3.7%, butter 2.9%.

7. Poland – 0.8%. Cranes 7.6%, utility meters 6.9%, packaged medicaments 5.9%.

Thus, after the information we receive, we can say that the trade relations with Azerbaijan are mainly export-oriented. In exports, the main product is oil. In imports, different products are concentrated. But we can say that metal and its articles, packaged medicaments, transport and other kind of vehicles and machinery, cars and broadcasting equipments are heavy in the structure of import from EU countries.

Now let's switch to the analysis of 2018. According to Europe Statistics data, key figures are as follows in 2018.

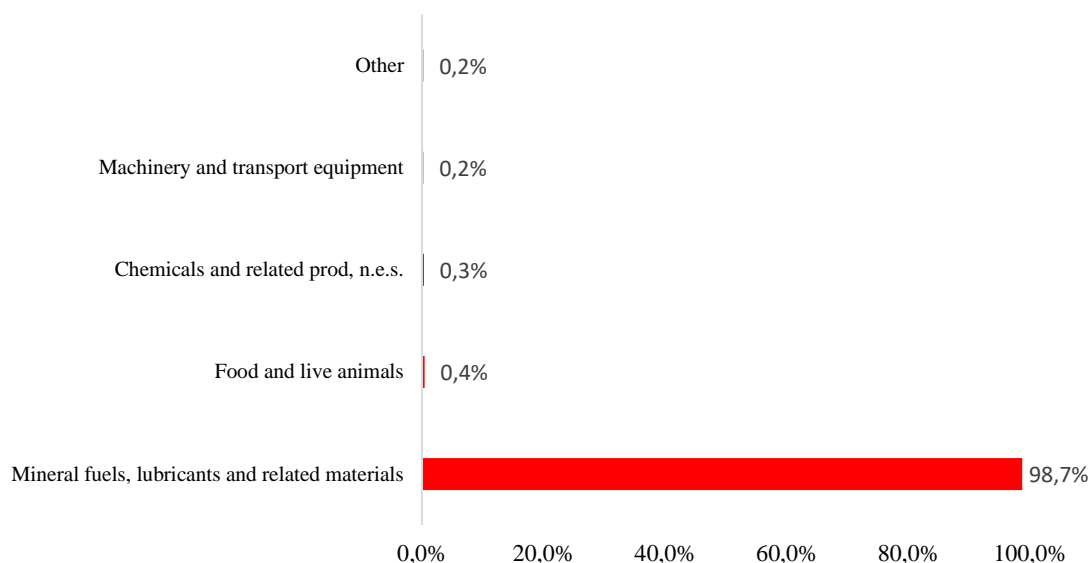
Table 4. Azerbaijan trade with EU

| Indicator          | Unit      | Period    | Export | Import | Total trade | Balance |
|--------------------|-----------|-----------|--------|--------|-------------|---------|
| Last year          | Mln euros | 2018      | 11,503 | 2,692  | 14,195      | +8,811  |
| Rank as EU partner |           | 2018      | 32     | 64     | 42          |         |
| Share in EU trade  | %         | 2018      | 0.6    | 0.1    | 0.4         |         |
| Annual growth rate | %         | 2017-2018 | 22.2   | 57.5   |             |         |

Source: Eurostat, 2019.

Export of Azerbaijan is divided 2 big groups. Agricultural products 0.4%, industrial products 99.6% of total export to EU. Also our import from EU is mainly based on industrial products – 93.9%. Agricultural products 6%, fishery products 0.1%. Azerbaijan export to EU is so primary. We export 11.409M euros valued primary products to EU countries which is 99.2% of total export. Our country export just 0.6% manufactures. But we import 65.4% manufactures, 7.6% primary products from European Union countries.

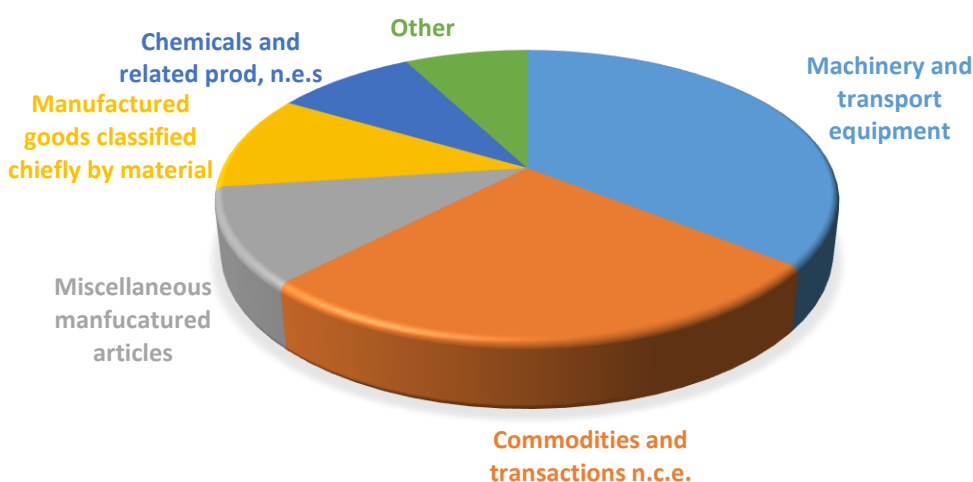
Graph 1. Azerbaijan export structure to EU in 2018



Source: Eurostat, 2019.

Import structure of Azerbaijan from EU countries as follows:

Graph 2: Import structure from EU in 2018.



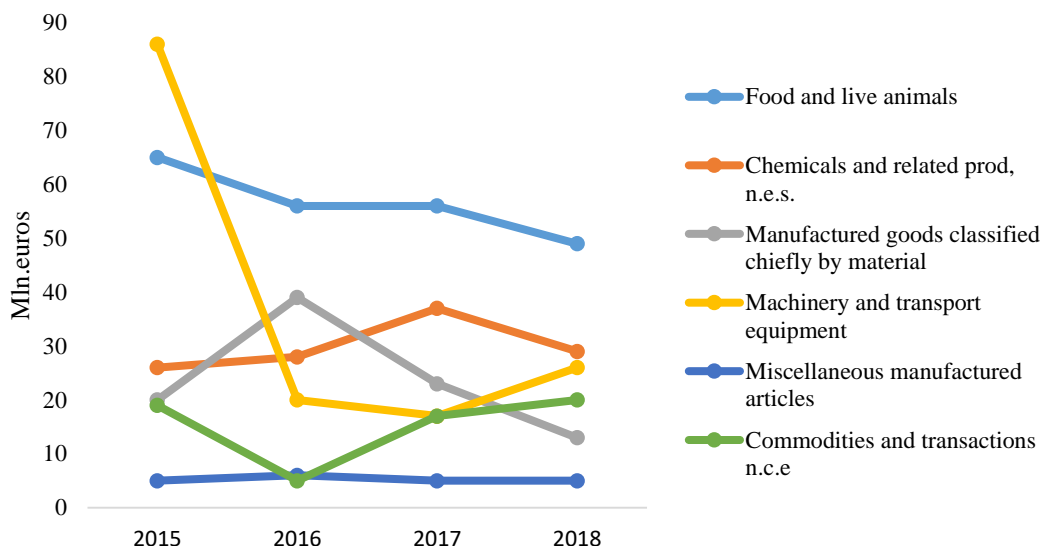
Source: Eurostat, 2019.

According to Europe Statistics data, EU 28 is top import, export and total trade partner of Azerbaijan. 20.3% of total import, 54.3% of total export, 41.7% of total trade related to EU 28.

We can easily explain that if oil prices increase, our export to EU countries increases as well. Also we see that import also decrease when oil prices go down. Because our purchasing power and government purchases depend on profit which gained by oil money. We can say that import increase because of government purchases and decrease again because of government purchases.

Now, below we see export structure of Azerbaijan with EU countries. But due to normal allocation we except mineral fuels, lubricants and related materials, because all we know that they are too much heavy in the share of export (98.7%).

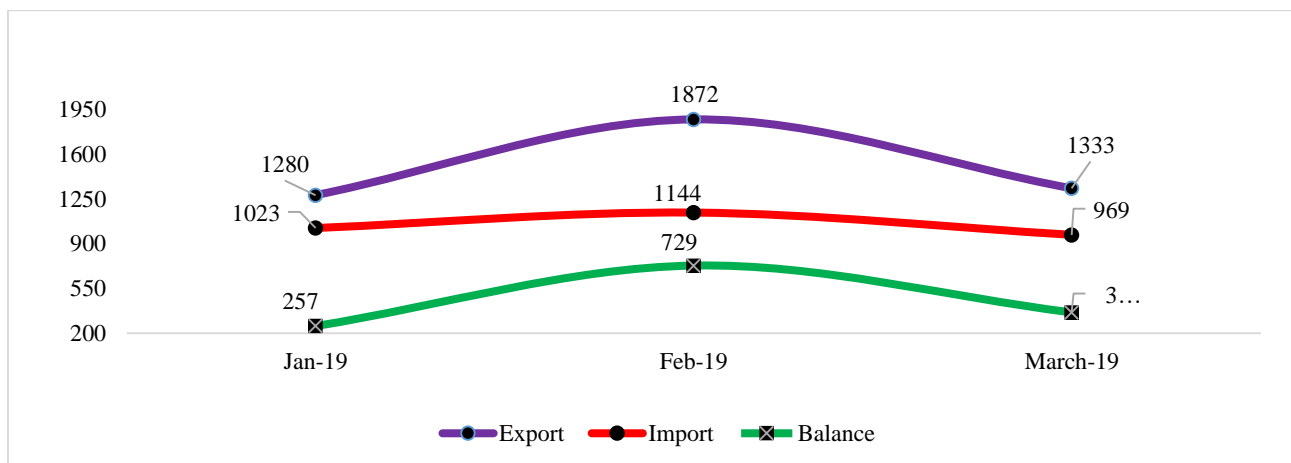
Graph 3. Export structure of Azerbaijan to EU, except mineral fuels



Source: Eurostat, 2019.

And in the end a little bit about 2019. According to State Customs Committee data, during the first three months of 2019, Azerbaijan has made trade operations with 155 countries of the world. Below we see the volume of trade. 58.52% of total export operations are exports to EU countries, and 15.81% of total import is from EU. The main EU partners in export are Italy, Germany, Spain, the Czech Republic, Portugal, Austria, Greece, France, but in import has been Switzerland, Germany, Italy, France and Great Britain.

Graph 4. Azerbaijan trade flows, mln USD



Source: Eurostat, 2019.

After analyzing trade relations of Azerbaijan with EU countries, we have some thoughts about current situation and directions of improvement. Still there are lots of problems that need to be solved. The next part we will consider current situation and evaluate trends and dynamics of trade relations.

### **2.3 Directions of improvement and problems of trade relations of Azerbaijan with the EU.**

In the XXI century, Azerbaijan has established close economic relations with most countries around the world. In addition to neighboring countries, it also includes relations with the countries of the West and the Far East. In these economic relations Azerbaijan-European Union economic cooperation is carrying special importance and is highly appreciated by both sides. At present some countries of the European Union and Azerbaijan have an example of cooperation and solidarity in many areas. These relationships are constantly evolving. Nevertheless, there are quite a few problems with trade between the two sides. Azerbaijan and the European Union have some areas where commercial cooperation is promising in the interests of both sides, but not at the desired level.

From the previous parts we get information and reasonable data about trade relations between Azerbaijan and European Union. Now, we will analyze directions of improvement in the last years. Firstly, we will examine how trends and dynamics of trade in goods between Azerbaijan and EU have changed gradually over years. Secondly, apart from trade in goods we analyze main drives of Azerbaijan trade relations with EU – energy and transport sectors.

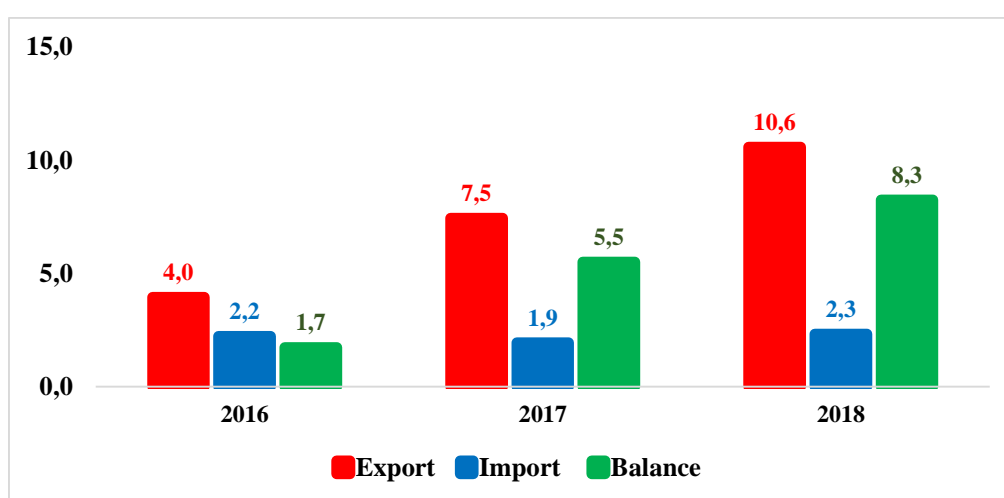
Further, after gathering data about current situation and dynamics, trends and directions we will get some results and see problems that occurs in these relations.

Now, below we see Azerbaijan trade in goods with EU countries from 2016 to 2018. Export to EU increase over these years. The reason is oil price. In 2016 oil price was low, but in 2017 and 2018 oil price increased drastically. Our country's export to EU is ninety percent oil. Therefore if oil prices go down, export to EU

decrease, if oil prices go up, export to EU increase as well. Trade balance in goods is always in plus.

If we generalize all ideas about trade relations, we come up some ideas. EU is the biggest and the most crucial partner for Azerbaijan and economy itself. EU 28 is the first priority export and import partner of our country. Core place in the foreign trade turnover of Azerbaijan occupied by Italy which is include in European Union. EU countries are also big investors of Azerbaijan economy both in oil and non-oil sector.

Graph 5. Azerbaijan trade with EU, billion dollars



Source: Eurostat, 2019.

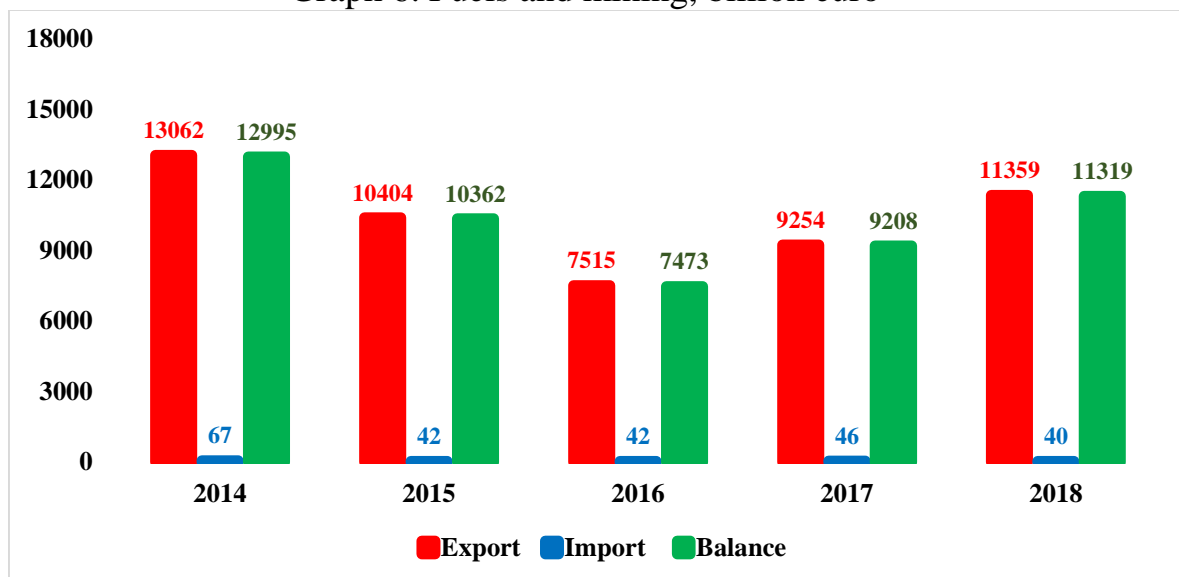
The largest part of Azerbaijan's exports to the EU are oil and non-ferrous metals, while about 45 percent of EU exports to Azerbaijan accounted for the machinery and chemical products.

Imports from the European Union are gradually increasing. There is no sharp decline or fluctuation. But here we can observe trends. For example, it is possible to link imports from the European Union with oil prices. Thus, because of the structure of imports have a high share of government purchases, imports are rising due to purchasing power in parallel with increasing oil revenues. We can also point out the rising consumption here.

Over the past few years Italy has taken the first place in the structure of export and trade turnover. Germany has always been in the top five in the trade turnover over the past five years.

Now if we analyze and examine the dynamics of Azerbaijan's main products which is exported to and imported from the European Union over the past few years, we find out strange tendencies. First, let's look at the dynamics of oil and other mineral resources that covering the vast majority of Azerbaijan's exports.

Graph 6. Fuels and mining, billion euro



Source: Eurostat, 2019

If we analyze main export and import products and their changes in volume over years. We see that agricultural products export increased in 2015. Because oil sector suffered this time and therefore non-oil sector was growing. But we see that in 2018 again agricultural products export decreased. After oil prices rise, non-oil sector again went down. Same tendencies and dynamics show themselves in food and raw materials sector as well. In parallel, import of these products went up in last years. In the machinery and transport equipment sector both import and export tightened after 2015. But both machinery and transport equipment and chemicals export to Europe enlarged in the last years.

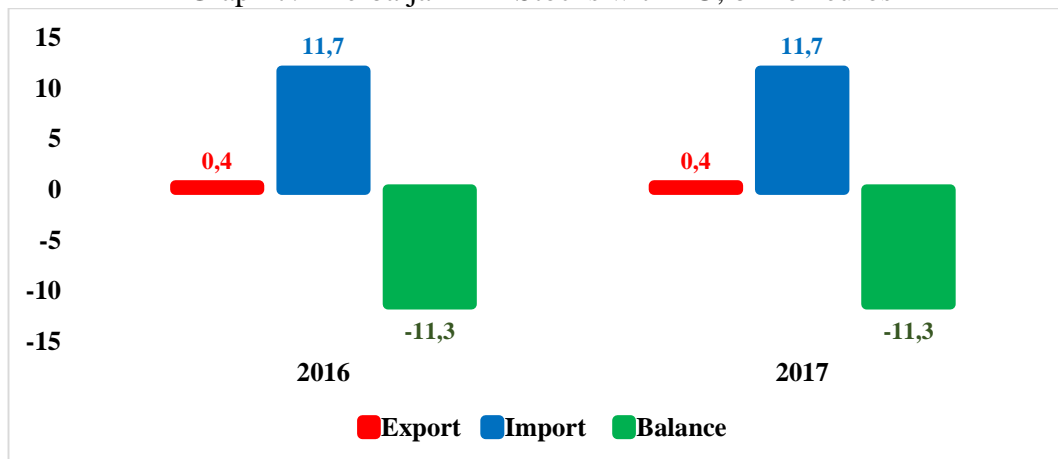
European Union helps and assists in the different spheres to Azerbaijan such as training, funding or exporting. EU countries one by one or as a whole community always supports Azerbaijan economy, its businesses and economic diversification. Thus, EU is interested in Azerbaijan become strong economy.

The EU is also the largest investor in Azerbaijan. There are more than 1,500 European companies in Azerbaijan. Over the past 11 years, EU member states



have invested more than \$ 20 billion in Azerbaijan, accounting for 46 percent of the total foreign direct investment in the country. Today, the EU is the largest foreign investor in the country's oil sector as well as in the non-oil sector. In 2012-2017, the EU invested \$ 15.3 billion in Azerbaijan, accounting for 38.2 percent of the total investment in Azerbaijan's economy (Eurostat, 2019).

Graph 7. Azerbaijan FDI Stocks with EU, billion euros



Source: Eurostat, 2019.

Rich oil and gas fields of Azerbaijan play a positive role not only for the development of our country, but also for cooperation. Azerbaijan realizes its own energy potential, and it also pays a certain part of the energy needs of neighboring countries. Azerbaijan is a reliable partner and has always fulfilled its commitments and will continue to do it so. Our country has been proven for many years as a supplier and transit country.

Azerbaijan is a crucial partner for European Union in the energy sector. For the improving energy efficiency EU launched a new programme in 2016 which supported Eastern Partnership Countries (EPC), including our country. Negotiations on a new bilateral agreement have been held between Azerbaijan and the EU. During meeting was mentioned that Azerbaijan and the EU successfully cooperate in various fields, including in the energy sector. And these partnership relations are constantly growing and developing. Azerbaijan has great advantage on energy sector. First, Azerbaijan has great resources such as oil and gas. Second, our country has favorable location which Azerbaijan can benefit from it. Our

country is active participant of such large projects as Baku-Tbilisi-Ceyhan and the Southern Gas Corridor.

Azerbaijan supply approximately 5 percent of the EU's oil demand. Caspian oil and oil transited through our country is big energy resource for customers from EU. Baku-Tbilisi-Ceyhan plays crucial role in it. BTC pipeline is a long crude oil pipeline from the oil field in the Caspian Sea to the Europe (Mediterranean Sea). The Baku–Supsa Pipeline also supports transition of oil from Azerbaijan to EU market. It is an oil pipeline from Baku to the Supsa terminal in Georgia and afterwards to the Europe through Turkey.

Azerbaijan aims to bring our country gas resources (which now just exported to Georgia and Turkey) to the EU countries market. Southern Gas Corridor help us to make available Caspian Sea gas resources to the EU. Together, The South Caucasus Pipeline, The Trans-Anatolian Natural Gas Pipeline (TANAP) and Trans Adriatic Pipeline (TAP) projects are known as the Southern Gas Corridor.

The Southern Gas Corridor is a natural gas supply for Europe and it will connect huge Shah Deniz gas field from Caspiansea and gas field from Middle Eastern regions to Europe through the SCP, TANAP and TAP. The Southern Gas Corridor provides for the transportation of 10 billion cubic meters of Azerbaijani gas. One of the purposes of the SGC is to reduce Europe's dependency on Russian gas. Another goal of the project is to diversify energy sources and suppliers by keeping energy security. SGC is a system of complex which involves many stakeholders – including 7 countries and 11 business companies. But gas to EU countries are expected to start in 2020.

The existing South Caucasus Pipeline (SCP) will be expanded with a new parallel pipeline across Azerbaijan and Georgia. This pipeline also known as Baku–Tbilisi–Erzurum Pipeline (BTE).

The Trans Anatolian Pipeline (TANAP) will transport gas across Turkey. TANAP is the central part of the SGC. This project has an importance for both

countries as Azerbaijan, Turkey, Georgia and EU. It also strengthens the strategic role of Azerbaijan as a regional energy player.

Trans Adriatic Pipeline (TAP) is a pipeline project to transport gas, starting from Greece via Albania and the Adriatic Sea to Italy and further to Western Europe.

Azerbaijan also cooperates with European countries via twinning projects. Twinning projects are very beneficiary for Azerbaijan. In the last 10 years almost 50 twinning projects were held in Azerbaijan. 34 of them were completed. 11 twinning projects still is ongoing. 1 twinning project is in preparation as well.

At the same time, Azerbaijan is actively involved in the transport sector. The projects implemented by our country have created a new transport infrastructure in the region. Azerbaijan is a key player in the North-South and East-West transport corridors. As a result of the Baku-Tbilisi-Kars railway, the new Silk Road will be available. This road not only connects Azerbaijan with Turkey, but also connects Europe with Asia. Thus, this path carries great importance in terms of economic benefits.

Azerbaijan is located at the crossroads of transport connections which links North and South, East and West. European Union invest some projects in Azerbaijan which is directly related to infrastructure. Crucial infrastructure projects such as Port of Baku and the Baku-Tbilisi-Kars railway is important for Azerbaijan economy and relations with EU as well.

European Commission is prepared to back 3 projects in our country related to transport sector. These all will cost 1.1B euros which is divided into 5 logistics centers (369M euros), free trade zone in Alat (410M euros) and modernization of East-West railway (328M euros). European Commission said that all together these investments require 13B euros 4800 km road and rail, 6 ports and 11 logistics centers. Projects will make new infrastructure – roads, railways, logistics centers, airports and rehabilitate the existing ones.

International Sea Trade Port is include Alat free trade zone and is expected to be one of the crucial trade and logistics hubs of Eurasia. It links North, South

and West. Russia from North, Turkey and EU from West, India and Iran from South will be related one another via this transportation hub. It will also increase connectivity and volume of cargo. Good which is transported through International North-South Transport Corridor will be transported from India and Gulf countries to Western Europe, Russia and Scandinavia. Azerbaijan will become key player because of number of routes pass through its territory. Alongside these routes, Baku-Tbilisi-Kars railway also allows supplying cargo to Europe.

There are also problems with trade between the European Union and Azerbaijan. Here are some of these problems. For example, the vast majority of exports are the oil and gas sector. Although the development of non-oil export is a priority, trade is not at the desired level yet. We see that export is getting bigger over years. If we take data from 2016 to 2018 we can see that over three years export increase 1.5 times. But from the data we took is shown that Azerbaijan's export to EU is primary and based on oil sector. Numbers tell us that over 90% of Azerbaijani export to European Union countries depend on oil sector. It is so related to oil price. If oil prices decrease as 2015 and 2016, then our export to EU also decreases, our trade turnover leader countries from EU lose their weight to other countries in the structure of trade turnover and etc. Thus, we have to diversify economy. We should invest non-oil sectors such as tourism and agriculture, also Azerbaijan should enlarge processing oil sectors. We should relook our export structure and make increase refined oil sector as well. Another problem to be solved is the import. After analyze all data about import relations of Azerbaijan with EU we get some results. We see that import also increase in 2018 compare with 2017. Mainly, import structure consists of machinery and transport equipment. It is understandable that import from EU countries is unavoidable. But there are some results that we should deal with it. For example, we buy refined oil from countries such as Netherlands, Luxembourg. Luxembourg does not even have proper oil resources. We should invest in refined oil sectors which we have comparative advantage on price. Because oil is qualitative and costless in our country than other countries oil such as Texas oil. If we look at the import structure

of EU countries, we can see that some of the products that can be produced within the country are imported. It is important to optimize imported products to stimulate exports and eliminate negative balance. Another issue is legal procedural problems. Azerbaijan is still not a member of the World Trade Organization (WTO). Therefore, there is difficulty trading with the European Union countries which has been going through this channel. While the European Union made relevant proposals in this area, there are still problems in the legal aspect. Customs duties on trade are among the issues that prevent trade. There are also strategic problems. Sometimes results are not at the desired level as a result of being targeted to inappropriate areas of trade. Azerbaijan should also work in this area, focus on areas to be mentioned in the next section, and try to be part of the value chains of possible trade to European Union.

Despite there are problems in trade between Azerbaijan and countries of the European Union, these problems have solutions. Proposals for the solution of these problems will be presented in the next chapter.

## **Chapter III. Main directions for enlarging trade relations between Azerbaijan and the European Union.**

### **3.1. Different ways to increase Azerbaijan's non-oil export to the European Union.**

The development of foreign economic relations and the effective integration of the country's economy into the world economy system have recently become one of the key directions of the socio-economic development strategy of the Republic of Azerbaijan. We can evaluate the possibilities of import-export diversification via analyzing the geographical and goods structure of trade relations between the European Union and Azerbaijan. The measurable parameters of trade relations between the two parties show that European Union occupies a very large place in the foreign trade of Azerbaijan, while the EU has a larger economy and share of Azerbaijan is small. In other words, the potential expansion of Azerbaijan's export in the coming years may have a more impact on Azerbaijan. It's somewhat uncertain to say that the product range will increase sharply. Because diversification of export depends on a number of factors. Azerbaijan side should consider some factors for the expansion and diversification of its exports to the European Union.

Trade between the parties has now reached a special level of development by forming a major part of the system of economic relations. However, there are real reasons for this development to be an objective issue. Unfortunately, there is unlike possibility that a sharp complex change will be in the export of raw materials and semi-finished products to the EU countries and in the import of finished products from these country in the upcoming years. However, serious quality and volume changes are expected in the agricultural and service sectors.

If we looking at the current state of trade relations and economic parameters between the European Union countries and Azerbaijan, we see that the basis of our country's exports is the oil and gas sector. This is a trade problem between the two parties, and we will recommend ways to increase non-oil exports to the European

market. First of all, let's talk about the factors mentioned above that need to be considered and should be followed for enlarging non-oil export to EU.

Organization of efficient use of existing natural and economic resources of the country. Each country can provide free access to international markets by mobilizing the available capacities in areas where it has a competitive advantage. As in the majority of developing countries, our country pursues a policy of boosting other production areas by selling its rich natural resources to international markets. After gaining its independence, Azerbaijan has made considerable progress in the field of attracting investments, including the using of rich hydrocarbon reserves and their promotion to international markets. Naturally, while determining the main directions of the future economic development of our country, directing revenues from these operations to balanced development of other areas will also stimulate the expansion of foreign trade relations. It is no coincidence that the aim of recent reforms is to diversify the oil revenues and to direct the non-oil sector. Thus, our country should also produce and export products with competitive advantage. The advantage of Azerbaijan's oil industry is clear. However, the non-oil sector also has promising areas and we want to expand non-oil export. Here we can highlight the focus on the construction and production of chemical products. Great work is being done in this field, but Azerbaijan has to continue benefit from its natural resources's advantage. Significant work has been done in Azerbaijan in recent years. For example, we can mark SOCAR Carbamide and SOCAR Polymer plants. Due to the diversification of oil revenues, investment in various sectors of the chemical industry has been invested. Moreover, the work done in this field is effective because of the presence of skilled staff and rich natural gas resources in Azerbaijan.

SOCAR carbamide is a plant that will produce ammonia, liquid and granulated urea. Natural gas will be the main feedstock for the production of nitrogen fertilizers. The principle of the plant operates on the principle that natural resources, as suggested by this section, are not processed as raw material, but rather processed and redirected to other industries. Plant will produce 1200 tons of

ammonia and 2000 tons of urea per day. Production will satisfy domestic demand and the surplus of the product will be exported to Turkey by railways and into the world markets especially, European Union through the Black Sea ports.

In the previous chapter when we look at the structure of Azerbaijan's non-oil export to the European Union, we see that chemical industry products (acyclic alcohols) prevail as a share of non-oil export. As a result of the analysis we made in the previous chapter, we can mention that EU countries import chemicals such as methyl, methanol, propanols, butyl, butanols, octyl, octanols, ethylene, glycol, ethyl, denatured spirits, fatty, glycerol lyes and we can expand our export, which is still very low in this field. New plants should be opened, new specialties should be created at the universities, qualified personnel should be involved in chemical engineering and should be specialization in this field. Due to skilled staff, being a traditional field (Sumgayit is known as the city of chemists in the former Soviet Union) and abundance of natural resources, attention and interest to this area should be further increased. We can mention SOCAR Polymer also in the chemical industry that is very effective in this field.

SOCAR Polymer is a great plant in the petrochemical industry. This project is the first of its kind and scale to be implemented in our country. It was founded in 2013. SOCAR Polymer is a step for the development of the chemical industry of Azerbaijan. Socar Polymer's production consists of Polypropylene (PP) and High Density Polyethylene (HDPE). Both two plants are located within the territory of Sumgait Chemical Industry Park (SCIP). Plants started operations in 2018.

Polypropylene and High-Density Polyethylene plants allowing the development of the local petrochemical industry via improvement of production for this sector of the plastics market. SOCAR Polymer produce competitive goods, this helps our country to develop export and substitute import.

Polypropylene is used in the production of a number of consumer goods. It is basic material and is used areas such as packaging, clothing, stationary materials, automotive industry and so on. It is ecologically pure and reliable and therefore can be applied in the food (food packaging) and medical industry. High-density



polyethylene can be used as feedstock for a multiple products such as right up to production of high-pressure gas, sewage and water pipes (Socar Polymer, 2019).

Azerbaijan is exporting to the world market low-density polyethylene because it is not demanded in domestic market. But Azerbaijan was importing these two products – high-density polyethylene and polypropylene. Thus, this project substitute import and surplus production helps to grow export. Just 30% of the total production will be used in domestic market and this much will be enough for local demand. 70 percent of product will go to the EU countries and Turkey.

Thus, we see that production can meet EU demand if we increase productivity and number of this kind of plants. These plants' production also meet international standards which is applied in EU too. Azerbaijan better to gain share in the plastic market of EU. Medical equipment, toys, furniture accessories, containers for food, plastic pipes, travel cases, baby food containers can be made from these plastic materials and can be exported to EU countries. Here we want to mention that Azerbaijan better to focus on plastic materials, plastic made products and chemicals in the field of export to EU. We now have great infrastructure, trained employees and raw materials. Thus, we have advantage on this field.

Azerbaijan is rich in non-metallic mining resources as well. With the proper handling of natural resources in this area, the European market can be accessed by construction materials. Azerbaijan has rich resources such as gypsum, bentonite, building materials, clays, pyrite, dolomite, barite and etc. Nakhchivan's gypsum, anhydrite resources, Gobustan's bentonite resources, Garadagh, Guzdak, Dash-Salahli, Naftalan's construction materials, Garadagh's clay, Shakhga's limestone, dolomite resources of Nakhchivan are some of the rich resources. Beside these resources, with iron and aluminum resources Azerbaijan can be crucial partner for EU. After analyzing comparative advantage on this field and strong demand from EU we come across some non-oil export ideas. If we focus on construction materials export to EU we can achieve really great results. For this purpose there is need for investing in this sector, training labor force and comprehensive marketing. Through these tools great results will be achieved.

Expanding access to modern technology and innovation technologies for export-oriented product development. Production of high-quality, competitive products requires advanced technologies in the production and social innovation in society. In particular, the issue of quality and safety of food products, which is relevant today, necessitates the introduction of quality control systems at all stages of production or processing.

The goal of scientific and technical progress is to increase productivity by saving labor and material resources and to improve social and living conditions of the population. Thanks to the achievements of scientific and technological progress and modern technologies, enterprises that increase the efficiency of use of production resources, increase labor productivity and achieve significant reduction of product costs.

In addition to industrial fields today, technical progress is also essential in the agrarian sector, which plays an important role in the development of the national economy. Complex mechanization and automation of production processes in modern times is one of the major steps in the direction of transition to the industrial base of agriculture. This process also relieves some of the negative impacts of the natural forces exposed to agriculture. Undoubtedly, agriculture can not be fully integrated into industry. Because it can only be partially liberated from the natural-climatic conditions. Industrialization of agriculture, raising the level of mechanization and automation of production allow for acceleration of work to be done, which partly reduces the damage caused by adverse natural climate (rainfall, drought, etc.). Increased productivity in the agrarian sector increases the development of a number of manufacturing industries and enhances access to international markets for manufactured products.

In the last years a lot of work has been done in this area. For the economic development and boosting competitiveness in the world market in comparison with other innovation-led countries, different technology and industrial parks has been established. Sumgait Chemical Industrial Park, Mingachevir Industrial Park, Hi-Tech Park, Garadagh Industrial Park, Pirallahi Industrial Park, Neftchala Industrial

Region, Masalli and newly established Hajigabul Industrial Regions are examples of them.

Sungait Chemical Industrial Park (SCIP) encourages modern industrial programs through massive tax exemptions and provides huge infrastructure support. The aim of park is to contribute positive impact on industrial development, especially chemical industry. SCIP is intended for the production of competitive products in the petrochemical industry which can compete with innovation-led countries' products. Agro-chemistry, medical chemistry, household chemistry, construction industry chemistry, electronics and automotive industry chemistry are the areas of production of SCIP.

Mingachevir Industrial Park is established in 2015. The purpose of establishing MIP and other industrial parks such as Garadagh Industrial Park, Pirallahi Industrial Park is to ensure sustainable development of the non-oil sector in the country, to support entrepreneurship in this area, to organize competitively-oriented industrial production based on modern technologies and to increase the employment of the population in production.

Recently in April of 2019, bus production plant has been established in Hajigabul Industrial District. Total value of project is 10 million dollar. It was informed that at the first stage 500 units of bus with different capacity will be manufactured at the factory, and in the second stage - 1000 units of buses and trucks will be produced.

Thus, we see that valuable works have been done in this field due to increase competitiveness via technology. By using Mingachevir Textile Park potential we can reach European textile market. Import substitution process can be done as well. Our recommendation in this section is that to invest more this kind of projects and to focus on textile market of EU.

Increasing the level of specialization of firms in the production of certain products. Specialization of firms ends with the direct exchange of their products. As a result, the inter-sectoral, inter-firms and intergovernmental division of labor emerges. In particular, the companies of the participant countries of the

international division of labor export their products rather than their own to international markets and import products that they do not produce or produce less than their own. This process itself is not to direct power to the production of different types of products and to exchange produced products not only in the country, but also on a global scale.

The main issue here is specialization. For example, not focusing on fruits, vegetables, textile or construction materials generally, should be focusing on hazelnut, baby clothes or cement specifically. At the moment, all developed countries, including European countries, tend to narrow specialization and this, in turn, gives the effect. When considering the export balance of Azerbaijan with EU countries, we can see that there are significant opportunities to increase the production of several major agricultural products in the country. Great results can be achieved in these areas through transition to narrow specialization in the regions.

According to the State Statistical Committee of Azerbaijan, Azerbaijan has a fairly high index of export of fresh fruits, vegetables and nuts. However, under this generalization, there is a great potential for increasing exports of such products as tomato, persimmon, pomegranate, apple, cherry, peach, green tea leaf and sugar.

At present, we know that the main part of exports on these types of products is directed to Russia. It should be noted that in Russia, when the demand for these goods increases, inflation in our country is observed. Here is a conclusion that we do not produce enough of these products and we are not yet ready for a large amount of export to European markets. However, due to the right trading arrangements, it may be possible to realize the export potential for some of the products mentioned above. We suggest that the following goods and commodities may be exported to the European Union:

Tomato - Tomato is one of the most promising product among exported products to the Russian market in agricultural sector. If we consider that Turkey is the main exporter of tomato to Russia in recent years, potential of the Khachmaz region of Azerbaijan to increase output and to reach European markets may be the

topic of the discussion. As a tomato importer country Germany, Netherlands and Belgium from EU can be our main export partners.

Persimmon and dates - The main share of production in the country is also exported to Russia. Considering the weakness of Europe's most countries' climate and its potential to produce persimmons and dates, the price of imported dates from Arabia and Palestine, and the difficulty of transporting, cold relations and sanctions against Iran and our production an average of 16 tons of crop per hectare, Azerbaijan can easily enter the EU market and increase exports. Great works is already being done in this field and Azerbaijan are exporting organic persimmons to the Netherlands, Belgium, Germany and Lithuania under the name "BALKHOORMA".

Cherry - Despite the weakening of this area in Azerbaijan in recent years, in 2015, 8 tonnes of cherries were harvested from each hectare in the country, which corresponds to the average of world countries.

Apple – It is possible to increase apple's productivity which has a very low cost value by using the potential of the Guba-Gusar region. It is better to enter the markets of Lithuania, Latvia, Estonia, Poland and Slovenia.

Hazelnut - This sector has great potential for development in our country, especially in Zagatala-Balaken region. In the country, 1.3 tons of crops were harvested from one hectare in 2015, and none of the neighboring countries could surpass this indicator. Though our country exports hazelnuts to the Netherlands and Germany, this is very small and development of it is one of the priorities. Additionally, EU countries, especially France, Italy and Netherlands can be a potential market for the export of hazelnut products because in these countries chocolate and cocoa beans are often processed together with hazelnuts.

Fruit and vegetable juices - In 2015, Poland played a leading role in the Russian import market of fruit and vegetable juices, paying 47 percent of the total demand. Azerbaijan, as one of the largest exporter to Russia in the same year, paid 7 percent of the total demand. According to the recent increase in production in Azerbaijan, we can say that the country has a significant potential to have a bigger

market share in this sphere. From 2010 to 2014, exports of vegetable juice increased by 24 percent, and fruit juice increased by 12 percent. It is possible to provide a Polish market directly, in addition, it is possible to expand cooperation with Hungary in this area.

The availability of natural resources such as climate, soil and water resources in Azerbaijan is favorable for the development of agriculture. In recent years, new processing industries have been established in the country based on modern technology. According to the FAO report, the dynamics of growth in agriculture and food products in the country is higher than the world average. There are also state support mechanisms in this area. However, there are factors that slow down development. Low agricultural productivity because of extensive factors, poor sales and storage infrastructure, poor agricultural insurance, low level of knowledge and skills of farmers, and weakness of scientific research are among the weaknesses of agricultural sectors in our country. In this regard, we can mention the work being done in this area by giving different subsidies, exempting taxes to stimulate exports, establishing of Food Safety Agency and Agricultural Research Center under the Ministry of Agriculture and etc. However, the establishment of research centers closely related to practicality, the adaptation of the requirements of international standards, the establishment of an electronic agricultural system, the training of qualified specialists in agrarian fields, the use of innovative ways for development of land and irrigation, the creation of value chains in the regions are steps that we offered.

High level development of transport and infrastructure. The development of logistics has a great impact on trade growth. Therefore the development of this sector plays an important role in the export of Azerbaijan to the European Union. At the moment, we got acquainted with the large investments made by the European Union in transport and logistics industry of Azerbaijan in the previous chapter. We also know that Azerbaijan plays an important role because of favorable location in the north-south and east-western relations. Now, let's just say

that by making some changes in this area, we can achieve an increase in exports in trade with the European Union.

Though important infrastructure projects and tax exemption in legislation made by government still there is weakness that drive export lower than its potential. For example, qualified labor force in the field of logistics are few. In this direction new specialties have been created in some universities. But it takes some time to integrate those cadres into the labor market. In addition, marketing, sales and distribution centers are not good enough. Important steps must be taken to expand these channels. Considering low shipping capacity of the sailing vessels in the Caspian Sea and non-eligible direct access to the ocean, it is more effective to increase the focus on rail transport, rather than on ship transportation. A major role can be played in the exporting countries such as India, Pakistan, Iran and China exports to Europe and Russia through the establishment of a modern business model in this field. Azerbaijan has also possibilities that play crucial role as the air logistics hub. By this way, country's export to EU can be increase as well. It will attract EU countries' attention that some fragile and easily-damaged products can be imported by EU, because it will be quicker.

### **3.2. The main approaches to the optimization of the import structure of Azerbaijan from the European Union.**

The dependence of Azerbaijan on imports always keeps the national currency under pressure and leads to a negative balance in the balance of payments. This is not only problem of trade with the EU, but also it is one of the main problems of the trade structure of Azerbaijan. The reduction of dependence on imports of some products from European Union and the complete or partial self-provisioning of some products should be one of the most important challenges.

According to the State Statistical Committee, the European Union is a leading exporter of many key products imported by Azerbaijan. Azerbaijan's main commodity group imported from EU countries is machinery and transport equipment.

It is understandable that import from EU countries in some products is unavoidable. But there are some results that we should deal with it. According to the State Statistical Committee data about import structure of the Azerbaijan from EU in 2017, we will suggest that which group of goods and commodities can be replaced by domestic production and what can be done for the optimization of imports from EU.

In general, as a result of the analysis, a number of agricultural and processing industries have been identified that could potentially replace imports, and these products can be grouped as follows:

According to State Statistics Committee, in 2017 Azerbaijan imported 2282 units live bovine animals from Germany valued \$6.7M, 1697 units from Austria valued \$4.8M. Azerbaijan also imported live poultry from France, United Kingdom, Netherlands, meat of bovine animals from Belgium, France, Poland, eggs from Hungary.

Fresh meat (beef, chicken and mutton) is one of the largest crop in terms of value expression, being the most produced livestock products in Azerbaijan. However, this product does not meet the needs of the local market, and its exports are low. The country mainly exported and processed canned meat products. Considering that the processing enterprises operating in Azerbaijan have modern technologies and high labor productivity, they can significantly increase the demand for meat products by expanding their scope and enhancing their activities.

Crucial steps should be taken to reduce dependence on imports and to increase self-sufficient. In this direction, it is important to take into account the following suggestions.

First is transition to intensive farm model and the creation of large farms. In order to increase livestock production and thereby, substitution of imports in the country, livestock production should be developed in an intensive basis. Most of the countries implement “Circular Agriculture” model due to increase efficiency. Azerbaijan can also apply this model. We can use Dutch experience in order to develop this sector intensively as well.



New agrofirms should be established. We know that government do essential things for it. For example, Agroleasing supports farmers and give subsidy and agrocredits to them. “Agroleasing” OJSC gives agricultural techniques and supports livestock breeding complexes with high productive breed animals. Effort to expand artificial insemination in cattle is one of the key factors of livestock intensification. Azerbaijan government gives subsidy for that as well.

Despite intensification and efficiency have been powerful, sometimes they are not enough. Optimization of all kind of resources such as soil, livestock, poultry demanded not just at the level of farm, but also broader levels. It means that land, chemicals, water and nutrients should be use optimally and biomass wasting should be avoided. Circular agrofood system itself is a combination of efficient use of land, cattle, manure and crops. But farmers do not do whole work alone. During transition period, government should helps farmers to overcome social, economic, legal and technical barriers.

For this purpose pilot projects implemented in Imishli, Barda and Agjabedi districts are essential. The role of Barda in livestock is unprecedented for Azerbaijan. In Mekhdili of Barda Garabagh Agro-Industrial Park is one of the contribution to the intensification of livestock.

Additional support mechanisms should also be developed to support the activities of broiler farms. “Siyazan-Broiler” OJSC provides most of the regions and can be reach a level that provide whole country.

At present, there is a lack of skilled staff in this area. Thus, although agriculture has been under state control over the development of agriculture for several years, now, interest in this area is low. There is a great need for young cadres who love their job in agriculture. One of the reasons of lacking skilled labor in this area is privatization of lands. Young people choose professions that pay high salary. Farms should be formalized and specialization should be made. It is possible to create agricultural colleges in some agricultural regions. I think it would be useful to create those educational institutions. At this point, you need to know which region need which sector. Let's say that in Lankaran there is a need for

tea-related cadres, and livestock cadres in the Central-Aran zones. Each region needs labor due to its own character. There is the Azerbaijan State Agrarian University located in Ganja to eliminate this shortage of skilled labor. But I think that today the university should review its work, prepare staff meeting modern requirements, because skilled agronomists are attracted from Turkey now.

According to State Statistics Committee, another product that we import from EU countries but can be replaced by domestic production is vegetable oil. We import total \$4.2 million worth of vegetable oil from Spain and Italy in 2017.

First of all, let's find out the potential for increasing domestic production of oily plants used in the production of vegetable oils. Economic effectiveness of the production of sunflower, corn, olive and other products in the country, especially the olive groves in the drylands of the country and the possibility of using it later in the production of olive oil should be investigated in detail by professionals. But we also have some thoughts about it.

It is interesting that country has a large export circulation, in the same year we exported total \$9.9M worth of vegetable oil to Iraq, Georgia, Turkmenistan and other countries. Azerbaijan is competitive in exporting vegetable oils, especially sunflower oil, there are important opportunities for reducing dependence on imports of these products.

There are conditions for sunflower and corn production in Azerbaijan. The potential of Zagatala region can be used for corn. For the Sunflower, the climate of Agstafa is favorable. Sunflower oil is very good quality oil. Therefore, it occupies a special place among agricultural products worldwide. In Agstafa, more than half and ton of crops are harvested from one hectare of land. This figure can be expected to increase with proper care and technique. In Zagatala, highly productive, disease-resistant and pest resistant varieties of corn and hybrids have been obtained that are cultivated in different soil-climatic conditions.

We can also mention that Azerbaijan can increase olive oil production as well. Olive trees need a subtropical climate. Absheron region is very favorable for growing olives. Thus, Azerbaijan need to focus on this field as well. "Zira Olives"

which is created in the basis of “Zira Agropark” LLC promotes Absheron olives and olive oil. “Zira Olives” sells 600 tons natural product in a year. But this is not enough due to Absheron peninsula capacity. We know that olive is expensive product so, by this way country can gain benefit. Different precious green and black olives are produced in “Zira Olives”. From 400 tons of black olives average 50 tons of olive oil can be produced. “Gilan Olive” also produce olives in Zabrat. But due to increase efficiency new olive groves need to be planted.

According to State Statistics Committee, Azerbaijan also imported milk and cream from Poland, France, 800 tons of butter and other fats and oils derived from milk from Netherlands, 1402 tons of cheese and curd from Germany, 1282 tons from Denmark in 2017.

Beside the small number of dairy processing enterprises in Azerbaijan, the amount of production of natural milk for industrial demand is not adequate, therefore large quantities of dairy products are imported to the country. There are opportunities to increase the production of dairy products that meet the quality and market requirements, by expanding the scope of existing processing facilities and enhancing their activity, as well as increasing the production potential of natural milk raw materials. The main purpose here is to fully utilize the production potential of peasants and other small households. In this regard, Zagatala, Tovuz, Agjabadi, Tartar, Gabala dairy processing plants do great works but it has to be enlarged. In Agjabadi and Tovuz daily 20 tons of dairy products can be produced. Thereby, this is enough to replace import with domestic production.

According to State Statistics Committee, Azerbaijan also imported 1320 ton fresh fruits from Belgium, 133 ton fresh vegetables from Netherlands in 2017. Belgium and Netherlands are not exotic countries that we import vegetables or fruits that can not be produced in our country. Additionally, Azerbaijan in the same year, exported 184 million USD worth of fresh vegetables and 292 million USD worth of fresh fruits to world countries which is include Italy (\$51M) and Germany (\$19M). Fresh fruits and vegetables are big share in the non-oil sector of

Azerbaijan. So, we can easily substitute this much of imports from EU countries with domestic production.

According to State Statistics Committee data, Azerbaijan imported 13 tons tea which is valued 211 thsd.USD. It is understandable to import tea from countries like India or Sri Lanka. But from Germany we can easily replace it with local tea. We also know that in 2017 Azerbaijan exported \$10M worth of tea from countries like Russia, Georgia and Ukraine. Great potential of south region of Azerbaijan, especially Lankaran is known. But in recent years this sector is in decline. In 2018, import of tea increased, export of tea decreased. Tea sector needs expansion of tea plantations and some incentives by government. Studies should be conducted to determine the needs of the country's population for domestic tea products, but should also be compared with similar import products of local products for price, quality and other indicators. Based on the results of the analysis, optimal indicators for the expansion of tea plantations can be identified and appropriate development plans can be prepared.

Azerbaijan also imported textile products from Belgium, Spain, Italy and Netherlands. In this sense, it is important to develop cotton, wool, leather processing industries and products. Azerbaijan exports and produces cottons fibre, but imports cotton fabrics, woven fabrics of synthetic filament yarns and etc. Cotton industry is historical industry of Azerbaijan. Recent years government pays attention into this sector more. But what we suggest is not about cotton industry. In this regard, government does great works. What we suggest is about polyester. Polyester is synthetic fiber and its source is petroleum. We know that we have great comparative advantage on oil sector. So, polyester is a category of polymers and we have SOCAR Polymer plant. Polyester is strong, durable and lightweight. Polyester can be used in clothing and we can easily substitute our import with domestic production. Moreover, we can export polyester and finished textile products to the world countries.

According to State Statistics Committee data, Azerbaijan imported oil and smearing valued \$8.6M from Germany (3062 tons), \$3.4M from Belgium, \$1.5M

from Italy, \$1.2M from Netherlands, even 345 tons from Latvia in 2017. Azerbaijan also exports this product. In 2017, our country exported oil and smearing to Ukrain, Turkey, Belarus and other countries total valued \$7 millions.

Azerbaijan has “Technol” oil that provide quality engine oil not only in Azerbaijan, but also countries like mentioned above. Thus, as a result Germany oil due to quality is better than Technol and therefore we import oil from Germany but export to them Caucasus and other countries. But we have advantage on this product and its quality should be developed and in the future we can easily substitute this product with local product as well. So, here is problem is quality. If Azerbaijan solves quality problem that we know with potential of this sector it can be available, dependence of import will be disappear.

Azerbaijan also imported soap, ethyl alcohol from Germany, more than 3 million USD worth of detergents from Poland and Germany, \$1.358 million worth of polymers of ethylene, in primary forms from Italy. All these products are parts of chemical industry and theirs source is oil. SOCAR Polymer and Sumgait Chemical Industry Park can solve this problem with enlarging production and efficiency.

If we consider Azerbaijan's competitiveness in the oil sector, large number of qualified specialists in this area, quality of Azerlight oil, and cost of oil we can say that Azerbaijan should open new oil processing plants that will eliminate import dependence.

Beside agricultural and chemical products Azerbaijan imported plastic tubes, pipes and hoses, and fittings from Italy, Germany and United Kingdom. Rough aluminium also imported from Switzerland in 2017. Azerbaijan can replace these imported products with STP products. Sumgait Technological Park produces each of the products which mentioned above. Additionally, Dashkasan and Gadabay have rough aluminium potential and there is no point to import rough aluminium.

According to State Statistics Committee, Azerbaijan imported 2.9 million USD worth of tires from Germany. Azerbaijan has huge background in this sphere, for the first time in the former USSR, the formator-vulcanizer was put into

operation and the diaphragm was used in tire production. In Baku Tire Plant, tires were prepared for both cars and motorcycles. We can easily provide domestic needs for tires. 3-4 millions of tires are enough for Azerbaijan. There are raw materials of tires in Azerbaijan. Because tire is mainly made of crude oil. We also have specialists in this area. Therefore, the production of tire will be effective and will meet domestic demand. Azerbaijan also can export the tires to nearby and neighboring countries. Let's take into account that Georgia has a great demand for that product.

In the early 60's of the beginning of the tire factory in Azerbaijan, a fairly successful activity was organized in this area. Production of tires will directly reduce import in our country. Because of the strong competition the quality of domestic tire production will rise, in the end, it will have a positive impact on domestic production. Situation will also reduce the price of the tire. To start this process will also be an important step in terms of new workplaces and income for country.

Recently, Minister of Economy Shahin Mustafayev said that “In Azerbaijan tire production plant will be built. Investments will be \$300M. Plant will be built in SCIP. The construction of the plant will be organized by “China National Electrical Engineering Co.Ltd (CNEEC)”. CNEEC will become a resident of SCIP. At present, the share of the project is as follows: CNEEC - 90%, Azerbaijan Investment Company - 10%. The production capacity of the plant will be 3.3 million automobile tires (3 million for cars, 300 thousand for trucks). The enterprise's annual capacity is not only for local markets. Tires will be exported to neighboring countries, which will naturally serve to increase Azerbaijan's export potential”.

Thus, in the upcoming years, Azerbaijan has the potential to optimize imports from EU countries. In this sense, along with the suggestions, co-ordinated work of politicians, economists and scientists is absolutely necessary.

### **3.3. Directions of improvement of legislative base of Azerbaijan's trade relations with the European Union**

It is important to improve the legislation that regulate foreign trade and accelerate compliance with international requirements to increase foreign trade relations with EU countries. The expansion of the country's international economic relations, acceleration of integration into the global economic system and its active involvement in the international division of labor require the harmonization of existing legislation with international standards. Actions to protect the domestic market and stimulate export activities directly depend on the work done in the field of foreign trade regulation. It is crucial to bring national legislation into line with the legislation of the World Trade Organization (WTO), the European Union and other organizations in order to ensure our country's participation as an equal member of international trade and economic organizations at a time when our country is rapidly joining the world economic system. In the modern economic development strategy of Azerbaijan, reestablishing of foreign economic activity, formation of national economy in the direction of export orientation and the issues of establishment of import substituting production fields have been identified as the key priorities. In order to fasten work in this direction, a number of orders were signed by the President, State Programs were adopted and improvements were made in the field of governance.

It should be noted that improving the competitive environment in the "Strategic Road Map on Production of Consumer Goods at the Level of Small and Medium Enterprises in the Republic of Azerbaijan" has been identified as one of the priorities and the adoption of the " Code of Competition " has been set as a goal.

The experts in the "Code of Competition" project were involved within the framework of the EU TAIEX program "Support to Legislative, Institutional and Economic Reforms in the Competitiveness of Economic Reforms Analysis and Communication Center" project.

Apparently, the active participation of the country in the international division of labor and the increase of the effectiveness of foreign trade relations require the change in the legal framework, the development and application of comprehensive action programs.

Recently, 4 core directions of the EU-Azerbaijan relations have been identified:

- strengthening government institutions and good administration;
- economic development and market opportunities for trade;
- connectivity, flexibility, environment and climate action.

Azerbaijan wants to sign a new agreement with the European Union. The European Union is also interested in this cooperation. In recent days, Azerbaijan and European Union officials have made significant progress within this context again in Belgium. The new agreement should replace Partnership and Cooperation Agreement which was adopted in 1996. It should much better take into consideration the common goals and problems facing the EU and Azerbaijan today. The newly reformed agreement will envisage the compliance of Azerbaijan's legislation and techniques with the European Union's most crucial global trade standards. It will lead to the enhancement of our country's goods' access to the EU markets.

Now, let's analyze what kind of regulations we need in terms of legal issues. We suggest legal issues which will be mentioned below.

- Free Trade Agreements

To take economic benefits derived from free trade agreements, Azerbaijan should make free trade agreements. In order to increase non-oil exports, activities should be continued to enter the European Union market on a more favorable trade regime. The making economic, social and political consequences of the conclusion of trade agreements and decisions on participation in international treaties with the European Union should be analyzed. Potential impacts on different sectors should also be assessed, given the possibilities of separate bilateral agreements with the European Union or the EU countries. It is important to take precautionary



measures in this direction, as well as to carry out work on improvement of risk mitigation and to specify specific measures in the event of making contracts. We suggest that to enter discussions with BENILUX countries or Germany itself directly.

- Improving the statistical infrastructure

Targeted economic reforms should be undertaken in order to create an environment that promotes entrepreneurship development in Azerbaijan and to improve the business environment. Statistics is an essential tool for business decision-making based on facts that reflect the reality of creating a favorable climate for exporters and importers. National statistical system of Azerbaijan should further develop and contain important indicators for various parameters and assessments. It is important that the statistical system will provide with the necessary resources and the mutual cooperation of state bodies and integration of information systems. Within this framework, the activities will be repeated and parallelism in government will be eliminated, the efficiency of the data will increase, and the burden on respondents will be reduced.

On the other hand, ensuring the accuracy of the national statistical system, the discrepancy between the data will be eliminated or diminished, and the data refresh will improve. Strong statistical infrastructure will make important analyzes and will make the decision-making process efficiently effective.

- Integration of standardization system into Europe

The national standardization system of Azerbaijan has many different features compared to the national standardization systems established in the European Union and other developed countries and requirements of the World Trade Organization (WTO). Even some CIS countries (Russia, Kazakhstan, Ukraine and Georgia) are adapting to the WTO requirements and the existing standardization requirements for the European Union model for the elimination of such differences and the free circulation of the goods they produce.

It is convenient to take a series of measures to ensure the free circulation of Azerbaijani products in international trade and simplify the import-export

operations. These activities cover the processes beginning from the formation of the legal framework until the adoption of a relevant action plan to bring national standards to international and European standards.

Thereby, with the adoption of a technical regulation, issues such as restriction of state control over the products and voluntary adaptation to quality requirements, removal of foodstuffs from the technical regulation and standardization system, and the risk of product certification should be resolved.

Quality of products is very important, services which country offered to importers and exporters are very essential too. European consumers will demand from Azerbaijan has to follow digitisation of economy and new economic trends.

Azerbaijan can not sell large amount of apples to the EU countries. Countries like Germany, France and United Kingdom have strong requirements about it. Thus, even some EU countries such as Croatia can not sell some products due to these strong requirements. We should mention that pomegranate juice does not meet EU standards and therefore, can not be sold several times. And problem is not about pomegranate itself. It is about water which include in juice. So, it is not such difficult to meet this kind of standards of EU.

The adoption of the new edition of the standardization law regulating quality issues should fully align the country's legal framework to international requirements. In order to meet the basic requirements of EU directives as a model, there are reference standards adopted in the European Union according to relevant international standards. Those that meet international standards from existing standards remain valid as reference standards.

While implementing these reforms at institutional level, a number of crucial criteria will be taken into account: ensuring a balance between product security and a liberal business environment; the management system's principles of market economy as well as transparency, non-disclosure of interests, and the principles of liberalism; ensuring more active participation of the private sector in these activities.

- Incentives for EU countries

Financial incentives - scientific research loans to the EU exporters, privileges to importers and exporters from EU.

Tax exemptions - import duties, export duties and tariff quotas. Incentives should be reviewed and updated continuously.

- Development of Judicial system

In order to eliminate technical barriers standardization of legal procedures is needed. There should also be a strong and healthy judicial system to deal with issues that arise during trade and dispute issues. Thus, the exporting and importing countries will be sure that financial or other types of damages will not be lost. Any country who receives a guarantee that the issue will be settled fairly in a legal or litigious manner during any dispute and will be compensated by any loss, then this country believes in that it can freely trade with that country. Azerbaijan Court of Justice should follow the EU Court of Justice.

Financial derivatives also should be developed for risk-free trading transactions. The development of the foreign currency derivatives market can have a significant impact on Azerbaijan's trade.

Apart from these suggestions, Azerbaijan has to make easy custom transactions. For example, In Netherlands it just tooks 2 hours. But in Azerbaijan it is too long and technical procedures are too many. Therefore, in this sphere changes are must.

In order to sell specific products such as tomato, nuts and pomegranate Azerbaijan can make a deal like Preferential Trade Agreement (PTA) with some EU countries such as Netherlands and Germany. BENILUX countries also good option for PTA. We can add ourselves here like fourth country in order to expand trade. We know that we have trade agreement with Russia to eliminate Value Added Tax from trade. Azerbaijan also can do such kind of agreement with some of the big country of the EU like Germany.

And finally, what is going on during meetings. The Azerbaijani side and the European Union are mainly talking in this context: The European Union tells the Azerbaijani side that be a member of WTO and country should fully transite to

WTO standards for trade. Azerbaijan side replies that our country's industry is infant, and therefore, to be member of WTO will have a negative impact on domestic production. Azerbaijan claims that it is best to partially and gradually approve all WTO standards.

Changes in the legal issues will bring overall economic growth, competitiveness and innovation. European market is transforming through the innovation and technologies, even agricultural and traditional sectors meet these trend and standards. Thus, to apply Europe legacy standards will bring legal certainty.

## CONCLUSION AND RECOMMENDATIONS

In the current period, the strength of any country is measured by its economy. In this sense, the power of the economy in our globalized world depends on internal reasons, as well as on external economic factors. It means that in order to achieve economic development it is important to integrate into the world economic system and to establish the international trade relations wisely. We know pillar of the country is the economy and the basis of the economy is trade. Our republic considers important to expand such international trade relations and the President of the country works in this direction. Nevertheless, the problems existing in this area are one of the challenges ahead of the country's problems. The vast majority of these problems faced by our country are solvable and Azerbaijan is able to use its potential to have a direct impact on solving such problems. In this sense, the expansion of trade with the EU as a key partner in the country's trade, which plays an important role in the export and import structure and the solution of problems in this area remain relevant.

We have also analyzed the trends of Azerbaijan's trade with European Union countries and have come up with a number of conclusions and recommendations. First of all, it should be noted that the systematic analysis of trade relations between Azerbaijan and the European Union, the assessment of the current situation, the commodity and geographical structure of trade and the latest trends of development reveal that despite the current situation of trade between the two sides is satisfactory, there are numerous problems. But let's put the situation to the fore before we go into problems. The European Union takes an important place in the overall trade turnover of Azerbaijan, as well as in the structure of export and import. Our country's main export products to EU countries are crude oil and oil products. In the future, gas exports are expected to increase as part of expanding cooperation. Non-oil products that we want to export can not enter the European Union market in large quantities. Sometimes, our country can not fully utilize its export potential because of legal procedures, quality measures and sometimes it does not happen because of lack of proper systematic research and infrastructure.

Thus, Azerbaijan loses its potential income. The problems with imports are even worse. Thus, our country has serious dependence on imports from EU countries. Some of these product groups can be replaced by local production while optimizing the import structure. Also, legal procedures and lack of coherence with the parties in this area are also a barrier to trade. If we consider that the European Union is a key trade partner for Azerbaijan, and Azerbaijan is Europe's number one energy provider and strategic partner in the region, it is important to address the problems that hinder the development of trade relations. And if we take into consideration potential natural resources, geographical position and power of the economy of Azerbaijan, great progress can be made in this direction.

As a result of the study, it can be concluded that the expansion of trade relations of the Republic of Azerbaijan with the European Union should be implemented in two directions. The first direction is related to legal issues. Thus, Azerbaijan should become a WTO member in order to facilitate trade between the parties and eliminate barriers to trade. This is what the European Union says in the meetings. In addition, it is possible to achieve trade growth with some countries, such as Germany, the Netherlands and Poland by simplifying customs procedures, adapting the European certification system and developing the national statistical system.

The second direction is to make changes in the structure of the commodity groups, which is divided into two parts. Firstly, the import structure of EU countries should be optimized, and some goods should be replaced by domestic production. In my opinion, imports of petroleum products and chemicals are not acceptable. It is also possible to produce goods that their raw materials are available in our country. Then we need to think about increasing exports. The growth of non-oil export to EU countries is a key aspect of the expansion of trade relations. Recommendations that we made are as follows:

- Organization of efficient use of existing natural and economic resources of the country; rich oil and other natural resources.

- Expanding access to modern technology and innovation technologies for export-oriented product development; Establishment of new technology and industry parks, utilizing the potential of existing ones.

- Increasing the level of specialization of firms in the production of certain products; Specialization in different fields of agriculture.

- High level development of transport and infrastructure; Being the key transit partner of the EU in the region by using the country's geographical potential.

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