

**MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN**  
**AZERBAIJAN STATE ECONOMIC UNIVERSITY**  
**INTERNATIONAL MAGISTRATION AND DOCTORATE CENTER**

**“Analysis of Economical Relationship between Azerbaijan and Gulf  
Countries”**

**THEME**

**MASTER THESIS**

**Mostafa Elshahat Kamar**

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**THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN**  
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**Head of the Center**

**Assoc. Prof. Dr. Ahmadov Fariz Saleh**

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**Master:**

**Mostafa Elshahat Kamar**

\_\_\_\_\_ **sign**

**Scientific Supervisor:**

**i.ü.f.d. Səfərli Elmir Novruz**

\_\_\_\_\_ **sign**

**Program Manager:**

**Can.of.Econ., Seyphullayev I.Z**

\_\_\_\_\_ **sign**

**Head of the Department:**

**Dr.of.Econ. Prof. Kalbiyev Y.A**

\_\_\_\_\_ **sign**

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## **Elm andı**

I Mostafa Elshahat Kamar have written my master's dissertation on "Analysis of Economical Relationship between Azerbaijan and Gulf Countries" in full compliance with scientific ethics and rules of reference and reflecting all the sources I use in the bibliography.

# “AZƏRBAYCAN VƏ KÖRFƏZ ÖLKƏLƏRİ ARASINDA İQTİSADI ƏLAQƏLƏRİN TƏHLİLİ”

## XÜLASƏ

**Tədqiqatın aktualığı:** Tədqiqat işinin aktualığı Körfəz ölkələrinin Azərbaycanla iqtisadi əməkdaşlığı imkanlarının öyrənilməsi, ərəb ölkələrinin Azərbaycan bazarlarında iqtisadi iştirakının gücləndirilməsi, tək cə ticarət əlaqələrinin inkişafı ilə deyil, həm də əsasən ticarət yolu ilə iqtisadi əməkdaşlığın digər formalarının təşviqi, şaxələndirilməsi (sənaye və investisiya, maliyyə, elmi, turizm və s.) və inkişaf etdirilməsinin zəruriliyi ilə müəyyən edilir.

**Tədqiqatın məqsədi:** Tədqiqatın məqsədi Körfəz ölkələri ilə Azərbaycan arasında iqtisadi əməkdaşlığın inkişaf istiqamətlərini və perspektivlərini müəyyənləşdirməkdir.

**İstifadə olunmuş tədqiqat metodları:** Aşağıdakı tədqiqat metodlarından istifadə edilmişdir: ümumiləşdirmə və müqayisə, analiz və sintez, deduksiya və induksiya, qruplaşdırma, məntiqi analiz, sistem-struktur, ədəbiyyat təhlili.

**Tədqiqatın informasiya bazası:** Dissertasiyanın informasiya bazasını Azərbaycan Respublikası Dövlət Statistika Xidmətinin, İqtisadi İnkişaf Nazirliyinin statistik məlumatları və arayış-analitik materialları, Azərbaycan Respublikası, Dünya Bankı, Beynəlxalq Valyuta Fondu, Ərəb Valyuta Fondunun məlumatları təşkil etmişdir.

**Tədqiqatın məhdudiyyətləri:** Tədqiqatın məhdudiyyətləri odur ki, Azərbaycanda mövzu ilə bağlı material kifayət deyil.

**Tədqiqatın elmi yeniliyi və praktiki nəticələri:** Körfəz ölkələri ilə Azərbaycan arasında iqtisadi əməkdaşlığın daha da yaxşılaşdırılması üçün iqtisadi əlaqələrin inkişaf perspektivlərini qiymətləndirilmişdir. Körfəz ölkələri ilə Azərbaycan arasında iqtisadi əməkdaşlığı dərinləşdirmək və çətinliklərin öhdəsindən gəlmək üçün təkliflər hazırlanmışdır.

**Nəticələrin istifadə oluna biləcəyi sahələr:** Nəticələrin praktiki əhəmiyyəti dissertasiyada əks olunan materialların, müddəaların və nəticələrin Körfəz bazarlarını inkişaf etdirən nazirliklər, idarələr və şirkətlər tərəfindən iqtisadi potensialı, iqtisadi imkanları və mövcud riskləri qiymətləndirmək üçün istifadə edilə bilməsidir.

**Açar sözlər:** Azərbaycan, ərəb, Körfəz ölkələri, iqtisadiyyat, əməkdaşlıq

# **“ANALYSIS OF ECONOMICAL RELATIONSHIP BETWEEN AZERBAIJAN AND GULF COUNTRIES”**

## **SUMMARY**

**The actuality of the subject:** Development and improvement of research, economic development and economic development relations, economic development and economic development, economic development, trade and trade relations, economic development and economic development features (trade, finance, economic and tourism). s.) and the need for development.

**Purpose and tasks of the research:** The purpose of the study is to determine the directions and prospects for the development of economic cooperation between the Gulf countries and Azerbaijan.

**Used research methods:** The following research methods were used: generalization and comparison, analysis and synthesis, deduction and induction, grouping, logical analysis, system-structure, literature analysis.

**The information base of the research:** The information base of the dissertation consists of statistical data and reference-analytical materials of the State Statistics Service of the Republic of Azerbaijan, the Ministry of Economic Development, the Republic of Azerbaijan, the World Bank, the International Monetary Fund, the Arab Monetary Fund.

**Restrictions of research:** The limitations of the research are that there is not enough material on the subject in Azerbaijan.

**The novelty and practical results of investigation:** The prospects for the development of economic relations between the Gulf countries and Azerbaijan to further improve economic cooperation were assessed. Proposals have been prepared to deepen economic cooperation between the Gulf countries and Azerbaijan and to overcome difficulties.

**Scientific-practical significance of results:** The practical significance of the results is that the materials, provisions and results of the dissertation can be used by the ministries, departments and companies developing the Gulf markets to assess the economic potential, economic opportunities and existing risks.

**Keywords:** Azerbaijan, Arab, Gulf countries, economy, cooperation

## **LIST OF ACRONYMS**

<b>UAE</b>	United Arab Emirates
<b>GDP</b>	Gross Domestic Product
<b>USA</b>	United States of America
<b>USSR</b>	Union of Soviet Socialist Republics
<b>TNC</b>	Transnational corporations
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>GNP</b>	Gross National Product
<b>IMF</b>	International Monetary Fund
<b>FEZ</b>	Free Economic Zone
<b>UN</b>	United Nations
<b>OIC</b>	Organization of Islamic Cooperation

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## INTRODUCTION

**The actuality of the subject.** The development of international economic relations in the last period is characterized by a high degree of complexity and inconsistency. The circle of participants has expanded, the world is becoming polycentric, transnational corporations (TNCs) play an increasingly important role, the activities of which cross national economic borders and, in contrast to the trends of globalization and regionalization, create a hierarchical multi-level system. In addition, unprecedented proportions reached momentum in the financial market, the most difficult to control by individual states. At the same time, the efforts of countries to jointly regulate the state of all segments of the world market are growing. Through the mechanisms of the world market, modern world economy is to a large extent internally interconnected. It is known that during the period of colonial and semi-colonial dependence of the countries of Asia, they played the role of the agrarian and raw materials appendages of the metropolis. This created the opportunity to use, albeit small, foreign exchange earnings for the import of finished products. Of course, such a character of participation in the international geographic division of labor limited their involvement in the world economy and also made it one-sided. After achieving political independence, the place of Asian countries in world economic relations began to change. Of course, this also applies to the countries of the Gulf region.

The Azerbaijan Republic, according to many researchers, is one of the most important areas of foreign economic activity of the countries of the Gulf region. Arab countries are traditionally included in the zone of strategic interests of Azerbaijan. Their significance is determined not only by the proximity of the region to the borders of the Azerbaijan Republic and its huge economic potential, characterized by the presence of the world's largest hydrocarbon reserves and significant financial resources, but also by a number of historical, cultural and geopolitical factors that objectively bring the Arab world and Azerbaijan together.



From the middle of the 20th century, the promotion of bilateral relations for both sides was considered a matter of national importance. Various forms of economic relations have actively developed between countries: trade, investment cooperation, construction and modernization of economic and infrastructure facilities, professional training, tourism, etc.

In the context of the formation of market relations in Azerbaijan (early 1990s), cooperation with the Gulf countries has undergone changes. So Azerbaijan got the whole spectrum of versatile contacts that were regulated in the USSR within the framework of the socialist system that had been formed over several decades, on which dozens of enterprises were oriented. With the transition to market conditions, at first they were not able to independently take advantage of new opportunities and resources. Moreover, in the wake of the change in political course, a controversy unfolded about the place of the Azerbaijan Republic in the world, and, in particular, about the prospects of any cooperation with the Gulf countries, which until the 1990s was based largely on political and ideological factors, and not on the norms of economic feasibility.

The relevance of this dissertation is determined by the need to study the opportunities for economic cooperation of the Gulf countries with Azerbaijan, to strengthen the economic presence of Arab countries in Azerbaijan markets, not only through the development of trade relations, but also mainly through the promotion and diversification of other forms of economic cooperation (industrial and investment, financial, scientific, tourist, etc.).

**Problem setting and level of learning.** The specificity of the presented study is that it is built on an extensive empirical basis. Most of the works included in the bibliography, on similar topics, are practical studies, to one degree or another, intersecting with the topic of the dissertation. Of particular note is the work of such researchers on the problems of economic interaction with individual countries of the Gulf region such as: Alaui A., Aleksandrov I., Al-Shikhri A., Akhmedov V.M., Menyazhetdinov I.Kh., Rashed al-Advani , Khitrukhina Y.P., Farizova I.O., Filonik

A.O. and others; the participation of the countries of the Gulf region in the international division of labor - Abdelati M., Akhmada S.M., Zakaria M.G., Egorina A.Z., Zhdanova C.B., Zhuravleva A.Y., Ibragimova S.D., Kosach G. G., Pospelova V.K. Primakova A.E., Rudenko L.N., Sapronova M.A. The works of the following authors were devoted to various forms of economic cooperation of the Arab countries - Abdelkarim O., Alb Saleh Ahmed M.M., Baybakova A.C., Vasilyeva A.B., Gusarova V.I., Evtushenkova V.P., Isaeva V.A., Lyukmanova A.R.. New literature considers issues of economic and other cooperation with individual Arab countries. However, the question of the forms and prospects of economic cooperation of the Gulf countries with Azerbaijan at the present stage of economic development and issues of interaction with the Gulf countries as a region at the present stage of economic development have not been analyzed.

**The purpose and objectives of the study.** The main purpose Objective: to identify trends and prospects for the development of economic cooperation between the Gulf countries and Azerbaijan.

To achieve this goal, the following research objectives were identified:

- determine the conditions and prerequisites for the development of economic relations of the Gulf countries with Azerbaijan in market conditions;
- give an analytical assessment of inter-regional cooperation on the example of specific bilateral projects and forms of economic relations;
- identify the most effective forms of economic interaction and priority areas of strategic partnership while respecting the economic interests of the parties;
- assess the prospects for the development of economic relations between the Gulf countries and the Azerbaijan for the further improvement of economic cooperation;
- develop proposals to overcome difficulties and deepen economic cooperation between the Gulf countries and Azerbaijan.

**The object and subject of the research.** The object of the study is the economic cooperation of the Arabian Gulf countries and Azerbaijan.

The subject of research is the forms and directions of cooperation between the countries of the Arabian Gulf region and Azerbaijan.

**Research methods.** To solve the tasks, the following research methods were used: generalization and comparison, analysis and synthesis, deduction and induction, grouping, logical analysis, system-structural, literature analysis. Empirical data were processed using grouping methods, comparisons, an expert approach, and mathematical methods.

**The information base of the study.** Sources of information for the dissertation were statistical data and reference and analytical materials of the State Statistics Service of the Azerbaijan Republic, the State Committee for Statistics of the Azerbaijan Republic, the Ministry of Foreign Affairs of the Azerbaijan Republic, the Ministry of Economic Development of the Azerbaijan Republic, the World Bank, the International Monetary Fund, the Arab Monetary Fund, and the Azerbaijan Republic Arab business council.

**The limitation of the study.** Limitations of the study is that the material in Azerbaijan on the subject is not enough.

**Scientific novelty of the research.** The scientific novelty of the thesis lies in the fact that the dynamics and main directions of the development of economic cooperation between the Gulf countries and Azerbaijan, based on the economic interests of both the Arab countries and Azerbaijan are identified.

**Practical significance of the results and areas of application.** The practical significance of the work lies in the fact that the materials, provisions and conclusions contained in the dissertation can be used by the political leadership of Azerbaijan, ministries, departments and companies developing the Gulf markets to assess economic potential, economic opportunities and existing risks. Developed proposals for ministries, departments, companies engaged in foreign economic activity, to overcome the existing difficulties of economic cooperation, especially in such areas as trade, industrial and investment cooperation, scientific and technological exchange, tourism.

Information materials of the dissertation may be in demand in the development of teaching materials and lectures on training courses “World Economy”, “International Economic Relations”.

# **CHAPTER I. PRECONDITIONS FOR ECONOMIC COOPERATION OF THE GULF COUNTRIES WITH THE AZERBAIJAN**

## **1.1. Literature review about economic relations**

Economic development is a much third-party and multidimensional concept. So, according to some scientists, an indicator of economic development is the level of development of the means of production, and according to others, economic development is characterized by the amount of material wealth produced or the cost of labor expended. It should be noted that the existing disagreements regarding the definition of the concept of “economic development” are caused by different views on what characteristics of economic development should be considered the most important and of paramount importance. The efficiency of using factors of production to a greater extent determines the level of economic development.

World experience in the functioning of various economic systems has shown that any of them is capable under certain conditions of achieving major achievements in certain areas of human activity, but at the same time, the price that has to be paid for these achievements in the administrative and managerial system is higher than in the market. (Schupmeter J., 1987; Markova A.N., 1996)

Understanding the content of business processes taking place in society and, accordingly, decisions made in the field of public administration of the economy are determined by a number of factors. The primary place among them is occupied by economic science, theoretical studies of laws, laws and categories of economic life. In addition to the directions of the Marxist materialist orientation, which developed mainly, there are doctrines and theories of political economy that have different principles and concepts and a methodological basis. (Van der Wee G., 1994) The most important ones that have had the greatest impact on the economic policies and business practices of developed countries with market economies are neoclassical economics,

including the largest monetarism and the economics of supply, a wide range of neo-Keynesian concepts.

An independent and quite influential direction of world science, which continued the traditions of social analysis, is the institutional and sociological school. Its economic theories, which have been widely recognized in recent years and have aroused the interest of the domestic scientific community, have begun to exert a growing influence on economic policy and determine the nature of decisions made. It is possible to assess the possibilities of using world-wide developed in the process of development of economic exercises to solve problems of overcoming crisis phenomena and implementing measures to implement market reforms<sup>6</sup> based on the analysis of their theoretical argumentation.

As you know, production is in constant motion. This movement is not in a vicious circle, but in an ascending line, but by no means uniform. History knows serious changes in the pace of economic development, zigzags on its path and even retreats. From the analysis of individual economic phenomena of production to the development of a scientific theoretical system for the functioning of the economy as a whole, this is the main direction of development of classical political economy.

An important scientific achievement of the classical school was the identification of the objective nature of economic laws, including, above all, the law of value. However, representatives of the classical school could not detect the specifically social and historical nature of these laws and interpreted them as natural and eternal "laws of nature", or "laws of human nature." (Eklund K., 1991) Representatives of the classical school were the first authors of the labor theory of value. It was they who first declared labor expended in the production of goods to be the source of the value of the goods. However, the classical school did not comprehend the historical nature of the development of commodity relations.

The economic theory of Marxism contains the doctrine of surplus value, based on the relations of property and social production. The founder of the historical school

was Wilhelm Rocher. Bruno Gelbraith advocated combining history with economic science, but the tasks they set were not fulfilled, since the laws of historical development were not discovered. This task was undertaken by the so-called young historical school. As the French political economists Rist and Gide indicate, the “Capital” of K. Marx is in fact a grandiose historical synthesis to the creation of a historical method. The scientific nature of the cognitive process and its class orientation have led to the development of contradictions in political economy. Since the end of the XVIII beginning of the XIX century. there are several separate currents of political economy. The most prominent representatives of Western political economy 30-70 years XIX century in England N. Senior, in France F. Bastia, in Germany W. Rocher, in the USA G. Carey. At the end of the XIX century in connection with the growth of concentration and monopolization of capitalist production and the intensification of competition, important changes took place in the conditions of functioning of capitalist enterprises, which laid the foundation for the formation of microeconomic studies in political economy. Representatives of this period are A. Marshall in England, J. Clark in the USA, K. Menger in Austria.

The main content of the modern political economy of the West since the beginning of the XX century amounts to marginalism. Its content is expressed in several basic provisions. The subject of marginalism is not production relations or social relations of people in production, not objective relations of property, but subjective relations, on the one hand, of the producer to nature, and on the other, independent producers independent of each other, when they enter into the exchange of material goods as the end result of their labor. The theoretical basis of marginalism is marginal utility and marginal product. Marginalism (marginal in French means marginal) is a doctrine based on the use of marginal analysis to study economic laws and categories.

The first attempts to introduce marginal analysis in economic theory were made in the middle of the XIX century scientists A. Cournot (France), Stupen and G. Gossin (Germany). Marginalism gained widespread use at the end of the 19th century.

(Austrian school, mathematical school). A comprehensive justification of marginalism was carried out by D.B. Clark. Marginalism considers the economy as the interaction of individual firms. The study of the laws of its functioning marginalism is based on an analysis of the behavior of an economic entity in the production process and on the market. This gives him the opportunity to use quantitative methods, in particular the analysis of the functional relationship between the studied factors (for example, the dependence of demand for a product on its price, prices of other goods, consumer income; the impact of different ratios of labor and capital costs on its productivity, etc.), and hence the concept of the limit of function (marginal utility, elasticity of demand, marginal productivity of factors of production).

The concrete mathematical apparatus of the limit analysis was developed by economists of the mathematical school (Walras, Pareto, Djevane, Fisher, etc.).

The school of mathematics is based on the use of marginal categories (marginal utility, marginal efficiency, marginal productivity) not at the macro level, but at the microeconomic level. The school of mathematics has created a series of economic and mathematical models. The founder of the Austrian school (sometimes called Vienna) is K. Menger. Her successors were L. Mises, F. Kaysk. The Austrian school was close in concept to a mathematical school. (Saks J., 1994)

The change of free competition with the omnipotence of monopolies, the growing scale of state regulation of the economy forced modern marginalists to move away from the subjective understanding of economic processes. This made it possible for economists to develop mathematical methods for studying some major economic problems (Schulz, Cobb, Douglas). Under the factors of production in marginalism refers to land, labor and capital, which are consumed for profit. At the end of the XVIII century J.B. Say developed a theory of three factors of production. Say's main factors of production were labor, means of production, and land, which create income that expresses his share in production.



The idea of assessing the value of material goods and services based on their marginal utility, i.e. usefulness of the last good in their limited number, received a kind of refraction in the works of a prominent representative of the American school of J. B. Clark. Organically combining this idea with Say's theory of three factors of production, he transferred the methods of marginal analysis to the sphere of production. In his opinion, the incomes brought by factors of production that take part in the creation of goods and services, labor, land, capital, and the productive power of each of them depend on their relationship with each other. The practically significant conclusion of this concept, called the theory of marginal productivity, was the possibility of quantitative assessment of the optimal combination of production factors, such a ratio that allows to achieve the highest possible efficiency. Clark's ideas formed the basis for constructing modern production functions, the most famous of which is the Cobb Douglas function, which expresses the dependence of production on mass and the ratio of labor and capital used.

It should be noted that the provisions put forward by Clark, to some extent, have something in common with the thesis of Marx on the organic structure of capital as an objective ratio of means of production and labor, determined by the level of development of productive forces. The latter can be described as a variant of the production function, where two mutually complementary production factors act as variables.

The most famous theorist of the classical direction, one of the leaders of the Cambridge school, the English economist A. Marshall is known in history as the founder of modern microeconomics. He was the first in a systematic form to set out the theory of rational behavior of subjects of market relations, introduced the concept of “elasticity” into scientific circulation. His main work, *Principles of Political Economy* (1890), was essentially the first textbook in which rigorous mathematical analysis was applied to study markets, supply and demand. A. Marshall concluded that the achievement of equilibrium conditions for individual production units means the

automatic establishment of the equilibrium state of the entire system of social economy.

(Marshall A., 1984)

Neoclassicism and neo-Keynesianism are the dominant trends in modern Western economic theory. Western science refers to the classics of those nineteenth-century economists who, starting with A. Smith and J.B. Say, in their theoretical views they hold the positions of marginalism, theories of marginal utility and marginal productivity, while in the political sphere they adhere to liberal ideas and state non-interference in the economy. This is due to the methodological sources of this area, which formed four scientific schools of Austrian, American, Cambridge and Lausanne.

J.M. Keynes focused on the theory of money in his research. Like the scholars of the classical school, Keynes proceeded from the priority of the sphere of circulation in the development of social production. However, in matters of evaluating the results of the functioning of a market economy at the microeconomic level, he took a position directly opposite to the classical one. In the macroeconomic approach of the classics, as a starting point, it was assumed that the amount of income, and hence the potential cost of demand of the owners of factors of production from the created product, is equal to the sum of its value, therefore, aggregate demand is equal to aggregate supply. Keynes's main work was called *The General Theory of Employment, Interest, and Money*. In his opinion, the classics of economic theory considered his particular case, determining the conditions of market equilibrium, when the full application of all factors of production has already been achieved.

In the 30-50s XX century the work of representatives of the Keynesian direction was devoted to general problems of the functioning of the economy, its state regulation, anti-crisis policy in relation to the statistical state of the public economy. The problems of expanded reproduction and economic dynamics remained outside the scope of their attention, since the main task of economic theory during this period was the development of recommendations for overcoming depression in the economic system. However, in the post-war world, the situation has fundamentally changed, the

competition of the largest powers of various socio-political systems posed the problems of forecasting and state management of the growth of a market economy before Western science. This brought to life new ideas within the framework of existing traditions, the formation of neo-Keynesianism, associated primarily with the names of R.F. Harrod and E. Hansen. The first entered the history of science as the creator of the concept of economic dynamics, the second as the author of the theories of stagnation and the economic cycle.

One of the conclusions of R.F. Harrod is that the state's policy, orienting enterprises to growth rates above natural (that is, the maximum possible), is fraught with prolonged depression. The experience of many countries of the world that have artificially maintained high economic growth for a long time indirectly confirms this situation. An important place in Western scientific thought is occupied by institutional-sociological (social) and social-democratic theories. These theories introduce elements of social analysis into modern Western science, which are clearly lacking in the prevailing economic concepts. The institutional and sociological school arose at the beginning of the 20th century. based on a synthesis of two scientific areas of institutionalism and a social school. The formation of institutionalism is associated with the names of major American economists and sociologists T. Veblen, W. Mitchell, J. Commons, A. Burley and others.

In the process of developing teachings from the end of the XIX century. and by the middle of the 20th century the practice of the hypothesis of a "rational economic" person arose who cares only about maximum benefit. This line of study was called "institutionalism." Institutionalists interpret the subject of economics very broadly. In their opinion, neoclassicists paint a too simplistic and to some extent distorted picture of reality and economic science should not deal with purely economic relations. Representatives of this theory believed that institutions were the driving force of social development, by this term they understood: (Martynov V., 1996)

- social phenomena, such as family, state, monopolies, etc.;

- the manifestation of social psychology, motives of behavior and way of thinking that have become familiar to the people as a whole or its individual groups, customs, traditions, habits;

- legal, ethical and other manifestations.

Institutionalism also has historical concepts. We have translated and published the works of institutional founder Thorstein Veblen (1857 -1929), his student in the field of industrial cycles Wesley Mitchell (1874 -1948) and the very famous politician and theorist John Galbraith (1909) and economist Jan Tinbergen (1920). Thus, the doctrine of “institutionalism” is based on three ideas and its authors:

- 1) bringing together the whole complex of conditions and factors affecting economic life, legal, social, psychological, political, they believe that the rules of public administration are not less, and possibly more, than the mechanism of market prices;

- 2) study the development, transformation of capitalist society, criticize capitalism and call for the expansion of social programs. The issue of social guarantees of employment may become more important than the issue of wages;

- 3) believe that economic relations should not be fragmented, we need an organization that will act against the dictatorship of entrepreneurs. This should be done by trade unions and state bodies. The state should take ecology, education, medicine under its guardianship.

Representatives of institutionalism are interested in two problems: economic power and control over it. The evolution of human society is based on changes in production techniques. Institutionalists have developed various concepts of the historical transformation of society: industrial, postindustrial, informational, technotronic.

Veblen's writings contain harsh criticism of capitalist society, which is directed against private property. He argues that the rentier lead a parasitic lifestyle. Veblen analyzes economic phenomena from a social point of view, changing the conditions for the development of society as an evolution of technical, economic and socio-political

organizational forms (i.e. institutions) and gives his assessment of the monopolistic stage of capitalism. Of great importance in the analysis of economic development are Mitchell's studies on cyclical phenomena. He deeply investigated, on the basis of digital indicators, the nature of cycles in production, in money circulation and in the economy as a whole. Mitchell calculated the duration of small and large cycles. His research is widely used in the analysis of time series.

Institutional scientists have studied the influence of economic and non-economic factors on the development of social and industrial-economic systems. Modern institutional and sociological concepts of state regulation are especially widely and fully given in the works of American and French scientists. Of greatest interest are the works of J.K. Galbraith. In Europe, primarily in Germany and Russia, positions close to institutional were held by representatives of the social school R. Shtoltsman, P. B. Struve, M.I. Tugan-Baranovsky. Other well-known economists N.D. Kondratiev, A.V. Chayanov. (Solow R., 1996)

The ideas of state regulation proposed by Galbraith are based on the theory of changes in the capitalist market economy, the evolution of private enterprises and corporations. Thus, an analysis of the dominant trends in modern economic theory has led to important conclusions.

First, the particularities of the methodology of neoclassicism and neo-Keynesianism are generated by certain historical conditions and scientific traditions, which are fundamentally different from the features and traditions of Azerbaijan and its scientific thought. To take it as the basis for practical actions to transfer the economic system that has developed in our country into a market functioning regime without serious critical analysis, in our opinion, would be risky. At the same time, knowledge of neoclassical and neo-Keynesian theories, their use to develop their own economic policies and their own anti-crisis programs seem useful and appropriate.

Secondly, institutional sociological and socio-democratic theories are of particular interest to the Azerbaijan economy, especially since the experience of socialists has been studied and analyzed by domestic researchers.

These theories introduce elements of social analysis into modern Western science, which are clearly lacking in prevailing economic concepts. The main provisions of the theoretical position of supporters of the institutional sociological school are as follows. Unlike the classics, they held the position of the need for a holistic analysis of the entire socio-economic system. Actually, this shaped their attitude to the role of the state as an economic center. This school is distinguished by a historical approach to the analysis of economic phenomena, a characteristic feature of which is the evolutionary nature of social development, the tradition of social reformism. It is very important to note that representatives of institutionalism and the social school considered the economy, coupled with legal, social, psychological and political sciences.

## **1.2. The history of the development of economic relations of the Gulf Countries with Azerbaijan**

The process of establishing economic relations between the Gulf countries has gone a long history. It should be borne in mind that until the mid-80s, the USSR did not maintain diplomatic relations with most of the members of this group. Only with Kuwait they were installed back in 1963. Oil monarchies were traditionally treated by Soviet departments with reactionary regimes of a pro-Western orientation. As a result of changes in foreign policy in the last period of the Soviet Union, significant changes in the international arena in the early 90s, he already had official relations at the state level with Saudi Arabia, the United Arab Emirates, Qatar and Bahrain.

The modern history of economic relations between the Gulf countries and the Azerbaijan dates back to the second half of the 20th century. The desire for rapprochement was mutual. On the one hand, the Arab countries needed to solve the problem of overcoming dependence on the former metropolises and the United States,

developing national economies, diversifying the economy, creating new industries, and minimizing social problems. On the other hand, the USSR was ready to assist in the implementation of these plans, which was largely due to political motives.

Based on the foregoing, in the history of the development of economic relations of these regions, two main stages can be distinguished:

- 1) Soviet (until the 90s);
- 2) Modern (90s - present).

Consider the features of economic relations at each stage.

The economic ties of the Gulf countries with the USSR were episodic in nature. The long absence of diplomatic relations had an extremely negative impact on the development of trade and economic cooperation between the Arabian states and Azerbaijan. Trade was unstable and, as a rule, was carried out through intermediaries. Economic and technical cooperation was in its infancy. Even despite serious foreign policy and economic breakthroughs in the region of the Arab countries in 1950-70, the USSR, due to ideological contradictions, had no relations with a whole group of gulf states, which on a regional scale form a powerful economic bloc.

In trade, the Soviet Union was considered by the Arab countries as the main supplier of machinery and equipment. For example, their share in the annual volumes of Soviet exports to Arab countries did not fall below 40%. For 1961-1990 export of machinery and equipment from the USSR to the countries of the Arab region increased 19-fold - from 71.2 million rubles up to 1352.6 million rubles. A significant part of it was made up of materials and equipment for enterprises whose deliveries were made on the basis of loans provided by the Soviet Union to their Arab partners. An important place in the export under this article belonged to air communications and vehicles.

In the structure of Soviet exports, semi-finished products and low-level products were also noticeably distinguished: rolled ferrous metals, construction materials, lumber and food. On them from 1960 to 1990 accounted for from 40% to 20% of exports. In addition, the USSR supplied finished goods to the states of the Arab region:

televisions, radios, bicycles, watches, refrigerators, etc. However, these products could not conquer the mass consumption market in Arab countries due to fierce competition from multinational corporations.

The structure of Soviet imports from the states of the Arab region was influenced, on the one hand, by the export opportunities of the USSR trade counterparties in the region of Arab countries, and, on the other hand, by the needs of the national economy of the Soviet Union. Among the products imported to Azerbaijan from Arab countries, goods of traditional export dominated, primarily oil, raw materials, food, and semi-finished products.

Meanwhile, the most important form of Soviet-Arab economic cooperation was the participation of the USSR in the construction of enterprises and infrastructure facilities in those states that in their foreign policy were oriented toward the Soviet Union. So, for example, Iraq, which declared a “socialist orientation” of development, enjoyed significant benefits when purchasing means of production in the USSR.

Thanks to supplies from the USSR and the technical assistance of Soviet specialists in the Arab pro-socialist countries, modern branches of the economy (energy, oil and gas, ferrous and non-ferrous metallurgy) were created, the technical base for the production of export products was strengthened, agricultural enterprises were modernized, and mining was increased. Along the way, work was carried out to train tens of thousands of national cadres and create practically from scratch a social infrastructure. Together with the participation of the USSR, about 350 industrial and energy enterprises, as well as infrastructure and education facilities, were built in the Arab countries. The significance of the contribution of the USSR to the development of the production sphere of the states of the Arab region is evidenced by the fact that up to 70% of the volume of Soviet assistance to Arab countries was in industrial development.

In addition to interaction in trade and in the field of industrial cooperation, the Arab countries paid increased attention to the training of national personnel in the



USSR. Over time, trained specialists had to take on independent functions to accelerate industrialization and overcome economic backwardness in Arab countries. In the second half of the 20th century, about 150 thousand civilian and military specialists, including from Iraq, underwent training in the USSR as part of special training and continuing education programs. Specialists from Arab countries gained access to mastering the Soviet experience in solving socio-economic problems in the Muslim republics of the USSR. Numerous delegations of representatives of Arab states were sent through Moscow to Uzbekistan, Turkmenistan, Azerbaijan, Tajikistan, Kyrgyzstan, and Tatarstan (Anthony Cordesman, Robert Shelala, and Omar Mohamed, 2014). During the implementation of these contacts there was a peculiar specialization of the republics of the USSR. Thus, Uzbekistan and Turkmenistan shared their experience with the Arabs in the field of cotton production, Azerbaijan and Tataria - oil production, Tajikistan and Kyrgyzstan - mining. Today, many of the specialists trained and advanced in the USSR head departments in the states of the Arab region and are employed in large industrial companies, banks and trade structures.

Speaking about the content of Soviet-Arab cooperation, we need to dwell separately on military-technical ties with Arab countries, which, according to existing estimates, exceeded the level of economic relations. It should be noted that Soviet foreign trade statistics did not take into account direct arms supplies to Arab countries. According to reports, in 1982-1989. The USSR supplied the Arab countries with weapons worth more than \$ 55 billion. According to other estimates, for the period 1973 – 1989 soviet special deliveries to the Arab countries of the Middle East exceeded \$ 70 billion. Tens of thousands of army specialists during 1970-1980 trained military personnel in the Arab countries. The Soviet Union carried out large-scale deliveries of special equipment on credit at preferential prices, and by the 1980s turned into one of the main arms exporters in the Arab region (Maksakovsky V.P., 2007: p.14).

Thus, by the end of 1990 Arab countries have become the main economic partners of the Soviet Union in the developing world. Until the collapse of the USSR,

they accounted for about 25% of trade with developing countries and 20% of foreign economic assistance. By 1990, the volume of trade with the region reached 6.7 billion rubles (11 billion dollars). Foreign economic relations with the region were filled mainly due to the USSR and its participation in large-scale industrial development programs of the countries of the Arab region, which for a long time remained a source of fuel and raw material resources, as well as a capacious market for the sale of machinery and equipment.

The main feature of Soviet foreign economic policy was that it was determined at the intergovernmental level and was carried out exclusively by state structures. In its strategy, the USSR proceeded from political principles and the need to support those states that embarked on the path of the so-called "socialist orientation", which, of course, introduced certain ideological corrections in building economic relations with them. The main point was to consolidate such a scheme of interaction in the region, which was reduced to a formula of approximately the following content: "political loyalty in exchange for economic assistance". For the Arab countries, this meant access to Soviet investment, industrial technology, the internal market of the USSR. In addition, cooperation with the USSR opened the way for them to acquire Soviet weapons on favorable terms.

The Middle East strategy of the Soviet Union had its advantages, mainly of a military-political and strategic nature. By providing assistance to the Arab states, Moscow acquired leverage over the policies of the Arab countries. They turned into a bridgehead of the USSR in the Middle East and in the global geopolitical confrontation with the United States were important regional outposts.

However, political pressure led to the fact that the interests of the sector were often ignored, which in the mixed economy of the Arab countries continued to maintain a noticeable and, often, leading position. Due to the lack of feedback at the level of national entrepreneurship, which was simply absent in the Soviet Union, the structure of exports and imports of the USSR was not diverse, and the forms of interaction were

somewhat simplified, as they often boiled down to unilateral economic assistance or technical assistance. Progressive types of cooperation: specialization, production cooperation, placement of production orders, which in 1970-80 of the last century were actively mastered by companies of Western countries, did not receive any development (Mansour Alnogaidan, 2013).

As follows from the data presented above, the structure of Soviet-Arab trade, the nature of economic ties, despite their quantitative indicators, were uniform. The supply of machinery and equipment for the needs of heavy industry and energy, mineral and agricultural raw materials, and also semi-finished goods prevailed.

Interaction in such capital-intensive areas as the construction of industrial facilities was carried out mainly through the provision of technical assistance or occurred in offsetting the supply of the same raw materials, or, often, on soft loans. During this period of time, economic interests faded into the background, including due to the severity of the ideological confrontation with the West. In order to achieve military-political advantages, cooperation was not linked to further participation in the management of enterprises built with Soviet assistance and in the distribution of profits.

The development of cooperation with the Arab countries was facilitated by the renewed legal framework in the 1990s, which reflected Azerbaijan's market changes in approaches to establishing and developing economic ties. Analysis of the existing legal and institutional framework allows us to conclude that at the state level this sphere is regulated, as a rule, by several types of agreements. In particular, we are talking about intergovernmental agreements on trade and economic cooperation, on the promotion and mutual protection of investment, on the avoidance of double taxation. A separate type of agreement is an agreement on military-technical cooperation.

A general review of the legal framework in relations with the Arab countries indicates that, first of all, agreements on economic cooperation are in demand. They reflect market norms related to the conduct of trade, as well as the participation of business entities in the implementation of investment and infrastructure projects. The

significance of such agreements is also complemented by the fact that they usually provide a mechanism for the launch and operation of intergovernmental commissions.

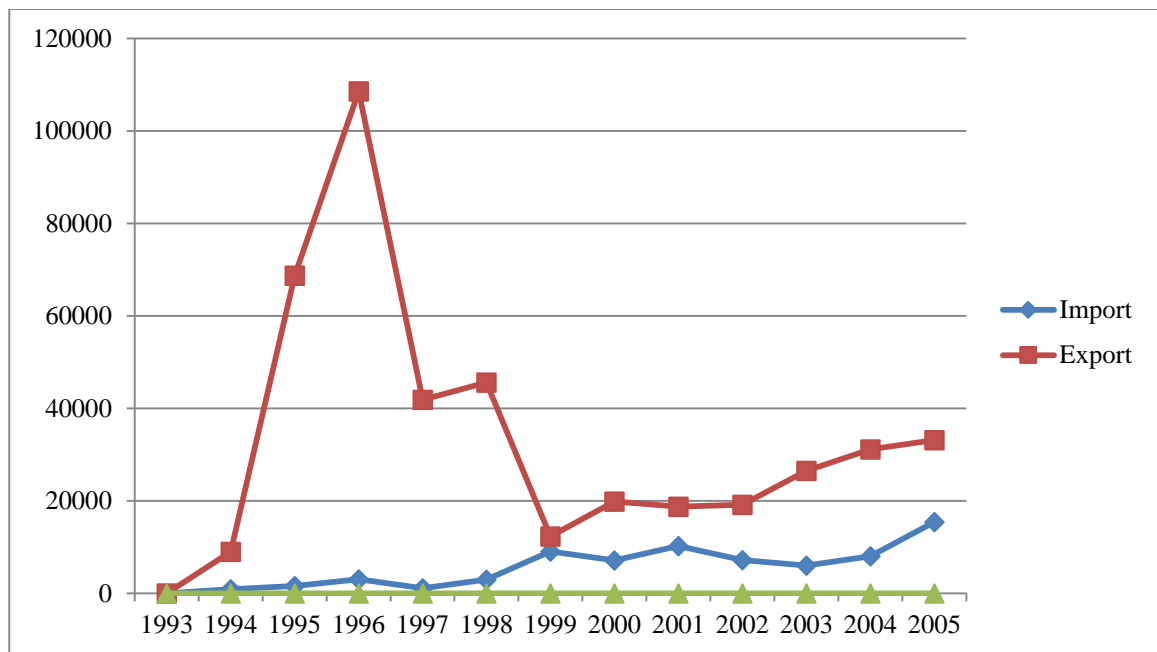
As for the agreements on easing the tax burden and protecting investments, if they are concluded, they are mainly with a view to the future, since until recently the movement of capital, investment and production cooperation between Azerbaijan and the Arab world has been recorded in insignificant volumes. In some cases, if necessary, a comprehensive general agreement may be concluded that covers the whole range of issues of economic relations.

In 1991-2005 economic agreements governing the fundamentals of economic activity have been created and are used with varying degrees of activity and efficiency in relations with the United Arab Emirates. Based on the agreements on trade, economic and military-technical cooperation concluded with them, specialized bilateral programs have been developed that include lists of joint business projects in the investment sphere, in the areas of land reclamation, marine shipping, insurance, environmental protection, and also the supply of military equipment and weapons. (Alexandrov I.A., 2016).

Azerbaijan's oil industry uses the latest technology, especially in offshore fields in the Caspian, but rocking chairs remain a metaphor for the Azerbaijani economy. They demonstrate that even when Azerbaijani politicians advance ambitious plans to diversify the economy and avoid energy dependence, traditional sources of income remain the basis of economic activity.

The dynamics of exports and import changes Azerbaijan with Arab countries in 1993-2005 is illustrated in the following graph (Figure 1).

Figure 1. The dynamics of exports and import changes Azerbaijan with Arab countries (thousand US dollars)



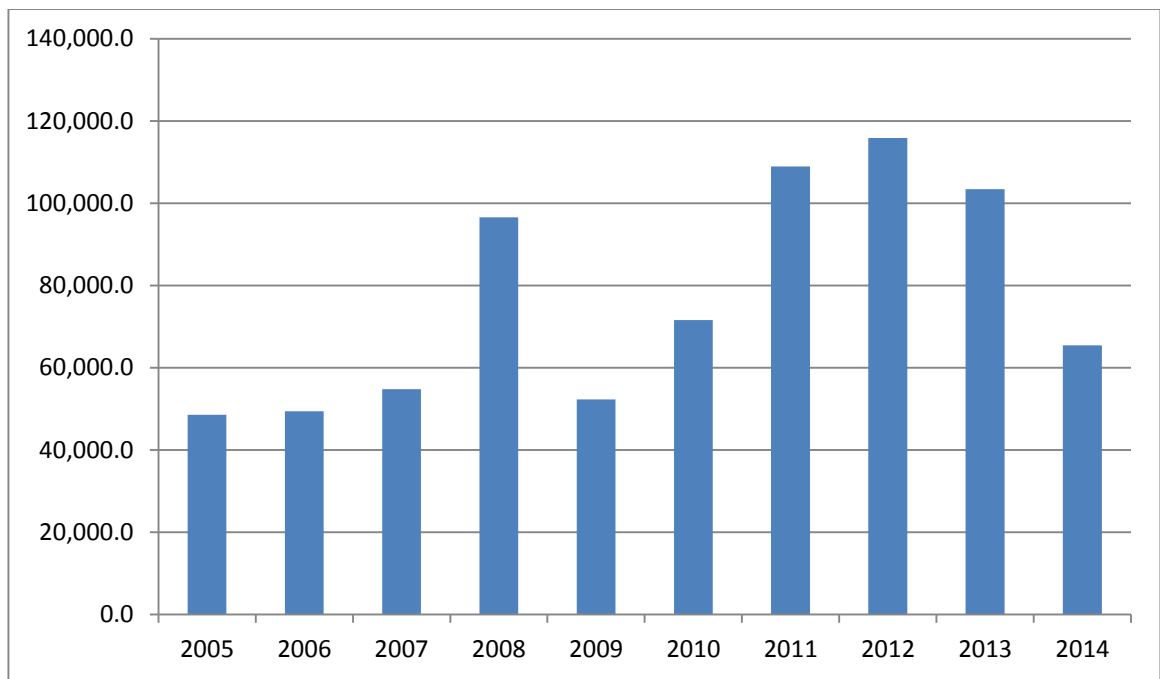
**Source:** Statistical Committee of Azerbaijan Republic

As we see from the graph highest index of import was in 2005, but export in 1996.

After the fall in oil prices in 2014, the country's currency, manat, fell, but today it has already reached about half of the level that was before 2014, which is good news for exporters of all goods except oil. The International Monetary Fund predicts a resumption of growth of about 2% this year. Of course, the restoration of world oil prices helped Baku a lot.

Dynamics of Azerbaijan's Foreign Trade Turnover with the UAE in 2005-2014 shown in the figure 2.

**Figure 2. Azerbaijan's Foreign Trade Turnover with the UAE in 2005-2014 (thousand US dollars)**



**Source:** Statistical Committee of Azerbaijan Republic

As we see from diagram Azerbaijan's Foreign Trade Turnover with the UAE has highest in 2012.

Economists note that the non-oil economy strengthened in the first half of this year, with accelerated industrial production becoming especially noticeable. Demand from domestic consumers has also increased. This increase in demand demonstrates active development: Azerbaijan, especially Baku and its environs, has become a pretty pleasant place to live and visit. A lot of money was spent on making the metropolitan area of the country a glamorous center. International sporting events - the annual Formula 1 Grand Prix in Azerbaijan, international sporting events and football tournaments - provided an opportunity to transform this place, and now the Old Town district has become the main tourist attraction that can compete with any similar object in the region. Visitors from the Gulf and other Islamic countries most often visit Azerbaijan. They are followed by the Azerbaijan. Asians also frequently visit one of the historic stops on the old Silk Road.

The Azerbaijani government is actively promoting tourism, especially in the Middle East. Recently, visa restrictions for residents of the Arabian Gulf countries have

been significantly relaxed: citizens of most countries in the region were able to purchase visas upon arrival. Trade relations between Azerbaijan and the Gulf countries are improving as the number of tourists grows. Earlier this year, the head of the General Investment Agency of Saudi Arabia (SAGIA) Abdullatif bin Ahmed al-Osman visited Azerbaijan with a delegation of businessmen from the kingdom to discuss the development of bilateral trade and stimulate the attraction of foreign direct investment. The UAE is also strengthening its trade relations with Azerbaijan.

Until the end of 2018, Azerbaijan planned to send two export missions to the United Arab Emirates to promote the national brand Made in Azerbaijan to the markets of the UAE and other gulf countries. A lot of medium and small enterprises in Azerbaijan that want to enter the Arab market, therefore, more than ten Azerbaijani companies are expected to participate in the upcoming export mission to Dubai. The quality of Azerbaijani agricultural products that are exported to the UAE is quite high, but given that this market is very developed, in addition to quality, much attention is paid to supply stability.

### **1.3. The prerequisites for the economic cooperation of the Gulf countries with Azerbaijan at the present stage**

As already noted in the previous paragraphs of the chapter, the development of relations between the Gulf countries and Azerbaijan is mainly facilitated by the natural and geographical features of the region. Moreover, the economic cooperation of the studied region with the Azerbaijan has undergone a long history of formation. In addition, the most important prerequisites for cooperation between countries are the economic potential of the region. The connection of the Arabian Gulf countries with Azerbaijan is a multifactorial historical and economic-political process, affecting economic, socio-political, military-strategic aspects.

The gulf is a dynamically developing region, a growing and capacious market in the international trade in goods and services. Imports from all countries of the region are mainly represented by investment goods, finished goods, and food. The gulf

occupies an important place in world exports as a key supplier of energy resources, as well as mineral and agricultural raw materials.

International specialization contributes to the establishment of trade between the Gulf countries and Azerbaijan. The positioning of the countries of the region over the past twenty years has not changed much. As before, they are connected with the world economy mainly through the export of raw materials - energy, mineral and agricultural products, as well as semi-finished products. At the same time, the growing needs of economic development make the region an attractive market for machinery and equipment, vehicles. In addition, the military-political tensions in the region have turned Arab countries into the largest arms buyers in the world.

The main task of the Gulf countries is to change the resource specialization of the economy through a system of post-oil development policy measures. By the 1980s, developed Western countries had developed a set of measures to prevent the recurrence of a sharp rise in oil prices through the use of alternative energy sources and the use of energy-saving technologies. The price of oil began to decline. Geological exploration has shown that although the oil reserves in the region are still very large, they are not unlimited.

Currently, the region's economy is developing in three main directions:

- 1) diversification of the economy (an attempt to get rid of the "monoculture" of oil specialization);
- 2) large-scale financial and investment activities for the long-term and reliable allocation of capital abroad;
- 3) nationalization of personnel in key areas of employment (an attempt to create their own intellectual and cultural environment adapted to the modern world).

Diversification of local economies is in the field of both manufacturing and non-manufacturing sectors. The first direction of diversification of productive forces, as in many similar countries, is the development of "upper floors" of resource-export cycles. Countries are striving to move from the export of crude oil and gas to the export of



petroleum products and oil and gas chemistry products. Kuwait's refineries, for example, account for about 90% of the volume of oil produced, and revenues from exports of petroleum products exceed revenues from exports of crude oil. There is also a tendency towards partial replacement of fuel exports by exporting energy-intensive products (aluminum, steel smelted from imported ores, the cost of which is a significant part of local oil or gas burned at local thermal power plants). The largest oil refining and petrochemical complexes are developing in UAE - Ruwais (in the Emirate of Abu Dhabi). Energy-intensive metallurgical enterprises operating on imported ore have been created: aluminum production plants in the United Arab Emirates (industrial zone in the emirate of Dubai) (Kristian Coates Ulrichsen, 2015: 17).

The counter direction of diversification of production forces is associated with stimulating the development of small and medium-sized manufacturing enterprises, producing mainly consumer goods from imported raw materials and parts. Well-equipped parks are created to accommodate the manufacturing industry, where foreign businesses are attracted due to huge benefits and state subsidies.

Wealthy exporting countries are interested in the supply through the channels of transnational corporations (TNCs) of raw materials, spare parts, equipment, components, and especially technology. Important and technical assistance. Mixed enterprises with more than 50 percent participation of local capital, as well as non-equity forms of activity: licensing agreements, training, assistance in managing and advertising, turnkey contracts, engineering became characteristic forms of TNC infiltration. Numerous agricultural development projects deserve special mention. In order to solve the problem of reducing dependence on imports in arid cattle-breeding countries, whose climatic conditions are fundamentally unfavorable for crop production, a broad campaign has been launched to create local agriculture. It is fully based on artificial irrigation, which, in turn, is based on the operation of water desalination plants and pumping stations. Both that and others are rather power-consuming. And if there were practically unlimited opportunities for burning oil and

gas in the furnaces of thermal power plants and water desalination complexes, there could be no talk of any agriculture in the desert.

One of the most important development steps was the construction boom: powerful housing, administrative and infrastructural construction. Giant international airports, multi-level interchanges, energy supply systems (TPPs with abundant hydrocarbon fuels), water supply (based on dozens of large plants for desalination of sea water and deep hydrogeological drilling), government buildings and royal residences, diplomatic quarters capable of making honor to the largest urban agglomerations in the world. The countries of the region could not have carried out construction work (even by far not so large-scale) on their own. The population is small; the proportion of labor resources in the general population that strictly follows the tradition of having many children (children under the age of 15 years makes up 45% of the population) is small, women, in accordance with Islamic customs, are practically not involved in social production; the available labor resources are low-skilled, have no serious experience of modern engineering and technical work, a significant part is simply illiterate (in the late 70s, the proportion of adult illiterates in the UAE was 1/3) (Matteo Legrenzi, 2011). The same relatively small part of the population, which is capable of productive labor, does not show an excessive desire to participate in it: high national incomes redistributed by the state among the indigenous population make it possible to lead a life as a rentier. A significant part of young people in the most “cost-effective” age groups leave the country to receive prestigious education in the West. In general, the share of employed among the population of the countries in question does not exceed 20%.

Almost the entire gigantic amount of construction and engineering work that transformed the look of cities and even landscapes in small Gulf countries was done by foreign workers. In all countries under consideration, foreigners make up the majority of workers, and in many - the vast majority. Given the relatively low cost of

capital in cash, these countries could attract immigrant workers with relatively high earnings (10-15 times higher than in the countries of emigration).

Thus, most areas of diversification of the structure of production forces are ultimately based on oil. The post-oil economy remains in captivity. Somewhat more free from oil (albeit closely associated with the regional mass of petrodollars) is the rapid development of foreign tourism and - especially - the financial sector.

In richer UAE, overflowing with their own petrodollars, restrictions and prohibitions on the activities of foreign banks apply. The national banks of the UAE's main oil-producing emirate, Abu Dhabi, specialize in investment operations to place petrodollars abroad. The richest oil-exporting monarchies have been very successful in investing in the Western economy. They switched from the simple placement of capital at interest to targeted investments, thanks to the acquisition of significant blocks of shares, in the structures of multinational corporations and large international financial organizations (including the IBRD and IMF), which also assumes the top participation in management and decision-making. Arabia's foreign investment is estimated at hundreds of billions of dollars, with most of it going to the United States. Dubai is a co-owner of dozens of British, Canadian, American, West European and Japanese companies, including such as British Petroleum, General Motor, IBM, General Electric, Kodak, Lurgi, Hoechst, "Total", "Hitachi", "Mitsubishi" and "Sony". In addition to three refineries in its territory,

All of the above is characteristic of the entire array of oil monarchies of the Gulf. These features in varying degrees are inherent in each of the countries of the region. For example, this is more typical of the oil-rich little UAE (actually 6300 and 8400 tons of reliable recoverable oil reserves per capita, including foreigners), to a lesser extent - somewhat less rich, but also very small in the population of Abu Dhabi (1300 t/person), Dubai, the first to have basically exhausted its oil reserves and now almost mothballed production (only 30 tons / person). From this point of view, Dubai can no longer, of course, be typologized as an oil-producing territory. However, Dubai owes genetically

to its modern welfare oil. And at present, the fueling of its economy, including the offshore business chosen by him as a specialization, is ultimately carried out by oil, although not of its own, but of neighboring Saudi oil (World bank data, 2018).

The largest of the emirates, Abu Dhabi, accounts for 90% of oil and gas production and 60% of the UAE's GDP. Due to its smaller oil and gas reserves, Dubai has become a commercial, commercial and transportation center. Sharjah focuses on light industry and the development of port communications. The rest of the emirates (known as the northern emirates) are considered poorer than the rest, and together make up only 6.6% of GDP.

In 2002, the UAE's GDP reached \$ 53 billion, and in 2008 - already \$ 270 billion. The average annual per capita income increased from \$ 9,635 (1996) to \$ 44,000 (2008).

Oil ensured the rapid growth of the UAE economy in just a few decades, but other sectors of the economy also developed quite rapidly, especially foreign trade. Dubai's commercial center and its adjacent free zone, Gabel Ali, have attracted extensive foreign investment. Port Rashid and the port Gabel Ali in Dubai and Fujairah are among the 40 best container ports in the world, these ports pass through themselves about three million container units per year.

The UAE halfway between the industrial economic routes of the Far East and Europe, which contributes to the country's transformation into an international economic center. The country has a well-developed transit transport infrastructure, in particular, there are six international airports: in Abu Dhabi, Dubai, Sharjah, Ras al-Khaimah, Fujairah and Alain. The largest of them, Abu Dhabi and Dubai, pass through themselves about six million passengers a year, and freight volumes are also growing.

In addition to airports and seaports, the UAE has well-developed telecommunications.

Significant investments are made in the construction of modern buildings. To meet the growing demand for fresh water, not only among the population, but also for

the needs of almost 100 million trees that have been planted over the past 25 years, large sums have been invested in the construction of desalination plants.

Recently, the share of revenues from oil production and refining in the total GDP has been declining, due to a fall in world oil prices. At the same time, the importance of other sectors of the economy in the structure of GNP is growing, including construction, trade, tourism and agriculture. Despite the barren and arid nature of the area, which is characterized by very low rainfall and the absence of rivers, investment in agriculture has helped build desalination plants, making this sector of the economy more and more independent and profitable. Some crops, such as strawberries, are even exported to Europe.

The UAE leadership plans to further diversify the economy, which at the moment continues to remain largely oil-oriented.

The largest trading partner is Japan, which takes the largest share of the oil and gas exports of the UAE, and is also a large import supplier, mainly of vehicles, electronics and various products for consumers.

In 2007, trade between Azerbaijan and the UAE grew by 27%, amounting to about \$ 821 million (\$ 771 million in Azerbaijan exports and \$ 50 million in emirate exports).

Favorable prerequisites for the development of economic relations exist in the form of investment cooperation, especially in the energy sector, which is a distinctive feature of the international specialization of Azerbaijan and most Arab countries. Reserves of natural gas and oil in the gulf basin exceed Azerbaijan. Moreover, an important competitive advantage of the Gulf region is the high quality and low cost of hydrocarbons. For example, unlike Azerbaijan brands, oil from the Arab countries is standard, and the cost of its production is considered the lowest in the world. So, its prime cost does not exceed 10-12 dollars per ton, which, with a market price of oil at 245 dollars per ton (2004 level), allows for multiple returns on investments. Azerbaijan, where oil production is accompanied by high costs with lower quality of recoverable

raw materials, has, in turn, free capital, modern and competitive technologies that can be used to develop oil resources of the Arab countries.

At the same time, Azerbaijan oil and gas companies can profitably act as strategic investors in the economy of the Arab countries. It is advisable for the Azerbaijan economy that oil and gas companies place orders among Azerbaijan manufacturers for the supply of machinery and equipment when implementing investment projects abroad. In this regard, it is noteworthy that the market for machinery and equipment in the Arab countries is estimated at least \$ 55 billion annually, of which approximately \$ 25 billion falls on the supply of investment goods for enterprises of the fuel and energy complex. That is, this is precisely the niche claimed by Azerbaijan manufacturers of energy equipment.

Objectively favorable prerequisites for the development of investment cooperation exist in the field of attracting free capital of Arab countries for the implementation of large projects in Azerbaijan. The United Arab Emirates a number of other states act in the international financial markets as large investors and holders of foreign assets. For some Arabian Gulf countries, this type of activity has become one of the most important areas of international specialization. For example, in the UAE, the indicator of financial capital allocation abroad reaches \$ 10 billion annually. Accurate data on the volume of foreign holdings of Arab states are not available. As the well-known expert on the economics of the Arab countries M. Abdelati explains, “no one in the Arab world is interested in defining the rules and standards for the collection, calculation and publication of such information.” In his research on this subject, he refers to existing estimates, which range from \$ 800 billion to \$ 2,400 billion (Abdelati M.C., 2003: p.147).

An important and dynamic area of cooperation with Arab countries can be tourism. The rich cultural and historical heritage and recreational opportunities of the Arab countries provide favorable conditions for the development of outbound tourism

in the region. A promising direction in this area is the organization of pilgrimages to Christian and Muslim shrines in the Middle East.

The socio-cultural factor favors the strengthening of Azerbaijan-Arab relations. The restoration of the position of traditional religions in Azerbaijan (Orthodoxy and Islam) has a positive effect on the image of the country and its citizens and, in particular, entrepreneurs in the Arab world. In turn, the growth of bilateral contacts with Arab countries, the increase in the number of the Arab diaspora in the Azerbaijan has an increasing impact on the socio-economic life of Muslims living in Azerbaijan. Concerning Christians, it is noteworthy that in a number of Middle Eastern countries there are numerous Orthodox communities that are friendly to Azerbaijan.

Thus, the modern world economy is characterized by the rapid growth of foreign economic relations. There is an understanding of the need to intensify cooperation both in the Gulf countries and in Azerbaijan.

Consequently, the development of economic cooperation between the Arab countries of the Gulf and Azerbaijan is facilitated by a wide range of natural resource, economic and political prerequisites. Strengthening economic cooperation is possible through the launch of joint projects. Economic cooperation between countries should contribute to solving their pressing socio-economic problems.

The UAE is one of the first countries to officially recognize the state independence of Azerbaijan, along with other countries of the Gulf Cooperation Council. Relations between Azerbaijan Republic and the UAE are developing gradually. In 1991 Abu Dhabi hosted an exhibition of Azerbaijani culture, and in 2005 a tourism exhibition. The UAE television group has come to our country, made a film about Azerbaijan, and has repeatedly shown it in all countries of the Gulf.

One of the important forms of relations between the UAE and the Republic of Azerbaijan is foreign trade. The UAE accounts for 6-7% of imports and 3-4% of exports in trade relations of Azerbaijan republic with Asian countries (2005).

**CHAPTER II. FORMS OF ECONOMIC COOPERATION OF THE GULF  
COUNTRIES WITH AZERBAIJAN**



## **2.1. Trade and economic relations**

United Arab Emirates (UAE) and Azerbaijan relations became even closer after the opening of the UAE embassy in Baku in 2011. In general, the relations two countries can be classified two periods: 1. the period before the opening of the embassy, and the 2. second period after the embassy's in Baku.

Cooperation has been developing steadily. Azerbaijan mainly exports to the UAE fruits, fruit juices, food, nuts and metal products. The UAE mainly exports electronics, high-tech products, construction materials and industrial products to Azerbaijan. In addition, polyethylene polymer, furniture and machine parts are among the UAE's exports to Azerbaijan.

The UAE and Azerbaijan have established the Joint Intergovernmental Economic Commission. The purpose of the Commission is to strengthen economic cooperation between the two countries by expanding trade operations, exploring new opportunities for bilateral investments and joint projects in the future.

Mutual official visits and meetings paved the way for discussions on economic cooperation and future cooperation in nine important sectors. These areas include agriculture, renewable energy, tourism, environment, water, communications, modern technology and air transport. Most importantly, the UAE and Azerbaijan are working with great enthusiasm and confidence to create trade and investment opportunities to enhance business cooperation in both countries.

It should be noted that one of the most important meetings took place in April 2017 at the 6th session of the UAE-Azerbaijan JEC. It was at this meeting that the most important project initiatives were agreed. From these projects, we remember the 2016 agreement between DP World, the Ministry of Economy of the Republic of Azerbaijan and the Baku Port. According to the document, Alat Free Trade Zone was established in Azerbaijan. This collaboration is considered one of the most successful projects between the UAE and Azerbaijan.

As the results of the 6th meeting of the Intergovernmental Joint Commission for Economic, Trade and Technical Cooperation between Azerbaijan and the United Arab Emirates showed, the potential for cooperation between the two countries is enormous. The UAE and Azerbaijan can successfully develop cooperation in the fields of communication and high technologies, alternative energy, industry, culture, tourism, transport, trade, investment, agriculture, environment and others (Mammedli A., 2017).

The 6th meeting of the Intergovernmental Joint Commission for Economic, Trade and Technical Cooperation between Azerbaijan and the United Arab Emirates took place in the United Arab Emirates from April 19 to 20. The main issues discussed at the meetings in Dubai, chaired by the United Arab Emirates Minister of Economy, Sultan bin Said Al Mansouri, and Azerbaijan Minister of Economic Development, Shahin Mustafayev, were ways to strengthen tourism cooperation, Energy, the environment and natural resources. The Ambassador Extraordinary and Plenipotentiary of Azerbaijan to the United Arab Emirates, Dashgyn Shikarov, also took part in the discussion.

Within the framework of the session on April 19, a meeting of prominent businessmen from Azerbaijan with famous representatives of the UAE business circles was held at the Dubai Chamber of Commerce and Industry. The delegation of Azerbaijani entrepreneurs, headed by the Deputy Minister of Economy of Azerbaijan, Sahil Babayev, presented the Dubai investment counterparts with the industrial, commercial, tourism, tourism and agricultural potential of the Republic.

In his speech, Sahil Babayev said that Azerbaijan is interested in creating joint ventures with the United Arab Emirates in the fields of industry, logistics and transport. “The volume of Azerbaijani investments in the UAE has reached almost \$ 300 million,” the deputy minister of economy said. He also stressed that Azerbaijan is interested in attracting more Arab companies to the country.

Azerbaijan is an ideal market for foreign investors: in addition to the main factors - political and economic stability, there are many other advantages, in particular, skilled

labor, opportunities to enter key neighboring markets of Georgia, Uzbekistan and Kazakhstan and etc.

Even before the meeting, the Azerbaijani delegation met with the leadership of DP World (Dubai Port World), one of the world's largest port operators. Being geographically one of the most diversified port operators in the world, DP World has a global market share of 6.7%.

DP World is managed by the world's largest investor and developer, Dubai World, owned by the UAE government. Owns 70 terminals in 16 countries. Revenues for 2016 - \$ 4.163 billion, net profit - \$ 1.127 billion (Collection of Articles, 2017).

During the meeting at the Dubai Chamber of Commerce, a lively discussion took place on how to increase trade. Indeed, the potential for mutually beneficial cooperation is high, while last year, trade amounted to about 220 million dollars. Both parties are committed to increasing this figure. It should be noted that there are all prerequisites for this.

A trip to the Jebel Ali Free Economic Zone took place, where Azerbaijani businessmen visited the Life Pharma FZE pharmaceutical plant. Azerbaijani entrepreneurs also visited the Union Cop chain of stores and Lulu supermarket chain and met with the leadership of these companies.

On April 20, at the Grand Hyatt Hotel, before the final meeting of the commission and the signing ceremony of the final protocol, a conversation was held between the ministers, which were also attended by Azerbaijani Ambassador Dashgyn Shikarov and Deputy Minister of Economy Sahil Babayev.

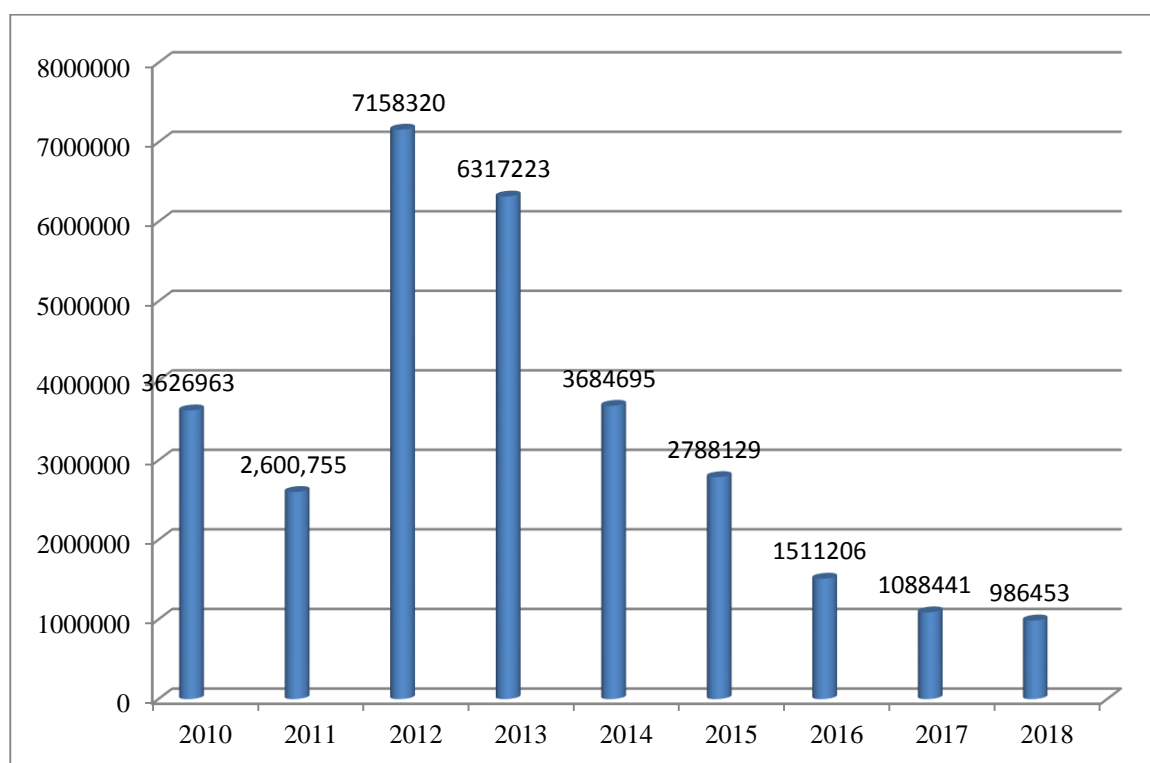
According to the Minister of Economy of Azerbaijan Shahin Mustafayev, the United Arab Emirates invested \$ 778.1 million in the economy of Azerbaijan. He reminded the meeting that 255 companies from the UAE successfully operate in Azerbaijan. Currently Baku-Dubai, Baku-Sharjah, the Baku-Abu Dhabi flights are operating, Dubai-Gabala flights are also planned to be launched, and the number of

tourists from the UAE who have visited Azerbaijan in the past two years has grown 30 times.

In addition, the meeting participants discussed the possibility of creating new enterprises in Azerbaijan with the participation of investors from the UAE, as well as investing in industrial parks and free economic zones.

The dynamics of changes in Azerbaijan's share of imports and exports with Arab countries in total imports and exports in 2010-2018 is shown in the chart below. (Figure 3).

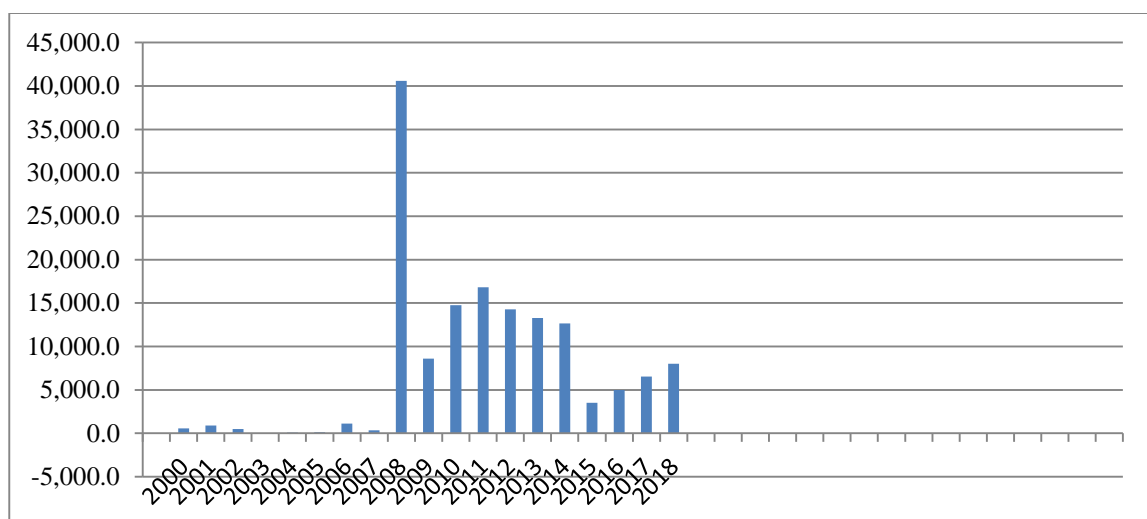
**Figure 3: Dynamics of Azerbaijan's share of imports and exports with Arab countries in total imports and exports**



Source: stat.gov.az

As you can see, the trade surplus was negative as of 2007, and positive in subsequent years. (Figure 4).

**Figure 4: Balance of foreign trade of Azerbaijan with Arab countries**



Source: stat.gov.az

Comparing the average results of imports of important Arab products in 2018 with Azerbaijan's imports figures, there is a relative similarity in commodity operations (Table 1).

**Table 1: Import of Azerbaijan's essential products from Arab countries in 2018**

Sections	Amount (USD, billion)	Percent
Machines, mechanisms, electrical equipment, parts, sound recorders, television imaging and recording equipment and parts	20,9	24,73%
Dry vehicles, flying vehicles, floating vehicles and trailers	14,7	17,35%
Precious metals and precious metal products	12,1	14,32%
Natural or cultural pearls, precious and semi-precious stones, precious metal coatings and parts, precious metals, jewelry	9,2	10,83%
Products of chemical and related industries	6,8	8,27%
Vegetable products	2,9	3,35%
Plastics and mortar products, rubber, rubber and articles thereof	3,6	4,23%
Finished food products, alcoholic and non-alcoholic beverages, tobacco and tobacco substitutes	3,5	4,06%
Textile materials and products	13	3,85%
Mineral products	3,3	2,14%
Other	5,8	6,98%

Source: stat.gov.az

Azerbaijan's import turnover for 2018 was \$ 8.5 billion. Among the imported goods, machines, mechanisms and electrical equipment, parts, sound and television

sound and television recording and reproduction apparatus, and parts, total \$ 2.8 billion. This represents 23.60% of total turnover. The next two places belong to food products (15.49%) and precious metals and precious metal products (13.11%).

2017 was a busy year for the United Arab Emirates, both politically and economically. Staff changes were made in the country's government, and new ministries were created to meet the spirit of the times and modern challenges. After the fall in energy prices in 2015, which led to a decrease in economic growth, the UAE was able to achieve the growth of the non-oil sector by 2016.

In addition, I recall that in 2013 Dubai won the right to host EXPO 2020. The construction of the tallest building in the world, Towers in Dubai Creek Harbor, is timed to coincide with the opening of the exhibition. In general, I am confident that the holding of this global exhibition in Dubai will give an additional impetus to the growth of the country's non-oil sector, and will also serve to attract even greater investments in the UAE economy.

The year 2017 can be assessed as successful, in terms of strengthening political and economic ties between Azerbaijan and the UAE. The year was saturated with bilateral contacts at the highest and highest levels. In particular, at the end of May of the past year, the President of the Republic of Azerbaijan, Mr. Ilham Aliyev, met with Crown Prince Abu Dhabi, Deputy Commander-in-Chief of the UAE Armed Forces, Sheikh Mohammed bin Zayed al Nahyan. The meeting held on the sidelines of the summit of the countries of the Arab and Islamic world, as well as America in Saudi Arabia, strengthened the political dialogue between our countries.

Then, in May 2017, the official visit of the UAE Minister of Foreign Affairs and International Cooperation Sheikh Abdullah bin Zayed al Nahyan to the Republic of Azerbaijan was a great success. During the visit, the UAE Minister met with the President, First Vice-President and Minister of Foreign Affairs of the Republic of Azerbaijan. During these meetings, bilateral relations between countries in all areas of

cooperation were discussed, and an agreement was signed on the recognition of certificates of conformity of goods.

Being an Islamic country with a large consumer market, the UAE has a number of requirements for imported goods. Therefore, the signing of an agreement on the recognition of certificates of conformity of goods will certainly become a stimulating part in simplifying the export of Azerbaijani goods to the UAE with the prospect of re-export to other countries of the gulf.

We also note that the Minister of Foreign Affairs and International Cooperation of the UAE took part in the closing ceremony of the Islamic Games held in May 2017 in Baku, changing the schedule of his future visits. And in November last year, the UAE Minister of State for Foreign Affairs and International Cooperation Dr. Anwar Gargash, who is considered one of the most influential people in the political arena of the country, made a working trip to Azerbaijan.

In addition to the contacts mentioned, visits were also made to the UAE by Deputy Prime Minister Ali Akhmedov, Minister of Foreign Affairs Elmar Mammadyarov, Minister of Internal Affairs Ramil Usubov, Minister of Emergencies Kamaladdin Heydarov, Minister of Economy Shahin Mustafayev, Minister of Culture and Tourism Abulfas Garayev, Minister of Youth and Sports Azad Ragimov, head of the State Border Service Elchin Guliyev, SOCAR President Rovnag Abdullayev, head of the AZAL state concern Jahangir Askerov, assistant to the first vice president of Azerbaijan Anar Alakbarov, a special envoy Foreign Minister Shahin Abdullayev, chairman State Agency to develop alternative and renewable energy, Deputy chairman of State Agency for service of citizens and social innovation Ulvi Mehdiyev, as well as delegations of different Azerbaijani state organizations.

Such a wide range of bilateral contacts has undoubtedly contributed to the strengthening of relations between the Republic of Azerbaijan and UAE. In addition to these visits, in 2017, a certain work was started and done to organize meetings and visits that are already scheduled for 2018 (<http://dubai.mfa.gov.az/content/3> - 2019).

According to the Dubai Chamber of Commerce, the bilateral trade between Azerbaijan and the UAE in 2017 amounted to 221 million US dollars, which is already more than three times the turnover of the 2016 year. It should be noted that this is just preliminary statistics on the volume of trade between the Republic of Azerbaijan and UAE. I am sure that the final indicator for goods and services will be even higher. In addition, the Dubai Chamber of Commerce released trade figures only with Dubai itself. Yes, the lion's share of trade falls on Dubai, as the city is a trading and transport hub of the entire region. But, nevertheless, a number of events were also held in Abu Dhabi during the year and I hope this will positively affect the final statistics.

Undoubtedly, an increase in trade between the Republic of Azerbaijan and UAE in 2017 was made possible thanks to a number of planned activities, as part of the implementation of the decisions adopted by the President of the Republic of Azerbaijan, Mr. Ilham Aliyev, the aim of expanding economic opportunities, developing the non-oil sector and increasing exports, the UAE has been identified as a priority market for goods and services produced in Azerbaijan.

In accordance with these decisions, as previously noted, various pre-planned events are being held. The year 2017 can be assessed as the most eventful year in terms of events in economic terms. The sixth meeting of the intergovernmental commission on economic issues, within the framework of which a business forum was held between Azerbaijani and Emirate businessmen, can be considered the most important of these events; participation of Azerbaijani producers of goods and services at major international exhibitions Gulfood 2017 and Arabian Travel Market; the next trade mission of Azerbaijani agricultural producers in Dubai; participation of fruit and vegetable producers at the international exhibition WOP Dubai; the economic and cultural exhibition of Azerbaijani goods and services in Abu Dhabi under the motto "Year of Islamic Solidarity - the direction of Azerbaijan" organization of the Azerbaijani pavilion at the Sheikh Zayed Heritage Festival, which is held for two months and creates conditions for companies to uninterruptedly sell their goods on the



most favorable conditions; participation of emirate investment companies and major participants in real estate in the international exhibition RecExpo in Baku.

In 2017, as a result of the relevant work, direct flights were launched along the Sharjah-Baku route of Air Arabia, and a decision was also made to make direct flights of Sharjah-Gabala from June 2018. The first flight of Etihad Airways, which is one of the five best airlines in the world and mainly practices long-distance flights along the Abu Dhabi-Baku route, has also been implemented. I note that it will be great expectations from these flights, since the potential for cooperation between the Republic of Azerbaijan and the emirate of Abu Dhabi is considered to be huge.

In addition to the above, over the course of the year, the possibilities of dozens of various events held in Dubai and Abu Dhabi were evaluated, where the economic opportunities, tourism potential of Azerbaijan were advertised on their own, and some of them even sold domestic goods. As a result of the work already done, even in the largest hypermarkets you can find Azerbaijani products, fresh fruits and vegetables are gaining popularity among local residents, some restaurants even deliver fresh products and meat from Azerbaijan every day. In addition, almost every second citizen of the UAE has visited or is planning a tourist visit to Azerbaijan. Undoubtedly, all these measures serve to strengthen the position of Azerbaijani goods and services in the UAE market.

In particular, initiatives by Minister of Transport, Communications and High Technologies Ramin Guluzade, Minister of Energy Parviz Shahbazov, Assistant to the President of Political Affairs Ali Hasanov, delegation from Milli Majlis, to carry out official visits to the UAE were proposed as political consultations between the foreign ministries of the two countries.

Work will also continue to expand the participation of Azerbaijani and Emirates companies in events held in two countries, such as Gulfood, Arabian Travel Market, Rex Expo, Sheikh Zayed Heritage Festival, WOP. There are plans to attract Sarbon Abu Dhabi University to implement educational and charity events in Azerbaijan. There are also plans to start negotiations to organize Azerbaijan's participation in the

Global Village international fair, which is held annually in Dubai for six months and attracts millions of visitors every year.

Given the growing role of tourism exchange in the development of economic relations, Azerbaijan already applies the simplified visa regime for the UAE citizens and residents, also such kind of work will continue to facilitate the visits for both countries, even to reach the possible application of a visa-free regime.

All of the above are activities for which the initiative has already been put forward and some work has been done. As noted earlier, in addition to this, a lot of work is also carried out when potential opportunities arise in the framework of various events held in the country.

One of the key points of cooperation the UAE and Azerbaijan is the opening of the first Dubai Chamber of Commerce office abroad. The capital of Azerbaijan thus directly supports economic growth and bilateral relations in both countries.

Azerbaijan also continues to build business relationships with the UAE. As an example, we can show the visit of the economic delegation from Azerbaijan to Sharjah. In the Eastern Chamber of Commerce and Industry, the sides discussed development issues that would be beneficial to both countries.

When we look at recent events, we generally see that both parties are continuing their efforts to strengthen cooperation. The Azerbaijani trading house was opened in Dubai. The task of the trading house is to provide comprehensive information about Azerbaijan in various areas. It is estimated that the company's activities will increase non-oil exports to the UAE. There are more than 600 Azerbaijani products there. The numbers also confirm the existence of large bilateral relationships with a 50.8% increase in bilateral trade in 2018 compared to 2017.

## **2.2. Production and investment cooperation**

If domestic investments are fully invested in fixed assets, such as direct investment, a significant portion of foreign investment is portfolio investments, up to

35%. In recent years, their volume and specific weight have increased considerably. This feature of foreign investment is explained by the increased interest of foreign investors in the purchase of securities of enterprises and banks. The amount of foreign investments attracted to the Republic of Azerbaijan's economy in 1996-2006 amounted to 24157.3 million manat or 70.6% of total investments. This shows the creation of favorable economic conditions for foreign investors in Azerbaijan. They work in highly profitable industries, mainly in the oil and gas, ferrous and non-ferrous metallurgy, food and building materials industries, in the production of plastics, telecommunications and transportation. They operate in the mining industry based on their share of production. At the first stage they make some investments and use the profits gained in the country for the next few years. For foreign investors, the transfer of profits from investments abroad has been liberalized by legislation, which has a stimulating role. Significant tax benefits for foreign investors are also identified in the oil and gas sector. Azerbaijan, which has a strong economic potential, has declared the high tribute a favorable investment destination and has committed itself to ensuring the inviolability of foreign direct investment. Political stability throughout the country and a strong public administration structure have provided encouragement for investors as well.

The activity of foreign and joint ventures in the Republic of Azerbaijan is regulated by the Law of the Republic of Azerbaijan "On Protection of Foreign Investments" (January 15, 1992) and "On Investment Activities" (January 13, 1995). The law covers issues related to the establishment and operation of foreign-invested enterprises, including the registration of the enterprise, the establishment of subsidiaries and branches, the sale and export of manufactured products. After the adoption of the Law of the Republic of Azerbaijan "On Investment Activities", the investment of the Asian and neighboring European countries began to flow into the economy. The law allows for the establishment and functioning of enterprises, with foreign investors and enterprises with foreign participation in the territory of the Republic of Azerbaijan.

Enterprises with foreign investments are created in the form of joint-stock and limited liability companies and other forms of economic activity.

Creation of joint ventures is very favorable from the point of view of investing in the economy of Azerbaijan and ensuring quality production. At the same time, increasing production efficiency by saving on production costs, production and management experience of foreign partners plays an important role in facilitating local economic activities. Therefore, first of all, the interests of local participants should be protected, and conditions should be created to ensure the effective outcome of their activities. Turkey, the USA, Iran, Germany, Russia, the United Kingdom, the United Arab Emirates, Switzerland, Italy, Norway, Japan play an important role in the volume of investments made by the joint ventures and foreign companies in the Azerbaijani economy.

The turnover of goods with the participation of Arab countries in import of important products (Table 2).

**Table 2: Dynamics of Azerbaijan's Imports with Arab Countries (thousand USD)**

States	2014	2015	2016	2017	2018
Bahrain	59	208	52	261	2
UAE	56644	96201	101551	94919	61147
Algeria	86	66	73	12	244
Jordan	2453	3536	1268	2171	954
Iraq	182	363	317	547	399
Kuwait	705	54	178	58	406
Qatar	73	12042	1313	361	17
Lebanon	383	846	269	998	1536
Libya	-	3	7	875	913
Mauritania	1141	197	0	17	2

Source: stat.gov.az

In general, the UAE has been the closest partner of Azerbaijan in the import process in 2014-2018 among Arab countries.

The turnover of goods exported with the participation of Arab countries in the export of important products was \$ 412.9 million in 2014, 884.4 million in 2016 and 815.2 million in dollars 2018 (Table 3).

**Table 3: Dynamics of Azerbaijan's Exports to Arab Countries (thousand USD)**

States	2014	2015	2016	2017	2018
Bahrain	512	8	16	17	23
UAE	14913	13758	14291	8689	4323
Algeria	39587	2242	2877	977	683
Jordan	20	59	45	55	40
Iraq	31330	99096	418527	353641	236690
Kuwait	19	65	14	17	27
Qatar	64	24	1625	2100	341
Lebanon	53556	32329	31179	62	35092
Libya	162242	2	142457	166272	25750
Mauritania	-	-	1	2	4

Source: stat.gov.az

The maximum interest rate for exports in 2018 was 97.47% (cigarette) Iraq, 11.24% (non-processed lead) Oman and 9.11% (engine gasoline) in the UAE. In 2014, the highest rate was observed in the UAE (36.85%) in the export of oil, coconut, indanum resin and polyesterpenes. Iraq showed a 7.35% return on this commodity. 2016 c; The highest results per year are in Iraq. Of the goods exported by Azerbaijan to Arab countries in the Middle East, Iraq is the leader in vegetable oil production with 95.94%, margarine, other food mixtures 91.51% and sugar 75.64%. In general, the research shows that in 2014-2018, Azerbaijan's trade with Arab countries involved 35 goods for import and 17 times less for exports, ie 17 goods (stat.gov.az).

As we have seen from the above, while there are potential opportunities for the development of Azerbaijan's foreign economic relations with Arab countries, their use is inadequate. However, there has been a significant increase in the number of Arab tourists visiting Azerbaijan in recent years. Thus, compared to 2015 the number of Iraqi citizens arriving in Azerbaijan in 2016 was 30 times, the UAE 22 times, Saudi Arabia 10.2 times, Qatar 5.5 times, Iran 66.2%. The number of Egyptian increased by 51.8 percent. Let us also note that in 2017, there is a significant increase in the number of Arab tourists coming to Azerbaijan. Thus, compared to the first 6 months of 2016, the number of tourists arriving from Oman in Azerbaijan in the first half of 2017 was 16

times, 8 from Kuwait, 6 from Saudi Arabia, 5 from Qatar, 5 from Morocco, 4.4 from Algeria and 3.5 from Algeria, 2.2 times more than Jordan and 1.5 times more than Iraq.

All of this proves that the establishment of close cooperation with the business community of the Arab countries with rich financial resources, as well as promoting all opportunities of Azerbaijan, especially business, investment and tourism opportunities in the Arab world, for the development of Azerbaijan's economic relations with Arab countries. There is a great need for exploring and realizing their perspectives.

The capital of the Republic of Azerbaijan has become the final stop of the International Property Show, whose goal is to attract investment in real estate in Dubai. The event was organized by the Center for Management and Promotion of Investments with the participation of the Russian-speaking representative of RusBiz.

The delegation in Baku was led by Ms. Majida Ali Rashed, Assistant Director General and Head of the Real Estate Investment Management Center.

On the first day of the event, the delegation of the Land Department took part in the third international exhibition of real estate investments in Baku, where they were accompanied by Karam Avaz Hasanov, head of the State Committee for Real Estate in the Republic of Azerbaijan.

Representatives of both sides visited the exhibition, attended the opening ceremony and toured the platforms of the participants, among which were also developers from Dubai. The delegation of the Land Department provided the guests with a detailed report on the projects, as well as the exhibitors.

On the second day of the exhibition, Ms. Majida Ali Rashed delivered a speech addressed to the delegations of the participating countries and expressed gratitude on behalf of the Land Department for the invitation to the exhibition.

Ms. Majida added that "The Land Department was pleased to participate in the international exhibition and represent the Dubai real estate market by creating a welcoming environment for visitors and investors from all over the world." Ms. Majida

Ali Rashed also emphasized that the Land Department is ready to offer potential investors a variety of support to understand the real estate market in Dubai.

The Dubai Land Department delegation held a series of presentations during the exhibition. In particular, the speech by Majid Sakr al-Marri, chief director of the Center for the Promotion and Management of Real Estate Investments, included suggestions for opportunities to invest in real estate in Dubai and a presentation of the services provided to investors in the Land Department. The second presentation was given by a real estate promotion representative, which highlighted the privileges and services offered to investors of Azerbaijan.

Azerbaijan has invested \$ 284.4 million in the United Arab Emirates (UAE) economy, said Azerbaijani Minister of Economy Shahin Mustafayev meeting with the UAE Ambassador to Azerbaijan, Mohammed Hamel Al Qubaisi, in Baku (stat.gov.az ).

According to the Ministry of Economy, the meeting discussed economic relations issues between Azerbaijan and United Arab Emirates and the process of implementing the paragraphs of the protocol signed at the 6th meeting of the Intergovernmental Joint Commission for Economic Cooperation in Dubai in April.

Azerbaijan's Minister of Economic Affairs, Shahin Mustafayev, noted that between Azerbaijan and the United Arab Emirates, approximately 40 documents were signed, six intergovernmental commission meetings were held, and the Dubai Chamber of Commerce's first foreign representative office was opened in Baku.

UAE investments to economy of Azerbaijan amount to \$ 778.1 million, but Azerbaijan investments is \$ 284.4 million to the UAE economy. 255 companies from the UAE are registered in Azerbaijan. In order to promote Azerbaijani goods, an export mission was sent to the UAE, a stand dedicated to Azerbaijani products was also presented there, and export of goods has already been launched under a number of concluded agreements. Currently, there are successful ties in the fields of agriculture, energy, ICT, investment, trade and educational spheres.

The meeting also discussed issues such as the activities of the Economic Council of Azerbaijan-UAE, the exchange and the expansion of trade information and relations, including the Azerbaijani goods export to the UAE, the opportunities for Arabian business people to invest in the industrial parks, and zones created in Azerbaijan.

We remind that on 9 January 2020, the Cabinet of Ministers, with the participation of Prime Minister of the Republic of Azerbaijan Ali Asadov, entered into executive agreements between the Ministry of Energy and the company ACWA Power of the Kingdom of Saudi Arabia and the Masdar Company of the United Arab Emirates on the implementation of pilot projects for renewable energy Energies.

Azerbaijan's contracts were signed by Energy Minister Parviz Shahbazov, as well as ACWA Power Chairman Muhammad Abunayyan and Masdar Muhammad Jamel Al Ramahi. Under the agreements, pilot projects will be implemented with ACWA Power for the construction of a 240-megawatt wind farm and with Masdar for the construction of a 200-megawatt solar power plant. For wind and solar energy projects, it is generally expected to generate 1.4 billion kilowatt hours of electricity per year.

Note that ACWA Power currently has a total installed capacity portfolio of 30,200 megawatts, 8,000 megawatts of renewable energy worldwide, and a \$ 45 billion investment portfolio. Masdar, which currently has a renewable energy production portfolio with a total installed capacity of 4,000 megawatts, has so far invested \$ 8.5 billion in the area. (<http://worldmedia.az/news.aspx?id=2865>- 2019)

### **2.3. Other forms of cooperation**

One of the richest countries in the Arab world, the United Arab Emirates (UAE), at meetings of the OIC and other international organizations, constantly took an unambiguous position and defended the just cause of Azerbaijan. On December 26, 1991, they were among the first to recognize the independence of Azerbaijan. On September 1, 1992, the UAE established diplomatic relations with the Republic of Azerbaijan. The first meeting of the presidents of the two countries took place in December 1994 in Casablanca. The President of Azerbaijan, Heydar Aliyev, and the



President of the UAE, Sheikh Zayed bin Sultan, discussed at the meeting issues of developing ties between the two countries, providing political support to Azerbaijan.

In June 1997, during the visit of the President of the State Department of Civil Aviation to Azerbaijan, the Dubai-Baku flight was opened, which contributed to the expansion of trade relations between the two countries. So, if in 1997 the commodity circulation between Azerbaijan and the United Arab Emirates amounted to 42.9 million US dollars, then in 1998 it reached 48.6 million dollars. While in the 1990s, mainly food products, building materials, automobiles, computers were imported from the UAE, most of the goods exported from Azerbaijan were copper waste, aluminum, machinery, magnetic tapes, etc (stat.gov.az).

To implement a number of socio-economic projects, the Azerbaijani government is actively cooperating with various financial institutions of the UAE.

In April 2004, the Days of Azerbaijani Culture were held in the UAE, the first of the Arab countries. A delegation of 62 people led by the Minister of Culture P. Bulbul oglu arrived in Abu Dhabi to participate in the event. As part of the Culture Days, concert halls were organized in the halls of the Abu Dhabi Cultural Foundation with the participation of Azerbaijani masters of art, as well as exhibitions of antique carpets, costumes, musical instruments and works by contemporary artists. These events aroused wide resonance in the UAE, the great interest of local and foreign citizens living in Abu Dhabi and was covered in detail in the media.

In order to expand relations of two countries, a decision was taken in 1997 to open an Azerbaijani embassy in the UAE. The Embassy of the Republic of Azerbaijan has been operating since June 2001 in the capital of the United Arab Emirates, Abu Dhabi.

Azerbaijan and the United Arab Emirates cooperate within the UN, the Organization of the Islamic Conference and other international and influential regional organizations.

In December 2001, Kh. Khalafov, Deputy Minister of Foreign Affairs of the Republic of Azerbaijan, paid a working visit to the United Arab Emirates. During the

visit, Kh. Khalafov met with the UAE Deputy Minister of Foreign Affairs Seyf Saeed bin Said, and discussed issues of cooperation between Azerbaijan and the UAE in various fields.

In July 2003, a delegation from the UAE headed by the Minister of Communications Ahmed bin Humeid al-Thayer paid an official visit to Baku. Members of the delegation met with partners in relevant institutions and organizations, held discussions on a number of specific issues. During the visit, an agreement was signed between the governments of the Republic of Azerbaijan and the United Arab Emirates on the opening of air services between their respective territories and outside these territories.

In April 2005, Azerbaijani Foreign Minister Elmar Mammadyarov met during a visit to the UAE with his colleague Rashid Abdullah al-Nuaimi and UAE Minister of Planning Lubna Al Qasimi. After negotiations, a Memorandum of Understanding was signed between the foreign ministries of the two countries. (<http://dubai.mfa.gov.az/content/3> - 2019).

On November 20-21, 2006, President of Azerbaijan HE Mr. Ilham Aliyev paid an official visit to the United Arab Emirates and met with the President of the United Arab Emirates Sheikh Khalifa bin Zayed Al Nahyan as part of the visit.

On the same day, President of Azerbaijan HE Mr. Ilham Aliyev also met with a member of the Executive Council of Abu Dhabi, the head of the Divan, Sheikh Sultan bin Khalifa Al Nahyan, with the heads of the companies Consolidated Energy Resources LLC and Ghobash Trading and Investments Group”, with the Minister of Economy of the OAU, with the Chairman of the Arab Monetary Fund, Saeed Ahmed Gobash, and other officials. As a result of the visit to Abu Dhabi between the two states, 11 documents were signed.

In 2007, the Minister of Transport, Defense and Internal Affairs of the Republic of Azerbaijan paid a visit to the OAU in the framework of bilateral relations. As a result of the visits, two documents were signed.

On April 20-21, 2009, a delegation of the OAU headed by the Minister of Economy, Chairman of the Organization of the Federal Transport and Federal Civil Aviation Sultan bin Said alMansuri visited Azerbaijan. The President of Azerbaijan HE Ilham Aliyev met the delegation, and noted that there are good prospects for expanding economic ties between the two states. In the same year, the Minister of Energy, the Minister of Foreign Affairs and the Minister of Culture of the OAU visited Azerbaijan. (<http://dubai.mfa.gov.az/content/3> - 2019) Within the framework of the visits, meetings and negotiations were held with officials of Azerbaijan, both bilaterally and within the framework of international organizations.

Thus, it can be seen that multilateral and bilateral ties between Azerbaijan and the UAE are developing in an upward direction. 21 documents were signed between Azerbaijan and the United Arab Emirates.

When comparing countries separately, there is a close similarity in the import operations of oil exporting countries. In 2016, oil and its products will dominate the country's export commodity structure by \$ 7.9 billion. 86.24% of the country's exports fall to these products (stat.gov.az). 82.37% of the Arabian exports (US \$ 815.2 billion) fall to hydrocarbons (Table 2.5). The highest rate in the oil-producing Arab countries is Iraq (99.24%). Azerbaijan's index is almost the same as Kuwait. The results of other oil countries do not outweigh our country (stat.gov.az).

**Table 4: Exports of Arab Species Important Products in 2018**

<b>Product groups</b>	<b>Amount (billion USD)</b>	<b>Percent</b>
Crude oil and bitumen	560,8	67,67%
Heavy oil and bitumen	79,9	9,58%
Natural, liquid and compressed gas	51,7	7,22%
Liquid propane and butane	22,6	3,53%
Gold without ore and coin	29,6	3,41%
Pearl, precious, semi-precious stone	15,0	1,92%
Basic forms of ethylene polymers	13,8	1,67%

Alcohols, phenols, derivatives	9,9	1,26%
Aluminum	9,0	0,99%
Produced fertilizers	6,7	0,90%
Other (Sum of those less than 0.22%)	54,2	6,72%

**Source:** United nations conference on trade and development, Statistics / <http://unctadstat.unctad.org>

Given that Azerbaijan and the Middle East have the highest weight in the export structure of Arabian countries, even a slight decline in their impact on the economy of the country.

Azerbaijan and the UAE held the seventh meeting of the Intergovernmental Commission for Economic, Scientific, Technical and Cultural Cooperation (IPC) in November 2019.

Azerbaijan's Deputy Foreign Minister Ramiz Hasanov held a second political consultation on political issues with his UAE colleague, Khalifa Shahin Al-Marar, in Abu Dhabi.

The partners exchanged views on the agenda, which includes issues related to energy, agriculture, mutual investment, as well as ongoing draft agreements and memoranda of understanding, the press service of the Azerbaijani Ministry of Foreign Affairs said.

During the meeting, relations were discussed in the political, economic, commercial, tourism, scientific, educational, humanitarian fields, as well as the whole range of interaction between Azerbaijan and the UAE. The parties also discussed socio-economic development in Azerbaijan, bilateral regional cooperation and cooperation at the UN and other international organizations.

Hasanov noted that economic relations of Azerbaijan and UAE do not reflect existing potential. He emphasized the need to broaden the legal framework and intensify visits to the two countries' business circles. He expressed satisfaction with the level of cooperation on the international scene and thanked the spokesman for supporting Azerbaijan from the United Arab Emirates to the United Arab Emirates, the UN and the OIC, "says the Azerbaijani Ministry of Foreign Affairs.

The Deputy Minister briefed Al-Marar on the negotiating process for resolving the conflict in Armenia-Azerbaijan Nagorno-Karabakh, stressing the importance of stepping up efforts by the OSCE Minsk Group and the international community to resolve the issue within internationally recognized borders, sovereignty and territorial integrity of Azerbaijan.

A delegation led by the UAE Minister of Economy (UAE), Sultan bin Saeed al-Mansouri, who was visiting Azerbaijan, visited the Martyrs' Avenue, paid tribute to the heroes who sacrificed their lives in the fight for Azerbaijan's independence, and laid a wreath at the memorial flame.

This was followed by a meeting between the Minister of Economy of Azerbaijan, Mikhail Jabbarov, Co-Chair of the Joint Intergovernmental Commission for Economic, Trade and Technical Cooperation between the Government of the Republic of Azerbaijan and the Government of the United Arab Emirates and Sultan bin Said al-Mansouri, the UAE economy Minister.

During the meeting, Minister of Economy Mikail Jabbarov noted that political relations between Azerbaijan and the UAE are at a high level, they are based on the principles of friendship and mutual respect, and the political will of the heads of both countries plays an important role in the development of cooperation. It was noted that Azerbaijan and the UAE successfully cooperate in the framework of international organizations.

The Azerbaijani Economy Minister noted that the necessary regulatory framework has been created between the two countries and more than 30 documents have been signed in various fields. Mikail Jabbarov, emphasizing the importance of investment cooperation in bilateral relations, brought to the attention that the UAE state invested 2.2 billion US dollars in the economy of Azerbaijan, and 350 million US dollars in the UAE. It was noted that more than 340 UAE companies were registered in Azerbaijan in the field of industry, construction, trade, agriculture, communications,

transport, services and other areas. In 2018, trade between Azerbaijan and UAE increased by 38%.

Minister of Economy Mikhail Jabbarov emphasized the importance of the activities of the Trade Representative and the Trade House of Azerbaijan in the UAE in terms of expanding economic ties between the two countries, noted the importance of further increasing the volume of trade and diversifying its structure, as well as the great potential for developing cooperation in this area (<http://www.medeniyyetv.az/az/news/461/bakida-birlesmis-ereb-emirliklerinin-milli-bayrami-qeyd-edilib> - 2019).

The Minister of Economy of the United Arab Emirates, Sultan bin Saeed al-Mansouri, said that UAE was interested in developing relations with Azerbaijan and noted the role of meetings in identifying new ways of cooperation.

The meeting discussed ways to expand cooperation in the fields of energy, industry, transport and transit, agriculture, food security, ICT, trade, investment, finance, customs, small and medium-sized enterprises, tourism, humanitarian and other areas.

The 7th session of the Joint Intergovernmental Commission for Economic, Trade and Technical Cooperation between the Government of the Republic of Azerbaijan and the Government of the United Arab Emirates was held on the same day. Mikhail Jabbarov, Minister of the Intergovernmental Commission of Azerbaijan, emphasized the importance of trade meetings, exhibitions and fairs for the development of bilateral economic cooperation. To date, export offices have been set up in Dubai, Abu Dhabi and Sharjah, and a pavilion for Azerbaijan has been opened in a global village traditionally held annually in Dubai. Azerbaijani companies are also expected to participate in EXPO 2020 in Dubai.

With regard to the reforms introduced in Azerbaijan, Mikayil Jabbarov noted that international organizations praised the successful results of economic reforms and systemic measures. It is no coincidence that Azerbaijan, which ranked 34th in the World

Bank's Doing Business 2020 report, has been included in the list of the Global Economic Forum's 2019 Global Competitiveness Report, which will move to the top 20 reforms and 11 levels. , 58 out of 141 countries.

At the commission meeting, the Azerbaijani Minister of Economy informed about the business and investment environment created in Azerbaijan, called on UAE investors to use existing mechanisms to support investment, invest in industrial zones and agricultural parks, as well as implement joint projects. Mikail Jabbarov said that Azerbaijan was at the intersection of international transport corridors and stressed the potential for cooperation of two countries for transport and transit.

United Arab Emirates Minister of Economy, Intergovernmental Commission's Co-Chairman Sultan bin Saeed al-Mansouri, talk about his visit to Azerbaijan and said about the developments that Azerbaijan had achieved. The Co-President of the Commission provided information on the UAE economy, highlighted the successful relationship of two countries for many areas and talk about his views on how to expand the partnership. During the event, the parties discussed ways to expand trade and economic cooperation.

**Table 5: Data for regression analysis (mln.USD)**

Years	Export (X1)	Import (X2)	Foreign investment (X3)	GDP (Y)
2014	302243	61726	4268,8	75234,7
2015	147583	113516	5741,9	52996,8
2016	611032	105028	7350,9	37862,8
2017	531832	100219	6989,5	40867,9
2018	302973	65620	3993,1	47112,9

**Source:** formulated by author on the data stat.gov.az

Let do regression analysis on Excell. We calculate the indicators of 2014-2018 years.

CONCLUSION OF RESULTS								
<i>Regression statistics</i>								
Multiple R	0,9505 67							

R-squared	0,9035 78							
Normalized R-squared	0,6143 13							
Standard error	9219,2 77							
Observations	5							
Analysis of variance								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	3	7,96E+ 08	2,65E +08	3,12369 8	0,38891 6			
The remainder	1	849950 70	8499 5070					
Total	4	8,81E+ 08						
	<i>Coefficients</i>	<i>Standard error</i>	<i>t-statcs</i>	<i>P-Significance</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Y- intersection	99818, 05	19054,9 9	5,238 421	0,12008 4	-142299	34193 4,7	- 142299	341934 ,7
Variable X 1	- 0,2479 7	0,11826 2	- 2,096 8	0,28330 3	- 1,75063	1,254 688	- 1,7506 3	1,2546 88
Variable X 2	- 2,4411 9	1,19314 5	- 2,046 01	0,28941 5	- 17,6015	12,71 915	- 17,601 5	12,719 15
Variable X3	- 46,361 94	25,5983 2	- 1,811 132	0,32116 5	- 278,896	371,6 194	- 278,89 6	371,61 94

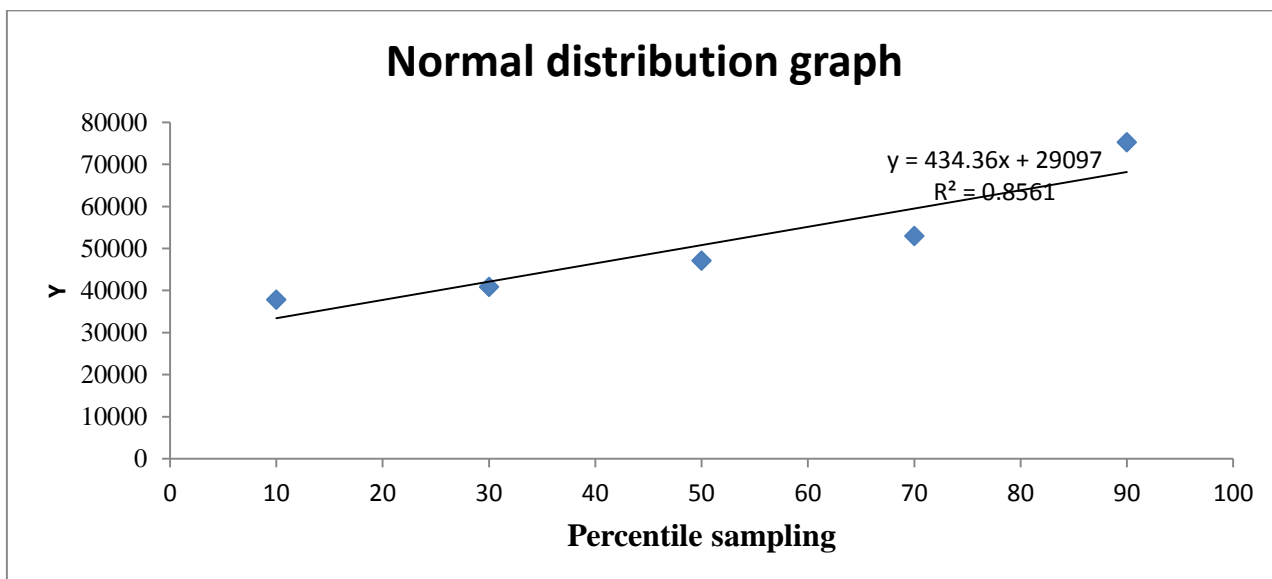
We can analyze regression based on the data in sections 2.1, 2.2 and 2.3. Here we will study impacts economic relations with Arab countries on Azerbaijan's GDP. In our regression analysis, the dependent variable (Y) is GDP, while the independent variables (X1, X2, and X3) are the volumes of imports, exports, and foreign investments with Arab countries. Given the variables, we will also prove the following hypotheses.

Hypothese 1: Will export with Arab countries impacts on Azerbaijan's GDP?

Hypothese 2: Will import with Arab countries impacts on Azerbaijan's GDP?

Hypothese 3: Will investments with Arab countries impacts on Azerbaijan's GDP?





As can be seen from the graph, there is a linear dependence between the dependent variable and the independent variables. This means that imports, exports and investment with Arab countries have a direct impact on Azerbaijan's GDP. The equation obtained at the same time proves this:

$$y = 434,36x + 29097$$

At the same time  $R^2 = 0,903578$ . This proves that the model we apply, namely the impact on GDP, is true.

## **CHAPTER III. PROSPECTS FOR ECONOMIC COOPERATION OF THE GULF COUNTRIES WITH AZERBAIJAN**

### **3.1. Prospects for economic cooperation in the most important areas of interaction**

Today, relations of Azerbaijan and the United Arab Emirates are at a very high level and are strategic in nature.

The friendly nature of relationship Azerbaijan Republic with United Arab Emirates ensures the dynamic development of mutually beneficial cooperation in all areas, and the Azerbaijan Republic and United Arab Emirates have a common will to strengthen this interaction in all areas. The Azerbaijan Republic and United Arab Emirates have a similar position on many international issues; they cooperate actively on a bilateral basis and within the OIC, the UN and other international organizations.

In this regard, important agreements have previously been reached between the leaders of the Azerbaijan Republic and United Arab Emirates, which have gained practical development during meetings of the Joint Intergovernmental Economic Commission for Trade, Economic, Scientific and Technical Cooperation since 2008 and the Trade Forum. These meetings shall consider specific areas of interaction between the relevant structures of the Azerbaijan Republic and United Arab Emirates, and about deepening and broadening trade and economic cooperation in the various sectors of the economy. Great attention is paid to attracting investment and implementing various projects of common interest.

The positions of the Azerbaijan Republic and United Arab Emirates on international issues coincide, and Azerbaijan and the United Arab Emirates have always supported each other's positions within international organizations. A solid legal framework has been established by two countries, and about 20 documents have been signed so far. High-level political relations and a strong legal framework create a very favorable basis for the development of economic cooperation. It is no coincidence that trade relationship of Azerbaijan Republic and United Arab Emirates are expanding year by year, trade turnover increased by 52% last year compared to 2010, and by 29% in January-October 2019. At present, 122 companies operate in Azerbaijan on the basis of UAE investments, and these companies invest \$ 260 million in Azerbaijan's non-oil sector. Azerbaijani companies also operate successfully in the UAE. SOCAR Aurora Fujairah Terminal FZE is under construction by SOCAR TRADING S.A. The representation of the Dubai Chamber of Commerce and Industry opened in Baku will

be the organization's first office abroad and will cover the entire CIS. The opening of the Chamber's first office in Azerbaijan is another indicator of the importance of cooperation of Azerbaijan Republic and United Arab Emirates. (<http://www.economywatch.com>).

The UAE was one of the first countries that recognize independence of Azerbaijan Republic. Since then, relationship of Azerbaijan Republic and United Arab Emirates have developed at a high level and effectively in various areas. It should also be noted that relations have been closer than in previous years since the opening of the United Arab Emirates Embassy in Baku 2011. Therefore, we can say about two periods of relationship of Azerbaijan Republic and United Arab Emirates: before and after the opening of the United Arab Emirates Embassy in Azerbaijan.

The period up to 2011 is marked by high-level visits of Azerbaijan Republic and United Arab Emirates, the participation of delegations in various events organized in both countries, including international conferences, exhibitions and festivals, and meetings and discussions on important issues of mutual interest. Azerbaijan and the United Arab Emirates have always cooperated within the United Nations, the Organization of the Islamic Conference and other such important and influential regional and international organizations, and continue to do so successfully.

A joint commission for economic, trade and technical cooperation of two countries has also been set up. Countries organize meetings and trade forums.

As a result of these visits, relevant agreements, protocols and memoranda of understanding have been signed between the two countries aimed at developing mutual trust and respect. "Agreement of Azerbaijan Republic and United Arab Emirates on Legal and Judicial Assistance in Civil and Commercial Matters", Abu Dhabi, 20 November 2006; "Agreement of the Azerbaijan Republic and the UAE on the Promotion and Protection of Investments", Abu Dhabi, 20 November 2006; Convention of the Azerbaijan Republic and the UAE for the double taxation with regard to income taxes and capital taxes, Abu Dhabi, 20 November 2006; Memorandum of

Understanding between AZPROMO and the Federal Chamber of Industry and Commerce of the UAE, Abu Dhabi, 22 December 2009. (United Arab Emirates Vision 2021)

These are just some of the agreements that served as the basis for the next phase of cooperation development.

The turning point of the first period was the official visit of the President of the Republic of Azerbaijan, His Excellency Mr. Ilham Aliyev, to the United Arab Emirates in 2006. After this important historical event, another important visit took place. Thus, in 2008, the Minister of Foreign Affairs of the Republic of Azerbaijan, Mr. Elmar Mammadyarov, paid an official visit to the United Arab Emirates. Here we can list many other mutual visits and meetings. All of this has taken place as the foundation of the strong brotherhood between the Republic of Azerbaijan and United Arab Emirates.

November 2011 was a new beginning for this fruitful collaboration. This is the opening day of the UAE Embassy in Baku, which will address consular services, political and economic issues, as well as education and culture.

The embassy's efforts to bring the two countries closer have borne fruit within a year. The Dubai Chamber of Commerce and Industry thus opened its first office abroad in the capital of Azerbaijan. Baku is now the gateway to the Dubai Chamber to other countries. At the same time, the Dubai Chamber facilitates access for Azerbaijani entrepreneurs and companies to economic opportunities in the United Arab Emirates.

Another clear example of the friendly relations and partnership between the Republic of Azerbaijan and United Arab Emirates was the official visit of the Vice President and Prime Minister of the United Arab Emirates, Ruler of Dubai, His Highness Sheikh Mohammed bin Rashid Al Maktoum to Azerbaijan in April 2015. During the visit, a meeting was held with His Excellency Mr. Ilham Aliyev, President of the Republic of Azerbaijan, and both sides expressed confidence that this visit would lead to good results in various economic fields, especially in the investment partnership and the future of bilateral relations.

In February 2016, His Excellency President Ilham Aliyev paid an official visit to the United Arab Emirates. The Supreme Commander-in-Chief of the Armed Forces, His Highness Sheikh Mohammed bin Zayed Al Nahyan, met with His Excellency President Ilham Aliyev and exchanged views on regional and international issues of mutual interest, and discussed issues of friendship and cooperation between the two countries. Abu Dhabi Crown Prince noted that His Highness Sheikh Khalifa bin Zayed Al Nahyan is interested in joint work in various fields. The meeting also discussed ways to take advantage of the numerous opportunities available in both countries by building a successful partnership in the interests of the two friendly peoples.

It is expedient for the two leaders to further expand cooperation between the two friendly countries in the future. This includes increasing the number of flights between the UAE and Baku in order to contribute to the development of investment partnership, trade, tourism and cultural exchange, as well as mutual tourism, especially in terms of mutual visits between businessmen and investors on both sides. to cover wider areas of cooperation, etc. contains issues.

Thus, it is clear that there is a very strong, reliable ties of friendship and brotherhood. These relations cover not only politics and economics, but also culture and mutual support.

There is ambition to expanding the cooperation in industry, energy, agriculture, communications and high technology, as well as transport, trade, investment, tourism, new airlines, intellectual property rights, education and culture.

Many things need to be done for common goals and interests. For example, Azerbaijan Republic has created its own brand, ASAN and the United Arab Emirates want to share their experience with e-government and government for mobile devices with Azerbaijan. At the same time, there is a strong will to increase current trade turnover of Azerbaijan Republic and United Arab Emirates.

There are great prospects for further increasing the current level of relationship of Azerbaijan Republic and United Arab Emirates, there are good opportunities to deepen these ties.

### **3.2. Trends in the development of economic cooperation between Azerbaijan and the Gulf countries at the present stage of globalization of the world economy**

At the present stage, the goal of the economic development of the UAE is the diversification of the economy. Various economic sectors are actively developing in the country: metallurgy, chemical and manufacturing industries, water treatment, electricity, financial sectors, as well as transport and logistics, the sector of information and communication technologies and others. Carried out a gradual departure from the dependence of hydrocarbon production. In 2012, the share of oil and gas in total GDP decreased to 25%. But still, the oil sector is the backbone of the economy. (UAE National Bureau of Statistics)

The development of foreign trade relations and integration into the world economy as an exporter of energy resources played a crucial role in the development of the UAE. Note that in the period from 2007 to 2008. the inflow of capital to the country's economy continued due to the export of oil and oil products. The indicator grew by 39% (from 73.8 to 103 billion US dollars). But in subsequent years, there has been a decline in profits from hydrocarbon exports. Undoubtedly, the main influence in the period from 2008 to 2009. the economy of the UAE has had a global financial and economic crisis. However, one cannot talk about a significant decline in export volumes, since the UAE national currency is firmly tied to the US dollar. One US dollar is equivalent to 3.67 dirhams. According to experts from Incona, a Gulf consulting company, the drop in revenue from the sale of energy resources is primarily due to the depreciation of the dollar during the crisis period. In the future, after the crisis, a recovery of pre-crisis indicators was observed

According to forecasts of the International Monetary Fund until 2017 (data are presented at a fixed dollar rate), a slight decrease in oil exports is expected. At present, alternative energy technologies are gaining popularity, and in the UAE this sector is developing extremely actively, alternative energy sources, including solar panels are one of the factors that can significantly affect approaches to energy production in the future. In the UAE, today there are many real estate objects that draw energy from alternative sources. In turn, this may also indicate the diversification of the UAE economy. (International monetary fund) The role of external factors affecting the development of national economies in the context of globalization is steadily increasing.

We can state the fact that the UAE is one of the few countries that was able to recover in record time after the global financial crisis of 2008-2009. UAE authorities overcame the crisis by increasing spending and increasing liquidity in the banking sectors. The most severe blow during the crisis fell on one of the emirates - Dubai, it saw a serious decline in prices in the real estate sector (Parmar N., 2015).

In ensuring sustainable social and economic development of the country, along with the full use of natural resource potential, it is especially important to create favorable conditions for the development, although resource-intensive, but no less important areas of human activity, where the product of intellectual labor becomes the most important. The opening of numerous free zones has turned the United Arab Emirates into the third largest re-export center in the world. This income item now forms almost a third of the state's income and provides strong ties with India, Iran and thirty-five other countries. The emirates of Dubai and Sharjah are extremely active in this area. Most of the cargo flow of re-exported goods falls on air transport. The United Arab Emirates is connected to the outside world by six airports. Dozens of seaports are located on the coast, including eight of the largest. In my deep conviction, as the economic structure diversifies, the UAE will play an increasingly significant role in the world economy.

UAE strategic plans for the coming years are also related to the creation of decent living conditions for UAE citizens, as well as foreigners living and working in the country. It should be noted that a feature of the development of the country's economy is that currently more than 85% of the population of the UAE is foreigners. Business etiquette and corporate culture in the country is determined by the norms of highly developed countries. Corporate governance, business rules, trade and economic relations and administrative procedures are based on Western standards.

International rating agencies, as well as major companies are very optimistic about the further development of the UAE economy. An indicator of economic growth of 4-5% for the UAE economy is very easily achieved. It is predicted that in the coming years the UAE economy will show good results due to the safety of doing business and low tax rates when starting a business and importing goods into the UAE (with the exception of some product groups). In the conditions favorable for the country on the global commodity energy markets, foreign trade has an extremely stimulating effect on the economy. Trade in goods on the international market through the UAE has become for the country an excellent source of capital accumulation and market management experience for many segments of the economy.

An analysis of the data presented in the annual statistical report of the UAE National Bureau of Statistics also allows us to conclude that, in general, trade in the UAE is actively developing. Population growth in the Emirates has led to increased demand and the need to increase imports. Import is more diversified - about a third of its value falls on machinery, equipment and vehicles, a third - on finished industrial products. An important position of imports is also food. In other words, the UAE economy is particularly dependent on imports of certain commodity items.

It should be emphasized that the high cost indicators of export-import activities cannot be considered as a clearly positive phenomenon. The economy of the Emirates is focused on trade with other countries, so we can say that the UAE is quite dependent on external factors, including from the situation on the international oil commodity



market. The qualitative parameters of integrating the country's national economy into the world economy in some market sectors are still far from optimal. In addition, the oil sector continues to play a very significant share in the country's GDP. At the same time, the largest share of UAE purchases falls on machinery and equipment for various industries. Currently, the main sectors of the UAE economy are: oil and gas, water treatment and water processing, environmental technology, chemical industry, IT goods and high-tech equipment, as well as transport (Low L., 2011).

The analysis showed that the UAE's foreign trade is largely determined by the implementation of the country's development strategy. There is no doubt that the economy is dependent on the export of oil and oil products, but over the past decades, the UAE's economic complex has been developing according to a new scenario. In my deep conviction, as the structure of the UAE economy diversifies, foreign trade will play an increasingly important role in the further development of the country and will help strengthen its position in the world economy. In the structure of exports, the most part is high-tech products. But so far the country is largely dependent on the export of oil and petroleum products, although the UAE has managed to collect enough financial assets to develop other market segments. Based on the analysis of GDP growth rates and foreign trade development dynamics, as well as on the study of the main features of the domestic market, it can be concluded that the UAE economy will actively develop in the coming years, so foreign investment in this region will continue.

Azerbaijan-Emirates trade and economic cooperation is considered as one of the important geographical directions for the integration of the United Arab Emirates into the world economy due to the importance of both countries in this system. At the same time, the level and dynamics of development of their national economies, as well as the impact of the global factor, provide an opportunity for a fairly wide range of mutually beneficial cooperation between the two countries. Both parties have significant interest in such cooperation, which is determined by the presence of common economic interests in a number of positions (Mary S., 2015).

In addition, countries are to some extent interested in developing bilateral cooperation. The UAE could act as an investor for certain regions of Azerbaijan, participate in the construction of facilities in Azerbaijan (for example, hotels), purchase from Azerbaijan some high-tech goods and agricultural products, as well as agricultural raw materials. On this objective basis, trade and economic cooperation between the two countries is gradually developing.

In total, during the period under review, the volume of trade between the two countries increased by more than 4 times - both in export and in import. Fluctuations in turnover over the years are explained by the fact that trade in Azerbaijan and the UAE is carried out mainly under one-time contracts. The balance in mutual trade throughout the entire period remains positive for Azerbaijan, as exports are growing at a faster pace. The commodity nomenclature of mutual trade also did not change significantly. Industrial products of Azerbaijan export are almost exclusively labor-intensive production.

To date, mutual trade between Azerbaijan and the UAE is not large-scale and does not correspond to the potential or interests of the countries. In many ways, the current situation is the result of existing problems. We include the following:

1. There is a significant imbalance in trade between Azerbaijan and the UAE. Azerbaijan exports significantly exceed imports throughout the entire period under review. Accordingly, the increase in turnover is mainly due to the growth of Azerbaijan exports.

2. We can state the cyclical nature of mutual trade with generally increasing volumes of trade in value form. To a greater extent, this applies to Azerbaijan exports, where a number of “surges” in the trade activity of the parties stand out, which often depends on one-time deliveries (contracts).

3. Among the main reasons hindering bilateral trade is the low competitiveness of in terms of prices and delivery conditions, the UAE market specificity unattractive

for Azerbaijan suppliers - insignificant volumes and highly competitive environment, lack of well-established transportation routes.

4. A serious problem in the development of bilateral relations, as before, is a mutual deficit in the exchange of information; there are still no proposals for building the basic schemes of interaction, which does not provide full guarantees for joint projects. In this regard, it is extremely important to pay attention to the information support of cooperation: it is imperative that there are business directories in English, well-compiled catalogs of the goods offered, quality promotional literature, etc.

Summarizing all of the above, it can be noted that Azerbaijan -Emirates cooperation can be considered at several levels. Taking into account the developed interstate relations, we can safely talk about their annual dynamic development. The main difficulties lie precisely in the interaction of various Azerbaijan and Emirate business structures. When classifying the main problems of Azerbaijan business in the UAE, one cannot help but focus on the following: Azerbaijan companies lack information on the opportunities and prospects for working in the UAE market, and there is no regular and timely information on tenders, investment projects, and contracts. In fact, the UAE market as a whole is poorly understood representatives of the business community. The UAE has unique business features that combine both national characteristics and the norms of the European business environment. In general, for the UAE, the problems of integration into the Azerbaijan market are identical. Thus, on the basis of the study, we can say that the most promising region for integration into the world economy of the UAE is Asia. India and China are the main trading partners of the UAE, investment cooperation is developed with them, migrants from India work in most sectors of the UAE economy, and the development of bilateral cooperation remains mutually beneficial for both sides. It is safe to predict that in the coming years, relations between the UAE and Asian countries will continue to strengthen. The volume of trade relations between the Azerbaijan and the United Arab Emirates is quite small, but the growth rate is very high if there is a significant - and

not yet used - potential. Both states are interested in establishing mutually beneficial trade and economic relations, including trade, investment, and project cooperation. The development of bilateral cooperation in the conditions of global instability can contribute to the sustainable development of both countries.

It is worth noting that the path of economic diversification of the UAE, as well as the approaches used in the development of free economic zones and attracting foreign investment, will be extremely effective in the Azerbaijan. Further development of Russian relations with the UAE will be extremely important for both countries.

## CONCLUSION AND SUGGESTIONS

In our work, we tried to show that in the context of globalization and increasing competition in world markets, the role of foreign economic relations in the process of integrating countries into the world economy is growing. This allowed us to formulate a number of conclusions, in particular:

1. The process of integration into the global economy should be due to socio-economic development, a consistent increase in the efficiency of foreign economic activity (increase in the share of industrial products with a higher degree of processing, new technologies and, of course, advanced types of services in export), as well as rationalization of the export structure and the import and expansion of the import of modern technological equipment, the growth of foreign direct investment in the real sector of the economy, etc.

2. The UAE is trying to take advantage of globalization to increase national competitiveness, implement structural adjustment of the economy and technical modernization of production and services. The integration of the UAE into the world economy is an objective process and meets the strategic interests of society. We have found that the integration of the UAE and the countries of the GCC region into the world economy is largely based on a dynamically developing economy, accumulated financial assets, and also thanks to successful steps in the policy of economic diversification and innovative development to ensure sustainable growth, increase competitiveness in the global economy and improve positions in the international division of labor, as well as solving social problems.

3. Structural changes in the economy of the UAE contributed to a change in the product and geographical structure of the country's foreign trade and largely coordinated the direction of integration of the UAE into the world economy. Based on an analysis of statistical indicators of the structure of oil production, hydrocarbon exports, and changes in economic sectors, we confirmed the thesis of the continued importance of hydrocarbon trade for the development and foreign economic cooperation of the UAE. It was the oil and gas sector that laid the foundation for the development of the UAE economy and investment in other industries with which, to date, the country has been successfully represented on the international market. However, every year the share of the oil and gas sector of the economy is gradually declining. The analysis of changes in the geographical and product structure of the UAE showed that trade operations are currently of key importance in the development of the UAE economy, as well as in the process of entering international markets. At the same time, the share of innovative and high-tech products in export and re-export is growing every year in the diversified economy of the UAE.

4. Identified priority areas of foreign economic relations and trade and economic development of the country. The main direction now is the countries of Asia, especially China and India (more than a third of UAE imports, 2013). In the coming years, further growth in cooperation with these countries is expected. Bilateral trade cooperation with the USA, Iran, South Africa and other countries is gradually being established. Each year, the UAE seeks to expand the regions to which they supply hydrocarbon raw materials and finished products. At the same time, the share of the three leading export countries decreased from 50 to 40%, while from the point of view of UAE imports, every year more and more relies on leading trading partners (the share of the three leading countries increased from 30 to 41%).

5. Recommendations on the development of foreign economic cooperation of the UAE with Azerbaijan are proposed. It was noted that significant progress has been made in various fields, but at the present time it is advisable to push relations towards

further development. The main difficulties in developing bilateral cooperation are in the interaction of various Azerbaijan and Emirate business structures.

6. Azerbaijan and the UAE have many similarities in economic development - the hydrocarbon sector plays an important role in the economies of both countries. Both countries are world leaders in oil export and both strive to diversify their economies. Using the example of the functioning of the UAE economy, a successful example of diversification of the economy and foreign trade in the process of integration into the world economy in recent years.

7. On the whole, the situation in the process of integrating the UAE into the world economy, primarily with the help of expanding foreign economic relations, is regarded as very encouraging in the near future.

As recommendations for the development of the Republic of Azerbaijan and United Arab Emirates relations, we offer:

1. provide state support in coordinating Azerbaijan business with partners from the UAE (through Export Support Centers, investment agencies, regional development corporations, CCIs and administrations of heads of entities);

2. inform stakeholders more about the opportunities and prospects of doing business in the region and the prospects for bilateral cooperation;

3. create government structures (committees) to attract investment from the UAE to Azerbaijan and from Azerbaijan to the UAE. As recommendations on the development of the integration of the UAE into the world economy, which can be used by the Azerbaijan, we propose:

1. creating new approaches in liberalizing the business environment of the UAE's domestic market for foreign companies and investors. To allow ownership of foreign companies subject to a number of conditions for the prohibition of speculation in domestic markets, monopolization and other measures ensuring national security of the economy and social sphere;

2. creation of an integrated state platform aimed at promoting the development of international business in foreign trade and investment;
3. further improvement of the legislative framework and strengthening information activities in the field of trade and economic, investment, project relations.

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