



## Assessment of Trade Policy in Terms of Export Diversification in Azerbaijan

Sevda S. Q. Imamverdiyeva<sup>1</sup>, Elnur V. O. Aliyev<sup>2</sup>

### ABSTRACT

We analyze current status of of Azerbaijan export diversification and foreign trade policy in independent years (up from 1991). The main focus is on the tariffs and non-tariff measures of the Republic of Azerbaijan. We analyze foreign trade policy instruments of Azerbaijan one by one and compare them with similar mechanisms of other countries. Our results show that that the foreign trade policy is very favorable for increasing foreign trade volume, and diversification of non-oil export in Azerbaijan. We find that Azerbaijan's the maximum import tariffs level is 15%, and simple average is 9.4%. At the same time, until now Azerbaijani Government does not use most non-tariff barriers, including import quantity quotas, export subsidy, damping, anti-dumping etc.

**Keywords:** Azerbaijan, customs duties export diversification, export partners, foreign trade policy, non-oil export.

**JEL Codes:** F1, F13, O24, P45.

**Available Online:** 20<sup>th</sup> September, 2015.

This is an open access article under Creative Commons Attribution 4.0 License, 2015.

### 1.0 INTRODUCTION

United Nations defines, that *economic diversification* in its standard usage, either in terms of the diversity of economic activities or markets, is a significant issue for many developing countries, as their economies are generally characterized by the lack of it. In the 1960's, some 80% of developing country exports were primary commodities; today, almost 80% are industrial products. According to him, this massive transformation in export structure has been associated with the rise of major industrial power-houses; China most prominently, but also countries such as Korea, India, Brazil, Malaysia, Vietnam, Indonesia and Mexico (Gasimly, 2013).

In many developing countries, there is often very low domestic demand, so exports remain one of the few channels that in the longer run significantly contribute to higher income per capita growth rates of

<sup>1</sup> PhD candidate, The Scientific Research Institute of Economic Reforms under the Ministry of Economic and Industry of the Republic of Azerbaijan, sevdaimamverdiyeva@gmail.com

<sup>2</sup> PhD candidate, The Scientific Research Institute of Economic Reforms under the Ministry of Economic and Industry of the Republic of Azerbaijan, elnurvaqifoglu@gmail.com

a country. Many countries that are commodity dependent or exhibit a narrow export basket often suffer from export instability arising from inelastic and unstable global demand, so export diversification is one way to alleviate these particular constraints (Hesse, 2008).

Currently oil and gas sector dominates the economy of Azerbaijan. In 2012 the oil sector accounted for about 47 percent of GDP, more than 90 percent of total exports, and about 70 percent of state budget revenues. Booming oil prices in recent years helped the country to take advantage from its enormous natural resource wealth. Why does Azerbaijan have to diversify its economy in the first place? Will this lead to its particular comparative advantage? There are two fundamental reasons that justify the avoidance of reliance on hydrocarbon resources. First of all, oil prices are very difficult to predict. Between 2003 and 2012 after sharp increase of oil income in Azerbaijan, according to our estimations, the coefficient of variation of oil prices has been 0.4 and standard deviation 27.9 US dollar per barrel. Such kind of high volatility makes it inevitable to think about diversification (Gasimly, 2013).

This research focuses on analyzing oil and non-oil sector share in total export, and its changing dynamics, at the same time current situation of export diversification in terms of export partners and commodities in Azerbaijan with *systematic reviews* and *comparative analysis* methods. Both study explores Azerbaijan's trade policy in more detail and compare with other countries' foreign trade policies. Finally, we will try to estimate foreign trade policy impact on export diversification in Azerbaijan.

Based on these goals, the main research questions are that: Can Azerbaijan diversifies its exports? And does trade policy have impact on the export diversification in Azerbaijan? In the following we attempt to review the existing literature and arguments for export diversification as well as provide an empirical analysis of the relationship of export diversification and foreign trade policies.

The paper structure as these: First section is about theoretical background of export diversification and trade policy impact on export diversification. The second Chapter is dedicated to the current status of Azerbaijan export diversification and trade policy. And chapter "results and discussion" enumerates the trade policy of Azerbaijan in terms of impact on export diversification and study linkages between trade policies and export diversification in Azerbaijan. The final Chapter – "Conclusions and Policy Implications" deals with conclusions of the full paper and give us useful proposals for the development of trade policies in terms of export diversification in Azerbaijan.

## 2.0 THEORETICAL BACKGROUND

There is an emerging consensus in the empirical international trade literature that trade policy affects the level of export diversification. Several recent papers have found that tariffs faced by countries significantly contribute to shape their export extensive margins, i.e., their ability to export new products. Most of them take as benchmark the Ricardian model, which precisely predicts that a reduction in trade barriers leads to an increased range of exported goods (Dornbusch et al., 1977, and Venables, 2003).

Yi (2003) explores one specific channel through which tariff reductions may induce increases in the extensive margin, namely, deepened vertical specialization. Trade liberalization favors fragmentation of production processes, so products that were entirely produced in one country become to be produced sequentially in different countries with the successive stages distributed according to countries' comparative advantage. As a result, there is a significant expansion of trade in intermediate goods, beyond that on final goods. Using a calibrated two country dynamic Ricardian model Yi (2003) shows that this could help to explain the strong reaction of trade to moderate tariff diminutions. Solving this elasticity puzzle has also motivated the work by Ruhl (2003). He develops and calibrates a model combining elements from the international business cycle literature and the applied general equilibrium models which are common in assessing the impact of trade policy changes (Christian Volpe Martincus and Sandra Milena Gómez, 2009).

Ruhl (2003) provides evidence that permanent tariff reductions raise the expected future gain from exporting impelling more firms to enter the export markets and are therefore associated with increased extensive margins of trade. Kehoe and Ruhl (2013) analyze trade patterns for six countries -Spain, Greece, Portugal, but especially United States, Canada, and Mexico- during major trade liberalization episodes – the accession to the European Economic Community, the Canada-US Free Trade Agreement, and the North American Free Trade Agreement. Using bilateral trade data at the SITC-4 digit level, they characterize the behavior of the export extensive margin through the evolution of the share of the least exported goods at the beginning of the period in total exports. Kehoe and Ruhl (2013) show that this measure substantially grows following the decrease in trade barriers. In particular, the set of least traded goods which account for only 10% of trade before trade liberalization can grow to account as much as 50% of trade following tariff cuts. Furthermore, there is no similar evidence of rising extensive margin for those countries that do not experience comparable trade policy changes. Moreover, Kehoe and Ruhl (2013) attempt to replicate these patterns in the data through simulations performed with a calibrated, slightly modified continuum-of-goods version of the Trade policy of the country is considered as a determinant of export diversification (Christian Volpe Martincus and Sandra Milena Gómez, 2009).

As stated in Melitz (2003), export activities carry a fixed cost, and under a protectionist trade regime, the export sector will be underdeveloped since only a limited number of firms will be able to afford the fixed costs of exporting, thus leading to an export concentration. Moreover, trade liberalization that leads to lower tariffs is expected to improve the access to foreign markets, which will eventually lead to export diversification as the country becomes capable of facing a more diverse demand from its partners (Dogruel and Tekce, 2011).

According to the Ankur and Paul (2013), Good Trade Logistics is an important determinant for exports generally, but absolutely crucial for manufacturing value chains where products at different stages are imported and re-exported with added value multiple times amplifying inefficiencies and costs and impacting competitiveness of industries and countries. As such, benchmarking and measuring trade logistics performance is a critical part of any strategy that seeks to improve the performance of the manufacturing sector particularly one focused on international trade. This section discusses the importance of costs including logistics costs and then focuses on the trade logistics performance of Sub Saharan Africa as measured through various global indicators (Ankur and Paul 2013).

Ankur and Paul (2013) summarizing the results of various studies have designed the following schedule about the impact of trade logistics reform on trade, tariffs and prices, and income and almost all highlight the positive impact on countries.

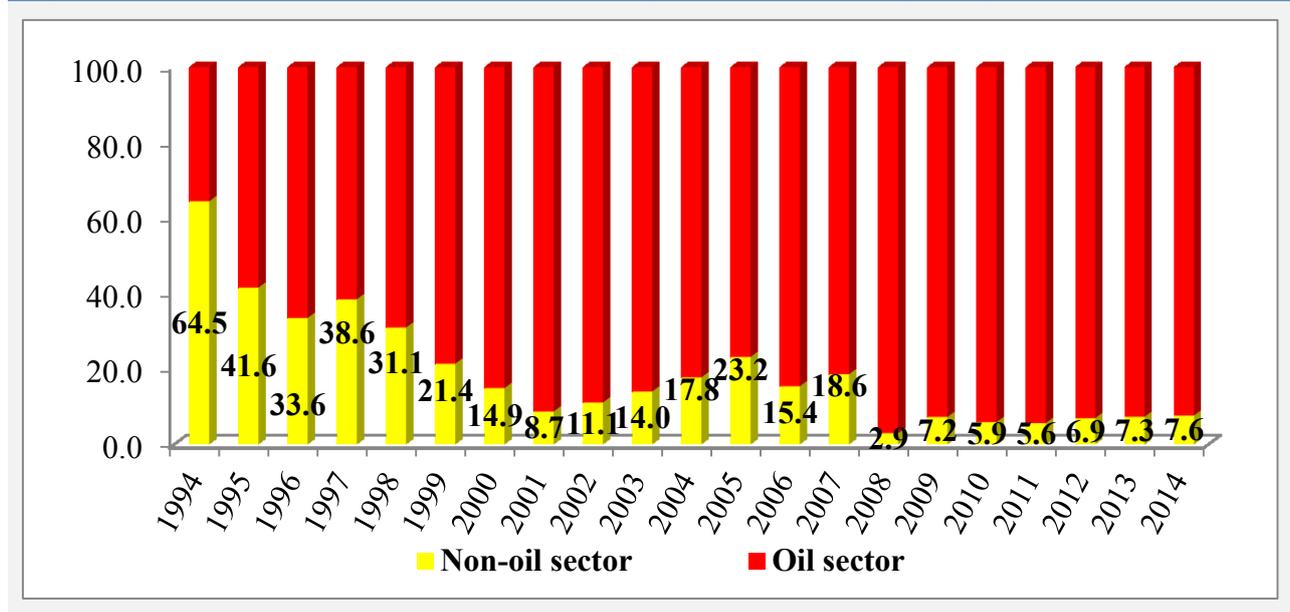
Also, trade policy is often directed to protect final products rather than intermediate products. This provides an advantage to the localization of the last blocks of production processes in consumer markets. The relatively lower tariff on intermediate products provides a greater incentive to import them (and thus to be produced in developing countries). On the other hand, the higher tariff on final products provides an incentive to localize assembly in large (or potentially large) consumer markets, or in countries enjoying free access to consumer markets. This trend, where tariffs increase along the production chain, is generally referred to as tariff escalation. Tariff escalation is often used to provide an advantage to domestic firms engaged in the assembly of the higher value added final product rather than in the provision of low value added intermediate products (Alessandro et al., 2013).

### 3.0 STATUS OF TRADE POLICY IN AZERBAIJAIN

Azerbaijani export has increased dramatically since independence. With the increase in oil production, the export ability of the country has developed “from” 1999, because first volume of oil export began under the “Agreement of country” export to the foreign markets in recent year. So, hydrocarbons (mainly oil and oil products) are the dominant export activities: up to 92.4 percent of total exports in

2014. On the other hand, one of the very strong reasons is world oil price, because world oil price increased only 4.6 times between 1999 and 2003.

**Figure 1:** Share of oil and non-oil sectors in total exports of Azerbaijan, (unit: %)



Source: Author's calculations based on the Azerbaijan State Statistic and Customs Committees' figures

As shown in the Figure 1, Azerbaijan's non-oil sector's share in the total exports is 64.5 percent in 1994. But then this share goes down and decreases 7.6 percent in 2014. So, nearly 20 years period, Azerbaijan non-oil export share in total exports decrease, and the same time oil sector share increase. We think that, the main reason of this situation is oil and gas sector increasing more quickly than non-oil sector. Analyzing Azerbaijan's non-oil sector exports, we can see that the value of non-oil sector exports increased in 2014, compare with 1994. However, Azerbaijan's non-oil exports value is 420.9 million USD in 1994, and 1,651.4 million in 2014. Comparing these figures, it is shown that the value of Azerbaijan's non-oil exports increased 2.9 times (see Table 1).

**Table 1:** The dynamics of non-oil export in Azerbaijan, (unit: million USD)

<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
420.9	265.3	212.1	301.2	188.3	198.8	260.3
<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
200.6	240.0	362.7	643.0	1,010.1	981.9	1,127.0
<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
1,393.2	1,061.9	1,250.0	1,481.6	1,648.8	1,745.6	1,651.4

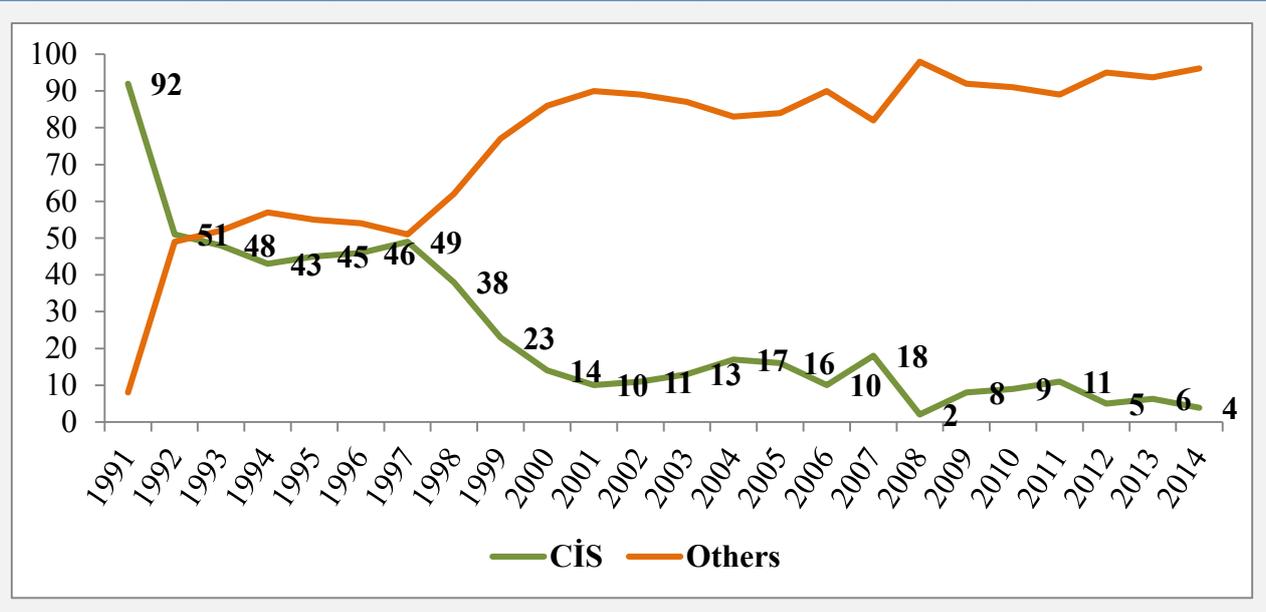
Source: Author's calculations based on Azerbaijan State Statistic and Customs Committees' figures

At the same time, the number of Azerbaijan's export products was 2151 in 2014. But these same figures were 1218 in 2003. So, export products items increase 76.6 percent between 2003 and 2014. On the other hand Azerbaijan export partners increase from 40 (1994) to 105 (2014) in 20 years period.

As the structure of Azerbaijan's foreign trade has changed, so have its export partners. Although Azerbaijan's main export partners were mainly CIS countries in the early years of independence, this ratio has increasingly favored European Union countries. Hence, Azerbaijan have been diversified the composition of export partners between 1994 and 2014. So, in 1994, thr share of Azerbaijan export to CIS countires was 92 percent, but now (2014) is only 4 percent. As seen from the figure 2, the CIS countries' share in Azerbaijan's export has been shrinking. The main reason for this is that European Union countries

are the major importers of Azeri oil, so as oil exports grow, the share of CIS countries in Azerbaijani export decreases. Even though trade with CIS countries has grown from year to year, its share in export is overshadowed by the growth in energy export with European countries.

**Figure 2:** Changing in composition of Azerbaijan export partners, 1991-2014 (unit: %)



Source: Author's calculations based on the Azerbaijan State Statistic Committees' figures

The major trading partner of Azerbaijan among the CIS countries is Russia. Its share in the trade turnover with CIS countries is approximately 50%. One of the main reasons for this is that Russia is the primary importer of Azerbaijani agricultural products. This high volume of trade between Russian and Azerbaijan is an outgrowth of the historical trade and economic relations between the two regions. Moreover, about two million Azerbaijani citizens currently live in Russia, which contributes to the growth of trade turnover volume. In this respect, Russia is a useful economic space for Azerbaijan (CESD, 2012).

To some extent, Russia's share of Azerbaijan's export is so high simply because Russia is the largest economic power in the CIS. Moreover, being one of the largest countries in the world in terms of area and population makes Russia a major market and economic space for not only Azerbaijan and other CIS countries but, indeed, the entire world. Thus, it is unsurprising that Russia plays an important role in the trade turnover of Azerbaijan and other CIS countries as well. However, recent large-scale investments in the oil sector, especially involving foreign oil companies, have increased the share of European Union countries in Azerbaijan's export, even doubling in recent years. This trend increased, especially after the Baku-Tbilisi-Ceyhan oil pipeline started (CESD, 2012).

**Table 2:** Main export partners (top 10) of Azerbaijan (1994 and 2014)

Export partners	1994			2014		
	export value, million USD	Share in total export, %	Nº	Export partners	export value, million USD	Share in total export, %
Iran	257.4	39.4	1	Italy	4,805.6	22.0
Russia	139.7	21.4	2	Indonesia	2,012.3	9.2
United Kingdom	61.7	9.5	3	Germany	1,925.6	8.8
Ukraine	58.6	9.0	4	Israel	1,766.9	8.1
Turkmenistan	17.1	2.6	5	France	1,523.5	7.0
Georgia	16.6	2.5	6	Thailand	839.9	3.8
Kazakhstan	16.5	2.5	7	Spain	783.7	3.6
Turkey	16.5	2.5	8	India	778.3	3.6
Moldova	12.6	1.9	9	United State	745.8	3.4
Austria	9.5	1.5	10	Russia	640.3	2.9

Others	46.5	7.1	Others	6,006.7	27.5
<b>Total</b>	<b>652.7</b>	<b>100.0</b>	<b>Total</b>	<b>21,828.6</b>	<b>100.0</b>

Source: Author's calculations based on the Azerbaijan State Statistic Committees' figures

We can show improvement also in top 10 export partners. In other words, Azerbaijan's main – top 10 export partners' share in total export is 72.5 percent in 2014. But this figure was 92.9 percent in 1994. So, in 20 years period top 10 export partners' share in Azerbaijan's total export has decreased 20.4 percentage.

**Figure 3:** Share of Azerbaijan export partners in total export (1994 and 2014); Unit, %



Source: Author's calculations based on the Azerbaijan State Statistic Committees' figures

## TRADE LEGISLATION IN AZERBAIJAN

Formation of the trade legislation of the Republic of Azerbaijan created the opportunity for enhancing cooperation in this field. In Azerbaijan, more than 30 laws and number of normative legal documents have been adopted so far to regulate international trade relations. Some of these documents are as follows:

1. The law of the Republic of Azerbaijan "On export control" dated October 26, 2005.
2. The law of the Republic of Azerbaijan "On currency regulation" dated 17 May, 2002.
3. The law of the Republic of Azerbaijan "On state duties" dated 4 December, 2001.
4. The law of the Republic of Azerbaijan "On approval of the Customs Code of the Republic of Azerbaijan" dated 24 June, 2011.
5. The law of The Republic of Azerbaijan on "Customs tariffs" dated June 13, 2013
6. The Presidential Decree "On measures for further liberalization of foreign trade in The Republic of Azerbaijan" No. 609 dated June 24, 1997.
7. The Decree of the President the Republic of Azerbaijan "On approval of the Customs Code of the Republic of Azerbaijan" dated July 25, 1997.
8. The Presidential Decree "On Trade Development State Program for 1999-2000" dated July 23, 1999.
9. The Presidential Decree "Improvement of regulations on some types of special permit (license)" dated September 02, 2002.
10. The Resolution No.222 of the Cabinet of Ministers of the Republic of Azerbaijan "On organization of foreign trade in The Republic of Azerbaijan" dated June 2, 1994.
11. The Resolution No.124 of the Cabinet of Ministers of the Republic of Azerbaijan "The list of VAT exemptions of goods imported into the territory of the Republic of Azerbaijan" dated June 2, 1994.
12. The Resolution No.91 of the Cabinet of Ministers of the Republic of Azerbaijan "The rates of custom duties on export-import operations in the Republic of Azerbaijan" dated April 22, 1998.

13. The Resolution No.20 of the Cabinet of Ministers of the Republic of Azerbaijan “On level of excises tax of goods imported into the Republic of Azerbaijan” dated January 19, 2001.
14. The Resolution No.80 of the Cabinet of Ministers of the Republic of Azerbaijan “On rate of customs tax for import-export operations and customs fees for customs registration in the Republic of Azerbaijan” dated April 12, 2001.

## THE EXPORT CUSTOMS DOCUMENTATION

The list of documents required for export from Azerbaijan is the following<sup>3</sup>:

1. customs declaration,
2. transportation documents,
3. a document confirming payment of customs,
4. confirming the implementation of foreign trade agreements or document confirming the right of disposal, possession, use of goods, or any other document,
5. a document certifying the origin of the goods specified in the customs declaration
6. quality certification for food products exported to EU countries (if),
7. the order of Cabinet Ministers and reviews of relevant state bodies, in cases envisaged by legislation (if),
8. export permits for restricted goods with related normative legal acts (if),
9. a phytosanitary certificate for the export of plants and plant products (if),
10. a special permit for the goods subject to export control (if),
11. export license for precursors (if).

We must note that, first five documents are mandatory in the upstairs list. But, the next six documents vary depending on the current export product.

## TARIFF MEASURES

### Custom duties

Azerbaijan has started negotiations with WTO on accession to the organization. The government has undertaken a number of steps to liberalize foreign trade. As of the period of 2010-2014, the weighted average import tariff in Azerbaijan is 4.6 %<sup>4</sup> i.e. significantly below the international average.

Azerbaijani law recognizes several customs regimes applicable to goods imported in Azerbaijan, of which most important to foreign investors being transit, customs storage, bonded warehouse, temporary import, processing on and outside customs territories. In the case of temporary import, no duties are applied and the goods must be re-exported from Azerbaijan until the deadline established by the customs authorities. The goods brought under the temporary import regime should be re-exported without substantial changes in their nature. Import of goods into Azerbaijan is subject to imposition of imports duties (ad valorem duties ranging from 0% to 15% (0, 0.5, 3, 5, 10 and 15), per unit duties, duties per metric units).

Import Duties Drawback Schemes is available in Azerbaijani legislations. So, goods imported into Azerbaijan for processing and then re-exported are subject to normal duty and taxes but a drawback scheme is available to recover import duties; as seen for draw back schemes for VAT, procedures are unclear and recovery of duties is *de facto* not available for the majority of firms (Navaretti, 2003).

Excise tax applies to certain types of goods (e.g. tobacco and alcohol products). Azerbaijan adopted “destination VAT” principle and VAT (currently set at 18%) is payable (subject, of course, to applicable customs regime) on the declared value of goods (including assessed import duties and excise tax). Certain categories and types of goods are import exempt and to some others 0% VAT applies.

<sup>3</sup> <http://e-qanun.az/framework/28199>

<sup>4</sup> <http://data.worldbank.org/indicator/TM.TAX.MRCH.WM.AR.ZS>

**Table 3:** The list of VAT and customs duties exemptions in import in Azerbaijan

Exemptions	Import tariff	Import VAT
According to the Production Sharing Agreement	Free	Free
According to the Free Trade Agreements	Free	Applied
Property brought by the foreign investors for the creating of enterprise	Free	Applied
Property brought by the foreign employees of enterprise with foreign investments	Free	Free
Diplomatic cargo and commodities	Free	Free
The introduction of the goods and the money earned by migrant workers	Free	Applied
Importation of sport equipments for the preparation of national teams	Free	Applied
Importation of equipments and rowmaterials for the media	Free	Applied
Imported commodities which are imported by the Central Bank	Free	Free
Imports at the expense of gratuitous financial assistance from abroad	Free	Free
The import of goods at the expense of loans and debts	Free	Applied
The import for in order to prevent of emergency situations	Free	Free
Importation for the exploration and production of oil-gas reserves	Free	Free
The importation of blanks for passports and identification cards, equipment for determination of hand and finger prints and "102" service	Free	Free
Importation for tourism projects which are located at 1,300 meters above sea level	Free	Free
Imported goods which are the subject of the leasing agreement	Free	Free
Import for the export purpose oil and gas activities	Free	Free
Equipment which import by The Ministry of Defense Industry	Free	Free
Imported grain for the supplying to the State Grain Fund	Free	Free
Import based on the confirmation document of the National Academy of Sciences	Free	Free
Import for the construction of production facilities of water vehicles	Free	Free
Goods and equipment imported by the State Traffic Police	Free	Free
Equipment and blanks imported by embassies, consulates and etc.	Applied	Free
Importation of goods and equipment for the construction of a steam-gas power stations, which cost up to 500 million manat	Applied	Free
Import goods which use the promotion of the non-oil production	Free	Free
Import for the construction of a cement manufacturing plant which the production capacity is 5 thousand tons clinker per day or 2 million tons cement per year	Free	Free

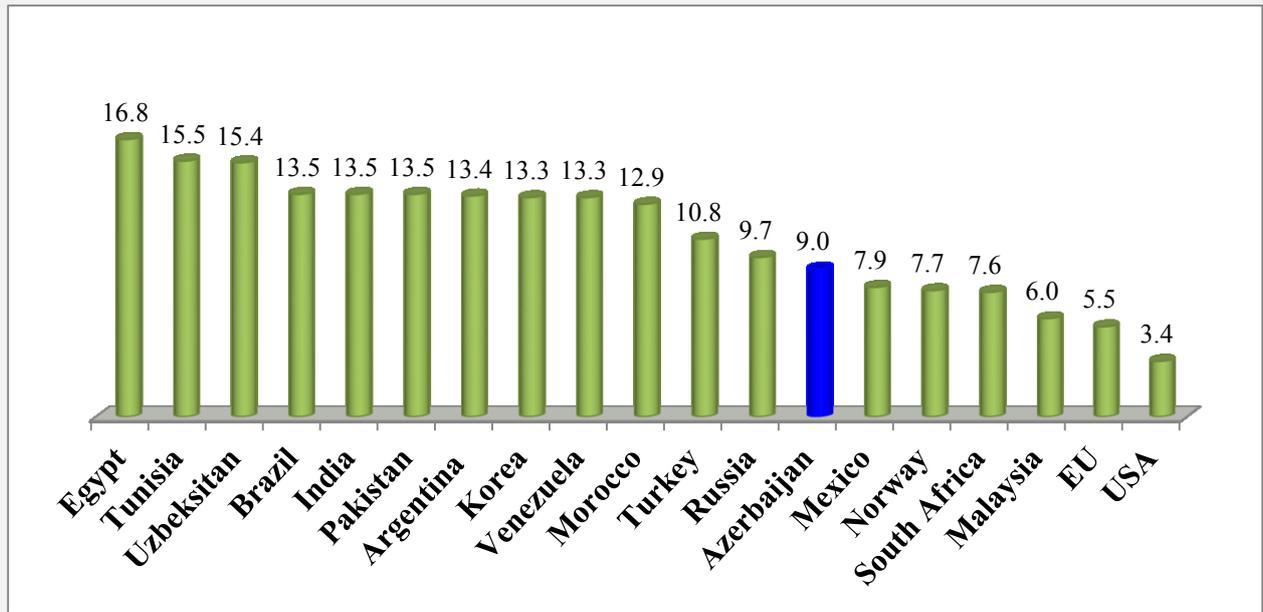
**Source:** Table prepared based on Azerbaijan legislation (Customs and Taxes Codes, free trade agreements, and other legal acts) by the authors.

Exports are exempt from customs duties, except for certain types of metals and metal products. Tariffs are traditional price-based trade policy instruments, while non-tariff measures can also add to the cost of trading and thus have an impact on the extent to which firms and countries integrate into GSCs. Although the information costs of non-traditional trade barriers are often internalized by lead firms, some of these barriers still add to the overall costs of moving goods along the chain.

As shown in the figure 4, the simple average of import tariffs of Azerbaijan is lower than neighbor countries as Turkey and Russia, as well as, Korea, China, India, Brazil, Argentina and etc. The same situation predominates on maximum import tariffs too. So, maximum import MFN tariffs are 15%<sup>5</sup> in Azerbaijan, but 511% (dairy products) in EU, 350% (beverages & tobacco) in USA, 225% (animal products) in Turkey, 441% (clothing) in Russia, 484% (animal products) in Canada, 736% (Cereals & preparations) in Japan, 800% (Cereals & preparations) in Korea and more from 1000% (Cereals & preparations, beverages & tobacco, chemicals, textiles and other agricultural products) in Norway, Switzerland, South Africa and Egypt ("World Tariff Profiles 2014").

<sup>5</sup> According to the relevant legislation the maximum import tariff is 15% in Azerbaijan. But according to the "world tariff profile 2014" in Azerbaijan maximum import tariff is 250% (textiles).

**Figure 4:** Comparing simple average import tariffs (MFN applied) level, %



Source: Author's calculations based on the "World Tariff Profile 2014".

**Antidumping and compensation duties**

Today, any antidumping, countervailing and protection measures are not applied in Azerbaijan. But, the possibility of an application of same measures is intended in the national legislation. However, according to the law "on customs duties" for the protection of Azerbaijan economic interests the following types of custom duties may apply temporarily to import goods in the customs area of Azerbaijan Republic:

- Special charges,
- Antidumping duties,
- Compensatory duties.

But, until now the implementation procedure of these duties are not available yet in Azerbaijan. In our opinion, the current mechanism will be active after the entry into force of the draft law "On Antidumping, compensation and protection measures" which was prepared by the government.

**NON-TARIFF MEASURES**

**Export licenses**

Now, according to the Presidential Decree number 782, "Improvement of regulations on some types of special permit (license)" dated September 02, 2002, licenses apply to the production, selling and importation of ethyl alcohol, precursors, alcoholic and tobacco products. Only precursor export and transit are subject to licensing in Azerbaijan.

Table 4: License is required for trade of goods in Azerbaijan

Operation types	The Responsible Government Bodies	Duties, AZN
<b>On Ethyl Alcohol and Alcoholic Beverages</b>		
Import	State Customs Committee	11,000.0
<b>On Tobacco Products</b>		
Import	State Customs Committee	11,000.0
<b>On Non-governmental Phytosanitary Services, including agrochemicals and plant protection means</b>		
Import	Ministry of Agriculture	1,000.0
<b>On Precursors</b>		

Export, import, production and transit	Ministry of Health	550.0
--	--------------------	-------

**Source:** Author's preparation based on Presidential Decree No. 782, dated September 02, 2002.

Under Azerbaijani law, license is an official record permitting relevant types of entrepreneurial activities to a legal person irrespective of its organizational and legal form, as well as to a natural person engaged in entrepreneurial activities without creation of a legal entity. A license is granted without discrimination to any entity that satisfies the requirements for that specific license. Thus (with certain exceptions), foreign investors may obtain licenses under the same conditions and in accordance with the same procedure as Azerbaijani nationals. Normally, a licensee may not transfer a license to another legal entity or individual. Licensing in Azerbaijan is regulated by the laws, presidential decrees and orders of the Cabinet of Ministers of the Republic of Azerbaijan. The Ministry of Economy and Industry is the government agency entrusted to exercise overall control in the field of licensing and to maintain a single register of licenses. However, the right to issue a specific license is given to respective state authorities who control the licensed activity (the Ministry of Transportation, the Ministry of Emergency Situations, the Ministry of Economy and Industry, etc).

Regulations on procedures for the licensing specific types of activities are generally issued by the Cabinet of Ministers. An applicant is required to submit all documents specified in the regulations and pay the required fee, upon which (subject to the application meeting all requirements) a license is issued within 15 days. The basic term of most licenses is five years (for production of alcoholic beverages and ethyl (drinking) alcohol - 3 years, for their import - 1 year).

#### Export subsidies

Until now, any types of the export subsidies are not use by the Government of the Republic of Azerbaijan. Both, the national legislation do not imply export subsidies. But in our opinion Azerbaijan Government must apply export subsidies. As export subsidy is the direct way of the state support for the development of non-oil export in the world and several developed (EU, USA, and etc.) and developing countries (Turkey, Mexico, Brazil and etc.) apply export subsidies widely.

Table 5: Export subsidies practices of EU, million EUR

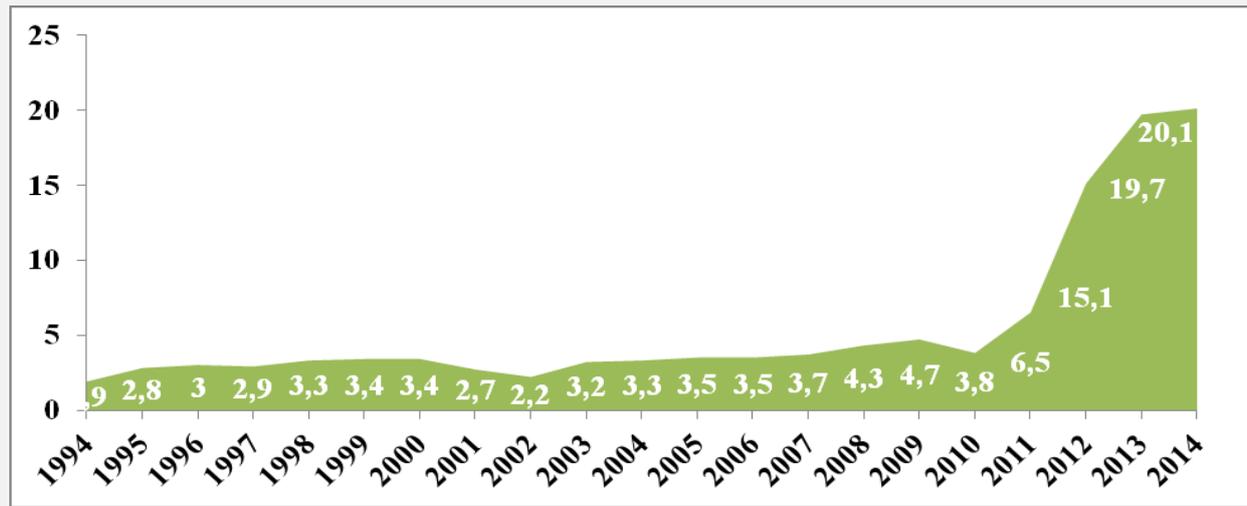
Products	2007	2008	2009	2010	2011
Beef and veal	31.7	23.1	21.5	16.7	46.1
Chicken meat	86.0	97.2	91.6	90.7	81.7
Pork	20.3	99.0	60.0	18.8	19.1
Live animals	14.5	10.1	10.2	8.7	9.6
Milk and milk products	513.4	28.8	181.1	186.4	5.4
Egg	4.8	4.3	3.1	2	2.8
Sugar	509.3	501.3	179.1	9.8	1.5
Fruits and vegetables	21.7	18.6	5.2	0.4	0.05
Cereals	41.8	9.7	0.9	0.0	0.05
Rice	0.05	0.0	0.0	0.0	0.01
Wine	14.0	14.5	7.3	0.0	0.0
Other	185.4	108.2	89.5	50.9	12.8
<b>Total</b>	<b>1,442.95</b>	<b>914.8</b>	<b>649.5</b>	<b>384.4</b>	<b>179.11</b>

**Source:** (Imamverdiyeva, 2015)

#### Export credit and its insurance

Export credit is the main instrument of export diversification and increasing of export value in the world. More 80 countries in the world use export credit in today. But in today and until now Azerbaijan do not take advantage from export credit and its insurance mechanisms. One of these countries which use export credit and its insurance mechanism is Turkey. Türk Eximbank was chartered by the Cabinet on the 21st August 1987 by Decree no.87/11914, following the order of Law No. 3332 (March 1987) by maintaining the juridical and legal personality of State Investment Bank (Imamverdiyeva, 2014).

**Figure 5:** Credit amount of the turk Eximbank (1994-2014)



Source: (Imamverdiyeva, 2014)

**Quantity quotas on export**

No quantity quota in foreign trade in Azerbaijan. There only has been given the explanation of the term of tariff quotas in customs tariffs law.

**Damping on export**

So far, the Azerbaijani Government does not have any dumping activity in export. At the same time despite research, we could not find a provision related to the dumping measure in the national legislation.

**Export permissions**

The list of goods which exported on the basis of the special decree of the Cabinet of Ministers was approved by the Presidential Decree No. 609, dated June 24, 1997. That list covers weapons and military equipment, spare parts needed for their production, gunpowder, explosives, explosive and pyrotechnic materials, nuclear materials, technologies, equipment and facilities, special non-nuclear materials, radioactive radiation sources, including radioactive waste, limited circulation drugs and psychotropic substances, as well as chemical poisons in the territory of the Republic of Azerbaijan, armaments and military equipment, which is used for the creation of scientific and technical information and technologies, materials and different types of equipment, blood, blood components and preparations thereof, raw diamonds.

**Table 6:** The list of specific goods which export subject to the opinion of the relevant state bodies

Product	Responsible Government Bodies
Wild animals and plants, animal bones have been found in excavations	The Ministry of Ecology and Natural Resources
Snakes, phalanx, scorpions poisonous, raw materials from wild animals and wild plants for the production of pharmaceutical	The Ministry of Ecology and Natural Resources, Ministry of Public Health
Information about thermal energy and mineral raw materials deposits and by regions in the territory of the Republic of Azerbaijan	The Ministry of Ecology and Natural Resources
Inventions, "Nou Hau" and scientific research work	The Academy of Sciences, Committee of Standardization, Metrology and Patents
Works of art, collectors items and antiques goods	The Ministry of Culture and Tourism
Controlling to the psychotropic substances circulation in the territory of the Republic of Azerbaijan	Ministry of Public Health
Export of national cultural property of Azerbaijan Republic which included in the list of cultural resources on the time of exhibitions,	The Ministry of Culture and Tourism

tours, presentations, international cultural events and restoration work

Source: Presidential decree no. 609 dated June 24, 1997

## FREE TRADE AGREEMENTS AND GSP PROGRAMMS

Azerbaijan has 10 free trade agreements with the following CIS countries: *Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.*

At the same time, Azerbaijan is the benefitting country of the following countries' Generalization System of Preference (GSP) programs: *United State of Amerika, Japan, Norway, and Switzerland.*

**The Roles of the Export and Investment Promotion Agencies (Azpromo) on export diversification in Azerbaijan.** One of the most important issues is to take measures for simplification of export procedures in order to find foreign markets for agricultural and food industry products of local production. Azerbaijan Export and Investment Promotion Foundation (AZPROMO) could play an important role in this regard. AZPROMO is a joint public-private-initiative, established by the Ministry of Economy and Industry of Azerbaijan in 2003 with the aim to contribute to the economic development through attracting foreign investments in the non-oil sectors of economy and stimulating expansion of country's exports of non-oil goods to the overseas markets (Hamza Khalilov, Namig Shalbuzov and Ramil Huseyn, 2015).

AZPROMO is a unique body in Azerbaijan that operates as a "one-stop shop" for assisting and advising foreign-based companies interested in investigating and utilizing investment opportunities in Azerbaijan. AZPROMO plays a role of a single body guiding foreign investors in their negotiations with all relevant government agencies and local entrepreneurs. Mission of the AZPROMO is to sustain economic growth and diversification by maximizing inflow of FDI and utilizing effectively export capacities. Main functions AZPROMO are as follows (Hamza Khalilov, Namig Shalbuzov and Ramil Huseyn, 2015): Promotes Azerbaijan as a business location

1. Assists international companies setting up business in Azerbaijan
2. Assists companies based in Azerbaijan with reaching foreign markets
3. Promotes improvement of business and investment climate.

AZPROMO's services on export promotion include market and industry reports, information on applicable trade legislation, matchmaking with potential buyers, organization of trade missions and participation in trade fairs, marketing support, trainings, and constructing export database and catalogues (Hamza Khalilov, Namig Shalbuzov and Ramil Huseyn, 2015).

The construction of the first Azerbaijani logistics center abroad has started in Kazakhstan's Aktau city. The implementation of this project will pave the way for the development of the two countries' non-oil sector, the expansion of transit and export opportunities in the region. This center will export Azerbaijan's industrial and agricultural products to Kazakhstan and vice versa. Implementing the first stage of the project requires \$20 million which will be financed by the National Fund for Entrepreneurship Support under Azerbaijan's Economy and Industry Ministry. The logistics center in Aktau will become Azerbaijan's first relevant projects abroad and will create new export opportunities for entrepreneurs. The construction and management of the center will be carried out by Azersun Holding (Hamza Khalilov, Namig Shalbuzov and Ramil Huseyn, 2015).

## 4.0 RESULTS AND DISCUSSION

Our research shows that exports in Azerbaijan increased to 20 billion US dollars within independence years. During this period, the export of crude oil and petroleum products has increased more rapidly than from the non-oil products export. As a result, the non-oil sector's share in total export decreased from 65% in 1994 to 8% in 2014. Unfortunately, contrary the oil sector's share in total exports continuous has increased to 92% at the end of last year. Indeed, this increasing dependence on the oil sector of the

economy and the fluctuations of the energy resources prices in international markets leads to the negative impact on economic stability, sharply declining in public investment to infrastructure projects and etc.

In addition, positive trends have been observed in the geographic diversification of exports in Azerbaijan during the the last 25 years. So, the number of export partners increased 2.6 times from 1991 (40 countries) to 2014 (105 countries), top 10 countries' share in total export was 93% in 1994, but decreased to 73% in 2014, the same time, CIS countries' share in total export was 92% in 1991, but only 4% in 2014. Other side, the rest of the world's share in total export increased seriously in the period of 1991-2014 and has risen to 96% last year. Unfortunately, CIS countries' share in the non-oil sector export is 45.7 % in 2014.

From this study we can come to the conclusion that the foreign trade policy of Azerbaijan Republic is very favorable for increasing of non-oil export amount and diversification of its structure. The simple average and maximum level of import duties are very low comparing with the other countries. So, maximum import duties level is more 1000% in some countries, but is 15% in Azerbaijan. In addition, we think that there is a need for the improvement of customs duties and differentiation of its structure. According to the results of fundamental research, customs duties must increase for the products which have very huge potential and production practice, as well as customs duties must decrease in the sectors which are completely dependent on imports and have not production in Azerbaijan. We consider that, this process will be positive impact to the conjuncture of foreign trade, the effective protection of local producers and the growth of the real income of consumers.

Other side, antidumping measure which does not applied until now in Azerbaijan, but using very intensity by the world countries for the protection of domestic producers from the unfair and deceptive competition should be operational soon.

Now Azerbaijan only uses licenses for the importation of ethyl alcohol, alcohol products, tobacco and tobacco products, non-governmental phytosanitary services, including agrochemicals and plant protection means and exportation and transit of precursors, as well as permissions for the importation of some products (narcotics and psychotropic product and etc.) and technical requirements according to the WTO rules as non-tariff measures. At the same time, several types of non-tariffs instruments as damping, export subsidies, export credit and its insurance mechanisms, quantity quotas had not been used until today in Azerbaijan.

After independence (1991), very important steps have been taken towards forming foreign trade policy and its national regime. The Customs and Taxes Codes were accepted which reflects the very important provisions relating to the regulation of trade relations itself. At the same time, laws, Presidential Decrees and Resolution of Ministerial Cabinet relating to the foreign trade had been accepted too. In short, national trade regime had been formed, important measures have been taken in the direction of its improvement and adaptation to the international standards.

Presidential decree No. 12, November 11, 2008, application of the "SW principle" on inspecting the goods and vehicles passing the state border checkpoints of the Republic of Azerbaijan. Customs document numbers decreased to 5 in export and to 7 in import.

There are some problems in marketing studies which aimed at determining sales channels, so we think that in Azerbaijan this activity must support by the government for the improvement of quality of marketing study. At the same time, e-commerce portal (B2B, B2C, etc.) is very important for coordination of seller and buyers.

## 5.0 CONCLUSION AND POLICY IMPLICATIONS

Throughout this analysis we see some problematic aspects of our foreign trade policy in terms of export diversification. That is way; we think implementation of the following measures by Azerbaijan Government is very important for achievement of export diversification in Azerbaijan:

*First*, adoption of the specific Strategy for export diversification. *Second*, current customs duties must be differential. In other words, maximum level of customs duties must increase for the goods which are specific and local production potential for Azerbaijan. Here the specific areas are supposed for Azerbaijan, must be protected in current situation and future in terms of the state's long-term strategic development, for example, agriculture. Because, according to the information given by State Statistic Committee, 37.1% of total employed population are working in agriculture sector.

*Third*, on the other hand, the reduction of custom duties to 0% in sectors with no real and potential production in the country is inevitable. Because maintenance customs duties in the mentioned areas do not play any role, except for reducing real income of population. At the same time, Azerbaijan, who has chosen stimulation the production of import substituting products in the country as one of its foreign trade policy priorities, can achieve formation of production and development in the crude and half-finished products, including seed and plant seedlings, but also this kind of specific products by lifting import customs duties for these products.

*Fourth*, one of the ways of enhancing Azerbaijan's foreign trade policy is active participation in bilateral and multilateral preferential trade agreements. Our country has signed free trade agreement with 10 countries. Those countries are Russia, Belarus, Ukraine, Moldova, Georgia, Kazakhstan, Kirgizstan, Tajikistan, Uzbekistan and Turkmenistan (is not ratified). We regard that in order to increase the competitiveness of non-oil products in international markets, free trade agreements should be signed with the countries such as Turkey, Iraq and others, who has a great share in our export.

*Fifth*, the other attractive point to advance foreign trade policy in Azerbaijan is the establishment of Export-Import Banks (Eximbank). As a consequence of our analysis, there are already Eximbanks in about 80 countries in the world and 4 countries in CIS (Russia, Kazakhstan, Moldova and Ukrain). We note that by means of this mechanism Azerbaijan can achieve growth and diversification of export by promotion of and support to export. *Sixth*, establishment of export support programs and Exporters' Union in order to improve the organizational level of exports. *Seventh*, WTO accession process must complete be possible short time. *Eight*, customs procedures, number of required documents, cost and time loss must decrease.

## REFERENCES

- Alessandro Nicita, Victor Ognitsev and Miho Shirotori, 2013. Global Supply Chains: Trade And Economic Policies For Developing Countries. UNCTAD, Geneva, United Nations Publication.
- Ankur Huria and Paul Brenton. "Export Diversification in Africa: The Importance of Good Trade Logistics", Investing in Africa Forum, Addis Abab, Ethiopia, [http://www-wds.worldbank.org/78C911E3-C313-4155-90EF-54AC9E1D3C1F/FinalDownload/DownloadId-786CDF33D6EA3314539ECF95944F1234/78C911E3-C313-4155-90EF-54AC9E1D3C1F/external/default/WDSContentServer/WDSP/IB/2015/06/29/090224b082fa1fef/2\\_o/Rendered/PDF/Exportodiversiogooodtradeologistics.pdf](http://www-wds.worldbank.org/78C911E3-C313-4155-90EF-54AC9E1D3C1F/FinalDownload/DownloadId-786CDF33D6EA3314539ECF95944F1234/78C911E3-C313-4155-90EF-54AC9E1D3C1F/external/default/WDSContentServer/WDSP/IB/2015/06/29/090224b082fa1fef/2_o/Rendered/PDF/Exportodiversiogooodtradeologistics.pdf)
- Azpromo (2011). Legal Framework for Doing Business in Azerbaijan. ([http://www.azpromo.az/uploads/publications/Legal\\_Framework\\_pages\\_2011.pdf](http://www.azpromo.az/uploads/publications/Legal_Framework_pages_2011.pdf)).
- Center for Economic and Social Development (CESD), 2012. Azerbaijan's Foreign Trade; Comparative Analysis. [http://cesd.az/new/wp-content/uploads/2011/05/CESD\\_Publication\\_Foreign\\_Trade\\_Azerbaijan.pdf](http://cesd.az/new/wp-content/uploads/2011/05/CESD_Publication_Foreign_Trade_Azerbaijan.pdf).
- Christian Volpe Martincus and Sandra Milena Gómez (2009). Trade Policy and Export Diversification: What Should Colombia Expect from the FTA with the United States. Inter-American Development Bank, (<http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1801845>).
- Dogruel, S., and Tekce, M., (2011). Trade Liberalization and Export Diversification in Selected MENA Countries. Topics in Middle Eastern and African Economies, Volume 13.
- Dornbusch, R.; S. Fischer; and P. Samuelson, (1977). Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods. American Economic Review, Volume 67, No 5, pp. 823-839, (<http://www.eco.uc3m.es/~desmet/trade/DFSAER1979.pdf>).

- Gasimly, V., (2013). Economic Diversification Leads to Modernization in Azerbaijan. *The Tax Journal of Azerbaijan*, Volume 6, pp.101-114, Baku - Azerbaijan.
- Hamza Khalilov, Namig Shalbuzov, Ramil Huseyn, (2015). Country Report: Azerbaijan. Research Institute of Agricultural Economics, Azerbaijan, [http://www.agricistrade.eu/wp-content/uploads/2015/06/Agricistrade\\_Azerbaijan.pdf](http://www.agricistrade.eu/wp-content/uploads/2015/06/Agricistrade_Azerbaijan.pdf)
- Hesse, H., (2008). Export Diversification and Economic Growth. Working Paper No. 21, The International Bank for Reconstruction and Development/The World Bank, On behalf of the Commission on Growth and Development, Washington, US.
- Imamverdiyeva, S., (2015). An Impact of Export Subsidies on Export Diversification and the Possibility of Using from this Mechanism in Azerbaijan. *The Tax Journal of Azerbaijan*, Volume 2, pp.141-164, Baku-Azerbaijan, (<http://vergijurnali.az/upload/File/2015-2.Imamverdiyeva%20S..pdf>).
- Imamverdiyeva, S., (2014). "The role of Import-Export Banks (Eximbank) in Export Diversification", *The Tax Journal of Azerbaijan*, Volume 3, pp.177-190 Baku, (<http://vergijurnali.az/upload/File/2014-3.S.Imamverdiyeva..pdf>).
- Kehoe, T. and K. Ruhl, (2013). How Important is the New Goods Margin in International Trade? Federal Reserve Bank of Minneapolis, (<http://www.econ.umn.edu/~tkehoe/papers/NewGoods.pdf>).
- Navaretti, G. B., (2003). Azerbaijan Trade and Trade Facilitation Review. Asian Development Bank, ([http://www.dagliano.unimi.it/media/Azerbaijan\\_Trade\\_and\\_Trade\\_Facilitation\\_Review.pdf](http://www.dagliano.unimi.it/media/Azerbaijan_Trade_and_Trade_Facilitation_Review.pdf)).
- Ruhl, K., (2003). Solving the Elasticity Puzzle in International Economics. University of Minnesota and Federal Reserve Bank of Minneapolis, ([https://www.aeaweb.org/assa/2005/0107\\_0800\\_1303.pdf](https://www.aeaweb.org/assa/2005/0107_0800_1303.pdf)).
- Venables, A., (2003). Winners and Losers from Regional Integration Agreements. *Economic Journal*, Volume 113, pp.747-761, ([http://www.readcube.com/articles/10.1111%2F1468-0297.t01-1-00155?r3\\_referer=wol&tracking\\_action=preview\\_click&show\\_checkout=1&purchase\\_referrer=onlinelibrary.wiley.com&purchase\\_site\\_license=LICENSE\\_DENIED](http://www.readcube.com/articles/10.1111%2F1468-0297.t01-1-00155?r3_referer=wol&tracking_action=preview_click&show_checkout=1&purchase_referrer=onlinelibrary.wiley.com&purchase_site_license=LICENSE_DENIED))
- World Tariff Profiles, (2014). WTO Publications, printed in Switzerland, 2014, ([https://www.wto.org/english/res\\_e/booksp\\_e/tariff\\_profiles14\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/tariff_profiles14_e.pdf)).
- World Trade Organization, (2013). Trade Policy Review of EU-2013, WT/TPR/S/284, ([https://www.wto.org/english/tratop\\_e/tp\\_r\\_e/s284\\_e.pdf](https://www.wto.org/english/tratop_e/tp_r_e/s284_e.pdf)).
- Yi, K-M., (2003). Can vertical specialization explain the growth of world trade? *Journal of Political Economy*, Volume 111, No 1, (<http://www.econ.umn.edu/~tkehoe/classes/yi.pdf>).
- Statistical Bulletin (2014) The Central Bank of Azerbaijan, Volume 12, 2014, (<http://www.cbar.az/pages/publications-researches/statistic-bulletin/>).
- Statistical Yearbook Of Azerbaijan (2015) Statistical yearbook, State Statistical Committee of the Republic of Azerbaijan, Baku-Azerbaijan, pp 814, ([http://www.stat.gov.az/menu/6/statistical\\_yearbooks/](http://www.stat.gov.az/menu/6/statistical_yearbooks/)).
- The Foreign Trade of Azerbaijan (2015), Statistical yearbook, State Statistical Committee of the Republic of Azerbaijan, Baku-Azerbaijan, pp. 260, [http://www.stat.gov.az/menu/6/statistical\\_yearbooks/](http://www.stat.gov.az/menu/6/statistical_yearbooks/)