



MINISTRY FOR FOREIGN
AFFAIRS OF FINLAND



Azerbaijan

Aid for Trade Needs Assessment – Azerbaijan

Trade and Human Development

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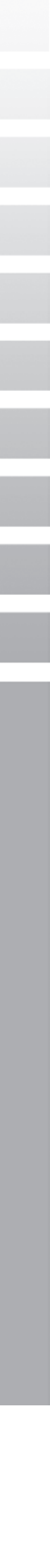
United Nations Development Programme



Aid for Trade Needs Assessment – Azerbaijan

Trade and Human Development

July 2010



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The **Aid for Trade agenda** is one of the most important development-related outcomes of the 2005 WTO Ministerial Conference in Hong Kong. It targets developing countries through strengthening their productive capacities, trade-related infrastructures and the ability to compete in regional and global markets. Trade plays an important role in development, although the relationship between trade and human development is not automatic. In order to be inclusive, trade has to be set in a human development framework. It needs to be conceived as a tool to enlarge the abilities and choices of people.

The Aid for Trade initiative covers the following categories:

- Trade policies and regulations;
- Trade development;
- Developing productive capacities; trade related adjustment, and; other trade-related needs.

UNDP's regional **Aid for Trade project** '*Wider Europe: Aid for Trade for Central Asia, South Caucasus and Western CIS*', financed in the context of Finland's Wider Europe Initiative, focuses on the identification of capacity gaps and technical assistance needs both at the national and sub-regional level in Central Asia, South Caucasus and Western CIS and support to economic development in the areas located along the selected transport corridors, helping small entrepreneurs to gain from new trade opportunities.

The **Wider Europe Initiative** is Finland's harmonised regional development framework. The initiative targets the following themes: security, trade and development, information, society development, energy and the environment and social sustainability. The framework includes three regional cooperation programmes – in Eastern Europe (Belarus, Moldova and Ukraine), South Caucasus (Armenia, Azerbaijan and Georgia) and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan).

The **Needs Assessments** produced under the Aid for Trade project form part of a long-term vision of developing trade capacities, which will benefit human development in the region. The recommendations presented are expected to constitute the basis for a second phase (2011 – 2013), focusing on the implementation of the recommendations developed in the national and regional Needs Assessments.



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ABBREVIATIONS AND ACRONYMS

ACV	Agreement on Customs Valuation
ADB	Asian Development Bank
AfT	Aid for Trade
AZPROMO	Azerbaijan Export & Investment Promotion Foundation
BTC	Baku-Tbilisi-Ceyhan Pipeline
CAREC	Central Asia Regional Economic Cooperation
CBA	Central Bank of the Republic of Azerbaijan
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
EU	European Union
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
HBS	Household Budget Survey
HDC	Human Development Challenge
HDR	Human Development Report
HGA	Host Government Agreement
HS	Harmonized Commodity Description and Coding System
LFS	Labour Force Survey
LPI	Logistics Performance Index
MDGs	Millennium Development Goals
MED	Ministry of Economic Development
MFA	Ministry of Foreign Affairs
MFN	Most Favored Nation Treatment
MLSPP	Ministry of Labour and Social Protection of the Population
MTEF	Medium Term Expenditure Framework
NER	Net Export Ratio
NGO	Non-Governmental Organization
PSA	Production Sharing Agreements
RCA	Revealed Comparative Advantage
SITC-3	Standard International Trade Classification Review 3
SOFAZ	State Oil Fund of Azerbaijan Republic

SPPRED	State Programme for Poverty Reduction and Economic Development
SPPRSD	State Programme for Poverty Reduction and Sustainable Development
SSC	State Statistical Committee
SWOT	Strengths, Weaknesses, Opportunities and Threats
TRACECA	Transport Corridor Europe Caucasus Asia
TBT	Technical Barriers to Trade
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Fund
USD	US dollar, International standard code of US dollar (ISO 4217)
VAT	Value Added Tax
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

This report was commissioned by the United Nations Development Programme to assess the impact of trade policy on human development in Azerbaijan. The report is based on UNDP's Guide on Trade and Human Development: How to Conduct Trade Needs Assessments in Transition Economies¹, which is widely used to assess the role of trade in human development in transition economies.

The report analyses the current situation in the area of trade and human development and identifies gaps and needs, presents recommendations on improving the impact of trade on human development in Azerbaijan, and possible policy measures in the form of a policy matrix. The latter is designed to improve the relevant legislative basis and institutional, economic and supportive mechanisms. Furthermore, a donor activity matrix, which summarizes trade related activities of international and regional organizations, was prepared in order to facilitate coordination and understanding of ongoing projects and programmes in the country. The results matrix also considers the gaps of the donor matrix.

The report applies a comprehensive survey methodology in order to cover all aspects of

the impact of trade on human development, starting with an analysis of the current situation related to the trade and human development pillars, continuing with an examination of the impact of trade on GDP, income, employment, education, investment, CPI, budget revenues, etc. as well as analyzing the competitiveness of the different sectors and sub-sectors of the economy. The study utilises different methods, such as the Revealed Comparative Advantage (Balassa, NER) SWOT, PEST and finalizes with recommendations to enhance trade from a human development perspective. These recommendations are later on compiled as a policy matrix to be used by the government and donor community.

To some extent, the results of this report are optimistic about the positive role that trade can play in strengthening human development. However, the analysis demonstrates that there is much room for improvement and strong commitment is needed from the different stakeholders, especially considering the consequences of the recent global economic and financial crisis. Increased efforts are needed to strengthen the positive impact of trade on human development, such as improvements in business environment,

¹ Available at <http://europeandcis.undp.org/poverty/trade/show/8BD35D19-F203-1EE9-B08767E3833D66C6>

productive capacity, export promotion, trade policy, trade facilitation, market access etc.

Trade and trade policy clearly are one of, if not the most important, means to overcome human development challenges. However, trade policy must be strategic, realistic, targeted, comprehensive and timely.

All data utilized in the Report is mainly provided by SSC, unless indicated otherwise.

INTRODUCTION

During the Soviet era Azerbaijan economy was an integral part of Soviet labor division. The collapse of the Soviet Union resulted in the economic disintegration between the former republics, industrial decline, lack of investment and innovation, raise of prices and unemployment and decrease in welfare indicators. For the period of 1991-1995, GDP faced a 58.1% (overall industrial production – 72%) decline. The country started to emerge from the crisis in 1996 and Azerbaijan's macroeconomic stability and growth since 1997 has been impressive.

The economy of Azerbaijan is dominated by natural resource-based revenues, especially revenues from the oil sector, which have risen in spectacular ways in the recent years. This has facilitated a rapid economic growth, estimated at over 9.3% for 2009 (in 2008 – 10.8%, in 2007 – 25%, in 2006 – 34.5%). This dynamic growth has stimulated non-oil sector development. Nevertheless, the non-oil sector still exhibits large development potential. Real GDP growth in agriculture was only 3.5% and the sector generated only 6.7% of GDP in 2009, while its share in total employment was about 38.5%. Today the oil sector generates approximately half (47%) of the GDP, but only 1.0% of all jobs. Besides this, since 1995, a substantial part of FDI fo-

cused on the oil sector. Today the main challenge is **"to convert "black gold" – oil – into "human gold" – human capital (people with skills and opportunities)"** and the relevant measures need to continue in order to ensure the full and effective use of trade in the realization of this challenge. The impact of trade on human development has to be carefully evaluated, gaps have to be removed and adjustments have to be made in order to maximize the gains from foreign trade.

In late 2006, the Government indicated a keen interest in accelerating World Trade Organization (WTO) accession efforts and putting in place a comprehensive legislative and regulatory framework required to facilitate the country's entrance into the WTO. This in turn creates the institutional momentum needed to carry out necessary policy and administrative reforms required to place the non-oil/gas economy on a robust and sustainable broad-based growth path.

In order to be competitive and gain more from foreign trade, Azerbaijan has to diversify its economy and carry out structural changes in the national economy. These changes have to be based on thorough and holistic research and analysis. In other words, it is very important to identify the non-oil sectors (products) and sub-sectors of the

economy which are competitive in international markets and which have a potential to promote job creation and income, spur exports and attract foreign investments.

The current study endeavors to address the impact of trade on human development by examining the impact of trade on the country's human development issues, such as income, employment, education, life expectancy, etc. Furthermore, the study examines the competitiveness of the different sectors and sub-sectors of the economy. The different results of the study are used in order to **assess the impact of trade on human development**. Moreover, the impact of the recent global economic and financial crisis was analyzed with a special focus on human development and relevant recommendations were prepared in order to propose impact mitigation strategies.

The objective of the study is to carry out an analysis of trade and human development in Azerbaijan through a needs assessment with a strong human development focus and within this context, to develop recommendations to improve the normative-legal basis, the institutional, economic and supportive mechanisms for strengthening the positive impact of trade on human development. The final objective of the study is to present a policy matrix proposing different measures and interventions targeting trade development within a human development framework.

In order to reach this objective, **the tasks** are set and realized as follows:

- Trade and human development: methodological approach;

- Study of existing experiences in the field of trade and human development;
- Analysis and evaluation of the current situation regarding trade and human development in the Republic of Azerbaijan, as well as:
 - *Monitoring and evaluation of national legislation, institutional, economic and supportive mechanisms, in the context of the Aid for Trade categories;*
 - *Executive summary of the work undertaken in the area of human development in the country;*
 - *Analysis of the impact of trade on different aspects of human development (economic growth, employment, poverty, education, life expectancy, etc.)*
 - *Identifying core issues to be addressed with a special reference to the challenges and prospects during and after the global economic and financial crisis;*
- Identification of policy measures and programs to be presented to the government and donor community as well as:
 - *Preparing recommendations on improving national legislation, institutional, economic mechanisms;*
 - *Preparing recommendations on strengthening the coordination between the government and the donor community;*
 - *Elaborating a policy matrix.*

According to the above-mentioned objectives and tasks, the **methodology of the study** is based mainly on desk surveys (analysis and evaluation of the situation in the country, and as a result identification of possible directions for improvement, and preparation of suggestions and recommen-

dations), discussions and interviews with stakeholders and an expert assessment.

The Report contains the following chapters:

Chapter one (**Country Background: Socio-economic Development Trends**) presents a brief country background, recent development stages of the national economy and objectives of the current socio-economic development strategy. Relevant features of macroeconomic framework, particularly those which relate to trade and human development issues are also highlighted in this chapter.

Chapter two (**Business Environment and Investment Policy**) provides broad information on the country's overall level of competitiveness and identifies the main barriers and obstacles. Business environment and investment policies are elaborated in line with trade and human development related issues. The evolution of foreign and domestic investment flows and their structure are analysed. In order to elaborate measures to enhance the business environment, the results of the Doing Business Review are analysed and recommendations are developed.

Chapter three (**Trade and Trade Policy**) presents and analyses the structure and evolution of foreign trade trends, trade policy, the institutional mapping, bilateral and multilateral trade agreements and the WTO accession issue.

Chapter four (**Trade Facilitation and Market Access**) provides a review of customs

and tariffs procedures, storage and transportation issues and costs, red tapes and other barriers to trade with the aim of increasing efficiency of foreign trade, raising quality of respective services and identifying ways and directions for reducing costs. Special emphasis is given to the problems of SMEs in this regard.

Chapter five (**Sectoral Analysis: Sectoral Competitiveness and Human Development**) studies a number of key sectors (products) – based on Revealed Comparative Advantages analyses – that have potential for development (especially export potential) and an impact on human development. A general overview of the sectors (products) identified as competitive, SWOT analyses, as well as, employment impact, export potential and opportunities are elaborated in the chapter.

Chapter six (**The Financial Crisis and its Impact on Azerbaijan**) provides an analysis of the impact of the global financial and economic crisis on the national economy through the different transmission channels, with a particular emphasis on trade and human development issues.

Chapter seven (**Trade Policy Response to the Global Crisis and Post-crisis Recovery**) elaborates national trade policy responses in the period of the global crisis (and post crisis recovery) and provides recommendations for national trade policy actions aimed at improving Azerbaijan's economic and human development.

The final chapter (**Conclusions and Policy Matrix: Human Development Challenges and Trade Needs**) summarizes the results, findings and recommendations made. At the same time, this chapter draws out a policy matrix with concrete measures for implementation: i) for policy makers and ii) donor community. A matrix of current donor (donors involved in the Aid for Trade initiative) commitments in the area of trade in Azerbaijan is included.

I. COUNTRY BACKGROUND: SOCIO-ECONOMIC DEVELOPMENT TRENDS

This chapter presents a brief country background, recent development stages of the national economy and its objectives. Relevant features of the macroeconomic framework, particularly those, which relate to trade and human development issues are also highlighted in this chapter.

A. Economic Development

Following a sharp decline in the early 90s, Azerbaijan achieved stable and rapid growth starting from 1996. Shortly before independence, the economy of the country was characterized by a rapid decline of economic growth, a decrease in the absolute volume of production, substantial differences between production and consumption, a decline in economic efficiency indicators, an imbalanced structure of the economy and low levels of integration. These were the first signs of the economic crisis, followed by the profound economic crisis of the first years of independence (1992-1994) (See: Table 1.1). For the period of 1991-1995, GDP faced a decline of 58.1% (overall industrial production –

72%). As a result of the crisis, living standards, nominal incomes, wages and consumption of population witnessed a sharp decline.

The ensuing period, between the years 1995-2004, was characterized as a period of strengthening macroeconomic stability and maintenance of economic growth (See: Annex 1). During this period, Azerbaijan stabilised the socio-political situation in the country, introduced systematized economic reforms, ensured the support of international organizations to the reform process, adopted and implemented a number of programmes, ensured macroeconomic stability and restored economic growth (control of inflation, ending budget deficit financing by the Central Bank, ratio of budget deficit to GDP decreased to 1-2%). Since 1997, a dynamic economic growth was observed (in 1996, GDP increased by 1.3%, in 1997 by 5.8% and during 1998-2004 on average by 10.0%). As a result of the privatization process and the development of entrepreneurship, the share of the non-state sector in GDP reached 73.5% in 2004. The State Oil Fund of the Republic of Azerbaijan was established. The flow of FDI into the economy increased.

Table 1.1: Evolution of main socio-economic indicators from 1991 to 1994 (1990=100%)

	1991	1992	1993	1994
Real GDP, %	99.3	76.8	59.1	47.5
Industrial production, %	91.1	63.4	50.9	38.3
Agricultural production, %	100.3	76.4	64.6	56.3
CPI (inflation), times	2.06	21.0	257.1	4533.2
Nominal income of population, times	2.1	16.0	142.0	1278.4
Real average monthly wage level, %	79.0	66.0	43.6	17.3
Consumption expenditure of households, %	87.4	41.1	23.9	13.5
Capital Investments, %	79.2	47.3	28.8	54.4
Decline in living standards of population, times	0.98	1.3	1.8	3.6

Source: SSC

The country became one of the main players in the development and the implementation of several big regional projects such as the Great Silk Way, TRACECA, fiber optic communication cable bus, the construction of the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline, as well as the development of the North-South transport corridor.

A number of large development programmes and economic policy measures to ensure the sustainability of dynamic socio-economic development processes in the period from 1995 to 2004 and beyond, such as – “State Programme on SME Development in the Republic of Azerbaijan (2002-2005)”, “Demographic Development Concept of the Republic of Azerbaijan”, “State Programme on

Tourism Development in the Republic of Azerbaijan (2002-2005)”, “State Programme on Poverty Reduction and Economic Development (2003-2005)”, “State Programme on Socio-Economic Development of Regions (I Programme-2004-2008 and II Programme-2009-2013)”, “Long-term Strategy of the Management of Oil and Gas Revenues”, “State Programme on Poverty Reduction and Sustainable Development (2008-2015)” – were adopted and implemented.

Simultaneously, the Government annually prepares the Social-Economic Development Concept of the Republic of Azerbaijan², integrating a forecast for the next 3 years (“one plus three” principle, which is also applied during the budget formulation process called Midterm Expenditure Framework). The

² See: www.economy.gov.az

Box 1.1

The main features of the 2009 Social-Economic Development Concept of the Republic of Azerbaijan

The Concept consists of the following parts:

- i) Development of the global economy and its midterm trends;
- ii) Results of socio-economic development in 2007;
- iii) Semi-annual socio-economic development in 2008;
- iv) Priorities of socio-economic development in 2009-2012;
- v) Macroeconomic policy;
- vi) Finance market and priorities for the development of finance institutions;
- vii) Foreign trade policy;
- viii) Development of entrepreneurship;
- ix) Development of economic and social sectors.

The Concept covers the strategic goals of the country to be achieved in the coming years. The overall goal of the Concept is to achieve sustainable development and decent living conditions of the population through the establishment of a free market economy on the basis of competition, efficiency and fair distribution of resources. The following objectives are identified in order to achieve the strategic goal of the Concept:

- Ensuring sustainable and balanced economic development;
- Ensuring decent living conditions of the population;
- Ensuring integration into the global economy;
- Ensuring environmental sustainability.

Due to the Concept, the Government recognizes the importance of human development and expanding trade in Azerbaijan. For this purpose, trade related priorities like i) the simplification of foreign trade procedures; ii) the diversification of the structure of imported and exported goods; iii) the diversification of the geographical structure of import and export; iv) analyses of possibilities to protect the domestic market within the framework of WTO principles; v) improving trade policy with regards to stimulating the production of import substitution goods; investigation of possible benefits from preferential trade regimes; vi) improving trade statistics; vii) analyzing the role of e-trade in foreign trade and etc. are identified in the Concept. A special emphasis is given to improving the quality of education and health services, as well as access to these services, also ensuring decent employment through support to the private sector, especially, SMEs development. Furthermore, the Government has identified the development of ICT as one of its main priorities.

latest version of this was prepared for 2009 and it covers human development and trade related goals and objectives (See: Box 1.1). The Concept is an integral part of the State Budget Formulation Process and is submitted to the National Parliament together with the Draft State Budget for review and approval.

Alongside with the Concept, a long term development strategy and programmes are very important for the future development of the country. Such programmes could assist in the prioritization of the activities of the national government and the international community.

According to SSC data, despite the global economic crisis, Azerbaijan's rapid **economic growth** continued in 2008 and 2009 with 10.8% and 9.3% GDP growth rates respectively (this indicator was 25.1% in 2007 and 34.5% in 2006). These figures are considered as one of the world highest for that period. GDP per capita increased by 7.9% in 2009 and reached 4874.1 USD in current prices. The volume of the industrial sector increased by 8.6% and totaled 22.2 bln. AZN. 75.7% of this is produced by the mining industry. The economy of the country is highly dependent on the oil and gas mining sector. Today, the oil sector generates approximately half (47.0%) of GDP, but only 1.0% of total employment. In 2009, the non-oil sector grew by 3.2%³, driven mostly by the development of services and the construction sector, both of which benefited from increased demand

of the oil sector. At the same time, the collapse of oil prices during the second half of 2008 and at the beginning of 2009 demonstrates the importance of continuing to provide special attention to the development of non-oil sectors.

The country's output is largely produced by **private businesses**. Their share constituted 81.2% of GDP in 2009. This is the result of several stages of privatization of the formerly state owned properties and the development of new privately owned industries. However, a number of key segments of the economy are still state controlled. Many of them are now "open for privatization" due to the Presidential Decrees for the creation of additional investment opportunities. The government uses several methods of privatization, the most popular being the acquisition by a "strategic investor" or via an "investment tender".

According to statistical data from the Central Bank of Azerbaijan (CBA), real appreciation of the local currency – manat (AZN) – increased by 20% since 2005, affecting the non-oil sector's competitiveness. In fact, according to the SSC, labor cost in the non-oil sector, measured by the wage rate, increased 3.6 times since 2007. This is a much higher rate compared to the increase of productivity. The above shows clearly that the non-oil sector is facing a loss of competitiveness. There is a necessity to diversify the economy and target sustainable development through a competitive non-oil sector.

3 Growth of 11.8% in 2006, 11.3% in 2007 and 15.7% in 2008.

Although the level of inflation was relatively high in 2006-2008, it substantially decreased in 2009. According to recent figures presented by the SSC and CBA, the average **inflation** rate reached 20.8%⁴ in 2008 and 1.5% in 2009. The high inflation rate was mainly due to increased budget expenditures, inflow of substantial oil revenues into the economy and the inflation processes on the global level (high price for energy carriers resulted in an increase of the price of manufactured goods and agricultural products, globally) in previous years, while its decrease in 2009 was associated with the global financial and economic crisis.

Agriculture is still the dominant economic activity in terms of employment. Thus, in 2009, the **agricultural** sector provided for 38.5% of the employment in the country, generating 6.7% of GDP. The average monthly wage in the sector (174.5 AZN or 168.1 USD) is lower than the country average (298 AZN or 372.5 USD). Cotton is one of the leading cash crop, together with grapes (for wine production), fruits, nuts, vegetables, and tobacco. The development pace of the sector is slow in comparison to other sectors of the economy – around 4-5% per year. Considerable progress is being made, particularly in the allocation of farm lands to peasants and the issuance of land titles to new farmers. This process began in 1996 in 1,745 former state and collective

farms which the Government decided to privatize. The cultivable land on those farms was allocated to farm members. During this process some 869,268 land titles were issued to rural families (96% of the families are in rural settlements).⁵ Considering the underdevelopment of the sector, a major role in the framework of the newly adopted SP-PRSD is given to the development of the agricultural sector as a main source of income generation and combating poverty in rural areas. The establishment of an Agricultural Bank aiming at improving access to credit resources and encouraging private investment in the agricultural sector is expected. Credits in the area of agriculture are managed by non-banking credit organizations. In the long run, an agriculture that is poor in investment and capital can hardly be sustainable and competitive, even in internal markets. Therefore, the agricultural sector's main development priority is to achieve an increase in productivity, which can be done through the use of advanced technologies and a transition from subsistence farming to agricultural businesses.

Azerbaijan has one of the lowest **external debt/GDP ratios** in the region and a sound financial system. According to the Ministry of Finance, the level of external debt equaled 3.4 bln. USD (7.95% of GDP) by the end of 2009. The level of external debt per capita is 380.3 USD (See: Table 1.2).

4 In 2006, the inflation rate was 8.3% and in 2007, 16.7%

5 There are nine climatic zones in Azerbaijan and due to this, incomes from land depend not only on the size of land the household owns or uses, but also on the quality of soil and yield per hectare accordingly. For example, the farmers in Lankaran rayon which is a subtropical zone and in which almost all households have less than one hectare of land earn much more than the farmers in Kurdemir, Yevlakh or Gobustan rayons where the average size of privatized land per family is 2.59, 2.48 and 4.98 hectares respectively.

Table 1.2: External debt indicators

	1995	2001	2002	2003	2004	2005	2006	2007	2008	2009
External debt stocks, total (current million USD)	321,0	1277,8	1948,8	1814,9	1986,4	3021,4	3001,1	3421,8	321,0	1277,8
Total debt service (% of exports of goods and services)	40,4	50,8	43,4	20,1	13,3	12,6	...		40,4	50,8
Official development assistance and official aid (current million USD)	118,6	229,2	175,9	224,6	205,6	225,3	...		118,6	229,2
Total debt (% of GDP)	13,3	22,4	22,5	13,7	9,5	9,1	6,4	7,95	13,3	22,4
Total debt service paid (million USD)	10,1	126,2	232,3	231,1	244,6	167,5	...	287,7	10,1	126,2

Source: <http://ddp-ext.worldbank.org/ext/DDPQQ/report.do?method=showReport> and Country partnership strategy progress report for Azerbaijan. For the period fy07 – fy10. April 1, 2008. IBRD, IDA and IFC. Document of The World Bank; SSC and Global Development Finance Online (World Bank 2008), Statistical Compendium 2004-1 CD-ROM (OECD 2004), country sources.

The CBA consistently pursued the "stable manat" policy from 1997 to 2006, with the annual inflation rate not exceeding single digit figures. This tendency only changed in 2008-2009, due to the inflow of oil revenues and other factors discussed later in this paper. As a result of timely measures, inflation diminished again to the single-digit level of 1.5% in 2009.

The fiscal system is characterized by a low state budget deficit, which does not exceed 1% of GDP. In 2009, the deficit stood at 0.7% of GDP (in 2008 – 0.03% and in 2007 – 0.2% of GDP).

In 2008, surplus of the balance of payment was 16.5 bln. USD (33.7% of GDP), reflecting a four-fold increase from 2007. This is mainly due to the increase of oil production and export. The

surplus of the balance of payment was equal to 2.7 bln. USD in 2009 (6.3% of GDP).

Today, **the main objectives of the national socio-economic development strategy** are the strengthening of the economic potential of the country and its efficient implementation, development of the non-oil sector (increasing competitiveness), facilitation of the effective integration into the global economy (including WTO accession process), full and efficient realization of the potential of each economic region and harmonization of their development levels, enhancement of employment opportunities, development of entrepreneurship, increasing the volume, quality and access of social services, reducing poverty and ensuring environmental protection, ecological safety and sustainable development. A sustainable improvement in the business environment and the investment climate in the non-oil sector is crucial to ensure the diversification of the economy.

B. Human Development Pillars

Azerbaijan belongs to the group of CIS states with fast growing populations (See: Annex-1). Although the total birth rate (live births per woman aged 15-49) has declined from 2.9 in the late 1980s to 2.05 at present, it is still among one of the highest in the region. In comparison, in Ukraine, the total birth rate equals 1.25, in Russia – 1.40, in Armenia – 1.35 and in Geor-

gia – 1.44⁶. The age structure of the population in Azerbaijan is also very favourable to population growth. The country has one of the lowest old age dependency among CIS states: the ratio of population aged 60 years and population aged 15-59 is only around 9.5% (2009), compared to 17.9% in Russia, 22.1% in Ukraine, 16.1% in Armenia and 20.7% in Georgia⁷.

The population is almost evenly distributed between **urban and rural** areas, with 54.1% residing in urban areas.

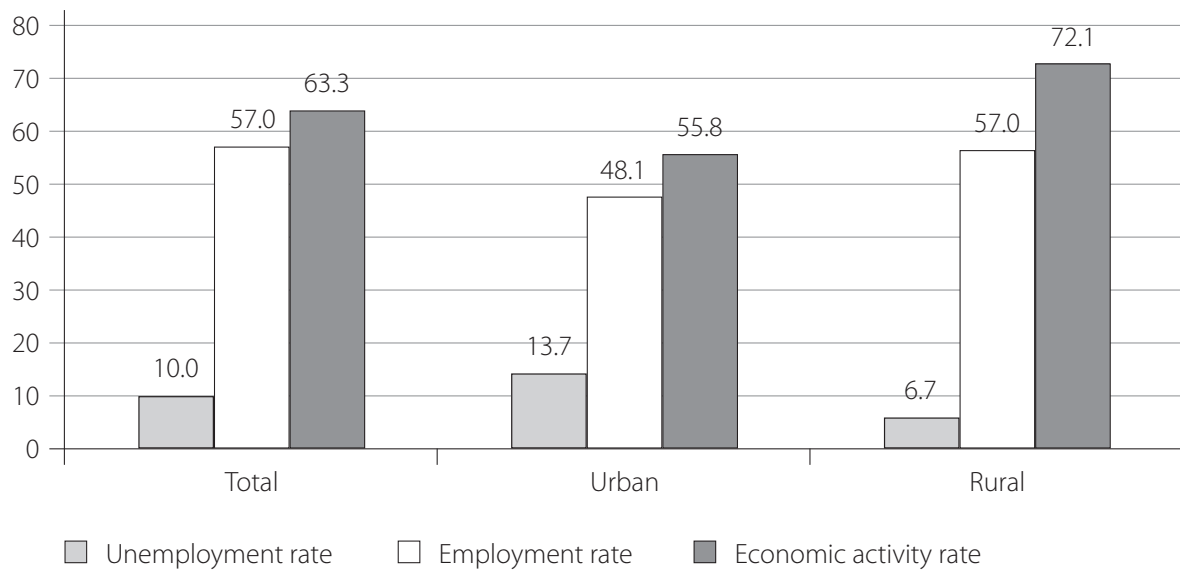
The labour market in Azerbaijan is in a developmental stage and measures are being implemented to enhance job opportunities (Figure 1.1). By 2008, 57.0% (HBS data) of the working age population (aged 15-64) has employed, which is slightly below the level in neighbouring Georgia, 57.4% (2007) but higher than in Armenia. The employment rate is much lower than in some transition economies, such as Estonia (68%) and the Czech Republic (65%).

A number of measures have been introduced in order to increase employment levels and improve the effectiveness of the labour market. These include: the creation of better conditions to promote entrepreneurship and self-employment, boost investment activity, strengthen social protection, legalise informal employment and improve institutional capacity. The government, in cooperation with the International Labour Organisation, has prepared

6 CIA World Factbook 2008, <https://www.cia.gov/library/publications/the-world-factbook/index.html>, note: Unless otherwise noted, information in this page is accurate as of January, 2010

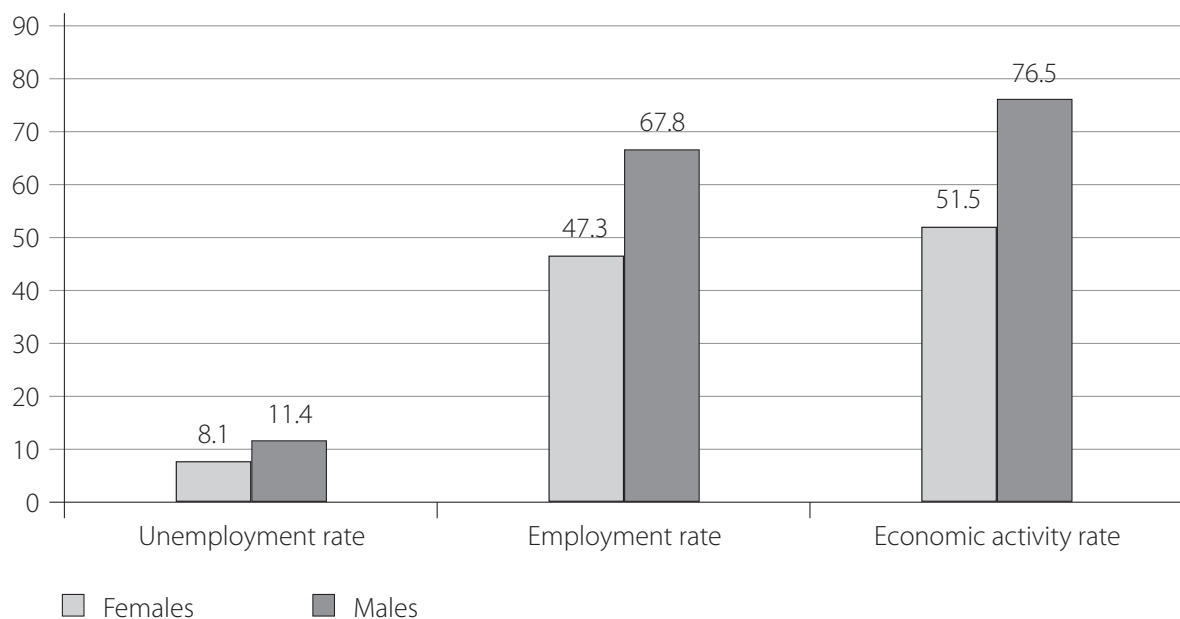
7 <http://hdrstats.undp.org/en/indicators/147.html>

Figure 1.1: Main Characteristics of Azerbaijan's Labour Market: Unemployment, Employment and Economic Activity Rate (Aged 15-64), the 2008 HBS Data, %



Source: Household Budget Survey 2008 (SSC), author's estimations.

Figure 1.2: Main Characteristics of Azerbaijan's Labour Market: Unemployment, Employment and Economic Activity Rate by Gender, 2008 HBS Data, %



Source: Household Budget Survey 2008 (SSC), author's estimations

the employment strategy of the Republic of Azerbaijan 2006-2015. The strategy is focused on implementing programs, promoting decent work and ensuring equal opportunities for men and women. It also focuses on education and vocational training as well as the development of small and medium-sized enterprises. In May 2007, the "Program on the implementation of the employment strategy of the Republic of Azerbaijan for 2007-2010" was approved by presidential decree. The key objective of this program is the reduction of unemployment, the improvement of the labour market, social protection of the unemployed and vulnerable groups. The complete implementation of the strategy and the program will require adequate leadership among the different ministries involved and effective monitoring mechanisms.

According to the 2003 and 2006 LFS data and the 2008 HBS data, there has been a

remarkable increase in employment of females, while employment rates among males have remained stable. Most of the employment growth among females is in the informal sector, especially in subsistence agriculture. There are still significant gender differences in the participation of males and females in the labour force of Azerbaijan, which reflects the duality of the labour market. According to the HBS 2008 data, the employment rate of females aged 15–64 is 47.3% compared to 67.8% for males; unemployment rate is lower for females, 8.1% compared to 11.4% for males indicating that women are less economically active.

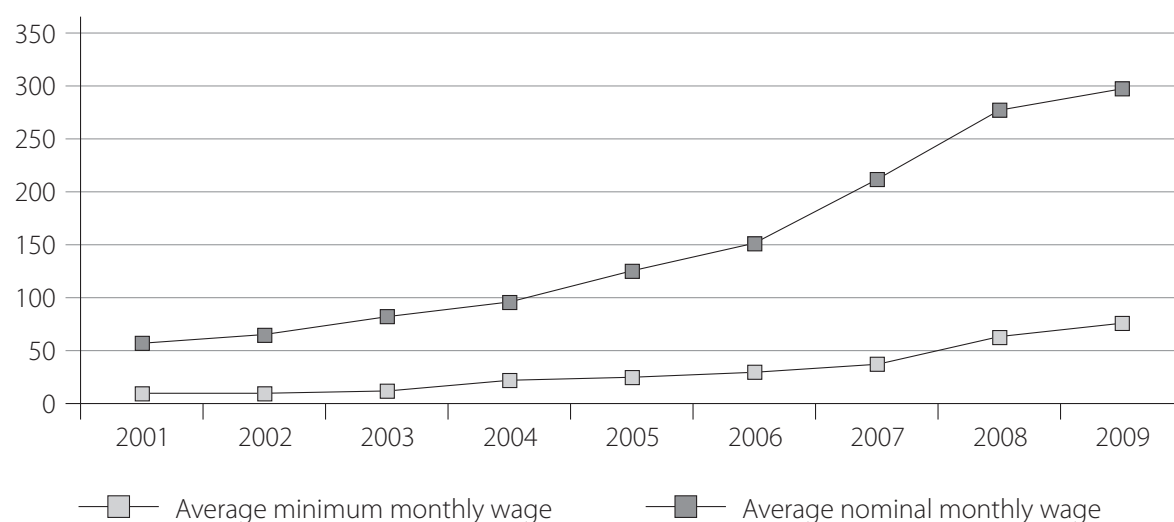
The informal economy and employment in the informal sector is sizeable in Azerbaijan. According to the SSC, the informal economy has been on average 17.6% of official GDP in 2002-2006. This figure was 9% for 2008-2009.

Table 1.3: Structure of employment of population by employment status in 2003 and 2006, LFS data; %

	With employment contract		Without employment contract	
	2003	2006	2003	2006
Total	54.7	40.5	45.3	59.5
Including:				
Males	56.2	47.8	43.8	52.2
Females	52.6	32.4	47.4	67.6
Urban	81.9	60.9	18.1	39.1
Rural	26.7	29.1	69.4	70.9

Source: *MLSPP and SSC 2008*

Figure 1.3: Evolution of minimum wages and average monthly nominal wages in 2000-2009, AZN



Source: SSC 2009

The decreasing size of the informal economy over the recent years can be explained by the fact that the share of the oil sector in GDP has increased due to the high level of foreign investment in these areas, resulting in the exhaustion of informal economic activities in the sector. The increase in the share of the oil sector and elimination of informal economic activities in this sector have led to a decrease in the share of other industries and consequently the share of informal economy in GDP. However, given that the oil sector is a capital-intensive industry that provides employment for about 1% of the workforce, the conclusion can be made that the absolute value of the informal economy is not decreasing.

LFS data identified that, between 2003 and 2006, the share of workers employed without

employment contracts increased from 45.3% to 59.5% (Table 1.3). There is a sizeable informal employment within the formal sector as well. Furthermore, the proportion of people in various forms of self-employment is very high; this tends to confirm the prevalence of unprotected forms of labour, informal labour and work in precarious conditions.

Minimum wages were kept low for quite a long period. Only since 2001 have minimum wage levels started to slowly increase. However, in 2007, minimum wages were still only 23% of the average wages in the country (Figure 1.3). In early 2008, minimum wages were raised to 60 AZN⁸, and from September 2008, to 75 AZN, which equaled 29% of the average monthly nominal wage at that time (257 AZN)⁹. In August 2010 minimum salary wage increased to 85 AZN. Ac-

8 According to CBA, in 2009 1USD=0.80 AZN, in 2008 1USD=0.80 AZN, in 2007 1USD=0.84 AZN, in 2006 1USD=0.87 AZN, in 2005 1 USD=0.92 AZN, in 2004 1USD=0.98 AZN.

9 See: <http://www.azstat.org/statinfo/labour/en/024.shtml#s1>

Table 1.4: Average monthly wages in private and public sectors in 2008, AZN

	Public sector	Private sector
Agriculture, hunting and forestry	115.9	112.1
Fishing	110.5	80.4
Health and social work	123.4	204.3
Education	213.5	229.7
Wholesale and retail trade	226.6	210.5
Manufacturing	292.3	218
Electricity, gas and water supply	285.9	255.3
Public administration and defence	325.4	108.9
Hotels and restaurants	225.9	267.4
Transport, storage and communications	281.9	549.9
Construction	373.1	432
Real estate	284.4	961.6
Financial intermediation	593.1	814.7
Mining and quarrying	623.1	1630.5
Overall	232.4	342.7

Source: SSC at: http://www.azstat.org/statinfo/labour/en/004_1.shtml

According to the wage survey conducted in November 2007, only 2.9% of full time employees earned salaries below the level of minimum wages of 50 AZN for that period.

In recent years, **average real wages** are increasing at double digit rates, from over 20% in 2003 and 2004, to 11-13% in 2005 and 2006 and to 23% in 2007 and 2008. In 2009, nominal average monthly wages reached the level of 298 AZN, compared to 274 AZN in 2008, an increase of about 28% in real terms. Disparities in average wages in differ-

ent sectors are also enormous. In private mining and quarrying sector, monthly wage levels exceeded 1630.5 AZN in 2008, being on average 10-15-fold higher than in the lowest-paid sectors: agriculture, public health, social work and education (Table 1.4).

Azerbaijan ratified most of the major ILO conventions (See: Annex 3).

In 2008, the Government adopted the **State Programme for Poverty Reduction and Sustainable Development** (2008-2015),

with the principal objective of supporting the vast improvements achieved during the implementation of the State Programme on Poverty Reduction and Economic Development (2003-2005) and meeting the challenges set out in the Millennium Declaration: improving material welfare of the population, reducing poverty by half by 2015 and providing social protection to the vulnerable strata of the population. The adopted SP-PRSD is aligned with the MDGs and sets country-specific targets. It integrates other current state programs, the MTEF and State Budgeting processes, as well as the PIP. The SPPRSD is based on a participatory process involving the government, international or-

ganizations and civil society. It incorporates gender, youth policy, children's rights, environmental and other cross-cutting issues.

While the **poverty rates** have decreased over the last years mainly due to significant GDP growth, poverty is still a challenge. According to government estimations, based on the national absolute poverty line (see, Table 1.5), about 13.2% of the population lived in poverty in 2008 (down from 46.7 % in 2002) and 11.0% in 2009. The main source of rural poverty is the lack of access to basic services and poor physical infrastructure, while urban poverty is linked to the lack of employment opportunities and wage levels.

Table 1.5: Rate of poverty in Azerbaijan, HBS results 2002-2009

	Unit	2002	2003	2004	2005	2006	2007	2008	2009
Absolute poverty line ¹⁰	AZN	35	35.8	38.8	42.6	58	64	70	89.5
Absolute poverty rate	%	46.7	44.7	40.2	29.3	20.8	15.8	13.2	11.0
Relative poverty rate ¹¹	%	8.8	12.0	8.7	6.1	–	–	–	–
Extreme poverty rate ¹²	%	–	9.6	4.9	2.2	2.0	1.6	1.2	1.0

Source: WB and SPPRED Secretariat estimates for 2002-2005, SSC estimates for 2006-2009.

10 The "absolute poverty line" is estimated as the value of minimum consumption basket. The minimum consumption basket is based on the value of three sub-minimum baskets, namely that for food products, non-food products and services.

11 A "relative poverty line" is estimated as 70.0% of median consumption expenditure.

12 An "extreme poverty line" is estimated as the value of the minimum food basket.

Table 1.5 summarizes the poverty rates in the country using the HBS results for 2002-2009. As shown in the above table, poverty rates in the country have dropped significantly over the recent years. Nonetheless, every ninth person still faces the risk of poverty.

Analysis of the HBS data for 2002-2009 suggests that there are regional differences in poverty rates;¹³ Baku has a notably lower poverty incidence than the other regions; there are no significant differences in the poverty rates for males and females; the poverty risk increases upon increase of household size; poverty risk is low for educated households; there is a high poverty risk for those who are of working age (where the head of household is in the 30-39 and 40-49 year age groups). These factors are associated with poverty risk in the country and need to be taken into account when formulating priority policy actions for human development in the country.

While the Azerbaijan HBS data satisfy most empirical regularities expected in a typical household survey data, the inequality measures based on the data are unusually low. For example, for the latest years (2005-2008), the Gini coefficient of consumption (the commonly used measure of inequality) is in the range of 0.17-0.22. This is among the lowest Gini coefficients ever observed in any country, and is extremely low even with the standard of countries generally considered as most equal in the world. On the other hand, international sources (www.hdrstats.undp.org/en/indicators/147.html, <http://go.worldbank.org/NT2A1XUWP0>, etc) show that today the Gini coefficient for Azerbaijan is in the range of 0.31-0.38.

This discrepancy is mostly due to the difficulties that emerged during the implementation of HBS. In most cases high income households tend to refuse to respond to the HBS questionnaire. This is one of the main reasons of the low Gini coefficient (0.17-0.22). For the calculations of the Gini coefficient international organizations use different correction methods in order to take into consideration non-response cases by high income households.

According to official information, **infant and maternity mortality rates** (Annex 1) show a downward trend, but a slow one. Results obtained by an alternative different survey suggest that the official figures substantially underestimate the scale of the problem. There is a need to increase public investment in accessible, quality and affordable maternal health services.

School enrolment rates are high (Annex 1), but there are growing concerns in the differences in quality of education provided at schools. An increase in public investment in education is necessary to address these differences and to ensure that all children are provided with the same opportunities.

Housing conditions for the vulnerable strata of the population are unsatisfactory,

13 Upper Shirvan, Mughan and Salyan regions, Nakhchivan Autonomous Republic having the highest rates.

Box 1.2

The main conclusions on policy significance of poverty analyses

The following points should be taken into consideration when formulating policy priorities with a human development focus:

- It is necessary to promote labor-intensive economic development in the regions and across different sectors.
- It is necessary to ensure that employment is not low-wage and low-productivity – i.e. there is a need to work towards economic development which is labor intensive, but which can also replace the high rates of underemployment (in agriculture sector).
- Social protection measures need to ensure that vulnerable households with children are provided with support.
- The fact that higher education levels of heads of households reduce the poverty risk confirms that the country has to invest in the human capital of future generation.
- Poverty reduction in the past years has been largely driven by the increase in social transfers, with pensions and targeted social benefits being the most important transfers. In the interests of long term sustainable development, it is important that poverty reduction is driven not only by social transfers, but also by increased employment and income-generation opportunities.

especially in rural areas. Overcrowding, heating with non-clean fuel, lack of regular electricity supply and lack of access to piped water are problems faced by a large section of the IDP population and other vulnerable groups.

With regards to **social inclusion and protection**, a number of measures have been introduced concerning the reform of the social security system. A mechanism of **targeted social assistance** has been applied since July 2006 in accordance with the law on targeted state social assistance. This mechanism mostly covers vulnerable strata – **low-income families and the poor**. As a result, over 173 thousand families (790 thou-

sand people) are benefiting from social assistance. Currently, the Azerbaijani Government is working with the World Bank and USAID in order to increase the effectiveness and transparency in providing public pensions and social assistance.

Key **environment** issues concern threats related to climate change, air quality, water quality, waste management, natural habitat protection, coastal and marine pollution and land use (in particular desertification). Azerbaijan has made progress on climate change related issues: i) a second national communication, a greenhouse gas inventory and adaptation measures are under preparation; ii) altogether 17 Clean Development Mecha-

nism (CDM) projects have been prepared; iii) Azerbaijan participates in activities undertaken under the EU Water Initiative; iv) the MED launched an Integrated Solid Waste Management System for the Absheron Peninsula Project with the involvement of foreign companies.

Azerbaijan has ratified relevant international and regional conventions and protocols, except the Protocol on Strategic Environmental Assessments to the UNECE Convention on the Environmental Impact Assessment in a Trans-boundary Context. Azerbaijan participates actively in the regional cooperation under the Caspian Environment Convention and Caspian Environment Programme.

II. BUSINESS ENVIRONMENT AND INVESTMENT POLICY

This chapter provides information on the country's overall competitiveness and identifies the main barriers and obstacles. The report analyzes the structure and the evolution of foreign and domestic investment flows. In order to elaborate concrete measures to enhance the business environment, the results of Doing Business Review are analyzed as well. The results of the following recent surveys and studies undertaken in Azerbaijan were used in the analysis of this report: i) Survey on Investment Climate, Transport and Trade Facilitation by AmCham (February 2008); ii) 2008 edition of the World Economic Forum's Executive Opinion Survey, iii) "Enterprises' satisfaction with business climate in Azerbaijan" by GTZ (January 2009), and iv) "Study of small and medium enterprises in Azerbaijan" by IFC (January 2009).

A. Business Environment

After declaring its independence in 1991, Azerbaijan implemented reforms in order to liberalize the economy and to optimise the investment potential for local and foreign en-

trepreneurs. At present, the business environment in Azerbaijan can be considered positive, but there remain a number of challenges to be tackled in order to enhance the development patterns of the country.

The most recent World Bank **Doing Business 2009**¹⁴ Report ranked Azerbaijan as 33rd out of 181 economies (a year earlier the country was on 97th place). During the last year, Azerbaijan implemented 7 reforms related to doing business issues (Table 2.1) and became a top reformer: i) the country created a one-stop shop for company registrations, cutting the number of procedures from 13 to 6 and reducing the time required to up to 5 working days; ii) substantial amendments were made to the Labour Code in May 2007; iii) the country strengthened the legislative base of investor protection; iv) an online filing and payment system with an advanced accounting software for calculating taxes was introduced, etc.

The country reached a considerable increase in the Global Ease of Doing Business rank, as can be seen from the table. However there remain issues that should be addressed –

¹⁴ <http://www.doingbusiness.org/ExploreEconomies/?economyid=14>

Table 2.1: Azerbaijan's ranking in Doing Business 2008 and 2009¹⁵

Ease of...	2008	2009	Change in rank	Reforms implemented
Doing Business	97	33	+64	
Starting a Business	66	13	+53	+
Dealing with Construction Permits	160	155	+5	-
Employing Workers	67	15	+52	+
Registering Property	63	9	+54	+
Getting Credit	25	12	+13	+
Protecting Investors	110	18	+92	+
Paying Taxes	143	102	+41	+
Trading Across Borders	176	174	+2	-
Enforcing Contracts	27	26	+1	+
Closing a Business	78	81	-3	-

Source: World Bank, *Doing Business 2009*. <http://www.doingbusiness.org/ExploreEconomies/?economyid=14>

namely Construction Permits, Paying Taxes, Trading Across Borders and Closing a Business. In these areas of the Report the country is placed in 155th, 102nd, 174th and 81st position respectively. Some of these issues are analyzed in the next chapters of the report.

B. Business Registration

A company may start operations in Azerbaijan from the moment of **state registration**. A new system of "single window" (one-stop-shop) has been launched in January 2008.

Currently, all registration procedures of business entities are carried out by the Ministry of Taxes of the Republic of Azerbaijan. The number of registration procedures was reduced from 15 to 5 (See: Table 2.2). A new company is registered within 3 days after all relevant documents are presented to the Local Tax Authorities.

According to Doing Business 2009, 16 days are required for the whole process.

15 The ranking of 2009 is out of a total of 181 countries.

C. Activity Licensing

Licensing was substantially simplified with foreign investors' interests in mind. The Azerbaijani licensing system was reformed in 2002. The number of business activities requiring a license was reduced from more than 200 to 30. However, currently the list reaches approximately 50 (See: Annex 4). Activities requiring licenses and permits are stipulated by Presidential Decree No. 782 "On Improving the License Issuance Rules for Some Types of Activity" dated September 2,

2002. This decree unifies the licensing rules for all types of licenses and specifies: (a) the business activities subject to licensing, (b) the licensing authorities, and (c) the license fees with regards to each business activity subject to licensing. Additionally, the Presidential Decree No. 310 dated March 28, 2000 establishes certain limits and exceptions to general licensing rules. Legal entities, branches and representations of foreign legal entities can obtain licenses for implementing activities requiring a special permit (license) according to the **Law of the Re-**

Table 2.2: Company registration procedures

<i>List of pre-registration procedures:</i>	<ol style="list-style-type: none"> 1. Issuing a decree on appointing the director of the legal entity to be registered; 2. Preparing the charter (statute) of the legal entity to be registered; 3. Obtaining a confirmation of the legal address of the legal entity from the proposed lesser; 4. Depositing the charter capital in a bank and obtaining a receipt; paying the state registration fee and receiving a receipt; 5. Filing documents with the company registrar at the One Stop shop Taxes, registering for VAT purposes;
<i>Once a registration certificate is obtained, there are certain post-registration procedures to be carried out by the newly registered legal entity:</i>	<ol style="list-style-type: none"> 1. Obtaining a company seal; 2. Certifying the signature of the authorized person (director) of the entity in notary; 3. Registering at the State Social Protection Fund; 4. Opening a permanent bank account (in AZN is obligatory, USD, Euro and etc. accounts are acceptable); 5. Obtaining workbooks (if necessary, generally employees with a previous employment history have workbooks) for employees from the Local Employment Office of Ministry of Labor and Social Protection of Population.

Source: World Bank, *Doing Business 2009* <http://www.doingbusiness.org/ExploreEconomies/?economyid=14>

public of Azerbaijan «On business activity» only after they have been registered. A license is granted without discrimination to any person/entity that satisfies the requirements for that specific license. Foreign legal entities and individuals, as well as branches and representations of foreign entities need to obtain licenses in accordance with Azerbaijani legislation for carrying out a business activity.

D. Currency Regulations

Currency regulation in Azerbaijan is carried out by the Central Bank of the Republic of Azerbaijan (the CBA, former National Bank of Azerbaijan). Foreign exchange transactions are regulated by the Law on Currency Regulation. The CBA administers the overall enforcement of currency regulation. Various aspects of foreign currency regulation also cover, among other matters, precious metals and foreign securities.

The **currency regime** of Azerbaijan was liberalized and clarified in 2001 with the adoption of the amendments to the Currency Law. The liberalized provisions raise the threshold amounts for currency that can be taken out of/remitted from/to Azerbaijan. In furtherance of the amendment to the Currency Law, in 2002 the CBA replaced its regulations on currency transactions. Furthermore, in 2004, the CBA eliminated entirely the limitation on

the amount of overseas advance payments for goods to be imported into Azerbaijan.

Both residents and non-residents¹⁶ must comply with the following currency regulation requirements:

- The manat is the only currency for payment for the sale and purchase of goods and services in Azerbaijan, except where the recipient has a CBA permit to render services or sell goods using a foreign currency;
- The purchase, sale and exchange of foreign currency in Azerbaijan must be carried out through authorized banks or authorized non-banking financial institutions. Transactions conducted outside these institutions are prohibited; and
- The supply of goods, works and services in exchange for the advance payment overseas must be completed within 365 days of the advance. In case of failure to fulfil obligations in exchange for the advance payment, the bank which made the transfer must provide the CBA with the information and documents relating to that operation.

Currency operations involving the movement of capital must be performed by resident entities in the manner approved by the CBA. The CBA, however, has not yet established any procedure. In reality, no licensing of currency operations involving the movement of capital is required at present.

¹⁶ The definition of "resident" includes private individuals having a permanent place of residence in Azerbaijan, and legal entities established in accordance with Azerbaijani legislation. Branches and representative offices of foreign entities established in Azerbaijan do not fall within the definition of a resident.

Foreign exchange regulations are less restrictive for non-residents largely due to the fact that non-residents' bank accounts outside Azerbaijan are not regulated by the Azerbaijani currency control rules. The CBA's 2002 currency regulations now permit, among other things, local banks to debt-finance non-residents' projects in Azerbaijan for a period of up to 180 days; these regulations also introduced basic rules for non-residents' repatriation of foreign investments from Azerbaijan.

E. Tax Policy

Tax policy in Azerbaijan is prepared by the Ministry of Taxes and is carried out by the Ministry of Finance, the Ministry of Taxes, other state agencies and other organizations. The Ministry of Taxes controls within its authority the accurate calculation of state taxes and other budget revenues of the Republic of Azerbaijan, their timely and full transfer to the state budget and compliance with tax legislation. The present tax policy implemented in the country is regulated by the Tax Code adopted in 2000 and numerous normative legal acts.

The tax administration system has been significantly modernized within the last ten years. By 2004, the Government implemented a number of reforms aimed at establishing a strong foundation for modern tax administration. The reforms included: (i) the enactment of a consolidated tax code; (ii) the establishment of a large full service taxpayers unit; (iii) the application of automated

systems; and (iv) the creation of a taxpayers services program. Since 2005, the modernization process has continued with: (i) the tightening of the VAT registration controls; (ii) the implementation of an integrated computer system for all taxes; (iii) the introduction of electronic filing; (iv) the establishment of a one-stop shop business registration in early 2008; and (v) the strengthening of human resources management and performance measurement.

Azerbaijan's tax system consists of state taxes, taxes of the Autonomous Republic and local (municipal) taxes. Main types of taxes are the VAT, income tax for individuals, profit tax for legal entities, road tax, land tax, property tax, social security contributions (SSCs), excise tax and customs duties. There is also a turnover tax at rates of 2 to 4% collected from small taxpayers in lieu of the VAT.

There are two different types of tax regimes in Azerbaijan: statutory tax regime and an oil consortia tax regime (PSA and HGA).

The companies that work predominantly in the oil & gas sector under the Production Sharing Agreements (PSA) are subject to the oil consortia tax regime. With the enactment of a Host Government Agreement (HGA), governing activities on the Main Export Pipeline BTC, Azerbaijan introduced a new tax regime applicable to companies working in connection with the pipeline. Companies operating outside the PSAs and HGA activities are subject to a statutory tax regime based on the Tax Code.

Except for PSAs and HGAs, the Law¹⁷ of the Republic of Azerbaijan on the Application of a Special economic regime to oil and gas activity for export, adopted on February 2, 2009, provides incentives for all companies involved in oil and gas activities destined for export.

One of the main directions of improving the tax legislation is a step-by-step reduction of tax rates. The profit tax rate was reduced from 27% to 20% in the period from 2000 to 2010, VAT was reduced from 20% to 18%, while the upper limit of the income tax for individuals – from 35% to 30%. At the same time, according to the Law “On Changes and Amendments to the Tax Code of the Republic of Azerbaijan entered into force on January 1, 2010, the rate of income tax from individuals doing business without establishing a legal entity was equalised to profit tax of legal entities and set at 20 percent.

A Modern Telephone Center “195”, the first among CIS countries tax administrations, was established in December, 2003 covering Baku city and from May 1, 2006 the whole of the country.

2005 was the starting-point of a new stage for tax services. Starting from this particular year, implementation of the “State Programme on

Improvement of Tax Administration in the Republic of Azerbaijan in 2005-2007” began. 39 large-scale measures covering 5 strategic directions were implemented within a period of three years. As a result of implementation of this programme, considerable improvements were achieved in a range of strategic directions. The system of voluntary payment of taxes was improved, the fight against tax fraud was strengthened, the compulsory tax payment system was improved, the creation of tax debts was prevented, a management system was developed for tax authorities in line with international standards and modern information and communication systems were created.

The introduction of an Automated Tax Information System (ATIS) in 2006 can be considered as one of the main achievements in recent years. ATIS, being one of the main projects focusing on the creation of e-government, implemented technological changes in the tax system and caused a new qualitative change in tax administration. The integration of the tax management into ATIS has led to root changes in tax administration and its establishment on the basis of international standards.

The application of an electronic declaration system was possible through the vast op-

17 The new law provides the following incentives:

- 5% of profit tax to be calculated from the amounts paid to subcontractors or 22% as it is defined in the tax code
- No land and property tax is applicable
- VAT with 0% rate
- VAT with 0% rate for imported goods
- No custom tariffs are applicable to exported goods
- Fixed amount (AZN 275) for custom clearance of materials and equipment to be brought to Azerbaijan regardless of their actual price.

portunities created by ATIS. Electronic declarations in Azerbaijan were introduced in 2007 and e-taxes.gov.az – an Internet Tax Office – was created to enable the electronic submission of tax declarations.

ATIS allows for an increase in the effectiveness of tax control measures, as well as for the application of modern technologies to avoid tax evasion. In order to improve the VAT administration and to organise a more effective control of operations in this sphere, a common depository account for VAT was introduced on January 1, 2008, supported by a special software. Electronic tax invoices were introduced from January 1, 2010 with the aim to further modernise the VAT tax administration. The introduction of electronic tax invoices creates favourable conditions to simplify the administration for taxpayers, as well as to increase the effectiveness of tax control in this sphere.

In order to strengthen the measures for controlling cash transactions and to enhance the application of modern information technologies, the installation of electronic remote transfer devices in taxpayers' cash registers started in 2010. The installation of such devices will create the necessary conditions to further increase the effectiveness of tax control and transparency.

A system of "online communication" was launched in March, 2010, allowing for an electronic exchange of documents between citizens, taxpayers and tax authorities within the "e-governance" Project at the Ministry of Taxes. This system was integrated into the in-

ternal communication system of the Ministry by ATIS. Users can track the movement of their documents sent via internet within the tax authority in an "on-line" regime and have a direct telephone contact with the executor. All applications sent to the tax authority via the "On-line communication" system have the status of official documents. Taxpayers can use the service for their internal communication as well. The application of such innovative approaches will continue further.

In order to motivate the development of entrepreneurship in the Republic of Azerbaijan and to simplify business registration, the registration of businesses is carried out in a "one-window" principle since 2008. The number of registration procedures for commercial entities (business start-ups) in the Republic of Azerbaijan was reduced from 13 to 5, while the time required – from 53 days to 8. As a result of the application of the "one-window" principle, the number of registered businesses increased by 30% in 2008 compared to 2007.

Azerbaijan was highlighted as the top reformer in the "Doing Business 2009" report, elaborated by the World Bank and the International Finance Corporation. Azerbaijan increased its ranking from the 97-th position to 33-rd. The system of business registration based on the "one-window" principle was considered as the most successful reform in the sphere of business registration in the "Celebrating Reform 2008" report and the Republic of Azerbaijan improved its position in the "Business start-up" ranking from the 64-th to 13-th position.

The application of bilateral agreements with other countries on avoidance of double-taxation plays an important role in establishing a favourable investment climate. Enhancing the coverage of such agreements was one of the priorities of the Ministry of Taxes in the past. Agreements on avoidance of double-taxation have been signed with 39 countries as of January 1, 2010.

It is worth mentioning that, notwithstanding **considerable improvements in the tax system** in recent years, the country was placed only 102-nd among 181 countries for the criterion of simplicity of payment of taxes. The number of tax payments, the number of hours required for the preparation and submission of tax declarations in a year is still high. Considering various payments and tax exemptions, the overall tax rate calculated as the ratio of different taxes to commercial profit is equal to 41.1%, which is higher than in many countries, including Turkey and the Russian Federation.

F. Investment Climate

Today, the country is the regional leader not only in terms of overall economic growth but in attracting **foreign direct investment**. Azerbaijan is in the top 20 in equity capital attraction in absolute terms. This is mainly due to the favorable environment created in the lead sector of the economy i.e. the oil & gas industry. The country has achieved a gradual improvement in the overall **legal framework for investment activities** in the country through a number of normative and

legal acts facilitating the starting of a business and reducing red tape obstacles. The Government liberalized the economy for international businesses and introduced a number of laws and regulations in favor of the protection of interests of investors. Generally, the Azerbaijani legislation establishes a very **permissive national regime for FDI** – FDI is welcome in any sectors where local investors are allowed to invest. Such regime also exists for the privatization of the state owned property. **There are no special permissions or specific registration requirements for foreign investments**. The foreign investor may **start his own business** in Azerbaijan with 100% foreign investment or form a joint venture with a local partner. There are no specific requirements for the size of share or legal limitations for foreign participation in a company and investment. There are no additional general business licenses or permissions apart from general business registration for the start up. The major economic policies are FDI element inclusive. For example, the Government lifted limitations for foreign participation in the banking sector. The privatization process is open to foreign investors. Restrictions for FDI are only limited to national security related sectors.

Since 1994, Azerbaijan has attracted significant amounts of foreign investment to further develop its economy, especially the energy sector. In recent years, about 50% of investment into the economy of Azerbaijan is foreign investment. Although in absolute terms the value of foreign investment has increased year by year, in relative terms, there is a grad-

ual decrease, due to the increase of domestic investments based on oil revenues inflow.

There has been a considerable increase of FDI in non-oil sectors in recent years. According to CBA information (See: Annex 5 and Annex 6) 39.4% of FDI in 2007 and 48.3% in 2008 went to non-oil sectors. Obviously, after large investments in the oil sector, in recent years investment absorption of the oil sector went down (the necessity for investments decreased), and simultaneously, the inflow of oil revenues raised the needs for consumption of capital goods. This, in turn, increased the demand for investments into non-oil sectors. Furthermore, the oil sector has had a direct influence on the development of the non-oil sectors, through the construction, services and communication sectors. As discussed above, recent reforms in the business environment have started to play their role in attracting FDI into the non-oil sector.

Since 2003, the share of total investment to fixed capital of the non-oil sector increased (See: Annex 6) and reached 69.6% of total investments in 2008 (50.1% in 2007). Strengthening capital fundamentals of non-oil sectors is very important in order to increase the trade potential of these sectors. Analyses of investments to fixed capital by sectors shows that in 2008 about 68.6% (in 2007 – 79.0%) of investments to the industry sector went into the oil sector (in 2008 44.3%, in 2007 60% of total investments to fixed capital was directed to the industry sector). Further analyses of the sectoral structure of investments to fixed capital highlights very relevant issues. Despite the fact that 69.6%

(in 2007 – 50.1%, in 2006 – 45.3%) of total investments to fixed capital was directed to non-oil sectors, a detailed analysis shows that most of the investments focused on non-tradable sectors, such as production and distribution of electricity, gas and water, construction of dwellings, transport, storage and communication, education, health and social services. Only a very small portion of investments to fixed capital was directed to tradable sectors such as agriculture, manufacturing and processing.

There is a need to enhance incentives in order to attract foreign investment, in addition to the incentives provided by the Production Sharing Agreements (PSA) in the oil and gas sector. Performance requirements are not imposed on new investments, but investors who participate in the privatization process of enterprises often assume specific obligations regarding future investment and employment. Foreign investors are not required to purchase from local sources or export a certain percentage of output. Investors in PSAs assume obligations and requirements as provided within the PSA.

Despite considerable achievements in attracting FDI and enhancing the business environment, there is still a number of issues to be addressed. According to the Global Competitiveness Report 2008-2009 published by the World Economic Forum, Azerbaijan progressed 18 steps within a year and held the 51-st position among 133 countries (Azerbaijan was 69th out of 134 countries in the overall Global Competitiveness Index in the 2008-2009 Report). According to the report,

the country is in transition from a factor-driven stage of development to an efficiency-driven one and major barriers to the country's global competitiveness lay in i) better satisfaction of basic requirements, such as infrastructure, health and primary education, ii) efficiency enhancers, such as higher and vocational education and training, goods and financial markets' efficiency, technological readiness, as well as, iii) further utilisation of factors such as business development and innovation.

Box 2.1

Institutional Support to Attract FDI and Export Promotion

The Azerbaijani Export & Investment Promotion Foundation (AZPROMO) (<http://www.azpromo.az/>) is a joint Public Private Initiative established by the Government of Azerbaijan in 2003. AZPROMO plays a key role in public-private dialogue serving as a bridge between investors, local producers and the Government. AZPROMO is an independent organization with the key objective to contribute to achieving a balanced development of the economy of the country and to implement measures necessary for the attraction and promotion of investments for the creation of new jobs, particularly in rural regions, within the poverty reduction strategy framework. In August 2005, AZPROMO was also empowered with the mandate to promote export of local non-energy sector products.

The Azerbaijan Investment Company (AIC) (<http://www.aic.az/>) is a state-owned joint-stock company, established by presidential decree in 2006, in order to promote investments to non-oil sectors. Key priorities of the AIC are to participate in joint-venture projects (especially export-oriented and import substitute) of Azerbaijani enterprises and to promote local and foreign investments in non-oil sectors. AIC's investment decisions are based on the analysis of business plans, description of effectiveness of the involved organization's commercial activity and experience. AIC invests in both existing and newly-established joint-ventures.

Box 2.2

A national SEZ regime: Attracting FDI and increasing foreign trade

Introducing a **National Special Economic Zone (SEZ)** regime can be a useful tool as part of an overall economic growth strategy to increase foreign trade, attract foreign direct investment (FDI) to the country, as well as to promote regional development. In addition, SEZs can play an important role in offsetting some aspects of an unfavourable investment climate by offering world class facilities and best practice policies. A national SEZ regime has to treat investors and different forms of investment equally and provide the same benefits to foreign, local investors and to various other legal forms of investment.

Although the Government, through the State Programme on Socio-economic Development of the Regions of the Republic of Azerbaijan, announced in 2003 its intention to create special economic zones, there are currently no special trade zones or free ports operating. In 2004, the Ministry of Economic Development in cooperation with UNIDO developed a feasibility study of the “Yashma Industrial Park” to be located 50 km from Baku, the capital. The first draft of the SEZ law, recently submitted to the National Parliament, was prepared at that time. Previously, suggestions were made to establish the 3rd biggest city of the country Sumgait (UNIDO Project – Support Programme for Industrial Development of the Sumgait Region of Azerbaijan), located 30 km from Baku, as an industrial park or free trade zone but this was delayed due to some national security reasons and its close location to Baku.

Recently, the Ministry of Economic Development announced plans to create a special economic zone near a new Caspian port to be completed in 2012. The Ministry of Information and Communication Technologies conducted a feasibility study to create Regional Innovation Zones with the aim to boost development of the sector and to turn Azerbaijan into a regional information and communication technology hub.

In April 2009, the Parliament passed a law on the SEZ regime in Azerbaijan.

Box 2.3.

The State Oil Fund of Azerbaijan Republic (SOFAZ)

The Government has shown its readiness to invest in its human capital – SOFAZ (www.oil-fund.az) was established in accordance with the Decree of the President dated December 29, 1999 "On establishment of the State Oil Fund of the Republic of Azerbaijan" to use the oil revenues for the development of the non-oil sector of the economy and maintain these revenues for future generations. The Oil Fund has three main responsibilities: (i) sequestering oil revenues off-shore, so as to mitigate the potential Dutch disease effects of inflation and currency appreciation, (ii) serving as a long-term off-shore "savings account" so that oil revenues can be invested into the economy at a later date, and (iii) overseeing specific activities using accumulated oil revenues, such as the overseas skills training and scholarship programs, improving the wellbeing of refugees and IDPs, etc.

SOFAZ is a state extra-budgetary fund, functioning as a separate legal entity, with its own specialists, management team and government supervisory hierarchy. SOFAZ is lead by the Executive Director, who is appointed by the President. SOFAZ's activities in the field of asset accumulation and spending are overseen by a Supervisory Board, which consists of both representatives of the executive and legislative powers including government ministers and members of the Parliament. The Board reviews the Fund's draft annual budget, annual report and financial statements, prepared by the Executive Director, along with the auditor's opinion and provides its comments.

The major sources of income for SOFAZ are:

1. Proceeds from sales of Azerbaijan's share of hydrocarbons (exclusive of hydrocarbons' transportation costs, banking expenses, customs costs, independent surveyors, marketing and insurance costs, and also exclusive of the revenues from the share in those projects in which the State Oil Company of the Republic of Azerbaijan is an investor, shareholder or partner);
2. Oil and gas agreement signature and/or performance bonuses paid by investors to the State Oil Company or an authorized state body;
3. Acreage fees paid by foreign investors for use of the contract areas in connection with the development of hydrocarbon resources;
4. Dividends and profit participation revenues of the Republic of Azerbaijan in connection with implementation of oil and gas agreements;
5. Revenues generated from oil and gas passing over the territory of the Republic of Azerbaijan;

6. Revenues from the management of SOFAZ's assets;
7. Revenues generated from the transfer of assets from investors to the State Oil Company and/or an authorized state body, within the framework of oil and gas agreements;
8. Grants and other disinterested aid, other income.

In accordance with the Regulations of SOFAZ, the Oil Fund's assets may be used for solving the most important nation-wide problems, and for the construction and reconstruction of strategically significant infrastructure facilities, for the purpose of the country's socio-economic progress. As per the law "About Budget System" of the Republic of Azerbaijan, all SOFAZ expenditures, except for operating expenditures, are incorporated as part of an annual consolidated government budget presented to the Parliament for approval. In compliance with this law, SOFAZ can only execute the expenditures envisaged by its budget. The execution of expenditures is made through the state treasury.

A key measure to promote transparency within the Oil Fund's reporting and operation system is through a regular audit of the Fund's financial activities by a reputable firm of international auditors. Ernst & Young was appointed as auditor for the Fund's financial statements during the five years of its activity. At the same time, the Fund's activity may be examined by the Chamber of Accounts, established by the Parliament.

As a result of the government's efforts in ensuring an effective use of oil revenues, "The Long-Term Strategy on the Management of Oil and Gas Revenues" was signed by the President on September 27, 2004. The importance of this document for the future development of Azerbaijan is extremely high. The Strategy covers the period up to 2025 and sets key principles for the efficient management of national wealth. The strategy on the use of oil and gas revenues includes the following objectives: developing the non-oil sector and the regions; large-scale development of infrastructure; fulfillment of poverty reduction goals and solution of other social problems; stimulating the improvement of the intellectual, material and technical base of the economy. The Oil Fund is one of the central elements of the Strategy and during the coming decade it will be critical in helping to ensure the Strategy's effective implementation.

The assets of SOFAZ as of April 1, 2009 stood at 8721.4 mln. AZN (USD 10863.9 mln.). In comparison, the assets stood at 2092.4 mln. AZN (USD 2475.4 mln.) as of January 1st, 2008. Due to increased oil production and export the monetary inflow remains high.

The assets of the Oil Fund are utilised to fund two major projects at the national level. Firstly, disbursement of the Oil Fund's assets was directed towards providing new housing and

improving the socio-economic conditions for **refugees and internally displaced persons** who were forced to flee as a result of the conflict of Nagorno-Karabakh. As of January, 2008, AZN 332,5 mln. of the Oil Fund's assets were directed towards improving the socio-economic conditions of refugees and IDPs. Secondly, another major project financed by SOFAZ is Azerbaijan's equity share in the Baku-Tbilisi-Ceyhan oil pipeline project that was commissioned in May 2005. SOFAZ investment in this project since October 2002 reached AZN 298 mln. SOFAZ started financing the construction of the Oguz-Qabala-Baku water supply system and the reconstruction of the Samur-Absheron irrigation system in 2006. AZN 138.5 mln. and AZN 71.1 mln. of the Fund's money were accordingly used for these projects by October 1, 2007. AZN 0.2 mln. were directed to financing Baku-Tbilisi-Kars railway. AZN 90 mln. was utilised to form a statutory capital of the State Investment Company in 2006.

In 2009, the budget of the Oil Fund (1,330.0 mln. AZN) was transferred to the State Budget. Expenditures in the amount of 8.4 mln. AZN were used to finance the improvement of social condition of refugees and internally displaced persons, 46.3 mln. AZN and 11.3 mln. AZN were accordingly used for financing the reconstruction of the Samur-Absheron irrigation system and financing the construction of the Oghuz-Gabala-Baku water supply system. 0.4 mln. AZN were directed to financing the Baku-Tbilisi-Kars railway and 1.1 mln. AZN to financing **“the state program on the education of Azerbaijani youth abroad in the years 2007-2015”**.

Source: www.oilfund.az

III. TRADE AND TRADE POLICY

This chapter considers the different thematic areas of the Aid for Trade initiative (Box 3.1), presents and analyses the structure and evolution of

foreign trade trends, trade policy, institutional mapping, bilateral and multilateral trade agreements and WTO accession issues.

Box 3.1

Aid for Trade initiative

The Aid for Trade (AfT) Initiative has emerged during the WTO Hong-Kong Ministerial Conference in 2005. Aid for Trade supports developing countries, in particular the least developed, to develop the trade capacities and infrastructure they need in order to benefit from trade. AfT is part of overall Official Development Assistance (ODA) – grants and concessional loans – targeted at trade-related programmes and projects. As trade is a broad and complex activity, Aid for Trade is broad in order to encompass the different aspects related to trade. It includes technical assistance – supporting countries to develop trade strategies, capacity development for effective trade negotiations; infrastructure – building roads, ports, and telecommunications that link domestic and global markets; productive capacity – investing in industries and sectors so that countries can diversify exports and build comparative advantages; adjustment assistance – helping with the costs associated with tariff reductions, preference erosion, or declining terms of trade.

According to the above points, six categories of AfT have been identified:

(a) Trade Policy and Regulations

Training trade officials; analysis of proposals, positions and their impact; support to national stakeholders to articulate commercial interest and identify trade-offs; dispute issues; institutional and technical support to facilitate the implementation of trade agreements and to adapt to and comply with rules and standards.

(b) Trade Development

Investment promotion; analysis and institutional support for trade services; business support services and institutions; public-private sector networking; e-commerce; trade finance; trade promotion; market analysis and development.

(c) Building productive capacity

This type of support seeks to strengthen economic sectors in order to increase competitiveness in export markets.

(d) Trade-related infrastructure

Investments into new infrastructure and improving roads, ports, power distribution, telecommunications – support to the creation of linkages of developing countries' products and services to global markets.

(e) Trade-related adjustment

Support with transition costs arising from liberalization: e.g. preference erosion, loss of fiscal revenue, or declining terms of trade.

(f) Other trade-related needs

This refers to the trade-related component of aid in other sectors not comprised in the five above-mentioned categories, e.g. health and education.

A. Trade Regulations

After gaining independence, Azerbaijan started widespread reforms in its foreign trade system – the state monopoly over foreign trade operations was eliminated, prices were liberalized and a new multi-band tariff system was introduced. Today, Azerbaijan is consistently expanding its international trade capacities. The increase in international trade capacity was achieved mainly due to two factors: the increase in export volume of crude and oil products and the expansion of the internal market, which resulted in increased imports of manufacturing equipment and consumer goods to the country.

More than 30 normative legal documents have been adopted so far to **regulate and liberalize foreign trade relations** of Azerbaijan. The major ones are listed below:

- The Resolution No.222 of the Cabinet of Ministers of the Republic of Azerbaijan "On the organization of foreign trade in The Republic of Azerbaijan" dated June 2, 1994 (no longer implemented);
- The law of The Republic of Azerbaijan on "Customs tariffs" dated June 20, 1995 (with later additions and changes);
- The Customs Code of the Republic of Azerbaijan was adopted by the Law #311-

- IQ of the Republic of Azerbaijan "On Approval of the Customs Code of the Republic of Azerbaijan dated June 10, 1997;
- The Decree No. 616 of the President the Republic of Azerbaijan dated July 25, 1997 "On approval of the Customs Code of the Republic of Azerbaijan";
 - The Presidential Decree "On measures for further liberalization of foreign trade in The Republic of Azerbaijan" No. 609 dated June 24, 1997;
 - The Presidential Decree on approval of "Trade Development State Program for 1999-2002" dated July 23, 1999;
 - The Resolution No.11 of the Cabinet of Ministers of the Republic of Azerbaijan on "The list of VAT exemptions of goods imported into the territory of the Republic of Azerbaijan" dated January 31, 2005;
 - The Resolution No.7 of the Cabinet of Ministers of the Republic of Azerbaijan "On rules for the application of customs evaluation system for goods imported into or exported from the customs territory of the Republic of Azerbaijan" dated January 12, 1998;
 - The Resolution No.190 of the Cabinet of Ministers of the Republic of Azerbaijan "On application of the rules for identification of source country of goods" dated November 29, 1997;
 - The Resolution No.20 of the Cabinet of Ministers of the Republic of Azerbaijan "On the level of excises tax for goods imported into the territory of the Republic of Azerbaijan" dated January 19, 2001;
 - The Resolution No.80 of the Cabinet of Ministers of the Republic of Azerbaijan "On the rate of customs tax for import-export operations and customs fees for customs registration in the Republic of Azerbaijan" dated April 12, 2001;
 - The Law of the Republic of Azerbaijan "On export control" dated October 26, 2004;
 - The Law of the Republic of Azerbaijan "On Special Economic Zones" dated April 14, 2009;
 - The Decree No.12 of the President of the Republic of Azerbaijan "On the application of the "one-window" principle in the examination of goods and vehicles passing through the checkpoints at the state borders of the Republic of Azerbaijan dated October 11, 2008;
 - The Law of the Republic of Azerbaijan "On currency regulation" dated October 21, 1994;
 - The Law of the Republic of Azerbaijan "On state dues" dated December 4, 2001.
 - The Law of the Republic of Azerbaijan "On copyright and related rights" dated June 5, 1996.

The Customs Code of the Republic of Azerbaijan regulating customs regimes and procedures in export-import operations was approved by a respective law and entered into force on June 10th, 1997. In order to further liberalize the national economy, enhance the trade relations of the country and the identification of modern approaches meeting the requirements of a market-economy, the Decree "On measures for further liberalization of foreign trade in The Republic of Azerbaijan" No. 609 dated June 24, 1997 was signed by the President. Furthermore, in order to align export-import regulation with the newly adopted laws and decrees, the Government passed a Decree "On Rates of

Customs Dues in Export and Import Operations". At the same time, relevant changes were made to the mentioned legislative acts.

The Customs Code recognizes several customs regimes applicable to goods imported into Azerbaijan, of which the most important are **clearance for free turnover, transit, customs storage, bonded warehouse, temporary import, processing in and outside customs territories.**

The Customs Code provides regulations on the establishment and **operation of bonded and customs warehouses. A license from the State Customs Committee** is required to establish a customs warehouse; licenses are granted only to Azerbaijani legal entities and Azerbaijani individuals. Goods and equipment can be maintained in customs warehouses for up to three years. This period can be restricted by SCC for different types of goods and by other customs agencies of the Republic of Azerbaijan for different persons. After the identified period expires, goods should be declared for placement under another customs regime, or should be placed in a temporary customs warehouse, owned by the tax authority of the Republic of Azerbaijan.

Under the PSA regime, contractors, their agents and sub-contractors are entitled to import and re-export from Azerbaijan free from import duties and restrictions for goods employed for hydrocarbon activities. Imports under the PSA regime are VAT exempt. A similar regime applies under the Host Government Agreements.

As of today, customs duties based on the 2007 Harmonized System are applied in the Republic of Azerbaijan. According to the legislation, ad valorem tariffs (which apply to the import value of goods) are set at 0%, 0.5%, 1%, 3%, 5%, 10%, and 15% (per unit duties, duties per metric units are applied as well). There is also an 18% value-added tax on most of the imported products.

By the end of 2007, the MFN applied **simple** (9.2%) and **import weighted** (5.1 %) **tariff averages,** which are lower than in an average lower middle income country, although above the ECA country group mean. Azerbaijan ranked 58th out of 125 countries. The maximum MFN tariff rate of 294.5% is consistent with both its income group and regional comparators' averages (See: Table 3.1).

Excise tax applies to certain types of goods (e.g. tobacco and alcohol products, vehicles). Azerbaijan adopted a "destination VAT" principle and VAT (currently set at 18%) is payable (subject, of course, to the applicable customs regime) on the declared value of goods (including assessed import duties and excise tax). A very limited number of categories and types of goods are VAT exempt and to some others 0% VAT applies (PSA and HGA). In accordance with the Decree of the Cabinet of Ministers of the Republic of Azerbaijan "On Changes to the Resolution No.80 of the Cabinet of Ministers of the Republic of Azerbaijan "On the rate of customs tax for import-export operations and customs fees for customs registration in the Republic of Azerbaijan" dated

Table 3.1: Trade indicators of Azerbaijan

Trade Policy	1995-1999	2000-2004	2005-2007	2006-2008 Latest
TTRI (MFN applied tariff) – All Goods (%)	5.31	5.30
Non-Tariff Measure Frequency Ratio – All Goods
MFN applied tariff – Simple Average – All Goods (%)	...	9.37	9.34	9.17
MFN applied tariff – Dispersion – All Goods	...	1.97	1.01	1.02
Maximum rate (%)	...	870.2	294.5	294.5
Agriculture – simple average (%)	...	16.9	14.2	14.2
Non-agriculture – simple average (%)	...	8.2	8.6	8.4
MFN applied tariff – Weighted Average – All Goods (%)	...	6.70	5.14	5.12
Agriculture (%)	...	13.0	7.1	4.8
Non-agriculture (%)	...	5.7	4.0	3.4
Applied tariff escalation (%diff, raw to finished) – All Goods (%)	1.68	1.27
Agriculture (%)	4.5	4.5
Non-agriculture (%)	3.4	3.0
Import duties (% of imports)	3.1	...	...	...
Specific tariffs frequency ratio (%)	...	1.0	2.6	2.5
Applied tariff escalation (%change, raw to finished) – All Goods (%)	17.89	13.51
Share of Tariff Lines with Domestic Peaks – All Goods (%)	...	1.85	1.63	1.62
Share of Tariff Lines with International Peaks – All Goods (%)	...	3.53	1.85	1.80
MA-TTRI (applied tariff incl. prefs.) – All Goods	0.739	0.577
Ease of Doing Business – rank (out of 178)	97	33
LPI – Overall	2.29	2.29
Real growth in total trade (g+s, %)	9.67	19.09	18.73	19.32

Source: World Bank, *World Trade Indicators 2008*, <http://info.worldbank.org/etools/wti2008/>

Table 3.2: Customs tax from imports, 2006-2009 (thous.AZN)

	2006	2007	2008	2009
Budget revenues (thous. AZN)	3880100	6007400	10762700	10325900
Custom duty (tax) (thous. AZN)	515959	772012	1110374	1112697
Share of custom duty (tax) on budget revenues (%)	13.3	12.8	10.3	10.8

Source: SSC and State Customs Committee

April 12, 2001", customs clearance fee is applicable to all imports/exports with certain minor exceptions.

Exports are exempt from customs duties, except for certain types of metals and metal products. **Import of goods** into Azerbaijan is subject to the imposition of imports duties (ad valorem duties ranging from 0% to 15%, per unit duties and duties per metric units). Regardless of the country of origin, no import duty is imposed on a number of goods, including: assets imported into Azerbaijan by a foreign investor as a contribution to a joint venture's charter fund, or for the establishment of a 100% foreign-owned enterprise; temporary imports; goods in transit; and property of expatriate staff, if only for personal needs.

All customs service payments are to be paid in AZNs at the exchange rate set by the Central Bank of Azerbaijan on the day of the submission of customs declaration.

In order to align the application of rules of the existing customs evaluation system to

GATT's Article VII and to the provisions of the Treaty On application of GATT's Article VII dated 1994, changes and amendments were made to the Law of the Republic of Azerbaijan on "Customs tariffs" by the Law # 758-IIIQD of the Republic of Azerbaijan dated December 30, 2008 and was approved by the Decree # 67 of the President of the Republic of Azerbaijan on Application of this Law dated February 24, 2009.

In order to align the legislation in force with the Law # 758-IIIQD of the Republic of Azerbaijan On Changes and Amendments to the Law of the Republic of Azerbaijan "On Customs Tariffs" dated December 30, 2008, the Decree # 7 of the Cabinet of Ministers of the Republic of Azerbaijan "On Rules of Application of the Customs Evaluation System to Goods Brought into and Taken out of the Customs Territory of the Republic of Azerbaijan" dated January 12, 1998 was reviewed jointly with the Ministry of Justice and submitted to the Cabinet of Ministers and approved by the Decree # 58 of the Cabinet of Ministers dated April 08, 2009.

In order to modernise the legislative basis on customs affairs of Azerbaijan in line with international standards and principles by the Working Group established at the State Customs Committee for the preparation of the New Customs Code in February 2006, the draft new "Customs Code of the Republic of

Azerbaijan" was developed and submitted to the Presidential Administration for internal processing. At the same time, the Chapter on Customs Evaluation developed jointly with international experts in line with WTO requirements was reflected in the Annex 2 of the draft new Customs Code. The new Code

Box 3.2

Project: New Customs Code

In 2006, a working group was established in order to prepare a new customs code. The State Customs Committee acts at the level of a special working group to bring the new Customs Code of Azerbaijan into conformity with international principles. The modernization of the legislative base in accordance with international standards has been envisaged within the project of the United Nations Development Program (UNDP) and the European Union on the modernization of the customs services. The new code will significantly affect the integration of Azerbaijan into Europe, ensure transparency and efficiency in attracting foreign investment into the country and facilitate the customs procedures. It will constitute a contribution to the material and technical basis of the customs system, the creation of the customs infrastructures corresponding to modern demands, the increase of incomes of the state budget, a wide application of modern tariff and non-tariff regulation measures in trade operations, the speeding up of WTO accession, a complete application of the automated management in the customs system, the increase in the rationality of the implementation of customs control, the improvement and development of customs-tariff policy, the increase of recognition of the customs system in strengthening of economic security and social and economic development, the struggle against legal violations in the customs activity sphere, the increase of the customs system role, the co-ordination with the adopted customs regulations on the international level, the facilitation of the clearance of import/export operations.

The «State Programme on the development of the customs system of the Republic of Azerbaijan in 2007-2011» approved by the Decree No 1925 of the President of the Republic of Azerbaijan on February 1, 2007 plays an important role in achieving the mentioned goals. One of the main objectives of the Programme is the improvement of the legislative basis regulating customs activity and customs regulations.

will have a significant influence on Azerbaijan's economic integration into Europe, ensure transparency, as well as contribute to efficiency in attracting foreign investments into the country and to the simplification of customs procedures. This code will create favorable conditions to further strengthen the material and technical basis of the customs system, establish customs infrastructure meeting modern requirements, increase budget revenues, provide for wide application of tariff and non-tariff policies in trade operations, accelerate WTO accession, ensure full application of automated management in customs system, increase the rationality in the implementation of customs control and improve and develop the customs tariff policy. The Code will also achieve wider recognition of the customs system in strengthening economic security and in socio-economic development, strengthen the struggle with violations in the sphere of customs activities, enhance the role of the customs system, align with customs regulation mechanisms adopted at the international level and simplifying export-import operations.

The "State Programme for the Development of the Customs System in the Republic of Azerbaijan for 2007-2011" approved by the Decree # 1925 signed by the President of the Republic of Azerbaijan on February 1, 2007 plays an important role in achieving the mentioned goals in a short period of time. One of the main tasks of the Programme is to improve the regulation of the customs activities and legislative basis of customs regulation methods.

Work is proceeding in the area of computerization of the customs offices. However, the use of risk-based profiles in the current customs declaration processing system is deficient and the IT operational capacity should be further developed as foreseen in the State Program on the development of the Customs System of the Republic of Azerbaijan (2007-2011).

Azerbaijan is not yet a member of the WTO and therefore is not required to implement the Agreement on Customs Valuation (ACV). However, Azerbaijan is part of HS (the Convention on the Harmonized Commodity Description and Coding System). The country is in the process of harmonizing its customs legislation with international provisions and standards.

B. Foreign Trade Relations; Position of the Country; Geographical Dimensions; Partners

The average export concentration index¹⁸ of Azerbaijan in 2006-2008 was 62.78. This figure is higher than the world average at 37.85 and the European and Central Asian average of 27.19.¹⁹ In comparison, in 2006-2007 the average for the five Central Asian former Soviet republics was 50.30.

The average trade integration of Azerbaijan for 2006-2008, measured as the percentage of trade to GDP, is 0.99, significantly lower than the world average of 4.17 and the European and Central Asian average of 3.97.

Table 3.3: Share of oil and non-oil sectors in total exports of Azerbaijan in 2001-2009, in percentage

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Non oil&gas	8.84	11.95	14.43	17.91	23.71	15.71	18.76	2.97	8.3
Oil&gas	91.16	88.05	85.57	82.09	76.29	84.29	81.24	97.03	91.70

Source: *www.intracen.org*, author's calculations

The share of the country in world exports increased by 3 times in recent years, from 0.036 in 2000-2004 to 0.130 in 2006-2008. This increase in exports from Azerbaijan is mostly due to the predominance of natural resources (See: Table 3.3, Figure 3.1 and Figure 3.2), which witnessed higher world prices in recent years.

Azerbaijan has developed **trade relations** with a number of countries in the recent years. There are trade operations with more than 100 partner countries. Azerbaijan's principal trading partners are the EU member states, the U.S., the CIS countries, Turkey, Israel, China and Indonesia.

During the years of 1991-2009, serious changes took place in the geographical structure of for-

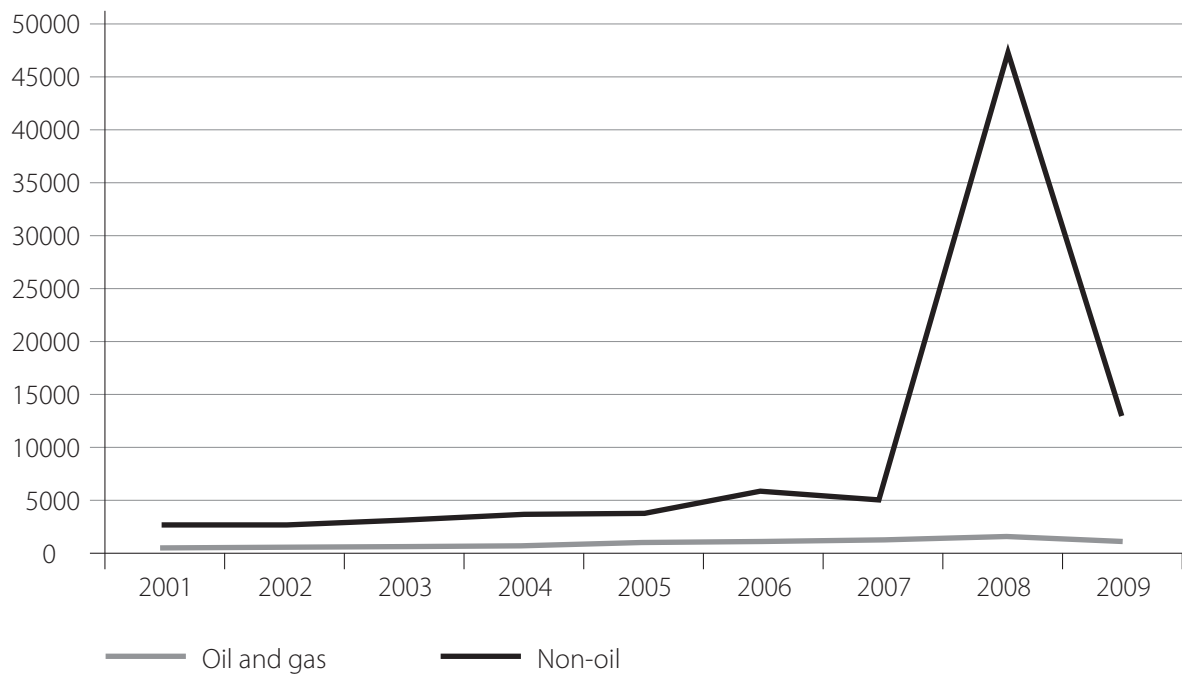
ign trade. For example, in 1991, 87% of foreign trade relations was destined to the former Soviet republics, while only 13% was going to overseas countries. In 1995, the geographical structure of foreign trade relations changed drastically with the share of overseas countries reaching up to 63.3%. At the same time, the volume of foreign trade turnover increased 3.1 times in 1995 compared with 1991, including 2.8 times for import and 3.3 for export. The foreign trade turnover balance was negative. Starting from 1991 up to 1995, the economic crisis in the country and subsequent decrease of its economic potential limited the exporting capacities of the country. However, as a result of economic measures being implemented from 1996 onwards, an increase was observed in foreign trade turnover, which reached its peak in 2008.

18 Export concentration index -Expressed as Herfindahl-Hirschmann indices derived from three-digit SITC product categories (Revision 2 was used for the 2006 triennial review). For the purposes of the review of the list of LDCs, the Herfindahl-Hirschmann index is defined as the sum of squares of the percentages of the shares of each commodity as a proportion of total exports. If a country exports only one commodity, the index is 10,000. If there is a (near) infinite number of commodities with near-zero market shares each, the index is approximately zero. Results are normalized, however, and range from 0 to 1 (maximum concentration).

Sources of data: United Nations Conference on Trade and Development, Handbook of International Trade and Development Statistics (various issues). Hirschmann indices are estimated with data from UNSTAT for countries where data from the UNCTAD source are not available.

19 Showing the Herfindahl-Hirschmann index measure of the degree of export concentration. Source: World Trade Indicators 2008, <http://info.worldbank.org/etools/wti2008/2a1.asp>

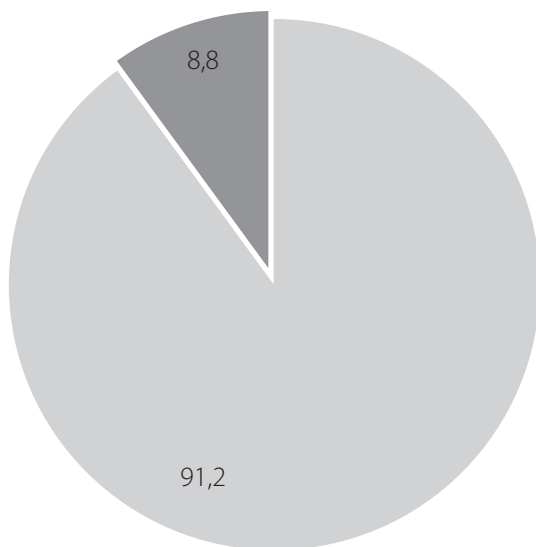
Figure 3.1: Oil and non-oil export of Azerbaijan, in thous. USD



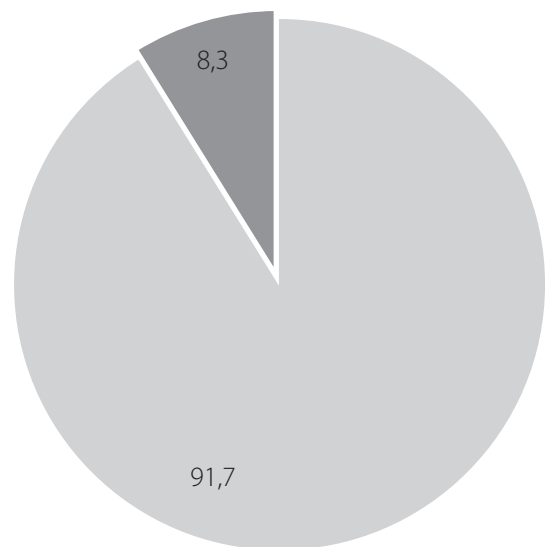
Source: www.intracen.org, results based on author's own calculations

Figure 3.2: Share of oil and non-oil sectors in total export in 2001 and 2009

Share of oil and non-oil sectors in total export of Azerbaijan in 2001, in %



Share of oil and non-oil sectors in total export of Azerbaijan in 2009, in %



■ Non oil&gas ■ Oil&gas

Source: www.intracen.org, results based on author's own calculations

Table 3.4/a: Trade in services by sector, 1000 USD at current prices

Services	2001			2005		
	Export	Import	Balance	Export	Import	Balance
Total services	289830	664870	-375040	682960	2652980	-1970020
Transportation	161660	156610	5050	239200	378890	-139690
Other business services	30800	179480	-148680	251700	514850	-263150
Travel	42590	108920	-66330	77670	163960	-86290
Government services, n.i.e.	33970	14610	19360	58320	27890	30430
Construction services	6840	186760	-179920	9430	1498830	-1489400
Communications services	13970	6760	7210	35580	12210	23370
Insurance services	0	11730	-11730	7840	40590	-32750
Computer and information services	...	...	...	130	290	-160
Personal, cultural and recreational services	...	...	...	3000	5000	-2000
Financial services	...	...	...	100	10430	-10330
Royalties and license fees	...	...	...	10	50	-40

In 2009, 85.8% of foreign trade operations, including 92.3% of export operations and 70.2% of import operations were conducted with countries outside the CIS. The same year, these indicators were 14.2%, 7.7% and 29.8% for CIS countries respectively.

Countries which had a significant share of Azerbaijan's exports in 2005-2009 (See: Table 3.5)

were: Italy, Israel, France, Turkey, the USA, Russia, Georgia and Iran. The consolidated share of these countries in Azerbaijan's exports was an average of 80.2% in 2005-2009. However, Italy is a special case, as it accounted for 31.3%. In addition, despite the fact that Azerbaijan traded with almost 170 countries worldwide during the years of 2001-2009, 90% of the exports went to only 17 countries, and 90% of

Table 3.4/b: Trade in services by sector, 1000 USD at current prices

Services	2007			2008		
	Export	Import	Balance	Export	Import	Balance
Total services	1247540	3378580	-2131040	1546904	3889464	-2342560
Transportation	604680	547580	57100	793929	682511	111418
Other business services	294300	825160	-530860	313680	1321238	-1007558
Travel	177780	263570	-85790	190247	341103	-150856
Government services, n.i.e.	75550	54090	21460	92898	63358	29540
Construction services	45800	1471110	-1425310	109104	1440757	-1331653
Communications services	34030	10440	23590	46929	27986	18943
Insurance services	7840	66470	-58630	...	...	...
Computer and information services	4190	8280	-4090	...	...	...
Personal, cultural and recreational services	3240	5440	-2200	...	...	...
Financial services	100	121740	-121640	117	12511	-12394
Royalties and license fees	20	4700	-4680			

Sources: ITC calculations based on International Monetary Fund statistics and CBA (for 2008)

the imports came from 24 countries. Accordingly, in 2009, 90% of Azerbaijan's imports came from only 20 countries and 90% of the exports went to 16 countries.

As shown (Table 3.5), about 32% of the exported products goes to Italy, mainly crude

oil. Due to the fact that 80-90% of the exports consisted of oil and oil products in recent years, the geographical structure of the non-oil exports should be analysed separately.

The main countries of Azeri imports are (See: Table 3.7): Russia, Turkey, Germany, Ukraine,

the UK, China, the USA, Japan, Kazakhstan, Italy, Finland, France, Netherlands, Iran and India. During the years of 2005-2009, 11 of these countries accounted for the consolidated volume of 70.9% of Azerbaijani imports. In this case, Russia should be given special mention due to its larger share of 18.7%.

According to the information of the SSC, the total foreign trade turnover reached USD 20.82 bln. in 2009, 70.6% (14.7 bln. USD) of

this volume consisted of export operations and there was a large trade surplus. In comparison to 2008, export decreased by 69.3%. The main reason for this decrease can be explained by a sharp decrease of prices for crude oil in the world markets and by the global financial crisis. Figure 3.3 illustrates the total oil production forecasts of Azerbaijan over the next 15 years.

An analysis of export-import operations during the 1999-2009 years, given in Tables 3.8

Table 3.5: List of main export destinations (markets) of Azerbaijan (in %)

Country	2005	2006	2007	2008	2009	2005-2009 on average
Italy	30.3	44.7	15.5	40.2	25.8	31.3
Israel	4.5	10.7	6.1	7.6	8.4	7.5
France	9.4	5.5	4.3	4.9	9.0	6.6
Turkey	6.3	6.1	17.4	1.3	0.7	6.4
United States of America	1.0	1.4	3.8	12.6	11.9	6.1
Russian Federation	6.6	5.4	8.7	1.2	5.1	5.4
Georgia	4.8	4.6	5.7	1.0	2.7	3.8
Iran (Islamic Republic of)	3.8	4.6	7.2	0.7	0.6	3.4
Indonesia	0.0	0.0	6.4	3.0	4.5	2.8
India	0.0	0.0	2.4	5.1	1.8	1.9
Greece	2.2	2.9	1.9	0.6	1.2	1.8
Spain	1.7	0.8	0.9	3.1	2.2	1.7
Croatia	4.1	0.1	0.7	1.1	1.3	1.5
Total	74.7	86.8	81.0	82.4	75.2	80.2

Source: SSC

Table 3.6: Azerbaijan's non-oil and gas export to EU-15 and CIS countries in 2003-2009 (in %)

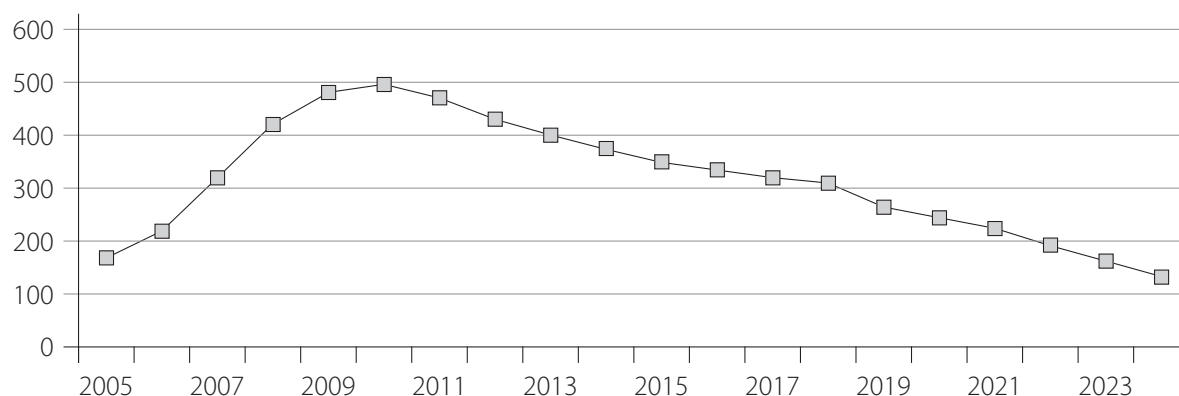
	2003	2004	2005	2006	2007	2008	2009
EU-15	6.16	2.87	7.88	5.01	4.43	1.53	5.1
of which:							
Germany	1.64	0.72	3.31	0.90	1.74	0.59	1.64
Italy	2.25	0.56	2.59	1.42	1.33	0.42	1.26
CIS	53.49	63.92	66.71	64.60	69.68	73.24	76.5
of which:							
Russia	34.79	29.21	27.16	33.95	46.00	40.7	54.2
Tajikistan	9.03	7.18	7.66	13.08	4.54	3.08	0.7
Other countries	40.35	33.21	25.41	30.39	25.89	25.23	18.4
Share of Non-oil sector in total trade	14.43	17.91	23.71	15.71	18.76	2.97	7.38

Source: www.intracen.org and author's adjustments

and 3.9, allows us to argue that Azerbaijan imports mainly manufactured goods, machinery and transportation equipment (73.3% of total import in 2009), while exports (92.8% of total

export in 2009) are mostly crude oil and petroleum products. In the case of Azerbaijan, import of technology and capital equipment should be considered positive, since it can fa-

Figure 3.3: Forecasted total oil production of Azerbaijan between 2005 and 2023



Source: www.oilfund.az

Table 3.7: The countries with larger share in Azerbaijan's import (in %)

Name of country	2005	2006	2007	2008	2009	2005-2009 in average
Russia	17.0	22.4	17.6	18.8	17.5	18.7
Turkey	7.4	7.3	10.9	11.3	14.8	10.3
Germany	6.1	7.7	8.2	8.4	9.0	7.9
Ukraine	5.4	6.0	8.2	7.9	8.4	7.2
United Kingdom	9.1	8.6	7.2	5.4	4.5	7.0
China	4.1	4.2	4.9	6.7	7.9	5.6
USA	3.4	3.8	4.7	3.7	4.3	4.0
Japan	1.7	3.6	5.2	3.4	2.4	3.3
Kazakhstan	2.3	2.4	3.9	2.8	1.0	2.5
Italy	2.2	2.4	2.5	2.6	2.1	2.4
Finland	0.6	3.2	2.7	3.4	1.2	2.2
France	2.9	1.1	1.8	1.9	2.3	2.0
Netherlands	3.8	1.7	1.8	1.1	0.9	1.9
Iran	1.8	1.6	1.8	1.4	1.3	1.6
India	1.3	1.1	1.3	1.5	0.9	1.2
Total	69.1	77.1	82.7	80.3	78.5	77.5

Source: SSC

facilitate know-how transfers and technology upgrading in the country.

If we analyze the structure of the import according to SITC-3 1-digit level, the total industrial import accounts for almost 73% of the total imports. Despite the country producing beverages and tobacco itself, the import of these products increased by 75% in 2007 in comparison to 2006, 15.4% in 2008 and 8.3% in

2009. As it can be seen, the rate of growth tended to decrease. This can be explained by the potential capacity of the local market for imported products, which can be fulfilled by local production. One of the main trends in imports to be noted is the declining share of food products of the total volume of imports. It should also be mentioned that the average growth rate for total imports was positive for the period of 1999-2009.

Table 3.8/a: Imports structure according to the Standard International Trade Classification (Rev 3) for 1999-2009 (mln. USD)

N	Product Name	1999	2000	2001	2002	2003
	Total	1035.7	1172.0	1430.9	1665.6	2626.2
0	Food & live animals	183.5	190.3	194.1	198.7	259.5
1	Beverages and tobacco	9.9	18.2	24.4	22.7	23.7
2	Crude mater.ex food/fuel	25.5	58.9	40.6	41.4	68.1
3	Mineral fuel/lubricants	65.5	57.1	216.0	292.6	295.9
4	Animal/veg oil/fat/wax	11.0	9.2	12.5	14.0	25.2
5	Chemicals/products n.e.s	64.4	92.9	78.7	97.6	145.9
6	Manufactured goods	178.4	205.3	214.3	370.2	622.4
7	Machinery/transp equipmt	430.4	468.8	552.4	518.3	1016.7
8	Miscellaneous manuf arts	66.9	71.4	95.8	104.5	168.9
9	Commodities nes	0.4	0	2.2	5.6	0.0

Table 3.8/b: Imports structure according to the Standard International Trade Classification (Rev 3) for 1999-2009 (mln. USD)

N	Product Name	2004	2005	2006	2007	2008	2009
	Total	3515.9	4211.2	5266.7	5713.5	7169.5	6127.0
0	Food & live animals	349.5	307.1	398.7	655.6	819.7	639.6
1	Beverages and tobacco	31.0	96.1	113.7	199.0	229.6	248.6
2	Crude mater.ex food/fuel	102.5	132.0	152.6	150.8	205.4	105.6
3	Mineral fuel/lubricants	401.7	499.6	612.7	143.1	114.0	64.6
4	Animal/veg oil/fat/wax	30.2	34.7	36.2	45.4	68.0	66.5
5	Chemicals/products n.e.s	173.0	225.8	305.5	425.0	594.8	499.2
6	Manufactured goods	789.7	740.6	905.2	1078.3	1211.7	1062.8
7	Machinery/transp equipmt	1328.6	1831.7	2433.8	2611.6	3404.4	2904.9
8	Miscellaneous manuf arts	309.9	343.1	304.7	404.6	517.3	528.6
9	Commodities nes	0.0	0.7	3.6	0.1	4.6	6.6

Source: Statistical data for 2003-2009 are from statistical yearbooks of SSC on foreign trade for 2008, 2009 and 2010; UN Statistics 2008. <http://unstats.un.org>

Table 3.9/a: Exports structure according to the International Standard Trade Classification for 1999-2009 (mln. USD)

N	Product Name	1999	2000	2001	2002	2003
	Total	929.2	1745.2	2314.3	2167.5	2590.4
0	Food & live animals	27.7	33.8	22.6	39.6	78.4
1	Beverages and tobacco	27.4	17.9	27.7	22.0	12.8
2	Crude mater.ex food/fuel	45.5	83.0	38.2	44.9	72.8
3	Mineral fuel/lubricants	730.4	1484.9	2113.6	1927.4	2227.7
4	Animal/veg oil/fat/wax	3.4	3.6	2.9	3.8	34.1
5	Chemicals/products n.e.s	23.7	34.4	26.4	41.0	50.6
6	Manufactured goods	22.6	16.7	17.2	26.2	64.1
7	Machinery/transp equipmt	35.0	63.0	41.8	34.0	36.8
8	Miscellaneous manuf arts	13.5	8.0	13.4	10.9	13.0
9	Commodities nes	–	0.0	10.4	17.7	0.2

Table 3.9/b: Exports structure according to the International Standard Trade Classification for 1999-2009 (mln. USD)

N	Product Name	2004	2005	2006	2007	2008	2009
	Total	3615.5	4347.2	6372.2	6058.2	47756.0	14699.9
0	Food & live animals	96.2	237.2	228.0	407.6	408.5	403.0
1	Beverages and tobacco	16.7	35.2	38.9	28.4	22.8	16.6
2	Crude mater.ex food/fuel	93.4	146.4	204.0	107.1	83.4	31.9
3	Mineral fuel/lubricants	2972.4	3337.0	5390.3	4931.2	46362.9	13639.5
4	Animal/veg oil/fat/wax	40.8	52.3	52.8	67.0	98.8	103.7
5	Chemicals/products n.e.s	91.6	99.8	134.5	98.1	174.4	90.1
6	Manufactured goods	111.8	124.2	175.5	221.1	408.5	170.9
7	Machinery/transp equipmt	163.5	297.1	121.8	147.4	174.2	201.0
8	Miscellaneous manuf arts	29.1	18.0	26.4	50.4	22.7	32.2
9	Commodities nes	0.0	0.0	0.0	0.0	0.0	11.0

Source: Statistical yearbooks of SSC on foreign trade for 2008, 2009 and 2010; UN Statistics 2009. <http://unstats.un.org>

Table 3.10/a: Foreign trade of Azerbaijan in terms of value (mln. USD)

	1995	2000	2001	2002	2003
Exports	1745.2	2314.3	2167.5	2590.4	3615.5
Of which:					
oil & gas products	1484.9	2113.6	1927.4	2227.7	2972.4
non oil & gas products	260.3	200.7	240.1	362.7	643.1
of which: machinery and equipment	63.0	41.8	34.0	36.8	163.5
Imports	1172.0	1430.9	1665.6	2626.2	3515.9
Of which:					
machinery and equipment	468.8	552.4	518.3	1016.7	1328.6
Food	217.7	231	235.4	308.4	410.7

Table 3.10/b: Foreign trade of Azerbaijan in terms of value (mln. USD)

	2004	2005	2006	2007	2008	2009
Exports	4347.2	6372.2	6058.2	47756.0	14698.5	1745.2
Of which:						
oil & gas products	3337.0	5390.3	4931.2	46362.9	13639.5	1484.9
non oil & gas products	1010.2	981.9	1127	1393.1	1059.0	260.3
of which: machinery and equipment	297.1	121.8	147.4	174.2	201.0	63.0
Imports	4211.2	5266.7	5713.5	7169.5	6119.7	1172.0
Of which:						
machinery and equipment	1831.7	2433.8	2611.6	3404.4	2904.9	468.8
Food	437.9	548.6	900	1117.3	954.7	217.7

Source: SSC

Table 3.11: Export of oil and oil products

	Quantity, thousand ton	Amount, USD million	Share in export, %
2000	7616.1	1464.9	84
2001	11466.3	2106.1	91
2002	11536.6	1901.9	87.8
2003	10951.8	2212.4	85.4
2004	11501.2	2968.0	81.9
2005	9033.1	3337.0	76.1
2006	12434.4	5390.3	84.0
2007	9656.3	4931.4	81.4
2008	81493.3	46362.9	97.1
2009		13639.5	92.8

Source: SSC

Azerbaijani exports consist of a narrow range of goods. During the last 10 years, the main part of Azerbaijan's exports consisted of oil and oil products, including crude oil, light petroleum distillates, aviation fuel, gas, kerosene, petroleum oils. Other exports included alumina, raw aluminum, nuts and hazelnuts, polyethylene, cotton, sugar, fresh fruits, etc.

Thus, Table 3.9 clearly shows that mineral fuels, lubricating oils and similar materials have the largest share in export – 13639.5 million USD in 2009 (46362.9 million USD in 2008), which is 12.9 times larger than the total non-oil industrial export (in 2008 – 33.3 times and in 2007 – 44 times). Chemical industrial products, animal and vegetable oils and other manufactured products continued to gradually increase during the same period. The analysis of oil, oil products and machin-

ery and equipment in the structure of exports, as well as the analysis of food products, machinery and equipment in the structure of import are of paramount importance.

In 1995, shares of the non-oil (48.5%) and oil (51.5%) sectors in Azerbaijani exports were almost equal, by 2009, the share of the non-oil sector had decreased by 85.1% and constituted only 7.2%. During 1995-2009, the share of machinery and equipment in total export was 2.7% on average. Import of machinery and equipment showed an increase in the same period of time. During these years, the trade balance of the country in the field of machinery and equipment was negative, e.g. Azerbaijan was a net importer of this type of products. At the same time, the import of machinery and equipment constituted the largest part of imports.

Table 3.12: Import of food products

	Volume of imported food products, USD million	Share of food products in import, %
1995	269.1	40.3
2000	217.7	18.6
2001	231	16.1
2002	235.4	14.1
2003	308.4	11.7
2004	410.7	11.7
2005	437.9	10.4
2006	548.6	10.4
2007	900	15.8
2008	1117.3	15.6
2009	954.7	15.6

Source: SSC

As noted, the largest part of exports is ensured by the oil and gas sector.

During the years of 2001-2009, the main part of imports consisted of the following products: machinery and equipment, gas, electric power, wheat, pipes, light petroleum distillates, aluminum ore and concentrates and medical products.

The specific share of food products in imports was at the level of 40% in 1995, while it declined to 10.4% in 2005 and 2006. However, a sustainable growth is observed in the absolute volume of imported food products.

The evolution of the number of exported and imported products in the referred period should also be analysed. Currently, the total number of products exported by Azerbaijan is 873 (on the basis of 6-digit HS system). In comparison with 2001, the list of exported products has increased by 293 categories. The number of imported products in 2001 was equal to 2466, reaching 3350 in 2008,- an increase of 884 categories. During the analyzed period, the increase in the number of imported products was 3.0 times higher compared to the increase in the number of exported products. In general, during the years of 2001-2008, the number of imported products was 4 times higher compared to the number of exported products (See: Table 3.13).

During the years of 2004-2008, the average export volume of non-agricultural products of Azerbaijan was 93.8%, while the share of agricultural products was only 6.2%. During this period, the sequence of main agricultural products exported according to their share was the following: fruits, vegetables, plants (licorice, tomatoes prepared without vinegar or marinated; nuts and hazelnuts prepared by other methods or marinated); oily seeds, fats and their fractions; hydrogenated oils and fats generated from vegetables; other edible mixtures produced from animal and vegetable fats and oils (gossypol and other solid parts generated in the result of cotton oil extraction); pastry; beverages and tobacco products (fresh grape wines in tanks of 2 liters or less, alcoholic beverages generated from grape wine or grape distillates (co-

gnac, grappa, brandy and others); unfermented apple juice with bricks volume>20; other fruit and vegetable juices; tobacco, unmanufactured, not stemmed or stripped; cigarettes containing tobacco or tobacco replacing materials (whether or not); cotton; tea; other agricultural products (fresh or dried sugar beet, products made from livestock meat or conserved) and cereals or its derivatives (wheat or meslin).

Summarizing the analyses on trade operations of the country, the following findings and observations can be made:

- The country exports a narrow range of goods. Diversification of the economy is necessary.
- A priority place in commodity exports of the country belongs to raw materials and en-

Table 3.13: Evolution of numbers of exported and imported products in Azerbaijan (values exceeding USD 1000)

	2001	2002	2003	2004	2005	2006	2007	2008
Number of exported products	580	757	760	797	868	903	937	873
Number of imported products	2466	2895	3010	3092	3208	3293	3300	3350
Difference between the numbers of imported and exported products	-1886	-2138	-2250	-2295	-2340	-2390	-2363	-2477
Ratio of the number of imported products to the number of exported products, times	4.3	3.8	4.0	3.9	3.7	3.6	3.5	3.8

Source: Author's calculations based on www.intracen.org trade statistics

ergy carriers. In addition, the range of exported energy products is limited. From the standpoint of sustainable development of the country, the expansion of exports on the basis of raw materials and energy carriers, as well as oil and oil products cannot be considered as a positive situation in the long term. Dependence of the country's exports on a group of products like non-renewable raw materials and energy carriers may affect the economy negatively.

- Low share of non-oil, non-natural and high-tech products in the country's exports. It shows that measures for the development of production potential and its effective realization in the fields of producing non-oil products should be further accelerated.
- Competitiveness of Azerbaijan's products should be increased.
- Work on the identification of selling channels should be improved.
- Growing imports of products like machinery and equipments, products of ferrous and non-ferrous metallurgy industry, chemical, petro-chemical and some consumption products that can be produced in the country. In order to prevent this tendency, it is necessary to increase the competitiveness of the local products, as well as raise the quality parameters of the local products to meet international standards.
- Opportunities available in the production expansion of easily produced and realized

goods and the creation of new production fields due to the preferences that the country possesses in the international division of labor should be increased.

- In general, relative indicators of net export and import of agricultural products in trade turnover are positive²⁰. This proves once again the good prospective of future development in the field.

C. Institutional Mapping

In Azerbaijan, the Cabinet of Ministers, different line ministries, state committees and civil society take part in the formulation of trade policy. The institutional structure of trade policy formulation can be described as given in Figure 3.5.

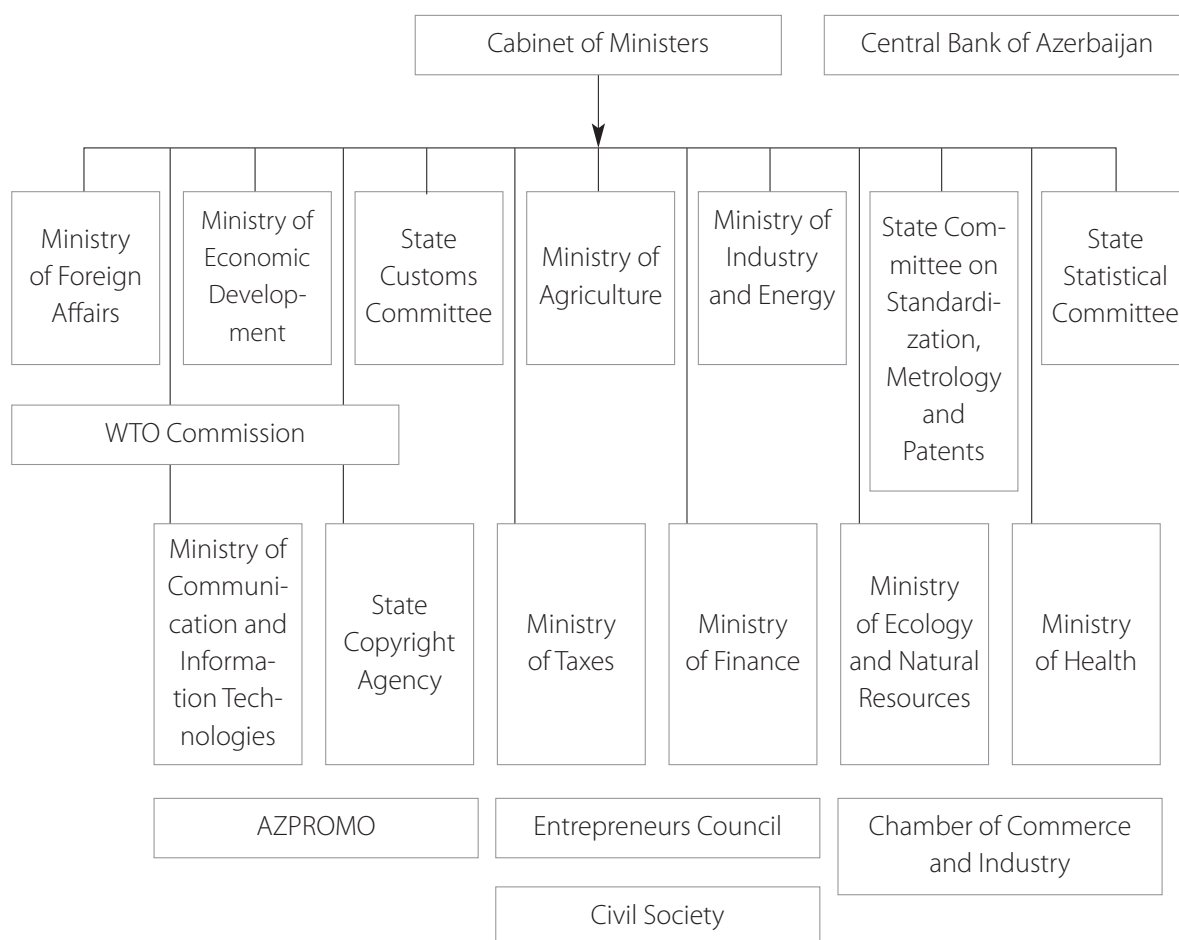
Following the Figure 3.5 the role of the institutions can be described as follows:

Cabinet of Ministers (www.cabmin.gov.az)

It authorizes the implementation of the state budget as well as the implementation of financial, credit and monetary policies. As far as trade policies are concerned, the functions of the Cabinet of Ministers include the implementation of State socio-economic programmes, controlling ministries and other central bodies, and setting customs tariffs and duties.

20 The positive net export performance demonstrates the country's export dominates its import; if it is negative, this means that import is higher than export. This indicator is estimated both in total and in accordance with types of products. The share of net export in the foreign trade turnover (FTT) of the country demonstrates the qualification and domination degree of the country in the specific area or the type of product. The prices of this indicator ranges from -100 till +100. If it is equal to -100, this means the lack of the qualification and domination in the specific area or product, while +100 shows the full qualification and domination.

Figure 3.5 Trade Policy Organigram



Central Bank of Azerbaijan (www.nba.az)
The CBA carries out currency regulation, controls foreign exchange transactions and currency operations involving the movement of capital.

Ministry of Foreign Affairs
(www.mfa.gov.az)

The major functions of the Ministry of Foreign Affairs are to implement foreign policy and establish foreign economic relations of the country. Concerning trade policies, the Ministry deals with bilateral and multilateral agreements and together with the Ministry of Eco-

nomics Development is responsible for WTO related issues and WTO accession negotiations.

Ministry of Economic Development
(www.economy.gov.az)

The Ministry of Economic Development is the main institution responsible for forming and carrying out State policy in the sphere of socio-economic development, international economic cooperation, macroeconomics, **trade**, investment, development of entrepreneurship, privatization and management of state property, restriction of monopoly and development of competition.

Its major functions in the field of trade policy are the participation in defining customs tariff rates, creating relations with relevant bodies of foreign countries and working with various international organizations. The Ministry is also responsible for all issues related to the WTO accession. It is the overall regulator of **licensing** (See: Annex 4) of certain business activities and provides local business support (especially SMEs).

The main departments dealing with trade policy and related issues are the Department of Foreign Trade Policy and the WTO, the Department of Foreign Economic Relations, the Department of Economic Policy, Analysis and Forecasting, the Department of Regional Development and State Programs and the Department of Foreign Investments and Coordination of Technical Assistance.

The Institute for Scientific Research on Economic Reforms is under the umbrella of the Ministry of Economic Development and operates as a research centre devoted to dealing with the practical issues of economics and economic policy and preparing policy recommendations for the Ministry of Economic Development. Its primary function is to act as a “think tank” to conduct and disseminate economic research of practical relevance. Trade policy related research and analytical studies are a part of the Institute’s scope of work.

State Customs Committee

(www.customs.gov.az)

The major functions of the State Customs Committee are to participate in the preparation of customs policy and implement this policy, en-

sure the economic security of the country within its authority, protect economic interests of the Republic of Azerbaijan, apply customs regulation methods in trade and economic relations, assist in the development of foreign economic relations, create conditions for accelerating the turnover of goods through the customs border, issue customs regulations and set rules for the protection of the domestic market. It creates the necessary conditions for foreign entities to participate in export/import operations, enforces and controls export/import operations and protects the country’s economic interests and security.

Ministry of Agriculture (www.agro.gov.az)

Sanitary protection measures on food and agricultural imports are currently regulated by the State Veterinary Service and State Plant Quarantine Inspection within the Ministry of Agriculture. Also, the Ministry is responsible for the implementation of the agricultural policy of the country and is a member of the WTO Commission. Furthermore, it issues some trade (import) related licenses (See: Annex 4).

Ministry of Industry and Energy

(www.mie.gov.az)

The Ministry is responsible for the implementation of industry/energy policy and is a member of the WTO Commission. Also, the Ministry of Industry and Energy issues licenses for sale of oil and gas products.

State Committee on Standardization, Metrology and Patents

(www.azstand.gov.az)

The Agency is the central executive body, forming and executing the state policy in the

fields of standardization, metrology, certification and protection of industrial property objects.

State Copyright Agency

(www.copag.gov.az)

The Copyright Agency of the Republic of Azerbaijan (CARA) is a body of the central executive power which puts into practice the state policy in the field of copyright protection, and other rights related to intellectual property issues.

State Statistical Committee

(www.azstat.org)

The State Statistical Committee is the central executive authority implementing state policy in the field of statistics and elaborating official statistics on the social, economic and demographic situation of the country on the basis of a unified methodology. The Committee is also responsible for the collection, systematization, grouping and processing of trade related data and their delivery to users.

Ministry of Communication and Information Technologies

(www.mincom.gov.az)

The Ministry is the central executive body, which formulates and implements state policy, secures the legal normative regulation and the development of communications and information technologies, coordinates the activities of other government agencies in the areas of communications (telecommunication, post) and information technologies in the Republic of Azerbaijan. The Ministry is responsible for the implementation of advanced information and commu-

nication services in trade and is a member of the WTO Commission.

Ministry of Taxes (www.taxes.gov.az)

The Ministry of Taxes is the central executive body to implement the government tax policies in the Republic of Azerbaijan, ensure the timely and full collection of taxes and other returns for the national budget and carry out government control in this field.

Ministry of Finance (www.finance.gov.az)

The Ministry of Finance is the central executive authority organ carrying out state financial policy and organizing the management of state financing.

Ministry of Ecology and Natural Resources (www.eco.gov.az)

The Ministry of Ecology and Natural Resources is the central executive authority responsible for carrying out state policy on environmental protection, the regulation of the use of nature, a sustainable use of ground waters, raw mineral deposits, surface natural resources, their rehabilitation, the observation and forecasting of hydro-meteorological processes within the territory of the Republic of Azerbaijan, including the Azerbaijani sector of the Caspian Sea.

Ministry of Health (www.sehiyye.gov.az)

The Ministry of Health issues licenses for imports, exports, transit traffic and production of precursors (See: Annex 4).

WTO Commission (www.wto.az)

Established in August, 2002, the Commission is dealing with the preparatory works on the

membership of Azerbaijan to the WTO. The Secretariat of the Commission, facilitating the coordination of the Commission's work, was founded by the Ministry of Economic Development. The Commission is headed by the Minister of Economic Development. Commission members consist of the deputy ministers of various ministries and heads of state committees and agencies. The Commission has the objective to prepare proposals re-

lated to the WTO membership of the country, as well as the documents to be submitted to the WTO Working Group. The documents are elaborated in collaboration with the relevant national authorities. The Commission, furthermore, carries out coordination works to ensure that the government presents one single economic policy view during the negotiations to be held with WTO.

Table 3.15: Summary of Bilateral and Multilateral Agreements

Azerbaijan	
Free trade agreements with CIS member states	<ul style="list-style-type: none"> – Bilateral Agreements on free trade with CIS countries: Russian Federation (1992), Ukraine (1995), Uzbekistan (1996), Republic of Kazakhstan (1997), Georgia (1996), Turkmenistan (1996) and Republic of Moldova (1995) – Bilateral and multilateral agreements on foreign trade: Establishment of Eurasia Union on Coal and Steel (1993, not ratified), on control of getting permission for re-export and re-import of goods
Agreements on Economic Integration, Customs Union and Free Trade Zones	<ul style="list-style-type: none"> – Economic Union of CIS – GUAM – Economic Cooperation Organization (ECO) – Black Sea Economic Cooperation (BSEC) – SPECA
Membership in economic organizations	International Labor Organization (ILO), International Fund for Agricultural Development (IFAD), United Nations Food and Agricultural Organization (FAO), United Nations Development Programme (UNDP), The World Bank, The International Monetary Fund (IMF), European Bank of Reconstruction and Development (EBRD), World Customs Organization, United Nations Conference on Trade and Development (UNCTAD), Economic and Social Commission for Asia and the Pacific (UNESCAP), United Nations Economic Commission for Europe (UNECE)

Source: www.mfa.gov.az

Public Private Partnerships

The Azerbaijan Export & Investment Promotion Foundation (AZPROMO), Entrepreneurs Council, the Azerbaijan Chamber of Commerce and Industry and etc. are joint Public Private Initiatives established by the Government of Azerbaijan with an aim to facilitate their participation in trade policy formulation and facilitating trade.

Civil Society

Regarding the non-governmental stakeholders, the key ones are the Azerbaijan Confederation of Entrepreneurs, the Azerbaijan Marketing Society (Local partner of ITC), the Union of Tradesmen and Producers and the Union of Merchants.

D. Bilateral and Multilateral Agreements

In 1992, Azerbaijan signed trade agreements with all the republics of the former USSR except Armenia. Azerbaijan joined the Commonwealth of Independent States (CIS) in September 1993 and acceded to the CIS economic union treaty during the same year. Azerbaijan is a member of the Economic Cooperation Organization. In 1999, Azerbaijan entered into a Partnership and Cooperation Agreement with the European Union and, as discussed above, is seeking membership to the World Trade Organization. Also, the country is a member of numerous international economic organizations (Table 3.15).

Azerbaijan and the WTO: implications of accession

In order to enhance the integration into global markets, liberalize trade and expand its exports, Azerbaijan started negotiations with the WTO on the accession to the organization (Table 3.16). In June 1997, Azerbaijan applied for WTO membership and currently holds WTO observer status. In July 1997, the WTO established a Working Party to review Azerbaijan's membership application. Some progress has already been achieved; the Government adjusted several trade laws (by adopting and implementing the Presidential Decree "On Adjusting national legislation to the requirements of WTO" in 2006 and etc.) and created conditions to enhance transparency (implementation of one-shop stop in customs, online filing and payment system in taxing). The latest Draft Working Party Report was submitted in December 2008. Negotiations on goods and services were concluded with Turkey, Georgia and the Republic of Moldova and are ongoing with the EU, the USA, Japan, Canada, UAE, Kyrgyzstan and Korea.

Azerbaijan is targeting a Developing Country Status (DCS) from the WTO. Azerbaijan will also be obligated to grant non-discriminatory national treatment and unconditional most favored nation (MFN) treatment to all WTO trading partners. Azerbaijan's eventual WTO membership should also strengthen the potential of the country to attract foreign businesses and investments.

The eventual WTO accession is expected to lead to an even deeper liberalization of Azer-

Table 3.16: Summary of WTO accession

Azerbaijan	Status of accession
	Applied June, 1997; Draft Working Party Report, December 2008, Current status: Observer
<i>Recently submitted documentation:</i>	Additional Questions and Replies Information on Agriculture Information on Services SPS/TBT checklist TRIPS checklist Legislative Action Plan

Source: www.wto.org

Azerbaijan's policy regime on trade. Azerbaijan's future commitments under two WTO Agreements -- namely, (i) the General Agreement on Trade in Services (GATS), and (ii) the WTO Agreement on Subsidies and Countervailing Measures (WTO Subsidies Agreement) -- will have significant implications for the development of the country.

WTO Status of Azerbaijan's Principal Trading Partners: Turkey, the EU, Iran, Israel, Georgia, Russian Federation, the US, Ukraine

Almost all of Azerbaijan's principal trading partners, except Iran and the Russian Federation are part of the WTO. Eventually, once Azerbaijan accedes to the WTO, strict application of the WTO's MFN principle will require WTO members to eliminate any trade-customs-investment restrictions cur-

rently imposed against Azerbaijani products and enterprises.

With regards to trade relations with the Russian Federation, Azerbaijan is not a member of the CIS Customs Union, which is lead by Russia, and doesn't apply exception of duties for the Customs Union (CIS). The relations between the countries are regulated based on a bilateral agreement.

E. Azerbaijan and the EU

EU relations with Azerbaijan are governed by the EU-Azerbaijan Partnership and Cooperation Agreement signed in 1996 and entered into force in 1999. Following the enlargement of the European Union, the EU launched the European Neighborhood Policy (ENP) and Azerbaijan became part of this policy in 2004. The main EU co-operation objectives, policy responses and priority fields can be found in the Country Strategy Paper

WTO and Azerbaijan:

Tariff negotiations

The customs tariff list of Azerbaijan consists of 97 groups as per HS2002 system and generally reflects 10661 goods status. The imposed customs fee rates range from 0% to 15%.

Tariff negotiations are divided into 3 categories:

- a) Agricultural products;
- b) Non-agricultural products;
- c) Sectoral initiatives.

The average rate of import tariffs in the country at present is 10.6% (by computing 15% ad-valorem rate of specific tariffs). The average rate of original bound tariffs (proposed highest rates) set out in the market access document submitted to the WTO Secretariat is 14.4% (by computing 30% ad-valorem rate of specific tariffs).

a) Agricultural products

The average rate of bound tariffs for agricultural products of Azerbaijan is 22.88%. Presently, the average rate of tariffs imposed upon agricultural products is 13.6%. The minimum level of bound tariffs is 0%, while maximum level is 80%. The maximum rate is imposed for one goods status – industrially produced chicken meat. No customs fee is generally levied on imports of mainly farming livestock stock, sow seeds, child food and imports for scientific-research purposes. Initial proposals on alcohol and tobacco products have been implemented by a double increase of specific tariffs. The ad-valorem rates of specific tariffs in bound imposed for excise goods are reported to be 25-30%.

Tariff quota was anticipated only in one goods status, i.e., wheat. This quota means 30% customs income fee exceeding internal 0% quota. But despite the fact that tariff quotas are not prohibited by WTO rules, they are not generally accepted by member countries as they have complicated application procedures.

Higher tariffs have been fixed for meat and meat products; milk and milk products; some fruits and vegetables; the packing industry; alcoholic drinks and juices; tobacco; cotton; silk products as deemed necessary by the Ministry of Agriculture 30-50% customs fee is anticipated to protect the above sectors.

Azerbaijan's initial offer for negotiations is 22.88% (the average rate of bound tariffs). For comparison, average tariff rate in agricultural sector of the CIS countries, which are members of WTO, is 12.72%.

b) Non-agricultural products

Average rate of the initial offers of the Republic of Azerbaijan in non-agricultural products is 10.4%. The prepared offers range between 0%-50.0%. Here high tariff rates are mainly in the sphere of knitted ware, cloths and dressing articles, chemical industry, metallurgy, furniture industry and etc. 0% is imposed on commodities imported as raw materials for production and processing in Azerbaijan.

The initial offer of Azerbaijan for negotiations is 10.4% (the average rate of bound tariffs). For information, average indicator in CIS states which are WTO members is 12.72%.

c) Sectoral initiatives

A number of lead countries of the organization have taken the initiative to select a number of sectors and impose 0% tariff rate in order to demonstrate even more liberalized levels of trade. As this process is not stipulated by WTO agreements, it was designated as WTO+. WTO members view the participation of member countries in these initiatives positively and invite them to fully participate in such initiatives. The followings are the main sectors:

- Information technologies;
- Chemical harmonization;
- Civil aviation;
- Construction equipments;
- Agricultural equipments;
- Pharmaceutical preparations and medical equipments;
- Scientific equipments;
- Iron;
- Toys and etc.

Here member countries invite competing countries to reduce the import dues down to a zero rate in the sectors of the sectoral initiatives.

Azerbaijan has only fully joined the initiative on agricultural equipments. It has participated in other initiatives at the following levels:

- Construction equipment (94%);
- Pharmaceutical preparations (93%);
- Scientific equipments (87%);

- Medical equipments (78%);
- Chemical harmonization (70%);
- Civil aviation (45%);
- Information technologies (35%).

Member countries and especially the USA and the European Union insist on Azerbaijan's increased participation in such initiatives. The experience of the recent member countries shows that Azerbaijan will eventually join all the initiatives. For instance, Kyrgyzstan, Georgia, Moldova, Armenia have fully joined the information technologies initiative.

The General Agreement on Trade in Services

In principle, Azerbaijan does not have in place any market-access restrictions discriminating against foreign companies in most businesses in the services sector. Yet there are some limitations in place related to share holding, management and decision-making, mainly related to the banking, insurance and communication sectors. Further liberalization of the insurance market, the banking sector²¹ and communications is required by the parties involved in the negotiation process on Azerbaijan's WTO accession.

As of today, there is a number of main requirements relating to the service sector as communicated to Azerbaijan. Most of these need to be tackled before the accession to WTO and negotiations are ongoing. WTO accession will result in the elimination of the exceptions included in the exceptions from the Most Favorable Regime and ensuring similar conditions for all the countries.

There is a number of other specific requirements. Azerbaijan will need to resolve complete liberalization of the insurance market and non-imposition of any restrictions on physical and legal entities in this sphere, eliminate the restriction stipulated in the authorized capital stock of insurance companies for foreigners, issue permits for foreign insurance companies to directly open branch and representative offices in the territory of Azerbaijan, allow for fifty percent foreigner makeup of the Managerial Board of joint insurance companies incorporated with the participation of foreign capital, liquidate the requirement on holding of the position of a chief or one of their deputies by a citizen of the Republic of Azerbaijan.

21 In fact, the Government tries to protect its banking sector and global financial institutions with strong trade finance capabilities (e.g. HSBC, Citibank) do not have branches in Azerbaijan to support international trade.

Liquidation of the Central Bank of Azerbaijan's right to impose restriction on the participation of foreign bank capital in the local bank capital and fixing the same in the law, issuing permits for foreign banks to open direct branch offices in the territory of the Republic of Azerbaijan, liquidation of the requirement on holding of one of the positions of administrative officers in branch offices of foreign banks in Azerbaijan have to be put in place as well.

Azerbaijan will be forced to liquidate the exclusive rights of "AzTeleKom" (State owned company) in the telecommunication sphere, non-imposition of a restriction whatsoever on the first method of service rendition, assuming responsibility on the first method of rendition of services in computer sphere.

The major requirements of WTO in the services sector will have various implications, including the creation of necessary conditions for increased liberalization and attraction of investments to the service sector, non-imposition of subsidies in the services sector, establishment of a non-discriminatory regime for participation of foreigners in the sector, rise in the assortment and quality of services, reduction of prices and ensurance of a fair competitive environment

Discussions on agriculture sector

As it is known, the most disputable issue raised during both the negotiations on membership to WTO and trade negotiations within the framework of WTO is agriculture. The matters of concern at the membership process of Azerbaijan raised during the negotiations on agriculture are as follows:

- Failure to view Azerbaijan as a developing country and, therefore, problem of obtaining 5% de minimis (special weight of internal assistance provided to agrarian sector) level for the country based on the Agreement on Agriculture;
- Failure to accept the privileges appeared as a result of nullification of taxes as a subsidy;
- Failure to accept as a subsidy of the privileges appeared as a result of writing off the debts of agricultural enterprises.

Sanitary and phytosanitary services (SPS)

One of the WTO requirements is aligning the respective legislation of the Republic of Azerbaijan with the provisions of the WTO Agreement on Application of Sanitary and Phytosanitary Services.

The main goals of the Agreement on the Application of Sanitary and Phytosanitary Services are to improve human and animal health and the phytosanitary situation in member states, as well as to reduce the negative impact of sanitary and phytosanitary services on trade. Furthermore, it supports member states in enhancing the use of sanitary and phytosanitary standards aligned with international standards, guidelines and recommendations developed by the respective international and regional organizations functioning within the Codex Alimentarius Commission, the International Epizootic Agency and the International Convention on Flora Protection. Sanitary and phytosanitary standards cover all relevant laws, decrees, rules, requirements, including processes and production methods; testing, certification and confirmation procedures; quarantine regimes, including respective requirements regarding animal and plant transportation and necessary materials for plant protection while transporting; provisions on relevant statistical methods, sampling method and risk evaluation methods; packaging and labeling requirements directly related to food security.

It should be noted that the Republic of Azerbaijan is a member of the International Agency for Plant Protection, the International Veterinary Organization and the International Epizootic Agency, main agencies in the sanitary and phytosanitary sphere. However, the process of implementing a range of requirements and tasks set by international organizations, as well as improving the legislative basis in accordance with international requirements and its alignment with international standards is slow. The establishment, or the modernization of a relevant laboratory, the recruitment of experts and respective training of staff are among the necessary measures to strengthen the works undertaken in this sphere.

It is worth mentioning that more than 15 legislative documents are applied in the sphere of animal health, food security, plant protection in the Republic of Azerbaijan. Some of them are below:

- Law on Sanitary and Epidemiological Safety (No. 371, 10.11.1992);
- Law on Purebred Work (No. 46, 26.03.1996);
- Law on Plant Quarantine (No. 70, 23.04.1996);
- Law on Selection Achievements (No. 197, 12.11.1996);
- Law on Plant Protection (No. 210, 03.12.1996);
- Law on Seedage (No. 257, 11.03.1997);
- Law on Pesticides and Agrochemical Substances (No. 294, 06.05.1997);
- Law on Fauna (No. 675, 04.06.1999);
- Law on Food Products (No. 759, 18.11.1999);

- Law on Grain (No. 898, 16.06.2000);
- Law on Veterinary Service (No. 922-IIQ, 31.05.2005).

According to the above-mentioned Agreement, an Information Centre should be established in order to answer questions of WTO members, as well as to submit relevant documents adopted in the sanitary and phytosanitary sphere in Azerbaijan, information on any supervision control procedures, production and quarantine behaviour, norms of pesticides and procedures for application of micronutrients, risk evaluation procedures. It is planned to obtain financial support from international technical assistance projects for the creation of this Centre.

Rules for animal health and food security, measures associated with plant protection should be focused on the protection of the health of human beings, animals and plants. These rules should be based on scientific facts and use international standards, guidelines and recommendations as a baseline. Relevant provisions of the “International Veterinary Code” adopted by the International Epizootic Agency should be used in the process of implementing risk evaluation. According to 6 Articles of the Agreement, Annexes A.6 and A.7, Azerbaijani legislation does not identify the concepts of adaptation to regional conditions, including areas free of vermin and diseases and areas with low prevalence of vermin and diseases. Relevant certification and permission systems applied in Azerbaijan should be liberalised in accordance with international standards.

WTO Agreement on Technical Obstacles to Trade

One of the key requirements of the World Trade Organization (WTO) aims to create favorable conditions to enhance production efficiency and to ensure that national legislation on standardization, certification and other related issues is in line with international standards. The WTO Agreement on Technical Barriers to Trade ensures that trade related regulations (standards, certification, etc.) do not create undue obstacles to trade.

The main principles in the Agreement include the prevention of unnecessary and illegal obstacles to international trade and the elimination of unreasonable discrimination through the application of international standards and systems. Furthermore, the Agreement provides for technical assistance to developing countries to support them in meeting international standards.

In addition, all industrial and agricultural products are subject to the provisions of the WTO Agreement on Technical Obstacles to Trade. The formulation and implementation of state

policy on standardization, meteorology, certification, and protection of industrial property entities needs to be in line with international standards. National legislation should ensure national security, health and safety concerns of citizens, protection of lives and health of humans, animals or vegetation or environment and be enforced in a manner not creating hindrances to international trade.

In order to comply with the Agreement an Information Center will be created, dealing with any questions or requests for documents made by member states.

Intellectual Property

The "Action Plan for aligning legislation with the requirements of the World Trade Organisation in line with the process of accession of the Republic of Azerbaijan to the the World Trade Organisation" was approved by the Decree of the President of the Republic of Azerbaijan dated August 2, 2006.

Article 2.1 of the Action Plan provides for the adoption of two draft laws on copyright and related rights, 3 sub-laws – Resolutions of the Cabinet of Ministers and draft State Programs on copyright and connected rights.

In order to ensure the implementation of Article 2.1 of the Action Plan, Recommendations of the Agency on draft Laws "On Changes and Amendments to the Law "On Copyright and Connected Rights" and "On Ensuring Intellectual Property Rights and Struggle against Piracy", draft State Program for 2007-2010 "On Development of Copyright and other Intellectual Property Rights Sphere in the Republic of Azerbaijan" ("State Program on Intellectual Property"), as well as draft Resolutions of the Cabinet of Ministers "On Declaring Works of Azerbaijani Authors belonging to Social Wealth as a State Wealth", "On Adoption of "Rules for Minimum Amount, Collection, Dissemination and Payment of Author's Emoluments for copying Audiovisual works and Soundtracks for Personal Reasons" and "On Minimum Amount of Honorarium paid to Performers for Certain Types of Use of Performance (Structure), the Subject to Connected Rights" were submitted to the Cabinet of Ministers of the Republic of Azerbaijan.

The draft "Rules for the Legal Protection, Official Registry of Computer Programs and State Registry of Computer Programs taken into official registry" prepared by the Agency for the prevention of computer piracy was reviewed by relevant state institutions.

At present, the final version of this draft Resolution is being developed. Monitoring-review activities to identify the level of computer piracy is planned.

New recommendations were developed to make relevant changes and amendments (associated with protection of copyright and connected rights) to the Administrative Violations Code, Criminal Code and Criminal-Processual Code of the Republic of Azerbaijan. These recommendations will soon be sent to the Cabinet of Ministers for review.

Regular monitoring in both audio-visual products' market and in books market are carried out.

2007-2013. On the basis of bilateral priorities, a National Indicative Programme (NIP) has been adopted in agreement with the Azerbaijani authorities. The NIP covers the period from 2007-2010.

Under the ENP, an action plan was designed to help, inter alia, its closer trade and economic integration with the EU, in particular through a gradual regulatory alignment. The implementation of the action plan should also enable the country to progressively become ready to negotiate, implement and sustain a deep and comprehensive free trade agreement with the EU. However, so far the country has made only limited progress in fulfilling its respective action plan, particularly in implementing the laws it has adopted. For more information, see the ENP Progress Report (April 2008 and April 2009).

The new EU Eastern Partnership (EaP) initiative launched in May 2009 builds upon the ENP and aims at the overall enhancement of EU relations with the Eastern ENP countries. The EaP has brought in particular a perspective for new enhanced bilateral framework

agreements – Association Agreements – between the EU and its Eastern Neighbors, and firmly embedded possible future bilateral free trade agreements in this framework. A future Association Agreement would include either the establishment of a comprehensive free trade area or at least an aim to establish such a free trade area in the future once the partner country has become ready for it. In the long-term, the partner countries are also encouraged to establish free trade areas among themselves. Azerbaijan first needs to accomplish its accession to the WTO before negotiations of an FTA with the EU can be considered.

Azerbaijan is seeking EU membership in the long run and is trying to match the EU's preliminary conditions for membership. At the same time, the country is expanding its cooperation with the EU countries. The EU-Azerbaijan bilateral trade grew in 2000-2006 and the EU progressively became Azerbaijan's main trade partner (45.3% share in its overall external trade in 2006). In 2007, the growth in bilateral turnover continued- the total turnover increased by 20.8% compared

to 2006 and reached € 8.96 billion. Azerbaijani exports to the EU totaled € 7.36 billion (yearly growth of 34.9%) and the EU exports – € 1.59 billion (yearly decrease of 18.6%).

Azerbaijan is a beneficiary of the general arrangements under the EU Generalized System of Preferences + (GSP+)²² but does not make sufficient use of the opportunities offered by this scheme. The future enhancement of trade relations with the EU will mainly depend on the regulatory convergence of Azerbaijan's legislation and practices to the EU's most important trade-related rules, in particular in the areas of industrial standards, sanitary and phyto-sanitary measures, intellectual property rights, public procurement and customs. As noted, Azerbaijan made only limited progress in the implementation of these objectives in the area of regulatory convergence to the trade-related EU legislation.

22 Azerbaijan is beneficiary of United States GSP system since February 2009.

IV. TRADE FACILITATION AND MARKET ACCESS

This chapter provides a review of customs and tariffs procedures, storage and transportation issues and costs, red tapes and other barriers to trade with an aim to identify the underlying causes of inefficiency, poor service delivery and high costs. Special emphasis is given to the problems faced by SMEs in this regard, based on a broad definition of trade facilitation, encompassing hard infrastructural problems that characterize transport through, to and from Azerbaijan, and soft infrastructural problems pertaining to custom procedures, the freight cost, trade financing, TBT in the country etc.

The infrastructural problem is the key problem in Azerbaijan, particularly considering its unique geographic location. Azerbaijan is at the crossroads between the East-West Trans-Caucasian route, a potential corridor linking Europe to China and a North-South route linking Russia to Iran, down to the port of Bandar-Abbas. Unfortunately, natural barriers and poor infrastructure negatively affect the increase of trade through all of the routes.

Azerbaijan is a landlocked country (800 km distance from the closest seaport), neighboring Ar-

menia, Georgia, the Islamic Republic of Iran, the Russian Federation and Turkey. For all landlocked countries in the world, the average distance to the closest seaport is 1,370 km. The Black Sea ports are only 300 km overland from its border with Georgia and the Persian Gulf Port of Bandar-Abbas is 1800 km from Azerbaijan's border with Iran. In addition, each route to open sea requires transit through only one country, reducing geopolitical risk substantially. But this geographical remoteness makes Azerbaijan dependent on neighboring transit countries for its external trade. It depends on the neighboring countries' transit infrastructure, political relations, administrative procedures and practices in addition to good cross-border political relations.

Removing obstacles towards trade facilitation is a vital challenge for Azerbaijan and could be even more important than the removal of tariff barriers. With the reduced time and cost of trade transactions, traders could be more competitive in international markets.

According to Hummels²³ estimates, every day of delay costs the average American importer 0.3% to 0.5% of the value of the goods delivered and each day saved in shipping time is

23 David Hummels, Time as a trade barrier, Purdue University, July 2001

worth 0.8% ad-valorem for manufactured goods. Thus, making trade speedier through infrastructural investments and increased efficiency of custom procedures could have a very large impact on trade costs and efficiency.

It is worth mentioning that Azerbaijan improved its ranking by 22 points in 2009 to the 89th place (out of 155) on the Logistics Performance Index (LPI) in comparison with 2008 (See: Table 4.1). However, it still places behind Europe and Central Asia and the World averages. The poor results in this regard

are highlighted and proved in the Global Competitiveness Index analyses of the country as well. Road and rail transport infrastructure of the country are the key obstacles that contribute to its low LPI score. Also, logistics competence, logistics and supply chain management, education and training in the domain is weak in Azerbaijan. Lack of professionals makes it harder for Azerbaijan to achieve rapid advances in trade logistics.

Azerbaijan faces hard (physical) infrastructural problems both on national (concerning

Table 4.1: Azerbaijan's LPI rank, 2009

	Azerbaijan		Europe & Central Asia	
			Score	Difference
Overall LPI	score	2.64	2.74	-0.10
	rank	89		
Customs	score	2.14	2.35	-0.21
	rank	117		
Infrastructure	score	2.23	2.41	-0.18
	rank	104		
International shipments	score	3.05	2.92	0.13
	rank	55		
Logistics competence	score	2.48	2.60	-0.12
	rank	91		
Tracking & tracing	score	2.65	2.75	-0.10
	rank	91		
Timeliness	score	3.15	3.33	-0.19
	rank	100		

Source: <http://info.worldbank.org/etools/wti2008>

Figure 4.1: Map of the CAREC 2 transport corridor

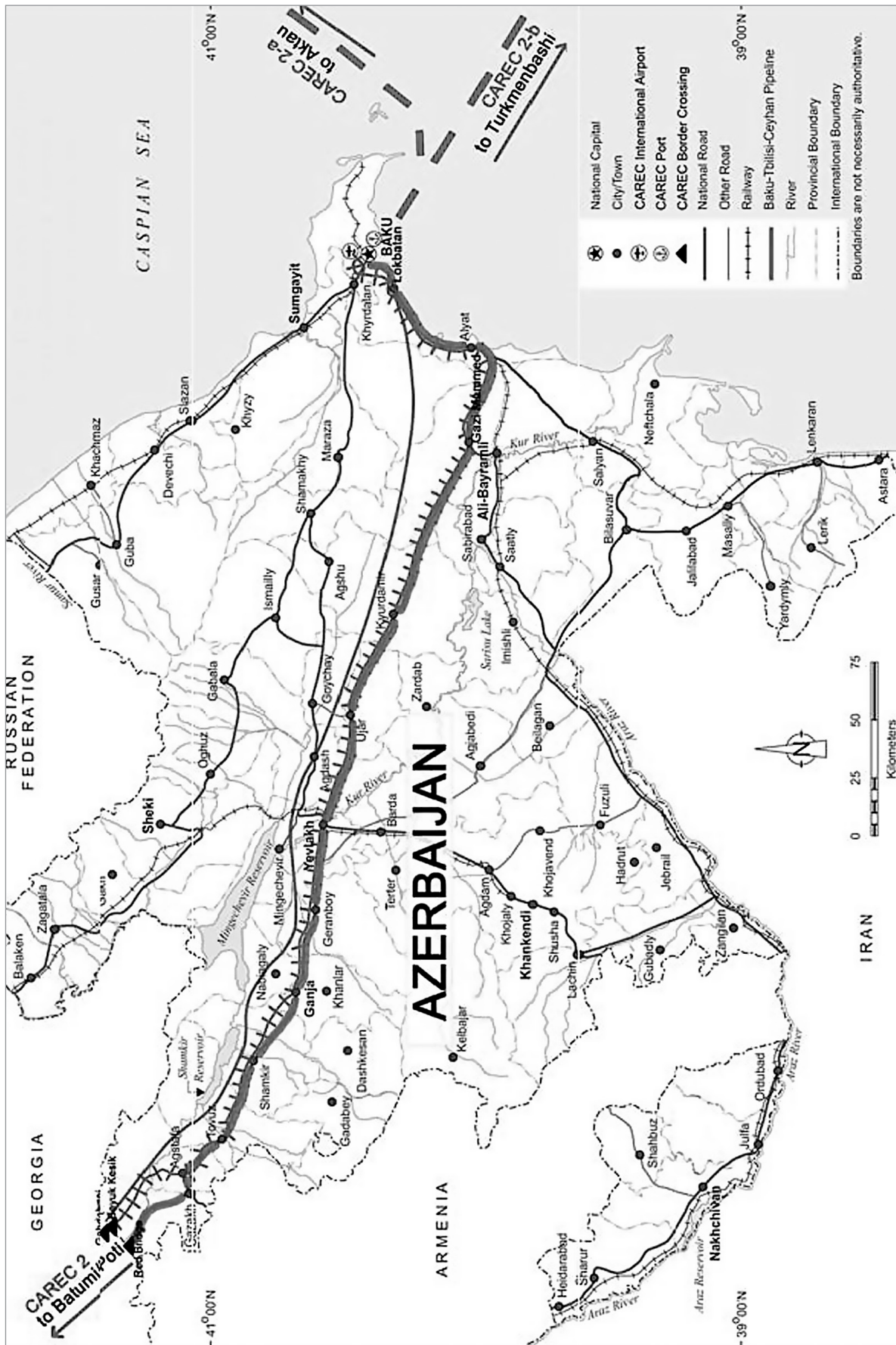
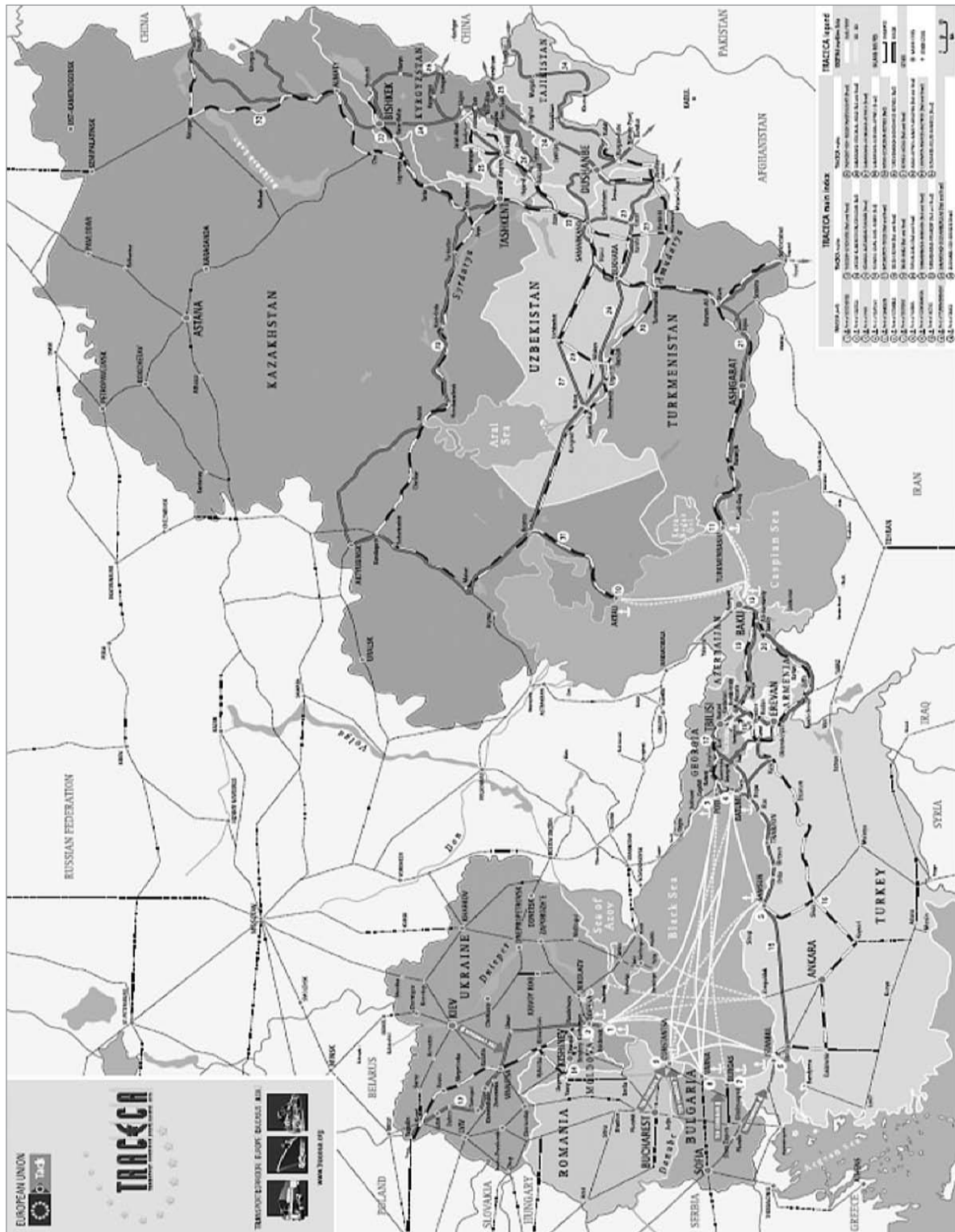


Figure 4.2: Map of the TRACECA transport corridor



infrastructural facilities and transportation within the country) and international levels (concerning the infrastructure in the country through which any trade flows into, from or through the country). From the perspective of foreign trade, the second aspect is especially important because of the geographic landlockedness of Azerbaijan and the above noted geopolitical location. Azerbaijan offers one of the most attractive transit links along the East – West trade route between Asia and Europe, as well as the North – South trade route between North Europe, Russia on the one hand and the Middle East, South Asia on the other. Both, CAREC Corridor 2 and the TRACECA Corridor pass through Azerbaijan (see: Figure 4.1 and 4.2).

189.8 million tons of cargo were transported via different types of transport in 2009, reflecting a 3.7% increase from the previous year. Passenger transportation increased by 6.9% and reached 1328.1 million persons. 20.3 million tons of cargo were transported via rail, 13.2 million tons via water transport, 94.2 million tons via motor transport and 62.1 million tons via pipelines. 5.1 million tons of shipping operations were carried out by Baku International Trade Seaport and other enterprises dealing with shipping issues; the volume of transit cargo amounted to 4.3 million tons. The volume of cargo transported via the Europe-Caucasus-Asia international transport corridor amounted to 43.2 million tons.

The share of the motor transport in cargo and passenger transportation is 80%. The vast majority of 131000 lorries existing in the

country belong to private carriers. Important measures are being implemented for adapting this pool to Euro 3-5 standards. Currently, 557 lorries participate in international transportation using the TIR book.

In recent years, Azerbaijan developed its air and sea transport infrastructures, however, roadways and railways still need further development on a sustainable basis. A range of measures for sustainable and effective use of all types of transport infrastructure in the country were carried out in the past period.

2,100 km rail network needs urgent reconstruction. On the main east-west line, one fourth of the track require immediate repair. The poor track condition in certain parts restrict average train speed to 30 km per hour, which is one of the factors impeding speedy transportation. The majority of the rail locomotives needs renovation. 80% of the passenger wagons are over 15 years old and more than half of the freight wagons require major reparations. Taking all these issues into account the draft State Program for the Development of the Railway Transport System of the Republic for Azerbaijan for 2009-2014 covering the modernization of the national railway infrastructure was prepared in accordance with the respective Decree of the President of the Republic of Azerbaijan and submitted to the Cabinet of Ministers.

In 2009, 1.7 million manats were invested in the development of railways, 18.3 km were reconstructed, 9 km of rails which were out of use were replaced by seamless rails. 12 electric locomotives and 14 diesel locomotives

tives underwent repairs to various extents, 341 passenger wagons, 3864 cargo wagons and 270 containers underwent major repairs.

Sales of tickets were fully computerised and connected to the local network of Azerbaijan Railways, the software for sales of train tickets for international lines was prepared and implemented as well.

Further repairs were also carried out in the communication systems, signalling systems, electric power supply and technical facilities. A metal railway bridge of 160 meters was reconstructed on the Araz river in the Saatli rayon and put into exploitation.

Azerbaijan's motor carrier industry has a limited capacity -only a few carriers have 50 or more trucks. Lacking capital and access to favorable leases, most of the Azeri trucks are old, polluting and do not meet European standards. With the exception of the Baku Cargo Terminal, large long term logistics investments by the private sector are rare.

According to the ADB Report on "Azerbaijan Trade Logistics", 29000 kilometers of Azerbaijan's highways lag behind the standards of most developed countries and today the Government of Azerbaijan continues its efforts for adapting the road infrastructure to international standards. In 2009, 167.2 million manats were spent on the maintenance and repair of motorways, including 22.2 million manats on the repair and maintenance of motorways, avenues and streets in Baku city. 944.9 million manats were allocated from the state budget to the implementation of works

provided for by the Decree # 22s of the Cabinet of Ministers dated February 2, 2009 and other decrees.

285.8 million manats out of this allocation were used for the construction and the repair of road junctions, passages, avenues and streets in Baku city; 113.5 million manats – for the construction of the Azizbayov Circle–Heydar Aliyev Airport motorway and the reconstruction of (19 km) 8-rows of the existing Heydar Aliyev Airport-Mardakan Circle-Bilgah motorway; 343.6 million manats – for the construction of the Baku-Guba-Russian Federation state border first grade motorway with concrete cover and junctions; 94.9 million manats – for major repairs of motorways envisaged in the State Program for Social and Economic Development of the Regions of the Republic of Azerbaijan; 107.1 million manats – to finance the share of the Azeri facilities constructed with the help of foreign credits.

Overall, 1301.2 million manats were spent from all financial sources for the maintenance, repair, reconstruction and construction of motor ways and bridges in 2009.

Relevant works associated with motorways were carried out in the context of the State Programme for Social and Economic Development of the Regions of the Republic of Azerbaijan for 2009-2013 and the Action Plan on Additional Measures for Improving the Transport System in Baku city for 2008-2013. These works pertained to the maintenance, repair and reconstruction of motorways and bridges of motorways publicly used in the country.

Thus, construction, reconstruction and capital repair works were carried out on 704 km of roads in 2009. The number of newly constructed and repaired bridges was 52, of which 34 were implemented through road projects, 7 in Baku city and 10 other projects.

Construction works have been finalised on 118 kms of the Baku-Guba Russian Federation state border motorway located on the North-South transport corridor and on 31 kms of the Alat-Astara-Iran state border motor road with a 4-line concrete cover.

The Alat-Hajigabul (45.6 kms), Hajigabul-Kurdamir (85 kms) and Ganja-Shamkir-Gazakh (94 kms) parts of Baku-Gazakh-Georgian border motorway on the East-West corridor were constructed in line with European standards with a 2- and 4-line concrete covers and were put into exploitation. Currently, construction works are continuing in the Kurdamir-Ujar (46.2 kms), Ujar-Yevlakh (53 kms), Yevlakh-Ganja (88.8 kms) and Gazakh-the Republic of Georgia state border and are planned to be finalised by the end of 2010.

Measures are envisaged for applying technologies meeting international standards in railway transport and infrastructure projects with a view to sustain the current rates of development in the transport-road complex of the country and to create a more effective transport system. In this respect, a Credit Agreement of USD 450.0 million was signed with the International Bank for Reconstruction and Development (the World Bank) for financing the "Project on Support to Railway Transport and Trade on December 18, 2009",

which is focusing on the improvement of railway transport facilities.

Azerbaijan has direct maritime connections to other Caspian states. It also has access to the Black Sea, via the Volga-Don canal. The port of Baku is the largest port on the Caspian Sea and it handles around 5 million tons per year. 90% of its traffic is transit, mostly oil. A key obstacle in this area to tackle is the vertical separation of operations and regulation functions in maritime transports (State Program on Poverty Reduction and Economic Development Policy Matrix, 2003-2005). At present, Caspian Shipping has a monopoly in the port as it also holds the right of issuing licenses to other fleets to use the port facilities.

Multimodal transportation is at a very early stage of development. Azerbaijan Railway utilizes old and dilapidated equipments in handling intermodal shipments, e.g. 5 ton rail containers.

The completion and operation of the Baku – Tbilisi – Ceyhan oil pipeline and Baku-Erzurum gas pipeline positioned Azerbaijan as a key player for transporting the Caspian Sea region's oil and gas to international markets.

As noted above, because of the country's geographical location, Azerbaijan's trade is affected by infrastructural problems, beyond its national borders. Azerbaijan's trade with Western markets is landlocked. The Caspian sea only gives access to Turkmenistan, Kazakhstan, Russia and Iran. Almost all of Azerbaijan's trade with the Western world

Box 4.1

Recent transportation projects

At the end of 2007, the Azerbaijan Government reached an agreement with counterparts from Turkey and Georgia on building the *Baku-Tbilisi-Kars* railway corridor and there are plans to extend the railway corridor to Europe once a tunnel under the Istanbul strait becomes operational around 2012. According to technical and economic assessment, the new railway would allow China and Central Asian countries access to Europe faster than the existing trans-Siberian route. The Chinese and seven other Central Asian states announcement in November 2007, once a plan to build a modern version of the ancient Silk Route is realised, which will include a network of highways, airports, rail lines and seaports connecting China with Western Europe, the BTK may play a crucial role in trade transit from Asia to Europe and vice versa. In addition, Azerbaijan will also construct a short rail line from Astara to connect with a new rail line that Iran will construct to the border.

Another major project is the construction of a new, modern sea port and ship yard near Alat, 70 km to the south of Baku. Construction works in the land part of the new Port Complex are expected to be launched in the 1-st quarter of 2010. The construction of this port will lead to the creation of a major transport junction with tremendous importance for both Azerbaijan and the region and for the establishment of an international logistics management centre and a free economic zone in this area in the future.

Nabucco is another regional project that plans the transportation of Azeri and Central Asian gas to EU countries. The works are planned to start in 2011. The cost of the project is 10 bln. USD.

necessarily goes through mainly Georgia²⁴. From Georgia it either proceeds via the Black Sea or by land through Turkey. The alternative western route through Armenia is not viable because of the conflict between the two countries. Consequently, the conditions of infrastructure in Georgia have fundamental implications for Azerbaijan's trade. At the moment Georgia is definitely a bottleneck:

infrastructure, particularly rail, needs major rehabilitation.

The cross-country dimension of trade costs is also relevant because transit activities are an important component of Azerbaijan's trade and could become even more so if current capacities are increased and when the Baku-Tbilisi-Kars railway corridor is launched

24 There is also an 11 km border between Turkey and Azerbaijan's enclave Nakhchivan Autonomous Republic.

(See Box 4.1). Azerbaijan is strategically located at the cross-road between the East and West (Transport Corridor Europe Caucasus Asia – TRACECA). According to World Bank, each ton of general transit cargo generates between USD 20 to 40 of direct economic activity.

Specific infrastructural investments are necessary at border crossings. In order to prevent unnecessary interventions during the inspection of goods and vehicles at borders, a “one-window” principle is applied to goods and vehicles at state border crossings of the Republic of Azerbaijan since January 1st, 2009 through the Decree # 12 of the President of the Republic of Azerbaijan dated November 11, 2008.

The State Customs Committee of the Republic of Azerbaijan implements the WCO Framework of Standards to Secure and Facilitate Global Trade, which was approved in June 2009. The objectives are to establish standards to secure and facilitate global trade in the supply chain; enable integrated supply chain management for all modes of transport; enhance the role, functions and capabilities of Customs; strengthen cooperation between customs administrations; strengthen Customs/Business co-operation; promote the seamless movement of goods. The 4 core elements are: harmonization of electronic information on inbound, outbound and transit shipments (using WCO standard Data Model for electronic Customs messaging); application of a risk management approach to address security threats; outbound inspection of high-risk consign-

ments being exported, preferably using non-intrusive detection equipment such as large-scale x-ray machines and radiation detectors; customs will provide benefits to businesses that meet minimal supply chain security standards and best practices.

The country has demonstrated considerable progress on **sanitary and phyto-sanitary** issues. It adopted a Law on Phyto-sanitary Control. Furthermore, Azerbaijan has made some progress on the **free movement of goods and technical regulations**. A new law on technical regulations was drafted with the assistance of WTO experts and submitted to the Cabinet of Ministers. To implement this law, eight by-laws are being prepared. Moreover, a State Program on the Development of the Standardization sector has been established. Azerbaijan is currently analysing the ways and means to implement EU standards and render the use of standards voluntarily. ISO standards are already being applied. The main sectors which have taken the lead on EU rules are as follows: oil, machinery, information technologies and food.

The **banking sector** is dominated by two banks (the International Bank of Azerbaijan and Capital Bank) which together control over 50% of the market. Global financial institutions with strong trade finance capabilities (e.g. HSBC, Citibank) do not have branches in Azerbaijan to support international trade. The lack of competition is a key reason for high bank fees and high trade financing cost. There is a need to establish an **Export-Import (Exim) Bank** in Azerbaijan to provide financial assistance (crediting) to ex-

porters and importers and to function as the principal financial institution to coordinate the work of the different institutions engaged in financing export and import in order to promote the country's international trade. The establishment of the Exim Bank in Azerbaijan could ease the financial burden of companies, especially with regards to advance payment, whereas currently, Azeri companies, in most of the cases, have to pay at least 50% advance payment to international sellers.

The level of protectionism in export markets is one of the main aspects that impact the position of the country in foreign markets and the strengthening of its trade competitiveness by generating more sustainable revenues from export and turning them into a source for fostering human development.

Analysis and estimations undertaken for the main export markets of Azerbaijan highlight some difficulties and problems in the field. For instance, during the last years, the tariff protectionism level (in 2008) expressed in the form of added value tariff in way of access of the Azerbaijani products to the Italian market, which is the main trading partner for Azerbaijani exports (in particular for oil and oil products) is equal to 66%. The next main trading partner (Israel) has a level of tariff protectionism of 65.4% (in 2008) over 98 tariff lines (expressed also in the added value tariff). For the third trading partner (Turkey) the level of tariff protectionism constitutes 190.9% (in 2008) over 228 tariff lines (expressed also in the added value tariff). The same indicators related to the next main ex-

port market such as Russia and France are 0% (because of FTA) and 66% accordingly. The main reason that stands behind the absence of tariff barriers for the Azerbaijani products exported to the Russian market is the agreement reached on applying the most favorable regime on a bilateral basis.

Currently, the following countries, with a special interest for Azeri exports, exhibit a high level of protectionism: Norway, Iceland, Lebanon, Morocco and Switzerland. In these countries, the level of applied protectionism ranges from 216 up to 396%. Moreover, 37 Azeri exporting markets exhibit levels of protectionism higher than 50% (expressed also in the value added tariff).

As far as the more accessible markets for Azerbaijan are concerned, they are firstly the traditional CIS countries': Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan; among other countries, we can note: Australia, Hong Kong, Libya, Macao (China), Malaysia and Singapore.

The analysis above suggests that the access of Azerbaijani non-oil products to foreign markets is facing the following problems and barriers:

- Difficult and even unsound competition in Azeri export markets.
- Though Azerbaijani non-oil exports may commit large benefits under the Generalized System of Preferences of the European Union, currently, the level of its use is quite low (58.5% out of total for 2009). This is linked to problems defining the ori-

gin of the product, respecting technological requirements and difficulties in obtaining the required documentation as well as high fees for this purpose.

- Despite the fact that access to markets of Russia and CIS countries relies upon free trade agreements, the importance of these documents is decreasing gradually due to the list of exceptions being inserted unilaterally each year. This enables some groups to limit trade operations and creates some degree of uncertainty in receiving future access to the markets. Currently, though such exceptions cover a minor part of trade between CIS countries, there is an increasing trend of inserting more exceptions to the common list, which may exacerbate the situation in the future.
- The current regulations (e.g. technical standards, quality, health and security issues) existing in foreign markets, particularly in many sectors of the Western markets are either not respected properly by producers, or these producers lack the capacity to get an effective access to such markets. In particular, the situation of standardization is a large barrier for the access of Azerbaijani products to Western markets. It, therefore, is extremely important to improve the standardization system in Azerbaijan.

V. SECTORAL ANALYSIS:

SECTORAL COMPETITIVENESS AND HUMAN DEVELOPMENT

This chapter elaborates on a number of key sectors (products) – based on the Revealed Comparative Advantages analyses – that have a potential for development (especially export potential) and impact on human development. A general overview of the sectors (products) identified as competitive, SWOT analyses, as well as employment impact, export potential and opportunities are elaborated in this chapter.

On the basis of the World Integrated Trade Solution database that provides data on exports and imports of different categories of goods for 183 countries, Balassa Index and Net Export Ratio were calculated using SITC-3 4-digit classification of goods for Azerbaijan (Annex 7).

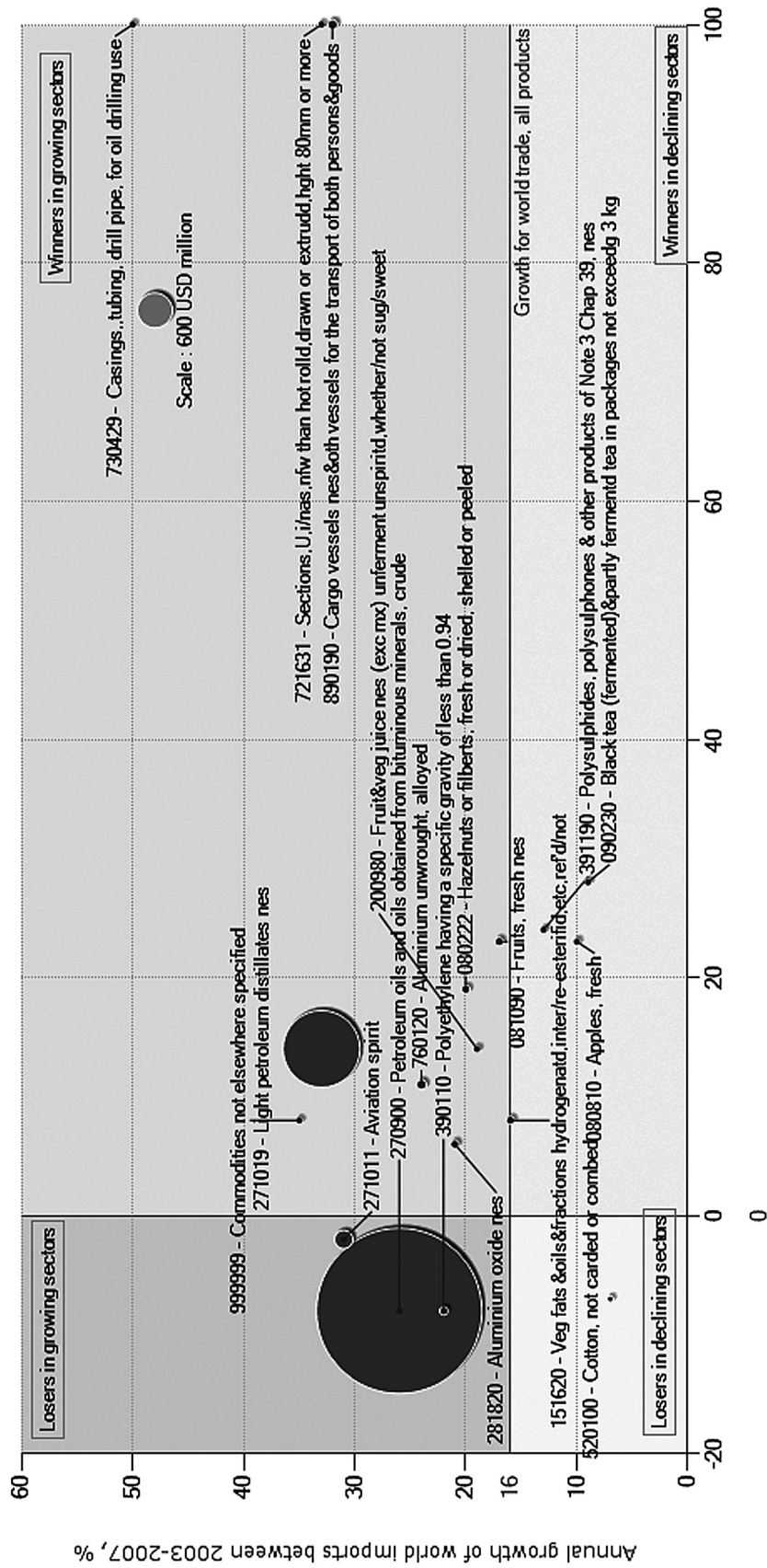
Products with a strong export potential and potential comparative advantages have been selected for the analysis. The products were divided into two groups: agricultural and industrial products. The agricultural products are divided into raw and refined products (food and light industrial products relying upon the raw agricultural products). Furthermore, the SWOT analysis was applied

to the main selected products and services. 4 categories were used for the analysis: the current export status, global market, internal supply and human development.

The graph below is divided into four categories on the basis of the annual growth of world imports between 2003 and 2007 and the annual increase in the world market share for Azerbaijan since 2003, clustering “Winners in growing sectors”, “Losers in growing sectors”, “Winners in declining sectors” and “Losers in declining sectors”.

The winners in growing sectors are those exports with strong competitiveness (e.g., rising world market shares), dynamic products are those that are growing faster than the total trade. This is the most desirable position. There are few winners, all minerals, casings, tubing, drill pipes, for oil drilling use; U-section (channel); light Petroleum distillates nes (not elsewhere specified or included); fruit juices (including grape must) and vegetable juices, unfermented, not containing added sugar or other sweetening; hazelnuts or filberts, fresh or dried, shelled or peeled. The size of the bubbles indicates the value of the

Growth of national supply and international demand for export products of Azerbaijan - 2007



Azerbaijan is a net exporter for this product

Azerbaijan is a net importer for this product

Some bubbles may not be displayed due to lack of growth rate indicators

Reference bubble

Bubble size is proportional to export value



International Trade Centre

exports. This last product is ranking 4th in the world exports and its share in the world exports is 4.8% (Source: ITC).

Losers in the growing sectors are exports in decline (falling market shares) in dynamic products. They are represented by three major exports: aviation spirit (271011); petroleum oils (270900) and polyethylene having a specific gravity of less than 0.94 (390110).

Winners in declining sectors are exports with rising market share in non-dynamic products. They are: Polysulphides, polysulphones & other products, nes (391190); Black tea (fermented) & partly fermented tea in packages not exceeding 3 kg (090230) and Apples, fresh (080810).

Losers in declining sectors are exports, which are losing market shares in non-dynamic products. Generally, it is an indication of restructuring. In the case of Azerbaijan, it concerns mostly textiles products: cotton, not carded or combed (520100).

One feature of the graph is the quasi absence of manufactured products. It shows clearly that Azerbaijan's growth relies on raw or semi processed materials. The importance of mineral products should be a subject of preoccupation for policy makers concerned by the long term growth of the economy.

The list of Azerbaijani products, which have more competitive features and faster growth (for example, the growth of share in the world market) in comparison with the general trade volume is given below.

Priority products for export

• *Agricultural*

- Sugar beet, fresh or dried, whether or not ground (121291)
- Cotton-seed and its fractions refined but not chemically modified (151229)
- Hazelnuts or filberts, fresh or dried, shelled or peeled (080221, 080222)
- Cotton-seed oil crude, whether or not gossypol has been removed (151221)
- Fruits, fresh nes (081090)
- Maize (corn) oil and its fractions, refined but not chemically modified (151529)
- Oil-cake and other solid residues of cotton seeds, whether or not ground or in the form of pellets (230610)
- Wheat bran, sharps and other residues, pelleted or not (230230)
- Black tea (fermented) and other partly fermented tea in immediate packings of a content not exceeding 3 kg (090230)
- Refined sugar, in solid form, nes (170199)
- Caviar and caviar substitutes prepared from fish eggs (160430)
- Vegetable fats and oils and their fractions, partly or wholly hydrogenated, inter-esterified, re-esterified or elaidinised, whether or not refined, but not further prepared (151620)
- Juice of fruit or vegetables, unfermented, whether or not containing added sugar or other sweetening matter (excl. containing spirit, mixtures, and juice of citrus fruit, pineapples, tomatoes, grapes, incl. grape must and apples) (200980)
- Cotton yarn (other than sewing thread), containing 85 percent or more by weight of cotton, not put up for retail

- sale, measuring less than 232.56 decitex but not less than 192.31 decitex(exceeding 43 metric number but not exceeding 52 metric number) (520513)
- Sheep or lamb skins, pickled, without wool on (410221)
 - Sunflower–seed or safflower oil and fractions thereof, whether or not refined, but not chemically modified (151219)
 - Margarine; edible mixtures or preparations of animal or vegetable fats or oils or of fractions of different fats or oils of this chapter, other than edible fats or oils and their fractions of heading 1516 (151790)
 - Garnetted stock of cotton (520291)
 - Apples, fresh (080810)
 - Spirits obtained by distilling grape wine or grape marc (220820)
 - Cotton, not carded or combed (520100)
 - Mandarins (including tangerines and satsumas), clementines, wilkings and similar citrus hybrids, fresh or dried (080520)
 - Cotton yarn (other than sewing thread), containing 85 percent or more by weight of cotton, not put up for retail sale: measuring less than 714.29 decitex but not less than 232.56 decitex (exceeding 14 metric number but not exceeding 43 metric number) (520512)
 - Tomatoes, fresh or chilled (070200)
 - Vegetables, fresh or chilled nes (070990)
 - Cherries, fresh (080920)
 - Potatoes, fresh or chilled nes (070190)
 - smoking tobacco, whether or not containing tobacco substitutes in any proportion (240310)
 - Tomatoes, prepared or preserved otherwise than by vinegar or acetic acid (200290)
 - Sheep or lamb skins, raw, with wool on, nes (410210)
- **Industrial**
 - Propan-1-ol (propyl alcohol)and propan-2ol (isopropyl alcohol) (290512)
 - Angles, shapes and sections, not further worked than cold-formed or cold- finished (721669)
 - U, i or h sections not further worked than hot-Rolled, hot-drawn or extruded, of a height of 80mm or more (721631)
 - Sacks, bags, packing, of strip plastic material (630533)
 - Aluminium oxide nes (281820)
 - Poly – terpenes, polysulfides, polysulfones and other products, not elsewhere specified or included, in primary forms (391190)
 - Aluminium unwrought, alloyed (760120)
 - Casings, tubing, drill pipe, for oil drilling use (730429)
 - Polyethylene having a specific gravity of less than 0.94 (390110)
 - Polyethers nes (390720)
 - Methyloxirane (propylene oxide) (291020)
 - Turbo-propellers of a power exceeding 1100 KW (841122)
 - Buta-1,3-diene and isoprene (290124)
 - Woven fabrics obtained from strip or the like of synthetic textile materials (540720)

The growth pace of exports for the 25 out of the given 44 main competitive products is higher than the growth rate of the world's import. This shows that these products have

good competitiveness. Such products are more competitive and also have more industrial and trade potential. In this regard, the most successful product is the hazelnut or filberts, fresh or dried, shelled or peeled (080222). The share of these products in the world export volume is 4.8%, ranking 4th. Other main products are fresh fruits (081090).

The analysis of the industrial structure shows that during the last years, the industrial development has been observed mainly in domestic market by initiating the production of products at the basis of local raw materials. Enterprises relying upon local raw materials and foreign trade markets either stopped their activities or use their minimal production capacities.

SWOT analysis by sub-sectors (products)

A. Agriculture sector

A.1. Edible nuts (hazelnuts, nuts and nuts nes)

Strengths/opportunities	Weaknesses/Threats
Current export performance (medium)	
Edible nuts (hazelnuts) have revealed a major comparative advantage. In 2009, their share in world exports was 5.3%, ranking 3rd in world exports. Annual growth in value between 2005-2009 decreased by 12%, while annual growth of world imports was 1% at the same period. The share of nuts nes in the world exports was 0.1% in 2009, ranking 19th in world exports. Annual growth in value of nuts nes between 2005-2009 decreased by 12%, while annual growth of world imports was equal to 1% during the same period.	The main market for this product is Russia (42% of total export of these products goes to Russia) in the context of the applied mutual free trade regime (the most favourable regime). The following export market is Germany with 27% share. But AZE's total export value of hazelnuts (also nuts) in 2009 was 53 million USD (0.0004% of total country export). Current export and production performance remains low; edible nuts (hazelnuts) accounted for 0.01% of non-oil exports in 2009.
Russia was the main market for export of hazelnuts (nuts nes), in 2009 the value of export was at 22 million USD (42% of total hazelnuts export). There is high potential in this market.	The products do not meet international quality standards due to damage by vermin.
Low prices compared with other competitors in foreign markets.	Weak production and export of various refined products made from nuts and hazelnuts. Keeping the raw materials direction in export operations. Small production capacity.
Labour costs are reasonably low	The product is poorly promoted and diversified

Strengths/opportunities	Weaknesses/Threats
Current export performance (medium)	
Azerbaijan is in the third place in production of edible nuts after Turkey and Italy. World production share is 3-4% (27-28 thousand tonne in a year).	Low level of foreign investment.
World Market (medium)	
Russia is one of the most favourable markets for Azerbaijan. In this case, there are no tariff barriers for the exported products.	The export of these products occurs in two export markets (Russia and Germany).
There are potential export possibilities with high price of peels of nuts with lower pellet quality that can be used in foreign furniture industry.	Underdeveloped information and marketing services; the lack of information about potential sales market and foreign trade rules.
High demand for this product in the world markets.	The product is being exported to the Russian market in large quantities by Turkey and Georgia too. The product of Turkey meets high quality standards and is one of the main competitors in the market.
Domestic Supply (medium)	
The supply of this product is very high in the domestic market.	Infrastructure for hazelnut processing factories and veterinary services is poor and does not meet international standards.
Human development (medium)	
Higher hazelnut prices and access to global markets should lead to an improvement in incomes (through farmer profits).	There are small numbers of wholesale purchasers and therefore the level of prices is not satisfactory for suppliers.
Development of the sector should result in higher employment.	Lowest average wage level compared to other sectors of economy.
	Low professional qualification level of producers.
Preliminary actions	
A major overhaul of the production is needed to improve sanitary condition of the harvest and improve quality standards. There is a need for a marketing strategy for export; identification of niche market. It is necessary to create a proper supply and transportation network that connects the hazelnut growers in rural areas to hazelnut processors, and the hazelnut processors to export markets. Seek to move to value added products.	

A.2. Edible fruits, citrus fruits, melons and juice of fruits (apple, pear, persimmon, quince, apricot, peach, cherry, sweet cherry, plumbs, sloes, olives, citrus fruits, berries etc – fresh, dried, marinated and fruit juices)

Strengths/opportunities	Weaknesses/Threats
Current export performance (medium)	
<p>The export of fruits and juice has one of the best comparative advantages. In 2009, the share of fresh fruits nes in the world exports was 3.3%, ranking 8th in world exports. Annual growth in value between 2005-2009 was less (12%) than annual growth of world imports (16%) at the same period.</p>	<p>AZE's total export value of fruits and juice in 2009 was 79.6 million USD (0.5% of total country export). Current export and production performance remains low; fresh fruits nes currently accounts for 7.3% of non-oil exports in 2009.</p>
<p>Russia (97%) and Ukraine (3%) were the main markets for export of fresh fruits nes with the applied mutual free regime (the most favourable regime). Share in value in the country's cluster exports was 0.3% (2009).</p>	<p>In the short term, there is a need to meet international quality standards in order to further strengthen export competitiveness of the products.</p>
<p>Low prices compared with other competitors in foreign markets.</p>	<p>The small size of farms, which are technologically weak, influences competitiveness of the products.</p>
<p>Labour costs are reasonably low</p>	<p>Product is weakly promoted and diversified. However, for some markets product competitiveness is on the medium level.</p>
<p>Low energy prices in sector.</p>	<p>Packaging design and quality requires improvement.</p>
<p>Favourable business legislation.</p>	
<p>Only one land tax, which is at a very low level.</p>	
<p>Price of land is low.</p>	
World Market (medium)	
<p>Russia is one of the most favourable markets for Azerbaijan. In this case, the free trade regime is applied to the exported products at the basis of the most favourable tariff regime.</p>	<p>The export of these products depends highly on only one market (Russia). The product is exported to the Russian market also by Poland, China and other countries in large quantities.</p>
<p>High demand for these products in European countries.</p>	<p>The underdeveloped export infrastructure to access world markets. Transportation by road or rail is a major problem. Unreliable service, lack of cold storages.</p>

Strengths/opportunities	Weaknesses/Threats
World Market (medium)	
High demand for ecologically pure and healthy products in the world markets.	Low level of foreign investment.
Domestic Supply (medium)	
The supply of this product is very high in the domestic market.	Infrastructure for fresh fruits processing factories, storage facilities and conditions has recently started to be improved but still does not fully meet international standards.
High level of raw materials' supply for fruit processing fields (and processing industry).	Growers of fresh fruits incur losses because of poor storage conditions.
Quite well developed channels of sales in local fruits market.	
Human development (medium)	
High level of employment. The labour-intensive nature of the sector could considerably reduce unemployment.	Margin (profit) of farmers is reduced as a result of market failures and lack of competition.
High potential for employment creation in the agriculture and food industry.	Lowest average wage and income level compared with other sectors of economy.
	Possibility of exploitation of workers due to labour-intensive nature of production.
	Low professional qualification level of producers.
Preliminary actions	
A major overhaul of the production is needed to improve quality standards. There is a need for a marketing strategy for export: identification of niche markets and establishing of marketing cooperatives and training for farmers. It is important to create a proper supply and transportation network that connects the fresh fruits growers in rural areas to fresh fruit processors, and the fresh fruit processors to export markets.	

A.3. Animal, vegetable fats and oils (Safflower, sunflower/cotton-seed oil & fractions – cotton-seed and its fractions refined but not chemically modified and cotton-seed oil crude, whether or not gossypol has been removed, fixed vegetable fats & oils & their fractions and animal or vegetable fats, oils and their fractions, hydrogenated)

Strengths/opportunities	Weaknesses/Threats
Current export performance (low)	
In 2009, the share of animal, vegetable fats and oils global exports was 1.6, ranking 11th in world exports. Annual growth in value between 2005-2009 was greater (56%) than annual growth of world imports (6%) at the same period. In this product group export of cotton-seed and its fractions has one of the best comparative advantages.	AZE's total export value of animal, vegetable fats and oils in 2009 was 54.4 million USD (0.4% of total country export). Current export and production performance remains low; Animal, vegetable fats and oils (cotton-seed and its fractions) currently accounts for 5% of total country exports in 2009.
The main markets for this product are Russia and Tajikistan with the applied mutual free regime (the most favourable regime).	Animal, vegetable fats and oils (cotton-seed and its fractions) do not meet international quality standards.
Labour costs are low.	
World Market	
Animal, vegetable fats and oils (cotton-seed and its fractions) demand is likely to remain reasonably robust despite global economic downturn.	Ukraine, Romania and Lithuania will remain strong competitors.
	Despite having a comparative advantage in the world's cotton-seed market, the quality of Azerbaijani products remains low.
	Product is weakly promoted and diversified. However, for some markets product competitiveness is at a medium level.
	Weak development of export infrastructure in ensuring access to the world market. Transportation by road or rail is a major problem. Lack of cold facilities.

Strengths/opportunities	Weaknesses/Threats
Domestic Supply	
The supply to domestic markets of this product is very high.	Low level of local infrastructure.
Human development	
High level of employment in the agriculture and food industry. The labour-intensive nature of the sector could considerably reduce unemployment.	Possibility of exploitation of workers due to labour-intensive nature of production.
	Lowest average wage level compared with other sectors of economy.
	Low professional qualification level of producers.
Preliminary actions	
Improvement of quality standards, packaging. Development of a brand image and enhancing market information. Identification of new niche markets. Creation of a proper supply and transportation network that connects the producers in rural areas to processors, and the processors to export markets. Improvement of local infrastructure. The professional qualification level of producers needs to be increased.	

A.4. Vegetables and cucurbitaceous (tomatoes, eggplants, celery, peanut, turnip, onion, garlic, potatoes etc) – fresh, chilled, dried, marinated and its refined products.

Strengths/opportunities	Weaknesses/Threats
Current export performance (low)	
Export of vegetables has one of the best comparative advantages. In 2009, their share in the world exports was 0.1%, ranking 63 in world exports. Annual growth in value between 2005-2009 was greater (21%) than annual growth of the world imports (9%) at the same period.	Current export and production performance remains low; vegetables currently account for 50 million USD (4.6% of non-oil exports and 0.3% of total country exports) in 2009.
The main market for this product is Russia with the applied mutual free regime (the most favourable regime) (95%). Besides that, Ukraine and Georgia are also considered as main markets.	Product is weakly promoted and diversified. However, for some markets product competitiveness is at a medium level.
Labour costs are low.	
World Market (medium)	
World demand for vegetables and cucurbitaceous is high.	The main competitors in Russian markets are more competitive (Turkey, the Netherlands, Kazakhstan, China, Uzbekistan and Egypt).
Russia is the most favourable export market.	Product is weakly promoted and diversified. But for some markets product competitiveness is at a medium level.
	Weak development of export infrastructure in ensuring access of vegetables to world markets. Transportation by road or rail is a major problem. Lack of cold facilities.
Domestic Supply (medium)	
Meeting the needs of various production areas in internal markets.	Low level of local infrastructure (storage facilities and conditions are poor and do not meet international standards).
Well developed channels of sales in local markets.	Growers of fresh vegetables incur losses because of poor storage conditions.
Internal levels of supply and demand for vegetables and cucurbitaceous are high.	

Strengths/opportunities	Weaknesses/Threats
Human development (low)	
The labour-intensive nature of the sector could considerably reduce unemployment. High potential for employment creation in the agriculture and food industry. Particular potential to reduce unemployment in the service sector too.	Possibility of exploitation of workers due to labour-intensive nature of production.
	Lowest average wage level compared with other sectors of economy.
	Low professional qualification level of producers.
Preliminary actions	
Improvement of quality standards and packaging. Development of a brand image and enhancing market information. There is a need for a marketing strategy for export; identification of new niche markets. Creation of a proper supply and transportation network that connects the producers in rural areas to processors, and the processors to export markets. The professional qualification level of producers needs to be increased.	

A.5. Alcoholic beverages, spirits and vinegar (wine of fresh grapes and spirits, liqueurs, other spirit beverages, alcoholic preparations)

Strengths/opportunities	Weaknesses/Threats
Current export performance (low)	
<p>Alcoholic beverages, spirits and vinegar have the best comparative advantage. Annual growth in value between 2005-2009 was greater (61%) than annual growth of the world imports (13%) at the same period.</p>	<p>AZE's total export value of alcoholic beverages, spirits and vinegar in 2009 was 11 million USD (0.07% of total country export). In 2009, the trade balance was positive, but decreased by 43% compared to the previous year. Current export and production performance remains low.</p>
<p>While the tariff barrier of 1.2% (in its added value equivalent) is applied for this product in its access to the main market (Russia – 71%), the access to Ukrainian market is free.</p>	<p>Low quality of product compared with other competitors in foreign markets.</p>
<p>Currently, the development of processing traditions in this sector and existence of favourable natural factors, as well as the purchase of high quality grapes from France and increase of investments in this field prove that the high production and trade potentials will be achieved in the near future.</p>	<p>The product is poorly promoted and diversified.</p>
<p>Low prices and low-middle labour costs.</p>	<p>Packaging design and level requires improvement. Does not meet fully international quality requirements.</p>
World Market (medium)	
<p>Russia (71% of all export), Ukraine (21%) and Latvia (8.4%) are the main markets for export of alcoholic beverages, spirits and vinegar (through the most favourable regime). There is high potential for importing in these markets.</p>	<p>The export of these products occurs in a single export market (Russia). This product is exported to Russian market firstly by France, UK, Ukraine, Spain, Armenia, USA, Ireland, Mexico, Finland and other countries in large quantities. AZE holds the 10th place in the Russian market (2009).</p>
<p>High demand for these products in the markets of European countries.</p>	<p>Underdeveloped export infrastructure for access to the world markets of alcoholic beverages. Transportation by road or rail is a major problem.</p>

Strengths/opportunities	Weaknesses/Threats
Domestic Supply (medium)	
The supply of this product is very high in domestic markets (the size of the market – USD 150 mln. annually; 58.3% of total trade turnover of these products consists of vodka).	Infrastructure for processing is poor and does not meet international standards.
High level of raw materials supply to the grape processing fields (processing industry).	Investment resources of growers of grapes are low.
Quite well developed channels of sales in local alcoholic beverages market.	
Human development (Medium-high)	
High level of employment and employment creation potential in agriculture and food and beverage industry. 10% of the total employed persons are working in this field (the number of people employed in the processing industry is almost 20%).	Low-middle average wage and income level. Margin (profit) of farmers is reduced as a result of market failures and lack of competition (Wholesalers of grape buy this product at low prices).
	Low professional qualification level of producers.
Preliminary actions	
A major overhaul of the production is needed to improve quality standards. It is necessary to improve packaging, develop a brand image and enhance market information. There is a need to develop a marketing strategy for export; identify relevant niche markets. It is important to create a proper supply and transportation network that connects the grape growers in rural areas to processors, and the alcoholic beverage processors to export markets.	

B. INDUSTRIAL SECTOR

B.1. Organic chemicals (Propan-1-ol (propyl alcohol) and propan-2-ol (isopropyl alcohol))

Strengths/opportunities	Weaknesses/Threats
Current export performance (low)	
Organic chemicals (esp. propyl and isopropyl alcohol) have the best comparative advantage. The qualification coefficient for this product is high and equal to 98.2% (2009). In 2009, the share of the product with positive trade balance in the world exports was 0.6%, ranking 15th in world exports. Annual decrease in value between 2005-2009 was equal to 11%, while a growth of 1% in world imports was observed at the same period.	AZE's total export value of propyl and isopropyl alcohol in 2009 was 6.7 million USD (0.05% of total country export). Current export and production performance remains low; propyl and isopropyl alcohol currently accounts for 0.6% of non-oil exports in 2009.
Turkey, Russia, Iran and Ukraine were the main markets for export of propyl and isopropyl alcohol, in 2009, with respective shares of 50%, 26%, 12% and 11% of total propyl and isopropyl alcohol export.	Low level of investments in this sector.
Labour costs are low-medium.	The product is poorly promoted and diversified.
	Manufacturing cost of the product is very high.
World Market (low)	
High sales possibilities in CIS markets.	There is a high tariff barrier for Azerbaijani products in the market of Turkey. 66% in average (its average added value tariff equivalent). The export of these products occurs in single export market.
High demand for these products in world markets.	Price for the product is high compared with other competitors.
	Underdeveloped information and marketing services; the lack of information about potential sales market and foreign trade rules.
	The main competitors for this product in the Turkish market are Germany and Russia with their high quality products.
	Transportation by road or rail is a major problem.

Strengths/opportunities	Weaknesses/Threats
Domestic Supply (medium)	
Meeting the needs of various production areas in the internal market.	Infrastructure for organic chemicals (esp. propyl and isopropyl alcohol) is poor and does not meet international standards.
	Low level of technologies that meet modern standards. Extreme depreciation of production funds and its very low renovation.
Human development (low)	
Medium level of employment.	Commonly encountered problem is deferring of payments (wages) and decrease of staff levels.
	Possibility of exploitation of workers.
	Due to the lack of regulating and cleaning equipment, which meet international environmental protection standards, the products are dangerous for human health.
	Weak solution of social problems for persons (in particular, women) working in hazardous working conditions.
Preliminary actions	
Development of a strategy for accessing foreign markets. Seeking international partners for developing a marketing strategy. Improvement of quality standards and technologies. Development of a knowledge cluster among universities, research centres and firms. Promotion of product diversification and value addition of the sector. Increasing investments in this sector. Improvement of infrastructure.	

B.2. U-sections, angles, shaped and special profiles made from iron or unmanufactured steel

Strengths/opportunities	Weaknesses/Threats
Current export performance (medium)	
U-section (channel) has the best comparative advantage. The qualification coefficient for this product is high. In 2009, its share in world exports was 1.1%, ranking 20th in world exports. Annual growth in value between 2005-2009 was greater (17%) than annual growth of world imports (7%) at the same period.	AZE's total export value of U-section (channel) in 2009 was 12.6 million USD (0.1% of total country export). Current export and production performance remains low; U-section (channel) currently accounts for 1.2% of non-oil exports in 2009.
Iran was the single market for export of U-section (channel), in 2009, the value of export was equal to 12.6 million USD (100% of total U-section (channel) export).	The product is poorly promoted and diversified.
Labour costs are low-medium.	
World Market (medium)	
Large possibilities of sales in CIS and near eastern markets which do not require high standards.	There is a high tariff barrier for Azerbaijani products in the market of Iran. It is 66% in average (its average added value tariff equivalent). The export of these products occurs in single export market.
High demand for these products in the world markets.	Underdeveloped information and marketing services; the lack of information about potential sales market and foreign trade rules.
	The main competitors for this product in Iranian market are Russia, Turkey, Spain and China (more competitive than AZE producers).
Domestic Supply (medium)	
Meeting the needs of various production areas in internal markets (in construction).	Raw material used for the production is imported mainly from foreign countries.
	Low level of technologies, which meet modern standards (the status of production facilities).

Strengths/opportunities	Weaknesses/Threats
Human development (medium)	
Medium level of employment.	Commonly encountered problem is the low level of qualification of workers.
Low wages.	Possibility of exploitation of workers.
	Low number of professional qualification courses for employees.
Preliminary actions	
<p>Development of a strategy for accessing foreign markets. Improvement of quality standards and technologies. Development of a knowledge cluster among universities, research centres and firms. Promotion of product diversification and value addition. Creation of a proper transportation network. Organization of professional qualification courses for employees. Increasing investments in this sector.</p>	

B.3. Plastic and plastic made products (polyethylene having a specific gravity of less than 0.94; polysulphides, polysulphones & other products, nes; polyethers nes)

Strengths/opportunities	Weaknesses/Threats
Current export performance (medium)	
<p>Plastics and articles thereof have the best comparative advantage. The qualification coefficient for this product is high. In 2009, their share in world exports was 0.2%, ranking 40th in world exports. Annual growth in value between 2005-2009 was lower (0%) than the annual growth of world imports (4%) during the same period.</p>	<p>AZE's total export value of plastics and articles thereof in 2009 was 34.6 million USD. Current export and production performance remains low; plastics and articles thereof currently accounts for 3.2% of non-oil exports in 2009. Share in value in country's exports was 0.24% (2009).</p>
<p>Iran (54%), Turkey (16%) and China (15%) – the main markets for export of plastics and articles thereof. In 2009, the value of export to these countries was equal to 30 million USD (85% of total export of plastic and plastic made products). At the same time, import needs of China and Turkey are higher and these countries can be already considered as strategic partners (China takes the 1-st place and Turkey the 8th place in the import of this product).</p>	<p>Lowest level of investments in this sector.</p>
<p>Labour costs are low.</p>	<p>The product is poorly promoted and diversified.</p>
	<p>Manufacturing cost of the product is very high.</p>
World Market (medium)	
<p>High sales possibilities in CIS and some European markets.</p>	<p>There is a high tariff barrier for Azerbaijani products in the market of Turkey. It is 66% in average (its average added value tariff equivalent). The export of these products occurs in single export market.</p>
<p>High demand for these products in the world markets.</p>	<p>Underdeveloped information and marketing services; the lack of information about potential sales markets and foreign trade rules.</p>

Strengths/opportunities	Weaknesses/Threats
World Market (medium)	
	Azerbaijan is a leader in the Iranian market and the competitors for this product in the market of Turkey are the developed countries of Western Europe with their high quality products (Germany, Belgium, Italy, France etc). It is extremely difficult to compete with these countries in this field. Azerbaijan's main competitors in the US market are Canada, China, Mexico and the developed European countries.
	Transportation by road or rail is a major problem.
	Price of the product is high compared with other competitors.
Domestic Supply (medium)	
Meeting the needs of various production areas in internal markets.	Infrastructure for plastics and articles thereof is poor and does not meet international standards.
	Low level of technologies; low investment to the main assets.
Human development (low)	
The development of this field requires also the development of other fields such as machinery and metal processing by increasing employment and revenues in this sector.	Low level of employment. Commonly encountered problem is deferring of payments (wages) and reduction of staff levels.
	Possibility of exploitation of workers. In this sector, the level of average monthly wage remains low; it is lower than average wages in both industrial and processing industrial areas.
	Due to the lack of regulating and cleaning equipment which meet international environmental protection standards, the products are dangerous for human health.
	Weak solution of social problems for persons (in particular, women) working in hazardous working conditions.
Preliminary actions	
Development of a strategy for accessing foreign markets. Improvement of the quality standards and technologies. Development of a knowledge cluster among universities, research centres and firms. Promotion of product diversification and value addition. Creation of a proper transportation network. Organization of professional qualification courses for employees. Increasing investments in this sector.	

B.4. Aluminium oxides

Strengths/opportunities	Weaknesses/Threats
Current export performance (medium)	
Aluminium oxides has the best comparative advantage. The qualification coefficient for this product is high. In 2009, its share in the world exports was close to 0%, ranking 27th in world exports. Annual decrease in value between 2005-2009 was 54% and the annual decrease of world imports 1% during the same period.	AZE's total export value of aluminium oxides in 2009 was sharply reduced to 3.4 million USD. Current export and production performance remains low; aluminium oxides currently accounts for 0.3% of non-oil exports in 2009. Share in value in country's exports was 0.02% (2009).
Tajikistan (83.2%) –is the main market. Another export market is Hong Kong. The price of this product is relatively higher in this market. Chinese and Russian markets have more prospects.	The product is poorly promoted and diversified.
High level of investments in this field.	
Labour costs are low.	
World Market (low)	
High sales possibilities in CIS and some European markets.	The export of the product depends highly only on two markets.
There are no tariff barriers in both sales markets. There is the possibility of free competition. Large potential possibilities of free competition in the market of Hong Kong.	Underdeveloped information and marketing services; the lack of information about potential sales markets and foreign trade rules.
In comparison with Azerbaijan's main competitor – Kazakhstan – the offered price is slightly lower.	The main competitor in the Tajik market for this product is Kazakhstan. The main suppliers of this product in the market of Hong Kong are the developed countries (Japan, China, Malaysia, Germany, France, the US, etc). The competition in this market is stronger.
	Transportation by road or rail is a major problem.
Domestic Supply (high)	
Meeting the needs of various production areas in internal markets.	Infrastructure is poor and does not meet international standards.
Large deposits of local raw materials.	

Strengths/opportunities	Weaknesses/Threats
Human development (low)	
Medium level of employment.	Commonly encountered problem is the low level of qualification of workers, deferring of payments (wages) and reduction of staff levels.
Employment creation for chemical industry.	Possibility of exploitation of workers. In this sector, the level of average monthly wage remains low; it is lower than average wages in both industrial and processing industrial areas.
Low wages.	Due to the lack of regulating and cleaning equipment which meet international environmental protection standards, the products are dangerous for human health.
	Weak solution of social problems for persons working in hazardous working conditions.
	Development of a strategy for accessing foreign markets. Improvement of the quality standards and technologies. Creation of a proper transportation network.
Preliminary actions	
Development of a knowledge cluster among universities, research centres and firms. Promotion of product diversification and value addition. Organization of professional qualification courses for employees. Increasing investments in this sector.	

B.5. Aluminium and articles thereof – aluminium unwrought, alloyed

Strengths/opportunities	Weaknesses/Threats
Current export performance (medium)	
Aluminium unwrought, alloyed has the best comparative advantage. The qualification coefficient for this product is high and equal to 100% (2007). In 2009, its share in world exports was 0.1%, =ranking 48th in world exports. Annual decrease in value between 2005-2009 was 21% and annual decrease of world imports 2% during the same period.	AZE's total export value of aluminium unwrought, alloyed in 2009 was 11.9 million USD (0.08% of total country export). Current export and production performance remains low; aluminium unwrought, alloyed currently accounts for 1.1% of non-oil exports in 2009.
The main trade markets for this product are Hong Kong (59%), Turkey (32%) and Iran (7%).	The product is poorly promoted and diversified.
High level of investments to this field.	
Labour costs are low.	
World Market (medium)	
Large possibilities of sales in CIS and near eastern markets, which do not require high standards.	Underdeveloped information and marketing services; the lack of information about potential sales markets and foreign trade rules.
High demand for these products in world markets.	Azerbaijan's main competitors in the Hong Kong market are comparatively developed economies (China, Korea, the USA, Malaysia, UAE, South Africa, Thailand and Australia).
Large potential possibilities of free competition in the market of Hong Kong.	Transportation by road or rail is a major problem.
Having 16% of market share, Azerbaijan holds the third place in the Iranian market following Italy and Korea. In this market, the same tariff (4%) is applied for all countries.	
Low price of Azerbaijani product in Iranian market.	
There is a low tariff barrier in the markets of Iran (4%) and Turkey (6%) for this product.	

Strengths/opportunities	Weaknesses/Threats
Domestic Supply (medium)	
Meeting the needs of various production areas in internal markets.	Infrastructure is poor and does not meet international standards.
Large deposits of local raw materials.	
Human development (low)	
Medium level of employment.	Commonly encountered problem is a low level of qualification of workers.
Low wages.	Possibility of exploitation of workers. In this sector, the level of average monthly wage remains low; it is lower than average wages in both industrial and processing industrial areas.
Employment creation potential for chemical industry.	Due to the lack of regulating and cleaning equipment which meet international environmental protection standards, the products are dangerous for human health.
	Weak solution of social problems for persons working in hazardous working conditions.
Preliminary actions	
Development of a strategy for accessing foreign markets. Creation of a proper transportation network. Improvement of the quality standards and technologies. Promotion product diversification and value addition. Organization of professional qualification courses for employees. Increasing investments in this sector. Improvement of infrastructure.	

VI. THE FINANCIAL CRISIS AND ITS IMPACT ON AZERBAIJAN

This Chapter provides an analysis of the impact of the global financial and economic crisis through the different transmission channels to the economy of Azerbaijan, with a particular emphasis on trade and human development issues.

6.1. Channels of transmission of the crisis

The global economic and financial crisis started with the mortgage market crisis in the United States that later covered the entire global economy and its effects are perceived to different extents in different countries. The degree of vulnerability of individual countries to the crisis is linked with their degree of integration to the global economy. Whereas more integrated economies are suffering more from the direct effects, African and many other less integrated developing countries are suffering strongly from the indirect effects.

The extent of the impact of the crisis on the country depends on many factors that determine its transmission to these economies. Factors that seem to matter: financial openness, trade openness, size of the current account deficit, fiscal deficit and foreign reserves. As national economies become more inte-

grated, the main channels of transmission of the global economic and financial crisis to the economies are the main flows of external financing – foreign trade, FDI, foreign remittances and foreign aid. In other words, decreasing trade volumes, serious limits in access to international finance, including FDIs, debt, foreign aid and portfolio capital and a decrease in remittances are the major consequences of the crisis to the national economy. Hence, the crisis hit the channels, which recently were extremely favourable to developing countries and Azerbaijan and have fuelled their high growth. The study examines the transmission channels from the perspectives of developing countries.

One of the important channels of transmission – the exposure of the banking system to the crisis – is not very relevant for most developing countries. In these countries banking systems are shallow, with small derivatives and interbank markets, relatively low levels of reliance on international capital and limited exposure to complex financial instruments. However, as the crisis in developing countries unfolds and domestic conditions deteriorate, banking systems could come under stress due to borrowers' inability to repay and banks' inability to borrow cash on the market.

A. Channels of transmission: Capital inflows, particularly, FDI

Developing countries are victims of increased risk aversion – net private capital inflows to developing countries declined at the end of 2008 and are now projected to be 165 billion USD: 82% below the 2007 level (IMF, 2009). The reversal of capital inflows from developing countries to safer assets of developed countries has been one of the most significant effects of the financial crisis on emerging economies; once again the volatility of international capital flows has been a powerful factor in crisis contagion.

In 2007 and 2008, many developing economies were dealing with extensive capital inflows; now access to market based international financing appears to be closing for many of them, posing threats of a major liquidity squeeze, pressure on emerging market currencies, asset markets and real sectors. Countries that relied on readily available capital to finance their current account deficits are particularly vulnerable.

Stock markets of developing countries have also been impacted by the crisis. Sovereign spreads have increased dramatically (reflecting flight to higher quality assets, such as developed countries government bills and bonds).

FDI is considered by many to be a major and more stable source of financing for many developing countries. FDIs slowed down recently due to two major factors. First, the capability of firms to invest has been reduced due to a fall in access to financial resources,

both internally (due to a decline in corporate profits) and externally (due to lower availability and higher cost of finance). Second, the propensity to invest has been affected negatively by economic prospects, especially in cases involving corporations with operations in the developed countries hit by a severe recession. In addition, a very high level of perceived risk is leading companies to extensively cut their costs and investment programmes. The fact that many multinational enterprises can easily shift financial resources from one country to another adds another degree of uncertainty, contributing to the growing macroeconomic instability in developing countries.

B. Channels of transmission: Remittances

Remittances have been an important and stable source of external financing for many developing countries, especially CIS countries such as Tajikistan, Moldova and Kyrgyzstan. Indeed, in 2006, Tajikistan and Moldova received the highest levels of remittances in the world (as a percentage of GDP), with Kyrgyzstan in the fourth place. In some Latin American and Caribbean countries remittances constitute the largest source of foreign financing, larger than FDIs and foreign aid.

Remittances have been shrinking in 2009; according to the World Bank, remittances will fall from 305 billion USD last year to 290 billion USD in 2009. Europe and Central Asia will be the most severely affected region with a fall of

10-13%. This relatively small decrease can be explained by “flexibility” of remittances, since, in general, many migrants are even in worse conditions and unlikely to leave their adopted countries and try to find out new opportunities to earn and send money home.

The remittances fall can have a negative effect on developing countries, namely in those in which remittances made up a high share of a country’s GDP. Remittances have become an important factor in stimulating economic development and keeping families out of poverty in these countries. This way, a slump in worker remittances flows could impact a country not only in terms of the economy, but also may negatively contribute to human development in the country.

C. Channels of transmission: foreign trade

Trade has become a significant source of growth in many developing countries. The volume of trade has plummeted, with the largest decline in 80 years; advanced countries’ imports are falling, while developing countries are highly dependent on developed countries as their main exports’ markets. With the lack of opportunities for substitution of these markets with other ones, the decrease in demand on the developed markets will lead to decreases in the supply of developing countries. This factor will impact most of the countries with a large share of industry and those for which exports represent the main source of external financing and economic growth.

Exports and production fall cause a decrease of foreign currency inflows in an economy and consequently lead to an import drop. In turn, imports can have beneficial impacts such as consolidating foreign trade balance, especially in countries with an adverse balance. Also, it may cause some adverse effects. With the public finances of many developing and emerging market countries still heavily dependent on trade tax revenues, a further import decline may be critical unless they are able to develop alternative sources of revenues.

The World Bank expects a 6.1% contraction in 2009 in the volume of world trade, with an even higher collapse in the value of world trade, due to the fall in commodity prices. According to the IMF’s report “The Implications of the Global Financial Crisis for Low-Income Countries”, many countries have registered a drop in exports of around 20%. Taking into account that in the recent decades most of developing countries became more integrated in the international trade system and have ensured their economic growth basing on exports, reduced earnings from exports could harm their development. This is bad news for government revenues as well; most developing countries, including Azerbaijan, depend on trade for their fiscal revenues.

The increase of the food and oil prices in 2007 and 2008 has affected developing countries, leaving the balance of payments of some countries under great strain. Furthermore, the drop in oil and commodity prices has also created winners and losers as well.

Another factor that may affect foreign trade is a decrease in commercial credits due to the international financial market depression. Given the fact that normally a large part of foreign trade transactions are financed through short-term credit and financial institutions liquidity have become extremely low and trade finance²⁵ has become more expensive (fear of default has caused banks to tighten lending guidelines), the poor capacity to finance commercial transactions leads to reduction in foreign trade transactions.

Concluding, as a result of the global crisis through its different transmission channels, large cumulative effect on exchange rates and credit and bank/financial system liquidity, large immediate welfare losses, real investment falls, consumption falls (as consumers tend to save), huge budget deficits (left to fill expenditure gaps, as well as to rescue the financial system), fall in remittances from migrant workers, reduced tourism, drop in sales, production, jobs and incomes have been observed in national economies.

Due to the characteristics of the national economy, developing countries with a high impact risk can be categorised as follows:

1. With significant exports to the USA and Europe;
2. Countries exporting products with high income elasticity;
3. Countries dependent on remittances;

4. Countries with high current account deficits and high government deficits;
5. Countries dependent on aid.

Here, Azerbaijan can be considered in the second group, as a single commodity (oil) exporter emerging economy, strongly dependent on world oil prices and demands.

The Azerbaijan economy continued to grow through most of 2008 partly due to high oil prices, until the price crash in the late summer of 2008. Ultimately, the country was hit by the contraction in global demand and falling oil prices, the global liquidity squeeze and the resulting capital outflows and increasing risks, increased exchange rate volatility and decreasing demand for migrant labour.

In order to provide an early assessment of the economic crisis and its effects on Azerbaijan economy, particularly on trade and human development, as well as propose mitigation strategies to overcome these negative effects of the crisis, the study analyzes socio-economic development trends of the Azerbaijan economy during the crisis period.

6.2. Impact of the crisis on key macroeconomic indicators, key sectors and trade flows

Azerbaijan received its share of negative effects from the global financial crisis as well. However, the analysis shows that the crisis af-

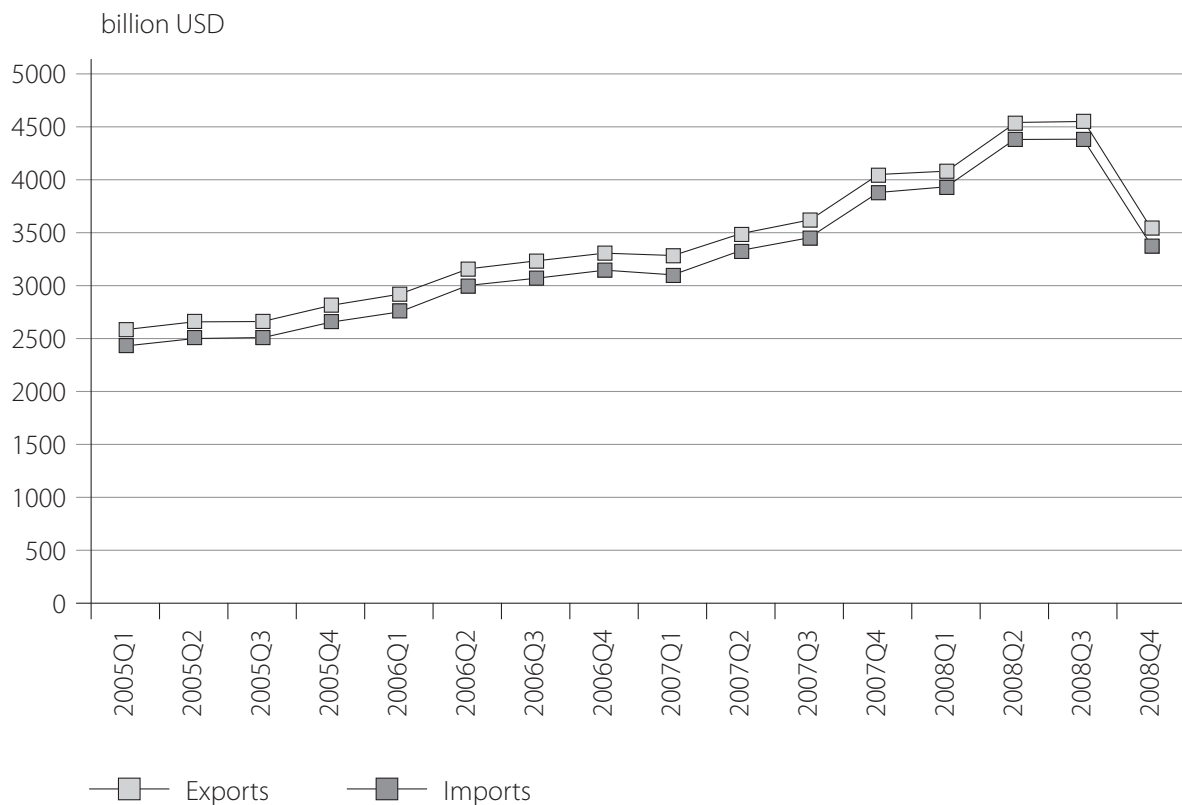
²⁵ G20 meeting on 2 April 2009: ensure \$250 billion for trade finance to promote trade and investment over 2 years (through export credits and investment agencies)

affected Azerbaijan economy to a much lesser extent than most of the former Soviet Countries. The impact of the crisis on Azerbaijan in 2008 was mostly through lower oil revenues. The country still managed to end 2008 with a double-digit growth rate (10.8%). In 2009, GDP growth rate was not very much different from the 2008 level (9%), mainly due to the inflow of oil revenues, but remittances and non-oil exports are expected to decline significantly. The oil-dominated (97% of export), but relatively small economy of Azerbaijan suffered neither from a currency devaluation or high inflation, nor severe drops in economic production or the banking sector. In general, there are two reasons for this outcome.

First, the recent years' huge oil exports, in general, caused a continuously positive current account balance and a steady inflow of hard currency. These vast oil revenues led to a certain macroeconomic stability and increase of domestic financial reserves, which gives a considerable scope for the State to mitigate the short-term impacts of the crisis.

Second, the financial sector of the country is still small and weakly integrated into the global financial system. Stock markets are in development phase and there is a very limited appearance of international banks in the banking sector of the country. The financial sector was hence less affected by the crisis than financial

Figure 6.1. Quarterly world exports and imports, 2005-2008



Source: WB, IMF, WTO

sectors in other former Soviet Countries, such as Russia, Ukraine, Kazakhstan and etc.

However, the economy is quite vulnerable to external shocks due to its weak diversification and high dependency on global market oil prices. The non-oil sector of the economy is of limited role in exports, the country's performance is highly dependent on oil price levels. As is seen from Figure 6.1 and Figure 6.2, it should be argued that the dramatic drop in oil prices affected the economic growth pace of the economy.

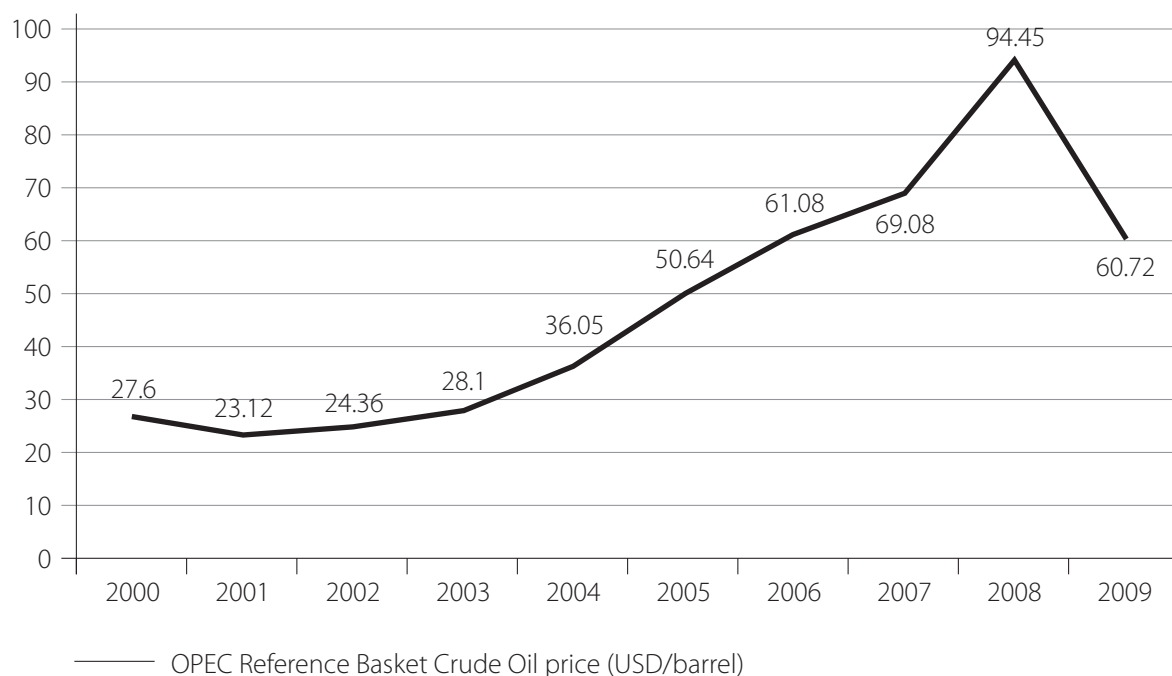
During the crisis period the price of crude oil fluctuated between the 144.9 – 38.1 USD

range. In current volume of export (about 160.8 mln. barrel in January-November, 2009) of crude oil, every 10 USD/Barrel decrease in price costs Azerbaijan about 1.6 bln. USD.

Despite the fact that a considerable decrease is observed in some macroeconomic indicators of the Azerbaijani economy during the crisis period, the country is still in a relatively solid position compared to the other CIS countries, even one of the leading countries on GDP growth.

Lower demand and the resulting dramatic fall in the world's oil prices by nearly 50%

Figure 6.2. OPEC Reference Basket Crude Oil price tendency over the last years (USD/Barrel)



Source: <http://www.opec.org/home/basket.aspx>

Note: The new OPEC Reference Basket (ORB), introduced on 16 June 2005, is currently made up of the following: Saharan Blend (Algeria), Girassol (Angola), Oriente (Ecuador), Iran Heavy (Islamic Republic of Iran), Basra Light (Iraq), Kuwait Export (Kuwait), Es Sider (Libya), Bonny Light (Nigeria), Qatar Marine (Qatar), Arab Light (Saudi Arabia), Murban (UAE) and Merey (Venezuela).

Box 6.1

**Main Macroeconomic Indicators of the Countries of the CIS
(January-September 2009 as % of January-September 2008)**

	GDP	Industrial production	Agricultural production	Capital investment in fixed capital	Cargo transportation	Retail turnover	Exports	Imports	Industrial producer price index	CPI
Azerbaijan	106.1	105.0	102.9	82.9	99.3	108.5	25.63	83.52	69.4	102.1
Armenia	81.7	88.6	98.7	56.2	104.8	100.8 ¹⁾	58.49	72.11	100.8	102.9
Belarus	99.7	95.5	102.4	114.5	94.1	102.6	56.71	65.22	116.1	113.9
Kazakhstan	96.8 ²⁾	99.0	101.7	102.2	88.7	89.2 ¹⁾	52.33	73.19	70.6	107.8
Kyrgyzstan	102.9	88.5	105.1	127.0	106.7	103.0	80.86	73.83	110.7	109.1
Moldova	92.2 ³⁾	75.7	89.8	57.5	40.8	95.3 ¹⁾⁴⁾	74.87	62.17	96.3	100.2
Russia	88.2 ²⁾	86.5	99.2	81.1	77.1	94.7 ¹⁾	55.75	56.86	92.6	112.5
Tajikistan	102.7	90.0	109.5	80.5	114.8	110.1	62.00	75.91	92.5	107.2
Turkmenistan	...	...	...	...	...	...	...	...	...	...
Uzbekistan	108.0	109.1	103.3	128.3	...	117.5	...	...	...	...
Ukraine	84.1 ⁶⁾	71.6	103.3	56.3	70.2	83.8	51.30	46.49	105.1	116.8
CIS average *	91	86	101	82	81	94	52.99	57.76	93	112

Source: Interstate Statistical Committee of the CIS, http://www.cisstat.com/eng/frame_macro.htm

Notes:

... data are missing (not presented)

* estimate

1) Excluding turnover of catering enterprises.

2) Index of industrial output for basic kinds of economic activities computed on the basis of the data on change in volume of agricultural production, mining and quarrying, manufacturing industries, production and distribution of electric energy, gas and water supply, construction, transport, retail and wholesale trade (in Kazakhstan – including communications).

3) January-June as % of January-June.

4) Trading organizations.

5) According to official publications, including Internet.

6) III quarter as % of III quarter.

According to the CIS Interstate Statistics Committee, Azerbaijan recorded one of the highest GDP growth rates among the CIS countries in January to September in 2009, equaling 9.1%. Uzbekistan had the highest GDP in the reporting period – 8%, followed by Kyrgyzstan – 2.9% and Tajikistan – 2.7%.

In the first 9 months of 2009, GDP in the CIS countries fell 9% overall in comparison with the same period of previous year. Armenia had the largest fall, around 18.3%, while GDP fell 15.9% in Ukraine and 11.8% in Russia.

Azerbaijan and Uzbekistan are the only two CIS countries to have achieved growth in industrial production. From January to October, industrial output in Azerbaijan increased 5.0% compared with the same period in 2008.

from their peak in March 2007 negatively impacted national exports, which consist primarily of oil products. The SOFAZ assets decreased and are expected to decrease in value by 17.6% as compared to the forecasts of 2008 or by 29.5% as compared to the actual oil fund revenues in 2008.

As can be seen from Figure 6.3, in recent years Azerbaijan's economy has been growing steadily and witnessed the highest GDP growth rate in the World in 2006 (34.5%)²⁶. But, GDP growth rate in 2008 was almost equal to the level of 2004, where the sustainable growth period had just started. It should be noted that the Government's final figure for the 2008's cumulative GDP was twice below the initially projected one (actual 10.8% vs. expected 21%).²⁷

The Government projections consider real GDP growth rate for 2009 at 12.9%²⁸. However, initial real figures from SSC indicate a 9.3% GDP growth for 2009 in comparison to 2008. Despite this slowdown in 2008-2009, both in total and per capita GDP, the country is still ahead of many other countries in terms of its economic growth, considering the effects of the economic crisis.

Even a 9.3% real GDP growth rate represents one of the highest growth rates in the world for the past year. According to the International Monetary Fund's most recent Economic Outlook, world real GDP growth is projected to slow from 3.75% in 2008 to 2.2% in 2009, with the downturn led by advanced economies.

26 SSC. www.azstat.org

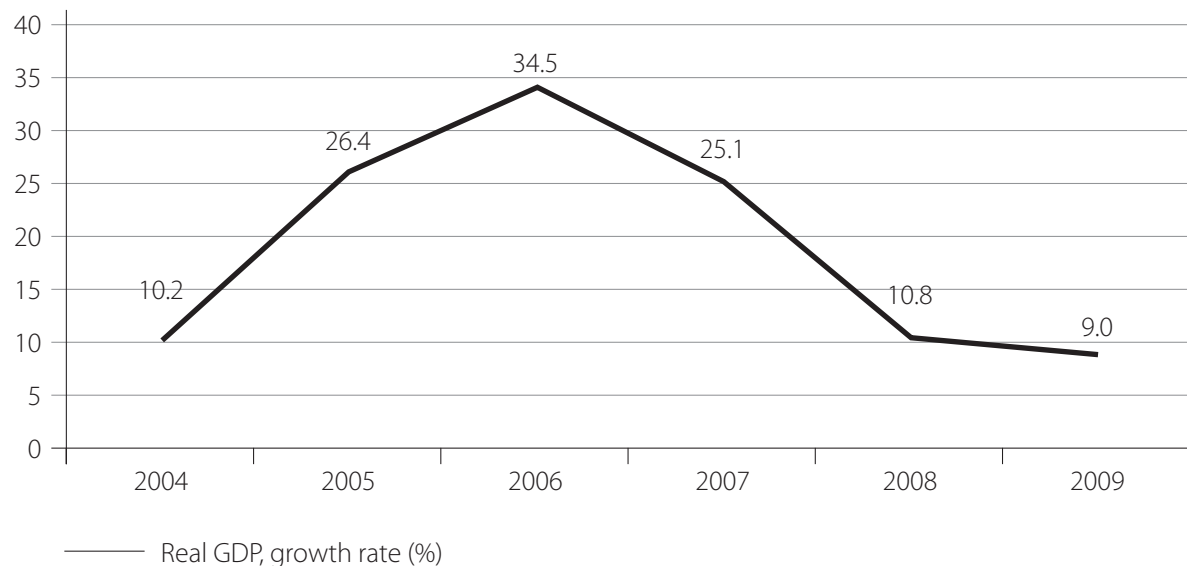
27 2008-2011 Major Macroeconomic indicators for Azerbaijan. MED, www.economy.gov.az

28 IMF's World Economic Report (October, 2009) prognoses 7.5% real GDP growth for Azerbaijan in 2009.

Over the last years, as a result of inflow of oil revenues, the Government of Azerbaijan increased the state budget expenditures in order to support the modernization of the economy by improving outdated infrastructure and by adjusting the low public sector salaries and pensions to more meaningful levels.²⁹ However, in the State budget for 2009, the consequences of the global economic crisis are clearly observed. The total public spending for 2009 reached 12,355 million AZN. The rapid growth rate that was characteristic for state budget figures during recent years slowed down in 2009. Thus, if budget incomes in 2006, 2007 and 2008 increased by 88.2%, 49.2% and 74.5% compared to previous years respectively, it was only an increase of 16.1% in 2009. Furthermore, dependence of the state budget on oil revenues increased

further with oil taking up 65.4% of all revenues in 2009 as compared to 62.4% in 2008 and 61.3% in 2007. Moreover, as a result of falling oil prices in the world markets, the percentage of transfers from the SOFAZ to the state budget increased to 4,915 million AZN (40.4% of total budget incomes). The government compensated the budget deficits through the increased transfers from the SOFAZ. 92.4% of SOFAZ expenditures were transferred to the state budget in 2009, 29.3 percentage points more than in 2008. The increased state budget dependence on oil revenues had a negative impact on the non-oil sector. The decrease of revenues from the non-oil sectors proves the dependency of the budget on oil revenues. If the correlation of non-oil budget revenues and the share of the non-oil sector of GDP was 32% in 2007, in 2009 this was 42.5%.

Figure 6.3. Azerbaijan's real GDP growth rate (in percentage)



Source: SSC

²⁹ Between 2006 and 2008, the Government more than doubled the wage bill and social transfers.

In 2009, 26.2 % of the state budget expenditures or 2763.0 mln. manats were spent on financing social measures (science, education, health, social protection and culture), which was 450.4 mln. manats, or 19.5 % higher than in 2008.

Given the large dependence of the state budget on oil revenues, the downward trend in growth has trickled down further. The Government has not planned any increase either in the minimum salaries or pensions for 2009. This is in contrast with the increase in minimum salaries in previous years (2004-2007).

According to the information provided by the Ministry of Finance on the implementation of the State Budget in 2009, the forecasted income was 12177.0 million manats, whereas actual income was 10325.9 million manats, which was 436.8 million manats, or 4.1% less than the income in 2008. The share of social expenses in the state budget amounted to 3276.9 million manats, or 26.5% of budget expenditures, which was 744.2 million manats, or 3.6% more than in 2008. The increased amount of educational and health expenses were allocated to the 30% salary growth of the employees in these sectors, as well as for the current program expenses. Budget calculations of National Budget Group experts show that the increase of educational expenses by 1% will lead to the increase of quality of education by 0.13%. The quality indicator for this calculation was the "medium score" for entrance exams. The increase of health expenses by 1% leads to the improvement of "total sickness" indicator by 0.1%. One of the reasons

for this was the increase in registration of sicknesses in the recent years.

Due to the impact of the global food crisis, the Government has declared the **development of agriculture** as one of the priority areas and this is reflected in the 2009 budget. Agricultural expenses increased by 44% in 2009 (388.2 million AZN). A considerable part of this was directed to the state support on agriculture. These measures include the increase of subsidies to agricultural producers and implementation of the "State Program on Reliable Food Provision for the Population". This will result in the fact that subsidies will increase at a higher rate than the increase in agricultural production. The share of subsidies in the expected agricultural production will be more than 5% in 2009. The prospect of joining the World Trade Organization increases requirements for complying with the WTO standards on subsidies. It should also be stated that a considerable part of the agricultural expenses will be directed to melioration (50.2%).

Mostly as a result of expansive fiscal policy, the level of inflation was relatively high in recent years. It reached 16.7% in 2007 and 20.8% in 2008. In 2009 the inflation was only 1.5%.

According to the CBA, between December 2007 and December 2008, the manat appreciated 14.7 % against the US dollar, but the real effective exchange rate appreciated 26.7 % against the US dollar.³⁰ The real appreciation of the currency makes the non-oil sector less competitive.

In 2008, the average profitability of management of the SOFAZ funds was 3.79%, which is 0.7% lower than in the previous year. Due to the global economic crisis, SOFAZ decided to reduce up to 8% of projects managed by foreign companies. This was motivated by the fact that the average profitability of funds managed by foreign companies was equal to zero in 2008, whereas the Fund itself managed to gain 3.79% average profitability.

By January 1 2009 compared to January 1 2008 reserves of SOFAZ increased 4.3 times and reached 9 bln. AZN (11.2 bln. USD). But the Fund has had to transfer 4.9 bln. AZN to cover the expenses of the State Budget, which in turn consists more than 50% of the Funds reserves. Additional transfers could eventually deplete the Fund. No statutory limits exist on transfers from the Fund to the state. Decisions in this regard rest with the President. The Fund's revenues are made up from the difference between the budgeted or projected price for oil and the actual price. Consequently, if oil prices fall below 70 USD per barrel, SOFAZ will not receive revenue next year.

The **financial market** in Azerbaijan is practically equivalent to the country's banking sector. Insurance and stock markets are in the development phase and for this reason, insurance companies or the stock exchange are negligible. The focus of the banking sector is lending to the domestic economy. Today, the banking sector consists of 46

banks, including one state-owned bank (International Bank of Azerbaijan) that holds some 40% of the total banking assets. Only seven banks have foreign majority owners with 10% of banking assets. This is the lowest share of foreign ownership among such CIS countries as Ukraine and Moldova. Even in comparison to the size of the domestic economy, the Azerbaijani banking sector is still small. The financial intermediation ratio – a common indicator of the sector's development – measured by the ratio of total banking sector assets to GDP, stood at 27% at the end of 2008. This ratio is very low compared with the 80% in Ukraine or 180% in the Euro Zone, but it is similar to Georgia and Armenia.

The global financial crisis has been accompanied with a liquidity shortage of the international financial markets and a dramatic drop in the value of financial assets in 2008. Despite the fact that Azerbaijan's financial sector is weakly integrated into the global system, to some extent the financial crisis affected the banking sector. Active operations of banks in recent years, as a result of the economic boom in the country over the past years, were somewhat supported with foreign financial means as well. As the terms and conditions of foreign borrowing grew more stringent in 2008, the refinancing and liquidity risks also increased. The global financial crisis impact on the world's financial markets in 2008 had an impact on foreign investors' relations and attitudes towards the

30 According to CBA, in first 10 months of 2009, appreciation of manat fell, in comparison to December, 2008 the manat depreciated by 2.8 percentage points and real effective exchange rate appreciated by 9 percentage points.

financial institutions in Azerbaijan. This in turn affected the abilities of banks to draw resources from foreign financial markets.

According to the CBA, in 2008 the banking system's portfolio did not experience any serious negative changes. Although the banking sector's indicators were very satisfactory in 2008 as compared to 2007, the pace of development was not high. In 2008, total bank assets increased by 52.7% (for comparison, 78% in 2007), equity – by 47.8% (93% in 2007) and loans to economic sectors – by 53.5% (98% in 2007). The ratio of bank assets to GDP rose as compared to the beginning of the year, from 25.1% to 27%; the ratio of equity to GDP increased from 3.8% to 3.9%; loans to economic sectors to GDP rose from 17% to 18.4%.

In Azerbaijan's banking sector, foreign borrowing remained small with a share of total liabilities (21.6%) and is only slightly higher than the banks' total equity, which is 20.3%. As international financial markets continue to recall funds, this figure is likely to go down over the course of the year.

As a result of the global financial crisis, Azerbaijan's banks reduced or stopped lending³¹ to households and enterprises, which initially resulted in stagnation towards the end of 2008 and was followed by a sharp decline in crediting since January 2009 (the figures decreased from 7 billion AZN to 6 billion AZN), totalling a decline of 1 billion AZN. This

amount of 1 billion AZN corresponds exactly to withdrawals of US-dollar deposits from the corporate sector over the course of the first quarter of 2009. Obviously, stringent lending policies of banks forced the corporate sector, which was short of finance, to withdraw deposits in order to survive and keep the business going. This situation indicates that corporate savings behaviour is likely to be driven by real economic motives, not by distrust in the banks.

In 2008, according to SSC, compared with the previous year, individual deposits increased by only 29.6% (in 2006 and 2007, this figure, respectively, was 65.7% and 79.2%), but again indicating a continued confidence in the sector.

However, according to the data from Statistical Bulletin No.3 (109), 3/2009 of the CBA, people converted one third of their savings from Manat term-deposits into US-dollar term deposits. This indicates a certain distrust in the stability of the local currency as a heritage of crisis during collapse of Soviet Union (but not distrust in the banks). However, the Government of Azerbaijan did not carry out a devaluation of the national currency.

Though the Government of Azerbaijan did not announce particular stabilization packages similar to those introduced in other oil and gas producing countries such as Kazakhstan, the Central Bank of Azerbaijan took several steps to minimize the global financial

31 Most influenced was the automobile market, where vehicles are basically purchased through bank credits. Also, due to the suspension of the bank credits, businesses in the construction sector, where 60% of the investment came from bank credits were forced to suspend or stop their business.

crisis' impact on the domestic economy. In November 2008, the CBA supported Uni-bank (Azerbaijan's third largest bank) with 62 million USD, in an attempt to help the bank meet 87 million USD in debts owed to international creditors by the end of 2008. Moreover, according to CBA information, additional 116 million USD was provided for repayments in the first half of 2009.

Besides the direct financial support to banks, the CBA in 2009 has considerably loosened monetary policy to stimulate economic activity. By February 2009, the CBA decreased its prime lending rate from 8% to 5% -- the fourth in a series of decreases since the beginning of the crisis. The CBA has eased its reserve requirements on domestic liabilities from 12% to 0.5% in the period of the crisis and decreased discount rates from 15% to 2%. This was meant to allow commercial banks to earn money to increase their liquidity, at least for a short period. The decreased reserve requirements injected 350 million AZN into the local banking system.

By the first four months of 2009, the Central Bank had spent 1.2 billion USD, or approximately 20% of its reserves³², to buy Manat and keep the local currency exchange rate stable amid the decline in the oil price, and to help stabilise the country's financial sector. In the third quarter of 2009, as the liquidity and funding situation for Azerbaijani banks tightened, the Central Bank stepped in. According to the Central Bank, it provided stabilization measures worth more than 500 million AZN.

The consequences of the crisis – delayed repayment of bank credits, withdrawal of deposits and recall of foreign borrowing – could aggravate the banks' need for money even further. This already led to a decreased liquidity in the local banking system.

The CBA estimates that it is necessary to implement flexible macroeconomic regulations for the protection of the non-oil sector, employment and profitability level. For this reason, it is necessary to conduct further macroeconomic policy to ensure stability in subsequent years.

Along with the banking sector, the global economic crisis has had a negative effect on Azerbaijan's non-oil sectors, particularly on steel production. All three of the country's largest steel and metal producers – the Baku Steel Company, Baki Poladtokme JSC and DHT Metal JSC – have suspended their activities during the crisis period. Sales volume fell by half in November 2008, while the prices for raw materials and finished products decreased by 20-50%.

One of the fastest growing non-energy sectors – real estate – was also hit by the crisis. Apartment sales in Baku, the center of Azerbaijan's property boom, fell by 20% in September-November 2008 compared with June-August 2008, according to the State Real Estate Registration Service. Prices for overall Azerbaijani properties have decreased by 10 to 15% since August 2008.

32 CBA information by the December 31, 2008, www.nba.az

Similarly, the retail car market, a prime indicator of consumer confidence, has begun to shrink. The number of private cars in Baku has surged in recent years, increasing by 250% since 2005, according to the Ministry of Interior. A 40% sales decrease is observed for different car models. One of the major reasons for this decrease are the high bank interest rates (22-24% per year) for the credits.

Due to the negative effects of the crisis, such as suspension of credits, lower demand and lower exports, companies were not able to continue their operations profitably and thereby tax income decreased. For example, the collection of tax revenues for January-October of 2009 in comparison to the same period of 2008 has decreased by 4.5%. In comparison, the figure for 2008 was 67.2% more than for the previous year.

One of the major channels of transmission of the economic and financial crisis is the reduction of **foreign direct investment**. 2008 was marked both by an increase in the volume of domestic investments, due to the expansion of the implementation of state funded infrastructure projects, and a slight decrease in FDI to the country (16.3%). According to initial data from the SSC, during the first 11 months of 2009 a 18.8% decrease in total investments was observed in comparison to the same period of 2008. For a better understanding of the impact of the financial crisis, it should be noted that in 2008, a 38.8% decrease of total investments (about 9 bln. AZN) was observed in comparison to 2007.

Another concern with the declining incomes of people is the amount of remittances coming from the relatives of people working abroad, particularly in Russia. The initial figures show that remittances are decreasing. According to the CBA, during the period of January-September of 2009, the total amount of **current transfers (remittances)** in the balance of payments was equal to 1.33 bln USD, 68% (904.0 mln USD) of which was inflow to the country. 93.6% (846.1 mln USD) of these inflow transfers were addressed to individuals. In general, surplus of current transfers was equal to 478 mln. USD.

In comparison with the same period in 2008, a 3.9% decline in total amount of current transfers, a 15.4% decline in inflow transfers and a 15.9% decline in transfers to individuals was observed. Obviously, this is a consequence of the impact of financial crisis on the neighbouring countries, especially on Russia, where most of the Azerbaijanis working abroad are located. But, at the same time, decreases in the transfers from abroad affect living conditions of the families that receive remittances. Many people in Russia are unable to continue their employment and end up earning less than before. However, remittances from Russia continue to flow into the country in the post-crisis period, even if in smaller amounts. Today, some experts argue that there are some remittances in the opposite direction, from Azerbaijan to Russia, because entrepreneurs engaged in business in Russia had to sell their properties in Azerbaijan to keep their businesses alive after the negative effects of the crisis. In addition, the shutting down of the Cherkezev marketplace

Table 6.1. Export of crude oil in 2009 compared to the same period of the previous year, in absolute figures and amounts

Crude oil export	in tonnes	in thousand USD	price, USD/ton*	price, USD/barell*
2009	27829459.4	11989737.7	430.83	68.50
2008	78085691.7	44170910.6	565.67	89.94

Source: SCC

Note: *- authors' calculations

in Moscow, the major market place for Azerbaijani emigrants, added to the negative effects of the crisis on remittances.

In 2008, the negative impact of the financial crisis on the **foreign trade** was not observed. But monthly reports of import-export operations show a slight decrease in the volume of trade for the last quarter of 2008.

According to the information from the SCC for Jan-Dec 2009, the country's foreign trade turnover reached only 20.82 bln. USD, including imports of 6.12 bln. USD and exports of 14.70 bln. USD, versus the 54.92 bln. USD total foreign trade turnover for 2008. Analyses show that in this period Azerbaijan exported 2071 different commodities at 14.70 bln. USD, which is 69.22% or \$33.106 bln. USD less than January-December of 2008. The country imported goods of 5854 different commodities at the amount of 6.12 bln. USD, which is 14.6% or 1.054 bln. USD less than the same period of 2008. A positive balance on import and export operations amounted to 8.58 bln. USD against the 40.6 bln. USD for 2008.

There is almost a 69.2% decline in the amount of exports, due to a circa fourfold (72.9%) decrease in the volume of exported crude oil and the fall of oil prices in the world markets (see, Table 6.1). Huge declines in exports further affected the national economy, especially, due to the slowing down of the growth in GDP, affected state budget revenues and reserves of SOFAZ.

In 2009, the largest export was in November (1.605 bln. USD) and the smallest was in January (694.489 million USD). This could be explained by the change of oil prices on the world markets and by the effects of the crisis by the end of the year. The largest import was registered in December (669.7676 million USD) and the smallest one in March (401.5 million USD). This also could be explained by the slowing down of the effects of the crisis by the end of the year.

In 2009, total exports comprised of: crude oil – 81.57%, oil products – 10.09%, fruits and vegetables – 1.31%, vegetable and animal oils – 0.88%, ferrous metals – 0.70%, chemicals – 0.23%, cotton – 0.12%, aluminium

0.08%, beverages – 0.08%, tobacco – 0.04%, and other – 4.91%.

During the reported period, export of the above noted products decreased compared to 2008 in the following manner: crude oil – 72.86% (see, Table 6.1), oil products – 27.84%, fruits and vegetables – 10.93%, ferrous metals – 55.3%, chemicals – 69.7%, aluminium 80.1%, beverages – 40.0%. The only increase was observed in the export of cotton, tobacco and vegetable and animal oils, respectively, 19.3%, 29.1% and 4.4%.

An analysis of the data from the SCC proves that Azerbaijan's foreign trade, especially the oil oriented exports, have been significantly affected by the consequences of the global economic and financial crisis. The high dependency of Azerbaijan's exports from the price fluctuations in the world markets, again, shows the importance of diversification of the non-oil sector and promotion of non-oil exports.

Based on the results of the analyses, we should come to the conclusion that the global economic and financial crisis affected, although not to a large extent, the economy of the country through different transmission channels. As demonstrated, different means and measures have been utilized by the Government in order to overcome the negative effects of the crisis on the economy of Azerbaijan.

6.3. Impact of the crisis on human development and poverty

As the analysis shows the negative impact of the crisis on the economy, questions about the human development and poverty impact of the crisis in Azerbaijan are quite relevant. As GDP growth rate slowed as a result of the crisis, what are the effects on poverty, life expectancy, mortality, literacy rate and other development indicators? It is very difficult to monitor and analyze the impacts of the crisis on these outcomes in the short term. It is more viable and realistic to look at these impacts in the long run, in order to better understand the trends and developments.

The Study carried out by B. Horváth, A. Ivanov and M. Peleah "Losing the gains: How the crisis will impact human development in the region"³³ that covers a database, which integrates annual data covering the 1990-2008 period for 29 countries in Europe (including Turkey) and the CIS, suggests that a one percent drop in the growth rate of income is associated with a drop in life expectancy of somewhat under two weeks in total³⁴ (the loss was over two weeks for men). Also, the authors suggest that the long-term impact on **income poverty** is particularly significant. When defined as the share of the population living on less than USD 5/day, poverty is likely to worsen across the entire region for at least a few years. These results suggest that the

33 Development and transition#14 (December 2009), Published by the United Nations Development Programme and the London School of Economics and Political Science, <http://www.developmentandtransition.net/>

34 The peak-to-bottom elasticity estimates were higher, reflecting the longer periods spanned by the upswing and decline episodes than the lag lengths in the econometric estimates. They suggest that the crisis could reduce the average life expectancy for men in the region by nearly six months.

numbers of people living below this level could rise from below 30% of the region's total population to some 40% between 2010 and 2014 – implying that at least 50 million people could be thrown into poverty as a result of the crisis. When defined as the share of the population living on less than USD 2.50/day, these results suggest that the number of people living below the poverty line could rise from 7% to almost 15%. This casts doubt on prospects for meeting the first Millennium Development Goal (which calls for substantial reductions in income poverty by 2015) for several countries in the region, unless double-digit rates of per capita GDP growth quickly return, which does not seem likely at present.

Based on the results of the mentioned study we may come to the conclusion that a significant share of the development progress made since the late 1990s is in danger of being lost and further more efforts are needed to be concentrated in order to reach MDGs.

The global economic crisis affected the incomes of population and average nominal monthly wages. The expected per capita income in nominal terms will increase by 6.2% in January-November of 2009 as compared to the same period of the previous year's. The average monthly wage increase went down from 24.3% observed in January-November period of 2008 to 11.7% for the same period of 2009. Given the current initial results, we may argue that due to impacts of the global crisis, improvements in people's living conditions have reduced considerably. At the same time, it should be noted that the level

of poverty amounted to 11 per cent, 2.2 percentage points below the level of the previous year.

There is also a need for focused surveys, especially HBSs for a deeper understanding and analyses of these impacts.

VII. TRADE POLICY RESPONSE TO THE GLOBAL CRISIS AND POST-CRISIS RECOVERY

This Chapter elaborates national trade policy responses in the period of the global crisis and provides recommendations for national trade policy actions aimed at improving Azerbaijan's economic situation and human development in the period of global economic crisis and post-crisis recovery on the basis of development trends of the national and global economy.

7.1. National trade policy responses in the period of the global crisis

As identified in the previous chapter, the current economic and financial crisis has and still is having some adverse effects on the national economy. As a result, policy-makers have to monitor and address multiple socio-economic factors and plan their responses for both the short to medium and long term. It is necessary to carefully evaluate what steps can either mitigate or aggravate the impacts of the economic and financial crisis.

In this context, a special positive focus on foreign trade is definitely one of the factors which require attention from policy makers.

Trade has been one of the major drivers of the world economy's growth surge in the last decade. The sustainability of this trade-led growth is now threatened due to the global financial crisis. Historically, the growth of international trade has in general exceeded the growth of aggregate GDP. For instance, because of the much higher growth rate of international trade, during the period from 1995 to 2008 the ratio of global exports to GDP has almost doubled (IMF). Similarly, as is evident from the current crisis, when there is a decline in economic performance, the reduction in trade is sharper than for GDP as a whole. This shows the relative dynamism of international trade and it should be considered that trade is the stimulus package available to a country like Azerbaijan and that it has to be part of the economic recovery effort, for growth to be sustainable.

For many countries, the global financial and economic crisis has confirmed existing anti-globalization attitudes and has been reflected in opposition to more liberalized trade. The intense domestic political pressure in times of crisis makes it difficult for the countries to fully maintain principles of lib-

Table 7.1/a Response to the Crisis: Recent Rising Protectionism in Developed Countries

Country	Date	Sector	Protection type	Description
UK	Jan-09	Auto-industry	Investment	Low-interest loans (USD 1.4 bln).
USA	Dec-09	Auto-industry	Investment	Low-interest loans for General Motors, Ford and Chrysler (USD 17.4 bln).
	Feb-09	Construction	Trade	Buy American.: only US-produced iron, steel and other manufactures can be used for projects funded by the stimulus Package (but applied consistent with US International obligations).
Russian Federation	Dec-08	Auto-industry	Trade	Raises custom duties from 25% to 30% on all imported vehicles.
			Investment	Low-interest loans for domestic automakers (USD 6 bln).
European Union	Dec-08	Imports	Trade	Imposes duties on preserved fruits (from China) and on some iron and steel products (from Belarus, China and Russia).
France	Jan-09	Auto-industry	Investment	Low-interest loans in exchange for keeping factories in France (USD 7.8 bln). Drops condition (Mars-09).
Japan	Mar-09	Auto-industry	Investment	Low-interest loans (USD 2.0 bln).
China	Nov-08	Exports	Trade	Restores GATT permissible rebate of indirect taxes on exported goods.
	Dec-09	Imports	Trade	Ban on Irish pork, Belgian chocolate, Italian brandy, British sauce, Dutch eggs and Spanish dairy products.
	Jan-09	Auto-industry	Investment	Consumer subsidies and reduction of sales taxes (10% to 5%) for fuel-efficient vehicles.
India	Nov-08	Steel	Trade	Raises tariffs on steel.
	Jan-09	Chinese toys	Trade	Ban on toys imported from China.

Table 7.1/b Response to the Crisis: Recent Rising Protectionism in Developed Countries

Country	Date	Sector	Protection type	Description
	Feb-09	Aluminium	Trade	Raises tariffs on aluminium imported from China.
	Feb-09	Exports	Trade	Increases GATT permissible rebate of indirect taxes on exported goods.
MERCOSUR countries	Dec-08	Imports	Trade	Raises the Common External Tariffs by 5 points on average.
Brazil	Jan-09	Imports	Trade	Reintroduces government licenses for 24 imported goods (wheat, plastic, copper, iron, aluminium, transport equipment).

Source: author's table on the basis of different sources of information: WTO, OECD, European Commission

Note: The list is a selection from the big list of measures and much more measures have been introduced that would fall under this category.

eral trade regime. Policy makers today face stakeholders (for the examples, see Table 7.1) that are extremely sensitive to news of trade barriers imposed abroad and that are demanding protection of domestic markets. During a crisis situation, international trade policy is one of the very few areas of common global interest. These include both the domestic interested parties seeking intervention and other countries that would be affected by such an intervention. Therefore, there is an immediate scope for action and retaliatory reaction. At the same time, the global financial crisis increases social pressures and forces the governments to adopt isolationist and protectionist policies.

Mainly due to the above mentioned factors, most of the developed countries adopted a number of protectionist measures during the

crisis period (see Table 7.1). As it is seen from the history of the development of the world economy, such measures are only successful in short-run and cannot be considered as a way of competitive development of a national economy. Luckily, however, the world still remembers the great depression of the 1930s. The protectionist measures by nations paved the way for the depression of the 1930s with its immense economic and social costs – in such a situation there are no winners, only losers. At present, with the complex supply chains in international trade, the consequences of protectionist policies are much more extensive and the potential costs more widespread.

In the light of these developments, both at the G-20 Leaders' Summit and the meetings of finance ministers and central bank governors, participants agreed to fight all forms of

protectionism and maintain open trade. Furthermore, the WTO initiated a monitoring mechanism with its background reports that contain information on both market opening and market closing measures, as well as measures, which provide support to domestic industries in various ways. It should be noted that many of the potentially trade restrictive and trade distortive measures have been introduced in areas where WTO rules are either weak or non-existent. This is in particular the case with regard to measures affecting public procurement. Similar concerns relate to the few measures identified as obstacles to investment.

Although, new trade restrictive and distortive policy initiatives have been implemented since the start of the crisis, a widespread and systemic escalation of protectionism has been prevented thanks to the timely contribution of the international community. Some countries introduced trade promoting measures during the crisis time (see, Table 7.2). According to European Commission and WTO, 2009 has played a crucial role in slowing down protectionist tendencies.

Countries around the world have responded to the crisis through a variety of measures; measures that often are linked to the level of economic development and internal budget considerations as well as other circumstances due to the specific export profile of the respective countries. The emergence of classical tariff increases, import and export bans or quantitative restrictions on imports or exports, which directly restrict and distort trade, were implemented by different coun-

tries to different extent. At the same time, stimulus packages (e.g. 'buy local' clauses), export credits with the risk of becoming a distorting type of subsidy, as well as more complex behind-the-border measures, government procurement and number of other measures were widely used by countries during the crisis period.

As mentioned above, although the Government of Azerbaijan has not adopted any integrated anti-crisis programme, different means and measures have been utilized by the Government in order to overcome the negative effects of the crisis on the economy of Azerbaijan. Obviously, the country's huge reserves for such a small economy contributed to a timely response and overcoming the adverse impacts of the financial crisis within a short time. Due to these reserves, the CBA carried out financially expensive policy measures (kept stable exchange rate of the Manat, allocated credit injections to local banks, decreased the discount rate, reduced reserve requirements up to 0.5%, increased state insured part of deposits from 6000 AZN to 30000 AZN, and etc.) in order to keep the financial sector stable; despite the economic crisis, the Government adopted the State Budget with a more moderate pace of fiscal expansion, continued prioritizing and investing in infrastructure, the National Fund for Support to Entrepreneurship did not stop serving soft credits to the non-oil sector, the Government adopted the State Food Security Programme and the second phase of the State Program for Socio-Economic Development of the Regions was launched during this period.

Table 7.2./a Trade promoting measures

Country	Date	Measure
Argentina	18/09/2009	Allows free imports to institutions related to scientific and technological research.
	8/09/2009	Suspended for 60 days the application of import licences for the following products: trade and advertising material, pictures-designs and photographs, printed material in general, and electrical transformers
Egypt	20/08/2009	All import duties on sugar (raw and refined) have been abolished until the end of December 2009.
Mexico	08/2009	Mexico consolidated the initiative to exchange of electronic certificates of origin with Colombia, by introducing the necessary modifications in their FTA.
	09/2009	Further modifications to the External Trade legislation were published, in an effort to further deregulate, simplify and reduce import and export procedures.
Russia	5/10/2009	Decree No. 803 establishes import duty of 0% (down from 10%) on stamping machines with programmed numerical control and import duty of 10% (the same rate) on other (stamping machines).
	21/08/2009	Decree No. 696 establishes a zero percent duty on certain types of medical equipment.
	28/08/2009	Decree No. 700 introduces a zero percent duty on ceramics used to produce catalysers (CAT) for cars.
	19/08/2009	Decree No. 664 extends a zero percent import duty on certain types of LCD screens (codes 8529 90 870 1 and 8529 90 870 2) for the period of nine months.
	5/10/2009	Decree No. 803 of 5 October 2009 effectively reduces the 10% import duty on stamping presses numerically controlled with automatic loading and unloading for stamping body parts, to 0%, and retains the zero rate of import duty for the new CN code 8462 10 100 9 (Other). The measure is applicable for 9 months.
		The Government extended a 0% import duty on certain types of equipment for metal-processing industry.
	Under consideration	The Government is considering extension of a zero import duty for panel for the equipment classified under CN code 8528.

Table 7.2./b Trade promoting measures

Country	Date	Measure
	Under consideration	<p>The government is currently considering establishing a zero-rate import duty on the following types of aircraft:</p> <ul style="list-style-type: none"> – civil passenger aircraft with the capacity not exceeding 50 passenger seats (CN codes 8802 30 000 2 and 8802 40 001); – civil aircraft of an unloaded weight exceeding 120,000 kg (CN code 8802 40 009); – civil cargo aircraft without cargo containers with the top takeoff weight exceeding 370,000kg (CN code 8802 40 009).

Source: Fifth report on potentially trade restrictive measures in the context of the global economic crisis, November 2009, European Commission.

The CBA took a series of steps to address some liquidity shortfalls in the banking system and to prevent signs of the crisis from spreading. The CBA has implemented a stable exchange rate policy aimed at strengthening the stability of the banking sector. In April 2008, the CBA started tightening liquidity to slow down rapid credit growth and strengthened prudential regulations and supervision in order to counter banks' inadequate risks assessment and management practices. When external and domestic liquidity conditions reversed in October, the CBA promptly reduced reserve requirements and policy rates and signalled its willingness to provide temporary liquidity to solid banks that had been hit by the unexpected reversal of inflows from foreign banks. By implementing a well grounded policy, the CBA managed to avoid a basket-induced depreciation of the USD/AZN exchange rate.

The Ministry of Finance injected additional capital in the largest state owned bank, thus

increasing the amount of resources available to the system. The Government pursued a flexible fiscal policy, as well as a prudent policy in mortgage loaning. Also, in order to support insurance market stability during the crisis period the Government has introduced tax exemption to the part of the profit directed to the capitalization of an insurance company. Moreover, at the end of 2008, the government gave profit tax exemptions to commercial banks and insurance companies.

These are all steps that will support banks and limit the need for a sharp contraction in the availability of credit for the domestic economy.

Brief monitoring of trade policies across the globe during the crisis period and the experiences of past crises force us to conclude that open trade policies and the fight against protectionism is of great importance not only for the every single economy, but also for the benefit of the global economy. "Beggars-ty-

neighbour” policies that were implemented at the beginning of the Great Depression in 1930s could not prove themselves as useful measures to alleviate negative effects of the crisis on the national economy and are considered as unsuccessful. Today, the world community recognizes the need to go beyond focusing only on one’s own national policies and work pro-actively together³⁵ to address the global financial crisis.

7.2. Recommendations for trade policy actions aimed at improving economic and human development in the period of global economic crisis and post-crisis recovery

The country’s measures to overcome the global crisis, primarily in the context of monetary policy and in support of the private sector, seem to have had a positive impact. However, it is important to highlight that the country’s financial reserves³⁶ are not endless and given the economy’s dependency on oil revenues, much will depend on real policy arrangements the Government will employ in the country during the global economic and financial crisis period. Azerbaijan’s current modernization efforts have to be geared towards building foundations for greater diversification and the sustainability of the

economy. The Government needs to act with caution now and should use its financial resources in a more sustainable way, above all by diversifying the economy. This is of great importance because the extractive sector itself does not contribute to large job creation, thus, the economic well-being of major parts of the population depend on diversified growth. That may happen through boosting, in the long run, development in the non-oil sector, based on competitiveness and export-orientation. Optionally, increasing state support to farmers and SMEs could be essential. Considering the impact of the crisis, decreasing annual interest rates of the soft credits from National Fund for Entrepreneurship Support will support the national producers.

The efforts to develop the Special Economic Zones (SEZs) in Azerbaijan should be accelerated. Established on well-grounded base, it will ensure FDI inflow and new knowledge and contribute to the development and enhancing the competitiveness of the non-oil sectors (for details, please see the Chapter 2 of this Report).

Carrying out permanent market monitoring by the MED – in order to avoid artificial price increase in the domestic market that worsen the well-being of population affected by the crisis – is also of great importance.

35 This was very clearly enunciated for example by the US President Obama who said prior to the G20 meeting in London that: “We are living through a time of global economic challenges that cannot be met by half measures or the isolated efforts of any nation ... There is no line between action that restores growth within our borders and action that supports it beyond ... as we go forward, we should embrace a collective commitment to encourage open trade and investment, while resisting the protectionism that would deepen this crisis”.

36 Also, let’s remember that, more effective planning should be realized through the application of a permanent oil income model with fair and equal distribution of incomes between current and future generations.

Based on the analysis in previous chapters, the government should continue its loose monetary policy during the crisis period. In order to ensure provision of a solid banking system, the CBA has to raise the flexibility of application of monetary tools.

As long as international capital markets remain parched, Azerbaijani banks will not be able to tap onto external resources in order to meet domestic demands for credit. Thus, the already low financial intermediation in Azerbaijan may be further reduced. Such a decline in crediting the real sector – particularly the non-oil sector – would be a narrowed bottleneck for the development of the non-oil economy. Such development would constrain the country's long-term economic perspectives. That is why the CBA should continue its efforts to create liquidity for banks. The CBA may consider tax initiatives to commercial banks and reducing obligatory reserve requirements up to a minimum as an anti-crisis measure. Introducing broad tax exemptions approach may not be appropriate in the current circumstances, when lower economic growth and inflation may already be reducing the tax revenue flowing to the budget.

Obviously, banks in Azerbaijan will face new risks arising from the impact of the global financial crisis and domestic economic slowdown. Strong supervisory vigilance by the CBA is therefore critical. Reported capital adequacy and liquidity ratios of the banks remain satisfactory and on average well above minimum requirements.

The Government should enhance mortgage credits and stimulate construction companies, insurance or appraisal companies and people's purchasing power for new consumptions. The other recommendation of particular interest would be that credits of commercial banks are insured so that credit risks will ultimately go down and rates will go down so that people can easily take credits from banks (22-24% credit rate is not adequate). However, the challenge with such an option is that the insurance market is not adequately developed, thus creditors would insure their credits from commercial markets.

The Government should continue its policy of raising the amounts of deposits to be insured. As economic conditions improve, this policy can be extended to cover the insurance of bigger deposit amounts to bolster economic growth.

During the crisis period, the achievement of trade development results depends crucially on well-defined and focused broad national policies that are implemented during the crisis period and beyond. Trade has not been a cause of the economic downturn, but it has been impacted. Importantly, trade is part of the solution because trade itself is an economic stimulus and a multiplier. Azerbaijan needs to keep mainstreaming trade into the country's development strategies, particularly during the crisis period. There is a special need to be careful, because actions taken in the area of foreign trade have major implications, which go far beyond the area of trade alone.

Of course, the type of trade policy measures in crisis period mainly depend on the level of economic development and internal budget considerations as well as other circumstances due to the specific export profile of the respective country.

How can trade policy help address the economic crisis? By avoiding protectionist responses that would worsen global economic prospects, the national trade policy may contribute to the global efforts of recovering from the crisis. International trade policy measures to underpin open markets are needed now more than ever. Greater protectionism would delay the adjustments needed to respond to changing demands. Ultimately, greater and more costly adjustments would be required both within the 'protected' economy and globally. By closing borders or restricting markets, consumers pay more, firms incur higher costs and become less competitive, and choice is limited – even in the short term.

While avoiding protectionism and opening markets further are necessary responses to the economic crisis, they are also insufficient. Jobs will continue to be lost (like in the chemical and steel industries) and some sectors will be hit harder than others. Government policies that provide temporary help for people who lose their jobs and need to find alternative employment (financing re-training and upgrading, increasing unemployment benefits), along with internationally coordinated fiscal and monetary measures that restore confidence, stability and growth in the global economy, will be much more effective.

Increasing trade facilitation and initiative mechanisms, conducting market analyses and information dissemination by the state bodies, especially to non-oil exporters is of great importance considering the consequences of the global crisis to these exporters.

Speeding up the WTO accession process is essential: in light of the recent developments in the world economy, accession to the WTO may assist the country to stand against protectionist measures implemented by other countries through WTO procedures.

The government's actions to address the adverse impact of the economic crisis require a coordination among the various agencies in charge of economic policy decision and implementation. More specifically, the government needs to set up an operational framework of coordination based on legal and institutional arrangements, strengthen cooperation among economic policy makers.

VIII. CONCLUSIONS AND POLICY MATRIX: HUMAN DEVELOPMENT CHALLENGES AND TRADE NEEDS

This chapter summarizes the results, findings and recommendations made. At the same time, this chapter draws out a policy matrix with concrete measures for implementation: i) for policy makers and ii) donor community. A matrix of current donor commitments in this area in the country is included as well.

Concluding the findings of the Study, this part of the report is aimed at linking human development challenges to trade policy and other relevant policy opportunities. The fundamental idea is to utilize the potential of trade and opportunities of trade policy to tackle or at least support overcoming human development challenges. For this reason, trade policy goals and measures aimed at these challenges are identified within the framework of the study. Besides that, related economic and supporting policies, which have an indirect impact in addressing the mentioned human development challenges, but provide for important leverages in strengthening trade and trade policy capacities tackling these challenges, are identified with the same purpose.

HUMAN DEVELOPMENT CHALLENGES (HDCs)

The following main conclusions on policy significance of human development challenge in Azerbaijan should be taken into consideration when formulating policy priorities aimed at human development:

HDC-1. Promote economic development in the regions and across different non-oil sectors in order to reverse inequality trends between regions on HD.

HDC-2. Increase income generation and create decent employment opportunities, especially for rural population and vulnerable groups.

HDC-3. Ensure that vulnerable groups are provided with decent social protection measures.

HDC-4. Increase investment in education, health services in order to ensure human capital of the future generation.

HDC-5. Increase public investment in accessible, quality, and affordable private utilities like, water (piped water), electricity and gas.

HDC-6. Improve housing conditions for vulnerable strata of the population, especially IDPs and rural population.

HDC-7. Ensure protection of environment and health of population (control over the quality of imported foodstuff).

As is seen, HDCs 1, 2, 7 can be directly impacted by foreign trade policy of the country in the short run; at the same time HDCs 3, 4, 5, 6 are dependant on the long run results of trade policy, since they are affected by the redistribution of incomes from trade through the State Budget and/or the SOFAZ. In any case, reaching all below given Trade Policy Goals will help in overcoming the HDCs in the short and long run, directly and indirectly.

TRADE POLICY GOALS AND HUMAN DEVELOPMENT CHALLENGES

The following trade policy goals are identified in order to tackle human development challenges:

- Mainstreaming foreign trade in such a way that it will empower non-oil sectors – strengthen export incentives and introduce preferences for imports of intermediates for

non-oil sectors (esp., agriculture and processing industry) – in order to promote economic development in the regions and across sectors (there is a need to assist the government to prepare a long term development plan of the country. Such a program could help in further focusing and prioritization of the activities of the national government and international community).

- Increasing productivity and competitiveness, full and efficient realization of competitive advantages, extending export potential and export promotion issues are of great importance.
- Enhancing decent employment opportunities by creating favorable conditions for establishing new businesses and protecting local producers from import dumping and unfair competition.
- Maximizing benefits from the WTO accession³⁷ (see: details are provided below).
- Ensuring smooth movement of goods across border, reducing the cost of export/import of goods, strengthening multimodal transportation, cool storage and other facilities for improved market access.
- Improving and promoting market access support leverages (information centers, disseminating information about pricing, rules, conditions) for non-oil sector, especially the agriculture sector in order to increase income generation opportunities of rural population in regions.
- Implementing relevant trade policy measures and strengthening control and test capacity aimed at avoidance of im-

³⁷ It is obvious that this Goal has a direct and indirect impact on all of the settled Trade Policy Goals. But the rationale here is to pay special attention and focus on the importance of maximizing benefits from the accession process.

Table 8.1/a: Tying up Trade Policy Goals to Human Development Challenges

Human Development Challenge	Trade Policy Goal
<p>1. Promoting economic development in the regions and across different non-oil sectors in order to reverse inequality trends.</p>	<ul style="list-style-type: none"> • Mainstream foreign trade in such a way that it will empower non-oil sectors – strengthen export incentives and introduce preferences for imports of intermediates for non-oil sectors (esp., agriculture and processing industry) – in order to promote economic development in the regions and across sectors (the government needs to prepare a long term development plan for the country). • Increasing productivity and competitiveness, full and efficient realization of competitive advantages, extending export potential and export promotion. • Create favorable conditions for new businesses and protecting local producers from import dumping and unfair protection. • Ensure smooth movement of goods across border, reducing the cost of export/import of goods, strengthening multimodal transportation, cool storage and other facilities for improved market access. • Maximize benefits from the WTO accession.
<p>2. Increase income generation and create decent employment opportunities, especially for rural population and vulnerable groups.</p>	<ul style="list-style-type: none"> • Increasing productivity and competitiveness, full and efficient realization of competitive advantages, extending export potential and export promotion. • Improve and promote market access support leverages (information centers, disseminating information about pricing, rules, conditions) for non-oil sector, especially the agriculture sector in order to increase income generation opportunities of rural population in the regions. • Creating favorable conditions for new businesses and protecting local producers from import dumping and unfair protection. • Maximizing benefits from the WTO accession.
<p>3. Ensuring that vulnerable groups are provided with decent social protection measures.</p>	<ul style="list-style-type: none"> • Ensure continuing effective use of oil revenues to convert “black gold” into “human gold”(human capital). • Improving monitoring of the impact of trade measures on government revenues and better analysis of the impact of trade measures on SMEs and employment, and inclusion of adjustment measures if required.

Table 8.1/b: Tying up Trade Policy Goals to Human Development Challenges

Human Development Challenge	Trade Policy Goal
4. Increasing investment in education, health services in order to ensure human capital of future generation.	<ul style="list-style-type: none"> • Ensure continuing effective use of oil revenues to convert “black gold” into “human gold”(human capital).
5. Increasing public investment in accessible, quality, and affordable private utilities like, water (piped water), electricity and gas.	<ul style="list-style-type: none"> • Ensure continuing effective use of oil revenues to convert “black gold” into “human gold”(human capital).
6. Improving housing conditions for the vulnerable strata of the population, especially in rural areas.	<ul style="list-style-type: none"> • Ensure continuing effective use of oil revenues to convert “black gold” into “human gold”(human capital). • Increased agricultural exports through the promotion of business and export potential in rural areas and provision of better infrastructures to reduce the cost of export from rural areas.
7. Ensure protection of environment and health of population (control over the quality of imported foodstuff).	<ul style="list-style-type: none"> • Implement relevant trade policy measures and strengthen control and test capacity aimed at avoidance of import of low quality foodstuff and environmental risks.

port of low quality foodstuff and environmental risks.

- Ensuring continuing effective use of oil revenues to convert “black gold” into “human gold”(human capital).³⁸

³⁸ This broad goal is selected with an aim that the mentioned “Black Gold-Human Gold” Strategy’s objectives are fully consistent with the HDCs we set up above. The fundamental idea of this strategy is to focus on human development challenges in the country. Obviously, and as noted, most of the Trade Policy Goals can not “directly tackle the challenge such as” ensuring that vulnerable groups are provided with decent social protection measures. But this challenge easily lies under the objectives of “Black Gold-Human Gold.”

**TRADE POLICY AND TRADE
FACILITATION MEASURES AIMED
AT TRADE POLICY GOALS**

Azerbaijan carried out large reforms in its foreign trade system, as one of the results of these reforms, the share of world exports of the country increased 3 times in recent years and the MFN applied simple (9.2%) and import-weighted (5.1%) tariff averages, which were lower than in average lower-middle-income country in 2007. Again, this increase in exports from Azerbaijan is mostly due to the predominance of natural resources, which faced higher world prices in recent years. At the same time, exports of non-oil products increased as well. Despite this, there remains a number of specific problems to be addressed. The implementation of the following measures is vital to achieve the trade policy goals that support human development:

1. As noted, Azerbaijan's trade policy is fairly liberal and it requires some but not major adjustments.
2. Today, the Government of Azerbaijan does not have world class scientific-analytical research centers which could be in a position to assist the government in trade related analytical and scientific works. There is a large need to draw attention to capacity building of existing centers, scientific institutions, as well as NGOs specialized in trade related scientific and analytical work. Furthermore, it could be interesting to establish a regional center focused on trade related is-

sues of the countries in the region. Such a center supported by the national governments could be in a position to assist the counties in further regional integration, trade facilitation and better cooperation.

3. At the same time, there is a need for continuous support to: i) research in establishing and developing competitive clusters, ii) prefeasibility studies focused on the realization of the potential of competitive sub-sectors, iii) studies in identifying potential investors, improving investment promotion mechanisms, as well as, reorganization and development of innovation systems, development of innovative sectors, and iv) analyses of potential export markets, etc.
4. Continuing and accelerating works undertaken to modernize the customs legislation. The adoption of a revised new Customs Code – aiming at harmonizing the customs legislation with the EU and international provisions and standards, including WTO requirements in areas such as customs valuation, trade facilitation and the security of the supply chain – and its implementing provisions could strengthen and advance the legal basis of trade relations.
5. With a view to transferring the current multilevel customs tariffs system (0%, 0.5%, 1%, 3%, 5%, 10%, and 15%) to a more simple system with fewer tariff levels (0%, 5%, and 15%) and increasing the transparency in customs-tariff regulation,

it is necessary to accelerate the adoption process of the List of "Customs Import Tariff Levels for Goods Brought into the Territory of the Republic of Azerbaijan" developed by the State Customs Committee of the Republic of Azerbaijan and submitted to the Cabinet of Ministers for approval.

6. There is a necessity to continue to reform trade policies and regulations to comply with WTO rules. As mentioned before, the Government has started adjusting national trade laws to the requirements of WTO according to the implementation of the Presidential Decree No.1583 "On Approval of Action Plan on Adjusting national legislation to the requirements of WTO in regard to accession of the Republic of Azerbaijan to WTO" dated August 2, 2006. It is very important to carry out the implementation of pending policy adjustment measures in order to finalize the adjustment to the laws before the WTO membership. Another important issue is to reform VAT so as to be assessed on the basis of the 'origin principle', as per international practice, and not on the basis of a 'destination principle', as is done at present.

7. Reducing the customs payments of imported intermediates, to strengthen the competitiveness of the non-oil sector, is very important. Many inputs, components and intermediates in the production of non-oil goods and agricultural products need to be imported. Most of these components are subject to a fifteen

percent tariff that increases production costs and this has an impact on the competitiveness of the product in international markets. An example is the packaging materials imported for food processing, like glass bottles. They are not produced domestically and those that could be imported duty free from Russia and other CIS member countries are of poor quality. If one adds other constraints exporters of food-processing products face, (expensive credit, lack of efficient packaging facilities in the country, poor and expensive energy supplies, high transport costs to markets of destination), then competitiveness of these exporters in international markets decreases even more. The available suspension schemes and drawback mechanisms are unable to reduce inputs costs for exporters and should be reformed in order to increase productive capacity and competitiveness. Thus, to some extent, the tariff schedules paradoxically protect a non-existent domestic production of components and add costs to exporters. To avoid this anti export bias different measures can be adopted. Specifically:

7.1 Review customs tariffs in a way that intermediates for export-oriented sectors, where domestic production is nonexistent, received preferential even duty free regime. Reducing or even eliminating tariffs on intermediates, unless suspension schemes and drawback mechanisms available for exporters could be beneficiary in this regard.

- 7.2 Establishing Bonded Warehouses and Special Economic Zones (SEZ) in various locations of the country in accordance with the respective legislation and legal norms may grant access to duty free imports by exporters, even allowing for some limited re-processing and packaging.
8. Strengthening measures to improve the business environment and streamline customs administrations in order to ensure the successful operation of businesses in Azerbaijan.
9. Valuation procedures will have to be adapted to WTO rules. Documents and goods clearance should be rationalised and simplified. The system of post-entry verification should be strengthened.
10. Risk management techniques, as provided by international conventions and standards promoted by the WCO, can be further introduced to improve security at the borders. For example, sampling inspection has been introduced at customs houses, but the process needs to be improved, with the ultimate aim to increase the percentage of goods declared under the green channel.
11. It is recommended that the State Customs Committee introduces a post-clearance audit system, as it allows customs authorities to shift from a purely transaction-based control to a thorough company-oriented control.
12. An information access centre with the hotline 192 was established at the State Customs Committee to be used to disseminate pertinent information on customs procedures and practices. This line plays an important role in the dissemination of correct information on customs procedures and practices in the broader society by creating access to such information. It is considered appropriate to continue further works in this sphere.
13. The country needs to invest in infrastructure (particularly for what concerns transports) and reform its institutional framework. The separation between the regulatory and the operative functions of transport systems has to be considered as a starting point. Some steps have been undertaken in this direction, under the SPPRED 2003-2005, but still the process of transferring the State Caspian Shipping into a joint-stock company is not completed and needs to be addressed. As for investments, these are urgently needed to upgrade railways, roads and ports. Investments in the transport infrastructure are one of the key issues to expand exports of non-oil products. Given the discussed landlocked geographical location of the country, the infrastructural problem needs to be addressed at a cross-country level.³⁹

³⁹ At present all national and international investments are focused on the TRACECA corridor, crossing the Caucasus through Azerbaijan and Georgia

14. Implementation of specific infrastructural investment projects, such as the establishment of pilot multimodal cargo facilities, logistics centres, cold storage facilities and modern border crossing points are advisable in order to facilitate a smooth and fast movement of goods across borders.
15. Information and communication infrastructure is below the standards and inadequate and needs to be upgraded.
16. In order to provide financial assistance (credit) to exporters and importers, and so to function as the principal financial institution to coordinate the different activities of institutions engaged in financing export and import of goods and services with a view to promote the country's international trade, it is necessary to establish an Export-Import Bank in Azerbaijan.
17. Public-private cooperation is necessary for export promotion and trade facilitation reforms to succeed. A fruitful dialogue between the private sector representatives and policymakers will help to better define the real needs of the market. It also improves transparency and information flows and encourages the search for viable and sustainable solutions that follow economic criteria without being sidetracked by political considerations.
18. In the near future, the trade routes crossing Azerbaijan will face even more in-

tense competition from existing ones (China-Kazakhstan-Russia and emerging transit routes). Azerbaijan must be attentive in preserving its competitive advantages and constantly strive to make it the most trade and transit friendly country. The country has started with investments in the infrastructure, but the government must increase the competitiveness of Azerbaijan's logistics industry. Some specific measures could be considered:

- 18.1 Strive to make Baku a regional logistic centre that may bring other value added through which other activities such as various ancillary services, re-labelling packaging and light processing could emerge.
- 18.2 Reduction of transit fee could be considered to increase the volume of transit cargos through the transportation corridors.

**OVERALL BUSINESS ENVIRONMENT
POLICY MEASURES TO BE TACKLED
WITH AN INDIRECT IMPACT
ON HUMAN DEVELOPMENT CHALLENGES**

The institutional framework governs many aspects of the business environment beyond those strictly related to international trade needs and human development challenges. But as it was noted earlier, this report finds major shortcomings in all areas analysed that have direct and indirect impact on human development. The following issues raised within the framework of our study are necessary to improve the overall business envi-

ronment with a special emphasis on the development of non-oil and export oriented sectors. The recommendations presented below are mostly aimed at facilitating trade and enhancing the climate for the development of export-oriented non-oil sectors. For example, overcoming tax administration related challenges will yield a positive impact on the economic development, either focused on export or not, and, in the long run, will have an impact on human development challenges in the country.

For the last years, promoting the non-oil sector has been a primary target for Azerbaijan. Studies to identify sectors with export and domestic market potential are presently being carried out by international development agencies, such as UNDP, WB, USAID and GTZ. Our study of the comparative advantages of the non-oil sectors of economy, in the framework of this project, also proves that competitive sectors do exist in Azerbaijan. But, consequently, there is a need for broad based interventions to improve the business climate and foster non-oil sector development.

The Global Competitiveness Report 2008-2009, published by the World Economic Forum, ranks Azerbaijan 69th out of 134 countries. Despite the fact that the country reached a considerable GDP and export growth over the last years, major barriers to the country's global competitiveness like infrastructure, health and primary education, higher education and training, goods market efficiency, financial market sophistication, technological readiness, as well as business

sophistication and innovation hamper its development pace. At the same time, this development pace is mostly a result of the development of the oil sector.

Recent reforms in the business environment have played their role in attracting FDI to non-oil sectors and increasing earnings from foreign trade. Despite considerable achievements in attracting FDI and enhancing the business environment, the following steps have to be taken in order to strengthen the business environment in the country:

1. Investments in fixed capital directed to tradable non-oil sectors, such as agriculture, processing and manufacturing have to be increased. Specific preferences and incentives (under Production Sharing Agreements such incentives are in place for oil sector) could be settled for the purpose of attracting investments to competitive non-oil sectors. The introduction of a national SEZ regime could be a good solution for this purpose. Although the Government announced in 2003 its intention to create special economic zones, there are currently no foreign trade zones or free ports operating. More generally, a national SEZ regime is also a shortcut to a broader process of reforms and they isolate non-oil exporters from various obstacles. This is especially important for exports of resource-based products, like agro-processing products, the competitiveness of which depends on the effective functioning of the overall economy.

2. The company registration procedure in Azerbaijan is rather transparent and a one-stop-shop. At the same time, despite some improvement in recent years, there is still a need to strengthen measures to eliminate delays observed in gaining the necessary permits and licenses.
 3. A quite low ranking of Azerbaijan in the Ease of Paying Taxes criterion of the Doing Business 2009 Report, is due to existing bureaucratic obstacles in the tax administration system and a high tax burden of tax-payers shows a necessity to carry out further reforms in this sector.
 4. Azerbaijan has an agreement on avoidance of double taxation with 39 countries only. Non-existence of such an agreement results in double or additional taxation problems for companies. This problem has to be addressed with all the partner countries in order to enable a good business environment and attract foreign businesses to the country.
1. The Government should continue its loose monetary policy during the crisis and post crisis period.
 2. In the post-crisis period, the CBA should continue the process of developing anti-cyclic mechanisms and frameworks of monetary and financial stability policy in accordance with new global challenges and by considering local conditions, as well as the application of flexible monetary policy mechanisms depending on the indicators of the economic cycle, the status of macroeconomic and financial stability.
 3. The works in creating SEZs in Azerbaijan should be accelerated.
 4. Continuing permanent market monitoring carried out by the MED - in order to avoid artificial price increase in the domestic market that worsen the well-being of population already affected by the crisis - is also of great importance.
 5. The Government should lower the internal market prices of oil products or at least should adjust them to the world market prices in order to remove the imbalances between world market and local market oil prices and to enhance competitiveness of local producers in global markets.
 6. The Government should enhance mortgage credits and stimulate construction companies, insurance or appraisal companies and finally people's purchasing power for new consumptions.

***POST CRISIS RECOVERY MEASURES
TO BE IMPLEMENTED FOR TRADE
DEVELOPMENT AND WITH AN IMPACT
ON HUMAN DEVELOPMENT CHALLENGES***

As noted in Chapter 7, the measures under taken by the country to overcome the global crisis, primarily with regards to monetary policy and in support of the private sector seem to have had a positive impact.

7. The credits of commercial banks should be insured in a more effective way. The Government should continue its policy of raising the amounts of deposits to be insured.
8. The Government needs to keep mainstreaming trade in the country's development strategies, particularly during a crisis period.
9. Government policies that provide temporary help for people who lose their jobs and need to find alternative employment (financing re-training and upgrading, increasing unemployment benefits) should be much more effective.
10. Increasing trade facilitation and initiative mechanisms, conducting market analyses and information dissemination by the state bodies, especially to non-oil exporters is of great importance considering the consequences of the global crisis to these exporters.
11. The Government's actions to address the adverse impact of the economic crisis requires coordination among the various agencies in charge of economic policy decision and implementation. More specifically, the government needs to set up an operational framework of coordination based on legal and institutional arrangements, to strengthen cooperation among economic policy makers.
12. Speeding up the WTO accession process is essential: in the light of recent devel-

opments in the world economy, accession to the WTO may assist the country to stand against protectionist measures implemented by other countries through WTO procedures.

***AZERBAIJAN AND THE WTO:
MAXIMIZING THE BENEFITS
FROM WTO ACCESSION***

Today, a major challenge facing Azerbaijan in the near future related to trade is the WTO accession. In order to comply with WTO rules, the country will have to carry out reforms (some are given in trade policy measures part of the chapter) on a number of aspects of the trade policy and regulation (tariffs, standards and regulations, the custom valuation approach, the Custom fee, VAT charges etc.). Azerbaijan could probably negotiate a transition period after accession before making them effective.

At the basis of the analysis, we can conclude that as a result of Azerbaijan's entry into WTO, the national economy will have greater opportunities to realize its comparative advantages in the global international labor division and be further integrated into the world economic system.

Besides that, it should be taken into consideration that only a limited number of products is capable due to the current product conditions (obsolete equipment and technologies, incomplete restructuring of non-oil industrial fields etc), to expand access possibilities to foreign markets in the .

At the same time, it should not be forgotten that the membership to WTO will lead to the liberalization of the economic policy, including the foreign economic policy as well as the limitation – even partial – of the tariff regulation. Thus, the country will not be able to do the following steps unilaterally: raise custom duties; quantity quotas or undertake freely other trade policy measures. In the current circumstances, this would limit the use of some current trade policy instruments. Since new ones can only replace them over time, it is important to treat more attentively the obligations which are assumed within the WTO membership process, including tariff obligations. By assuming excessively burdensome obligations, the country can damage not only the possibilities of its products manufactured in the areas with great development potential to gain access to foreign markets and the markets of developed countries (if Azerbaijan were to accept limitations on its market access to these markets), but worsen also the production conditions of such goods at the local level.

The global contemporary practice shows that the results of membership negotiations with WTO can be more successful if they take into account not only the interests of the current advantageous areas of production, but also those areas which have potential comparative development features. As it is noted in previous the chapter, the Azerbaijani economy has potential comparative advantages in the production of some products. This requires protecting those areas from foreign competitors in the first period of development and the creation of relevant produc-

tion fields. While treating this issue, the practice of several countries (Finland is the best example) shows the preference for a cluster approach (besides the main production enterprises, there are also necessary auxiliary areas for their development).

Consequently, one question of concern is whether Azerbaijan should try to negotiate higher bound tariffs than those effectively in place, to grant itself some future room for manoeuvre to protect domestic production. In general, it is unlikely that a small country like Azerbaijan would be allowed to negotiate higher than actual bound tariffs, and it is not obvious that this strategy would be viable.

Thus, while defining the membership obligations of the country in front of WTO, it would be more expedient to give preference to the interest of producers of products and their auxiliary derivatives that have potential comparative advantages. In this case, it is necessary to define tariffs at medium levels for the production areas which are important to food security, trade turnover and budget revenues instead of high tariffs in this direction. As far as other products are concerned, it is possible to lower or on some occasion, liquidate their tariffs.

In contrast, Azerbaijan should make sure that by entering the WTO its exports do not lose the preferential market access to industrialized countries, which they now enjoy in the EU and in the US. Note that the WTO membership would allow for a permanent and unconditional MFN status, which is at present granted voluntarily by partner countries

and which could be easily suspended. Moreover, Azerbaijan should also make sure it preserves its free trade agreements with the other CIS countries, as regional trade, particularly with Russia and Kazakhstan is likely to increase in the near future. Azerbaijan can preserve its free trade agreements even after WTO accession. There are exceptions in WTO agreements, GATT Article XXIV and GATS Article V allow member countries to participate in free trade agreements without giving the same privileges to other WTO members.

At the same time, it is important to pay attention to the following issues:

- Since the major source of income of rural population is the agricultural sector (even with its low productivity), protection of this sector to a certain extent should be achieved during the accession to WTO;
- Preparation of special development programmes should be considered for less developed regions and sectors (which have future potential);
- Supporting WTO accession by private sector actors can be ensured through involving the private sector in AfT efforts and by strengthening measures motivating export growth;
- Also, the existence of over 1 million refugees and IDPs facing socio-economic problems should be considered as a special condition to Azerbaijan during the accession to WTO.

As seen, the country's national interests require to have a more targeted, consistent and comprehensive work in the path of WTO

accession. This process envisages also speeding up steps in restructuring and modernizing the national economy, as well as forming the perfect system of state regulation of internal and external economic relations.

Finally, it is necessary to note that a special focus by the international organizations should be given to the monitoring and assessment of the implementation of measures indicated in the Policy Matrix of the Report. At the same time, further capacity building for the government institutions is of great importance.

There is also a need to coordinate donor's activities and avoid duplications within the country. In some of the cases, different donors implement almost the same activities within their programmes under different project names. It would be worthy to concentrate these funds to other important issues.

POLICY MATRIX

No.	Recommended actions	Objective	Implementing agencies	Donors to be involved
1. TRADE POLICY MEASURES				
1.1	Modernization of trade legislation	Harmonizing the customs legislation with the EU and international provisions and standards, including WTO requirements	SCC	UN, WB, USAID, WCO
1.1.1	Adoption of a revised New Customs Code		CM, SCC	
1.1.2	Assessing VAT on the basis of the 'originator principle'		SCC, MF, MT	
1.1.3	Reforming valuation procedures to conform to WTO rules		SCC	
1.2	Countinuing measures on adjustment of legislation to the requirements of WTO according to the Presidential Decree "On Approval of Action Plan on Adjusting national legislation to the requirements of WTO in regard to accession of the Republic of Azerbaijan to WTO" issued in 2006	Continuing reforming trade policies and regulations to comply to WTO rules	Line ministries	UN, WB, USAID, WCO
1.3	Reforming tariff regulations	Improvement of tariff regulation system	CM, SCC, MF	UN, WB, USAID, WCO

No.	Recommended actions	Objective	Implementing agencies	Donors to be involved
1.3.1	Ensuring simplification of the customs tariff system		CM, SCC, MF, MED	
1.3.2	Reducing the trade cost of imported intermediates:		CM, SCC, MF, MED	
1.3.2.1	Reviewing tariff schedules in a way that intermediates for export-oriented sectors that are not-produced domestically receive a preferential or even duty free regime		CM, SCC, MF, MED	
1.3.2.2	Reducing or even eliminating tariffs on intermediates, unless suspension schemes and drawback mechanisms become available for exporters		CM, SCC, MF, MED	
2. TRADE FACILITATION MEASURES				
2.1	Simplification of the procedures to attain all permits and approvals related to export-import operations	Eliminating all the obstacles on movement of goods across the border	CM, line ministries	UN, WB, USAID, ADB
2.2	Simplification of customs clearance procedures and administration	Eliminating all the obstacles on movement of goods across the border	CM, SCC	UN, WB, USAID, ADB, WCO

No.	Recommended actions	Objective	Implementing agencies	Donors to be involved
2.3	Promoting harmonization of border crossing procedures, forms and data requirements	Eliminating all the obstacles on movement of goods across the border	CM, SCC, MED	UN, WB, USAID, ADB WCO
2.4	Rationalizing and strengthening documents and goods clearance	Continuing reforming trade policy and regulations to comply with WTO rules	CM, SCC, MED	UN, USAID, WCO
2.5	Strengthening a system of post-entry verification	Continuing reforming trade policy and regulations to comply with WTO rules	CM, SCC, MED	UN, ADB, WCO
2.6	Improving risk management techniques	Complying with international conventions and standards promoted by the WCO and improving security at the borders	CM, SCC, MED	UN, ADB, WCO
2.7	Introducing post-clearance audit system	Enabling customs authorities to shift from a purely transaction-based control to a thorough company-oriented control	CM, SCC	UN, WB, USAID, WCO
2.8	Establishing the Export-Import Bank of Azerbaijan	Providing financial assistance (crediting) to exporters and importers; and to function as the principal financial institution for coordinating activities of institutions engaged in financing export and import of goods and services with a view to promote the country's international trade	CM, CBA, MF, MED	UN, WB, ADB, USAID

No.	Recommended actions	Objective	Implementing agencies	Donors to be involved
2.9	Establishing Bonded Warehouses	Bonded warehouses could be set up in various locations of the country and grant access to duty free imports by exporters, even allowing for some limited re-processing and packaging	SCC, MED	UN, WB, USAID
2.10	Strengthening control and test capacities aimed at avoiding importing low quality foodstuff	Ensure health protection of population (control over the quality of imported foodstuff)	CM, MA, SCSMP	UN, FAO
2.11	Strengthening the cooperation between the public and the private sector, necessary for trade facilitation reforms to succeed	Organizing a fruitful dialogue between private sector representatives and policymakers in order to define the real needs of the market, also improving transparency and the flow of information and encouraging the search for viable and sustainable solutions that follow economic criteria without getting sidetracked by political considerations	CM, SCC, MED	UN, ADB, USAID
2.12	Establishing information access centers that can be used to disseminate pertinent information on customs procedures and practices	Increasing the knowledge of the public regarding correct customs procedures and practices	CM, SCC, MED	UN, ADB, USAID

No.	Recommended actions	Objective	Implementing agencies	Donors to be involved
2.13	Investing in infrastructure and reforming its institutional framework			
2.13.1	Achieving the separation between the regulatory and the operative functions of the transport system	Strengthening institutional capacity and management	CM	WB, ADB
2.13.2	Investing and upgrading especially railways, roads and ports	Facilitating smooth and fast movement of goods across country and borders; Meeting international standards	CM, MT, other relevant state agencies	WB, ADB
2.13.3	Specific infrastructural investments like developing (pilot) multimodal cargo facilities, logistics centres, cold storage facilities and modern border crossing points	Facilitating smooth and fast movement of goods across borders	CM, Line ministries	WB, ADB, EBRD
2.13.4	Improving information and communication infrastructure	Establishing enabling soft infrastructure	CM, MICT	UN, WB, ADB, EBRD
2.14	Strengthening transit potential of the country:			

No.	Recommended actions	Objective	Implementing agencies	Donors to be involved
2.14.1	Improving transparency and increasing the competitiveness of Azerbaijan's logistics industry. Some specific measures could be considered:	Efficient use of countries transit potential		
2.14.1.1	Stimulating the establishment of various ancillary services, re-labelling, packaging and light processing	Strive to make Baku a regional logistic centre for the region	CM, MED, SCC	UN, WB, ADB, EBRD
2.14.1.2	The establishment of a national SEZ regime (see the policy measure 20.3)	Utilization of transit potential between the Central Asian and Caucasian countries	CM, MED	UN, WB, USAID
3. OVERALL BUSINESS ENVIRONMENT POLICY MEASURES				
3.1	Improvement of legislation	Eliminating impediments to investment and trade activity	CM, line ministries	UN, WB, USAID
3.2	Introduction of a national SEZ regime	Creating a shortcut to a broader process of reform and supporting non-oil exporters from various sources of anti-export biases	CM, MED	UN, WB, USAID
3.3	Setting up specific preferences and incentives for the purpose of attracting investments to competitive non-oil sectors	Creating incentives for attracting investments to the non-oil sector	CM, MED	UN, USAID, WB, ADB

No.	Recommended actions	Objective	Implementing agencies	Donors to be involved
3.4	Simplification of procedures to obtain necessary permits and licenses	Creating a stable and predictable business environment	CM, line ministries	UN, WB, IFC/SECO
3.5	Continuing reforms in tax and tax administration system	Strengthening enabling business environment	CM, MT	WB, USAID
3.6	Promoting new bilateral agreements on avoidance of double taxation	Strengthening enabling business environment and attracting foreign businesses	CM, MT, MFA	
4. POST CRISIS RECOVERY MEASURES TO BE IMPLEMENTED FOR TRADE DEVELOPMENT AND WITH IMPACT ON HUMAN DEVELOPMENT CHALLENGES				
4.1	In the post-crisis period, to continue the process of developing anti-cyclic mechanisms and frameworks of monetary and financial stability policy in accordance with new global challenges and by considering local conditions, as well as to apply flexible monetary policy mechanisms depending on the indicators of economic cycle, the status of macroeconomic and financial stability	Ensuring macroeconomic stability	CBA	IMF, WB, ADB, SECO

No.	Recommended actions	Objective	Implementing agencies	Donors to be involved
4.2	Raising the flexibility of application of monetary tools, continuing efforts to create liquidity for banks and providing strong supervisory vigilance	Ensuring the functioning of a solid banking system	CBA	IMF, WB, ADB, IFC/SECO
4.3	Carrying out permanent market monitoring	Avoiding artificial price increases in the domestic market	MED	USAID, EU
4.4	Enhancing mortgage credits and stimulating construction insurance and appraisal companies	Stimulating economic activeness	CM, CBA	IMF, WB, ADB, EBRD, IFC/SECO
4.5	Continuing policy of raising the amounts of deposits to be insured	Stimulating liquidity for banks and ensuring populations trust to banking sector	CM, CBA	IMF
4.6	Keeping mainstreaming trade in country's development strategies, particularly during the crisis period	Supporting trade development	Line ministries	UN, WB, ADB
4.7	Providing temporary help for people who lose their jobs and need to find alternative employment (financing re-training and up-grading, increasing unemployment benefits)	Creating decent employment opportunities	CM, MLSPP	UN, WB

No.	Recommended actions	Objective	Implementing agencies	Donors to be involved
4.8	Increasing trade facilitation and initiative mechanisms, conducting market analyses and information dissemination by the state bodies, especially to non-oil exporters	Cushioning the consequences of the global crisis to the exporters	MED	UN, WB, ADB
4.9	Enhancing coordination among the various agencies in charge of economic policy decision and implementation	Improving coordinated decision and policy making process	CM	UN, WB

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
						Donors Country
	AZE	ADB	Road Network Development Program, Project 1 – Masally-Astara section of the North-South Highway	L 2354AZE	2008-2009	200.00
	AZE	ADB	Road Maintenance	AZE TA1	2010	0.6-0.8
	AZE	ADB	MFF Railway Development Project (Facility Concept)	Proposed		
	AZE	ADB	Preparing the Railways Sector Development Program	Approved TA-7150		
	AZE	ADB	Feasibility Study for new Major International Port near Alyat	AZE TA2	2010	1.00
	AZE	ADB	Acquisition of High Capacity Ferries and Ro/Ros	AZE IP3	2010-2013	69.00
	AZE	ADB	Southern Road Corridor Improvement	Concept Paper		
	AZE	ADB	Road Network Development Program, Project 2	L 2433AZE		
	REG	ADB	Silk Route Initiative	TA 6053REG	2002	0.95 0.05
	REG	ADB	Reassessment of the Regional Transport Sector Strategy	TA 6044REG	2002	0.15
	REG	ADB	Capacity Building on the World Trade Organization Trading System	TA 6035REG	2002-2003	0.45

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Donors	Budget (mln. USD)
	REG	ADB	Technical Assistance for Capacity Building on Selected World Trade Organization Issues	TA 6142REG	2003-2005	0.45	Country
	REG	ADB	Trade Facilitation and Customs Cooperation Phase II	TA 6203REG	2004-	0.90	0.22
	REG	ADB	Capacity Building for Regional Cooperation in Central Asia	TA 6158REG	2004-2006	0.95	
	REG	ADB	Central Asia Regional Cooperation in Trade, Transport and Transit	TA 6184REG	2004-2006	0.35	
	REG	ADB	Capacity Building on Selected World Trade Organization and Doha Development Agenda Issues	TA 6330REG	2004-2006	0.40	
	REG	ADB	Great Silk Route Initiative 2005	TA 6199REG	2005-2008	0.90	
	REG	ADB	Capacity Development of Selected Developing Member Countries on the Implementation of the Trade Facilitation Agreement of the World Trade Organization	TA 6355REG	2006-	0.45	
	REG	ADB	Subregional Economic Cooperation in South and Central Asia II	TA 6299REG	2006	0.95	
	REG	ADB	Support Preparations for the CAREC Business Development Forum	TA 6340REG	2006-2007	0.20	

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
	REG	ADB	Integrated Trade Facilitation Support for Central Asia Regional Economic Cooperation	TA 6437REG	2007-	3.00
	REG	ADB	Central Asia Regional Economic Cooperation: Transport Sector Strategy Study	TA 6347REG	2007-2008	1.28
	REG	EU/TACIS	Development of Coordinated National Transport Policies	REG TA14	2007-2009	EUR 1.25
	REG	ADB	Capacity Development for Regional Cooperation in CAREC Participating Countries, Phase 1	TA 6375REG	2008-2010	0.49
	REG	ADB	Corridor Performance Monitoring and Reporting	REG TA27	2008-2010	3.00
	REG	EU TRACECA	Development of Logistics Centres and Rail Multimodal Hubs to Serve CAREC Region	REG TA29	2008-2010	3.00
	REG	ADB	Customs Modernization and Infrastructure Development II	REG IP5	2009-	35.00
	REG	ADB	Simplified Transit Procedures	REG TA9	2009	0.20
	REG	ADB/WCO	Assistance in Implementation of WCO Recommendations on Customs Development	REG TA7	2009-2011	3.00
	REG	To be de- termined	Training of CAREC Experts in Aviation Safety Oversight in ICAO Standards	REG TA37	2009-2011	2.00

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
	REG	To be de- terminated	Equitable Road Maintenance User Charges and Cross Border Fees	REG TA2	2009-2011	1.00
	REG	ADB	Facility and Process Improvements at Border Crossing Points	REG TA3	2009-2015	2.00
	REG	ADB	Institutional Support for National and Regional Trans- port and Trade Facilitation	REG TA26	2009-2016	Phase 1- 4.00 Phase 2- 2.00
	REG	To be de- terminated	Border Post Improvements and Joint Border Processing	REG IP3	2009-2017	200.00 (esti- mate)
	REG	To be de- terminated	PSP in Transport Development and Trade Facilitation	REG TA33	2009-2017	3.00
	REG	To be de- terminated	National Single Window	REG TA8	2010	0.20
	REG	To be de- terminated	Standardized Cargo Declaration and Other Harmo- nized Requirements	REG TA11	2010	0.20
	REG	To be de- terminated	Survey of Measures/Practices Affecting the Movement of Goods in CAREC Countries	REG TA15	2010	0.80

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
						Donors
						Country
	REG	To be de-terminated	Supporting Management of Cross Border Rail Operations	REG TA20	2010	1.50
	REG	To be de-terminated	Feasibility Study for Rail and Intermodal Transport PRC/KGZ/UZB	REG TA28	2010	0.60
	REG	To be de-terminated	Common CAREC Approach to Road Vehicle Emission Standards and Reduction Measures	REG TA35	2010	0.80
	REG	ADB	Regional Road Corridor Safety Auditing	REG TA36	2010	0.80
	REG	To be de-terminated	Needs Assessment of Caspian Shipping along CAREC Corridors	REG TA23	2010	1.00
	REG	To be de-terminated	International Road Transport Conventions and CAREC Road Transport Agreements	REG TA17	2010-2011	1.00
	REG	To be de-terminated	Needs Assessment of Central Asian Civil Aviation	REG TA24	2010-2012	3.00
	REG	To be de-terminated	Emergency Compliance with International Civil Agency Organization Requirements	REG TA25	2010-2012	6.00
	REG	Part unfunded; part ADB	Border Crossing Point Infrastructure and Investment	REG IP1	2010-2017	500.00 (estimate)

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
						Country
	REG	Unfunded	Enhancements of the Information Technology Systems and Customs	REG IP2	2011	0.20
	REG	To be de-terminated	Collaborative Regional Operations and Maintenance of Corridors	REG TA1	2011	0.80
	REG	To be de-terminated	CAREC Trade Portal	REG TA6	2011	0.60
	REG	To be de-terminated	Strengthening Customs Guarantee Systems in the CAREC Region	REG TA12	2011	0.30
	REG	To be de-terminated	Developing Multimodal Transport Systems	REG TA30	2011	0.20
	REG	To be de-terminated	Supply Chain Training Institute	REG TA31	2011	0.50
	REG	To be de-terminated	Promote Containerization	REG TA32	2011	1.00
	REG	To be de-terminated	Financing for Renewal of Vehicle Fleets and Equipment for Private Sector Operators	REG TA34	2011	0.50
	REG	To be de-terminated	Facilitating Border Crossing of Drivers, Traders and Migrant Workers	REG TA39	2011	0.50

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
						Donors
						Country
	REG	To be de-terminated	Strengthening Capabilities of National Certification Bodies	REG TA4	2011-2012	1.00
	REG	To be de-terminated	Product Certification and Weighing Machine Standards	REG TA5	2011-2012	0.10 TA 5.00 laboratory
	REG	To be de-terminated	Establishment of a Third Party Motor Vehicle Liability Insurance Regime	REG TA16	2011-2012	0.30
	REG	To be de-terminated	Liability Insurance System for Transport Operators	REG TA19	2011-2012	0.10
	REG	To be de-terminated	Survey of Taxes and Charges Applicable to Transport Operators	REG TA22	2011-2012	0.10
	REG	To be de-terminated	Regional Customs Training and Development	REG TA10	2011-2013	2.00
	REG	To be de-terminated	Trade and Industrial Logistics Centers with an Information Exchange System	REG IP4	2011-2014	150.00 (estimated)
	REG	To be de-terminated	Transport Cost and the Level, Structure and Direction of Trade	REG TA21	2012-2013	0.20

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
	REG	To be de- termined	Development of Multimodal Transport along CAREC corridors	REG TA13	2013	1.00
	REG	To be de- termined	Developing Inter-Country Bus Services in CAREC Countries	REG TA38	2013	0.50
EBRD	AZE	EBRD	Air Navigation Systems Upgrading	1754	1996-	13.70
	AZE	EBRD	Silk Route Project	1863	1997-	41.00
	AZE	EBRD	Baku Port Development	3686	1997-1999	EUR16.20
	AZE	EBRD EC-TACIS	Trans Caucasian Rail Link	4810	1998-	20.20 8.00
	AZE	EBRD	Azerbaijan Railways: Accounts Strengthening & Busi- ness Planning		2000	EUR0.293
	REG	EBRD	Southern Ring Air Routes	TNREG 9804	132 01 01	2000
	AZE	EBRD	ADDY2		2003	EUR0.0497
	AZE	EBRD	Azerbaijan Silk Route		2004	EUR30.40
	AZE	EBRD	Hajigabul - Kyurdamir Road: Revisions to Designs		2004	EUR0.077

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
					Donors	Country
	AZE	EBRD	Assistance to the Road Transport Services Department (RTSD) in the Implementation of the Corporate Plan		2005-	EUR0.40
	AZE	EBRD	Hajigabul-Kyurdamir		2005-2007	41.70
	AZE	EBRD	Azerbaijan East west Highway			EUR30.00
	AZE	EBRD	Baku to Samur	34723		100.00 10.00?
ECO	REG	ECO ESCAP UNCTAD IsDB	Multimodal Transport Project		1999-	0.27
EU	AZE	EU	Strengthening Regional Energy Co-operation in Eastern Europe and Caucasus	23010	2004-2006?	EUR6.00
	AZE	EU	Euro-Atlantic Technical Assistance Programme		2005	
EU-TACIS	AZE	EU-TACIS	Supply of Oil Tank Wagons to Azerbaijan Railways		2002	EUR1.60
	REG	EU-TACIS	Unified Policy on Transit Fees and Tariffs (in all 12 countries members of TRACECA)		2001-2003	2.50
IDB	AZE	IsDB	Alat-Gazi Mammad Road	AZ0009	1997-	13.14
	AZE	IsDB	Ujar-Yevlakh	AZ0020	2005-2007	22.00

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
						Donors Country
	AZE	IsDB	Bahramtapa-Bilasuvar			40.00
	AZE	IsDB	Ujar-Zargab-Aghjabedi			
INOGATE	AZE; KAZ	INOGATE	Follow-up on Institutional Issues (Phase B) - Multimodal Oil Transport System and Creation of a Common Operator	98.01	2000-2001	1 MEUR
		INOGATE	Interstate Oil and Gas Transport to Europe (INOGATE)		2002-2004	8.36
	AZE	INOGATE	Financing Small Scale Investments for Regional Oil and Gas Infrastructure in Azerbaijan, Georgia and Armenia		2004-2007	
IOM	AZE	International Organisation for Migration	Integrated Border Management			
Kuwait Government	AZE	Kuwait	Kyurdamir – Ujar		2005-2007	
SPECA	REG	SPECA			2001-2009	0.10

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
					Donors	Country
	REG	SPECA	Technical Assistance to Development of the Intergovernmental Agreement of the Shanghai Cooperation Organisation Member States on Facilitation of International Road Transport		2005-2009	0.63
	REG	SPECA	Asia Land Transport Infrastructure Development (ALTID)		2008-2009	0.20
TRACECA	AZE	TRACECA	Supply Of an Optical Cable System for Communication and Signalling	Traceca 1999	2000-2002	EUR15.00
	AZE	TRACECA	Railway Transit Oil Logistical Centre	EUROPEAID 113200/C/SW/ Multi	2002-2003	EUR0.40
	AZE	TRACECA	Rehabilitation of Hajigabul Highway (Rehabilitation of Azerbaijan Highways)		2005-2008	EUR2.00
	AZE,KAZ	TRACECA	Supply of Navigational Aid Equipment (assumed same as EU-TACIS 'Supply of Navigation Aid Equipment and Training' for which there is no detail)		2003	EUR1.6
	AZE,KAZ	TRACECA	Supervision and Training for the supply of Navigational Aid Equipment		2003-2004	EUR0.40

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Donors	Budget (mln. USD)
	AZE, KAZ	TRACECA	Maritime Training	Euro-peAid/12054 1/C/SV/Multi	2005-2007	EUR2.00	
	AZE, KAZ	TRACECA	Motorways of the Sea (MoS) for the Black Sea and the Caspian Sea		2008-2010	EUR2.5	
	AZE, KAZ	TRACECA	Development of Common Security Management System and Cooperation in the Area of Maritime Safety and Ship Pollution Prevention for the Black Sea and the Caspian Sea		New	EUR3.5	
	REG	TRACECA	Pre-feasibility Study of a New Rail Link between the Ferghana Valley, Bishkek and Kashgar (China)	01-0165	2001	1.50	
	REG	TRACECA	Unified Policy on Transit Fees and Tariffs	01-0181	2001-	EUR2.00	
	REG	TRACECA	Common Legal Basis for Transit Transportation	2002/027-526	2002-2004	EUR2.00	
	REG	TRACECA	Capacity Development for Senior Transport Officials		2003-2005	EUR1.8	
	REG	TRACECA	Review of Railway Rehabilitation in Central Asia		2004-2006	EUR2.00	
	REG	TRACECA	Trade Facilitation and Institutional Support	81324	2004-2006	EUR2.00	
	REG	TRACECA	Review of Railway Rehabilitation in Central Asia		2004-2006	EUR2.00	

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
	REG	TRACECA	Freight Forwarders Training Course		2005-2007	EUR2.00
	REG	TRACECA	Analysis and Forecasting of Traffic Flows	121627 Euro- peAid / 122883/C/SER /Multi	2007-2009	EUR3.50
	REG	TRACECA	Training of Operational Air Transport Staff of South Ring States		2007-2009	EUR2.5
	REG	TRACECA	Strengthening of Transport Training Capacity in NIS countries	EURO- PEAID/11318 1/C/SV/MULTI	2008-	EUR2.00
	REG	TRACECA	Logistic Centres Network for All TRACECA Countries: Central Asia, Caucasus and European TRACECA		New	EUR5.5
	REG	TRACECA	Training of Civil Aviation Administration and the Per- sonnel Involved in the Air Transportation		New	EUR2.0
UNDP	REG	UNDP	Silk Route Area Development Programme: Capacity Building for Regional Cooperation and Development		2002-2004	
	AZJ	UNDP	Modernization of Customs Services in Azerbaijan		2006-2007	1.69

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
						Donors
						Country
	AZJ	UNDP	Capacity Building and Data Transmission Network Implementation for the State Customs Committee		1999-2007	2.98
UNESCAP	REG	UNESCAP	Asian Land Transport Infrastructure Development (ALTIID) Project		2001-	
USAID	AZE	USAID	Trade and Investment Support Program		2007-	
World Bank	AZE	WB EC-TACIS	Highway Project	P040716	2001-2005	40.00 1.50
	AZE, KAZ	WB	Transport and Trade Facilitation Issues in the CIS 7 and Kazakhstan and Turkmenistan	33879	2003	
	AZE	WB	Trade, Transport and Telecommunications in the South Caucasus: Current Obstacles to Regional Cooperation		2005	
	AZE	WB	Second Highways Project	P094488	2006-2011	200.00 64.88
	AZE	WB	Railway Trade and Transport Facilitation	P083108	2008-2011	450M (Phase 1) Total est 1.75B

Donor	Country/ Regional	Project Donors	Project Name	Project Code/ID and Status	Dates	Budget (mln. USD)
						Donors
	AZE	WB	Trade Facilitation Strategy 2003 South Caucasus Trade Facilitation Technical Assis- tance/Policy Notes 2004			
	AZE	WB	Azerbaijan Highway Project	31570-AZ		4000
	REG	WB	Regional Trade and Transport Facilitation Study			
						Country

Annex 1: Evolution of main socio-economic indicators

	1995	2000	2005	2006	2007	2008	2009
Gross Domestic Product (GDP)	2133.8	4718.1	12522.5	18746.2	28360.5	40137.2	34578.7
	2415.2	5272.6	13238.7	20983.0	33050.3	48852.5	43024.4
<i>Real growth rate</i>	88.2	111.1	126.4	134.5	125.0	110.8	109.3
Deflation	645.8	112.5	116.1	111.3	121.0	127.8	-21.2
Share of non-government sector	30.3	70.8	76.0	81.0	84.0	84.5	81.2
GDP per capita	282.1	595.1	1494.3	2208.2	3296.6	4603.7	3917.3
	319.3	665.5	1579.8	2471.6	3841.7	5603.3	4874.1
GDP per capita (PPP)	1786.3	2550.1	4600.5	6915.8	7425.5	8713.9	
Non-oil GDP	...	3055.8	6055.0	7079.1	9290.5	17901.2	18326.7
	...	1099	108.3	111.8	111.3		102.3
Share in GDP, %	...	64.8	48.4	39.3	35.9	44.6	53.0
Industry	1771.2	3639.5	9260.5	15509.4	22441.4	29697.6	22203.7
<i>Real growth rate</i>	78.6	106.9	137.1	136.6	124.0	107.0	112.8
Deflation	5.6d	118.1	118.6	108.9	113.0		
Agriculture	713.4	1072.6	1752.1	1991.5	2793.0	3333.2	3466.7
<i>Real growth rate</i>	93.0	112.1	107.5	100.9	104.0	106.1	103.5
Deflation	5d	100.0	113.7	108.4	107.8		
Total investment	480.6	4249.2	6733.4	7415.6	10353.9	13328.0	10282.7
	544.0	1441.4	4326.2	8300.4	12066.1	16222.0	12794.2

	1995	2000	2005	2006	2007	2008	2009
<i>Growth rate</i>	691.0	101.6	115.7	110.1	139.6	128.7	-21.1
Domestic investment	149.3	460.3	2104.9	2901.4	4626.7	7702.2	5887.6
	175.6	514.4	2225.3	3247.6	5391.8	9374.6	7325.6
<i>Growth rate</i>	423.9		159.0	137.8	159.5	166.5	-23.6
Foreign investment	331.4	829.5	4628.5	4514.2	5727.2	5625.8	4395.1
	368.4	927.0	4893.2	5052.8	6674.3	6847.4	5468.6
<i>Growth rate</i>	9.6d	95.1	106.9	103.3	132.1	-2.0	-20.1
Merchandise exports	637.2	1745.2	4347.2	6372.2	6058.3	47756.0	14698.5
Merchandise imports	667.7	1172.1	4211.2	5266.7	5713.5	7169.5	6119.7
Services export	172.4	259.8	683.0	939.9	1247.5	1546.9	1776.3
Services import	304.6	484.5	2653.0	2863.3	3378.6	3889.5	3388.9
Exports to GDP ratio (Exports of goods and services (% of GDP))	33.5	38.0	638.0	34.8	22.1	100.3	38.3
Imports of goods and services (% of GDP)	52.4	38.4	51.8	38.7	27.5	22.6	22.1
Merchandise trade (% of GDP)	...	55.3	64.6	54.4	35.6	112.4	48.4
State budget revenues	316.9	714.6	2055.2	3868.8	6006.6	10762.7	10325.9
	358.7	798.6	2163.4	4360.9	6984.9	13453.4	12907.4
State budget expenditures	428.4	764.0	2140.7	3790.1	6086.2	10774.2	10567.9
	484.9	853.7	2253.4	4258.1	7045.3	13476.8	13209.9

	1995	2000	2005	2006	2007	2008	2009
Budget deficit	-111.4	-49.3	-85.5	78.7	-79.6	-11.5	-242.0
				mIn.AZN			
	-126.1	-55.1	-90.0	-102.8	-60.5	-14.4	-302.5
				mIn.USD			
Share of budget deficit on GDP	5.2	1.0	0.7		0.9	0.13	2.7
				%			
Population	7643.5	8016.2	8553.0	8665.9	8779.8	8896.9	8997.4
				thsd. people			
Growth rate	101.1	100.8	101.0	101.1	101.1	101.3	101.1
				%			
Unemployment (LFS),	...	...	...	6.8	6.5	6.1	6.0
				%			
Registered unemployed			56343	53862	50651	44481	41100
				%			
Urban population	52.4	51.4	53.4	53.5	53.9	54.2	54.1
				%			
Average monthly wages of employed persons	12.5	44.3	117.9	141.3	214.0	274.0	298.0
				AZN			
Growth rate	14.1	49.5	124.1	158.8	248.8	342.5	372.5
				USD			
	407.6	120.2	124.3	120.6	144.8	127.2	108.6
				%			
Nominal income of population	1340.5	3511.4	8063.0	9949.8	14305.6		
				mIn.AZN			
Rate of poverty (absolute), at national poverty lines	68.1	50.6	29.3	20.8	15.8	13.2	10.9
				%			
Rate of poverty (absolute), at international poverty lines, 1.25 USD a day	...	...	2170.94	...	...
				yerli valyutada			
Rate of poverty (absolute), at international poverty lines, 2 USD a day	...	...	3473.51	...	...
				yerli valyutada			
International poverty line, Population below 1.25 USD a day	6.3	...	<2	...	...
				%			

	1995	2000	2005	2006	2007	2008	2009
International poverty line, Population below 2 USD a day	27.1	...	<2	...	...	...	...
Human poverty index (HPI-1), value	...	...	...	11.8	...	...	...
Gini index	0.350	0.490	0.168	0.22	0.365	...	...
Health expenditure per capita	1.0	5.7	14.6	21.5	36.0	49.0	...
Population using an improved water source (Improved Drinking Water Coverage)	70.0	76.0	75.7	78.0	71.4	...	...
<i>Urban</i>	...	...	...	95.0	...	...	...
<i>Rural</i>	...	...	...	59.0	...	...	...
Life expectancy at birth	69.0	65.0	68.0	...	66.3	...	...
Life expectancy at birth (according to SSC)	69.1	71.8	72.4	72.4	73.0	73.4	73.5
Gender empowerment measure (GEM)	...	...	...	0.434	...	...	...
Gender-related development index (GDI)	...	...	0.743	0.755	...	...	...
Human development index (HDI)	...	0.705	0.742	0.758	0.787	...	...
Combined gross enrolment ratio for primary, secondary and tertiary education	...	...	67.1	66.2	...	...	...
Infant mortality rate	...	77.0	74.0	...	56.4	...	...

	1995	2000	2005	2006	2007	2008	2009
Infant mortality rate (according to SSC)	23.3	16.4	12.7	11.9	12.1	11.4	11.8
Under-five mortality rate	43.2	30.5	17.6	16.2	16.1	14.9	14.4
Maternal mortality rates	...	...	82.0	...	...	...	...
Maternal mortality rates (according to SSC)	37.0	37.6	28.9	34.2	35.5	26.3	24.3
Public expenditure on education	3.5	3.85	2.5	2.54	2.55	2.44	3.32
Share of expenditures on education to total public expenditures	...	23.8	19.6	13.3	12.0	9.1	10.9
Public Health Expenditures	...	0.87	0.96	0.8	0.9	0.86	1.16
Share of expenditures on health to total public expenditures	...	5.6	5.5	4.2	4.2	3.2	3.8
Adult literacy rate	...	...	98.8	99.3	99.4	98.8	...
Youth literacy rate	...	...	...	...	100.0	100.0	100.0
Cellular subscribers	...	...	268.0	390.0	524.0	699.0	877.0
Telephone mainlines	82.1	98.4	130.0	140.0	145.0	151.0	159.0
Internet users	...	1.5	80.0	97	107	172	274
Consumer prices index (CPI)	511.8	101.8	109.6	108.3	116.7	120.8	101.5
Exchange rate	0.88	0.89	0.92	0.87	0.84	0.80	0.80

	1995	2000	2005	2006	2007	2008	2009
Research and development (R&D) Expenditures	...	0.3	0.2	0.2	...	...	...
Official development assistance, total	...	139.1	223.4	...	...	...	...
Official development assistance	...	17.4	26.6	...	...	...	...
Official development assistance	...	...	2.64	1.8	...	...	...
Total primary energy supply	...	...	13.8	...	...	...	...
Share of science expenditures in state budget	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Share of science expenditures in state budget	0.9	1.2	1.3	0.8	0.7	...	...
Women's share of legislators and managers (LFS)	...	...	...	...	5.0	...	...
Workers' remittances, received	427.3	597.8	1289.7	...	490.2	...	...
Workers' remittances, received	140.7	85.0	70.8	...	...	...	...
Workers' remittances, received	0.097	1.084	4.962	...	...	...	...
Adult (15+) economic activity rate	...	...	...	...	600	...	...

Source: MED, SSC, UN, WB and ADB statistics.

Annex 2: Some comparative data on Human Development Index

Indicators	Estonia	Russian Federation	Kazakhstan	Ukraine	Turkey	Azerbaijan	Turkmenistan	Uzbekistan	Kyrgyzstan	Tajikistan	
Human Development index value	2005	0.86	0.802	0.794	0.788	0.775	0.746	0.713	0.702	0.696	0.673
Life expectancy at birth, years	2005	71.2	65	65.9	67.7	71.4	67.1	62.6	66.8	65.6	66.3
Adult literacy rate (% aged 15 and older)	1995-2005	99.8	99.4	99.5	99.4	87.4	98.8	98.8	...	98.7	99.5
Combined gross enrolment ratio for primary, secondary and tertiary education (%)	2005	92.4	88.9	93.8	86.5	68.7	67.1	...	73.8	77.7	70.8
GDP per capita (PPP USD)	2005	15,478	10,845	7,857	6,848	8,407	5,016	3,838	2,063	1,927	1,356
Human development index (trends)	1975	...	...	...	...	0.594	...	...	...	...	...
	1980	0.811	...	...	...	0.615	...	...	...	...	...
	1985	0.82	...	...	...	0.651	...	...	...	...	0.705
	1990	0.813	0.815	0.771	0.809	0.683	...	...	0.704	...	0.703
	1995	0.792	0.771	0.724	0.756	0.717	...	...	0.683	...	0.638
	2000	0.829	0.782	0.738	0.761	0.753	...	...	0.691	...	0.64
	2005	0.86	0.802	0.794	0.788	0.775	0.746	0.713	0.702	0.696	0.673
Population living below 1 USD PPP a day (%)	1990-2005	<2	<2	<2	<2	3.4	3.7	...	<2	<2	7.4
Population living below 2 USD PPP a day (%)	1990-2005	7.5	12.1	16	4.9	18.7	33.4	...	<2	21.4	42.8

Source: UN statistics, 2008, <http://hdrstats.undp.org>

Annex 3: Major ILO conventions ratified by the Republic of Azerbaijan

Convention	Ratification date
C11 Right of Association (Agriculture) Convention, 1921	19.05.1992
C13 White Lead (Painting) Convention, 1921	19.05.1992
C14 Weekly Rest (Industry) Convention, 1921	19.05.1992
C16 Medical Examination of Young Persons (Sea) Convention, 1921	19.05.1992
C23 Repatriation of Seamen Convention, 1926	19.05.1992
C27 Marking of Weight (Packages Transported by Vessels) Convention, 1929	19.05.1992
C29 Forced Labour Convention, 1930	19.05.1992
C32 Protection against Accidents (Dockers) Convention (Revised), 1932	19.05.1992
C45 Underground Work (Women) Convention, 1935	19.05.1992
C47 Forty-Hour Week Convention, 1935	19.05.1992
C52 Holidays with Pay Convention, 1936	19.05.1992
C69 Certification of Ships' Cooks Convention 1946	19.05.1992
C73 Medical Examination (Seafarers) Convention, 1946	19.05.1992
C77 Medical Examination of Young Persons (Industry) Convention, 1946	19.05.1992
C78 Medical Examination of Young Persons (Non-Industrial Occupations) Convention, 1946	19.05.1992
C79 Night Work of Young Persons (Non-Industrial Occupations) Convention, 1946	19.05.1992
C81 Labour Inspection Convention, 1947 (and its Protocol)	09.08.2000
C87 Freedom of Association and Protection of the Right to Organise Convention, 1948	19.05.1992
C88 Employment Service Convention, 1948	11.03.1993
C90 Night Work of Young Persons (Industry) Convention (Revised), 1948	19.05.1992
C92 Accommodation of Crews Convention (Revised), 1949	19.05.1992
C95 Protection of Wages Convention, 1949	19.05.1992
C98 Right to Organise and Collective Bargaining Convention, 1949	19.05.1992
C100 Equal Remuneration Convention, 1951	19.05.1992
C103 Maternity Protection Convention (Revised), 1952	19.05.1992
C105 Abolition of Forced Labour Convention, 1957	09.08.2000

Convention	Ratification date
C106 Weekly Rest (Commerce and Offices) Convention, 1957	19.05.1992
C108 Seafarers' Identity Documents Convention, 1958	denounced on 17.07.2006
C111 Discrimination (Employment and Occupation) Convention, 1958	19.05.1992
C113 Medical Examination (Fishermen) Convention, 1959	19.05.1992
C115 Radiation Protection Convention, 1960	19.05.1992
C116 Final Articles Revision Convention, 1961	19.05.1992
C119 Guarding of Machinery Convention, 1963	19.05.1992
C120 Hygiene (Commerce and Offices) Convention, 1964	19.05.1992
C122 Employment Policy Convention, 1964	19.05.1992
C124 Medical Examination of Young Persons (Underground Work) Convention, 1965	19.05.1992
C126 Accommodation of Crews (Fishermen) Convention, 1966	19.05.1992
C129 Labour Inspection (Agriculture) Convention, 1969	09.08.2000
C131 Minimum Wage Fixing Convention, 1970	11.03.1993
C133 Accommodation of Crews (Supplementary Provisions) Convention, 1970	19.05.1992
C134 Prevention of Accidents (Seafarers) Convention, 1970	19.05.1992
C135 Workers' Representatives Convention, 1971	12.08.1993
C138 Minimum Age Convention, 1973	19.05.1992
C140 Paid Educational Leave Convention, 1974	11.03.1993
C142 Human Resources Development Convention, 1975	19.05.1992
C144 Tripartite Consultation (International Labour Standards) Convention, 1976	12.08.1993
C147 Merchant Shipping (Minimum Standards) Convention, 1976	19.05.1992
C148 Working Environment (Air Pollution, Noise and Vibration) Convention, 1977	19.05.1992
C149 Nursing Personnel Convention, 1977	19.05.1992
C151 Labour Relations (Public Service) Convention, 1978	11.03.1993
C154 Collective Bargaining Convention, 1981	12.08.1993
C159 Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983	19.05.1992
C160 Labour Statistics Convention, 1985	19.05.1992

Convention		Ratification date	
C182 Worst Forms of Child Labour Convention, 1999		30.03.2004	
C185 Seafarers' Identity Documents Convention (Revised), 2003		17.07.2006	
Ratified: 54	Conditional ratification: 0	Declared applicable: 0	Denounced: 1

Source: <http://www.ilo.org/ilolex/english/newratframeE.htm>

Note: "C" stands for general classification of ILO Conventions, for example, "C11" is Convention#11

Annex 4: Licensing of Activities

No:	Type of Activity	Executive Agency
1.	Private security service	Ministry of National Security of the Republic of Azerbaijan (for ensuring self security of foreign legal entities, or legal entities established by foreigners or persons without citizenship, including legal entities established directly or indirectly by participation of foreign capital); Ministry of Internal Affairs of the Republic of Azerbaijan (in other cases)
2.	Cartographic activity	State Committee for Land and Cartography of the Republic of Azerbaijan
3.	Disposal and burial of radioactive and ion-emitting substances	Ministry on Emergencies of the Republic of Azerbaijan
4.	Utilization and elimination of hazards of industrial toxic wastes	Ministry of Ecology and Natural Resources of the Republic of Azerbaijan
5.	Storage, processing and sale of waste from non-ferrous metals, industrial and factory wastes containing precious metals and stones	Ministry of Economic Development of the Republic of Azerbaijan
6.	Sale of oil products	Ministry of Industry and Energy of the Republic of Azerbaijan
7.	Sale of gas products	Ministry of Industry and Energy of the Republic of Azerbaijan
8.	Medical activity	Ministry of Health of the Republic of Azerbaijan
9.	Pharmaceutical activity	Ministry of Health of the Republic of Azerbaijan
10.	Ethanol (alcohol) and alcoholic drinks (wine, cognac, vodka and other alcoholic drinks, the list of which is identified by the Cabinet of Ministers of the Republic of Azerbaijan):	Ministry of Agriculture of the Republic of Azerbaijan
10.1.	Production	
10.2.	Import	

No:	Type of Activity	Executive Agency
10.3.	Sale	Executive Powers of cities and rayons (except for city rayons)
11.	Tobacco products:	Ministry of Agriculture of the Republic of Azerbaijan
11.1.	Production	
11.2.	Import	
11.3.	Sale	Executive Powers of cities and rayons (except for city rayons)
12.	Processing, production, sale, purchase, import and export of technical devices for the illegal procurement of information by persons and legal entities not entitled to perform investigative activity	Ministry of National Security of the Republic of Azerbaijan
13.	Water transportation of passengers and cargo	Ministry of Transportation of the Republic of Azerbaijan
14.	Air transportation of passengers and cargo	State Civil Aviation Administration of the Republic of Azerbaijan
15.	Communication services:	Ministry of Communication and Informational Technologies of the Republic of Azerbaijan
15.1.	telephone (fixed-line)	
15.2.	cellular (mobile)	
15.3.	radio trunk and wireless telephone	
15.4.	installation of domestic telecommunication channels	
15.5.	installation of international telecommunication channels	
15.6.	IP-telephony (internet-telephony)	
15.7.	data transmission	
15.8.	high-speed courier services	
15.9.	3-rd generation (3G) cellular communication services		Ministry of Communication and Informational Technologies of the Republic of Azerbaijan
16.	Design and production of information protection devices	Ministry of National Security of the Republic of Azerbaijan

No:	Type of Activity	Executive Agency
17.	Educational institutions:	Ministry of Education of the Republic of Azerbaijan
17.1.	pre-school educational institutions	
17.2.	secondary schools (including lyceums and gymnasia), vocational schools and lyceums, secondary specialized schools	
17.3.	higher education institutions	
17.4.	religious secondary specialized educational institutions	Ministry of Education of the Republic of Azerbaijan
17.5.	religious higher educational institutions	Ministry of Education of the Republic of Azerbaijan
18.	Employment brokerage services for the employment of Azerbaijani citizens abroad	Ministry of Labour and Social Protection of the Population of the Republic of Azerbaijan
19.	Banking activity:	Central Bank of the Republic of Azerbaijan
19.1.	Banks	
19.2.	non-banking credit organizations	
19.3.	national operator of postal service	Central Bank of the Republic of Azerbaijan
20.	Activity of non-state pension funds	Ministry of Finance of the Republic of Azerbaijan
21	Insurance sector activities:	Ministry of Finance of the Republic of Azerbaijan
21.1	insurance activity	
21.2	reinsurance activity	
21.3	insurance brokerage activity:	
21.3.1	insurance brokers – legal entities	
21.3.2	insurance brokers – individuals	
21.4	insurance agent activity:	
21.4.1	insurance agents – legal entities	
21.4.2	insurance agents – individuals	
22.	Auditor activity		Chamber of Auditors of the Republic of Azerbaijan
23.	Activity of commodity exchange	Ministry of Economic Development of the Republic of Azerbaijan

No:	Type of Activity	Executive Agency
24.	Activity of stock exchange	State Committee for Securities of the Republic of Azerbaijan
25.	Activity of investment fund	State Committee for Securities of the Republic of Azerbaijan
26.	Activity of professional participants of securities market (brokers, dealers, management of securities, identification of mutual responsibilities (clearing), depositaries, maintenance of registers of securities owners, organization of trade on the stock market)	State Committee for Securities of the Republic of Azerbaijan
27.	Printing and sale of all securities forms	State Committee for Securities of the Republic of Azerbaijan
28.	Printing of financial reporting documents	Ministry of Finance of the Republic of Azerbaijan
29.	Manufacture of seals and stamps of different type	Ministry of Internal Affairs of the Republic of Azerbaijan
30.	Tourism activity	Ministry of Culture and Tourism of the Republic of Azerbaijan
31.	Customs brokerage, customs transporter, processing of goods within customs territory and processing of goods out of customs territory	State Customs Committee of the Republic of Azerbaijan
32.	Establishment of customs warehouses and temporary detention warehouses, free warehouses and duty-free shops	State Customs Committee of the Republic of Azerbaijan
33.	Tele-radio broadcasting (television and radio broadcasting, additional data broadcasting, cable network broadcasting, satellite broadcasting, re-broadcasting via satellite of foreign television and radio channels through the use of coded equipment)	National Council on Television and Radio Broadcasting
34.	Collection of raw materials from wild pharmaceutical crops:	Ministry of Ecology and Natural Resources of the Republic of Azerbaijan
35.	Transportation of passengers and cargo by motor cars:	Ministry of Transport of the Republic of Azerbaijan

No:	Type of Activity	Executive Agency
35.1.	intra-city (intra-rayon) passenger transportation	
35.2.	inter-city (inter-rayon) passenger transportation	
35.3.	international passenger transportation	
35.4.	passenger transportation by taxis	
35.5.	intra-country cargo transportation	
35.6.	international cargo transportation	
36.	Import, export, transit traffic and production of precursors	Ministry of Health of the Republic of Azerbaijan
37.	Hotel and hotel-type facilities' operations	Ministry of Culture and Tourism of the Republic of Azerbaijan
38.	Transportation of hazardous cargo	Ministry of Emergencies of the Republic of Azerbaijan
39.	Construction and exploitation of liquid and natural gas industry facilities	Ministry of Emergencies of the Republic of Azerbaijan
40.	Mining and quarrying works, boring and drilling	Ministry of Emergencies of the Republic of Azerbaijan
41.	Construction and maintenance of elevators	Ministry of Emergencies of the Republic of Azerbaijan
42.	Construction and exploitation of attractions	Ministry of Emergencies of the Republic of Azerbaijan
43.	Construction, repair and maintenance of power engineering facilities, equipment and devices	Ministry of Emergencies of the Republic of Azerbaijan
44.	Manufacture, construction and repair of cranes, metallurgy equipment, boilers and tanks working under pressure	Ministry of Emergencies of the Republic of Azerbaijan
45.	Diagnosis and other technical tests for equipment and technical devices exploited in facilities with a hazard risk	Ministry of Emergencies of the Republic of Azerbaijan
46.	Fire protection services to communities and entities on a contractual basis	Ministry of Emergencies of the Republic of Azerbaijan

No:	Type of Activity	Executive Agency
47.	Manufacture, purchase and testing of fire fighting machinery	Ministry of Emergencies of the Republic of Azerbaijan
48.	Installation, maintenance and repair of fire prevention systems and facilities	Ministry of Emergencies of the Republic of Azerbaijan
49.	Repair and maintenance of fire-fighter accessories, prime fire fighting facilities and restoration of quality of fire fighting equipment	Ministry of Emergencies of the Republic of Azerbaijan
50.	Construction, reconstruction and maintenance of fire fighting buildings, constructions and premises	Ministry of Emergencies of the Republic of Azerbaijan
51.	Precious metals and gemstones:	Ministry of Finance of the Republic of Azerbaijan
51.1.	production (extraction of precious metals from ores and concentrates)	
51.2.	processing and use (manufacture and repair of products, including jewellery and other items of personal ornament made from precious metals and gemstones)	
51.3.	turnover (wholesale and retail sale of precious metals and gemstones, their products, including jewellery and other items, as well as their purchase from population)	
52.	Engineering research works of Class One and Class Two buildings and constructions in accordance with the State Standards	Ministry of Emergencies of the Republic of Azerbaijan
53.	Projection of Class One and Class Two buildings and structures	State Urban Planning and Architecture Committee of the Republic of Azerbaijan
54.	Construction and engineering works of Class One and Class Two buildings and constructions (except for houses and garden dwellings up to 12 meters) in accordance with the State Standards	Ministry of Emergencies of the Republic of Azerbaijan
54.1	up to 40 meters of height	
54.2	up to 65 meters of height	
54.3	65 meters and higher	

Annex 5: International Investment Position of the Republic of Azerbaijan, mln. USD

	Outstanding as of 01/01/2008	Flows on opera- tions within the re- porting period and other adjustments	Outstanding as of 01/01/2009
A. ASSETS	14167.8	14380.7	28548.5
Direct investment abroad	4676.4	555.6	5232.0
Oil and gas sector	4619.3	464.7	5084.0
Other sectors	57.1	90.9	148.0
Portfolio investments	229.9	320.8	550.7
Other investments	1882.3	2328.1	4210.4
Trade credits	1257.2	727.1	1984.3
Loans	110.5	731.2	841.7
Monetary authorities	–	–	–
Government	14.5	–	14.5
Banks	61.8	40.4	102.2
Other sectors	34.2	690.8	725.0
Currency and deposits	514.6	869.8	1384.4
Monetary authorities	–	–	–
Government	–	–	–
Banks	514.6	863.2	1377.8
Other sectors	–	6.6	6.6
Other assets	–	–	–
Reserve assets	7379.2	11176.2	18555.4
B. LIABILITIES	15141.0	804.3	15945.3
Direct investment in Azerbaijan	6597.6	14.1	6611.7
Oil and gas sector	3999.3	-581.0	3418.3
Other sectors	2598.3	595.1	3193.4
Portfolio investments	203.9	-26.6	177.3
Other investments	8339.5	816.8	9156.3

	Outstanding as of 01/01/2008	Flows on opera- tions within the re- porting period and other adjustments	Outstanding as of 01/01/2009
Trade credits	163.1	-120.8	42.3
Loans	6923.0	834.7	7757.7
Monetary authorities	100.6	-21.7	78.9
Government	1482.4	272.7	1755.1
Banks	1572.5	82.3	1654.8
Other sectors	3767.5	501.4	4268.9
Currency and deposits	1253.4	102.9	1356.3
Monetary authorities	-	-	-
Government	-	-	-
Banks	1253.4	102.9	1356.3
Other sectors	-	-	-
Other liabilities	-	-	-
C. NET INTERNATIONAL INVESTMENT POSITION (A-B)	-973.2	13576.4	12603.2

Source: CBA

Annex 6: Detailed data on Investments

Total Investments

	2000	2003	2004	2005	2006	2007	2008	2009
All Investments (including, foreign investments):								
mIn.USD	1441.4	4326.4	5922.7	7118.5	8300.4	12066.1	16222.0	12794.2
Foreign Investments:								
MIn.USD	927.0	3371.0	4575.5	4893.2	5052.8	6674.3	6847.4	5468.6
share in total, %	64.3	77.9	77.2	68.7	60.9	55.3	42.2	42.7
Domestic Investments:								
mIn.USD	514.4	955.4	1347.2	2225.3	3247.6	5391.8	9374.6	7325.6
share in total, %	35.7	22.1	22.8	31.3	39.1	44.7	57.8	57.3

Source: SSC, www.azstat.org/english/,

Total investments to the fixed capital by sectors (mln. AZN)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total	967.8	1170.8	2107.0	3779.1	4922.8	5769.9	6234.5	7471.2	9944.2	7365.0
Agriculture, hunting and forestry	6.5	8.3	17.2	35.1	35.0	40.6	58.3	243.3	336.5	257.3
Industry	659.6	825.9	1629.6	3004.7	3915.8	4169.7	4294.6	4539.9	4188.4	3019.5
Construction	3.4	13.0	40.0	12.2	20.7	46.1	10.1	4.2	66.1	30.1
Wholesale and retail of automobiles, home appliances and repair of products for personal use	32.3	51.3	52.6	29.9	56.6	83.2	100.1	96.0	278.2	201.8
Hotellerie and restaurant services	3.6	0.2	0.6	1.7	0.4	2.7	13.6	16.2	20.5	75.5
Transportation, warehouses and communications	89.4	131.6	138.6	395.5	427.2	669.2	841.2	915.7	2153.4	1872.0
Financial activities	0.1	0.0	0.0	2.2	0.1	1.5	0.1	4.1	15.7	13.0
Real estate operations, rental and consumer services	114.4	109.8	189.1	227.3	71.1	591.9	514.7	504.7	1004.8	806.4
Public administration and defense, social obligations	6.5	9.1	12.7	25.0	37.6	61.4	127.8	628.7	870.0	525.5
Education	3.5	6.6	8.9	11.2	24.7	39.2	106.8	134.0	297.9	106.3
Healthcare and social services	29.2	9.3	4.1	3.7	10.2	15.5	82.6	144.7	299.2	155.8
Other public utilities, social and personal services	19.2	5.7	12.3	28.2	23.3	48.9	84.5	239.8	413.5	296.7

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Share of oil and non oil sector (in % of total investments to fixed capital)										
Oil sector	51.9	58.7	68.8	73.2	75.3	65.2	54.7.	49.9	30.4	27.0
Non-oil sector	48.1	41.3	31.2	26.8	24.7	34.8	45.3.	50.1	69.6	73.0

Foreign Investments (mln. USD)

	2000	2003	2004	2005	2006	2007	2008	2009
Total Foreign Investments	927	3371	4575.5	4893.2	5052.8	6674.3	6847.4	5468.6
Including:								
Financial credits	262.9	238.3	293	698.4	983.5	1576.6	2357.9	1438.3
Oil sector	546.1	2972.4	4088.1	3799.9	3422.3	4003.3	3350.7	2412.7
Oil bonuses	-	58.6	21.6	1	17	68.2	3.5	1.0
Joint and foreign investment companies	118	45.4	104.2	230.5	368.4	439.1	494.1	624.4
Other investments	...	...	...	163.4	261.6	587.1	641.2	992.2

Source: SSC, www.azstat.org/english/

40 The biggest investors are Turkey, USA, Germany, Great Britain and UAE.

Annex 7: Ballasa Index and Net Export Ratio

		BALLASA INDEX - CRUDE OIL INCLUDED		BALLASA INDEX - CRUDE OIL EXCLUDED		NET EXPORT RATIO	
Code	Product Name	AVERAGE (2005-07)	HAS RCA?	AVERAGE (2005-07)	HAS RCA?	AVERAGE (2005-07)	HAS RCA?
129	Meat/offal nes,fr/ch/frz	0.111477	NO	0.224519	NO	0.3274	YES
176	Beef prepared/ presvd nes	1.846651	YES	3.828479	YES	0.3916	YES
371	Fish, prepared/preserved	0.851484	NO	1.659815	YES	-0.0278	NO
461	Flour of wheat or meslin	1.601236	YES	3.276103	YES	0.318	YES
541	Potatoes frsh excl sweet	9.111735	YES	18.757242	YES	0.3081	YES
544	Tomatoes fresh/chilled	4.814608	YES	9.94982	YES	0.9991	YES
545	Vegetables nes,frsh/chld	0.529914	NO	1.100282	YES	0.0105	YES
548	Veg prod nes,fresh/dried	1.768999	YES	3.574669	YES	0.9423	YES
561	Veg dried excl legumes	0.093841	NO	0.187327	NO	0.0555	YES
564	Fruit/veg flour/meal nes	0.939194	NO	1.802158	YES	-0.1433	NO
571	Citrus fruit fresh/dried	1.416264	YES	2.885233	YES	0.711	YES
574	Apples fresh	9.14601	YES	18.757748	YES	0.8696	YES
577	Nuts edible fresh/dried	12.310141	YES	24.917454	YES	0.9571	YES
579	Fruit fresh/dried nes	4.553527	YES	9.305146	YES	0.9517	YES
581	Fruit jams/jellies/etc	0.604963	NO	1.235883	YES	0.2961	YES
589	Fruit/nuts/veg prsvd nes	0.799086	NO	1.611337	YES	0.8378	YES
593	Citrus fruit juices nes	0.230115	NO	0.472635	NO	0,1896	YES
599	Fruit juices nes/mixture	4.880743	YES	10.089641	YES	0,0361	YES
612	Cane/beet sugar nes	11.276846	YES	23.203688	YES	0,2528	YES
741	Tea	9.627849	YES	20.065471	YES	0,0834	YES
811	Hay/fodder, green/dry	0.048823	NO	0.102603	NO	0.883	YES
812	Fodder bran/by-products	14.851702	YES	31.29306	YES	0.9815	YES
910	Margarines/fats/oils	8.693868	YES	17.651084	YES	0.5639	YES
1122	Cider/perry/mead/etc	0.149629	NO	0.342886	NO	0.566	YES

		BALLASA INDEX - CRUDE OIL INCLUDED		BALLASA INDEX - CRUDE OIL EXCLUDED		NET EXPORT RATIO	
Code	Product Name	AVERAGE (2005-07)	HAS RCA?	AVERAGE (2005-07)	HAS RCA?	AVERAGE (2005-07)	HAS RCA?
1124	Distilled alcoholic beverages	1.46142	YES	3.064298	YES	0.1647	YES
1211	Tobacco,not stripped	3.388626	YES	6.888691	YES	0.0507	YES
1213	Tobacco refuse	0.043971	NO	0.088561	NO	0.3333	YES
1222	Cigarettes (tobacco)	1.718463	YES	3.544232	YES	-0.7537	NO
1223	Manufactured tobacco nes	1.049389	YES	2.100165	YES	0.0806	YES
2111	Bovine/equine hide raw	0.411872	NO	0.911295	NO	0.9992	YES
2112	Bovine hides, whole, raw	0.77029	NO	1.554148	YES	0.6667	YES
2114	Goat/kid skins, raw	0.00022	NO	0.000439	NO	0.3333	YES
2116	Sheep skin common w/wool	0.872324	NO	1.786199	YES	0.8907	YES
2117	Sheep skin without wool	11.323016	YES	23.175991	YES	0.9995	YES
2223	Cotton seeds	7.368728	YES	15.148249	YES	0.9456	YES
2450	Fuel wood/wood charcoal	0.0937	NO	0.196586	NO	0.62	YES
2481	Wood railway sleepers	1.145228	YES	2.604027	YES	-0.7436	NO
2511	Paper/board waste/scrap	0.011722	NO	0.023401	NO	0.3622	YES
2614	Silk worm cocoons/waste	3.3895	YES	6.830797	YES	-0.7805	NO
2631	Raw cotton, excl linters	7.825485	YES	16.097618	YES	0.9982	YES
2632	Cotton linters	3.849712	YES	7.90981	YES	0.7805	YES
2633	Cotton waste	0.703525	NO	1.44338	YES	0.0144	YES
2732	Gypsum etc for cement mf	1.187477	YES	2.443657	YES	-0.3723	NO
2782	Clays/refractory materl.	0.555778	NO	1.150682	YES	0.0062	YES
2822	Waste/scrap alloy steel	0.012836	NO	0.024398	NO	0.3333	YES

		BALLASA INDEX - CRUDE OIL INCLUDED		BALLASA INDEX - CRUDE OIL EXCLUDED		NET EXPORT RATIO	
Code	Product Name	AVERAGE (2005-07)	HAS RCA?	AVERAGE (2005-07)	HAS RCA?	AVERAGE (2005-07)	HAS RCA?
2823	Ferrous waste/scrap nes	0.003173	NO	0.006355	NO	0.3039	YES
2852	Alumina (aluminum oxide)	18.70447	YES	39.104066	YES	1	YES
2882	Non- metal waste nes	0.020967	NO	0.044639	NO	0.9955	YES
2919	Animal materials nes	0.065326	NO	0.133445	NO	0.2072	YES
2924	Pharmaceutical plants	1.621966	YES	3.318492	YES	0.9032	YES
3330	Petrol./bitum. oil, crude	8.220295	YES			1	YES
3354	Petrol. Bitumen/coke/etc	1.753826	YES	3.637151	YES	0.9095	YES
3425	Liquefied butane	1.242038	YES	2.575103	YES	0.9989	YES
3510	Electrical energy	1.156835	YES	2.368379	YES	-0.4591	NO
4212	Cotton seed oil	57.86201	YES	119.721856	YES	0.9971	YES
4215	Safflower oil	4.222369	YES	8.929463	YES	-0.1186	NO
4216	Maize (corn) oil	18.676286	YES	38.772599	YES	0.1419	YES
4229	Fix veg fat nes not soft	14.342099	YES	29.189315	YES	0.8103	YES
4312	Animal/veg oil hydro- genated	19.443355	YES	39.82245	YES	0.9429	YES
5111	Acyclic hydrocarbons	0.718826	NO	1.46787	YES	0.9958	YES
5121	Acyclic monohyd alcohols	1.856027	YES	3.84175	YES	0.5253	YES
5124	Phenol/alcohols, derivatives	0.024538	NO	0.049716	NO	0.1399	YES
5161	Ethers/peroxides/ derivatives	0.82933	NO	1.710721	YES	-0.462	NO
5711	Polyethylene	2.421683	YES	5.059792	YES	0.7277	YES
5741	Polyacetals/polyethers	1.840956	YES	3.892517	YES	0.8699	YES
5759	Plastics, nes	2.219077	YES	4.610695	YES	0.6414	YES
5799	Plastic waste/scrap nes	0.031026	NO	0.066334	NO	0.7532	YES

		BALLASA INDEX - CRUDE OIL INCLUDED		BALLASA INDEX - CRUDE OIL EXCLUDED		NET EXPORT RATIO	
Code	Product Name	AVERAGE (2005-07)	HAS RCA?	AVERAGE (2005-07)	HAS RCA?	AVERAGE (2005-07)	HAS RCA?
5813	Reinforced plastic pipes	0.615505	NO	1.269945	YES	-0.2082	NO
6114	Bovine/equine leathr nes	0.243051	NO	0.4895	NO	0.3988	YES
6115	Sheep leather w/ out wool	0.187974	NO	0.393383	NO	1	YES
6341	Veneer sheets etc <6mm	0.212648	NO	0.437367	NO	0.4945	YES
6513	Cotton yarn nes	1.156198	YES	2.368374	YES	0.9014	YES
6515	Synth.fil.yarn text.bulk	0.055538	NO	0.115531	NO	0.3199	YES
6531	Woven syn fil yarn fabrc	0.554203	NO	1.157037	YES	0.2971	YES
6541	Woven silk fabrics	0.288371	NO	0.614178	NO	0.9141	YES
6561	Narrow woven fabrics	0.065211	NO	0.136531	NO	0.0409	YES
6581	Textile sacks/bags	7.305896	YES	15.126761	YES	0.7973	YES
6593	Hand woven rugs	0.739289	NO	1.548522	YES	0.8371	YES
6724	Ingot/primary iron/steel	0.323868	NO	0.684477	NO	0.5145	YES
6726	Semi-fin iron/steel<.25%c	0.15037	NO	0.322368	NO	0.2467	YES
6727	Semi-fin iron/steel >.25%c	2.179543	YES	4.431576	YES	0.1408	YES
6733	Cold rolled steel-3	0.080954	NO	0.163033	NO	0.2387	YES
6768	Iron/ angle/shape/sect	3.043883	YES	6.146523	YES	0.1806	YES
6791	Iron/steel tube seamless	0.913267	NO	1.933502	YES	-0.8537	NO
6821	Copper refined/ unrefined	0.323723	NO	0.664896	NO	0.9949	YES
6823	Copper rod/bar/profile	0.311185	NO	0.660727	NO	0.3873	YES
6825	Copper plate/sheet/strip	0.270049	NO	0.554344	NO	0.4103	YES
6841	Aluminum/alloys unwrt	3.129498	YES	6.440168	YES	0.999	YES
6852	Lead/alloys worked	0.124285	NO	0.271581	NO	0.2449	YES

		BALLASA INDEX - CRUDE OIL INCLUDED		BALLASA INDEX - CRUDE OIL EXCLUDED		NET EXPORT RATIO	
Code	Product Name	AVERAGE (2005-07)	HAS RCA?	AVERAGE (2005-07)	HAS RCA?	AVERAGE (2005-07)	HAS RCA?
7234	Constr/mining machin nes	1.032701	YES	2.268351	YES	-0.3553	NO
7239	Earth moving mach parts	0.519995	NO	1.060111	YES	-0.9093	NO
7423	Concrete pumps	0.835434	NO	1.627827	YES	-0.792	NO
7427	Pumps/liquid elevators nes	0.6512	NO	1.435543	YES	-0.8702	NO
7442	Pulleys/winches/ capstans	0.610102	NO	1.323416	YES	-0.657	NO
7917	Rail/tram pass coach etc	0.007642	NO	0.014525	NO	0.3333	YES
7918	Rail/tram freight/maint	0.874714	NO	1.886964	YES	0.2877	YES
7932	Ships/boats nes	0.999468	NO	2.104406	YES	-0.4183	NO
7933	Vessels for breaking up	10.59111	YES	22.566927	YES	0.3224	YES
7935	Special purpose vessels	29.437287	YES	57.394417	YES	-0.251	NO
7937	Tugs and pusher craft	3.763703	YES	7.778348	YES	-0.4596	NO
8731	Gas/liquid/electr meters	0.721536	NO	1.482977	YES	-0.8814	NO
8741	Navigation/survey/ et app	0.58737	NO	1.202306	YES	-0.6621	NO
8961	Paintings/drawings/etc	0.012411	NO	0.025277	NO	0.2697	YES
8963	Original sculpture etc	0.046879	NO	0.102346	NO	0.9985	YES
8965	Coins/nature collections	0.000424	NO	0.000897	NO	0.2564	YES
8986	Recorded magnetic tapes	3.586865	YES	6.830518	YES	0.0309	YES

NOTES:



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