

КАСПИЙСКИЙ РЕГИОН: ЭКОНОМИКА И ЭКОЛОГИЯ

DEVELOPMENT OF FOREIGN ECONOMIC RELATIONS OF AZERBAIJAN

Ch.N. Ismailov
(Azerbaijan, Baku)

Ключевые слова: внешнеэкономические связи, торговый баланс, экспортно-импортные операции, сопредельные страны, транспортные коммуникации.

Key words: foreign economic relations, trading balance, export-import transactions, transport communications.

After gaining independence, one of the most fundamental matters for Azerbaijan was to take a worthy place in the international geographic labour division. As all foreign economic relations were formerly controlled by Moscow directly, our republic was deprived of an opportunity to establish independent foreign relations. But newly emerged conditions paved the way for changing this situation.

Within the former USSR structure specialization of Azerbaijan's economy and economic links were restricted to limited frames in the international geographic division. Content and volume of the products imported and exported from our country was specified by the central government. Of course, the structure and directions of economic links were carried out according to all-union interests. But thereafter, the disbalance existing in some spheres of the republican economy deepened, leading thereby to non-equality in the territorial and sectoral structure of the economy. Hard political and socio-economic situation in the republic in early 1990s hampered necessary work to be done in this direction. Nevertheless, outlines of the country's economic contacts were gradually formed.

As is known, a country's trade and economic contacts directly depend on its macroeconomic situation. In this respect, changes, which took place in the economy in recent years, entitled growth of general goods turnover in the country's foreign relations. Consequently, this index increased 7,5 times as much in 1997–2006 [1, p. 50].

In 2007, Azerbaijan carried out import-export operations to \$ 11,76 bln by conducting useful mutual trade cooperation with 137 world countries (fig. 1). Exported goods made \$ 6.05 bln (51,5 %) and imported ones – \$ 5,70 (48,5 %) of foreign trade turnover (fig. 2). Eventually, \$ 349,7 mln formed as positive balance in foreign trade turnover [4, p. 435–440].

After gaining the independence, the country's trade and economic relations started developing mainly in the form of bilateral relations.

At the initial stage, economic contacts started developing with border countries (except for Armenia). In this regard, vectors of economic contacts in various directions created a number of favorable facilities for the country's economic development. Geopolitical processes, taking place in the region, affected simultaneously the development of economic contacts of each border state.

Economic revival in Azerbaijan was first of all due to the successful implementation of oil strategy. Creation of favourable conditions for foreign investors enabled investment growth stimulating opening of many work places in the republic. As a result, macroeconomic situation in the country considerably improved in parallel with the development of oil industry.

Special share of oil sector in Azerbaijan's GDP increased twice as much reaching 62,7 %. Volume of currency reserves was \$ 7,3 bln in Azerbaijan in January 2008. According to the 2007 results, Azerbaijan's foreign debt was \$ 2,4 bln making 8,2 % of the overall GDP, whereas this index makes 64 % of the GDP in France and 33 % in Russia. About 2 % of the

republican budgetary expenses will be aimed to payment of foreign debt. Foreign debt per capita is \$ 284 in the republic, while this indicator makes \$ 440 in Armenia. All these indexes reflected positive changes ongoing in the country's economy, offering favourable facilities to evolve foreign economic contacts.

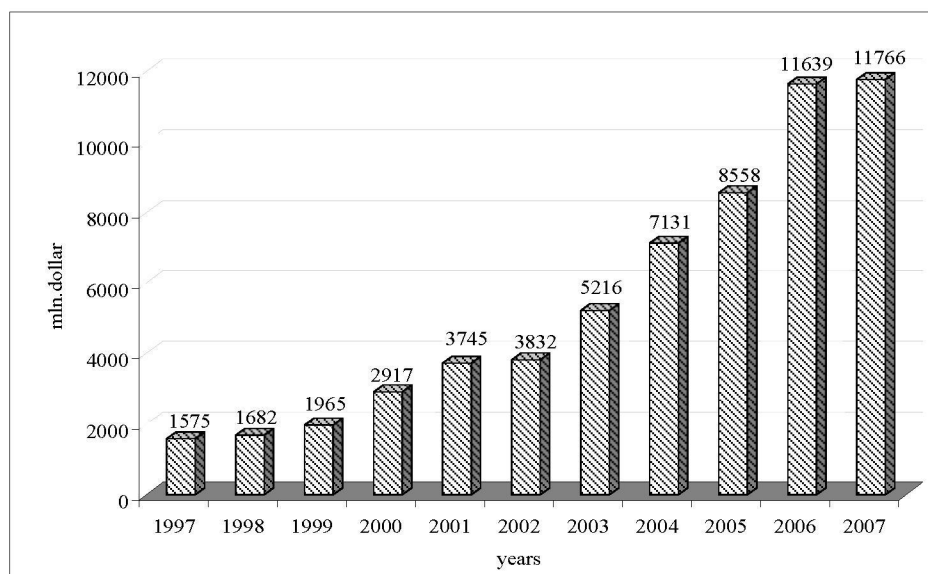


Fig. 1. Dynamics of Azerbaijan's foreign-trade goods turnover (1997–2007)

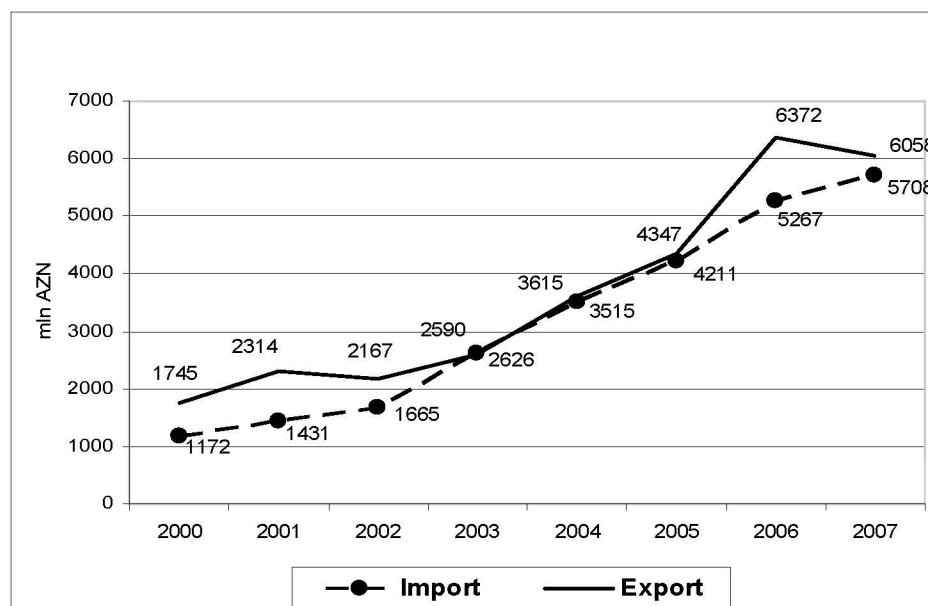


Fig. 2. Dynamics of Azerbaijan's import-export operations (2000–2007)

Gradual change in the frames of foreign economic relations caused decline of special share of the CIS countries in the import-export operations of the republic. The import index made 39,8 % in 2006, but dropped by 33,31 % in 2007 (fig. 3). The CIS share in the export is much less making 18,2 %. In general, special share of the CIS countries in Azerbaijan's foreign trade turnover made 25,5 %. It should be noted that such a situation was typical for each CIS country.

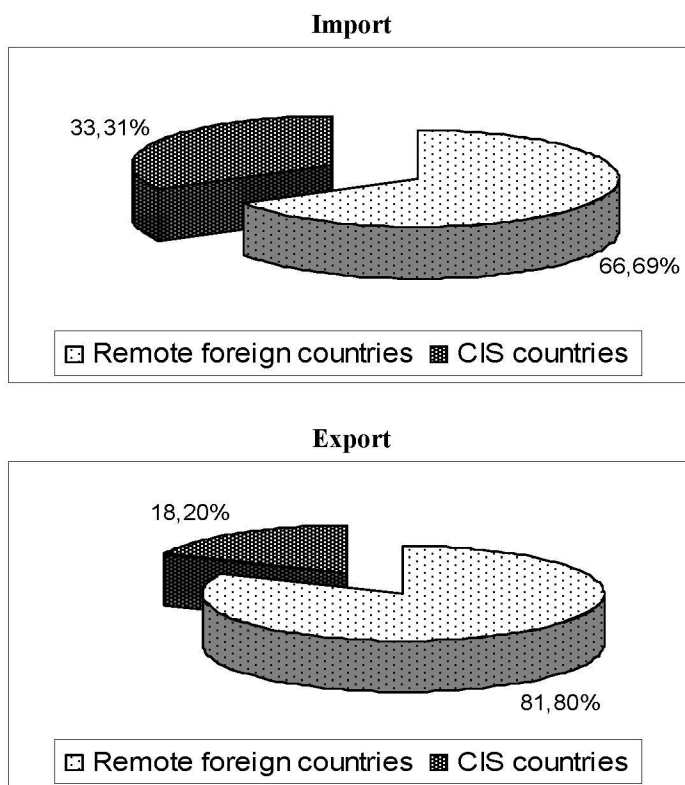


Fig. 3. Import and export structure of Azerbaijan among foreign countries (2007), %

Globalization processes ongoing in the world economy, establishment of titanic transnational companies and realization of reforms in the republic required optimal development of foreign economic relations. Naturally, it should be agreeable first of all to long-term interests of the state and capabilities of the national economy.

Countries backing up the republic's integration into the world economy have been prioritized in the development of its foreign economic contacts. As a result, geography of the republic's foreign economic relations has expanded considerably in the last 15 years.

28,5 % of export and import operations has been carried out with the European Union, 25,5 % – with the CIS countries and 46 % – with other countries. In 2007, 47,4 % of the republic's general foreign turnover fell to the share of Europe, 44,6 % – to Asia, 7,7 % – to America, 0,2 % – to African countries and 0,1 % – to Oceania. In separate, import and export ties were relatively different over regions in 2006 (fig. 4).

More than 5/4 part (82,2 %) of foreign trade operations formed owing to Turkey, Russia, Italy, Iran, the USA, Ukraine, Germany, the United Kingdom, Georgia, Israel, Indonesia, France, Kazakhstan, Japan, China and India.

Trade and economic relations meeting Azerbaijan's national and geostrategic interests are developed with Russia in the north, Georgia in the west, Iran in the south and Turkey in the south-west. Besides, Azerbaijan develops its bilateral economic contacts with Kazakhstan, Russia, Iran and Turkmenistan via the Caspian Sea. In this respect, border and neighbour countries are sufficiently important for Azerbaijan.

Effectiveness of foreign trade contacts depends first of all on the development level of contacts with border countries. According to the 2007 results, Turkey (14,3 %) and Russia (12,99 %) are leaders in Azerbaijan's general foreign goods turnover. Trucks (\$ 16,5 % worth), metal constructions (\$ 15,4 mln) and synthetic washing substances (\$ 14,4 mln) occupied a significant place among the goods imported from Turkey. Goods turnover was equal to \$ 438 mln in 2003, while this indicator made \$ 794 mln in 2005 and \$ 1,68 bln in 2007, respectively [2]. Despite this growth, special share of Turkey in Azerbaijan's foreign trade turnover is decreasing. If in 1997, this index was 40 %, it made 13 % in 2005.

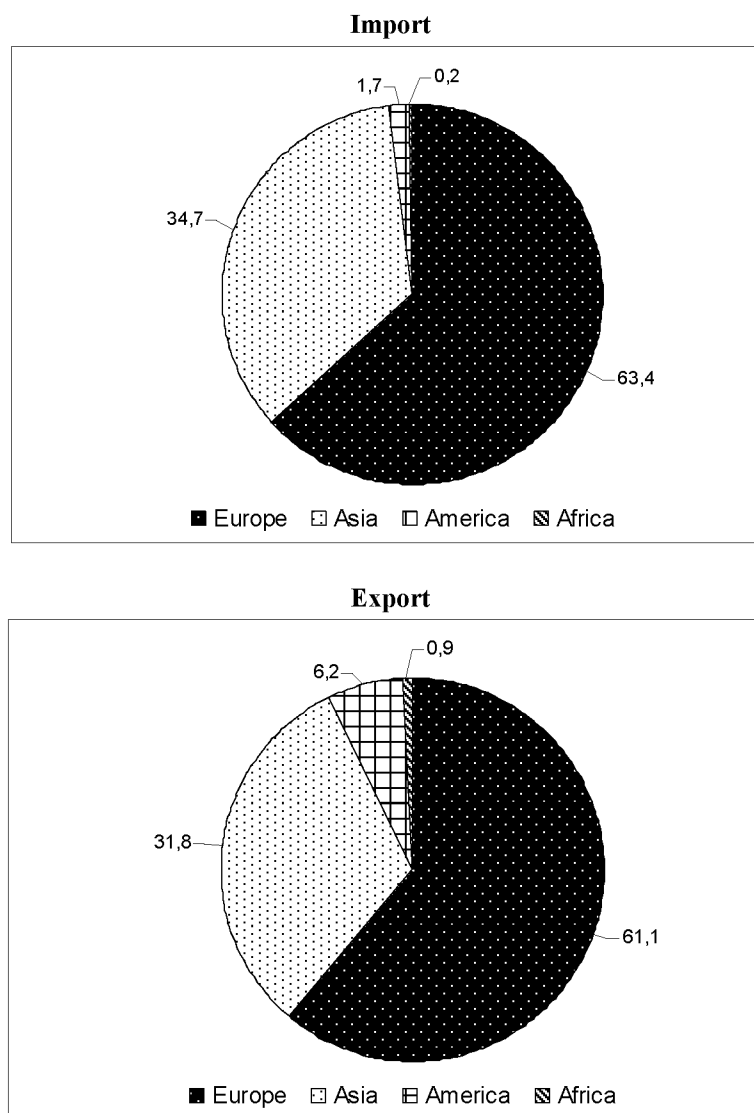


Fig. 4. Azerbaijan's import and export structure over geographical regions (2006), %

According to the State Customs Committee, \$ 6,05 bln worth goods of 2454 types were exported from the country in 2007. Imported goods were of 6755 types and cost \$ 5,7 bln. Russia occupies a leading place (17, 55 % or \$ 1 bln) in Azerbaijan's import and the following places are shared by Turkey (10, 94 % or \$ 624,4 mln), Germany (8,25 %), Ukraine (8,15 %), Great Britain (7,2 %), Japan (5,17 %), China (4,88 %) and other countries.

Turkey's special share in the export makes 17,4 % (\$ 1,05 bln) and other places are taken by Italy (15,53 %), Russia (8,7 %), Iran (7,18 %), Indonesia (6,4 %). Israel (6,1 %) and Georgia (5,67 %).

1/3 of imported output in Azerbaijan falls to the share of agricultural products. Russia takes the first place (with 76,8 %) among the border states (fig. 5). Thus, 30 types of agricultural products are delivered from Russia, while 15 types from Turkey and only 6 from Iran. Goods turnover between Azerbaijan and Russia was \$ 1525,8 mln in 2006, while this figure increased and reached \$ 1529,8 mln.

The most important products of those imported from Russia in 2006 were wheat (\$91,1 mln), cigarettes (\$38,7 mln), trucks (\$36,2 mln) and timber (\$24,8 mln) [4, p. 462]. Potato, eggs, fruit and vegetable were main agricultural products imported from Turkey and Iran.

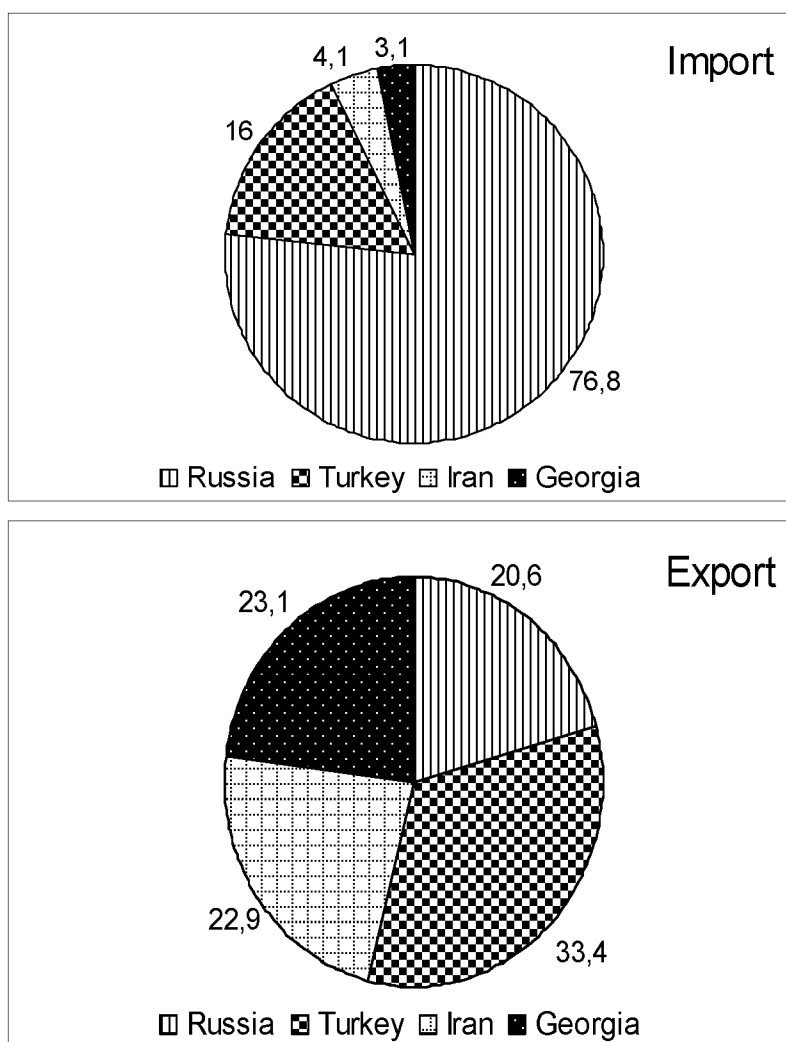


Fig. 5. Azerbaijan's import and export division among border countries (2006), %

The most expensive products imported from Iran in 2006 were metal constructions (\$ 8009,3 thousand), ceramic cover slabs (\$ 2089,1 thousand) and tractors (\$ 1301 thousand).

Georgia and Iran's special share make 7,2 % in Azerbaijan's import with border countries, because these countries don't have competitive opportunities compared to Russia and Turkey from economic development viewpoint.

Unlike the import, significance of border countries can be equally assessed in the export. The highest index (33,4 %) falls to the share of Turkey, while the lowest (22,9 %) – to Iran.

A number of state programs is underway to ensure sustainability of Azerbaijan's socio-economic development. Transport system should be improved to expand the country's economic contacts. In this respect, the "State Program on Transport Development in 2008–2011" has been worked up and is gradually carried out.

Azerbaijan has direct railway links with neighbour countries such as Russia and Georgia, while there is no railway connection with Turkey and Iran. Since the Nakhichevan Autonomous Republic is blockaded by Armenia, importance of railway stretched from Julfa to Iran is depreciated. Taking into account the current situation, construction of Baku-Tbilisi-Kars and Astara-Rasht-Gazvin railway lines is much important to expand the geography of the country's economic contacts.

Primarily, Azerbaijan and Turkey will finance the Baku-Tbilisi-Kars project. Towards this end, Azerbaijan has granted \$ 208 mln long-term credit to Georgia on preferential terms. The project is estimated at about \$ 600 mln.

Azerbaijan's joining to the "North-South" transport corridor initiated by Russia, India and Iran in 2000, created favorable conditions to stretch the shortest Russia-Azerbaijan-Iran railway. According to the project, the railway will be 8,5 km in Azerbaijan and 400 km in Iran. Besides, a 110 m long bridge is to be constructed over the Astara River by both sides. Annually, 20 mln tons of transit freight will be transported via the railway to be put into motion in 2012 [3].

At the same time, junction of Iran's and Azerbaijan's railways in one direction will allow increasing freight transportation between both countries from 200,000 tons to 1,2 mln tons. The capacity of goods turnover between Azerbaijan and Iran was \$ 600 mln in 2007. For comparison, Iran's goods turnover with Turkmenistan was \$ 1,3 bln in 2006.

According to the data released by the State Statistics Committee, import and export operations of 20,4 mln ton-capacity were carried out via various transport means. The import volume was 8,93 mln tons, while the export volume reached 11,48 mln tons. In the export, 3,74 mln tons of freight was transported via railway, 6,26 mln tons – via pipelines, 730 thousand tons – via sea transport, 723,9 thousand tons – via motor transport and 3,7 thousand tons – via air transport. In the import, freight was transported mainly via railway (6,96 mln tons), motor (1,4 mln tons) and pipeline (336 thousand tons) transport.

Construction of new pipelines is of great importance to expand Azerbaijan's economic contacts. As is known, newly commissioned Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzrum pipelines deliver Azerbaijan's hydrocarbon resources to the world market directly affecting the geography of the country's economic contacts. 28,4 mln tons of crude oil was exported via Baku-Tbilisi-Ceyhan pipeline in 2007. As a result, budgetary income has grown considerably in the republic.

In line with the newly commissioned oil and gas pipelines, the "Nabucco" transport project backed up by the European Union should be regarded as a sequel of these works. According to the project, TransCaspian gas pipeline is to be constructed via Central Asia-Azerbaijan-Georgia-Turkey. Germany, Austria, Turkey, Bulgaria, Hungary and Romania are founders of the consortium established over the Nabucco project.

The TransCaspian gas pipeline will be 3 000 km long and cost \$ 3 bln (in some sources it is indicated as \$ 6 bln) and its gas conductive capacity will be 30 bln m³ along with the consortium members – Greece, Israel, Iran, Italy, Switzerland and other countries are interested in natural gas to be exported from Azerbaijan and Central Asia.

Azerbaijan carries out haulage operations with Kazakhstan and Turkmenistan ports along with those of Russia and Iran. Foreign economic contacts through sea transport are carried out via Baku Cargo Port and Dubendi oil terminal. For goods turnover, the Baku sea port occupies a key place in the South Caucasia-Central Asia transport corridor. However, the port's location in the city impedes enlargement of its territory. In this respect, movement of the Baku port outside the city can be a way out of this situation. Alat settlement located in the south-east of the Absheron Peninsula has been selected for the construction of a new port. Unlike the old one, capacity of goods turnover is forecasted to increase 3 times as much. The new port will be capable of receiving 13,5 ton cargo ships. The new port is estimated at \$ 400 mln. The state will fund the port construction. Besides, Baku-based shipyards will be removed to this area. The South Korean STX Co and Azerbaijan Investment Company have signed an agreement on the construction of a new shipyard in Alat settlement.

Analysis of changes taking place Azerbaijan's foreign economic relations proves that deepening of economic relations with foreign countries and growth of goods turnover is related directly to socio-economic development of the country. As was mentioned, the country's economic development is related primarily to oil industry.

Although total volume of oil and oil products exported from the republic increased by 900 thousand tons in 2002–2006, its special share in export dropped from 87,8 % to 84 % (tab. 1).

Table 1

Goods group	2002	2003	2004	2005	2006
Plant products	1,64	2,32	1,99	4,45	2,45
Mineral products, including mineral fuel, oil and oil processing products	88,94	86,02	82,25	76,80	84,63
Products of Chemical industry	1,65	1,97	2,13	3,03	3,03
Cheap metals and wares made of these metals	1,00	2,13	2,69	2,43	2,35
Output produced in other spheres	6,77	7,56	10,94	13,29	7,54
Total	100	100	100	100	100

It is three years since Azerbaijan exports stock-raising output. \$ 13,8 mln worth stock-raising output was exported from the country in 2007. In the last decade, meat, milk and egg production has increased 3–3,5 times as much. However, the country's demand for cattle-breeding hasn't been yet provided fully. 40.000 heads of cattle are to be imported to the country in 2008–2015 to eliminate this gap.

Since rivalry is one of the key factors of the development in the conditions of market economy, a domestic producer should be capable to export qualitative and competitive products to the world market. Existence of only 5 types of cattle in commodity structure of the republican export proves availability of certain problems in this sphere. In such case, attention of the state and entrepreneurs should be focused mainly on the production of qualitative products in the domestic market.

Unlike export, imported products are of various types and vast quantity. Cars, machinery and electro-technical equipment prevail among the imported products. Special share of these products makes 29,3 % (tab. 2, fig. 6).

Although total cost of imported food products increased about twice as much (\$ 553,1 mln) in 2002–2006, its special share dropped from 14,3 % – to 10,5 %, respectively.

Table 2

Goods Group	2002	2003	2004	2005
Plant products	6,37	5,58	6,60	4,08
Readymade food products, alcoholic drinks, vinegar and tobacco	5,04	3,88	3,24	4,62
Mineral products	19,49	13,50	14,42	15,22
Chemical industry products	4,99	4,20	3,78	4,36
Plastic masses, caoutchouc, rubber and wares made of them	2,38	2,83	2,51	2,47
Cheap metals and wares made of them	16,87	18,99	17,38	11,62
Cars, Machinery and electro technical equipment	23,77	26,07	30,85	33,31
Optical photographical control, medical instruments and devices	1,73	2,02	2,06	1,90
Transport means	7,42	12,66	6,88	10,00
Output produced in other spheres	11,94	10,27	12,28	12,42
Total	100	100	100	100

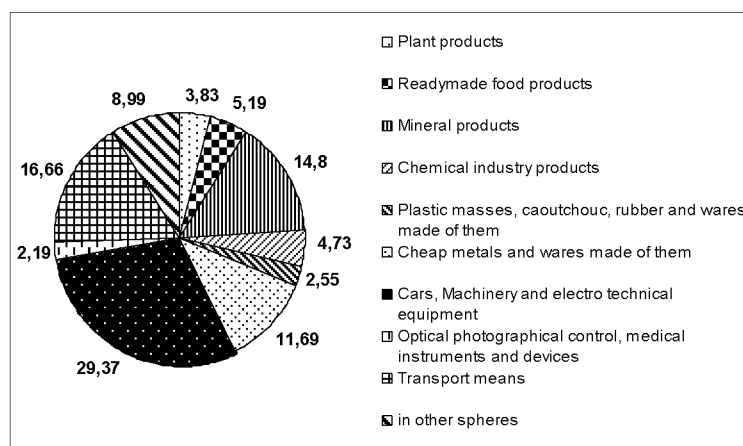


Fig. 6. Commodity Structure of Azerbaijan's Import (2006), %

Outcomes of socio-economic reforms carried out in the republic of course will reflect themselves in future development of the country's foreign economic contacts.

According to the government's predictions, the republic's foreign trade turnover will make \$ 21,9 bln. This indicator will increase by 88,3 % compared to that in 2006. Attention will be focused mainly on the growth of export in foreign trade. If the export capacity was \$ 6,5 bln in 2007, this figure will be \$ 16,2 bln in 2008 and 17,48 in 2009.

The import capacity will decrease instead. If import was \$ 5,7 bln in 2007, this indicator will drop down to \$ 3,9 bln in 2009. These changes will entitle positive balance in the republic's foreign goods turnover.

Библиографический список

1. *Исмаилов, Ч. Н.* Макроэкономические сдвиги в развитии Азербайджана / Ч. Н. Исмаилов // Мир перемен. – 2007. – № 3. – С. 46–53.
2. **Azerbaijan Republics** [Электронный ресурс]. – Режим доступа: <http://www.azstat.org/publication>, свободный. – Заглавие с экрана. – Яз. англ.
3. *Iran news* [Электронный ресурс] / Российское информационное агентство. – Режим доступа: http://www.iran.ru/rus/news_iran, свободный. – Заглавие с экрана. – Яз. англ.
4. *Statistical Yearbook of Azerbaijan*. – Baku : The Statistical Committee of the Republic of Azerbaijan, 2008. – 715 p.

THE FORMATION OF TRADE-ECONOMIC RELATIONS BETWEEN AZERBAIJAN REPUBLIC & ISLAMIC REPUBLIC OF IRAN AND COMPLEX ANALYSIS OF ITS DEVELOPMENT

Mousa Rezvani Chaman Zamin
(Islamic Republic of Iran, Astara,
Astara Azad Islamic University)

Ключевые слова: страны Каспийского моря, комплексный анализ, экспортно-импортное сходство, экономический протокол, региональная торговля, внешняя торговля.

Key words: Caspian Sea countries, complex analysis, export – import similarity, economical protocol, regional trade, foreign trade.

Abstract. At this article we discuss about international trade theories from classic and neo – classic view points until modern foreign trade theories. The foreign trade is an important matter of international relations between two countries, for example among Iran and Azerbaijan Republic. This paper try to describe the condition of commercial – economical