

A COMPARATIVE ANALYSIS OF CIS COUNTRIES' WTO ACCESSION; WAYS TO  
EUROPEAN INTEGRATION

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## **Executive Summary**

The overall goal of this paper is to understand how WTO Accession affect CIS countries economy. To accomplish this goal we have 4 main specific objectives. First, we are looking to spell out impacts of CIS countries's Accession to the WTO on specific sectors, especially, business, services, agriculture and etc. Second, we try to sort out general pros and cons of WTO membership. Third, we seek to find out implications from selected countries experience to Azerbaijan. Forth, based on this research we prepare policy recommendations for the Azerbaijan Government in order to minimize disadvantages and maximize advantages of WTO Accession.

The paper is divided into 4 chapters; introduction, current economic situation, foreign experience and policy recommendations. In the first chapter, we look through the way CIS countries including Azerbaijan pasted to join to the WTO. The second chapter provides information about current economic situation in CIS countries. Lessons from selected countries in terms of WTO Accession are summarized in the third chapter. Finally, in the forth chapter, recommendations in order to maximize advantages of WTO Accession are stated.

We found out that there are more advantages than disadvantages of CIS countries' Accession to the WTO. The picture, though cautious, is optimistic. Some researchers claim that the impacts of transition countries' Accession to the WTO on Azerbaijan economy are marginal. The idea is that domestic firms have not enough capacity to compete with foreign companies and by opening up the borders the country will face to myriad amount of import goods. Others accept as true that candidate members from CIS will significantly get benefit from WTO Accession. WTO membership will increase predictability of those countries by imposing "bound tariffs". It will enhance transparency and reduce corruption and will open more opportunities for business sector. Finally, WTO Accession will open foreign markets to former soviet union goods, will support competition in domestic market and will encourage technology transfers on a larger scale.

As it seen from the data above, only Turkmenistan among all CIS-member nations is in no hurry, while Kyrgyzstan, Moldova, Georgia, and Armenia are already full members. Azerbaijan, including Russia, Ukraine, Byelorussia, Kazakhstan, Uzbekistan, and Tajikistan are countries negotiating membership, of which Russia, Ukraine, and Kazakhstan are said to have better chances to become members.

From CIS countries Kyrgyzstan , Georgia, Moldavia and Armenia had already acceded to the organization. Terms of the accession conform with the terms of the developed countries rather than those of developing countries. Other CIS states are at different stages of the negotiations in the accession. Russia and Ukraine approached to the stage of signing of final protocol. At the same time, with a view to assume obligations upon becoming members these countries may encourage starting negotiations by Azerbaijan. Armenia assumed several obligations due to the work held by the Government of Azerbaijan and with the support of several states during the accession. The most important is supposed not to impede with Azerbaijan's accession to WTO and also to try not to apply the WTO rules in the occupied territories.

Because Azerbaijan has a small domestic market and needs to have access to the world market and handles problems and barriers in order to integrate world economic system, WTO membership is very important for the country. The membership will enhance transparency and reduce corruption and will open more opportunities for business sector. Finally, WTO Accession will open foreign markets to CIS countries goods, will support competition in domestic market and will encourage technology transfers on a larger scale.

We have drawn the conclusion that candidate countries from CIS' Accession to the WTO have both negative and positive impacts on those countries economy. The accession is expected to have positive impacts on monopoly reduction, fighting with corruption, enhancing transparency, economic integration and etc., however, the negative impacts should be seriously taken into account. The negative of impacts of the WTO Accession on small producers, agriculture farmers and service sector will be particularly considered.

## Introduction

Issues related to development of the World Trade Organization (WTO), which is distinctive with its leading role and activity in increasingly economic globalization, as well as new accession in this context are considered a subject at issue that involves and concerns not only investigators, but also economic analysts in research and practical debates at different levels. Since the WTO, by making significant contributions to international trade liberalization, promotes the efficient administration of trade turnover and provides openness of member countries in foreign trade regimes through free market access principles. The WTO is the only international organization dealing with the global rules of trade between nations. It plays a role of administering transnational trade relations based on the multilateral trading system — the WTO's agreements, negotiated and signed by a large majority of the world are trading nations.

The WTO's overriding objective is to maximize international trade liberalization and to establish its sound foundation, thus leading to economic development and advance in the cost of living. In order to achieve these undertakings, WTO's primary duty extends to administering commercial and economic relations among member governments according to the Package of Agreements resulting from the Uruguay Round trade talks (1986-1994).

The WTO's overriding objective is to help trade flow smoothly, freely, fairly and predictably.

It does this by:

- Establishing “the most favorable regime” policy (establishment of an equal trade environment for member governments)
- Establishing a “national regime” policy (inadmissibility of discrimination between imports and services with local goods);
- Providing advantage over tariff methods in trade controls;
- Lowering trade barriers to quantity;
- Achieving openness and transparency in trade policy;
- Maintaining internal markets under WTO rules only;
- Creating favorable conditions for free competition;
- Settling trade disputes through negotiations, etc.

The World Trade Organization came into being in 1995. One of the youngest of the international organizations, the WTO is the successor to the General Agreement on Tariffs and Trade (GATT) established in the wake of the Second World War. By latest estimates, the World Trade Organization covers more than 95% of world trade in banking, insurance, securities and financial information.

Virtually all decisions in the WTO are taken by consensus among all member countries and they are ratified by members' parliaments. A majority vote is also possible but it has never been used in the WTO. Although debates on goods, services, and intellectual properties and exemption from liabilities are accepted by a three-fourths majority, a two-thirds majority is needed for new membership, as well as timely corrections to members' rights and duties. Virtually in this case priority is given to consensus.

The Government of the Azerbaijan Republic submitted a Memorandum on its Foreign Trade Regime on 22 April 1999. Later on, the Permanent Mission of the Republic of Azerbaijan had provided replies to additional questions submitted by Members on the Memorandum on the Foreign Trade Regime - Australia, Japan, the European Union states, and the United States. The first meeting of the Working Party was held in Geneva on 3-7 June 2002.

The first meeting with the Members on the Memorandum on the Foreign Trade Regime advised Azerbaijan to submit the following documents:

- Proposals on customs tariffs (not applied tariffs, but their higher rates to be applied)
- Proposals on internal assistance and import subsidies in the agrarian sector
- Proposals on trade in services -related measures
- Information on technical barriers to trade and application of sanitary and phytosanitary measures
- Information on trade-related aspects of intellectual property rights

## Problem Description

The WTO has nearly 150 members, of which 121 countries are successors of GATT. In addition, around 30 others are negotiating membership, as well as several international organizations are observers.

As it can be seen, greater part of countries negotiating membership is CIS countries. All the CIS-member states, excluding Turkmenistan either have been acceded to the WTO or are negotiating membership to that end. Let's describe WTO accession status of the CIS through the following table.

**Table 1.**

<b>Application</b>		<b>Current Status</b>
Armenia	Nov-93	Joined in 2003
Azerbaijan	Jul-97	Ongoing negotiations
Belarus	Sep-93	Ongoing negotiations
Georgia	Jul-96	Joined in 2000
Kazakhstan	Jan-96	Ongoing negotiations
Kyrgyz Republic	Feb-96	Joined in 1998
Moldova	Nov-93	Joined in 2001
Russia	Jun-93	Ongoing negotiations
Tajikistan	May-01	Ongoing negotiations
Turkmenistan	...	...
Ukraine	Nov-93	Joined in 2008
Uzbekistan	Dec-94	Ongoing negotiations

**Source: WTO, 2008**

As it seen from the data above, only Turkmenistan among all CIS-member nations is in no hurry, while Kyrgyzstan, Moldova, Georgia, Armenia and Ukraine are already full members. Azerbaijan, including Russia, Ukraine, Byelorussia, Kazakhstan, Uzbekistan, and Tajikistan are countries negotiating membership, of which Russia, and Kazakhstan are said to have better chances to become members.

From CIS countries Kyrgyzstan, Georgia, Moldavia and Armenia had already acceded to the organization. Terms of the accession conform with the terms of the developed countries rather than those of developing countries. Other CIS states are at different stages of the negotiations in the accession. Russia and Ukraine approached to the stage of signing of final protocol. At the same time, with a view to assume obligations upon becoming members these countries may encourage starting negotiations by Azerbaijan. Armenia assumed several obligations due to the work held by the Government of Azerbaijan and with the support of several states during the accession. The most important is supposed not to impede with Azerbaijan's accession to WTO and also to try not to apply the WTO rules in the occupied territories.

One can see that appropriate accession discussions are problematic. Because the WTO continues to require a tougher line on nations that are bidding for membership. Already the struggle for major privileges 'costs' dear. It is proved by a serious discrepancy among rich and poor nations in late negotiations held within the Doha Roundtable. Since the conference had heard proposals on export subsidies forwarded by the 'poor' and demands for lowering import duties presented by the 'rich', and as a result, although they attained agreement, the rich do what they want failing to adhere to their commitments. In fact, it is due to their great prestige in the organization and world trade turnover. Since by statistic figures, 82% of global trade falls on 20% of the richest countries, while one percent to 20% of the poorest countries.

So, joining the WTO is individual for each country with complicated procedures, and the accession period may last from three years to 15 years. For example China joined WTO after 15 years of negotiations, while Kyrgyzstan joined in three years. Mongolia's accession has been more progressive thanks to lowering tariffs on most import goods.

As it can be seen from the chart above, the accession process of the Republic of Azerbaijan has started since 1997 when the Government of Azerbaijan officially applied to the WTO Secretariat to become a WTO member, thus resulting from the establishment of Azerbaijan's Working Party in the same year. A National Coordination Group had been established in Azerbaijan, with a view to tackling problems before the country in the accession period. The Group consisted of representatives from concerned ministries, committees, and agencies.

In order to continue negotiations on fair trade principles in the wake of joining the WTO and to develop the documents to be submitted to the WTO by the coordination from related structures, as well as to provide a single economic policy in WTO negotiations, an appropriate Commission consisting of high-rank government officials according to the 22 August 2003 order by the Cabinet of Ministers had been established. To tackle these items, the Commission/Committee had designed nine Working Groups on an analysis of amendments to the legislation; development of commitments on agrarian financing; intellectual property rights; social issues; investment adjustments; development of commitments related to services; technical barriers to trade and application of sanitary and phytosanitary measures; preparation of liabilities associated with customs duties on rules and procedures governing the settlement of disputes. At the same time, for an effective management and coordination a Secretariat was established

As the subject of the Roundtable held in June this year was issues related to import customs duties, determination of highest level of subsidies in agriculture, etc., no consensus had been reached and new questions were submitted to the Azerbaijan Mission. The next term for replies to such questions for WTO accession has been scheduled for August 1, 2005. In addition, a program concerning legal sphere has been developed and it is intended to apply this program in the period to come. In addition, it is planned to make amendments to laws and rules on tariffs and services. In the following table main macroeconomic indicators of Azerbaijan has been stated. Main economic figures are also important to study advantages and disadvantages of the WTO accession.



Table 2.

<b>Main Macroeconomic Indicators of Azerbaijan</b>												
as % of the previous year												
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Gross domestic product</b>	88,2	101,3	105,8	110,0	107,4	111,1	109,9	110,6	111,2	110,2	126,4	134,5
<b>Industrial production</b>	79	93	100,3	102	104	107	105	104	106	106	134	137
<b>Agricultural production</b>	93	103	94	106	107	112	111	106	106	105	108	100,9
<b>Capital investments</b>	82	212	139	123	98	103	121	184	174	135	117	115
<b>Freight carried</b>	91	100,7	117	120	133	121	117	109	112	107	111	107
<b>Retail trade turnover</b>	102	114	115	110	113	110	110	110	111	113	113	114
<b>Industrial producers price index</b>	1865	198	112	88	94	127	102	98	116	113	119	118
<b>Consumer price indices</b>	512	120	104	99	91	102	102	103	102	107	110 <sup>1)</sup>	108
<b>Export to CIS countries</b>	104	102	130	61	91	111	95	109	136	185	147	103
<b>Export to other countries</b>	93	97	118	93	192	210	139	92	117	133	115	158
<b>Import from CIS countries</b>	47	149	103	115	80	115	119	146	131	141	120	145
<b>Import from other countries</b>	150	141	71	152	106	112	124	103	175	130	119	115

<sup>1)</sup> According to classification on individual consumption by purpose (COICOP).

### **International Economic Relations and Bilateral Free Trade Agreements**

Azerbaijan's co-operation with international trade organizations must be reviewed from a catalog of aspects of its WTO accession. Issues like assistance for the accession process, arrangement of consultative programs, expert trips to Azerbaijan to tackle problems in focus, implementation of technical assistance programs, etc. are subject to focus of attention. In addition, it is essential to access opportunities of donor organizations to train local specialists in the WTO, as well as to arrange visits for the Negotiating Party. In addition to solving our specialists' problems, it will certainly enable Azerbaijan to expand its corporative relations and strengthen faith and trust as a partner. Since Azerbaijan already has relations with some of these organizations. An example may include the Islamic Development Bank and the Asian Development Bank. It would be effective to co-operate with these organizations within UN-led programs. Besides, any other important issues must always be in the focus of attention- co-operation with all international trade organizations, and adherence to all commitments and guidelines arising out of membership in those organizations –and notably co-operation with the International Monetary Fund (IMF) - must absolutely conform with Azerbaijan's position when negotiating WTO membership.

Azerbaijan should establish bilateral relations on the threshold of WTO accession, hold consultations, as well as take relevant steps to gain support as a reliable partner in the period ahead. To that end, the Table below reflects related activities in the CIS and the list of respective bilateral foreign trade agreements:

**Table 3.**

**Bilateral Free Trade Agreements in the CIS**

Georgia	Kazakhstan	Kyrgyz Republic	Moldova	Russia	Tajikistan	Turkmenistan	Ukraine	Uzbekistan
=	1996	1997	= 1995	1992	1997	1996	1995	1996

**Sources: Country authorities; and Fund staff calculations, 2006**

As may be seen in the Table above, although Azerbaijan has signed bilateral Trade Agreements with its foreign partners inside the CIS, this partnership is still incomplete, and has not extended to Belarus, Kyrgyz Republic, and Armenia so far. Virtually, given Azerbaijan conducts no trade operations with Armenia because of the Karabakh conflict, there is no need for such bilateral or plurilateral agreements.

And now we would like to assess comparatively the state in the CIS by introducing the trade regime indicators in this region.

**Table 4.**

**Selected Trade Regime Indicators in the CIS, 2006**

Number of bands	Minimum tariff (%)	Maximum tariff (%)		Average tariff (%)	Custom fees (%)
Armenia	2	0	10	4.0	0.00
Azerbaijan	3	0	15	10.8	0.15
Belarus	8	0	100	11.0	0.15
Georgia	22	0	30	8.2	0.15
Kazakhstan	10	1	100	7.4	0.20
Kyrgyz Republic	5	0	20	4.5	0.15
Moldova	6	0	15	6.9	0.00
Moldova	10	0	100	11.1	0.00
Tajikistan	6	0	15	7.6	0.00
Turkmenistan	6	10	100	5.1	0.50
Ukraine	5	0	70	12.7	0.00
Uzbekistan	3	0	30	15.3	0.20

**Sources: Country authorities; and Fund staff calculations, 2006**

As it can be observed in the Table, Uzbekistan leads this region as per average tariffs (customs duty rate), whereas the most liberalized measures are taken in Armenia. As for highest tariff rates, Belarus Republic, Kazakhstan, Turkmenistan, and Moldova are in the lead. Since this figure in the mentioned nations accounts for 100%. Azerbaijan at a 10.8% rate is listed above the center or at a 15% maximum rate below the center.

## **Policy Options**

Meanwhile, there are some other reasons that worsen conditions for Azerbaijan. First, lack of start opportunities during first negotiations. Currently in Azerbaijan import customs duties range from 0% to 15%, while their average rate is about 10%, and our country has undertaken before the IMF to lower this rate to 5% - 6%. I would like to cite an example from countries I have ever known. For example: Before WTO accession import customs duties in Kyrgyz Republic ranged between 0% and 50%, while the average rate accounted for 10.74%. After being acceded, that country had been granted with a privilege to maintain the highest duty degree at 50% for the first three years and the lowering tariffs (customs duties) had accounted for 5.4% in 2003. Regarding Turkey, although it is one of the WTO's first members as a GATT founder, at present in the country import duty tariffs on some seasonal agricultural products even reach 200%. In China customs duties ranged from 0% to 65% before WTO accession, and to maintain this level the country was allowed to use reduced tariff rates by 2010. For reference, the transition periods on tariff preferences for Latvia, Kyrgyz Republic, Georgia, and Moldova at WTO accession were 9, 7, 5, and 4 years, accordingly. This period for some countries (eg China, India, etc) covered 15 to 25 years.

### **Negative Elements on the WTO Accession**

Azerbaijan's accession to the WTO is closely linked with the improvement in legislation. At present there are such laws on adjustment, intellectual property, and investment measures, which fail to meet either international or WTO rules. WTO accession will enable the country to forecast its trade policy, increase transparency, start co-operation with more international trade partners, and handle trade disputes constructively. Notably, the key points discussed under the agreement in agriculture concern determination of a high margin and tariffs of agricultural subsidies.

The second reason that worsens our position is the low level of fiscal opportunities for the provision of agricultural subsidies. Every year the European Union countries give subsidies of \$350 billion for export of agricultural products. In addition, related enterprises also indirectly benefit from these subsidies. More exactly, by statistical estimates, a farmer in Sweden receives subsidies of \$33,000 every year. This figure accounts for \$20,000 in the United States and Japan. In our case, it will be a challenge to protect the agrarian market at low customs duty rates and subsidies. Although development of the oil sector is a priority in the government's policy, we are concerned by potential risks in the agricultural sector. Indeed, we have a right to get a preferential/reduced rate from the WTO for agricultural subsidies, and its highest margin may amount to 10% of total production rate in agriculture (currently high level of such subsidies for developing countries is 10%, while 5% for developed countries). This rate certainly is reasonable. But it is doubtful whether the Azerbaijan Government will give subsidies at this rate. Currently Kyrgyzstan has faced similar problem: although it has given subsidies to farmer to the extent of 0.01% of total agricultural production, the country has been allowed to increase this rate by 5% a year. However, insignificant budget opportunities prevented that government from benefiting.

In connection with WTO accession Azerbaijan may be deprived from food aid to the country. However, this barrier will not concern the World Bank (WB) or the International Monetary Fund (IFM). For example, in case national emergency is declared in Azerbaijan, and a WTO member nation is willing to assist Azerbaijan, there will be some barriers. For this, the assisting party must have a reasonable argument and coordinate its decision with other member governments. WTO has passed this rule after Ethiopia practice. Since although that country received food aids for decades, no conditions to stimulate farmers had been created. In order avoiding this problem in other member

countries, WTO has applied a barrier to that end. Evidently, non-WTO members can render assistance to WTO member countries.

Another factor that may have a negative impact on Azerbaijan's accession is that some government officials fail to properly understand the burden of the accession to the WTO, to have enough experience with coordination. In addition, it is attended by lack of competent personnel. Since during WTO accession it is real essential to build effective and central activity measures to cover all the spheres. The WTO Secretariat should not share responsibility for this. On the other side, in addition to experienced diplomats in this field, Azerbaijan lacks skilled and competent specialists and experts to hold discussions in the areas of international business and commercial law not only before, but also after joining WTO.

Lack of heavy research works on an analysis of the structure and perspectives of the national economy, as well as indexing on competitiveness of economic fields and product items leads to insignificant and uninteresting replies to the WTO from the Azerbaijan Mission, as well as restricts Azerbaijan's opportunity.

We think it is necessary to mobilize all government structures, including Parliament, in order to soften the impact of the problem. During WTO accession it is important to hold consultations with business structures, research institutions, and concerned analysts. Involvement of NGOs and media outlets in the process under transparent conditions is a must.

Regarding NGOs and research institutions, it is necessary to charge them to investigate the process. The subject of their studies may cover determination of products' absolute advantage in terms of division of international labor, export potentials, and opportunities to replace imports. In this case the target is sure to reveal weak and strong sides of possible competitiveness in the wake of WTO accession and to fix indexing of competitive capacity. These outcomes will certainly increase benefits and reduce losses from WTO, as well as ensure fair trade.

A next reason for difficulties is relations with our neighboring countries. The fact that Russia, one of our key trade partners, has become signing final protocols on WTO accession enables us to predict that that country will join the WTO before Azerbaijan. Therefore, there is no doubt that after joining Russia will comment negotiations on a set of commitments with Azerbaijan. Also, we must be prepared for pressures from Iran, our neighbor to the south. Iran's accession may worsen the situation and deepen regress of adaptation in several branches. Much noteworthy is that for Iran such pressure may stem from not only economic, but also political interests.

According to corruption rating (it takes the 140<sup>th</sup> place among 146 states), the level of economic liberalization (103th among 161 states), and the economic environment in Azerbaijan, the weak development of democratic institutions restricts factors that speed up entrepreneurship and human potential. These reasons worsen our position under both conditions - before and after accession.

To seek support from other countries, the existing political environment is not favorable either. The pro-Russian political course after the 2003 presidential election, has led to loss of political support from the west – the EU and USA in the wake of accession. Although this is a political factor, it may be assessed as a better lever than other factors.

As it can be seen from the problems listed above, it is doubtful that Government will take mitigating measures. But it does not imply we have to refuse from the accession. In any case WTO accession will bring significant benefits to the society, including producers and exporters in particular. Since the core rule in the WTO is to avoid discrimination in foreign trade and provide free access to the markets of member states.

**Naturally, in addition to the benefits from Azerbaijan's integration into the world economy through the WTO, it may sustain possible losses as well. These losses can be grouped as following:**

- adaptation regress occurs in the production of noncompetitive goods and provision of services due to competitiveness development in the national market;
- receipts from customs duty and tax items reflected in the state budget are reduced, and its expenditure item faces problems for short-term and sometimes mid-term periods;
- commission fees paid for use of patents on technologies import increase industrial expenditure, thus lowering their benefit of price competition;
- direct and indirect subsidies the government gives for the purpose of protecting the local industry cease, and this area practices a crisis of adaptation;
- adjustment of values with world prices increases consumers expenditure, and its social disturbance threatens transition economies and politically sensitive powers;
- Efficiency of investments is reduced in the spheres that may replace import in terms of high profitability of finished products import, and as a result total investment in the national economy is reduced.

By our estimates, successful WTO accession is dependent on the structure and development level of the national economy. Therefore, first, it is important to prepare the economy for this process, mobilize diplomatic opportunities, and approach to the matter skillfully. We should not forget that WTO accession is not an aim, but just a means. Thanks to this accession, we can increase our opportunities to integrate into the world economy, achieve more liberalization in foreign trade, as well as lower technical and quantitative barriers, simplify customs supervision procedures, increase transparency, accelerate involvement of latest technologies, know-how methods, patents, namely advanced innovations, in our country, adjust our laws according to international rules, and protect copyrights. On the other side, we hope that following WTO accession a variety of banks and insurance companies in the world's leading economies will make investments in this member government, thus bringing to formation of a normal financial sector, and significant funds and long-term credits will solve capital-related problems of the non-oil sector in the national economy. In addition, it should be noted that the WTO avoids barring protectionism, permits to increase tariff rates and to grant increased subsidies. However, all this is subject to appropriate negotiations and sanctioned rules.

As is well known, a decision on WTO accession is taken by consensus. However, a two-thirds majority is also possible. For consensus, it is essential to work harder and flexibly, with a view to achieving a decision to ensure the provision of all interests.

### [Positive Elements on the WTO Accession](#)

WTO principles will certainly bring significant benefits. In fact, barriers to quantity applied on import operations raise difficulties to local business structures. Currently the number of such barriers is seven.

Provision of openness and transparency in this process is problematic too. Under conditions where trade discrimination is obvious, WTO's opportunities in this concern are irreplaceable. We must bear in mind that the State Budget loses millions of dollars every year due to problems in foreign trade turnover. WTO measures will certainly enable to reveal and tackle all these problems.

In order to explain it more clearly, let's cite statistics of two countries. Turkey is one of Azerbaijan's key trade partners. According to Turkey's Foreign Inspection Department, in 2003 products valued at \$315.488 million have been imported to Azerbaijan from that country. And now, let's see what figures Azerbaijan's Statistics Committee has disclosed.

By WTO statistics, Azerbaijan's import from Turkey had been \$195.131 million in 2003. In that case, the difference arising out of import from Turkey is over \$120 million, which expresses the volume of hidden turnover within a year and with one country.

By WTO statistical figures, in that same timeframe Azerbaijan's import from China was \$92.4 million. However, China's Customs General Administration in its report had mentioned this figure as \$203.7 million (Sources: Customs General Administration, the People's Republic of China). As we can see the difference among the same indicators in one year is \$110 million.

So, this fact reveals that the annual volume of unregistered foreign trade operations in Azerbaijan is measured at millions of dollars. In that case, as WTO principles create favorable conditions for exporters, while warns officials to prevent corruption opportunities, we can understand why some officials are not loyal to this issue.

However, WTO benefits can never be enough. let's focus on another opportunity: it is known that some business structures cannot meet their needs with their private funds. Nevertheless, the policy of lowering WTO import tariffs and expanding free access to markets paves the way for delivery of latest and standard technologies into the national market at favorable prices. Since as a result of the negotiations, by 2000 industrial countries' tariff rates on industrial goods had fallen to some 5% from 40% since GATT's creation in 1947.

We are not going to center on benefits of WTO accession only. Naturally, although WTO accession is desirable not only for Azerbaijan, but also industrially developed countries, it is far from reality. Because membership "expenses" for this organization call forth certain "sacrifices".

Given WTO accession is a complicated process and brings different dividends to separate countries, as well as causes some difficulties to the national economy, it is worth of detailing positive and negative outcomes of Azerbaijan's accession. Moreover, it would be reasonable to group benefits and losses in the person of exporters (producers) and importers (consumers). Naturally, as the society gains benefits and losses in both contexts, we can separately speak of it.

#### **Exporters' benefits are:**

- gain access to a wide-spread and rich information networks, as well as achieve fair resolution of trade disputes through WTO;
- gain a secure access to the market of all member countries;
- participates in plurilateral trade negotiations as a full and equal member and have a right to impact the world's trade policy.

Consumers' benefits are as following:

- Competitiveness increases in the national market as a result of reduction in import duties;
  - consumers can fully enjoy the benefits of competition — choice and lower prices;
  - reduction in tariffs leads to lowering prices of raw materials, intermediate products, and components. Consequently, the cost value of produced goods and services is reduced; consumers expenditure is cut down.

#### **The list of overall public benefits is large. Since:**

- economic and domestic market reforms are accelerated owing to adjustment of national law to international one and application of respective countries' standards in this field;

- the role of the government becomes weaker in economic management, especially in adjustment of the foreign economic activity, thus promoting foreign trade and investment cooperation and stimulating related reforms;
- it is an outcome of the public confidence in the government, and its investment and credit seductiveness risk is reduced;
- the country gains a secure transit right from territories of all member countries;
- the volume of hidden trade turnover and corruption is lowered as a result of simplification of foreign trade procedures, transparency in import and export operations accounting, and removal of artificial bureaucratic barriers.



## Conclusion and Recommendations

Because Azerbaijan has a small domestic market and needs to have access to the world market and handles problems and barriers in order to integrate world economic system, WTO membership is very important for the country. In the conclusion, we found out that there are more advantages than disadvantages of Azerbaijan's Accession to the WTO. The picture, though cautious, is optimistic. Some researchers claim that the impacts of Azerbaijan's Accession to the WTO on Azerbaijan economy are marginal. The idea is that domestic firms have not enough capacity to compete with foreign companies and by opening up the borders the country will face to myriad amount of import goods. Others accept as true that Azerbaijan will significantly get benefit from WTO Accession. WTO membership will increase predictability of Azerbaijan by imposing "bound tariffs". It will enhance transparency and reduce corruption and will open more opportunities for business sector. Finally, WTO Accession will open foreign markets to Azerbaijan goods, will support competition in domestic market and will encourage technology transfers on a larger scale.

According to the accession conception adopted by the Commission of the Republic of Azerbaijan the stand point of the Government of Azerbaijan during the negotiations must be based on the following principles:

1. To acquire the privileges given to the relevant countries taking into account of Azerbaijan's developing and transition economy in the framework of WTO;
2. To achieve maximum long term transition period until complete application of all WTO rules;
3. To achieve high import customs duties for the goods of a vital importance for Azerbaijan's economy particularly for the industry;
4. If reduction of duties is inevitable, try to succeed in the reduction of the average duties for the goods of less importance but at the same time to increase tariff for other goods, aiming to keep the average level of duties at the equal level;
5. To succeed in specific and differential regime to be granted to Azerbaijan as other developing country during the negotiations on the service market. In case of existence of having local specialists in different fields to prevent from liberalization for foreigners to be employed;
6. To succeed in granting subsidies during the negotiations in the agricultural field the in the amount of 10 percent of the annual agricultural products;
7. To study carefully the proposals of the developing countries of not acceding to the agreements which are beyond the WTO requirements and to assume these obligations only after the accession.

Meanwhile, Azerbaijan will get some benefits and as well as detriments from joining to the WTO. In order to reduce negative impacts and enhance positive affects we has prepared policy recommendation for the government by using its own researches and discussions with various groups including government bodies, think tank members, independent researchers, and business people.

1. Activity Plan on Azerbaijan's Accession to the WTO is recommended to be prepared. Recommendation are on following directions
  - Excluding of import taxes and value added tax from exported technology with production purposes;
  - Applying of special import tariffs regime for imported oil and gas technology with production purposes which are in the list of Azerbaijan Republic Ministry of Energy;
  - Decreasing of import tariff rates applied in exported raw materials for using in all industry sectors, particularly machine building, light and food sectors;
  - Establishing of Anti-dumping Control State Committee and giving its empower to carry out independent anti-dumping policy;

- Preparing of Activities Plan on ecological standards in enterprises in order to support entrepreneurship development in international trade system;
- Increasing national ownership through better integration of external aid into macroeconomic and sector programs;
- Formalizing of information bank and information system on foreign trade (mechanisms of solving disputes and monitoring of price fluctuation and etc.);

## **2. In agriculture sector:**

Listing of agriculture -industry sectors which are unable to react quickly to challenges in the world market;

- Protection of certain agriculture production sectors which have no capacity to compete with imported goods;
- Formalization of Foods Control System in order to enhance accesses of population under poverty to foods

## **3. Foreign Direct Investment (FDI)**

- Strengthening the enabling environment for private sector development and foreign investment flows.
- Accepting of special regimes and exceptions by using other countries' cases (China, Kyrgyzstan and others)
- Policies and strategies for the promotion and attraction of Foreign Direct Investment (FDI) should be part of and integrated into general economic development and economic reform policies; they should not be seen in isolation as a general panacea for economic ills.
- Extending of transition period allows applying of national control regimes;
- Preparing and approving of documents to limit manipulation chances of foreign investor's activities on "tax applied income", "export price" and etc;
- It is generally known that the more developed a country is, the better able it is to attract quality FDI. In particular, countries need to strengthen unique national competitive advantages, which would be of particular interest to foreign investors, including brand name recognition. Countries which lack such advantages, like Azerbaijan, need to develop them. In this context, Azerbaijan should encourage private sector development and private sector R & D, while broadening the opportunities for legitimate entrepreneurial activity.
- Policies and strategies for the promotion and attraction of FDI should clearly delineate areas in which FDI is desired; FDI should not be attracted indiscriminately but should be geared to the country's needs and requirements while taking investor concerns into full account.
- Successful attraction of FDI should be followed up by successful implementation of investment projects. For this purpose, the Azeri government entities and officials need to ensure that post-approval implementation of both foreign and domestic investment projects in their provinces/municipalities proceeds smoothly and that local investment regulations and procedures are consistent with central government policies, laws and regulations. In this context, proper consultation and coordination mechanisms between central and provincial/municipal government need to be strengthened to facilitate and ensure effective investment realization;
- Lessons from the experiences of China and Korea in FDI promotion and implementation, as well as other countries in the world should be taken into consideration. However, Azerbaijan

should not strive for full replication of the policies of successful countries but only select those aspects that would fit their particular needs and requirements. For instance, the costs and benefits of special economic zones or export processing zones need to be carefully evaluated by individual countries before establishing such zones;

- Policies and strategies for the promotion and attraction of FDI should be implemented in conjunction with effective privatization and overall private sector development policies and measures, with emphasis on the development of SMEs, including attraction of FDI from SMEs. Backward and forward linkages between companies should be forged as well as between SMEs and foreign companies. The development of downstream value-added industries, possibly with participation of FDI, should be actively encouraged;
- The Azeri government should create and maintain comprehensive information databases on investment opportunities, including specific priority investment projects. Preferably, such databases should be accessible through the Internet. Investment promotion agencies should develop active and updated websites providing detailed information on the investment climate in Azerbaijan, including costs of doing business, and investment application, approval and implementation procedures.
- Continue reforms to attract FDI as well as improve investment environment.

#### **4. Social Sphere**

- Realizing of regional programs which address certain groups and have real purposes in order to reduce poverty and fight with unemployment;
- Enhancing of access to services and material wealth has social importance;
- Developing of protection of domestic labor market; minimizing of foreign labor force movement to the country based on annual quotas approved by the Azeri government; conducting of trainings for local specialist in order to replace foreign ones;
- Developing of trainings and re-specialization of local labor force by considering domestic labor market demands;
- Monitoring of labor market guaranteed quick reaction to employment policy in the domestic labor market;
- Increasing effectiveness of financial supports to population under poverty level;
- Formalizing of mechanisms for indexing of incomes population under poverty level in case of inflation;
- Establishing social protection system including minimal state protection, obligatory insurance system and non-obligatory insurance system;
- Ratification of International Labor Organization conventions on protection of employment;
- Enhancing of activities to protect rights consumers of export goods.

#### **5. Protection of Intellectual Property Rights (IPR)**

- Updating IPR legislation and give attention to strengthening the ability of the judicial system to enforce existing legislation and ensure adequate levels of IPR protection.
- Encouraging the private sector to be more engaged in the process of demonstrating the benefits of IPR protection through seminars and workshops
- Strengthening a monitoring system should be set up to ensure full implementation of intellectual property obligations.

#### **6. Minimization of disadvantages of Azerbaijan's Accession to the WTO in negotiation process**

- Achieving of increasing of number of measures within “Yellow Box”;
- Achieving of commitment allows subsidizing to agriculture sector 10 per cent of annual agriculture products;
- Achieving of “Special and Differential Protection Measures” Right in order to have guarantee keeping subsidy limit.

Beside to these recommendations, special recommendations can be taken into consideration. Because these recommendations cover all sectors of economy, they called as “special recommendations”. They are expected to affect to improve of economic system and make it more flexible and transparent.

**Special recommendations can be characterized as following;**

1. Establishing of democratic, transparency and effective system of state management.
2. Fostering transparent and well-functioning Governmental systems accountable to the people, and promoting an accessible and independent judiciary.
3. Improving of property protection system, judicial reforms, economic legislation base, especial Codes on Custom and Tax.
4. Strengthening national strategies and capacity as to promote sustained economic growth and development
5. Improving of the efficiency and equity of tax collection systems and enhance the transparency of public expenditures.
6. Conducting fore-cast analyses to determine quantitative results of trade globalization by Azerbaijan Republic Ministry for Economic Development, Ministry of Agriculture, Ministry for Natural Resources and Ecology, Ministry for Labor and Social Protection of Population, State Custom Committee.
7. Developing of efficient and appropriate financial legal and regulatory systems.
8. Preparing specialist on sphere of WTO and international trade by Azerbaijan Republic Ministry of Education.
9. Holding of regional and sector round-table discussions by Azerbaijan Republic Ministry for Economic Development in order to enhance public disclosure of information related WTO negotiations.
10. Intensifying of public discussions of commitments of WTO with business people, representatives of civil society and scientific-research institutions and representatives of Mass-Media.
11. Involving of representatives of National Sciences Academy, NGOs, Confederation of Entrepreneurship, Association of Banks and others.
12. Promotion of market access for goods and services under conditions of fair competition through strengthened international rules and disciplines.

## **Endnotes**

We have drawn the conclusion that Azerbaijan's Accession to the WTO has both negative and positive impacts on Azerbaijan economy. The accession is expected to have positive impacts on monopoly reduction, fighting with corruption, enhancing transparency, economic integration and etc., however, the negative impacts should be seriously taken into account. The negative of impacts of the WTO Accession on small producers, agriculture farmers and service sector will be particularly considered.

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## Appendices

### Appendix 1.

#### Key milestones aimed at the Republic of Azerbaijan's accession to the WTO

The Government of Azerbaijan officially applied to the WTO Secretariat to become a WTO member on 23 June 1997

Azerbaijan's Working Party was established on 16 July 1997

Azerbaijan submitted a Memorandum on its Foreign Trade Regime on 22 April 1999

The Inter-organizational Coordination Group aimed at speeding up WTO accession in accordance with Order # 226 issued by the Cabinet of Ministers of the Azerbaijan was established on 19 November 1999

The Permanent Mission of the Republic of Azerbaijan had provided the replies to additional questions submitted by Members on the Memorandum on the Foreign Trade Regime between June 2000 and August 2001

The Coordination Group Secretariat and Sectoral Working Party were established on 15 April 2002

The first meeting of the Working Party was held in Geneva on 3-7 June 2002

Armenia undertook some commitments on 20 November 2002 before WTO entry due to measures taken by Azerbaijan and support from other member governments

Technical Assistance Project implementation aimed at Azerbaijan's accession to the WTO started on 31 May 2003

The Commission for the preparatory work aimed at the Republic of Azerbaijan's accession to the WTO under Order #175 issued by the Cabinet of Ministers was established on 22 August 2003

The Third Meeting with the Commission for the preparatory work aimed at the Republic of Azerbaijan's accession to the WTO took place, the Commission Secretariat and Sectoral Working Parties were established, the application for accession was approved on 7 October 2003

The second meeting of the Working Party was held in November 2004

The third meeting of the Working Party was held in October 2005

## Appendix 2.

### Key aimed at the Republic of Azerbaijan's accession to the WTO

Submission of the application of the Republic of Azerbaijan for the WTO Membership, June 23, 1997

Establishment of the Working Group on Azerbaijan at the WTO Secretariat  
July 16, 1997

Submission of the Memorandum on Foreign Trade Regime of the Republic of Azerbaijan to the WTO Secretariat, April 22, 1999

Establishment of Inter-organizational Coordination Group on Acceleration of Azerbaijan's WTO Accession process by the Instructive Order # 226s of the Cabinet of Ministers of the Republic of Azerbaijan, November 19, 1999

Submission of replies to the questions on Memorandum posed by some WTO member countries to the WTO Secretariat, June 2000 - August, 2001

Establishment of the Secretariat of Coordination Group and Working Groups,  
April 15, 2001

The first meeting of the WTO Working Group on Azerbaijan held in Geneva,  
June 3-7, 2002

Undertakings carried out by Azerbaijan and assumption of definite obligations by Armenia on WTO Accession as a result of support of other countries, November 20, 2002

Implementation of the Technical Assistance Project on the WTO Accession of the Republic of Azerbaijan, May 31, 2003

Establishment of the Commission on preparatory works for the WTO Accession of the Republic of Azerbaijan by the Instructive Order # 175, of the Cabinet of Ministers of the Republic of Azerbaijan, August 22, 2003

The first meeting of Azerbaijan WTO Accession Commission on preparatory works, establishment of the Secretariat of the Commission and Working Groups, adoption of the Accession Conception, October 7, 2003



The second meeting of Azerbaijan WTO Accession Commission on preparatory works, November 2004

The third meeting of Azerbaijan WTO Accession Commission on preparatory works, 28-30 June 2005

The fourth meeting of Azerbaijan WTO Accession Commission on preparatory works, April, 2007