

CHANGING FOREIGN TRADE RELATIONS AND TRADE PROBLEMS IN AZERBAIJAN

Mehmet DİKKAYA^(*)
Adem ÜZÜMCÜ^(*)

Özet: Bağımsız bir ülke olarak Azerbaycan, 1991'den bu yana dünyadaki pek çok ülke ile ikili ve çok taraflı ilişkiler kurmaktadır. Bu ilişkiler hem ekonomik, hem de sosyo-kültürel açılar ihtiva etmektedir. Bir çok gözlemci, bağımsızlıkla birlikte bu ülkenin, diğer geçiş ekonomilerinden farklı bir düzlemde ekonomik ve politik başarılar elde edeceğini düşünmüştür. Azerbaycan, petrol ve doğal gaz gibi doğal kaynaklara sahip olduğu için ekonomik yapıyı geliştirmiş ve büyük ekonomik merkezlerle yeni ticari bağlar kurmuştur. Bu makale, bu değişen ilişkileri, özellikle 1999-2003 dönemi için ülke ekonomisi üzerindeki etkilerini incelemektedir.

Anahtar Kelimeler: Azerbaycan ekonomisi, ticari ilişkiler, ticaret yolları, ticari problemler altyapı problemleri, teknik olmayan problemler

Abstract: Azerbaijan, as an independent country, has established many bilateral and multilateral relations with most countries of the world since 1991. When it gained its independence, these relations included both economic and socio-cultural aspects. With the independence, many observers thought that this country would achieve economic and political success which was based on many differences from other transition economies. Because it has many natural resources, such as oil and natural gas, Azerbaijan has developed its economic structure and established new economic ties with huge economic centers. This article presents these changing relations and their effects on Azerbaijani economy after the independence, especially in the last five years (1999-2003).

Keywords: Azerbaijani economy, trade relations, trade routes, trade problems infrastructural problems, non-technical problems

I. Introduction: Changing Composition of GDP

Azerbaijan has made impressive progress in all sectors of the economy in the last decade. Macro economic data on the country's economy demonstrate that growth in the energy sector is especially important for this country's future. Azerbaijan's real gross domestic product (GDP) grew by 9.7% and 10.8% despite the worldwide economic slowdown in 2002 and 2003 respectively (The World Bank, 2005-03-05). In 2002 and 2003, World GDP growth was 1.8 and 2.8 percent (See Table 1).

Although \$3.7 billion dollars has been invested into the oil sector since 1994, Azerbaijan is currently a relatively insignificant world oil and gas producer. Because Azerbaijan is struggling to overcome the economic collapse that followed independence from the former Soviet Union, the country's GDP

^(*) Yrd.Doç.Dr. Kafkas Üniversitesi İİBF İktisat Bölümü

^(*) Yrd.Doç.Dr. Kafkas Üniversitesi İİBF İktisat Bölümü

has contracted by almost 60% from 1990 to 1995 (Doing Business in Azerbaijan, 2001:4). During these five years, the economy has faced additional disadvantages with the destructive results of the war against Armenia.

In the following years, Azerbaijan's hope for future economic growth was based on successful development of its vast oil and natural gas resources in the Caspian Sea region. Crude oil and oil product exports make up over 70% of Azerbaijan's exports, and oil-related revenue makes up nearly 50% of budget revenues. As of January 2003, the State Oil Fund reportedly holds \$692 million dollars, a \$200 million dollar increase over last year. These figures are very important for Azerbaijani population with 8.3 million.

However, without a stable investment climate in the non-energy sector, Azerbaijan's dependence on the volatile energy sector will grow and the government will be unable to create the employment opportunities. This dependence on the energy sector should be decreased and structural change should be formed. This is necessary to improve the conditions of the approximately 60 percent of Azerbaijanis living in poverty. Government's fiscal and monetary policies have resulted in low inflation of 1.5 percent in 2001, 2.8 percent in 2002 and 2.7 percent in 2003. The National Bank has pursued a policy of gradual nominal depreciation of the Azeri manat. The exchange rate as of 2002 and 2003 was \$1=4,861 and \$1=4,911 AZM respectively. Higher oil prices coupled with increased production helped Azerbaijan achieve a trade surplus in 2000, 2001 and 2003 compared to 1999 data (Azerbaijan Republic: Statistical Appendix, 2005:2).

Under these circumstances, the last figures on macroeconomic performance of the country show that the energy sector increasingly dominates Azerbaijani economy because only crude petroleum oil products accounted for 73 percent of Azerbaijan's exports in 2003 (Azerbaijan Republic: Statistical Appendix, 2005; 3). With full capacity use of the Azerbaijan International Operating Company's (AIOC) Azeri-Chirag-Guneshli fields and development of other new fields, oil production is projected to peak at between 1.5 and 2 million barrels per day between 2010 and 2020 (for current oil production level, see Table 2). Azerbaijan plans to develop its large Shah Deniz gas and condensate field to supply domestic gas needs, as well as exporting gas to Turkey, Georgia, and possibly later to southern and east-central Europe.

Agriculture is Azerbaijan's next largest sector following energy, and further development of the agribusiness is essential to creating employment opportunities and increasing family income. Agriculture employs almost 40 percent of the work force and in 2003 accounted for 13.1 percent of GDP (whereas was 18.2 percent of the GDP in 1999). Systematic decline in agriculture shows that there are several problems (such as lack of investment, irrigation problems, lack of credits and so on) in developing agriculture and agro-based industries. As the important sectors for a transitional economy, non-

oil manufacturing and agricultural activities have been also declining since independence.

Table 1: Azerbaijan: Key Economic Indicators (1999-2003)

	1999	2000	2001	2002	2003
Structure of GDP	<i>In percent of GDP</i>				
Industry & construction	39,1	42,5	43,5	46,2	49,9
of which: oil and gas	20,1	30,5	32,0	31,0	31,1
Agriculture	18,2	15,9	14,8	14,0	13,1
Other sectors	42,7	41,5	41,7	39,9	36,9
Output & employment	<i>(Annual percentage change, unless otherwise indicated)</i>				
GDP (in billions of Manat)	18,875	23,591	26,578	30,312	35,074
Real GDP	7,9	10,3	9,6	9,7	10,8
Employment	0,1	-0,1	0,3	0,3	0,5
Prices & wages					
Average (CPI)	-8,5	1,8	1,5	2,8	2,7
End of period (CPI)	-0,5	2,2	1,3	3,3	3,6
Real manat wage	19,6	18,1	15,5	18,0	20,1
Real dollar wage	12,3	8,7	11,0	13,0	18,9
External sector	<i>(In millions of U.S. dollars, unless otherwise indicated)</i>				
Exports of goods	1,025	1,799	2,046	2,305	2,625
Imports of goods	1,433	1,539	1,465	1,823	2,723
Trade balance	-408	260	581	482	-98
Consolidated government	<i>(In percent of GDP)</i>				
Total revenue*	18,5	21,2	18,7	27,3	27,1
Total expenditure (Incl. Net lending)*	23,6	20,8	18,7	27,7	28,9
Fiscal Balance (-deficit)	-4,7	-0,6	-0,4	-0,5	-1,2
Exch. rate (Manat/US\$, yearly average)	4,120	4,474	4,657	4,861	4,911

Source: Azerbaijan Republic: Statistical Appendix, IMF Country Report, No. 05/18, January 2005, p. 2, 24.

*: Starting from 2002 revenue and expenditure include tax credits to SOCAR for energy-related subsidies.

II. Composition of Trade in Terms of Products and Trade Partners

Azerbaijani foreign trade has increased dramatically since independence. With the increase in oil production, the export ability of the country has developed “between” 1999-2003 and reached the peak with 85.6 barrels in 2002. Under current circumstances, hydrocarbons (mainly oil and oil products) are the dominant export activities; up to 85 percent of total exports in 2003 (this was 88 percent and 90 percent of total exports in 2002 and 2001) (See Table 3). Because world oil prices increased more than the total increase of oil exports, just crude oil incomes raised 4.6 times between 1999 and 2003 despite oil production growth gain of 1.6 times between the same years (International Trade Centre; 2005-05-03). The remaining share of exports mostly consists of raw and processed food products (mainly food and cotton which was 6 percent of total exports in 2003), machinery & equipment and chemicals.

Before independence, manufacturing and agricultural products accounted for a considerably larger share of exports, when Azerbaijan was a large exporter of food processed products and light machinery, mostly to the rest of the Soviet Union (Navaretti, 2005-05-03). The largest share of imports is made of machinery for the oil industry, food products, other mechanical equipment and luxury consumer goods for the high-income part of the population. On the other hand, 8 percent of total imports consists of natural gas in 2003 (this was 12.3 and 11.5 percent of total imports in 2001 and 2002 respectively). (See Table 3) Larger natural gas importation gives us a dilemma about current composition of GDP, because domestic consumption is larger than production. This tendency shows that population and industry traditionally use natural gas as a primary energy source. Imported products have replaced many of the Azerbaijan traditional goods in the domestic economy, as these are unable to compete with the international supply. However product composition of foreign trade (both for exports and imports) has grown simultaneously, the volume of imported goods grew faster than exported goods, except for oil and oil products. For instance, machinery and equipment consisted of 27 percent of total imports in 2003. Because these goods could be considered as fixed investments and help to develop more oil production, one should not take into account as a burden on trade balance.

Table 2: Azerbaijan's Energy Balance and Trade (1999–2003)

	1999	2000	2001	2002	2003
<i>Oil and oil products (In millions of barrels)</i>					
Production	100.8	102.2	147.6	150.8	152.9
Net volume of trade	47.4	55.0	77.6	85.6	79.8
Exports	49.1	55.4	77.6	85.6	79.8
of which: crude oil	31.2	40.6	61.9	64.9	65.8
Imports	-1.7	-0.4	0.0	0.0	0.0
Domestic consumption	53.4	47.2	70.0	65.2	73.1
Changes in stocks	-0.6	-1.0	-1.0	1.4	0.1
<i>Natural gas (In billions of cubic meters)</i>					
Production (excluding losses)*	6.0	5.6	5.5	5.1	5.1
Net volume of trade	0.0	0.0	-3.3	-3.9	-4.1
Exports	0.0	0.0	0.0	0.0	0.0
Imports	0.0	0.0	-3.3	-3.9	-4.1
Domestic consumption	6.0	5.6	8.8	9.0	9.2
Changes in stocks	0.0	0.0	0.0	0.0	0.0

Sources: Ministry of Economic Development, the State Statistics Committee; and Fund staff estimates; Azerbaijan Republic: Statistical Appendix, IMF Country Report, No. 05/18, January 2005, p. 30.

*: Production excludes vented gas.

As for the markets of destination of exports, there is a dichotomy between oil and non-oil products. Oil is mostly exported to Europe, whereas non-oil products mostly exported to the regional market, which includes neighboring CIS countries (mainly Georgia and Russia), Turkey and Iran. In terms of relative importance, Azerbaijan's foreign trade with CIS countries tends to decline in exports between 1999 and 2003 whereas it remains stable in imports. This tendency shows that the country's traditional trade partners have fundamentally changed in the last years especially in terms of export markets. According to the ADB data, at the end of this period, Azeri exports to the EU region consisted of 67 percent of total exports in 2003 (this remained the same in 2001 and 2002). In fact, Azerbaijan is the EU's largest trading partner in the Caucasus although this trade primarily relates to cotton, oil and gas. Actually, since 1993 total trade with the EU has grown steadily because Azerbaijan holds a strategic location between the EU and Central Asia. Development of the TRACECA (TRANsport Corridor Europe Caucasus Asia) trade route will provide a cornerstone for future economic growth of the country. Trade in textiles is covered by a specific agreement although the volume of trade with the EU is currently negligible (The EU's Relations with Azerbaijan, 05/05/2005).

Table 3: *Product Composition of Foreign Trade, 1999–2004**
(In millions of U.S. dollars)

	1999	2000	2001	2002	2003
<i>Exports</i>	1,025	1,799	2,046	2,305	2,625
Food	60	57	55	68	127
Cotton	22	37	15	23	33
Oil and oil products	801	1,519	1,841	2,046	2,250
Metals	25	32	19	22	55
Chemicals and petrochemicals**	23	36	36	59	51
Machinery and equipment	38	34	64	44	35
Other	56	84	16	43	77
<i>Imports***</i>	1,036	1,172	1,465	1,823	2,723
Food	210	223	340	351	310
Natural gas	--	--	180	212	215
Metals	111	123	105	227	499
Chemicals and petrochemicals**	58	84	64	50	110
Machinery and equipment	362	399	347	415	738
Other	295	343	429	568	851
Terms of trade	136	230	275	269	309

Sources: Azerbaijan National Bank, Azerbaijan State Statistics Committee and Staff Estimates; Azerbaijan Republic: Statistical Appendix, IMF Country Report, No. 05/18, January 2005, p. 25; Terms of trade data from Asia Development Bank calculations. See for details http://www.adb.org/Documents/Books/Key_Indicators/2004/pdf/AZE.pdf

*: Import figures for 1999-2000 are based on customs data and are provided by the State Statistics Committee. Import figures for 1999-2000 differ from some other data which is based on central bank data and includes shuttle trade. Also, the 2000 import figure does not include the import of two Boeings (valued at US\$130 million) as this import was not reflected in customs data of 2000 (but is included in customs data for October 2001). The import of these two aircrafts is included in the central bank import data for 2000. Import figures for 2001 and 2002 are based on data provided by the Azerbaijan National Bank;

** : Including pharmaceutical products;

*** : Does not include data on shuttle trade for 1999-2000.

Table 4: Main Trading Partners by Export/Import Value (1999–2003)*

(In millions of US dollars)

	1999	(%)	2000	(%)	2001	(%)	2002	(%)	2003	(%)
Exports	1,025	100.0	1,799	100.0	2,046	100.0	2,305	100.0	2,625	100.0
CIS	211	20.6	235	13.1	224	10.8	244	10.6	334	12.7
Georgia	72	7.0	75	4.2	103	5.0	81	3.5	112	4.2
Kazakhstan	4	0.4	7	0.4	7	0.3	12	0.5	10	0.4
Russia	83	8.1	98	5.4	78	3.8	96	4.2	148	5.6
Ukraine	24	2.3	24	1.3	7	0.3	13	0.6	21	0.8
Others	28	2.7	31	1.7	29	1.4	43	1.8	43	1.7
Non-CIS	814	79.4	1,564	86.9	1,822	89.2	2,061	89.4	2,291	87.3
Iran	23	2.2	8	0.4	9	0.4	30	1.3	49	1.9
Turkey	69	6.7	105	5.8	67	3.2	83	3.6	107	4.1
United Kingd.	11	1.1	19	1.1	36	1.7	10	0.4	8	0.3
Others	711	69.4	1,432	79.6	1,710	83.9	1,938	84.1	2,127	81.0
Imports	1,036	100.0	1,172	100.0	1,465	100.0	1,823	100.0	2,723	100.0
CIS	325	31.4	376	32.1	443	30.2	674	37.0	867	31.8
Georgia	9	0.9	10	0.9	4	0.3	12	0.7	9	0.3
Kazakhstan	25	2.4	58	4.9	83	5.7	142	7.8	128	4.7
Russia	226	21.8	249	21.2	183	12.5	326	17.9	423	15.5
Turkmenistan	13	1.3	10	0.9	125	8.5	119	6.5	188	6.9
Ukraine	38	3.7	36	3.1	34	2.3	69	3.8	107	3.9
Others	14	1.4	13	1.1	14	0.9	7	0.3	11	0.5
Non-CIS	710	68.5	796	67.9	1,022	69.8	1,149	63.0	1,856	68.2
Iran	47	4.5	57	4.9	209	14.3	171	9.4	156	5.7
Turkey	143	13.8	129	11.0	179	12.2	206	11.3	223	8.2
Un.Arab Emir.	12	1.2	20	1.7	37	2.5	34	1.9	38	1.4
United Kingd.	67	6.4	59	5.0	46	3.1	68	3.7	241	8.8
Others	441	38.2	531	40.3	551	37.7	670	36.7	1,197	44.1

Sources: Azerbaijan National Bank, Azerbaijan State Statistics Committee; and Fund staff estimates; Azerbaijan Republic: Statistical Appendix, IMF Country Report, No. 05/18, January 2005, p. 28.

*: Import figures for 1999-2000 are based on customs data and are provided by the State Statistics Committee. Import figures for 1999-2000 differ from central bank data and includes shuttle trade. Also, the 2000 import figure does not include the import of two Boeings (valued at US\$130 million) as this import was not reflected in customs data of 2000 (but is included in customs data for October 2001). The import of these two aircrafts is included in the central bank import data for 2000. Import figures for 2001 and 2002 are based on data provided by the Azerbaijan National Bank.

Import relations with CIS are stable, as they make up almost 30 percent of total imports between the same years. However, they have been historical trade partners. Imports from Russia have also declined but they are still very important for Azerbaijan. Imports from other CIS countries, such as Kazakhstan and Turkmenistan, have increased in the last years at the same time. It results largely from natural gas supply from these countries.

On the other hand, direction of trade in imports has changed in favor of some developed countries, such as the USA, Germany, the UK and Italy, and of some neighboring countries, such as Turkey, Iran, and developing China.

Because machinery and equipment needs are coming from developed countries after independence and these countries are demanding oil and oil products with huge market size, direction of trade has changed towards Western industrialized countries. Finally, a large share of imports originates from the EU and the US, namely machinery and high quality consumer products. The rest, including foodstuff, comes from the region. For example, 28 percent of total imports of 2003 came from the USA and three EU members: the UK, Germany, and Italy (Asian Development Bank, 2005-05-04). In addition, Turkey emerged as an important trade partner for Azerbaijan starting from the mid-1990s.

During this period, Turkey mostly provided food products, transportation equipment, chemicals, and intermediate goods to Azerbaijan (Turkish Undersecretariat of the Prime Ministry for Foreign Trade, 2005-05-04). According to the Asian Development Bank (ADB) data, Turkey became the second biggest trading partner in imports for Azerbaijan in 2003 with nearly 11 percent. As for exports, mineral fuels, mineral oils and products consisted of 53 percent of total exports of Azerbaijan in 2003 (Turkish Prime Ministry, State Institute of Statistics, 2005-05-04). With the completion of the Baku-Tbilisi-Ceyhan (BTC) pipeline, Turkey will become a net oil importer from Azerbaijan. The BTC pipeline would connect Azerbaijan, Georgia, and Turkey as oil exporters to international markets, especially to the EU region and bypass two regional powers, Iran and Russia (Baran, 2002; 222-23). Despite there having no direct links, there are many historical and cultural ties among Turkey and Azerbaijan and the links mentioned have accelerated bilateral trade. As a result of this connection, Azerbaijan and Turkey are very close allies with strong cultural, trade and military ties. The slogan “one people-two states” expresses their feelings of common origin and emphasizes the role of the Turkic factor in the region. Turkey has also supported Azerbaijan over the Nagorno-Karabakh issue by breaking off formal relations with Armenia and has facilitated Azerbaijan’s approach to the West using its position as the strongest NATO and US ally in the region. In addition to these aspects, Turkey, with relatively developed economy and strategic location which is very close to the EU, has played a “bridge role” between Western industrialized nations and Azerbaijan.

III. Trade Problems in Transition

Azerbaijan’s trade system has changed since the independence and has a relatively open trade regime and major policy changes are not needed to bring it into line with WTO standards. With the observer status, it does need a greater political and administrative capacity. WTO accession may bring some costs and benefits to the country but the experience of the Kyrgyz Republic, which gained full membership in 1998, causes Azeri authorities to evaluate the full membership more carefully. Azerbaijan’s oil fields are a very important factor in the country’s economic development but regretting that only a relatively

small section of the population is able to benefit from this new wealth and that the government is not doing enough towards modernizing and developing further other sectors of the economy to make sure the country is less vulnerable to crises in the energy sector.

The landlocked position of the economy is another problem affecting alternative trade routes for the country. This is especially important for trade with Turkey and with the EU region. Possible reopening of the Turkish-Armenian border would greatly promote the use of transport routes from Turkey into the Caucasus and the Central Asia. Particularly, the resumption of rail services between Turkey and Armenia (connecting Kars with Gumri) would open up the region's extensive railway system, a legacy of the Soviet Union, and significantly bring down the cost of transport from the West to Central Asia, particularly if combined with reconnection with the rail systems of Armenia and Azerbaijan. There is some estimation that opening up the borders of Armenia with Turkey and Azerbaijan would reduce transport costs by 30-50% yielding an overall benefit of over € 300 million (The EU's Relations with Armenia, 2005-05-05). Since the war in Nagorno-Karabakh, Armenia's borders with Azerbaijan and Turkey have been closed. Armenia lacks the rich resources of Azerbaijan. The risk of its isolation from current regional developments exists, especially while the Nagorno-Karabakh dispute remains unresolved. But this requires many additional preconditions that could affect Turkish and Azerbaijani foreign policy towards Armenia. Because Armenia occupied some 20% of the territory of Azerbaijan and argues insistently that Turkey performed genocide against them, this alternative is far from being a realistic approach.

Other than non-technical factors, there are some policy requirements affecting foreign trade. As for technical norms and standards, the framework of Azeri standards is quite confusing; in general, local regulation follow standards established by the former Soviet Union, but these will be abandoned and replaced with standards that should comply with the international ones. Certification is required for a number of products. Food and agricultural imports are the most regulated. Animal products are required to be inspected at retail and wholesale level; Azerbaijan also banned the addition of certain antibiotics to animal and poultry feeds as well as imports and production of certain genetically modified seeds and other products. Sanitary and phytosanitary measures are not in line with those requested by WTO agreements, and Azerbaijan does not seem to be close to compliance. Azerbaijan began to implement a national system for protecting intellectual property rights, covering all rights to industrial property, copyright and related rights. Copyright protection is normally granted (on works of science, literature and the arts, computer programs and databases) without registration requirements. Enforcement of intellectual property rights regulation (carried out through court regulation) is still weak due to the weaknesses of the judicial system. Current intellectual property rights protection is deemed to be insufficient, thus posing a

serious obstacle to international trade. Enforcement of property rights protection will have to be strengthened in view of the accession to the WTO. There are no privileged entities in trade operations (such as marketing boards), except for state-owned enterprises in the energy sector. Transit goods under the control of customs are exempt from custom duties. Customs registration and cargo declaration fees are levied at the customs border, with some exceptions for which no customs registration fee is levied (Navaretti, *ibid*; 34-35).

On the other hand, there are other obstacles on trade facilitation affecting foreign trade which are mostly resulting from the structure of the economy. These are described as mainly hard infrastructural problems and soft infrastructural problems which are affecting the overall investment environment of the country. Time of transporting goods from origin to destination accounts for a considerable share of the total cost of the goods delivered because of interest payments, the loss of potential customers, the interruptions in the production process and so on. The infrastructural problem is a key factor in Azerbaijan, particularly considering its special geographic location, previously mentioned as within a landlocked position of the country. This kind of specific location and its effect generally on trade has been examined in many studies (Díaz, 2005-05-02). Institutional aspects, poor structure of railways, roads, pipelines, ports, maritime transports, airports and aviation, and telecommunications can be considered as main infrastructural problems of the country. Energy is also controlled by Azerenerji, which is a state owned company, merging the activities of generation, transmission and distribution which may cause unproductive enterprises.

Azerbaijan is at the crossroad 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, politically unstable neighbors and poor infrastructure block both routes (Pomfret, 1999; 45-50). Soft infrastructure is also a fundamental constraint to trade flows. Thus, notwithstanding a fairly liberal trade policy regime, limited implementation and some other major institutional constraints are yet a major challenge to trade.

IV. Conclusions

Since ancient times Azerbaijan has been situated on the fork of the sea and caravan ways that was one of the important links of the Great Silk Road. Nowadays, it is trying to regain this unique position. After the collapse of the Soviet Union, this importance declined especially during the war with Armenia in the beginning of 1990s, and started to regain after the cease-fire. With the increase in oil exploration and production, the country emerged as a regional power in Southern Caucasus and linked too many international markets.

However new links established and trade relations grew fast, some problems in domestic economy and international economic relations continued

to some extent. Azerbaijan's foreign economic relations have weakened with the CIS countries since the independence and have developed with the global economic centers at the same time, such as the USA, Italy, the UK, Turkey and so on. In another words, the country became highly internationalized and liberalized between 1995 and 2003. Despite a changing direction of trade, the domestic economic structure has reflected monocultural characteristics which stress mainly domination in energy. During this period, enormous potential in agriculture and agro-based industries have been neglected. Poor infrastructure, the landlocked position of the country, and the refugees' problem is accelerating the lack of productivity. Institutional problems could be added to trade problems.

Under these circumstances, in the road systems, railways, ports and airports, large investments are required to bring infrastructure up to international standards. As the only viable trade route, Georgia has very poor infrastructure and its roads are not safe because of political and civil unrest. The Georgian corridor is a major bottleneck for Azerbaijan's trade. However, these constraints only concern trade of non-oil products. Exports of hydrocarbons will soon eliminate transport barriers, because of the construction of two major pipelines. The new Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Erzurum gas-pipeline, presently under construction, will reduce dramatically the cost of transporting hydrocarbons to the Western markets. They will have sufficient transport capacity for all the newly found oil and gas. As a result, Azerbaijani trade relations have started to change in terms of both trade partners and direction of trade in the last years.

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