Azerbaijan Trade Brief

Trade Policy

After independence from the former Soviet Union, Azerbaijan abolished the state monopoly over foreign trade, liberalized its prices, introduced a two-band tariff structure, and dramatically reduced its average tariff rates. Today, based on its 2007 MFN Tariff Trade Restrictive Index (TTRI) of 5.3 percent, Azerbaijan’s trade regime is slightly more restrictive than that of an average Europe and Central Asia (ECA) country (4.4 percent) but more open than the average lower-middle-income country (8.4 percent). It ranks 62nd of 125 countries, where 1st is least restrictive. While most countries in Azerbaijan’s region and income comparator groups are more protective of their agricultural goods than non-agricultural ones, in Azerbaijan the agricultural TTRI is 4.7 percent, while the non-agricultural one is 5.4 percent. Azerbaijan’s 9.2 percent simple average of the MFN applied tariff is higher than the regional average. Moreover, only 1.7 percent of Azerbaijan’s tariff lines have zero MFN duties and its maximum MFN applied tariff, excluding alcohol and tobacco, of 294.5 percent is almost twice the regional average of 159.7 percent.

In response to the rising food prices Azerbaijan’s government eliminated custom duties on grain and rice imports, and also eliminated VAT on these and on imports of flour for a one-year period from May 2008. However, since the onset of the global crisis, Azerbaijan has also implemented restrictive measures subjecting goods under certain tariff codes to a “No Objection Certificate” from the customs laboratory, effectively delaying the time to import goods into the country.

External Environment

Judged by its Market Access TTRI (including preferences) of 0.6 percent, Azerbaijan’s exports enjoy very favorable access to international markets, especially when compared to the average Market Access TTRI of 2.6 and 2.3 percent for the ECA and lower-middle-income country group, respectively. The simple average of the overall rest of the world tariff (including preferences) faced by the country’s exports is 9.7 percent, and when weighted by actual exports it drops to 0.5 percent (more than four times lower than the regional average of 2.1 percent). The weighted rest of the world tariff faced by agricultural products is 1.7 percent and by non-agricultural products it is 0.4 percent. In March 2008, in an attempt to limit imported inflation and as a step toward greater exchange rate flexibility, the central bank introduced a new exchange rate regime, according to which the Azerbaijani manat is pegged to a dollar-euro currency basket. However, due to big changes in the dollar-euro rate that year, which would have resulted in a significant depreciation of the manat against the dollar, the bank suspended the new arrangement. The Azerbaijani manat appreciated by 12.7 percent in real terms, making exporters less competitive abroad.

Azerbaijan has free trade agreements with countries of the Commonwealth of Independent States (CIS). While a beneficiary of the EU Generalized System of Preferences (GSP) for several years, Azerbaijan has been a beneficiary of the GSP plus scheme since January 1, 2009. This scheme substantially extends duty-free access to the EU market for around 6,400 tariff lines until the end of 2011.

Behind the Border Constraints

Azerbaijan’s business environment improved significantly in 2008 (with its Ease of Doing Business rank changing by more than 60 places), and in 2009 it remained in the top 25 percent, being ranked 38th out of 183 countries. The changes he had implemented in 7 out of 10 categories of the index also led to Azerbaijan being ranked as the top reformer for 2007/08. Reforms include halving the time, cost, and number of procedures needed to start a business; doubling the number of borrowers covered at the credit registry; and enabling taxpayers to file and pay their taxes.
online. However, on the Logistics Performance Index score, which measures the extent of trade facilitation in the country, Azerbaijan scored poorly at 2.29 out of 5, reflecting a less conducive climate for trade compared to the ECA and lower-middle-income averages of 2.59 and 2.47, respectively. Azerbaijan ranked 111th out of 150 ranked countries and 19th in the ECA region (with Turkey leading the regional group). Its strongest logistics indicator is domestic logistics cost, while the most lagging ones are the quality of transport and IT infrastructure for logistics and competence in the local logistics industry.

**Trade Outcomes**

Azerbaijan’s real trade growth (in constant 2000 U.S. dollars) slowed to 17.7 percent in 2008 from an average 26.2 percent over the past three-year period. Nonetheless, this was the 12th best trade growth rate in 2008 (out of 157 countries). It is expected to further decelerate to 1.4 percent in 2009. Although the growth rate of imports of goods and services accelerated in 2008 to 20.9 percent (from an average of 13.1 percent over the 2005–07 period), export growth slowed to 14.9 percent in 2008 (from an average of 44.4 percent).

Azerbaijan’s nominal trade growth rate slowed from 44.6 percent in 2007 to 36.5 percent in 2008. On an annual basis, export growth decelerated to a still high 42.7 percent in 2008 from 61.4 percent in 2007. Goods exports accounted for 95 percent of all exports in 2008. The country’s trade flows were influenced by the fluctuations in oil prices since Azerbaijan is a major oil exporter (its export of crude and heavy petroleum accounted for 96 percent of exports in 2008). For the first three quarters of 2008, the U.S. dollar value of exports grew on average by 83.0 percent on a year-on-year basis. But, as oil prices collapsed, export values dropped by 37.6 percent compared to the last quarter of 2007. Import growth accelerated to 21.7 percent in 2008 from 15.9 percent in 2007. In the past year, Azerbaijan’s trade was temporarily disrupted during the August 2008 conflict in neighboring Georgia, as its transport and trade routes pass through Georgia. Foreign direct investment, especially in oil and gas, has been falling given the completion of several large oil and gas exploration projects. As a result in 2006 and 2007 repatriation was sufficiently large that FDI inflows were negative. The 2008 figure is positive, but so small that as a share of exports or GDP it is close to zero. Total remittances are important and made up 3.4 percent of GDP in 2008, registering a fall from 3.9 percent of GDP in 2007.

**Notes**

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
4. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.

**References**


