



## **Policy Document to Assess Azerbaijan's WTO Accession Process**

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## Introduction

What are the essence and main functions of the World Trade Organization (WTO)? What modifications will Azerbaijan's accession to the WTO claimed to be with no alternative bring to our country? Why do WTO negotiations, Azerbaijan has been involved for 13 years, still fail? What are advantages and disadvantages of WTO membership? These questions are not fundamental for us and the point is that here WTO Accession does not have alternative. This policy paper has been prepared to seek answers to the above questions, as well as an immense pile of questions that remain unanswered. The interjections, which were mentioned during a leading European TV discussion on the WTO, might be the best and the simplest ideas and explanations about this organization: "The WTO is a table. People sit round the table and negotiate." Indeed unlike any other institution, the WTO does not set out specific provisions: they are sorted out through discussions and negotiations. So, this document deals with what questions and how they are discussed "around that table".

The Government of Azerbaijan officially applied to the WTO Secretariat to become a WTO member in 1997. However, bilateral negotiations between Azerbaijan and some main trading nations, such as the United States, the European Union, Australia, have so far failed. Multilateral negotiations have also reached a deadlock: the working parties on the agrarian and service sectors cannot negotiate with WTO officials. It's therefore difficult to forecast when Azerbaijan will join the WTO, but Azerbaijan authorities have reiterated several times Azerbaijan's WTO accession as soon as possible. The formal argument related to the delay is simple: For Azerbaijan wants to join WTO on easier terms, it seeks to drag on negotiations. Nevertheless, both the 6th Ministerial Conference held in Hong Kong in 2005 or the seventh WTO ministerial conference session in held Geneva in 2009 showed that the WTO have toughened up the accession requirements on new members. Therefore, shelving the process does not imply accession on easy terms. Ministers from the WTO's member governments approved a declaration that requires elimination of agricultural export subsidies by 2013. This deadline certainly cancels out the presumptive "concessionary accession".

It is common idea for both those satisfied and dissatisfied with WTO activities that there is no alternative to Azerbaijan's WTO accession. In view of seeking to join the WTO, Azerbaijan has raised a number of issues through bilateral and multilateral negotiations since the country officially applied to the WTO Secretariat in 1997. What remains clear is that Azerbaijan is not

going to run behind global economic and trade integration. The way to accelerate this integration goes through WTO membership.

The WTO began life on 1 Jan 1995, but its trading system is half a century older. Since 1948, the General Agreement on Tariffs and Trade (GATT) had provided the rules for the system. The last GATT round was the Uruguay Round and led to the WTO's creation in 1995. The WTO deals with improvement of rules of trade provided by its predecessor. Indeed it is paradoxical that businesses or entrepreneurs are winners and losers at WTO world trade. Looking at the WTO, it's an organization for liberalizing trade on fair terms. It's a place for those applying new methods and technologies, namely, being skilful in removing obstacles. Azerbaijan businesses will seek support from this accession. Azerbaijan is expected to join this competitive system in the short run. So, the entrepreneurs must be prepared to keep up with the winners.

The policy document also contains proposals aimed at addressing problems at issue and solutions amid WTO membership, as well as gaining more advantages and minimizing losses from the accession.

### **Basic Objectives and Functions of the WTO**

The origins of the events in the international economic cooperation ultimately led to establishment of peace amongst nations after World War II. In this respect some nations had launched deliberations on the creation of new institutions with a view to assisting development efforts in other countries and promoting international market liberalization. As World War II came to a close, member nations held an international conference. The result of their deliberations was the creation of the two international cooperative institutions - the International Monetary Fund, widely known as the IMF, and the World Bank widely known as the WB. Some countries, in particular industrialized nations, were concerned with restrictions on international trade during the period between World War I and World War II. Because the dynamics of economic life in these countries with rapid industrial development was associated with an outlet to a thick foreign market. To this end, western nations had initiated the creation of multilateral international trade and payment system before the Second World War came to a close.

In 1947 and 1948, several meetings took place to negotiate the creation of the ITO and over 50 countries participated in negotiations to create an International Trade Organization (ITO) as a

specialized agency of the United Nations in 1948 in Havana, Cuba. However, the ITO never came into existence. Negotiations also focused on the preparation of a charter for the ITO and tariff reduction. They constituted the GATT. Since before the tariff reduction was ratified by the parliaments of member governments, the GATT was established in October 1947 and continued to be governed by "provisional" and "interim" measures, and remained an agreement without a formal organization to enforce it. Since the contracting parties refrained from ratifying GATT and agreed on its temporary application instead. The last and largest GATT round in 1994 led to the WTO's creation. GATT then ceased to exist. GATT has helped establish a frame of a strong and prosperous multilateral trading system that became more and more liberal through series of events and eight rounds of trade negotiations over the past 47 years. GATT, now WTO, is a global system for liberalizing world trade. It's a set of extensive international agreements to smooth a system of international trade rules.

When GATT was established the four major principles below were focused:

- Most-Favoured-Nation (MFN) Treatment (Non-Discrimination)
- National treatment
- Tariff binding and reduction
- Replacement of on-tariff border measures by tariffs (use of tariffs rather than quantitative measures to provide protection)

These principles are widely seen as the foundation and philosophy of the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) multilateral trading regime.

The GATT is a mechanism to organize the duly operation of the international competitive sphere based on the political and economic opportunities and isolate the partnering nations from protecting their rights from the customs standpoint and encourage liberalization arrangements in the foreign trade, facilitate communication between national economies and the international trade sphere and prevent the classical patronage system directed towards superfluous profits amongst the countries establishing a very transparent competition sphere in the international trade following World War II.

On 1 January 1995, the WTO replaced GATT, which had been in existence since 1947, as the organization overseeing the multilateral trading system. The WTO's predecessor, the General

Agreement on Tariffs and Trade (GATT), was established IN 1947 after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation.

Unlike its predecessor the GATT, the WTO has far reaching implications for international trade issues, including but not limited to, from trade in services through trade aspects of intellectual property. The WTO is the world's only international organization that supervises 95% of the world's global trade.

The system's overriding purpose is to help trade flow as freely as possible and promote fair competition, which is important for economic development and well-being.

The bulk of the WTO's current work comes from the 1986-94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT).

The main principles of the WTO boil down to the following:

- Most-favored-nation (MFN): treating other people equally (under the WTO agreements, countries cannot normally discriminate between their trading partners);
- National treatment: treating foreigners and locals equally (imported and locally-produced goods should be treated equally);
- Prioritization of tariff quota administration method;
- Elimination of quantitative restrictions;
- Transparency (negotiations and process must be fair and open with rules equal for all);
- domestic markets are covered by WTO rules;
- Promoting fair competition;
- Freer trade: through negotiations.

So, the key principle of the WTO that supervises 95% of the world's global trade is to prevent discrimination in the foreign trade and provide free access to the markets of the member nations.

The principle of non-discrimination in the foreign trade is aimed at identifying trade rules for the all the WTO members and avoiding discrimination of imported goods in the national markets.

The principle of free market access contributes to the effective organization of trade turnover through eliminating the quantitative restrictions used to set limits on quantities of imports,

including in the productive national regimes' application base, at the same time the publicity and transparency in the member countries foreign trade regime.

Functions of the WTO are:

- Administering WTO trade agreements;
- Forum for trade negotiations;
- Monitoring national trade policies;
- Cooperation with other international organizations;
- Framework to facilitate the implementation, administration and operation of new agreements;
- Handling trade disputes;
- Collection, study and presentation of information on international trade and trade policy.

WTO accession status of countries is different and some provisions are born out of this status. They include the transition period for tariff concessions and the volume of agricultural export subsidies. The transitional period for tariff concessions should not go beyond 25 years. Such concessions may be applied to the third group of countries. The term of concessions for developing countries may be different. 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 (e.g. China, India, etc) covered 15 to 25 years.

The second matter at issue is related with the relative quotas on the volume of agricultural export subsidies. The rate of such subsidies for developing countries is 10%, while 5% for developed countries.

Because if the agricultural subsidies provided by trading partners are different, it will have a negative effect on common trade. Namely, the Uruguay Round's overriding requirement was to regulate and reduce internal support. The point is that the WTO agreement comes some new game rules for agriculture: In WTO terminology, subsidies in general are identified by "boxes". The WTO compares the boxes it uses for classifying trade subsidies to traffic lights: green, yellow (or amber), and blue boxes. The green box aimed at improving infrastructure and research work is a subsidiary group without barriers. As these aids have no direct impact on the goods price, WTO members usually have no problems with this box and WTO prevents such

subsidies. The subject at issue is the amber box, as these subsidies have direct impact on the goods price.

It is worth noting that in WTO terminology, the agricultural subsidies are classified as boxes painted with various colors depending on their essence: green (permitted), amber (slow down – i.e. be reduced) and red (forbidden). When it comes to agricultural trade and commodity subsidies, however, it's not quite that simple. While the green box does roughly translate into a green go signal, and amber could be considered a cautionary light, there is no red box. Instead, the WTO has invented a blue box, which is used for what the organization's trade agreement considers production-limiting programs. There are also exemptions for developing countries (sometimes called “an S&D box” including provisions in Article 6.2 the Special and Differential (S&D) Treatment, which is an integral part of the WTO Agreement.

**Amber box.** Subsidies within this box is regulated by Article 6 of the WTO Agreement on Agriculture. Under this article, the domestic support reduction commitments of each Member shall apply to all of its domestic support measures in favour of agricultural producers with the exception of domestic measures which are not subject to reduction. According to the WTO agreements, the countries agreed with this type of box are entitled to regulate prices in the agrarian sector to some degree and to carry out subsidies in compliance with the volume of production.

In addition, these subsidies are limited: for developing country Members, the de minimis percentage under this paragraph shall be 10 per cent, while 5 per cent for developed country Members. Notably, 30 WTO Members have the right to make subsidies in the agrarian sector exceeding the limits of the de minimis. This right of Members is envisaged by the Uruguay Round Agreements. With further reforms at the WTO this right is restricted.

Aggregate Measurement of Support” means the annual level of support, expressed in monetary terms, provided for an agricultural product in favor of the producers of the basic agricultural product or non-product-specific support provided in favor of agricultural producers in general, other than support provided under programs that qualify as exempt from reduction under this Agreement: Namely, the state cannot support particular export products. Besides, the key in the course of recent discussions has been to reduce subsidies and prevent aggregate restraints. Current negotiations are centered at amendments to Annexes 3 and 4 under the WTO Agreement on Agriculture. It tends to be restraints mostly.



**Blue box.** This is the “amber box with conditions” — conditions designed to reduce distortion. Any support that would normally be in the amber box, is placed in the blue box if the support also requires farmers to limit production as envisaged in Articles 5 and 6 of the Agriculture Agreement. At present there are no limits on spending on blue box subsidies.

**Green box.** The green box is defined in Article 1 of the Agriculture Agreement. In order to qualify, green box subsidies must not distort trade, or at most cause minimal distortion. They have to be government-funded (not by charging consumers higher prices) and must not involve price support.

They tend to be programs that are not targeted at particular products, and include direct income supports for farmers that are not related to (are “decoupled” from) current production levels or prices. They also include environmental protection and regional development programs. “Green box” subsidies are therefore allowed without limits.

Developed countries have been reducing import tariffs since 1995: as a result, the states of this category have reduced tariff rates up to 40 percent: from 6.3 to 3.8 percent since the WTO establishment. And the industrial imports have increased from 20 percent to 40 percent in total import. Both developed and developing countries apply bound tariff limits (binding, bound and unbound tariffs) in addition to tariff cuts. One of the achievements of the Uruguay Round of multilateral trade talks was to increase the amount of trade under binding commitments. In agriculture, 100% of products now have bound tariffs. The Uruguay Round increased number of bindings mostly in developed countries and transition economies. Percentages of tariffs bound before and after the 1986-94 talks in developed countries were, respectively, 78 percent and 99 percent. These percentages for transition economies were, respectively, 73 percent and 98 percent. As is seen, these percentages in the transition economies are about the same with the developed countries. The essence of defining bindings for the parties is that a country recognizing these provisions will not be able to increase the pre-determined tariffs. Indeed it means maximum tariffs for other imports and the matter may be to reduce tariff rates. For example, if a tariff is fixed at 10 percent for imported product “A” and a limit is imposed on this product, it will be impossible to increase tariffs for this commodity. In this instance, the tariff rate can by no means exceed 10%. It is worth noting that the number of tariffs bound rose to 73 percent from 21 percent in developing countries. At present tariff lines in the developing countries are growing, yet they were low.

## WTO Accession in context of Eastern Partnership Program

### What is the Eastern Partnership?

The initiative to create the Eastern Partnership belonged to Poland and Sweden and was initially supported by the Czech Republic followed by the European Commission. Thus on 3 December 2008, the European Commission presented the proposal to constitute EaP under the form of an association agreement to foster relations along the Eastern dimension of ENP for examination to the European Parliament and the Council of Europe. The EaP is a European Union initiative directed at six countries of Eastern Europe and the South Caucasus: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The EaP was launched by 27 EU member states and the six partner countries at a Summit in Prague on 7 May, 2009. The initiative aims at tightening the relations between the EU and the Eastern Partners by deepening their political co-operation and economic integration. The EaP neither promises nor precludes the prospect of EU membership to the partner states. It offers deeper integration with the EU structures by encouraging and supporting them in their political, institutional and economic reforms based on EU standards, as well as facilitating trade and increasing mobility between the EU and the partner states.

The EaP works in the framework of the European Neighbourhood Policy, which covers the EU's neighbours in the East and South. However, the EaP goes beyond the original Eastern Neighbour Program (ENP) package as it deepens bilateral co-operation and introduces new mechanisms for regional co-operation. The bilateral track is mostly concerned with concluding bilateral association agreements, developing sectoral co-operation in a wide range of areas, facilitating visa regimes and lifting them in the longer term. It also introduces Comprehensive Institution Building Programmes, which are intended to enhance the capabilities of the partner states' public institutions. The new multilateral dimension is based on a novel mechanism aimed at fostering co-operation between the EU and all the partner states and between the partner states themselves. In addition, the EaP sets up a network of civil society organizations in the EU and the partner countries.

### Goal and Objectives

The goal of the Eastern Partnership is to offer support in reforming the economic, social and political processes in the six partner countries and to align them with the standards of the Council of Europe and the European Union.

EaP has put some goals and objectives for Azerbaijan to get high economic growth, develop business infrastructure and reach out best macroeconomic stability and indicators. These aims are to develop business and investment environment, to increase competitiveness, facilitate and modernize Tax Codes and apply new technologies to tax system, balanced economic growth, reduce poverty, develop regions, expand non oil sector and enhance share of non-oil sector in GDP, protect IP rights, reform on migration issues, strength regional cooperation and protect environment, be a member of WTO, approach Azerbaijan's legislature to EU and reduce discrimination to foreign goods in the country.

Azerbaijan has reformed to reach out the goals and objectives of EaP, such as develop infrastructure in here, fight against money laundry, State Program on Reduce Poverty and Sustainable Development, State Program on Development of Rural Areas and etc.

Azerbaijan has also joined some programs which have been designed and financed by EU. Currently, Azerbaijan has participated in some programs in order to enlarge cooperation with EU such as "Civil Protection" program to protect the nation from the natural disasters, "East Invest – Support to SME sector" to improve business environment and infrastructure for Small and Medium entrepreneurships, "INOGATE" - international cooperation program for EU, Caspian Sea and Black Sea basins and etc.

The fundamental goal of the EU's bilateral co-operation within the EaP framework is to make its bilateral relations with the individual partner countries closer. The EaP envisages negotiations and the implementation of Association Agreements and the creation of deep and comprehensive free trade areas between the EU and the partner states.

### **The Association Agreement**

EaP works in framework of European Neighbour and Association Agreement. Association Agreements include to develop political trade, public, cultural and security relation between EU and non-EU countries. The Association Agreement (AA) are set to replace the Partnership and co-operation Agreements which the partner states (except for Belarus) concluded with the EU in the late 1990. This will form a framework for co-operation on a wide range of issues. The AAs are also aimed at bringing the partner countries closer to EU standards of governance. Each

country negotiates its agreement individually with the EU. The AAs contain four parts, each representing the main areas of co-operation. The first three are: a) political dialogue and foreign and security policy; b) Justice, Freedom and Security; c) Economic and Sectoral co-operation and d) Deep and Comprehensive Free Trade Agreements.

The fourth part-Deep and Comprehensive Free Trade Agreement (DCFTA) is negotiated separately. The DCFTA is something more than a normal free trade agreement. It concerns not only the liberalisation of trade in all areas, by lifting customs barriers and trade quotas, but also the harmonisation of the partner countries' trade-related legislation with EU standards and the *acquis communautaire*. Membership of the World Trade Organisation is a precondition for entering negotiations on the DCFTA; therefore Azerbaijan and Belarus, which are not WTO members, cannot start negotiations on DCFTA with the EU.

Lifting the EU visa requirement for the citizens of partner states travelling to the EU is one of the EaP's key (although long-term) objectives. In the shorter perspective, the EaP envisages visa facilitation and readmission agreements (already signed with Ukraine, Moldova and Georgia). The next step is 'visa dialogue', the aim of which is to determine the conditions each country needs to fulfil to have the Schengen visa requirement lifted.

Deep and Comprehensive Free Trade Agreement is also another goal of EU for Azerbaijan, but before beginning negotiations about DCFTA, firstly Azerbaijan should be a member of WTO. EU thinks that DCFTA will bring a lot of money and will make a lot of workplace in domestic market. The goods Azerbaijan produce will go to the European Market very easily and without any barrier, which will decrease overall price level and increase competitiveness and will give to people tons of chance to choose in the market. Azerbaijan has been working towards to reach out this aim.

Firstly, Azerbaijan continues negotiations with WTO to be a member of it, and the negotiations are diverged into 3 groups: a) agriculture b) non-agriculture, and c) sector entrepreneurial. For being a member of WTO, Azerbaijan has been advised to decrease tariffs and quotas on imports, facilitate custom tariffs, mitigate subsidies on agriculture sector, eliminate "yellow basket" expenditures, and burden taxes on agriculture in order to lessen discrimination for foreign goods and improve competitiveness in the market. However, Azerbaijan has been applying some advice of WTO, but at some points, protect its domestic market, goods, and food security, Azerbaijan doesn't apply exactly what was said, and only partly Azerbaijan does.

Secondly, Azerbaijan still thinks about to join DCFTA, because, diversified and balanced economy of Azerbaijan, no energy dependency from other countries (Russia and Iran) and having good relations with neighbor and western countries give to Azerbaijan a lot of advantages. Ukraine, Moldova and Belarus have energy dependency from Russia, Armenia has energy dependency from Iran, and Georgia has energy dependency from Azerbaijan although, Georgia is the most integrated country to EU on both sides economic and political in EaP countries. For these reasons, these countries can't act in foreign economic and political policy how they want.

All the countries in the long-run will be a member of WTO, because, all the countries in the world have been globalized, it doesn't matter what kind of economic system they have or what foreign policy they follow. For being a member of WTO, Azerbaijan should pay more attention to "green" and "blue" baskets, as well as, decrease support to "yellow basket", modernize agriculture and industry infrastructure. After being a member of WTO, Azerbaijan should apply "CGE" economic model to decrease unemployment, because some people think that joining to WTO will lead to high rate of unemployment in the economy.

The scope of participation in the EaP and the level of integration with EU structures vary from country to country, depending on their internal situations and aspirations. There are some stages of negotiations between the EU and each of the partner state in the relevant spheres. For instance, Azerbaijan's negotiations on DCFTA does not meet the precondition for starting the negotiations, which is WTO membership.

The actuality of WTO negotiations have been increased since Azerbaijan joined the EaP program. Because one of the priorities of EaP is the member states membership to the WTO. To the regulations of EU there isn't negotiations on Free Trade to the non-member states of WTO. This regulation brings to the acceleration of negotiations with the WTO.

### **Azerbaijan's WTO accession process: real outcomes and challenges**

The process of becoming a WTO member is unique to each applicant country, and the terms of accession are dependent upon the country's stage of economic development and the current trade regime. The process takes about five years, on average, but it can take some countries almost 15 years.

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.

According to researches conducted by Azerbaijan WTO Accession Secretariat under Azerbaijan's Ministry of Economic Development, analysis in the field of foreign economic relations shows that the investors are looking for countries with favorable investment environment and forecasted investment policy. And WTO accession has considerably positive impact on foreign investment attraction, as transparency is one of the WTO principles. Foreign businesses invest in the countries where the national regime, the other substantive principle of the WTO, is applied (treating foreigners and locals equally). From this point of view, Azerbaijan will provide regular information about changes arisen in the country in the course of communications with other Members.

Azerbaijan will mainly focus on the items below during negotiations:

- Trade in commodities
- Trade in services
- Intellectual properties
- Exemption from liabilities

With a view to preventing adoption of commitments that fail to meet our country's economic interests, it is necessary to hold negotiations with business circles thus ensuring transparency throughout the accession process before disclosing the following principles of these positions:

a) To determine the less-developed fields of the industry, but having export potential, as well as the priority lines of separate commodities and effectively use customs duties, credits, subsidies and tax concessions with a view to protecting them within the transitional period; to apply the lowest duty on the goods proved to be rather ineffective, while the highest duty on the other goods, through maintaining the relative level of average customs duties at the same rate; to develop the upper tariff rates (bound tariffs) providing the security of industrial fields, where customs duties must be protected and make sure that the reduction rate of the margin of import rates following WTO accession achieved during the negotiating process shall not be higher than the higher than those applied by main trade partners, including countries, which rival for the same products; to conduct comprehensive micro-economic analysis given that the industrial development is impossible with customs duties only; to ensure reductions in the prime cost and quality increase and creation of sale opportunities in the foreign markets. In addition to governmental representatives, foreign experts and donor organizations, young specialists from local higher institutions should be involved in these researches; to achieve high import customs duties for the agricultural goods of vital importance; to use all sources in drawing up a schedule reflecting the level and kinds of internal support in the agriculture; to carry out investigations and design proposals to the maximal use of restricted subsidies following WTO accession; to systematically investigate into the concessions made to developing countries according to the provisions of special and differentiated treatment in the GATT and researched their application in Azerbaijan.

b) To develop ACC/5 documentation on services and trade to be submitted to the WTO Secretariat. This form shall contain a policy, the concession regime and advantages applied to the foreign and local entrepreneurs in all fields of services within the country. Besides, services shall be analyzed in parallel with preparation of documents. For example, on the background of qualified accountants in Azerbaijan, full liberalization of this market for foreign experts may lead to negative social results. The main objective of this research is to highlight the existing situation, to determine the scale of liberalization and to carry out its further initial estimation. It will facilitate to provide sound recommendations and pass a decision in strict conformity with internal markets' interests during consultations with local business circles; to trace the results of

negotiations within the multilateral trading system associated with the liberalization of the service fields. It is of great significance from the standpoint of preparing correct answers to the offers on new conditions in the form of commitments by member states.

c) One can easily predict that negotiations on the intellectual property will not be difficult for Azerbaijan. Since in accordance with WTO requirements, Azerbaijan has joined the majority of conventions for the protection of intellectual and industrial properties. At the same time, the national legislation for copyright has been already adjusted in conformity with WTO requirements. Moreover, it is envisaged to initiate some more arrangements, such as towards joining the WIPO Performances and Phonograms Treaty and the Copyright Agreement and the Rome Convention. And further activities are needed to bring the industrial property legislation in line with the TRIPS rules. New rules have been approved on legal protection of the integral schema topologies and expressions of the Azerbaijan folklore. Azerbaijan takes an active part in developing and approving the International Convention for the Protection of Folklore and it has already submitted its offers to the WIPO. In the course of activities, special emphasis had been made on the facts of appropriation of Azerbaijan's intellectual properties, pieces of art and music by Armenia and the country had achieved punishment of Armenia through dispute settlement mechanism at the WTO.

d) Issues outside WTO rules are marked as optional category. But during the recent accession processes, developed WTO members have sought new members to assume obligations regarding the application of the said agreements and in most cases they have succeeded. Therefore, it is necessary to study WTO's optional rules and stand ready for against efforts on commitments for these rules. Principally, it is not of great importance, it calls for mobilisation of time and resources in the most important stage of accession and consequently it will have a considerable impact on the key negotiations.

As the accession process extends to all fields of the economy, the entire state structures shall be involved in this process. Experts employed by the mentioned structures must undertake important functions, such as provide information and prepare documents. Each organization should recruit at least one full-time employee to directly deal with the WTO. Especially, an institution authorised for coordination of the accession process and recruiting labor force shall function within the state authority. This institution together with the local working groups shall have powers to communicate with the WTO Secretariat, the Azerbaijan Mission in Geneva, as well as with similar foreign institutions



Taking into account foreign experiences, it is necessary to establish a Group of Negotiations on bilateral and multilateral negotiations to consist of qualified, experienced experts. In addition to diplomats, the Group shall include professionals in all fields to be discussed. The Group of Negotiations shall provide accession documents, study WTO requirements, communicate and contact with the WTO Secretariat, as well as conduct bilateral consultations before the main stage. It may considerably contribute to the pillars of agreements to be attained during bilateral negotiations.

Azerbaijan's Mission in Geneva shall serve as a bridge or mediator between the Group of Negotiations and the WTO Secretariat and the missions of other countries accredited to Geneva. At least one diplomat in the Mission shall be directly responsible for the WTO issues. Given that negotiations will be launched starting from December of this year, as agreed in the Cancun Round in Geneva in the framework of WTO, it is a must to appoint the Mission Head having experience in the WTO until then.

As a whole, achieving prompt transparency, enhancing public disclosure of information related WTO negotiations could eliminate non-constructive positions. Media representatives must be involved to cover initiatives organized by the WTO Secretariat, the Accession Commission, as well as the Group of Negotiations. At the same time, it is very important to arrange trainings and workshops dedicated to the processes at the WTO, the philosophy of this organization and the Azerbaijan's membership process for local media and civil society representatives.

Before assuming commitments offered to Azerbaijan throughout the negotiations, these issues will be discussed and consulted with business and public society representatives. To this end, it is appropriate to establish the Consultation Board within the Commission to consist of these representatives.

Lastly, under this concept teaching of the WTO subject at a higher education establishment will help train high qualified experts in the nearest future.

The issue that may cause hot discussions among experts is the possibility of using preventive measures following WTO accession. In this connection it is worth noting that the WTO rules fail to fully prohibit protectionism, impose quantitative restrictions and licensing, but allows increase in customs tariffs and subsidizing of some fields. But all these items shall be carried on the

principles guided by concrete or general rules and legal norms. Therefore, Azerbaijan's WTO accession will not weaken the existing possibilities of the country in regulating foreign trade, ice-versa, will create modern legal conditions to protect national importers and exporters interests and facilitate the transition to the multilateral trade practice covering many other countries.

So, Azerbaijan's WTO accession under favorable conditions is not an aim, but just a means promoting further economic reforms within the existing market economy and thus speeding up the transition period in the short run.

Specialists at Azerbaijan's Ministry for Economic Development maintain that the performance of the actions listed in the above conception will strengthen Azerbaijan's position in the world trade system, including in the division of international labor, as well as contribute to expansion of economic relations with the other states, stimulation of economic development and economic transformation.

The Government has grouped the aim of Azerbaijan's WTO accession and priorities during accession negotiations as following:

1. Accelerating the process of integration into the world economy;
2. Benefiting from mutual concessions provided by WTO members;
3. Conducting trade operations with most countries under WTO rules;
4. Achieving increased support for economic reforms in the country from international institutions and world countries;
5. Attracting large-scale foreign investments once WTO rules have been applied;
6. Accessing opportunities for achieving fair resolution of trade disputes through WTO.

Each round of negotiations now leads to liberalization of international trade. In such environment the WTO requires a tougher line on nations that are bidding for membership. From CIS countries Kyrgyzstan, Moldavia and Armenia, as well as Georgia have 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.

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

- a. To acquire the privileges given to the relevant countries taking into account the Azerbaijan's developing and transition economy within the framework of WTO;
- b. To achieve maximum long-term transition period until complete application of all WTO rules;
- c. To achieve high import customs duties for the goods of a vital importance for Azerbaijan's economy, particularly for the industry;
- d. 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;
- e. 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;
- f. To succeed in granting subsidies during the negotiations in the agricultural field in the amount of 10 percent of the annual agricultural products;
- g. 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.

## WTO Benefits and Losses for Azerbaijan

It is possible to evaluate the benefits and losses of Azerbaijan's accession to WTO from the standpoint of various aspects and approach does not complete merely by calculating the country's benefits and it is necessary to classify these benefits on different sectors. The subject of discussion is not the approaches concerning accession to WTO. The main question is how to achieve this accession and to obtain more benefits for Azerbaijan. Recently, expansion of WTO's leading role in the world economy which is globalizing rapidly and its geographical activity is considered topical not only among the researchers at scientific-practical discussions of various levels, but also among the practitioners. WTO trying to carry out reasonable work in the direction of maximum liberalization of international trade and establishment of its sustainable bases, creation of favorable conditions for free competitiveness, prevention of quantity restrictions in the trade, ensuring transparent and fair trade policy, serves rational organization of trade turnover, as well as provision of transparency and publicity in foreign trade regime of member states by applying favorable national regimes with free access to the markets, as well as via prevention of quantity restrictions.

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%. Consider countries I have ever known: 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.

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.

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.

Taking into account that agriculture is the main field of activity in Azerbaijan, most of people engaged in this field aim to meet their personal needs, but not to be engaged in commercial activity, and it causes to draw a conclusion that the scope of this danger will be wide and effective. In such case, it is obvious that the problematic field for Azerbaijan in accession to WTO will be agriculture.

In general, the field to be adapted from this standpoint will not only be limited to agriculture. Government should also pay attention to financial, bank, insurance and other service sectors which have been regulated via foreign capital for many years. In any case, there is no any doubt that our problems will also cover the processing field of industry, because, there exists a real law of competition. Increasing the prices of energy carriers will result in restriction of agrarian and industrial's opportunities in quality and price competition.

In connection with WTO accession Azerbaijan may be deprived from food aid to the country. However, this barrier will not concern the World Bank or the United Nations. For example, in

case national emergency is declared in the country, and one of the WTO member states 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 states, WTO has applied a barrier to that end. Evidently, non-WTO members can render assistance to WTO member countries.

Only oil sector can bypass this process, because in any case Azerbaijani oil will be not allowed to export to Europe. Moreover, there are not any special conditions concerning WTO oil sector. The question is in accordance with agreement presented in the international trade as “gentleman’s agreement between WTO and OPEC (Organization of Petroleum Exporting Countries)”, oil questions are not the focus of attention of the country regulating global trade rules. From this standpoint, conditions related to oil sector are not discussed in the matter of Azerbaijan’s accession. However, the discussions held by WTO show that this matter will be raised in the near future. In particular, this matter became more topical upon accession of Saudi Arabia to WTO. The question is the said state is the largest oil producer in the world and economy of that state directly depends on oil. Moreover, desire of Russia - the second oil producer in the world, to accede to WTO tells on raising “oil matter” on the WTO’s agenda in the near future. From this standpoint, the probability related to special conditions of WTO concerning oil sector is increasing day-by-day. That is why the issue of “suffering or not” from those potential conditions depends on when our country will become its member. If the settlement of Azerbaijan’s accession becomes longer, then the probability of “getting away” this process by oil sector is less.

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 hand, 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, in particular in revealing dumping operations not only before, but also after accession to 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 on the eve of WTO accession leads to insignificant and uninteresting replies in the course of talks and inquiries, as well as decision-making, at the same time restricts the government officials' opportunity in the country.

For softening the impact of the problem, it is necessary and important to mobilize all government structures, including Parliament. During WTO accession it is important to hold consultations with business structures, research institutions and concerned experts. 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 accession 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. 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.

WTO principles will certainly bring significant benefits to Azerbaijan. In fact, barriers to quantity applied on import operations raise difficulties to local business structures. Currently the number of such barriers is 7.

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 the problems in unregistered foreign trade turnover. 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.

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 stipulates 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. 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 right, 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 WTO avoids barring protectionism, permits to increase tariff rates and to grant increased subsidies. However, all these are subject to appropriate negotiations and sanctioned rules.

“WTO works with the government” – it is one of the business principles of the said organization. In such case, does it mean that the organization correlates only with government, but not with other organizations and business structures? An official answer of WTO to this question is simple: not at all! “One of the questions discussed in the matter of WTO accession is benefits and losses of entrepreneurs. The question does not cover the volume of the entrepreneurs’ benefits or losses at all. Certainly, every state interests in revenues earned by entrepreneurs from any changes. Earning more revenues from the WTO accession by the Azerbaijani entrepreneurs which is a transition country is very important and naturally, it depends not on that organization, but establishment of this activity in our country.

WTO accession means formation of legislative base. Economic development, as well as industrialization directly connects with the foreign trade policy of the country. It is reality: all countries observe global foreign trade policy to achieve success in foreign trade and in particular to earn more benefits. The main feature of the global economic system which is a subject matter of international discussion is to carry out systematized and sustainable changes in the state administration system. From this standpoint, it is necessary to have its position on an international scale and naturally, in case of any delay in this field could cause negative impact on Azerbaijan in the world scene.

The benefits of WTO accession have 3 directions. The first benefit: adjustment of pricing mechanism in WTO member states to WTO conditions, as well as international standards. As is known, economic systems of the western countries rely on laws and sound activity of the entities that are responsible for application of these laws. By improvement of the western countries’ laws, they try to impact positively on every stratum of society. But in the CIS countries where planning had been applied for any years, laws and the entities executing them have no any impact. And it relates to failure of laws. As is known, WTO accession is evaluated as improvement of laws and also a factor developing the execution mechanisms.

The second benefit of WTO accession is obtaining access to the markets of other countries. WTO member states should apply low customs duties to the goods imported by them from other WTO member states in accordance with WTO conditions. This tariff rate is defined at the end of multilateral talks held within the framework of WTO, and they cease the barriers applied by them in foreign trade. These conditions are not applied in case of importation of goods by WTO member states from non-WTO members.

The third and very essential benefit of WTO accession is opportunity of using settlement mechanisms proposed by WTO accession on trade disputes. Because non -WTO members have no any right to use these settlement mechanisms.

According to the Entrepreneurship Confederation in Azerbaijan, with WTO accession the legislative base to promote business development will be improved and domestic economic normative acts will be brought in conformity with WTO rules. Once these issues are addressed, the economic reforms in the country will be accelerated thanks to the introduction of appropriate standards used in progressive countries. One of the core issues here is to increase transparency of the legislative acts and simplify related procedures. Namely, the rights and duties of entrepreneur and government official, as well as procedures that clearly and precisely show settlement of problems eliminate negative cases, thus indirectly preventing invisible items of expenditure included in the prime cost of the product leading to its reduction. It, in turns, favors the consumer. And entrepreneurs producing top quality goods at inexpensive price will also benefit. And local entrepreneurs want to access these provisions. Indeed, Azerbaijan has achieved significant milestones in the field: in 2002 a major reform of licensing in Azerbaijan reduced the number of business activities requiring licences from more than 240 to 32, covering all industrial sectors.

Other benefit of WTO accession is training specialists in the member states in accordance with the organization's requirements. Today, there is lack of specialists in entrepreneurship sector. There exist separate entrepreneurship sectors.

Most entrepreneurs are engaged in the sectors requiring less intellect. There is lack of specialists for implementing the projects requiring qualification and skills which comply with the requirements of market economy, i.e. the staff engaged in the field of securities, leasing, insurance, international carriers, international tourism and oil supply industry.

In particular, lack of staff for entrepreneurship entities in the regions is observed distinctly. The requirements of modern market economy require today's farmers to give up traditional rules. The Azerbaijani farmers can not sell their products blindly. As a result of it, at present 70% of entrepreneurship entities have gathered in Baku city. There are a few number of specialists who can operate state-of-art technologies and devices. On the other hand, the level of professional training is not high in Azerbaijan. All these factors impact negatively on labor productivity. The enterprises having low labor productivity lose in market competition. Upon accession to WTO the entrepreneurs will be interested in training the staff complying with modern requirements. Techniques and equipment meeting international standards are being imported from those countries. At the first quarter of this year 65,7% of products imported to Azerbaijan are machines and electro-technologies. If we had acceded to WTO, them equipment more complying with international standards would have been imported to Azerbaijan. It is known that some business structures cannot meet their needs with their private funds. Nevertheless, the policy of covering 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. By 2000 industrial countries' tariff rates on industrial goods had fallen to some 5% from 40% since GATT's establishment in 1947. Accession to the organization means importation of quality products to our country. At present, there are a lot of poor quality products in internal market. But after WTO accession, it will be possible to require quality products from the importers.

According to the European Commission, due to difficult and compound foreign trade procedures 1 percent of VAT is added to trade expenses in developing countries. But in the countries such as Ethiopia this figure is even 30 percent. 29 various documents are required I India to be engaged in foreign trade activity. This situation also exists in Azerbaijan and it does not differ seriously from other developing countries.

From this standpoint, the Azerbaijani entrepreneurs engaged in foreign trade activity face compound and difficult procedures which exist in the most developing countries. One of the benefits of WTO accession by the persons engaged in entrepreneurship activity will be reduction of such kind of procedures, simplification of trade activity and application of easier conditions, as well as in some cases, opportunity to be engaged in this activity spending less money. Simplification of these procedures is one of the requirements of WTO and the country that desires to accede to the organization should bring the said procedures into line with international

standards. Azerbaijan's accession to WTO will lead to formation of favorable foreign trade procedures for entrepreneurs.

Though in many cases WTO works with the governments, but this organization raises the disputes between the companies for discussion. This usually happens in case of discrimination policy executed by local authority among the companies and dividing the companies into "good guys" and "bad guys". In such case the companies can seek the settlement of these disputes in Geneva.

Different countries have been qualified on selling of various goods in the world market. This list includes both developed and developing countries. It does not rely on D.Ricardo's theory on comparative advantages, it relates to qualification sphere of most countries. Japan grants 5 times more subsidy to rice production compared to market price, but it does not mean that Japan rice is 5 times delicious than Vietnam rice. The question is that despite such subsidy Japan rice can not prevail over Vietnam rice in foreign market. Or the United States of America allocates subsidy to cotton sector in the amount of \$ 4 billion. It is more than current state budget of the Republic of Azerbaijan. Nevertheless, cotton industry of the USA is on the verge of bankruptcy.

Taking into account the above-mentioned, it may be suggested the following idea: WTO accession means access for entrepreneurs of developing countries to new markets. Upon accession to this organization, the Azerbaijani entrepreneurs will obtain new bases on qualified spheres. In such case, products of those entrepreneurs will enter the markets of neighboring and other countries.

Being one of the main conditions of WTO, strengthening of transparency is an indicator of this organization's activity in formation of trade system in member states. Moreover, WTO conditions in relation to application of transparency procedures to public procurement, foreign trade activity result in normal operation of the system. Upon WTO accession, the countries act in the direction of application of transparency rules in foreign trade relations. And it prevents bureaucratic obstacles or requirement of bribe, and creates favorable conditions for the entrepreneurs.

On the eve of accession of Azerbaijan to World Trade Organization (WTO), the benefits and losses of this accession are being discussed at different levels. Even benefits driven by the

developing countries from WTO accession are not accepted definitely by the supporters of globalization. Even opponents of globalization also consider WTO accession inevitable: standing aside of economic integration by any country of the globalized world in any case will not result in benefits of that country. Earlier accession to economic integration could increase the number of such benefits.

## Conclusions and Recommendations

Though 13 years have passed since Azerbaijan launched negotiations for WTO accession, no substantial steps have been made for full membership.

Failure to achieve decisive agreements in the bilateral and multilateral negotiations points to long and long membership negotiations. In bilateral negotiations Azerbaijan has been unable to sign agreements with the United States, the European Union, Australia and New Zealand. The Geneva-headquartered WTO Office has so far failed to attain agreement with the Working Party on multilateral negotiations. The Working Party does not name the date of agreement in their statements.

Despite a pile of claims, WTO accession will not imply the end of the government opportunity to protect the internal market, as the agreements on tariff rates had been determined during negotiations with this organization. Whether Azerbaijan will reduce tariffs following WTO accession still remains unknown. The point is that WTO membership doesn't imply sharp tariff cuts. Tariffs are determined across bilateral negotiations and some tariffs even may be increased. On the other hand, fixed tariffs are determined during negotiations and therefore the government shall take careful decisions on further tariffs. During the transitional period the government will not be deprived of opportunities to protect the internal market. The WTO members are entitled to undertaking temporary protection measures. And lowering the real exchange rates will increase the government's opportunities to protect internal production. After WTO accession, the state will be free to continue the patronage in policy in the agrarian sector and it directly depends on negotiations conducted with the WTO. The agrarian sector is protected all over the world, including in Azerbaijan and the agricultural tariffs are not applied in our country and the capacity of such subsidies this is not high. If the Azerbaijan government reach agreement to adjust a higher and stable tariff system in the course of negotiations, the situation in this field will not be so undesirable. One should consider that WTO membership doesn't ban investments in the agrarian sector. The WTO may require the Azerbaijan government not to outreach the "subsidies wall". The information regarding the "subsidies wall" to be agreed between the WTO and the Azerbaijan government during the negotiations is still unavailable. It depends on the nature and structure of each state, as well as its position during the WTO negotiations. This figure is different in each country. For example, Russia, which is not a WTO member, has achieved the tariff "wall" at amount of \$16 billion during WTO negotiations. As the Azerbaijan economy is

becoming more liberalized, the claims in connection with stagnation in the agrarian sector are not supported. Most problems in this field will not be eliminated within a long term even unless Azerbaijan joins the WTO and will have negative impact on the economy. These problems are inappropriate intervention, illegal inspections, budget restrictions, lack of protection of the property rights in this sector, lack of professional managers and restricted opportunities to access credits. These problems are not associated with Azerbaijan's accession to any organization. The WTO membership will lead to increases in direct foreign investment flows and expansion of export opportunity of import-oriented industry. Practices of WTO members show that following accession, the results are different for each member. The WTO accession attracts direct foreign investment: not only increase the investment into the membership, but also it leads to economic growth. For example, serious improvements are observed in the amount of foreign investments after Kyrgyzstan, a "pioneer" in the CIS-space, joined the WTO. Notably, the WTO is a unique international global institution regulating trade relations between nations. The WTO activity is based on agreements between it and the states. These agreements rest upon negotiations conducted between the countries and are ratified by these countries parliaments. The WTO charter indicates that its key goal is to assist producers, exporters and importers of commodities or services to manage and expand their businesses. WTO membership will promote foreign investment flow into Azerbaijan's export sectors. And it means assumption of commitments to protect the right of creditors and from this viewpoint, the regional governments cannot pursue discrimination policy in the foreign investment field after WTO accession. Horizontal investments (investments into the local market) will be directed to the regions where population is densely concentrated and vertical investments (export investments) will target the overseas sectors where more qualified employees are accumulated. On the other hand, regardless of Azerbaijan's WTO membership, the improvement of the investment environment will promote long-term economic growth. In this case, the tariff rates that will constitute insignificant part of transaction expenses will stimulate the movement of the foreign investments. For example, WTO membership has led to more stable access to the foreign markets for China thus preventing imbalance in the foreign trade. China's WTO accession enables the country to have better position in the involvement of foreign investors who use this country as the "export platform". In addition, one cannot deny that China's WTO accession has led to short term big expenses, but experts claim that the bulk of the costs would have been emerged anyway. Nevertheless, the membership has also assisted China get longterm advantages and eliminate shortterm difficulties. According to Chinese economic research institutions, computing, the country's annual GDP increased 3-5 percent on an average after WTO accession. Compared to 1998,

China's foreign trade turnover had almost doubled as of early 2005: the foreign turnover increased from USD 320 billion to USD 600 billion and the number of the job places has exceeded a million after WTO accession. According to the Chinese State Development Council and the Research Center, if China was not a WTO member, its GDP would have seen a 1.2 – 1.5 percent decrease. The WTO membership will provide Azerbaijan with additional tools in the regional trade agreements and strengthen the country's positions at the regional level.

By WTO experts estimates, liberalization of foreign trade may be implemented more rapidly through regional and bilateral trade agreements. The number of Regional Trade Agreements (RTAs) has been steadily increasing over the last 20 years as has the share of preferential trade in world trade. By the beginning of 2005 more than 250 RTAs had been notified to the WTO, of which 130 were reported after 1995. Of these: 170 are currently in force. The total amount of agreements in force could come close to 300 towards the end of next year. The regional and bilateral trade agreements may give an impetus to the processes on multilateral trade agreements. The most recognized regional trade agreements may include: the European Union, the European Free Trade Association, the North American Free Trade Agreement, the Southern Common Market, the Association of Southeast Asian Nations, Asian Free Trade Area and the Common Market of Eastern and Southern Africa, the Economic Cooperation Organization. The WTO membership will help Azerbaijan take advantage of going beyond at least the regional frontiers. Besides, the regional trade agreements within the CIS-space are not effective. Therefore, Azerbaijan's WTO accession will not give serious advantages to the country. For this purpose, it is not worth comparing WTO membership with the regional trade agreements. Moreover, the countries prioritising regional trade agreements are WTO members. For example, the countries of European Union are WTO members and these states are represented in this organization in the form of sole institution. And the majority of WTO members have joined one or more regional trade agreements. So, Azerbaijan's WTO accession will not have a negative impact on its position and role in the regional trade agreements.

To speed up Azerbaijan's WTO accession and reduce its negative impact on the country's economy, it is expedient to take actions below. For Azerbaijan, which has a small internal market, thus seeking to consolidate its stance in the world economic system, WTO accession is a priority. Nevertheless, But, this step not only will have positive but also negative impacts on the domestic economy. The government of Azerbaijan must pay special attention to the following throughout the WTO membership process:



1. To determine all perspective interests in all fields covered by WTO agreements and establish special departments in all state and government agencies, research institutions in order to develop an appropriate policy for looking at them during negotiations;
2. To prepare an Action Plan for Azerbaijan's WTO accession. The Plan should reflect recommendations below:

### **Industrial production development sphere:**

- Speeding up the sectoral approach to boost the production fields amid perspective development of the economy and the international labor division. It is necessary to create conditions for the fields, the organization of which will be possible and conduct broad sectoral initiatives;
- Applying preferences for equipment and technologies imported to the country in order to organize production process in terms of both foreign investors and local entrepreneurs, in particular exemption of the equipment and technologies from customs duties and VAT;
- Applying customs rates for oil and gas equipment imports, the production of which is provided in the country, on the escalation principle (the list of such equipment is issued by the Ministry of Industries and Energy);
- Reviewing the tariffs for raw-materials and complete items imported to meet the needs of all industrial fields, including but not limited to, mechanic engineering, light and food industries in particular, with a view to reducing the rate;
- Speeding up the privatization process of medium- and big-size state-owned facilities, focusing on measures to rehabilitate and restructure the activity of the privatized enterprises;
  - Preventing the monopolistic activities and securing fair competitive conditions for all businesses and entrepreneurs;
  - Establishing Anti-dumping Control State Committee and empowering it to carry out independent anti-dumping policy;
  - Preparing an Action Plan on ecological standards in enterprises in order to support entrepreneurship development in international trade system;

- Shaping an information bank and system on foreign trade, particularly, in the field of legal and economic information (dispute resolution, monitoring of the price fluctuation, etc);
- Developing an industrial development Concept until 2010 promoting application of technologies for effective use of ecologically safe energy and other depletable resources;
- Achieving maintaining of higher tariffs and access to the transitional period for a longer. It is important to assure the opposite sides during negotiations in the necessity of preferences in separate fields for the development of the country. Most problems here can be solved how the National representatives will conduct negotiations and assure the opponents.

#### **In agriculture sector:**

- Listing of agriculture -industry sectors which are unable to react quickly to challenges in the world market and development of a special policy on them;
- Protection of certain agriculture production sectors which have no capacity to compete with imported goods;
- Seeking to exercise the right to repeated negotiations on separate positions at WTO accession. Notably, this right enables to restart negotiations and sign protocols among the interested parties every 3 years;
- Formalization of Foods Control System in order to enhance accesses of population under poverty to foods
- Achieving maximum expansion of Amber Box measures;
- Seeking to access subsidies at the rate of 10% of total agricultural production;
- Advocating the 1989-1991 period for the market period status when agricultural producers gained more support;
- Achieving the right to the Special and Differential (S&D) support measures to avoid reduction commitments.

#### **Investment sector:**

- Speeding up integrated measures to drastically improve the investment environment in the country (Adoption of new laws on the protection of investments and investors, securing supremacy of law, eliminating obstacles facing investors, etc)
- Amending laws to comply with the rules guided by the TRIMS agreements;
- Extending transitional period allowing application of national control regimes
- Preparing and approving documents to restrict manipulation chances of foreign investor's activities on "taxable income", "export price", etc;
- Introducing economic regulation methods to support local business activities not restricted by the investment list of TRIMs.

#### **Environment protection sphere:**

- Achieving Azerbaijan's joining and ratification of the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, Kartahen Protocol on Bio-security, the amendments to the Montreal Protocol on Substances that Deplete the Ozone Layer, the protocol to the Convention on Long-Range Transboundary Air Pollution; Seeking effort towards compliance with Article 10A of the Montreal Protocol on Transfer of technology. Joining these international treaties will create opportunities to cover risks regarding the import goods and technologies and shift to international standards of environmental protection in the local market.
- Achieving adoption and improvement of the law on the biosecurity as well as adoption of the law on the food security of the Azerbaijan Republic;
- Preparing proposals to develop a methodical approach on assessment of the rent in natural resources and design a mechanism for natural rent prevention;
- Developing a package of proposals to eliminate the intra-country natural rent and elaborate a mechanism for returning unrecoverable natural resources to the exporting nation;
- Extending and restructuring the existing state standards system on wildlife preservation;
- Shaping a system of state ecological standardization on the basis of international standards used by the International Standards Organization (ISO), the International Electrical Commission (IEC) and the International Telecommunication Union;

- Establishing ecological audit institutional infrastructure aimed at monitoring the observance of ecological legislation by the enterprises in order to mitigate the emergency risks caused by environmental pollution;
- Training high-level qualified experts in the fields of ecology law and ecological management;
- Conducting ecological expertise of investment projects in binding participation of public associations.

### **Social sphere:**

- Realizing regional purposeful, target programs in order to reduce poverty and combat unemployment;
- Enhancing access to material wealth and services of social importance;
- Improving the mechanism to reduce foreign labor migration to the country based on annual quotas approved by the government, re-train local specialists to replace foreigners and protect domestic labor market;
- Implementing improvements on training of local labor force given domestic labor market demands;
- Conducting monitoring of labor market ensuring quick response to employment policy in the domestic labor market;
- Increasing effectiveness of targeted social assistance to population under poverty level;
- Shaping mechanisms to index the income of population under poverty level in case of price hike for commodities and services of social importance;
- Establishing a three-level social protection system including minimal state protection, obligatory and non-obligatory insurance systems;
- Ratifying WTO conventions for the protection of employment;
- Promoting activities to protect the rights of consumers of export goods.

### **Services Sector and Protection of Intellectual Property Rights (IPR):**

- Conducting comprehensive sectoral researches in the country regarding services aimed at the development of the services market and its international integration: estimating the current development situation regarding kinds of services, their level of conformity to the

modern international standards, the impact of the liberalization of separate service fields on the domestic economy, etc;

- Eliminating obstacles facing foreign investments in the fields full liberalization of which will not cause any damages to the country's national and economic security (for example, health, education, transport services, whole and retail sale, hotel and restaurant services, legal services, audit, etc);
- Securing sequence of foreign capital flows into the bank and insurance services. But a fair competitive environment for local enterprises shall be created in these fields, steps shall be taken to prevent monopoly by separate enterprises, the concrete period shall be declared for strengthening of local companies and these fields shall be liberalized upon expiry of this term;
- Speeding up and ensuring transparency the process of privatization of state owned banks with the lion shares in the country's bank sector (International Bank of Azerbaijan and Kapital Bank);
- Speeding up works towards leaning the international standards in the field of services: development of appropriate legislation framework, adoption and application of international standards, recruitment of experts personnel, education and training abroad, etc;
- Bringing Azerbaijan's transshipment infrastructure in line with the international standards in order to substantially benefit from the country's transit opportunities, removing obstacles to goods in transit at the customs checkpoints, guaranteeing safe transportation of goods, as well as introducing more effective mechanisms to detect banned goods, preventing any contraband channels;
- Introducing an automated system to exercise continuous control and inspection over cross-border operations and handling of transit cargoes;
- Improving legislation to protect brands, trademarks, industrial property and specimens, and patent rights.

**To step up Azerbaijan's WTO accession and mitigate its negative effects, below is given a set of recommended additional steps to be accomplished:**

1. While passing decisions on Azerbaijan's WTO accession, the Inter-Governmental Commission of the Azerbaijan Republic should be guided by the principles of the World Summit on Sustainable Development and the Doha Declaration;
2. A democratic, effective and transparency system of state administration should be established;
3. The economic regulatory framework, including the customs and taxes codes, judicial reforms and the property rights protection system, in particular should be improved;
4. The Ministry of Economy Development, the Ministry of Agriculture, the Ministry of Environment and Natural Resources (MENR), the ministry of Labor and Social Protections of the Population, and the State Customs Committee of the Azerbaijan Republic should carry out predictive researches to define the quantitative parameters of the results of trade globalization;
5. Officials of state authorities should go through special training courses to obtain information about the WTO and international trade rules as a whole; personnel with command knowledge about international trade rules, international law and the WTO requirements should be recruited. To this end, it is necessary to promote renewal of curriculums of higher educational institutions training related specialists, toughening of qualification requirements and education of specialists abroad;
6. The Ministry for Economy Development should hold regional and sectoral roundtables in order to raise public awareness about the terms and new rules for international trade, requirements for WTO accession and negotiating process;
7. It is appropriate to boost researches towards defining the social, ecological and economic results of WTO accession, including but not limited to, estimation of its effects on various sectors, especially on the agrarian sector and regional development;
8. It is necessary to intensify public discussions on WTO accession with business circles, as well as representatives of civil society, scientific-research institutions and mass-media associations;
9. The government should promote public awareness about this international organization, etc.
10. It is necessary to involve representatives of National Sciences Academy and a variety of NGOs in the Inter-Governmental Commission of the Azerbaijan Republic.

Lastly, for countries like Azerbaijan, the WTO accession is a political importance and the term of accession process depends on the political will of the ruling management. Such countries may feel the economic benefits of the WTO accession in the long view, as the accession process calls for longer time to form, shape and run new institutions in the country.



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