

Original article

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**ANALYSIS OF THE CURRENT SITUATION
AND DEVELOPMENT DYNAMICS OF TRADE RELATIONS BETWEEN
AZERBAIJAN AND THE BALTIC COUNTRIES**

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Abstract. The study is aimed at determining the impact of the Baltic countries on the global economic integration of Azerbaijan and the main directions of expanding Azerbaijan's bilateral trade opportunities between these countries. Despite the fact that the Baltic countries have almost the same strategic, economic geographical location as Azerbaijan, the main focus is to study the achievement of high development in 30 years and to find out how to build this strategy. The main purpose of the research is to identify and develop the economic policy of these countries in the transition to a market economy, as well as the development of Azerbaijan's foreign economic relations with these countries. At the same time, other objectives are pursued on the basis of theoretical considerations of European and Azerbaijani science related to economics. All this increases the relevance of the study, which presents the need to study the development of economic relations with the Baltic countries in the process of European integration, identify the problems of economic cooperation in the analysis and assessment of the current situation, as well as the potential and mechanisms for trade and economic relations.

Keywords: foreign economic relations, import and export, social infrastructure, international economic relations, foreign investment, independent state, developed countries.

For citation

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Introduction

The Republic of Azerbaijan currently has foreign relations with about 160 countries. The country's foreign trade turnover amounted to \$ 24.2 billion in 2020, with a surplus of \$ 11.7 billion in the oil and gas sector, which amounted to \$ 9.0 billion in the non-oil sector. As a result, the foreign trade balance showed a surplus of \$ 2.7 billion. Due to the fall in crude oil prices on the world oil market, the volume of exports in the oil and gas sector decreased by 36% to 11.9 billion. It was the US dollar. Of the exported oil products, 9.3 billion US dollars fell to crude oil and 0.6 billion US dollars to oil refining products. In 2020, non-oil exports decreased by 4.3% to \$ 1.8 billion. In particular, imports in the non-oil sector decreased by 13.3% to \$ 8.2 billion.

The fact that Azerbaijan and the Baltic countries were part of the Russian Empire and later the USSR for a long time created conditions for the formation of economic

and cultural ties between them. At the end of the twentieth century, the re-independence of Azerbaijan, Latvia, Estonia and Lithuania, the existing relations between them took the form of interstate relations. Although they are approximately the same as Azerbaijan in terms of territory, they have very different economic development. Despite their limited natural resources, their economic geography and proximity to the developed countries of Europe have accelerated the economic development of these countries. In the process of socio-economic reforms in these countries, the foreign economic policy of the state, aimed at the effective integration of the national economy into the system of world economic relations and the implementation of related economic benefits and advantages, plays an important role. The most important tool to achieve this goal is, first of all, the development and further improvement of the system of state regulation of foreign economic activity in order to optimally combine the openness of the economies of countries and meet the requirements of economic security of the state.

1. The main content of the research

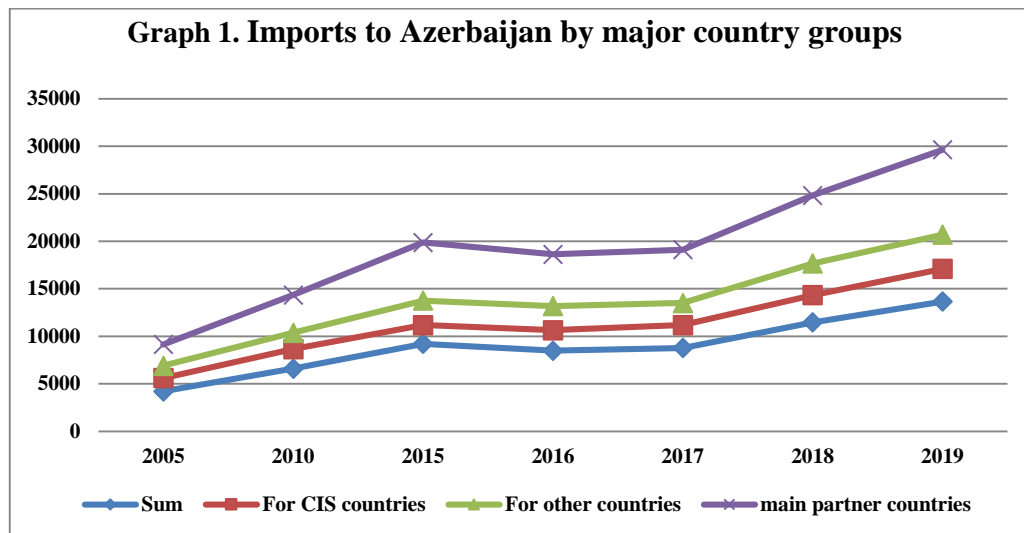
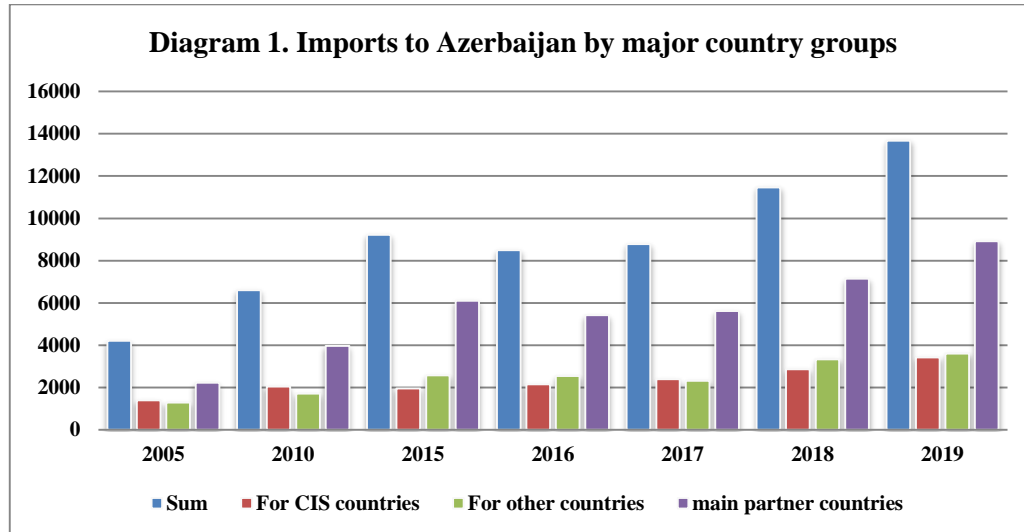
Relations between Azerbaijan and the Baltic states first existed in the early twentieth century. During this period, the Latvian Society operated in Baku. The Latvian Refugee Relief Committee, a non-governmental charity set up to help thousands of refugees fleeing conflict and hotbeds in Eastern Anatolia, the Balkans and elsewhere during the First World War to Baku and Ganja provinces, especially Baku. acted [1, p. 522]. However, the appreciation of interstate relations dates back to the end of the twentieth century. The Republic of Lithuania recognized the independence of Azerbaijan on December 20, 1991, the Republic of Latvia on January 8, 1992 and the Republic of Estonia on February 20, 1992.

It should be noted that each of these countries is an industrial-agrarian country. Just as the Baltic economies are based on food, wood and wood products, metals, machinery and equipment and textiles, the Azerbaijani economy is based on oil and gas production, oil refining, fuel and energy complex, chemistry, mechanical engineering, electricity. , ferrous and non-ferrous metallurgy, cotton, grapes, tobacco, tea, and subtropical crops. Azerbaijan is one of the regions with global oil and gas reserves. The world's industrial oil production was carried out in Azerbaijan in the 19th century. At the beginning of the 20th century, our country produced more than 50% of world oil production. Oil production in the Caspian Sea is also typical for this country. The new Oil and Gas Strategy implemented in the country is of great importance not only for the Republic, but also for the region and the world. For this reason, the structure of exported products consists primarily of crude oil, natural gas, petroleum products, then vegetables and fruits, sugar, vegetable oil, oils and animal fats, plastics, aluminum and its products, chemicals, ferrous metals and their products [2, p. 43].

2. Azerbaijan's trade relations with other countries

It should be noted that only in 2020, 19.3% of the total volume of imports will come from the Russian Federation, 13.8% — Turkey, 8.2% — China, 5.8% — the United Kingdom, 5% — the United States, 4.7% — Germany, 3.9 percent — Italy, and only 0.28 percent — the Baltic countries. At the same time, 28.7% of the total export volume falls to Italy, 14.6% to Turkey, 6.8% to Israel, 4.7% to Germany and 3.7% to Russia, while only 0.03% falls to the Baltic countries.

Table 1, diagram 1, 2 and Graph 1; As can be seen from Figure 52.9% of Azerbaijan's total imports by major country groups in 2005 were from major partner countries, 33.3% from post-Soviet countries (17.0% from Russia), and 29.7%. If it falls to the share of other countries, in 2020 this share will be 66.3%; 27.1% (Russia — 17.7%); 24.3%.



During 2005-2020, Azerbaijan's total imports increased 2.3 times, excluding 2019, while imports from major partner countries increased 3.1 times, with CIS countries 2 times, and with other countries 1.3 times. Excluding 2019, imports from major partner countries during the same period: from Russia — 2.7 times; 5.1 times from Turkey; 8.1 times from China; From the USA — 4.5 times; From Germany — 2.3 times; From Italy — 4.2 times; From Switzerland — 3.1 times; While imports from France increased by 3.7 times, imports from the United Kingdom decreased by 22.9%.

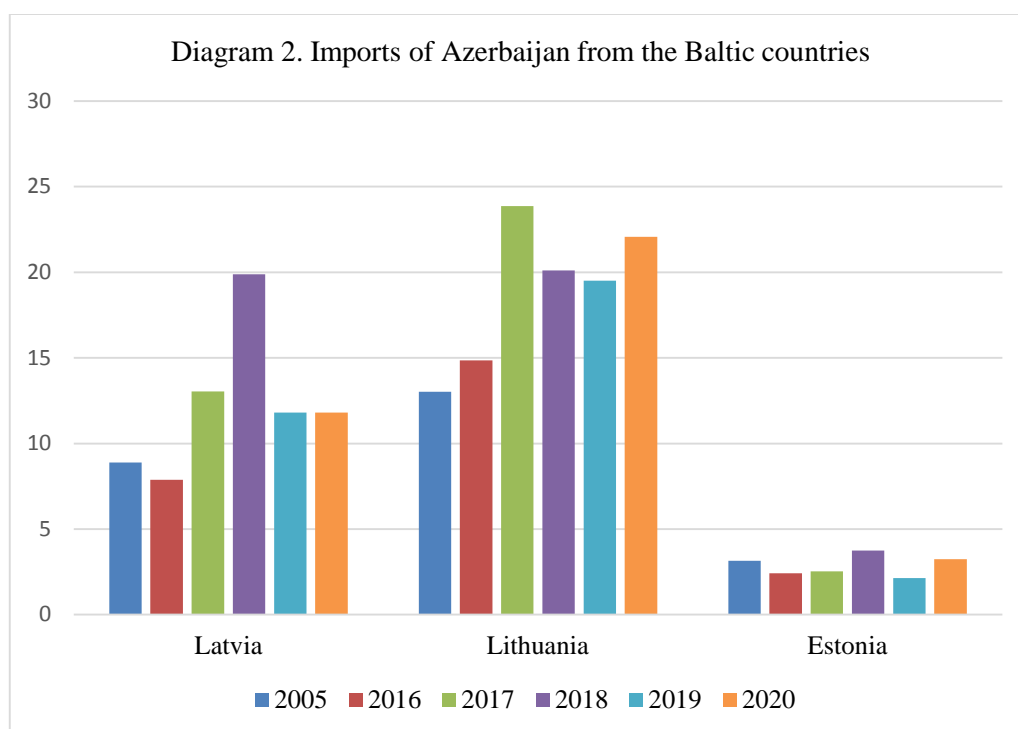
Table 1

Imports by countries, mln. USD¹

Countries	2005	2016	2017	2018	2019	2020
Sum	4211,2	8489,1	8783,3	11465,9	13667,2	10730,2
CIS countries	1404,0	2158,6	2396,5	2862,2	3432,5	2801,7
Other countries	1294,9	2542,1	2323,8	3342,6	3601,2	3234,9
Main partner countries	2229,5	5430,1	5617,1	7146,3	8923,7	7083,0
Including						
Russian	717,2	1641,7	1554,1	1885,2	2290,2	1962,1
Turkey	313,0	1181,6	1273,8	1576,8	1646,8	1563,0
China	173,8	703,8	854,5	1196,6	1432,0	1413,8
Sweden	26,6	63,1	56,9	513,5	1223,3	80,1
USD	141,3	471,6	720,6	527,0	767,8	635,9
Germany	256,3	390,5	443,7	659,9	710,4	583,8
Italy	94,6	332,4	318,8	340,1	369,9	396,2
France	121,8	150,2	154,8	183,5	250,7	448,1
Great Britain	384,9	495,2	239,9	263,7	232,6	296,9
Latvia	8,8	7,8	13,03	19,8	11,8	11,7
Litva	13,0	14,8	23,8	20,1	19,5	22,0
Estoniya	3,1	2,4	2,5	3,7	2,1	3,2

As can be seen from Table 1 and Figure 1, the level of imports was highest in Latvia and Estonia in 2018, and in Lithuania in 2017. In general, compared to 2005, Azerbaijan's imports from Latvia — 1.3 times, imports from Lithuania — 1.6 times, and imports from Estonia — remained almost unchanged. The share of Azerbaijan's imports from the Baltic countries is 0.3% of total imports.

¹ stat.gov.az



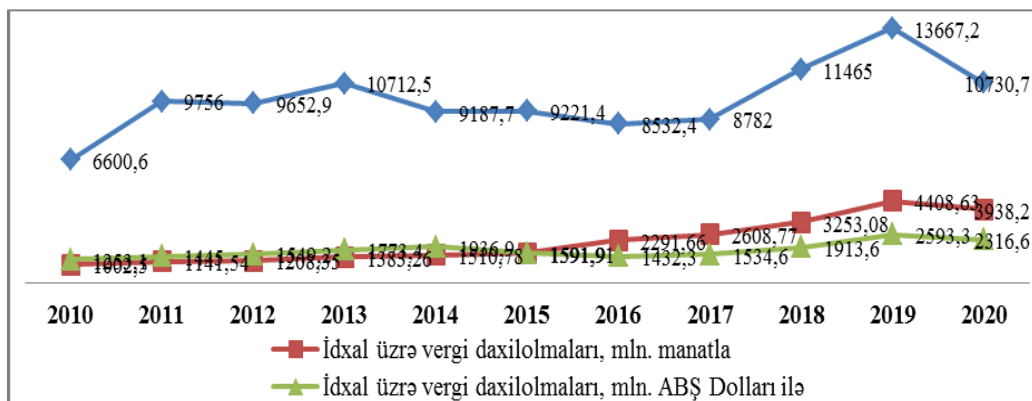
When estimating the volume of imports by type of product, 33.0% of them are machinery and transport equipment, 22.3% are manufactured products, 13.9% are food and live animals, 10.7% are various finished products, 10.5% — chemical products, 3.2% — mineral fuels, lubricants, 2.5% — beverages and tobacco products, 2.2% — non-food raw materials, 1.5% — animal and vegetable oils and fats, It can be seen that there are other goods — 0.2%. [2, p. 41].

3. Azerbaijan's import and export policy

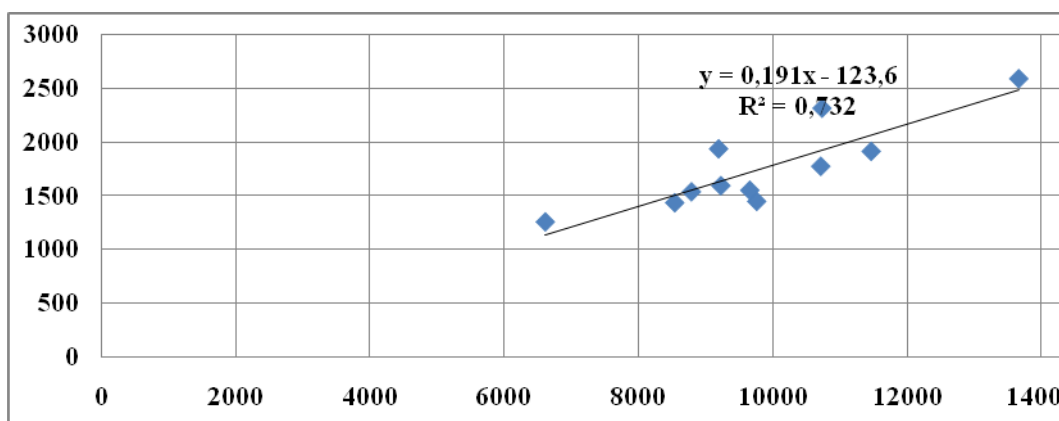
It should be noted that the state intervention in the import policy in the economy of the Republic of Azerbaijan is aimed at balancing imports. Balancing imports is the most important indicator that allows foreign countries to reduce the degree of serious influence on Azerbaijan's foreign policy¹. In order to assess the factors that directly affect the development of trade and economic cooperation between Azerbaijan and the Baltic countries, customs and tax payments, including import duties, export duties, VAT, excise tax on imports, export excise tax, customs duties and other payments have a significant impact. The following graph shows the schedule of total import tax payments with the nominal volume of imports for 2010–2020.

¹ <https://www.statista.com/statistics/375583/latvia-gdp-distribution-across-economic-sectors/>

Graph 2. Total tax payments on imports with nominal volume of imports¹



Correlation between the nominal volume of imports and total tax payments on imports



As shown in Figure 2, the volume of total import tax payments also changed in accordance with the change in the nominal volume of imports. It should be noted that the increase in the nominal volume of imports generally increases the volume of budget payments for customs. These can be seen more clearly in the correlation between these indicators. Using the diagram. The correlation between the nominal volume of imports and total tax payments on imports will be as follows with the application of the MS Excel software package.

As can be seen from graphs 2.3.2 and 2.3.3, there is a high correlation between the nominal volume of imports and the total amount of tax payments on imports, expressed by the regression equation $y = 0.1911x - 123.64$ ($R^2 = 0.7325$). As can be seen from the relationship equation, a one-unit increase in the nominal volume of imports results in a 0.1911-unit increase in total tax payments on imports.

$y = \alpha_0 + \alpha_1 x = 0,1911x - 123,64$ For the linear regression equation of the pair correlation, calculate the coefficient of elasticity, which represents the percentage change in

¹ customs.gov.az

the dependent variable as a result of a 1% change in the free variable. To do this, it is calculated by the following formula [3, p.192].

$$E = \frac{\alpha_1 \bar{x}}{\bar{y}} \quad (1)$$

Here, α_1 is the coefficient of the above relationship equation. ($\alpha_1 = 0.1911$) \bar{x} is the calculated average of the nominal volume of imports for the periods under study, ($\bar{x} = \frac{\sum x}{7} = \frac{108308,4}{11} = 9846,218$), \bar{y} is the calculated average of total import tax payments for the periods under study. ($\bar{y} = 1758,173$).

$$E = \frac{\alpha_1 \bar{x}}{\bar{y}} = \frac{0,1911 \times 9846,218}{1758,173} = 1,07 \quad (2)$$

As a result of the report, it can be concluded that a 1% increase in the nominal volume of imports resulted in a 1.07% increase in total tax payments on imports.

It should be noted that although the increase in the nominal volume of imports increases tax revenues in the budget, the state intervention in the import policy of the economy of the Republic of Azerbaijan aimed at balancing imports reduces the degree of serious influence of foreign countries on Azerbaijan's foreign policy. In this regard, along with other countries, the main products imported from the Baltic countries should be compared with the products of the same name imported to Azerbaijan, the average tariff and non-tariff rates on customs should be optimized in order to balance imports in the import policy to protect domestic production.

Table 2

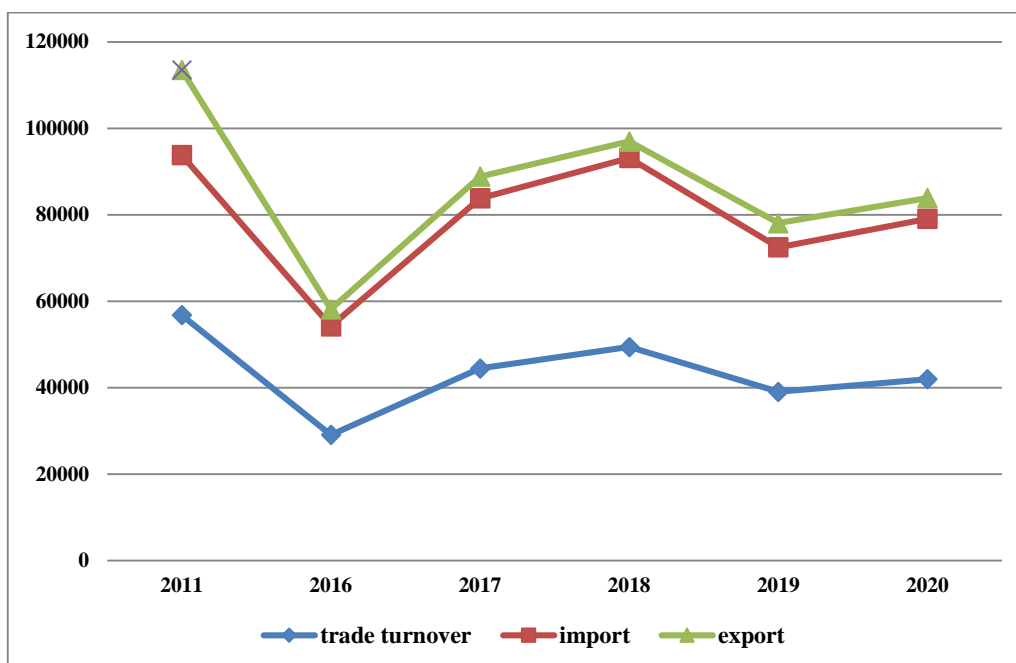
Exports by countries, mln. US dollar¹

Countries	2005	2016	2017	2018	2019	2020
Total	4347,2	13457,6	15320,0	19489,1	19635,6	13740,5
For CIS countries	697,0	663,6	1128,5	1137,3	1178,4	1306,1
For other countries	1240,6	3864,3	4622,5	6514,8	4271,4	12434,4
With key partner countries	2173	7526,8	10087,4	12502	12521,2	8806,1
Including						
Italy	1315,7	4333,7	5352,5	5879,8	5638,6	4172,2
Turkey	276,0	1185,7	1393,8	1826,0	2862,7	2597,7
Israel	195,1	664,1	638,9	1310,8	1331,6	437,5
India	1,6	552,0	404,1	819,5	955,9	456,7
Demon	99,2	382,0	443,8	113,6	752,2	432,7
Russia	285,4	409,3	587,0	665,0	731,8	709,3
Latvia	4,0	0,8	2,0	2,5	0,8	0,8
Lithuania	2,0	2,3	2,3	1,9	2,1	2,3
Estonia	0,3	0,6	0,6	1,3	2,5	1,5

¹ stat.gov.az

Table 2 lists the main countries to which Azerbaijan exports. Here, too, with the exception of last year, the share of products exported by our country has increased. Compared to 2019, the share of major exporting partner countries decreased by 1.4 times. The share of goods exported only in the CIS countries has increased compared to last year. According to the table, the weight of goods exported to the Baltic countries has not changed sharply over the years. Here, exports to Latvia decreased by 3 times compared to 2018, in Lithuania this figure increased by 1.2 times, and in Estonia increased compared to previous years, but decreased by 1.6 times compared to 2019. It should be noted that the total weight of products exported to the Baltic countries is \$ 4.6 million, which is only 0.03% of Azerbaijan's total exports. Thus, statistics show that the share of products imported and exported by Azerbaijan from the Baltic countries is very low. We must also take into account that more than 90% of Azerbaijan's exports are oil products. These countries meet their oil needs at the expense of neighboring Russia. At the same time, non-oil products are not mainly finished, but raw materials. The prices of these products are sensitive to changes in their prices on the world market, and government subsidies also dominate in these areas. In this case, these products are exported as raw materials to neighboring countries because they can not compete in the European market. It should be noted that the total trade turnover of Azerbaijan in the Baltic countries is 39,031.6 thousand US dollars, of which 21,638.1 thousand in Lithuania, 12,657.4 thousand in Latvia and 4,736.1 thousand dollars in Estonia.

Graph 3. Azerbaijan's foreign trade turnover with the Baltic countries¹



¹ World Bank

As can be seen from Figure 3, in 2011-2020, Azerbaijan's foreign trade turnover with the Baltic countries is declining and rising. In 2011, Azerbaijan's foreign trade turnover with Latvia was about \$ 25,000, as in Lithuania, which together with Estonia amounted to \$ 56,787,000. As a result of the devaluation in 2015, there was a sharp decline in the dynamics of Azerbaijan's trade with the world, including the Baltic countries. In 2018, the country's foreign trade turnover amounted to \$ 30.9 billion, which is less than before the crisis. Azerbaijan's share in oil exports, the main source of income, is high, and state demand dominates in the formation of aggregate demand, the main source of funding of which is oil revenues. That is why changes in world oil prices affect imports through the budget and exports through oil prices. For this reason, the graphs and other tables show that in 2016, the foreign trade turnover with all three Baltic countries decreased to 29076.5 thousand US dollars. This figure increased to 49501.2 thousand US dollars in 2018, and decreased slightly in 2020 to 41956.4 thousand US dollars.

4. Trade between Azerbaijan and Latvia

An important part of the trade turnover between Azerbaijan and Latvia is agriculture, food, wool, oil, chemical and construction industries, pharmaceuticals. However, such products are more consumer products and are sensitive to changes in domestic demand. Thus, changes in domestic demand in the country also affect the import of these products. At the same time, the high share of imports of such products is considered negative at the time of impact on the foreign exchange market. Because the predominance of imports of consumer goods is one of the main factors leading to a chronic balance of payments deficit. The table below shows the trade turnover between the two countries in 2015-2020.

Table 3

**Trade relations between Azerbaijan and Latvia, 2015–2020
(in thousands of US dollars)¹**

Years	İmpot	export
2015	9685,7	845,5
2016	8342,4	800,4
2017	13 033,3	2 028,1
2018	19 875,2	2 510,9
2019	11802.0	855,4
2020	11799,5	873,8

According to Table 3, although international trade turnover increased until 2016, devaluation and falling oil prices in 2015 reduced the weight of import and export operations. However, trade relations began to increase in 2017-2018, and then, as a result of the impact of the COVID-19 pandemic on the world, the weight of import and export operations fell, as in many countries. In the same year, ie at the end of 2020, the total trade turnover between Latvia and the Republic of Azerbaijan amounted to 12,673.3 thousand US dollars. At present, 40 Latvian companies operate in Azerbaijan

¹ stat.gov.az

through construction, services, industry, communications, transport, trade, banking and insurance. Latvia's main exports are food, wood and wood products, metals, machinery and equipment, textiles, while imports are machinery and equipment, consumer goods, chemicals, fuel and vehicles.

5. Trade relations between Azerbaijan and Lithuania

Azerbaijan's exports to Latvia include food, raw materials and vegetables, while its imports include food and chemicals. In general, the weight of products currently imported to Latvia is 11799.5 thousand US dollars, the weight of exported products is 873.7 thousand US dollars.

An important part of the trade turnover between Azerbaijan and Lithuania is occupied by agricultural, food, light, chemical, oil and construction industries. The table below shows the trade turnover between the two countries in 2015-2020.

Table 4

Trade relations between Azerbaijan and Lithuania, 2015–2020¹
(in thousands of US dollars)

Years	Import	Export
2015	26 941,9	512,9
2016	14 861,3	2 398,6
2017	23 885,9	2 304,5
2018	20 106,1	1 956,2
2019	19 512,8	2 125,3
2020	22 075,2	2 366,3

As can be seen from Table 4, bilateral trade relations have changed over the years. Thus, the total share of trade turnover until 2016 was the highest, amounting to 27453.8 thousand US dollars, but then the trade turnover fell sharply as a result of falling oil prices on the world market and the devaluation of the country. In 2016, trade relations fell 1.6 times, but in the following years, along with imports, the share of export operations began to increase.

Thus, the products exported by Azerbaijan to Lithuania are food products, raw materials and vegetables, and the products imported are food and chemicals. In general, the weight of products currently imported from Lithuania is 22075.2 thousand US dollars, the weight of exported products is 2366.2 thousand US dollars.

6. Trade relations between Azerbaijan and Estonia

An important part of the trade turnover between Azerbaijan and the Republic of Estonia, as in other Baltic countries, is agricultural, food, light, chemical, oil and construction industries. The table below shows the trade turnover between the two countries for 2015–2020.

¹ stat.gov.az

Table 5

Trade relations between Azerbaijan and Estonia, 2015–2020¹
(in thousands of US dollars)

Years	Import	Export
2015	5 697,9	253,4
2016	2 424,1	660,7
2017	2 526,6	700,0
2018	3 740,1	1 314,5
2019	2 141,4	2 594,7
2020	3 250,2	1 593,3

According to Table 5, import operations with Estonia remain almost stable. Only in 2020 there was a relative increase, which is 1.8 times more than in 2015. However, the share of export operations has increased. Thus, although the share of imports in 2015 was twice as high as in other years, the share of products exported from the country to Estonia increased by 6.3 times in 2020.

Estonia is not only one of the Baltic countries, but also the country with the lowest trade turnover with Azerbaijan among the post-Soviet countries. There are two reasons for this. First, Estonia's GDP and population are small, and it has shifted its trade partnership to neighboring Scandinavian countries. Second, the distance between these countries is much longer than in other countries. Therefore, the total share of trade turnover is relatively small, as import and export operations of the main types of products cause more transportation costs. As can be seen in the table below, the products imported from Estonia are mainly light or scientific.

Conclusion

It is clear that the long geographical distance between the regions affects exports and affects it. However, Balyan, which regained its independence in the same year as Azerbaijan, quickly benefited from the experience of the DDCs (Developed Countries) in Europe. They are currently among the leaders in Europe. In addition, despite the fact that natural resources and geography lag behind Azerbaijan, this energy of macroeconomic indicators fully shows that we have a lot to gain from the lively economic development of the Baltics. The fall in oil prices and the repeated reduction of the republic's exports to the budget highlight the rapid development of the non-oil sector and export-oriented industries.

By changing the analysis, it is noted that the current situation in the Republic of Azerbaijan should be changed illegally in accordance with the current situation.

It is clear that goods of Azerbaijani origin are not due to the low competitiveness of Europe and the world's DDCs, including tariffs. But these were the same economic opportunities of a company. There is a very good potential for the full development and growth of food demand between countries. In this office, both sides can be very supportive. Products as a rule. Our countries will benefit from each other's experience, develop opportunities for profit and have access to the full range of foreign economic relations with great potential.

¹ stat.gov.az

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АНАЛИЗ СОВРЕМЕННОЙ СИТУАЦИИ И ДИНАМИКИ РАЗВИТИЯ ТОРГОВЫХ ОТНОШЕНИЙ МЕЖДУ АЗЕРБАЙДЖАНОМ И СТРАНАМИ БАЛТИИ

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Аннотация. Целью работы является определение влияния стран Балтии на глобальную экономическую интеграцию Азербайджана и основных направлений расширения двусторонних торговых возможностей Азербайджана и стран Балтии. Несмотря на то, что страны Балтии имеют почти такое же стратегическое, экономико-географическое положение, как и Азербайджан, основное внимание уделяется анализу достижения высокого развития за 30 лет и выяснению того, как выстроить эту стратегию. Основной целью статьи является выявление экономической политики этих стран в условиях перехода к рыночной экономике, а также развития внешнеэкономических связей Азербайджана с этими странами. В то же время преследуется другая цель на основе теоретических соображений европейской и азербайджанской науки, связанных с экономикой.

Все это вызывает необходимость изучения развития экономических отношений со странами Балтии в процессе евроинтеграции, выявления проблем экономического сотрудничества при анализе и оценке текущей ситуации, выявления потенциала и механизмов торгово-экономических отношений.

Ключевые слова: внешнеэкономические связи, импорт-экспорт, социальная инфраструктура, международные экономические связи, иностранные инвестиции, независимое государство, развитые страны.

Для цитирования

Набизаде К. Р. Анализ современной ситуации и динамики развития торговых отношений между Азербайджаном и странами Балтии // Вестник Бурятского государственного университета. Экономика и менеджмент. 2022. № 3. С. 67–78.

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