Azerbaijan's Path towards WTO Accession: 
Political Concerns, Technical Difficulties, 
An Essay in the Form of a Country Report 

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The Decision to Join the WTO 

Azerbaijan decided to join the World Trade Organization (WTO) in early 1997. The story goes that when the Azerbaijan President of Heydar Aliyev visited Washington, DC in March 1997 to meet with President Clinton, the subject of WTO membership came up in their discussions. Mr. Clinton was supposed to have urged Mr. Aliyev to take the necessary steps for his country to become a member of that organization. In any event, irrespective of the veracity of the story, President Aliyev announced his intention to apply for WTO membership at a press conference that took place immediately after his meeting with President Clinton.

Of course, this was not the first time that Azerbaijan had been urged to join the WTO. Membership in the WTO had already been mentioned in 1996 to Azerbaijani officials by the World Bank on several occasions. It is also possible that the decisions of the Russian Federation and other former Soviet republics to join the WTO may have acted as additional motivating factors. However, the conversation of President Aliyev with President Clinton seems to have been the event that triggered all subsequent actions related to the application for WTO membership.

Azerbaijan’s Trade Relations and the WTO Requirements 

It is nevertheless not easy to understand President Aliyev’s decision to join the WTO. The reasons must have been more political than economic. The country’s main export products, representing more than three-quarters of its total exports and expected to increase quite substantially in future years, have been oil and gas. Many of the country’s imports have been related to the extraction of these products. Other industrial activity had virtually collapsed upon Azerbaijan’s separation from the Soviet Union.

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in 1991. There was little chance of its revival, at least not without a total reorganization of the economy, which would require a massive influx of investment. Privatization and the adoption of measures required for the establishment of a market economy have only proceeded sporadically. There has been little incentive for such conversion because, by far, the most valuable resources of the country are its oil and gas deposits, which have remained under strict state control. Agricultural production—the most extensive area of the economy in the Soviet period, with more than 40% of the population living in rural areas—was seriously disrupted by the closure or reduction of its markets in other parts of the former Soviet Union. Take tea as an example. Its production thrived during the Soviet period. Upon Azerbaijan's independence, it began to decline and has eventually become virtually non-existent. A similar decline in production has been observed in other areas of agricultural production. Efforts to improve the economy through the privatization of industrial resources or land have not brought about the desired changes. Productivity in practically all sectors of the economy, other than oil and gas, continued to decline. In sum, Azerbaijan was becoming an oil-rich country with a largely impoverished population. This was (and still is) its economic paradox.

The state has continued to retain a strong interest in the management of the national economy. With regard to oil and gas, it has concluded special production-sharing agreements with international oil companies. Both the export of oil and gas and the import of commodities related to the exploration and extraction of oil and gas are now entirely governed by such agreements. Furthermore, the import of goods by oil companies has been exempt from regular tariffs and other trade requirements. In other words, at least three-quarters of Azerbaijan's foreign trade has become subject to special regimes and is not regulated by general laws.

In the early days of its independence, Azerbaijan also entered into agreements with most of the other republics of the former Soviet Union to make both imports and exports free from tariffs. This resulted in the exemption of a substantial portion of Azerbaijan's non-energy related external trade from tariffs; it is surprising that, in subsequent years, the Azerbaijan State Customs Committee has reported extensive customs revenues and has claimed that it makes a substantial contribution to the national budget. In any event, at the time that President Aliyev was contemplating Azerbaijan's accession to the WTO, almost nine-tenths of its external trade—mostly oil and gas—was governed by special arrangements. There did not seem to be any visible immediate economic benefits for Azerbaijan to join the WTO. The decision to do so, therefore, must surely