

REPUBLIC OF AZERBAIJAN

On the rights of the manuscript

ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**DEVELOPMENT DIRECTIONS OF AZERBAIJAN'S
ECONOMIC RELATIONS WITH THE BALTIC COUNTRIES**

Speciality: 5308. 01 - "General economy"

Field of science: Economic sciences

Applicant: **Kamran Rauf Nabizadeh**

Baku – 2024

Dissertation work was performed at Baku Business University.

Scientific supervisor: Doctor of economic sciences, prof.
Fuad Alinaghi Qanbarov

Official opponents: doctor of economic sciences,
Muslimat Allahverdi Allahverdiyeva

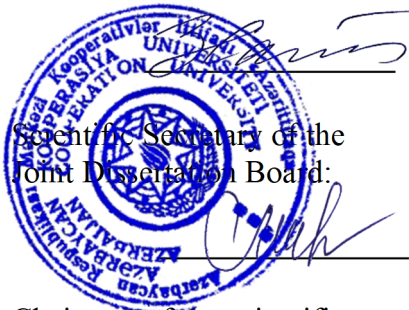
Doctor of philosophy in economics, ass. prof.
Tariyel Musallim Gurbanov

Doctor of philosophy in economics, ass. prof.
Leyla Gabil Khasiyeva

Dissertation Council- ED 2.46 of Supreme Attestation Commission
under the President of the Republic of Azerbaijan operating
Azerbaijan Cooperation University and Baku Business University

Chairman of the Joint
Dissertation Board:

Full member of ANAS,
doctor of economic sciences,
professor
Ziyad Aliabbas Samadzadeh



Scientific Secretary of the
Joint Dissertation Board:

doctor of philosophy in economic
sciences, associate professor
Samira Yashar Mammadova

Chairman of the scientific
seminar:

Doctor of economic sciences
Elshan Ali İbrahimov

INTRODUCTION

Research issue rationale and development rate. In modern times, it is impossible to ensure sustainable economic development without expanding bilateral and multilateral foreign economic cooperation, without achieving effective integration of the country's economy into the global economy. Only in this case, deep integration into the global economy, formation of an efficient structure of the national economy, mastering of modern technology and management experience, especially adaptation to the challenges of the 4th industrial revolution can be created. On the other side, such countries get favorable conditions for effectively realizing their comparative advantages in the international division of labor and ensuring economic security.

Due to the global economic processes taking place in the world, the institutional changes taking place in the economy of Azerbaijan are giving a strong impetus to the integration of our country into the international economic system. As a result of the economic reforms carried out in our country, our national economy has entered the global system. In this regard, the National Economy and the Strategic Way for the main sectors of the economy, approved in December 2016 by the order of the President of the Republic of Azerbaijan, Ilham Aliyev, in the direction of determining the national priorities and indicators that are of great importance for our country in terms of global goals and targets until 2030 "Azerbaijan 2030: National Priorities for social and economic development" whose map was approved in February 2021 is currently being successfully implemented. Taking into account foreign economic factors, both directions of development reveal conceptual changes in the integration of our country into the global economy in accordance with the specific characteristics of multilateral relations of Azerbaijan with foreign countries, including the Baltic countries.

In the world economy, the inclusion of inter-country international relations in the framework of economic integration, in turn, leads to the exchange of technological innovations between the countries joining the integration. The Baltic countries, which have recently been strongly integrating into Europe, are not far behind the economically developed

countries of Europe. By becoming a global economic player, these countries were able to attract the attention of the whole of Europe. Since this situation is typical for Azerbaijan, the topic of the researched dissertation is very relevant and of practical importance.

As Azerbaijan has 70% of the economy of the South Caucasus region, it is considered a country with a developed economy compared to the countries of the region. The location of our country on the "Great Silk" road connecting Europe and Asia is of great economic importance in the revival of our national economy and playing the role of a bridge between Europe and Asia. In this regard, it has become an objective necessity for Azerbaijan to expand its economic cooperation with the European Union (EU), which is located on the same continent and is considered one of the world's main economic and political power centers due to its territory and sphere of influence, as well as the Baltic countries with rapid economic development in that union, and its integration into this space.

Despite the fact that the Baltic countries, which gained independence in the same year as our country, have few natural resources, their integration into the developed countries of the EU has accelerated their recognition in the international arena. Therefore, there is a need to develop cooperation between Azerbaijan and the countries of the European Union, especially the developed Baltic countries, as well as to examine and analyze their economic development policy and draw conclusions.

All this highlights the development potential of trade-economic relations, as well as the theoretical-methodological and practical significance of the research, in the direction of researching the development characteristics of economic relations with the Baltic countries, analyzing and evaluating the current situation.

The level of study of the problem is of interest to researchers in the direction of the study of inter-country economic relations. It is no coincidence that A. Smith and D. Ricardo, representatives of classical economic science, developed special theories in the field of international trade, and in later periods, Heckscher, Ohlin, Porter, Posner, Mil, Vernon, Hobson, Keynes and Krugman further improved these concepts.

The theoretical and practical issues of the development of economic relations between countries and the study of the prospects for the development of economic relations between countries in the global economy, such as the post-Soviet countries that have a special place in this example, Latvia, Lithuania and Estonia, have been the subject of research by foreign scientists. Thus, G. Walters, G. Davulis, R. Ginevičius, K. Balodis, D. Lieven, F. Fasani, R. Skidelsky, J. Priewe, A. Smith, D. Ricardo, V. Leontyev to the issues of integration into the global economy, M. Posner and others. can be found in the works of scientists such as The works of modern researchers A. Šimelytė, J. Stiglitz, M. Porter, P. Samuelson, R. Prebish, R. Vernon, S. Xavier, J. Markusen and others attract attention.

The directions of improvement of Azerbaijan's foreign economic relations with different countries, separate aspects of economic relations from Azerbaijani scientists Z.A. It was investigated in the studies of M.Y. Guliyev, V.H. Abbasov, A.A. Alasgarov, D.A. Valiyev, T.A. Yadigarov and others.

However, it should be noted that the economic relations between the Baltic countries and Azerbaijan at the level of modern requirements are widely investigated at the level of multilateral foreign economic relations.

Object and subject of research. The object of the study is the enterprises and organizations of the Republic of Azerbaijan that implement trade and economic relations between the Baltic countries.

The subject of the research is the regularities of economic relations arising from trade relations between the Republic of Azerbaijan and the Baltic countries.

Aims and objectives of the research. The purpose of the research is to reveal bilateral and multilateral trade opportunities between Azerbaijan and the Baltic countries and to determine the prospects of trade relations with Azerbaijan of Baltic companies that have been successful in European markets.

In order to achieve the goals, the following tasks are mentioned in the dissertation:

- researching the theoretical bases and characteristics of the foreign trade policy of countries with small economies in the

conditions of globalization;

- researching the modern state of the economies of the Baltic countries in the system of globalized economic relations;
- Analysis of economic relations between Azerbaijan and the Baltic countries and determination of prospective development directions;
- assessment of mutual investment opportunities in the direction of increasing international scientific and technical cooperation;
- Assessment of the possibilities of applying the development strategies of the Baltic countries in Azerbaijan;
- increasing the possibilities of realizing the potential directions of trade relations between Azerbaijan and the Baltic countries during regional conflicts in recent years.

Research methods. In the research process, methods of scientific methodology - analysis-synthesis, statistical generalization, systematic and practical approaches, conceptual evidence, analytical observation, synergetic approaches, as well as econometric calculations were used.

Basic theses for defense.

- the criteria of participation in foreign trade relations of countries with small economies are theoretically investigated, and there are similar and different aspects of the foreign trade policy of Azerbaijan and the Baltic countries;
- In the conditions of modern international economic relations, it is possible that Azerbaijan can be an alternative party in realizing the potential opportunities of import and export of the Baltic countries;
- The analysis and evaluation of the foreign trade relations of the Baltic countries showed that there are many potential import-export opportunities of certain product groups and types of goods within the group between Azerbaijan and the Baltic countries;
- Expanding trade relations with the Baltic countries can increase the benefits of increasing Azerbaijan's share in the global value chain;

- Azerbaijan's oil pipeline has high potential for ensuring the energy security of the Baltic countries;
- The analysis and assessment of the current state of foreign economic relations between Azerbaijan and the Baltic countries show once again that there are more potential opportunities for the creation of joint ventures and the increase of mutual investments with the prospects of expanding foreign trade between the parties.

Scientific novelty of the research is that the historical experience of the efficiency and risks of the integration of the Baltic countries into Western Europe has been revealed, thereby benefiting from their foreign trade strategy, the following innovations have been revealed in the assessment of economic relations:

- the conceptual foundations of foreign economic relations have been studied and new criteria have been defined in the assessment of positive factors affecting the integration of small economies into the international economy.
- Differences in the economic legislation and tax system, which determine the potential opportunities for expanding the commodity structure of trade relations between Azerbaijan and the Baltic countries, have been identified and new directions have been revealed.
- In the conditions of the uncertainty of global economic processes, the possibility of our country's participation in the Trans-Caspian project was evaluated in order to deliver Central Asian gas to Europe and the Baltic countries in order to meet the energy demand of the European Union countries;
- the potential possibilities of import-export operations of Azerbaijan with the Baltic countries for certain groups of goods and types of goods within the group have been revealed, concrete ways of realizing those opportunities have been shown.
- The experiences of processing agricultural products of the Baltic countries were studied and the possibility of developing suitable areas of this experience in Azerbaijan's agriculture was economically substantiated.

- Empirical and methodological bases for the formation of an efficient mechanism of scientific and technical cooperation between Azerbaijan and the Baltic countries have been developed.

Theoretical and practical significance of the research.

Although inter-country economic relations are complex and multifaceted, in any case, a more concrete theoretical idea is put forward by generalizing through a systematic approach. The theoretical and conceptual provisions are that inter-country economic relations are first established bilaterally, and gradually move to the level of multilateral relations. In the studies conducted on theoretical grounds, it is shown that logical sequence is true in historical processes as well. In this sense, in the study, Azerbaijan first establishes economic relations with each of the Baltic countries separately, and later it will be able to establish joint relations with the Western European integration block.

The research's approach to practice is first of all the possibilities of trade between the Baltic countries by commodity groups, and then the possibilities to trade within the group of goods that can benefit both parties are revealed and realized.

Approbation and implementation. A total of 9 scientific articles and conference materials, including 5 articles and 4 theses (1 article and 1 thesis abroad) were published by the researcher on the content of the dissertation work in local and foreign journals recommended by the High Attestation Commission under the President of the Republic of Azerbaijan. The main provisions of the dissertation work and the proposed proposals were presented at international and republican scientific-practical conferences, including "The role of foreign capital in the protection of international economic relations" (Baku, 2019), "The place and role of Azerbaijan in the system of modern international relations" (Baku, 2020), "Economic relations between Azerbaijan and the Baltic countries" (Baku, 2021), "The main characteristics of foreign trade of small open economy countries" (Opole, 2021) were reported in the conference materials. Among the published articles, the following can be noted: "Essence of foreign economic relations and regularities of development" (Baku, 2020),

"Development of economic relations of Azerbaijan with the Baltic countries" (Baku, 2021), "Main features of the foreign trade policy of small open economy countries" (Baku, 2021), "The main directions of trade relations between Azerbaijan and the post-Soviet countries" (Baku, 2022), "Analysis of the current situation and development dynamics of trade relations between Azerbaijan and the Baltic countries" (Buryatia, 2022).

The name of the organization where the dissertation was conducted. Baku Business University.

The volume of the dissertation's structural sections separately and the general volume. Dissertation work consists of introduction, three chapters, conclusion and list of used literature. There are 17 tables, 19 diagrams, 3 graphs, and 3 diagrams. The total volume of the study consists of 233209 characters, including the introduction - 13005 characters, chapter I - 61534 characters, chapter II - 71134 characters, chapter III - 62744 characters, conclusion - 6007 characters, and the list of used literature - 17103 characters. Dissertation is equal to 201089 marks, excluding tables, diagrams, graphs and reference list.

BASIC CONTENT OF THE DISSERTATION

In the "**Introduction**" of the dissertation, the relevance and degree of elaboration of the topic, the purpose and tasks, the object and subject of the research, the main propositions defended, the scientific novelty and practical importance of the research, approval are interpreted and justified.

In Chapter I of the thesis entitled "**Theoretical Methodological Basis of the Formation of Foreign Economic Relations**", the theoretical methodological basis of the formation of international economic relations, the regularities of the development of economic relations, and the main features of the foreign trade policy of mainly small economies are studied.

When we say relations in general, we can talk about economic, political, ideological, diplomatic, legal and other mutual relations. As you know, the establishment of inter-country relations takes place on

the basis of international economic relations and international division of labor between them. Being an economic relationship, international economic relations are also included in the sphere of human activity and are determined by the general regularities of socio-economic development. Here, large integration associations, trade relations, financial relations, movement of production factors, mutual movement of economic subjects, etc., are formed between individual countries. processes rise from the national framework to the international scale and reflect international economic relations.

At the international level, economic relations between countries develop under two conditions:

1. When there is a need for economic relations between countries;
2. When both parties are interested in the development of these relations.

Also, political, national, ethnic and social factors affect economic relations between countries. Under these conditions, foreign economic relations between countries are established within the framework of international specialization and cooperation, establishment of joint enterprises, scientific and technical cooperation, foreign trade, licenses and technologies, international labor migration, provision of socio-cultural services, tourism, organization of transport services, free economic zones.

In 1776, A. Smith, in his work "Research on the nature and causes of the wealth of nations", gave a lot of space to the issue of trade freedom, along with many problems. He noted that the establishment of an open economy is considered an objective tendency of the world economy. An open economy creates conditions for the creation of joint ventures, a zone of free entrepreneurial activity, and the abolition of the state monopoly on foreign trade in many respects. According to German economist J. Dustmann, openness and free trade have more favorable game rules for the economies of leading countries¹. However, such an approach has lost its relevance for a long time. Because the countries' desire for openness began to take on an

¹ Dustmann, C., F. Fasani, T. Frattini, L. Minale, and U. Schnberg (2017a). "On the Economics and Politics of Refugee Migration." *Economic Policy*, 32(91), 497-550.

objective nature and was conditioned by the mutual integration and globalization of the world economic system.

The following criteria should be taken into account when evaluating the factors influencing the integration of the national economy into the international economy.

The first is strengthening the level of participation of the national economy in the global value chain. Here, the possible features should be taken into account in order for the production to cost more optimally and ensure the necessary diversification of the production. Of course, the availability of cheap labor force and suitable environment will be considered here. The second is the competitiveness required for national products to enter international markets in the national economy, and the third is the level of branding and completion of extensive reproduction stages in the national economy within the borders of the country. If we pay attention to the conceptual basis of international economic relations in the conditions of a modern market economy, these criteria, especially competitiveness, are considered the main goal of small open economy countries.

Studies show that three structural elements of the foreign trade policy of countries with a small economy like Azerbaijan can be distinguished²:

1. State support for the development and diversification of foreign trade, especially exports. Experience shows that state support for foreign trade is implemented through various methods and tools, as well as measures to stimulate national interests and exports. Such support is widespread within the import substitution and export-oriented development model.

2. Improvement of the infrastructure and legislative base necessary for the development of foreign trade, adaptation to international norms in this direction. Foreign trade infrastructure serves to expand the volume of the country's foreign trade, that is, its degree of openness, to diversify the structure of import-export operations, and to expand

2 Qanbarov, F. Foreign economic relations of Azerbaijan: achievements and perspectives. Collective monograph. ANAS Institute of Economics. pp. 113-160.

the number of participants in foreign trade.

3. Protection of multilateral national economic interests. Protection of the country's national interests as the third element of the foreign trade policy involves the formation of bilateral economic and trade relations and the elimination of existing restrictions in this direction. For this purpose, countries usually prefer to establish economic and trade relations based on a single rule in various trade organizations.

Thus, the expansion and diversification of foreign trade, as well as geographically connecting to the value chain created by the EEC, requires the development of trade infrastructure and liberal policies. At the same time, the policy of import substitution should also take into account export orientation. Although there are economic instruments for the regulation of import and export, the protection of the interests of national producers and consumers, and the mutual concessions of bilateral economic and trade relations should be given priority. In foreign trade policy, developing countries such as Azerbaijan should consider orientation to high-tech markets as a priority in trade operations.

The second chapter of the dissertation entitled "Analysis and evaluation of the current state of economic relations of Azerbaijan with the Baltic countries" talks about the current state of economic relations between Azerbaijan and the states of Latvia, Lithuania and Estonia and the impact of the socio-economic processes taking place in the world on international relations.

The territories of these countries are 64.5 thousand sq/km, 65.3 thousand sq/km and 45.3 thousand sq/km, and they are located on the coast of the Baltic Sea, having a total area of 175.1 thousand sq/km. The economies of all three countries were also called "Baltic Tiger" countries as a result of their rapid development in the years after gaining their independence in 1991, mainly in 2000-2007. Between 2000 and 2007, the Baltic Tiger states had the highest growth rate in Europe. The accession of these countries to the European Union in 2004 accelerated their integration into the world economy. Except for the "World Crisis" of 2008, the macroeconomic indicators of these countries continued to grow. Simplification of international customs tariffs and membership in the WTO have expanded the external

economic relations of the Baltic countries, and as a result, the privatization policy in these countries has led to the rapid development of the service sector. The organization of the conducted liberal market economy has brought them closer to the IEP group.

The foreign economic relations of the Baltic countries are mainly based on the economy of the neighboring and developed countries. The presence of an investment environment and the increasing interest of German and Scandinavian entrepreneurs have led to the high development of the production, service and processing sectors of these countries. The international policy organized in the establishment of foreign economic relations, mainly the orientation of the economy abroad, has had a great impact on the development of countries.

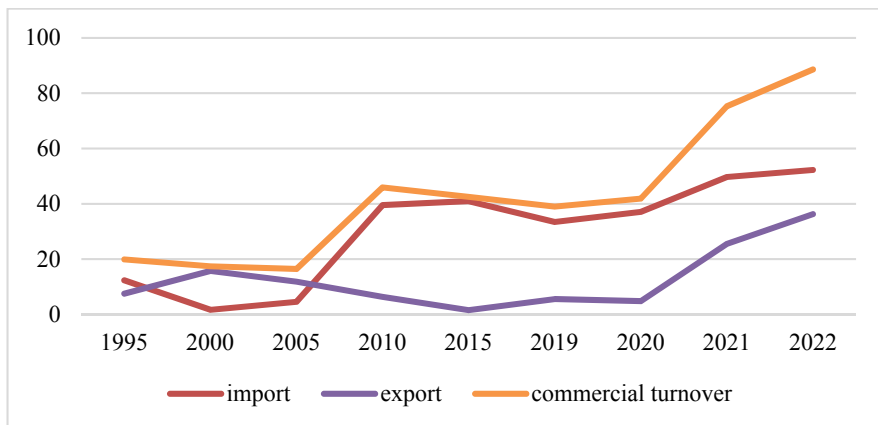
Relations between Azerbaijan and the Baltic countries first existed from the beginning of the 20th century. During this period, the Latvian Society was active in Baku.

It should be noted that each of these countries are industrial-agrarian countries. Just as the basis of the economy of the Baltic countries is food products, wood and wood products, metal, machinery and equipment, and textiles, the basis of the economy of Azerbaijan is oil and gas production, oil refining, the fuel-energy complex that includes the electricity industry, chemistry, engineering, electricity, ferrous and non-ferrous metallurgy, cotton, grapes, tobacco, tea, subtropical plants are the basis of agriculture.

It should be emphasized that only in 2022, 18.7 percent of the total volume of imported products will be from the Russian Federation, 15.7 percent - Turkey, 14.3 percent - China, 4.5 percent - Germany, 3.2 percent - the United States, 2.9 percent - Italy, 1.7 percent of Ukraine (4 percent in 2021), and only 0.28 percent of the Baltic countries. At the same time, 46.6 percent of the total volume of exported products was from Italy (28.7 percent in 2020), 9.2 percent from Turkey, 4.4 percent from Israel, 4.3 percent from India and 2.5 percent from In the case of Russia, only 0.03 percent falls to the Baltic countries.

As can be seen from the graph and Table 1, during the first ten years after the independence of these countries, trade relations were very weak. However, until 2005, the fact that exports were more than imports, Azerbaijan's trade balance with these countries was assessed

with a positive balance and its weight began to increase. As a result of the impact of the devaluation carried out in 2015, there was a decrease in the dynamics of trade transactions of Azerbaijan with the world, including the Baltic countries. Even in 2015, the specific weight of products exported to each country was less than 1 million dollars.



Graph. Foreign trade turnover of Azerbaijan with the Baltic countries

Source: <https://data.worldbank.org/indicator/>. The graph was prepared by the author based on statistical data.

Table 1

Specific weight of Azerbaijan's import and export with the Baltic countries by year (million\dollars)

| Countries Years | Latvia | | Lithuania | | Estonia | |
|--------------------|--------|--------|-----------|--------|---------|--------|
| | Import | Export | Import | Export | Import | Export |
| 2000 | 0.44 | 12.59 | 1.03 | 2.44 | 0.25 | 0.70 |
| 2005 | 1.50 | 5.37 | 2.03 | 4.94 | 1.07 | 1.56 |
| 2010 | 6.70 | 3.89 | 26.19 | 2.05 | 6.65 | 0.46 |
| 2015 | 8.34 | 0.80 | 26.94 | 0.51 | 5.69 | 0.25 |
| 2019 | 11.80 | 0.85 | 19.51 | 2.12 | 2.14 | 2.59 |
| 2020 | 11.79 | 0.87 | 22.07 | 2.36 | 3.25 | 1.59 |
| 2021 | 17.30 | 9.87 | 28.12 | 13.90 | 4.33 | 1.79 |
| 2022 | 18.74 | 27.60 | 26.40 | 6.50 | 7.15 | 2.23 |

Source: <https://stat.gov.az> The table was prepared by the author based on statistical data.

In 2019, the country's foreign trade turnover amounted to 39.1 billion dollars, which decreased compared to 2010-2015. Since 2020, the share of Azerbaijan's import and export with these countries has increased sharply, and the trade turnover has reached 88.62 million dollars in 2022. So, with the exception of Latvia, the specific weight of the products exported to other two countries is 3-4 times less compared to imports. Compared to 2021, in 2022, the specific weight of products exported to Latvia increased 3 times to 27.60 million dollars, and the weight of products exported to Lithuania decreased more than 2 times to 6.50 million dollars. The weight of products exported to Estonia increased by 1.5 times to 2.23 million dollars.

An important part of Azerbaijan's trade turnover with the Baltic countries is agriculture, food, forestry, oil, chemical and construction, and pharmaceutical products. When evaluating the volume of imports by product type, 33.0% of them are machinery and transport equipment, 32.3% are food products, 13.9% are food and live animals, 9.2% are wood and furniture, 8 % chemical products, the main part of exported products - 42% lubricants, 28% raw materials and vegetables, 10% beverages and tobacco products, 4% mineral waters, non-food raw materials and other it can be seen that there are goods.

After gaining independence, Azerbaijan and the Baltic countries have constantly expanded their relations not only in the economic field, but also in the humanitarian field. Many scientific and technical cooperations between countries have been established and developed. The first intergovernmental scientific-technical cooperation with Latvia was held in Baku in 2005. Within the framework of cooperation, joint discussions were held between the countries in the fields of transport, economy, information technologies and communication, agriculture, environment and regional development, education and science, tourism, health, banking cooperation and various projects were adopted.

Currently, the Republic of Azerbaijan has made important decisions on strengthening cooperation with the Baltic countries in political, economic, humanitarian and other fields and signed important agreements. In particular, during the visit of the President of the Republic of Azerbaijan Ilham Aliyev to the Baltic countries in

2017-2019, along with agreements on cooperation in the fields of transport, construction and education, a "Joint Declaration on the Establishment of Strategic Partnership" was also signed. At present, about 40 Latvian, 15 Lithuanian, and 14 Estonian companies operate in the fields of construction, industry, communication, transport, trade, banking, IT and agriculture in our republic.

In chapter III of the thesis called **"Prospects of the development of economic relations between Azerbaijan and the Baltic countries"** - development characteristics of the Baltic countries, development directions of inter-country trade relations and investment opportunities are studied.

It should be noted that the GDP of Azerbaijan is no different from the Baltic countries. Thus, although Lithuania ranks 83rd, Latvia 95th, and Estonia 97th in terms of GDP, Azerbaijan ranks 91st. However, according to the level of GDP per capita in the international ranking, while Estonia ranks 37th, Lithuania ranks 40th, Latvia ranks 42nd, Azerbaijan ranks 94th. This can be attributed to the fact that Azerbaijan focused its foreign trade relations on the low-income CIS market, not on developed countries. The main reason for this, as mentioned in the previous chapter, is that production has a low technological complexity and is concentrated on the export of raw products. However, even though the Baltic countries are post-Soviet countries, the correct policy of their foreign economic relations has made them one of the leading countries in Europe. Therefore, while the per capita GDP of these countries is 22,000 US dollars, 25,000 Lithuania, and 28,000 US dollars in Latvia, this indicator is 7,000 US dollars in Azerbaijan.

According to the statistics of the Baltic countries, approximately 7% of the total GDP is construction, 23% is transport and warehousing, accommodation and food service activities, wholesale and retail trade (including hotels and restaurants), 14% is communication and information, 9% science and technology, 10-13% real estate activities, 4% financial and insurance services, 14% public administration and defense, compulsory social security, education, human health and social work activities, 4 % is made up of art, entertainment and recreation, service provision. It is shown separately by country in Table 2.

Table 2

Share of other sectors in Baltic GDP (excluding industry and agriculture) (2022, in percentage)

| | Latvia | Lithuania | Estonia |
|---|--------|-----------|---------|
| Construction | 7 | 8,5 | 6,7 |
| Wholesale and retail trade, repair of cars and motorcycles, Transport and warehousing, | 23 | 26 | 20,5 |
| Information and communication | 6 | 7 | 7,8 |
| Financial and insurance activities | 3 | 4,5 | 5,1 |
| Real estate activity | 13 | 11 | 9,6 |
| Public administration and defense, compulsory social security, Education, Human health and social work activities | 18 | 13,4 | 10 |
| Arts, entertainment and recreation, provision of other services, activities of households as employers | 3 | 3,4 | 2.7 |

Source: <https://stat.gov.lv/>, <https://osp.stat.gov.lt/>, <https://andmed.stat.ee/>
The table was prepared by the author.

Accordingly, in Azerbaijan, 11.5% trade, 7.7% construction, 7.1% transport, 6.9% agriculture, 1.8% communication, 1.2% tourism, 0.2% education, etc. contane.

As can be seen from the studies, the service in these countries, as well as the education included in it, makes up more than 5% of the GDP of the Baltic countries. For this reason, it is recommended to establish scientific and technical cooperation between the countries in the following direction.

- increasing the efficiency of the innovative activity of entrepreneurial structures due to the dynamism of the processes of application of the achievements of science and technology;
- creation of legal conditions for combining the efforts of the republican and local self-government bodies for the formation of the innovation system;
- development and implementation of tax, customs and tariff policy measures aimed at stimulating the commercialization and application of new technologies to production;

- in creating the results of scientific and technical activity and economy

creation of an economic incentive system that ensures the interest of all subjects of legal relations, primarily investors, creative collectives and organizations, in involving them in its circulation;

- to increase the exchange of bilateral students, teachers and researchers.

For the development of inter-country economic relations, first of all, one of the important issues for Azerbaijan to enter the European market, including the Baltic countries, should be considered - the issue of geographical location and transportation. In recent years, the country's large international transport projects create important potential opportunities for access to European markets. Azerbaijan is creating a European and Asian trade hub through railways and neighboring Turkey to expand the international transport corridor. In February 2022, as a result of the Russia-Ukraine war, a sharp increase in energy prices was observed in the EU countries, as well as in the Baltic countries. With this, through the Baku-Tbilisi-Kars railway, the Baku-Tbilisi-Ceyhan oil pipeline and the TAP gas export pipeline, the country's access to global markets will further increase and strengthen its competitive advantage.

Within the framework of the 15th summit of the Economic Cooperation Organization held in Ashgabat in 2021, an agreement on gas supply was signed between Azerbaijan, Iran and Turkmenistan. Here, the main goal is to deliver Turkmenistan's gas to the European market through Trans-Caspian and Iran. From this, it can be concluded that the volume of gas transmitted by the TAP project will increase by 1.5-2 billion cubic meters. As a result, it will be possible to supply Europe with Asian gas. It is clear that this gas is not intended only for Europe. In the cold season of the year, there is a shortage of gas in the northern provinces, that is, its consumption increases, and the pressure decreases. This, in turn, will reduce the volume of oil transported to Europe. Therefore, Iran will instead provide gas to its eastern provinces, which will solve the problem of perpetual gas shortage in

five Iranian provinces. Ultimately, the agreement may create prospects for the export of Iranian gas to Europe³.

Azerbaijan will also have an advantage in this agreement. Thus, Azerbaijan's demand for gas is increasing. Most likely, a common language has been found with Ashgabat, and the gas supplied from Turkmenistan will be much cheaper than the Shah Deniz field. "Dragon Oil" (United Arab Emirates, Great Britain), which carries out its main operations in the Turkmen part of the Caspian Sea and extracts the main part of Turkmenistan's oil, exports this oil through the port of Baku. Thus, the gas purchased from Turkmenistan at a low price will be used in the domestic market, and the gas from Azerbaijan will be transported abroad.

The conducted studies show that there is a great potential for the import of some products to the Baltic countries, as well as the export from Azerbaijan to these countries. Considering that the prices of many products imported from Russia have increased sharply in recent years, this is the most optimal chance to ensure the import-export of the potential products shown in the graph at the expense of the Baltic countries.

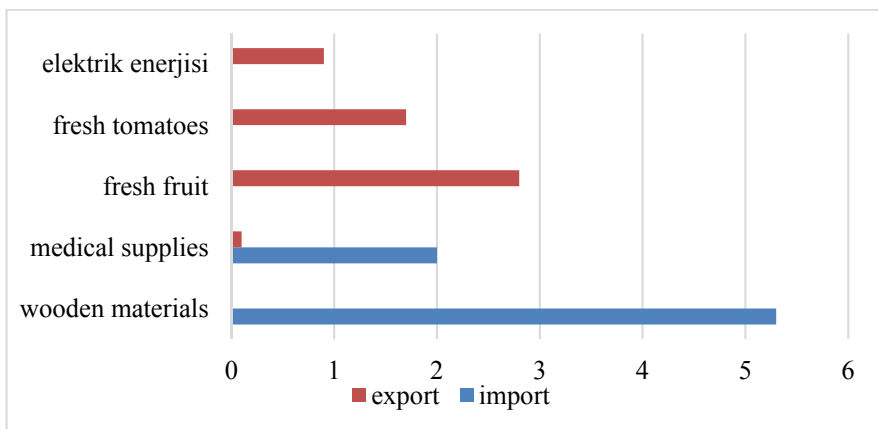


Diagram. Potential possibility of import and export between Azerbaijan and the Baltic countries for certain groups of goods (million dollars)

Source: <https://exportpotential.intracen.org/en/products/gap-chart>

³ [<https://haqqin.az/news/227889>]

According to the above diagram, Azerbaijan received 5.3 million from the Baltic countries. wooden materials, 2 mln. and there is a potential for importing medical supplies in the amount of dollars. At the same time, there is a potential to export 2.8 million dollars of fresh fruit, 1.7 million dollars of fresh tomatoes and 0.9 million dollars of electricity from Azerbaijan to the Baltic countries.

In our opinion, taking into account the countries' foreign trade potential and their position in the world market, the following may be of great interest as a perspective area for bilateral cooperation:

- Development of energy and transport sectors, further strengthening of cooperation in this field;

- Strengthening of mutual information exchange for establishment of joint production activity, stimulation of investment in the financial sector;

- Reviewing directions of attraction of technology of the Baltic countries to electrical engineering, oil engineering, food industry and other priority areas in Azerbaijan.

- It may be important to focus on export opportunities to third country markets, which are potential markets for Azerbaijan's non-oil exports, as well as for the transition from raw material export to finished product export. For this purpose, not only intergovernmental, but also private sector partnerships and mutual economic cooperation with the participation of the third country are required to benefit;

- supply of oil engineering, electrical engineering, textile industry, agricultural machines and other necessarorganization of a joint industrial complex;

- development of social infrastructure, sports and tourism facilities;exchange of experience on the development of unconventional and alternative energy sources;

- Creation of favorable conditions for economic subjects of Azerbaijan and the Baltic countries in interesting areas of the economy.

In order to implement the above-mentioned proposals, the parties should prepare programs for the establishment of joint ventures and organizations, as well as business structures. At the same time, they should attract potential investors by holding investment forums and

meetings with the participation of representatives of relevant ministries and departments, enterprises, organizations and companies, business and other interested structures.

Thus, if we have considered the directions of economic development of the Baltic countries, the potential directions of investments in Azerbaijan are as follows:

- production of relatively low energy polymer materials;
- production of ferrous metallurgical products for local consumption and export;
- production of final products from non-ferrous metals and scraps for local consumption and export (aluminum oxides and processed aluminum, copper, gold, silver, platinum, etc.);
- production of various types of equipment used in energy production from alternative and renewable energy sources;
- production of plastic containers;
- preparation of spare parts for automobile transport;
- production of construction materials;
- production of medical products;
- processing of agricultural products;
- production of food products;
- application of wood materials preparation technologies;

In addition, in order to benefit from the experience of the Baltic countries in developing the material and technical base of the agricultural sector, the following investment direction should be prioritized:

- creation of refrigerating chambers, warehouses, elevators, etc. in the regions for the purpose of long-term storage of agricultural products;
- production of agricultural machinery and spare parts, fertilizers and plant protection products, veterinary preparations;
- construction and production of modern-type feed processing enterprises to satisfy the demand of livestock and poultry industry; construction of mills.

Since Baltic countries like Lithuania and Estonia have been highly specialized in the field of ICT in recent years, it is necessary to

increase the investment environment in this direction as well. These are the following:

- attraction of foreign investors with modern technologies, electronics and relevant "know-how" to the privatization of existing machine-building enterprises;

- production of digital broadcasting and receiving equipment;

- computer technologies;

As we know, the largest share in the GDP of the Baltic countries is occupied by the service sector. Considering that there is great potential for the development of tourism in our country, mainly in the Karabakh region, and it would be good to attract investments in the following directions:

- development of mountain sports;

- resort-sanatorium, tourist-base complexes;

- therapeutic tourism recreation centers;

Conclusions

The generalization based on a systematic approach, comparative analysis and statistical grouping of the economic relations between the Republic of Azerbaijan and the Baltic countries allowed us to reveal important potential resources of an organizational, economic and legal nature, and at the same time to develop the following suggestions and recommendations:

1. The Baltic countries, which regained their independence in the same year as Azerbaijan, were quickly integrated into Europe and benefited from the experience of the EEC. Currently, they are among the leading countries in Europe. In addition, the high macroeconomic indicators in these countries, despite their backwardness compared to Azerbaijan in terms of natural resources and geographical space, shows that it would be appropriate to benefit from the economic experience of the Baltic countries.

2. The international policy organized in the foreign economic relations of the Baltic countries, mainly the orientation of the economy abroad, has had a great impact on the development of the country. The accession to the EU, the facilitation of inter-country customs tariffs,

and the WTO membership have expanded the foreign economic relations of these countries and led to the rapid development of the service sector. The successful realization of the conducted liberal internal and external economic policy has brought them closer to the IEP group.

3. In our opinion, a country with a small open economy like Azerbaijan will achieve faster economic development if it benefits from the appropriate directions of the economic policy of the Baltic countries, which are peers (in terms of restoration of independence, territory and economic potential).

4. Let's note that the internal investments of the Baltic countries are more than the investments made abroad. Since the profit tax in these countries is the lowest among European countries, it is determined that foreign direct investments (mainly FDI) are invested in these countries faster.

5. Although the foreign trade turnover of the Baltic countries with Western European countries has a stable growth trend, the mutual foreign trade turnover of Azerbaijan with these countries is unstable. This is related to the fact that Azerbaijan's economy is quite sensitive to global trade and economic crises, and in terms of distance, trade partners are focused on close neighboring countries. On the other hand, the fact that the Baltic countries are EU member states reveals certain legal and economic issues in the establishment of these relations.

6. It is considered appropriate to hold joint inter-university seminars between Estonia and Azerbaijan on the topic of "Strengthening the sustainable entrepreneurship ecosystem in Azerbaijani higher education institutions" (ENGAGE). In the future, this project can greatly support the strengthening of the ecosystem of joint qualified personnel training in Azerbaijan's higher education institutions, the development of the entrepreneurial mindset of academic staff and students, the improvement of electronic management, the innovative approach in our universities, and the development of start-up activities.

7. Taking into account that Lithuania is specialized in the chemical industry among the Baltic countries, joint activities between

Lithuanian chemical industrial enterprises and Azerbaijani chemical industrial enterprises should be established, the opportunities for joint training and improvement of qualified personnel in the mentioned areas and benefiting from their experience should be increased.

8. Stronger integration into the European Union has its own significance in eliminating the dependence of the Baltic countries on oil and gas products. In this sense, within the TAP project of the Southern Gas Corridor supported by the EU, it would be appropriate to give more importance to the realization of the possibilities of delivering gas from Azerbaijan and Turkmenistan through the Mediterranean Sea to the European market, as well as to the Baltic Sea.

9. There is a need to realize potential opportunities in the direction of expanding foreign trade with Azerbaijan using the value chain created between the Baltic countries and the CIS and for the parties to take advantage of it.

10. Quantitative parameters of the potential opportunities for the expansion of trade relations of the Baltic countries with Azerbaijan show that the opportunities for Azerbaijan to direct its foreign trade relations to the middle-income CIS market, as well as to Asian and European countries, will be increased.

11. The development level of the country's economy has increased sharply as a result of the stimulation of foreign direct investment attraction from the Baltic countries. Based on research, it was determined that there is a low profit tax here compared to other European countries. (Lithuania-15%, Latvia-18%). What makes Estonia particularly attractive is the zero percent corporate income tax on retained earnings. Currently, the Estonian tax system is one of the most liberal and simple in the world. It offers special tax rates for small companies, which is of particular interest to investors. (Up to 9% of income tax in 2011, currently 15%). At the same time, there is no corporate income tax on reinvested profits. We believe that Azerbaijan can benefit from this policy.

12. The implementation of comprehensive measures in the direction of revitalization of our lands freed from occupation will further strengthen the regional and international cooperation of

Azerbaijan and increase the possibilities of investment in the non-oil sector of our country. Especially in this region, the development of agriculture can play an important role in ensuring the food security of Azerbaijan.

13. In order to expand the economic relations between the Baltic countries and Azerbaijan, in our opinion, the following specific proposals can be made:

- creation of joint enterprises for the production of high-quality products, raw cotton, wool processing, and leather goods production, replacing imports of light, textile and food industry;
- to participate in the creation of non-traditional and alternative energy sources, as well as in the implementation of investment projects that can be invested in green energy production;
- apply effective forms and methods in the field of customs regulation of international foreign economic activity;
- Increasing the volume and variety of cargo transportation in order to further increase the intensity of the Baku-Tbilisi-Kars railway line, which can be adapted to the framework of the North-South international transport project;

Thus, the implementation of the above-mentioned recommendations and suggestions will contribute to the deepening of foreign economic relations between the Baltic countries and Azerbaijan, the ability to quickly and adequately respond to foreign risks, to increase the competitiveness of production enterprises in the world market.

The following *scientific article and theses* were published on the subject of the dissertation work:

1. The role of foreign capital in the protection of international economic relations. // – Baku: Materials of the international scientific-practical conference, 2019. – p. 479-482.
2. The nature of foreign economic relations and the laws of development. // – Baku: “Audit” magazine, No. 3, 2020. – pp. 101-108.
3. The place and role of Azerbaijan in the system of modern international relations. // – Baku: Materials of the International

Scientific and Practical Conference, 2020. – p. 426-428.

4. Development of economic relations between Azerbaijan and the Baltic countries. // – Baku: "Silk Road" magazine, No. 1, 2021. – p. 99-105.

5. The main features of the foreign trade policy of small open economy countries. // – Baku: "Audit" magazine, No. 4, 2021. – pp. 101-108.

6. The main features of the foreign trade of small open economies. // – Poland, Opole: Modern problems of improving living standards in a globalized world: Opportunities and challenges, 2021. – p. 189-199

7. Economic relations between Azerbaijan and Baltic countries. // – Baku: Materials of the Republican Scientific Conference, 2021, – p. 128-131.

8. The main directions of trade relations between Azerbaijan and post-Soviet countries. // – Baku: "Cooperation" magazine, No. 1, 2022. – p. 50-55

9. Analysis of the current situation and development dynamics of trade relations between Azerbaijan and Baltic countries. // – Russia: Bulletin of Buryat State University. Economy and Management., Republic of Buryatia, 2022; 3. – p. 67–78



The defense of the dissertation will be held on 29 May 2024, at 14:00 at the meeting of the Dissertation Council ED 2.46 of Supreme Attestation Commission under the President of the Republic of Azerbaijan operating at Azerbaijan Cooperation University and Baku Business University.

Address: AZ1106, Baku city, Narimanov district, Najaf Narimanov street 93.

The dissertation is accessible at the library of Azerbaijan Cooperation University.

Electronic versions of the dissertation and abstract are available on the official website (www.aku.edu.az) of Azerbaijan Cooperation University.

The abstract was sent to the required addresses on 27 April 2024.

Signed for print: 24.04.2024

Paper format: 60x84 1/16

Volume: 40715 sign

Number of hard copies: 20 copies.