AZERBAIJAN'S ACCESSION TO THE WTO: ITS PROPOSALS ON THE SERVICE SPHERE ARE MORE LIBERAL THAN THE COMMITMENTS OF WTO MEMBERS

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Introduction

The service sector is developing dynamically in the world and its share in GDP is growing from year to year. According to the IMF, the share of services in world GDP amounts to 63.2%, whereby the U.S. accounts for 80% and the EU for more than 70% of world GDP. World practice also shows that the share of added value in the service sphere is much higher than in industry and agriculture.[2]

The total volume of exported services is also increasing at a rapid rate. For example, the volume of exported services in world trade increased from $155 billion in 1975 to $2.5 trillion in 2005, i.e., it has risen more than 15-fold in thirty years.

The export of services in the world amounts to approximately 20% of the entire commercial export of goods and services. Banking services, insurance, operations in the securities market, construction, and telecommunication services have long extended beyond national boundaries. Approximately 75% of the services (in value terms) is exported by developed countries, 24% by developing countries and the countries with a transition economy, and 1% by international organizations. At the same time, it should be emphasized that most developing countries are characterized by a negative balance of foreign trade in services.[3]

This article analyzes Azerbaijan's service market and its development characteristics and makes a comparative analysis of Azerbaijan's proposals on the service sphere and the service commitments of the WTO member countries.

[2] [http://www.indexmundi.com/world/gdp_composition_by_sector.html].

[3] [http://kanaev55.livejournal.com/36942.html].

Development Characteristics of Azerbaijan's Service Sector

Azerbaijan's service market began to emerge in the 1990s after Azerbaijan gained its state independence. Prior to this time, the activity of most service sectors was strictly regulated by the state, and

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in some of them the state was the main supplier of services. Since the 1990s, the domestic service market has been in a state of expansion. The greatest momentum is seen in construction, transportation, banking, insurance, telecommunications and communications, trade, catering, and tourism.

Some service sectors are developing with particular dynamism. For example, in just the past 10 years, construction has increased 7.6-fold, communications—9.5-fold, trade—3.2-fold, and transportation—2.9-fold. As a result, the share of certain service sectors in Azerbaijan's GDP has been increasing with each passing year. For example, as of today, this index amounts to 7.5% in construction, 6.6% in trade, 6% in transportation, and 1.9% in communications.

However, despite the dynamic development of certain service sectors, their total share in Azerbaijan's GDP is relative small and has been on the constant decline in recent years. Whereas in 2000, it was equal to 42%, in 2010, it was only 35%. This is primarily related to the very high growth rates in the production of commodities. For example, the production of commodities in Azerbaijan has increased 4.8-fold in just the past 10 years. At the same time, growth rates in the service sphere for this period amounted to approximately 2.7-fold. In other words, the annual growth rate of the production of commodities amounted to 17.8% and of services to 10.3%.

The service sphere is playing a significant role in resolving Azerbaijan's employment issues. The share of those employed in the service sphere amounts to 47% of total employment, whereby wholesale and retail trade account for 12.3% of this figure, transportation for 4.1%, communications for 1.3%, the real estate service sphere for 1.6%, education for 8.1%, and public health for 3.9%.

The service market in Azerbaijan is one of the most liberal. The share of the nongovernmental sector is equal to 72% in construction, 75.3% in transportation, 78.6% in communications, and 99.2% in trade.[4]

The economic reforms in Azerbaijan have led not only to intensified development of the traditional industries, but also to the creation of new types of services. One of the most tempestuously developing spheres is communication and telecommunication services. Today, 99% of the Azerbaijani population uses mobile communication services. The number of active Internet users amounts to 43% of the country's total population.

It should be emphasized that ICT is one of the priorities of Azerbaijan's economy. A contemporary information and communication infrastructure has been built and significant efforts have been made to create a common information space and extend information and communication services. In 2012, Azerbaijan will launch a national telecommunications satellite, which will be particularly conducive to the further development of this sector.

However, the indices of dynamic development aside, Azerbaijan's service industry as a whole can be described as still emerging. Keeping this in mind, the strategy for developing and regulating service branches is aimed at expanding the competitive environment by involving foreign suppliers in the service market, on the one hand, and ensuring the protection of the interests of Azerbaijan's service suppliers, on the other. In compliance with this strategy, further enhancement of transport services is particularly important. Since Azerbaijan is situated at the crossroads of transport corridors, corresponding steps are being taken to realize the relative advantages in this sphere.

In order to intensify the transport system and execute its transit capabilities, Azerbaijan is implementing grandiose projects relating to the East-West and North-South transport corridors. Azerbaijan has joined the TRACECA program, the objective of which is to develop the Europe-Caucasus-Asia transport corridor.

The necessary steps are also being taken to raise the quality of transportation services. To this end, the Caspian Shipping Company has been equipped with modern tankers and Azerbaijan Air Lines with the most state-of-the-art airliners. Rail transport has expanded its activity in many vectors, while efforts continue to reconstruct automobile transport, including the reconstruction of roads.

[4] See: A. Muradov, *Azerbaidzhan i WTO: Uslugi*, Baku, 2006, 35 pages.

Restoration of the Great Silk Road has created a good basis for Azerbaijan's further cooperation with Europe and Asia and increased integration of the national transport and road infrastructure into the world communication system.

The Baku-Tbilisi-Ceyhan oil pipeline, which has the capacity to pump 50 million tons of Azeri oil a year to the world markets, and the Baku-Tbilisi-Erzurum gas pipeline have been put into operation. Azerbaijan's flexible and sound policy has turned the country into a multi-modal transport system in the Caspian and a very important oil and gas transit country.

Completion of the Baku-Tbilisi-Kars railway and the International Sea Trade Port will help to expand transport communications and transit capabilities, as well as increase cargo shipments.

Tourism is also a priority vector in development. This sector is not only creating new jobs in the non-petroleum sector, but is also an important factor in the diversification of the national economy. Construction of a summer and winter tourist complex in Shakhdag has been going on for several years now. This complex has no analogues in the Caucasus or CIS and will promote the development not only of tourism, but also of mountain sports in Azerbaijan. It covers more than 2,045 hectares, is situated at an altitude of 1,300-2,554 meters above sea level, and will meet all the world standards. The most rudimentary assessments indicate that at least 5,000 people will work in this complex.

Other sectors, such as construction, are stimulating the development of a wide range of industrial spheres through the inter-sectoral communications system. It is no accident that the construction industry has become the second largest sector of the economy after industry. As mentioned above, its share in GDP amounts to 7.5%, and it has left behind even the traditional second largest sector—agriculture. Several service sectors are related to the most scientifically and technically advanced spheres, for example, telecommunications and computer services.

Such service sectors as public health, education, and social insurance are of important social significance for Azerbaijan.

The policy being conducted in the service sphere in Azerbaijan is also aimed at stimulating foreign capital. And this, according to the government, will lead to Azerbaijan's service sector acquiring the financial resources and, just as important, the advanced technology and efficient methods of service execution and management it needs for development and for reaching a high culture of business relations and customer service, and so on.

Encouraging the export of domestic services is an equally important vector of policy in the service sphere. In this respect, it should be emphasized that accession to the WTO will make it possible to:

— extend the presence of competitive domestic service suppliers in the foreign markets;
— shift to a multilateral system of regulation based on most favored nation treatment and non-discrimination;
— obtain guaranteed protection against the possible use of discriminating measures of other countries.

A description of the country's labor resources should also be singled out as a particular feature influencing the development of the Azeri service sphere:

— the relatively low cost of manpower, which is particularly important for labor-intensive services;
— the generally high educational level of the workforce;
— the ability of workers to efficiently adapt to the demands of the economic environment.

Service Trade in Azerbaijan

On the whole, the volume of Azerbaijan's foreign service trade is on the rise. Whereas in 1995, the export of services amounted to $172.4 million and import to $304.6 million, in 2010, these figures were $2,064.9 million and $3,797.8 million, respectively (see Table 1). In other words, during the indicated period, foreign service trade turnover rose more than 10-fold.

Table 1

The Dynamics of Azerbaijan's Service Trade in 1995-2010 (*$m*)

	1995	2000	2005	2010
Export	172.4	259.8	683	2,064.9
Import	304.6	484.4	2,653	3,797.8

Source: Azerbaijan's Balance of Payments.

As the table shows, Azerbaijan's foreign service trade has a steady negative balance, whereby import dependence is tending to grow. This is explained by the continued need for the import of several traditional types of service and the growing demand for progressive, technically and technologically complex services. Moreover, the significant negative balance in service trade is the result of an increase in the amount of outbound tourism, as well as the increase in the import of construction services owing to the implementation of regional infrastructure projects.

On the whole, Azerbaijan's balance is negative in items associated with providing communication, tourist, construction, and transportation services.

Transport and tourism has been the most important item in Azerbaijan's trade balance in the service sphere in the past few years. In 2010, transport accounted for 31.2% of the total volume of service export and tourist services for 30.1%. The share of import of corresponding services in the total import of services amounted to 21.1% and 19.6%, respectively.

Other services (apart from transport and tourism) accounted for approximately 38.7% of the total export volume and 59.3% of the total import volume of services in 2010.[5]

Azerbaijan still has a weak export position in the financial service sphere. The export of such business services as marketing, managerial, auditing, consulting, and legal is essentially non-existent in the structure of Azerbaijan's service trade.

Azerbaijan's Proposals on the Service Sphere and the Commitments of the WTO Members

Azerbaijan submitted a declaration of accession to the WTO on 30 June, 1997. The WTO Secretariat established the Working Group on Azerbaijan on 16 July, 1997; its first meeting was held in June 2002. As of the present, 8 meetings of the Working Group have been held and negotiations are still going on. Azerbaijan submitted its proposals on the service sphere to the WTO in May 2005.

A comparative analysis was carried out of the commitments of the WTO members and Azerbaijan's proposals on services. In so doing, the WTO member states were ranked according to income level and region. The analysis was carried out on the basis of a comparison of market access limitations and preferred nation treatment.

[5] [http://cbar.az/pages/statistics/external-sector-statistics/].

1. Comparison of Overall Level of Commitments

As mentioned above, an assessment was carried out of the commitments of the WTO member states. Among the 152 members, 12 original members of the European Union submitted only 1 offer during the Uruguay round, while new members have placed their own separate offers.[6]

The analysis showed that the level of commitments reflected in Azerbaijan's proposals was higher than the level of commitments of the WTO members as a whole.[7] For example, the overall level of commitments for Azerbaijan scored 51.3 (out of a scale of 100), while the average level of commitments by WTO members is 28.2. If joined, Azerbaijan would rank 27th in the overall level of commitments.

The proposals on commitments for types of services are also higher than similar commitments in the WTO. For example, Azerbaijan's proposed commitments for business services amount to a little more than 63, while on average in the WTO, they amount to 29.3; in other sectors, they amount to 48.2 and 20.2 for communications, 68.8 and 41.4 for construction, 60.0 and 26.8 for distribution, 33.8 and 22.5 for education, 75.0 and 33.8 for the environment, 41.5 and 34.9 for financial services, 29.7 and 14.6 for health, 71.9 and 53.6 for tourist services, 60.0 and 21.3 for social services, and 12.5 and 11.6 for transport, respectively.

A comparison of the proposals on commitments in Azerbaijan's service sphere and on average in the WTO also shows that Azerbaijan ranks 27th in terms of business services, 15th in terms of communications, 57th in terms of construction, 33th in terms of distribution, 42nd in terms of education, 38th in terms of the environment, 69th in terms of financial services, 26th in terms of health, 42nd in terms of tourist services, 17th in terms of social services, and 50th in terms of transport among the WTO members.

In other words, it can be stated on the basis of the analysis of proposals by sector that Azerbaijan submitted rather liberal proposals on all the service sectors and Azerbaijan's proposed commitments on services are higher than the average level of commitments of the WTO members.

It should be emphasized that there is a direct dependence between the level of commitments of the members in the WTO and the date they join this organization. The later countries join the WTO, the higher the commitments proposed and the higher the demands on these countries from the WTO countries.

2. Analysis of the Commitments of Countries in Terms of Income Level

The level of commitments was also analyzed in terms of income level, and the World Bank gross national income classification was taken as the main criterion. As we know, Azerbaijan is among the countries with an upper middle income. The analysis established that Azerbaijan's proposals on services are also higher than the commitments of countries with an upper middle income.

Before turning to the results of the analysis of Azerbaijan's proposals and the commitments of countries with an upper middle income, one special feature should be emphasized. The results of the analysis on income level show that the countries with a higher level of income have assumed more commitments.

Azerbaijan proposed almost twice as many commitments as the commitments of the WTO member countries with an upper middle income. For example, Azerbaijan's overall level of commitments, as

[6] See: *WTO, National Schedules of Specific Commitments by WTO Members*.
[7] See: *WTO Accession Strategies for Azerbaijan*. KDI, 2008, pp. 20-55.

mentioned above, amounts to 51.3, while for the WTO member states with an upper middle income, this index is 27.5.

Azerbaijan's proposals on commitments for types of services are also higher than the same commitments of the WTO member countries with an upper middle income. The commitments Azerbaijan proposed for business services amount to 63.4, while this index is 31.1 on average for countries with an upper middle income, and 48.2 and 25.1 for communications, 68.8 and 44.6 for construction, 60.0 and 19.5 for distribution, 33.8 and 24.6 for education, 75.0 and 24.5 for the environment, 41.5 and 35.2 for financial services, 29.7 and 9.6 for health, 71.9 and 53.6 for tourist services, 60.0 and 14.4 for social services, and 12.5 and 10 for transport, respectively.

3. Analysis of Commitments in Terms of Region

An analysis was also carried out of the WTO member countries in terms of region. South Asia and the sub-Saharan region assumed the least, while Europe and Central Asia assumed the most commitments when joining the WTO. It is interesting that the countries of Europe and Central Asia that acceded to the WTO recently assumed more commitments than on average for the region.

The analysis shows that Azerbaijan's proposals on services can be compared with the commitments of Europe and Central Asia and are much higher than the commitments of other regions.

For example, Azerbaijan proposed assuming more commitments than the WTO member countries of South Asia, the sub-Saharan region, Latin America and the Caribbean Basin, the Middle East and North Africa, East Asia and the Pacific Basin. The overall level of Azerbaijan's commitments amounts to 51.3, while it is 14.5 on average for South Asia, 14.9 for the sub-Saharan region, 16.7 for Latin America and the Caribbean Basin, 22.6 for the Middle East and North Africa, and 32.4 for South Asia and the Pacific Basin.

Azerbaijan's proposals on commitments for types of services, apart from the commitments of the East Asian and Pacific Basin countries for financial services, are also higher than similar commitments for the regions. Azerbaijan's proposed commitments for business services exceed 63, South Asia's are 17.3, the sub-Saharan region's are 11.8, Latin America and the Caribbean Basin's are 16.4, the Middle East and North Africa's are 22.9, and East Asia and the Pacific Basin's are 34.6.

Azerbaijan's proposals on types of services are higher than similar indices for the above-mentioned regions. For example, they are 48.2 and 11.1; 8.5; 15.9; 16.8; 29.0 for communications; 68.8 and 12.5; 20.5; 33.6; 58.8 for construction; 60.0 and 9.6; 8.4; 7.7; 11.6; 36.4 for distribution; 33.8 and 9.4; 9.1; 8.6; 12.8; 21.1 for education; 75.0 and 11.7; 14.0; 7.6; 25.0; 37.8 for the environment; 41.5 and 35.6; 14.3; 29.2; 36.7; 45.7 for financial services; 29.7 and 11.7; 8.4; 8.9; 12.4; 9.1 for health; 71.9 and 35.4; 52.3; 50.0; 53.2; 52.0 for tourist services; 60.0 and 3.1; 12.2; 14.1; 18.2; 15.8 for social services; and 12.5 and 1.6; 5.0; 4.3; 5.7; 16.0 for transport, respectively.

Conclusion

So Azerbaijan's overall level of proposed commitments and sectoral commitments are higher than the average similar index for the WTO as a whole. The results of an analysis of the commitments of member countries in terms of income level and region confirm that Azerbaijan is willing to assume more commitments, which its proposals showed. The sectoral coverage of Azerbaijan's commitments is essentially the same as for the new members.

As we know, the requirements for service market liberalization are tighter for countries that are in the process of accession to the WTO. In other words, the later a country joins the WTO, the higher the requirements it must meet. Despite this, it must be said that Azerbaijan's proposals on commitments in the service sphere are extremely ambitious, which the WTO members should take into account.

The WTO members should also take into account that the limitations reflected in Azerbaijan's proposals do not create problems in service trade. It should also be kept in mind that Azerbaijan is building a new economy based on market principles after 70 years of a planned economy. So in these conditions, the date of Azerbaijan's accession to the WTO will largely depend on how fully the current state of development of Azerbaijan's service sphere is taken into account, as well as on a real assessment of the liberalization of the service sector and level of commitments reflected in Azerbaijan's proposals by the WTO members.