UDC 339.5:[338.1+005.334+005.21+001.895](477+479.24) JEL Classifications: F15, F53, P45

Doi:10.31767/su.1(96)2022.01.04

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Ukraine’s Foreign Trade Relations with the Republic of Azerbaijan:
State, Risks, Strategic and Innovative Areas of Strengthening

The article contains an analysis of the state, features and effectiveness of foreign trade relations of Ukraine with the Republic of Azerbaijan. It is revealed that the top priority of Ukraine in its approach to the expansion of cooperation with the Republic of Azerbaijan is the policy of diversification of energy sources. Also, Azerbaijan is to a large extent lucrative for Ukrainian businesses as a market for metal and agricultural products and a customer of Ukrainian advanced technologies and developments and engineering works. The industrial and agricultural sectors of the Azeri economy demand products and materials for oil and gas, extracting, defense, chemical, food and manufacturing industries. So, the Republic of Azerbaijan is interested in supplies of Ukrainian goods and exploitation of its science & technology capacities.

The main risks and threats limiting the expansion of trade between the two countries are highlighted: prioritization by Azerbaijan of the stability in exports of energy sources to the main partners and attraction of investment to the domestic economy. It means that the Azeri party is unlikely to prioritize the supplies of hydrocarbons to Ukraine, hence, the issue of supplies will be discussed only in a declarative manner, with no visible prospects for its solution in the interests of Ukraine. The procedure of relations between Ukraine and Azerbaijan is regulated by an agreement. It may involve the risk of unilateral violation of this agreement by Baku with respect to the implementation of free trade zone. Its signal is the imposition by Baku of unjustified unofficial limitations on the volume of imported products made in Ukraine. Also, in certain case Ukrainian goods may be subject to additional shadow duties.

Strategic and innovative areas of strengthening the commercial relations of Ukraine with the Republic of Azerbaijan in transport and transit, agriculture and food industry, information technologies, food safety and tourism are proposed. The organization of trading houses as an effective scheme for intensifying foreign trade cooperation between Ukraine and the Republic of Azerbaijan is highlighted.

Key words: foreign trade relations, exports, imports, risks, trading houses.

Introduction. An essential features of the foreign economic cooperation of Ukraine today are lack of an effective strategy and foreign trade infrastructure, the commodity-based pattern of exports and the reliance of the domestic economy on countries supplying energy sources or some other material resources. Besides that, diversification of exports and imports, expansion of cooperation with other countries, the Republic of Azerbaijan in particular, has become a vitally important objective for Ukraine along with the escalating military and political conflict with Russia that used to be a critical trade partner for Ukraine.

Literature review. The always important issue of setting foreign trade strategies has long been in focus of foreign and domestic researchers, including O. Bilorus, R. Vernon, B. Hubskyi, C. Johnson,
The article’s objective is to analyze the performance of foreign trade relations of Ukraine with the Republic of Azerbaijan and elaborate strategic and innovative areas for their expansion.

Research results. Ukraine nowadays is deeply integrated in the global economic area, maintaining economic relations with more than 200 countries. The Republic of Azerbaijan is an important trade partner of Ukraine with the immense unexploited potential for the expansion of trade and economic relations. To reveal the performance, tendencies, problems and prospects of commercial relations between the two countries, the study is supported by an analysis of export and import transactions.

In the soviet times, the economy of Azerbaijan was closely linked to the other soviet republics. Azerbaijan used to supply them with the products of chemical and fuel industries, ferrous and non-ferrous metallurgy, mechanical engineering (oil and electrical equipment, household conditioners), metalwork, light industry. Azerbaijan used to be a principal supplier of vegetables (especially early varieties), fruit, grapes, tea leaves. The other republics exported to it mainly finished products: machine tools, agricultural machinery, cars, clothes, tableware, foods [7].

Trade relations of Azerbaijan with Ukraine both in the soviet era and in the independence period tended to feature a positive trade balance for Ukraine. In 1987, imports from Ukraine accounted for 57% of the total Azeri trade in goods, including the products of food, mechanical engineering and metalwork industries, which aggregate share was 85%. Goods like sugar, animal fats, steel pipes and rolling, TV sets, cars, freight mainline wagons were characteristic of the Azeri imports. More than 60% of cast iron, 40% of ferrous metal rolling, 55% of steel pipes, 60% of sugar and table sugar, nearly 30% of milk and dairy products were imported to Azerbaijan from the Ukrainian Soviet Socialist Republic. The largest shares of Azeri exports to Ukraine in that period were with products of light industry (38%), mechanical engineering and metalwork (17%), chemical and oil refinery (12%), and food industry. Also, a large contribution in the Azeri exports was made by goods like tobacco, cotton fibers, silk fabric, household refrigerators, petroleum oils, fresh vegetable, carpets, and synthetic rubber.

The scopes of trade between the two countries plummeted in 1991, once Ukraine gained independence. The main factors were:

(i) declined macroeconomic indicators of both countries since that beginning of 1990s;
(ii) disrupted payment schemes or too bad communications between the two countries;
(iii) declined scopes and changed structure and destinations of the foreign trade;
(iv) weakening transport links between the two countries;
(v) unstable political situation in the neighboring regions [7, p. 181].

Besides that, at early 1990s both countries were busy seeking for solutions to internal problems and elaborating a radically new economic policy based on market schemes. These new challenges for the two countries obviously required a good deal of effort and time.

The official relations between the two countries were renewed on February 6, 1992. Today, the trade relations between them are based on the Free Trade Agreement signed on July, 22, 1995 between the Government of Ukraine and the Government of the Republic of Azerbaijan. Besides that, the legal framework for the trade relations is provided by the Agreement on Official Registration of Transit Goods and Luggage of Citizens between the Customs Committee of Ukraine and the State Customs Committee of the Republic of Azerbaijan (signed 01.05.1993), the Agreement on Mutual Recognition of Custom Documents and Custom Securities between the Customs Committee of Ukraine and the State Customs Committee of the Republic of Azerbaijan (signed 01.05.1993), and the Agreement on Custom Cooperation between the Government of the Republic of Azerbaijan and the Government of Ukraine (signed 24.03.1997), other bilateral and multilateral agreements and contracts [10].

However, the volume of trade between Azerbaijan and Ukraine was declining before 2001. While in 1997 it made $11,778,000 in 2001 it fell down to $6,171,000.

An essential factor of this decline was devaluation of the Russian ruble, provoking a reduction of export prices in Russia with a subsequent growth in the Russian exports to all the countries of the Commonwealth of Independent States (CIS).

The Agreement “On Economic Cooperation between the Ukrainian and Azerbaijan Republics in 2000–2009” was signed in 2000. After that, beginning with 2002, the trade volume between the two countries started to rapidly grow [10]. In 2010, the bilateral trade in goods made nearly $1,000,000,000 [2]. This trend was being on until 2014. On account of worsening Russian-Ukrainian relations and difficult geopolitical situation in Ukraine, first and foremost in Donbas region, the trade volume between Ukraine and Azerbaijan plummeted in 2014–2016 (by thrice): from $979,000,000 to $321,000,000.
The period of 2017–2020 was marked by gradual recovery of the positive trade dynamics both for goods and services, with absolute figures remaining low compared with the potential of mutual trade (Table 1, compiled according to data from [8]). It should be noted that currently Ukraine is the second, after Russia, main partner of Azerbaijan in bilateral trade in the post-soviet area [2].

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017 $ million</th>
<th>%</th>
<th>2018 $ million</th>
<th>%</th>
<th>2019 $ million</th>
<th>%</th>
<th>2020 $ million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, including</td>
<td>803.7</td>
<td>↑250.7</td>
<td>853.6</td>
<td>↑6.2</td>
<td>825.4</td>
<td>↓3.4</td>
<td>717.2</td>
<td>↓13.2</td>
</tr>
<tr>
<td>– exports</td>
<td>381.0</td>
<td>↑138.0</td>
<td>381.0</td>
<td>0.0</td>
<td>433.3</td>
<td>↑13.7</td>
<td>370.3</td>
<td>↓14.3</td>
</tr>
<tr>
<td>– imports</td>
<td>422.6</td>
<td>↑849.6</td>
<td>472.6</td>
<td>↑11.8</td>
<td>392.1</td>
<td>↓17.3</td>
<td>346.9</td>
<td>↓11.5</td>
</tr>
<tr>
<td>Balance</td>
<td>–41.6</td>
<td>–</td>
<td>–91.6</td>
<td>–</td>
<td>+41.2</td>
<td>–</td>
<td>+23.4</td>
<td>–</td>
</tr>
</tbody>
</table>

The upward dynamics of commodity exports from Ukraine to Azerbaijan could be recovered in 2017–2020 (Table 2, compiled according to data from [8]). The main factor for its decline is that factories in Donbas, an industrial center of Ukraine which used to be metal products supplier to Azerbaijan, worked intermittently due to the warfare. Another factor is a series of limitations on the transit of Ukrainian goods across the Russian territory, imposed by Russia once Ukraine ratified the Free Trade Agreement with EU.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017 $ million</th>
<th>%</th>
<th>2018 $ million</th>
<th>%</th>
<th>2019 $ million</th>
<th>%</th>
<th>2020 $ million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, including</td>
<td>772.0</td>
<td>↑268.4</td>
<td>824.6</td>
<td>↑6.7</td>
<td>779.8</td>
<td>↓5.4</td>
<td>665.3</td>
<td>↓14.7</td>
</tr>
<tr>
<td>– exports</td>
<td>354.7</td>
<td>↑43.1</td>
<td>360.0</td>
<td>↑1.5</td>
<td>400.6</td>
<td>↑11.3</td>
<td>346.8</td>
<td>↓13.4</td>
</tr>
<tr>
<td>– imports</td>
<td>417.3</td>
<td>↑950.2</td>
<td>464.6</td>
<td>↑11.3</td>
<td>379.2</td>
<td>↓18.4</td>
<td>318.5</td>
<td>↓16.1</td>
</tr>
<tr>
<td>Balance</td>
<td>–62.6</td>
<td>–</td>
<td>–104.6</td>
<td>–</td>
<td>+21.4</td>
<td>–</td>
<td>+28.3</td>
<td>–</td>
</tr>
</tbody>
</table>

The commodity structure of the Ukrainian trade with Azerbaijan in 2017–2020 is given in Table 3 (compiled according to data from [6]). Data in Table 3 show that the commodity structure is devoid of rationality, hence, the foreign trade does not feature a strategic character. The main category of Ukrainian exports to Azerbaijan is ferrous metals and products made thereof [6]. Apart from the traditionally heavy supplies of foods to Azerbaijan (nearly 50% of the total exports), recently there has been a more pronounced upward trend in pharmaceutical goods (↑75%), power equipment (↑60%), ferrous metals (↑11%) [8]. The imports to Ukraine from Azerbaijan are dominated by foods and fuels.

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Ferrous metals</td>
<td>29.09</td>
<td>26.65</td>
<td>25.10</td>
<td>11.28</td>
<td>6.13</td>
<td>5.96</td>
<td>5.88</td>
</tr>
<tr>
<td>Products from ferrous metals</td>
<td>15.65</td>
<td>15.89</td>
<td>9.79</td>
<td>12.04</td>
<td>5.79</td>
<td>7.59</td>
<td>9.64</td>
</tr>
<tr>
<td>Edible nuts</td>
<td>29.12</td>
<td>11.04</td>
<td>18.96</td>
<td>20.57</td>
<td>13.76</td>
<td>1.55</td>
<td>2.19</td>
</tr>
<tr>
<td>Mineral fuel</td>
<td>19.50</td>
<td>15.71</td>
<td>26.97</td>
<td>22.78</td>
<td>4.00</td>
<td>93.71</td>
<td>90.99</td>
</tr>
<tr>
<td>Plastics</td>
<td>20.08</td>
<td>16.70</td>
<td>24.76</td>
<td>27.50</td>
<td>26.47</td>
<td>1.88</td>
<td>1.77</td>
</tr>
</tbody>
</table>

The commodity structure of Ukrainian exports could be essentially diversified in 2020 due to the introducing new commodity positions on the Azeri market (electrical equipment, chemicals, furniture, technical products made of nonprecious metals). The structure of Ukrainian imports from Azerbaijan was diversified through increasing the share of food.
products, chemicals, polymers, carbamide, wagons for modernization of Ukrainian railway transport.

The commodity imports of Ukraine from Azerbaijan were dominated by oil and oil refinery products. In 2020, the Azeri State Oil Company SOCAR shipped to Ukraine 1,100,000 tons of oil worth $ 296,000,000. The Azeri oil accounted for 62% in the total oil imports to Ukraine. In January-April 2021, Ukraine imported 377,400 tons of Azeri oil worth $ 142,600,000. Also, the transit of Azeri light oil across the Ukrainian territory to Central and Eastern European markets using the oil pipeline systems “Odesa – Brody” and “Druzhba” was launched in February 2020. This transit route was used to transport 900,000 tons of oil to Belarus in 2020. In January-March 2021, it allowed to deliver to Belarus 270,000 tons of Azeri oil.

Preparative works to signing the Intergovernmental Agreement on Support of the Project of Euro-Asian Oil Transport Corridor and the project for transportation of Azeri light oil across the Czech territory to the oil refinery factory in the town of Kralupy (Czech Republic) are being on now. A feasibility study of supplying Azeri natural gas to Ukraine on line of the international project “Southern Gas Corridor” has been launched, which is supposed to diversify sources and delivery routes for Azeri natural gas to Ukraine via the territories of Turkey, Bulgaria, and Romania.

The shares of commodity positions in the Ukraine's trade with the Republic of Azerbaijan in 2020 were as follows:
- Exports: agro-industrial complex – 47.3%, chemical industry – 15.2%, wood processing industry – 13.2%, basic metals – 13.0%, mechanical engineering – 9.6%, other – 1.7%;
- imports: chemical industry – 90.5%, agro-industrial complex – 4.0%, mechanical engineering – 2.8%, textiles – 0.9%, basic metals – 0.9%, other – 0.9% [8].

The figures showing the dynamics of trade in services between Ukraine and Azerbaijan are given in Table 4 (compiled according to data from [8]), and its structure is shown in Table 5 (compiled by data from [6]).

Data in Table 4 show that the trade in services between Ukraine and Azerbaijan is heavily dependent on geographic and transit location of Ukraine, with the principal export categories being transport and travel-related services.

3300 licenses for international freight transportations could be issued for Ukrainian truckers due to support from the Ministry of Transports, High Technologies and Communications of the Republic of Azerbaijan and the Secretariat of the Intergovernmental Commission of the Program for the International Transport Corridor Europe-Caucasus-Asia (TRACECA). A proposition to increase the number of licenses with consideration to the parties’ needs was made as part of the preparatory works for the next meeting of the Ukraine-Azeri Commission on International Automobile Transportations.

As regards air transport, the state air service companies of both countries have been working over the possibility to renew regular flights of the Ukrainian company “International Ukrainian Airlines” and Azeri company AZAL on the routes Kyiv – Baku – Kyiv.
The role of Ukraine and its transport capacities has been enhanced at international level, i.e. in international projects East-West and Transcaspian International Transport Route. Measures of diplomatic assistance have been taken to intensify the Ukrainian-Azeri cooperation in the improvement of transport logistics infrastructures of Ukraine, Azerbaijan and Georgia. In 2020, there were 13 trips of container trains from China to Ukraine via the Azeri and Georgian territories, which were going to the Polish town of Slawkow and back to the Chinese city of Hsingan. To enhance this area of cooperation, the Ministry of Infrastructure of Ukraine is conducting a feasibility study jointly with the Azeri party (joint-stock company “Azeri Railways”, Azeri Caspian Sea Shipping Company, SOCAR and joint-stock company “Baku International Sea Trade Port”) for the optimization of logistics routes, in order to increase the scopes of freight container transportations through negotiating basic tariff rates on freight transport in Black and Caspian seas [6].

The Ukrainian imports of services from Azerbaijan are dominated by business services.

So, the commercial cooperation between the two countries is being improved and intensified in the new environment in view of their mutual benefits. Its extension will be possible if the following conditions are met [9]:

− a sound and in-depth feasibility study of the existing potential for expansion of cooperation between Azerbaijan and Ukraine in view of new challenges and adverse effects of the COVID-19 pandemic;
− Taking full benefits of traditional forms and areas of foreign trade activities and measures for their modernization;
− taking due account for the newly opened opportunities for the involvement of Ukrainian investors and companies in projects for restoration and revival of the Karabakh region in Azerbaijan;
− elaborating advanced schemes and tools for intensification of trade between Azerbaijan and Ukraine through implementing targeted regional programs and projects, launching joint activities, enhancing the investment attractiveness, etc.

Besides that, it is necessary to consider the main risks involved in the expansion of commercial cooperation of Ukraine with the Republic of Azerbaijan, associated with prioritization by Azerbaijan of the stability of exports of energy sources to the main partners and attraction of investment to the domestic economy. Because the Azeri party is unlikely to prioritize the supplies of hydrocarbons to Ukraine, this issue will be discussed only in a declarative manner, with no visible prospects for its solution in the interests of Ukraine. Another impediment for the expansion of bilateral trade between Ukraine and Azerbaijan is unilateral violation by Azerbaijan of the articles on implementation of free trade zone, contained in the existing agreement between Ukraine and Azerbaijan. As a result, Azeri custom bodies imposed unjustified unofficial limitations on the volumes of imported goods made in Ukraine; in certain cases, Ukrainian goods may be subject to additional shadow duties [4].

**Conclusions.** Ukraine and Azerbaijan have been friendly partners with the relations based on the principles of mutual respect and equal cooperation, characterized by the consistent and comprehensive development of equal and constructive dialog covering all the levels and all the issues of mutual concern. The top priority for Ukraine in the expansion of cooperation with the Republic of Azerbaijan is the policy of diversification of energy sources supplies.

We believe that the following areas of strategic and innovative activities can strengthen commercial relations between the two counties:

1. **Transport and transit links.** Since 2020 and on, there have been thirteen trips of container trains from China to Ukraine across the Azeri territory. Apart from allowing for Ukrainian imports from Asian markets, Azerbaijan opens good opportunities for diversification of Ukrainian export markets. The respective departments of the two countries and diplomatic offices in Kyiv and Baku continue the effort aimed to optimize transport routes and increase the volume of freight transportations.

2. **Agriculture and food industry.** Advanced areas of cooperation in this field are admittedly plant-growing, especially viticulture, arable farming, animal husbandry, research and development.

3. **Information technologies and professional education therein.** Given the great experience of professional training in IT, Ukraine can offer reliable partnership for Azerbaijan in this field.

4. **Food safety.** The Azeri party shows interest in the Ukrainian practices of certification, veterinary activities, professional development of food safety personnel, professional training in veterinary or phytosanitary.

5. **Tourism.** Statistics of tourist exchange between Azerbaijan and Ukraine confirms the stably high interest of the parties to the whole spectrum of tourist business, from its cultural and historic segments to wellness, medical and business ones.

6. **Collaborative effort on line of regional economic organizations involving multilateral formats in implementing initiatives aimed to improve economic cooperation in the region.**

7. **Organization of trading houses.** “Trading House Ukraine” Ltd and the trade network “Ukrainian Foods”...
(with ten outlets in the city of Baku and one in the city of Gəncə) have already been operating in Azerbaijan as part of bilateral cooperation [8]. The main activities of new organizations are export and import transactions without limitations on the commodity nomenclature, making or processing of goods except for the ones subject to prohibitions or limitations according to the domestic law or international agreements joined by Ukraine and Azerbaijan. Activities of Ukrainian and Azeri specialists in the trading house format will allow for elaborating supplementary schemes for extending the economic cooperation between the two countries, thus providing businessmen with a new toolkit of mutual communications. We believe that the implementation of these cooperation areas will help strengthen and deepen commercial relations between Ukraine and the Republic of Azerbaijan.

Further studies will have a more detailed focus on problems and prospects of the investment activity of Ukraine in its economic cooperation with the Republic of Azerbaijan. They will involve elaboration of the system approach to optimization of the regulation of the investment policy of Ukraine with respect to stimulating the investment activity of foreign trade partners.

References

Зовнішньоторговельні зв’язки України з Республікою Азербайджан:
стан, ризики, стратегічні та інноваційні напрями зміцнення

У статті проаналізовано стан, виявлено особливості та ефективність зовнішньоторговельних зв’язків України з Республікою Азербайджан. З’ясовано, що основним пріоритетом України в підході до розвитку співпраці з Республікою Азербайджан є політика диверсифікації джерел енергетичної сировини. Крім цього, Азербайджан приваблює виробники України значною мірою як ринок збуту метало- та агропродукції, а також у плані застосування українських передових технологій, наукових розробок, виконання інженерно-технічних робіт. Промисловий та аграрний сектори економіки Азербайджану потребують продукції і матеріалів для нафтогазової, видобувної, військово-технічної галузей, хімічної, харчової та переробної промисловості. У свою чергу, Республіка Азербайджан зацікавлена у поставках українських товарів, а також використанні її науково-технічного потенціалу.

Виокремлено основні ризики та загрози, які гальмують розвиток зовнішньої торгівлі між країнами: надання Азербайджаном у рамках стратегічного напряму зовнішньоекономічного розвитку пріоритет питання забезпечення стабільного експорту енергоносіїв до основних країн-партнерів та залучення інвестицій в економіку країни. Це означає, що азербайджанська сторона не розглядає питання постачання вуглеводнів до України як пріоритетне, що зумовлюється збереження джерел енергетичної сировини щодо його вирішення в інтересах України. Наразі, Азербайджан здійснює поставки до країн-партнерів продукції українського виробництва. Україна зацікавлена у постачанні енергоносіїв до основних країн-партнерів.

Запропоновано стратегічні та інноваційні напрями зміцнення зовнішньоторговельних зв’язків України з Республікою Азербайджан у сферах транспортно-транзитних відносин, агропромислового комплексу, інформаційних технологій, харчової безпеки та туризму. Виокремлено організацію торговельних домів як дієвого механізму активізації зовнішньоторговельного співробітництва між Україною і Республікою Азербайджан.

Ключові слова: зовнішньоторговельні зв’язки, експорт, імпорт, ризики, торгові доми.