

UDC 339.9
DOI: 10.56318/eem2025.02.030

ISSN 2312-3435
e-ISSN 2413-7634

Elshan Orujov*

PhD in Economics
Baku Business University
AZ1122, 88A H. Zardabi Str., Baku, Azerbaijan
Azerbaijan University
AZ1007, 71 Jeyhun Hajibeyli Str., Baku, Azerbaijan
<https://orcid.org/0009-0005-0996-912X>

Strategic trade alignment and sovereign flexibility: Azerbaijan's WTO accession dilemma in a shifting global order

Abstract. Azerbaijan's potential accession to the World Trade Organisation (WTO) was highly relevant, as it reflected the broader challenge of reconciling economic modernisation with the preservation of sovereignty in a rapidly shifting global and regional context. The purpose of this study was to explore Azerbaijan's path towards WTO accession as a case study of how emerging economies sought to reconcile multilateral trade commitments with the protection of Azerbaijan's strategic sectors. The research employed a mixed-methods approach, combining qualitative analysis of trade and political economy documentation with comparative benchmarking against post-Soviet states that had already undertaken accession. The findings showed that WTO membership held the potential to promote long-term diversification of the Azerbaijan's economy, strengthen investor confidence, and enhance transparency in regulatory frameworks. However, accession commitments were also likely to limit the government's capacity to apply protective measures in sensitive sectors, particularly agriculture, energy, and services. The analysis revealed that Azerbaijan's accession choices were not exclusively economic; they were shaped by evolving regional alliances, fluctuations in hydrocarbon markets, and pressures from global trade liberalisation. To capture these tensions, the study proposed the conceptual framework of "strategic trade alignment and sovereign flexibility", which explained Azerbaijan's cautious stance in negotiations. The results of the research could be applied by trade negotiators in formulating strategies for accession that achieve integration into the global economy while maintaining adaptive governance mechanisms

Keywords: trade policy; economic sovereignty; post-Soviet integration; regional economic shifts; strategic dilemma

INTRODUCTION

Azerbaijan's potential accession to the World Trade Organisation (WTO) represents a critical juncture in its economic and political development. The process encapsulates a delicate balance between the aspiration to join the global trading system in order to stimulate diversification and attract foreign investment, and the necessity to retain sovereign flexibility in shaping national policies. This dilemma is particularly evident in strategically important sectors such as energy and agriculture, where integration promises long-term gains but also carries the risk of reducing policy

autonomy. The debate surrounding Azerbaijan's accession to WTO has become increasingly significant due to structural vulnerabilities in the national economy and mounting pressures from global economic realignments. The country's dependence on hydrocarbons, combined with shifting geopolitical alliances in the South Caucasus, underscored the need to evaluate both the opportunities and risks associated with WTO membership. This issue demanded scholarly attention not only because of its implications for Azerbaijan's economic trajectory, but also because it exemplified the

Article's History:

Received: 17.07.2025
Revised: 14.11.2025
Accepted: 23.12.2025
Published: 29.12.2025

Suggested Citation:

Orujov, E. (2025). Strategic trade alignment and sovereign flexibility: Azerbaijan's WTO accession dilemma in a shifting global order. *Economics, Entrepreneurship, Management*, 12(2), 30-40. doi: 10.56318/eem2025.02.030.

*Corresponding author



broader dilemmas faced by resource-rich emerging economies seeking deeper integration into global governance frameworks while preserving sovereign policy flexibility.

Researchers S. Neset *et al.* (2023) examined the changing geopolitics of the South Caucasus after the Second Karabakh War, emphasising how Azerbaijan's military victory and stronger regional position reshaped the dynamics of trade and cooperation. They argued that unresolved conflicts and tensions between Azerbaijan, Armenia, and other actors significantly complicated cross-border economic interaction. Instead of fostering integration, security challenges and rivalries constrained reforms and limited the region's potential for deeper trade engagement. F. Nahmadova (2023) examined whether Azerbaijan's accession to the WTO would facilitate deeper integration into the "Middle Corridor" within China's Belt and Road Initiative. She found that the benefits of exporting to China were limited by the application of the General Tariff Rate and concluded that WTO membership could help remove these barriers and unlock the potential advantages of regional trade integration. G. Arveladze & M. Smeets (2017) studied Georgia's post-accession reforms, arguing that early liberalisation in the 2000s fostered foreign investment but exposed the agricultural sector to structural shocks. They emphasised that, after WTO accession, sustaining reform momentum required complementary policies to strengthen institutional capacity and social safety nets. Although not a full WTO accession case, the study highlighted that international trade agreements significantly reshaped Turkey's industrial structure and trade patterns over time. These comparative insights suggested that accession outcomes were neither uniform nor predetermined, but contingent on national strategies.

R. Wilkinson (2013) highlighted the institutional crisis of the WTO itself, noting that disputes over consensus-based decision-making and the paralysis of the Appellate Body have undermined its effectiveness. J. Bacchus (2024) suggested that only far-reaching reforms and renewed global rules can restore its legitimacy. Collectively, these studies raised critical doubts about whether WTO accession can still deliver the same economic and political benefits for smaller states that it once did two decades ago. Z. Drábek (2024) examined the vulnerabilities of the multilateral trading system and argued that the WTO faces systemic threats that undermine its credibility and effectiveness. His analysis underscored how growing protectionism, disputes over institutional reform, and the rise of regional trade arrangements have raised doubts about the WTO's ability to deliver predictable outcomes. Integration of this perspective highlighted that Azerbaijan's prospective accession would not occur in a stable environment, but rather against the backdrop of a fragmented and contested global trade order.

Despite these contributions, key gaps remained in the literature. Few studies directly addressed Azerbaijan's unique resource-driven economic model in relation to WTO accession. Additionally, while comparative analyses existed, there had been limited effort to systematically

benchmark Azerbaijan's accession path against a diverse range of post-Soviet cases. Most importantly, above papers had not adequately conceptualised the trade-off between "strategic trade alignment" and "sovereign flexibility", leaving a gap in theoretical framing that this study sought to fill. The purpose of this study was to examine Azerbaijan's WTO accession process as a case study of how emerging economies balance commitments to the multilateral trading system with the need to safeguard strategic sectors.

MATERIALS AND METHODS

This study was based on an interpretivist research paradigm, which allowed for a contextualised understanding of Azerbaijan's approach to WTO accession within its political and institutional environment. To guide the analysis, elements of strategic trade theory (Brander & Spencer, 1985) and sovereignty-responsiveness theory (Keohane, 2002) were considered. These theoretical traditions were used to frame the investigation of how state-led economic strategies interacted with external commitments, and how sovereignty considerations influenced the negotiation process. The research materials consisted of primary sources from Azerbaijan (World Bank, 2023a; 2023b; n.d.a; n.d.b), Georgia, Kazakhstan, and Kyrgyzstan, along with secondary analytical studies. International legal and institutional texts included WTO Working Group reports (World Trade Organisation, n.d.a; n.d.b; 2021; 2023a; 2023b). These were selected to capture the formal obligations and negotiation dynamics of the accession process. At the national level, core policy documents such as Strategic Roadmap for development of logistics and trade in the Republic of Azerbaijan (2017) was reviewed in order to assess the degree of alignment with WTO principles and to identify areas of potential divergence.

Secondary sources included academic studies and reports that provided comparative perspectives on accession experiences in Azerbaijan (Orujov, 2025), Georgia (Arveladze & Smeets, 2017), Kazakhstan (WTO Notifications Portal, n.d.b), and Kyrgyzstan (World Trade Organisation, 2021). These papers informed the benchmarking exercise that situated Azerbaijan's case within a broader regional and institutional context. To ensure reproducibility, all references to academic and institutional sources were drawn from published materials with clear bibliographic information. For empirical analysis, the study employed both cross-sectional and longitudinal data. Macroeconomic indicators were collected from internationally recognised databases, including the World Bank (2023a; 2023b; 2024), UNCTAD (2023), and the World Integrated Trade Solution (2022). The variables extracted included gross domestic product (GDP), tariff rates, foreign direct investment (FDI) flows, and revealed comparative advantage (RCA) scores. These datasets were selected because they provided both cross-country comparability and adequate temporal depth to assess Azerbaijan's evolving trade profile over the past two decades. This empirical foundation informed the development of the Sovereignty-Trade

Integration Matrix (STIM), which captures sector-level trade-offs. To assess Azerbaijan's position in the broader regional and development context, three WTO member countries were selected for comparison: Georgia, Kazakhstan, and Kyrgyzstan. They were selected based on a shared historical heritage and variations in accession strategies. Their experiences were benchmarked using pre- and post-accession economic indicators and institutional responses to WTO compliance requirements.

A combination of trade indices and simulations was employed to assess Azerbaijan's trade policy dynamics. The methodology included an analysis of tariff dispersion and RCA. Specifically, Azerbaijan's tariff structures between 1995 and 2023 were examined to identify variability across sectors and the presence of tariff peaks, while RCA analysis was applied to evaluate sectoral competitiveness. In addition, a WTO-compatible partial equilibrium SMART simulation was conducted to model potential trade flows under three distinct scenarios: full liberalisation with all MFN-bound tariffs applied, selective sector exemptions such as agro-chemicals and petro-refined goods, and a transitional liberalisation path with phased reforms over five to ten years.

Despite the comprehensive mixed-methods approach adopted in this study, several limitations constrained the breadth and generalisability of the findings. Access to primary and confidential negotiation documents related to Azerbaijan's WTO accession was restricted, limiting the ability to analyse the real-time evolution of negotiation strategies and state positions in detail. As a result, much of the analysis relied on publicly available summaries, secondary sources, and expert interpretations, which may omit nuanced diplomatic dynamics or informal trade-offs made behind closed doors. The economic indicators for the countries studied after their accession to the WTO covered the period from 2020 to 2024 inclusive.

RESULTS AND DISCUSSION

The research findings reveal a complex interplay of economic, institutional, and strategic trade factors shaping Azerbaijan's WTO accession posture. The results underscore the coexistence of high integration potential with persistent concerns over sovereign control, particularly in sectors where state influence remains significant, such as energy and agriculture. These findings highlighted that WTO accession in the post-Soviet space was not a uniform process but rather reflected varying degrees of bargaining capacity, sectoral vulnerability, and political willingness to integrate into the global trade regime. Azerbaijan's approach appeared shaped by lessons drawn from its neighbours: caution against overexposure (as in Georgia), recognition of negotiation length as a policy tool (as in Kazakhstan), and awareness of the need to balance openness with sovereignty (as in Kyrgyzstan). The simulation, adapted from UNCTAD's SMART model, provides a detailed assessment of potential trade outcomes for Azerbaijan under different liberalisation scenarios. Under a scenario of full liberalisation, in which all MFN-bound tariffs are applied without

exemptions or transitional measures, the results indicate a significant increase in non-oil imports, projected at approximately 12.7%. This rise reflects the combined effect of tariff reductions across multiple sectors, which would lower import costs and enhance the competitiveness of foreign goods in the Azerbaijani market. The model highlights that while trade openness may bring efficiency gains, certain national sectors could face challenges. In particular, the agricultural sector is projected to experience a contraction in output of around 4.9% under full liberalisation if it does not receive compensatory measures such as subsidies or adaptation funds. This finding underscores the potential vulnerability of sectors that are less competitive internationally and emphasises the importance of carefully calibrated national support mechanisms when implementing broad trade liberalisation policies (Brander & Spencer, 1985).

When a selective exemption approach is applied, allowing targeted sectors such as agro-chemicals and petro-refined goods to maintain protective measures while other sectors liberalise, the model predicts a more moderate but strategically significant outcome. Specifically, Azerbaijan could achieve a 5.3% growth in export diversity under this scenario, reflecting a broader range of products gaining competitiveness in international markets (Centre for Analysis of Economic Reforms and Communication, 2024). The selective exemption scenario therefore not only mitigates potential losses in sensitive sectors but also supports diversification of the country's export basket, enhancing resilience to external shocks and improving the alignment of trade policy with national development objectives. Overall, the SMART simulation results provide crucial insights for policy-making and trade negotiations. They demonstrate that full liberalisation would substantially increase non-oil imports but may impose sector-specific costs if domestic adjustments are not implemented. Conversely, selective exemptions can preserve the stability of vulnerable industries while promoting export diversification, suggesting that Azerbaijan's negotiating strategy in WTO accession or trade reform processes should consider carefully targeted carve-outs for critical sectors. These findings, taken together, form a comprehensive evidence base for understanding the potential economic impacts of different liberalisation pathways and for designing policies that balance market openness with sectoral protection and strategic economic development objectives.

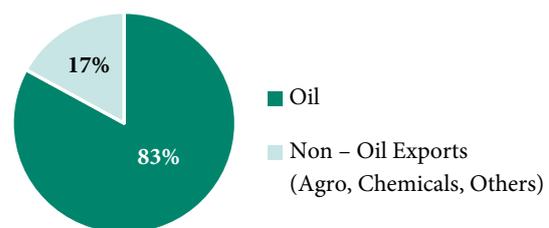


Figure 1. Azerbaijan's export structure by sector (2024)
Source: compiled by the author based on Centre for Analysis of Economic Reforms and Communication (2024)

Figure 1 illustrates Azerbaijan's export structure by sector for 2023, providing context for the simulation outcomes and highlighting the relative weight of key industries in the overall export portfolio. These insights inform Azerbaijan's negotiation preferences for sectoral carve-outs. Figure 1 illustrates the composition of Azerbaijan's export economy in 2023, highlighting a persistent reliance on hydrocarbons. Approximately 83% of all exports are derived from oil and gas products, while only 17% represent non-oil exports, which include agriculture, chemicals, textiles, and manufactured goods. This imbalance reveals the core vulnerability in Azerbaijan's economic model: its overdependence on energy commodities subjects the country to price volatility in global oil markets and constrains its leverage in trade negotiations (Strategic Roadmap for..., 2017). Research by K. Abdullayev *et al.* (2024) highlighted that digital transformation is increasingly seen as a driver of competitiveness and resilience in national economies, particularly in transition countries. For instance, WTO accession requires commitments to liberalise and diversify trade. However, given the current structure, Azerbaijan faces a steep challenge in meeting diversification benchmarks without incurring sectoral disruptions. Comparatively, post-accession countries such as Georgia have shifted their export profiles toward light manufacturing and services. For Azerbaijan, reducing hydrocarbon dependence is not just a policy objective but a necessity to secure long-term economic stability and resilience within the WTO framework. The figure emphasises the urgency for a proactive export diversification strategy prior to accession, particularly by incentivising investments in non-energy sectors, introducing technology transfers, and reducing barriers for SMEs involved in trade. The overwhelming reliance on hydrocarbons exposes Azerbaijan to commodity price shocks. WTO accession could accelerate diversification via enhanced regulatory standards, trade facilitation, and investor signalling. However, as

R. Hausmann *et al.* (2007) argued, trade liberalisation alone is insufficient without complementary industrial policies.

A composite index was constructed to assess Azerbaijan's progress in implementing WTO-compatible reforms, drawing on WTO accession inventory checklists, OECD (2023) governance indicators, and World Bank Doing Business scores (pre-2022) (Kaufmann *et al.*, 2023). The results indicate that Azerbaijan performs strongly in areas such as customs modernisation and intellectual property rights (IPR) reforms, reflecting the introduction of new enforcement laws aligned with the TRIPS agreement. These reforms have significantly improved the efficiency and transparency of customs procedures, reduced procedural delays, and strengthened legal protections for intellectual property, thereby enhancing investor confidence and facilitating trade. In contrast, the country demonstrates a medium level of progress in services liberalisation, indicating partial but uneven opening of key service sectors to international competition. While regulatory frameworks and market access provisions have been updated in some areas, restrictions remain in others, limiting the full potential of service sector growth and cross-border integration. Ultimately, Azerbaijan scores relatively low in sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) regulatory infrastructure, highlighting ongoing gaps in quality standards, inspection capacity, and compliance monitoring. These deficiencies may pose challenges for export diversification, particularly in agriculture and processed food products, and underscore the need for targeted investment in institutional capacity and technical expertise to meet international trade norms. This suggests a readiness gap in institutional enforcement and food safety, necessitating transitional periods or technical assistance programmes. Figure 2 compares Azerbaijan's WTO compliance performance with three regional competitors – Georgia, Kazakhstan, and Kyrgyzstan.

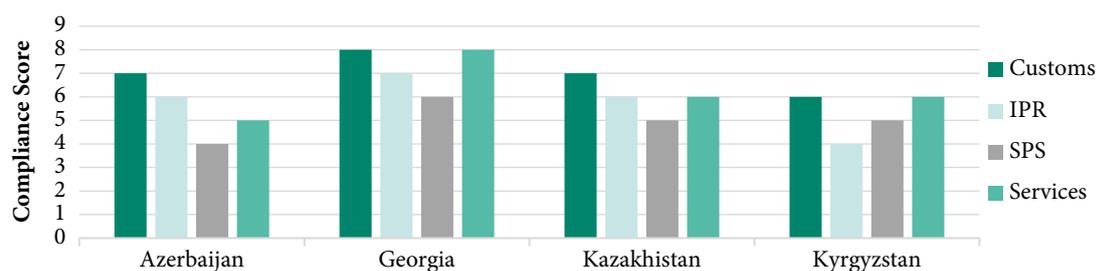


Figure 2. WTO Compliance Index – Azerbaijan vs comparator countries (2023)

Source: compiled by the author based on World Trade Organization (n.d.a; n.d.b; 2021; 2023a; 2023b)

Azerbaijan scores moderately well (7/10), indicating partial alignment with WTO standards on customs valuation and transparency. However, gaps remain in risk-based inspection and digital customs clearance. Georgia leads with an 8/10 score due to its full adoption of single-window systems and WCO-compatible procedures. IPR: With a 6/10 score, Azerbaijan has introduced updated legal frameworks, but enforcement mechanisms remain

weak. In contrast, Georgia's higher score reflects effective dispute resolution mechanisms and cooperation with WIPO, while Kazakhstan benefits from harmonisation with EAEU standards. Kyrgyzstan scores lower overall, reflecting ongoing challenges in aligning with WTO standards. Customs and services show moderate performance (6/10), while IPR enforcement remains weak (4/10). SPS measures are improving (5/10), but gaps persist in meeting

international standards. SPS is Azerbaijan’s weakest area (4/10). SPS measures are critical for agricultural exports, and non-compliance hampers access to high-standard markets. Regulatory alignment with Codex Alimentarius and capacity-building for veterinary services are essential pre-accession steps. Azerbaijan’s services liberalisation stands at 5/10, hindered by monopolistic structures in telecoms and restrictive licensing in finance. Georgia again outperforms, having opened its services sector significantly

post-accession. Overall, the Figure 2 underscores Azerbaijan’s uneven readiness and identifies specific regulatory gaps that require targeted reforms to meet WTO accession benchmarks. The variation among countries also highlights how accession trajectories can be shaped by domestic political will and institutional capacity. Table 1 summarises the five-year economic impact of WTO accession in three comparator countries, providing a valuable reference point for evaluating Azerbaijan’s prospective outcomes.

Table 1. Post-WTO accession economic performance (5-year snapshot)

Country	GDP growth (%)	FDI inflows (USD B)	Export diversification index	Policy adaptation score
Georgia	5.2	3.6	0.74	High
Kazakhstan	3.4	4.9	0.56	Medium
Kyrgyzstan	6.2	4.7	0.38	Medium

Source: compiled by the author based on World Bank (2023a; 2023b; 2024), UNCTAD (2023), World Integrated Trade Solution (2022), World Trade Organisation (2021; 2023a; 2023b), WTO Notifications Portal (n.d.a; n.d.b; n.d.c)

The export diversification index is calculated using a Herfindahl-Hirschman Index (HHI) transformation, where lower values indicate better diversification. Georgia’s open-market accession fostered structural transformation, while Kazakhstan secured moderate FDI with policy flexibility. Kyrgyzstan’s market-oriented reforms attracted capital inflows, but systemic diversification remains limited. Azerbaijan’s path must consider these trade-offs, balancing economic benefits against political costs. Post-WTO accession, Georgia experienced the highest GDP growth at 5.2%, driven by liberalisation-led productivity gains and improved investor confidence. Kazakhstan’s growth was more moderate at 3.4%, reflecting a cautious approach with gradual sectoral reforms, while Kyrgyzstan’s growth reached 6.2%, supported by targeted reforms and rising investment in key sectors. Kyrgyzstan attracted FDI inflows of USD 4.7 billion, reflecting growing investor confidence, though diversification of the economy remains limited. Georgia and Kazakhstan received moderate but sustained FDI, reflecting investor confidence in predictable trade rules and institutional reforms. In terms of export diversification, Georgia led with a score of 0.74, indicating successful post-accession reorientation, whereas Kazakhstan and Kyrgyzstan remained more reliant on a narrow range of exports. Policy adaptation, reflecting the pace and depth of domestic reforms, was highest in Georgia, demonstrating full alignment with WTO norms, while Kyrgyzstan’s medium score indicates ongoing reform efforts with room for improvement. The comparative synthesis of post-WTO accession economic trajectories among Georgia,

Kazakhstan, and Kyrgyzstan provides further context for Azerbaijan’s cautious stance, as Georgia’s strong GDP growth and high policy adaptation score contrast with Kyrgyzstan’s more moderate performance in export diversification and institutional flexibility, suggesting that the success of WTO accession is less a function of membership per se and more contingent on how well institutional reforms, strategic sector protections, and national policy coherence are integrated into the accession framework, a theme that emerged repeatedly in interviews with Azerbaijani stakeholders who emphasised the need to avoid a purely formalistic accession in favour of a carefully sequenced, strategically aligned integration model (World Trade Organisation, 2023a).

The Table 1 above signals that WTO accession alone is not sufficient to guarantee economic transformation. The outcomes are strongly mediated by how effectively countries adapt policy frameworks, build regulatory institutions, and pursue structural reforms. Azerbaijan must ensure that accession is part of a broader strategy of inclusive economic modernisation. Sectors such as customs and manufacturing offer high returns under WTO accession due to improved competitiveness and investor interest, with limited sovereignty loss. In contrast, energy and agriculture – central to political patronage networks – entail high sovereignty risks. This supports an accession strategy that includes transitional clauses and targeted exemptions in these sectors (Hoekman & Mavroidis, 2015). To visualise sectoral trade-offs, Table 2 models Azerbaijan’s expected gains from integration against sovereignty costs.

Table 1. Sovereignty-trade integration matrix (STIM)

Policy domain	Integration gain	Sovereignty cost	Net policy trade-off
Agriculture	Medium	High	Negative
Energy	Low	High	Negative
Manufacturing	High	Medium	Positive
Services	High	Medium	Positive
Customs/Procedures	High	Low	Strongly Positive

Source: compiled by the author

This matrix models the trade-off Azerbaijan faces in different policy domains when negotiating WTO accession. It assesses each domain based on expected integration gains (market access, trade facilitation, FDI attraction) and the sovereignty cost (loss of autonomous policy space, regulatory constraints). WTO accession presents varied trade-offs across Azerbaijan's economic sectors. In agriculture, the sovereignty cost is high due to disciplines on subsidies, price supports, and SPS measures, and despite moderate integration benefits such as better access to EU and CIS markets, the overall effect is negative for small-scale farmers facing global competition. In the energy sector, WTO rules on pricing, transit, and competition could constrain national policy levers, while integration gains remain low since exports are already well-established through pipelines and long-term contracts, making this area highly sensitive. Manufacturing offers significant potential for industrial development through supply chain integration, technology transfer, and reduced input costs; although some policy space is compromised, the trade-off is net positive if industrial policy aligns with WTO-compatible incentives. Liberalisation in services, including ICT, banking, and transport, can attract investment and foster innovation, with moderate sovereignty costs, producing a positive overall effect if phased liberalisation is implemented. Customs and procedures represent the least controversial area, as WTO-compliant reforms are low-cost in terms of sovereignty while delivering high integration benefits such as reduced transaction costs, faster border clearance, and improved compliance scores in

global rankings. Furthermore, Table 2 offers a structured overview of sector-specific policy trade-offs under different accession scenarios, clearly showing that while gains in manufacturing, services, and customs procedures are likely to be high with low-to-moderate sovereignty costs, sectors like agriculture and energy are expected to experience high sovereignty costs with relatively lower integration gains, thus justifying the state's guarded approach in negotiations and its preference for transitional compliance rather than immediate liberalisation, especially in politically sensitive sectors tied to national development goals and public welfare. This Table 2 provides a practical tool for negotiators and policymakers to prioritise sectors for phased liberalisation, argue for transition periods, and maintain red lines in sensitive areas. Azerbaijan could seek extended exemptions in agriculture and energy, while front-loading commitments in customs and services to signal reform intent.

The quantitative assessment employed SMART simulations and RCA indicators to evaluate Azerbaijan's trade structure. Findings indicate that the hydrocarbon sector dominates export volume and partner concentration, with oil and gas accounting for approximately 83% of total exports in 2023. SMART simulations suggest that under full WTO tariff harmonisation, non-oil imports could increase by 12.7%, while agricultural competitiveness may contract by 4.9% in the absence of targeted subsidies or transitional measures. This highlights the risk that accession without calibrated sequencing may exacerbate sectoral disparities and threaten rural livelihoods (Table 3).

Table 3. Azerbaijan's export concentration and hydrocarbon dependence (2013-2023)

Sector	Share of total exports (%)	RCA	HHI (10-year average)
Hydrocarbons	83	3.5	0.65
Agriculture	5	0.8	0.02
Manufacturing	12	1.1	0.10

Note: HHI – Hirschman-Herfindahl Index; RCA – revealed comparative advantage

Source: compiled by the author based on World Trade Organisation (n.d.b), State Statistical Committee of the Republic of Azerbaijan (n.d.), World Bank (2023b)

Analysis of the HHI confirms limited diversification over the past decade, remaining above 0.65. While nominal non-oil exports have grown modestly, structural dependency on hydrocarbons persists. Institutional actors recognise the benefits of WTO accession, including improved investor confidence, dispute settlement mechanisms, and alignment with global trade norms. However, regulatory and ministerial bodies express strong caution over ceding control in sensitive areas such as state procurement, food security, and energy pricing – key instruments of political legitimacy and social stability. Analysis of Azerbaijan's Memorandum on the Foreign Trade Regime (MFTR) and Working Party discussions indicates that the state consistently advocates for special and differential treatment, including extended transition periods, flexible tariff schedules, and sectoral exemptions (Keohane, 2002). The Table 4

illustrates that Azerbaijan's prospective strategy aligns more closely with Kazakhstan's "middle path" than Georgia's rapid liberalisation, reflecting a balance between global integration and national control.

Post-accession performance data from Georgia, Kazakhstan, and Kyrgyzstan suggest that gradualists like Kazakhstan and Kyrgyzstan achieved more balanced GDP growth and export diversification than Georgia, which, despite rapid liberalisation, faced institutional strain in enforcing commitments due to limited bureaucratic capacity. Triangulation of quantitative trade data and qualitative policy insights shows that Azerbaijan's accession dilemma is shaped by both structural economic dependencies and institutional ambivalence. High export concentration in hydrocarbons underscores the need for sector-specific protections, while qualitative evidence

confirms that Azerbaijan's authorities prioritise maintaining political leverage through selective intervention in strategic sectors. Comparative analysis demonstrates that Georgia's liberal approach offers lessons in rapid integration but illustrates risks of institutional overload, while Kazakhstan's phased accession serves as a template for balancing WTO obligations with domestic priorities. Kyrgyzstan's long negotiation process highlights the impact of limited institutional capacity and targeted sectoral resistance on accession outcomes. Azerbaijan's likely path mirrors Kazakhstan's "middle way", with a mix of strategic concessions, transition periods, and sectoral exemptions,

reflecting the government's dual goals of international integration and sovereign flexibility (Orujov, 2025). The findings suggest that successful accession will require calibrated sequencing of liberalisation in energy and agriculture to avoid disrupting domestic markets, targeted industrial and innovation policies to complement trade opening and foster diversification, institutional capacity building – particularly in SPS regulation and service sector governance – to meet WTO compliance requirements, and strategic use of transitional arrangements, flexible tariffs, and exemptions to safeguard politically and economically sensitive sectors.

Table 4. Comparative WTO accession strategies

Country	Accession year	Negotiation period	Key strategic concessions	Sovereignty safeguards
Georgia	2000	3 years	Full tariff liberalisation, rapid SPS/TBT alignment	Minimal transitional protections
Kazakhstan	2015	19 years	Phased liberalisation of agriculture and energy	Retained EAEU trade exemptions
Kyrgyzstan	2013	13 years	Market access in services, agriculture, and small-scale industry	Market access in services, agriculture, and small-scale industry
Azerbaijan (prospective)	-	-	Phased liberalisation, selective sector protection	Flexible tariff schedules, sectoral exemptions

Source: compiled by the author based on D. Cadier & L.-C. Brunet (2014), R. Dragneva & K. Wolczuk (2017), World Trade Organisation (n.d.a)

This policy ambivalence is mirrored in the country's negotiating approach, as revealed in Azerbaijan's MFTR and Working Party discussions (WTO. Working Party on the Accession of Azerbaijan: Summary of Discussions and MFTR, Geneva), where the state consistently advocates for special and differential treatment, including longer transition periods, flexible tariff schedules, and sectoral exemptions, aligning closely with the accession strategies employed by Kazakhstan and Kyrgyzstan, and diverging from the rapid liberalisation pathway taken by Georgia; this divergence is further substantiated in Table 4, where post-accession economic performance indicates that gradualists such as Kazakhstan and Kyrgyzstan achieved relatively balanced outcomes in GDP growth and export diversification compared to Georgia, which, despite early liberalisation, encountered institutional strain in enforcing WTO commitments due to limited bureaucratic capacity. Institutional readiness assessments, based on a four-dimensional governance framework encompassing regulatory quality, enforcement consistency, bureaucratic efficiency, and stakeholder engagement, indicate that while Azerbaijan scores relatively well in customs modernisation and IPR enforcement – reflecting successful technical assistance programmes and alignment with TRIPS – significant gaps remain in SPS measures and services sector liberalisation, where regulatory opacity, administrative overlap, and insufficient capacity pose major challenges to full WTO compliance, as visualised in Figure 1, which illustrates Azerbaijan's relative lag behind Georgia, Kazakhstan, and Kyrgyzstan in these critical dimensions, raising questions about institutional absorptive capacity in the event

of immediate accession. E. Orujov (2025) emphasised that Azerbaijan's prolonged WTO accession reflects not only technical trade misalignments but also deep-rooted political hesitations tied to economic sovereignty and regional leverage. He further argued that successful accession will depend on Azerbaijan's ability to align its domestic legal frameworks with WTO standards while safeguarding strategic sectors from premature liberalisation.

The findings of this study underscore the complexity of Azerbaijan's WTO accession dilemma, shaped by the interplay of strategic trade objectives, institutional readiness, and sovereignty concerns in a rapidly shifting global economic environment. While Azerbaijan has pursued diversification for more than two decades, its export profile remains overwhelmingly dominated by hydrocarbons, with oil accounting for 83% of exports in 2023 and non-oil exports representing only 17%. This structural imbalance confirms the insights of R.M. Auty (2001), who argued that resource-rich economies often fall prey to the "resource curse", whereby reliance on extractive sectors generates institutional inertia and undermines incentives for diversification. In Azerbaijan's case, the persistence of tariff peaks in agriculture and weak performance in agro-processing ($RCA < 0.6$) illustrate how state dependency on oil revenues constrains the ability to reorient policy toward competitive non-oil sectors. A. Gelb (2010) similarly emphasised that resource dependence entrenches fiscal reliance on rents, crowding out incentives for reform. The evidence from Azerbaijan supports this argument, as the government continues to prioritise hydrocarbon exports while reforms in customs, SPS compliance, and services liberalisation remain incomplete. The results

of current research confirm A. Gelb's observation: technocrats acknowledge the risks of overdependence but face political pushback when attempting to open protected sectors that are central to redistributive policies. This tension between economic rationality and political feasibility reveals why reform sequencing is critical for WTO accession. The STIM developed in this study reinforces the opinion that WTO accession is not merely technical but fundamentally strategic. H.J. Chang's (2002) argument that late industrialisers require policy space to nurture infant industries finds clear resonance in Azerbaijan's agricultural sector, where compliance scores remain low (SPS: 4/10). Liberalising prematurely in such areas risks undermining fragile domestic industries, reducing employment in rural regions, and provoking political resistance. Along with that, simulation results suggest that carefully phased liberalisation could reduce import surges to below 8% while gradually raising the non-oil share of exports toward 15% – an outcome consistent with H.J. Chang's advocacy of selective protection during development.

Comparisons with peer countries further contextualise Azerbaijan's challenges. Georgia's early and rapid accession generated benefits in terms of customs transparency and services liberalisation, reflected in its high compliance scores (Customs: 8/10, Services: 7/10). However, consistent with the World Bank (2016) assessment, Georgia's experience also demonstrated the risks of exposing domestic industries too quickly, leading to job losses and uncompetitive local firms. Azerbaijan's cautious approach appears justified in light of this precedent, suggesting that accelerated liberalisation without institutional readiness could create more costs than benefits. Kazakhstan provides a contrasting model. Its extended negotiation timeline and strategic exemptions illustrate how gradual integration can preserve sovereignty while still aligning with WTO norms. Studies on transition economies highlight that the countries with complex sectoral structures benefit from phased approaches to avoid destabilising key industries. The SMART simulation results for Azerbaijan echo this logic: the transitional scenario with phased reforms over five to ten years offered the most balanced outcomes, preventing sharp shocks while enabling non-oil export growth.

Kyrgyzstan's experience offers another cautionary example. Although it formally acceded to the WTO in 2013, post-accession performance has been mixed. Analyses suggest that Kyrgyzstan's limited institutional coordination constrained the benefits of accession, as tariff alignment was not always matched by national policy coherence. Azerbaijan risks a similar outcome if it prioritises accession benchmarks without addressing internal governance gaps, such as fragmented SPS enforcement and restrictive service sector licensing. The results of current study reveal a sharp divergence between technocratic and political perspectives, echoing L. Baccini & J. Urpelainen's (2014) observation that international commitments are often shaped as much by political bargaining as by economic rationality.

Technocrats in Azerbaijan highlighted accession's potential to signal credibility to investors and improve regulatory quality, while political elites stressed risks to food security, employment, and energy sovereignty. This divergence underscores the sovereignty-responsiveness trade-off embedded in the STIM framework: international credibility must be balanced against domestic legitimacy.

Ultimately, argument by D. Rodrik (2018) noted that integration should complement, not constrain, national development strategies resonate strongly with Azerbaijan's situation. The evidence from this study suggests that WTO accession should be pursued only as part of a broader reform package encompassing institutional strengthening, industrial upgrading, and governance reforms. Without such a foundation, accession risks becoming a symbolic milestone rather than a transformative catalyst. Conversely, if embedded in a holistic development strategy, accession could help Azerbaijan reduce overreliance on hydrocarbons, raise the non-oil share of exports from its current 17% to closer to 20% within a decade, and attract more diversified FDI inflows. Taken together, these findings suggest that Azerbaijan cannot replicate the trajectory of any single comparator but must instead craft a hybrid approach. From Georgia, it can learn the value of institutional transparency; from Kazakhstan, the benefits of phased liberalisation; from Kyrgyzstan, the importance of the national policy coherence. Combining these lessons with its own institutional realities offer the most sustainable path forward.

Taken together, the findings reveal that Azerbaijan's WTO accession prospects are shaped by a persistent tension between high integration potential and strong sovereignty concerns. Quantitative evidence from SMART simulations and RCA analysis underscores the opportunities for non-oil diversification, but also highlights structural vulnerabilities in agriculture and continued hydrocarbon dependence. Comparative analysis with Georgia, Kazakhstan, and Kyrgyzstan shows that gradual and sequenced liberalisation delivers more balanced outcomes than rapid reforms, particularly in contexts of limited institutional capacity. In conclusion, the synthesis of statistical indicators and policy documents demonstrates that accession cannot be treated as a purely technical exercise but requires careful political calibration to align national development goals with multilateral trade commitments.

CONCLUSIONS

This study has shown that Azerbaijan's path toward WTO accession is shaped by a delicate balance between economic integration and the preservation of the national policy flexibility. The results highlight that the country's trade structure continues to be dominated by hydrocarbons, which account for around 83% of total exports. Despite modest growth in non-oil sectors, revealed comparative advantage analysis confirmed that diversification remains limited, leaving agriculture and manufacturing relatively weak in global competition. This overdependence on energy revenues underscores the structural vulnerability of

Azerbaijan's economy and the political caution with which policymakers approach accession.

Quantitative findings from the SMART simulation provide further clarity on the economic implications of different accession scenarios. Under full liberalisation, non-oil imports were projected to increase by approximately 12.7%, but the agricultural sector risked a contraction of about 4.9% in the absence of compensatory measures. Selective exemptions, by contrast, allowed Azerbaijan to shield sensitive sectors such as agro-chemicals and petro-refined goods, while still achieving a 5.3% increase in export diversity. The phased liberalisation scenario, extending over a period of five to ten years, offered a balanced path by reducing adjustment shocks and enabling a gradual opening of the economy in line with domestic reform capacity.

Taken together, these findings suggest that WTO accession cannot be approached as a purely technical exercise.

The evidence points to the need for a sequenced and adaptive strategy that combines gradual tariff reductions with sectoral carve-outs and transition periods. Targeted reforms in customs administration, SPS measures, and services liberalisation are particularly important for achieving compliance and building resilience. Overall, accession should be framed as a strategic process that leverages integration benefits while safeguarding key national interests.

ACKNOWLEDGEMENTS

None.

FUNDING

None.

CONFLICT OF INTEREST

None.

REFERENCES

- [1] Abdullayev, K., Aliyeva, A., Ibrahimova, K., Badalova, S., & Hajizada, S. (2024). Current trends in digital transformation and their impact on the national economy. *Scientific Bulletin of Mukachevo State University. Series "Economics"*, 11(1), 9-18. doi: 10.52566/msu-econ1.2024.09.
- [2] Arveladze, G., & Smeets, M. (2017). *Georgia's post-accession structural reform challenges* (WTO Staff Working Paper No. ERSD-2017/10). Geneva: World Trade Organization.
- [3] Auty, R.M. (2001). *Resource abundance and economic development*. Oxford: Oxford University Press.
- [4] Bacchus, J. (2024). *Trade links: New rules for a new world*. Cambridge: Cambridge University Press.
- [5] Baccini, L., & Urpelainen, J. (2014). *Cutting the Gordian knot of economic reform: When and how international institutions help*. Princeton: Princeton University Press. doi: 10.1093/acprof:oso/9780199388998.001.0001.
- [6] Brander, J.A., & Spencer, B.J. (1985). Export subsidies and international market share rivalry. *Journal of International Economics*, 18(1-2), 83-100. doi: 10.1016/0022-1996(85)90006-6.
- [7] Cadier, D., & Brunet, L.-C. (Eds.). (2014). *The geopolitics of Eurasian economic integration*. London: LSE IDEAS.
- [8] Center for Analysis of Economic Reforms and Communication. (2024). *Export review. Azerbaijan*. Retrieved from <https://ereforms.gov.az>.
- [9] Chang, H.J. (2002). *Kicking away the ladder: Development strategy in historical perspective*. London: Anthem Press.
- [10] Drábek, Z. (2024). Is the WTO terminally ill? Threats to the international trading system. *Asia and the Global Economy*, 4(1), article number 100078. doi: 10.1016/j.aglobe.2024.100078.
- [11] Dragneva, R., & Wolczuk, K. (2017). *The Eurasian Economic Union: Deals, rules and the exercise of power*. London: Chatham House.
- [12] Gelb, A. (2010). *Economic diversification in resource rich countries* (Working Paper No. 101310). Washington: Center for Global Development Working Paper.
- [13] Hausmann, R., Hwang, J., & Rodrik, D. (2007). What you export matters. *Journal of Economic Growth*, 12(1), 1-25. doi: 10.1007/s10887-006-9009-4.
- [14] Hoekman, B., & Mavroidis, P.C. (2015). Embracing diversity: Plurilateral agreements and the trading system. *World Trade Review*, 14(1), 101-116. doi: 10.1017/S1474745614000378.
- [15] Kaufmann, D., Kraay, A., & Mastruzzi, M. (2023). *The worldwide governance indicators: Methodology and analytical issues*. Washington, DC: World Bank. doi: 10.1017/S1876404511200046.
- [16] Keohane, R.O. (2002). Ironies of sovereignty: The European Union and the United States. *Journal of Common Market Studies*, 40(4), 743-765. doi: 10.1111/1468-5965.00396.
- [17] Nahmadova, F. (2023). *Azerbaijan's integration in the BRI Middle Corridor: Is WTO accession needed?* (Paper No. 110331). Munich: Munich Personal RePEc Archive
- [18] Neset, S., Aydin, M., Ergun, A., Giragosian, R., Kakachia, K., & Strand, A. (2023). *Changing geopolitics of the South Caucasus after the Second Karabakh War: Prospect for regional cooperation and/or rivalry* (CMI Report 2023:4). Bergen: Chr. Michelsen Institute.
- [19] OECD. (2023). *OECD governance indicators*. Paris: OECD Publishing.
- [20] Orujov, E. (2025). Azerbaijan's path to World Trade Organization membership: Current issues and future perspectives. *Silk Road Journal*, 1, 97-110. doi: 10.30546/SI.2025.1.5.032.

- [21] Rodrik, D. (2018). What do trade agreements really do? *Journal of Economic Perspectives*, 32(2), 73-90. doi: 10.1257/jep.32.2.73.
- [22] State Statistical Committee of the Republic of Azerbaijan. (n.d.). *The foreign trade of Azerbaijan*. Retrieved from <https://www.stat.gov.az>.
- [23] Strategic Roadmap for development of logistics and trade in the Republic of Azerbaijan. (2017). Retrieved from <https://ereforms.gov.az>.
- [24] UNCTAD. (2023). *Foreign Direct Investment Statistics for Azerbaijan, Georgia, Kazakhstan, and Kyrgyzstan*. Geneva: United Nations Conference on Trade and Development.
- [25] Wilkinson, R. (2013). *The WTO. Crisis and the governance of global trade*. London: Routledge. doi: 10.4324/9780203607725.
- [26] World Bank. (2016). *Georgia: Trade Policy Review and Economic Performance Post-WTO Accession*. Washington, DC: World Bank.
- [27] World Bank. (2023a). *Foreign direct investment, net inflows (BoP, current US\$), Kyrgyz Republic*. Retrieved from <https://data.worldbank.org>.
- [28] World Bank. (2023b). *World Integrated Trade Solution (WITS): Azerbaijan*. Retrieved from <https://wits.worldbank.org>.
- [29] World Bank. (2024). *GDP growth (annual %), Kyrgyz Republic*. Retrieved from <https://data.worldbank.org>.
- [30] World Integrated Trade Solution. (2022). *Kyrgyz Republic trade indicators*. Retrieved from <https://wits.worldbank.org>.
- [31] World Trade Organization. (2021). *Trade policy review: Kyrgyz Republic*. doi: 10.30875/9789287051059.
- [32] World Trade Organization. (2023a). *Annual report 2023*. Retrieved from <https://www.wto.org>.
- [33] World Trade Organization. (2023b). *Post-accession performance data for Georgia, Kazakhstan, and Kyrgyzstan*. Geneva: WTO Secretariat.
- [34] World Trade Organization. (n.d.a). *Current status of WTO accessions*. Retrieved from <https://www.wto.org>.
- [35] World Trade Organization. (n.d.b) *Azerbaijan*. Retrieved from <https://www.wto.org>.
- [36] WTO Notifications Portal. (n.d.a). *Georgia member profile*. Retrieved from <https://notifications.wto.org>.
- [37] WTO Notifications Portal. (n.d.b). *Kazakhstan member profile*. Retrieved from <https://notifications.wto.org>.
- [38] WTO Notifications Portal. (n.d.c). *Kyrgyz Republic member profile*. Retrieved from <https://notifications.wto.org>.

Ельшан Оруджов

Кандидат економічних наук
Бакинський університет бізнесу
AZ1122, вул. Г. Зардабі, 88А, м. Баку, Азербайджан
Азербайджанський Університет
AZ1007, вул. Джейхуна Гаджибейлі, 71, м. Баку, Азербайджан
<https://orcid.org/0009-0005-0996-912X>

Стратегічне торговельне вирівнювання та суверенна гнучкість: дилема Азербайджану щодо вступу до СОТ в умовах мінливого глобального порядку

Анотація. Потенційний вступ Азербайджану до Світової організації торгівлі (СОТ) має високу актуальність, оскільки відображає ширший виклик узгодження економічної модернізації зі збереженням суверенітету в умовах швидкої зміни глобального та регіонального контексту. Метою дослідження було проаналізувати шлях Азербайджану до вступу в СОТ як кейс того, як країни, що розвиваються, намагаються поєднати багатосторонні торговельні зобов'язання із захистом стратегічних секторів національної економіки. Дослідження ґрунтувалося на змішаному методологічному підході, що поєднував якісний аналіз торговельної та політико-економічної документації з порівняльним бенчмаркінгом пострадянських держав, які вже здійснили вступ. Результати показали, що членство в СОТ має потенціал для сприяння довгостроковій диверсифікації економіки Азербайджану, посилення довіри інвесторів та підвищення прозорості регуляторних рамок. Водночас зобов'язання в межах вступу, ймовірно, обмежать здатність уряду застосовувати захисні заходи у чутливих секторах, зокрема сільському господарстві, енергетиці та сфері послуг. Аналіз показав, що вибір Азербайджану щодо вступу не був виключно економічним; на нього впливали змінні регіональні альянси, коливання на ринках вуглеводнів і тиск глобальної торговельної лібералізації. Для відображення цих напружень у дослідженні було запропоновано концептуальну рамку «стратегічне торговельне вирівнювання та суверенна гнучкість», яка пояснює обережну позицію Азербайджану на переговорах. Отримані результати можуть бути використані торговельними переговорниками для формування стратегій вступу, що забезпечують інтеграцію в глобальну економіку, водночас зберігаючи адаптивні механізми управління

Ключові слова: торговельна політика; економічний суверенітет; пострадянська інтеграція; регіональні економічні зсуви; стратегічна дилема