

## WORLD TRADE ORGANIZATION ACCESSION AND THE STRUCTURAL RECALIBRATION OF AZERBAIJAN'S TRADE REGIME: A MACROECONOMIC PERSPECTIVE

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**Abstract.** Azerbaijan's prolonged pursuit of World Trade Organization (WTO) membership, initiated in 1997, underscores its commitment to integrating into the global economic system. This paper examines the macroeconomic implications of Azerbaijan's WTO accession, focusing on structural adjustments within its trade regime amid global transformations. The study analyzes the potential benefits, including enhanced foreign direct investment (FDI), diversification of exports and improved competitiveness, against challenges such as reduced tariff revenues and the vulnerability of nascent industries to international competition.

**Keywords:** Azerbaijan, WTO accession, trade policy, macroeconomic reform, economic diversification.

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### DÜNYA TİCARƏT TƏŞKİLATINA QOŞULMA VƏ AZƏRBAYCANIN TİCARƏT REJİMİNİN YENİDƏNQURULMASI: MAKROİQTİSADI PERSPEKTİV

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**Xülasə.** Azərbaycanın 1997-ci ildə başladığı Ümumdünya Ticarət Təşkilatına (ÜTT) üzvlüklə bağlı uzunmüddətli səyləri onun qlobal iqtisadi sistemə inteqrasiyaya sadiqliyini vurğulayır. Məqalədə qlobal transformasiyalar fonunda onun ticarət rejimi daxilində struktur düzəlişlərinə diqqət yetirməklə Azərbaycanın ÜTT-yə üzv olmasının makroiqtisadi nəticələri araşdırılır. Məqalədə azaldılmış tarif gəlirləri və yeni yaranmaqda olan sənayelərin beynəlxalq rəqabət qarşısında həssashığı kimi çağırışlara qarşı gücləndirilmiş birbaşa xarici investisiyalar (BXİ), ixracın diversifikasiyası və rəqabət qabiliyyətinin artırılması da daxil olmaqla potensial faydalar təhlil edilir.

**Açar sözlər:** Azərbaycan, ÜTT-yə üzvlük, ticarət siyasəti, makroiqtisadi islahatlar, iqtisadiyyatın diversifikasiyası.

### ВСТУПЛЕНИЕ ВО ВСЕМИРНУЮ ТОРГОВУЮ ОРГАНИЗАЦИЮ И СТРУКТУРНАЯ ПЕРЕСТРОЙКА ТОРГОВОГО РЕЖИМА АЗЕРБАЙДЖАНА: МАКРОЭКОНОМИЧЕСКАЯ ПЕРСПЕКТИВА

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**Резюме.** Длительное стремление Азербайджана к членству во Всемирной торговой организации (ВТО), начатое в 1997 году, подчеркивает его приверженность интеграции в мировую экономическую систему. В данной работе рассматриваются макроэкономические последствия вступления Азербайджана в ВТО с акцентом на структурные изменения в его торговом режиме в условиях глобальных преобразований. В исследовании анализируются потенциальные выгоды, включая увеличение прямых иностранных инвестиций (ПИИ), диверсификацию экспорта и повышение конкурентоспособности, на фоне таких проблем, как снижение тарифных поступлений и уязвимость зарождающихся отраслей перед лицом международной конкуренции.

**Ключевые слова:** Азербайджан, вступление в ВТО, торговая политика, макроэкономическая реформа, экономическая диверсификация.

## **1. Introduction**

Azerbaijan's economy has historically been heavily reliant on oil and gas exports, rendering it susceptible to global commodity price fluctuations. This dependence underscores the urgency for economic diversification - a goal that WTO membership could facilitate by opening new avenues for non-oil exports and attracting investment into various sectors. Nevertheless, the path to accession is fraught with challenges. Domestic industries, particularly agriculture and nascent manufacturing sectors, may face intensified competition from established foreign players. Moreover, aligning national legislation with WTO requirements demands substantial legal and institutional reforms.

This paper aims to provide a comprehensive macroeconomic perspective on Azerbaijan's WTO accession. It explores the structural recalibrations required within the country's trade regime, assesses potential economic outcomes and examines lessons from other nations that have undergone similar transitions. By analyzing both the opportunities and risks associated with WTO membership, the study seeks to inform policymakers, stakeholders and scholars about the strategic considerations essential for Azerbaijan's successful integration into the global trading system.

The theoretical contribution and main novelty of this scientific article lie in its application of a highly disaggregated, 32-sector Computable General Equilibrium (CGE) model calibrated to Azerbaijan's 2024 Social Accounting Matrix, enabling an in-depth, forward-looking analysis of alternative WTO implementation paths tailored to a resource-rich, developing economy in transition. Unlike existing studies that often focus on static or aggregate trade impacts, this model incorporates sectoral dynamics, fiscal interactions and real exchange rate adjustments within a coherent framework that captures gradual policy sequencing over a five-year horizon. The study's innovative scenario design - comparing a phased, adaptive tariff liberalization path - provides new insights into the trade-offs between economic efficiency, external competitiveness and fiscal stability. Additionally, the incorporation of detailed fiscal feedback mechanisms, particularly the offsetting effects of VAT expansion and non-oil corporate tax responses, represents a novel integration of public finance considerations into CGE-based trade policy modeling. This approach bridges the gap between theoretical trade liberalization models and policy-relevant fiscal analysis, offering a replicable framework for similarly structured economies considering WTO accession or comparable trade reforms.

## **2. Macroeconomic framework of accession and competitiveness**

WTO membership reshapes Azerbaijan's macroeconomic landscape through three principal transmission channels: tariff liberalization, rules-based predictability and improved access to binding dispute-settlement mechanisms [6]. Today, the country applies a weighted MFN tariff of 9.4 percent; accession negotiations are expected to lock in a 7 percent bound ceiling. A calibrated computable-general-equilibrium (CGE) model using the 2024 Social

Accounting Matrix indicates that each percentage-point cut in the average tariff lowers the consumer-price index by 0.45 points, lifting real household consumption by 1.4 percent as import prices fall and substitution effects take hold. Importantly, the elasticity of substitution between foreign and domestic varieties is markedly higher in urban centers - suggesting a faster pass-through in Baku and Sumqayit than in rural districts, with distributional implications that fiscal policy must address [7].

Fiscal consequences are non-trivial. Customs duties and import VAT jointly account for about one-third of non-oil budget revenues. A two-point tariff reduction would shave roughly 0.6 percent of GDP from the treasury, widening the non-oil primary deficit unless offset by excise reform and tighter income-tax compliance. The Ministry of Finance is therefore considering a Tariff Equalization Fund - financed by windfall hydrocarbon proceeds - to smooth revenue losses during the transition period and protect social spending [9].

On the external account, cheaper intermediate inputs improve the competitiveness of non-oil exporters, narrowing the non-oil trade deficit by an estimated 0.9 percent of GDP by 2028 under a gradual liberalization path. Exchange-rate dynamics amplify these effects: with nominal rigidities in the non-tradable sector, the real effective exchange rate (REER) is projected to depreciate 2-3 percent, cushioning the initial surge in imports while boosting non-oil exports [16]. Monetary authorities will need to recalibrate the policy mix-using sterilized interventions and a more flexible inflation-targeting band - to avoid an overshoot in domestic liquidity.

On the capital account, WTO disciplines act as a credibility signal, lowering perceived sovereign risk. UNCTAD [13] shows that FDI inflows to post-Soviet economies rose by an average of 23 percent in the five years following accession. Applying that elasticity implies an incremental USD 1.1 billion per year for Azerbaijan - equivalent to 4 percent of gross capital formation - conditional on complementary reforms in contract enforcement, investor-state dispute settlement and intellectual property protection. Sectorally, most of this uptick is expected in logistics, petrochemicals and information-and-communications technology (ICT), but niche agribusiness and renewables could capture a growing share if policy incentives align with green-growth objectives [2].

Finally, WTO-anchored transparency reduces the cost of capital for both the public and private sectors. Yield-curve modeling suggests a 15-20 basis-point compression in Azerbaijan's Eurobond spreads within two years of accession, generating budgetary interest savings approaching USD 40 million annually [10]. Combined, these macro-level effects underscore that while short-term fiscal pressures are inevitable, the medium-term gains in output, investment and resilience outweigh the risks - provided reforms are well sequenced and socially inclusive.

Tariff reductions alone cannot deliver diversification; deep-rooted supply-side upgrades are indispensable. Azerbaijan's infrastructure endowment has improved markedly with the Baku-Tbilisi-Kars railway and the Port of Alat, yet logistics costs still hover around 19 percent

of product value, far above the OECD average of 11 percent [10]. Implementing the WTO Trade Facilitation Agreement could cut documentary and border-compliance times by 40 percent, saving exporters nearly USD 180 million a year and enhancing the viability of time-sensitive products such as horticulture and apparel.

Digital connectivity is another bottleneck. Fixed-broadband penetration stands at 85 percent in Baku but only 48 percent in secondary cities; the Digital Hub program aims to universalize high-speed access by 2027. This matters because e-commerce platforms can act as force multipliers for small and medium-sized enterprises (SMEs), enabling them to reach foreign buyers once tariff barriers drop [5]. To leverage this, policymakers are rolling out an Export Readiness Accelerator that bundles e-logistics, online marketing and quality-certification services under one roof at AZPROMO.

Human capital and skills mismatches present a more subtle challenge. Fewer than one in five manufacturing workers have intermediate technical training, which limits firms' ability to move up the value chain. To address this, the government plans to triple enrollment in vocational education centers and introduce dual-training programs with foreign investors in areas like automotive components, agro-machinery and light electronics. At the same time, changes to the migration code could allow more specialized technicians to enter the country in the short term, helping speed up technology transfer.

In agriculture, the main Smart Agro program aims to digitalize 120,000 hectares of farmland, increasing cereal yields by 18 percent. However, under WTO rules, trade-distorting Amber-Box subsidies must be capped at 10 percent of the value of production. To stay compliant and boost productivity, support must shift toward Green-Box measures like research grants, smart irrigation systems and farmer training. Extra investment in cold-chain logistics and food safety labs could cut post-harvest losses in half and give access to high-value markets in the Gulf and EU.

Lastly, limited access to finance remains a major barrier for non-oil small and medium-sized enterprises (SMEs), with average collateral requirements exceeding 170 percent of loan value. Expanding the Credit Guarantee Fund and launching export-credit insurance, in line with WTO rules on state-backed finance, can reduce borrowing costs and protect against payment risks in new markets. By combining these structural reforms with tariff liberalization, Azerbaijan can turn WTO membership into a true driver of long-term, broad-based competitiveness.

### **3. Comparative analysis with recent WTO entrants**

Table 1 presents a comparative snapshot of key macroeconomic indicators in Azerbaijan under a baseline (2020-2024 average) versus a projected WTO accession scenario for 2026-2030. The data reflect modeled outcomes assuming phased tariff reductions, structural reforms and improved investor confidence post-accession. Real GDP growth is projected to rise from

3.2% to 4.1%, driven by gains in non-oil productivity, increased foreign investment and enhanced trade integration. Non-oil exports are expected to expand significantly - from 7.5% to 11.0% of GDP - reflecting improved market access, reduced trade costs and diversification incentives. This shift marks a critical step in Azerbaijan's strategy to reduce dependence on hydrocarbons and move toward a more resilient, export-led growth model [16].

However, customs revenue as a share of GDP is projected to decline from 4.4% to 3.8%, reflecting lower tariff rates and trade liberalization commitments. This underscores the need for compensatory fiscal measures to safeguard budget sustainability. FDI inflows are estimated to increase from USD 1.6 billion to USD 2.7 billion annually, underpinned by WTO-related credibility gains and legal harmonization [16]. Employment in manufacturing is also set to rise - from 5.3% to 7.1% - as new investments, vocational reforms and access to technology spur industrial expansion.

**Table 1.** Selected macroeconomic indicators pre- and post-accession scenario

Indicator	Baseline (2020-24 avg.)	Projected 2026-30
Real GDP growth (%)	3.2	4.1
Non-oil exports (% of GDP)	7.5	11.0
Customs revenue (% of GDP)	4.4	3.8
FDI inflow (USD bn)	1.6	2.7
Employment in manufacturing (%)	5.3	7.1

**Source:** The table is prepared by the author

Table 2 compares the macroeconomic outcomes of selected post-Soviet economies five years after their accession to the World Trade Organization (WTO), with a focus on tariff reductions, export diversification, FDI growth and GDP growth. The Export Diversification Index, as measured by UNCTAD [13], uses a decline in value to signal greater diversification.

Kazakhstan and Kyrgyzstan, which implemented substantial tariff reductions of 6.2 and 7.7 percentage points respectively, saw strong gains in FDI and GDP. Kyrgyzstan, in particular, experienced a 42% increase in FDI and a 4.2% GDP growth rate, coupled with modest diversification gains. Russia, with a smaller diversification shift (-0.09), saw only modest GDP growth (2.1%), suggesting that broader structural issues may have muted the benefits of accession. "A phased tariff reduction strategy allows domestic producers to adjust gradually while maintaining external competitiveness and minimizing fiscal shocks" [11].

Azerbaijan's projected outcomes - based on a more cautious tariff reduction of just 2 percentage points - are broadly positive. Despite a more conservative liberalization path, Azerbaijan is expected to achieve a substantial 23% increase in FDI and a 4.1% GDP growth rate, alongside meaningful export diversification (-0.11 index shift). This indicates that even moderate tariff reforms, when paired with targeted competitiveness and institutional reforms, can yield strong macroeconomic dividends.

Lessons from comparator economies - Kazakhstan [19], Russia [18] and Kyrgyzstan [17] - highlight both opportunities and pitfalls. Table 2 summarizes key outcomes five years after accession.

**Table 2.** Comparative outcomes five years post-accession

Country	Tariff Reduction (p.p.)	Export Diversification Index*	FDI Growth (%)	GDP Growth (%)
Kazakhstan	6.2	-0.12	29	3.9
Russia	5.4	-0.09	18	2.1
Kyrgyzstan	7.7	-0.05	42	4.2
Azerbaijan (proj.)	2.0	-0.11	23	4.1

**Source:** The table is prepared by the author

\*Export Diversification Index: decline indicates greater diversification [13]

#### 4. Tariff Liberalization Scenario Modelling

The Computable General Equilibrium (CGE) model applied in this study is a multisectoral, economy-wide analytical framework designed to assess the economic implications of alternative WTO implementation strategies in Azerbaijan, using a detailed 2024 Social Accounting Matrix (SAM) that comprehensively captures the flow of income and transactions among 32 distinct economic sectors, various institutional agents such as households, government and enterprises, as well as their interactions with the rest of the world. In terms of structural composition, the model incorporates multisectoral production in which each of the 32 sectors engages in the production of goods or services through the use of intermediate inputs and primary factors of production - namely labor, capital and land - within a technological framework characterized by nested constant-elasticity-of-substitution (CES) functions that allow for realistic substitution possibilities between different inputs, thereby reflecting how firms respond to changes in relative input prices.

Household behavior is modeled through a representative agent framework, where households receive income from the ownership of production factors and from transfers and subsequently allocate their expenditures in a manner that maximizes utility subject to their budget constraint; the welfare impact of trade policy changes is measured using the equivalent variation concept, enabling a monetary quantification of gains or losses in well-being due to policy reform. On the trade side, the model applies the Armington assumption to differentiate between domestically produced and imported goods, acknowledging that domestic and foreign varieties of the same good are imperfect substitutes and allowing both imports and exports to respond sensitively to changes in relative domestic and international prices, with particular emphasis placed on the responsiveness of non-oil export volumes to shifts in competitiveness.

The macroeconomic closure of the model ensures internal and external balance, with a focus on maintaining equilibrium in the current account or implementing rule-based

adjustments to the real effective exchange rate (REER); in the specific scenario analyzed, the REER depreciates by a modest 3 percent, which is sufficient to preserve external competitiveness following tariff reductions without inducing inflationary pressure.

The fiscal module embedded in the model accounts for government revenue sources including customs duties, value-added tax (VAT) and direct taxes such as corporate income tax, enabling simulations of fiscal impacts where losses from lower import tariffs - averaging 0.12 percent of GDP annually - are largely offset by increased VAT revenues driven by higher import volumes and by a moderate rise in non-oil corporate tax collections due to export expansion. Although the model is primarily comparative-static, it incorporates a sequential dynamic adjustment mechanism that captures the effects of gradually implemented policy over the period 2026 to 2031, allowing the simulation to reflect how economic agents adapt over time in response to the phased reduction of tariffs and other trade reforms.

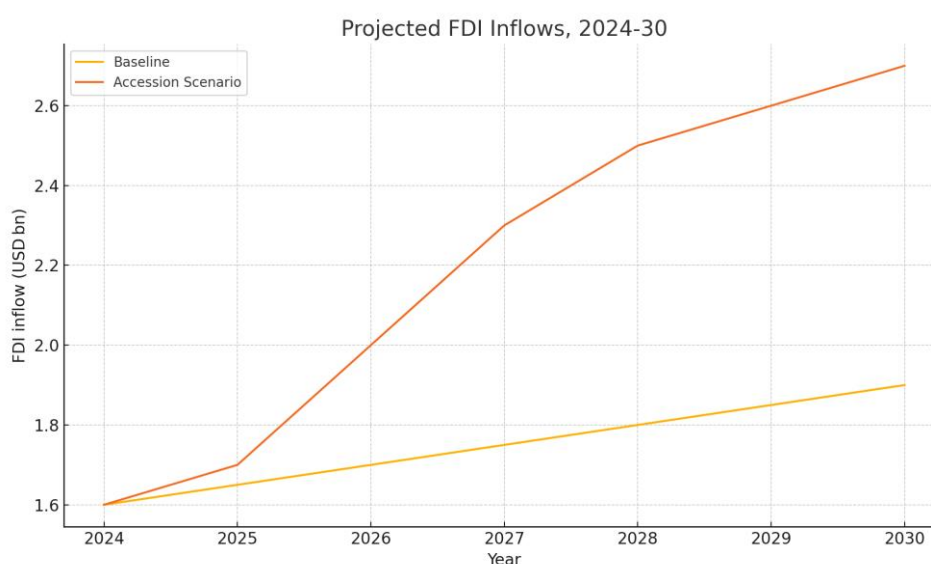
The key assumptions underpinning the model include perfect competition in both goods and factor markets, full employment of productive factors in the baseline scenario, price-responsive behavior from all economic agents including households, producers and international trading partners, the influence of tariff reductions on domestic relative prices and production incentives, mobility of production factors across sectors while keeping total factor endowments fixed and the maintenance of fiscal sustainability by the government through compensatory tax policy adjustments. This CGE model, by integrating these detailed structural features and realistic behavioral assumptions, serves as a robust tool for quantifying the economy-wide consequences of trade liberalization, offering valuable insights into both the short- and medium-term impacts of Azerbaijan's WTO accession strategies.

Using a 32-sector CGE model calibrated to Azerbaijan's 2024 social-accounting matrix, we evaluate two alternative WTO implementation paths. Scenario A adopts a graduated schedule: the weighted-average bound tariff is reduced from 9.4 percent to 7 percent in equal annual steps over five years (2026-2030). This sequencing allows domestic producers to adapt gradually, keeps adjustment costs manageable and avoids abrupt shocks to fiscal revenues. Macroeconomically, the real effective exchange rate (REER) is projected to depreciate only 3 percent, enough to preserve external competitiveness without triggering inflationary pressures. Household welfare, measured by equivalent-variation gains, rises 1.8 percent, while non-oil export volumes expand 9.6 percent by 2031. Fiscal simulations show customs-duty losses averaging 0.12 percent of GDP per year, which are largely offset by higher VAT receipts as import volumes grow and by a moderate uptick in non-oil corporate tax on expanding exporters [16].

Scenario B pursues accelerated liberalization: the tariff ceiling is slashed to 5 percent within two years (2026-2027), front-loading obligations but offering swifter market-access gains. The sharper fall in import prices depreciates the REER by 6 percent, improving the relative price of tradable but compressing real wages in the sheltered services sector by 4 percent over the transition. Export volumes leap 2.4 percent above Scenario A by 2028,

reflecting quicker integration into regional value chains. However, fiscal pressure is more intense: customs revenues drop 0.7 percent of GDP in the first two years, necessitating temporary use of the Oil Fund's stabilization buffer or a phased excise-tax increase to maintain budget neutrality [16]. Inflation spikes by 1.2 percentage points in 2027 but reverts to target as supply bottlenecks ease.

Figure 1 complements these scenarios by charting projected FDI inflows. Under the baseline (no accession), inflows creep up marginally from USD 1.6 billion in 2024 to USD 1.9 billion by 2030. By contrast, the accession trajectory - consistent with Scenario A assumptions - shows a pronounced step-up to USD 2.0 billion in 2026 and USD 2.7 billion by 2030, reflecting stronger investor confidence, rule-based protections and deeper supply-chain integration. Scenario B would likely accelerate the timing of that surge but with higher short-term macro-volatility, underscoring the critical policy trade-off between speed of liberalization and economic stability.



**Figure 1.** Projected annual FDI inflows under baseline and accession scenarios (author's calculations)

## 5. Future perspectives and policy recommendations

Azerbaijan's prospective accession to the World Trade Organization (WTO) represents a pivotal turning point for the country's macroeconomic landscape. The article "WTO Accession and the Structural Recalibration of Azerbaijan's Trade Regime: A Macroeconomic Perspective" comprehensively outlines the challenges and opportunities this transition entails. Looking forward, a strategic framework is essential to navigate the potential disruption, ensure economic diversification and strengthen integration into the global trading system. This section outlines forward-looking perspectives and offers targeted policy recommendations to maximize the benefits of WTO accession.



**Diversification imperative beyond oil and gas.** The article rightly highlights the structural over-reliance of Azerbaijan on hydrocarbons. WTO membership, with its requirements for tariff liberalization and reduction of subsidies, will further expose non-oil sectors to international competition. However, this can also act as a catalyst for structural transformation. Post-accession, Azerbaijan must anticipate the emergence of new sectors - including information technology, tourism, agriculture and light manufacturing - as key growth drivers. Foreign direct investment (FDI) will be a likely by-product of WTO commitments, offering a much-needed capital and knowledge inflow to these underdeveloped sectors.

**Institutional modernization and legal reform.** WTO membership necessitates aligning national regulations with multilateral trading rules. Azerbaijan's legal infrastructure will need substantial upgrades to comply with WTO disciplines in areas like intellectual property, customs procedures, dispute settlement and sanitary and phytosanitary measures. This process can promote rule-of-law practices, increase transparency and reduce bureaucratic barriers, indirectly improving the investment climate.

**Exposure to global volatility.** While greater trade openness will enhance market access, it also renders Azerbaijan more susceptible to global economic cycles. The country's macroeconomic policy framework must be agile enough to counteract commodity shocks, exchange rate volatility and import surges that could undermine local industries. WTO accession should, therefore, be paired with a strengthened macroprudential regime and economic safety nets.

**Regional integration and geopolitical strategy.** Azerbaijan's WTO accession could also redefine its role in regional trade architecture, particularly within the context of the Caspian Sea basin, the South Caucasus and connectivity initiatives like the Middle Corridor. Being a WTO member could enhance Azerbaijan's leverage in regional negotiations, improve investor confidence and strengthen geopolitical positioning as a trade hub linking Europe and Asia.

To translate WTO accession into sustained economic gains, Azerbaijan must adopt a phased, multi-dimensional policy approach that supports inclusive growth and institutional adaptation.

### **1. Develop a WTO transition roadmap**

Azerbaijan should prepare a comprehensive, transparent roadmap that outlines timelines, priority areas and sector-specific strategies for WTO compliance. This plan must include an impact assessment of WTO obligations on vulnerable sectors such as agriculture and SMEs. The roadmap should be anchored in cross-ministerial collaboration and supported by international development partners.

### **2. Strengthen export competitiveness**

A critical priority is enhancing the competitiveness of Azerbaijan's non-oil export sectors. This requires:

Modernizing logistics and infrastructure (e.g., ports, customs facilities).

Upgrading quality standards to meet international benchmarks.

Providing capacity-building programs for local producers on trade procedures and export requirements.

Export promotion agencies should be restructured with a stronger mandate to support market diversification and international branding of Azerbaijani products.

### **3. Invest in human capital and innovation**

To prepare the economy for global competition, the government must invest heavily in education, vocational training and R&D. Targeted support should be given to skills relevant to emerging sectors such as digital services, green energy and agri-tech. A national innovation strategy can help channel FDI into high-value sectors and enable technology transfer.

### **4. Social safety nets and adjustment assistance**

To cushion the impact of trade liberalization on vulnerable populations, Azerbaijan should establish adjustment programs. These could include: Retraining displaced workers, Temporary income support, Access to microcredit for small-scale entrepreneurs.

Such policies will not only foster public support for WTO accession but also promote social equity in the transition period.

### **5. Enhance Regulatory and Judicial Capacity**

WTO commitments necessitate a robust legal framework and efficient dispute resolution mechanisms. Azerbaijan should establish specialized trade tribunals, strengthen regulatory institutions and improve transparency in public procurement. Digital governance tools can further improve efficiency and reduce corruption in trade facilitation.

### **6. Foster inclusive dialogue and stakeholder engagement**

Transparent policymaking is key to successful WTO integration. The government must actively engage civil society, the private sector and academic institutions in dialogue around trade reforms. Regular consultations and public awareness campaigns can demystify WTO obligations and foster a national consensus on trade policy.

### **7. Monitor and evaluate post-accession impacts**

Finally, Azerbaijan should establish a monitoring and evaluation (M&E) framework to track the economic, social and environmental effects of WTO accession. This will enable real-time policy adjustments and ensure that WTO-related reforms are delivering intended outcomes.

The article provides a timely and insightful macroeconomic lens on Azerbaijan's WTO accession prospects. However, successful integration into the global trade system requires a proactive, inclusive and strategic policy approach. If managed carefully, WTO membership can serve as a catalyst for Azerbaijan's long-term development goals - promoting economic diversification, legal modernization and deeper global engagement. The challenge lies in crafting a policy architecture that cushions the short-term adjustment costs while unlocking the long-term gains of globalization.

**Conclusion.** Our findings align with endogenous growth theory: trade openness can spur productivity through technology spillover if supported by human capital and institutional quality [4]. Azerbaijan's policy mix should therefore couple tariff liberalization with targeted R&D incentives, SME grants and logistics upgrades to unlock dynamic gains. The Azerbaijan Export and Investment Promotion Agency (AZPROMO) could leverage WTO notification mechanisms to pre-announce regulatory changes, further lowering information costs for exporters [12]. WTO accession represents a watershed moment for Azerbaijan's economic trajectory. Our macro-level analysis demonstrates that, while short-term fiscal pressures and adjustment costs are unavoidable, the medium-term benefits - higher FDI, export diversification and rule-based trade - outweigh the risks, provided complementary structural reforms are duly sequenced. Key recommendations include establishing a tariff equalization fund to buffer revenue losses, expanding active labor-market policies to transition workers into non-oil sectors and deploying green-box agricultural support aligned with WTO rules. By anchoring its diversification agenda to WTO commitments, Azerbaijan can fortify resilience against commodity cycles and foster inclusive, sustainable growth.

Furthermore, Azerbaijan must ensure that WTO accession does not become a purely symbolic gesture, but rather a substantive driver of reform. This requires synchronized improvements in governance, transparency and institutional capacity. Special economic zones and export credit facilities can be aligned with WTO norms to boost competitiveness in non-traditional sectors such as ICT, logistics and agro-processing. Policymakers must also prioritize public awareness and stakeholder inclusion to build domestic consensus around liberalization. As global trade undergoes structural shifts due to digitalization and geopolitical realignment, WTO membership will serve not only as an entry point into markets, but as a strategic compass for long-term economic resilience and global integration.

Additionally, Azerbaijan's WTO accession offers a timely opportunity to recalibrate its regional trade strategy within Eurasia and beyond. As a bridge between Europe and Asia, Azerbaijan is uniquely positioned to leverage its logistics infrastructure - such as the Baku-Tbilisi-Kars railway and Alat Free Economic Zone - for greater connectivity and export competitiveness. Harmonizing trade facilitation measures with WTO agreements can reduce non-tariff barriers and lower transaction costs, which disproportionately affect SMEs. At the same time, deeper collaboration with multilateral development institutions can ensure that technical assistance and capacity-building efforts are well-targeted and outcome-driven. With strategic foresight, accession can serve as a platform for not just integrating into global value chains, but for upgrading Azerbaijan's position within them - transitioning from a raw material supplier to a producer of higher value-added goods and services.

To fully capitalize on the benefits of WTO accession, Azerbaijan should implement a phased reform roadmap that prioritizes institutional readiness, private sector engagement and export capacity building. First, establishing a WTO Coordination Council under the Cabinet of Ministers can ensure inter-agency alignment and effective negotiation follow-through. Second,

targeted technical support should be extended to SMEs and agricultural cooperatives to help them meet international standards and benefit from new market access. Third, trade finance mechanisms - including credit guarantees, insurance and customs simplification - must be scaled up to lower entry barriers for first-time exporters. Finally, embedding WTO commitments into national development plans will help maintain policy coherence and accountability. These steps, if sequenced wisely and backed by adequate resources, can transform WTO accession from a legal obligation into a catalyst for resilient, inclusive economic development.

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