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AZERBAIJAN – BANGLADESH: BILATERAL TRADE OPPORTUNITIES AND POTENTIAL EXPORTING SECTOR FOR AZERBAIJAN

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Abstract

Trade is an essential indicator for measuring a country's economic condition. It is also an effective way of balancing goods and services among countries. No country in the modern world is self-sufficient in goods and services. That is the reason for emerging the economic concept of trade. The primary purpose of the study is to analyse the trade opportunities between Azerbaijan and Bangladesh, as well as to demonstrate the potential resurrection of cotton industry as an important export sector in Azerbaijan. The whole analysis relies on secondary data, such as articles, newspapers, and websites—mainly the International Trade Centre (ITC) and the State Statistical Committee of the Republic of Azerbaijan. The study concludes that there is an opportunity for potential bilateral trade relation between Azerbaijan and Bangladesh based on their export and import items. In addition, the cotton industry has an enormous potentiality to become an important export sector in Azerbaijan.

Keywords: *Bilateral trade relation, export and import, cotton industry*

JEL classification: B17, F23, L67

1. Introduction

Trade is an economic concept involving the buying and selling of goods and services between buyers and sellers, where one party (buyer) pays to another party (seller). According to the Cambridge Dictionary, "Trade is the activity of buying and selling, or exchanging, goods and services between people or countries".³ After World War II, almost all economies in the world have become open. Now, countries apply a free trade agreement among them for reducing the tariff or border hinders, so that they can stabilise their economy. No country in the modern world is self-sufficient. Self-sufficiency, for this analysis, means the proportion of the goods and services consumed to their total output produced within a country. However, the degree of self-sufficiency varies from one country to another (Vijayasri, 2013). Every country

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3 <https://dictionary.cambridge.org/dictionary/english/trade>

has its own speciality of producing some specific goods. For instance, Azerbaijan has an abundant amount of oil production capacity, but not in textile. On the other hand, Bangladesh is efficient in manufacturing textile and apparel, but not in oil. So, they can exercise a trade agreement to facilitate their economic stability and development. The study focuses on trade opportunities between Azerbaijan and Bangladesh, and potential exporting sector for Azerbaijan.

Azerbaijan is a landlocked nation in Southwest Asia bordering the Caspian Sea, Armenia, Georgia, Iran, Russia, and Turkey. It proclaimed its independence on 31 August 1991; the Azerbaijani Parliament adopted the Constitutional Act on the restoration of the state independence on October 18, 1991. Bangladesh inaugurated diplomatic relation with Azerbaijan as a 13th nation, after its independence. It also supported Azerbaijan in the Nagorno-Karabakh dispute. On the other hand, Azerbaijan bolstered Bangladesh on its nomination in International Maritime Organization. There are some other bilateral agreements which have strengthened the diplomatic relationship between Azerbaijan and Bangladesh.⁴

Considering technology and human resources, Azerbaijan and Bangladesh have a progressive bilateral relation. In 2013, Bangladesh Sangbad Sangstha (BSS), Bangladesh's national news agency, published an article where they mentioned that Azerbaijan is keen to transfer its world-renowned mining technology to Bangladesh and interested in assisting in the development of the mining sectors. "If Bangladesh wants, we can provide higher education opportunities for mining technology to Bangladesh engineers in Azerbaijan," said Ibrahim Asad Hajiyev, Ambassador of Azerbaijan to Bangladesh. In response, Mohammed Zillur Rahman, 19th President of Bangladesh, showed interest to boost the trade and commerce relationship with Azerbaijan. Alongside, Ilham Aliyev, the President of Azerbaijan, referred Bangladeshi worker's contribution to infrastructure development in Azerbaijan.⁵

According to the Azerbaijan embassy in India, which also oversees for Bangladesh, in 2016, there were some bilateral agreements that took place between these two countries; two agreements are in force, one agreement is waiting for response from Azerbaijani side, four agreements are waiting for response from Bangladeshi side, and one agreement is still in discussion table.

Finally, bilateral trade relation between Azerbaijan and Bangladesh would be an essential issue for both countries. According to the International Trade Centre (ITC), considering Azerbaijan's exports, the main exporting item is minerals where the average share of minerals from 2012 to 2016 was 92.2%.⁶ On the other hand, considering Bangladesh import, one of the significant importing items is minerals. Bangladesh meets up its minerals demand by importing; it was 8.9% average share of importing item from 2012 to 2016. Now, taking consideration of Bangladesh export, it mainly exports clothing and textile which were 82.4% and 5.2% average share of items from 2012 to 2016.⁷ Since Azerbaijan does not export that level of clothing and textile, they can consider Bangladesh as a reliable exporter of clothing and textile, because of low labour cost which will give them a substantial competitive advantage compared to other exporting countries.

The primary purpose of the study is to analyse the opportunities of bilateral trade

4 <http://newdelhi.mfa.gov.az/content/59>

5 <http://www.bssnews.net/newsDetails.php?cat=0&id=211985&date=2011-12-03>

6 <http://www.intracen.org/layouts/CountryTemplate.aspx?pageid=47244645034&id=47244651693>

7 <http://www.intracen.org/country/bangladesh/sector-trade-performance/>

relation between Azerbaijan and Bangladesh. For analysing it correctly, the study considers similar products between these two countries. On the other hand, it also analyses the potential exporting sector for Azerbaijan and how it will give Azerbaijan a strategic strength in national income.

The study used secondary sources such as articles, newspapers, and websites—mainly the International Trade Centre (ITC), the State Statistical Committee of the Republic of Azerbaijan, and Index Mundi. The analysing part of the study is divided into two sections. In the first section, the study focuses on bilateral trade behaviour between Azerbaijan and Bangladesh. Here, the study considers four major trading products that are listed in the ITC— i) Petroleum oils and oils obtained from bituminous minerals, crude, ii) cotton, iii) apparel and clothing accessories (knitted or crocheted), and iv) apparel and clothing accessories (not knitted or crocheted). To find out the bilateral trade relation, the study analyses the contribution of these four products in the export and import market both in Azerbaijan and Bangladesh. The main reason is: why would Bangladesh be a major import market for Azerbaijan and vice versa?

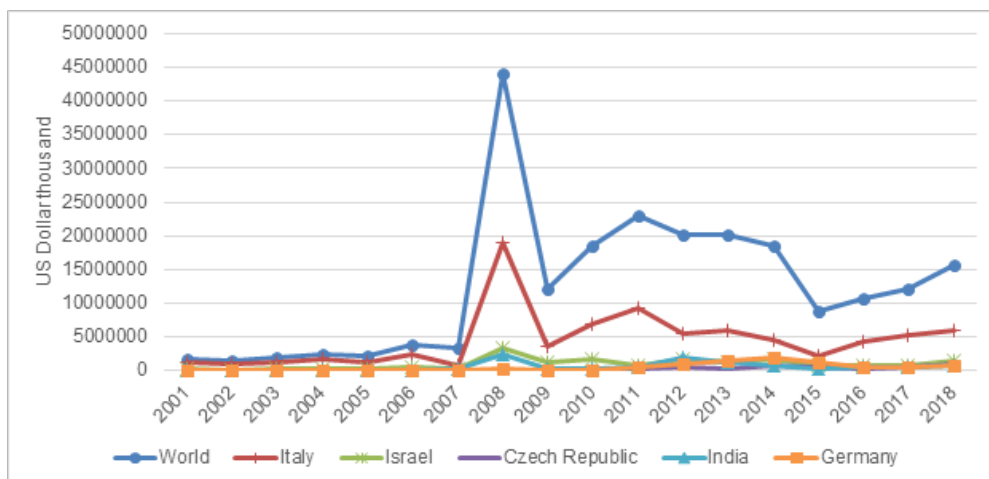
In the second section, the study shows the potential resurrection of the cotton industry in Azerbaijan. Actually, why did it fail to become a significant export market, how much potential it has to become a strong export sector, and finally why would it be a significant export sector in Azerbaijan? To find the answers, the study considers the State Statistical Committee of the Republic of Azerbaijan's data, articles, and newspapers.

2. Overview of Export and Import in Particular Sectors

2.1 Azerbaijan

Exports and imports are the most vital factors for the development and growth of the national economy. Usually, no country can produce everything, because of the combination of resources and skills. Some countries have resources, but they do not have enough skills to utilise them and vice versa. Alongside, the competitive advantage is also a reason for a nation or company to engage with exports and imports. According to the International Trade Centre (ITC), export of minerals is the main item of Azerbaijan; it covered 92.3% average share of export from 2012 to 2016. On the other hand, Azerbaijan's export items are textile and clothing, which are not prior items, but it covered 0.2% average share of imports from 2012 to 2016. Now, the graphs below show the exports and imports overviews of Azerbaijan.

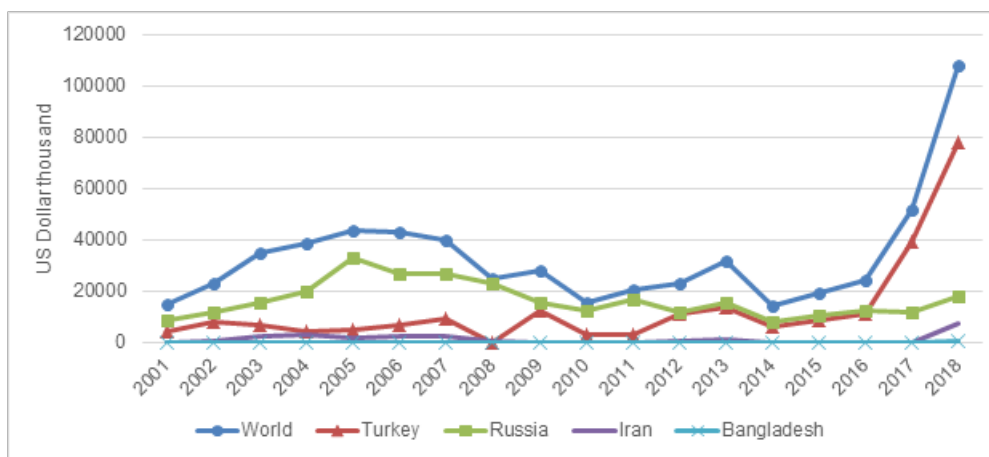
Graph 1. List of importing markets for minerals exported by Azerbaijan



Note: Product-2709 Petroleum oils and oils obtained from bituminous minerals, crude

Graph 1 illustrates the top five countries: Italy, Israel, the Czech Republic, India and Germany, where Azerbaijan mostly exports minerals. Alongside, the graph also shows a dark blue line, which represents the total export of minerals from Azerbaijan to the world. The main export item of Azerbaijan is minerals; petroleum oils and oils obtained from bituminous minerals, crude. Now, considering the first five countries, Italy imports the highest amount of minerals from Azerbaijan whereas India and Germany's export is comparatively less than others based on the last few years. Observing the nature of the graph, 2008 was the booming year of export for Azerbaijan, but it plummeted just in the next year. Although in 2011 it experienced an upward slope of export, later, it went down again. Here, it is notable that after 2014, only Italy started increasing their minerals imports from Azerbaijan where other countries reduced their import. However, after 2017, the pace of importing for all five countries started increasing.

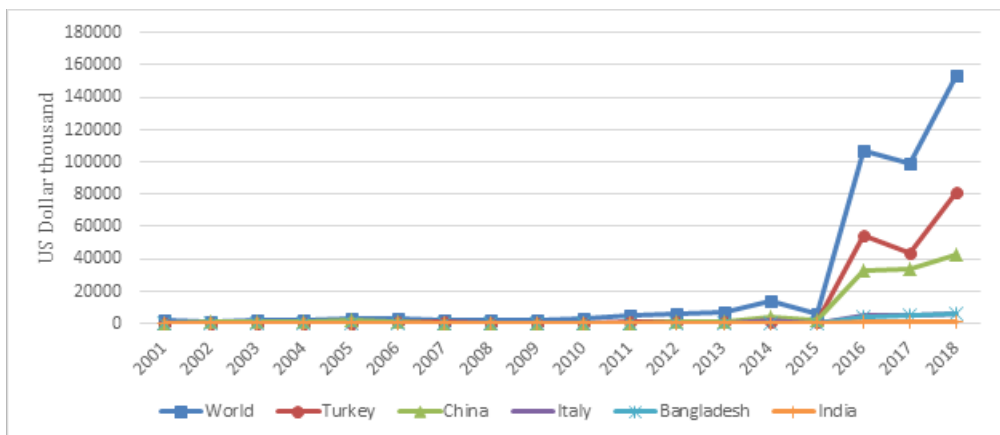
Graph 2. List of importing markets for cotton exported by Azerbaijan



Note: Product-52 Cotton

Graph 2 shows the amount of yearly exported cotton from Azerbaijan to four countries: Turkey, the Russian Federation, Iran, and Bangladesh, which are indicated by red, green, purple and light blue lines respectively. Alongside, the dark blue line shows total exports of cotton to the world. Here, Russia was the biggest importer of cotton until 2016; however, after 2016, Turkey became the biggest importer of cotton from Azerbaijan. On the other hand, Iran and Bangladesh hold the third and the fourth position respectively, based on the latest importing nature. Considering the amount of the cotton, Turkey imported \$78.017 million in 2018, which was the highest amount of trading from 2001 to 2018, whereas a \$33.246 million amount of cotton was exported by Russia in 2005, which was the highest in that time. Surprisingly after 2005, Russia reduced its imports, but the behaviour of import was opposite in Turkey. It increased the volume of imports and became the market leader regarding the importing of cotton. It is noticeable that countries such as Iran and Bangladesh, which were not even visible in the graph regarding their importing nature have started augmenting their import of cotton from Azerbaijan, which is a good sign for Azerbaijan in terms of its cotton industry.

Graph 3. List of supplying markets for apparel and clothing accessories (knitted or crocheted) imported by Azerbaijan



Source: ITC calculations based on UN COMTRADE statistics.

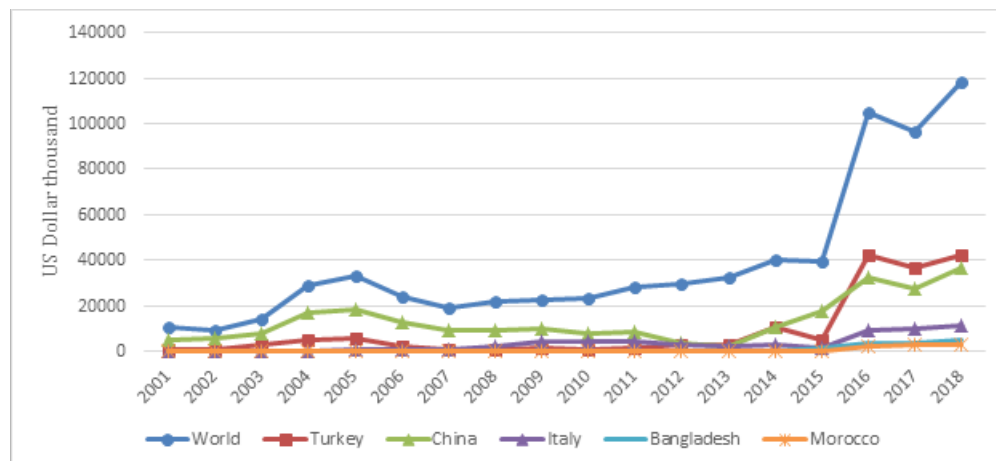
Note: Product- 61 Articles of apparel and clothing accessories, knitted or crocheted

Graph 3 shows the volume of imports and five countries: Turkey, China, Italy, Bangladesh, and India, from where Azerbaijan imports apparel and clothing accessories (knitted or crocheted). Here, the dark blue line represents the total amount of the same imported product that Azerbaijan imports from the countries in the world. China was the biggest exporter for Azerbaijan from 2001 to 2006. However, Turkey came to the front line, as a prime exporter after the declining China's export and holds the position up to 2013. Then, Azerbaijan started increasing the import of the product, which turned to the fourth-highest amount of import around \$13 million in 2014.

Meanwhile, China came back to the market as a market leader again and kept its positing for two years: 2014 and 2015. However, after 2015, Turkey became the market leader and contributed to Azerbaijan's highest amount of import of apparel and clothing accessories (knitted or crocheted) in its history, around \$154 million. In

the meantime, there were other three countries: Italy, Bangladesh, and India, which started to capture the market. After 2014, Azerbaijan reduced their import from China and Italy, but augmented from Bangladesh and India.

Graph 4. List of supplying markets for apparel and clothing accessories (not knitted or crocheted) imported by Azerbaijan



Source: ITC calculations based on UN COMTRADE statistics.

Note: Product-62 Articles of apparel and clothing accessories, not knitted or crocheted

Graph 4 demonstrates an overview of the volume of imports and five countries (Turkey, China, Italy, Bangladesh, and Morocco) from where Azerbaijan imports apparel and clothing accessories (not knitted or crocheted). Like the other graphs, the dark blue line shows Azerbaijan's total imports from different countries in the world regarding this product. The line shows an increasing demand for the products over the years in Azerbaijan. Here, Turkey is the market leader with two significant competitors: China and Italy. Azerbaijan experienced positive growth in import of apparel and clothing accessories over the period from 2003 to 2005. Then, it reduced its import (product-62) from Turkey and China, but increased from Italy until 2013. Later on, the country started increasing its import again from Turkey and China; at the same time, Azerbaijan started increasing importing product-62 from Bangladesh and Morocco, too.

2.2 Bangladesh

Bangladesh is a developing and market-based mixed economic country. Recently, it has experienced rapid growth in the economy, especially in garments sector. The major export item of Bangladesh is readymade garments (RMG), and others include leather, jute, shrimps, and tea and so on. The main export destinations of Bangladesh are the United States and the European Union (EU). On the other hand, it imports fuel, capital goods and foodstuffs from China, India, the EU, and Kuwait. According to the US-based Pew Research Centre in 2014, Bangladesh was the most supportive of a free market and a free market trade-oriented country in South Asia (Ayres, 2014).

According to the International Trade Centre (ITC), in the export clothing and textile are the main items of Bangladesh, and it covered 82.4% and 5.2% average share of export in 2012 to 2016 respectively. In 2015, only Germany imported apparel and clothing accessories (knitted or crocheted) around 2.6 billion USD, where the United States, the United Kingdom imported around 1.6 and 1.4 billion USD, as well as France and Spain imported around 983 and 957 million USD respectively. Now considering apparel and clothing accessories (not knitted or crocheted), the United States imported the highest volume of products, around 4.2 billion USD, where other countries, such as Germany and the United Kingdom imported around 1.8 and 1.6 billion USD, as well as Spain and France imported around 765 and 648 million USD respectively. In total, Bangladesh exported these two items to the world around 27 billion USD in 2015.⁸ According to export.gov, the total RMG export of Bangladesh was 28.1 billion USD (out of 34.7 billion USD total exports) in FY 2016-2017. Despite some significant obstacles such as political instability, global pressure, factory safety issue, and infrastructure inadequacy, the RMG sector grows continuously. With the growing demand for diversified products and the new markets of RMG, the Bangladesh government has targeted 37.42 billion USD worth of apparel export for FY 2020.⁹

On the other hand, Bangladesh's major import item is the textile (Denim fabrics of cotton), which covered 18.0% average share of import from 2012 to 2016. Besides, it also imports minerals, which covered 8.9% average share of import. In 2015, Bangladesh imported cotton around 722 million USD from different countries in the world. Pakistan played the most significant role for exporting cotton to Bangladesh in 2015. On the other hand, Bangladesh imported around 1.2 billion USD of minerals from different countries in 2015. Here, Singapore and United Arab Emirates play the leading role in exporting this product to Bangladesh.¹⁰

3. Challenges and Opportunities for Azerbaijan and Bangladesh

Though Azerbaijan mainly exports minerals, it experienced a decline from 2011 to 2015 (Graph 1). It represents that either Azerbaijan was losing its importers in the competitive markets, or it was endeavouring to alleviate its dependence on minerals. Besides, it could also be possible that there was more domestic demand for minerals, which forced Azerbaijan to reduce its exports. Despite having these considerations, in the following years, it experienced a substantial upward trend in mineral export. However, it is one kind of challenge in its export sector. Now, considering the opportunities, there is a potential possibility in the cotton industry. Though the cotton sector had experienced a frequent fluctuation in the previous years, it got in pace in 2015 (Graph 5). It opens a possible door for Azerbaijan's export sector. Now, the garments industry is one of the most growing industries in the world; cotton is one of the primary raw materials for it. So, the increasing demand for apparel and clothing will increase the demand for cotton for the industry. Azerbaijan can capture that opportunity for adding a strong export sector in its economy.

Considering challenges, Bangladesh is following the same de facto track of Azerbaijan. Where Azerbaijan mostly depends on minerals exports, Bangladesh depends on textile and clothing exports, which have an enormous impact on economic growth.

⁸ <https://tinyurl.com/y3jwhdpo>

⁹ <https://www.textiletoday.com.bd/bangladesh-set-apparel-export-target-37-42-billion-fy20/>

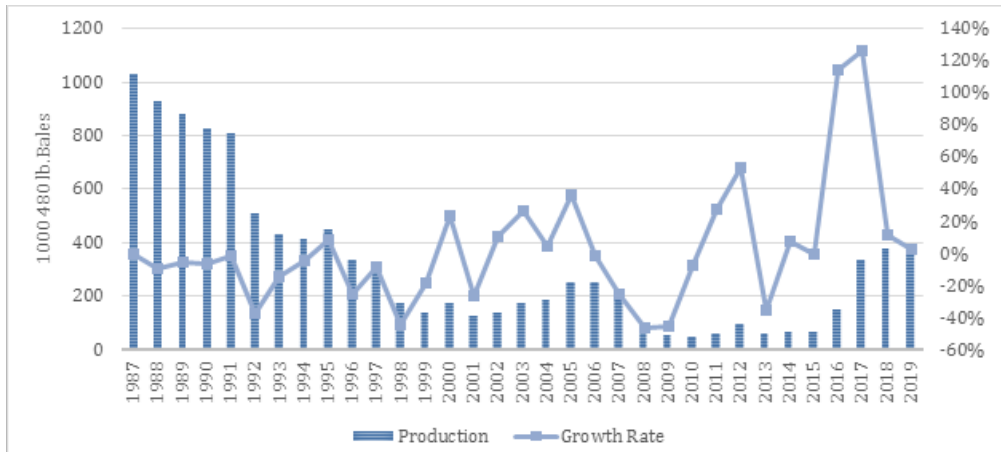
¹⁰ <https://tinyurl.com/y6c7635u>

Though still now this sector is growing, there is always a stage of saturation. One of the significant strengths of Bangladesh's garments industry is the lowest labour costs (\$0.31/hour) considering other countries, such as China, India, Vietnam, Turkey, Pakistan, Indonesia, Mexico, and Sri Lanka (Saheed, 2011). Though the labour cost is low, it may increase at any time for the sake of sustaining in the market. Now, Bangladesh has a trade opportunity of exporting more textiles and clothing items to Azerbaijan. Graph 3 and 4 show a declining export trend of significant countries, such as China, Italy, and Turkey that opens an opportunity for other countries. Notably, Azerbaijan has increased its import from Bangladesh, which is a positive sign for the trade relation.

4. Cotton industry in Azerbaijan

Cotton or white gold is one of the world's oldest commercial crops and the most critical raw materials for the global textile industries. It plays a vital role in the economic and social development of the emerging economy and industrialised countries (Parry, 2015). For that reason, countries or industries should give more focus on cotton production, because the development of the textile industry mostly depends on the production of cotton. Greater production of cotton boosts the strength of global textile industries. There are some countries, which have a significant contribution to the world cotton production such as China, India, and the United States and so on. On the other hand, there were some countries that had a significant contribution to the cotton production. However, now the same countries who experienced a downturn in the cotton production are trying to revive their cotton production. Among them, Azerbaijan is one of the progressive countries that are endeavouring to revive the sector.

During the time of the Soviet Union regime, especially in the 1980s, Azerbaijan was an influential cotton producer, because of its geographical advantages of cotton production. As a result, they produced a record harvest of 1015300 tons of cotton in 1981, which is the highest production of Azerbaijan's cotton production history. After that, it experienced a downturn in the cotton industry, because of the lack of adequate machinery, technology, and equipment (Turyalay, 1995); gradually, it became a de facto industry. The leading causes of declining cotton production were when people started focusing on grain production, rather than cotton production and considering oil as an international economic potential. On the other hand, there are some other reasons such as the collapse of the Soviet Union and significant sewing cotton industries (collective and state farms), low price of cotton product, lack of knowledge and experience in cotton management, and low level of provision of agriculture facilities, fertilizers and so on (Mavedov, 2009). Now the cotton industry is merely a shell of its former self in Azerbaijan. According to the State Statistic Committee of the Republic of Azerbaijan, in 2015, the production of cotton was only 35,200 tons, which is almost 15% lower than the previous year. It is also significantly lower than the amount Azerbaijan produced in 1981. It would be more explicit after looking at Azerbaijan's yearly cotton production since 1980.

Graph 5. Azerbaijan cotton production

Source: United States Department of Agriculture (<https://www.indexmundi.com/agriculture/?country=az&commodity=cotton&graph=production>)

Graph 5 illustrates the production of cotton and its growth rate in Azerbaijan from 1987 to 2018. In 1987, Azerbaijan's cotton production recorded its highest amount in its history of cotton production from 1987; however, after that year, production experienced a downward slope until 2002. Later on, the production started augmenting along with two significant fluctuations of production in 2006 and 2013, as well as the highest growth rate (124%) in 2017.

4.1 A potential export sector for Azerbaijan

As discussed before, Azerbaijan had a bright history of cotton production. However, because of some limitations—especially the increasing grain production and production and realisation of oil as an international economic potential of Azerbaijan—somehow, it lost its capacity of production. However, now due to the technological improvements, business opportunities and openness, it has become easier to develop industries, share technologies, as well as get the support of machinery and equipment. Indeed, there are some significant reasons that could trigger Azerbaijan's cotton industry to become a growing export sector, which is summarised as follows:

Firstly, utilising the maximum area (hectar) for the production of cotton may bring back the golden age of Azerbaijan's cotton industry. Because the climate and soil condition of Azerbaijan is favourable for cotton production (Mavedov, 2009). Considering Index Mundi data, in 1987, Azerbaijan harvested 303,000 hectar lands for cotton production, but dramatically it turned to only 50,000 hectares in 2015. Though the production of cotton is rock bottom now, there is a potential possibility of harvesting more cotton by using the fertile land.

Secondly, according to The Business Year (TBY), a leading research firm and publisher of annual economic resources on national economies, the production of cotton in 2015 was lower than the 2014 production in Azerbaijan. However, despite experiencing lower production, the average cotton yield per hectare in 2015 was 4.5%

greater than the previous year. It demonstrates positive progress in the cotton industry that means an intensive focus on this industry would increase the highest possibility of being an important export sector in Azerbaijan.¹¹

Thirdly, pricing is an essential subject for the cotton industry. Unfortunately, the major exporting countries created an artificial market with a low price of cotton, which has hampered opportunities for selling Azerbaijani cotton. According to the World Bank, the price of cotton would not go back to the 2014 level until 2020. The World Bank reported that in 2015 the average price of cotton fell from \$1.83 to \$1.55 per kg, but increased in 2016 up to \$1.64. Besides, it forecasted that, in 2017, 2018, 2019, and 2020, the price would go up to \$1.7, \$1.73, \$1.77, and \$2.2 per kg respectively (Abc. az, 2017). Hopefully, it would bring positive outcomes for Azerbaijan.

Fourthly, implementing modernised technology is a way of boosting a sector's production capacity. According to Aynur Aliyeva, reporter of Report News Agency, China is keen to expand its relationship with Azerbaijan in the development of the cotton industry (Aliyeva, 2016). For that reason, a partnership is going to take place to develop the cotton industry between Azerbaijan and the Chinese giant Xinjiang Yinlong International Agriculture Cooperation. Through this potential partnership, Azerbaijan will get the updated technology to boost their cotton production by implementing the improved seeding technology, as well as efficient cotton processing system. Also, it could open a way of learning system by which farmers in Azerbaijan would get the best lessons to cultivate the cotton.

Fifthly, focusing more on developing new and high-quality species of cotton seeds can boost cotton production in any country. In this case, the Azerbaijan Institute of Cotton has been working to develop new varieties of cotton with greater pest resistant and productive strain. This initiative will give the industry a prospective output, which will help them to accelerate the cotton industry as a significant sector of exporting cotton to the competitive market.

Finally, sometimes taking direct initiatives from the government does impact tremendously to revive an industry from drowning. Recently, Azerbaijan is keen to support the cotton producers making the industry secure again. According to Eldar Ibrahimov, Chairman of the Parliamentary Committee on Agrarian Policy, "The government allocated loans and grants for the development of the agricultural sector, and keeps the issue in focus." In 2016, the president of Azerbaijan chaired a conference on the development of cotton-growing in Azerbaijan. "We have imported new cotton harvesters and agricultural machinery of hundreds of denominations. Some of the machinery is still on its way. It will be delivered next month and will continue to be delivered in 2017 as well," he said. He also expressed his hope in the cotton industry. He said, "I want to say again: 2016 will be a pivotal year for the development of cotton growing. This is only a beginning, and I am sure that from now on cotton production in Azerbaijan will grow rapidly. As I said, it will bring great benefits to both the people and the state".¹²

Meanwhile, the recent presidential order contemplates of rewarding grants of 0.1 manat (\$0.06) if producers sell cotton to processing enterprises. Likewise, it envisages the government support for cotton production, as well.

¹¹ <https://www.thebusinessyear.com/azerbaijan2016/cotton-kings/focus>

¹² <https://en.president.az/articles/23214>

5. Conclusion and recommendation

The study discusses the importance of trade to increase the relationship between countries. To make it more specific, it considers only Azerbaijan and Bangladesh, which have an enormous possibility to improve a bilateral relation by the trade. There are two main objectives: i) analysing bilateral trade relation between Azerbaijan and Bangladesh through their major export and imports product, ii) elucidating the potential resurrection of cotton industry as an important export sector in Azerbaijan. Verily, we have not found any complete academic study on this issue, which has been written in English. However, there are some short articles, features, and news, which are the primary sources for the development of the study.

Now considering the findings, there are some possible export and import products for both countries, which may open an easy way of transferring the products through bilateral trade agreements. It is notable that if trade agreements would take place between these two countries, then Azerbaijan will get more benefits than Bangladesh. Because in the garment sector, Bangladesh can indeed deliver the best quality products with the lowest price considering other countries (Saheed, 2011: p-56). On the other hand, Azerbaijan will get a new importer for its minerals sector. The most attractive benefits for Azerbaijan will be its potential cotton industry. If everything works properly, then soon the cotton industry will be a significant export sector in Azerbaijan. There are some essential factors, which will boost Azerbaijan's cotton industry at its expected level. For instance; the fertile land for cotton, the price of cotton, improved technology, high-quality seeds, and direct government support. So, it means they need importers to make the market competitive and profitable. Here, Bangladesh would be an essential potential importer for Azerbaijan's cotton export market because of its RMG sector. Bangladesh's primary national income depends on RMG sector and cotton is the main raw materials for manufacturing RMG products. So, in that perspective, Azerbaijan could consider Bangladesh as a potential importer.

However, a limitation should be considered in terms of this analysis. The study has selected only four export and import products, which, indeed, do not represent the whole picture of each country's trade scenario. Verily, if it considered other products, the findings might have given a different scenario. Honestly, this limitation opens an opportunity for future researchers, in order to extend the analytical part of this study. In conclusion, the bilateral trade relationship is an excellent concept for the economy, because it balances demand and supply of goods and services between or among countries. Though there are some hindrances of developing bilateral relation, it mostly helps to develop a trade balance in the world. So, we should welcome bilateral trade relation by considering the differences.

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