

# **CAREC Trade Policy Coordinating Committee**

## **Outreach Seminars Organized by the ADB and the IMF**

**Presentation by  
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# 1. Introduction

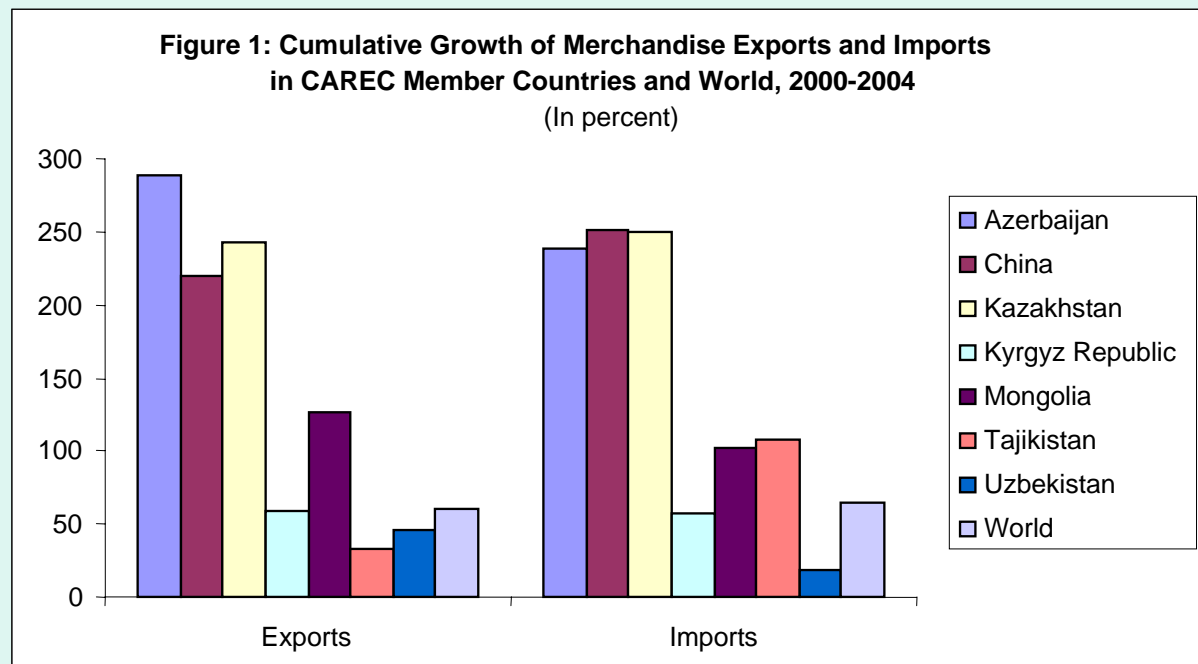
- International trade fosters economic growth.
- Trade also increases the variety and improves the quality of goods available to consumers.
- CAREC Trade Policy Coordinating Committee (TPCC) was formed to help CAREC member countries adopt more open trade regimes, so as to facilitate both intra- and inter-regional trade.
- During the Ministerial meeting in November 2005, the IMF and AsDB were asked to arrange seminars in each CAREC-member country, designed to summarize the work done for the TPCC and the implications of this work for the various countries in CAREC.

# Structure of Presentation

- Regional Trade Performance
- Regional Integration
- WTO Accession
- Trade Barriers in Central Asia
- Conclusions and recommendations

## 2. Regional Trade Performance

- After a disappointing performance during the 1990s, absolute levels of trade rose considerably in all CARs during 2000-2004

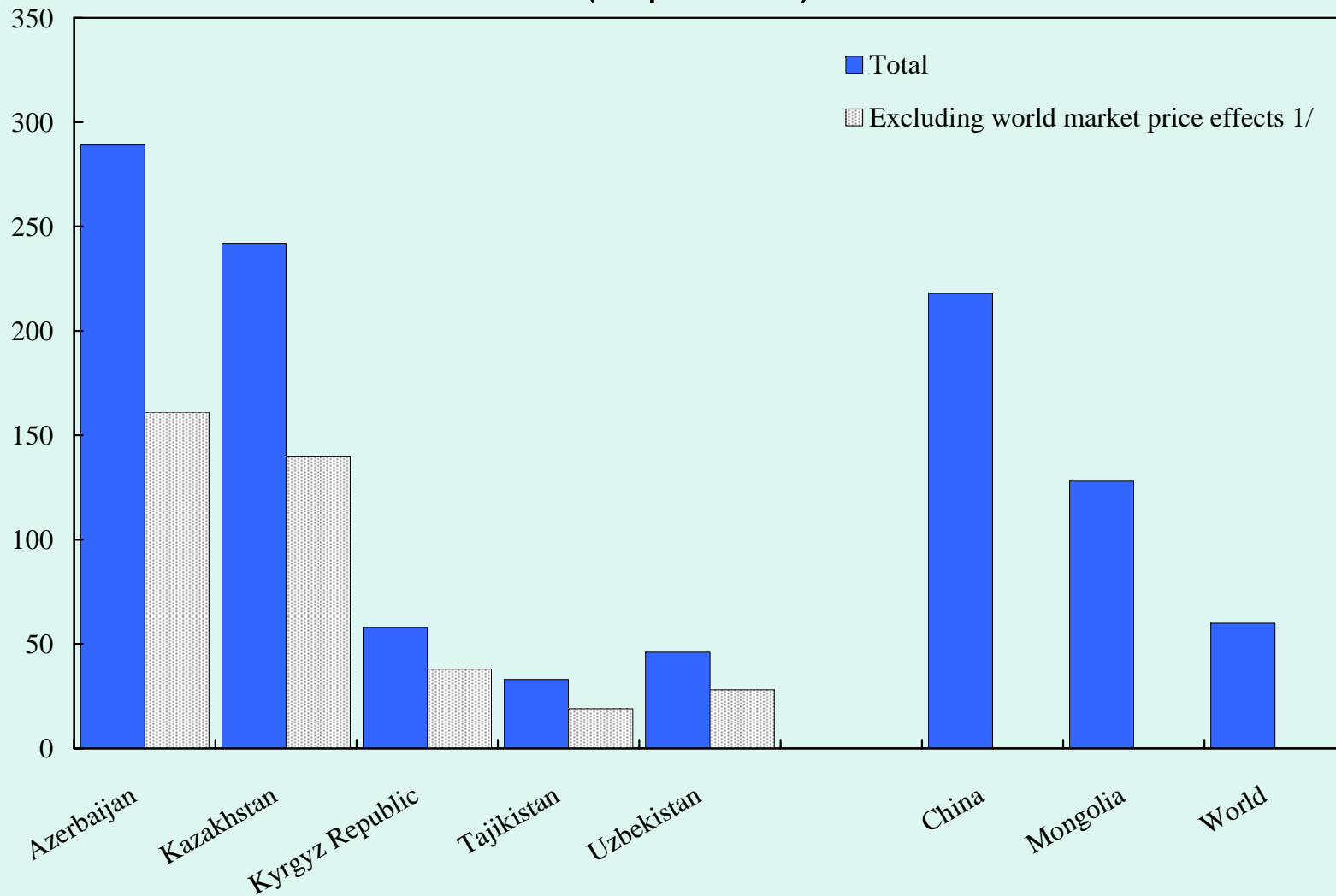


Source: Governments of CARs, IMF's DOTS and staff estimates.

## **It should be noted, however, that:**

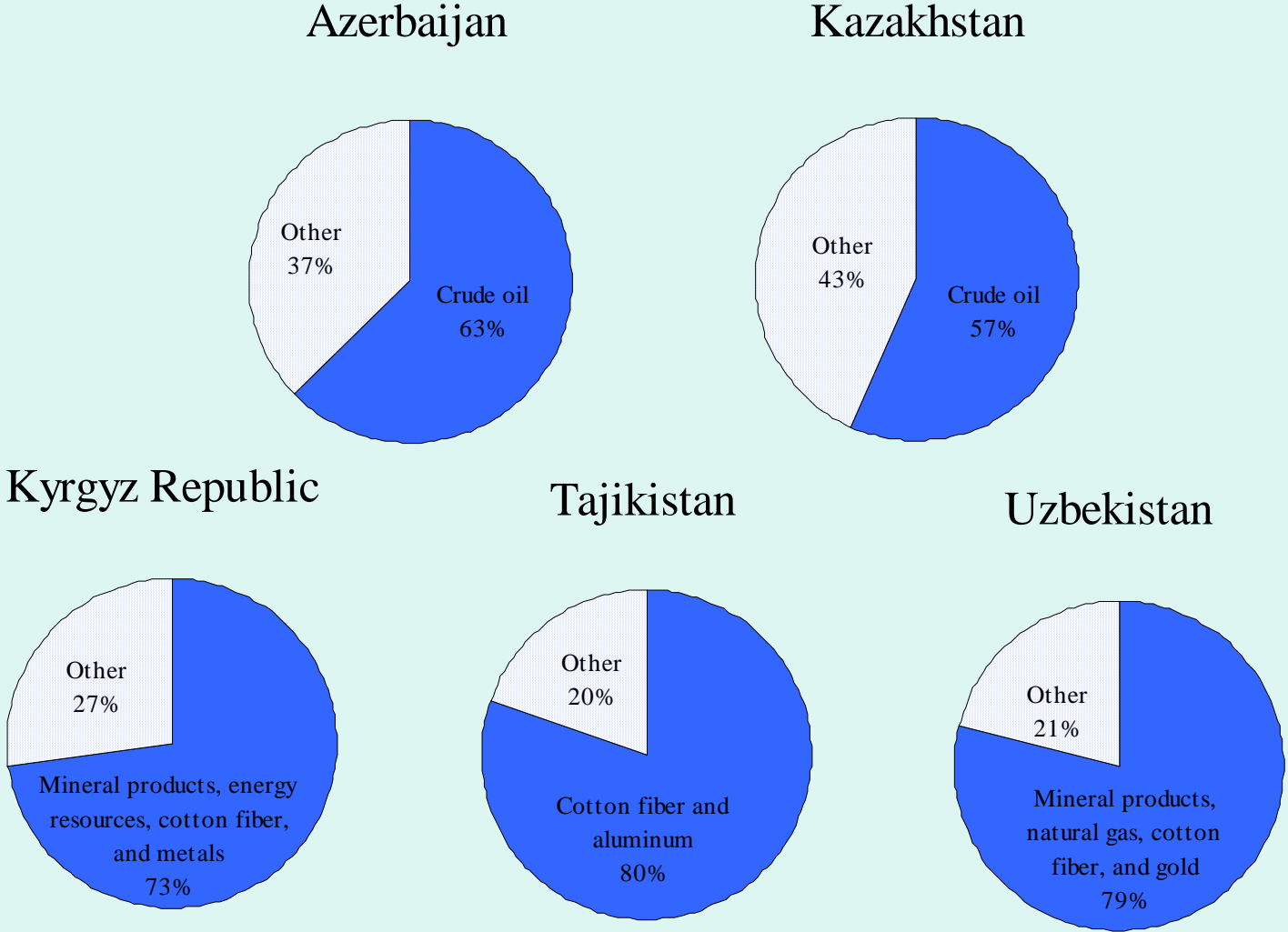
- Trade performance of CARs was not as impressive as it appears.
- The rise in world prices for primary commodities was a major factor contributing to the rapid growth of exports (Figure 2).
- Commodity composition of exports has remained highly concentrated (Figure 3).
- Participation in global value chains (GVCs) and global production networks (GPNs) remained limited.
- Intra-regional trade among the CARs remained fairly small (share in total trade: 6.6 percent for CARs, 14.6 percent for Mercosur, and 22.0 percent for ASEAN).

## Figure 2. Cumulative Growth of Merchandise Exports and World Market Price Effects, 2002-04 (In percent)



Sources: Governments of CARs, IMF's Direction of Trade Statistics, and staff estimates.

# Figure 3. Commodity Composition of Exports in CARs, 2004 (In percent)



Sources: Governments of CARs, IMF's Direction of Trade Statistics, and staff estimates.

### **3. Regional Integration**

- Regional trade agreements (RTAs) have long been a prominent part of the region's policy agenda.
- Regional trade integration can be an effective—though economically second best—tool to expand trade and promote development in the CAREC countries.

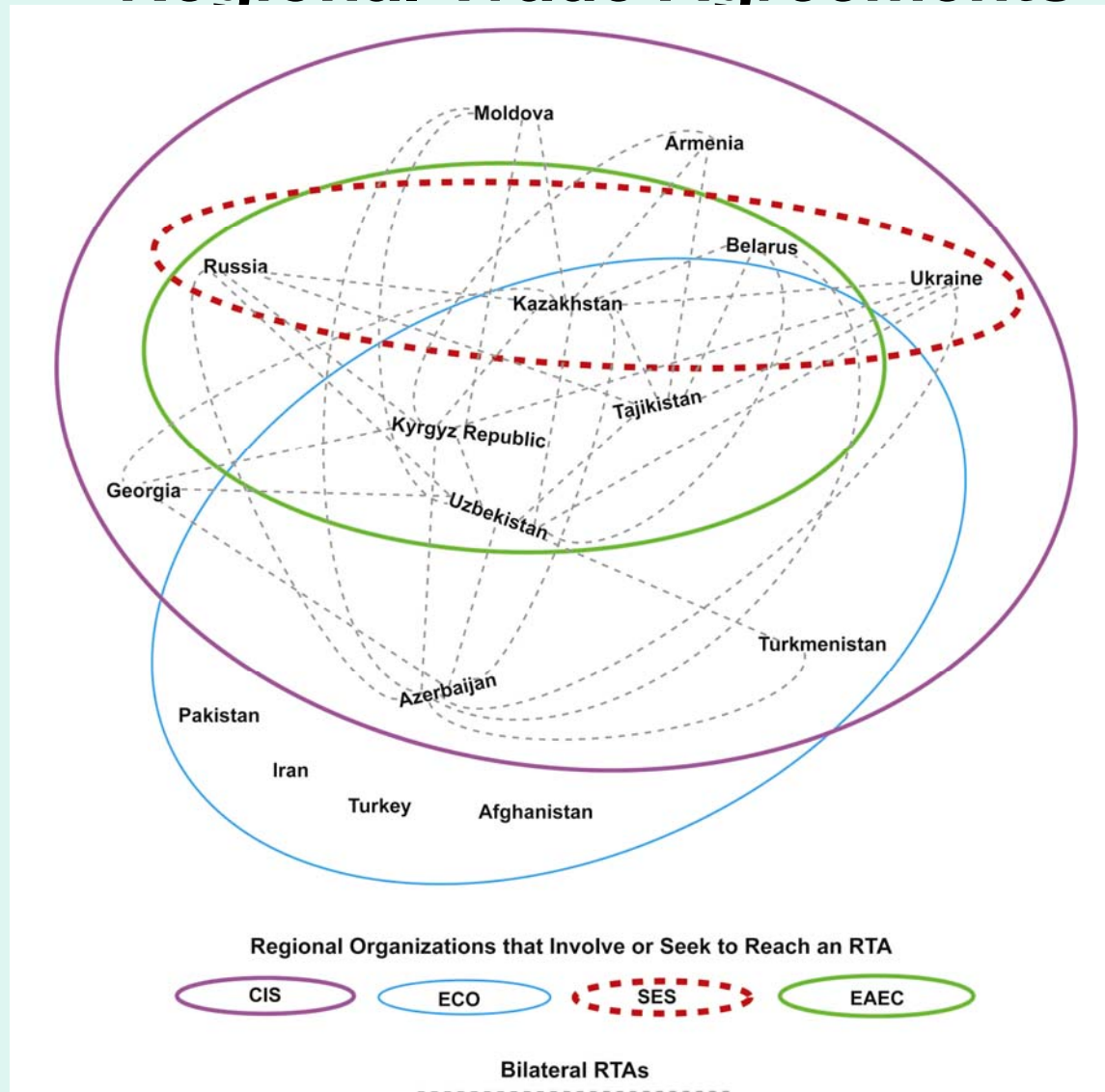
# Best Practices

- RTAs should be building blocks toward further trade liberalization and not used as tools to discriminate against excluded countries.
- RTAs should provide easy access to new members.
- RTAs need to be rationalized to avoid duplication of efforts and inconsistencies among the different agreements.
- RTAs should have comprehensive coverage of goods and services and ensure that high barriers as well as low barriers are removed or reduced.
- RTAs should also encompass “behind-the-border” reforms that encourage the development of a trade- and business-friendly environment.
- RTAs should be transparent and have clear and liberal rules of origin (RoO).

# Issues With Regional Integration Among CAREC Countries

- The participation in the large number of often inconsistent regional economic integration schemes
- The attitudes toward regional integration
- Integration through custom areas or free trade areas

# Figure 4. “The Spaghetti Bowl Effect” of Regional Trade Agreements



Source: Asian Development Bank, *Central Asia: Increasing Gains From Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit* (draft).

## 4. WTO Accession

- Many of the CAREC countries are still in the process of accession to the WTO
- Potential benefits for countries from joining the WTO:
  1. *Improved and predictable market access*
  2. *Access to binding dispute settlement*
  3. *External policy anchor*
  4. *A seat at the table*
- Multilateral versus regional trade agreements

# Arguments in favor of joining the WTO before a customs union

- Customs union can be a stumbling block.
- Overlapping agreements can add uncertainty and undermine transparency.
- The WTO provides a commitment mechanism that is easier to enforce than RTAs.
- Forming a customs union first could increase the overall level of protection.
- Customs union membership can delay the WTO accession process.

# Arguments for pursuing a customs union before acceding to the WTO

- A country can increase its bargaining power in multilateral negotiations.
- By entering into multilateral negotiations as a region, small states might face lower fixed costs of negotiation.
- Coordination among countries in a customs union prevents them from undercutting each other during negotiations.

# Evidence and Practice

- Estimation results of the two sequencing scenarios show that the welfare impact of each choice varies across countries.
- In practice, participation in various regional trade arrangements has not facilitated WTO accession.
- RTAs are likely to continue to have limited impact on the trade regimes, while the potential benefits of WTO membership for CARs have increased.
- WTO membership does not preclude regional cooperation in trade policy.

# 5. Trade Barriers in Central Asia

- In Central Asia, there are manifold barriers to trade.
- Nature of trade barriers:
  1. Trade barriers relating to trade policy
  2. Trade barriers relating to transport and transit
  3. Trade barriers relating to border crossing and customs clearance
  4. Other trade barriers

# Trade Barriers Relating to Trade Policy

- Some CARs prohibit or license exports and/or imports of certain goods for economic purposes.
- Some CARs use registration of export-import contracts as a means to regulate trade (Azerbaijan and Uzbekistan).
- Some CARs have fairly high tariffs and/or a rather complex tariff schedule (Table 1).
- A major problem with tariffs in CARs is that changes in tariff schedules are rather frequent and unpredictable (Azerbaijan, Kazakhstan, Tajikistan, and Uzbekistan).
- There is escalation of tariffs—more pronounced in Azerbaijan, Kazakhstan, and Uzbekistan.
- Some CARs impose other taxes on imports that are not levied on domestically produced goods or have higher rates for imported goods than for domestically produced goods (Azerbaijan, Kazakhstan, and Uzbekistan).
- Explicit taxes on exports are less common in Central Asia than taxes on imports (Azerbaijan and Kazakhstan).

# Table 1. Tariffs in Central Asian Republics<sup>1</sup>

(As of August 2005)

	Azerbaijan <sup>2</sup>	Kazakhstan <sup>2</sup>	Kyrgyz Republic	Tajikistan	Uzbekistan <sup>2</sup>
Number of tariff bands	6	10	5	4	4
Maximum rate (%)	15.0	30	15.0 <sup>3</sup>	15.0	30.0
Non-weighted average rate (%)	5.7	7.4	5.1	7.5	14.6

Source: Asian Development Bank, *Central Asia: Increasing Gains From Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit* (draft).

1/ These tariffs apply to imports from the countries to which the CAR concerned has given the most favored nation status but with which it does not have a preferential trade agreement.

2/ Ad valorem tariffs only. There are also specific and combined tariffs.

3/ Excluding a 30% seasonal tariff on refined sugar.

# Trade Barriers Relating to Transport and Transit

- Transport links between the CARs and non-FSU countries are still poorly developed.
- Much of the existing roads are in poor condition.
- The market for transport services is underdeveloped and the quality of services is relatively poor.
- Transit through neighboring countries is costly and time consuming, especially for road transport (Table 2).

## Table 2. Estimated Transport Costs in Exports and Imports of Central Asian Republics, 2003

	Transport Costs of Exports		Transport Costs of Imports	
	In % of exports	In million US dollars	In % of imports	In million US dollars
Azerbaijan	8.0	207.4	7.0	183.8
Kazakhstan	10.0	1292.7	8.0	583.0
Kyrgyz Republic	13.0	75.6	10.0	72.0
Tajikistan	14.0	111.6	10.0	88.0
Uzbekistan	12.0	382.8	8.0	206.0

Sources: Faye et al. (2004), Ojala et al. (2004), and staff estimates.

# Trade Barriers Relating to Border Crossing and Customs Clearance

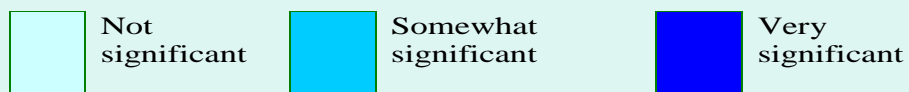
- Difficulties with border crossing and other obstacles to cross-border trade are evident in significant price variations across CARs.
- Customs rules and procedures in the region are generally non-transparent, complex, and bureaucratic, giving customs officials too many discretionary powers. Moreover, they change frequently and vary significantly across countries.
- The situation is exacerbated by excessive certification requirements and weak standards institutions.

# Other Major Trade Barriers

- In most CARs, there are barriers to market entry into international trade.
- Unfavorable payment and foreign exchange regulations currently in place in some CARs create additional impediments to trade.
- The quality of institutions in CARs is quite low.
- Underdeveloped financial sectors, and a lack of marketing companies and skills also constitute obstacles to trade.

# Significance of Trade Barriers for Central Asian Republics

	Azerbaijan	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan
Quantitative restrictions and licensing	Light Blue	Light Blue	Light Blue	Light Blue	Dark Blue
Registration of export-import contracts	Light Blue	Light Blue	Light Blue	Light Blue	Dark Blue
Tariffs and other taxes on imports	Light Blue	Light Blue	Light Blue	Light Blue	Dark Blue
Explicit taxes on exports	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
High transport costs and long and unpredictable transit times	Light Blue	Light Blue	Dark Blue	Dark Blue	Light Blue
Difficulties with border crossing	Light Blue	Light Blue	Light Blue	Light Blue	Dark Blue
Difficulties with customs clearance	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
Barriers to market entry into international trade	Light Blue	Light Blue	Light Blue	Light Blue	Dark Blue
Unfavorable foreign exchange and payment regulations	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
Low quality of institutions	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
Underdeveloped financial sector	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
Lack of marketing skills	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
Tariff and non-tariff barriers to imports from CARs imposed by other countries	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
Agricultural subsidies in the US and the EU	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue



Source: ADB staff estimates.

# Effects of Trade Barriers

Apart from constraining growth of officially recorded trade, the trade barriers have numerous other negative effects:

- They encourage illegal trade
- They fuel corruption
- They affect the composition of trade
- They distort domestic relative prices

# Measures aimed at reducing existing barriers to transit trade

- Ensuring the control of customs officers and other agencies regarding full compliance with the TIR Convention;
- Reductions in the rate of charges for customs convoy and in the list of goods subject to such convoys;
- Reduction in the cost of non-reciprocal road transport permits to levels that will cover related costs;
- Abolition of all other charges and fees on entry (transit) of foreign carriers;
- Reduction of the cost of entry visas for foreign road carriers and the issuance of visas to them in a simple way;
- Unification of transport, customs, and border documentation;
- Taking measures to prevent and eradicate cases of unofficial payments from road carriers in transit.

## 6. Conclusions and Recommendations

- Restrictions on cross-border trade, licensing, the barriers to market entry into international trade, foreign exchange and payment regulations and the prohibition of exports of a particular commodity need to be dismantled.
- The quantitative restrictions need to be converted into explicit tariffs and export taxes in the short run and reduced in the medium run. So do implicit tariffs in the form of various taxes on imports that are not levied on domestically produced commodities or have higher rates for imported than for domestically produced goods.
- The CARs need to cooperate with each other and neighboring countries to reduce barriers to trade relating to transport, transit, border crossing, customs clearance, weak institutions, underdevelopment of the financial sector, and the lack of marketing skills.
- There is a need to reassess participation in a large number of sometimes conflicting regional economic integration schemes.
- The CARs that are not yet members of the WTO should give precedence to accession to this organization and multilateral trade liberalization within the WTO framework over trade liberalization within a regional trade arrangement.
- Liberalization of a trade regime needs to be supported by sound macroeconomic policies and structural reforms.