

Regionalism and Multilateralism in Central Asia

As noted in Chapter 3, there are significant policy-related barriers to trade in Central Asia, which have adversely affected the recent trade performance of the CARs and prevented them from fully realizing the gains from participation in international trade. And as noted in Chapter 1, regional cooperation in trade policy in the form of reciprocal trade liberalization under an RTA can help the CARs reduce these trade barriers at relatively low costs, boost intra-regional trade, and facilitate broad-based trade liberalization. However, an RTA not only creates trade between member countries but also diverts trade between member and nonmember countries. Therefore, its net effect on social welfare in member countries and the world at large is theoretically ambiguous. It can also give rise to vested interests in partial trade liberalization and make broad-based trade liberalization politically more difficult to carry out.

Another way for the CARs to reduce the policy-related trade barriers at relatively low costs and expand trade rapidly is to join the WTO. Since accession to the WTO brings improved access to markets in other WTO member countries, it enables a new member country to boost exports and mitigate the initial adverse effects of trade liberalization on employment and the balance of payments. And since membership in the WTO requires according the most favored nation (MFN) status to all member countries, liberalization of trade policy in the process of the WTO accession leads to little trade diversion and is likely to improve social welfare in both the new member country and the

world as a whole. However, accession to the WTO is a relatively long process since it involves negotiations with a large number of member countries and requires the implementation of a broad range of policy and institutional reforms.

In an effort to expand trade and closely integrate into the international trading system, the CARs have been pursuing both membership in RTAs (regionalism) and accession to the WTO (multilateralism). As noted in Chapter 1, an RTA complements the multilateral trading system represented by the WTO insofar as it promotes broad-based liberalization in the member countries. In fact, RTAs are legal under the WTO rules. However, their discriminatory nature is contrary to the principle of nondiscrimination on which the multilateral trading system is based. Under certain circumstances, an RTA can even weaken the multilateral trading system. How a particular RTA affects trade, social welfare, and political feasibility of broad-based trade liberalization in the member countries and the multilateral trading system depends on a number of factors listed in Box 1.1.

This chapter analyses regionalism and multilateralism in Central Asia. Specifically, it reviews RTAs involving CARs and assesses their effects on the CARs. It then reviews the status of the CARs' accession to the WTO and discusses the benefits and costs of WTO membership for the CARs. The chapter also discusses the options for

regional cooperation that the CARs can pursue within the multilateral framework.

4.1 The “Spaghetti Bowl” of the Regional Trade Agreements

The CARs have joined several regional organizations that involve or seek to reach a multilateral RTA. In addition, they have entered into numerous bilateral RTAs. A combination of these—often overlapping, multilateral, and bilateral RTAs—has resulted in what the trade literature aptly calls the “spaghetti bowl effect” (see Figure 4.1).¹

The CARs are all members of the CIS, which was established by Belarus, Russian Federation, and Ukraine in 1991 and is comprised of all FSU countries, except Estonia, Latvia, and Lithuania. The overall objective of the CIS is to contribute to “further development and strengthening of the relations of friendship, good neighbourhood, inter-ethnic harmony, trust, mutual understanding and mutually advantageous cooperation” among the member countries.² In 1994, the CIS countries signed an Agreement on the Establishment of a Free Trade Area, but were not able to agree on a common list of exemptions from the free trade regime. In 1999, they amended the agreement, whereby the list of exemptions could be agreed upon on a bilateral basis. However, not all CIS countries were able to agree on the list of exemptions even on a bilateral basis. Thus, the agreement has not been fully implemented.

In 1992, the CARs—along with Afghanistan and Turkmenistan—joined the ECO, which was set up by Iran, Pakistan, and Turkey in 1985 to promote economic, technical, and cultural cooperation among the member countries. In 2003, Afghanistan, Iran, Pakistan, Tajikistan, and Turkey signed an ECO Trade Agreement (ECOTA),

which envisages a reduction of tariffs to a maximum of 15% for at least 80% of the traded goods within eight years after its entry into force. Almost three years since it was signed, the ECOTA has not yet entered into force.

In 1994, Kazakhstan, Kyrgyz Republic, and Uzbekistan set up the Central Asian Economic Union, ostensibly modeled after the EU. The organization was renamed the Central Asian Economic Community (CAEC) when Tajikistan joined in 1998. The presidents of the four countries proclaimed the Central Asian Cooperation Organization (CACO) as the successor to the CAEC in 2002. At the CACO summit in Astana, Kazakhstan in May 2004, the Russian Federation joined the organization and Uzbekistan proposed to set up a Central Asian common market within the CACO framework. However, at their meeting in St. Petersburg, Russian Federation in October 2005, the presidents of the CACO member countries decided to merge the organization with the EAEC.

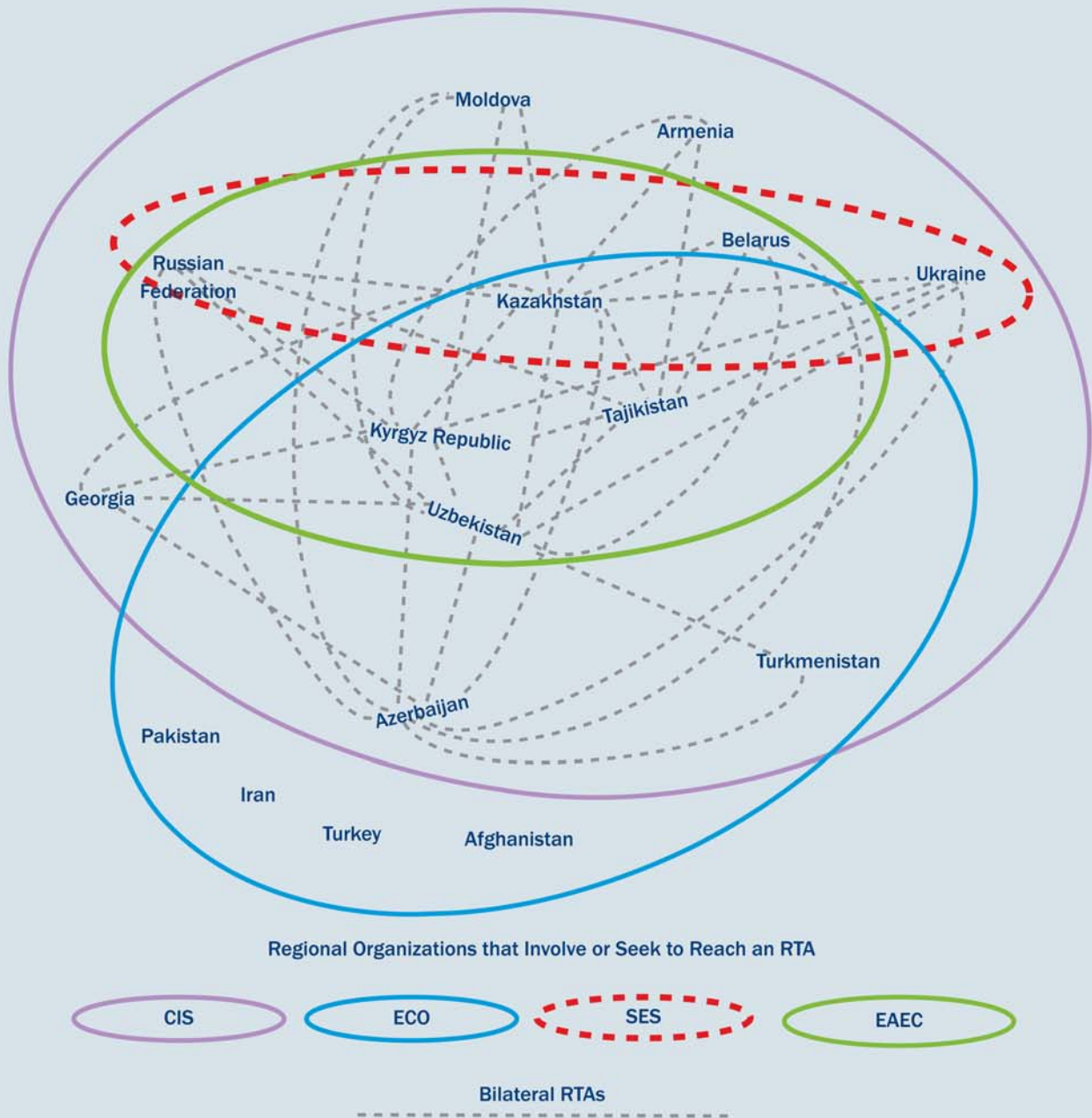
In late 1995, Kazakhstan joined the agreement on the establishment of a customs union, signed by Belarus and Russian Federation in early 1995. The Kyrgyz Republic followed suit in 1996 and Tajikistan in 1999. In February 2000, the five countries signed an agreement on a common external tariff schedule (CETS), whereby they committed themselves to adopt a CETS within five years after the entry into force of the agreement.³ In October 2000, they signed a treaty establishing the EAEC, a regional organization aimed at facilitating the creation of a customs union and a common economic space of the member countries. The EAEC treaty entered into force in May 2001 and superseded the customs union agreement between its member countries. Following the decision of the presidents of the CACO member countries to merge it with the EAEC, Uzbekistan acceded to the EAEC in January 2006.

¹ Figure 4.1 does not include regional organizations, such as the Shanghai Cooperation Organization, which at least some of the CARs are members of but which do not involve and do not seek to reach an RTA.

² Source: <http://www.cis.minsk.by>.

³ The agreement entered into force in 2000 for Belarus, Kyrgyz Republic, Russian Federation, and Tajikistan and in 2001 for Kazakhstan.

Figure 4.1 The “Spaghetti Bowl” of Regional Trade Agreements Involving Central Asian Republics
 (As of 31 January 2006)



Note: In August 2005, Turkmenistan downgraded its membership in the CIS to the status of an “associated member.”
 CIS - Commonwealth of Independent States
 EAEC - Eurasian Economic Community
 ECO - Economic Cooperation Organization
 RTAs - regional trade agreements
 SES - Single Economic Space

Source: Information gathered by the authors.

with the EAEC, Uzbekistan acceded to the EAEC in January 2006.

Although Belarus, Kazakhstan, Kyrgyz Republic, Russian Federation, and Tajikistan agreed in 2000 to adopt a CETS by 2006, they were not able to do so. By the end of 2005, they were able to agree on a CETS that consisted of external tariffs common to Belarus, Kazakhstan, and Russian Federation and which covered only 63% of the lines in the EAEC commodity classification. The Kyrgyz Republic and Tajikistan have not yet adopted even this incomplete CETS of the EAEC. As of end-2005, only 18% of tariffs in the Kyrgyz Republic and 49% of tariffs in Tajikistan were harmonized with the CETS of the EAEC.⁴

An alternative grouping among the CIS countries emerged in September 2003 when Belarus, Kazakhstan, Russian Federation, and Ukraine signed an agreement on the creation of a Single Economic Space (SES).⁵ The agreement envisages the establishment of supranational institutions and a free trade zone with the ultimate goal of creating an economic union of the member countries. However, the future of the SES became uncertain following the 2004 presidential election in Ukraine, which brought to power a pro-Western government. In August 2005, Belarus, Kazakhstan, and Russian Federation pledged to sign a package of 29 statutory documents of the SES by December 2005 and an additional 15 documents by March 2006. Ukraine, however, indicated it would not sign any SES document that envisions the establishment of a supranational institution. The parties were not able to agree on the 29 documents that were to be signed by December 2005. They postponed the signing to March 2006.

In addition to joining the regional institutions that involve or aim to reach a multilateral RTA, the CARs have signed a large number of bilateral preferential and free trade agreements. But some of these bilateral RTAs have never entered into force because they have not been ratified by at

least one signatory country. At the same time, the effectiveness of those that have formally entered into force has been limited due to a narrow coverage, complex rules of origin, and less-than-full implementation. Often, exemptions include goods that account for a significant proportion of bilateral trade between the signatory countries and the rules of origin are so complex that, for importers, preferential tariffs envisaged in the RTAs are not worth claiming.

The main reason many bilateral RTAs that have formally entered into force are not fully implemented is that, like multilateral RTAs, they lack effective enforcement and dispute settlement mechanisms. Consequently, they cannot prevent the signatory countries from taking actions that are inconsistent with the agreements, and do not help settle trade disputes that may arise from such actions. Indeed, the free trade agreements that Kazakhstan signed with the Kyrgyz Republic in 1995, Russian Federation in 1992, and Uzbekistan in 1997 did not prevent it from introducing a temporary ban and a 200% tariff on certain imports from those countries in the late 1990s. Similarly, the free trade agreements that Uzbekistan signed with many other CIS countries have not prevented it from imposing high implicit tariffs on imports from those countries in the form of excise taxes that are levied on imported but not on domestically produced goods or have higher rates for imported than domestically produced goods.

Despite their poor track record in implementing RTAs, proposals for new RTAs involving CARs continue unabated. At the eighth summit of the ECO held in Dushanbe, Tajikistan in September 2004, Iran proposed establishing a free trade zone within the ECO framework by 2015. In March 2005, the Presidents of Uzbekistan and Kazakhstan set up a working group on the creation of a free trade zone between the two countries. However, there is no reason to expect that the design of the proposed new RTAs will be significantly different from that of the existing RTAs and that, unlike the latter, they will be fully implemented.

⁴ The Kyrgyz Republic will need to renegotiate the commitments it made while acceding to the WTO to be able to adopt the common external tariff schedule (CETS) of the EAEC, as many tariffs in the CETS of the EAEC are higher than the corresponding tariff bindings with which the Kyrgyz Republic joined the WTO.

⁵ The Single Economic Space is also referred to as the Common Economic Space.

4.2 Effects of the Regional Trade Agreements

Since the RTAs involving CARs generally have a narrow coverage and complex rules of origin and most of them have remained agreements on paper only, their impact on the trade policy regime and the pattern of trade in the CARs has so far been limited. In part because of the multilateral and bilateral RTAs signed by the CIS countries, trade among them tends to be freer than trade between CIS and non-CIS countries. And in part, for this reason, the CARs “overtrade” with most other CIS countries, as noted in Chapter 2. Likewise, trade among the EAEC countries is freer than trade between them and the other countries, although there is no indication that they “overtrade” with each other more than with the other CIS countries.

The EAEC customs union, however, may have significant adverse effects on Kazakhstan, Kyrgyz Republic, and Tajikistan if it is fully implemented. Table 4.1 compares the actual shares of selected EAEC countries in

Kazakhstan, Kyrgyz Republic, and Tajikistan’s merchandise imports with estimates of the corresponding bilateral import supply capacity. It shows that Kazakhstan, Kyrgyz Republic, and Tajikistan could have imported a much larger share of their merchandise imports from each other and the Russian Federation in 2004 (2000 in the case of Tajikistan) than they actually did. This suggests that considerable trade diversion is likely to occur and social welfare is likely to worsen in Kazakhstan, Kyrgyz Republic, and Tajikistan if these countries raise their external tariffs in an effort to implement the customs union of the EAEC.

Using partial equilibrium analysis, Tumbarello (2005) assesses welfare effects of implementing the customs union of the EAEC on its member countries under two scenarios: (i) prior to and (ii) following their accession to the WTO.⁶ She finds that the net welfare effect of implementing the EAEC customs union on Kazakhstan, Kyrgyz Republic, and Tajikistan would be negative under both scenarios (see Table 4.2). The implementation of the EAEC customs union would increase tariff revenues in all

Table 4.1: Actual and Potential Share of Selected Member Countries of the Eurasian Economic Community in Merchandise Imports of Kazakhstan, Kyrgyz Republic, and Tajikistan
(In percent)

		Exporter			
		Kazakhstan	Kyrgyz Republic	Russian Federation	Tajikistan*
Importer	Kazakhstan	Actual	0.7	37.7	0.1
		Potential ^b		87.9	2.9
	Kyrgyz Republic	Actual	21.6	31.2	0.3
		Potential ^b	61.9	99.1	5.2
	Tajikistan*	Actual	12.2	1.1	15.6
		Potential ^b	40.1	16.9	100.0

Note:

* The numbers are for 2000.

^b Refers to estimated bilateral import supply capacity (see Table 2.4 and footnote 5 in Chapter 2).

Source: Authors’ estimates based on the International Trade Center’s trade database.

⁶ The first scenario assumes that the EAEC countries change their MFN tariffs to match the current CETS of the EAEC, and raise their MFN tariffs on goods not covered by the CETS to the highest levels prevailing in the EAEC countries. The second scenario assumes that the EAEC countries change their MFN tariffs to match the EAEC’s current CETS and lower their MFN tariffs on goods not covered by the CETS to the lowest levels prevailing in the EAEC countries.

Table 4.2: Welfare Effects of Implementing the Customs Union of the Eurasian Economic Community on Kazakhstan, Kyrgyz Republic, and Tajikistan
(In million US dollars)

	Kazakhstan	Kyrgyz Republic	Tajikistan
Prior to the WTO Accession			
Change in tariff revenue	+223.4	+22.8*	+12.1
Change in consumer surplus	(255.2)	(26.3)*	(13.8)
Net welfare effect	(31.8)	(3.5)*	(1.8)
Following the WTO Accession			
Change in tariff revenue	16.9	—	3.8
Change in consumer surplus	(19.4)	—	(4.5)
Net welfare effect	(2.4)	—	(0.7)

Note:

* Since the Kyrgyz Republic has already joined the WTO, the figure represents the potential benefit/cost of implementing the Eurasian Economic Community customs union.

WTO – World Trade Organization

Source: Tumbarello (2005).

three countries, but this would be more than offset by a decline in consumer surplus. The net negative effect of implementing the EAEC customs union on Kazakhstan and Tajikistan would be much larger under the first scenario than under the second.

The partial equilibrium analysis made by Tumbarello (2005) captures only the direct welfare effects of implementing the EAEC customs union on its member countries. Yet, its indirect effects are likely to be as significant as its direct effects. And if the indirect welfare effects of implementing the EAEC customs union on Kazakhstan, Kyrgyz Republic, and Tajikistan are positive, then they can at least partly offset its negative direct welfare effects on these countries.

For this reason, we reassessed the effects of implementing the EAEC customs union on Kazakhstan by using its CGE model, which enables to capture both direct

and indirect effects of policy changes on the economy.⁷ In particular, we made a simulation of implementing the EAEC customs union with a rise in Kazakhstan's external tariffs. In this scenario, Kazakhstan abolishes all remaining tariffs on imports from the other EAEC countries (represented by the Kyrgyz Republic and Russian Federation), effective 1 January 2006. At the same time, it retains the current tariffs or adopts the Russian tariffs, whichever are higher, on imports from the non-EAEC countries for the commodities not yet covered by the CETS of the EAEC. The current external tariffs remain unchanged for the commodities already covered by the CETS of the EAEC. As a result, Kazakhstan's nonweighted average MFN ad-valorem tariff rate rises from 7.4% to 10.8%.⁸

Like Tumbarello (2005), we found that implementing the EAEC customs union with a rise in external tariffs would have considerable adverse macroeconomic effects on Kazakhstan. While tariff revenue

⁷ The computable general equilibrium model of Kazakhstan has been developed by ADB as part of its study on Central Asia regional cooperation in trade, transport, and transit. The model has a relatively detailed structure, with 25 sectors, 16 regions, 30 household types, government, and five trading partners (the PRC, Kyrgyz Republic, Russian Federation, Uzbekistan, and the rest of the world). It has been implemented in the General Algebraic Modeling System and calibrated to Kazakhstan's social accounting matrix for 2000. A detailed description of the model is given in Appendix 3.

⁸ The reason for considering such a scenario is that, if and when the member countries of the EAEC agree on common external tariffs for the commodities not yet covered by its CETS, they are likely to choose the highest existing external tariffs.

would grow much faster than in the baseline (“no-change”) scenario, real GDP would grow significantly more slowly. The cumulative shortfall in real GDP at 2002 prices over 2005–2015 would reach almost US\$10 billion, an equivalent of 31% of real GDP in 2005 (see Table 4.3). By 2015, real GDP would be 20.8% smaller compared with real GDP in the baseline scenario. Assuming that policy barriers to Kazakhstan’s exports to the EAEC countries remain unchanged, exports to both the EAEC and the non-EAEC countries would expand less than in the baseline scenario.⁹ Considerable trade diversion would ensue on the import side, with imports from the EAEC countries growing much faster and imports from the non-EAEC countries growing significantly more slowly than in the baseline scenario.

Chapter 1 argued that an RTA is more likely to improve rather than worsen social welfare in member countries

if its implementation is accompanied by the lowering of nonpreferential tariffs. To test to what extent this argument applies to the EAEC customs union, we made a CGE model-based simulation of a scenario in which implementing the EAEC customs union is accompanied by a reduction in Kazakhstan’s external tariffs. In this scenario, we assumed that Kazakhstan abolishes all remaining tariffs on imports from the other EAEC countries, effective 1 January 2006. Simultaneously, it adopts the external tariffs it would have under the previous scenario reduced uniformly by 50% across all commodities and non-EAEC countries. As a result, its nonweighted average MFN ad-valorem tariff rate falls from 7.4% to 5.4%.

We found that implementing the EAEC customs union, even with a reduction in Kazakhstan’s external tariffs, would cause substantial trade diversion and slow down real GDP growth compared with the baseline scenario (see

Table 4.3: Macroeconomic Effects on Kazakhstan of Implementing the Customs Union of the Eurasian Economic Community in 2006 with a Rise in External Tariffs

	Cumulative Change over Baseline Scenario in 2006–2015	Cumulative Change Relative to 2005 in 2006–2015
	(In million US dollars at 2002 prices)	(In percent)
Real GDP	(9,940)	(31.1)
Tariff revenue	5,627	389.8
Exports	(9,416)	(38.6)
EAEC countries*	(2,811)	(40.8)
Non-EAEC countries	(6,605)	(37.7)
Imports	(5,781)	(26.7)
EAEC countries*	12,338	342.0
Non-EAEC countries	(18,120)	(100.5)

Note:

*Represented by the Kyrgyz Republic and the Russian Federation.

EAEC – Eurasian Economic Community

GDP – gross domestic product

Source: Computable general equilibrium model-based simulations made by authors.

⁹ The assumption that policy barriers to Kazakhstan’s exports to the EAEC countries remain unchanged is not restrictive given that Kazakhstan’s exports are dominated by primary commodities, which are generally not covered by its RTAs with the Kyrgyz Republic and the Russian Federation, and policy barriers to Kazakhstan’s other exports to the Kyrgyz Republic and the Russian Federation are already fairly low.

Table 4.4). In addition, it would lead to a considerable shortfall in tariff revenue. However, its adverse effects on economic growth would be much smaller than in the previous scenario. Furthermore, unlike in the previous scenario, Kazakhstan's exports to both the EAEC and non-EAEC countries would grow faster than in the baseline scenario.

Implementing the EAEC customs union is likely to have greater adverse macroeconomic effects on the Kyrgyz Republic and Tajikistan than on Kazakhstan. The reason is that, as Table 4.1 suggests, further preferential trade liberalization within the EAEC framework is likely to cause greater trade diversion in these countries than in Kazakhstan. Moreover, implementing the EAEC customs union is more likely to lead to a rise in external tariffs in the Kyrgyz Republic and Tajikistan than in Kazakhstan.

Its effects on Uzbekistan are difficult to predict. Uzbekistan at present imposes relatively high explicit and implicit tariffs on imports from both EAEC and non-EAEC countries. To join the EAEC customs union, it will need to eliminate tariffs on imports from the EAEC

countries and, most likely, lower tariffs on imports from non-EAEC countries. This will lead to considerable trade creation and trade diversion, with an a priori ambiguous net effect on social welfare in Uzbekistan.

4.3 Accession to the World Trade Organization and Regional Cooperation in Trade Policy within the Multilateral Framework

In parallel with participation in various RTAs, the CARs have pursued membership in the WTO, albeit with a varying degree of success. While the Kyrgyz Republic joined the WTO in 1998, the other CARs are at different stages of the accession process (see Table 4.5). Kazakhstan has made a considerable headway in revising its national legislation in line with WTO requirements and is at an advanced stage of the accession process, with an active program of Working Party meetings in recent years. Azerbaijan, Tajikistan, and Uzbekistan's accession process are at an earlier stage than Kazakhstan's, although the process has speeded up for all three countries since 2002.

Table 4.4: Macroeconomic Effects on Kazakhstan of Implementing the Customs Union of the Eurasian Economic Community in 2006 with a Reduction in External Tariffs, 2006–2015

	Cumulative Change over Baseline Scenario	Cumulative Change Relative to 2005
	(In million US dollars at 2002 prices)	(In percent)
Real GDP	(2,999)	(9.4)
Tariff revenue	(5,869)	(406.5)
Exports	1,889	7.7
EAEC countries*	1,000	14.5
Non-EAEC countries	889	5.1
Imports	1,395	6.4
EAEC countries*	6,699	185.7
Non-EAEC countries	(5,304)	(29.4)

Note:

* Represented by the Kyrgyz Republic and the Russian Federation.

EAEC– Eurasian Economic Community

GDP – gross domestic product

Source: Computable general equilibrium model-based simulations made by the authors.

Table 4.5: Status of Accession of the Central Asian Republics to the World Trade Organization

(As of 10 February 2006)

	Applied	Working Party Meetings	Member
Azerbaijan	June 1997	3 meetings (June 2002, October 2004, and January 2005)	
Kazakhstan	January 1996	8 meetings (1997-2005)	
Kyrgyz Republic	1993		December 1998
Tajikistan	May 2001	2 meetings (March 2004 and April 2005)	
Uzbekistan	December 1994	3 meetings (July 2002, June 2004, and October 2005)	

Source: <http://www.wto.org/>.

The potential benefits of the WTO membership for the CARs are considerable. To join the WTO, a country needs to implement a broad range of policy and institutional reforms, including liberalizing trade policy and improving the legal and regulatory framework for international trade. Once it joins WTO, a country must conduct trade with other WTO members in accordance with pre-agreed rules. One of these rules requires that WTO members grant each other an MFN status. The terms on which a country joins the WTO and the rules in accordance with which its members conduct trade with each other are based on consensus and enforced through an effective dispute settlement mechanism. This means that accession to the WTO can help the CARs liberalize trade policy at relatively low costs and expand trade rapidly due to improved access to markets in a large number of countries that are already WTO members.¹⁰ Since many countries with which the CARs “under-trade” (including most developed countries and emerging markets in East and South Asia) are WTO members, accession to the WTO can also help the CARs fully realize their bilateral trade potential vis-à-vis these

countries and diversify trade in terms of geographical distribution. Furthermore, WTO membership can help the CARs reduce their vulnerability to possible protectionist measures by trading partners and make trade liberalization irreversible, which makes the policy environment more predictable and conducive to trade, investment, and growth. Accession to the WTO also strengthens the CARs’ bargaining power in trade negotiations, especially with countries seeking the WTO membership. Finally, the WTO accession can help the CARs strengthen their capacity for policy management and improve the quality of institutions.¹¹

The potential benefits of the WTO membership for the CARs will increase as more of their neighbors and trading partners accede to the organization. One reason the Kyrgyz Republic has not benefited much from its accession to the WTO in 1998 is that none of its immediate neighbors and a few of its key trading partners were WTO members at the time. The Kyrgyz Republic did not coordinate trade policy with its neighbors and

¹⁰ As of 11 December 2005, 149 countries were members of the WTO.

¹¹ Several empirical studies have concluded that the relatively poor quality of institutions in the CARs has a significant adverse impact on trade in Central Asia, especially trade between the CARs and Western European countries. See, for example, Babetskii, Babetskaia-Kukharchuk and Raser (2003), EBRD (2003), and Elborgh-Woytek (2003).

acceded to the WTO with tariff bindings which were substantially lower than tariffs prevailing in the region. In response, some of its neighbors imposed tight restrictions on imports from the Kyrgyz Republic in an effort to prevent deflection of their trade with other countries through the Kyrgyz Republic. Since those neighboring countries were not WTO members, the Kyrgyz Republic could not use WTO rules and procedures to have the restrictions repelled. However, the situation has changed significantly since 1998. Most notably, the PRC acceded to the WTO in 2001 and the Russian Federation is likely to join the organization in the near future. Continuing rapid economic growth and the attendant increase in import demand in these two large countries will create an opportunity for the CARs to boost exports and economic growth. WTO membership can help the CARs take this opportunity.

Since the WTO members conduct trade with each other in accordance with pre-agreed common rules, an increasingly large share of trade in Central Asia will be governed by those rules, as more CARs accede to the WTO. This will provide a more favorable environment for both intra- and extra-regional trade. Sudden and frequent changes in explicit tariffs and use of implicit tariffs—two major barriers to trade in Central Asia discussed in Chapter 3—will no longer be possible. Customs rules and procedures will, at least, partly be harmonized as they are made consistent with the WTO requirements. Those CARs that will have joined the WTO will be able to use its dispute settlement mechanism to resolve trade disputes with each other, and there will be no need for a separate dispute settlement mechanism for intra-regional trade.

WTO membership also entails costs for the CARs, but these are often exaggerated and misinterpreted. For example, the costs of policy reforms

(such as liberalization of trade policy) that a country implements in connection with the accession to the WTO are sometimes interpreted as costs of the membership in the organization. However, the country would need to implement most of these policy reforms anyway if it is to expand trade and integrate into the global economy. WTO membership actually reduces the costs of trade liberalization and makes it more difficult to reverse. Likewise, the constraints that WTO membership imposes on policy autonomy make the policy environment more predictable and conducive to trade, investment, and growth.

The real costs of the WTO membership are those directly associated with the accession process. These include the costs of preparing accession documents, negotiating accession conditions with a large number of existing members, and building institutions that are needed to meet the requirements of the WTO membership but otherwise have little significance for the country.¹² Nonetheless, the costs of WTO accession are most likely to be less than the costs associated with the preparation of the numerous RTAs that have been signed by CARs but not implemented. Moreover, most bilateral and multilateral donors are more willing to provide the CARs with technical assistance in institutional building for the accession to the WTO than for the preparation of an RTA.

WTO membership does not preclude regional cooperation in trade policy. In fact, several options are there for such cooperation, which the CARs can pursue within the multilateral framework. First, the CARs may want to liberalize trade policy in a coordinated manner and on a nondiscriminatory basis, as was done by many APEC member countries. This would help them avoid the bitter experience of the Kyrgyz Republic with

¹² A good example is the cost to Cambodia of adopting and implementing legislation consistent with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) code, which was signed as part of Cambodia's accession to the WTO in 2004. The Government of Cambodia spent much legislative time drafting laws, and lawyers, judges, law enforcement, and customs officials were taken from other duties to be trained in TRIPS compliance. Given the low probability of Cambodia producing intellectual property that can benefit from TRIPS protection, the net benefit from all these activities is unlikely to have outweighed the opportunity cost of scarce human capital. For a more detailed treatment of these compliance costs, including a box on Cambodia's experience, see Hoekman (2005).

uncoordinated trade liberalization, and use of restrictions on cross-border movements of people and transport equipment as a means to regulate imports. Second, the CARs that are not yet WTO members may want to coordinate their negotiating positions in the accession process with each other and other countries seeking WTO membership.¹³ This would strengthen their bargaining power during accession negotiations, but most likely prolong the process. Third, once they become WTO members, the CARs may want to join issue-specific coalitions within the WTO, such as the groups of developing countries pressuring for changes in the WTO rules on agriculture

and elimination of agricultural subsidies in developed countries (see Box 4.1).

4.4 Conclusions

Since 1991, the CARs have joined several regional organizations that involve or seek to reach a multilateral RTA. In addition, they have entered into numerous bilateral RTAs with other CIS countries. Many of these RTAs have not entered into force, while most of those that have formally entered into force have not been implemented. Consequently, their impact on the trade policy regime and

Box 4.1: Coalitions within the World Trade Organization

Several coalitions of member countries acting together and supporting each other on a particular issue have recently emerged within the World Trade Organization (WTO). Given the high costs for the Central Asian republics (CARs) of the barriers to their agricultural exports to developed countries and of trade-distorting subsidies that those countries provide to their farmers, the coalitions of developing countries that seek the reduction of barriers to agricultural imports to developed countries and the elimination of trade-distorting agricultural subsidies in those countries, are of particular importance for the CARs.

In the run-up to the WTO Ministerial Conference held in Cancun in September 2003, a group of 20 developing countries formed a coalition (referred to as the “G-20”) with the aim of significant liberalization of trade in agricultural products under the Doha Round of multilateral trade negotiations. To this end, the members of the G-20 adopted a common position on trade in agricultural products, which was circulated as their joint proposal during the Cancun Ministerial Conference and became the platform of the group. The members of the group continued consultations on policy and technical issues relating to trade in agricultural products after the Cancun Ministerial Conference. They also intend to maintain a common position on agriculture during future trade negotiations under the Doha Round.

During the WTO Ministerial Conference in Cancun, a group of West African cotton-producing countries (Benin, Burkina Faso, Chad, and Mali) presented the Sectoral Initiative on Cotton, which highlighted the damage to developing countries caused by cotton subsidies in developed countries—particularly the US—and called for the elimination of these subsidies. In March 2005, Brazil secured a final WTO ruling that most cotton subsidies in the US, including cotton export subsidies, were illegal under the WTO rules. At the WTO Ministerial Conference held in Hong Kong in December 2005, the WTO members agreed to eliminate cotton export subsidies by the end of 2006.

On 1 February 2006, the US Congress approved legislation repealing a cotton support program known as Step 2, effective 1 August 2006. The legislation both implements the WTO ruling on the case filed by Brazil against cotton subsidies in the US and fulfills the commitment made by the US in Hong Kong with respect to cotton export subsidies. It marks a significant change in US agricultural policies, which most likely would have not occurred without the pressure that the West African countries and Brazil put on the US within the WTO. However, even if the US fully eliminates the cotton subsidies found illegal by the WTO and all WTO members eliminate export cotton subsidies, considerable trade-distorting cotton subsidies will remain in developed countries. Cotton-producing CARs could broaden the coalition against these subsidies and help speed up their full elimination.

Source: Authors

¹³ In fact, Belarus, Kazakhstan, Tajikistan, and Russian Federation have agreed to pursue a coordinated approach to the accession to the WTO as part of their cooperation in trade policy within the framework of the EAEC.

the pattern of trade in the CARs has so far been limited. If fully implemented, however, the concluded and planned RTAs involving CARs may cause considerable trade diversion and have significant adverse effects on the CARs. In particular, implementing the EAEC customs union is likely to slow down economic growth in Kazakhstan, Kyrgyz Republic, and Tajikistan significantly, unless it is accompanied by substantial reductions in common external tariffs of its member countries.

In parallel with participation in various RTAs, the CARs have pursued membership in the WTO. The Kyrgyz Republic has already joined the WTO. The other CARs are at different stages of the accession process. The potential benefits of the WTO membership for the CARs are considerable. They have increased significantly with the accession of the PRC in 2001, and will increase further as more of the CARs' neighbors (including the Russian Federation) join the organization.

WTO membership also entails costs for the CARs, but these are often exaggerated and misinterpreted. The real costs of the WTO membership are those directly associated with the accession process and not those associated with policy reforms that a country often implements in connection with the WTO accession. Multilateral and bilateral development agencies can provide technical assistance in building institutions and capacity required for the WTO accession.

WTO membership does not preclude regional cooperation in trade policy. In fact, there are several options for such cooperation that the CARs can pursue within the multilateral framework. These include concerted but nondiscriminatory trade liberalization, coordination of negotiating positions in the accession process, and joint efforts with other developing countries to push for the elimination of cotton subsidies in developed countries.