

KEY POINTS

- Five transition economies from the Caucasus and Central Asia that acceded to the World Trade Organization have made extensive market access commitments.
- Georgia pursued post-accession unilateral liberalization while a few other countries including Armenia and the Kyrgyz Republic raised their applied tariff rates on average to join the Eurasian Economic Union in 2015.
- Nondiscriminatory liberalization should be pursued to enhance trade creation and contain trade diversion. Amid the present geopolitical tensions, such an approach may also help secure alternative supply chains by diversifying source of imports.

WTO Accession and Post-Accession Trade Policy by Selected Transition Economies in the Caucasus and Central Asia

Kenji Takamiya¹

Principal Economist

Regional Cooperation and Operations Coordination Division

Central and West Asia Department

Asian Development Bank

INTRODUCTION

Accession to the World Trade Organization (WTO) is an important milestone for market-oriented reforms for transition economies that became independent from the former Soviet Union in 1991. Countries in the Caucasus and Central Asia that joined the WTO's multilateral trading system include the Kyrgyz Republic (in 1998), Georgia (in 2000), Armenia (in 2003), Tajikistan (in 2013), and Kazakhstan (in 2015). At the same time, these five recently acceded members (RAMs)² of the WTO have been pursuing unilateral reforms and regional integration initiatives. Nondiscriminatory trade liberalization unambiguously brings about positive welfare impacts (especially for small economies that do not affect terms of trade, whether it is pursued multilaterally or unilaterally). However, the effects of regional trade agreements (RTAs) would depend on the net of their positive impacts on trade creation and negative impacts on trade diversion. Yet, countries can still mitigate or even eliminate the trade diversion effect and enhance trade creation by pursuing nondiscriminatory trade liberalization along with concluding RTAs. As long as the country's trade policy mix as a whole is nondiscriminatory, there would be no adverse welfare impacts even in the presence of RTAs.³ Building further upon WTO membership commitments, these five RAMs should persistently pursue nondiscriminatory trade liberalization in the post-accession period.

¹ Fatima Catacutan, a senior programs officer at ADB, provided technical support in the preparation of figures used in this policy brief.

² Customarily, the term "recently acceded members" refers to the members that joined the multilateral trading system after the WTO was established in 1995. They are also known as "Article XII members," since they acceded to the WTO as per Article XII of the Marrakesh Agreement Establishing the World Trade Organization.

³ A customs union can be designed as a welfare-enhancing arrangement. The possibility of an unambiguously welfare-enhancing customs union is an implication of a theoretical proposition known as the Kemp-Wan theorem (see Kemp and Wan 1976).

The second and third sections of this policy brief review the WTO accession commitments and post-accession trade policy performance of the five Caucasus and Central Asian RAMs, which constitute a core element of the brief. The fourth section briefly presents development in their trade flows, and the fifth section provides some recommendations. Given the availability of cross-country data, the assessment mainly sheds light on market access for trade in goods—in particular, tariff liberalization—while the importance of broader trade policy reforms is duly noted and addressed where possible. The latter would be an important subject for more focused country-specific studies.⁴ The experience of the RAMs may provide useful lessons for other transition economies from the region presently in the WTO accession process: Azerbaijan, Turkmenistan, and Uzbekistan.

WTO ACCESSION COMMITMENTS

The WTO accession negotiations are primarily conducted on two tracks: the multilateral working party process and bilateral market access negotiations. These are completed before the terms of accessions are presented and approved by the WTO General Council (if not at the Ministerial Conference) and often take a long period that may well exceed a decade. The multilateral working group comprises the interested incumbent WTO members. It primarily collects information of the acceding

government's trade policy regime, reviews its details, and negotiates for the compliance of merchandise and service trade policies and trade-related intellectual properties (TRIPS) protection with rules embodied in the WTO's multilateral trade agreement (see Box). Compliance with the multilateral agreements usually requires extensive reforms to laws and regulations of the acceding economy. This process was particularly useful for the five RAMs, since they were all transition economies transforming their domestic economic regime to enhance their market orientation. The WTO's multilateral trade agreements accorded an anchor or benchmark for their domestic reforms. Except where special clauses known as WTO plus and minus are negotiated, multilateral trade agreements are applicable to all WTO members, and acceding governments commit to single-undertaking to observe all of them.

Bilateral market accession negotiations are conducted separately between the acceding government and the individual incumbent WTO members concerned. These cover the acceding government's market access for goods (including tariffs) and services. The results of negotiations are ultimately reflected in the schedules of commitments that form part of the acceding government's terms of WTO accession. Market access commitments negotiated bilaterally are extended multilaterally to all WTO members on a most-favored nation (MFN) basis. The five RAMs made substantial tariff-binding commitments

Box: Multilateral Trade Agreements of the World Trade Organization

Multilateral Agreements on Trade in Goods

- General Agreement on Tariffs and Trade (GATT) 1994
- Agreement on Agriculture
- Agreement on Sanitary and Phytosanitary Measures
- Agreement on Textiles and Clothing (ATC)
- Agreement on Technical Barriers to Trade
- Agreement on Trade-Related Investment Measures
- Agreement on Anti-Dumping (Article VI of GATT 1994)
- Agreement on Customs Valuation (Article VII of GATT 1994)
- Agreement on Preshipment Inspection
- Agreement on Rules of Origin
- Agreement on Import Licensing
- Agreement on Subsidies and Countervailing Measures
- Agreement on Safeguards
- Agreement on Trade Facilitation

- Understanding on Other Duties and Charges (GATT Article II:1(b))
- Understanding on State Trading Enterprises (GATT Article XVII)
- Understanding on Balance-of-Payments
- Understanding on Regional Trade Agreements (GATT Article XXIV)
- Understanding on Waivers of Obligations
- Understanding on Concession Withdrawal (GATT Article XXVIII)
- Marrakesh Protocol to GATT 1994

General Agreement on Trade in Services (GATS)

Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)

Note: The ATC was terminated on 1 January 2005, before Kazakhstan and Tajikistan acceded to the World Trade Organization (WTO). The TRIPS Agreement was amended on 23 January 2017 and the Trade Facilitation Agreement entered into force on 22 February 2017, after WTO accession by Armenia, Georgia, Kazakhstan, the Kyrgyz Republic, and Tajikistan.

Source: WTO. <https://www.wto.org/index.htm> (accessed 10 June 2021).

⁴ For instance, Jenson and Tarr (2007) estimated that over 70% of welfare gains from Kazakhstan's WTO accession accrue to liberalization of the foreign direct investment regime in the service sector.

in their terms of accession. All had bound tariff rates averaging less than 10%, ranging from 6.5% for Kazakhstan to around 8.5% for Armenia.⁵ The record compares favorably with bound tariff rates of East Asian RAMs in transition, which averaged 10% or higher (Table 1), let alone many other developing countries that joined the multilateral trading system before 1995 and maintain much higher bound rates.

Among the five RAMs, Georgia specifically took the opportunity of WTO accession to cut tariffs sizably on average. Whereas the country's pre-accession applied MFN tariff rate exceeded 10% in 1999, the bound tariff rates averaged at around 7% for WTO accession in 2000. The Georgian policy makers were aware of the economic merits of trade liberalization and tariff-binding commitments (Takamiya 2019). On the other hand, Armenia,

the Kyrgyz Republic, and Tajikistan did not necessarily reduce their applied tariff rates on average through WTO accession. As a result of earlier domestic reforms, the applied tariff rates of these transition economies of the region were already relatively low. Tajikistan's pre-accession MFN-applied tariff rate in 2010 and the WTO bound rate were both about 8% on average. Thus, tariff binding appears to have been used to lock in the status quo to prevent policy reverse in the future and enhance predictability. Armenia's pre-accession applied tariff rate was 3.0% on average in 2001, and the country had bound tariff rates at a higher level, leaving some room for potential upward adjustment in the future. Not reducing the applied tariff rates through binding for WTO accession is also a practice observed in other transition economies outside of the Caucasus and Central Asia (Bacchetta and Drabek 2002).

Table 1: Asian Transition Economies: Simple Average Tariff Rates (%)

	WTO Accession Year	MFN Rates and Year Applied			WTO Final Bound Rates	
		Pre-Accession	Upon Accession	Latest	Accession Commitment	Latest (2021)
Caucasus and Central Asia						
Armenia	2003	3.0 (2001)	2.9 (2004)	8.5 (2019)	8.5	8.7
Georgia	2000	10.6 (1999)	10.5 (2001)	1.5 (2016)	7.4	7.2
Kazakhstan	2015	8.1 (2014)	6.5 (2016)	8.1 (2019)	6.5	6.5
Kyrgyz Republic	1998	0.0 (1995)	4.8 (2000)	8.3 (2019)	7.5	7.5
Tajikistan	2013	7.8 (2010)	7.5 (2014)	7.5 (2017)	8.1	8.0
East Asia						
Cambodia	2004	16.4 (2003)	14.3 (2005)	11.2 (2016)	19.0	19.3
China, People's Republic of	2001	17.0 (2000)	13.1 (2002)	7.5 (2019)	10.0	10.0
Lao People's Democratic Republic	2013	9.7 (2008)	10.0 (2014)	8.5 (2019)	18.7	19.2
Mongolia	1997	...	0.0 (1999)	5.2 (2019)	17.6	17.4
Viet Nam	2007	16.8 (2006)	10.8 (2008)	9.7 (2019)	11.4	11.7

... = data not available, ITC = International Trade Centre, MFN = most-favored nation, UNCTAD = United Nations Conference on Trade and Development, WTO = World Trade Organization.

Notes: The MFN-applied rates are sourced from the World Bank, whereas WTO final bound rates are sourced from the WTO. Accession commitments are those presented in the earliest edition of World Tariff Profile published after respective member's accession. The World Bank's data and the WTO data may not be directly compatible and there are occasional discrepancies between the two. For instance, Kazakhstan's simple average MFN-applied tariff rate was 6.1% in 2019 as per the WTO data, lower than the World Bank data. The Kyrgyz Republic's simple average MFN-applied rate was 6.6% in 2020, as per the WTO data.

Sources: World Bank. World Development Indicators. <https://data.worldbank.org/> (accessed 13 October 2021); WTO, ITC, and UNCTAD. 2007. *World Tariff Profiles 2006*. Geneva; WTO, ITC, and UNCTAD. 2008. *World Tariff Profiles 2008*. Geneva; WTO, ITC, and UNCTAD. 2014. *World Tariff Profiles 2014*. Geneva; WTO, ITC, and UNCTAD. 2016. *World Tariff Profiles 2016*. Geneva; WTO, ITC, and UNCTAD. 2021. *World Tariff Profiles 2021*. Geneva.

⁵ Simple average tariff rates presented in this policy brief are calculated by the source institutions and subject to potential minor discrepancies depending on the methods of calculation.

For WTO accession, the five RAMs also made extensive market access commitments for trade in services. For all five countries, the number of subsectors with market access commitments exceeded 100, which compares favorably with those of East Asian transition economies that counted less than 100 except for Viet Nam (Table 2). For instance, Armenia’s service commitments covered almost all segment of services, excluding only postal services and maritime services.

Table 2: General Agreement on Trade in Services Commitments by Asian Transition Economies

	Number of Sectors	Number of Subsectors
Caucasus and Central Asia		
Armenia	11	104
Georgia	11	125
Kazakhstan	10	112
Kyrgyz Republic	11	140
Tajikistan	11	110
East Asia		
Cambodia	11	97
China, People’s Republic of	9	93
Lao People’s Democratic Republic	10	77
Mongolia	6	37
Viet Nam	11	106

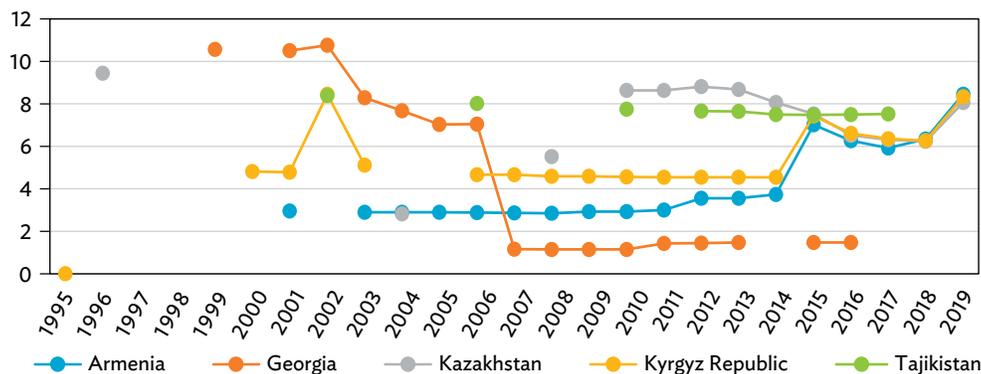
Source: World Trade Organization. I-TIP Services. <http://i-tip.wto.org/services/default.aspx> (accessed 13 October 2021).

POST-ACCESSION TRADE POLICY AND MARKET ACCESS

After WTO accession, the RAMs in the Caucasus and Central Asia pursued their respective trade policies not only by implementing WTO accession commitments, but also through unilateral reform and RTAs. Georgia undertook significant unilateral trade liberalization as part of the country’s broader structural reform initiatives to improve its investment climate. For merchandise trade, the country’s average MFN-applied tariff rates dropped from over 10% at around the time of WTO accession in 2000 to 1.2% by 2007, substantially lower than the WTO accession commitment, and has been kept below 2% thereafter (Figure 1). Thus, Georgia’s tariff regime has become among the most liberal across the globe. Aside from low applied tariff rates, the country has established a very liberal business environment across most segments of the economy, mainly through its autonomous reforms. While pursuing unilateral trade liberalization, Georgia also concluded free trade agreements (FTAs) with some economies from across the world, in addition to those with its long-standing trading partners from the former Soviet Union. Among the most prominent FTAs was the Association Agreement with the European Union (EU) signed in 2014. The agreement entailed establishment of a Deep and Comprehensive Free Trade Area (DCFTA). Under the DCFTA, the remaining restrictions on trade in goods and services between two parties were substantially removed, and Georgia’s trade-related legislation was envisaged to be aligned with those of the EU. Importantly, Georgia’s RTAs, including the DCFTA, are all FTAs, not customs unions that require adoption of common external tariff rates. Given Georgia’s low MFN-applied tariff rates, there was little, if any, element of discrimination to nonparties to these FTAs.

Armenia, Kazakhstan, and the Kyrgyz Republic followed a uniquely different path for regional integration. In 2015, these three countries joined the Eurasian Economic Union (EAEU), a customs union,

Figure 1: Simple Average Most-Favored Nation Applied Tariff Rates (%)



Source: World Bank. World Development Indicators. <https://data.worldbank.org/> (accessed 7 June 2021).

with Belarus and the Russian Federation, aside from FTAs among the former Soviet Union countries. The EAEU aims to establish a common market among its member states and requires alignment of their MFN-applied tariff rates with common external tariff (CET) rates, based on the Russian Federation’s rates and WTO accession commitments that averaged over 7%. Accordingly, countries that earlier had MFN-applied tariff rates substantially lower than CET rates, including Armenia and the Kyrgyz Republic, had to raise them sizably. Kazakhstan’s simple average MFN-applied tariff rate has been somewhat closer to that of the Russian Federation. Tajikistan’s MFN-applied tariff rate has been relatively stable. While the country has not joined the EAEU, its average MFN-applied rate at 7.5% in 2017 was also close to those of EAEU members.

The EAEU membership by Armenia and the Kyrgyz Republic took place after their WTO accession, and these two RAMs entered tariff renegotiations on bound rates with other WTO members. Kazakhstan joined both the EAEU and the WTO in 2015. The EAEU membership enhanced the complexity of the country’s WTO accession negotiations, and a provision on possible prospective tariff renegotiations was inserted in the terms of accession (WTO 2015). The EAEU also collectively negotiated FTAs with a number of trading partners.

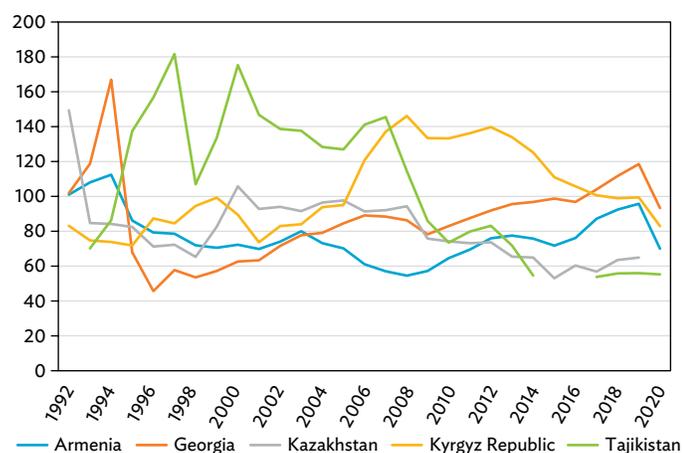
TRADE PERFORMANCE

A brief observation of trade policy of the RAMs from the Caucasus and Central Asia presented above shows that all of them made extensive commitments for WTO accession. As far as their average tariff levels are concerned, they have a relatively liberal trade policy regime for market access. At the same time, interesting and somewhat differing characteristics are observed across countries.

On the one hand, Georgia pursued an apparently more optimal policy thoroughly on multilateral, unilateral, and regional fronts. The country proactively utilized the opportunity for WTO accession to cut its MFN tariffs, proceeded with further liberalization unilaterally after WTO accession, and concluded FTAs including the DCFTA with the EU in a manner least discriminatory to nonmembers of FTAs. On the other hand, three other RAMs from the region did not necessarily lower their MFN-applied tariff rates on average for WTO accession, while some countries joined the EAEU as a substantive regional integration initiative and raised MFN-applied tariff rates on average. While rigorously estimating the impact of RAMs’ trade policy on trade flow and economic welfare is outside of the scope of this policy brief, a casual review of their trade performance data (Figures 2–5) shows some unique features.

Georgia’s trade-to-gross domestic product (GDP) ratio has been almost constantly rising, albeit from the low base since the mid-1990s when the country started an early phase of structural reforms after independence in 1991, except amid the global financial crisis and the coronavirus disease (COVID-19) pandemic. This observation holds true for both overall trade and merchandise trade, whereas the same cannot be said for other RAMs from the region. Georgia’s overall trade-to-GDP ratio reached nearly 120% in 2019, the highest among the five RAMs. Any country’s trade openness is affected by many factors, but it would not be unreasonable to speculate that Georgia’s very liberal policy worked in favor of trade creation. Trade with the EU accounts for roughly a quarter of Georgia’s merchandise trade, but its share has not been increasing in the medium term since the conclusion of the DCFTA in 2014. By implication, the DCFTA did not appear to have led to substantial trade diversion in favor of the EU trade and at the expense of others. On the other hand, the share of intra-EAEU merchandise trade for Armenia, Kazakhstan, and the

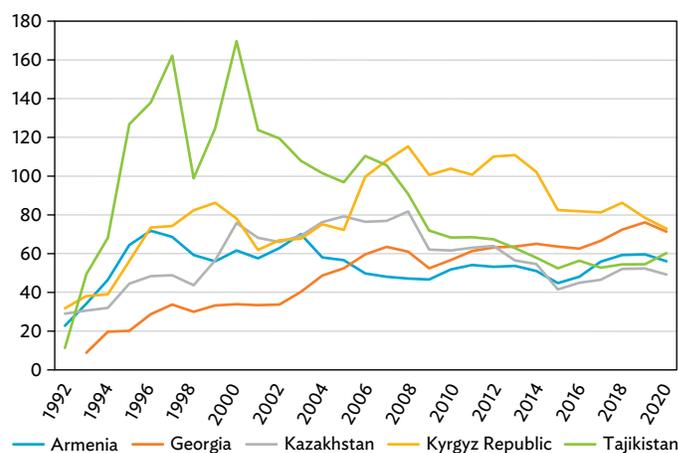
Figure 2: Overall Trade (% of GDP)



GDP = gross domestic product.

Source: World Bank. World Development Indicators. <https://data.worldbank.org/> (accessed 6 October 2021).

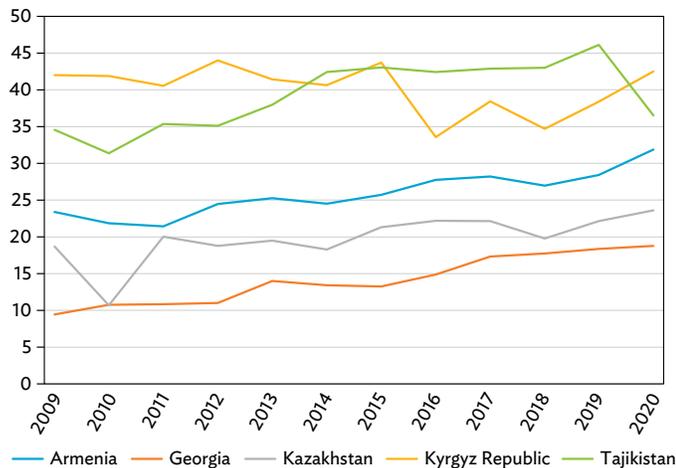
Figure 3: Merchandise Trade (% of GDP)



GDP = gross domestic product.

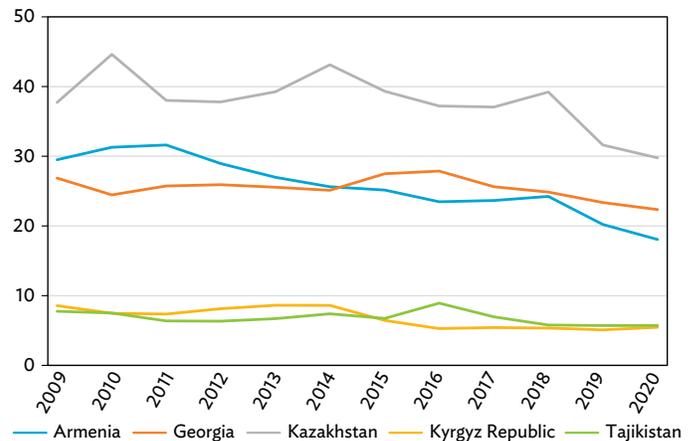
Source: World Bank. World Development Indicators. <https://data.worldbank.org/> (accessed 7 June 2021).

Figure 4: Trade with or within the Eurasian Economic Union (% of merchandise trade)



Source: International Monetary Fund. Direction of Trade Statistics. <https://data.imf.org/> (accessed 14 October 2021).

Figure 5: Trade with the European Union (% of merchandise trade)



Source: International Monetary Fund. Direction of Trade Statistics. <https://data.imf.org/> (accessed 25 October 2021).

Kyrgyz Republic has been stepping up in recent years (at a higher pace than other RAMs in the region) to reach 31.9%, 23.6%, and 42.5%, respectively, in 2020, even though their trade-to-GDP ratio has not necessarily showed the same upward trend, implying the possibility of trade diversion.

help secure alternative supply chains with non-EAEU members by diversifying source of imports. Georgia may wish to maintain its liberal trade regime, and Tajikistan could pursue further trade liberalization unilaterally.

POLICY RECOMMENDATIONS

The RAMs from the Caucasus and Central Asia have been pursuing their respective trade policies on multilateral, unilateral, and regional fronts. These economies may further orient their trade policies for further integration with the global economy and improvement of their economic welfare. Building upon their extensive WTO accession commitments, the countries should maintain liberal and nondiscriminatory trade policies. To this end, the EAEU may cut the CET rates for their own economic benefit.

The economic impacts of RTAs on merchandise trade could be unambiguously positive if the MFN-applied tariff rates are low or lowered to enhance trade creation and contain trade diversion. Georgia's FTAs, including the DCFTA, appear to be a favorable case. On the contrary, the EAEU followed the path of requiring some of its members to raise the MFN-applied tariff rates on average. Nonetheless, the EAEU still has an option to collectively cut its CET rates. One approach that could be considered would be to adjust the CET rate downward for each tariff line and align it with the lowest pre-EAEU applied tariff rate among the members. Such an arrangement would help recover possible welfare losses of countries that raised tariffs upon joining the EAEU, and bring about additional welfare gains to others—a win-win outcome for all. Amid the present geopolitical tensions, such an approach may also

REFERENCES

- M. Bacchetta and Z. Drabek. 2002. Effects of WTO Accession on Policy-Making in Sovereign States: Preliminary Lessons from Recent Experience of Transition Countries. *Staff Working Paper*. DERD-2002-02. Geneva: World Trade Organization. https://www.wto.org/english/res_e/reser_e/derd200202_e.htm
- J. Jenson and D. Tarr. 2007. The Impact of Kazakhstan Accession to the World Trade Organization: A Quantitative Assessment. *World Bank Policy Research Working Paper*. No. 4142. Washington, DC: World Bank. <https://openknowledge.worldbank.org/handle/10986/7207>.
- M.C. Kemp and H.Y. Wan, Jr. 1976. An Elementary Proposition Concerning the Formation of Customs Unions. *Journal of International Economics*. 6 (1). pp. 95–97.
- K. Takamiya. 2019. *Recently Acceded Members of the World Trade Organization: Membership, the Doha Development Agenda, and Dispute Settlement*. Singapore: Palgrave Macmillan.
- World Trade Organization (WTO). 2015. Working Party on the Accession of the Republic of Kazakhstan: Report of the Working Party on the Accession of the Republic of Kazakhstan. *WT/ACC/KAZ/93*. Geneva.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

ADB Briefs are based on papers or notes prepared by ADB staff and their resource persons. The series is designed to provide concise, nontechnical accounts of policy issues of topical interest, with a view to facilitating informed debate. The Department of Communications administers the series.

www.adb.org/publications/series/adb-briefs

The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of ADB or its Board of Governors or the governments they represent. ADB does not guarantee the accuracy of the data included here and accepts no responsibility for any consequence of their use.

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 8632 4444
Fax +63 2 8636 2444



Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO)

© 2022 ADB. The CC license does not apply to non-ADB copyright materials in this publication.

<https://www.adb.org/terms-use#openaccess> <http://www.adb.org/publications/corrigenda> pubsmarketing@adb.org