



Trade Policy Coordinating Committee Status Report

**Senior Officials' Meeting
on Central Asia Regional Economic Cooperation
25-26 September 2008
Baku, Azerbaijan**

CAREC Trade Policy Coordinating Committee Status Report for the September 2008 Senior Officials' Meeting

I. INTRODUCTION

1. The Trade Policy Coordinating Committee (TPCC) was established to help all CAREC member countries adopt more open trade regimes, so as to facilitate both intra- and inter-regional trade. It is the only CAREC committee whose focus is exclusively on policies, not projects. The IMF takes the lead in organizing the work of the TPCC.
2. Since its establishment, the TPCC held nine meetings. The reports of the first five meetings are summarized in the Trade Policy Coordinating Committee Status Report that was submitted to the October 2006 Senior Officials' Meeting (SOM), the reports of the sixth and seventh meetings are summarized in the TPCC Status Report that was submitted to the November 2007 SOM, and the report of the eight meeting is summarized in the TPCC Status Report that was submitted to the April 2008 SOM. This report focuses on the ninth TPCC meeting.

II. NINTH TPCC MEETING

3. The ninth TPCC meeting was held in Baku on September 23, 2008. During the meeting, delegates discussed the revised draft of the Trade Policy Strategic Action Plan (TPSAP), reviewed the progress made in the implementation of the instructions from the 5th Ministerial Conference related to reform of trade tax regimes, discussed the draft study on cross border trade of Afghanistan, and gave guidance on priorities for the TPCC's work program.

A. Trade Policy Strategic Action Plan

4. The Fifth Ministerial Conference endorsed the Comprehensive Action Plan (CAP) as a strategic document to guide CAREC's activities and initiatives. In addition, the Ministers at the conference recommended that medium-term sector strategies in primary sectors of energy, trade, and transportation be developed to make the CAP operational. Subsequently, the Sixth Ministerial Conference instructed the TPCC to prepare the TPSAP.
5. The first draft of the TPSAP was presented to and discussed by the delegates at the eighth meeting of the TPCC. The draft TPSAP envisages: (i) vigorous pursuit of WTO accession negotiations while ensuring that regional trade agreements remain consistent with this objective; (ii) elimination of remaining quantitative restrictions on exports and imports; (iii) reduction and simplification of trade taxes, including through uniform application of VAT and excises on domestic and traded goods; (iv) capacity-building activities to facilitate WTO accession and to deepen understanding of the improvements needed in the general institutional environment to support intraregional and international trade; and (v) close coordination of TPCC and Trade Facilitation/Customs Cooperation Committee (TF/CCO) activities with a view to implementing the recommendations for reduction of transit and border trade barriers that were endorsed by the SOMs in 2006-07.

6. During the eighth TPCC meeting and the SOM in April 2008, delegates welcomed the first draft of the TPSAP and agreed with its focus on the three key pillars endorsed by the Ministers: WTO accession; greater trade openness; and capacity building, which are interconnected and reinforce each other. Delegates also supported the emphasis on the principle of “pragmatism with results” recognizing different circumstances of each country and on measurable performance indicators. They requested that a revised draft of the TPSAP be prepared incorporating the suggestions for refinement of the document and an indicative timetable for policy actions for discussion at the Fall TPCC meeting.

7. The revised TPSAP that was discussed at the ninth TPCC meeting envisages concrete policy actions to achieve the key objectives of trade openness, WTO accession, and capacity building on trade issues with an indicative time schedule for their implementation. Policy actions are based on the TPCC’s background studies and relevant associated literature as well as policy discussions at regular meetings of the TPCC and the SOM. The time schedule is anchored by the medium-term objective of WTO membership by all CAREC countries by the end of 2013. Within this period, a flexible time-frame is envisaged for policy actions, which recognizes the differences in the capacity of each government to make changes in policy, regulations, and administrative procedures and allows countries to prioritize policy actions taking into account their national circumstances. The proposed framework is results oriented and establishes benchmarks for monitoring policy actions.

8. The delegates to the ninth TPCC meeting expressed broad agreement with the proposed policy actions and the time schedule for their implementation. They endorsed the objective of WTO membership for all CAREC countries by the end of 2013 and welcomed the flexible time frame for policy actions that recognizes different country circumstances and priorities. They emphasized that the policy actions contained in the current TPSAP as well as the envisaged time frame for their implementation are not legally binding obligations and may need to be revised in the future to reflect developments in CAREC countries and the global economy.

9. The People’s Republic of China (PRC) delegation informed the TPCC that the objectives in Annex 1, section A.1.3 of the TPSAP need to reflect realities in relation to the number of current non-zero tariff bands and the ability to reduce this number of bands within the time frame 2009-2012. Delegates to the TPCC agreed to modify the performance indicator regarding the objective of the number of non-zero tariff bands of around three with a footnote saying that for countries with more than 10 non-zero bands, the reduction will be more gradual. At the request of the PRC delegation, the TPCC also agreed that the maximum tariff rate will be capped at 20 percent with only a few exceptions, if essential.

10. The Uzbekistan delegation informed the TPCC that the two policy actions in Annex 2, section A.2.2 of the TPSAP related to Uzbekistan have already been met. This information will be confirmed with the World Bank, the author of the report from which the policy actions were drawn, before revisions. The delegations from the PRC and Tajikistan highlighted the importance of moving quickly to provide support to countries pursuing WTO accession and suggested that the timing of capacity development actions outlined in Annex 1, sections A.1.1 and A.1.4 be brought forward, if feasible.

B. Review of Progress in Reform of Trade Taxes

11. In line with the recommendation of the 5th Ministerial Conference, the TPCC continued monitoring implementation of measures to reform the trade tax regimes of CAREC countries.¹ Some country delegates reported that they are already in compliance with at least some of the recommended trade tax reforms. The simple average tariff rate is below 10 percent in all CAREC countries except Uzbekistan. The maximum tariff rate is below 20 percent in Azerbaijan, Mongolia, and Tajikistan. The number of nonzero tariff bands is 1 in Mongolia and 3 in Uzbekistan. There are no specific or combined (ad valorem and specific) tariffs in Afghanistan. VAT and excises are applied uniformly to imported and domestically produced goods in China, the Kyrgyz Republic, Mongolia, and Tajikistan. Other duties and charges on imports are consolidated into a single rate in Azerbaijan, the Kyrgyz Republic, and Mongolia.

12. In general, however, country delegates reported little change since the 5th Ministerial Conference in implementing the recommended reforms. China and Kazakhstan have reduced the simple average tariff to 9.8 percent and 6.6 percent, respectively. China reduced the number of non-zero tariff bands from 63 to 58. Mongolia has reduced the VAT applied both to domestic and imported goods from 15 percent to 10 percent, and has revised the regulations related to exemptions and concessions to the tariff regime in the priority sectors. Several countries are planning changes to their tariff regimes in line with their WTO accession agreements. Delegates to the TPCC meeting provided additional information and clarifications regarding their trade taxes. Country delegates were of the view that trade tax reforms are a vital element for promoting trade, and that progress needs to be made in accordance with the time-frame envisaged in the TPSAP.

C. Further Work on Border Trade Issues

13. During the eighth meeting of the TPCC, the World Bank representative presented proposals for follow up studies to the border trade study that was discussed by the TPCC meeting in September 2007. The draft of the proposed study on cross border trade of Afghanistan was presented and discussed at the ninth TPCC meeting.

14. The study summarizes the results of surveys carried out on the Afghan side in May 2008 at two border crossing points (BCPs): Hairatan, linking Afghanistan and Uzbekistan, and Sher Khan Bankdar, linking Afghanistan and Tajikistan. It finds that existing regulatory arrangements at both BCPs erect significant barriers to trade in general and cross border trade in particular. Despite significant improvements in the quality of infrastructure in Afghan BCPs, cross-border trade does not appear to have taken off on a large scale because of formal restrictions on the movement of people, goods, and vehicles further exacerbated by rent-seeking enabled by convoluted regulations. The study recommends that all three governments should consider: (i)

¹ The recommendations are: (i) reducing tariffs and other trade taxes in countries where the cumulative average rate is high, with the aim of bringing the simple average tariff below 10 percent; (ii) reducing the maximum and high tariff rates, with the maximum rate limited to 20 percent; (iii) cutting the number of non-zero tariff bands to around 3; (iv) eliminating specific and combined tariffs by shifting to an ad valorem methodology; (v) removing exemptions and abstaining from granting them in the future; (vi) applying taxes (VAT and excise) uniformly to imported and domestically produced goods; and (vii) consolidating other import taxes, fees, and charges into a single rate.

introducing visa-free entry for residents of bordering areas for up to two days; (ii) lowering, if not eliminating, border charges on cargo not exceeding permissive limits; and (iii) opening BCPs to light vehicle traffic (mini-buses and vans) for residents of bordering districts.

15. In the ninth TPCC meeting, delegates expressed their appreciation of the study and largely agreed with the study's policy recommendations. The Uzbek delegation argued that cross border trade belongs to the realm of bilateral agreements between neighboring CAREC countries and the implementation of recommendations should take into account a country's development strategy. By the same token, the relevance of recommendations notwithstanding, the recommendations should be implemented at the discretion of willing states on a bilateral basis and according to their own timetable. The Mongolian delegation also requested the World Bank to study the border between Mongolia and the PRC.

III. FUTURE WORK PLAN

16. The TPCC agreed that its agenda going forward should include:

- (i) presenting the revised TPSAP to the SOM meeting in Baku on September 25-26, 2008 to get endorsement of the proposed policy actions and their indicative timetable;
- (ii) submitting the TPSAP to the 7th Ministerial Conference in Baku in November 2008 for endorsement;
- (iii) preparing the study (led by the World Bank) on trade through channels involving bazaars and presenting its findings and policy recommendations to the Spring 2009 TPCC and SOM;
- (iv) preparing the study (led by the World Bank) on a broad cross-border cooperation program; and
- (v) providing a forum for elaboration and interpretation of procedural aspects as well as for monitoring the progress in the implementation of the TPSAP.

IV. RECOMMENDATIONS FOR CONSIDERATION TO THE SOM

17. The TPCC reached agreement to recommend to the SOM of September 25-26, 2008 that:

- (i) the revised draft TPSAP that was discussed at the ninth TPCC meeting be endorsed;
- (ii) subsequently, the TPSAP be presented to the Seventh Ministerial Conference in Baku for endorsement, with a view to commence the implementation of its envisaged policies starting in 2009; and
- (iii) a press release be issued after the endorsement of the TPSAP by the Ministerial Conference to inform the international community of the CAREC countries' interests and intentions to work together to achieve the TPSAP objectives.

