



Reference Document
For Session 1 of the Senior Officials' Meeting
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Trade Policy Sector Progress Report and Work Plan (2011–2012)

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I. Overview of the Progress (since 9th MC)

1. The Trade Policy Strategic Action Plan (TPSAP), which was endorsed at the seventh CAREC Ministerial Conference in November 2008, envisages policy actions to achieve several key objectives: (i) support accession to the World Trade Organization (WTO); (ii) reduce and simplify trade taxes; (iii) eliminate remaining quantitative restrictions on exports and imports; (iv) reduce transit and border trade barriers; and (v) implement capacity building activities to facilitate WTO accession and to improve the general institutional environment for trade. The work of the Trade Policy Coordinating Committee (TPCC) is based on the TPSAP, and is well aligned with CAREC's strategic objectives of expanding trade and improving competitiveness. The focus is exclusively on policies, not projects, and in that respect the trade policy sector differs significantly from the other CAREC sectors.

2. This progress report covers key developments in the trade policy sector since the ninth CAREC Ministerial Conference in October 2010, and sets out the work plan for the next 12 months and beyond. During the past year, the TPCC continued its work on capacity building to support WTO accession, and began to develop a more structured and long-term approach to WTO accession training, with the participation of several multilateral institutions. The TPCC also continued to monitor implementation progress of the TPSAP, with the help of the questionnaire-based tool developed by the IMF specifically for that purpose, and began to regularly report the trade liberalization index, which is used as a progress indicator in the CAREC Development Effectiveness Review. In addition, the IMF started to develop a tentative indicator of the institutional environment for trade, with the view to continuously monitor this indicator and use it as an additional input in the Development Effectiveness Review, if agreed by all member countries. The TPCC also closely monitors and analyzes key developments in trade policies of CAREC countries. In particular, significant attention was devoted to analyzing the impact of the recently created customs union between Kazakhstan, Russia and Belarus, on Kazakhstan itself as well as on the neighboring CAREC countries.

II. Key Developments

A. Analyzing the Key Developments in Trade Policies of CAREC Countries

3. One of the TPCC objectives is to serve as a forum for CAREC countries to discuss the objectives and key developments in trade and trade policies. The recent creation of the customs union between Kazakhstan, Russia and Belarus has been an important development, which affects not only Kazakhstan, but also the whole region. Accordingly, several sessions at the fourteenth TPCC meeting in June 2011 were devoted to the analysis of the impact of the customs union. One session included a presentation by the officials from Kazakhstan, explaining the rationale for creating the customs union. The officials stressed the importance of further developing trade with Russia, and the benefits of gaining access to a larger market. In another session, experts from the World Bank presented their analysis of the impact of the customs union on the neighboring countries, in particular the Kyrgyz Republic and Tajikistan. They emphasized that the emergence of the customs union creates both challenges and opportunities for the neighboring countries – in the medium term, it can have a positive impact on countries' exports, as long as they succeed in improving their competitiveness and the general business climate.

4. Delegates highly appreciated the opportunity to discuss trade developments in the region, and to present their questions and considerations directly to the trade officials from Kazakhstan. Delegates agreed with the need to continue to analyze and discuss at the TPCC

meetings the impact of the customs union, as well as the other trade developments in the region. At the fifteenth TPCC meeting, the discussion of the impact of the customs union on the neighboring countries will continue, led by the delegations from Kyrgyz Republic and Tajikistan.

B. Supporting WTO Accession

5. Accession to the WTO is one of the main objectives stated in the TPSAP. At the fourteenth TPCC meeting in June 2011, delegates held a roundtable discussion on “CAREC countries’ progress and prospects in WTO accession negotiations”. Delegates from CAREC countries that are not WTO members continue to see the envisaged WTO membership as one of the goals of their trade policies, and keep working to achieve such objective. The fact that countries are at different stages in the WTO negotiation process suggests that a continuous dialogue among them, in the context of TPCC meetings and other discussions, will be beneficial for all countries. Kazakhstan, for example, has achieved significant progress in its negotiations, by signing agreements with many key trading partners. On the other hand, Turkmenistan is at the very early stages of the process, assessing the costs and benefits of the WTO membership. All delegates noted the advantages of sharing views, information and experience on the negotiation process with their colleagues from the region. They have also expressed appreciation of the series of WTO training events that were conducted at the previous TPCC meetings, by trade officials from CAREC countries that have already become WTO members, and from the World Bank experts on trade and trade negotiations. Delegates showed strong interest in receiving further and more structured training for WTO accession, and stressed the need for such training to focus on practical knowledge and provide the opportunity for more intensive interaction between the trade officials from different countries. This will become especially important, as countries advance in their WTO negotiations.

6. In light of these preferences expressed by the delegates, ADB, the IMF and the World Bank have begun developing a more long-term and intensive WTO training program. It is envisaged that the training program would cover the period of up to two years, and would involve 5 to 6 training modules, each lasting 3-4 days and dealing with a specific topic. During the last 12 months, progress has been achieved by ADB and the World Bank in finding the sources of finance for this training program, as well as potential venues. It is envisaged that the first two training modules would take place in the first half of 2012. Additional details on the progress with organizing the two-year WTO training program will be discussed by delegates at the fifteenth TPCC meeting in November 2011 following a planned presentation by ADB officials.

C. Monitoring and Analyzing the Institutional Environment for Trade

7. Following the completion of the study on institutional impediments to trade in CAREC countries, country delegates agreed that the measures proposed in the study provided a useful guideline to develop country-specific plans to reduce institutional impediments to trade. The study stressed the need to adapt any action plan on institutional environment to individual country circumstances, and delegates unanimously agreed that this was the most sensible approach.

8. At the fourteenth TPCC meeting, delegates discussed the individual country plans to improve the institutional environment for trade, which were submitted by many CAREC countries in advance of the meeting. The received submissions showed that the CAREC countries see the institutional improvement as a priority, and are actively looking for ways to improve the institutional environment. Many countries put emphasis on improving infrastructure

and simplifying procedures for export and import operations, including creation of a single window for export/import and transit procedures, modernization of border crossing points, and better use of information technologies. Countries also saw a clear need to reduce the number of procedures, time and costs for export and import operations, streamline and simplify certification requirements, and in particular simplify export and import procedures for the SMEs. Many countries also reported having in place measures to support exporters, such as subsidized interest rates, credit guarantees, and simplified VAT refund procedures. They see these measures as important elements of their export promotion policies.

9. Delegates valued the opportunity to discuss their country plans to improve the institutional environment in a regional setting. They noted that this provides them with a valuable opportunity to check their progress and discuss the main obstacles with their counterparts from other countries of the region. They also agreed that it is important to jointly monitor progress in improving the institutional environment for trade. For that purpose, the IMF has begun to develop an index of institutional quality for trade. The proposed methodology for calculating this index, and the first results, will be presented at the fifteenth TPCC meeting.

D. Monitoring Implementation of the TPSAP

10. The monitoring of the TPSAP implementation is conducted using a questionnaire-based tool, developed by the IMF and approved by the CAREC countries. The questionnaire is designed to monitor steps taken by countries to (i) reduce the number of tariff bands; (ii) draft instructions on the implementation of TIR convention¹; (iii) calculate the actual paperwork costs for road transport permits; (iv) remove quantitative restrictions on exports and imports; and (v) equalize tariff and VAT rates on domestic and imported goods. Country responses are compiled to produce the Trade Liberalization Index, the main trade policy indicator for the CAREC Development Effectiveness Review. The analysis has been conducted for end-2009 and end-2010.

11. Detailed results of the analysis for end-2010 will be presented at the fifteenth TPCC meeting in November 2011. These results show significant progress achieved by the reporting countries. Most CAREC countries have successfully met the trade liberalization targets for end-2010, and two countries (the Kyrgyz Republic and Tajikistan) have already exceeded the target score for trade liberalization index for end-2011. These results clearly demonstrate the benefits of peer review and the advantages of working out the policy issues in cooperation with the other countries in the region.

12. The rate of response and the timeliness of responses to the questionnaire from CAREC countries has been a long-standing issue. Despite significant improvement over time, the level of participation and involvement of CAREC countries in joint work on trade liberalization remains uneven. Some countries have not shown willingness to subject their trade policies to peer discussion and review, and have not submitted any responses to the questionnaire.

III. Work Plan in 2012-2013

13. Work on preparing the two-year WTO training program will continue, with close cooperation between ADB, the IMF and the World Bank. It is expected that two training events

¹ Convention on International Transport of Goods signed in Geneva in 1975.

will take place in the first half of 2012, and other events during the second half of 2012 and in 2013.

14. To monitor progress in improving institutional environment for trade, the IMF will develop an index of institutional quality, and present the first results to the delegates at the fifteenth TPCC in November 2011 for consideration, in consultation with CAREC countries. It is expected that this index could be used as one of the trade indicators in the Development Effectiveness Review.

15. The monitoring of the TPSAP implementation using the questionnaire will continue. Country delegations are expected to submit questionnaires for end-2011 by mid-February 2012. The results will be reported to the TPCC delegates and to the 2012 Ministerial Conference.

16. The TPCC will continue to serve as a forum for CAREC countries to discuss key developments in trade and trade policies. In 2012, this will include discussions of progress achieved by the CAREC frontrunners in the WTO accession process, and any other trade policy issues that arise. In addition, at the fifteenth TPCC meeting, delegations from the two new CAREC countries, Pakistan and Turkmenistan, will deliver presentations to familiarize other delegates with their trade policies and (in the case of Pakistan) their WTO experience.

IV. Key Issues

17. The trade policy work is based on the TPSAP, which was adopted in 2008. In the next year, the TPCC will consider the need to revise and update the action plan, to reflect new developments and progress achieved in the implementation of the existing plan, and better align the action plan with the CAREC strategic objectives for the period to 2020. This will require extensive discussions with the delegates, to ensure full consensus on any new strategic goal for the trade policy committee.

18. An essential condition for success of the trade policy work is to achieve full participation of all member countries. It is crucial that information used for the calculation of Trade Liberalization Index and the proposed Institutional Quality Index, once approved, comes from all CAREC member countries. Despite significant progress, there is substantial room to improve the timeliness and completeness of data reporting to the TPCC. Every effort should be made to ensure that complete responses to the questionnaire for end-2011 and other requests be submitted to the TPCC on time.