



Trade Policy Coordinating Committee Status Report

**Senior Officials' Meeting
on Central Asia Regional Economic Cooperation
24 – 25, April 2008
Baku, Azerbaijan**

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

I. INTRODUCTION

1. At the request of the 2nd Ministerial Conference (MC), the April 2004 Senior Officials Meeting (SOM) discussed the possible objectives, mandate, terms of reference, and work plan for the CAREC Trade Policy Coordinating Committee (TPCC). It was agreed that the TPCC should help all CAREC member countries adopt more open trade regimes, so as to facilitate both intra- and inter-regional trade.
2. The TPCC was the first CAREC committee established whose focus would be exclusively on policies, not projects. The IMF agreed to take the lead in organizing the work of the TPCC.
3. Since its establishment, the TPCC held eight 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) and the reports of the sixth and seventh meetings are summarized in the Trade Policy Coordinating Committee Status Report that was submitted to the November 2007 SOM. This report focuses on the eighth TPCC meeting.

II. EIGHTH TPCC MEETING

4. The eighth TPCC meeting was held in Bishkek on April 2, 2008. During the meeting, delegates discussed the first draft of the Trade Policy Strategic Action Plan (TPSAP), were briefed on the topic of aid for trade and its monitoring, discussed possible areas of further work on border trade issues, and gave guidance on priorities to the TPCC's work program.

A. Trade Policy Strategic Action Plan

5. 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 with a view to having the first draft ready for discussion at the Spring 2008 meeting of the TPCC. Accordingly, the first draft of the TPSAP was presented to and discussed by the delegates at the eighth meeting of the TPCC.
6. In line with the guidance provided earlier, the first draft of the TPSAP envisages:
 - vigorous pursuit of WTO accession negotiations while ensuring that regional trade agreements remain consistent with this objective. CAREC activities to support WTO accession are to include advisory projects for candidate countries, training seminars on the accession process, and a workshop where CAREC WTO members and candidates would discuss the experience of negotiations;
 - elimination of remaining quantitative restrictions on exports and imports, and simultaneous removal of the related documentation or administrative procedures.

- reduction and simplification of trade taxes through uniform application of VAT and excises on domestic and traded goods; elimination of miscellaneous charges, fees, and special taxes; bringing down the average tariff rate to 10 percent or less; capping the maximum tariff rate at 20 percent; and reducing non-zero tariff bands to about 3;
- 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. With regard to the latter, the TPSAP proposes a study to identify main institutional shortcomings which impede trade-openness in CAREC countries, and a training seminar to discuss the global experience on the link between institutions and trade; and
- close coordination of TPCC and TFCC 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.

7. During the eighth TPCC meeting, 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. A number of broad suggestions for modification and refinement of the document were made, including a more expressive title for the document; differentiating short-term actions on trade openness and capacity building from the long-term objective of WTO accession; and more emphasis on capacity building on WTO accession related issues. Some delegations also saw a need to recognize the problems that countries undertaking trade liberalization could face related to food security, employment and social impacts, and the promotion of domestic industry. Several delegations emphasized the importance of moving forward expeditiously with the TPSAP. Delegates were of the view that border and transit trade should be covered by the TPSAP. They recommended, however, that the TPCC and the TFCC should coordinate closely in setting performance benchmarks in these areas, especially in customs-related issues where the TFCC has greater expertise.

8. Delegates agreed on the next steps to move forward with the TPSAP. Minor revisions to the TPSAP for factual corrections will be made prior to the SOM in Baku, on April 24-25. Delegates will convey to the TPCC coordinator any further detailed comments they may have by the end of May. A revised draft of the TPSAP will be prepared incorporating the broad suggestions noted above, further suggestions from the SOM, and detailed comments from the TPCC delegates. The revised draft will also propose an indicative timetable for policy actions for discussion at the Fall TPCC meeting. Subsequently, a revised TPSAP that reflects the agreements at the Fall TPCC meeting will be prepared and submitted for endorsement to the senior officials at their Fall 2008 meeting.

B. Aid for Trade

9. The OECD representative presented an update on the Aid for Trade initiative and the joint OECD/WTO monitoring mechanism. The presentation noted that:

- Effective aid for trade can be a critical tool to help developing countries to improve trade capacity, and fully benefit from WTO accession and multilateral liberalization.

Therefore, the OECD and the WTO have joined forces to monitor the implementation of the initiative.

- The results of the first review showed that aid for trade volumes are rising and are being increasingly prioritized in donor and recipient countries, but that the implementation of key aid effectiveness principles remains challenging and that more efforts are needed to ensure effective aid delivery, particularly in regional programs.
- The monitoring of aid for trade is based on surveys to donors and recipients that include quantitative and qualitative information, and its quality and impact depend on how many recipients and donors participate in the surveys.
- The benefits of participating in the monitoring process for CAREC countries include increased visibility towards all key donors, the opportunity to voice concerns in a multilateral context, and more effective and potentially increased aid for trade. The information to be collected to participate in the questionnaire can also be used as a tool to improve national planning on trade development programs.

C. Further Work on Border Trade Issues

10. Following the findings of the paper on border trade prepared by the World Bank and with a view to reforming the border trade regimes in Central Asia, the TPCC made recommendations on operation of border crossing points, on movement of motor vehicles, on movement of people living in contiguous areas, and on movement of goods among contiguous regions.¹ The September 2007 SOM broadly endorsed the TPCC's recommendations and, in view of the concerns expressed by the Uzbek delegation, recommended that their implementation be optional.

11. During the eighth meeting of the TPCC, the World Bank representative presented a note containing proposals for follow up work to the previous study. Based on requests made by the governments of Afghanistan and Mongolia, it was suggested that the study be extended to cover two sets of border crossing points: (i) Afghanistan-Tajikistan and Afghanistan-Uzbekistan; and (ii) China-Mongolia. The World Bank representative indicated that the first work could be done in the coming months, but the feasibility of the second had still to be evaluated, in view of the sparseness of the population along that frontier.

12. The note also presented ideas for two new studies, which could be undertaken if sufficient donor financing was received. These relate to (i) designing a broad cross-border cooperation program that would include trade (including trade in services) and a range of trade-supporting activities, such as business development and tourism in border areas; and (ii) an analysis of trade through channels involving bazaars (which are often located in cross-border areas) that would yield valuable lessons for trade and customs policy. The first proposal was based on a highly successful model in Europe, where municipalities and communities set formal cooperation mechanisms covering a wide range of activities; the second was based on the high volume of trade passing through bazaars that had escaped formal analysis.

¹ Details on policy recommendations are provided in the Trade Policy Coordinating Committee Status Report that was submitted to the November 2007 SOM.

13. In the discussion, delegates welcomed the proposed work for broad cross-border cooperation based on experience in Europe's border regions and noted the potential for stimulating growth, employment, and trade of goods and services with the support of municipalities and local authorities. It was agreed that the study would be based on empirical work in a few potential regions (based on the offers of support from the Kazakh and Kyrgyz delegations) and the results would be presented to the TPCC before any decisions to extend the work or to make recommendations that could be universally applied. Delegates supported the proposed work on the economic effects of bazaars and their implications for public policy, including in the areas of trade, employment, public safety and revenues. It was agreed that the study would be of a fact-finding and analytic nature and that policy recommendations would be developed only after further TPCC discussions.

III. TRAINING SEMINAR

14. The IMF staff conducted a training seminar for officials from CAREC countries in Bishkek on April 3, 2008 on "Multilateral Trade Liberalization: Recent Developments and Outstanding Issues". The presentations² and discussions covered the following topics:

- New developments in the Doha round negotiations;
- Energy issues on the trade liberalization agenda; and
- Liberalization of trade in financial services.

15. The seminar was attended by some 30 participants and well received. Participants expressed interest in having similar seminars on trade policy issues in the future.

IV. FUTURE WORK PLAN

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

- (i) presenting the draft TPSAP to the SOM meeting in Baku on April 24-25, 2008 to get endorsement of its policy framework;
- (ii) preparing a revised draft of the TPSAP including an indicative timetable for policy actions for discussion at the Fall 2008 meeting of the TPCC;
- (iii) monitoring of the implementation of the recommendations related to reform of the trade tax systems, that were endorsed by the 5th Ministerial Conference, at the Fall 2008 TPCC meeting;
- (iv) preparing the study (led by the IMF) on the preferential trade agreements in the CAREC region based on inputs from member countries; and
- (v) preparing the studies (led by the World Bank) on a broad cross-border cooperation program and on trade through channels involving bazaars.

² The presentations are posted at the ADB's website.

V. RECOMMENDATIONS FOR CONSIDERATION TO THE SOM

17. The TPCC reached agreement to recommend to the SOM in April 2008 that:
- (i) the policy framework presented in the draft TPSAP that was discussed at the eighth TPCC meeting be endorsed;
 - (ii) border and transit trade related policy issues and benchmarks be covered in the TPSAP and related benchmarks be formulated in coordination with the TFCC; and
 - (iii) the revised draft of the TPSAP to be discussed at the Fall 2008 TPCC meeting and to be submitted to the Fall 2008 SOM for endorsement include an indicative timetable for policy actions.