



# **Trade Policy Coordinating Committee Status Report**

**Senior Officials' Meeting on  
Central Asia Regional Economic Cooperation  
26–27 March 2007  
Manila, Philippines**

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## **CAREC Trade Policy Coordinating Committee Status Report for the March 2007 Senior Officials' Meeting**

### **I. INTRODUCTION**

1. At the request of the 2<sup>nd</sup> 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 six 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). This report focuses on the sixth TPCC meeting.

### **II. SIXTH TPCC MEETING**

4. The sixth TPCC meeting was held in Manila on March 24, 2007. During the meeting, delegates reviewed the progress made in the implementation of the instructions from the 4<sup>th</sup> and 5<sup>th</sup> Ministerial Conferences, discussed how to proceed with the preparation of the Trade Policy Strategic Action Plan (TPSAP), were briefed on the preparation of the ongoing studies on border trade and quantitative restrictions on trade, and gave guidance on priorities to the TPCC's work program.

#### **A. Review of progress**

##### **1. Reduction in barriers to transit trade**

5. In line with the communiqué of the 4<sup>th</sup> Ministerial Conference, the TPCC continued monitoring of the implementation of the recommendations to reduce barriers to transit trade. The country delegates reported that progress in the implementation of the six recommendations will take time, reflecting the complexity and importance of the issues involved.<sup>1</sup> In this context, the country delegations reported that while there has been little progress since the September 2006 TPCC meeting in reducing the barriers to transit trade, their governments are strongly

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<sup>1</sup> The recommendations are: (i) ensuring full compliance with the provisions of the TIR Convention by customs services and other agencies; (ii) reduction in the rate of charges for customs convoy under the national transit systems in appropriate countries with simultaneous reductions in the list of goods subject to such convoys; concrete proposals to these ends will be developed by the time of the next Trade Policy Coordinating Committee meeting; (iii) abolition of all other charges and fees on entry and transit of foreign road carriers; (iv) reduction of the cost of entry visas for drivers of foreign road carriers and issuance of visas to them at international pass points in a simple way; (v) harmonization of transport, customs, and border documentation in order to simplify procedures of control at and to minimize time to pass at the border; and (vi) taking measures to prevent and eradicate cases of unofficial payments from road carriers in transit.

committed to the goal of a liberal trade regime in the region. They noted that the pace of progress needs to be accelerated, recognizing that greater trust among CAREC countries is fundamental to the process. They recommended that monitoring of implementation of measures to reduce barriers to transit trade should in the future be conducted by the Trade Facilitation Coordinating Committee (TFCC). Further, monitoring should be based on specific performance indicators, including the reductions in time and costs for transit trade resulting from TIR compliance, reduced charges for customs convoys and other charges and fees, easier visa access, and customs harmonization and simplification at border crossings. Such a monitoring by the TFCC would be in line with the request of Ministers for greater coordination between trade policy and trade facilitation. The TFCC would brief the TPCC once a year on the progress on reducing barriers to transit trade.

## **2. Reform of trade tax regimes**

6. In line with the recommendation of the 5<sup>th</sup> Ministerial Conference, the TPCC began the process of monitoring implementation of measures to reform the trade tax regimes of CAREC countries.<sup>2</sup> As in the case of the recommendations to reduce barriers to transit trade, some country delegates reported it will take time to achieve reform of their trade tax regimes. On the other hand, some country delegates reported that they are already in compliance with at least some of the recommended trade tax reforms, reflecting—in the case of People’s Republic of China, Mongolia, and Kyrgyz Republic—their membership in the WTO. In general, however, country delegates reported little change since the 5<sup>th</sup> Ministerial Conference in implementing the recommended reforms. Mongolia was an exception, as in recent months it 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. Again, country delegates were of the view that trade tax reforms are a vital element for promoting trade, and that progress needs to be accelerated. However, given that progress may require legislation and other steps, monitoring of progress on an annual basis was considered sufficient. Accordingly, the TPCC will discuss progress on reducing barriers to transit trade once a year, but the delegates were encouraged to inform the committee more frequently if measures are taken in this regard.

## **B. Papers on trade policy issues**

### **1. Barriers to border trade**

7. During its fifth meeting in Tashkent in September 2006, the TPCC requested that the World Bank prepare a study on border trade among CAREC member countries building on the work that has already been done by the Kazakh delegation on this subject. The World Bank representative (Mr. Mitra) made a presentation on the objectives of the study, the methods that will be utilized in the study to achieve these objectives, and the areas that will be covered in policy recommendations of the study.

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<sup>2</sup> 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; (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.

8. More specifically, Mr. Mitra noted that border trade, defined as the flow of goods and services near or at border crossing points between CAREC countries, could make a large contribution to raising production and employment, and fighting poverty. The study would identify the scope and content of such trade, its drivers and major participants as well as the major impediments such trade faces. The study would also develop a framework and make recommendations to CAREC member countries for maximizing the benefits of such trade. It would rely on empirical surveys conducted at border points by teams of local consultants. It was expected that proposals for the simplification of border trade would be developed. In this context, the study would also examine the European experience over the past decade with “Euroregions” and its relevance and applicability to CAREC countries.

9. In the discussion, country delegations made a number of suggestions for further refining the concept of border trade, advanced practical proposals for conducting the work, and recommended additional areas that the policy recommendations should cover.

10. Delegations agreed that the study would provide common approaches to facilitating border trade, but proposals would need to take into account the specific characteristics of each border area. The study should define “border trade” narrowly and precisely, and proposals should be consistent with national trade and transit approaches. It should not prejudice the efforts under way to develop free-trade zones. Member countries will have an opportunity to review the draft paper before it is discussed at the TPCC meeting.

11. It was observed that successful border trade requires coordinated, transparent, and reciprocal treatment between countries, open flow of information, good condition in physical structures for markets, and effective payment systems. All delegates agreed that the potential for raising incomes, employment, and welfare from liberalized border trade was high.

## **2. Quantitative restrictions on trade**

12. During its fourth meeting in Urumqi in April 2006, the TPCC requested that the Asian Development Bank prepare a study to identify the nature and extent of quantitative restrictions on trade (QRs) in Central Asia, assess their economic and social impact, and make policy recommendations for reducing QRs in the sub region. Richard Pomfret, ADB consultant, made a presentation on the objectives of the study, the methods that will be utilized in the study to achieve these objectives, and the areas that will be covered in policy recommendations of the study. Professor Pomfret noted that the economics literature, based on both theoretical analysis and global experience, argues strongly against the use of QRs to regulate trade.

13. The study will assess QRs in the context of the overall trade regime. It will cover both the restrictions on international trade applied by the countries concerned as well as those applied to such countries by their major trading partners. The analysis will be based on information and data from both official statistics and legislation and from surveys and interviews with other key stakeholders.

14. More specifically, the study will, with assistance from domestic consultants, produce an inventory of existing QRs. On the basis of the inventory, analysis of expected trade flows, questionnaires and surveys, a small number of QRs in each country will be selected for further analysis. Following from this assessment of the economic and social impact of the selected restrictions and drawing on other countries’ experience, time-bound recommendations for removing the restrictions that have negative economic and social impact will be prepared.

15. In the discussion, country delegations commented on the value of compiling an inventory of QRs. Some delegates noted that there were good reasons for some of the existing QRs, which led to a discussion of whether this justified their analysis. There was also a discussion of the need to eliminate QRs as part of the WTO accession process. In sum, value was seen in the compilation of an inventory of QRs, and a detailed analysis of the reasons for and effects of existing QRs.

### **C. Trade Policy Strategic Action Plan**

16. 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. To this end, the TPCC had its first round of discussions on the preparation of the Trade Policy Strategic Action Plan (TPSAP).

17. Discussions on the TPSAP focused largely on the following five elements: (i) objectives of the TPSAP; (ii) the strategic elements of the TPSAP (including the most important elements from the recommendations of the studies endorsed by the Ministerial Conferences); (iii) the timetable for the implementation of the TPSAP; (iv) performance/outcome indicators of the TPSAP; and (v) capacity building needs that should be addressed (in particular, to be able to implement the TPSAP).

18. The country delegates concluded that the long-term objective should be trade openness in the region, contributing thereby to development and poverty reduction. WTO accession for all CAREC countries should be a key goal of the TPSAP. The strategic elements of the TPSAP should be drawn from the recommendations of studies on transit trade and trade taxes, as well as the ongoing studies on border trade and quantitative restrictions. Regarding transit trade, the focus should be on customs harmonization and simplification. Regarding trade tax reforms, the focus should be on applying taxes (VAT and excise) uniformly to imported and domestically produced goods. In this connection, country delegates felt that they needed more time and consultations with their authorities to input to the TPSAP. Country delegates stressed that the TPSAP should include short-term and medium-term objectives and complement the trade strategies of other regional organizations, notably of the Shanghai Cooperation Organization (SCO) and EurAsEC. Finally, country delegates noted that capacity building should be a major element of the TPSAP.

### **D. Future work plan**

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

- (i) continued monitoring on an annual basis of the recommendations related to reform of the trade tax systems endorsed by the 5<sup>th</sup> Ministerial Conference
- (ii) indirect monitoring of the implementation of the recommendations related to barriers to transit trade endorsed by the 4<sup>th</sup> Ministerial Conference, with close direct monitoring in the future conducted by the TFCC;
- (iii) completing the paper on barriers to border trade led by the World Bank, and formulating recommendations to address the related issues by September 2007;

- (iv) completing the paper on quantitative restrictions to trade in CAREC countries led by the Asian Development Bank, and formulating the related recommendations by September 2007;
- (v) preparing the TPSAP with a view to having it ready for discussion at the Spring 2008 meeting of the TPCC; and
- (vi) contributing to capacity building and information sharing on WTO-related issues to facilitate member countries' accession to the WTO.

**E. Recommendations for consideration for the SOM**

20. Based on the discussions, the TPCC reached agreement on the following recommendations to be submitted to the SOM during its meeting on March 26–27, 2007:

- (i) The monitoring of implementation of measures to reduce barriers to transit trade should in the future be conducted by the TFCC based on specific performance indicators, including the reductions in time and costs for transit trade. The TFCC would report to the TPCC once a year on the progress on reducing barriers to transit trade
- (ii) The draft of the TPSAP should be discussed at the Spring 2008 meeting of the TPCC with a view to finalizing it at the latest by the Fall meeting of the TPCC.