



Trade Policy Coordinating Committee Status Report

Preparatory Senior Officials' Meeting on
Central Asia Regional Economic Cooperation

14 October 2005
Bishkek, Kyrgyz Republic

**CAREC Trade Policy Coordinating Committee Status Report
Presented to the October 2005 CAREC 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 new 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. More specifically, it was agreed that the TPCC would address trade liberalization in the context of the WTO and the desire of non-members to become members of WTO. Priority should be given to assisting countries to accede to the WTO, including by providing them with information on the benefits of WTO membership. The Committee should also address bilateral and multilateral trade agreements in the region, with a view to minimizing trade distorting effects. Finally, it was agreed that the Committee should start with an assessment of current trade policies and trade policy initiatives.

3. While on the side of the Multilateral Institutions (MIs) the IMF agreed to take the lead in organizing the work of the TPCC, it was noted that the IMF has limited capacity to undertake the activities required to make this committee effective.

4. The establishment of the TPCC was a new venture for CAREC, as the TPCC was the first CAREC committee established whose focus would be exclusively on policies, not projects.

II. TPCC Meetings and Thematic Studies

5. To facilitate the participation in the TPCC meetings of senior (deputy minister) level officials, as called for by the April 2004 SOM, it was decided that meetings of the TPCC would take place immediately prior to, and in the same location as, SOMs. The first meeting of the TPCC was thus held immediately in advance of the September 2004 SOM.

A. First TPCC Meeting and Subsequent SOM

6. The purpose of this first TPCC meeting was to prepare a draft agenda of work for the committee, which could be presented to the SOM for approval. To facilitate the discussions in the committee, the IMF prepared and circulated in advance of the meeting a background paper, *Trade Policy Issues in the Central Asian Republics*. This paper provided a summary of bilateral trade relations, regional and other trade agreements, the issue of establishing a central Asian customs area or free trade zone, individual CAREC country progress toward WTO accession, and the issue of sequencing WTO accession and further deepening of regional trade relations.

7. Based in part on this paper, the members of the TPCC extensively discussed issues related to WTO accession, as well as regional and bilateral trade issues. Drawing upon this discussion, the members produced a list of seven possible topics for the TPCC to work on, and submitted that list to the SOM, asking the SOM to choose 2-3 topics that they would like the TPCC to focus on first.

8. The SOM identified three topics as the highest priority for work by the TPCC:

- (i) An analysis of barriers to trade in Central Asia and possible measures to facilitate trade;
- (ii) A study of Central Asia's actual or potential comparative advantage in global trade;
- (iii) And a review of existing regional trade agreements, including an analysis of any potential conflicts between these agreements and WTO accession, as well as a review of lessons that can be learned from regional trade agreements elsewhere.

9. The SOM also tentatively identified other areas for future work by the TPCC: a regional analysis of the impact of WTO accession; agricultural policy and WTO accession; a regional educational/informational program about WTO accession; and possible regional measures to address the special trade-related problems of land-locked countries. This work program was subsequently endorsed by the 3rd MC.

B. Second TPCC Meeting and Associated SOM

10. The second meeting of the TPCC was held in advance of the April 2005 SOM in Manila. In preparation for this meeting, three papers were prepared, one on each of the three identified priority issues for the TPCC.

1. Papers Prepared for the Second TPCC Meetings

11. ADB took the lead in preparing a paper, *Trade Barriers in Central Asia*. This paper focused on barriers in trade policy (quantitative restrictions, registration requirements for exports or imports, tariffs, and other trade taxes), barriers related to transport and transit, barriers related to border crossing and customs clearance, and other trade barriers. The paper also included an estimate of the effects of these trade barriers, and as an example of the benefits of removing these barriers the paper presented estimates of the impact of a 50 percent reduction in trade margins in Kazakhstan and the Kyrgyz Republic on real GDP, inflation, consumption, investment and trade levels.

12. The World Bank took the lead in preparing a paper, *Comparative Advantage in International Trade for Central Asia*. The paper notes the difficulties in unambiguously identifying areas of comparative advantage in a dynamic world economy, and thus argues against any attempts to directly subsidize industries that are deemed to have comparative advantage. However, it argues that having some indication of where a country's comparative advantage may lie can help governments prioritize infrastructure investments and other market-friendly policies. In this context, the paper presents some preliminary and partial analysis of possible areas of comparative advantage, utilizing the ITC Trade Map and Product Map.¹

13. Finally, the IMF staff circulated two papers: *Regional Trade Integration: Considerations for the CAREC Countries*, and *Regional Trade Integration and WTO Accessions: Which is the Right Sequencing? An Application to the CIS*. The first of these papers was prepared for the TPCC, while the second was an IMF Working Paper. The first paper summarizes best practices

¹ As the ITC Trade and Product Maps generate large amounts of data requiring detailed analysis to be useful, the paper could not present a comprehensive analysis for Central Asia based on these maps. The World Bank would be happy to help CAREC members familiarize themselves with these tools, if members wish. The tools may be purchased from ITC at the cost of US\$5000 for Trade Map and US\$9000 for Trade Map and Product Map for an annual license.

in designing regional trade agreements, and touches briefly on the issues of WTO accession and regional trade integration. The second paper analyzes the appropriate sequencing between WTO accession and implementation of the Eurasian Economic Community (EAEC) customs union. It concludes that welfare will be greater if WTO accession precedes the EAEC Customs Union.

2. Second TPCC Meeting

14. The second TPCC meeting was devoted to a discussion of these papers, including their policy implications. In the spirit of enhancing country ownership of the CAREC process, the papers were not presented at the TPCC by their MI authors. Instead, each paper was presented by a delegate from one of the CAREC member countries, who was then able to state what he or she found most important/useful in the paper. This was followed by a delegate from another country who reacted to the paper. The floor was then opened for what proved to be a lively and productive exchange of views on these critical issues.

15. The wide range of views expressed by the delegates made coming to a consensus difficult. However, in the end, the TPCC reached agreement on two recommendations, which were later endorsed by the SOM. First, it was agreed that there is a need to reduce delays in and financial costs of entrance and transit. The TPCC was instructed to prepare an analysis of these delays and costs, as well as recommendations for measures to reduce them, at the next SOM. Second, and similarly, the TPCC agreed to review barriers to border trade and to present recommendations for possible improvements in these policies and procedures to the next SOM.

C. Third TPCC Meeting and Associated SOM

1. Papers Prepared for the Third TPCC Meeting

16. The ADB agreed to take the lead in the analysis of barriers to entrance and transit, producing a paper entitled *Barriers to Transit Trade in Central Asia*. This paper assessed barriers related to customs transit, transport and governance problems. Based on this analysis, the paper made a number of concrete recommendations for policy actions with CAREC member countries could take to ease or eliminate these barriers.

2. Third TPCC Meeting

17. Discussions in the third TPCC meeting focused primarily on the barriers to transit trade. In that context, the committee agreed to recommend for consideration of the Senior Officials Meeting the following measures aimed at reducing the existing barriers to transit trade in Central Asia:

- (i) Ensuring the control of customs officers and other agencies regarding full compliance with the TIR Convention; China will take steps to accelerate TIR accession and promote the TIR Customs Transit System in the region;
- (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) Reduction in the cost of non-reciprocal road transport permits to levels that will cover related costs without discouraging transit trade;
- (iv) Abolition of all other charges and fees on entry (transit) of foreign carriers;
- (v) Reduction of the cost of entry visas for foreign road carriers and foreseeing the issuance of visas to foreign road carriers at international pass points in a simple way;
- (vi) Unification of transport, customs, and border documentation in order to harmonize procedures of control at and to minimize time to pass at the border; and
- (vii) Taking measures to prevent and eradicate cases of unofficial payments from road carriers in transit.

18. Preliminary discussions were also held on the issue of barriers to border trade. While committee members agreed that this was an important issue, it was felt that substantial work was needed in this area. This work should first seek to clearly define the concept of border trade, and should then look at the legal framework for border trade, tax and infrastructure issues, and others related aspects.

III. Next Steps for the TPCC

19. The TPCC agreed that its agenda going forward should focus on three aspects of barriers to trade: (i) the work noted above on barriers to border trade; (ii) work on quantitative restrictions to trade in CAREC countries; and (iii) work on trade taxes in CAREC countries.

20. In addition, it was agreed that the country delegates to the TPCC should take responsibility for monitoring the implementation of the recommendations related to barriers to transit trade—assuming they are endorsed by the SOM and eventually the Ministerial Conference. Thus, each country delegation will report to the next meeting of the TPCC on the status of implementation of the recommendations in its country, and the TPCC will in turn produce a consolidated report on the implementation of these recommendations for consideration by the next SOM.

21. Finally, it was agreed that there is a need to increase the awareness of the analytical work that has been done in and by the TPCC among key decision makers in all CAREC-member countries. Thus, the TPCC agreed to ask the International Monetary Fund and Asian Development Bank to arrange seminars in each CAREC-member country, designed to summarize the work done for the TPCC to date and the implications of this work for the various countries in CAREC.