



Trade Policy Coordinating Committee Status Report

**Senior Officials' Meeting
on Central Asia Regional Economic Cooperation
8-9 September 2007
Manila, Philippines**

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CAREC Trade Policy Coordinating Committee Status Report for the September 2007 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 has held seven 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 report of the sixth meeting is summarized in the Trade Policy Coordinating Committee Status Report that was submitted to the March 2007 SOM. This report focuses on the training seminar that was held in June 2007 and the seventh TPCC meeting.

II. TRAINING SEMINAR

3. The IMF staff, in collaboration with the ADB staff, conducted a training seminar for officials from CAREC countries in Almaty in June 2007 on "Trade Policy Challenges: Global and Regional Perspectives."

4. The presentations covered multilateral and preferential trade liberalization, the relationship between trade policy and FDI, and the benefits of trade facilitation in the CAREC region.¹ The main topics of discussion and the related messages were as follows:

- **Multilateral trade liberalization and WTO membership.** Trade liberalization allows for more efficient resource allocation and positive spillover effects into other policy areas. The WTO, as a multilateral platform for trade liberalization, promotes integration into the global trading system. Greater predictability of access to foreign markets and a rules-based system for dispute resolution are key advantages of WTO membership.
- **Design and implications of preferential trade agreements.** Preferential trade agreements in the CAREC region have gained importance. While such agreements encourage trade and investment among their members and serve as a commitment mechanism for future policy makers, they discriminate against non-members and often lead to welfare losses from trade diversion. Many overlapping agreements with differing tariff structures and rules of origin cause inconsistencies and limit transparency.
- **The role of trade policy in attracting foreign direct investment.** Trade policy plays a key role in attracting and maximizing the benefits from FDI, such as technology and knowledge transfers, the development of backward and forward linkages, and more intense competition. However, these benefits may not materialize if a country's trade regime remains restrictive and high import barriers direct FDI to sectors without a comparative advantage.

¹ The presentations are posted at www.adb.org/Documents/Events/2007/Trade-Policy-Challenges .

- **Benefits of trade facilitation.** Trade facilitation remains critical for CAREC countries. While tariffs have been reduced substantially over the past two decades, the region's trade potential is reduced by excessive regulations, bureaucratic procedures, and low-quality infrastructure. Trade facilitation is particularly important because most CAREC countries are landlocked and shipments have to overcome long distances and multiple borders. CAREC policy makers need to cooperate on establishing and strengthening routes to major markets to exploit economies of scale, harmonize national policies, and simplify border crossing regulations.

5. The presentations were well received. Participants expressed interest in having similar seminars in the future.

III. SEVENTH TPCC MEETING

6. The seventh TPCC meeting was held in Manila on September 6, 2007. During the meeting, delegates discussed the two papers on barriers to border trade and quantitative restrictions on trade in CAREC countries, reflected further on the content and the preparation process of the Trade Policy Strategic Action Plan (TPSAP), and gave guidance on priorities to the TPCC's work program.

A. 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. The World Bank representative (Mr. S. Mitra) presented the findings and recommendations of the paper on border trade, which are summarized below.

8. Border trade—defined as the flow of goods and services across international land borders within a reach of up to thirty kilometers—plays an important role in supporting the livelihood of border communities in various ways. It (i) benefits traders' incomes but also strengthens local production, and fosters service provision (such as storage facilities, transportation, and ancillary services in local bazaars); (ii) generates income for people working in bazaars as well as for activities associated with bazaars and trade; (iii) lowers the import prices of goods available to consumers in bordering areas and enables exporters to benefit from higher value-added; and (iv) has a gender dimension, with women more actively involved in border-trading activities.

9. There are serious barriers to border trade in CAREC countries that should be eliminated. These include: (i) government-imposed obstacles related to visa and passport stamping requirements that are onerous for border communities; (ii) unduly strict restrictions on vehicular movements, and regulations on opening hours for border crossings; (iii) unilateral closure of border crossing points (BCP), particularly those with a large potential for trade; (iv) forced closing or relocation of bazaars supporting cross-border trade that tend to encourage smuggling; and (v) highly restrictive limits on exemptions from border charges and taxes.

10. Security and contraband trade are often cited as justifications for imposing controls, but such obstacles are usually a blunt and expensive instrument to attain such public policy aims, with a harmful impact on the income and welfare of the poor. Instead, BCPs and bazaars could

be opened but made subject to strict and effective policing and risk-based surveillance or search of vehicles could be instituted in place of an outright ban.

11. In the TPCC meeting, delegates welcomed the paper, noting its comprehensive nature. They supported the encouragement of border trade and endorsed the paper's analysis and policy recommendations. In this context, it was noted that the recent Ulaanbaatar declaration on landlocked countries also supported border trade. Delegates encouraged transparency and coordination by all countries in BCP decisions and a frank discussion of security concerns; indicated the need to hold bilateral negotiations with neighboring countries to implement the policy recommendations; and urged corrective actions in the case of border agreements that were not being fully implemented. One delegate questioned the need for special treatment for border trade and another delegate noted the need for inter-agency consultations regarding the feasibility of policy recommendations. As a follow-up to the paper, it was recommended that the World Bank work directly with the interested countries to provide advice on border trade issues.

12. 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 for consideration of the Senior Officials' Meeting. These recommendations are listed in Attachment 1.

2. Quantitative restrictions on trade

13. During its fourth meeting in Urumqi in April 2006, the TPCC requested that the Asian Development Bank prepare a study on quantitative restrictions on trade (QRs) in Central Asia. Mr. R. Pomfret, ADB consultant, presented the findings and recommendations of the paper on border trade, which are summarized below.

14. The shift away from QRs is strongly supported by international trade theory and by trade law. In practice, QRs are likely to be inferior to tariffs for one or more of the following reasons: (i) whereas a tariff yields government revenue, with an import quota the wedge between the import price and the domestic price (i.e., *the rent from import licenses*) accrues to the holder of the rights to import within the quota; (ii) an import quota does not have a pro-competitive effect; and (iii) with rising domestic costs or increasing demand, or falling prices of competing imports, the quantity imported could increase with a tariff, but is fixed with a QR. Thus, the net effect of QRs for the nation as a whole is negative.

15. In the initial period following the dissolution of the Soviet Union in December 1991, QRs were frequently used by the newly independent Central Asian countries to regulate both imports and exports. The process of shifting from quantity restrictions to price-based instruments is furthest advanced in the WTO members but it is occurring in all CAREC countries, in part because they are pursuing WTO accession, but primarily because it is in the countries' own best interest. The only widespread use of QRs concerns goods that are considered undesirable on security or moral grounds. However, there are other measures, such as exchange controls and barter trade, that are not described as QRs but have similar effects. Moreover, monitoring and documentation requirements for imports and exports remain excessive and impose substantial costs in terms of time and money.

16. In the TPCC meeting, there was broad agreement about the inefficacy of QRs and the delegates felt that the paper's recommendations were in general desirable. Two delegations felt that their countries still needed to be able to protect domestic producers, although QRs are not

the best instrument. Concern was also voiced about the need for country-specific exemptions to the generally negative view of QRs. Finally, there was discussion of the role of licenses in adding to trade costs and specific criticisms of the data on the ease of trading in CAREC countries, but the general proposition that excessive licenses should be abolished was accepted.

17. Following the discussion, the TPCC agreed to recommend for consideration of the Senior Officials' Meeting the following measures:

- continue reducing QRs and replacing them by tariff measures, which will also facilitate WTO accession;
- consider QRs only if a total ban is called for, but when banning domestic consumption do not differentiate between imported and domestically produced goods;
- publish all QR related regulations. When QRs persist or, especially, if new ones are introduced, they should be transparent; and
- when abolishing QRs, terminate the bureaucratic arrangements that accompany them.

B. Trade Policy Strategic Action Plan

18. 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 second round of discussions on the preparation of the Trade Policy Strategic Action Plan (TPSAP).

19. During the meeting, the country delegates reiterated the following points.

- 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, trade taxes, border trade, and quantitative restrictions. Regarding transit trade, the focus should be on customs harmonization and simplification (also benefiting from the work undertaken by the Customs Cooperation Committee). Regarding trade tax reforms, the focus should be on applying taxes (VAT and excise) uniformly to imported and domestically produced goods; reducing the simple average tariff rate to 10 percent, with the maximum rate limited to 20 percent, and the number of non-zero tariff bands to around 3; and consolidating other import taxes, fees, and charges to a single rate. Regarding border trade, the focus should be on simplifying visa, customs transit and vehicle-crossing rules, reducing border charges and taxes, re-opening border crossing points closed unilaterally, and permitting the location of bazaars near such points. Regarding quantitative restrictions, the focus should be on reducing and replacing QRs by tariffs; when abolishing QRs, terminating the bureaucratic arrangements that accompany them; and making existing and newly introduced QRs more transparent.

- The TPSAP should include short-term and medium-term objectives and complement the trade strategies of other regional organizations.
- Capacity building should be a major element of the TPSAP (in particular, to be able to implement it). Training and information sharing activities should focus on a small number of areas with priority given to improving capacities related to WTO accession issues and monitoring of TPSAP performance indicators.
- Performance/outcome indicators will form a critical component of the TPSAP and will be drawn from the recommendations of the studies on transit trade, trade taxes, border trade and quantitative restrictions. The indicators should be specific, monitorable, and limited in number to ensure that concrete progress is achievable.
- The draft of the TPSAP will be ready for discussion by the delegates at the Spring 2008 meeting of the TPCC and will be finalized by the TPCC at its Fall 2008 meeting. The TPSAP will be submitted to the 7th Ministerial Conference for approval. The draft TPSAP will be prepared by an outside consultant based on the recommendations of the four studies and coordinated by the IMF and the CAREC Secretariat.

C. Future work plan

20. The TPCC agreed that its agenda going forward should include:
- (i) preparing the TPSAP with a view to having the first draft ready for discussion at the Spring 2008 meeting of the TPCC;
 - (ii) monitoring of the recommendations related to reform of the trade tax systems endorsed by the 5th Ministerial Conference and having the first report ready for the Fall 2008 meeting of the TPCC;
 - (iii) contributing to capacity building and information sharing on WTO-related issues to facilitate member countries' accession to the WTO;
 - (iv) undertaking a comprehensive assessment of preferential trade agreements in the CAREC region, including issues such as magnitude of preference margins, application of rules of origin, compliance with WTO rules and impact on WTO accession negotiations, administrative issues arising from overlapping arrangements, and monitoring mechanisms for their implementation;
 - (v) monitoring implementation of the recommendations related to cross border trade (based on reports from the World Bank); and
 - (vi) monitoring implementation of the recommendations related to quantitative restrictions.

D. Recommendations for consideration for the SOM

21. The TPCC reached agreement to submit this status report for endorsement to the SOM of September 8-9, 2007.

Border Trade: Summary of Recommendations

Recommendation	Country
A. Recommendations on operations of border-crossing points	
From May to October it would be advisable to keep the Kulma BCP with Tajikistan open for the whole month rather than only 15 days a month	China
Open the Korgas crossing-point during the weekends	China
Kordai BCP: in order to address current bottlenecks, an infrastructure upgrade is badly needed with a separate crossing point for international freight traffic	Kyrgyz Republic and Kazakhstan with assistance from international donor community
Open the BCPs with Kazakhstan, Kyrgyz Republic and Tajikistan that were unilaterally closed.	Uzbekistan
Permit the re-opening of bazaars close to BCPs that were forcibly shut.	Uzbekistan
B. Recommendations on movement of motor vehicles	
Open BCP to light vehicle traffic (mini-buses and vans) for residents of a bordering region	Afghanistan, China, Uzbekistan, Tajikistan
Crack down on the road police extracting bribes from vehicles registered in bordering areas	Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan
C. Recommendations on movement of people living in contiguous regions	
Make local ID sufficient to cross the border for residents of contiguous regions	Kyrgyz Republic and Tajikistan
Do not stamp each entry in passport or introduce a separate sheet registering the length of stay of residents of bordering EURASEC countries	Uzbekistan on inflows from neighboring EURASEC countries
Visa-free entry for residents living in administrative districts of Afghanistan, Kyrgyz and Tajik areas in which a BCP is located for a period of at least one day but preferably two days and in areas where Chinese urban centers are remotely located	Afghanistan, China, Tajikistan
D. Recommendations on movement of goods among contiguous regions	
Raising the limit on the weight of agricultural products exempt from border charges from 50 kilograms to 100 kilograms	Kazakhstan, Kyrgyz Republic, Tajikistan
Overhaul of limits on goods imported for personal use and replacing it with the provision of US\$1,000 worth of goods and 50 kilograms (industrial products) and 100 kilograms (agricultural produce)	Uzbekistan
Enable establishment of market places at the border instead of moving them 20 kilometers from the border	Uzbekistan