

Central Asia Regional Economic Cooperation (CAREC) Trade Policy Concept Paper

I. INTRODUCTION

1. **CAREC's present 2013-17 trade policy strategic action plan (TPSAP) will expire this year, and a new TPSAP needs to be formulated.** The present TPSAP was endorsed at the 12th Ministerial Conference held in Astana, Kazakhstan in October 2013, and has been guiding trade policy cooperation since then. To formulate a new action plan, member countries are being asked to provide their inputs to shape the post-2017 agenda. This concept paper takes stock of progress achieved to date in the TPSAP process, describes recent trends in global and regional trade policies, and presents broad options for focusing the post-2017 agenda. The paper will be discussed at the Trade Policy Coordinating Committee (TPCC) meeting to be held in Tbilisi, Georgia, on June 19. The Senior Officials' Meeting (SOM) will take place immediately afterwards on June 20-21. The results from the TPCC meeting, i.e. the main discussion outcomes and inputs from member countries, will be presented at the SOM to seek further guidance.

II. TAKING STOCK OF THE 2013-17 TPSAP

2. **Over the last four years, several important goals have been achieved in the context of CAREC's trade policy process.** Most CAREC members implemented the first set of agreed TPSAP measures due by end-2014 (see Annex 1), and three more CAREC countries (Tajikistan, Kazakhstan and Afghanistan) joined the WTO during 2013-16.¹ The WTO has also become an observer in the CAREC process, helping CAREC to assist non-WTO members in the accession process and newly acceded members in the adaptation process. Moreover, members' trade policy agenda and knowledge-sharing and capacity building activities related to post-WTO accession adaptation—via seminars, workshops, and other training events—have been expanded significantly.

3. **Progress on more recent TPSAP commitments (2015-16) has, however, been more uneven.** The main lesson seems to be that implementing trade policy changes regarding non-tariff barriers (NTBs), trade in services, and building institutional capacity are more challenging than changing policies on tariffs, especially if the latter changes are driven by a WTO accession process:

- Specifically, the TPSAP measures before 2015-16 were broadly related to WTO accession commitments and to efforts to simplify and liberalize the trade-tax regime prior to

¹ Pakistan, Mongolia, Kyrgyzstan, Georgia, and China all joined the WTO between 1995-2001. Azerbaijan and Uzbekistan retain WTO observer status, while Turkmenistan has not yet applied for WTO membership.

WTO accession. These policy measures faced fewer domestic political obstacles and allowed CAREC effectively to piggyback onto the WTO accession process.

- Many of the later TPSAP measures, however, pertain to eliminating NTBs and other quantitative restrictions, particularly related to sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) issues, establishing functioning National Joint Committees (NJC)s, and expanding trade in services. These measures require more institutional capacity to complete, are technically demanding, and may run up against entrenched vested interests who lobby against these structural reforms as they could generate more domestic competition. Most importantly, if members are not actively engaged in or interacted with the WTO, it is hard to make progress in adopting trade policy commitments or aligning national trade policies with WTO agreements prior to accession.
- A detailed review on the status of current commitments is presented in **Annex I**.

4. **In past reflections, CAREC members themselves have observed that the TPSAP process faces several fundamental challenges.** These include: (i) lukewarm ownership by countries and development partners; (ii) strong limits on cross country cooperation, particularly in the areas of trade in services and non-tariff barriers (NTBs); and (iii) a lack of flagship projects in trade policy sector to provide knowledge support.

III. EVOLVING GLOBAL AND REGIONAL TRADE POLICY TRENDS

5. **In recent years, the expansion of global trade has slowed sharply.**² Since 2012, the volume of world trade in goods and services has expanded on average by less than 3 percent—the slowest rate of trade expansion experienced over the previous 30 years. The slowdown appears to reflect three main factors: First, overall weakness in global economic growth has led to lower global investment demand, which in turn has depressed trade flows. Second, a deceleration in the pace of trade liberalization and a recent pickup in protectionism has limited the reduction in trade costs. And third and relatedly, there was a marked decline in the growth of global value chains.

6. **Against this backdrop of slowing global trade, policy makers have shifted their focus toward trade facilitation.** In February 2017, the WTO Trade Facilitation Agreement (TFA) went into effect. The TFA contains 12 articles focused on improved transparency, conformity, appeal rights, customs compliance, reduced fees, faster clearance and enhanced conditions for freedom of transit. The WTO notes that the TFA will cut customs-related costs (10-25 percent) of merchandise trade, particularly for developing countries, boosting global trade by up to \$1 trillion yearly. The implementation in developing countries depends on capacity, and will be assisted through technical assistance by developed countries as well as through South-South cooperation.

² The reasons for the slowdown in global trade are discussed in the [October 2016 World Economic Outlook](#).

7. **The TFA foresees a three-tiered staggered implementation schedule.** All 8 CAREC countries that are WTO members have ratified the TFA - Afghanistan, People's Republic of China, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, and Tajikistan. Except for Afghanistan, these countries also notified the WTO on their Category A designations of the TFA provisions (measures to be implemented upon entry into force). In addition, Georgia, has also provided Category B (to be implemented after a transitional period), and C designations (to be implemented after a transitional period and with donor assistance required).

8. **Regional trade agreements (RTAs) and preferential trade agreements (PTAs) continue to remain important trade policy tools for CAREC members.**³ RTAs are defined by the WTO as reciprocal trade agreements between two or more partners, including free trade agreements, customs unions, economic integration agreements, and partial scope agreements. For example, China is in the Asia Pacific Trade Agreement (APTA), Afghanistan and Pakistan are in the South Asian Free Trade Agreement (SAFTA), while Kazakhstan and Kyrgyzstan are in the Eurasian Economic Union (EEU). PTAs are unilateral trade preferences and include the Generalized System of Preferences (GSP) schemes (under which developed countries grant preferential tariffs to imports from developing countries), as well as other non-reciprocal preferential schemes. In general, CAREC members are the beneficiary of GSP schemes from key developed countries, including the U.S., the EU, Australia, and Switzerland.

9. **In 2015, the EEU evolved from a customs union to an economic union.** Intra-regional trade among EEU members boomed at the start of the customs union, but it has been since 2013 on a sharp downward trend given regional economic crises, devaluations, trade disputes, and sanctions. Labor migration and access to Russia's labor market has been an important success—though some labor migration flows have been reversed given the large negative shocks to the Russian economy. The unified trade tariffs of the EEU, based on the pre-existing Russian system, are relatively high, and have caused some problems for more open economies who have also joined the WTO.⁴ Intra-regional NTBs within the EEU remain a major issue.

IV. BROAD OPTIONS FOR THE POST-2017 TPSAP

10. **Members were surveyed on their views of the TPSAP process and on the best way forward.** The goal of the survey was to understand the bottlenecks and challenges that have been hampering implementation of TPSAP measures and to better assess trade policy priorities. The survey results, summarized in **Annex II**, suggest a preference to concentrate

³ CAREC has taken the position that regional partnerships are issues of national policy. However, previous SOMs have stressed that WTO accession should take priority over regional trade agreements.

⁴ Kyrgyz Republic (WTO member since 1998) acceded to the EEU in 2015, and has committed to adopt EEU's common external tariff (CET) by 2020. During this transitional period, lower tariff rates can be applied on certain products. Kazakhstan was already part of the EEU when it became a WTO member in 2015, and has also been allowed to apply lower tariff rates in more than 400 commodities during a transitional period.

on SPS and TBT issues, primarily, with a secondary focus on charges, taxes, tariffs and duties. In addition, during the country consultations conducted in April–June 2017, member countries stressed the importance of expanding trade in services in the region.

11. **What should be the “CAREC trade vision” going forward?** Taking into consideration (i) the results from the stock-taking exercise, (ii) global and regional trade policy developments that may have an impact on the trade policy agenda going forward, and (iii) feedback provided by countries in the survey conducted last year as well as during the country consultations, how should the trade policy agenda evolve from now on? Should the work continue along the path laid out during 2013-17, including retaining all the uncompleted policy actions? Or should the TPSAP become more focused on different issues? How to better leverage ownership of member countries and assistance of development partners? Finally, could the post-2017 TPSAP strike a better balance between selectivity and flexibility?

12. **The substantial differences among CAREC members in trade policy capacity and institutional development may suggest a need for some flexibility across countries going forward.** With this premise in mind, three broad operational strategies could be envisaged: (i) the continuation of a “full service menu” of commitments that all members commit to and strive to achieve; (ii) the provision of a wide range of possible “à la carte menu” measures from which members can pick and choose to commit to, based upon their individual specific abilities and trade policy goals; and (iii) a version of the second option, by which the “à la carte menu” of options is organized by some categorization of commitments (basic, intermediate and advanced measures). A more menu-driven approach would recognize the reality of heterogenous trade policy preferences across countries, provide more flexibility in CAREC processes, and keep members engaged.

13. **With these operational strategies in mind, the rest of this section presents five basic options that could define the direction of policy commitments under the new post-2017 agenda.** Based on the chosen path, members would be able to define a new trade policy strategy. The proposals can be broadly characterized as either staying on the same track as past policy commitments, or moving toward a narrower or broader focus. The options are not mutually exclusive, i.e., work can continue in existing policy areas while refocusing, expanding and deepening efforts under these suggested topics.

(i) **Manage and extend the existing TPSAP as a means of transitioning to international standards.** The basis for this proposal is that the existing agenda has generally been successful. Continuing with the agenda would help non-WTO countries accede to WTO, and existing WTO members to implement their obligations. The focus would be on compiling, reviewing, and implementing an action plan to reduce existing NTBs. In line with expressed member preferences, the focus could be on SPS and TBT issues. Much of this work would be related to capacity building of NJCs and trade secretariats. Members could decide to add pilot studies (a preference of some members) and this could increase member buy-in (a reported complaint of development partners). This could also dovetail with TFA commitments.

- (ii) **Integrate trade policy and trade facilitation under CAREC.** The rationale for this could be that most countries by now are WTO members, and the WTO's Trade Facilitation Agreement has come into effect. This strategy would have a pragmatic emphasis on technical details of trade (e.g., customs, single windows, homogenized procedures). It would eliminate the redundancy evident on NJCs work on NTBs and could align with members' preferences to focus on SPS and TBT issues.
- (iii) **Focus on trade in services.** The motivation behind this proposal could be that most members are land-locked, have high trade costs (related in part to high service costs), lack factor diversity, and need FDI to develop backbone services. Technical assistance and knowledge sharing venues (at CAREC, WB and WTO) for trade in services would be available.
- (iv) **Focus on capacity building for analysis.** The reasoning behind this option could be that analytical trade work in CAREC countries has been weak, limiting policymakers and the public's understanding of its importance. The focus could be on developing and measuring performance metrics (e.g., trade liberalization index, trade restrictiveness index, institutional quality index), research studies (gravity models, relative comparative advantage, WTO and TFA benefits, economic complexity, export diversification) and pilot case studies. This could become a flagship CAREC product, with IFI buy-in (WTO, WB, IMF).
- (v) **Include trade related "Doing Business" improvement issues and product and labor market reforms.** The basis underpinning this proposal is that, in general, trade related market structural reforms fundamentally need to be centered on improving the overall functioning of the economy by increasing investment (foreign and domestic), strengthening the business environment, improving competition within economy, and raising growth potential. This option would provide a broader menu of options for members to choose from.

V. TRADE POLICY AGENDA FOR 2018

14. What should be trade policy agenda for 2018 given that it is a transition year between an expiring and a new TPSAP, and the creation of a new CAREC strategy?

- As noted above, the current TPSAP 2013 – 2017 will expire by the end of this year. A new CAREC Strategy, which is expected to be endorsed this year at the 16th Ministerial Conference to be held on October 27th in Dushanbe, Tajikistan, is also in the process of being formulated.
- The new TPSAP should be properly aligned not only with ongoing global and regional trends but also with CAREC's future strategic directions. Thus, 2018 will be a transition

year for the trade policy agenda, as a new TPSAP (potentially covering 2019-2025) is formulated.

- Against this background, how should the 2018 transition year be handled? Should CAREC members continue implementing the agreed trade policy actions that remain incomplete under the present TPSAP? Or should members make some changes, either abandoning some policy actions or adding new ones? Much of this will depend on the decisions embodied by CAREC's future directions to be set in October.

Annex I

Status of Current Policy Commitments

1. **The key driving force behind CAREC’s trade policy achievements has been the CAREC commitment process, with its focus on results and tracking of performance.**

Under the present TPSAP, there were three rounds of commitments: (i) measures due by end-2014; (ii) measures due by end-2015; and (iii) measures due by end-2016. The measures were formulated at SOMs in Bishkek, Bangkok and, Islamabad, respectively, and based upon the *Policy Matrices tables* contained in the TPSAP for 2013-17.⁵ Outside of the discussion on developing updated indices on trade liberalization and institutional quality, most of the performance indicators suggested in the Policy Matrices tables have been utilized. Finally, given that Georgia joined CAREC in 2016, this country is not listed in the three commitment heat maps tabulated below.

2. **Most members have implemented the first set of TP measures—due by end-2014—under the TPSAP.**

The measures were generally related to WTO accession commitments and to efforts to simplify and liberalize the trade-tax regime prior to WTO accession. In this sense, the CAREC TSAP has successfully piggybacked onto the WTO process. For example, measures 1-5 were core WTO commitments. Measures 6 and 7 in the table below are linked to efforts to reduce and eliminate technical regulations on industrial goods and SPS measures that are NTBs. Measures 8 and 9 are more in the nature of knowledge sharing and training. The “not completed” or “not yet submitted” entries in the heat map below stem from two countries that have not yet made the jump to WTO membership. If, and when, Turkmenistan and Uzbekistan make a full commitment to the WTO membership process, these measures must be implemented.

3. **Progress on the second set of measures—due by end-2015—has been more uneven.**

- Many of these measures (1-4 and 8) pertain to eliminating NTBs and other quantitative restrictions (particularly related to SPS and TBT issues), and working to resist lobbying pressures to reintroduce them through monitoring and (private-public) dialogue at the National Joint Committees (NJC) level. A key obstacle limiting progress (i.e., not completed or not submitted responses in the heat map) is that many CAREC countries still utilize the GOST standards from the Former Soviet Union era, and transitioning to a more modern SPS system based on international standards is costly.
- Progress on fulfilling commitments related to expanding trade in services (measures 5-7) has also been slow. Increasing service trade depends heavily on developing more

⁵ See http://www.carecprogram.org/uploads/events/2013/SOM-Oct-KAZ/002_107_212_Trade-Policy-Strategic-Action-Plan.pdf. Measures due by end-2014 are linked to performance indicators found in Tables 2.1-2.2. Measures due by end-2015 and end-2016 correspond to performance indicators found in Tables 3-5.

market-friendly institutions, a skilled labor force, and an efficient regulatory environment that promotes competition and investment. Given the variety of service trade experiences across members, the measures in the heat map tried to focus on understanding the bottlenecks, assessing the main regulatory constraints, and making initial attempts at fostering greater labor force mobility.

4. **The three-final set of measures—due by end-2016—are closely linked to trade in services and labor mobility commitments.** The objective was to directly build upon and extend measures (5-7) developed for end-2015. For example, the increased labor market flexibility envisaged under a bilateral agreement on temporary labor movements, would be expanded by a mutual recognition of professional qualifications. As of mid-2017, the early responses suggest that little has been achieved on these measures.

TRADE POLICY STRATEGIC ACTION PLAN FOR 2013–17

POLICY ACTION MATRIX

| Measures: Due by end-2014 | AFG | AZE | CHN | KAZ | KGZ | MNG | PAK | TJK | TKM | UZB |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------|---------------|
| #1: Eliminate any remaining discrepancies between taxes applied to domestic production and imports | Completed | Not yet submitted | Not completed |
| #2: Eliminate, or incorporate into tariffs, all miscellaneous taxes and fees applied to imports | Completed | Not yet submitted | Completed |
| #3: Reduce the average tariff to 10 percent or less | Completed | Not yet submitted | Not completed |
| #4: Implement tariff cuts to achieve the 20 percent cap | Completed | Not yet submitted | Completed |
| #5: Eliminate or tariffy import quantitative restrictions and licenses | Completed | Not yet submitted | Completed |
| #6: Formally acknowledge the importance of WTO SPS and TBT agreements | Completed | Completed |
| #7: Form a NJC permanent secretariat | Completed | Not yet submitted | Completed |
| #8: Conduct a knowledge sharing workshop on WTO accession related issues | Completed | Completed |
| #9: Participate in ADB's training and TA related to the Revised Kyoto Convention | Completed | Completed |

Completed Not completed Not yet submitted

| Measures: Due by end-2015 | AFG | AZE | CHN | KAZ | KGZ | MNG | PAK | TJK | TKM | UZB |
|---|-------------------|---------------|-----------|----------------|---------------|---------------|----------------|---------------|-------------------|---------------|
| #1: Adopt legislation compliant with the SPS and TBT agreements | Completed | Completed | Completed | Completed | Completed | Completed | Completed | Completed | Not yet submitted | Completed |
| #2: Prepare a SPS strategy and action plan to guide the gradual transition to WTO compliant systems | Not completed | Completed | Completed | Completed | Completed | Completed | Completed | Completed | Not yet submitted | Not completed |
| #3: Begin reviewing the existing and new regulations by NJCs | Not yet submitted | Not completed | Completed | Not completed | Not completed | Not completed | Not completed | Not completed | Not yet submitted | Not completed |
| #4: Start producing annual report of NJCs in 2015 | Not yet submitted | Completed | Completed | Not completed | Not completed | Not completed | Not completed | Not completed | Not yet submitted | Not completed |
| #5: Complete national studies to assess key bottlenecks to expansion of trade in services | Not completed | Not completed | Completed | Not completed | Completed | Not completed | Completed | Not completed | Not yet submitted | Not completed |
| #6: Confirm whether a bilateral agreement has been put in place for temporary labor movement | Not yet submitted | Not completed | Completed | Not applicable | Completed | Not completed | Not completed | Completed | Not yet submitted | Completed |
| #7: Prepare annual report on regulatory improvements for trade in services | Not completed | Not completed | Completed | Not completed | Not completed | Not completed | Not completed | Not completed | Not yet submitted | Not completed |
| #8: Participate in the ADB' TA program for modernization of SPS measures | Completed | Completed | Completed | Not applicable | Completed | Completed | Not applicable | Not completed | Not applicable | Completed |

Completed Not completed Not applicable Not yet submitted

| Measures: Due by end-2016 | AFG | AZE | CHN | KAZ | KGZ | MNG | PAK | TJK | TKM | UZB |
|---|-------------------|-------------------|-----------|----------------|---------------|---------------|-------------------|-------------------|---------------|---------------|
| #1: Encourage key regulatory changes based on national studies for expanding cross-border trade in services | Not yet submitted | Not completed | Completed | Completed | Completed | Not completed | Not completed | Not yet submitted | Not completed | Not completed |
| #2: Develop mutual recognition agreement for professional qualifications in the context of bilateral labor agreements | Not yet submitted | Not yet submitted | Completed | Not applicable | Completed | Not completed | Not yet submitted | Completed | Not completed | Not completed |
| #3: Review the existing and new regulations on trade in services by NJCs | Not yet submitted | Not yet submitted | Completed | Not completed | Not completed | Not completed | Not completed | Not yet submitted | Not completed | Not completed |

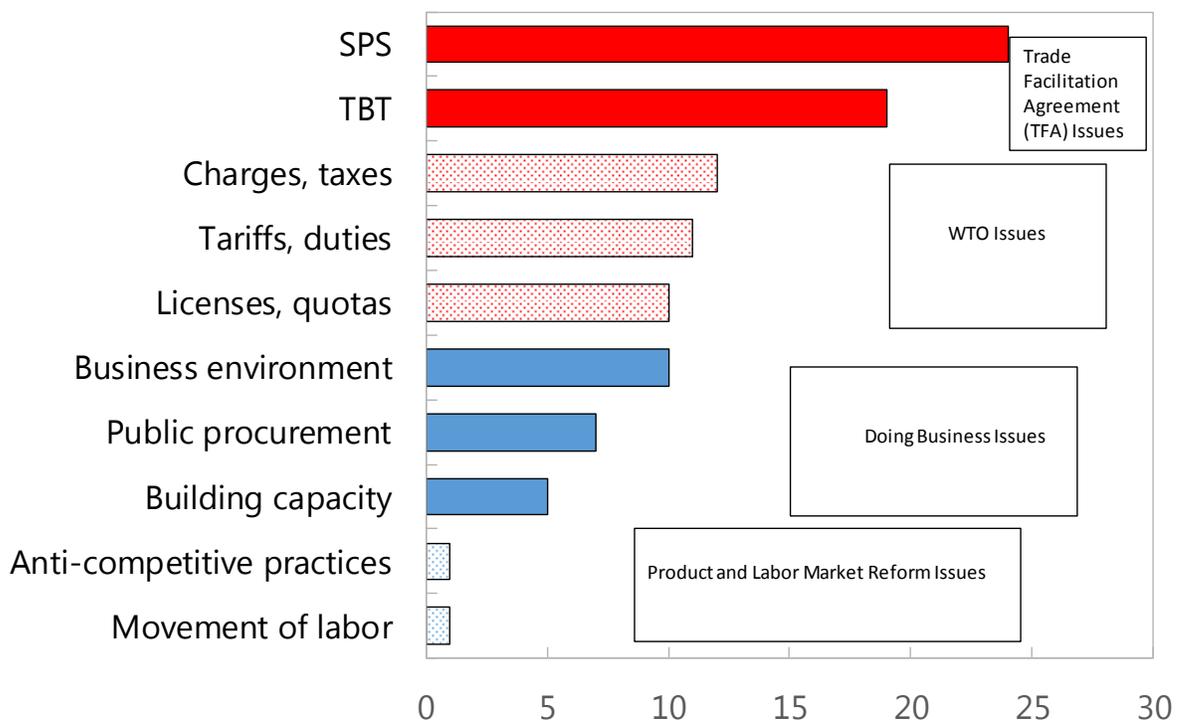
Completed Not completed Not applicable Not yet submitted

Annex II

Survey of Country Preferences for the Post-2017 Agenda

1. A survey on “What should be the post 2017 TP agenda?” was completed by CAREC members after last year’s SOM in Islamabad. The focus was on *understanding the bottlenecks and challenges* that have been hampering implementation of TP measures and to assess *TP priorities*. The survey provides a good roadmap of members’ views on the TP process, and on a possible way forward.

**CAREC Member Survey: Where to Go?
Survey Results on Trade Policy Priorities 1/**



1/ Aggregate scores: Each country gave 5 points to its first priority, 4 points to its second priority, and so on.

- Members’ **assessment of present trade policy agenda** was that it was mostly in line with CAREC objectives. Five responses indicated that the TP agenda was *in line with objectives*, while two reported the agenda to be *too ambitious*, and an addition two indicated it was *not focused enough*.
- Regarding on **how to forge a new agenda**, four members wanted to *establish a new agenda*, two each indicated a desire to *extend the existing agenda*, or continue with existing agenda *with pilots*. Two more members stated that the *setting of the trade policy agenda should be left to member countries*.

- On **priorities**, most members wanted the focus on *Trade Facilitation Agreement (TFA)* issues (SPS and TBT). The next priority was on more core *WTO issues* (charges, taxes, tariffs, duties, licenses, quotas) and *Doing Business issues* (business environment, public procurement, building capacity). The lowest priority was on *product and labor market reforms* (anti-competitive practices, labor reforms).
- Member countries mostly **wanted IFIs to focus** on *knowledge sharing* (four members) and *capacity building* (3 members). There was less interest in financial assistance (1 member) or policy advice (1 member).