



Central Asia Regional Economic Cooperation Program

Reference Document
For Session 2 of the Senior Officials' Meeting
June 2013

Trade Policy Sector Progress Report and Work Plan (2013)

**Senior Officials' Meeting
Central Asia Regional Economic Cooperation
27–28 June 2013
Almaty, Kazakhstan**

I. KEY DEVELOPMENTS

A. Sector Implementation

1. Since the previous trade policy sector progress report was issued in October 2012, further progress has been achieved in key areas of work of the Trade Policy Coordinating Committee (TPCC), based on the Trade Policy Strategic Action Plan (TPSAP). Priority initiatives include (i) continued implementation of the capacity-building and knowledge-sharing Program, (ii) advancing the World Trade Organization (WTO) Accession Knowledge Sharing Program, and (iii) Monitoring the implementation of the TPSAP by CAREC member countries.

B. Addressing Actions Proposed in the 2011 CAREC Development Effectiveness Review (2011 CAREC DEfR) and Ongoing Key Issues

1. Priority Actions Proposed in the 2011 CAREC DEfR

- Continue to implement the capacity-building and knowledge-sharing program among CAREC members.

Action initiated:

2. At the 17th TPCC meeting, the World Bank presented their recent comprehensive study on trade in Central Asia (Borderless Bazaars and Regional Integration in Central Asia: Emerging Patterns of Trade and Cross-Border Cooperation). A key finding from this study is that, despite low volumes, the extent to which welfare of bordering regions depend on cross-border trade is enormous. Moreover, non-standard trade, like bazaars, plays a pivotal role in regional and national chains of production and distribution, with national networks strongly integrated across Central Asian economies. In a second presentation, the EBRD reviewed a recent research on the impact of the customs union (CU) on trade, with particular attention to the effects of Kazakhstan's CU (with Russia and Belarus) on Kazakhstan's own imports. A key result of this paper suggests that while there is evidence of trade diversion (e.g., positive impact on imports from CU countries vs. negative impact on imports from non-CU countries), the effects of trade creation are not yet clear (the K-R-B CU is relatively new, since 2009, and the results only capture the initial short-term impact of the change in import tariffs). These two presentations were followed by an ADB presentation discussing the latest workshop concerning the WTO Accession Knowledge-Sharing Program, which was successfully conducted in July 2012 in Shanghai.

Next steps:

3. The program of capacity-building and knowledge-sharing will continue at the 18th TPCC meeting on 26 June 2013, with the IMF presenting the latest results of its Trade Liberalization Index and the first official set of results of the Intuition Quality Index for CAREC member countries. This will be followed by a World Bank presentation of their latest research work on regional trade in Central Asia.

- Advance the WTO accession knowledge sharing program through training workshops.

Action initiated:

4. In the area of supporting the WTO accession, a WTO Accession Knowledge-Sharing Program is well under way, jointly sponsored by ADB and the World Bank. The third training seminar was successfully conducted in July 2012 in Shanghai.

5. To enhance the effectiveness of the capacity development program of the TPCC, ADB and the IMF have tapped the World Trade Organization (WTO) for its expertise in trade policy and trade liberalization reforms. The WTO, through its Institute for Training and Technical Cooperation (ITTC), agreed to partner with the IMF and ADB in developing and delivering capacity development products to CAREC countries as a group, as well as to individual CAREC countries as appropriate. Specifically, WTO agreed to support ADB's upcoming technical assistance to Tajikistan to implement its post-accession commitments, including participating in a proposed trade and investment conference. WTO also agreed to assist as appropriate in accession and post-accession activities, such as preparation of documents, market accession negotiations, and outreach.

6. During the 18th TPCC meeting, WTO participated as an observer for the first time in a CAREC event. Represented by Ms. Maika Oshikawa, Head, Asia-Pacific Desk of the ITTC, the WTO outlined the range of technical assistance and capacity building support it can contribute to CAREC. CAREC officials unanimously welcomed WTO's involvement in the TPCC. They endorsed WTO involvement in the following three areas:

- a) Participation of WTO in capacity development activities organized by CAREC to advance trade policy and trade facilitation objectives;
- b) CAREC countries' participation in capacity development activities organized by WTO;
- c) WTO participation in TPCC activities, such as participation in future TPCC meetings and as guest observer in the upcoming 12th CAREC Ministerial Conference.

Next Steps

7. The TPCC asked ADB, IMF, and WTO to mutually explore an appropriate modality to formalize WTO cooperation with CAREC for review and endorsement at the 12th CAREC Ministerial Conference. ADB, IMF, and WTO will firm up CAREC countries' participation in upcoming WTO training events, possibly the 2nd Roundtable of China and LDC's Accession Programme, Luang Prabang, 15–18 October 2013 and the Global Seminar on Accessions, Geneva, 23–27 September 2013.

- Monitor the implementation of the TPSAP to ensure sufficient progress in trade liberalization, including through improvements in the institutional environment for trade.

Action initiated:

8. Regarding progress on trade liberalization, the monitoring of TPSAP implementation continues. Analysis of the trade liberalization index (TLI) for end-2012 shows that, as of end-2012, the TLI, remains on a positive trend, reflecting continued openness and simplification of CAREC countries' trade regimes. However, the rate of improvement in the TLI slowed in 2012 and the overall index fell short of the target set by the TPSAP. The index, which averages across the six CAREC countries that have completed the questionnaire, rose from 12.8 in 2011 to 15.2 in 2012, vs. targets of 10 and 20, respectively. On a disaggregated level, only one country met the end-2012 target, while one other country came close to meeting that target.

Regarding monitoring of improvements in the institutional environment for trade, the IMF compiled the first set of results based on the newly approved institutional quality index (IQI) (the IQI methodology was approved at the 17th TPCC meeting). As of end-2012, the IQI shows that there is a lot of variation in institutional quality between CAREC countries, and most have substantial room for improvement. Indeed, institutional barriers to trade remain, and the region generally ranks low in the “Ease of Trading Across Borders” component of the World Bank’s Doing Business indicators. In particular, with a few exceptions, number of procedures, time and cost of importing/exporting are substantially higher than in other regions. (However, please note that in light of discussions during the 18th TPCC meeting, both the TLI and the IQI will be redefined in the context of the upcoming updated TPSAP.)

Next steps:

9. The 18th TPCC meeting included two roundtable discussions on the implementation status of the TPSAP. In the first, country representatives reported on the latest progress made in the implementation of the TPSAP. The second roundtable discussion addressed preliminary proposals for updating the TPSAP for the coming years, including initial suggestions for the action matrix already submitted by several CAREC members. The aim will be to ensure that the updated TPSAP pays particular attention to enhancing trade liberalization measures and expanding the scope for measuring progress on institutional quality.

2. Resolution of Ongoing Key Issues

10. As emphasized in several previous trade policy sector progress reports to CAREC Senior Officials’ Meetings (SOMs), full participation of all member countries in the trade policy work is an essential condition for its success. Further efforts are required to achieve full participation of all member countries in providing information used for the calculation of the TLI and IQI, and to ensure that complete sets of responses to the questionnaires are submitted to the TPCC on time. There is still substantial room for improvement, and CAREC senior officials are requested to ensure their country’s participation in data submission for the compilation of the TLI and IQI.

II. KEY ISSUES FOR GUIDANCE BY THE SOM

11. The TPCC has started preparatory work and discussions on updating the 2008 TPSAP, to (i) reflect new developments and progress achieved in the implementation of the existing plan (in particular, further reduction of tariff and non-tariff barriers and the implementation by many countries of TPSAP measures envisaged for 2009–2012), and (ii) better align the action plan with the strategic objectives of *CAREC 2020*. Preliminary discussions at the TPCC meetings suggest that the broad areas of the current TPCC—(i) trade liberalization through removal of both tariff and non-tariff barriers, (ii) WTO accession by all CAREC member countries, and (iii) improvements in the institutional environment for trade—remain relevant. CAREC senior officials are requested to approve these broad areas as the guiding principles for the TPCC, as it continues to revise the TPSAP in 2013.

III. CHANGES TO SECTOR ACTION PLAN

12. The Trade Policy Sector Work Plan remains broadly on track as of June 2013. At the 17th TPCC meeting, delegates agreed that, prior to revising the TPSAP, it would be necessary

to conduct roundtable discussions, (i) to take stock of the progress made in implementation of the current TPSAP in each CAREC country and (ii) to consider preliminary suggestions by member countries for updating the TPSAP. As mentioned above, these discussions took place at the 18th TPCC meeting. Work on updating and revising the TPSAP is expected to continue in 2013. Otherwise, there are no changes to the sector work plan.