



# **Trade Policy Coordinating Committee Status Report**

**Sixth Ministerial Conference  
on Central Asia Regional Economic Cooperation  
3 November, 2007  
Dushanbe, Tajikistan**

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## **CAREC Trade Policy Coordinating Committee Status Report for the November 3, 2007 Ministerial Conference**

### **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 Fifth Ministerial Conference in October 2006. This report summarizes the work of the TPCC during its sixth and seventh meetings in Manila on March 24, 2007 and September 6, 2007, respectively, and the training seminar that was held in June 2007

### **II. PAPERS ON TRADE POLICY ISSUES**

#### **A. Barriers to border trade**

3. 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 findings and recommendations of the paper on border trade, which were broadly endorsed by the Senior Officials Meeting (SOM), are summarized below.

4. 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. However, there are major 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 (BCPs), particularly those with a large potential for trade; (iv) forced closure or relocation of bazaars supporting cross-border trade; and (v) highly restrictive limits on exemptions from border charges and taxes. Security and contraband trade are often cited as justifications for imposing controls, but these controls are usually blunt and costly and have a harmful impact on the income and welfare of the poor.

5. 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. 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 are 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.

6. 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, which are listed in Attachment 1. The SOM broadly endorsed these recommendations and, in view of the concerns expressed by the Uzbek delegation, recommended that their implementation be optional.

## **B. Quantitative restrictions on trade**

7. 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. The findings and recommendations of the paper are summarized below.

8. The shift away from QRs is strongly supported by international trade theory and by trade law. 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 QRs to price-based instruments is furthest advanced in the WTO members but is underway 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.

9. 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 instruments to do so. 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.

10. After the discussion, the TPCC recommended the following measures, which were broadly endorsed by the SOM:

- 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 countries should 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.

### III. REVIEW OF PROGRESS

#### A. Reduction in barriers to transit trade

11. In line with the communiqué of the 4<sup>th</sup> Ministerial Conference, the TPCC continued monitoring 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> They also 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 committed to the goal of a liberal trade regime in the region. They noted that the pace of progress needs to be accelerated. The TPCC 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).

#### B. Reform of trade tax regimes

12. In line with the recommendation of the 5<sup>th</sup> Ministerial Conference, the TPCC began monitoring the 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 reform their trade tax regimes. Other country delegates reported that they are already in compliance with at least some of the recommended trade tax reforms, reflecting—in the case of the People's Republic of China, the Kyrgyz Republic, and Mongolia—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. However, given that progress may require legislation and other steps, monitoring of progress on an annual basis was considered sufficient.

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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.

<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 3; (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.

#### IV. TRAINING SEMINAR

13. 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.” The presentations<sup>3</sup> and discussions covered the following topics:

- Multilateral trade liberalization and WTO membership;
- Design and implications of preferential trade agreements;
- The role of trade policy in attracting foreign direct investment; and
- Benefits of trade facilitation.

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

#### V. TRADE POLICY STRATEGIC ACTION PLAN

15. 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 the primary sectors of energy, trade, and transportation be developed to make the CAP operational. To this end, the TPCC reflected on the content and the preparation process of the Trade Policy Strategic Action Plan (TPSAP) during its sixth and seventh meetings.

16. Delegates agreed on the following points, which the SOM endorsed subsequently.

- 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 with tariffs; when abolishing QRs, terminating the bureaucratic arrangements that accompany them; and making existing and newly introduced QRs more transparent.

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<sup>3</sup> The presentations are posted at [www.adb.org/Documents/Events/2007/Trade-Policy-Challenges](http://www.adb.org/Documents/Events/2007/Trade-Policy-Challenges) .

- 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 7<sup>th</sup> Ministerial Conference for approval.

## **VI. FUTURE WORK PLAN**

17. The TPCC's future work program, which was endorsed by the SOM, will 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 5<sup>th</sup> 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);
  - (vi) monitoring implementation of the recommendations related to quantitative restrictions; and
  - (vii) 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.

## Border Trade: Summary of Recommendations

Recommendation	Country
<b>A. Recommendations on operations of border-crossing points</b>	
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>B. Recommendations on movement of motor vehicles</b>	
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
<b>C. Recommendations on movement of people living in contiguous regions</b>	
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
<b>D. Recommendations on movement of goods among contiguous regions</b>	
Raise 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