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Trade Policy Strategic Action Plan for 2013–2017

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Trade Policy Strategic Action Plan for 2013-2017

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List of Abbreviations

| | |
|--------------|--|
| ADB | Asian Development Bank |
| CAREC | Central Asian Regional Economic Cooperation |
| CIS | Commonwealth of Independent States |
| Codex | Codex Alimentarius |
| FDI | Foreign Direct Investment |
| IPPC | International Plant Protection Convention |
| ISO | International Organization for Standardization |
| NJC | National Joint Transport and Trade Facilitation Committee |
| NTB | Non-Tariff Barrier |
| NTM | Non-Tariff Measure |
| OIE | World Organization for Animal Health |
| QR | Quantitative Restraint |
| PRC | Peoples' Republic of China |
| SPS | Sanitary and Phyto-Sanitary |
| TBT | Technical Barriers to Trade |
| TPSAP | Trade Policy Strategic Action Plan |
| WTO | World Trade Organization |

CAREC Trade Policy Strategic Action Plan for 2013-2017

1. Introduction

The export led growth of the East Asian tigers took them from developing countries to among the rich countries of the world. Observing the experience of its East Asian neighbors, CAREC has endorsed an open economy model of economic development with the goal of growth and poverty reduction. To achieve the overarching objective of growth and poverty reduction through an open economy model of development, the first Trade Policy Strategic Action Plan (TPSAP) had three goals: achieving WTO accession; achieving more trade openness prior to WTO accession; and capacity building on trade issues.

This TPSAP continues to emphasize the objectives of the previous TPSAP, but notes that the trade policy agenda is shifting and expanding. While WTO accession remains an important objective, the task of implementation of commitments taken under the accession agreements can be daunting. Thus, it is important to consider implementation of commitments for the new WTO members, e.g., Tajikistan and hopefully other CAREC members soon.

A new international database has shown that what has become important internationally and also within CAREC are non-tariff measures, especially technical regulations on industrial goods and sanitary and phyto-sanitary (SPS) measures. These new measures typically meet a legitimate and needed regulatory function, such as health and safety; but they can be trade barriers.

It is important to recognize the special geographic location of the CAREC countries. Eight of the ten CAREC countries are landlocked and the data show that they face extremely high transportation costs, i.e., several of these countries face natural barriers to trade among the highest in the world. Reduction of trade policy barriers will help expand trade; but the challenge for the landlocked CAREC countries is how to use exports to drive economic growth and poverty reduction with such high natural barriers? With low transportation costs, Singapore and Hong Kong have an enormous natural advantage relative to Tajikistan, Uzbekistan and the Kyrgyz Republic in their ability to export manufactured goods. This TPSAP establishes expansion of trade in services as a core CAREC trade policy goal as a partial solution to this challenge and discusses measures to achieve that objective. Addressing regulatory barriers in services, especially in telecommunications and other backbone services is an important part of the policy agenda.

This trade policy agenda is based on numerous recent studies that indicate that there are substantial potential gains to economies that lower trade costs. This includes border measures, but also includes regulation of non-tariff measures and addressing the cost of services that are inputs to traded goods. A consensus is building (e.g., the World Bank, World Economic Forum, International Trade Centre) that what is required to address the non-tariff measures and services regulation issues is the formation of an intergovernmental committee(s), including line

ministries, to serve as a focal point for broad participation from the private sector and to identify and discuss problems and conduct regulatory reviews in a transparent manner.

2. Progress under the first Trade Policy Strategic Action Plan (TPSAP)

Progress in the past several years on these goals is as follows.

2.1 WTO accession

Five CAREC countries are now WTO members. Pakistan, Mongolia and the Kyrgyz Republic became members in the 1990s; the People's Republic of China (PRC) joined in 2001; and Tajikistan became a WTO member on March 2, 2013. In late July 2013, the WTO reported that Afghanistan is likely to accede to WTO membership at the December 2013 Ministerial meetings;¹ and that the accession of Kazakhstan to the WTO at the December 2013 meetings remains a possibility.²

The Working Party on the accession of Azerbaijan met for the tenth time in December 2012 and reported further reforms in accordance with the WTO requirements.³ The WTO Working Party on the accession of Uzbekistan has not met since October 2005. Turkmenistan has not yet applied for WTO membership, but has announced that it is considering doing so.

2.2 Achieving More Trade Openness Independent of WTO Accession

Principal aspects of the trade openness goal were to reduce the average tariff to ten percent or less and eliminate quantitative restraints on trade. As of 2012, the simple average tariff was less than ten percent in Afghanistan, Azerbaijan, the PRC, the Kyrgyz Republic, Mongolia and Tajikistan and among the six countries reporting information, none reported any quantitative restraints on either exports or imports. The Trade Liberalization Index (TLI), a questionnaire-based monitoring mechanism designed jointly by the International Monetary Fund (IMF) and the Trade Policy Coordinating Committee (TPCC), tracks member countries' progress over the period 2009–2013 in (i) reducing the average tariff, eliminating quantitative restrictions on imports and exports; and (ii) simplifying and eliminating the trade distorting aspects of the tax and fee regimes. As of end-2012, the TLI, aggregated over the six countries that reported information, remained on a positive trend, which reflects progress on openness and simplification of CAREC countries' trade regimes.

¹ For Afghanistan see https://www.wto.org/english/news_e/news13_e/acc_afg_25jul13_e.htm

² The WTO press release stated: "The main stumbling blocks concern tariff adjustment, regulations and practices governing sanitary and phyto-sanitary (SPS) measures, and WTO-inconsistent trade-related investment measures (TRIMS), including those embedded in state-owned enterprises." See https://www.wto.org/english/news_e/news13_e/acc_kaz_23jul13_e.htm

³ The Chairperson of the Working Party concluded the meeting by saying that discussions had been useful and substantive. He encouraged the delegation of Azerbaijan to continue negotiations with members in a proactive manner.

2.3 Capacity Building for WTO Accession and Trade

Four mini-seminars on WTO accession were held during the TPCC meetings.⁴ Building from the mini-seminars, the WTO Accession Knowledge Sharing Program was launched, jointly sponsored by the ADB and the World Bank. Three WTO training seminars took place in March, May, and July 2012 on agriculture issues, services issues and shared accession experiences, respectively (CAREC, 2012, p.15). There have also been numerous training and related events in trade facilitation, including 25 events from January 2011 to July 2013.⁵

3. The CAREC Goals under the New Trade Policy Strategic Action Plan

3.1 WTO accession and implementation of commitments

WTO accession has been a primary trade policy goal for CAREC for many years. The Ministers' statement of November 2007 emphasized WTO accession as a key goal and this was reiterated in the report of the Secretariat on the CAREC Program (CAREC, 2012). WTO accession represents a crucial historical opportunity to provide a signal to foreign investors that they are welcome, and to achieve and "lock-in" reforms toward an open economy model of economic development that welcomes foreign direct investment. Experience has shown that WTO accession leads to an enormous amount of trade liberalization and institutional improvement. In addition to the reduction of tariffs and the elimination of command and control type non-tariff barriers, WTO accession impacts a wide range of trade and investment policies and practices. This includes customs modernization, foreign direct investment rights, improved incentives to exporters and improved rights for exporters in antidumping cases, rights of foreign companies to provide services as direct investors or on a cross border basis, standards and norms of goods to be applied in a non-protective manner, intellectual property rights, constraints on trade distorting subsidies (but none on providing agricultural services to improve agricultural productivity), transparency in the trade and investment climate, and rules on trade related investment measures. Countries that have acceded to the WTO have taken on a wide range of commitments in the services sector and achieved a level of tariffs considerably lower than the tariff level of countries in a comparable state of development. As such, WTO accession for all CAREC countries, and implementation of the many commitments for the WTO members, are crucial goals of CAREC member countries. At the same time, support for the implementation of WTO commitments is important. Finger and Schuler (1999) estimate that the implementation

⁴The subjects were: (i) overview of the commitments involved in acceding to the WTO (based on the Handbook of the World Bank Institute on WTO Accession, see Tarr, 2006);(ii) case study of Russia on the potential costs and gains of acceding to WTO; (iii) recent Developments in Multilateral Agricultural Trade Negotiations; and (iv) "Experience of China's WTO Accession Negotiations in the Case of Tariff Concessions."

⁵ For details, see <http://www.carecprogram.org/index.php?page=events-list&sorter=sector&sorted=2>

costs of WTO commitments are as much as an entire year's development budget for many of the Least Developing Countries.

3.2 Achieving More Trade Openness, prior to WTO Accession

TPCC discussions have concluded that greater trade openness is needed in CAREC countries to stimulate trade both within and outside of CAREC countries. There are multiple dimensions to achieving a more open trade regime. Policies and actions to stimulate trade are needed in several areas:

3.2.1 Simplify and liberalize the trade-tax regime. This includes applying ostensibly domestic taxes on both domestic production and imports; cutting tariffs and reducing the tariff peaks. International trade analysis has shown that the largest costs to an economy come from tariff peaks,⁶ so it would be desirable to increase focus on the tariff lines with very high tariffs;

3.2.2 Abolish quantitative restraints to trade inconsistent with WTO guidelines. Any remaining command and control type quantitative barriers on exports or imports, such as quotas and licenses and the administrative procedures used to enforce them, should be abolished, including removing any remaining exchange restrictions; and

3.3 Make technical regulations on industrial goods and sanitary and phyto-sanitary (SPS) measures consistent with the WTO TBT and SPS agreements.

Technical regulations and SPS measures are non-tariff barriers if they are unjustified for health or safety reasons. Further, health and safety measures should be chosen to be minimally trade distorting. The reduction of technical measures that are barriers to trade is a crucial issue that requires elaboration.

One of the most important aspects of achieving greater openness generally and improved cooperation within CAREC is the reduction of the use of technical regulations and sanitary and phyto-sanitary (SPS) measures that are unnecessary or unjustified for health or safety. Several multilateral institutions are now collaborating on the development of a database on non-tariff measures.⁷ The database shows that globally, and in the four CAREC countries included in the database (Afghanistan, PRC, Kazakhstan and Pakistan), traditional command and control non-

⁶ See, for example, Morkre and Tarr (1980, chapter 2).

⁷ The effort is known as the Multi-Agency Support Team (MAST). MAST is presently composed of UNCTAD, the International Trade Centre, the World Bank and the African Development Bank. MAST collects data on 16 NTMs: (i) SPS, (ii) Technical Regulations, (iii) Pre-Shipment Inspections, (iv) Price Control Measures, (v) Quotas, Licenses, prohibitions and QRs, (vi) charges, taxes and para-tariff measures, (vii) finance measures, (viii) anti-competitive measures, (ix) TRIMs, (x) Distribution restrictions, (xi) Restrictions on post-sales services, (xii) subsidies, excluding export subsidies, (xiii) Government procurement restrictions, (xiv) intellectual property, (xv) rules of origin, (xvi) export measures, including export subsidies.

tariff barriers, such as quotas and licenses, have significantly diminished.⁸ However, they have been replaced by technical regulations of industrial products and SPS measures as the principal non-tariff measures affecting trade.⁹ While technical measures have legitimate social objectives of protecting health, safety and the environment, if they are unjustified or unnecessary for health or safety they are non-tariff barriers to trade (NTBs). NTBs will raise the cost of living, reduce access to key inputs, increase the cost of doing business and hurt competitiveness and diversification. In addressing the trade restricting aspects of technical measures, however, it is important to recognize that countries have the right and the obligation to protect their nationals from unsafe or unhealthy products and the right to protect their environment and livestock against introduction and spread of pests and diseases. That is, there is a legitimate regulatory function to these types of regulations.

The WTO has the SPS agreement, which focuses on agricultural goods, and the TBT agreement, which focuses on industrial goods. SPS measures are typically mandatory regulations that are enforced by agencies responsible for food, animal or plant health. TBT measures on goods are often voluntary (called standards in these cases), but can be mandatory technical regulations.

As the World Trade Organization (2012) has stated regarding SPS:

Problem: How do you ensure that your country's consumers are being supplied with food that is safe to eat — "safe" by the standards you consider appropriate? And at the same time, how can you ensure that strict health and safety regulations are not being used as an excuse for protecting domestic producers?

Regarding Technical Barriers to Trade (TBTs) on industrial products, the World Trade Organization (2012a) has noted:

Technical regulations and product standards may vary from country to country. Having many different regulations and standards makes life difficult for producers and exporters. If regulations are set arbitrarily, they could be used as an excuse for protectionism.

The Agreement on Technical Barriers to Trade tries to ensure that regulations, standards, testing and certification procedures do not create unnecessary obstacles, while also providing members with the right to implement measures to achieve legitimate policy objectives, such as the protection of human health and safety, or the environment.

What WTO principles require is that technical regulations or SPS requirements should be adopted with minimum trade distorting implications, should be science based and should not discriminate against imports. **A non-tariff technical measure (NTM) becomes a non-tariff barrier (NTB) to trade when it is more trade restrictive than what is required to meet the**

⁸ This was noted in the first TPSAP of CAREC.

⁹ See Cadot and Gourdon (2012), Cadot and Malouche (2012) and Gourdon and Nicita (2012) for the evidence.

health or safety requirements of the country or discriminates against imports. Imports that meet a scientific standard for health or safety should be permitted, regardless of how they achieve that standard. Market forces are best suited to determine quality; so technical regulations or SPS requirements should not be used to restrain imports based on quality considerations unrelated to health or safety considerations.

In seven of the ten CAREC countries, the SPS measures for agricultural goods and technical regulations for industrial goods are based on the system of State Standards known as the GOST system. The GOST system served an important function under the centrally planned system of the Soviet Union and performed well in some areas. But it is ill suited to a market economy and conversion to international standards is part of the transition process to a market economy.¹⁰

Regarding non-tariff barriers, under the GOST system, both quality and safety are mandatory. The GOST quality regulations that are unrelated to safety are NTBs; quality regulations are NTBs. Regarding the border controls ostensibly relating to food or plant safety, they: “*are linked to relics of GOST-based certification requirements unrelated to food safety,*” (ADB, 2013, p. 14) i.e., they are not risk-based. Thus, the GOST based border inspections fail to adequately protect human or animal health or plant safety, and since they are unrelated to safety, even the ostensibly health or safety related border inspections are NTBs. The problem is especially acute in Central Asian CIS countries and Afghanistan. World Health Organization data show that food safety performance, measured by years of diarrheal disease induced disabled or loss of healthy life, is behind other CIS countries and even more behind EU countries, Japan and the U.S.¹¹ Further, in many instances these regulations are discriminatory against imports (such as duplicative required inspections not required of domestic production) and therefore in contravention of WTO principles. Since these measures are NTBs, they are part of the trade policy discussion.¹² In section 4.2, this TPSAP suggests policy actions to reduce the trade-

¹⁰ “There are over 20,000 [SPS] standards, which is too many for smooth implementation. The prescriptive and mandatory nature of the standards can stifle product innovation. The system is inflexible to respond to consumer demand and new health risks. Implementation is difficult and costly because of overlapping mandates. Inspectorates have much discretionary power and there is generally weak rule of law” (van der Meer, 2010, p. 6). Further, with the accession to the WTO of the Russian Federation and other CIS countries, the markets that accept GOST standards are declining.

¹¹ See van der Meer (2010, table 2). The fact that Russia, Belarus and Ukraine have much better performance on this food safety measure, but also use the GOST system, indicates that national food safety programs are also a problem in central Asia.

¹² The SPS and TBT agenda is sometimes primarily trade policy, sometimes both trade policy and trade facilitation and sometimes primarily trade facilitation. An example of a primarily trade policy related SPS measure was the Russian ban on imports of chicken legs from the U.S., ostensibly for food safety reasons. The U.S. viewed this ban as unrelated to science and a trade policy violation used for the purpose of protecting Russian industry. This issue was settled as part of the accession of the Russia Federation to the WTO. Clearly, there is overlap with the trade facilitation agenda in several types of measures. For example, subjecting imports to duplicative inspections is discriminatory, a violation of the WTO SPS agreement and a non-tariff barrier. To eliminate this trade policy barrier, however, will require trade facilitation efforts. To satisfactorily address health and safety issues for both imports and domestic products regarding both TBTs and SPS, and to facilitate exports of the CAREC countries, will

impeding effects of non-tariff measures while ensuring that legitimate regulatory objectives are attained.

3.4 Expansion of trade in services

CAREC countries have agreed that it is desirable to integrate more fully both within CAREC and with the world trading environment. Of the ten CAREC countries, however, only Pakistan and China have ports with access to open seas. In addition to being landlocked, trucks from many of the central Asian countries must travel great distances to reach open seas or wealthy markets. Consequently, several of the CAREC countries face very high transportation costs in order to access the high income markets of the world.¹³ Due to this geographic isolation, these countries face very high natural barriers to trade that will make it difficult to trade in products where transportation costs are a significant share of the delivered cost of the product. Other things equal, countries with high transportation costs would have a comparative advantage in products where the ratio of the value of the export to the transportation costs is high. Expansion of trade in services may offer a path to increased trade integration.

3.4.1. Expansion of Cross-Border Services Exports. One way to trade with the rest of world at a high value to transportation cost ratio is to provide services electronically on a cross border basis (known as “Mode 1” in the terminology of the General Agreement on Trade in Services, GATS).¹⁴ The share of developing countries in services exports has increased from 11 percent in 1990 to 21 percent in 2008 (Goswami et al., 2012). Developing countries are exporting not just traditional services such as tourism services, but also modern skill intensive services such computer and information services and other business services. Services such as call centers and professional services such as accounting, engineering, legal and consulting services are possibilities. There is reason for optimism that central Asian countries can expand their trade in cross border services, as starting from a low base, the data show that Tajikistan, the

require substantial investment in the National Quality Infrastructure. Development of the National Quality Infrastructure is primarily a trade facilitation matter.

¹³ According to the Doing Business survey for 2013, the average cost of importing a container is orders of magnitude higher for the landlocked countries of CAREC compared with countries such as those in East Asia and the Pacific, the high income OECD countries or for the countries in the Middle East and North Africa. The average cost of importing a container into East Asia and the Pacific is \$958; it is \$1080 for the OECD high income countries and it is \$1275 for the Middle East and North Africa. On the other hand, the costs of importing a container for the landlocked countries of CAREC are: \$4665 in Kazakhstan, \$4700 in the Kyrgyz Republic, \$4750 in Uzbekistan, \$9800 in Tajikistan, \$3830 in Afghanistan, \$2710 in Mongolia and \$3490 in Azerbaijan. For the two CAREC countries with open sea ports, the cost is dramatically smaller at \$705 in Pakistan and \$615 in China. See <http://www.doingbusiness.org/>.

¹⁴ Although the focus in the TPSAP is services, another potential area of comparative advantage for the high natural trade barrier countries is high value products transported by air. For example, Belgium companies ship diamonds to Indian companies by air for polishing and then they are flown back to Belgium. And 27% of all US exports and imports by value were shipped by air in 2002, but this was less than one percent of the trade volume by weight. To expand exports of these products, efficient competitive air transport services are required as well as efficient trade facilitation procedures. For the data, see http://www.rita.dot.gov/bts/sites/rita.dot.gov.bts/files/publications/freight_in_america/html/us_international_freight_shipments.html

Kyrgyz Republic and Kazakhstan were among the world leaders in the growth of cross border trade in services during the decade prior to 2007.

The recent volume by Goswami, Mattoo and Saez (2012) has assessed the factors that lead to success in exporting services on a cross border basis.¹⁵ They group the success factors into three categories.

Fundamentals. A country's factor endowments are crucial, including its human capital¹⁶ for exporting skilled services and its cultural endowments for attracting tourists. Infrastructure is important, especially telecommunications networks that facilitate the delivery of services and institutional quality. The quality of a country's institutions, including its level of corruption, complexity of export procedures and flexibility in employment law have been shown to be important in increasing services exports. As argued above for Central Asia, the case of India suggests that low efficiency in exporting goods may lead to high efficiency in exporting services; the cases of Chile and Malaysia suggest the same conclusion for opposite reasons: they are highly efficient in exporting goods but underachieve in exporting services.

Policies Affecting Trade, Investment and Labor Mobility in Services. Policies that encourage inward foreign direct investment can increase services exports as there is evidence that inward foreign direct investment increases exports of services.¹⁷ A regulatory framework that encourages the efficient delivery of services, including allowing competition through foreign direct investment, is important, especially in the telecommunication sector; there is strong evidence that access to efficient telecommunications services is crucial for exporting services.¹⁸ Liberalization of the services sectors, such as the education, medical or the airline sector, can lead to the sale of services to foreigners, such as education services (as in Malaysia) or medical services "medical tourism" (as in Thailand and India) or airline services.¹⁹

Proactive Policies in Services. There is a consensus that the best public policy is to create an economy-wide environment that is conducive to the development of business in general, in which service exporters could thrive along with other sectors that possess

¹⁵ They both surveyed the literature and examined in detail the cases of India, Malaysia, Chile, Kenya, Egypt and Brazil.

¹⁶ The data show considerable variation in human capital endowments among the CAREC countries as measured by the percentage of students enrolled in tertiary education programs within five years of finishing secondary education in 2011: Afghanistan, 3 (in 2009); Azerbaijan, 20; PRC, 27; Kazakhstan, 41; Kyrgyz Republic 41; Mongolia, 57; Pakistan, 8; Tajikistan, 23; Uzbekistan, 9. See <http://data.worldbank.org/indicator/SE.TER.ENRR>

¹⁷ In India, foreign firms were among the first to recognize the potential of India in business process outsourcing and invested there. There are substantial exports from the business processing outsourcing sector of the Philippines. About 93 percent of the equity in the companies doing the exporting is foreign equity participation. Inward FDI promoted services exports from Costa Rica following the investment of Intel. See Goswami et al., (2012, pp. 11,12).

¹⁸ While it is crucial that firms that would export services have access to efficient and competitive telecommunications services, it is not clear that generalized internet access for the population is required. Firms may be able to purchase their own equipment. Or good telecommunication services could be provided to special economic zones or special technology parks, such as exist in India, the Philippines and Egypt, and this may be sufficient for exporting services (Goswami et al., 2012, pp. 7,8).

¹⁹ Excellent air transport services from Kenya partly explain why Kenya replaced Tajikistan as the major supplier of cut flowers to the Moscow market.

international competitiveness. Picking winners is risky, because there are examples of where it was losers that were picked and incentives that are intended to be temporary are difficult to remove; further, privileges to targeted sectors may delay generalized reforms that are needed for broader business development, growth and poverty reduction. Nonetheless, there are cases where incentives provided to a sector, such as providing a sector with privileged access to infrastructure, or establishing special technology parks with telecommunication access and relaxed labor market regulations, has proven to be successful in expanding cross-border services exports.

3.4.2 Expansion of the Temporary Movement of Workers. An expanded program of visas for temporary workers and mutual recognition agreements of the qualifications of professionals in fields such as accounting, engineering and legal services, would facilitate the temporary movement of guest workers to optimize the use of labor resources and expand revenues from services sales, known as “Mode 4” in the terminology of the GATS. Saez (2013) explains that, while it would be preferable to negotiate an agreement on the temporary movement of workers through multilateral or regional trade agreements, this has been excessively difficult in practice. The reason is that governments are cautious about commitments on migrants that cannot be reversed without penalties inherent in trade agreements. Informal “bilateral labor agreements,” which can be cancelled by either party at any time without penalty, have proven more successful. Bilateral labor agreements contain incentives to the receiving country since they provide controls for the return of migrants after the visa expires and are tailored to the employment needs of the receiving country. They typically cover unskilled or semi-skilled workers, but can include or focus on specific types of needed skills.

3.4.3 Expansion of Foreign Direct Investment in Backbone Services

A recent report jointly authored by the World Economic Forum, Bain and Company and the World Bank (2013) has concluded that reducing supply chain barriers should yield very large benefits in expanding exports and real incomes.²⁰ The report concludes that improving supply chain efficiency includes not only trade facilitation at the border, but also reducing regulatory barriers and market power in key services sectors that increase the costs of trade. Reducing barriers against FDI in backbone services sectors (Mode 3 of the GATS) such as telecommunications, financial and transportation services will lower the cost of trade and facilitate the entire traded goods sector.

3.5 Capacity Building and Knowledge Sharing on Trade Issues

Capacity building has been an important goal of CAREC from the start, and part of the trade policy work of the TPCC. Delegates of the 11th TPCC meeting in October 2009 reiterated their interest in knowledge sharing about the WTO accession experiences of the CAREC countries that are WTO members. There is continued interest in capacity building for trade and WTO accession as CAREC 2020 (CAREC, 2012a, p.14) has reiterated the need for capacity building for trade issues over the next several years. As discussed in section 4.4, the form of the training will have to be adapted to the evolving goals of this TPSAP.

²⁰ See Hoekman and Jackson (2013) for a summary of the report.

4. Policy Actions to Achieve the CAREC Trade Policy Goals, including addressing the problem of non-tariff barriers

4.1 WTO accession and implementation of commitments

CAREC countries remain committed to an open economy model of economic development for growth and poverty reduction and WTO accession is a fundamental aspect of this strategy. SPS issues are among the most important issues blocking accession and are important for implementation of commitments for countries that have acceded to the WTO or are expected to accede in the near future. Actions to assist countries with SPS and customs issues are also addressed in the table 3. Actions under this TPSAP, detailed in the table 5, include: regional training seminars on WTO accession, including a discussion of WTO membership in relation to regional trade agreements;²¹ a knowledge sharing workshop to exchange views on WTO issues among country officials, including those CAREC countries that are already members of the WTO for both accession and questions pertaining to how to implement accession commitments; and a seminar on expansion of trade in services.

Regarding Preferential Trade Agreements (PTAs), CAREC has taken the position that regional partnerships are a matter of national policy, so CAREC only provides suggested principles to guide national choices. Senior Official Meetings reports emphasize that WTO accession should take priority over regional trade agreements. This TPSAP reemphasizes the two key points of the previous TPSAP: it is important that PTAs do not complicate WTO accession, and only those PTAs that minimize trade diversion should be pursued. Experience in the CIS suggests that caution should be exercised regarding joining customs unions as both a possible impediment to WTO membership and regarding trade diversion.²² Although both free trade agreements and customs unions are permitted under WTO rules, a free trade agreement allows the participants to retain full sovereignty over their external tariffs toward third countries. With a customs union, however, all the members agree to a common external tariff against third countries. As a consequence of joining the Eurasian Customs Union of Russia-Belarus-Kazakhstan, Kazakhstan had to raise its tariffs on average by about 70 percent (Jondosov and Sabyrova, 2011; and World Bank, 2012). It appears that these tariff increases have complicated the accession of Kazakhstan to the WTO.²³ Further, there is evidence that the tariff increases have led to trade diversion and have reduced real incomes in Kazakhstan, although potential

²¹ As noted in the previous TPSAP, a basis and model for such activities is the World Bank Institute sponsored *Trade Policy and WTO Accession for Development in Russia and the CIS: a Handbook* (Tarr, 2006). The Handbook is in Russian, but the Handbook chapters and other materials related to WTO accession and trade policy are available in both English and Russian at www.worldbank.org/trade/russia-wto.

²² See Michalopoulos and Tarr (1997) for a discussion of the Eurosec Customs Union. Due to the necessary tariff increases in Kazakhstan, the first TPSAP cited an Asian Development Bank report that estimated considerable losses for Kazakhstan had it fully implemented the common external tariff of the earlier Eurasec Customs Union.

²³ The press release of the WTO of July 23, 2013 (link provided above) stated: “Tariff adjustment involves resolving discrepancies between bilateral market access agreements negotiated by Kazakhstan with WTO members, Russia’s schedule of commitments and the common external tariff of the customs union of Belarus, Russia and Kazakhstan. WTO members have reacted negatively to the methodology for adjustment proposed. This has emerged as the principal hurdle in completing Kazakhstan’s market access negotiations.”

progress on trade facilitation and non-tariff barriers could result in net gains to Kazakhstan.²⁴ For CAREC members that are already WTO members, such as the Kyrgyz Republic, joining the Eurasian Customs Union would mean adopting the common external tariff of the Eurasian Customs Union. Since the bound tariffs of the Kyrgyz Republic are lower than the tariffs of the Customs Union, this would lead to violations of its bound tariff commitments at the WTO. Then members of the WTO would be authorized to impose tariffs targeted against Kyrgyz exports as “compensation.” Finally, the CAREC 2020 strategy paper has noted that “the Customs Union may be a challenge to CAREC given adjustments made by Kazakhstan in terms of customs procedures, tariffs and other related measures, which may pose difficulties to non-Customs Union countries.”²⁵

4.2 Achieving More Trade Openness, prior to WTO Accession

4.2.1. Simplify and liberalize the trade-tax regime.

Simplification. The first TPSAP noted that value added taxes or excise taxes that apply to imports, but not domestic production, are tariffs; these taxes should be applied at uniform rates on both imports and domestic production. It called for other fees and special charges that apply to imports to be consolidated into a single rate and included as part of the tariff, for possible scheduled reduction as part of tariff cutting formulas. Considerable progress has been made on this agenda in CAREC, and this TPSAP retains these objectives for monitoring in table 2.1.

Liberalization. While the average tariff has been brought under ten percent in most CAREC countries, it has not been achieved in all. This TPSAP reiterates the objective of bringing the average tariff under ten percent in all CAREC countries. Further, since the distortion or real income costs of tariffs rise more than proportionally with the tariff rate, it is the tariff peaks that cause the most real income loss. This TPSAP places renewed emphasis on reducing the maximum tariff to 20 percent. These objectives are included in table 2.1.

4.2.2 Eliminate quantitative restraints on trade. Quantitative restraints such as quotas and licenses are no longer significant in most of the CAREC countries. Given their pernicious nature, however, any remaining quantitative restraints that are not WTO compliant should be eliminated and it is important to resist lobbying pressures to reintroduce them. Monitoring of these policy actions are indicated in table 4.2.

4.3 SPS and TBT issues.

This TPSAP builds heavily on policy recommendations of the comprehensive report of the Asian Development Bank (2013) on SPS issues in the CAREC countries. This report was

²⁴ Vashakmadze (2012, pp. 28,29) found there was trade diversion away from imports from the European Union toward Customs Union members, and the World Bank (2012) assessed the impact of tariff increases as a welfare or real income loss for Kazakhstan. The World Bank report noted that the Customs Union had the potential to have a positive impact on Kazakhstan if it made substantial progress on reducing non-tariff barriers and improving trade facilitation.

²⁵ Vashakmadze (2012) found similar results regarding increased difficulty in trade facilitation for third countries trading with Kazakhstan following its membership in the Eurasian Customs Union.

agreed in the CAREC Senior Officials Meetings of November 2011 and was the basis of a SPS workshop in July 2012 and is now part of the CAREC Transport and Trade Facilitation Strategy.²⁶ It contains a wide range of consensus recommendations on both trade policy and trade facilitation issues related to SPS in CAREC. This TPSAP focuses on the parts of the report that are most relevant to trade policy (as opposed to trade facilitation). The ADB report focuses on food safety, animal and plant health issues. The UNESCAP (2008) report shows that many of the issues also apply to TBT issues regarding industrial goods; but the difficulty of converting to international standards is greater with SPS measures, and the transition to international standards appears to be proceeding much more rapidly in industrial goods.²⁷ Consequently, the discussion below focuses more heavily on SPS issues.

The Need to Acknowledge the WTO SPS and TBT agreements. The ADB report notes that a major obstacle to implementing an effective functioning SPS system in CAREC is the continued use of State Standards (GOST) inherited from the Soviet Union in seven of the ten CAREC countries.

The most significant technical barriers to adherence to SPS principles, apart from being a trade barriers itself, is the GOST system, ADB (2013, p.11).

As the UNIDO-STDF report has noted (van der Meer, 2010), however, there are important and difficult issues in the transition from GOST to international SPS standards. The accession of the Russian Federation to the WTO and the commitment of the Russian Federation to adhere to the WTO SPS and TBT agreements, however, imply that markets that accept GOST standards are declining. It is important to begin a process of adoption of international standards for central Asian CIS countries. Table 3 suggests that, as a first step, it would be important for all CAREC countries, regardless of the WTO membership status, to acknowledge the importance of the WTO SPS and TBT agreements.

Move Toward Risk-Based International Standards. For SPS Measures, Move Toward the Codex Alimentarius for Food (Codex), the International Plant Protection Convention (IPCC) for plants, and the World Organization for Animal Health (OIE) for animals. The ADB report recommends adoption of international standards: the Codex for food health and safety; the OIE for animal health; and the IPCC for plant health. These standards are fully aligned with the WTO SPS agreement, are risk based and, if adopted, avoid the need to provide scientific evidence of independent measures. Unless there are specific needs based on local conditions that are justified by science, SPS measures for food safety should not be stricter

²⁶ CAREC (2013, para. 10).

²⁷ According to representative of Government of Tajikistan during its WTO accession negotiations, “the CIS... Agreement envisaged the harmonization of the new GOST requirements with international, regional and leading national standards. The level of such harmonization had reached 45 per cent by 2010.” See WTO (2012b, para. 203).

than the Codex Alimentarius.²⁸ For industrial goods, there is a need to move toward voluntary standards; where there are safety issues and technical regulations rather than voluntary standards are used, progressively move toward international risk based regulations and eliminate inspections based on GOST requirements, where the GOST requirements differ from international practice.

Despite obvious weaknesses in the GOST SPS measures, “replacement requires complex legal and institutional change, much time and high budgetary cost,” and there are also substantial training requirements (van der Meer, 2010, p. 7). The World Bank (2007) has stated that while several of the CIS countries have expressed the desire to harmonize their standards with the EU recent experience has shown that immediate adoption of the SPS standards of the European Union would be excessively costly in many cases.²⁹ Messerlin et al., (2011) estimate that similar SPS harmonization with the EU for Georgia would increase food costs in Georgia by 90 percent. Recognizing these costs, there are several on-going or planned projects and technical assistance programs for conversion to international SPS standards. Some of these are the following. Asian Development Fund eligible countries could participate in the ADB’s proposed Regional Upgrade of SPS Measures project to support the modernization of CAREC SPS measures (CAREC, 2013, para. 15). The ADB, with partial funding from the PRC Regional Cooperation and Poverty Reduction Fund, is initiating a program of Technical Assistance for modernization of SPS measures in CAREC countries.³⁰ Additional projects are mentioned below. Table 3 summarizes these policy actions for monitoring.

Despite these projects, the speed and path of the transition to international standards will depend on each country’s capacities, geography, product mix, market opportunities and health risks. In cases of very high costs of adjustment, a “differentiated” approach (as suggested by World Bank, 2007) during the transition period may be appropriate.³¹ To assist with the

²⁸ Standards that are stricter than the Codex Alimentarius may require a scientific justification for why the standard is required to meet health or safety concerns. See <http://www.codexalimentarius.org/about-coamdex/en/>.

²⁹ Reporting on the very costly adjustment experience of the Eastern European countries that acceded to the EU, the World Bank (2007, p.65) stated:

Experience of the new EU members during accession shows that, despite vast accession support from the EU, large parts of their food industry were forced out of business, since the upgrades needed to meet the EC requirements were not commercially feasible. Given the tremendous costs involved, it is therefore not realistic for CIS countries to pursue full adoption of EU standards... ..For the CIS countries, even those intending to join the EU, complete harmonization with EU food safety and agricultural health legislations is neither necessary nor, at present, realistic, considering the high costs involved. Since the cost of transition is high and the benefits will only gradually emerge, CIS countries, while taking into account their longer-term preferences for economic integration, will be best served by carefully sequencing and prioritizing their efforts based on assessments of costs, benefits, trade opportunities, and health risks to their populations, crops, and livestock. A differentiated policy and strategy is needed for exports ...and domestic products.

³⁰ See <http://www.adb.org/projects/46019-001/details>. In addition, there is an ADB Technical Assistance project to control transboundary animal diseases in the PRC and Mongolia. See ADB (2012a).

³¹ A “differentiated approach” has been adopted by some Latin American countries in free trade agreements with the U.S. These involve a dual production structure for some products where companies that export to the U.S. must meet the higher U.S. standards and products that meet these standards are admitted; but, crucially, for products

transition, it would be advisable for each country to prepare a comprehensive SPS strategy and action plan to guide the gradual transition to WTO compliant systems based on international standards. A mechanism for developing and implementing these strategies is discussed below and included in table 3.

Elimination of Duplicative Discriminatory Certifications. Once imported goods are cleared for entry into the country, additional “certifications” violate the WTO principle of non-discrimination, which requires that the same level of protection be applied to both imported and domestic products. In CAREC countries, SPS border controls are being undertaken at border crossing points and also at inland customs terminals or holding stations. The duplicative testing violates the principle of non-discrimination. These delays may be decisive in preventing entry for perishable products. Multiple inspections arise partly due to shared responsibilities among multiple agencies. Thus this TPSAP endorses the ADB (2012, p.8) recommendation: “ there should be one competent authority with overall responsibility for each sector (food safety, animal health and plant health) even if some of its functions are delegated to other implementing bodies,” and to form a unified inspection agency. A “single window” should be established³² that is interconnected with automated customs information systems and integrated border management and the criteria for import and export specifications should be risk based (ADB, pp.7-13).

Recognizing the costs of these institutional reforms, support is available from multilateral institutions and bilateral donors. Support for the establishment of the single window in the Kyrgyz Republic and Tajikistan is available under the “Regional Improvement of Border Services” project of the ADB. The on-going Kazakhstan Customs Development project of the World Bank is a comprehensive customs project that includes development of the single window and use of risk based management.³³ Support for the single window in Uzbekistan is being provided by the Republic of Korea. In Afghanistan, the World Bank’s on-going project entitled “Second Customs Reform and Trade Facilitation Project,” is designed to develop automated customs information systems and integrated border management, among other objectives.³⁴ The Asian Development Bank is implementing a technical assistance project to facilitate cross border transport in CAREC that will include technical assistance for “harmonizing and simplifying cross-border transport and trade procedures, documentation, and regulations among the countries, to create a level playing field for economic operators and to promote efficiency and better services (Asian Development Bank, 2012).³⁵ It would be useful for eligible CAREC countries to participate in these projects and to make use of the technical assistance where

where adaption to U.S. standards would be excessively costly, companies that produce according to less costly standards are permitted to sell domestically. The majority of the informal sector, in particular, is not likely to be able to recoup the required investments to be international standard compliant, and may need more basic and selective measures.

³² By a single window facility it is meant a facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements. If information is electronic then individual data elements should only be submitted once.

³³ See <http://documents.worldbank.org/curated/en/2013/03/17509080/kazakhstan-customs-development-project-p096998-implementation-status-results-report-sequence-07>

³⁴ See <http://documents.worldbank.org/curated/en/2013/05/17721268/afghanistan-second-customs-reform-trade-facilitation-project-p112872-implementation-status-results-report-sequence-06>

³⁵ See <http://www.carecprogram.org/index.php?page=project-details&pid=352>.

needed and available. These actions are monitored by the Transport and Trade Facilitation team and are not part of the trade policy matrices below.

Conformity Assessment Procedures and Mutual Recognition Agreements. Imports that meet a scientific standard for health or safety should be permitted, regardless of how they meet that standard. Two countries can share the same standards but create barriers to trade by not recognizing the conformity assessment certificates of the partner country. As reflected in table 3, there is a need for CAREC countries to accept the certification of the accredited conformity assessment bodies in their trade partner countries. Mutual recognition agreements among countries with free trade agreements (such as the CIS countries) do not violate WTO rules. Mutual recognition agreements, that include recognition of conformity assessment certificates of the partner country bodies, would facilitate trade in products subject to SPS measures or technical regulations. The proposed “Regional Upgrade of SPS Measures for Trade” project to support the modernization of CAREC SPS measures by rationalizing and updating SPS facilities and developing mechanisms for mutual recognition of SPS-related certifications issued by CAREC countries has received support from the Asian Development Fund subregional allocation (CAREC, 2013, para. 15). These actions are listed in table 3.

A Mechanism for Regulatory Improvement and Review of NTMs. Making the transport of goods in and out of the country more efficient, including managing and planning the transition to international standards, are complex tasks that will take time. Global experts in the field of non-tariff measures (including the World Bank and the International Trade Centre) recommend establishing an effective regulatory review and improvement mechanism that involves the private sector and considers the costs and benefits of both new proposed regulations as well as old regulations.³⁶ The World Bank Toolkit entitled *Streamlining Non-Tariff Measures: A Toolkit for Policy Makers* recommends an approach to both regulatory improvement of existing NTMs and also a sustained process in which proposed new measures are evaluated. It is based on three pillars: dialogue, analysis and broad participation by instituting the following:

- (i) Dialogue—Creation of a Non-Tariff Measure Committee dedicated to public-private dialogue serving as an entry point for the private sector to flag NTM [and trade facilitation] problems and contribute to the solution. Given the issues in CAREC, its initial focus would be on TBTs and SPS measures and trade facilitation questions, but it would have the broader NTM mandate in the long run³⁷;

³⁶ See Cadot, Malouche and Saez (2012) for the World Bank and Inklaar (2009) for the International Trade Centre. The ADB SPS report also listed as one of its core recommendations “building institutional capacity through training and stakeholder engagement.”

³⁷ Among the issues the NJCs could address are measures to counteract contraband and counterfeit products and improve product security.

- (ii) Analysis--A technical team dedicated to carrying out substantial analysis (for example, a permanent secretariat for the NTM committee) with analytical capabilities to lead the dialogue into policy action;³⁸ and
- (iii) Broad participation--Outside expertise and collaboration with line ministries involved in the issuance and enforcement of NTMs to develop consensus and ensure ownership.

The CAREC Transport and Trade Facilitation Strategy envisions at least some of these roles for the National Joint Transport and Trade Facilitation Committees (NJC). CAREC (2013, para. 31) notes: “trade facilitation is multi-dimensional complex, and presents challenges for institutional coordination. Confronting these challenges is the role envisaged for the NJCs.” It would be desirable for the NJCs to develop into this pro-active role that leads a public-private partnership on NTMs and broader aspects of trade facilitation, including services regulation reform as well. As recommended by the World Economic Forum et al. report, it would be useful to have one committee with a holistic view of all factors that influence the supply chain for exports. As discussed in section 4.3.3, however, the services regulation reform role could be assumed by a second committee with a comparable mandate, but limited to services. In this case, the NJCs would focus on NTMs and the more traditional trade facilitation questions. Monitoring conditions related to the NJCs are in table 3.

4.4. Expansion of Trade in Services

4.4.1 Cross Border Services

Section 3.3 noted that human capital is important for exporting skilled services, but endowments vary enormously among CAREC countries. In most countries globally, human capital development is primarily state driven, whereas services exports are primarily private sector driven. In countries such as the Philippines, Egypt, Kenya and Malaysia, this has contributed to a serious mismatch between available skills and needs of the services exporters (Goswami et al., 2013, p. 7). Input from the private sector in the design of tertiary education programs would be helpful. The quality of institutions, including corruption, complexity in export procedures and labor market flexibility are important to increasing service sector exports and exports more generally. It would be important for CAREC countries to improve measurements on the Institutional Quality Index discussed in section 5 below. Monitoring conditions for all aspects of the expansion of trade in services are in table 4.

4.4.2 Use of Bilateral Labor Agreements. Without obligation, it would be useful for interested countries to negotiate bilateral labor agreements, based on mutual interest and needs of

³⁸ With adequate technical assistance and use of local resources—universities and think tanks—sufficiently detailed analysis can be carried out, but that the form of the review setup should be adjusted to local capabilities. When the NTM committee secretariat does not have sufficient internal capabilities, it may act simply as a hub to coordinate analytical input from outside and inside the ministries.

the receiving country.³⁹ Within CAREC, these agreements could usefully contain mutual recognition agreements for the qualifications of professionals in fields such as accounting, engineering and legal services.

4.4.3. Expansion of Foreign Direct Investment in Backbone Services. A regulatory framework that encourages the efficient delivery of services, including allowing competition through foreign direct investment is an important component of improving supply chain efficiency.⁴⁰ The Services Trade Restrictiveness Index of the World Bank is available for six of the CAREC countries.⁴¹ Measures of the regulatory regime on foreign direct investment are an important part of this index. It would be useful to develop the index for the remaining four countries and update the index periodically to measure progress in services liberalization.

To improve supply chain efficiency, the report of the World Economic Forum and others has recommended:

*Create a focal point within government with a mandate to coordinate and oversee all regulation that directly affects supply chain efficiency; governments need to design policy with an economy-wide vision and recognition that industry-specific supply chains are affected by different clusters of policies. Improving supply-chain performance requires coherence and coordination across many government agencies and collaboration with industry.*⁴²

Such a focal point would have the same mandate as envisioned for the NJCs described in section 4.2.3, i.e., involve the private sector and evaluate concrete proposals for reform in a transparent and broadly participatory manner. The NJCs could take on this expanded mandate and include services or, depending on national priorities, separate committees devoted to regulatory review and improvement in services could be created.

4.4.4. Studies and Technical Assistance for Services Exports. The most important needs to increase services exports and to facilitate trade vary considerably across countries. Consequently, it would be advisable to execute national studies of the services regimes in the CAREC countries to determine the key bottlenecks and the policies and measures most appropriate for the development of services exports and the provision of backbone services. These studies could investigate any of the factors identified in section 3.4.1 that impact services

³⁹ Countries that are negotiating their accession to the WTO should be aware that as part of their WTO accession agreements, WTO members could request MFN treatment of commitments made in these Bilateral Labor Agreements or in plurilateral agreements.

⁴⁰ To facilitate FDI, it would be useful to consider modalities for special visa regimes for investors, traders and businessmen.

⁴¹ Lower scores show a more liberal or open regulatory regime for trade in services. The six countries for which the index is available and their scores are: Kazakhstan, 17; the Kyrgyz Republic, 15.2; Mongolia, 13.7; Pakistan, 28.3; PRC, 36.6; and Uzbekistan, 23.4. Scores for the 19 high income OECD countries in the database range from 11 for New Zealand to 26.9 for Italy. See <http://iresearch.worldbank.org/servicetrade/default.htm>.

⁴² CAREC (2013, para. 31) echoes this statement about the complex nature of trade facilitation that required institutional coordination.

exports, including, for example, national policies for resolving investment disputes between governments and private investors. Technical assistance is available for implementation of the CAREC 2020 goals that are reflected in the national government's development plan.⁴³

4.5 Capacity Building and Knowledge Sharing on Trade Issues

While WTO accession remains an important goal of this TPSAP, implementation of WTO commitments is also important for Tajikistan and may soon become important for other CAREC countries. Thus, the WTO training agenda is more diverse. On trade liberalization, this TPSAP adds technical regulations and SPS to the trade liberalization agenda. And expanding services exports is also a new goal with capacity building needs. Capacity building on these goals can be accomplished partly through seminars, which members have indicated should include knowledge sharing among members (especially relevant on implementation of WTO commitments). Regarding services exports and technical regulations and SPS, additional capacity building, seminars and technical assistance on these subjects, including studies in some cases, would be beneficial. These activities are summarized in table 5.

5. Measuring Progress

In order to measure progress in achieving the policy actions in the revised updated TPSAP, updated indices of trade liberalization and institutional quality will be developed. The precise computation of the indices (and how they are configured) will be determined once there is full agreement on the measures and indices to be included. The measures below correspond to the policies in this TPSAP.

5.1 Trade Liberalization Index

Consistent with the policy matrix for monitoring, the Trade Liberalization index could contain measures of progress on the following variables:

- Is the country a member of the World Trade Organization?
- Are WTO commitments being implemented?
- Are excise taxes and the VAT applied uniformly on imports and domestic products?
- Have miscellaneous fees and taxes on imports (that are not WTO compliant) been eliminated?
- What is the average tariff level and is it below ten percent?
- What is the percentage of tariff lines with tariffs above 20 percent?
- Are there any export or import quantitative restraints that are not WTO compliant?

⁴³ See <http://www.adb.org/projects/46140-001/main>.

- Has the importance of the WTO agreements on SPS and TBTs been acknowledged?
- Are technical regulations on industrial goods risk based and what percentage are based on international standards
- Has a comprehensive strategy for the transition to WTO compliant SPS measures been formulated?
- Are there on-going investments for upgrading the National Quality Infrastructure?
- Are certifications of accredited conformity assessment bodies in CAREC partner countries accepted?
- Has the National Joint Transport and Trade Facilitation Committee (NJC) been formed to serve as a focal point for the private sector with wide participation, including line ministries with a mandate to address non-tariff measures and barriers to exports?
- Have permanent secretariats to the NJC committee been formed and have they initiated and reported regulatory assessments?
- Have national studies of trade in services been conducted?
- Have recommendations of reforms of the regulatory regime been implemented?
- Has development of cross border services exports and expansion of backbone services been incorporated into the national development plan?
- What is the score in the Services Trade Restrictiveness Index?
-
- Have the NJCs issued a report on regulatory reviews?

5.2. Institutional Quality Index (IQI)

Since the paper by Havrylyshyn (2010), CAREC has endorsed monitoring the progress of institutional quality for trade. Havrylyshyn (2010, paras. 37, 47) proposed the first three areas of measurement in the list below based on the submissions of CAREC delegates and research on which institutions affect trade. Given the discussion above on exporting services, access to telecommunications is highlighted as an indicator within behind the border services. Given general research on the importance of governance, the index would include a measure focusing on governance. Thus, the Institutional Quality Index will measure:

- Ease of trading across borders;
- strengthening behind the border services related to trade, especially access to telecommunications;
- the general business environment;

- governance indicators, especially, but not exclusively, as it relates to trade (the Logistics Performance Index governance measures would be part of this measure).

6. Conclusions

This TPSAP builds on and includes the agenda of the first TPSAP, but expands the agenda into crucial areas for the integration of CAREC countries into the world trading environment: reducing the trade impeding impact of SPS and TBT measures and expanding trade in services. The new areas are more complex and difficult to address than the old command and control trade barriers that could be addressed simply by policy changes. But the evidence indicates that this is where the large gains can be achieved in 21st century economies.

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8. Policy Matrices: Goals, Policy Actions and Performance Indicators for Monitoring

Table 1. Achieving WTO Accession and Implementing WTO Commitments

| Objectives | Policy and Actions | Performance Indicators |
|---|--|--|
| Achieve WTO Accession for all CAREC Members. | For Afghanistan, Kazakhstan, Azerbaijan and Uzbekistan, conduct negotiations at the WTO, implement WTO consistent legislation and institutional ⁴⁴ changes to achieve WTO membership. | Afghanistan to become a WTO member by December 2013; |
| Implement WTO commitments and avoid violation of commitments for existing WTO members | Turkmenistan will continue to study the issues associated with WTO accession. | Kazakhstan to become a WTO member by December 2014. |
| | For WTO members, implement | Azerbaijan and Uzbekistan to conduct negotiations at the WTO, implement WTO consistent legislation and institutional changes to achieve WTO membership in a timely manner. |

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| | their commitments as scheduled. | Turkmenistan will continue to study the issues associated with WTO accession. |
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Table 2.1 Simplify and Liberalize the trade-tax regime, prior to WTO accession

| Objectives | Policy and Actions | Performance Indicators |
|--|--|---|
| Uniform application of VAT and excises. | VAT and excise taxes should be applied at the same rate on domestic production and imports of goods in the same category. | Any remaining discrepancies between domestic taxes and imports that are not WTO compliant to be eliminated by the end of 2014 or after WTO accession |
| Elimination of miscellaneous taxes and fees applied to imports that are not WTO-compliant | Miscellaneous taxes and fees applied to imports should be consolidated into one single rate and either eliminated or converted into part of the tariff applied to the good | By the end of 2014 or after WTO accession, all miscellaneous taxes and fees that are not WTO compliant that are applied to imports to be eliminated or incorporated into tariffs. |
| Average tariff of 10 percent or less (after conversion of QRs to tariffs). | Tariff reductions to achieve the objective | After miscellaneous taxes and fees included in the tariff and QR equivalents included, average tariff brought down to 10 percent or less by end of 2014 or after WTO accession. |
| Maximum tariff rate capped at 20 percent, with only few exceptions if essential for sensitive products | Reductions in maximum tariffs to achieve the objective | Tariff cuts implemented by the end of 2014 or after WTO accession to achieve the 20 percent cap, with only a few exceptions if essential for sensitive products. |

Table 2.2 Prior to WTO Accession, Abolish Quantitative Restraints that are not WTO compliant

| Objectives | Policy and Actions | Performance Indicators |
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| Abolish export QRs that are not WTO compliant. | Abolish export QRs that are not WTO compliant. | Export QRs that are not WTO compliant to be eliminated by end of 2014 or after WTO accession. |
| Eliminate or tariffy import QRs and licenses that are not WTO compliant. | Eliminate or tariffy import QRs and licenses that are not WTO compliant. | Eliminate or tariffy import QRs and licenses that are not WTO compliant by end of 2014 or after WTO accession. |

Table 3 Reduce and eliminate technical regulations on industrial goods and SPS measures that are NTBs

| Objectives | Policy and Actions | Performance Indicators |
|--|---|--|
| Move toward WTO consistent SPS measures and technical regulations on industrial goods. Move toward voluntary standards on industrial goods where health, safety or the environment are not an issue. | <p>Acknowledge the importance of the WTO SPS and TBT agreements</p> <p>Progressively move toward adoption of international standards <i>such as those of the Codex, IPPC, OIE and ISO, and risk based SPS measures</i> and technical regulations of goods. Industrial good standards should be voluntary when there are no risks to health, safety or the environment.</p> <p>Prepare a comprehensive SPS strategy and action plan to guide the gradual transition to WTO compliant systems based on international standards.</p> | <p>Acknowledge the importance of the WTO SPS and TBT agreements regardless of the country's WTO membership status no later than the end of 2014, <i>and adoption of legislation compliant with the SPS and TBT agreements no later than July 2015.</i></p> <p>For industrial goods, progressively adopt international standards and for technical regulations use risk based international technical regulations fully.</p> <p>Prepare a comprehensive SPS strategy and action plan to guide the gradual transition to WTO compliant systems based on the Codex, OIE and</p> |

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| | | <p>IPPC by July 2015.</p> <p>By 2015, Asian Development Fund eligible countries to participate in the ADB's proposed Regional Upgrade of SPS Measures project to support the modernization of CAREC SPS measures.</p> |
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| <p>Regarding SPS and technical regulations, increased acceptance by CAREC countries of the certification of the accredited conformity assessment bodies in their trade partner countries.</p> | <p>Increased use of Mutual Recognition Agreements that include provisions of acceptance of the certification of the accredited conformity assessment bodies in their trade partner countries.</p> | <p>Increased use of Mutual Recognition Agreements that include provisions of acceptance of the certification of the accredited conformity assessment bodies in their trade partner countries.</p> <p>By 2015, Asian Development Fund eligible countries to participate in the ADB's proposed Regional Upgrade of SPS Measures to support Mutual</p> |

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| | | Recognition Agreements of SPS certifications. |
| Regulatory improvement and sustained review of new non-tariff measures, especially SPS and NTMs on industrial goods. | <p>The NJCs to obtain broad participation from line ministries and the private sector to assure ownership, dedicated to public-private dialogue serving as an entry point for the private sector to flag problems and contribute to the solution. The role of the NJCs may be expanded as appropriate, with sub-committees formed.</p> <p>Formation of a permanent secretariat for the NJCs, which may be a coordinating group, dedicated to carrying out substantial analysis (for example, to lead the dialogue into policy action).</p> | <p>NJC permanent secretariats formed in 2014, with broad participation from the public and private sectors including line ministries.</p> <p>Review of existing and new regulations by the NJCs begins no later than 2015. This includes evaluation of transition to international standards.</p> <p>Annual report of NJCs on outcomes of reviews begins in 2015.</p> |

Table 4. Expansion of Trade in Services

| Objectives | Policy and Actions | Performance Indicators |
|---|---|---|
| <p>Expansion of cross-border trade in services</p> | <p>Conduct national studies to assess key bottlenecks to expansion of trade in services.</p> <p>Commission and score the Services Trade Restrictiveness questionnaire in the four countries where it has not been implemented and every two years subsequently for all CAREC members.</p> <p>Improve the quality of institutions, including corruption, complexity in export procedures and labor market flexibility</p> <p>Implement key regulatory policy steps to liberalize telecommunications and other important sectors to encourage services exports.</p> | <p>Complete national studies by end June 2015 with the assistance of donors and IFIs.</p> <p>Improve scores on the Services Trade Restrictiveness Index.</p> <p>Improve scores on the Institutional Quality Index over time.</p> <p>Encourage key regulatory changes from the national studies by June 2016.</p> <p>Put backbone services development and expansion of services exports in the national government’s development plan and access technical assistance for implementation of the CAREC 2020 goals.</p> |
| <p>Interested parties may begin to use Bilateral Labor Agreements for some of the temporary movement of labor within CAREC.</p> | <p>Interested parties may negotiate Bilateral Labor Agreements for a temporary visa regime where mutually beneficial.</p> | <p>Without obligation on any member, encourage a Bilateral Labor Agreement in place by December 2015 with at least one country.*</p> |

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| | Develop mutual recognition agreements for professional qualifications. | Mutual recognition agreement of professional qualifications for some profession in place with at least one country by December 2016.* |
| Expansion of backbone service provision. | Promote market access and national treatment for foreign companies that would provide financial services, telecommunications, and transportation services. | Implement key regulatory reforms to encourage investment in backbone services such as telecommunications, transport services, banking, insurance and professional services.. |
| Regulatory improvement and sustained review of services regulations. | <p>Based on the findings of the national studies on expansion of trade in services, NJCs (or independent Services Committee if deemed necessary), with broad participation from line ministries and the private sector, will organize public-private dialogue serving as an entry point for the private sector to flag problems and contribute to the solution.</p> <p>Formation of a technical team dedicated to carrying out substantial analysis (for example, a permanent secretariat for the Services Committee which may be a coordinating group) to lead the dialogue into policy action.</p> | <p>NJCs or the subcommittees will review of existing and new regulations no later than June 2016.</p> <p>Annual report of Services Sub-Committee on outcomes of reviews begins in 2015.</p> |

* The Republics of Azerbaijan and Kazakhstan do not accept this commitment. .

Table 5 Capacity Building and Knowledge Transfer Activities

| Objectives | Policy and Actions | Performance Indicators |
|---|---|--|
| <p>Develop capacity to address WTO accession and trade policy issues in CAREC.</p> | <p>Organize a training seminar on WTO accession and trade policy for development, including in relation to regionalism.</p> <p>Organize a Knowledge Sharing Workshop among CAREC member countries where CAREC WTO member countries can discuss implementation and membership issues so new members and countries not yet WTO members can learn from the experiences.</p> <p>Organize a seminar on expansion of trade in services.</p> | <p>Trade policy and WTO accession seminar, including relation to regional issues, to be completed by 2015.</p> <p>Knowledge sharing workshop on WTO implementation and accession issues to be held by the end of 2014.</p> <p>Seminar on increasing trade in services to be completed by 2015.</p> |
| <p>Technical Assistance for modernization of SPS measures in CAREC countries</p> | <p>Assist CAREC countries to modernize SPS measures.</p> | <p>By 2015, participate in the ADB’s proposed technical assistance program for modernization of SPS measures in CAREC.</p> |
| <p>Technical Assistance for the Joint Control of Transboundary Animal Diseases in the People's Republic of China and Mongolia</p> | <p>Assist the PRC and Mongolia with the control of animal diseases.</p> | <p>By 2014, the PRC and Mongolia to participate in the technical assistance project of the ADB.</p> |
| <p>Technical Assistance for aligning customs policies and procedures with the Revised Kyoto Convention</p> | <p>Assist CAREC countries to further align their customs procedures with the Revised Kyoto Convention</p> | <p>Participate in ADB’s proposed training and technical assistance designed to assist CAREC countries to accede</p> |

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| | | to, comply with and align customs procedures with the Revised Kyoto Convention. Countries that are prepared should begin as early as 2013. |
| Technical Assistance for the development of permanent secretariats for the NJCs | Assist CAREC countries to review and assess their non-tariff measures. | Participate in the ADBs technical assistance for the development of the permanent secretariats of the NJCs. |
| Technical Assistance for services development | Include services development goals in the national development plan. | Participate in ADB's TA to implement the CAREC 2020 goals as available. |