

# Draft Trade Policy Strategic Action Plan

Presentation of David G. Tarr at the meetings  
of the CAREC National Focal Points

September 27,28, 2013

Bangkok, Thailand

# Outline of talk

- The talk follows the Policy Matrix in the draft TPSAP for 2013-2017.
- The numbering of the sections of this talk corresponds to Policy Matrix tables 1-4.
- How the draft TPSAP has been adapted to reflect the comments received.
- Comments were received from seven governments. Consistent with the precedents, it is assumed that no comment implies no objection.

## Part 1. Achieve WTO Accession for all CAREC members and implement commitments

- All CAREC countries to become members of the WTO. Long standing goal of CAREC.
- Target dates for Afghanistan and Kazakhstan remain in the policy matrix.
- All WTO members to meet their commitments.

Based on request from Azerbaijan and Uzbekistan, other target dates for accession have been deleted.

## 2.1 Simplify and Liberalize the Trade Tax Regime by end of 2014

- Four of the objectives of the first TPSAP of CAREC are repeated as part of pre-WTO accession liberalization
- Added phrase “prior to WTO accession” at the request of the PRC
- VAT and excise taxes to be applied uniformly on domestic and imported goods.
- Miscellaneous taxes and fees (above costs) that are applied to imports to be eliminated or incorporated into the tariff schedule.
- Average tariff to be ten percent maximum.
- Maximum tariff capped at 20 percent.

# Tariff liberalization and simplification “prior to WTO accession”

- A CAREC policy for many years: these objectives were to be achieved by 2012—see the first CAREC TPSAP, table A.1.3. Also emphasized in CAREC 2020.
- Draft TPSAP changed to reflect PRC request to repeat the established policy of “prior to WTO accession.”
- Government of Azerbaijan suggested that the above objectives should be achieved only by WTO accession; and maximum 20 percent objective deleted. Government of Uzbekistan suggested they be dropped. This would be a CAREC policy reversal—so a discussion is necessary. Both Governments report considerable progress in meeting these goals—so good success in this area.
- Maximum of three tariff bands dropped from the policy matrix given objections of members to logic on this in the first TPSAP.

Tariff peaks cause most of the distortion costs—e.g., a 50 percent tariff is 100 times more costly than a five percent tariff

- Welfare costs of a tariff =  $0.5 * e * t^2 * PQ$ ,

The costs increase with the square of the tariff rate.

Doubling of the tariff rate leads to a four-fold increase in the welfare costs

An increase in the tariff rate from 5% to 50% (ten times) leads to a 100 times increase in the costs of the tariff.

This is why it would be a mistake to drop this long standing CAREC objective as a goal.

## Illustration of high costs of tariff peaks

\$100 million of imports and unit elasticity

tariff rate	cost in thousands of dollars	
5%	25	
10%	100	
20%	400	
30%	900	
40%	1,600	
50%	2,500	
75%	5,625	
100%	10,000	

## 2.2 Prior to WTO Accession, Abolish Quantitative Restrictions that are not WTO compliant

- Draft TPSAP changed to reflect PRC request to repeat the established policy of “prior to WTO accession.”
- Abolish export QRs and eliminate or tariffy import QRs and licenses.
- As requested by both the delegations of Azerbaijan and the Kyrgyz Republic, we have added the qualification that it is not necessary to remove QRs that are WTO compliant, like control of weapons and narcotics.



# Prior to WTO Accession, Abolish Quantitative Restrictions that are not WTO compliant

- Government of Azerbaijan asked that the above objectives should be achieved only by WTO accession
- This would be a CAREC policy reversal: these objectives were to be achieved under the first CAREC TPSAP by 2012—see table A.1.2. Also in CAREC 2020.
- Most CAREC countries that report, already achieved this objective.
- QRs are more costly than tariffs or export taxes that provide equivalent protection. For example, they allow the exploitation of domestic monopoly power that tariffs don't and they are likely to increase in the costs of supply by foreigners from inefficient license allocation or rent transfer. So it is important to remove them as soon as possible and use tariffs as the major protection instrument.
- Useful to have a discussion if CAREC wants to reverse this long standing goal.

## 2.3 TBTs and SPS measures that are NTBs

### Move toward WTO consistent measures

- 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, and adopt WTO compliant legislation by June 2015.
- For industrial goods, use voluntary standards where there is no risk to safety, health or the environment.
- Progressively adopt international standards and for technical regulations use risk based international technical regulations fully. (Deadline of 2016 deleted at the request on one member country.)

TBTs and SPS measures that are NTBs  
Move toward WTO consistent measures

- Prepare a comprehensive SPS strategy and action plan to guide the gradual transition to WTO compliant systems based on the Codex, OIE and IPPC by July 2015.
- 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.

# Reduce TBTs and SPS measures that are NTBs

## Eliminate Discriminatory Certifications

- Duplicative testing violates the WTO principle of non-discrimination, and is a NTB.
- It is a known problem in CAREC.
- The discussion in the main text remains since it is a trade policy issue; but, at the request of the Government of Kazakhstan, monitoring will be done by the Transport and Trade Facilitation team.
- This section has been deleted from Table 2.3 of the Policy Matrix and Section 5 “Measuring Progress.”

Acceptance of the certification of the accredited conformity assessment bodies in their trade partner countries for SPS and TBTs. (Uzbekistan emphasis)

- 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.
- Eligible countries to participate in the ADB's proposed Regional Upgrade of SPS Measures to support Mutual Recognition Agreements of SPS certifications.

Regulatory improvement and sustained review of new non-tariff measures, especially SPS and NTMs on industrial goods

- NJC permanent secretariats formed in 2014, with broad participation from the public **and private** sectors including line ministries.
- Review of existing and new regulations by the NJCs begins no later than 2015. This includes evaluation of transition to international standards.
- Annual report of NJCs on outcomes of reviews begins in 2015.
- Responding to the request of the Kyrgyz Republic, the revised text clarifies that it is not necessary to create a new committee, but “the role of the NJCs may be expanded as appropriate, with sub-committees formed.” Also responds to the Government of Uzbekistan.

# 3. Expansion of Trade in Services

- At the direction of CAREC member countries at the TPCC meetings in Almaty in June 2013, expansion of trade in services is included in this draft TPSAP.
- CAREC 2020 also emphasizes the need to expand trade in services.
- This is a crucial issue for countries with high transport costs to the high income markets (most of central Asia).

# Expansion of Trade in Services

- What are the key bottlenecks to expansion of trade in services? Is it telecommunications or other infrastructure, labor skills, quality of institutions, a regulatory framework that encourages FDI in services, or will special technology parks be effective? Each country is unique.
- Conduct national services sector studies by June 2015
- Improve the quality of institutions, including corruption, complexity in export procedures and labor market flexibility



# 3. Expansion of Trade in Services

- 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.
- Put backbone services development (especially telecommunications) and expansion of services exports in the national government's development plan, implement key regulatory reforms to encourage FDI in backbone services (responds to the Government of Uzbekistan)

# 3. Expansion of Trade in Services

- The policy matrix suggests that expansion of trade in services be included in the national development plans.
- Assistance from the IFIs and bilateral donors is likely to be available if expansion of trade in services is included in the national development plans, e.g., technical assistance for implementation of the CAREC 2020 goals.

### 3. Expansion of Temporary Movement of Labor

- Expanded temporary visa regime in place through non-binding “bilateral labor agreements” with at least one country by end 2015.
- Mutual recognition agreement of professional qualifications with at least one country by end 2016.

# 3. Regulatory improvement and review of backbone services

- Sub-committee of the NJCs formed on services (or independent Service Committee) with broad participation from the public and private sectors and technical teams formed.
- Review of existing and new regulations by the Services Sub-Committee begins no later than 2015.
- Annual report of Services Sub-Committee on outcomes of reviews begins in 2015.
- As requested by the Kyrgyz Republic, this section has been revised to reflect greater emphasis on the preferred (but not necessary) option that the services committee would be a sub-committee of the NJC, i.e., it is not necessary to form a new committee.

## 4. Capacity Building for WTO Accession

- Trade policy and WTO accession seminar, including relation to regional issues, to be completed by 2015.
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- Knowledge sharing workshop on WTO implementation and accession issues to be held by the end of 2014.
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- Seminar on increasing trade in services to be completed by 2015.

## 4. Use available Technical Assistance to implement the goals of the TPSAP

- By 2015, participate in the ADB's proposed technical assistance program for modernization of SPS measures in CAREC.
- By 2014, the PRC and Mongolia to participate in the technical assistance project of the ADB.
- Participate in ADB's proposed training and technical assistance designed to assist CAREC countries to accede to, comply with and align customs procedures with the Revised Kyoto Convention.

## 4. Use available Technical Assistance to implement the goals of the TPSAP

- Include services development goals in the national development plan and request TA for services development from the MIs' TA to implement the CAREC 2020 goals.

# Timetable for adoption by Ministers of TPSAP on October 24, 2013

<b>October 2</b>	<b>Circulation of second draft of TPSAP</b>
October 16	Comments from authorities on second draft of the TPSAP
October 21	David Tarr to be available for private meetings with those who wish to meet in Astana
October 22	TPCC meeting, approval of TPSAP
October 23	SOM meeting—endorsement by the SOM of the TPSAP
October 24	Ministerial meeting-endorsement by the Ministers of the TPSAP



NFPs need to discuss the TPSAP with Ministers  
with the objective of endorsement

- With the objective of endorsement of the TPSAP, prior to the Ministerial meeting, NFPs need to discuss the TPSAP with Ministers.
- Please have Ministers form a view regarding endorsement prior to the Ministerial meeting