

PROPOSED PAPER ON TRADE AND THE INSTITUTIONAL ENVIRONMENT IN CAREC COUNTRIES

DISCUSSION NOTE ON THE BACKGROUND, OBJECTIVES, AND WORK PLAN

For Discussion at the Eleventh Trade Policy Coordinating Committee (TPCC)
Ulaanbaatar, October 13, 2009.

A. Background

1. In November 2008, the Seventh Ministerial Conference of CAREC in Baku endorsed the Trade Policy Strategic Action Plan (TPSAP) and its concrete policy actions. The action plan included capacity-building activities aimed at improving the general institutional environment to support intraregional and international trade. The Tenth Trade Policy Coordinating Committee (TPCC), held in Ulaanbaatar on May 25, 2009 consequently agreed to include in its future work program the preparation of a paper on trade and the institutional environment, and specifically to have ready a proposed Outline of such a paper for review and discussion by delegates at the Eleventh TPCC meeting on October 13, 2009.

2. The TPSAP emphasized three goals of CAREC on trade policy: increasing trade openness, achieving WTO accession, and building capacity on trade issues. One of the concrete actions under capacity-building was the preparation of a study to “identify the most important institutional development shortcomings that affect trade in CAREC countries”,¹ with the ultimate objective of establishing a number of meaningful and feasible policy actions improving the institutional environment and enhancing trade. For reference, a tentative title is proposed as “Trade and Institutional Environment in CAREC Countries.”

3. The TPSAP reviewed the global, Asian and CAREC evidence on the role that institutional improvements play in promoting trade, while recognizing that they are complementary to other measures, such as reduction in tariff and non-tariff restrictions, improved trade facilitation measures and transport infrastructure. It was further noted that trade policy and institutional improvements often overlap with trade facilitation measures, but in the end their relation is synergistic. While the TPSAP did not explore the relation between institutional improvements and transport infrastructure, there is growing evidence of important complementarities here too. One recent ADB study concludes that “in order for the infrastructure hardware of an Asia-wide transport network to function effectively, necessary soft infrastructure, such as relevant rules, regulations, and standards, needs to be in place.”²

¹ Annex A.1.4 in TPSAP, Nov. 2008

² Biswa Bhattacharyay and Prabir De, “Restoring the Asian Silk Route :Toward an Integrated Asia,” ADB Institute Working Paper No. 140, June 2009. The “soft infrastructure” concept is broadly the same as the institutional environment to be analyzed by the this paper.

B. Objectives of the Paper

4. The main objective of the paper is to identify more specifically the key institutional impediments to trade in CAREC countries. Given the overlap with trade facilitation, another aim of the paper should be to distinguish, as much as possible, actions to reduce institutional impediments to trade from trade facilitation measures. Finally, the underlying analysis should then form the basis for potential medium-term actions to be recommended by TPCC for eventual Ministerial endorsement. As for all CAREC action decisions, these recommendations should meet the criterion of giving meaningful results, but also be pragmatic and feasible.

C. Work Plan

5. At the Tenth TPCC meeting in Ulaanbaatar delegates agreed that “a flexible time-frame is envisaged for policy actions, which recognizes the differences in the capacity of each government to make changes in policy, regulations and administrative procedures, and allows countries to prioritize policy actions taking into account their national circumstances.”³ In accordance with this important operational principle, the work plan for this paper should follow several steps:

- **First**, at the eleventh TPCC meeting, this note and the proposed outline will be reviewed, with delegates giving suggestions on the contents and possible approaches to the analysis, as well as their views on what constitute the key institutional impediments to trade in their countries. The discussions at the eleventh TPCC meeting should lead to an agreement on what delegates expect from the paper, and on how to proceed.
- **Second**, and based on the outcome of these discussions, the consultant would proceed to revise the outline to reflect the comments, suggestions, and decisions of delegates. Given the considerable expertise already built up at the ADB on the general institutional environment in the region, the revised outline could also identify the possible nature of collaboration with an ADB expert. The revised outline should be submitted by mid-November 2009 for review by the IMF and ADB.
- **Third**, and in parallel with the second step, it is envisioned that with the agreement of the eleventh TPCC meeting, delegates would follow-up on the identification of the institutional impediments considered most important, and deemed a high priority for action in each of their countries. This information would constitute one of the most important inputs to the paper.
- The **fourth** step would comprise preparation of the draft paper by end-March 2010, in time for advance distribution and due consideration by delegates before the twelfth

³ TPCC Status Report , SOM meeting , 28-29 May 2009, Ulaanbaatar, paragraph.5.

TPCC meeting, tentatively scheduled for the spring of 2010. The consultant will then finalize the paper reflecting the remarks and suggestions of delegates, and submit a revised paper to the IMF and the ADB.