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Quantitative Restrictions on Trade

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QUANTITATIVE RESTRICTIONS ON TRADE (QRs)
Background paper for the September 2007 CAREC TPCC Meeting

Executive Summary

In the transition to a market economy all CAREC members resorted to some QRs. After the disruption of the end of central planning and the dissolution of the Soviet Union, the new independent countries and Mongolia moved towards fairly liberal trade policies. An integral part of this trade liberalization has been diminished use of QRs. The process of shifting from quantity restrictions to price-based instruments is furthest advanced in the WTO members (Mongolia, the Kyrgyz Republic and PRC) and perhaps Afghanistan, but it is occurring in all CAREC countries, in part because they are pursuing WTO accession, but primarily because it is in countries' own best interest. The QRs that remain are primarily in areas of concern about security or social impact rather than as measures to restrict trade.

The shift away from QRs is strongly supported by international trade theory and by world trade law as embodied in the General Agreement on Tariffs and Trade (GATT), which became the basic charter for the World Trade Organization (WTO). A QR may mimic the impact of a price-based trade restriction (a tariff on imports or an export tax) but the QR is likely to have other consequences all of which are negative. WTO rules take the position that if a country is to restrict trade, then the appropriate instrument is price based (normally a tariff on imports) and QRs are only WTO-legal in a handful of narrowly specified circumstances

The most important policy recommendation is to continue reducing the incidence of QRs. Even if a country wants to place restrictions on international trade, the arguments for replacing QRs by more benign instruments are decisive. As an added benefit, elimination of QRs will facilitate WTO accession negotiations

A general rule when faced with the presence of undesirable goods or services is to consider QRs as the last rather than the first option, unless a total ban is called for. Restrictions on weapons and other military equipment, pornography, narcotics, alcohol, and so forth are domestic policy decisions. The important reservation is that a decision to limit domestic consumption should be implemented through a policy that does not differentiate between imported and domestically produced goods.

Where QRs do persist or, especially, if new QRs are introduced, they should be transparent, with detailed information readily accessible to all traders. As a first step comprehensive publication of all QR-related regulations should be undertaken by all CAREC members.

As QRs are abolished, most of the bureaucratic arrangements that accompanied them should also be terminated. The situation, frequent in CAREC, where imports or exports require licenses but are not subject to QRs is better than enforcing QRs, but it still imposes time and money costs on traders.

QUANTITATIVE RESTRICTIONS ON TRADE
Background paper for the September 2007 CAREC TPCC Meeting[1]

A. Introduction

1. CAREC ministers have requested a study on quantitative restrictions on trade (QRs). During the central planning era international trade flows were determined by physical planning, and in the transition to a market economy all CAREC members resorted to some QRs. Over time most of these have been abandoned. The shift away from QRs is strongly supported by international trade theory and by world trade law as embodied in the General Agreement on Tariffs and Trade (GATT), which became the basic charter for the World Trade Organization (WTO).

2. This paper assesses the current incidence of QRs in CAREC member countries. Licensing of imports or exports or the use of exchange controls have been concomitants of QRs. Increasingly the licensing rules have been allowed to fall into disuse as vehicles for quantitative regulation and their current applicability will not be exhaustively covered in this paper, although they remain a source of unnecessarily high trade costs. Exchange controls have been more comprehensively abandoned as CAREC member countries have accepted IMF Article VIII (or Article XIV in Afghanistan's case) making their currencies convertible for current account transactions (Table 1). The paper will not deal with trade agreements, even though they may have elements of barter exchange which are effectively quantitative limits on bilateral trade, most notable in the water/energy swap agreements among the Central Asian countries, or with long-term agreements for gas supply, which typically specify a quantity and price.

Table 1: Exchange Controls in CAREC Member Countries

	Exchange Rate Arrangement	Convertibility (date Article VIII accepted)
Afghanistan	Unitary ER; managed float	Article XIV
Azerbaijan	Unitary ER; conventional peg	30 November 2004
PRC	Unitary ER; conventional peg	1 December 1996
Kazakhstan	Unitary ER; managed float	16 July 1996
Kyrgyz Rep	Unitary ER; managed float	29 March 1995
Mongolia	Unitary ER; managed float	16 February 1996
Tajikistan	Unitary ER; managed float	9 December 2004
Uzbekistan	Unitary ER; managed float	15 October 2003

Source: IMF *Annual Report on Exchange Arrangements and Exchange Restrictions*, 2006.
Note: Article VIII is a commitment to convertibility on current account; Article XIV is a transitional arrangement for countries not ready to make full commitment under Article VIII.

3. The next section reviews the economic arguments against QRs, which centre on the conclusion that a QR may mimic the impact of a price-based trade restriction (a tariff on imports or an export tax) but the QR is likely to have other consequences all of which are negative. WTO rules take the position that if a country is to restrict trade, then the appropriate instrument is price based (normally a tariff on imports) and QRs are only WTO-legal in a handful of narrowly specified circumstances, which are explained in section 3. The fourth section reviews the current landscape of QRs in CAREC member countries; that landscape is practically empty in the countries that have acceded to the WTO and is becoming empty in the other CAREC member countries. The final section draws conclusions and makes policy recommendations

[1] Prepared by Richard Pomfret, Professor of Economics, University of Adelaide, Australia., and consultant to the Asian Development Bank.

B. The Economic Analysis of QRs

4. In international trade theory QRs are viewed as inferior to trade taxes. In principle, for any import quota there is an equivalent tariff, which will have the same impact on prices and quantities and identical economic effects:

- the tariff adds to the import price, reducing domestic demand and increasing domestic supply, so that imports are less,
- the QR reduces imports, so that excess demand pushes up domestic prices until the gap between domestic demand and supply is equal to the quota.

In practice, QRs are likely to be inferior to tariffs for one or more of three reasons.

5. First, whereas a tariff yields government revenue, with an import quota the wedge between the import price and the domestic price (i.e. *the rent from import licenses*) accrues to the holder of rights to import within the quota. The government could tax the rent by selling import licenses and if the tax rate were chosen precisely this would yield the same revenue as the equivalent tariff. However, it is likely that the cost of a license will be less than the price gap and the rent will accrue to the importer. Because the rent is valuable, potential importers will expend resources to obtain the right to import the restricted good; this is privately rational, but socially wasteful. The rents also encourage corrupt behavior as importers may be tempted to bribe officials in order to obtain valuable import licenses. In sum, a QR may have inferior distributional effects or, even worse, it may be dissipated or undermine good governance.

6. Second, an import quota is inferior to a tariff when the domestic industry is monopolized. Free trade, or a low tariff, is often described as the best anti-monopoly policy because the availability of imports constrains the ability of firms with monopoly power to raise prices. An import quota does not have this pro-competitive effect. With a QR on imports, if domestic firms charge above the world price, they will lose a portion of the market equal to the QR, but there is no competitive restriction on their power to raise the domestic price in order to increase their profits. This is doubly harmful, because besides the usual costs of monopoly (i.e. domestic consumers lose more from the higher price than producers gain) the foreign suppliers share in the monopoly profits at no benefit to domestic residents.

7. Third, under some common circumstances (i.e. rising domestic costs or increasing demand, or falling prices of competing imports), the quantity imported would increase with a tariff, but it is fixed with a QR. Thus, the restrictive impact of a QR will increase (and so will the 'equivalent' tariff). This dynamic effect could be offset by frequent revisions to the QR, but in practice trade policies are not continuously revised. Producers will welcome the increased protection, but the net effect for the nation as a whole is negative.

8. These exceptions to tariff-QR equivalence are not unlikely, and they underlie economists' negative attitude towards QRs. Similar arguments apply to QRs on exports, which could have the same impact as an equivalent tax on exports, but are likely to encourage rent-seeking behavior as firms try to obtain scarce export licenses. The general presumption in favor of price-based rather than quantity-based restrictions on trade is reflected in international trade law. The World Trade Organization (WTO) is often thought of as being opposed to tariffs, but in a crucial respect WTO rules encourage members to use tariffs *if they intend to restrict imports.* A more accurate description of WTO principles is that if countries do restrict trade then they should use tariffs rather than QRs.

C. WTO Rules on QRs

9. The negative attitude towards QRs is captured in the General Agreement on Tariffs and Trade, which is the cornerstone of the WTO and the current system of international trade law.

The general rule (GATT Article XI:1) is that QRs against WTO members are prohibited for both exports and imports, but there are a number of exceptions in Article XI:

(i) temporary export prohibitions or restrictions to relieve critical shortages of food (XI:2(a)), as well as restrictions necessary to the application of standards or regulations for the classification, grading or marketing of commodities (XI:2(b)) or for the enforcement of government measures applying to fisheries(XI:2(c)).

(ii) temporary QRs on imports to safeguard the country's external financial position (balance of payments) are permitted under Articles XII and XVIII, although both the Tokyo Round and the Uruguay Round declarations strongly urged the use of price-based measures to address BOP problems.,

(iii) restrictions on trade necessary to meet public objectives such as the protection of public morals and protection of human, animal or plant life or health (Article XX),

(iv) restrictions on trade for national security reasons (Article XXI),

(v) safeguard measures if an increase in imports causes or threatens serious industry to domestic producers (Article XIX), although serious injury must be proven and the QR must be phased out within eight years.

10. In current practice, WTO members normally invoke only the third and fourth of these exceptions, and then typically to impose a ban on trade in undesirable items such as weapons or pornography or potential risks to health.

11. Among CAREC members only Mongolia, the Kyrgyz Republic and People's Republic of China (PRC) have acceded to the WTO (Table 2), and therefore little bilateral trade among CAREC members is formally governed by WTO rules. However, the proportion will increase as other countries' accession negotiations are concluded, and several CAREC countries are bringing their trade legislation into line with WTO rules as part of their accession negotiations. Even without the backing of WTO rules, QRs should be avoided because of the harmful effects described above.

Table 2: WTO Status of CAREC Member Countries

		WTO Status
Mongolia		Joined WTO 1997
Kyrgyz Rep		Joined WTO 1998
PRC		Joined WTO 2001
Uzbekistan	Applied 1994	Working Party has met three times 2002-5; bilateral negotiations under way.
Kazakhstan	Applied 1996	Draft Working Party Report May 2005, revised September 2006
Azerbaijan	Applied 1997	Working Party has met four times 2002-6; bilateral negotiations under way.
Tajikistan	Applied 2001	Factual Summary April 2005, revised May 2006
Afghanistan	Applied 2004	Working Party established, but has not yet met.

Source: up-to-date membership information is provided on the WTO *website* www.wto.org

Notes on Process: after an application is lodged a Working Party is established. After bilateral negotiations the Working Party produces an agreed Factual Summary of the applicant's trade policies. Following further bilateral negotiations between the applicant and WTO members concerned about particular trade policies or other barriers to trade, the Working Party draws up a Report which is the basis for formal accession.

D. QRs in CAREC Countries

12. In the initial period following the dissolution of the Soviet Union in December 1991, QRs were frequently used by the newly independent Central Asian countries to regulate both imports

and exports. As hyperinflation receded and integrated trade policies were formulated by the national governments, QRs became less common and, where they did exist, less transparent.

13. QRs are often difficult to track because they are considered to be bad and are rarely publicized. The most transparent QRs are banned imports (eg. narcotics, weapons, pornography) or exports (eg. antiquities) where the permitted quantity is set at zero. These are explicit, easy to observe, and not of great importance in the context of international trade policies. Other QRs, including those applied by non-WTO members may be consistent with GATT exemptions, although they may still be harmful. Temporary QRs introduced to address a sudden change in circumstances are more difficult to monitor because they may be abolished before opposition has been marshaled.[2] Other measures may not be described as QRs but have similar effect. For example, exchange controls which require importers to specify the use to which the foreign currency will be put may be administered to limit particular imports; this was important in some CAREC member countries in the 1990s, but few exchange controls remain today (Table 1). Barter agreements can also have similar impact to a QR, because although they incorporate an implicit price this is typically based on a fixed quantity of imports and exports. In Central Asia barter agreements are especially important for the administration of water use and for intra-regional energy trade, but because these are interstate agreements they are not formally QRs and are not dealt with in this paper.

1. The WTO Members

14. The countries which have already acceded to the WTO are bound by the rules described in the previous section. Mongolia joined the WTO in January 1997, the Kyrgyz Republic in December 1998, and PRC in 2001. All have been the subject of Trade Policy Reviews, and in none of these reviews have QRs been an issue.[3]

15. **Mongolia** has low tariff and non-tariff restrictions towards trade. Imports of drugs, alcohol, materials that encourage or depict violence or pornography, and items that could cause environmental damage are banned. A special permit is required for imports or exports of historical artifacts, precious metals, weapons, radioactive materials, ferrous and nonferrous metals and good sand services requiring licenses under international contracts and agreements. The government has passed a law not allowing export of raw cashmere and leather products such as hides, skins and fur, but once the preliminary processing has been made (washed leather products and articled cashmere) it could be exported. Otherwise there are no QRs.

16. The **Kyrgyz Republic** does not impose any export or import quotas. Licensing is not aimed at restricting imports by either price or quality, but is intended to protect consumers' interest, the life and health of citizens, environmental well-being, national security and preservation of artistic, historical and archaeological values. Import and export restrictions through licensing apply to trade with all countries in a limited number of products such as drugs, tobacco, precious metals (import) and arms and related equipment (import and export), and non-ferrous metal scrap (export).[4] An April 2004 Resolution determines quota allocations for alcohol and beer (except cognac and wine) applied under the Law on State Monopoly on Production, Storage, and Sales of Spirits and Alcohol Products. An April 2006 Resolution

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[2] A temporary QR may be in response to a genuine threat to well-being, although it will invariably have protectionist consequences; eg. restrictions on poultry imports following the outbreak of avian flu in southeast Asia in 2006 were justified on public health grounds but helped domestic poultry producers (and producers from non-affected countries).

[3] The Mongolian TPR was in 2005 and the Kyrgyz TPR in 2007. PRC has been subject to more frequent reviews, most recently in 2006-7. Documentation is on the WTO website under *Members*.

[4] Under a July 1997 Resolution, the Ministry of External Trade and Industry issued quotas for import of light medium distillates and other materials for production of commercial oil depending on production capacities of existing oil-processing factories. This Resolution was rescinded in November 2002.

introduced a ban on imports to or transit through the Kyrgyz Republic of birds and poultry products from territories associated with highly pathogenic avian flu.

17. **People's Republic of China** eliminated all QRs on imports on 1 January 2005, and the products formerly subject to quantitative restrictions were moved into the category of free importation or automatic import licensing. Import license administration is applicable to all the products subject to import restriction, including chemicals that may be used for military weapons, toxicant or drugs as well as ozone depleting materials, on which import restrictions must be applied according to the obligations under international Conventions to which PRC is a signatory. Automatic import licensing is an administrative measure applicable to products free from import restriction, but the importation of which needs monitoring. Products subject to automatic import licensing in 2005 and 2006 included poultry, vegetable oil, wine, tobacco, asbestos, copper ore and concentrates, coal, terephthalic acid, plastic raw material, natural rubber, synthetic rubber, waste paper, synthetic fiber cloth, cellulose diacetate filament tow, copper, aluminum, mechanic and electrical products, iron ore, crude oil, processed oil, alumina, chemical fertilizer, pesticide, sliced or chipped polyester, automobile tires, terylene, steel and steel billet. The number is being continuously reduced and, according to Chinese authorities, in September 2007 fewer than twenty products were still covered. Automatic import licensing is implemented in a way fully consistent with the Agreement on Import Licensing Procedures, and there is no restriction in terms of import quantity or value.

2. WTO Accession countries

18. All of the other CAREC countries have applied for WTO membership, although their accession negotiations are at diverse stages (Table 2).[5] In general, they have been eliminating or reducing the impact of QRs. This may be for independent reasons, but it also contributes to facilitating their WTO accession negotiations.

19. **Azerbaijan** currently does not apply any import quotas. However, export of scrap metals has been prohibited since 2001 to ensure availability for domestic consumption. In addition, the Cabinet of Ministers' special decision is required for the import and export of arms, nuclear materials, certain narcotics and psychotropic substances, chemical toxins, and certain scientific and technical information and technologies.

20. Azerbaijani licensing procedures are not in line with the GATT and the Agreement on Import Licensing Procedures. A Presidential Decree issued in 2002 significantly reduced a wide range of licensing requirements and introduced transparency in the licensing procedure, but many licensing requirements remain in place and in the context of the ongoing WTO accession negotiations new procedural rules for the issue of licenses must be introduced and the existing laws must be appropriately amended.[6] Government licensing is required for the import of tobacco, ethyl spirits and alcohol. Imports of narcotics, explosives, weapons and nuclear substances and waste require special approval. The procurement, processing and sale of non-ferrous metals and industrial waste, including precious metals and stones require licensing, as does the sale of gas products.[7] Import contracts concluded on chemicals, medicines and medical appliances must be registered with the Ministry of Health and Ministry of

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[5] In terms of formal process the application of Kazakhstan is the most advanced, followed by Tajikistan, Azerbaijan, Uzbekistan and Afghanistan, but the process can be accelerated or can stall at any stage.

[6] WTO accession is also affecting other trade-related legislation and procedures, which do not involve QRs as narrowly defined. Technical regulations of the Azerbaijan State Agency on Standardization, Metrology and Patents and controls on the quality and safety of products imposed by other ministries and agencies are not in line with the WTO Agreement on Technical Barriers to Trade. A law has been drafted on technical regulation, and subordinate rules and regulations will need to be drafted for implementation of the law. Appropriate institutional changes will need to be implemented, and a WTO-mandated enquiry point will need to be established.

[7] A license from the Ministry of Economic Development is required to conduct international trade in gold.

Agriculture. Export contracts must be registered if they relate to: (i) wild animals and plants; (ii) medicine ingredients made from predatory animals and wild plants; (iii) information on energy, natural resources fields, and areas located within onshore and offshore; (iv) inventions, know-how, and results of scientific research; (v) work of art and antiques; (vi) ozone depleting materials and goods.

21. **Kazakhstan** prohibits the import of certain materials on national security grounds. Licensing requirements on most goods have been abolished. Currently, import of a limited range of goods, medicines, drugs and psychotropic medicines require government licensing. The import of military and nuclear equipment and technologies are also subject to licensing and government approval. Import quotas are imposed on narcotics, spirits and alcohol.

22. Prior to 1995, Kazakhstan's export regime was characterized by the presence of extensive export quota arrangements, duties, and licensing requirements on a range of goods. During 1995–1999 quota arrangements for most goods were removed, and the number of goods subject to licensing requirements was reduced. Currently exports of diesel fuel and fuel oil are prohibited during harvesting and heating seasons respectively to ensure their availability in the domestic market at relatively low prices. Export of certain timbers and wood products has been prohibited since 2002, for the purpose of deterring illegal deforestation. Export of sturgeon fish and caviar are also subject to quotas, and export of wood and timber has been prohibited since 2002 to deter illegal deforestation. Government permit is required for the export and import of certain plant and animal species considered to be endangered. Likewise, the export of arms and military equipment and technology are controlled for national security reasons.

23. **Tajikistan** applies quotas and licensing requirements to the export and import of alcohol and tobacco products. Implementation does not, however, appear to be strict. Importation of firearms, narcotics, poisons, chemical weapons and nuclear materials is prohibited. All export transactions are subject to monitoring by customs authorities and authorized banks until their full completion. In the WTO negotiations QRs have not been raised among questions for the Tajik negotiators, and they appear to be insignificant.

24. In **Uzbekistan** export and import of gold is on the basis of licenses issued by the Ministry of Foreign Economic Relations and International Trade (MFERIT). Exports and imports of weapons, certain precious metals and stones, and uranium and other radioactive substances are subject to licensing from MFERIT. Although exchange controls were formally rescinded in 2003, some restrictions on the transfer of domestic and foreign currencies remain.[8]

25. Imports of foreign movies, videos, and audio recordings require licenses from the Ministry of Cultural Affairs and Sports. Imports of printed matter, films, etc. are prohibited if they are aimed at undermining state or social order, violating the country's territorial integrity, political independence or state sovereignty, or promoting war, terrorism, violence, national exclusivity, religious hatred, or racism; and if they have pornographic content. Imports of ozone-depleting substances require a permit from the State Environmental Protection Committee. Imports of medicines require licenses from the Ministry of Health.
Uzbekistan prohibits imports of packed tea in an effort to increase demand for domestically produced tea. Uzbekistan also prohibits exports of flour, meat, sugar, vegetable oil, and a number of other – mostly consumer - products to reduce their domestic prices. Import of essential food products, aimed at meeting public and state needs, was effectuated by the

[8] For information on the gradual post-2003 reduction in exchange restrictions see Edward Gemayel and David Grigorian, How Tight is Too Tight? A Look at Welfare Implications of Distortionary Policies in Uzbekistan, *IMF Working Paper WP/05/239*, December 2005, and IMF *Annual Report on Exchange Arrangements and Exchange Restrictions 2006*, p. 1267-75.

Uzbeksavdo joint stock company until its liquidation in February 2006; on February 23rd, 2006 imports of essential food products became non-restricted.

26. Exports of antiques and works of art, sugar, vegetable oil, wheat and milling industry products, meat and poultry, raw hides, powdered milk, scrap and waste of nonferrous metals, silkworm cocoons and raw silk are prohibited. Exports of crude oil, gas condensate, linen and cotton yarn, and ferrous metals are subject to export licensing within quota limits. Exports of listed animals and plants require licenses from MFERIT and are issued on the basis of a permit from the State Environmental Protection Committee. Professional activities abroad by Uzbek citizens require a permit from the Ministry of Labor and Social Protection of the Population.

27. When **Afghanistan** emerged from nearly a quarter century of conflict in late 2001, the government inherited a complex but poorly implemented trade regime. Afghanistan maintains import bans on only a few products (largely for religious reasons) and imposes no seasonal restrictions, quotas, or other non-tariff barriers. Licensing requirements have been simplified; the import license application process, which previously involved 42 steps, 58 signatures, and several weeks of processing, now requires only three steps, six signatures, and two days to process. Overall, trade policy appears to be liberal without significant QRs.[9] Afghanistan applied for WTO membership in 2004, and the Working Party has still to make its Factual Statement.

3. Assessment

28. The trade regimes of the CAREC members which were in the Soviet Union have diverged significantly since independence: from very liberal in the Kyrgyz Republic to fairly liberal in Azerbaijan, Kazakhstan, and Tajikistan, to quite restrictive in Uzbekistan. Accordingly, the nature and extent of QRs in existence vary considerably among these countries. However, even in the countries with less liberal trade regimes, there is convergence towards a situation where the number of QRs is much reduced and the QRs that remain are primarily in areas of concern about security or social impact rather than as measures to restrict trade. The main exceptions seem to be licensing of certain exports and imports, such as imports of tobacco and alcoholic beverages to Azerbaijan and Tajikistan, exports of scrap of non-ferrous metals from the Kyrgyz Republic, and exports of precious metals and their scrap from Uzbekistan, which appear to be primarily intended to preserve existing monopolies. The other CAREC members (Afghanistan, PRC and Mongolia) have low average tariffs and no significant QRs.

29. The many residual licensing requirements are, however, not innocuous. A recurring complaint about the difficulty of doing trade in Central Asia concerns the large number of forms required and the time taken to complete the documentation. Table 3 illustrates the issue; although data like these may be imprecise and subject to criticism, the dismal rankings for all CAREC members except PRC and the orders of magnitude of the number of forms and time taken to import or export are shocking. The reduced use of QRs is an important sign of movement away from a control mentality towards trade in the CAREC region, but there is also a need to recognize that any monitoring or documentation requirement is a trade barrier. Although there may be good reasons for monitoring, they need to be balanced against the costs imposed on traders which contribute towards discouraging trade.

[9] The WTO country Tariff Profile reports an average tariff of 5.7% in 2006, with a maximum rate of 25% and no mention of QRs. In the IMF's Trade Restrictiveness Index, Afghanistan's trade regime is currently rated the same as the EU and USA.

E. Conclusions and Recommendations

30. After the disruption of the end of central planning and the dissolution of the Soviet Union, the new independent countries and Mongolia moved towards fairly liberal trade policies.[10] An integral part of this trade liberalization has been diminished use of QRs. The process of shifting from quantity restrictions to price-based instruments is furthest advanced in the WTO members (Mongolia, the Kyrgyz Republic and the People's Republic of China) and perhaps Afghanistan (which could start with a QR clean slate in 2001), but it is occurring in all CAREC countries. ***The most important policy recommendation of this paper is to continue reducing the incidence of QRs***, not just because it is part of WTO accession negotiations, but primarily because it is in countries' own best interest.

Table 3: **Ease of Trading in CAREC Countries**

	Ease of trading (global rank out of 175)	Exports Time (days)	Exports Documents (number)	Exports Cost (USD)	Imports Time (days)	Imports Documents (number)	Imports Cost (USD)
PRC	38	18	6	335	22	12	375
Afghanistan	152	66	7	2,500	88	11	2,100
Azerbaijan	158	69	7	2,275	79	18	2,575
Mongolia	162	66	11	3,007	74	10	3,030
Tajikistan	163	72	14	4,300	44	10	3,550
Uzbekistan	169	44	10	2,550	139	18	3,970
Kazakhstan	172	93	14	2,780	87	18	2,880
Kyrgyz Rep.	173	na	na	na	127	18	3,032

Source: World Bank *Doing Business* 2007, accessed 4 August 2007 at.
http://www.doingbusiness.org/documents/DoingBusiness2007_FullReport.pdf
Note: Cost is in USD per container; na = not given in the source. According to Kyrgyz government sources, a GTZ study found that the number of documents required for exports form the Kyrgyz Republic is 27 and their registration takes 15-20 days while for imports the number is 25 and registration takes 14-32 days.

31. QRs remain pervasive on goods that are considered undesirable on security or moral grounds. Restrictions on weapons and other military equipment, pornography, narcotics, alcohol, and so forth are domestic policy decisions. The important reservation is that restrictions should not discriminate between imported goods and domestic goods or against exporting rather than selling in the domestic market. If the aim is to discourage rather than ban domestic consumption (eg. with respect to alcoholic beverages), then price-based mechanisms (ie. taxes) are likely to be superior to quantity-based measures, and there is no reason to differentiate between taxes on imported and domestically produced goods. ***A general rule when faced with the presence of undesirable goods or services is to consider quantitative restrictions as the last rather than the first option, unless a total ban is called for.***

32. ***Where QRs do persist or, especially, if new QRs are introduced, they should be transparent, with detailed information readily accessible to all traders.*** As a first step comprehensive publication of all QR-related regulations should be undertaken by all CAREC members. When emergency QRs are introduced at short notice, as in the Kyrgyz Republic's reaction to the avian flu threat, the QRs' scope should be clear and publicly available, they should be designed to have as little unnecessary collateral impact on trade as possible, and the conditions for the QR's removal should be well-defined. The main point is that all information relevant to QRs should be readily accessible to anybody involved in international trade.

33. ***A final important policy recommendation is that, as QRs are abolished, most of the bureaucratic arrangements that accompanied them should also be terminated.*** Too

[10] For details see the background paper "Trade Taxes in CAREC Countries" prepared by Veronica Bacalu for the CAREC September 2006 TPCC meeting.

often arrangements that supported QRs, in particular the documentation associated with import and export licenses, are allowed to continue without assessing their desirability in the new trade policy environment. The situation, frequent in CAREC, where imports or exports require licenses but are not subject to QRs is better than enforcing QRs, but it still imposes trade costs. In some cases monitoring trade flows, beyond the normal process of collecting statistics, may be justified, but in most CAREC countries excessive documentation requirements impose substantial time and money costs on traders

APPENDIX: ANALYSIS OF INDIVIDUAL QRS

1. The most prevalent remaining QRs, on goods considered undesirable on security or moral grounds, are analyzed in the text. The other QRs fall into a few categories:

A. QRs on exports of goods which are inputs into domestic production of processed goods.

2. ***QRs on scrap metal exports*** by Azerbaijan and the Kyrgyz Republic represent a transfer from scrap metal owners to scrap metal users and an uncompensated efficiency loss to the economy.

3. By restricting exports, the QR opens a gap between the domestic price and the world price. Scrap metal owners lose because they receive a lower price; that will also discourage some supply of scrap metal. Scrap metal users benefit from a lower price, but their benefit is less than the loss to scrap metal owners. On the quantity of scrap metal that would have been sold domestically in the absence of the QR, the gains and losses are simply a domestic transfer, which may or may not be desirable. Apart from the transfer, there is, however, an unambiguous net welfare loss to Azerbaijan:

- Less scrap metal is traded: although domestic users buy more at the lower domestic price, the total demand facing the scrap metal owners (ie. domestic demand plus exports) is less because exports are restricted. The suppliers lose whatever profit accrued to them from selling the scrap that is no longer traded, and there is no compensating benefit to anybody.
- The additional purchases of scrap metal by domestic users are inefficient. The domestic users value these purchases at less than the world price (or they would buy them without the QR), so it is preferable to realize the full world price on these units and import goods with that value.

4. A partial justification for this type of distortion is that unemployed resources may be drawn into the scrap metal processing, which in the light of continuing unemployment in Azerbaijan may be better than doing nothing. However, the QR is an inefficient way to create jobs, and it is manifestly unfair that the burden should fall on a specific group (the scrap metal owners).

5. Scrap metal is bulky, and international trade may seem costly, but elsewhere in CAREC there is a flourishing international trade in scrap metal (eg. between Sugd province of Tajikistan and Bekabod in Uzbekistan), which reflects the gains from trade.

6. ***Mongolia's QRs on raw cashmere*** are intended to keep upstream processing activities in the domestic economy. Analytically this is similar to the scrap metal analysis. There is a transfer from primary producers to the processing industry, plus additional deadweight losses due to disincentive to primary producers and inefficient use of the raw material by marginal processors.

7. This type of argument has had widespread appeal as promotion of domestic processing with the consequent extra value-added seems obviously desirable. In Turkmenistan cotton has been diverted to domestic mills with large efficiency costs; by some accounts the cotton mills have negative value-added when inputs and outputs are valued at world prices. In Uzbekistan the distortions are less extreme, but state marketing of cotton has created a qualitatively similar distortion by allowing domestic mills to source their cotton at less than the word price.

8. It is, however, a false argument because it ignores the gains from trade which accrue not just from trade in finished goods, but also from trading in inputs and processes. Such a

division of labor dates back at least to the industrial revolution when Britain grew rich by spinning and weaving cotton; this benefited cotton-growers elsewhere even if there are controversies about how the benefits were divided. Today trade in intermediate goods dominates world trade. Recognition of the benefits of breaking down production processes has become commonplace as people analyze value chains, and it is important for CAREC countries to recognize this evolving pattern of international trade. PRC has over the last decade become intensively involved in regional value chains in east and southeast Asia, but to a much lesser extent with its CAREC neighbors.

B. QRs on consumer goods

9. These have practically disappeared in the CAREC region, apart from on alcohol and other ‘undesirable’ goods discussed in the text.

10. Uzbekistan’s QR on packed tea imports is a straightforward import restriction as analyzed in part B. If the government wishes to restrict imports in order to protect domestic producers, then a tariff would be a superior measure.

11. Uzbekistan’s restrictions on exports of essential foodstuffs should have the desired effect of reducing domestic prices and thus helping consumers. It is, however, an inefficient means of achieving the goal because, it undermines the gains from trade and, by lowering the price received by domestic producers, it discourages domestic production. If the government wishes to subsidize consumption of basic foodstuffs, a superior policy is to subsidize domestic sales rather than to prevent exports. An even better policy would tackle the root of the problem, which is presumably lack of spending power of poor consumers; rather than making flour or sugar universally cheap so that rich families benefit as well as poor, targeted assistance would reduce pressure on the public budget and increase policy effectiveness.