

REGIONAL CONFERENCE: THE IMPACT OF THE RUSSIAN WTO ACCESSION ON
CENTRAL ASIA

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KEYNOTE SPEECH

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Title: Can WTO Accession propel trade integration in Central Asia?

- Honored to speak at this conference.
 - At the outset, let me thank the organisers in this endeavor; Germany's Federal Ministry for Economic Cooperation and Development and GIZ, with whom ITC has a long-standing collaboration in the region.
 - In this session, I wish to connect the two main themes of this conference, notably WTO Accession and regional integration. The question that I wish to touch upon is; '*Can WTO Accession propel trade integration in the Central Asia region?*'
 - *Today I will argue that the changes brought about by WTO Accession, can indeed help the countries to integrate, and harness some of the un-tapped potentials, that have remained un-utilized.*
- Whilst focusing on the Central Asian region, I think it is nonetheless useful to take a **wider perspective** of the countries formerly part of the Soviet Republic.
 - Some countries in the region [Eastern Europe] seem visibly more at ease than others [Central Asian] to use trade and international integration as an engine for growth. A birds-eye perspective shows us striking variations in development throughout the countries in the former Soviet Region.
 - Let me illustrate this.
- Looking at what has been achieved so far by former Soviet Republic countries, **impressive progress in terms of trade volumes and intensity** was achieved after the collapse in trade in the mid-1990s. Since then, trade has grown faster than in any other region worldwide, with exports tripled and imports increased 2,5 times^{1 2}.

¹ P.65

<ul style="list-style-type: none"> • In comparison, over the same period, exports and imports for the EU-15 roughly doubled; in Latin America and the Caribbean (LAC), exports rose two and one-half times while imports doubled; and in East Asia, exports and imports doubled. • Another characteristic is that intra-regional trade in the Central Asia region, we all know, is far below the potential. Different international organizations have estimated the 'opportunity-cost' of not benefiting from intra-regional trade linkages, at between 40-50% extra trade volumes
<ul style="list-style-type: none"> • Differences in trade patterns within the region, however, are apparent. • A first group of 'well integrated' countries, are the Eastern European countries. They are visibly oriented to the EU markets, and in some cases are now EU Member states, with around 60-70% traded within the EU (Czech republic). In these countries, the high share of GDP accounted for by the private sector, is visible, with about 80% contribution of the private sector in Estonia, Hungary, Slovak Republic. In terms of trade, since 1993, Eastern Europe countries <i>doubled</i> their share of merchandise exports from 1 to 3,5%³, an example of the positive growth patterns. • For a second group of –I would say- 'intermediately integrated' countries (Kazakhstan, Ukraine), private sector share to GDP represents around 60-65%. Their destination and import markets are partly still focused on the traditional Russian market, however new trading partners have taken up a large share. For Georgian imports and exports, China and US now represent 40% of trade, with Russia at a third place (10%). • Finally, a third group of countries can be distinguished; the minimum-integration 'late reformers' countries (mostly in the Central Asian region). Here, the private sector share to GDP varies from a modest 55% (Tajikistan), to 45% (Uzbekistan) and even 30% (Belarus) and 25% (Turkmenistan)⁴. In these countries, extreme poverty is still a fact, sometimes next to extreme richness. For example, in Tajikistan, almost half of the population is still living below the national poverty line (set by World Bank), compared to 30% of the population in Cambodia. • The striking variations in patterns of trade and poverty, are thus visible even within the former Soviet region. Data on gross national income (GNI) further illustrate the three levels of development that appeared after disintegration of the USSR. Whereas Estonia (Eastern Europe) - is as close to 15.000USD, the GNI in second 'intermediate integration' group – Kazakhstan - is approximately 7500USD, but in the third group – Uzbekistan - not even 1500USD.
<ul style="list-style-type: none"> • What are the policy patterns that can be distinguished in the three groups of countries within the former Soviet region? Are there any linkages with trade patterns and growth, and which lessons can be drawn from that?
<ul style="list-style-type: none"> • Across the 27 'transition countries', including Eastern Europe and Central Asia, fairly open import regimes were established since the early 1990s. Average tariffs were brought down and now range between 3 and 12%, mainly as a result of autonomous liberalization efforts. • Regional integration efforts were also initiated, and continue with recent expansion of the Customs Union, as well as ambitions for a 'deep integration model' under the Eurasian Economic Union.

² (.)

³ P.66 WB report

⁴ P.4, EBRD Transition report 2010

- However, regional integration efforts did not seem to work for those countries that had not yet embarked on unilateral '**behind-the-border- reforms**'.
- However, for those countries that did have a more 'liberal and reform-oriented' house, regional integration paved the way to further diversified and value-added trade.
 - **Eastern European** countries are a good example. Albania and (Romania) joined the EU in 2007. They did so, *after* completing the accession process to WTO, in 1995 and 1996 respectively. Other Eastern European countries also joined WTO at an early stage, including Estonia, Hungary, Czech Republic (all between 1995-1998), and pursued thereafter a type of 'open integration' path with EU, driven by the political commitment.

What do I mean by '**open regionalism**'? I refer to Asia Pacific model of cooperation, aimed at liberalizing and bringing down trade barriers to reduce costs both within as well as outside the region, which helped them integrate with the rest of the World.

- In terms of trade policy, the second group of '**intermediately integrated**' countries in Central Asian region also appeared to be 'early reformers'. With relatively brief processes of accession, they followed up by obtaining WTO Membership, for example in 2000 (Georgia), and 2003 (Armenia). However 'hidden barriers' which are standing in the way of re-integration with neighboring countries and the region are not addressed. What hidden barriers remain – most meaningful reforms to remain are in area of competition policy, enterprise restructuring and trade facilitation.
- Finally, after a lengthy period of negotiations, this year witnessed the long-awaited accession of Russia (after almost 20 years of negotiation process), and hopefully Kazakhstan. Tajikistan has already been approved on 27 October). Others are still in the process. Whether their WTO Accession processes will be utilized to truly address the pending reforms required to enhance competitiveness, remains to be seen.

- Clearly, the over-all outlook on trade policy regimes in the former Soviet trade bloc shows a **common trend towards deeper integration**.
- However, at a closer look the diverging trade patterns, visible between a group of Eastern Europe and Central Asian former soviet Republic countries, reveals that the 'minimal' or shallow integration approach taken by some countries stand in the way of actually benefiting from those integration processes.
- Not surprisingly, in those countries where trade patterns are not encouraging, behind-the-border reforms are still pending: enterprise restructuring, competition, opening in services sectors, etc.
- WTO Accession processes, as now carried through by Kazakhstan, Tajikistan and Russia – recently, if implemented in the true spirit can **lay the foundation for sustained policy reforms at home**. This is what is needed to allow trade within the region, and **promote business competitiveness**.
- By addressing specific areas of outstanding 'behind-the-border' reforms, WTO Accession can indeed function as a **springboard for Export-led growth and re-energized trade within the region**.
- Let me give some **examples**, also looking at **Russia's WTO Accession** commitments, which are in many ways leading for **Customs Union** ambitions.
 - **Inefficient trade facilitation as measured by WB Logistics Performance Index of Central Asian countries are one of the main reasons coming in the way of regional integration.**
 - Liberalisation of services sectors and pro-competition reforms to address high transportation costs, transparency provisions to check corruption at customs, cutting

down delays and paper-work undertaken in the wake of WTO ; in short will therefore, contribute to regional integration as well.

- Let me pick up a very specific example. **Russia** agreed that **railway transportation** charges on goods in transit would, by 1 July 2013, be applied in a manner which conforms to the WTO provisions. In other words, the Russian Federation would apply the same rail transportation charges to imported products as they do to similar products moving between domestic locations. Regulated railway tariffs for transit of goods would be published before their entry into force. This is also good for regional integration.
- **Predictability of policy regime** in the region in the wake of WTO commitments, transparency, promoting rule of law and enforcement of contracts, liberalization of infrastructure services such as, telecommunications, financial, logistics etc **contributes to creating an investor friendly environment** which can further help in creating regional value chains based on complementary strengths of countries within the region. This is the model followed by East Asia, which can be replicated in Central Asian region as well.
- WTO membership will also push countries to **harmonize its domestic standards** with international standards, and comply with the SPS agreement and commitments as Russian has committed. This means, that trade restrictions in this area put up by Russia, for example on meat, poultry, vegetables, can only be put in place on basis of science and risk assessment. Harmonisation of standards, as we know, is extremely important to trade integration.

- Finally, let me say, that **it is the extent to which countries are prepared to follow a ‘deep and open integration approach’, as opposed to a ‘minimal reform’ approach**, which is still followed by some Central Asian countries, will determine the success of any regional integration processes, including the success of the Customs Union.
- **Domestic trade policy and regulatory reforms** backed up by legally enforceable WTO commitments, if pursued in true spirit, will go a long way in encouraging countries to reform their institutions engaged in implementation of these policies will be a great step towards sustainable integration within the region as well.

Thank you