

21ST CENTURY SILK ROAD: TRADE INTEGRATION IN CENTRAL ASIA: OVERVIEW OF TRADE POLICY DEVELOPMENTS IN CENTRAL ASIA

I would like to thank our hosts from the Government of Tajikistan, the Government of China and the WTO Secretariat for organizing this important and timely event. It is a pleasure to speak with you today and share some insights from the World Bank Group on the opportunities and challenges for trade in Central Asia.

Tajikistan and the rest of the countries in Central Asia have benefited significantly from increased integration into the global economy over the past two decades. The expansion in trade has been a driver of growth, contributing to significant and impressive gains in poverty reduction and shared prosperity. However, the region may be reaching a tipping point with the easier gains of trade mostly realized and prospects for further expansion of trade being limited by economic fundamentals, investment climate issues, and shortcomings in trade policy.

Fortunately, despite recent turbulence, the medium to long term outlook for the region is favorable as demand for its natural and labor resources is expected to be strong. The region is in the middle of the Eurasian continent and should be able to benefit from closer intra-regional connectivity, deeper ties with traditional partners, and growing trade relations with some fast growing economies such as China, India, and Turkey.

Thus the topic of this Round Table is highly relevant to the future growth and prosperity in Central Asia economies. Now I would like to discuss in more detail some of the significant issues central to expanding trade in Central Asia.

Improving conditions for trade is particularly critical in Central Asia, given the inherently challenging conditions in the region. Despite a long history as a center of global trade, today's economic structure of Central Asia is one of low density and long distances. The combined population of the countries in Central Asia is approximately 63 million, spread unequally over a relatively large geographical area, including large deserts and high mountainous, with limited connectivity.

Despite these conditions, the countries of Central Asia have benefited from increased integration into the global economy over the last decade, largely driven by natural resources and labor. The region recovered from the transitional economic recession in the late 1990s, and during the 2000s emerged as one of the most dynamic economic regions in the world. Central Asia trades more goods and services with the world today than at the beginning of this century helping support domestic demand, reduce poverty and shared prosperity. The resource rich countries have already achieved or are approaching the upper middle-income status, largely on the back of strong demand for their natural resources while the Kyrgyz Republic and Tajikistan integrated largely through limited trade in commodities and with their labor. Kyrgyz Republic and Tajikistan became a WTO members in 1998 and 2013 respectively and Kazakhstan is close to the accession.

Many developing countries that have acceded to the WTO undertook significant structural reforms during the accession process. WTO

accession can be used as an important mechanism to intensify and accelerate domestic structural reforms beyond simple trade liberalization, helping countries move to a more open and market oriented model of economic development. It signals a readiness for reforms and commitment to globalization. It enables countries to adhere to multilateral rules, thus raising confidence among investors.

These reforms have allowed developing countries to take advantage of global trade opportunities. A recent WB study shows that acceding countries' exports grow faster starting two years prior to WTO membership and grow at an increased rate for at least the five years post WTO accession. WTO accession is also correlated with higher import growth rates. As a result, the share of developing countries trade in global trade has risen from 10 percent in the mid-1990s to more than 30 percent today. There is also evidence of a dramatic shift in foreign investment into acceding countries associated with WTO membership – even more dramatic than what is observed for exports and imports.

Trade relations are changing, bringing new opportunities to increase trade beyond the narrow range of products and markets that currently dominates. The region started the previous decade with strong links with Europe and important, though declining, ties with the CIS. During the last decade, China has emerged as an important trading partner for Central Asia, particularly in natural resources while ties with Turkey have also intensified. However, trade is still below potential, with limitations in connectivity, issues with market access, limited bilateral engagement and difficult trade and transport facilitation.

Trade within Central Asia, a big part of which is informal, has declined in importance but still remains critical for some countries and sectors. Beyond hydro-carbons and key commodities (cotton, aluminum, etc.), the production structures in most of the countries are quite similar which limits the potential for intra-regional trade. At the same time, this creates opportunities for countries within Central Asia to benefit under a more trade friendly environment and through trade-enabled regional value chains.

Looking to the future, Tajikistan has set ambitious goals about economic growth and improvements in living conditions, including doubling GDP per capita and reducing the poverty headcount below 20 percent by 2020. Achieving these ambitious development goals requires transition to a new growth model based on private investment and export. The successful conclusion of the WTO accession process is the end of the first phase of Tajikistan's integration into the world economy and the beginning of a new phase in trade policymaking. In addition to the challenges of implementation and enforcement of the WTO agreements, Tajikistan will need to address policy and supply side constraints in order to fully benefit from the new opportunities opened by WTO membership.

Reforms are needed in three directions. First in improving the business environment. Trade and investment are two sides of the same coin and while private investment in Tajikistan is growing, it is still at a very low level of GDP when compared to other countries with similar income levels. The government has made good investments into improving regulation and developing core automation of business registration and trade procedures, but the hard work remains to ensure that these laws are implemented properly and that automated procedures work in practice. Without these

steps, investors will continue to see Tajikistan as a country lacking predictability and stability in the investment climate. These issues persist throughout Central Asia and there is a good opportunity for regional knowledge sharing and cooperation.

Next, more liberal and internationally-complaint trade policy arrangements are needed to boost trade. Trade policy regimes throughout Central Asia vary from liberal in the Kyrgyz Republic, to fairly liberal in Kazakhstan, and Tajikistan and to quite restrictive in Uzbekistan. While tariffs are not particularly restrictive by global standards, tariff structures are complex and changes are not transparent or predictable and non-tariff measures are extensive and pervasive. Trade policy arrangements appear to be more restrictive with emerging markets in the broader region and Central Asia countries should renew efforts to improve access for their products in these markets. While hard-data on NTMs in the region is still scant, anecdotal evidence suggests that NTMs and their associated implementing procedures leaves considerable room for discretion and time-delays.

Finally, shortcomings in trade facilitation arrangements are making today's "Silk Road" a very expensive one. Border crossing arrangements are burdensome, restrictions on movement of trucks and drivers continue to exist, and extensive administrative measures add to costs and enable rent-seeking behavior. While connectivity has improved, there is much more to do to improve traditional infrastructure sectors including roads and railways and to increase utilization of ICT. Tajikistan currently ranks 188th out of 189 economies in the Trading Across Borders Indicator of the World Bank's Doing Business Report largely due to the high number of documents required and the very high costs to send a container to the nearest seaport with 11

documents to export and a cost of \$5,000. Even in the region, compared to other landlocked countries, these data points stand out and are a call to action for Tajikistan to pro-actively pull down barriers to efficient trade facilitation – in the interest of its private businesses and its citizens, the ultimate beneficiaries of faster and less costly trade.

Regional cooperation can also have a huge dividend in facilitating trade.

With reliance on other countries for transit to reach ports, improvements in one country alone will not yield the expected results. A joint approach to education policies, NTMs, corridor management, and border crossing procedures would add considerably to more efficient movement of goods and people.

Ensuring progress will require upgrading assets such as infrastructure, institutional and human capital and diversifying trade beyond commodities. Better infrastructure, more productive labor and efficient institutions will be critical to unlock competitiveness in sectors in which Central Asian economies, including Tajikistan can be competitive on a global scale. An agenda that will promote trade should include:

First, upgrading of assets. More specifically:

- a) Investing in infrastructure. Current capital stocks are exceptionally low in Tajikistan, Kyrgyz Republic and Uzbekistan. Quality of infrastructure appears to especially affect road and air transport, as well as more modern infrastructure sectors such as ICT.
- b) Reforming the management of infrastructure to open opportunities for public private partnerships or management contracts. Establishing sustainable financial frameworks such as cost-recovery pricing and

continuing liberalization in air-transport, railways, ICT would also be important.

- c) Investing in skills. Educational programs and curricula should be aligned to labor market demands, and access to education at all levels should improve.
- d) Finally, improving the overall investment climate and the quality of institutions. Further opening up of the economies, currently dominated by the public sector, ensuring rule of law and improving governance should be a priority.

Second, a reinvigorated trade policy and trade facilitation agenda. More specifically:

- a) Improving access to Central Asia markets, including through WTO accession but also forging closer links with emerging growth poles, including China, India, and Pakistan.
- b) Simplifying and automating trade procedures, and increasing institutional capacity in the private and public sector to reduce costs of trading.
- c) Reviewing and streamlining NTMs to promote trade in goods.
- d) Supporting services trade which plays a central role in facilitating FDI, provides critical inputs to other economic activities, and contributes to competitiveness and diversification.

In summary, broadening the opportunities for trade in Tajikistan, and indeed, all of Central Asia, will require strong reforms, with considerable scope for regional cooperation. Better infrastructure and skills and more

efficient institutions will lower costs of trading and improve reliability and predictability in the investment climate. This is the opportunity for Central Asia to reclaim its historical role and become a vibrant link in the 21st Century Silk Road.

Thank you very much for your attention and for inviting me to be here today.

Saroj Kumar Jha, Regional Country Director for Central Asia, World Bank

CENTRAL ASIA: OPPORTUNITIES AND CHALLENGES FOR TRADE¹

Main messages (For Q&A)

Chapter 1: Products and partners	Chapter 2: Economic structures	Chapter 3: Trade policy and facilitation
How is Central Asia integrating into global trade?	Are integration patterns different from other global regions?	How open is Central Asia to trade?
<ul style="list-style-type: none"> • Strong growth in trade on the back of commodities which is resulting in growing concentration and relatively little dynamism in products and markets. 	<ul style="list-style-type: none"> • No, countries tend to integrate with the assets they are abundant with and in the case of Central Asia it is natural resources, land and labor. 	<ul style="list-style-type: none"> • While applied tariff rates are not high and regional integration initiatives abound, there are still tariffs peaks, especially in trade with emerging markets, procedures are complex and various non-tariff measures restricts trade.
Which are the region's most dynamic trade relations?	Have Central Asia economies become more competitive?	How restrictive are non-tariff measures?
<ul style="list-style-type: none"> • While Russia remains 	<ul style="list-style-type: none"> • Most of the growth in 	<ul style="list-style-type: none"> • The certification and

¹World Bank, 2014.

an important partner, China and Turkey are emerging as new trade partners, at the expense of the EU.	exports in Central Asia countries has reflected sector and geographic factors rather than an improvement in competitiveness.	documentary requirements required for complying with non-tariff measures provide considerable scope for administrative discretion and time-delays in trade.
What is happening to trade relations in the region?	How can Central Asia countries improve their export baskets?	What are the emerging challenges in trade facilitation?
<ul style="list-style-type: none"> • Intra-regional trade has declined in importance over the last decade. This reflects policy decision of the authorities, but also low complementarity of the economic structures. 	<ul style="list-style-type: none"> • Expansion of exports beyond commodities and sustainably developing the resource sectors will require upgrading of the assets of Central Asia countries. Better infrastructure, more productive labor and efficient institutions will increase the sectors in which Central Asia can 	<ul style="list-style-type: none"> • Connectivity has been slowly improving, and while bottlenecks in physical infrastructure still exist, the challenges are increasingly being identified in “soft” measures and institutional performance.

competitively compete on a global scale.		
Are there unexploited opportunities?	What is the room for government intervention?	Do regional arrangements foster cooperation?
<ul style="list-style-type: none"> •Standard trade analysis toolkits do not indicate significant under-trading given the level of endowments, although there appears to be unexploited opportunities in goods trade with South Asia as well as in services trade with all regions. 	<ul style="list-style-type: none"> •Industrial policy may work only when it is consistent with the country's endowments of natural, human, physical, and institutional capital. 	<ul style="list-style-type: none"> •Despite number of efforts to create regional organizations, their usefulness in promoting a more open trade regime appears to have been limited. The existing FTAs have a number of exemptions, envisage complex procedures, and do not establish effective mechanisms for enforcement and dispute settlement.