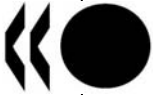


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**THE ROLE OF MULTILATERAL AND REGIONAL TRADE DISCIPLINES IN THE CENTRAL
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THE ROLE OF MULTILATERAL AND REGIONAL TRADE DISCIPLINES IN THE CENTRAL ASIAN COUNTRIES

Introduction and Executive Summary

1. Following the dissolution of the Soviet Union in December 1991, the five new independent countries of Central Asia assumed responsibility over their own international economic relations. In 1992 they joined the United Nations, the International Monetary Fund (IMF) and the World Bank. They also became members of regional organisations such as the Commonwealth of Independent States (CIS) and the Economic Cooperation Organisation (ECO). They were more cautious in joining the World Trade Organisation (WTO), whose membership entails both rights and responsibilities. However, in 1998 the Kyrgyz Republic became the first Soviet successor state to accede to the WTO and still remains today the only Central Asian country to have joined the organisation.

2. In the early years of the 21st century the Central Asian countries' relationship with the WTO has become a more pressing issue. In December 2001 China's long-running negotiations were successfully concluded and Russian negotiations are also moving forward, though not always in a straightforward manner. The Central Asian countries, which are generally at the beginning of their WTO accession negotiations, would thus see their two largest neighbours and major trading partners becoming WTO members. This situation would inevitably have a significant impact on these countries.

3. Section 1 reviews trade policies and trade developments in the Central Asian countries since their independence. It shows in particular that while their tariff structure is quite liberal, the predictability of their trade regimes suffers from frequent introduction of non-tariff barriers and adjustments in foreign exchange policies. After the dissolution of the Soviet Union, all Central Asian countries have increased their trade, with Kazakhstan being the most important trader within the region, followed by Uzbekistan. Although available trade data are not reliable, they indicate that the region has made some progress in reorienting its trade. Export diversification has been easier for energy and commodity exporters such as Kazakhstan and Uzbekistan than for other countries in the region.

4. Section 2 summarises developments in Central Asian countries' negotiations for WTO accession. It also highlights the experience of the Kyrgyz Republic as a WTO member, showing that it is difficult to establish the direct causality between the country's WTO accession and its subsequent disappointing economic results. However, the experience of the Kyrgyz Republic indicates that the negotiators of the acceding countries need to consider carefully the implications of WTO disciplines and the countries' capacities to implement them.

5. Section 3 describes numerous regional arrangements involving the Central Asian countries. It first focuses on the arrangements within the Commonwealth of Independent States (CIS), in particular the Eurasian Economic Community (EEC) and the United Economic Space (UES). It also considers the organisations with an exclusively Central Asian membership, namely the Central Asian Economic Community (CAEC), which became in 2003 the Central Asian Cooperation Organisation (CACO). The Central Asian countries also joined the Economic Cooperation Organisation (ECO), which groups Iran, Pakistan, Turkey, Afghanistan and Azerbaijan. They participate together with China and Russia in the Shanghai Cooperation Organisation. This proliferation of regional agreements with frequently overlapping membership and often in an implicit competition clearly indicates a lack of clear political strategy within

the region. Although most of these agreements also aim at facilitating regional economic links, their economic and trade impact has been so far very limited.

6. Section 4 examines the consequences for the Central Asian countries of Chinese and Russian WTO membership and assesses the potential benefits of their own accession to the WTO. It shows in particular that China's accession, leading to its trade openness and improving its business environment, may also facilitate the expansion of trade between China and Central Asia, which remains below its potential. Similarly, the adoption of WTO disciplines by Russia could enhance mutual trade and investment relations, which sometimes suffer from political interference and lack of economic and legal predictability. Finally, by accepting multilateral trading rules rather than introducing complex regional preferences the Central Asian countries would bolster their trade openness and trade diversification and also facilitate their intra-regional trade relations. Finally, Section 5 concludes.

1. Trade and Trade Policies of the Central Asian Countries in 1992-2003

7. After the dissolution of the USSR, the Central Asian countries were among the Soviet successor states that were most affected by severe negative economic shocks. None had seriously anticipated the dissolution of the Soviet Union before its final months, and all were totally unprepared for the severing of Soviet ties.¹ Demand and supply networks quickly collapsed in the early 1990s. All five countries suffered from disrupted supply chains and higher prices for imports. Imminent economic collapse was signalled in falling output and rising prices in 1991 and the situation became worse after the formal dissolution of the USSR and the removal of residual central control over the Soviet economic space. The shift to world prices notionally benefited the energy exporters, *i.e.* Kazakhstan and Turkmenistan,² but in the short-term the two countries were unable to realise these gains due to their dependence on Russian pipelines.

8. The five countries pursued different transition strategies. The Kyrgyz Republic and Kazakhstan adopted the most radical reforms, although in Kazakhstan the process slowed in the mid-1990s and in the Kyrgyz Republic there was a policy reassessment after the 1998 banking crisis. Uzbekistan adopted a more gradual strategy, and Turkmenistan minimised the degree of economic change. Tajikistan suffered through a civil war for much of the 1990s, and, even since the formal peace agreement in 1997, the government has had difficulty in implementing the reform process. Economic performance during the first decade was generally better in Uzbekistan and Turkmenistan, although the statistics especially of the latter country are considered generally inadequate. Since 2000, Kazakhstan has enjoyed more rapid growth (Pomfret, 2003b). The Kyrgyz Republic has the most liberal economic and political system in the region but economic growth has been hindered by lack of resources, poor infrastructure and thin markets.³

1.1. Trade Policy Developments

9. In the initial post-independence years, borders within the former Soviet Union were lightly policed and goods crossed with little regulation. The Central Asian countries have introduced fairly liberal tariff schedules (Table 1) and generally without great variance. The Kyrgyz Republic has bound most of its tariffs at 10% as part of commitments made during WTO accession negotiations. Its actual tariffs in 2002

¹ Several of the Central Asian countries date their independence from the autumn of 1991, but the declarations of "sovereignty" in September 1991 were attempts to gain greater local control over the republics' natural resources, and in no case envisaged as a withdrawal from the Soviet Union. For more details, see Pomfret (1995).

² Tarr (1994) estimated, on the basis of 1990 trade flows, terms of trade gains of 50% for Turkmenistan and 19% for Kazakhstan. Apart from Russia (79% gain), these were the only two Soviet successor states to benefit significantly from replacing Soviet prices by world prices.

³ For more details and further references on national policies since independence, see Pomfret (2003c).

averaged about half of this level. Kazakhstan has also had a liberal trade policy since mid-1996, when export duties were removed and the average tariff on imports fell to 12%. By 2002, the average tariff had fallen below 8%, but there are recurring complaints of *ad hoc* impositions, which make trade policy less predictable. Uzbekistan's 1995 tariff schedule had an average tariff of 18%, but included some high rates (such as 100% on automobiles). Both Turkmenistan and Tajikistan also levy protective tariffs as well as imposing a range of export restrictions, mainly in the form of surrender requirements on foreign exchange earnings.

Table 1: Average Import Tariff of the Five Central Asian Countries in 2002

Kazakhstan	7.8%
Kyrgyz Republic	5.1%
Tajikistan	8.0%
Turkmenistan	n.a.
Uzbekistan	15.3%

Note: n.a. = not available in the source.

Source: IMF data reported in Elborgh-Woytek (2003, 18).

10. All Central Asian countries have seen several protectionist reversals in their trade policies, in particular the introduction of non-tariff barriers and restrictions on access to foreign exchange. Uzbekistan in 1996 and Turkmenistan in 1998 responded to balance of payments difficulties by reintroducing foreign exchange controls, which made other import restrictions largely irrelevant.⁴ Earlier Uzbekistan had applied very high duties on automobiles to protect the UzDaewoo joint venture. Kazakhstan suddenly raised duties on intra-Central Asian trade in response to its 1998 crisis.⁵ Border crossings have been temporarily closed, for instance in 1999 Uzbekistan unilaterally closed for several months all but one of the posts along its border with Kazakhstan. Such actions are often unpredictable and may be only discovered upon arrival at the border.⁶ Customs officials have operated with considerable discretionary power, and bureaucratic

⁴ The Kyrgyz Republic, in March 1995, and Kazakhstan, in July 1996, have accepted Article VIII commitments to the International Monetary Fund, guaranteeing full current account convertibility and non-discriminatory currency arrangements. In early 1996 Uzbekistan had committed to formally adopting Article VIII, and its currency was *de facto* convertible, but the commitment was abandoned and controls introduced in the second half of 1996. Although frequent declarations of intent were announced in the late 1990s and early 2000s, the introduction of currency convertibility was delayed until October 2003. Turkmenistan made circulation of foreign currencies illegal in December 1995, although the small private sector had reasonable access to foreign currency and the official and curb rates were close together until the second half of 1998, when tight exchange controls were introduced.

⁵ After the August 1998 Russian crisis, which hit Kazakhstan hardest among the Central Asian countries, Kazakhstan introduced a 20% value-added tax on all personal imports from Russia, the Kyrgyz Republic and Uzbekistan. In December 1998, Kazakhstan enacted a law on "Measures to Protect the Domestic Market from Imported Goods". Under this law, special tariffs as high as 200% were imposed on a number of goods imported from the Kyrgyz Republic and Uzbekistan in February 1999, when a number of other restrictions such as import quotas on cement imports from the Kyrgyz Republic were also introduced. In April 1999, the 200% tariffs were eliminated, but new licensing procedures, transit fees and mandatory deposits on imports from the Kyrgyz Republic and Uzbekistan were introduced and the Kazakh tenge was floated, which led to an effective 50% devaluation. Also in early 1999, Uzbekistan tightened its foreign exchange controls and introduced a 5% tax on all purchases of foreign exchange. Turkmenistan closed the commercial banks' foreign exchange window in December 1998, and enacted legislation requiring all export and import contracts to be approved by the State Commodity Exchange.

⁶ This can also affect domestic trade; for example, the main road between Uzbekistan's two largest cities, Tashkent and Samarkand, passes through a slice of Kazakhstan. Normally traffic flows freely but some days a long detour on side roads is necessary because the border is closed.

requirements impose substantial costs (especially for importers into Uzbekistan since the removal of exchange controls late in 2003). In October 1999, Kazakhstan passed legislation requiring labelling of all imports in both Russian and Kazakh, which could become a significant non-tariff barrier. In Tajikistan, the central government does not exert physical control over the entire national territory, and it has lost control over some border regions for lengthy periods. Most governments in the region recognise that such barriers are damaging to their trade within the region and with the rest of the world.

1.2. Trade Developments

11. Trade patterns changed substantially over the 1990s, though the precise magnitudes are uncertain due to the variable quality of the trade data. In 1992 and 1993 when the region was using a common currency, trade within Central Asia and with important trading partners such as Russia and Ukraine was largely unmonitored. Even after the establishment of national currencies and national customs services, the coverage of official trade statistics remains far from complete. Small-scale traders (referred to as shuttle traders in the region) account for a large amount of trade especially imports of consumer goods. Estimates place the value of the shuttle trade at between a tenth and almost half of recorded trade, but these are based only on assumptions.⁷ Illegal trade is also important, especially widespread smuggling of Afghanistan - originating drugs passing through Tajikistan and the Kyrgyz Republic.

12. After the major shocks of the early 1990s, official import and export data reported by the IMF (Table 2) show that during the mid-1990s trade generally recovered in the Central Asian countries. In both the Kyrgyz Republic and Tajikistan, per capita values remained small and declined after a 1997 peak. The relatively superior export performance of Kazakhstan and Uzbekistan in the mid-1990s was due in part to favourable energy and cotton prices. The divergent experience of the two countries after 1997 reflects essentially the drop in world cotton prices since 1996 and booming oil prices since 1999. Notwithstanding its energy wealth, Turkmenistan experienced declining trade values over the decade, despite over-reporting of the value of natural gas exports to CIS destinations. These deliveries were usually not paid for, though the invoice value was recorded as exports, while the accumulating payment arrears were recorded as foreign assets. Recognising that the bills would never be paid in full, Turkmenistan stopped supplying gas in March 1997, when its export values (and GDP) collapsed.⁸

⁷ Pomfret (1999) reports official estimates from Kazakhstan of shuttle trade accounting for a quarter of total imports in 1995, a third in 1996 and over four-fifths in 1997. Turkmenistan's shuttle trade with Turkey, for example, is well-organised with carpet exporters and consumer good importers exchanging luggage allowances on outbound and return flights. Uzbekistan may be the exception, since its vibrant bazaars and shuttle trade were brought under tighter state control and heavily taxed in 2000-01 ostensibly to protect consumers from shoddy imported goods.

⁸ Turkmenistan's economic data are the least reliable in the CIS. According to other sources (reported in Pomfret, 2001, 158), gas exports fell from about a billion dollars in 1996 to USD 70 million in 1997, and this coincided with a poor cotton harvest due to which cotton exports fell from USD 332 million in 1996 to USD 84 million in 1997.

Table 2: Total Exports and Imports of Five Central Asian countries, 1993-2002

(USD millions)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Exports										
Kazakhstan	1 107	3 227	5 256	5 926	6 497	5 511	5 598	9 138	8 647	9 930
Kyrgyz Rep.	360	339	483	506	609	509	454	502	476	480
Tajikistan	350	492	749	772	803	597	689	784	652	537
Turkmenistan	561	1,163	1,881	1,693	751	594	1,187	2 505	1 132	1 219
Uzbekistan	693	1,991	2 718	2 620	2 896	2 310	1 963	2 135	2 028	1 900
Imports										
Kazakhstan	1 704	3 285	3 807	4 247	4 302	4 373	3 686	5 052	6 363	6 809
Kyrgyz Rep.	447	316	392	795	709	841	610	554	464	593
Tajikistan	532	547	810	668	750	711	663	675	688	705
Turkmenistan	586	904	1,364	1,313	1,228	1,007	1,478	1,788	1,558	1,432
Uzbekistan	918	2 455	3 030	4 854	4 538	2 931	2 481	2 078	2 303	2 370

Source: Elborgh-Woytek (2003, 4 and 5), based on IMF Direction of Trade Statistics.

Table 3: Share of Exports and Imports with the CIS, 1991-1999

(In %)

	1991		1992		1993		1994		1995		1996	
	X	M	X	M	X	M	X	M	X	M	X	M
Kazakhstan	91	86	88	94	84	90	58	61	53	69	56	70
Kyrgyz Rep.	97	80	94	96	88	91	66	66	66	68	78	58
Tajikistan	78	82	80	90	53	62	19	43	34	59	43	57
Turkmenistan	95	79	80	85	70	78	77	47	49	55	68	30
Uzbekistan	84	82	83	86	74	81	62	54	39	41	21	32
	1997		1998		1999							
	X	M	X	M	X	M						
Kazakhstan	46	54	40	47	26	43						
Kyrgyz Rep.	53	61	45	52	40	43						
Tajikistan	36	64	34	63	46	78						
Turkmenistan	60	55	26	47	na	na						
Uzbekistan	33	27	25	28	30	26						

Source: Islamov (2001, 173).

13. Table 3 presents reconstruction of trade shares by destination. The initial values illustrate the overwhelming orientation to former Soviet markets at the start of the 1990s. By 1996 over half of the Central Asian countries' international trade was with non-CIS countries (Kaser, 1997, 179). The lead was taken by Uzbekistan, and reflects primarily its ability to sell cotton on world markets.⁹ The other large country, Kazakhstan, was slower to diversify markets, unsurprisingly given its reliance on oil pipelines and mineral-processing links and its proximity to Russia. However, the CIS share of Kazakhstan's trade had also fallen to half in 1997 and dropped substantially further in 1999 during the export boom following devaluation of the currency. Only Tajikistan remains significantly dependent on CIS suppliers, and this

⁹ Breaking non-CIS trade down by country is not very interesting, because most exports went to cotton exchanges in the UK or Switzerland from whence the final destination was unknown (and of little concern to Uzbekistan).

largely reflects geopolitical and military considerations as unrequited imports are provided by Russia and Uzbekistan.

14. The slow but steady trade reorientation shows the benefits of seeking out low-cost import suppliers and the best export markets, although it took time to establish the institutions which support foreign trade. To some extent, this trend emerged independently of the commodity composition of trade as the region's primary product exports remain dominant, but new markets have encouraged some export diversification. In terms of international trade diplomacy, the changing direction of trade underlines the benefits of multilateralism and the importance of coming under the umbrella of international trade law that WTO members are required to share with one another, but not necessarily with non-members.

2. Position of Central Asian Countries vis-à-vis the WTO

2.1. Progress in Negotiations for WTO Accession

15. With low average tariffs, the main obstacle to WTO membership has been Central Asian governments' unwillingness to formally abandon various non-tariff barriers described in the previous section. So far, only the Kyrgyz Republic among the Central Asian countries has joined the WTO in July 1998 (Table 4). Kazakhstan's application appears to be fairly far-advanced.¹⁰ Uzbekistan's accession process is at an earlier stage than Kazakhstan's. Tajikistan applied for WTO membership in May 2001. Turkmenistan has not yet made a formal application for WTO membership. With the increasing number of neighbouring countries becoming WTO members, the pressures on Central Asian countries remaining outside of the international trading system will increase. The WTO membership would provide a common framework for trade policies and dispute resolution with respect to both intra-regional trade and trade with all of the region's economically important neighbours.¹¹

Table 4: Status of WTO Accession Negotiations

	Applied	Working Parties	Member
Kazakhstan	January 1996	5 meetings 1997-2003 ^a	
Kyrgyz Rep.	1993		December 1998
Tajikistan	May 2001	WP not yet met	
Turkmenistan	Not applied		
Uzbekistan	December 1994	1 meeting, July 2002	
China	1986		December 2001
Russian Fed.	June 1993	19 meetings, 1995-2003	

Note: a - Kazakhstan Working Party met on 19-20 March 1997, 9 October 1997, 9 October 1998, 13 July 2001, and 15 July 2003.

Source: WTO website.

16. The Kyrgyz Republic was the first Central Asian country to apply for WTO membership. Given its liberal trade policies, including a low and even tariff structure and few non-tariff barriers, negotiations went smoothly and it became the first former Soviet republic to join the WTO. In the transition country

¹⁰ The common belief is that, because of the Kazakhstan economy's close trade links with Russia, Kazakhstan's WTO accession will follow very soon after that of Russia.

¹¹ Iran, Pakistan and Turkey, are all WTO signatories. A major agenda item at the Eurasian Community's May 2002 Moscow summit was co-ordination of the WTO negotiations by Russia, Belarus, Kazakhstan and Tajikistan. For more details on the Central Asian countries' WTO relations, see Richard Pomfret (2003a) and Michalopoulos (2003).

context, the Kyrgyz Republic was typical of a number of small countries with liberal policies whose accession negotiations did not pose major problems to existing members (Pomfret 2003a).¹²

17. Uzbekistan was the second Central Asian country to apply, and the Working Party was established on 21 December 1994. This was during a period of substantial reform of the Uzbekistan's economy, which had been initiated in January 1994 and included a macroeconomic stabilisation package. The reforms, however, began to lose momentum and were substantially undermined by the reintroduction of rigid exchange controls in October 1996. This reform reversal was reflected in slow progress in the WTO accession process. Uzbekistan submitted its Memorandum on the Foreign Trade Regime in September 1998 and replies to questions were circulated in October 1999. The first meeting of the Working Party took place in July 2002. The October 2003 reforms, which included establishment of currency convertibility, may signal a policy change and thus accelerate the accession process.

18. Kazakhstan's Working Party was established on 6 February 1996. Bilateral market access negotiations in goods and services commenced in October 1997, and are continuing based on revised offers in goods and services. Following the Russian crisis and its contagion effects on Kazakhstan, the process slowed down, but has been revitalised since 2001. Topics under discussion in the Working Party include agriculture, the customs system, customs union arrangements, price controls, import licensing, industrial subsidies, sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT), transparency of the legal system and legislative reform, services and intellectual property rights (TRIPS).

19. On 29 May 2001 Tajikistan lodged a formal request for accession. A Working Party was established at the WTO General Council meeting on 18 July 2001. Tajikistan has not yet submitted a Memorandum on the Foreign Trade Regime, and the Working Party has not yet met.

2.2. *The WTO Experience of the Kyrgyz Republic*

20. The Kyrgyz Republic's WTO experience has become a much-debated issue in Central Asia and Azerbaijan. Opponents of WTO membership cite the Kyrgyz Republic's poor economic performance since 1998 as evidence of the harmful effects of WTO membership. Such an interpretation is difficult to prove or disprove empirically given many other possible reasons explaining the country's disappointing economic performance in the final years of the century.¹³ The 1998 Russian crisis, Kazakhstan's large currency devaluation, and the Kyrgyz Republic's massive banking crisis¹⁴ were major negative shocks to the Kyrgyz economy which coincided with WTO accession. The weakened economy of the Kyrgyz Republic certainly failed to reap much in the way of immediate benefits from WTO membership, but it is hard to demonstrate that it suffered from accession.

21. A more robust criticism of the Kyrgyz Republic's accession experience is that the negotiators, whether due to inexperience or by intent, failed to make transitional arrangements or gain exemptions that would have protected Kyrgyz interests. Some learning process is reflected in Kazakhstan's lengthier and more detailed WTO negotiations, and harder stance on some of the voluntary codes. The appropriate negotiating balance must reflect a country's preferences and compliance capabilities. WTO provisions are unlikely to harm a small open economy, although specific interest groups in the country may lose out.

¹² Slovenia joined the WTO in 1995, Bulgaria in 1996, Latvia and Estonia in 1999, Georgia, Albania and Croatia in 2000, Lithuania and Moldova in 2001, Armenia in 2003.

¹³ Trend (2003, 55-60) contrasts the 7-9% GDP growth of 1996 and 1997 with the 2-5% growth in the years 1998-2001. This report mentions the other negative shocks, but focuses on WTO accession as the main cause of disappointing post-1998 growth, alleviated only by exports from the Kumtor goldmine which whose growth was independent of WTO status.

¹⁴ Three of the country's four largest banks were liquidated in 1998 and 1999.

Nevertheless, immediate compliance with WTO disciplines may be problematic and a transition period in some cases may be desirable.

22. In this context it is worth emphasising that the basic WTO principles, embodied in the General Agreement on Tariffs and Trade (GATT) apply as a whole. Although each country has its own specific features, this does not imply that the WTO principles need to be modified. During their WTO negotiations, many CIS countries aim at obtaining developing country status in order to qualify for special and differential (S&D) treatment, despite limited evidence of its value to beneficiary countries.

23. On the other hand, the CIS countries have made little effort to shed their “transition” status¹⁵, despite certain disadvantages. By 2004, the transition from central planning is no longer the defining feature of the Central Asian countries’ economic systems. Moreover, “transition-economy” status allows their trading partners to treat them as non-market economies in anti-dumping investigations. Under this status, the importing country may disregard actual prices in the alleged dumping country when calculating dumping margins and instead to use constructed values, which are often biased in favour of the import-competing industry’s claims. In sum, developing country status may be difficult to negotiate and perhaps not worth the effort. Transition status may be difficult to shed and, given its negative impact on anti-dumping determinations, may have serious drawbacks. Central Asian countries may be better off if they gain recognition as market economies.

3. Regional Agreements Involving the Central Asian Countries

24. This section reviews regional organisations, which involve one or more of the five Central Asian countries. It analyses the arrangements within the former Soviet space, organisations with an exclusively Central Asian membership, relations with southern neighbours in the Economic Cooperation Organisation as well as relations with Russia and China within the Shanghai Cooperation Organisation (see Table 5). It excludes other groupings involving Central Asian countries and their neighbours, which are based on cultural or geographical affinity and do not contain specific trade mandate, such as the Turkic Group, the Organisation of the Islamic Conference, the Black Sea and Caspian Sea organisations.

¹⁵ This may change since agreement was reached in 2002 as part of Russia’s WTO accession negotiations that it be treated as a market economy.

Table 5: Regional Agreements involving Central Asian Countries

	CIS	Eurasian Economic Community	United Economic Space (UES)	Central Asian Cooperation Organisation (CACO)	Special Programme for the Economies of Central Asia (SPECA)	Economic Cooperation Organisation (ECO)	Shanghai Cooperation Organisation (SCO)
Kazakhstan	x	x	x	x	x	x	x
Kyrgyz Rep.	x	x		x	x	x	x
Tajikistan	x	x		x	x	x	x
Turkmenistan	x				x	x	
Uzbekistan	x			x	x	x	x
Russia	x	x	x				x
China							x
	CIS	Eurasian Economic Community	United Economic Space (UES)	Central Asian Cooperation Organisation (CACO)	Special Programme for the Economies of Central Asia (SPECA)	Economic Cooperation Organisation (ECO)	Shanghai Cooperation Organisation (SCO)
Iran						x	
Pakistan						x	
Turkey						x	
Afghanistan						x	
Azerbaijan	x					x	
Armenia	x						
Belarus	x	x	x				
Georgia	x						
Moldova	x						
Ukraine	x		x				

Note: see text for details

3.1. Arrangements Within the Former Soviet Space

25. The five Central Asian countries are all members of the Commonwealth of Independent States (CIS), but this organisation has had little trade impact. The CIS was initially conceived as a framework to maintain economic ties among the Soviet successor states. In both the political and the economic spheres, however, the replacement of the Soviet Union by sovereign nations created conflicts that the CIS framework was unable to contain, in particular in the Caucasus and Tajikistan. In parallel, several alternative political alliances emerged, for example the grouping of Georgia, Ukraine, Azerbaijan and Moldova (GUAM).

26. In the early years of the CIS, many economic agreements were signed but without any practical impact. This was especially true in the final year of the ruble zone. For example, Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan and Uzbekistan reached an agreement in May 1993 to set up an economic union, and they signed a formal treaty to that effect in September 1993. Georgia signed some of the provisions, and Ukraine became an associate member, so that the union included all the former Soviet republics, except the Baltic countries and Turkmenistan. The economic union treaty was supported by a host of other formal agreements on trade, payments, customs procedures and classifications, legal harmonization, and so forth. However, neither the economic union nor subsequent proposals involving the CIS as a group made any practical progress (Sakwa and Webber, 1999, 386-90).

27. The reality of intra-CIS economic relations is also complex. During the early 1990s, national borders were poorly monitored, and goods and people continued to pass without major formal obstacles.¹⁶ The situation gradually changed, especially in the second half of the 1990s, with the erection of formal customs posts at crossing points of what had been inter-republic borders. Actual monitoring continued to be erratic and the distinction between legal and private levies by customs officials was not always transparent. By the early 2000s, several CIS member states had introduced visa requirements for citizens of other CIS countries.¹⁷

28. Much of the manoeuvring within the CIS has reflected strategic or political decisions, without economic content. Russia appears to view the organisation as a vehicle for exerting political leadership in the former USSR, and sees the Collective Security Treaty (CST) as the main instrument. Uzbekistan's withdrawal from the CST and Turkmenistan's neutrality reflect their desire to distance themselves from Russian influence.¹⁸ In the meantime, Russia has showed little interest in pursuing closer economic ties, even with Belarus, which sought economic union, and still less with the Central Asian countries.

29. Kazakhstan's President, Nursultan Nazarbayev has tried to promote the CIS as a formal regional trading arrangement since the collapse of the ruble zone. He advocated a Eurasian Union (Kalyuzhnova, 1998, 49-50), but in 1994 he observed that: "Since the time of the establishment of the CIS, roughly 400 agreements have been adopted. However, as yet there have been no substantive results because individual national governments continue to reject certain provisions and interpret the meaning of the agreements in their own interest." (Nazarbayev, 1996, 234).

30. In December 1994, Kazakhstan announced the formation of a customs union treaty with Russia and Belarus, which came into effect on 15 July 1995. The Kyrgyz Republic acceded in 1996 and Tajikistan in 1999 making it a Customs Union of Five. Despite the formal agreements signed between 1994 and 2000, there was little evidence of implementation by the Central Asian countries. For instance, the Kyrgyz Republic's President Akaev was quoted in 1999 as saying that the customs union agreements existed "on paper only" (Zhalimbetova and Gleason, 2001, 4). In fact, member countries continue to pursue often contradictory trade policies. For example, the low level of tariff bindings agreed by the Kyrgyz Republic in its 1998 WTO Accession Protocol is probably unacceptable for Russia and Belarus, the other members of the customs union. A similar problem would arise in the case of Kazakhstan.¹⁹

¹⁶ In the confused situation following Russia's January 1992 price reform, the newly independent Central Asian countries imposed export taxes and bans to restrict the outflow of goods. The export barriers were generally removed by the mid-1990s, although Uzbekistan and Turkmenistan and Tajikistan continued to tax farmers through a state order system for cotton, which was effectively an export tax, but with little impact on intra-regional trade because cotton is exported to markets beyond Central Asia.

¹⁷ The most important is Russia, which generally tolerated freedom of movement prior to the outbreak of the second Chechen war in 1999, but has since viewed illegal immigrants as a security risk. Russian officials estimate that perhaps four million illegal immigrants were working in Russia in 2002 (compared to 300,000 guest workers with proper documentation). New legislation, which took effect on 1 November 2002, expanded law enforcement officers' powers to deal with illegal immigrant labour.

¹⁸ Uzbekistan withdrew from the CIS Collective Security Treaty in 1998, and aligned itself with the GUAM (Georgia, Azerbaijan, Ukraine and Moldova) grouping. Turkmenistan's President often skips CIS summits (eg. Yalta in August 2000 and Sochi in August 2001), although he did attend the February 2002 informal summit at Chimbulak in Kazakhstan. Turkmenistan's relations with Russia have, however, been revived by Russian assistance in bringing Boris Shikhmuradov, a leading dissident who had been in exile in Moscow, to trial in Ashgabat in connection with the November 2001 assassination attempt on Turkmenistan's president.

¹⁹ In the mid-1990s when Kazakhstan's WTO accession seemed imminent, president Nazarbayev (Webber, 1997, 56) indicated in September 1996 that Kazakhstan would leave the customs union when it acceded to the WTO.

31. In October 2000 the Union of Five was renamed the Eurasian Economic Community and a new treaty, signed in Astana, came into effect in May 2001. The institutional framework has been strengthened in an attempt to ensure better implementation. The organisation is managed by an Interstate Council (chaired by President Nazarbayev), an Integration Committee (chaired by Nigmatzhan Isingarín), an Inter-Parliament Assembly (in Saint Petersburg) and a Eurasian Community Court. The voting and financing formula gives Russia 40%, Belarus and Kazakhstan 20% each, and the Kyrgyz Republic and Tajikistan 10% each. A two-thirds majority is required for decisions on “major policy issues”. Russia therefore has veto power, but to implement new measures Russia will generally need the support of at least one other member, and at least two others on major policy issues. Within the new framework any member failing to abide by Community rules can be expelled.

32. The areas covered by the new Community differ little from those agreed within the earlier frameworks. The emphasis is on free intra-Community trade as well as a common market for labour and capital, common policies towards migration, and more general policy harmonisation. A specific intention is to coordinate WTO accession negotiations, but the concrete impact of this attempt at a common external trade policy is obviously limited given that the Kyrgyz Republic is already a WTO member and Belarus appears to have differing WTO goals than Russia. At the May 2002 Community summit in Moscow, Moldova and Ukraine were granted observer status. It was then emphasised that these countries would need to bring their legislation in line with that of the Eurasian Community’s existing members before closer integration could be discussed.²⁰

33. In contrast to its predecessor organisations, the Eurasian Community is intended to operate as a regional international organisation rather than as an inter-state agreement. At the political level, it has very strong support from Kazakhstan. For example the governor of the National Bank of Kazakhstan, Grigori Marchenko, stated that the Community should aim to have a single currency and that “preliminary procedures for the introduction of a single currency might take only five to seven years” (International Herald Tribune, sponsored section, 24 April 2002). Later in 2002, former Russian Prime Minister Kasyanov expressed hope that the Eurasian Community would adopt the Russian ruble as a common currency. In practice, however, Eurasian Community integration plans stalled in 2003.²¹

34. An alternative grouping among CIS countries emerged in February 2003 when the leaders of Russia, Belarus, Ukraine and Kazakhstan reached a tentative agreement to create a United Economic Space (UES). Russia promoted the UES concept, but the other three countries have bridled at suggestions of establishing supranational institutions (Blagov, 2003).²² The UES concept is even less popular among other CIS countries who view it as an attempt by the economically strong countries to distance themselves from the economically weaker CIS countries (Kuzio, 2003). Both the Eurasian Community and the UES reflect a more assertive Russian stance in leading regionalism in the former Soviet space, but so far none of the intra-CIS arrangements has had any impact on trade relations.

²⁰ For a report on the summit see Tomiuc (2002). The presumed eagerness of other states to join the Community was not shared, *e.g.* President Kuchma was quick to deny any such desire by Ukraine.

²¹ Russian commentator Sergei Blagov believes that, whatever the leaders might agree and intend, the real obstacle to implementation is sub-standard public officials. See Tomiuc (2002) and, for a more optimistic analysis of the Community’s prospects, Zhalimbetova and Gleason (2001).

²² Even as Russia was promoting the UES concept at a political level, in 2002-3 Russia was raising tariffs and non-tariff barriers on specific imports from CIS countries, such as steel from Ukraine (Yudaeva, 2003). By the end of 2003 the UES appeared to have joined the list of defunct schemes. The concluding communiqué of the January 2004 Astana summit between presidents Putin and Nazarbayev made no mention of the UES.

3.2. *Organisations with an Exclusively Central Asian Membership*

35. In 1993 the presidents of Kazakhstan and Uzbekistan made several statements on the need to maintain a common economic space in Central Asia amid the discord of the CIS and imminent breakdown of the common currency area.²³ After the collapse of the ruble zone in November 1993, the presidents of Kazakhstan, the Kyrgyz Republic and Uzbekistan agreed to create an integrated economic space, announced in the Tashkent Declaration of January 1994 and formalised in the Cholpon-Ata Treaty signed by the heads of state in April 1994. Initially called the Central Asian Economic Union, and intended to be modelled on the European Union, this organisation evolved into the Central Asian Economic Community (CAEC), when Tajikistan joined in 1998.

36. The CAEC was viewed as a forum for resolving disputes within Central Asia, and also as a vehicle for promoting collaborative projects. The promotion of collaborative projects would require investment, and thus one of the main initiatives of the CAEC was the creation of an Interstate Central Asian Bank of Cooperation and Development. The Bank was founded in June 1994 with head office in Almaty and branches in Bishkek and Tashkent. In the mid-1990s the Bank granted several small credits, such as USD 300 000 to an Almaty firm producing electric meters, USD 300 000 to an Uzbek firm producing blood products, and USD 300 000 to a Kyrgyz firm manufacturing electric motors. The modest scale of these credits illustrates that the Bank was playing a primarily symbolic role. By January 1997, the participating countries had given the Bank some two-thirds of its charter capital. The Bank seemed to have only limited possibilities to draw substantial external funds into Central Asia for investment in joint projects. In 1997, Uzbekistan openly expressed its disillusionment with the Bank's work.²⁴ The CAEC member countries insisted that the Interstate Central Asian Bank of Cooperation and Development allocate resources proportionately to each country's contribution. As a result, little attention was paid to profitability or to externalities in the form of enhanced regional integration. Apart from the activity of the Interstate Central Asian Bank of Cooperation and Development, the CAEC had little in the way of practical achievements. Officials claimed to have made some contributions in tax harmonization and elimination of double taxation, but these are difficult to document. The CAEC also had little impact on intra-regional trade.²⁵

37. In February 2002, the four leaders proclaimed the Central Asian Cooperation Organisation (CACO) as the successor to the CAEC. The Central Asian leaders have attempted to distinguish the CACO from its predecessor by emphasising its improved effectiveness. At the CAEC meetings the Central Asian leaders passed over 250 resolutions, but the implementation record fell far behind the statements of intentions, despite many political events. The CACO summit in Dushanbe in October 2002 was combined with the meeting of the four heads of state of the International Fund to Save the Aral Sea. A regional business forum held its first session in November 2002 in Tashkent. As with the Eurasian Community, it is probably too early to judge whether implementation will in fact improve.

²³ The original commitment to an integrated economic space was made at a time when many intra-Central-Asian trade arrangements were based on barter. Kazakhstan banned barter transactions in 1994. Uzbekistan and the Kyrgyz Republic traded Uzbek natural gas for Kyrgyz hydroelectricity and other goods "to be named", but when Uzbekistan's need for the electricity declined in 1998 the agreement collapsed and Uzbekistan demanded hard currency payment for its gas (because none of the three Kyrgyz customers could pay, Uzbekistan's gas exports to the Kyrgyz Republic fell to a fraction of their 1997 level). Annual water/energy agreements continue to provide a framework for Kazakh-Kyrgyz relations in these areas, but are subject to frequent disputes.

²⁴ Uzbekistan's disillusionment was partly driven by the introduction in the previous autumn of strict exchange controls, which made it practically impossible for borrowers in Uzbekistan to access funds from the Bank, which made hard currency loans and required repayment in hard currency.

²⁵ For more details on the CAEC see Rumer and Zhukov (1998, 118-9), Dieter (1996), and Raballand (2003).

38. As an alternative forum for regional cooperation, the Special Programme for the Economies of Central Asia (SPECA) was launched in 1998 with the support of the two United Nations regional organisations, the Economic and Social Commission for Asia and the Pacific (ESCAP) and the Economic Commission for Europe (ECE). The presidents of Kazakhstan, the Kyrgyz Republic, Tajikistan and Uzbekistan signed the Tashkent Declaration on 26 March 1998 creating SPECA, and in September 1998 Turkmenistan officially indicated its intention to sign the Declaration and to participate in SPECA projects. The main purpose of SPECA is to support the Central Asian countries in strengthening their cooperation in order to both stimulate their economic development and facilitate their integration with the economies of Asia and Europe. Through consultation with the participating countries, five priority areas were identified and working groups set up as instruments to develop and implement the program in each priority area. SPECA's achievements have been so far limited, partly because of the lack of self-funding mechanism.²⁶

39. The existence of SPECA is symptomatic of the proliferation of institutions for regional cooperation in Central Asia. If the CAEC/CACO had been an effective regional organisation, there would have been little need for SPECA. Precisely because of the political obstacles to the smooth running of CACO, however, SPECA could have a positive role to play if it were to be accepted as a forum for technical cooperation, rather than having the political connotations of a European-Union-style organisation that the CACO and Eurasian Community embody. Although the formal agreements have had little impact to date, the CAEC/CACO and SPECA organisational structures survive because the need for regional cooperation is self-evident. Action on the Aral Sea and other water management issues has to involve all five Central Asian countries to be effective. Transport and transit matters also require some degree of regional cooperation, although the individual countries' needs vary and other neighbouring countries should also be involved. As regional initiatives at the CIS level, different regional agreements involving the Central Asian countries have made no attempt to coordinate trade policy and put in place regional trade preferences.

3.3. *Relations with Southern Neighbours*

40. The Economic Cooperation Organisation (ECO) offered to the newly independent countries a regional trading arrangement that could promote a southward reorientation of their trade from the patterns imposed within the Soviet economy. ECO's founding document is the 1977 Treaty of Izmir, signed by Iran, Pakistan and Turkey, although the organisation was dormant between the 1979 Iranian revolution and 1985.²⁷ The three founding members then attempted to revive the organisation by offering preferential tariff treatment to one another, but the list of eligible products was extremely restricted.

41. In 1992 the five Central Asian countries, together with Afghanistan and Azerbaijan, became members of the Economic Cooperation Organisation. The members of the expanded organisation contained over three hundred million people, and included all non-Arab Islamic countries west of India.²⁸ In 1993 ECO gained observer status at the United Nations General Assembly, and it was later accorded observer status at the WTO. In 1996 the Council of Ministers approved a restructuring, which included the establishment of a permanent ECO Secretariat in Teheran.

²⁶ The energy and water group has been supported by a UN-funded project on efficient water use, the foreign investment promotion group has organised a conference in Dushanbe, the transport and border crossing group has served as a forum for discussion of transit issues between Kazakhstan and the Kyrgyz Republic, and the industrial restructuring and technical assistance with pipelines groups have not met.

²⁷ The Treaty was modified at a 1990 meeting in Islamabad and subsequently adopted as the Basic Charter of ECO. For a more detailed account of ECO's history, see Pomfret (1999; 2000a).

²⁸ The Turkish Muslim Community of Cyprus is not a member of ECO, but its representatives have observer status.

42. The ECO members have established eight regional institutions: a trade and development bank, an insurance institute, a shipping company, an airline, a reinsurance company, a chamber of commerce, a science foundation, and a cultural/educational institute. In 1995 it was agreed that the bank would be in Istanbul, and subsequently ECO issued a statement of intent that the reinsurance company would be located in Pakistan. The shipping company operated two leased multipurpose cargo vessels in the Persian Gulf and some ships in the Caspian Sea. Despite being the sole profitable ECO project, the shipping line ran into financial difficulties due to some ECO members' failure to make their contributions to the capitalisation fund (Afrasiabi, 2000, part 2).

43. The ECO heads of state have met frequently since 1992, and the summits have typically included solemn declarations. The implementation record is, however, poor. This is highlighted by the history of the ECO transit agreements. Only eight countries signed the 1995 transit trade agreement, and the two non-signatories, Afghanistan and Uzbekistan, straddle some of the most important routes in the region. The agreement officially entered into force in December 1997, but by early 1999 only five national governments had ratified the agreement. The modified and much watered down 1998 transit agreement had, as of mid-2000, only been approved by Azerbaijan and Tajikistan, whose geographical position makes them marginal countries to an ECO-wide transit arrangement. The unwillingness of key member countries to accept the principle of unhindered passage of goods in transit is a major obstacle to any concrete achievement by ECO.

44. As with the CAEC/CACO, the practical impact of ECO has been limited. In both organisations a fundamental obstacle to regional integration is the similarity of the member countries' economies, which all tend to be specialised on a small group of primary products (oil, gas, minerals, and cotton). Trade between the five Central Asian countries and their southern neighbours has expanded since 1992, admittedly from a low base and more slowly than many observers expected. However, it has done so on a non-discriminatory MFN basis rather than within a regional trading arrangement such as the ECO founding members appear to have envisaged in the early 1990s.

3.4. *Relations with Russia and China*

45. Another overlapping configuration, dubbed the Shanghai Five, emerged from a meeting in 1996, which put together China, Russia, Kazakhstan, the Kyrgyz Republic and Tajikistan with the objective to demilitarise borders. At a summit in Dushanbe in July 2000, China, Kazakhstan, the Kyrgyz Republic, Russia and Tajikistan, with Uzbekistan as an observer, took up a number of themes related to trade facilitation as well as discussing issues such as countering Islamic terrorist groups. The group changed its name to the Shanghai Forum and invited other countries to join them. At the June 2001 summit Uzbekistan became the sixth member and the group was renamed the Shanghai Cooperation Organisation (SCO). Despite the intention to cover matters such as trade facilitation, the subsequent history of the SCO has centred on political rather than economic matters.

46. The SCO is the only international group formed by China, and it receives extensive press coverage in this country. Russia was also enthusiastic in the early years of the existence of the Shanghai Five, hoping the grouping would help Russia to retain leverage over Central Asia. However, Kazakhstan, the Kyrgyz Republic and Tajikistan reached border delimitation agreements with China in the late 1990s without consulting Russia. Between 1998 and 2001 the organisation evolved into a Sino-Russian political alliance. The military side remains important and joint operations planning in 2001 represented the first cooperation between the Russian and Chinese military since the early 1960s. Russia and China are united in their support for the 1972 Anti-Ballistic Missile Treaty and opposed to US plans to revise the ABM Treaty. The Central Asian governments do not share entirely the Sino-Russian political agenda, especially since September 2001. There are other potential disagreements within the region, for example regarding

water management between China, Russia and Kazakhstan.²⁹ Opinions on the future prospects of the SCO are therefore split.³⁰

3.5. Prospects for Regionalism

47. The regional arrangements described in this section have often been in implicit competition, reflecting differing and mutually exclusive political alliances. Their patterns have evolved in light of the objectives or concerns for closer or more arms-length relations with Russia and, to a lesser extent, with China and also intra-regional competition for leadership within Central Asia. Such ebbing and flowing of interest in alternative regional permutations has inhibited the institutional development of any regional organisation involving the Central Asian countries. Whereas most of these agreements have an economic content, at least in their stated goals, their economic impact has been minimal. Given that the members of these agreements have not started seriously discussing mutual preferential trade treatment, the multilateral orientation of the Central Asian countries' trade policies has not been challenged by these different regional agreements.

4. The Impact of Chinese and Russian Accession on Central Asian Countries

4.1. China

48. China joined the WTO in December 2001, over fifteen years after the application was lodged. Its accession should smooth the way for other former planned economies, though the Chinese negotiations were marked by specific political factors as well as by the country's major economic and trade role. The drawn-out negotiations also meant that by the time they were concluded a number of the necessary adjustment in China's external trade policies had already taken place by the time of accession.³¹

49. The impact of China's WTO accession on the Central Asian economies is generally considered to be limited, primarily because these countries are minor trading partners for China.³² The interests of Central Asia concentrate in energy supplies or security issues, neither of which is significantly influenced by the WTO status. On the regional level, however, Central Asia is potentially important for China's Xinjiang province, which borders three of the Central Asian countries. China is more important for the Central Asian countries' trade, though existing volumes are not large.

50. Before the dissolution of the Soviet Union, trade between Central Asia and China was restricted. Border crossings were closed in the early 1960s after the Sino-Soviet split, and only two crossings reopened in the early 1980s: Horgos between Kazakhstan and China, and Torugart between the Kyrgyz republic and China. The first railway between China and Central Asia opened in 1990, and since then has carried the vast majority of freight by volume (mainly minerals from Kazakhstan to China).

²⁹ Horsman (2001, 79-81) discusses China's position concluding that "China is unwilling to engage in meaningful cooperation or compromise in the pursuit of its water demands." If Kazakhstan were sufficiently aggravated, it might reinstate its agitation over Chinese nuclear testing at Lop Nor and treatment of Uighurs, two issues on which Kazakhstan (and the Kyrgyz Republic) have since the mid-1990s agreed to exercise restraint.

³⁰ Compare the paper by Blank (2002) with those by Blagov (2002) and by Tang (2002), which are respectively negative and guardedly optimistic about the SCO's prospects.

³¹ There is a huge literature on China and the WTO. The recent collection edited by Bhattasali et al. contains studies on the main aspects affecting the Chinese economy.

³² In the CGE model of McKibbin and Woo (2003) the main channel for impact of China's accession on its neighbours is through changes in foreign investment flows, but their study does not mention Central Asia.

Other border posts opened during the 1990s, but they could be closed unilaterally at short notice.³³

51. After the Central Asian countries became independent, officially recorded mutual trade flows increased, though from a very low base. Cross-border trade between Central Asia and China grew rapidly in the early 1990s, but the growth slowed in 1993-1994 amid currency changes. Also, in the mid-1990s some Central Asian governments expressed concern about their markets being flooded by Chinese consumer goods. Chinese traders and potential investors worried about the insecurity of property rights in Central Asia. Commodity trade is dominated by bulk state purchases and could fluctuate from year to year, *e.g.* Uzbekistan's cotton sales to China fell from USD 133 million in 1997 to USD 29 million in 1998.

52. In parallel with officially recorded trade flows, unofficial or shuttle trade between China and Central Asia, consisting mainly of Chinese exports of consumer goods, flourished, but remain under-recorded. Some reports (Wiemer, 2000) estimate shuttle exports at USD 300-600 million annually. After the 1999 Russian crisis and related crisis in Kazakhstan and the Kyrgyz Republic, the shuttle trade suffered as the solvent demand for Chinese goods was considerably reduced. Even with the highest estimates of shuttle trade, China's trade with Central Asia amounts to less than one percent of China's total trade. For Xinjiang Province, over half of international trade is with Central Asia, but the trade-to-GDP ratio of this province is one of the lowest in China. For Central Asia, trade with China is more significant, but does not represent more than 5% of total international trade of the region.

53. The official trade data (Table 6) show that among Central Asian countries Kazakhstan is the largest trading partner of China and, according to official data, its exports continue to grow regularly even after the Russian and regional economic crisis. Trade between the Kyrgyz Republic and China has stagnated since 1998. According to official statistics, trade of the other three Central Asian countries with China is tiny and, especially in the case of Uzbekistan, subject of wide annual variations.

Table 6: Trade between Central Asia and China

(a) Chinese Trade Statistics (in USD million)

	1997		1998		1999		2000		2001	
	M	X	M	X	M	X	M	X	M	X
Kazakhstan	95	433	205	431	494	644	599	958	328	961
Kyrgyz Republic	71	36	172	26	103	32	110	67	77	42
Tajikistan	11	9	11	8	2	6	7	10	5	5
Turkmenistan	12	3	10	2	7	2	12	4	31	1
Uzbekistan	62	140	58	32	27	13	39	12	51	8

(b) Central Asian Trade Statistics (in million USD)

	1997		1998		1999		2000		2001	
	M	X	M	X	M	X	M	X	M	X
Kazakhstan	47	442	51	382	82	473	154	670	169	656
Kyrgyz Republic	32	32	44	16	37	25	37	44	49	19
Tajikistan	2	13	1	5	3	3	12	3	0	0
Turkmenistan	7	2	6	6	14	5	16	8	35*	1*
Uzbekistan*	68	127	64	29	30	12	43	11	56	7

Notes: In both tables X = Central Asian exports to China, M = Central Asian imports from China. For Uzbekistan, all years, and Turkmenistan 2001 the data marked * are constructed from partner country records.

Source: IMF Direction of Trade Statistics

³³ There are five main crossings for freight from Kazakhstan (Jimunai, Bakhty, Ala Pass, Horgos and Dulata), two from the Kyrgyz Republic (Irkeshtam and Torugart), and one from Tajikistan (Kalafen). In addition there are three river ports of entry between China and Kazakhstan, and a few informal land border crossings serve local populations.

54. Despite relatively limited mutual trade flows, the potential for trade between Central Asia and China is substantial given their differing factor and natural resources endowments. However, realising the potential depends upon a favourable trade environment and improved physical infrastructure, which in fact can be considerably improved following China's accession to the WTO. Trade with Central Asia is currently conducted mainly in cash, and China's WTO commitments regarding financial services may allow better access to financing to all interested parties. Moreover, regional trade flows are seriously hampered by prohibitive transport and other transaction costs and opening of China's logistics sector can help to reduce these costs.

4.2. *Russia*

55. Discussions in the Working Party on the accession of the Russian Federation, established in June 1993, have advanced in some areas, such as market access in goods, but continue to address some more contentious issues such as agriculture, the customs system, trade arrangements with CIS states, intellectual property rights and services.³⁴ In spring 2002 the EU and USA both granted Russia market economy status, which reduced the scope for using constructed values in assessing antidumping duties, but concerns remain over Russia's subsidised energy prices.

56. Although there are some problems with availability of relevant Russian data³⁵, existing empirical studies of the economic impact of Russian WTO membership generally estimate the main gains to Russia will come from increased investment and technology transfer. Jensen, Rutherford and Tarr (2002), employing a computable general equilibrium model of the Russian economy, estimate long-run gains from WTO accession equal to over 50% of current consumption, and these mainly capture increases in total factor productivity associated with liberalisation of foreign direct investment. This suggests that the main impact of Russian WTO accession on Central Asia could be investment diversion and increasing import demand. The risk of investment diversion is however probably minor because the FDI inflows into Central Asia remain limited, except energy investments in Kazakhstan and to a much smaller extent in Turkmenistan (Table 7). The potential of a more open and large Russian market will be felt most by Kazakhstan as the Central Asian country most heavily involved in trade with Russia.

Table 7: Stock of Foreign Direct Investment in 2002 (USD Millions)

Kazakhstan	15 354
Kyrgyz Republic	415
Tajikistan	162
Turkmenistan	1 163
Uzbekistan	1 332

Source: UNCTAD *World Investment Report* (United Nations, New York and Geneva, 2003)

57. For the Central Asian countries, trade with Russia is substantially more important than their trade relations with China (Table 8). For Kazakhstan, the major Central Asian trading nation, exports to Russia have been at least double of those to China and imports from Russia have been several times larger than those from China. Even taking into account the shuttle trade with China is unlikely to change the situation. The Kyrgyz Republic is the only one of the Central Asian countries for which the two large trading partners have been of roughly equal weight in recent years. For the other three countries, Russia is a significant trading partner compared to the small volumes of China trade.

³⁴ For more details see the information website maintained by the Russian government at <http://www.wto.ru/en/newsmain.asp>

³⁵ One technical problem is that the most popular CGE models tend to aggregate the CIS economies, making it impossible to identify Russia-specific consequences of changing parameters; see, for example, Stern (2002) on the application of the Michigan model. Fortunately, the latest version of the Global Trade Analysis Project (GTAP, version 5.3) contains separate data for Russia.

Table 8: Trade between Central Asia and Russia, USD Millions

Table 8(a) Russian Trade Statistics

	1997		1998		1999		2000		2001	
	M	X	M	X	M	X	M	X	M	X
Kazakhstan	2472	2743	1881	1877	1222	1391	2246	2197	2544	1834
Kyrgyz Republic	167	149	131	129	84	95	103	88	83	61
Tajikistan	90	97	77	59	66	111	56	237	69	129
Turkmenistan	265	156	94	43	60	77	130	473	139	39
Uzbekistan	875	1016	485	521	240	466	274	662	364	580

Table 8 b) Central Asian Trade Statistics

	1997		1998		1999		2000		2001	
	M	X	M	X	M	X	M	X	M	X
Kazakhstan	1969	2288	1712	1611	1351	1139	2460	1784	2891	1748
Kyrgyz Republic	191	99	204	84	109	71	133	65	85	65
Tajikistan	115	63	102	48	92	115	105	259	129	105
Turkmenistan	164	57	132	29	167	44	255	1029	153*	35*
Uzbekistan*	962	923	533	474	264	423	302	602	400	527

Notes: In both tables X = Central Asian exports to Russia, M = Central Asian imports from Russia. For Uzbekistan, all years, and Turkmenistan 2001 the data marked * are constructed from partner country records.

Source: IMF Direction of Trade Statistics

4.3. *The Impact of Central Asian Countries' WTO Membership*

58. Kazakhstan's WTO accession has been considered to be closely tied to that of Russia, due to the strong economic links with its northern neighbour. The Kyrgyz Republic is reportedly considering withholding consent for Kazakhstan's accession until unresolved transit issues are settled, but it is unlikely to be an insurmountable obstacle.³⁶ Pressure would then be on Tajikistan and Uzbekistan to accelerate their accession negotiations.

59. The most important benefit of WTO membership would be to place all Central Asian trade on a common basis of international trade law, and allow separating trade from politics. The failure of the myriad preferential trading agreements mooted since 1992 should have already made clear that they are not an appropriate route to realising greater gains from trade. As mentioned earlier, all of the Central Asian countries are open economies, in the sense of having high trade/GDP ratios, but the main pattern since 1991 has been the switch of trade towards more distant markets. Trade with Russia has atrophied from the enforced patterns of the Soviet Union, while trade with China has expanded but remains far below its potential. Trade among the Central Asian countries has generally stagnated since the completion of the first phase of transition in the mid-1990s (see the Annex tables).

60. As in other CIS, trade openness (*i.e.* trade/GDP) of the Central Asian countries increased between 1992 and 1997, but has declined since then. Many of the related causes are country or region specific (Elborgh-Woytek, 2003), but the lack of a stable institutional environment surely did not help. One

³⁶ The Kyrgyz position was reported in *Ukrayinska Pravda* 2 September 2003 (English version at <http://www.pravda.com.ua/>). WTO decision-making requires consensus, but this principle is coming under increased scrutiny with the expansion of WTO membership and the potential for minor economic powers to derail complex global trade negotiations. A likely compromise in the Kyrgyz/Kazakh case is that the Kyrgyz Republic will be able to represent what other WTO members accept to be its legitimate concerns, but not to block Kazakh negotiations over grievances that are not central to WTO rights. Even that restricted power illustrates a benefit of joining the WTO sooner rather than later; once inside the organisation, members can have a say on future developments.

indicator of the potential for international trade is the contrast between intra-Russian trade and international intra-CIS trade. Using a gravity model, Djankov and Freund (2002) estimate that trade among Russian provinces is around sixty percent higher than trade between CIS countries, *ceteris paribus*, but the national-border effect is weaker for Kazakhstan than for the other Central Asian countries' trade with Russia. Clearly such estimates are no more than indicative in what remains a disequilibrium situation, but they suggest the large orders of magnitude by which the Central Asian countries' trade could increase.

61. WTO accession will bring further benefits by encouraging liberal trade policies and helping to prevent backsliding in trade liberalisation. WTO membership will help the Central Asian countries to reap benefits from specialisation and create a more stable, predictable and business-friendly environment for domestic and foreign investors. However, WTO membership alone is not sufficient. Without good domestic economic policies and good governance, the impact of WTO membership will be largely nullified.

5. Conclusions

62. All five of the Central Asian countries which became independent in late 1991, are export-oriented economies, and external economic relations are therefore an important element of their economic development and strategies. Although all have declared their intention to participate more fully in the global trading system, they have been, with the exception of the Kyrgyz Republic, cautious to accept the obligations related to WTO membership. Their trade policies remain in many respects incompatible with multilateral trade disciplines. The Central Asian countries have signed a large number of regional agreements, which if fully implemented would mean a departure from the WTO basic principle of the most-favoured nation treatment and should be therefore notified and accepted by other WTO members.

63. However, the striking feature of the analysed regional arrangements is their lack of progress in establishing or implementing preferential trade policies.³⁷ Despite many regional trading arrangements, the Central Asian countries have in practice pursued the path of trade policy autonomy combined with non-discriminatory multilateralism. Buying imports from the global least-cost supplier and selling exports in the best market makes economic sense as documented by both theoretical arguments and concrete evidence of the many discriminatory trading arrangements in Latin America and Africa during the second half of the twentieth century.³⁸

64. The positive feature of this *de facto* multilateralism is that the region remains well-placed to take advantage of opportunities offered by China's recent WTO accession and Russia's future accession. As relatively small economies, Central Asian countries, which are or will become WTO members, will benefit from a rule-based environment in their trade with all neighbouring economies. The integration into the international trade system is likely to involve some adjustment costs and limit to a certain extent the policy instruments available to the governments, such as the extensive reliance on import-substitution strategies or the freedom to undertake preferential trade agreements. However, these short-term disadvantages will be largely offset by longer-term benefits of WTO accession. By accepting multilateral disciplines, the countries will achieve better transparency, predictability and coherence of their trade policies and therefore enhance their international competitiveness and attractiveness for foreign investors, which will have positive effects on their overall economies and living standards of all citizens.

³⁷ The lack of success in other areas is less felicitous. Regional fora are an appropriate place to resolve disputes of regional scope or with regional externalities, such as water and energy, or to improve transit and trade facilitation. Unfortunately, progress on each and every one of these matters has been prevented in Central Asia since 1991 by lack of regional cooperation, and the deepening antagonisms between Central Asian regimes augurs poorly for the near future. In current circumstances the best solution would be to separate technical issues from political manoeuvres, but crucial matters like water are highly politicised in the region.

³⁸ This experience is documented in Pomfret (1997/2001).

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ANNEX

Annex Table 1: Central Asian Trade Matrices (USD millions)

(columns = imports; rows = exports)

1997	Kazakhstan	Kyrgyz Rep	Tajikistan	Turkmenistan	Uzbekistan
Kazakhstan		70	42	87	163*
Kyrgyz Rep	64		5	2	112*
Tajikistan	6	10		9	190*
Turkmenistan	46	15	30		5*
Uzbekistan	66	129	262	88	

1998	Kazakhstan	Kyrgyz Rep	Tajikistan	Turkmenistan	Uzbekistan
Kazakhstan		75	52	29	131*
Kyrgyz Rep	53		5	2	42*
Tajikistan	4	6		7	138*
Turkmenistan	24	8	31		8*
Uzbekistan	96	122	227	40	

1999	Kazakhstan	Kyrgyz Rep	Tajikistan	Turkmenistan	Uzbekistan
Kazakhstan		73	79	19	73*
Kyrgyz Rep	31		7	3	51*
Tajikistan	2	4		3	199*
Turkmenistan	20	8	15		7*
Uzbekistan	87	51	264	50	

2000	Kazakhstan	Kyrgyz Rep	Tajikistan	Turkmenistan	Uzbekistan
Kazakhstan		58	82	20	153*
Kyrgyz Rep	32		8	5	98*
Tajikistan	6	1		7	108*
Turkmenistan	44	19	29		7*
Uzbekistan	73	75	186	35	

2001	Kazakhstan	Kyrgyz Rep	Tajikistan	Turkmenistan	Uzbekistan
Kazakhstan		82	89	16*	164*
Kyrgyz Rep	33		6	2*	53*
Tajikistan	2	2		11*	96*
Turkmenistan	78	9	62		7#
Uzbekistan	80	67	151	39#	

Note: * data derived from partner records; # data estimated by other methods. There is some variation when exporter data are used, but the differences are not significant and there are no clear patterns of under- or over-statement with one source rather than the other.

Source: IMF Direction of Trade Statistics – importing country's data