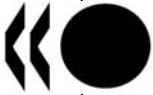


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**TRADE DIRECTORATE
TRADE COMMITTEE**

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Working Party of the Trade Committee

**OECD REGIONAL TRADE FORUM ON ECONOMIC AND TRADE IMPLICATIONS OF WTO
ACCESSION**

REPORT OF THE MEETING

Almaty, 3-4 June 2004

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Introduction

1. The Regional Trade Forum on Economic and Trade Implications of WTO Accession was organised by the Trade Committee within the OECD work programme on non-member countries. It drew together several regional and country specific activities: the common programme for Transition Economies of Europe and Central Asia, the Russia Programme, and the China Programme. It was prepared in co-operation with the World Bank and the U.S. Agency for International Development. The event was co-hosted by the Ministry of Trade and Industry of Kazakhstan and benefited from a voluntary contribution from the Government of Switzerland.

2. Ninety participants including trade officials and experts from both OECD and non-OECD countries, such as Russia, China, Central Asia and other Asian countries (Cambodia, Laos and Vietnam) as well as officials from international organisations and representatives of the business community took part in the meeting (see the attached list of participants).

3. The meeting examined the experiences of countries at different stages of integration into the international trading system. Some, like the Kyrgyz Republic, joined the WTO several years ago; others, like China, became WTO members only recently; and most, including Russia and the other Central Asian countries, are in various phases of accession negotiations. The main objectives of the meeting were to share experiences with the implementation of multilateral and regional trade disciplines, exchange views on the relevance of different methods for analysing changes in trade policy, such as WTO accession, and consider alternative approaches employed by governments to implement WTO commitments and maximise the benefits of integration into the international trading system.

Session I. Estimating the Economic and Trade Impact of WTO Accession: Examples of Russia and China

4. The first session, which was chaired by Mr. Muktar Djumaliev, First Deputy Minister, Ministry of External Trade and Industry of the Kyrgyz Republic, focused on quantitative techniques for estimating the economic effects of WTO accession. Three studies, one analysing the effects of China's accession and two examining the potential effects of Russia's accession, were presented and discussed by the participants.

5. The study on *Global Economic Impact of China's Accession to the WTO* [TD/TC/WP(2004)16], by Warwick J. McKibbin and Wing Thye Woo, was introduced by Mr. George Holliday of the OECD Secretariat. The study employs a model that captures linkages through trade in goods and services and capital flows between China and its trading partners. Most important, the model facilitates an analysis of the effects of changes in flows of foreign direct investment (FDI) to China. The study concludes that the major effect of WTO membership for China is to greatly enhance China's economic security by ensuring better access to foreign markets and increasing its reliability as a supplier. Better access to foreign markets has the effect of reducing the risk premium demanded by investors in China's export-oriented industries and thus stimulating FDI inflows (diverting some FDI from some other Asian countries). Increased FDI, associated with considerable technological spill-over effects, brings major improvements in productivity and large welfare gains to China's economy. The study suggests no major changes in export patterns for most of China's trade partners, with several notable exceptions: some of its East Asian neighbours that compete with China in markets for labour-intensive exports and compete to attract FDI in plants producing such exports could be adversely affected.

6. The study sparked several questions about the methodology of the analysis and the findings with respect to effects on China and other economies. One participant asked about estimating the reduction in the risk premium associated with China's increased economic security. Mr. Holliday responded that the authors had assumed a one percentage point reduction – an assumption that they considered very modest.

In response to questions about the effects on China's trade partners, he said that, although the study had not estimated the effects on all countries, the implication was that China's WTO accession would not have major effects on the trade of most countries (such as Russia). The major exceptions are the so-called ASEAN-4 countries – Indonesia, Malaysia, Philippines and Thailand – which would experience adjustment costs due to increased competition from China. One participant suggested that the ongoing negotiations on a China-ASEAN free trade agreement might help with the adjustment problems.

7. A representative from China noted that, before accession, there had been widespread concern in China about increased competition from imports. For the most part, the competitive threat had not materialised, and most Chinese observers thought that China had gained much from accession. One factor that facilitated adjustment to import competition, said a Chinese participant, was the existence of transitional periods, which allowed domestic producers time to adjust. Another Chinese participant remarked that a major benefit introduced by WTO accession was a change in the way policymakers and others thought about trade policy: they accepted the need to implement important changes in policy.

8. The study on "*Impact of Russia's Accession to the WTO on the Structure of the Russian Economy*" [TD/TC/WP(2004)17] was introduced by one of the authors Ms. Terrie Walmsley. The study employs a global computable general equilibrium model (the comparative static GTAP model), using the database that has been modified to take account of increasing returns to scale in several key sectors such as oil and gas extraction, ferrous and non ferrous metals industries, and motor vehicles. It examines the impact of complete elimination of tariffs and compares this with the more modest tariff reductions currently being proposed by Russia. As the liberalisation of services constitutes an important aspect of Russia's negotiations, the study also analyses the impact of services liberalisation in telecommunication and business and financial services sectors. The results indicate that in the short run changes in Russia's aggregate welfare are quite small. However there are considerable structural implications resulting from trade and services liberalisation. Expansions are expected in investment, the services sectors, motor vehicles and construction, while output of Russia's traditional export commodities declines. These implications are found to be sensitive to the extent to which trade is liberalised and whether entry/exit is allowed in those industries, which are subject to increasing returns to scale. (The presentation of Ms. Terrie Walmsley is available at the meeting's special website¹.)

9. The discussion of the study centred on problems of adjustment associated with Russia's future WTO accession and on the effects on specific sectors and regions. A Russian representative found the analysis very useful. He agreed with the general finding that the short-run consequences of accession were not dramatic, but that longer term structural changes may be quite important. He cautioned, however that a quantitative assessment of the impact on Russia was complex because of its geographical diversity and the rapid changes taking place in the Russian economy. For example, while the overall effects on the economy might be small, the effects on specific regions of Russia could be large, with important social consequences. He encouraged additional analysis of the regional impact of WTO accession.

10. Another participant emphasised the rapid structural changes taking place in Russia's economy, with reduction in the share of agriculture and an increase in the share of services in total output. A problem for the Russian economy, he suggested, is the lack of labour mobility between sectors and regions. He thought that Kazakhstan probably had a similar problem, but that capital mobility might be greater. Other

¹ All documents prepared for the meeting, additional background and reading material and several presentations are available at the following website: www.oecd.org/ech/meetings/almaty

Username: Kazakhstan
Password: Almaty

participants raised questions about the possible effects of reforms of Russia's energy prices and the effects of tariff reduction on government revenues resulting from WTO accession.

11. Several participants remarked that, although the other countries represented at the conference had smaller economies than China and Russia, they needed similar analyses of the effects of WTO accession. One participant asked about the feasibility of carrying out a similar study on Kazakhstan; another suggested that studies on the effects of smaller economies should be the subject of a future conference.

12. Ms. Walmsley responded to several of the questions and comments. She said that some work on assessing the regional impact of Russia's accession was ongoing, but that there were problems with insufficient data. She said that the effects of energy price reforms could be significant, but were not taken into full account in the study, because the nature of the reforms was not apparent when the study was carried out. The effect of tariff changes on government revenues, she said, was unlikely to be large because the reduction in tariffs was expected to be small. She said that studies of the economic effects of WTO accession for the smaller countries are feasible, if adequate data is available. However, some countries, such as Kazakhstan, are not currently included in the GTAP data base. A participant from Kazakhstan said that the government had analysed the effects of accession on domestic industries and concluded that there were unlikely to be major negative effects. The government of Kazakhstan, he said, is interested in additional analyses.

13. The paper on "*Impact of Russia's Accession to the WTO on its Labour Market*" [TD/TC/WP(2004)18] was presented by the author, Ms. Nina Vishnevskaya. The study generally confirms that, while WTO accession is expected to have a limited impact on the overall employment level in Russia both in the short- and medium-term perspective, its effects on employment at sectoral and regional levels might be significant. WTO accession can also facilitate necessary adjustments in Russia's labour market, particularly by encouraging shifts towards export-oriented and more productive sectors, prompting further liberalisation of labour-related legislation and increasing mobility and flexibility in the Russian labour market. (The presentation by Ms. Vishnevskaya is available at the meeting's special website.)

14. A Russian representative remarked that the study confirmed the importance of taking into account regional differences in the impact of WTO accession. He also noted that, although existing studies generally predict only small effects on most Russian industries, they also suggest the need for facilitating adjustment to import competition. In particular, he said, there will be a greater demand for highly skilled labour, better management, and introduction of new technologies. Another Russian participant emphasised the importance of structural reforms, particularly administrative reforms and adjustment policies. A Kazakh participant suggested that attracting foreign direct investment, particularly in the service sector, could help to facilitate adjustment to increased competition in Kazakhstan.

15. In response, Ms. Vishnevskaya re-emphasised the importance of improving labour mobility: she noted that Russian labour is mobile in some respects, but not geographically. The high cost of housing and the lack of mortgage loans for home purchases is a particular problem for Russia. She said that lack of training was also a problem. Although the Russian labour force is highly educated, there are not enough trained specialists for some technical jobs.

16. Commenting on the studies of Chinese and Russian WTO accession, Harry Broadman, of the World Bank, identified several key themes. He observed that the papers focused on the macroeconomic level and gave inadequate attention to building basic market institutions within each country that are essential to successful adjustment to WTO accession. He also noted that the results of the macroeconomic studies are very sensitive to the underlying assumptions of the models and the quality of the data that are used. He suggested that an important future task for researchers will be to look back at the results and determine how successful the models had been in analysing the effects of WTO accession. With respect to

China, Mr. Broadman emphasised the importance of effective implementation of its commitments in assuring that China maximises the benefits of accession. With respect to Russia's accession, he commented on the current debate among various interests over the costs and benefits of accession. In his view, this is a healthy debate – one that must take place before accession to assure that Russia's negotiators secure an agreement with terms that meet Russia's needs. Commenting specifically on the debate over energy reform, he emphasised that reducing energy subsidies was an important goal, and that the Russian economy would benefit if WTO accession facilitated such a reform.

17. Mr. Broadman identified several more general issues related to WTO accession. Analyses of accession, he said, could usefully consider the role of trade liberalisation on poverty reduction. He also observed that WTO accession should not be considered an end in itself; the end goal for policymakers should be structural reform and improving allocative efficiency within the economy. He also emphasised the costs and difficulties of implementation of WTO accession agreements. He said that implementation is a major challenge for all acceding countries, requiring in particular skilled people in key government positions.

18. These comments were generally supported by other speakers. The representative of Cambodia expressed the view that trade liberalisation can be an important part of the strategy to reduce poverty, and could play a particularly important role in small economies. Representatives from China, Russia and Cambodia supported the notion that WTO accession should not be seen as a desired goal in itself, but as a step toward the ultimate goal of economic reform. Several participants emphasised the importance of building capacity in governments to analyse and implement trade agreements and to facilitate adjustment.

Session 2: Exploiting the Synergies between Multilateral Disciplines and Regional Integration Initiatives

19. The session was chaired by Mr. Harry Broadman from the World Bank. In the absence of Professor Richard Pomfret, Mr. George Holliday from the OECD Secretariat introduced his paper on "*The Role of Multilateral and Regional Trade Disciplines in the Central Asian Countries*" [TD/TC/WP(2004)19]. The study describes recent trade policy developments in the five Central Asian countries (*i.e.* Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan), including their participation in various regional integration initiatives and their position vis-à-vis the WTO. It shows that despite a number of regional agreements, intra-regional trade flows remain constrained by a variety of trade barriers and infrastructural impediments. According to the author of the study, multilateral liberalisation seems to be a more viable policy option for these countries than existing regional agreements, which have so far been unable to create efficient instruments to promote regional trade and encourage trade diversification of their members.

20. The following presentation by Mr. Roman Mogilevsky focussed on the experience of the Kyrgyz Republic in implementing multilateral and regional trade disciplines [TD/TC/WP(2004)20]. He found that existing regional agreements in which the Kyrgyz Republic participates are not formally in conflict with WTO principles. He agreed that the regional agreements have not in practice succeeded in encouraging the development of intra-regional trade. He also observed that trade and investment flows of Kyrgyzstan to and from other WTO members have not become more dynamic in the aftermath of the country's accession to the WTO, mainly due to external factors, especially the country's dependence on foreign aid flows and the regional economic environment. WTO membership, he said, has also not resulted in a significant reduction of informal flows of goods, capital and labour. However, government revenues from foreign trade taxation have grown, despite the decrease in the level of import tariffs and excise rates. In concluding his presentation, Mr. Mogilevsky stated that the main impact of WTO accession on Kyrgyzstan has been to strengthen the liberal stance of the country's foreign economic policy and prompt the government to

concentrate on the urgent tasks of increasing the competitiveness and efficiency of the national economy. (Mr. Mogilevsky's presentation in English and Russian is available at the meeting's special website.)

21. To complement his paper [TD/TC/WP(2004)21], which estimates the impact of customs duties' reductions on the level of GDP in Uzbekistan, Mr Farhod Jurahanov discussed recent developments in Uzbekistan's trade policy. He described a gradual decrease in its customs import duties and discussed the government's key export promotion priorities. He also provided recent data on the role of regional partners in Uzbekistan's foreign trade, which is still dominated by CIS countries (almost 32% of Uzbekistan's trade turnover in 2003). Uzbekistan's decision to join the WTO requires considerable efforts to adapt its trade policy to multilateral disciplines, reinforce the ability of its economy to cope with external competition and develop governmental analytical capacities to foresee the potential impact of the WTO accession on Uzbekistan's economy and foreign trade. (Mr. Jurahanov's presentation in Russian is available at the meeting's special website.)

22. Discussion of these papers focussed on two major themes – the persistence of significant barriers to trade despite regional free trade agreements and the costs and benefits of Kyrgyzstan's relatively rapid accession to the WTO. Participants also raised a number of questions about Uzbekistan's trade policy, in particular the WTO compatibility of measures such as the introduction of excise duties (sometimes amounting to 100%), the persistence of State trading practices (for example, continued state trading of cotton, despite the official abolition of the State monopoly), and, more generally, the continuing lack of information on existing trade measures applied by Uzbekistan. The delegation of Uzbekistan claimed that excise taxes are applied in a non-discriminatory manner and enterprises are free to trade cotton without interference from the State. In general, several of the participants agreed that regional agreements had not succeeded in removing major trade barriers among the Central Asian countries.

23. Several questions were raised about the effects of Kyrgyzstan's early accession to the WTO. One participant asked, for example, whether the government had correctly evaluated the costs and benefits. Mr. Mogilevsky responded that the government had assessed the consequences of WTO accession and concluded that there would be on balance small benefits to the economy. He thought that this assessment was basically correct, but that the economy had experienced unexpected problems that had nothing to do with accession. Other participants noted the difficulty of estimating *ex ante* the consequences of WTO accession, mainly because of the difficulties in disentangling the policy effects of WTO membership from the effects of other changes in the economic environment. Mr. Mogilevsky said that his analysis suggested that Kyrgyzstan's reduced trade barriers had not harmed the economy. He thought that a major benefit of accession was a change in the mindset of entrepreneurs in the country who had become more independent and no longer expected assistance from the government.

24. Mr. John Hancock, of the WTO, compared possible gains of a regional approach to trade liberalisation to a strategy of multilateral integration and argued that the latter is the best viable policy option for the countries in the region. With growing membership, which now includes China, its dispute settlement mechanisms and multilateral negotiations on track, the WTO provides a better approach to solving trade problems, particularly diversification of imports and exports. Moreover, he thought that starting with regional agreements before multilateral integration is not logical, given that successful regional agreements such as the EU or NAFTA usually go beyond WTO disciplines. He noted that this had not been the case in the regional initiatives in Central Asia. He added that members of regional agreements often lose their preferential treatment because they usually extend favourable market access conditions to other WTO members during their negotiations on accession. It is also important to keep in mind that existing and rather loose WTO disciplines concerning regional integration do not prevent subsequent regional agreements, including the most developed forms such as a common economic space. In conclusion, Mr. Hancock reiterated that, whereas the WTO and regional integration are in many respects

complementary, multilateral integration appears to be a more appropriate strategy at this stage of economic and trade development in Central Asian countries.

25. Mr. Vitaly Aristov, Head of the Russian delegation, representing the Ministry of Economic Development and Trade, distinguished between the theoretical and practical aspects of regional integration. He noted that regional integration, which is often politically motivated, already existed before the creation of the GATS/WTO and that the WTO Article XXIV sets conditions for the compliance of regional agreements with multilateral rules. He briefly described Russia's experience with regional integration initiatives. The agreements within the CIS are mainly of a bilateral nature, though they contain some elements of regional integration. The efforts by members of the EuroAsian initiative to harmonise their WTO negotiating process face serious difficulties, mainly because Kyrgyzstan has already acceded. He said that the project of regional integration with the Shanghai Organisation of co-operation (SOC) has been rather unsuccessful so far and that Russia seeks to reorient this co-operation towards some more concrete projects. Mr. Aristov observed that rather than synergy there seems to be a complementarity between regional co-operation and multilateral integration and that Russia, following the example of China, should start to enter into regional agreements only after it completes negotiations on WTO accession.

26. The representative of Kazakhstan described the state of the country's negotiations in the WTO, noting substantial progress in the negotiations on market access for goods but some problems in the area of services and the compliance of national legislation with WTO rules. The WTO negotiating process should not be viewed as the end, she said, but rather as one of the elements of current reform and restructuring process in Kazakhstan. She described several regional cooperation initiatives, in which Kazakhstan also participates, noting that its trade relations with its Central Asian neighbours, except Turkmenistan, are managed through the FTA arrangements.

27. During the discussions, it was observed that the relationship between regional cooperation and multilateral system is sometimes complex, as illustrated by the so-called Singapore issues: among them only trade facilitation could be negotiated in the multilateral context, while others, including investment and competition, are increasingly addressed in a number of regional agreements. Participants from Central Asian countries noted that, despite the political will, regional initiatives are often difficult to ratify and even more difficult to implement. Some representatives of the business community complained that governments have not undertaken serious assessment of the possible impact of WTO accession on specific sectors such as the textile and clothing industries, which could be destroyed by import competition. They said that an additional problem is lack of reliable trade data, notably on illegal imports of consumer and other goods to local markets especially from China or Turkey.

28. A representative from China said that political motivations are present not only in the regional but also in the multilateral context. He emphasised that China's ongoing regional negotiations do not mean that the country is abandoning its multilateral stance. Negotiations on regional arrangements, he said, are motivated in part by the slow progress in the WTO in some areas: China needs to continue vigorously its reform process and believes that regional initiatives can contribute to resolving some trade policy issues that are still difficult to negotiate at the multilateral level. The representative of UNESCAP described the example of the Bangkok agreement, open to all developing countries, which China joined in 2001.

29. The exchange of views on the Common Economic Space highlighted several reasons for current difficulties: the participating countries have often different priorities (for example transport issues for Kazakhstan or market access for Russia) and they do not share common trade objectives that can be reached on mutually beneficial terms. Most participants agreed, however, that the dialogue among the governments and also between the governments and the business community had been extremely useful. Many agreed with the WTO representative's view that regional integration is useful only when it addresses critical trade problems more efficiently than the multilateral system. It was suggested, however, that this

does not seem to be presently the case in Central Asia and that at this stage, the WTO system can do more for these countries than regional agreements.

Session 3: Maximising the Benefits from Integration into the International Trading System

30. The session was chaired by Mr. Kenneth Heydon, Deputy Director of the OECD Trade Directorate. Ms. Blanka Kalinova from the OECD Secretariat introduced the discussion, which, she said, is intended to share experiences with the “first generation” problems faced by the countries negotiating accession to the WTO and to exchange views on the no less challenging issues confronted in the post-accession phase. She remarked that accession negotiations are inevitably more complex for new members because the WTO is a more comprehensive agreement, covering a number of new trade-related areas, such as services or intellectual property rights, than its predecessor, the GATT. For some countries that have recently acceded to the WTO, far-reaching commitments have resulted not only from pressures in bilateral negotiations, but also from autonomous decisions by governments trying to consolidate existing trade liberalisation achievements and accelerating domestic reforms through external opening. The post-accession challenges of enforcement and application of new laws and regulations introduced to comply with multilateral disciplines require of qualified staff in newly created governmental agencies and effective intra-governmental co-operation. She also emphasised the importance of developing communications and consultations between governments and other stakeholders, especially the business community, and the public at large. To improve trade policy decision-making and efficient communication, governments also need to ensure adequate and reliable data and to develop their analytical capacities.

31. Mr. Kelly Seibold, head of the Pragma project sponsored by a USAID programme in four Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan) that provides technical assistance and support for WTO accession, emphasised that WTO accession is indeed only the beginning of the governments’ work in implementing WTO commitments and ensuring that the expected benefits of WTO accession are realised. Governments need to develop a team of specialists not only to negotiate accession, but to carry out effectively their obligations in the WTO. While bilateral and multilateral aid agencies often offer training of such specialists, governments must provide incentives for them to remain in their jobs. Frequent changes in governments can lead to a loss of expertise and institutional memory, undermining their capacity to carry out their WTO commitments.

32. Mr Seibold said that another key condition is the involvement of parliamentarians and the public at an early stage of the reform and accession process, as illustrated by the healthy debate on WTO accession in Russia. It is also critical, he said, that new draft legislation is carefully reviewed for WTO compliance. He found it useful for governments to create a permanent institutional structure for WTO matters. A commission that meets regularly and consults with representatives of business community and other stakeholders, assumes responsibility for supervising the introduction and implementation of new WTO-related laws, and co-ordinates governmental work in this area can play a valuable role in the accession process. Such a consolidated single institutional structure facilitates accountability, helps to leverage available human resources and facilitates the work of international donors. Mr. Seibold suggested that other Central Asian countries may consider the example of Kyrgyzstan, where such a structure continues to function after its WTO accession.

33. Mr. Harish Iyer, representative of UNESCAP, described recent activities of his organisation, which includes some 60 member and associated countries, of which almost half have not yet joined the WTO. These activities, in which Central Asian countries also participate, include general trade policy training and technical assistance concerning the WTO and the issues on the Doha agenda, a regular regional policy dialogue, and the establishment of an informal network for sharing experience on best practices in WTO negotiations. He also drew attention to the Organisation’s website, which contains studies on trade policy.

34. Ms. Terrie Walmsley, from the Global Trade Analysis Programme, briefly explained the purpose and activities of this researchers' network, which has developed a global data trade base and standard general equilibrium model. She noted that, while Russian data have been recently introduced into this database and work on Latin America is ongoing, Central Asian countries are not yet covered. Mr. Suos Someth, Ambassador of Cambodia for international organisations, including the WTO, in Geneva, confirmed the importance of maintaining specific knowledge within the governments. In addition to the risk of losing trained specialists to the private sector, he noted the potentially damageable effect of the practice of some governments of rotating staff among different agencies and ministries. He recommended maintaining trade specialists in their positions at least five years.

35. The head of the Chinese delegation, Ms. Ding Wei, Deputy Director, Ministry of Commerce, focussed her presentation on the questions raised in the issue paper prepared by the OECD Secretariat for the meeting. She stated that China's decision to accede to the WTO was a strategic decision to open its domestic economy and enhance its participation in the global economy. WTO accession, she said, has contributed to China's economic growth and, by making its trading regime compatible with international rules it has provided more security and predictability and helped China to cope with continuous changes and take advantage of new opportunities in the world economy. She said that the post-accession stage has brought both advantages and challenges: as China has implemented its commitments, trade and investment flows have steadily increased, though the value-added of exported products still remains relatively low. Ms. Wei also underlined that China's rapid economic development should not be viewed as a threat for world economy, but as a contribution to world growth and development. She agreed that the challenges faced by small and large economies in their integration into the international trading system and world economy differ, in particular due to their different capacities to respond to external shocks.

36. Mr. Muktar Djumaliev, First Deputy Minister for External Trade and Industry of the Kyrgyz Republic, discussed the main benefits of his country's WTO accession: it had improved competition in the domestic market, made its trade regime more transparent and predictable and improved its access to new markets. The main problems are both external and internal. External difficulties result essentially from the country's geographical position, which makes it extremely vulnerable to transport and transit conditions and persistence of tariff and non-tariff barriers in neighbouring countries. Although the future WTO accession of the main partner countries should reduce existing trade obstacles, Kyrgyz exporters continue to be hampered by large transport fees, complex customs declarations, high customs duties and other taxes. Internally, the Kyrgyz government has made considerable efforts to comply with its commitments, for example concerning government procurement. Much remains to be done, in particular to improve the access and dissemination of relevant information to the business community, promote exports and provide adequate support to small and medium-sized enterprises. Mr. Djumaliev noted that Kyrgyzstan will present a report on the implementation of its commitments to the WTO in 2005.

37. Ms. Olga Demidkina, expert from the Russian Ministry of Economic Development and Trade, presented a report on developments in relations between the federal and sub-federal levels of government in the context of Russia's WTO negotiations. (The text of her presentation in English is available at the website of the meeting.) She stressed that, as a State with a federal structure, Russia should respect relevant WTO obligations as defined mainly in WTO Article XVI and GATT 1994 Article XXIV. In this context, the Russian government has made significant efforts to bring regional trade-policy legislation and policies into conformity with federal policies. The Ministry of Economic Development and Trade has also carried out extensive consultations with regional stakeholders to inform them about the role of the WTO in general and more particularly on the implications of Russia's accession. WTO-related information is available on a special website (www.wto.ru), and the preparation of Russia's position and the progress in WTO negotiations are regularly discussed with stakeholders, including at the regional level. Based on available studies analysing the possible effects of WTO accessions on different Russian regions, the authorities are

also preparing actively for the post-accession period by considering measures to minimise possible negative consequences of WTO accession and maximise its possible benefits in the regional context.

38. The subsequent discussion concentrated on the problems of regional trade barriers in Central Asia, the issue of developing country status in the WTO and the impact of the WTO on domestic industries and exports. Several participants from Central Asia, especially from Kyrgyzstan, repeated their complaints about the persistence of regional trade and infrastructure barriers and the general lack of predictability in the trade regimes. Such problems constrain not only regional trade, but also prevent countries in the region from developing trade and investment relations with other parts of the world. In their responses, some representatives argued that the trade measures in question had been introduced in reaction to external shocks (in particular the 1998 financial crisis in Russia) and are in compatibility with the FTA regime, given that they pertain to domestic taxes and not customs tariffs. Several representatives of Central Asian countries declared that, even if they wanted developing country status in the WTO, especially in agriculture, they were unlikely to attain it, since other CIS countries have acceded without it. The OECD Secretariat recalled that there is no explicit definition of a developing country in the WTO context and confirmed the ongoing work on this issue in several international organisations, including by the OECD.

39. Mr. Jan Krs, the representative of the Czech Embassy in Kazakhstan and Kyrgyzstan, observed that the meeting provided useful insights for trade officials from foreign countries working in the region, particularly with respect to the interaction between multilateral/regional and bilateral cooperation. He noted that, in some areas, regional specialised associations could work quite efficiently and be valuable interlocutors for foreign investors. Experience also shows, he said, that the environment in countries that had already joined the WTO is generally more business friendly than in other countries in the region. For example, Kyrgyzstan has a very good law on Chambers of Commerce, which would also be extremely useful if introduced in other countries in the region. Mr. Krs added that difficulties with uneven application of national legislation, such as tax laws, at the regional level are common in all countries in the region.

Concluding Session

40. Mr. Kenneth Heydon of the OECD Secretariat summarised the main conclusions of discussions and pointed out several areas, which were identified by participants as worthwhile for further investigations and policy dialogue. He observed that the methodologies for quantitative studies of the effects of WTO accession on Russia and China were considered by participants to be useful tools and applicable for analysing the effects of WTO accession for other countries. However, participants also thought that quantitative studies do not capture completely the complexity of the consequences of WTO accession. Their focus on macroeconomic effects does not fully reflect the important impact of micro-economic changes and institutional reforms behind the border that are promoted by the accession process. Another important conclusion of discussion was that WTO accession and trade liberalisation are not an end in themselves, but a means of enhancing allocative efficiency in the domestic economy and improving the welfare of population, including through poverty reduction. It was also stressed that negotiations and implementation of WTO accession agreements contribute to structural and institutional changes, which are necessary to create a favourable environment for enterprise development and administrative and regulatory reforms. Above all, WTO accession can bring about a change in mindset of policy-makers and the business community in trade-related areas.

41. Regarding the interaction between regional co-operation and multilateral integration, the general view was that they are mutually complementary, particularly when the rules of regional arrangements go beyond WTO disciplines. However, the current situation in Central Asia and in the former Soviet Union is quite different. Due to economic circumstances (*e.g.* the lack of economic complementarity) and institutional reasons (*e.g.* the divergence in trade regimes), the regional integration arrangements have not succeeded in promoting trade and investment in the region. Such factors have also made it difficult to

harmonise WTO accessions strategies. It is doubtful that difficult issues of market access can be resolved on a regional basis. Multilateral trade liberalisation is thus most likely to maximise economic benefits and adopting WTO standards will facilitate regional trade and investment flows by making trade regimes more transparent and predictable.

42. In the view of the Chairman, the participants also shared the opinion that to realise benefits of WTO membership in the pre-accession and post-accession stages requires intensive dialogue with, and training of, stakeholders, including parliamentarians at federal and sub-federal levels. It is also important to avoid the loss of institutional memory by ensuring that experts trained in specialised trade issues are maintained in their jobs for sufficiently long periods. There is a need for flexibility and adaptability of laws and regulations in the post-accession period and continuing efforts to improve the coherence and transparency of regulatory environment. In summary, WTO accession should be viewed as the start not the end of the reform process.

43. Mr. Heydon found that the Forum was an excellent example of the objectives and working methods of the OECD's trade policy dialogue. The meeting presented valuable analytical material, and through open and frank discussions it provided an opportunity to participants to share their experience on good practices in the trade policy area². The Forum thus achieved its main purpose – to encourage the exchange of views on the main benefits and challenges of integration into the multilateral trading system for countries that have recently joined the WTO and those that are currently negotiating their accession.

44. Regarding possible follow-up OECD work in this area, the Chairman said that several of the issues discussed are included to some extent in ongoing OECD activities, such as the analysis of special interests and concerns of developing countries in current multilateral negotiations, a horizontal project on trade and structural adjustment in selected sectors and work on regulatory reform and market openness. Furthermore, certain OECD new projects under consideration seem also respond to suggestions raised during the meeting, for instance the proposed work on strengthening the integration of trade into poverty reduction strategies. The OECD will also pursue its country programmes on Russia and China, which examine the conditions and consequences of their integration into the international trading system. In all these areas, the OECD will seek to take into account specific aspects and interests of the countries participating in this meeting. The future policy dialogue may address not only the macroeconomic and trade effects of WTO accession, but also its implications at the enterprises level and its impact on the regulatory framework, especially in the service sector.

45. Finally, Mr. Heydon thanked all who contributed to the success of the meeting, in particular the Swiss government and USAID for their financial contribution, the Kazakh Ministry of Trade and Industry for co-hosting and helping in the preparations of the meeting, the support and active participation of the World Bank and the WTO as well as the members of the OECD Secretariat and the interpreters.

46. In his concluding remarks, Mr. Shakshakbayev, Director for Trade in the Ministry of Industry and Trade of Kazakhstan also expressed his appreciation for the quality of the discussions and for the insights into the challenges faced by Kazakhstan and other countries in the region in their ongoing efforts to integrate their economies into the international trading system.

² A feedback form, distributed to participants after the meeting, asked them to evaluate the content of the meeting and its overall organisation using the scores from 1 (least positive) to 7 (most positive). The average score for the quality of background material and relevance of the programme reached 5.83 and 6.01 for organisational aspects (such as the choice of participants, the structure of sessions and logistical support). In their written comments, the participants considered as the most useful aspects of the meeting the neutrality of the Forum, the informal character of discussions, and the fruitful exchange of information and opinions among participants.

**REGIONAL TRADE FORUM: ECONOMIC AND TRADE IMPLICATIONS OF WTO ACCESSION
(Almaty, 3-4 June 2004)**

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