

Partnership for Development with Caucasus and Central Asia (Istanbul, 16 February 2002)

Session III: OECD activities relevant to the region – Trade
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General remarks: OECD is not a trade negotiating forum (as the WTO), but discussions on trade issues take place in an informal and non-negotiating setting, supported by analytical work carried by the Secretariat. Discussions take place in the Trade Committee (with the participation of observers), in Global Trade Forum (open to non-members) and also consultations with civil society.

3 main roles:

- Reinforce the **support for free trade**, analysis of the costs of barriers to trade and investment and potential benefits from their removal. For example, the potential welfare gains from tariff reduction in different sectors; benefits of service trade liberalisation. Structural adjustments stemming from trade liberalisation – ongoing work on textiles.
- Bridge the gap in the **sensitive areas** which could block multilateral negotiations: trade and environment; trade in services (interests of developing countries in GATS mode 4 – movement of natural persons); the role of trade-related regulations (transparency, non-discrimination) – how they contribute to trade openness, without complicating trade transactions and increasing administrative burden, especially in developing countries.
- **Facilitating negotiations**: market access both tariffs and NTB (import licensing, export restrictions); service trade liberalisation; trade facilitation issues (clarify GATT Articles V, VIII and X)

Most of our “production” is publicly available: OECD Tool Kits for Trade Policy Makers (in 2002 and 2003) and at the OECD website

Several areas relevant for Central Asia:

1/ Integration into the international trading system

Often, the first question of acceding countries at the beginning of their negotiations: “**What will be the WTO entry ticket/fees, what kind of concessions** the country will be obliged to accept and how its commitments **compare to the concessions accepted by other WTO members?**” (In other terms: concerns on double standards, WTO plus commitments, a moving target). True, the WTO accession is partly a bargaining process, especially during bilateral negotiations on market access. But the acceptance of WTO basic rules is not negotiable. The main reason for increasingly complex negotiations is the fact that the WTO rules and disciplines have been more numerous and complex after the Uruguay Round, since 1995 (protection of IPR, coverage of services). Also true, that sometimes it could be difficult to coordinate autonomous liberalisation and negotiations in Geneva (discussion on a sort of in-built mechanism allowing taking into account previous liberalisation efforts). Another problem: many (developing) countries lack human and administrative resources to handle such complex negotiations.

However, the most important question is: “**What kind of commitments are the best for the country’s development and its reform strategy?**” The main objective is to make the WTO an integral part of development strategy, as a means to encourage domestic reforms, improve legal and regulatory system, increase competitiveness and improve the choice of products and services for domestic consumers.

Recent OECD relevant work:

- **Works on trade liberalisation experience of transition economies:** Promoting trade in services: The experience of the Baltic States: these countries have made indeed extensive liberalisation commitments that go beyond those by existing WTO members during the Uruguay Round. These ambitious commitments were not considered as a concession, but the part of strategy to develop service sector, based on external opening. The Baltic countries nevertheless participated in the WTO initiative on “Modalities for the treatment of autonomous liberalisation” (Decision of the WTO Council for Trade in Services, March 2003). The key role of the service sector in the development strategy, especially the backbone infrastructural services (financial, telecoms, transports). The respective role of regional and multilateral disciplines for developing services.
- **Implications of WTO accession on China and Russia** (later, because a special event will be organised in June 2004)
- **Analysis of specific interests of developing countries,** for example in services: identify their main export/import interests; examples of successful exports (health, port services); advantage in labour-intensive sectors; outsourcing; enhancement of export capacity by a well-developed domestic market. Problems: lack of access to financing, lack of infrastructures; the importance of GATS mode 4 (movement of natural persons) - simplification of visa requirements, recognition agreements on qualification); how to prepare the request-offer process - intra-governmental coordination and consultations with other stakeholders (identify export/import interests).

2/ *Multilateral and regional strategies*

Is the regionalism a **viable trade liberalisation strategy** and an alternative for multilateral trade liberalisation?

“New regionalism” replaced regionalism of the 60-70s (inward looking and based on import substitution), and the 2nd wave in the 80-90s (often north-south, considered as a stepping stone to multilateralism, risk of trade diversion minimal). New developments in RI explained by slow progress in multilateralism; RI become more complex and cover more areas. Economic Partnership Agreements go often beyond the traditional FTA (border measures) and address institutional, administrative and regulatory issues (APEC, EU). The aim is not to analyse specific agreements and their compliance with the WTO, but rather how different agreements respond to the needs of member countries and what are the lessons to be drawn from regional initiatives for the multilateral system.

The case of the CIS: their economic and trade integration much lower than EU accession countries (X+M in % of GDP in PPP over 10% compared to 50% for EU accession countries). Some reasons for the delays are geographical (landlocked countries, distance from potential markets), but also because of inadequate domestic policies. EU accession countries helped in their institutional developments through accession process. What lessons for the CIS? WTO helps, but not for establishing right institutions, policies, regulations. Improved regional cooperation (not necessarily preferential trade agreements) can contribute to this end.

Recent OECD relevant work:

Regional and multilateral strategies for developing trade in services in South East Europe: It is important to differentiate between intra-regional integration (the aim being to increase intraregional trade) and intra-regional co-operation. It could be that there is a limited potential for increasing intra-regional trade (the case in SEE, perhaps also for the CIS), but intra-regional cooperation can bring important benefits. The countries should pursue trade opening at the multilateral level, but important benefits might result if liberalisation policies within the region are synchronised and regionally coordinated (including the concerted regional strategy in the WTO). In the area of trade in services, regulatory cooperation expected

to generate important gains, in particular improving the competitiveness of the region on the EU and world markets. Such cooperation should go beyond only information sharing on regulatory practices but it should include peer reviews and cooperation among national regulators and promote the region as such.

3/ *Current issues discussed in the WTO context*

- *Tariffs and trade:* Despite their substantial reductions (average tariff rates on industrial products reduced by 40% since the end of WW2) but still influence trade patterns through their absolute level of protection and through distortions associated with tariff structure (in many non-OECD countries, tariffs on industrial products still substantially higher). Several scenarios developed, based on different proposals discussed in Geneva on tariff cuts (general cuts across board or proportionally higher cuts on higher tariffs). Another study looks how tariff cuts influence government revenues (tariffs represent important tax revenues for many developing countries). Analysis of Russia and China tariff structure.
- *Trade facilitation:* complex (often inefficient) customs procedures, delays during trade transactions can increase the value of goods by 15%. Trade facilitation in the WTO context: “simplification and harmonisation of international trade procedures, covering practices and formalities involved in collecting, presenting data required for the movement of goods in international trade”, i.e. import and export procedures (customs, licensing quarantine), transport formalities, payments and insurance. Our analysis showing both the costs of inefficient trade procedures and benefits of the reform in this area. See whether the WTO should contain some general principles in this area, e.g. transparency, non-discrimination, predictability, simplification of border procedures.

OECD Forum on Economic and trade implications of WTO accession (Almaty 7-8 June 2004)

The main purpose is to assess these implications for the countries that have either recently acceded (China, Kyrgyzstan) or are in the process of negotiating their accession (Russia, other Central Asian countries). See how to reconcile multilateral and regional strategies for trade liberalisation and building capacities for carrying out WTO obligations. Preliminary agenda:

- The economic and trade impact of WTO accession on China and Russia (quantitative studies): A study by Wing Thye Woo and Warwick McKibbin shows major efficiency gains for China and increase in FDI with technological spillover effects. WTO accession increased China’s reliability as a supplier to international markets, so stimulating FDI. Russia – less studies available (see Yudaeva survey), existing studies show relatively modest gains for Russia (due to its export structure with raw material and semi-processed goods facing less barriers, perhaps because Russia has already opened its market, so reaping already most benefits of trade liberalisation; but perhaps the main reason – less attractive for FDI, even if more potential in services).
- Interaction between multilateral trading disciplines and regional integration in initiatives: many regional agreements (sometimes overlapping), but “a huge gap between rhetoric and reality”(Pomfret), little economic impact, trade in fact pursued on multilateral basis, but still a need for regional cooperation to facilitate intraregional and transit trade.
- Building capacities to carry out WTO obligations: special attention to be given to measures to coordinate trade-related policies between national and sub-national levels of government and communicate effectively the implications of WTO membership to the business community.