Policy Brief

Trade Facilitation in the CAREC Region – some recommendations

By
Ghulam Samad
Amjad Masood
Junaid Ahmed

August 2023

Disclaimer

The policy brief is co-authored by Dr. Ghulam Samad, Senior Research Specialist, Dr. Amjad Masood, Senior Assistant Professor, Bahria Business School, Bahria University and Dr. Junaid Ahmed, Senior Research Economist, Pakistan Institute of Development Economics. The authors appreciate the Asian Development Bank staff, Zulfia Karimova, Akiko Terada-Hagiwara and Kijin Kim, providing comments on the paper. The policy brief is excerpted from the paper.
https://www.adb.org/sites/default/files/publication/870111/eawp-060-geographical-proximity-trade-impacts-carec.pdf

Central Asia Regional Economic Cooperation (CAREC) Institute
No. 376 Nanchang Road, Urumqi, Xinjiang, the PRC, 830000
f: +86-991-8891151
LinkedIn
km@carecinstitute.org
www.carecinstitute.org

Trade facilitation through reducing the time and cost required for border clearance across the CAREC corridors is essential to strengthen regional cooperation.

The Central Asia Regional Economic Cooperation (CAREC) is a partnership of 11 countries in Central Asia and neighboring regions, aimed at promoting regional economic integration and development. Trade policy plays a crucial role in the flow of goods and services across borders, impacts domestic industries, thus affects overall economic growth and development. However, crafting a trade policy for the CAREC region necessitates consideration of two key factors. First, the presence of landlocked countries poses challenges to their connectivity with the rest of the world. Second, CAREC member countries exhibit significant diversity in economic resources, including population, land, natural resources, market size, and living standards. Notably, there is considerable variation in the individual country's contributions to the overall regional exports. China dominates, accounting for 94% of CAREC's total exports, while Kazakhstan, Pakistan, and Azerbaijan are major contributors to the remaining 6%. On the other hand, collective share of Georgia, Kyrgyzstan, Afghanistan, and Tajikistan is 0.006 percent of the CAREC aggregate exports.

Intra-CAREC trade is characterized by two main aspects: China dominates as the main trading partner for most CAREC members, except for Afghanistan, Kyrgyzstan, and Georgia. Second, trade flows primarily occur between neighboring countries within the bloc, such as Kazakhstan-Uzbekistan and Azerbaijan-Georgia. When considering CAREC-WC exports, approximately 60 percent are directed towards neighboring regions, including Russia, Europe, the Mediterranean, the Middle East, and South Asia. In terms of geographic distribution, CAREC exports are concentrated in Russia, China, the United States, and European countries. The top destinations for CAREC exports include the United States, Hong Kong, Japan, South Korea, Vietnam, Germany, the Netherlands, India, the United Kingdom, and Russia. However, the presence of CAREC in global value chains remains limited, with minimal involvement with countries in Africa and South America, despite the region's proximity to dynamic markets.

Based on the conditions of the CAREC economies, a policy aiming to improve trade in the region must consider the different aspects including trade facilitation measures to reduce transportation cost and time; regional trade agreements to minimize tariff and non-tariff barriers; and value addition and export diversification

Trade facilitation measures to reduce transportation cost and time

Trade facilitation plays a crucial role in improving the efficiency, speed, and cost-effectiveness of cross-border movement of goods. By enhancing infrastructure and streamlining and modernizing trade procedures at borders, trade facilitation initiatives aim to simplify processes and reduce barriers.

This includes the development of efficient transport corridors and the digitalization of border crossing points (BCPs), which can lead to reduced shipping times and costs. The integration of rural and suburban areas into national and regional economic hubs is also promoted, thereby fostering trade activities. Countries that actively engage in trade facilitation measures are more capable of reducing trade barriers and effectively participating in competitive regional and global markets. Association of South East Asian Nations (ASEAN) member countries has adapted trade facilitations measures. According to the UN Global Survey of Digital and Sustainable Trade Facilitation (2023), for the selected trade facilitation measures, for example, paperless trade, and cross border paperless trade, the ASEAN has brought significant improvements over the passage of time that significantly facilitate trade.

In the context of the CAREC countries, road transportation serves as the primary mode of trade. The time and cost associated with border crossing points along the CAREC corridors network significantly impede trade flows. A report by the Asian Development Bank in 2021 shows that customs controls, loading and unloading, road and bridge tolls, as well as escort and convoy costs are identified as major sources of fees and payments. The following activities involve official payments of $20 or more. Additionally, the likelihood of unofficial payments, defined as payments made outside the officially recognized legal framework to gain favors, is also listed below.

Table 1. Activities at the road border crossing points.

Road Border-Crossing Points by Activities		Official payments	Unofficial Fees Paid per Activity	
		Ave. Cost (US$)	Fee paid (US$)	Likelihood (%)
a)	Customs controls	105	92	25
b)	Commercial inspection	27	18	1
c)	Weight and/or standard inspection	20	5	21
d)	Visa and/or immigration	24	3	10
e)	Escort and/or convoy	108	–	0
f)	Loading and/or unloading	114	10	0
g)	Road and/or bridge toll	26	5	0
h)	Waiting and/or queue	27	–	0

Source: Author's deduction from CAREC Corridors Performance, Measurement and Monitoring (CPMM) data.

Implementing trade facilitation measures is essential to reduce trade barriers. Digitizing the trade process not only reduces cost but also brings transparency to minimize unofficial payments. In this context, to assess the progress of trade facilitation efforts, the United Nations Global Survey on Digital and Sustainable Trade Facilitation has been conducted biennially since 2015. The most recent survey report (United Nations, 2022) reveals that the average implementation rate of trade facilitation measures in the CAREC region stands at 67%. Among individual countries, China demonstrates the highest level of trade facilitation implementation (91%), followed by Azerbaijan (86%) and Georgia (83%). Conversely, Tajikistan (51%) and Afghanistan (42%) lag behind in this regard. Certain trade facilitation measures within the region require particular attention as they exhibit the lowest implementation rates.

a) Advance ruling on tariff classification and origin of imported goods
b) Government agencies delegating border controls to customs authorities
c) Electronic application for customs refunds
d) Electronic application and issuance of Sanitary & Phyto-Sanitary (SPS) certificates
e) Electronic exchange of SPS certificate

Timely notification of any changes in tariff policies is crucial to enable firms to adjust their business decisions accordingly. Similarly, the digitalization of trade processes, such as electronic payments, not only saves time and money but also expedites trade activities. Given the significant role of agriculture in most CAREC economies, the electronic issuance and online exchange of SPS certificates among trading partners hold particular importance. Additionally, the implementation of a single window system, which provides traders with streamlined access to finance, along with special measures for small and medium-sized enterprises, is essential for the effectiveness of trade facilitation measures. Moreover, the inclusion of additional trade facilitation measures that address emergencies and mitigate the impact of events like the Covid-19 pandemic is crucial.

Regional Trade Agreements to minimize tariff and non-tariff barriers

Regional trade agreements (RTAs) play a significant role as policy instruments aimed at addressing barriers to trade, including tariffs and various non-tariff barriers that encompass administrative complexities and contractual impediments resulting in increased transaction costs. Consequently, there has been a remarkable proliferation of regional integration agreements over the past two decades. As most of the CAREC countries are landlocked, a trade policy that fosters regional connectivity becomes imperative. The primary objective of RTAs is to promote trade among member countries through the reduction of tariff and non-tariff measures. The RTAs have resulted in a positive trade effect for Kazakhstan, Pakistan, and Uzbekistan, while Mongolia has experienced a negative trade effect. Pakistan, Kazakhstan and Uzbekistan have implemented RTAs to maximum extent and introduced trade facilitation reforms; however, Mongolia is catching up with RTAs and trade facilitation reforms implementations.

A pan-CAREC trade agreement offers a promising solution for intra-bloc integration, replacing the current complex network of bilateral and multilateral agreements among CAREC members. Analogical to other regional models like the ASEAN Free Trade Agreement and the South Asian Free Trade Agreement, it would not only promote intra-regional trade but also establish a coherent analytical framework through uniform regional policies. While intra-bloc agreements would become redundant, extra-bloc RTAs could remain unaffected. Furthermore, the agreement could extend to broader regional integration encompassing investment, migration, transportation policies, and trade. Despite the reduction of tariffs through the WTO's trade liberalization campaign, non-tariff barriers (NTBs) persist, distorting trade and imposing additional costs for market entry. Hence, addressing NTBs should be a priority in effective trade agreement negotiations.

Value addition and export diversification

The export products of the CAREC region primarily consist of fuel resources, textiles, metals, vegetables, stone, glass, and other similar items. These exports are heavily concentrated in low-value-added products[1], primary goods, and labor-intensive manufacturing. Raw materials make up around 50 percent of the total exports of CAREC countries, excluding China, with Mongolia, Afghanistan, and Azerbaijan relying predominantly on raw material exports. China, on the other hand, has a substantial share of capital goods in its exports, while Turkmenistan and Pakistan export a significant portion of consumption goods.

This export structure poses challenges for intra-bloc trade as there is limited scope for complementary products among the countries. While China has diversified its product range, other CAREC members, particularly Turkmenistan, Azerbaijan, Kazakhstan, and Mongolia, have a concentration in low value-added products[2]. To overcome this limitation, a well-managed value chain network is crucial, which requires the free movement of raw materials and intermediate goods within the region. In order to promote the export of high-value-added products, careful negotiations on tariff coverage should be conducted, with a focus on reducing tariffs for high-value-added products and imported inputs necessary for their production.

[1] Technology content is low.
[2] Technology content is low.

Recommendations

1. There is a dire need to implement trade facilitation measures to reduce cost and time associated with the trading process. Certain trade facilitation measures within the region require particular attention as they exhibit the lowest implementation rates. Given the significant role of agriculture in most CAREC economies, the electronic issuance and online exchange of SPS certificates among trading partners hold particular importance.
2. Additionally, the implementation of a single window system, which provides traders with streamlined access to finance, along with special measures for small and medium-sized enterprises, is essential for the effectiveness of trade facilitation measures. Moreover, the inclusion of additional trade facilitation measures that address emergencies and mitigate the impact of events like the Covid-19 pandemic is crucial.
3. This export structure poses challenges for intra-bloc trade as there is limited scope for complementary products among the countries. To overcome this limitation, a well-managed value chain network is crucial. The trade facilitation needs to be accompanied by economic policies to strengthen potentially competitive clusters in the countries by providing infrastructure, qualification, and attracting capital for moving downstream resources.