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# Constraints on Realizing Gains from Trade in Central Asia and Mongolia

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The Caucasus and Central Asia



# Trade Patterns in the 21st Century

The Central Asian countries, Azerbaijan and Mongolia are:

## **export-oriented economies**

- X/GDP (2009) - Azb 52%, Kaz 42%, KR 50%, Mon 56%, Taj 13%, Tkm 76%, Uzb 36%
  - World Bank *World Development Indicators*
- **with low average tariffs** - Azb 5.7%, Kaz 5.0%, KR 3.7%, Mon 5.1%, Taj 7.9%, Uzb 15.9% (Tkm n.a.)
  - WTO *Trade Profiles*,

Their international trade has increased since independence, but

- it is concentrated in a small number of primary products and appears to be far below potential.



## Resource Bases

- Azerbaijan and Kazakhstan – oil (and gas)
- Turkmenistan - gas (and cotton and oil)
- Uzbekistan – cotton (and gas and gold)
- Kyrgyz Republic – gold (and hydro)
- Tajikistan – hydro (and cotton)
- Mongolia - copper (and gold)



## Problem and Long-Term Vision

Problem: high costs in time and money of doing trade

Reduced trade costs will stimulate trade within and beyond the region promoting pro-poor growth, regional prosperity and amicable international relations.

- Trade facilitation (TF) is pro-poor because trade costs fall more heavily on small and medium-sized producers and traders
- Lack of TF perpetuates the domination of primary products in CA exports

Background: Richard Pomfret "Trade and Transport in Central Asia", *Global Journal of Emerging Market Economies* 2(3), September 2010, 237-56.

# Achievements

After a decade of regional disintegration in the 1990s, in the 2000s some (limited) achievements by national governments and within regional and multilateral arrangements:

- Regional agreements - ECO, EurAsEc and SCO
  - ECO transit agreements not ratified; EurAsEc and SCO have identified corridors
- Multilateral institutions as facilitators
  - Central Asia Regional Economic Cooperation (CAREC – ADB, EBRD, IMF, IsDB, UNDP and World Bank)
    - has contributed to creating an improved environment of trust and cooperation among the custom services of the participating countries; current focus is on a corridors approach
  - UNECE and UNESCAP
    - Integrated Approach to TF and Public-Private Partnerships in Central Asia,
- WTO (but only Mongolia and Kyrgyz Rep are members)
  - GATT Article V: “there shall be freedom of transit through the territory of each contracting party”.
  - TF is on the Doha Development Round agenda

**Location and landlockedness may be a disadvantage, but Central Asia is surrounded by dynamic neighbours**

60°00'E

100°00'E

# CENTRAL ASIA REGIONAL ECONOMIC COOPERATION

RUSSIAN FEDERATION

RUSSIAN FEDERATION

50°00'N

50°00'N

Astana

Ulaanbaatar

KAZAKHSTAN

MONGOLIA

Lake Zaysan

AZERBAIJAN

UZBEKISTAN

Lake Balkhash

Baku

KYRGYZ REPUBLIC

Bishkek

TURKMENISTAN

PEOPLE'S REPUBLIC OF CHINA

NINGXIA

Ashgabat

Tashkent

Dushanbe

XINJIANG UYGUR AUTONOMOUS REGION

QINGHAI

Tehran

IRAN

TAJIKISTAN

TIBETAN AUTONOMOUS REGION

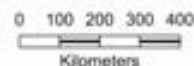
Kabul

AFGHANISTAN

Islamabad

PAKISTAN

INDIA



30°00'N

- ⊛ National Capital
  - - - Provincial Boundary
  - - - International Boundary
- Boundaries are not necessarily authoritative.

60°00'E

100°00'E

Arabian Sea

## How High are Trade Costs?

Anecdotal evidence – suggests poor soft infrastructure rather than poor hard infrastructure

More systematic evidence is scarce

- World Bank *Doing Business* – very low ranking on trading across borders, even for countries with higher rankings on average ease of doing business
- Time/Cost studies of specific routes also find long delays at borders, and some evidence of frequent stops and repeated costs along the way



# Ease of Doing Business and Logistics Performance Index (LPI), 2010

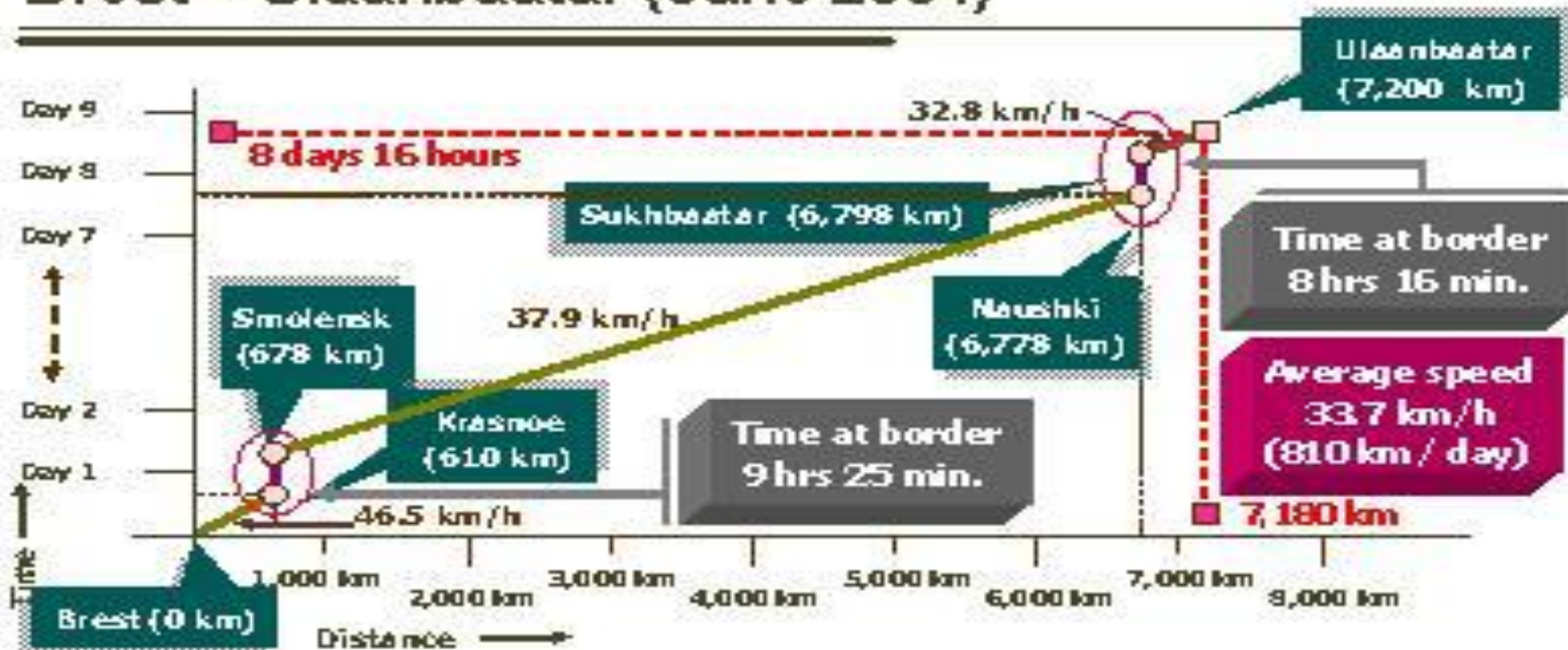
|                   | Overall Ranking | Trading Across Borders | LPI       |
|-------------------|-----------------|------------------------|-----------|
| Azerbaijan        | 54              | 177                    | 89 (111)  |
| <b>Kazakhstan</b> | 59              | 181                    | 62 (133)  |
| <b>Kyrgyz</b>     | 44              | 156                    | 91 (103)  |
| <b>Mongolia</b>   | 73              | 158                    | 141 (136) |
| <b>Tajikistan</b> | 139             | 178                    | 131 (146) |
| <b>Uzbekistan</b> | 150             | 169                    | 68 (129)  |

Source: World Bank *Doing Business 2010* <http://www.doingbusiness.org/EconomyRankings/> (accessed 19 March 2011) and LPI <http://info.worldbank.org/etools/tradesurvey/mode1b.asp?sorder=lpirank&cgroup=0#> (accessed 19 March 2011).

Notes: the *Doing Business* rankings cover 183 countries benchmarked to June 2010; the LPI covers 155 countries in 2010 (and 150 in 2007 – figures in parentheses); Turkmenistan is not ranked but clearly has the worst business and trade conditions in Central Asia.

# UNESCAP's Time/Cost Methodology

## Brest – Ulaanbaatar (June 2004)



| Transit speed / day |          | Border-crossing |                         |
|---------------------|----------|-----------------|-------------------------|
| Belarus:            | 1,119 km | Belarus:        | 1 hr. 25 min.           |
| Russian Fed.:       | 879 km   | Russian Fed.:   | Smolensk, 8 hrs. 4 min. |
| Mongolia:           | 788 km   |                 | Naushki, 5 hrs. 16 min. |
|                     |          | Mongolia:       | 3 hrs.                  |



# ESCAP Time/Cost Analysis of the Bishkek-Novosibirsk Road Route

The analysis is based on a non-TIR truck making the 2375 kilometre journey. Cost estimates do not include customs charges. The total trip took 208.1 hours.

- The border crossing at Akzhol (Kyrgyz Republic) involved passport control at the Border Control office and documents check at the Customs office. Total time = four hours; no financial cost.
- The border crossing at Kordai (Kazakhstan) took 61.5 hours and charges amounted to \$1,028.80. Four authorities were involved: the border control office, the customs office, the vehicle inspection office, and the vehicle insurance check.
- Twelve stops in Kazakhstan involved fifteen checks (nine by traffic police, one by the migration office, one by the drug control agency, and four by transport control for axle load), lasted up to ninety minutes and involved charges of up to \$85. The total delay was five hours and twenty-five minutes and total cost \$294.40.
- The border crossing at Sharbakhty (Kazakhstan) took 30 hours and charges amounted to \$250. After necessary transport, veterinary-phytosanitary, customs and border crossing inspections, the coupon was stamped and re-exchanged for the driver's licence and vehicle documents.
- The border crossing at Kulunda (Russia) took 27.5 hours and charges amounted to \$149.00. Six authorities were involved.
- Stops in Russia were due to four checks by traffic police (45 minutes total delay, no charge) and a toll bridge (5 minutes delay, \$3.50 cost).



# Other Time/Cost Studies

- Rambøll, a Danish consultancy, prepared a July 2006 report on *Land Transport Options between Europe and Asia* for the Chamber of Commerce of the United States.
  - One of their more detailed analyses is of a truck journey from Shanghai to the German border via Kazakhstan
- World Bank study of the Almaty-Bishkek corridor based on physical measurement by on-site surveyors, interviews and trip diaries, although the diaries appear never to have been completed by the drivers
  - The average processing time on the 190-km journey was 11 hours and 5 minutes, almost three times as long as the travel time of about four hours.
- the GTZ Bishkek office has conducted a number of similar studies on this and other routes.
  - These are indicative, but in general it is difficult to establish exactly what happened or to derive comparable benchmark studies.

Time-cost monitoring of corridors is a good way of assessing progress in trade facilitation. The ESCAP methodology could be used as a blueprint, but the existing studies' value is reduced by their one-off nature.

Nevertheless, strong indication of serious delays and costs at border crossing points, as well as some delays and unnecessary costs within countries.



# Focus on Border Crossing Points

EU assistance – BOMCA-CADAP → some success in improving professionalism and monitoring of customs officials (and improving work conditions at BCPs),

- but excessive emphasis on control (perhaps because of CADAP element), rather than risk assessment and TF
- EU aid to Central Asia is not large, and is not focused on trade
  - e.g. The Joint Declaration of the EU-Central Asia Forum in Paris in September 2008 defined the main policy areas for joint action as:
    - combating illicit trafficking in arms, sensitive material, narcotics and human beings
    - combating terrorism and extremism
    - cooperation in energy and the environment



# The Corridors Approach

The Corridors Approach = a positive way to address trade facilitation in Central Asia.

- A major difficulty with any TF programme is that success consists of chipping away at many small obstacles
  - it is difficult to know whether a country is making a serious effort or highlighting cosmetic but trivial changes.
- monitoring objectively verifiable indicators of time and cost is the simplest way to provide results-based indicators of trade facilitation
  - a results-based TF strategy with targets to reduce time and cost along monitored corridors is a practical approach that is flexible because it
    - allows countries to prioritize their TF measures
    - is initially low cost, but can be extended to more corridors and more sophisticated monitoring.

# 6 CAREC CORRIDORS





# Conclusions

High trade costs are a major obstacle to trade and long-term prosperity in this region

- an important preliminary step is to identify reasons for high trade costs

Aid for trade:

- despite recognition of need to improve both hard and soft infrastructure, assistance along corridors continues to focus on hard infrastructure
  - because it is easier for IFIs?
  - because it is less challenging to national governments?