



MINISTRY FOR FOREIGN
AFFAIRS OF FINLAND



Aid for Trade Regional Review

For the countries of the United Nations' Special Programme
for the Economies of Central Asia (SPECA)

Trade and Human Development

O C T O B E R 2 0 1 0

United Nations Development Programme

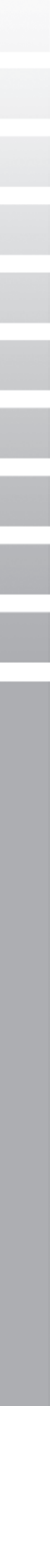


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October 2010



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he **Aid for Trade Agenda** is one of the most important development-related outcomes of the 2005 WTO Ministerial Conference in Hong Kong. It targets developing countries with a view to strengthening their productive capacities, trade-related infrastructures and the ability to compete in regional and global markets. Trade plays an important role in development, although the relationship between trade and human development is not automatic. In order to be inclusive, trade has to be set in a human development framework and conceived as a tool to strengthen the abilities of individuals and expand their choices. This happens directly, through the contribution of trade to more and better job or income-generating opportunities for the vulnerable and improved access of small producers to factor and product markets, as well as indirectly, through trade related increases in revenue for governments to invest in social policy interventions and social infrastructure which lead to better human development outcomes for broad sections of the population.

The Aid for Trade initiative covers the following categories:

- Trade policies and regulations;
- Trade development;
- Developing productive capacities;
- Trade related adjustment, and;
- Other trade-related needs.

UNDP's regional **Aid for Trade Project** '*Wider Europe: Aid for Trade for Central Asia, South Caucasus and Western CIS*' is financed in the context of Finland's Wider Europe Initiative. It focuses on the identification of capacity gaps and technical assistance needs both at the national and sub-regional level in Central Asia, South Caucasus and Western CIS, supports economic development in the areas located along the selected transport corridors, and helps small entrepreneurs to gain from new trade opportunities.

The **Wider Europe Initiative** is Finland's harmonised regional development framework. The initiative targets the following themes: security, trade and development, information society development, energy and the environment and social sustainability. The framework includes three regional cooperation programmes – in Eastern Europe (Belarus, Moldova and Ukraine), the South Caucasus (Armenia, Azerbaijan and Georgia) and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan).

The national **Needs Assessments** produced under the Aid for Trade project are contributing to a long-term vision of developing trade capacities, which will benefit human development



in the region. The recommendations presented in this regional review are expected to constitute the basis for a second phase (2011 – 2013), focusing on the implementation of the recommendations developed in the Assessments.

Drawing on the national Aid for Trade needs assessments, this **Regional Review** identifies regional needs and priorities, suggests possible measures for addressing them, and highlights the need to ensure harmony between trade development policies and interventions in individual countries of the region. The regional review highlights commonalities emerging from the SPECA countries' Aid for Trade needs and objectives, and points to potential projects (with concept papers to be developed separately) and actors. It also examines possible implementation arrangements.

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We extend special thanks to the Government of Finland, whose generous contributions in the context of the *Wider Europe: Aid for Trade for Central Asia, South Caucasus and Western CIS* initiative made this publication possible.

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Team for the preparation of the Publication

Author Daniel Ivarsson

Advisory Group Jacek Cukrowski
Mohammad Hebshi
Balazs Horvath
Massimiliano Riva

Peer Group Virginia Cram-Martos
David Luke
Sheila Marnie
Stephan Schmitt-Degenhardt

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ABBREVIATIONS AND ACRONYMS

ABD	Asian Development Bank
ASYCUDA	Automated System for Customs Data
AZPROMO	Azerbaijan Export & Investment Promotion Foundation
BOMCA	EU Border Management Programme for Central Asia
CAREC	Central Asia Regional Economic Cooperation
CIS	Commonwealth of Independent States
Cluster	United Nations Chief Executives Board Inter-Agency Cluster on Trade and Productive Capacity
EBRD	European Bank for Reconstruction and Development
ECO	Economic Cooperation Organization
EurAsEC	Eurasian Economic Community
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FSU	Former Soviet Union
GDP	Gross Domestic Product
GNI	Gross National Income
HACCP	Hazard Analysis and Critical Control Points
ICT	Information and Communication Technology
IFI	International Financial Institutions
ILAC	International Laboratory Accreditation Cooperation
IsDB	Islamic Development Bank Group
ISO	International Organization for Standardization
ITC	International Trade Centre
ITFC	International Islamic Trade Finance Corporation
KAZNEX	National Export and Investment Agency "KAZNEX INVEST" JSC
LDC	Least Developed Country
MDG	Millennium Development Goal
MTS	Multilateral Trading System
NIS	Newly Independent States (i.e., CIS and Georgia)
OECD	Organization for Economic Co-operation and Development
PPP	Purchasing Power Parity
SCO	Shanghai Cooperation Organisation

SME	Small and Medium Enterprises
SPECA	UN Special Programme for the Economies of Central Asia
SPS	Sanitary and Phyto-sanitary Measures
SQAM	Standardisation, Quality Assurance, Accreditation and Metrology
TBT	Technical Barriers to Trade
TIR Convention	Customs Convention On The International Transport Of Goods Under Cover Of TIR Carnets
TSI	Trade Support Institutions
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIDO	United Nations Industrial Development Organization
UNOPS	United Nations Office for Project Services
VAT	Value Added Tax
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

While exhibiting significant differences, the SPECA countries face a number of common trade and human development challenges. Several of these challenges have been highlighted or aggravated by the recent economic crisis. Trade, in particular, has declined owing to lower demand in key markets, lower commodity prices, a drop in remittances and other foreign inflows, and trade finance difficulties. Countries in the region have taken short-term measures to deal with the challenges mentioned, but the longer-term development of the region would benefit from concerted actions to increase trade in a way that contributes to human development.

Regional cooperation and better integration into international trade play an important role in global efforts to reduce poverty. Trade is an essential ingredient for economic growth, and can have an important and positive impact on job creation, household incomes and poverty reduction. Increasing exports provides new opportunities for enterprises to expand their production and to create new and better jobs. Exports are also a vital source of income to finance the import of goods and services. Import, in turn, can help curb the price setting power of domestic enterprises, thus keeping the price of traded goods and services down, which can benefit the poor.

Aid for Trade (AfT) aims to help developing countries reap the benefits of existing and future market access opportunities, and to ensure that the benefits of trade development are felt by the vulnerable segments of the population. So far, however, apart from Afghanistan, the SPECA countries have attracted only a modest share of donors' AfT resources. Some possible ways for addressing this shortcoming are provided by the AfT roadmap for SPECA countries.

Under this initiative, a series of national needs assessments have been carried out in the SPECA countries. These assessments identify a set of policy recommendations and technical assistance needs aimed at improving the contribution of trade to human development. This regional review sums up and consolidates the findings and proposals from the national needs assessments, discusses national and regional priorities, and provides a background for further AfT interventions in the region.

The regional review reveals considerable untapped potential for trade diversification and trade development both within the region and with the rest of the world. The main obstacles for developing this potential include a number of institutional impediments to trade, and the unfavourable geography of the countries.

In the short term, trade development opportunities should be exploited through targeted development of specific sectors with recognised export potential, combined with measures for raising quality standards and improving input efficiency. Sectors that have received attention in several or most of the SPECA countries are: fruit and vegetables, meat and dairy products, other agro-processing and food industry, textiles and clothing, leather and footwear, and services.

In the medium and long term, harmonised trade policies, trade facilitation, institutional and regulatory development, continued product and market diversification, and improvement of business conditions would allow new sectors and enterprises to develop in response to future shifts in local and international demand, thus sustainably contributing to human development.

In light of the above, drawing on the findings and conclusions of the national needs assessments, to make the best possible use of the opportunities for human development through trade, it is proposed to concentrate future AfT work in the SPECA countries along three main priority areas. A small number of well-targeted regional components is proposed under each. Key focus areas and related components include:

I. Within-border supply side measures

addressing the potential for raising the international competitiveness of the countries and their enterprises. These could be structured around three main components: (i) Sector development

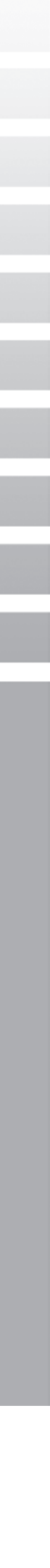
(with focus as above); (ii) Development of trade support institutions; and (iii) Enhancement of the business environment, especially through regulatory reforms.

II. Cross-border cooperation to harness the potential for mutually beneficial trade among the SPECA countries themselves and with their (other) neighbours through two main components, aimed at improving (i) Physical and (ii) Institutional trade infrastructure.

III. Matters related to the multilateral trading system.

Here, three main components would serve to facilitate the integration of the SPECA countries into the multilateral trading system, including, as applicable, the creation of favourable conditions for and a positive outcome of WTO accession and membership and for reaping the benefits of such accession. These components are (i) Building awareness and knowledge; (ii) Identifying common interests and acting on them; and (iii) Consultation and cooperation on practical measures.

Key priority areas and related components are presented in the Action Matrix, which provides a framework for the development of individual technical cooperation and investment programmes and projects. Selected project concept notes identified and prepared with reference to the AfT framework in the SPECA region will be presented and discussed during the AfT Ministerial Meeting.



The AfT process in SPECA countries was initiated by the AfT Road Map for the SPECA initiative. It is recommended that this process should continue and be coordinated by a Regional AfT Advisory Group. This Group would include major donors and implementing agencies and would be linked to the SPECA Project Working Group on Trade (who would provide the high-level linkage into national governments of the region). This Advisory Group would take the lead in following up to ensure that priorities identified in the national needs assessment and in the regional review are addressed.

1 INTRODUCTION

1.1 Aid for Trade Road Map for the SPECA Countries

While exhibiting significant differences, the SPECA¹ countries also face a number of common trade and human development challenges, some of which have been highlighted or aggravated by the recent economic crisis. Whereas countries have taken short term measures to address these, the longer term development of the region would benefit from concerted action to increase trade in a way that contributes to human development. The basic tenets of such concerted action are now being provided by the Aid for Trade Road Map for the SPECA countries, the main elements of which are presented below.

The Aid for Trade initiative is an important, development related outcome of the sixth WTO Ministerial Conference in Hong Kong in December 2005. Aid for Trade seeks to strengthen the capacity of developing countries, in particular, that of the least developed countries (LDCs) – which include acceding countries as well as WTO members – to participate in and benefit from trade liberalization. In addition, Aid for Trade aims at

promoting improved monitoring, higher aid effectiveness and greater accountability in trade development.

Better integration into international trade plays an important role in global efforts to reduce poverty. Increasing exports provide new opportunities for enterprises to expand their production and to create new and better jobs. Exports are also a vital source of income to finance the import of goods and services that a country does not produce itself. Import, on the other hand, often produces downward pressures on prices, thereby making products more affordable to the poor. In short, trade is an essential ingredient for economic growth, and can have an important and positive impact on job creation, household incomes and poverty reduction. Aid for Trade aims at helping developing countries reap the benefits of existing and future market access opportunities, and ensuring that the benefits of trade development are felt by the vulnerable segments of the population.

The role of the WTO, in collaboration with the Organisation for Economic Co-operation and Development (OECD), is to monitor and an-

1 SPECA, the United Nations Special Programme for the Economies of Central Asia, covers Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan; see further e.g. <http://www.unece.org/speca/Welcome.html>.

alyze (i) Current flows of Aid for Trade; (ii) Existing gaps; and (iii) Potential improvements, and in general “shine a spotlight on the key issues”. However, providing the information required as well as getting the identified trade needs reflected and mainstreamed in national development plans is the responsibility of the individual countries, aided by the specialised regional and international trade development community.

During 2007 and the first part of 2008, Aid for Trade already obtained high-level institutional support for project funding, trade policy reform and the inclusion of trade in national development plans. Regional reviews were carried out in Africa, Asia-Pacific, Latin America and the Caribbean with the support of the regional development banks, and were followed by a global review at WTO in Geneva in November 2007. However, during Aid for Trade’s first years, the transition economies, including those of Central Asia, were not covered by the Aid for Trade process to any significant degree.

The transition economies’ limited participation in both the political process and follow-up hands-on processes gave rise to serious concerns, as this will dampen their willingness to develop national and regional plans for trade-related matters. They, thus, run the risk of receiving less donor attention and less official development assistance for trade.

In fact, whereas the overall commitments to Aid for Trade totalled USD 26,775.8 million in 2007, the amount allocated to the SPECA countries was only USD 2,088.9 million. Over 71 % of this amount was earmarked for Afghanistan, which was the only SPECA country among the top 20 Aid for Trade recipients, ranking sixth in terms both of commitments and disbursements. More worrisome is the decreasing share of SPECA countries (excluding Afghanistan) in total commitments in 2008, from 2.0 % to 1.3 %. The share of Afghanistan also decreased, albeit slightly, from 5.6 % to 4.6 %.

This situation is of particular concern for all SPECA countries. The SPECA countries are all completely landlocked (even doubly so, in the case of Uzbekistan), unless one were to count the very limited access to sea transport through the Caspian Sea and the Russian internal waterways. This makes efficient and well-functioning trade environments particularly critical for their economic development.

To reverse this situation, and paralleling the Aid for Trade initiative by the Government of Azerbaijan, the UNECE initiated a consultation process in 2008 within the Trade and Productive Capacity Cluster to ensure complementarities of technical assistance services and promote the Aid for Trade initiative in the region.²

2 The United Nations Chief Executives Board Inter-Agency Cluster on Trade and Productive Capacity is an inter-agency mechanism composed of resident and non-resident agencies from the UN System with mandates and expertise in the area of international trade and productive sectors. Coordinated by UNCTAD, it is currently composed of FAO, ILO, ITC, UNDP, UNEP, UNIDO, UNOPS, the five UN Regional Commissions, and WTO, in addition to UN CTAD.

Table 1. Aid for Trade commitments and disbursements to SPECA countries 2007 and 2008

Country	Commitments USD million		Disbursements USD million	
	2007	2008	2007	2008
Afghanistan	1,486.3	1,701.0	991.7	1,185.6
Azerbaijan	140.7	86.6	88.0	96.3
Kazakhstan	183.4	92.3	108.6	152.9
Kyrgyzstan	102.7	69.5	53.6	50.7
Tajikistan	129.5	146.8	46.8	47.9
Turkmenistan	0.8	3.6	0.7	3.6
Uzbekistan	45.5	82.2	25.9	75.6
SPECA total	2,088.9	2,182.0	1,315.3	1,612.6
World total	26,775.8	36,615.9	20,185.0	22,542.1

Source: "Aid for Trade in 2008"; OECD 2010.

A Preparatory and Consultative meeting was held in Bishkek in March 2009, which ended with an agreement to launch the Aid for Trade process in the SPECA countries by undertaking national trade assessments and commencing the political process required to support Aid for Trade and its development goals, as set out in the "Aid for Trade Road Map for the United Nations Special Programme for the Economies of Central Asia (SPECA)".

The main milestones in the process to achieve this objective are

- 1) The preparation of national needs assessments to identify Aid for Trade priorities of each of the countries concerned;
- 2) An expert meeting in Bishkek 10-11 March 2010 to take stock of national and regional priorities and prepare for the ministerial meeting;

- 3) The drafting of a regional review and other information and decision documents; and
- 4) A ministerial meeting in Baku 1-2 December 2010 to confirm national and regional priorities for Aid for Trade and engage with development partners.

Drawing on the national Aid for Trade needs assessments, this regional review identifies regional needs and priorities, suggests possible measures for addressing them, and seeks to ensure the coherence of actions proposed at the national level with those being proposed or implemented by neighbouring countries. The review attempts to summarise and highlight the SPECA countries' common Aid for Trade needs, objectives, potential projects (with concept papers to be developed separately) and actors.

1.2 Aid for Trade and Human Development

Aid for Trade is a key global initiative aimed at strengthening the capacity of developing, least developed and transition countries to increase their participation in international trade and to foster the trade sector's contribution to economic growth. It takes a comprehensive approach for addressing trade development needs in five, related fields:

1. Trade policies and regulations;
2. Trade development;
3. Developing productive capacities;
4. Trade related adjustment; and
5. Other trade-related needs.

It is a demand driven process, whereby beneficiary countries are required to identify and articulate their needs and priorities for the purpose of resource mobilization. As previously mentioned, apart from Afghanistan, the SPECA countries have attracted relatively little donor attention and have received a modest share of the resources committed and disbursed funds. Also, only some of the fields mentioned above are covered, and donor and beneficiary priorities do not fully match. It is therefore essential that the countries engage more actively in the Aid for Trade process.

Some support for the Aid for Trade agenda in the SPECA countries is already provided, in different forms, by a number of agencies and organisations. However, in order to render this support more effective and efficient, and to ensure its links to human development

goals, it is important that the countries concerned mainstream trade priorities into national and regional development strategies in consultation with both national and international partners, including the private sector in each country and foreign investors.

In order to ensure that trade development activities under Aid for Trade are linked to human development goals, and indeed contribute to their achievement, the below issues should be accorded due attention:

- There is a clear understanding that trade mainstreaming is a process, not a one-off product or activity, which requires continued engagement of stakeholders throughout the policy cycle;
- Trade development cannot be limited to a particular sector: links with other sectors must be highlighted and integrated, and all aspects of sustainable development must be kept in mind;
- Specific, targeted activities are important but must be supported by developing an enabling regulatory and institutional environment and suitable implementation mechanisms; and
- Monitoring and evaluation are necessary and must be harmonised with planning, budgeting and implementation practices.

Specific trade development programmes and projects also have to consider both the national needs and interests of the individual countries and the advantages and imperatives of regional and international cooperation. They should be prioritised and

put in an appropriate time frame. Finally, for successful financing and execution in the Aid for Trade context, they would have to dovetail with other, existing or envisaged programmes and with donor priorities.

Currently, most of the Aid for Trade flows to the region are allocated to economic infrastructure development, especially for developing the transport infrastructure, where CAREC plays an important coordinating role. Given the land-locked status of all the SPECA countries, this is perhaps not surprising and certainly useful. However, for such investment to bear fruit, it is also necessary to develop the country's productive capacity, which would make use of this infrastructure, and its proper use in turn requires policies, institutions and regulations, which are conducive to trade.

The close relation between human development and trade underlines the importance of properly linking the two. In fact, trade can contribute to poverty reduction and human development through:

- Continued reduction of poverty levels;
- Better access to gainful and sustainable employment;
- Improved knowledge and skills of workers;
- Higher participation of enterprises and individuals in the formal economy;
- Partly as a consequence, heightened attention to worker health and safety;
- Greater involvement of women and disadvantaged groups in the economy; and
- Improved consideration of environmental and social aspects of development.

Increased opportunities for trade in the formal sector and greater exposure to international competition provide strong incentives for enterprises and governments to develop and make best possible use of a country's human resources and also give them the means to do so, e.g. through inflow of capital and know-how.

However, the potential benefits of trade on human development will not be realised without (i) Greater awareness of the links and benefits, (ii) Translation of this awareness into appropriate policies, and (iii) Creation of the appropriate institutional environment to ensure successful implementation of the policies.

Specific trade development programmes and projects can thus not only have their own, direct, beneficial outcomes on competitiveness and trade performance but would also help achieve wider human development goals. In particular, four pillars of human development can be seen to be related to trade: productivity, equality, sustainability and empowerment. The table below summarises the links between trade and these key pillars of human development and relates them to the MDGs.

1.3 National Needs Assessments

Reflecting the principles and the approach set out above, a series of national needs assessments have been carried out in the SPECA countries. UNDP provided guidance for the process in the form of a manual on how to conduct needs assessments in tran-

Recognising the importance of trade for human development: an example from Azerbaijan*)

“The [Social-Economic Development] Concept [of the Republic of Azerbaijan] sets out the strategic goals which the country would like to achieve in coming years. The overall goal of the Concept is formulated as achieving sustainable development and decent living conditions of the population through the establishment of a liberal market economy on the basis of free competition, efficiency and fair distribution of resources. The following objectives are identified in order to achieve the strategic goal of the Concept:

- Ensuring sustainable and balanced economic development;
- Ensuring decent living conditions of the population;
- Ensuring integration to world economy;
- Ensuring environmental security.

Within this Concept, the Government recognizes the important role which expanding foreign trade can have on human development in Azerbaijan. For this purpose, trade related priorities such as the following are identified: i) Simplification of foreign trade procedures; ii) Diversification of the structure of imported and exported goods; iii) Diversification of the regional structure of imports and exports; iv) Analyses of possibilities of protection of the domestic market within the framework of WTO principles; v) Improving trade policy to stimulate the production of import-substitution goods; investigation of possibilities of benefiting from preferential trade regimes; vi) Improving trade statistics; vii) Analyzing the role of e-trade in foreign trade etc. A special emphasis is given to improving the quality of education and health services, as well as access of population to these services, also, to ensure decent employment of population through supporting private sector, especially SME development. The Government also identifies development of ICT as one of the main priorities.”

*) From national needs assessment, box 1.1.

sition economies (UNDP, Bratislava 2008). The needs assessments identify a set of policy recommendations and technical assistance needs aimed at improving the contribution of trade to human development at the level of the individual country concerned. The key aspects covered are linked to each other and

with human development, as illustrated in Figure 1.

The individual needs assessments reflect the particular characteristics of the country concerned. They have been carried out by local consultants, in a participatory process en-

Table 2. Links between trade, MDGs and the pillars of human development

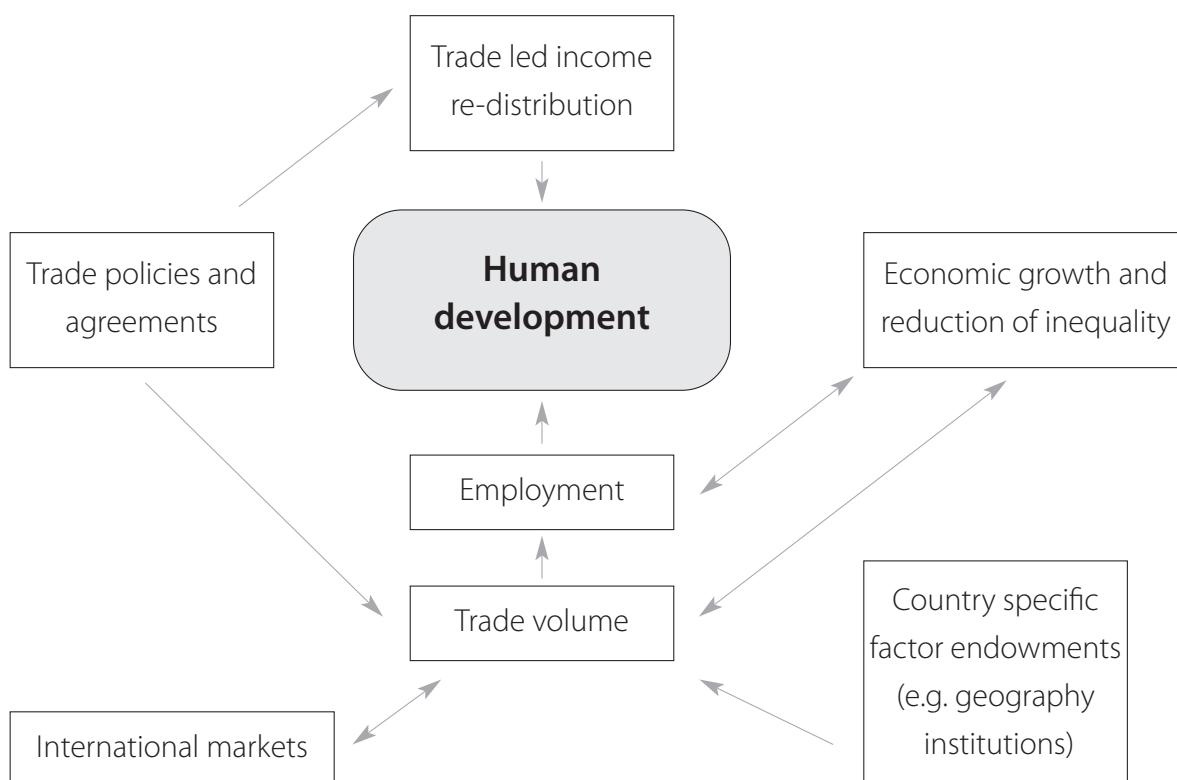
Pillar of human development	Link to trade
Productivity	Increased productivity (achieved partly through better education and healthcare) enhances human capabilities, allowing people to benefit from trade. It also raises the economic growth rate. MDGs 1-6 all relate to improvements in health, gender, education and incomes, each of which can enhance productivity.
Equality	Enhanced equality can help ensure that all groups benefit sufficiently from trade policy changes. A more equitable income distribution may render trade policy changes more sustainable. Trade policy should aim to help eradicate extreme poverty and hunger, MDG1, as well as improve education and gender balance.
Sustainability	Sustainability means preserving developmental achievements. Trade related changes must ensure that resources are not used in a way that prevents future generations from improving their welfare. It is not just MDG7 that relates to sustainability. MDGs 1-6 each contributes to the long-term success of trade-related changes.
Empowerment	This refers to the ability of people to influence the processes and events that affect their lives. If trade policy changes cause a worsening of working conditions or result in more menial labour, they can reduce empowerment. Conversely, if trade policy changes increase incomes or improve working conditions they can give people greater control over their own lives. Most of the MDGs contribute to empowerment. The creation of a global partnership for development, MDG8, is intended partly to institutionalize empowerment as a development issue.

Source: Trade and Human Development. How to Conduct Trade Needs Assessments in Transition Economies, UNDP 2008

gaging both private and public sector representatives, and have been reviewed by relevant national authorities. Building on the national needs assessments, the findings and conclusions in this regional review reflect the various national priorities.

Indeed to be fully integrated into the Aid for Trade Road Map for the region, national projects should ideally consider the regional context and be compatible with each other, i.e., to have an impact, trade facilitation measures on one side of a border will have to be matched by corresponding measures on the

Figure 1. Trade and Human Development



other side. In both cases, there would be an obvious advantage to doing things in a way compatible that is compatible with what is being done in and with other neighbouring countries.

The national needs assessments for Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan are summarised in the annexes to the present review. No national needs assessment has been submitted yet from Afghanistan. However, Afghanistan has taken part in the process and provided inputs, notably at the expert meeting in Bishkek. These inputs have been fully considered in the present regional review.

Referring back to the national needs assessments, the regional review looks at trade per-

formance and opportunities in the region, with special emphasis on the economic crisis and its effect. The competitive strengths and weaknesses are discussed, leading to a presentation of the key objectives and priorities for trade development.

Some of these are being addressed in the current trade development framework, while others require attention. The current needs and priorities can therefore be described in terms that set out the desired content and focus of Aid for Trade for the region. Based on the common conclusions of the needs assessments, priority actions are set out and summarised in a matrix. Finally, some proposals are made for addressing coordination and implementation issues.

2 TRADE PERFORMANCE AND OPPORTUNITIES

2.1 Foreign Trade Highlights

From the late 1990s until the recent economic crisis, economic development in the region was positive. Kazakhstan, Azerbaijan and Turkmenistan, the three major oil and gas producing countries, achieved a per capita Gross

National Income (GNI) in the range of about USD 7,000 to 10,300 at purchasing power parity (PPP) in 2009; whereas per capita GNI at PPP in the four other SPECA countries ranged from about USD 1,100 to 2,900. The former enjoyed a substantive export surplus whereas the latter, with the exception of Uzbekistan (which benefits from significant

Table 3. Country data 2009

Country	Area (km ²)	Population (million)	GDP (USD billion)	GDP/cap (USD nom.)	Exports (USD million)	Imports (USD million)	Trade balance (USD million)	Current account (USD million)
Afghanistan	652,100	27.2	12.0	441	2,157*)	8,801*)	-6,644	-157
Azerbaijan	86,600	8.9	43.0	4,831	21,097	6,514	14,583	10,178
Kazakhstan	2,717,300	16.0	105.6	6,600	43,839	28,774	15,065	-3,405
Kyrgyzstan	198,500	5.4	4.6	852	1,726	2,987	-1,261	184
Tajikistan	143,100	7.5	5.0	667	1,038	2,770	-1,732	-180
Turkmenistan	488,100	4.9	7.7	1,571	6,737	4,109	2,628	1,065
Uzbekistan	447,400	28.0	32.8	1,171	10,735	9,023	1,712	3,595
SPECA total	4,733,100	97.9	210.7		87,329	62,978	24,351	11,280

Source: Economist Intelligence Unit 2010

*) in 2008

gas export receipts), experienced trade deficit, partly offset by remittances from workers abroad. A particular case is represented by Afghanistan that is still facing security and instability challenges.

Much of the recorded trade is with countries outside the region, with high levels of product and market concentration. Typically, a small range of unprocessed or semi-finished goods make up the bulk of exports, and these usually go to a rather small number of countries (and even individual clients), as is

evident from the national needs assessments. For the region as a whole, the picture is similar: the six largest client countries outside the region take more than 62 % of all exports from the SPECA countries to the rest of the world.

The high product concentration in trade with other countries is less noticeable in trade between the SPECA countries. However, it is striking that even for the products where trade with the outside world is large (presumably, because they are internation-

Table 4. SPECA exports to the rest of the world, by product, in %

HS code	Product group	Share in % 2008	Share in % 2009
	All products	100.0	100.0
27	Mineral fuels, oils, distillation products, gas, coal, electricity	78.2	71.9
72	Iron and steel	4.6	4.7
28	Inorganic chemicals, precious metal compounds, isotopes	2.1	4.1
74	Copper and articles thereof	2.5	3.0
26	Ores, slag and ash	1.8	2.8
71	Pearls, precious stones, metals, coins, etc.	1.3	2.7
52	Cotton	1.1	1.5
08	Edible fruit, nuts, melons	0.6	1.2
76	Aluminium and articles thereof	0.7	1.1
79	Zinc and articles thereof	0.6	0.7
10	Cereals	0.8	0.6
41	Raw hides and skins (other than fur skins) and leather	0.4	0.6

Source: ITC Trade Map 2010

Note: data partly based on mirror statistics; deficient reporting may have affected totals.

Table 5. SPECA countries' exports by client country

Importers	Exported value in 2007 in USD	Share in %	Exported value in 2008 in USD	Share in %	Exported value in 2009 in USD	Share in %
All countries	66,461,077		95,731,779		55,645,335	
Non-SPECA countries	64,766,174	100	93,345,799	100	53,180,5140	100
China	6,973,296	10.8	8,344,279	8.9	7,006,638	13.2
Italy	7,096,481	11.0	10,564,368	11.3	6,514,768	12.3
France	5,336,475	8.2	5,883,138	6.3	5,401,481	10.2
Russian Federation	6,916,521	10.7	8,897,939	9.5	5,314,215	10.0
Germany	6,580,382	10.2	9,391,983	10.1	5,002,953	9.4
USA	3,711,658	5.7	6,679,435	7.2	3,951,586	7.4
Turkey	2,825,094	4.4	4,434,735	4.8	2,716,984	5.1
Canada	265,586	0.4	1,192,555	1.3	2,441,771	4.6
Romania	1,705,671	2.6	4,217,441	4.5	1,991,354	3.7
Austria	1,157,864	1.8	1,634,987	1.8	1,445,429	2.7
Switzerland	699,957	1.1	955,646	1.0	1,109,204	2.1
UK	1,029,559	1.6	789,822	0.8	1,072,094	2.0

Source: ITC Trade Map 2010

Note: data partly based on mirror statistics; deficient reporting may have affected totals.

ally competitive), trade between the countries is usually rather modest. For example, while some product groups, like fruit and vegetables as well as vehicles, meet some success in other countries, exports to countries within the region are relatively small.

As can be deduced from the notes to the tables above, trade data for the region are not always complete or consistent, which makes it difficult to analyse the situation and draw

precise conclusions. The informal sector, including informal trade, is fairly large but not very well known. Some such cases are alluded to in the national needs assessments.

Nevertheless, it is clear that even during the worst periods of the economic crisis, some of the SPECA countries, in particular Azerbaijan, Kazakhstan and Uzbekistan, have continued to experience a trade surplus in goods and even registered positive growth, easing the strain on

the economy. This came despite the decreasing volumes and the generally weakening prices of commodities during the crisis, although Uzbek gas export volumes and prices actually appear to have increased. However, the apparent competitiveness of the commodity sector has often created pressure on the exchange rate and part of the profits have tended to be invested in residential construction rather than in, for example, domestic manufacturing. This has effectively undermined the development of the manufacturing and services competitiveness. Unfortunately, remittances have had similar effects, fueling increased demand for imported goods and services³. The countries without sizeable commodity exports thus also struggle to be internationally competitive.

A related problem is that the financial markets are rather shallow in most of the SPECA countries and that some financial functions are little developed, therefore limiting the possibilities to raise local financing or to absorb savings.

The question thus remains of how to translate a trade surplus in a few commodities, or strong inflows of e.g. sector specific investments, remittances, or aid money, into sustainably improved living conditions for the entire population and achieve a more geographically balanced distribution of the benefits of trade within each country. A preliminary conclusion is that diversified growth and lower product and market concentration of ex-

ports is necessary for more sustainable economic growth, and a more equitable distribution of its benefits.

2.2 The Economic Crisis and its Effects

The effects of the economic crisis have been felt in the form of a decline in trade volume and value, caused by lower demand in key markets, notably Russia, lower commodity prices, lower remittances, lower foreign inflows, and trade finance difficulties.

As illustrated by the World Bank's and IMF's GDP growth estimate for different country groups, these negative effects have been considerably greater for the SPECA countries and the other transition countries in the region than in the rest of the world, as illustrated in Figure 2.

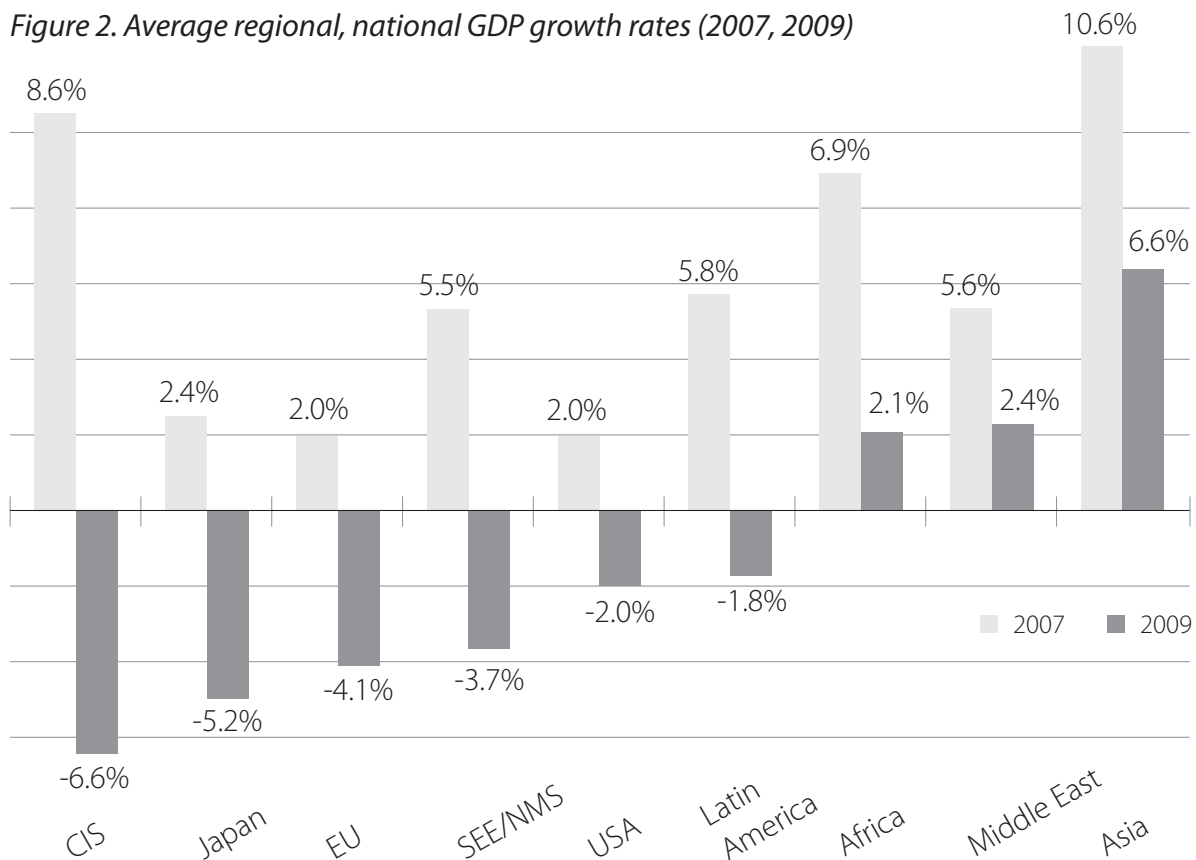
Exports of most goods and services fell sharply in 2009, from -37% in Kazakhstan to -3% in Uzbekistan⁴. In most cases, this was the combined result of lower prices and lower demand. Remittances fell by up to a third.

The World Bank has pointed out that many of the factors that drove growth in the region in the past will not be very likely to return to the fore in the short or medium term. The sluggish demand abroad, generally lower commodity prices, modest domestic consumption and a low level of construction will continue to hold

3 This being said, effective depreciation during the economic crisis has helped shift demand to local products and reduce expenditure on imports. However, the structural issues limiting international competitiveness have not been resolved by this temporary shift.

4 According to World Bank figures (note that other sources may differ).

Figure 2. Average regional, national GDP growth rates (2007, 2009)



Note: Afghanistan is included under "Asia"

Source: IMF World Economic Outlook, April 2010

back growth for some time. In addition, lower foreign investments and lower remittances from workers abroad, together with the effects of heavy borrowing in foreign currency in the recent past, continue to place a great strain on the financial sector in several of the countries, especially in Kazakhstan.

In fact, the banking systems have had to sharply reduce credit expansion, from earlier, clearly unsustainable, levels reaching 40 – 80 % per year immediately before the crisis to an effective credit contraction. Restructuring and recapitalisation of the sector continue to require considerable efforts from creditors, the authorities and the IFIs, including signifi-

cant write-offs and liquidity injections. Banks will have to rebuild their devastated balance sheets, which will take considerable time. During this period, credit availability and willingness to incur risks with any but top quality borrowers will be limited, and this will remain one of the main constraints to implementing supply-side measures to improve trade in the short term.

Fiscal and monetary measures taken in several countries have helped provide some relief from the crisis. The oil and gas exporters had some accumulated resources to spend and continued donor support provided some relief to the other countries. However,

across the region, the room for fiscal stimuli for stimulation measures mostly remains rather limited. Since the strong downturn was in conjunction with a financial crisis, the conditions are unlikely to improve in the near term, and the emergence from the crisis may therefore take longer than in many other parts of the world.

The effects of the crisis have been particularly strong on human development. Recent UNDP research⁵ shows that the adverse impact of the global economic crisis on poverty, unemployment, public health, mortality, and suicide and homicide rates is likely to be considerable, long-lasting, and to disproportionately affect the poorest. Importantly, owing to the long lags involved, even if income growth resumes, the human development effect is likely to remain negative for several years beyond 2009.

Nevertheless, some encouraging signs of recovery can now be seen. Foreign demand is again rising slowly, with exports picking up speed since around the middle of 2009. The earlier decreases in capital inflows are leveling out and in some cases change into growth. Oil and gas exports and continued investment in the hydrocarbon sector are expected to contribute to some growth in Azerbaijan and Kazakhstan and even higher growth rates in Uzbekistan and Turkmenistan: 8 and 12 %, respectively, in 2010, according to mid-2009 estimates from the

IMF. However, countries with no or little exports of oil and gas are expected to have more modest growth rates of about 2 to 4 %. Also, because of the structure of the economies and delays in the trickling-down process, improved business prospects in commodities will only partly, if at all, and then rather slowly, translate into rising employment and improved living conditions, unless accompanied by appropriate policy measures.

The recent increase in demand from Russia is now having tangible, beneficial effects on many of the SPECA countries. Russian imports from CIS rose by 50 % in the first half of 2010, many products from Central Asia can find a market in Russia and migrant workers are increasingly able to find jobs there and to increase the amounts they remit to their home countries. Prices of many commodities supplied by the SPECA countries have risen sharply in the first half of 2010, with fuel, metals and cotton all exhibiting price hikes of between 40 and 50 %, leading to terms-of-trade gains for most of the countries in the region.

A wide range of measures has been suggested to help strengthen the recovery from the crisis and secure a base for longer-term growth and prosperity. These include: macroeconomic consolidation, with appropriate fiscal prudence; further restructuring of the financial sector, with more diversified local funding and lending; development of the

5 Horváth B, Ivanov A, Peleah M (2010). The Human Development Impact of the Global Crisis in Central, Eastern and Southern Europe and the CIS. Bratislava, UNDP Bratislava Regional Center (<http://europeandcis.undp.org/poverty/mdghdpm/show/812C90F9-F203-1EE9-BD5F3AD003449B3E>).

Box 2. Anti-crisis measures: an example from Uzbekistan)*

In order to counteract the negative effects of the world's economic crisis, secure sustainable economic growth under macro-economic equilibrium, keep up employment and provide targeted support for exporters and SMEs, a number of advantages and preferences have been introduced by decisions of the President and the Council of Ministers of the Republic of Uzbekistan:

- Preferential conditions for producers of consumer goods and tax reductions for industrial enterprises;
- Debt restructuring and fee reductions for export enterprises expanding or modernising their production capacity and having temporary financial problems because of reductions in prices or demand;
- Extension of bank guarantees from 90 to 120 days for textile enterprises buying cotton from foreign trade firms;
- Simplified procedures and reduced deadline (to 20 days) for VAT restitution to exporters;
- Temporary extension of the deadline, from 30 to 60 days, for conversion, without penalty, of hard currency received for exports;
- Extension until 2012 of tax advantages for foreign investment in garment production;
- Extension until 2012 of duty free import of raw materials for the textile industry.

*) Adapted from the box in Section 5.1.2 of the national needs assessment

private sector, coupled with diversification, away from oil, gas, raw materials and metals; improvement of the competitiveness of locally produced goods and services, as well as raising value added; enhanced management of energy and water resources within the region, including through suitable conservation measures and trading facilities; improvement of skill levels, including through more market oriented education and training, research and development; continued investment in telecommunications and transport infrastructure; and resolution of institutional issues related to trade

and development, both within and between the countries concerned.

One positive effect of the crisis has been to focus attention on the need for long-term development of alternatives to the narrow range of traditional exports. This has led to the rapid introduction of programmes for industrial development and diversification, although the funds necessary for implementing them have been and remain in short supply in countries without accumulated earnings from earlier commodity exports.

The crisis and the slow emergence from it also highlight the advantages and the importance of increased regional trade cooperation based on trade facilitation (in the wide sense) and infrastructure development (especially transport and telecommunications) as well as on economic diversification. Increased and more diversified trade could not only help revive economic growth, and reduce the vulnerabilities of the region's economies to external shocks and/or adverse trends in other nation's economies (mainly Russia). It could also contribute to reversing the negative impact of the crisis on human development outcomes, through reductions in income poverty, while increased regional cooperation could help to improve water and energy security, encourage more sustainable use of natural resources, and preparedness for natural disasters.

2.3 Trade Development Opportunities

There are obviously potential opportunities for further trade development in the extractive industries, through continued exports of oil, gas, raw materials and metals. However, not all the countries in the region are well endowed in this respect. Moreover, increasing or even just maintaining output in the medium and long term will require large investments in extraction, processing and transport facilities. In some cases the reserves are close to becoming depleted, there are environmental issues to be dealt with, and – as outlined above – such a continued concentration of trade in a few commodities, like oil or gas, is likely to have a very limited em-

ployment effect, since, the impact on the development of other sectors and in general on improving living standards is likely to be weak or even negative.

Adding value by raising the degree of processing of local raw materials and semi-finished goods would be another possibility for trade development, and is already being actively supported or has been envisaged by several countries in the region. Examples of this are the renewed efforts to develop the textiles and clothing industry in Tajikistan and Turkmenistan, making use of locally grown cotton, and the increasing production of processed fruit and vegetables in Kyrgyzstan, as well as the Kazakh and Uzbek programmes for developing local manufacturing.

A higher degree of processing and product sophistication would normally go hand in hand with greater product diversity, allowing a country's producers to meet a wider range of requirements for a larger number of clients. At the same time, in order to maintain economies of scale in development, production and distribution and to be able to continuously adapt their products to changing needs and develop new ones in response to market developments, individual enterprises may still need to specialise in their specific field of competence and, above all, to reach new, larger markets.

Such larger markets could to some extent be found among the increasingly discerning customers in the domestic market, but are more likely to be found abroad. It is a well-known fact that enterprises starting to ex-

Box 3. The case for export diversification

Export diversification is held to be important for developing [and transition] countries because many developing [and transition] countries are often highly dependent on relatively few primary commodities for their export earnings. Unstable prices for these commodities may subject a developing country exporter to serious terms of trade shocks. Since the co-variation in individual commodity prices is less than perfect, diversification into new primary export products is generally viewed as a positive development. The strongest positive effects are normally associated with diversification into manufactured goods, and its benefits include higher and more stable export earnings, job creation and learning effects, and the development of new skills and infrastructure that would facilitate the development of even newer export products.

Source: Development, Trade and the WTO: A Handbook. World Bank 2003

port usually find it easiest to do so across the border of their own country, that is, by entering neighbouring markets. There are several reasons for this: distances are, by definition, relatively short, sometimes shorter than to more far-off regions of the home country; there are often cultural affinities creating a similar pattern of demand; and sometimes a common language.

Likewise, for the sourcing of their inputs – whether raw materials, components, business services, or staff – enterprises could benefit from improved access to international suppliers, especially those in neighbouring countries, in order to secure the right supplies at the most advantageous conditions. Similarly, suppliers, enterprises and the general public would all benefit from improved opportunities for trade in sectors such as energy and water as well as in financial, transport, ICT and telecommunications services within the region.

Finally, the international market typically gives an enterprise the opportunity to supply greater quantities than in the home market, and on a regular basis. In order to fully respond to this kind of demand, enterprises often find it advantageous to establish production or marketing cooperation with other enterprises in the sector. A recent example of this is the consolidation of the Kyrgyz fruit and vegetables industry and the active role played by the sector association in supporting cooperation, promoting the products and creating a common brand for the sector. The advantages of this approach are potentially even greater when enterprises can readily cooperate with each other also across borders.

In this way, enterprises in each of the countries of the region would have more opportunities both to enter and to establish international value chains and thus, to secure their international competitiveness as well as the access to foreign suppliers and clients.

Given the considerable untapped potential for intra-regional trade, the distance of the region from the major centres of the world market, and the elements of economic complementarity between the countries, future trade development could greatly benefit from an increased exchange of goods and services not only with distant markets, but among the SPECA countries themselves and with their immediate neighbours.

In particular, as can be seen from simply looking at a map, there are currently untapped opportunities for increased trade across the borders where two or sometimes three neighbouring countries share the same economic basin (in terms of geographical proximity as well as past, present or potential upstream and downstream production linkages). Making good use of such opportunities would both strengthen the economy of each individual country concerned and raise the international competitiveness of the region as a whole.

An increase in intra-regional trade would however require considerable investments in the networks connecting the countries, coupled with improvements in the institutional and procedural facilities for cross-border trade. In addition to supporting regional trade, such measures would sustainably enhance the opportunities for increased trade flows beyond the region, to the major markets in southern and eastern Asia and northern and eastern Europe, thus contributing to the further development of transit related business operations. Improved ICT infrastructure would also help overcome the ge-

ographical isolation by facilitating exports of services to faraway markets, in addition to providing improved channels for market intelligence and trade promotion at regional, national and enterprise levels.

In the short and medium term, trade development opportunities could be promoted through targeted development of specific sectors with recognised export potential, combined with cross-sectoral measures for raising quality standards and improving input efficiency. In the medium and long term, continued diversification of the economies and trade structures, as well as improvement of business conditions and environment would allow new sectors and enterprises to develop in response to shifts in local and international demand.

In fact, in the short run, individual enterprises typically find it easiest to increase their sales by finding new buyers for their existing products through: investing in marketing and in removing production bottlenecks; and making marginal improvements to product quality, presentation and packaging. Major product redesign or the development of new products for existing customers would normally come later, once enterprises have honed their skills during the first phase described above. On the other hand, competitiveness is enhanced by the “churning” of enterprises. In a diversified economy, over a time period of, say, ten to fifteen years, one usually observes that the enterprises and the products responsible for making up the majority of exports are not at all the same at the end of the period as at the beginning. Such churning – or at least a

greater number of (re-)entries into international markets by private enterprises – is only beginning to be observed in the SPECA countries. However, recent efforts at sector development, e.g. in the agro-processing industry in Kyrgyzstan, have demonstrated the scope for consolidation and cooperation within the sector and for the recapture of traditional foreign markets by new entrants to the industry.

In the light of the above, some sectors have been identified in several or most of the SPECA countries as having an immediate potential for trade development, while at the same time contributing to human development. These are

- Fruit and vegetables;
- Meat and dairy products;
- Other agro-processing and food industry;
- Textiles and clothing;
- Leather and footwear, and;
- Services.

The service industry is of particular interest because of the possibility to deliver services through several, different modes of supply, all of which would largely circumvent the need, typical to manufacturing, to ship physical items:

- Cross-border supply: services flow from one country into another one (e.g. banking, book-keeping, design or architectural services), nowadays typically transmitted via telecommunications);
- Consumption abroad: a service consumer (e.g. a tourist or a patient) moves into another country to obtain a service;

- Commercial presence: a service supplier of one country establishes a territorial presence, including through ownership or lease of premises, in another country to provide a service (e.g. domestic subsidiaries of foreign insurance companies or hotel chains); and
- Presence of natural persons: persons of one country enter the territory of another one to supply a service (e.g. agricultural or construction workers, engineers, consultants, accountants, doctors or teachers).

In the long run, a strong services sector can be important both as a source of export earnings by itself and also as a means to promote other sectors of the economy. This applies to specific, business oriented services, like accounting or market research, as well as to quality services (such as quality management, testing and certification), transport services, including warehousing, cold stores, freight and forwarding, customs brokerage, etc., IT and telecommunications, utilities, and legal and financial services, etc.

In fact, the combined focus on processing of agricultural products and developing services very much plays on some of the comparative advantages of the region – agriculture, and relatively high levels of education.

Thus, with these longer term goals in mind, several of the SPECA countries are working hard to create more permanent opportunities for the development of trade in services as well as in locally manufactured goods, by promoting investment, setting up trade support

institutions, simplifying rules and procedures for trade, investing in both institutional and physical infrastructure, attending to SME development needs, simplifying taxation, raising the supply of and facilitating access to financing, supporting business oriented vocational and management training, and trying to attract high technology industries. Actually, most of these measures have favourable effects in the short term, but they are also essential for securing favourable, long-term economic development.

As an example of the doubly beneficial effect of developing the service industry, local consulting firms engaged in trade related technical assistance for sector development in Central Asia have successfully expanded their business in the region, not only providing

more and better services and support to domestic firms eager to expand their exports but also selling their services to client companies in other countries in the region, all on a sound, commercial basis.

In this context, complementing national initiatives with foreign direct investment could be seen as a source not only of financing but also a way of acquiring international know-how, new design and production capabilities, for both goods and services, and improved market access opportunities.

Box 4. Developing the service sector: the approach of Kazakhstan*)

The service sector is receiving particular attention in Kazakhstan. In order to improve the strongly negative trade balance in services, protective measures and support for development of the local supply of services are being envisaged. This would cover financial, legal and commercial services, and services in the fields of transport, telecommunications, tourism, construction, research and development.

In view of the country's WTO accession, the need has been identified to work out a strategy for the development of the market for services in Kazakhstan, covering

- Creation of a regulatory framework for trade in services;
- Development of the capacity and the competitiveness of locally produced services;
- Development of human resources and know-how;
- Improvement of the delivery of services (telecommunications, cross-border trade); and
- Preparation of a national strategy for the export of services.

*) Adapted from Section 2.2 of the national needs assessment

3 COMPETITIVE STRENGTHS AND WEAKNESSES

3.1 Competitive Advantages

Whereas each SPECA country has its own strengths and weaknesses, the countries as a group nevertheless share a number of competitive advantages.

Overall, the SPECA countries are well endowed with natural resources, particularly energy sources and minerals. Oil and gas production in the region is already considerable, with major reserves remaining, and providing raw materials for the petrochemical industry. Hydropower potential is large, both in large and small rivers, and so far only modestly developed. Mining operations provide coal and ores, forming the basis for production of e.g. iron and steel, copper, aluminium, and gold. Stone and gravel for the construction industry as well as raw materials for cement production are abundant and complemented by deposits of rock salt and semi-precious stones.

Although the climatic conditions are not entirely favourable and water is often scarce or very scarce and requires careful management, the agricultural sector nevertheless provides, or has a potential to provide, local raw materials for e.g. agro-processing and food industry,

textiles and clothing, and leather and footwear. However, it will be important to ensure that such agricultural production is carried out on an environmentally sustainable basis, particularly with regard to water consumption, use of pesticides and the risk of erosion, in order to prevent further degradation and loss of land and water resources.

Other competitive advantages reside in the relative similarity of language and culture across most of the borders. Apart from the immediate advantages of geographical proximity, this greatly enhances the already favourable potential for increased cross-border trade. Also, except for Afghanistan, with Russian, the SPECA countries share a common language widely used in business and public administration and allowing easy communication with clients, suppliers and officials all over the NIS and even, to some extent, in Central and Eastern Europe. This is already exploited considerably for informal trade, including in services, and if other barriers are brought down, could facilitate greatly the development of formal sector trade.

A further strength to be recognised lies in the generally high level of literacy (also here with the exception of Afghanistan) and of basic

formal education, making it relatively easy to train staff and build new skills as required for becoming and remaining competitive in the international market.

A related advantage can also be found in the large number of workers employed abroad. Not only are their remittances an important source of revenue for most of the countries, but the knowledge, skills and experience they acquire and the business connections they develop have the potential to improve the productivity of enterprises in their home countries and increase their exposure to foreign markets.

Finally, although the energy and raw materials intensity in manufacturing often remains at levels which are quite high in international comparison, it also means that there is a ready source of improved competitiveness which often can be tapped already by procedural improvements, i.e., even without any investment in plant and equipment. As an example, in a recent sector development project carried out by ITC with Swiss financing, several fruit and vegetable canners in Kyrgyzstan and Tajikistan reduced the energy used for sterilisation by some two thirds, simply by optimising the cycle, and then also gained in improved product quality and presentation.

3.2 Current Obstacles for Trade Development

The most obvious obstacles for trade development lie in the geographical characteristics and the natural conditions of the SPECA

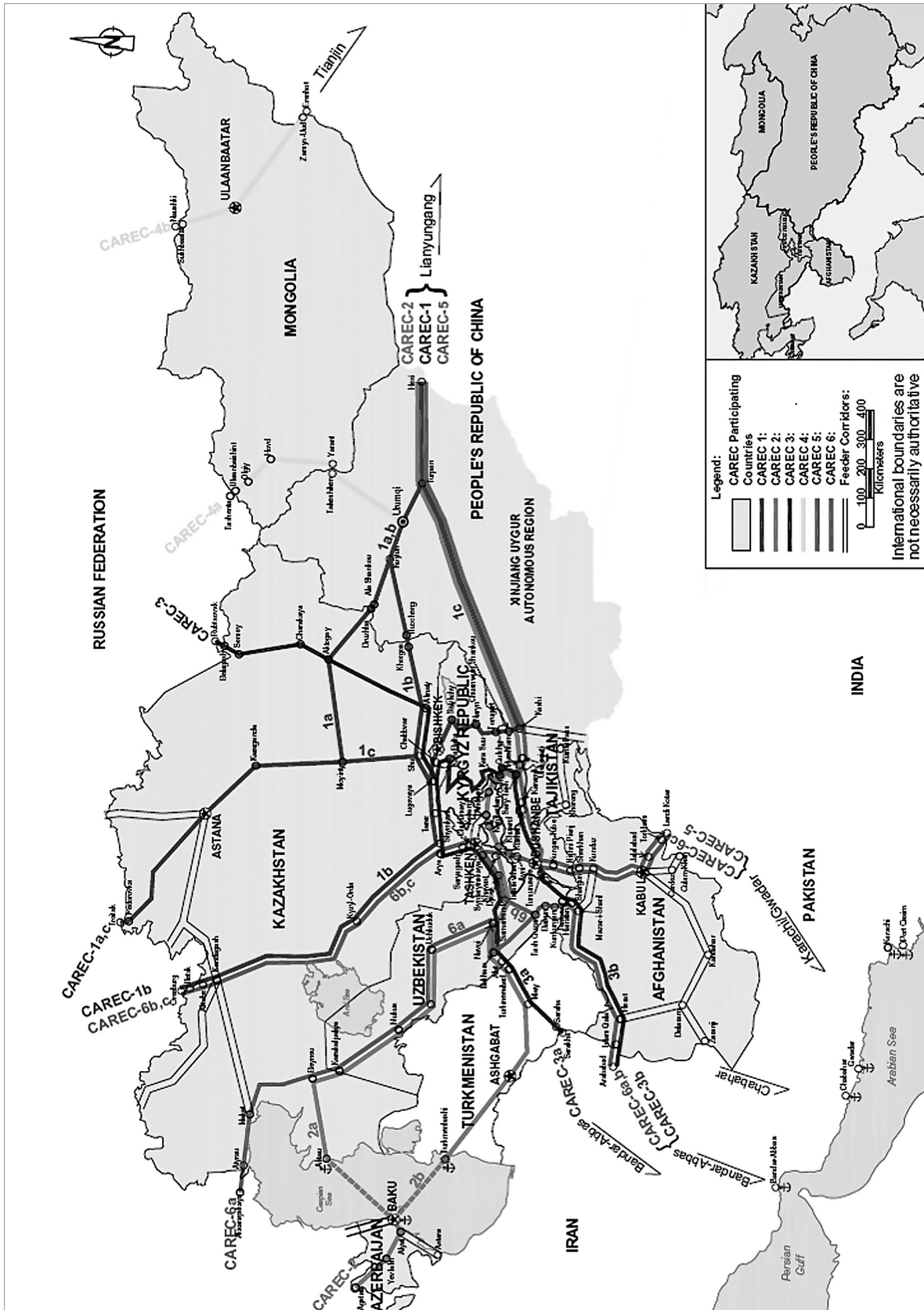
countries, as well as in the generally poor business environment.

All the SPECA countries are land locked and are situated far from the nearest seaports. Much of the land area is formed by mountains or deserts. The climate is typically continental. Summers are hot and dry, and winters are cold, with temperatures below zero and persistent snow cover for a significant period of time in parts of the region. One of the immediate results is that housing and clothing require greater expenditure than in warmer climates. For this reason, the World Bank recommends use of the international poverty line of PPP USD 2.50 per capita per day to measure extreme poverty and PPP USD 5.00 to measure vulnerability to poverty.

Evidently, these obstacles can again be turned into opportunities for those who learn to overcome them, producing goods and services which may find markets in other parts of the world where conditions are similar. In the future, the view of the SPECA countries as being distant and isolated may also change considerably: they could well be seen as the future hub at the centre of many prominent economic regions, with emerging Asia (China and India) in the south and east, Russia and Europe in the north and west and the Middle East in the southwest.

Population density ranges from just over 5 inhabitants per square kilometre in Kazakhstan to over 100 in Azerbaijan. However, the population is very unevenly distributed. Since deserts and mountains cover large areas, only small parts of each country house

3. Priority transport corridors in Central Asia



Source: CAREC Transport and Trade Facilitation Strategy, 6th Ministerial Conference, Dushanbe, Tajikistan November 2007

the vast majority of the inhabitants. These population concentrations are often separated by quite large distances within each country. On the other hand, in some cases, like the lower Amu-Darya valley and the Fergana basin, similar concentrations occur on both sides of a border, meaning that a considerable part of the local market is actually abroad.

Three important factors dictate the routing of transport infrastructure in the region: the distribution of the centres of economic activity, including extraction of raw materials, the topography, and the need for transit through the region. Correspondingly, a number of priority transport corridors have been suggested for development, with one important example given in Figure 3.

In spite of apparent local abundance in much of Kyrgyzstan and Tajikistan, water resources are generally scarce in the region, including in the more densely populated areas. While precipitation in the mountains gives rise to several large rivers, extensive irrigation and other forms of mismanagement of water resources have led to the drying out of the lakes they feed, the most prominent case being the Aral Sea, while also many other water courses see the water flow cease completely from time to time. As a secondary effect, soil degradation and wind erosion become more severe, with very negative consequences for living and working conditions.

An additional factor in inefficient water use in the region is the lack of cross-country coordination on water management. Related

to this is the difference in water needs between upstream and downstream countries as a function of what the water is needed for. Countries like Kyrgyzstan and Tajikistan, with harsh winters and few other fuel resources, would typically use water for electricity production in winter, whereas others would rather use it for irrigation during summer. International water cooperation forums offer opportunities to discuss and resolve these issues, although not all efforts to this effect have been successful in the past. Assigning a value to water as if it were subject to trade could possibly help determine the costs and benefits of alternative uses and allow some priorities to be set and actions to be agreed on. This is all the more important because of the importance of electricity and water supply for human development and trade.

Climate change is already evident in the shrinking of glaciers in the high altitude watersheds. Even if there were to be no change in the yearly precipitation levels (something that still remains uncertain), this leads to greater fluctuations in water flow, requiring larger volumes of seasonal water storage (i.e., dams) for regulating water flow for hydroelectricity production and irrigation. Dam construction, at the same time, is very costly and leads to increased evaporation and problems of sedimentation, in addition to the rising water levels covering arable or built-up land and increasing the risk of landslides along the new body of water.

The remoteness of the region and the physical obstacles to the exchange of goods have not yet been overcome by investment in in-

frastructure, which in any case is quite expensive. The creation of trade corridors linking the countries of the region between themselves and with their neighbours has been supported by several international partners, including CAREC and the European Union, with the World Bank, EBRD and ADB providing financing for e.g. road building, railway upgrading and the construction of goods terminals and border crossing facilities. However, this network is still incomplete and even the use of the parts already constructed is sometimes hampered by slow processing on both sides of a border.

Whereas tariffs have mostly become insignificant as obstacles to trade between the SPECA member countries, several non-tariff barriers remain, not only in the form of e.g. regulations

in the fields of sanitary and phyto-sanitary measures (SPS) and technical barriers to trade (TBT) but also in the lack of coordination and cooperation between inspection bodies and in the sheer number of rules, procedures and documents needed for imports or exports. However, it is not only the regulations and procedures themselves or the lack of them which demand time and resources from businesses, but also the great variability and uncertainty in their implementation, and the opportunity for many officials to make judgement calls on how to interpret them in the individual cases, opening up unwelcome opportunities for corruption.

Notwithstanding some promising, recent, national initiatives to simplify procedures and introduce 'single window' processing, much

Box 5. Border procedures as a barrier to trade: an example from Tajikistan*)

"Many other barriers to trade expansion in the country could be described here, but only trade barriers at the border will be discussed:

- A long time is needed for the transportation of goods due to excessive delays at the borders, which negatively impacts export of agricultural production. Prices of such products can decrease and the quality can worsen;
- Fragmented and ineffective logistics services is also a reason for the inefficient volumes of direct foreign investment for trade development;
- Insufficient coordination between the various governmental institutions, responsible for implementing trade procedures, which has a direct influence on the activities of the state institutions and impacts on the work of other entrepreneurs;
- Old vehicles and increasing pollution negatively impacting the environment;
- Significant limitations on the movement of people across borders, which also has a negative influence on human development."

*) National needs assessment, Section 3.1.

work remains to be done on trade facilitation in the region, which could bring quick, large and low cost gains for the countries involved.

Another institutional issue creating obstacles for trade is the weakness of the standardisation, quality assurance, accreditation and metrology (SQAM) infrastructure. Enterprises are required by their clients as well as by applicable laws and regulations to ensure a certain quality of their products and to be able to demonstrate it, e.g. through corresponding certificates. However, both regulations and institutions (like certification and accreditation bodies) are often incomplete in their coverage and approaches or difficult to work with or simply not recognised by foreign partners. Whereas considerable progress has been

made in recent years in the introduction of basic quality standards like ISO 9001-2000, the field is still a significant source of concern for the development of trade.

International recognition for a local accreditation body is on the point of being achieved in Kyrgyzstan and work is going on in other countries as well, in conjunction with investment in the equipment and the know-how of laboratories, etc. Still, in the majority of cases, local enterprises have to turn to foreign certification bodies, accredited by internationally recognised institutions, in order to be able to demonstrate the conformity of their products and procedures with international standards when dealing with foreign clients.

Box 6. SQAM infrastructure development: an example from Kyrgyzstan*)

A trade promotion project of the International Trade Center (ITC) funded by the Government of Switzerland (SECO) provides assistance to the Kyrgyz accreditation center so that the latter can become a member of the International Laboratory Accreditation Cooperation (ILAC), and helps establish the national enquiry points on TBT and SPS within the WTO framework.

In a related activity, ITC assessed laboratories in sectors with export potential (agro-processing, food industry, water supply, mining industry, etc.) to determine their readiness for international accreditation in accordance with the requirements of ISO/IEC 17025, gathering data on the range of tests they do, typology of clients, internal procedures, qualification of staffers, and equipment and terms of work, as well as on the availability of testing and IT equipment. Their classification into one of three levels of readiness defined the needs for further capacity building. One of the immediate outcomes was thus to allow a separate World Bank Project on testing laboratories to provide assistance to several of the laboratories assessed.

*) National needs assessment, Section 4.1.3.

Table 6. SPECA countries' "Doing Business" rankings 2010 (covering June 2008 – May 2009)

Country	Ease of Doing Business Rank	Starting a Business	Construction Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Azerbaijan	38	17	158	33	9	15	20	108	177	26	84
Kyrgyzstan	41	14	40	47	19	15	12	156	154	54	140
Kazakhstan	63	82	143	38	31	43	57	52	182	34	54
Uzbekistan	150	92	142	95	133	135	119	178	174	44	125
Tajikistan	152	143	177	143	78	167	73	162	179	39	100
Afghanistan	160	23	148	69	164	127	183	55	183	164	183

Source: *Doing Business Report 2010*, World Bank Group

Note: No data were collected for Turkmenistan.

Likewise, the practice of mutual recognition of inspection and testing results, between the countries of the region as well with trading partners outside SPECA, is little developed, or poorly implemented, even where formal agreements are in place. Several aspects of the conditions for doing business in general and for successful trade in particular have improved in recent years, with some countries in the region noted for the rapid improvement of their rankings in e.g. the World Bank's 'Doing Business' surveys.⁶ Whereas this demonstrates that it is quite possible to take decisive, effective action for quickly sorting out impediments to trade, the concern remains that business conditions in some fields are often still very disadvantageous.

Unfortunately, good business conditions in one respect cannot compensate for shortcomings in another one. Business development, including foreign trade and investment, tends to be limited by the most restrictive constraint. Consequently, a favourable average rating will not lead to positive effects as long as any single condition for successful business remains at a low level. The few exceptions to this rule tend to be found in larger, one-off operations where in any case the conditions for business at large may not be applicable. Otherwise, special incentives, like tax breaks and duty exemptions on imported inputs, only partly mitigate the business risks perceived, and can also go against the general principle of creating a level playing field for all enterprises.

⁶ It is recognised that various concerns have been raised about the methodology used. Nevertheless, the findings may be useful for identifying areas for further research and action.



The effects of all these are strongly felt by the trading community all over the SPECA countries, in the form of high transaction costs and long delays in foreign trade operations, which render trade in e.g. perishable goods extremely difficult and risky, if at all possible. This severely reduces the competitiveness of the region's goods and services in the international market and constitutes a significant obstacle to doing business even just with a neighbouring SPECA member, thus preventing the countries from reaping the benefits of trade.

4 TRADE DEVELOPMENT OBJECTIVES AND PRIORITIES

4.1 Key Trade Challenges to be Met

The general opportunities for trade development and the strengths and weaknesses of each country determine the key challenges to be met, as well as the specific objectives to set and the priorities for action. Because of the differences among the SPECA countries, no two will (or should) follow exactly the same way forward.

Nevertheless, some key challenges are common to all the countries, whether taken individually or collectively. These include working towards an improved business climate and governance, development of market oriented skills for the labour force, stable and efficient financial intermediation, continued investment in energy, transport and ICT infrastructure, and improved efficiency of public revenue mobilisation and spending. More particularly, the national needs assessments have identified some common areas of interest, in that all the SPECA countries agree on the need for comprehensive and coherent measures to raise value added, increase international competitiveness and derive greater benefits from trade through:

- Diversifying production to reduce dependence on a few products and markets;
- Facilitating trade;
- Taking a longer term, strategic perspective on trade development;
- Consulting and cooperating for concerted regional policies and action; and
- Formulating policies that enhance the contribution of trade to human development.

The intended and expected impacts still have to be formulated and agreed more precisely, together with the determination of the current baselines and the ways and means of measuring progress in meeting the challenges.

The current obstacles for trade development, as outlined in the preceding chapter, already by themselves indicate a number of challenges to be met. In addition, in the Aid for Trade process, some further, specific challenges have emerged, together with opportunities for designing programmes to meet them.

One such challenge concerns the harmonisation of trade development approaches and measures within a country as well as between the countries of the region and in relations with their trading partners.

The importance of harmonisation is obvious from a simple example of physical infrastructure: building a bridge for allowing the communities on both sides of a river, including people from farther away, to build peace and prosperity through increased trade and closer human relations has a sense only if suitable roads are also built on each side at the same time. Otherwise, the potential benefit of lower transport costs, time gains and more frequent contacts is lost and the investment is wasted.

Similar analogies pointing to the need for and the advantages of harmonisation can be made for many other fields of importance for international trade development:

- Trade policies and their implementation;
- Cross-border networks;
- Energy supply and water management;
- Border crossing facilities;
- Customs procedures and related issues of testing, inspection and certification, including mutual recognition;
- Technical regulations and standards and quality infrastructure institutions;
- Currency regulations and financial services, in particular for making payments in international trade;
- Form and content of trade documents, both contracts between the parties to a deal and documents to be provided to the competent authorities, and their exchange;
- Information technology and telecommunications, including e.g. protocols and procedures for data exchange, authentication of the identity of the parties to a communication and of documents and data transmitted electronically;
- Rules, procedures and institutions for conflict resolution and the enforcement of legal obligations;

Box 7. Model border checkpoints: an example from Kyrgyzstan*)

Lately, financial support from international organizations and bilateral donors has allowed a number of border checkpoints to be upgraded, including those at Ak-Jol and Kara-Suu (with help from BOMCA) and Ak-Tile (U.S. Government). Modernization of these border checkpoints has allowed significant improvement of the services rendered to traders and travelers. At the same time, the functions, features and specifications of the equipment installed at these border checkpoints differ because the upgrades was carried out by different organizations; a sign of the absence of a common approach to the design and development of customs checkpoints. The need to design a model border checkpoint, which would take into account the general requirements of such checkpoints, is obvious. Since these activities are still at the initial stage, the design of a model border checkpoint could be incorporated as a component of one of the projects providing technical and financial assistance from international donors.

*) National needs assessment, section 4.1.2.

- Taxation rules and procedures and tax rates;
- Rules and procedures for starting up and closing down businesses; and
- Other business environment elements.

Likewise, many technical cooperation or other development projects have a strong potential to give considerably improved benefits by considering the wider trade and human development context and by enhanced dovetailing within and across the borders, in addition to the need for proper sequencing. For example:

- Sector development work becomes more effective and efficient if objectives and activities are defined considering the scope for cooperation between enterprises and countries on supply of raw materials and other inputs, product design and development, production, marketing, and physical distribution;
- Institutional development in one field, like simplification of border procedures and documentation, would usually benefit from similar improvements in other, related fields, for instance, the regulatory framework for starting and running a business; and
- Measures at one level, say, raising enterprise skills in quality management, should be matched by corresponding measures at other levels, for instance by building the capacity of certification and accreditation bodies and creating a sound regulatory framework.

The harmonisation challenge is already being addressed through various channels,

however, there is much scope for further improvement. This does not necessarily mean that there is a need for large, integrated programmes, or for stricter top-down control: in fact, there are many cases when such efforts have failed because of the management complexity involved. On the other hand, wider consultations and more open attitudes towards the distribution of tasks and responsibilities can be fruitful, especially when the broader goals of human development are kept in mind, and there are attempts to exploit synergies with other projects.

As an example, recent work aimed at developing the fruit and vegetables sector in Kyrgyzstan has incorporated and consolidated a large number of individual projects running from improvements to the supply of agricultural produce, to the development of enterprise skills and cooperation in production, quality management and marketing of finished products to the enhancement of the ability of local laboratories to test and certify conformity with international standards. This value chain approach in combination with enhanced consultations between several development agencies has demonstrated how synergies can be achieved and common goals reached with little additional effort.

A second trade development challenge concerns the balanced development of different areas of the same country and the active engagement of local entities in each such area as well as in the country as a whole. Although not all parts of a country may be engaged in international trade to the same extent, the increasing openness of the mar-

kets means that enterprises all over the country may face international competition and have a need to improve their ability to cope with it.

The greatest needs for poverty reduction and the greatest scope for increasing and improving employment opportunities are often found in rural areas and in regional centres away from the capital. Extractive industries may already be located in such areas but they mostly require only small numbers of skilled staff and often do not directly contribute to the development of a diversified local economy. Making sure that trade development creates benefits for human development all over a country therefore requires that suitable efforts be made to include individuals, enterprises, institutions and authorities in every region as the beneficiaries of development programmes, while giving particular focus to those geographical areas where the needs are greatest.

The involvement of local authorities and institutions is key for ensuring the success of such regionally focussed activities. They have the best knowledge of local conditions and can provide valuable inputs for adapting approaches to suit the particularities of the region or municipality concerned. In particular, they are the ones whose task it would typically be to identify the local needs, articulate requests and suggestions from potential beneficiaries, help plan interventions, mobilise local resources, actively participate in activities, contribute to monitoring, reporting and evaluation, and make sure that the benefits of trade development work actually

are directed to those who need it most. Consequently, they have a very important role to play in ensuring the lasting success of Aid for Trade in the Region. However, for this to happen, their own needs for capacity building should always be considered when preparing trade development projects, and careful thought given to the nature and conditions of their involvement.

The challenge of regionally balanced development and local involvement is increasingly recognised, but still merits constant and renewed attention. In current technical cooperation practice it often appears to be emphasised as much as a result of funding limitations, as a reflection of an explicit policy of supporting country-wide development, i.e., if the resources available do not allow a programme to cover the whole country, a particular region, town or even village is chosen. This approach may allow more comprehensive measures to be taken in favour of a limited number of beneficiaries, thereby increasing the local impact. However, the danger is typically that of failure to achieve synergies with other local projects in related fields (in some cases, those are not simply lacking because other agencies have taken different decisions about where to carry out development activities) as well as to scale up and replicate success and to make sure that the lessons learned get spread all over the country. Another problem can be that of limited local absorption capacity, especially when there are several, overlapping technical cooperation projects in a 'popular' area and officials become overloaded by requirements to participate in them, to the detri-

*Box 8. Local engagement in export development: a current example from Central Asia**

An on-going UNDP project promotes the establishment of regional export promotion centres in Eastern Kazakhstan, in Batken region in Kyrgyzstan and Sughd region in Tajikistan (within existing local government bodies or donor supported business advisory services) for providing customised, trade related services, including:

- a) Advisory services to local producers to think beyond existing value chains and their current retail channels (i.e., communication and marketing strategies, business plans, sales support, identification of partners);
- b) Distribution of market information (e.g. price changes, profitable products, etc.), selected training about markets, required product quality standards, marketing strategies, building marketing and export skills, providing communication services, etc. sales support, establishing links with national and international trading partners;
- c) Information about the potential impacts of climate change on agricultural commodities and available insurance products;
- d) Trainings for local businesses (i.e., in negotiation skills, knowledge of international standards, market conditions, etc.);
- e) Facilitation of people-to-people (or business-to-business) contacts through specific events for goods and services for which the nearby CAREC trade corridors provide an opportunity to explore their full trade potential.

Adapted from Wider Europe: Aid for Trade for Central Asia, Caucasus and Western CIS, UNDP 2009

ment of their ordinary functions. This reinforces the need to ensure the harmonisation of trade and human development efforts.

A third challenge is the active participation of the private sector in Aid for Trade related work.

Higher standards of living are typically achieved and poverty reduced if the opportunities for productive employment increase, with more people joining the active workforce in the formal sector, and getting better paid. Successful trade and favourable human development therefore go hand in hand

with improved opportunities for enterprises to become more competitive and profitable

Many local NGOs are becoming increasingly engaged in social, environmental and economic sustainability issues, often working together with the business community and with educational and other institutions with a bearing on trade development.

Enterprises – their management and staff – have important knowledge and understanding of what needs to be done to raise their ability to contribute to trade development

and considerable experience of what may or may not work. Individually and collectively, through the various trade associations that exist (even if these are not very numerous and sometimes group only a small part of a sector), they can contribute to the identification of needs and the design of trade development activities. Their successful implementation much relies on enterprises contributing their own resources, which in turn allows new, fresh resources to be generated that ensure the sustainability of the results achieved.

It should also be noted that many, if not most, trade support institutions (at least by number) are private sector entities. Many trade associations provide various business support services to their members and sometimes to external clients. Most of the consulting industry is in one way or the other involved in supporting trade development as well as providing export revenues by selling its services abroad.

Similarly, the private sector has an important contribution to make to strategy development and trade policy formulation as well as to their successful implementation. Sectoral and national export strategy development in Kazakhstan, as well as consultations on WTO accession in Azerbaijan, are recent examples of how private sector participation have a beneficial effect on the quality of the decisions taken and the success of their implementation.

However, to avoid undue dominance by a few, large firms with particular needs and interests, wide participation is essential. Many

enterprises, especially SMEs, may need specific advice and encouragement before they can fully contribute to the process.

The challenge of ensuring the active participation of the private sector in Aid for Trade is thus simultaneously an important precondition for ensuring sustainable results.

4.2 Priority Fields for Trade Development

The findings and conclusions of the national Aid for Trade needs assessments reflect the trade development needs and priorities of the respective countries. Individual countries have their own, specific, and sometimes divergent needs, and each SPECA country has set its own priorities for trade development and identified the intermediate outcomes necessary for achieving them.

Nevertheless, there are a number of concerns emerging from the national assessments, which all the countries of the region seem to share. In particular, there is general agreement that the following issues are important for trade development in the Region:

- Physical infrastructure (transport, energy, telecoms);
- Institutional infrastructure (trade procedures, quality, trade and investment support);
- Trade policies, business environment, enterprise development;
- Diversification, sector development (including services); and

- Balanced development of all regions within each country.

The national needs assessments also reflect the general recognition that achieving favourable, sustainable contributions to trade development in the areas mentioned above requires that a number of specific outcomes be achieved. Agreement on these outcomes allows us to identify, appraise and implement appropriate Aid for Trade related programmes and projects. For each of the areas identified above, the outcomes are as follows:

- Physical infrastructure (transport, energy, telecoms):
 - Transport and telecommunications links allowing speedy and unencumbered exchange of goods, services and information between suppliers and their clients, wherever they are located;
 - Border crossings, freight terminals and storage facilities for speedy and safe handling of goods;
 - Local utilities and other facilities for sustainably serving enterprises according to their needs;
 - Networks and agreements providing for effective and efficient energy production, water management, trade and distribution across the region as well as for exchanges with its neighbouring countries;
- Institutional infrastructure (trade procedures, quality, trade and investment support):
 - Trade facilitation, in particular for reducing the time and cost of trade across the borders;
 - Fair, equitable, transparent, effective, efficient and harmonised regulations, procedures, practices and facilities for quality management, covering standards, metrology, testing, inspection, certification and accreditation;
 - Improved access to and greater use of trade information;
 - Improved access to and greater use of trade support services, including, among many others, financial and logistic services, business advice, and training;
 - Suitably market oriented research and development, education and training systems;
- Trade policies, business environment, enterprise development:
 - Macro-economic policies and conditions for doing business which are conducive to enterprise and trade development;
 - Trade specific policies and agreements giving adequate access to foreign markets, both in neighboring countries (whether within or outside the Region) and elsewhere in the world;
 - Mechanisms in place for active, constructive public-private dialogue on trade related policies, strategies and practices;
 - Sustained ability of enterprises to develop, produce and deliver market

- 
- oriented goods and services meeting customer requirements;
- Improved knowledge and skills of export oriented enterprises in fields like product development, quality assurance, production management, business administration, marketing, packaging, and so on;
 - Better skill levels and employment opportunities of workers;
- Diversification, sector development (including services):
 - Improved value chain linkages, higher value added, better use of local resources, and greater level of employment in key sectors;
 - Enhanced, sustainable supply and higher levels of transformation of agricultural produce;
 - Environmentally sound production, distribution and use of goods and services;
 - Balanced development of all the major regions in each country:
 - Physical and institutional infrastructure allowing diversified economic activity to be carried out in all populated areas;
 - Access to support and services for enterprises also in outlying regions; and
 - Education and training facilities available for enhancing the knowledge and skills of staff in enterprises, institutions and authorities all over the country.

5 CURRENT FRAMEWORKS FOR TRADE DEVELOPMENT

5.1 Trade Policies and Agreements

The SPECA countries benefit from a number of trade agreements, mostly on a bilateral basis. However, with only Kyrgyzstan being a member of WTO, they are not yet in a position to fully benefit from advantages of the multilateral trading system.

Most other SPECA countries are now actively pursuing WTO membership. Afghanistan, Azerbaijan, Kazakhstan, Tajikistan and Uzbekistan all have observer status, and the corresponding accession negotiations are in progress. For several of the countries, a Working Party on accession was established already in the mid-'90s. Only Turkmenistan is not actively pursuing WTO membership for the time being, giving priority to other trade development matters, including increased possibilities for processing its main commodities (gas, oil and cotton) and diversifying into other industries.

Nevertheless, the accession process is moving ahead rather slowly in several cases. There still appears to be room for improvement of the knowledge and understanding of both the accession process and the impli-

cations of membership, both among the business community and among some of the authorities and institutions concerned. While some of the advantages of membership are generally acknowledged, there remain serious concerns which are being voiced both by the business community and the responsible government authorities.

Improved knowledge and understanding of WTO-related issues would help the countries formulate appropriate, well informed and justified positions to take into the negotiations and would also greatly enhance the ability of the private sector to prepare itself properly and thereby to profit as much as possible from future membership. This could be done in several ways, for instance national workshops for the different parties concerned within a particular country; a regional workshop where WTO members could brainstorm with accession candidates on how best they could proceed, and advise them on some of the pitfalls and lessons from the accession process to date; and other regional workshops where candidate countries could exchange views and ideas about various policy issues and identify areas of common interest.

Box 9. Advantages and disadvantages of WTO accession: a view from Tajikistan)*

Positive aspects to accession to the WTO, according to Tajik economists, are as follows:

- Tajikistan gaining access to foreign markets and innovations in technologies;
- The potential transfer of production of integrated products from developed to developing countries, including to Tajikistan;
- Improved effectiveness in the use and optimization of the distribution of production resources;
- Expansion of imports based on lowering or removing import tariffs;
- The use of foreign competitors' experience;
- Resolving the issue of internal and export subsidies for agricultural products, textiles and apparel, including cotton fibre.

At the same time, concerns of the authorities regarding accession to the WTO can include:

- Lack of guarantees by the WTO for preventing redistribution of production resources to the advantage of developed countries;
- Strengthening of economic interdependence between countries and loosening of state regulations;
- Increase in the risk of expansion of foreign goods and foreign services;
- Non-competitiveness of domestic goods;
- Problems with the income part of the state budget due to the potential reduction of tariff barriers for import;
- Tension in trade balance and balance of payments.

*) From national needs assessment, section 2.4.

One such WTO related issue where several countries of the region already seem to have a common interest is that of receiving "special and differential treatment" along the lines of developing countries. Mandated by the 4th (Doha) WTO Ministerial Conference, WTO's Committee on Trade and Development is currently examining these special and differential treatment provisions and their application. Formalising a common position on this topic

among the candidate countries in the region would certainly be beneficial. It could also be a useful step towards harmonising their positions on other accession issues and acting on them in a concerted way in negotiations, thereby considerably increasing the chances of successful accession and at the same time contributing to the resolution of other trade policy issues affecting the relations between the countries concerned.

Several regional organisations have attempted to set up regional trade agreements among their members. However, many of these have never become effective or have not been implemented fully. Typically, disagreements on the details and conditions of membership exist in several cases and are not expected to be resolved in the near future. In addition, most of the SPECA countries continue to benefit from a network of bilateral agreements between each other, as well as with their main trading partners outside the region.

The most prominent trade related organisations covering the SPECA countries are ECO, the Economic Cooperation Organisation, with a membership including all the SPECA countries and Iran, Pakistan and Turkey; and EurAsEC, the Eurasian Economic Community, which includes Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan as full members (although membership of the latter is currently suspended), with Armenia, Moldova and Ukraine as observers.

The agreement on a customs union between Belarus, Kazakhstan and Russia, intended to come into force 1 July 2010, was finally signed also by Belarus early July. However, many of the policies, provisions, procedures and practices of the customs union are still being developed. Fears by other SPECA countries that the customs union will limit their trade with Kazakhstan as well as their access to the Russian and Belarus markets may be unfounded, given that existing bilateral free trade agreements will continue to apply. This being said, even if fears of trade

diversion do not materialize, there could still be trade substitution owing to members of the customs union having a more favourable position in each other's markets than outsiders. This is an issue, which merits further attention and monitoring.

In the context of Aid for Trade, it may also be worth recalling the links between trade policy and human development, with the former allowing to address the challenges of the latter. The national needs assessment for Azerbaijan contains a very illustrative overview of these linkages, as presented in the box below.

5.2 Current Trade Related Support

Support for activities which would fall under the Aid for Trade agenda in the SPECA countries is currently provided in different forms by a number of international organisations, in particular the members of the Cluster: FAO, ITC, UNDP, UNECE, UNEP, UNESCAP, UNIDO, UNOPS and WTO. However, several other organisations are engaged in the trade development field in the region, of which the Organisation for Security and Cooperation in Europe (OSCE) and the World Customs Organisation (WCO) deserve particular mention.

Other international, multilateral and bilateral organisations also provide trade related technical assistance as well as grant and loan financing for investment in infrastructure, institutions and private sector enterprises and projects. Among these, the European Union and the IFIs are the most prominent.

Table 7. Tying up Trade Policy Goals to Human Development Challenges: an example from Azerbaijan)*

Human Development Challenge	Trade Policy Goal
<p>1. Promoting economic development in the regions and across different non-oil sectors in order to reverse inequality trends.</p>	<ul style="list-style-type: none"> • Mainstream foreign trade in a way that empowers non-oil sectors – strengthen export incentives and introduce preferences for import of intermediates for non-oil sectors (esp., agriculture and processing industry) – in order to promote economic development in the regions and across sectors (the government needs to prepare a long term development plan of the country). • Increase productivity and competitiveness, full and efficient realization of competitive advantages, extending export potential and export promotion. • Create favorable conditions for new businesses and protecting local producers from import dumping and unfair protection. • Ensure smooth movement of goods across border, reducing the cost of export/import of goods, strengthening multimodal transportation, cool storage and other facilities for improved market access. • Maximize benefits from the WTO accession.
<p>2. Increasing income generation and create decent employment opportunities, especially for rural population and vulnerable groups.</p>	<ul style="list-style-type: none"> • Increase productivity and competitiveness, full and efficient realization of competitive advantages, extending export potential and export promotion. • Improve and promote market access support leverages (information centers, disseminating information about pricing, rules, and conditions) for non-oil sector, especially the agriculture sector in order to increase income generation opportunities of rural population in rural areas. • Create favorable conditions for new businesses and protecting local producers from import dumping and unfair protection. • Maximize benefits from the WTO accession.

Human Development Challenge	Trade Policy Goal
3. Ensuring that vulnerable groups are provided with decent social protection measures.	<ul style="list-style-type: none"> • Ensure continuing effective use of oil revenues to convert “black gold” into “human gold” (human capital). • Improve the monitoring of the impact of trade measures on government revenues and better analysis of the impact of trade measures on SMEs and employment, and inclusion of adjustment measures if required.
4. Increasing investment in education, health services in order to ensure human capital of the future generation.	<ul style="list-style-type: none"> • Ensure continuing effective use of oil revenues to convert “black gold” into “human gold” (human capital).
5. Increasing public investment in accessible, quality, and affordable private utilities like, water (piped water), electricity and gas.	<ul style="list-style-type: none"> • Ensure continuing effective use of oil revenues to convert “black gold” into “human gold” (human capital).
6. Improving housing conditions for vulnerable strata of the population, especially in rural areas.	<ul style="list-style-type: none"> • Ensure continuing effective use of oil revenues to convert “black gold” into “human gold” (human capital). • Increase agricultural exports through the promotion of businesses in rural areas, with export potential and provision of better infrastructures to reduce the cost of export from rural areas.
7. Ensuring protection of environment and health of population (control over the quality of imported foodstuff).	<ul style="list-style-type: none"> • Implement relevant trade policy measures and strengthen control and test capacity aimed at avoiding imports of low quality foodstuff and environmental risks.

*) National needs assessment, Table 8.1

Central Asia is becoming increasingly important as an alternative source of energy and raw materials and also as a trading partner

for the EU. The Commission announced as early as 2007 its decision to provide some EUR 750 million over the next five-year pe-

riod, with strong emphasis on trade development. Individual member countries, in particular Germany, also show renewed interest in the region. This interest is particularly manifested in the support for the development of east – west transport networks, both road and rail corridors and pipelines for oil and gas, which would allow improved supply of raw materials to Europe and greater trade in finished goods.

Four major IFIs are active in the region: the Asian Development Bank (which administers CAREC, the Central Asian Regional Economic Cooperation), the European Bank for Reconstruction and Development, the Islamic Development Bank (also through ITFC) and the World Bank Group.

At the Expert Meeting in Bishkek, participants noted a number of key success factors that should be taken into consideration when requesting, proposing or using Aid for Trade support from international organisations and agencies:

- Aid for Trade should be demand driven: in line with the principles of the Paris declaration and similar resolutions, it is in the first place the beneficiary countries themselves that will have to take the initiative and to exercise leadership throughout the process;
- Regional organisations need to be involved and help drive the agenda from the outset;
- There has to be strong engagement also by the donor community, both multilateral and bilateral organisations;

- It is essential to elaborate and discuss project ideas with potential donors well in advance of any event like the ministerial meeting;
- The programmes proposed have to be comprehensive and coherent, and the project proposals well prepared; and
- Given the very nature of trade, it is essential to engage the private sector throughout the process, both as partner and as beneficiary.

These points in fact make up the rationale behind the current Aid for Trade initiative, and may seem obvious. However, for the SPECA countries, there is still a need for greater understanding and awareness of the merits/advantages of regional consultation and cooperation when engaging in trade development activities and negotiations.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 Aid for Trade Content and Focus

As underlined in the Aid for Trade Road Map for SPECA, declining trade volumes in countries exporting manufactured goods and services and falling prices in countries exporting primary goods have had a negative impact on all Central Asian countries. However, the global economic crisis has been transmitted to different countries in different ways, due to their different resource endowments, infrastructure, trade potential and priorities, policy environments and national interests. Despite these differences, the SPECA countries, especially because of the fact that they are landlocked, also need to recognise and understand their regional trading environment and the potential advantages of cooperating closely with their neighbours on trade and transport issues.

The Aid for Trade Road Map for SPECA, with its wide range of participating countries and organisations, offers an important opportunity for SPECA countries to work together with their neighbours and the international trade development community in order to meet their trade development challenges.

With this in mind, and in order to focus the attention of the countries themselves and of the donor community on the achievement of tangible, sustainable results, it is proposed to concentrate future work along three main focus areas:

- Supply side/within-border measures;
- Cross-border cooperation; and
- The multilateral trading system.

Each of these three focus areas would in turn incorporate a small number of well-targeted components, as described below (Section 6.2). These would be regional in nature, in order to ensure an appropriate level of harmonisation and consultation between the countries covered. At the same time, individual projects could well be financed and implemented separately.

As mentioned in Section 5.2 above, a number of trade development activities have already been carried out, while others are planned, with both multilateral and bilateral support. Setting them within the context of Aid for Trade for the Region and grouping them along the focus areas identified here will enhance their effectiveness and efficiency and allow new, complementary ac-

tivities to be identified, financed, and implemented in a logical and sequential manner.

A step-by-step approach, aimed at building the capacity of national and regional actors and engaging with them throughout the process, will enhance the absorption capacity of the SPECA countries, create strong multiplier effects, allow a large number of final beneficiaries to be reached, and help ensure sustainability. Engaging at all levels (i.e., governmental, institutional, enterprise) and dovetailing interventions in different but nevertheless related areas (for instance, by ensuring that improvements to border procedures influence the design of border crossing facilities and that the construction of these matches that of corresponding roads) will create strong synergies and help ensure sustainability.

6.2 Priority Actions

In the further course of Aid for Trade work in the SPECA countries, the three focus areas identified above would be broken down in greater detail along the lines indicated below. In each case, existing projects could easily be aligned with this structure, as could the different projects outlined in the national needs assessments. Their broad content is indicated in the summaries attached to the present regional review.

These and other projects are currently being further developed in the form of concept papers setting out their main elements and indicating the level of financing required. The

uniform structure of these concept papers is intended to make it easier to present and discuss the different projects and put them into the Aid for Trade context outlined here. The following text provides a discussion of the priority actions under the different focus areas while an overview is found in the form of the Action Matrix in Section 6.4

6.2.1 Supply side/within-border measures

The first focus area, **supply side/within-border measures**, would be structured around three main components:

- 1) Sector development;
- 2) Development of trade support institutions; and
- 3) Enhancement of the business environment.

Targeted support for the **development of selected sectors** with short to medium-term potential would provide immediate opportunities to achieve tangible results. Such sectors have been identified by various means in most if not all the SPECA countries, including through consultations at country level, as a summary of local initiatives, or by competitiveness analysis as carried out by e.g. ITC and others, including local research institutes. The early lessons learned and the initial outcomes would help direct continued efforts for further development of the same and other sectors. Through this process, sector development would likely lead to improved use of local resources, more

sustainable rural development, and greater employment opportunities, particularly for women.

To start with, as identified in the national needs assessments, the sectors targeted in the Aid for Trade framework would be services, agro-processing, and light industry (textiles and clothing, leather & footwear, other consumer goods), possibly complemented by mechanical and electrical engineering. Enterprise level interventions in each sector would target the most important needs for capacity building and competitiveness enhancement. This means that, in the short and medium term, they would typically be focussed on improvements in purchasing and supply chain management, product development and quality management, and marketing (learning more about clients and their needs, and reaching out to them through sales and distribution).

Development of trade support institutions (TSIs) would complement sector development, and would also help ensure sustainable trade development in the longer term. Well functioning TSIs provide strong leverage for raising the export potential of other enterprises while, at the same time, their own services can also be exported directly.

Taking a broad view of trade support needs, the TSIs concerned would be the major investment and export promotion organisations (some of which may still need to be created), the local consulting industry, the financial services sector, and logistics and forwarding companies. They would typically

benefit from raising their skill levels in the different, specialised services they provide as well as in the management and marketing of these services, and from enhanced networking with other TSIs within each country and abroad. Such networking would be particularly important for trade information.

Enhancement of the business environment goes hand in hand with the development of specific sectors and TSIs, but is also extremely important for improving trade performance and supporting overall economic development in the long run. Opening markets to foreign competition creates incentives and opportunities for enterprises to do better and become more competitive internationally, but they can do so only to the extent that the business environment allows them to. Improving the business environment in each country, with a view to emulating best international practice, would improve trade performance regionally and for each of the SPECA countries.

The keys to enhancing the business environment are regulatory reform and institutional development, simplifying and harmonising rules and regulations and ensuring that they are implemented in a simple, fair and transparent manner. According to the findings of the national needs assessments, the main focus should be: greatly reducing the complexity of licensing and inspections; raising the capacity of accreditation and certification bodies and other parts of the SQAM (Standardisation, Quality assurance, Accreditation and Metrology) system while increasing their efficiency; and making taxation and currency

regulations more conducive to trade development. (Trade facilitation, an essential complement, is covered below.)

6.2.2 Cross-border cooperation

The second focus area, **cross-border cooperation**, would have two main components: the physical and the institutional trade infrastructure and would include both cooperation among the SPECA countries and between SPECA countries and their (other) neighbours.

In trade-related **physical infrastructure development**, cross-border cooperation may include joint projects (with two or more countries as partners) for the construction of works like roads, railways, oil and gas pipelines, electricity transmission lines, and irrigation canals.

However, irrespective of how a particular infrastructure is financed and managed, cross-border cooperation is key for ensuring that major infrastructure investments are made with due consideration of the needs, interests and resources of all the countries concerned. Considerable savings in construction, maintenance and operation costs could be achieved if transport links within and between the SPECA countries were allowed to follow the most economic routes, as dictated by topography and the potential for trade development, rather than by the way borders have been traced. Similar considerations also speak for close cooperation on the design, capacity and management of facilities

for electricity generation and irrigation, and the proper costing and pricing of inputs and outputs, so that demand in the region can be met at minimum cost.

Addressing these aspects properly and at an early stage would help obtain financing, minimise costs and maximise benefits, and thereby secure the long-term success of physical infrastructure investment. Enhanced information exchange, regular consultations and harmonised planning of major investments across the region would, therefore, be important to launch at an early stage of cross-border cooperation on physical infrastructure in the Aid for Trade context and to maintain, as a key element, throughout the preparation and implementation of physical investment programmes.

Cross-border cooperation in institutional infrastructure development complements physical investment as well as efforts to improve the business environment. This component would address a number of key issues for developing overall international trade and particularly between neighbouring countries in the region and with the region's neighbours.

The focus would be **trade facilitation**, i.e., the harmonisation and simplification of rules, procedures and practices for trade across the borders and their formalisation, where appropriate, through corresponding agreements, whether bilateral or multilateral. This could include, for instance, the exchange of customs related information and the mutual recognition of certificates, inspection reports

and the like, so as to minimise the number, the time and the cost of interventions by authorities in the process and, thereby, facilitate the ability of the business community to profitably engage in mutually beneficial trade. Evidently, conformity with international practice would be of paramount importance, in particular as this may also be required for WTO accession.

The important role of transit through and between the SPECA countries would need to be kept in mind; depending on the circumstances, facilitating transit may require adherence to, or improved application of international agreements like the TIR convention, or the preparation of agreements specific to the region but in accordance with best international practice.

6.2.3 The multilateral trading system

The Multilateral Trading System (MTS) and related matters is the third focus area. Here, three main components would serve to facilitate the integration of the SPECA countries into the multilateral trading system, including, as applicable, the creation of favourable conditions for and a positive outcome to WTO accession processes and the maximisation of membership benefits:

- 1) Building awareness and knowledge of the multilateral trading system;
- 2) Identifying common trade interests; and
- 3) Consultation and cooperation on practical MTS related measures.

Activities aimed at building awareness and knowledge should be extended to both the business community and the competent authorities in each country. This component would help disseminate information about the multilateral trading system and how it works; identify correctly the threats and opportunities for the national economy, its various sectors and individual enterprises; and analyse the potential effects of various policy measures. This would help countries to take suitable measures for maximising the benefits of MTS participation and identifying which negotiation positions to take.

A mechanism for such continued information and consultation would provide a sound basis for policy making.

Once well-informed national stances on MTS have been formulated, it would be useful to **identify and formulate the common interests of the SPECA countries**. By agreeing, as appropriate, on common positions and priority fields for negotiations, they would strongly improve their chances of success, both individually and collectively. Exchange of views, ideas and experiences between the countries would have clear benefits; this could be done through a mechanism such as holding regular meetings of negotiators and business community representatives with their opposite numbers in other SPECA countries.

Participating in the multilateral trading system also implies obligations to introduce and to apply the rules and regulations of specific agreements. This often requires chang-

ing the way specific institutions work, or creating new ones for this purpose, hence the advantage of **consultation and cooperation on practical, MTS related measures.**

Examples of this are the adoption or amendment of regulations related to TBT (Technical Barriers to Trade) and SPS (Sanitary and Phyto-sanitary Standards) and the setting up of corresponding enquiry points. Here, harmonising the approaches and sharing information on progress made and lessons learned will improve the quality of the process and prevent discrepancies, which may be difficult to amend at a later stage. Conceivably, it might even be possible to share some aspects of implementation, for example the revision of technical regulations where countries with similar needs and conditions might decide to do this jointly, with each country taking the lead on selected standards, in order to speed up the process, reduce costs and ensure that regulations are appropriately similar. Countries might also decide in some areas to develop common regulatory objectives (normally performance-based) and agree upon international or regional standards that meet the objectives and can be commonly implemented in national legislation.

6.3 Coordination and Implementation

After the ministerial meeting, which is planned to be held in Baku in December 2010, a number of follow-up activities would need to be carried out in order to achieve the objectives agreed on. These include:

- 1) Preparation of project documents based on the concept notes retained for further action;
- 2) The development of concept notes for any agreed priorities where no concept notes were submitted, or where the coverage of the submitted concept notes was not adequate;
- 3) Consultations between countries and with donor agencies regarding the sequencing and necessary coordination of the proposed projects;
- 4) Financing of the various programmes and projects;
- 5) Engagement of executing agencies, consultants and contractors;
- 6) Project management;
- 7) Regular consultations between the countries involved in regional or cross-border projects under preparation or implementation;
- 8) Regular meetings for agreeing between the countries concerned on matters of common interest, e.g. harmonisation of policies, procedures and practices or support for regional or cross-border projects;
- 9) Regular consultations on operational matters between the executing agencies, consultants and contractors and other entities engaged in the implementation of inter-related Aid for Trade projects in the region;
- 10) Monitoring, reporting and evaluation at a project, country and regional level.
- 11) Complementary policy action and institutional development;
- 12) Feedback of lessons learned into the design and development of follow-

up or complementary projects, the enhancement of national policies, regional cooperation, and future Aid for Trade initiatives.

The follow-up activities mentioned above would require suitable implementation arrangements. Even if initial success may be achieved quite early in many of the projects currently considered, the time span required for many of the envisaged new measures to achieve a lasting impact would be, for the most part, no less than some five years. This means that continuity in the Aid for Trade implementation arrangements is very important.

As noted at the expert meeting in Bishkek, the Aid for Trade experience so far indicates that the institutions and mechanisms for facilitating the Aid for Trade implementation process would benefit from meeting the following criteria, among others:

- 1) Being acceptable to all the countries concerned and the organisations involved;
- 2) Ensuring the necessary compatibility between national projects in different countries;
- 3) Allowing for consultations on or, as appropriate, coordination of regional or cross-border projects (in addition to mechanisms which may have been put into place for an individual project);
- 4) Providing a forum for effective and efficient dialogue between stakeholders, in particular between the private and the public sector and with the general public;

- 5) Giving appropriate transparency and publicity to the objectives, means and results of the Aid for Trade initiative; and
- 6) Allowing suggestions, proposals and complaints to be lodged and dealt with.

Several institutions could be considered for this purpose. In this context, it may be worthwhile noting that the seven SPECA countries are currently defined as a group only by virtue of their common membership in this particular programme. There is no other regional organisation grouping only the same countries and, consequently, no other institutional mechanism for formal cooperation among them.

The one body currently dealing with trade development and related topics for the SPECA countries only is thus SPECA itself, and particularly its Project Working Group on Trade (PWG Trade) and the Project Working Group on Transport and Border Crossing (PWG Transport). Its mandate would seem to relate to most or all of the fields of Aid for Trade. However, the current mode of operation of these PWGs may not necessarily suit all the needs for implementation of the Aid for Trade process; in particular, the PWGs now seem to work rather independently and do not meet frequently enough to allow them to deal with urgent matters in the course of programme implementation.

There are, on the other hand, overlaps with the mandates and activities of e.g. CAREC, the IFIs, UNCTAD, WCO in fields like trade infrastructure, trade facilitation, quality management and technical regulations, and both

SPECA and the other entities have voiced the need for better coordination and closer co-operation between them.

This could possibly be resolved by a Regional Aid for Trade Advisory Group that would include major donors and implementing agencies and would be linked to the SPECA Project Working Group on Trade (who would provide the high-level linkage into national governments of the region). This Advisory Group would follow-up to ensure that priorities identified in the national needs assessment reports and in the regional review are addressed.

As an alternative, an "Aid for Trade Steering Group", formally under SPECA but with the participation of both the countries concerned and the other agencies involved could be envisaged, perhaps along the lines of the "Aid for Trade Regional Coordination Team" having acted as the main coordination body for the preparation of the expert and ministerial meetings. Similarly, "Aid for Trade Country Teams", as set up for the national needs assessments and related work, could continue to operate in each country to embody the national ownership and ensure the effective coordination of the process at the country level.

At the same time, other agencies already have a clear mandate of their own under the global Aid for Trade initiative, especially WTO and OECD, and would continue exercising it, *mutatis mutandis*, in the SPECA region. This may particularly concern monitoring and evaluation of Aid for Trade, where there may

be a scope for improving the flow of information and its use.

6.4 Action Matrix

The focus areas proposed and their main components, as well as the corresponding action programmes can be presented in the form of a regional action matrix, as follows. This matrix can be further broken down at project and even activity level, with indication of corresponding outcomes, outputs and inputs, as well as specific targets as appropriate and indicators suitable for monitoring purposes. In this way, it may serve as a logical framework for all Aid for Trade activities in the region as well as within each country, whether they are aggregated from individual, local initiatives or disaggregated from national or regional programmes.

Focus area Component- Programme	Suggested actions	Objectives	Timing	Resources and support required
1	Supply side/border-in measures	Raise the international competitiveness of the SPECA countries and support diversification		
1.1	Sector development	Build enterprise capacity to profitably develop, produce and sell products meeting international requirements	2011-2015	
1.1.1	Agro-processing development	Create a sustainable market for local produce; open the international market to processing enterprises; provide employment opportunities	2011-2015	Technical cooperation support, market access, local resources for diversification and enterprise development, private sector participation, incl. engagement of local TSIs; external support budget tbd
1.1.2	Light industry development	Create a sustainable market for local raw materials; open the international market to processing enterprises; provide employment opportunities	2011-2015	As above
1.1.3	Services development	Create a sustainable market for local knowledge and skills; open the international market to service providers; provide employment opportunities	2011-2015	As above

Focus area Component- Programme	Suggested actions	Objectives	Timing	Resources and support required
	Other sectors tbd	As appropriate		
1.2	Development of trade support institutions	Enable TSIs to sustainably provide quality services for trade development	2011-2014	
1.2.1	TSl capacity building	Raise skill levels and improve operations of existing TSIs, support the creation and development of new ones	2011-2013	Technical cooperation support, local resources for trade development support, TSl participation; external support budget tbd
1.2.2	Improved cooperation and networking between TSIs	Raise effectiveness and efficiency of the trade development system in each country and across the region	2012-2014	As above
1.3	Enhancement of the business environment	Support sector development and sustainable trade performance improvement	2011-2016	
1.3.1	Simplification and harmonisation of business regulations, including licensing and inspection regimes	Make it easier to start, run and close a business	2011-2016	Technical cooperation support, participation of the competent authorities and institutions; external support budget tbd

Focus area Component- Programme	Suggested actions	Objectives	Timing	Resources and support required
1.3.2	Standardisation, quality assurance, Accreditation and Metrology infrastructure development	Help enterprises achieve and demonstrate conformity with internationally accepted technical regulations and standards	2011-2014	As above
1.3.3	Simplification of taxation and currency regulations and harmonisation with trade development requirements	Ensure that enterprises can profitably develop international trade, paying suppliers, getting paid by clients and paying taxes in a simple and transparent manner	2011-2014	As above
	Other business environment measures tbd	As appropriate		As above
2	Cross-border cooperation	Build mutually beneficial trade among the SPECA countries themselves and with their (other) neighbours		
2.1	Physical infrastructure development		2011-2020	
2.1.1	Intra-regional physical infrastructure investment consultation mechanism	Reduce costs, maximise benefits within existing constraints and optimise location, capacity, management and financing of trade related physical infrastructure of regional importance	2011-2012	Participation by the national and regional entities concerned, technical cooperation support as may be required; external support budget tbd

Focus area Component- Programme	Suggested actions	Objectives	Timing	Resources and support required
2.1.2	Telecoms network development and IT related legislation	Optimise conditions for exchange of information and production and distribution of ICT enabled services	2011-	Participation by the national and regional entities concerned, technical cooperation support and investment funds as may be required; external support budget tbd
2.1.3	Road and rail network investment	Optimise conditions for transport of goods and passengers	2011-	Participation by the national and regional entities concerned, investment funds and technical cooperation support as may be required; external support budget tbd
2.1.4	Border crossing facilities	Optimise the physical conditions for speedy, effective and efficient border procedures	2011-2015	As above
2.1.5	Electricity production, transport and distribution development	Optimise use of electricity as a subject of and a means for trade development	2011-	As above
2.1.6	Oil and gas pipelines and processing facilities	Optimise the conditions for trade in hydrocarbons	2011-	As above
2.1.7	Water management development	Optimise the conditions for sustainable water use, particularly for electricity generation, irrigation and environmental enhancement	2011-	As above

Focus area Component- Programme	Suggested actions	Objectives	Timing	Resources and support required
	Other trade related physical infrastructure investment (logistics, cold chain, etc.) as appropriate	As appropriate		As above
2.2	Institutional infrastructure development		2011-2015	
2.2.1	Trade facilitation	Create rules, procedures and practices for trade across the borders which are simplified and harmonised across the region, suitably formalised and properly implemented	2011-2015	Participation by the national and regional entities concerned, technical cooperation support as may be required; external support budget tbd
2.2.2	Development and harmonisation in other areas, such as regulations, principles, procedures and institutions for cross-border trade, as appropriate	As above	2011-2014	As above

Focus area Component- Programme	Suggested actions	Objectives	Timing	Resources and support required
2.2.3	Adhesion to or amendment or creation of transit related agreements	Create a suitable legal framework for quick, cheap and safe transit between and through the SPECA countries	2011-2013	Participation by the national and regional entities concerned, support from the bodies governing of existing conventions etc., technical cooperation support as may be required; external support budget tbd
3	Multilateral Trading System (MTS)	Facilitate the successful integration of the SPECA countries into the multilateral trading system		
3.1	Building awareness and knowledge of MTS (to be tailored depending upon where countries are in the accession process)	Create a basis for sound policy making and co-operation	2011-2015	
3.1.1	Analysis of the potential benefits and costs of MTS related policy options	Create a sound knowledge basis for policy making	2011-2012	Technical cooperation support, including provision and analysis of data as needed, participation of the competent authorities and institutions; external support budget tbd

Focus area Component- Programme	Suggested actions	Objectives	Timing	Resources and support required
3.1.2	National and intra-regional private and public sector Information and consultation meetings	Identify opportunities for the national and regional economy, discuss negotiation positions to be taken and help take suitable measures for maximising the benefits of MTS participation	2011-2015	Participation by the national and regional entities concerned, technical cooperation support as may be required; external support budget tbd
3.2	Identifying common interests and acting on them	Strengthen the negotiation position of the SPECA countries individually and collectively and raise the chance of success	2011-2015	
3.2.1	Intra-regional meetings of negotiators and business community representatives	Enhance knowledge, understanding and acceptance of interests and positions across the region and provide a forum for concertation	2011-2015	Participation by the national and regional entities concerned, technical cooperation support as may be required; external support budget tbd
3.3	Consultation and cooperation on practical measures	Make MTS related institutional development speedier, cheaper and more sustainable	2011-2015	

Focus area Component- Programme	Suggested actions	Objectives	Timing	Resources and support required
3.3.1	MTS related regulatory reform (to be harmonised with 1.3 and 2.2 above)	Develop regulations which are compatible with WTO requirements and harmonised across the region; share regulatory development work load	2011-2014	Participation by the national and regional entities concerned, technical cooperation support as may be required; external support budget tbd
3.3.2	Institution building, e.g. setting up SPS and TBT enquiry points, etc.	Create institutions which are compatible with WTO requirements and work in a similar way across the region	2011-2015	As above

7 ANNEXES

Annex 1: National Needs Assessment for Azerbaijan (Summary)

1. Macroeconomic overview

The economy of Azerbaijan is dominated by oil revenues, which have risen strongly in recent years. However, production is now close to its peak, and GDP growth is likely to slow down further from the real increase of 9.3 % in 2009.

Despite a fall in exports, GDP growth remained almost stable in 2009 compared to 2008, and the economic crisis affected Azerbaijan less than many other CIS countries. The continued investment in oil production and transport as well as the domestic financial reserves accumulated allowed the Government to mitigate much of the short-term impact of the crisis. Nevertheless, it highlighted a number of structural issues with long-term effects on the economy and on human development, in particular the need for diversification. The banking sector, being

Main economic indicators	2005	2006	2007	2008	2009
GDP at market prices (Manat million)	12,523	18,746	28,361	40,137	34,578
GDP (USD billion)	13.2	21.0	33.0	48.9	43.0
Real GDP growth (%)	26.4	34.5	25.0	10.8	9.3
Consumer price inflation (end-period; %)	5.3	11.4	19.7	15.5	0.6
Population (million)	8.4	8.5	8.6	8.8	8.9
Exports of goods fob (USD million)	7,649	13,015	21,269	30,586	21,097
Imports of goods fob (USD million)	4,350	5,269	6,045	7,575	6,514
Trade balance (USD million)	3,299	7,745	15,224	23,012	14,583
Current-account balance (USD million)	167	3,708	9,019	16,453	10,178
Exchange rate (end-period) Manat/USD	0.92	0.87	0.85	0.8	0.8

Source: Economist Intelligence Unit 201

Main origins of GDP 2009	% of total	Main components of GDP 2009	% of total
Agriculture & forestry	5.6	Private consumption	43.2
Industry	61.4	Public consumption	12.9
Services	33.0	Gross fixed investment	18.2
		Change in stocks	0.1
		Net exports	25.0

Source: Economist Intelligence Unit 2010

small and little exposed to foreign markets, found itself lacking liquidity, leading to a reduction in lending to households and enterprises, but was otherwise not unduly affected, as the Central Bank took a number of supporting measures.

Social sector expenditure increased and salaries were raised in the education and health sectors, which helped to offset the negative effects of the crisis. Efforts started on modernisation and restructuring of the agricultural sector and support for the development of other non-oil sectors.

Coming out of the crisis, higher oil prices now support recovery. The government is

actively using the oil proceeds to support the diversification of the economy in a way that makes trade drive human development, including an emphasis on developing agriculture and creating employment opportunities and raising income levels in the province.

2. Trade dynamics

The foreign trade of Azerbaijan has been characterised by an unusually strong growth of exports since over five years, driven by rising production of oil. At the same time, non-oil sectors have grown less rapidly, and their share of exports went down from 8.8 % in 2001 to 3.0 % in 2008, giving Azerbaijan a

Principal exports 2009	% of total	Principal imports 2009	% of total
Hydrocarbons, coal, electricity	92.9	Machinery and equipment	18.9
Ships, other floating structures	1.1	Electrical, electronic equipment	15.9
Fruit, nuts	1.0	Vehicles	9.3
Fats and oils	0.9	Articles of iron or steel	6.4

Source: ITC Trade Map 2010

very high product concentration ratio for exports. Although oil production is expected to start declining soon, gas production is rising, maintaining the dominance of hydrocarbons among goods exported.

and market knowledge and marketing skills are lacking. However, the outlook has been slightly better for agricultural products, where exports are improving relative to imports.

Main destinations of exports 2009	% of total	Main origins of imports 2009	% of total
Italy	25.8	Russian Federation	17.5
United States of America	11.9	Turkey	14.8
France	9.0	Germany	9.0
Israel	8.4	Ukraine	8.4
Russian Federation	5.1	China	7.9

Source: ITC Trade Map 2010

Correspondingly, the distribution of total exports by country largely reflects the nationality of the clients for Azeri oil, with Italy appearing as the major one. Non-oil exports go mainly to Russia, and only a few per cent to EU countries. Along with the high product concentration ratio, the market concentration ratio is thus also quite high. In addition, the economy is strongly influenced by fluctuations in price and demand for oil and gas on the world market.

In the non-oil sectors, agricultural products have about the same share as manufactured goods (including machinery and equipment). In both cases, many local products do not meet world standards of quality, the capacity to design and develop new products is limited, production equipment is outdated,

3. Trade related policies and practices

Azerbaijan applied for WTO membership in June 1997. Progress has been achieved in membership negotiations and in adjusting legislation to meet WTO requirements. The country is targeting admission with developing country status. It is considered that Azerbaijan's eventual WTO membership will strengthen the potential to attract foreign investment in a wide range of sectors and will give the national economy greater opportunities to realise its comparative advantages in the world market and to become further integrated into the world's economic system.

In 1992, Azerbaijan signed trade agreements with all the republics of the former USSR except Armenia. Azerbaijan joined the Com-

monwealth of Independent States (CIS) in September 1993 and acceded to the CIS economic union treaty the same year. Azerbaijan is a member of the Economic Cooperation Organization. In 1999, Azerbaijan entered into a Partnership and Cooperation Agreement with the European Union. Since it envisages seeking EU membership in the long run, it is trying to match the EU preliminary conditions for membership. Also, the country is a member of numerous other international economic organizations.

According to the World Bank's 'Doing Business' Report 2009, Azerbaijan's rank in 'Ease of Trade Across Borders' is one of the worst in comparison to comparable economies, and it ranks 111th (out of 150) on the Logistics Performance Index for 2006-2008. Companies active in foreign trade encounter many obstacles from excessive bureaucracy, inadequate transparency, uneven enforcement of laws, and regulations that become effective with no advance notice. To address some of these issues, the WCO Framework of Standards to Secure and Facilitate Global Trade now starts being implemented, and the 'single window' principle is gradually being put into practice.

The current customs tariffs system is multi-level (0%, 0.5%, 1%, 3%, 5%, 10%, and 15%), although steps are being taken towards a more simple system with fewer tariff levels (0%, 5%, 10%, and 15%). Unfortunately, many inputs, components and intermediates which have to be imported for the production of non-oil goods and agricultural products are subject to a tariff rate of 15 % that

increases production costs and in turn has a negative impact on the competitiveness of the products in international markets.

Azerbaijan has made some progress on technical regulations and related matters. A law on phyto-sanitary control was adopted and a law on technical regulations was drafted and submitted to the Cabinet of Ministers. To implement this law, eight by-laws are being prepared. Further, a State Programme on the Development of the Standardization Sector has been established. ISO standards are already being applied and Azerbaijan is reflecting on the ways and means to implement EU standards and render the use of standards voluntary.

The Azerbaijan Export & Investment Promotion Foundation (AZPROMO), the Entrepreneurs' Council, the Azerbaijan Chamber of Commerce and Industry are joint public-private initiatives established by the Government of Azerbaijan with an aim to participate in trade policy formulation and facilitating trade. Otherwise, the network of trade support institutions is little developed, although there are ambitions to develop centres of excellence in trade related fields of expertise, possibly in cooperation with other countries in the region.

Among other trade related policies and practices, company registration in Azerbaijan is rather transparent and one-stop-shop. On the other hand, companies consider that bureaucratic procedures contribute to long delays in obtaining and renewing other, various permits and licenses necessary for operations. Taxation remains an issue, with Azerbaijan having a quite low 'Doing Business'

ranking in this respect, and suffering from having agreements on avoidance of double taxation with 28 countries only. The financial sector and its services would also have room for improvement, especially for facilitating SME development in non-oil sectors. To this effect, regulatory measures would be necessary and could be sufficient.

4. Obstacles and opportunities for trade development

Infrastructure is considered the key challenge for Azerbaijan's trade development, particularly considering its geographic location. It is at the crossroads between the East-West Trans-Caucasian route, a corridor potentially linking Europe to China, and a North-South route, linking Russia to Iran, down to the port of Bandar Abbas. As is the case for other land locked countries in the region, its geographical remoteness makes Azerbaijan dependent on neighbouring transit countries for its external trade: their infrastructure, political relations, administrative procedures and practices. Unfortunately, natural barriers, political issues and poor infrastructure hamper the increase of trade through all the trade routes mentioned. Although pipelines and seaports (on the Caspian Sea) have seen strong development in recent years, further investments are needed in roads, railways, border crossing facilities and goods terminals. A range of corresponding, specific projects has been identified.

Removing institutional obstacles towards trade facilitation is another vital challenge for Azerbaijan and could even be as important

as the removal of tariff barriers. With the reduced time and cost of trade transactions, exporters could be more competitive in international markets. This would have to include a full range of measures for making the current trade facilitation initiatives effective as soon as possible.

A further, major challenge related to trade facing Azerbaijan in the near future is the WTO accession. In order to comply with WTO rules, the country will have to carry out reforms in trade policies and regulations (tariffs, standards and regulations, the custom valuation approach, the Custom fee, VAT charges etc.) before it can draw the full benefits of membership. It also has to pay attention to the needs and interests of less advanced regions and sectors in the country, whose potential for development should be enhanced by the conditions of membership.

Some specific sectors have been identified as having short to medium term development potential, based on current trends in the growth rates of world imports and of the Azeri market share, i.e., picking those with exports growing faster than total trade. Among these, a wide range of agricultural products, certain equipment for oil production, and refined oil products may be mentioned.

5. Focus areas for trade development

For shorter-term trade development, one focus area would be sector specific actions to raise enterprise skills and facilitate access to foreign markets, through measures di-

rectly at enterprise level and by strengthening the trade support institutions.

Longer-term economic growth, supporting human development at large, clearly calls for improving the conditions for raising the international competitiveness of manufactured products and services in general. Correspondingly, the national needs assessment identifies the need for priority actions in several, related areas:

- 1) Trade facilitation:
 - a) Modernise customs legislation and regulations;
 - b) Implement simplified procedures and ensure they are applied;
 - c) Review and simplify tariffs, lower them generally, especially for inputs required for goods to be exported;
 - d) Establish bonded warehouses and special economic zones;
- 2) Business environment:
 - a) Simplify the regulatory environment;
 - b) Ensure fair and transparent application of rules and regulations;
 - c) Improve the access to financing for investments and operations;
 - d) Improve the quality of and the access to trade information;
- 3) Infrastructure investment:
 - a) Roads;
 - b) Railways (track and rolling stock);
 - c) Goods terminals;
 - d) Border crossing facilities;

4) WTO accession:

- a) Build institutional capacity for successful WTO negotiations and accession;
- b) Retain the advantages of current market access arrangements;
- c) Secure favourable conditions for the development of disadvantaged regions and of sectors with future potential.

Annex 2: National Needs Assessment for Kazakhstan (Summary)

1. Macroeconomic overview

Kazakhstan is a large, thinly populated country with an economy currently dominated by commodities, but with the means and ambitions to diversify into other goods and services. Growing export earnings have allowed GDP per capita to rise strongly.

In Kazakhstan, the economic crisis had particularly serious effects on the financial sector. The many large, short-term foreign currency loans taken up by local banks suddenly became difficult or impossible to roll over or refinance. As a result, the local supply of credit decreased sharply. The credit volume had risen by 54.7 % in 2007 only, but remained practically constant in 2008. This led to difficulties for industrial and commercial firms, who also saw both foreign and domestic demand melt away. Residential property, which typically was mortgaged, fell in value by 30 %. Agriculture and construction

Main economic indicators	2005	2006	2007	2008	2009
GDP at market prices (Tenge billion)	7,591	10,214	12,850	16,211	15,574
GDP (USD billion)	57.1	81.0	104.9	134.4	105.6
Real GDP growth (%)	9.7	10.7	9.0	3.3	1.2
Consumer price inflation (av.; %)	7.5	8.3	18.8	9.5	6.2
Population (million)	15.2	15.4	15.6	15.8	16.0
Exports of goods fob (USD million)	28,301	38,762	48,351	71,971	43,839
Imports of goods fob (USD million)	17,979	24,120	33,260	38,452	28,774
Trade balance (goods, USD million)	10,322	14,642	15,091	33,519	15,065
Current-account balance (USD million)	-1,056	-1,999	-8,226	6,596	-3,405
Exchange rate (av.) Tenge/USD	133.77	127	120.3	120.79	148.2

Source: Economist Intelligence Unit 2010

also suffered, and output and staffing of SMEs fell considerably. The consequences on human development were clearly negative.

The financial sector thus faced the immediate prospect of wholesale crash. The pressure for devaluation was strong. The government was obliged to offer strategic assets for sale to international buyers and, with IMF support, to re-

structure the banking sector. Short-term measures were taken to develop the residential sector, support SMEs, develop agriculture and agro-processing, and start new innovation and investment projects. A number of longer-term development programmes were launched to diversify the economy, away from its increasing dependence on the extractive sector, and secure sustainable development.

GDP by origin 2009	% of total	GDP by expenditure 2009	% of total
Agriculture & forestry	6.2	Private consumption	46.7
Industry	37.6	Public consumption	12.7
Services	54.9	Gross fixed investment	30.7
		Change in stocks	1.5
		Net exports	9.0

Source: Economist Intelligence Unit 2010

Principal exports 2009	% of total	Principal imports 2009	% of total
Hydrocarbons, coal, electricity	69.5	Machinery and equipment	19.1
Iron and steel	6.9	Articles of iron or steel	16.1
Inorganic chemicals	5.0	Hydrocarbons, coal, electr.	10.0
Ores, slag, ash	4.0	Electrical, electronic eqpm't	8.1

Source: ITC Trade Map 2010

The recent increase in demand and prices of many export items now alleviates the effects of the economic crisis and again improves the level of economic and human development.

2. Trade dynamics

Kazakhstan enjoys a strongly positive trade balance in goods, whereas the services balance has had a deficit of 6 – 8 billion USD in recent years. The extractive industries, including initial transformation of raw materials, dominate Kazakh foreign trade since a number of years. Their outputs comprise the bulk of exports. Although more diversified,

imports are largely composed of equipment and services required for the operation of existing facilities and for investment in new plant.

The main trading partners for goods are thus those buying oil, metals and minerals and supplying machinery and equipment for their extraction and transformation. However, fluctuations in price and demand for raw materials make the country vulnerable to external shocks. In addition, the negative effects of the fall in demand and prices during the economic crisis were compounded by the high foreign currency exposure of the industry and banking sector and the short-term nature of many loans.

Main destinations of exports 2009	% of total	Main origins of imports 2009	% of total
Italy	15.5	Russia	31.3
China	13.6	China	12.6
Russia	8.2	Ukraine	7.5
France	7.8	Germany	7.2
Switzerland	6.1	Italy	6.8

Source: ITC Trade Map 2010

It is noteworthy that iron and steel come second among goods exported, while articles of iron or steel come second among imports; likewise, crude oil is exported whereas refined products are imported. Raw materials are thus transformed into finished goods within Kazakhstan only to a small extent, despite the relative abundance also of low cost labour, at least in the past – wages for qualified staff are now rising strongly.

While the country's competitive advantage in raw materials will remain undisputed for some time, efforts are, nevertheless, being made to diversify into a wider range of manufacturing, with higher value added, as well as into greater provision of services. These would partly replace foreign inputs for the extractive industries and provide a greater range of locally produced consumer goods, and contribute to a greater product and market diversity of exports. As a complement, despite the largely arid environment, the vast land surface may allow production of grain, meat as well as fruit and vegetables to grow, supporting a growing, export oriented agro-processing industry. However, all of this requires the introduction of modern technologies and the application of best international practices.

3. Trade related policies and practices

From the time of its independence, Kazakhstan has largely followed a policy of trade liberalisation. However, the notional benefits of this approach have not always materialised, and the country's vulnerability to external shocks is felt to have increased. Rising

prices of raw materials for export have generated high revenues but required heavy investment, with the ultimate effect of crowding out other branches of industry and lowering their international competitiveness.

Kazakhstan applied for WTO membership early 1996, and the Working Party for accession has met several times. Currently, the intention is for Kazakhstan, Russia and Belarus to activate the accession process in order to become members soon, at the same time and on the same conditions. Trade policy measures intended to support the development of diversified, local manufacturing and service industries are envisaged to be taken as a prelude to WTO membership. These may include selective increases of the tariffs applied by the new customs union on certain imports from countries not currently benefiting from free trade agreements.

Originally foreseen in the framework of EurAsEC, a customs union with Russia and Belarus became effective with the adhesion of Belarus on 5 July 2010. A single, common set of tariffs and a list of goods for which common, non-tariff regulations are to be applied are in force since 1 January 2010. The intention is for it to be a stepping-stone towards greater economic integration between the three member countries and creation a Common Economic Space by 2012 with the freedom of movement of services, goods, labour and capital. However, Kazakhstan's trade relations with other SPECA countries are not expected to be unduly affected, since the advantages offered by existing free trade agreements (CIS and bilateral) are intended to remain.

In parallel with the work on putting the customs union into practice, the customs authorities of Kazakhstan have taken a number of initiatives to simplify and speed up border procedures, applying the 'single window' principle.

Foreign direct investment is recognised as helping bring in the capital, know-how and client contacts useful for raising the product and market diversity of exports. Likewise, export development benefits from targeted support for helping local enterprises develop internationally competitive products and sell them abroad. In both cases, the Kazakh investment and export promotion agency KAZNEX is playing a very active role.

Nevertheless, favourable trade development also depends on the business environment in general, where there could be room for improvements. In particular, the regulatory framework for starting and running an enterprise is still quite complicated, hampering also the development of foreign trade. The transport infrastructure has seen heavy investment in recent years but the country still suffers from being land-locked, at great distance from many important markets. Nevertheless, its location gives it an evident key role for transit in both the east-west and the north-south direction, and the opportunity to add value to goods in transit.

4. Obstacles and opportunities for trade development

As mentioned earlier, the economic crisis has highlighted some obstacles for trade development. Among these are the high exposure

to the international market, the continued dominance of non-renewable raw materials in exports, the very narrow range of other, internationally competitive local products, the high input intensity of manufacturing, and the current disconnection between the financial and the productive sectors.

Large investments would thus be required to raise the number and diversity of enterprises engaged in manufacturing, give them access to the financial and human resources necessary for their development, provide skills and know-how for sustainable production, raise the level of market orientation in product design, promotion and distribution, and create a supportive business environment.

In recent years, the growth of agriculture has mainly taken place in grain production and trade. At the same time, many branches of agriculture have remained vulnerable, including the meat and dairy sector, wheat, peas, rice, sunflower oil, sugar, tomatoes and jams, and require protection in parallel with reforms. These would be aimed at e.g. raising the level of investment in the sector, making more equipment and facilities available, increasing the use of fertilizers, high quality seeds and fodder, improving irrigation, and rationalising trade in agricultural products; thus, by the various means mentioned, improving their competitiveness.

Future trade development efforts would thus be concentrated along three priority lines:

- Essentially export oriented sectors making use of the country's natural re-

sources (oil production, energy production, iron and steel, and other metals);

- Transformation of local raw materials into finished goods, mainly for the local market but with potential for exports (light industry, chemical and petrochemical industry, pharmaceutical and medical industry, food industry, textiles and clothing); and
- Agricultural products.

Finally, the development of the service sector is also a priority, with the ambition to greatly raise the range and the quality of services provided in order to close the trade gap in this field. The existing legislative framework is clearly not adequate (for new types of services there is no relevant legislation). Therefore, the authorities intended to apply provisional regulatory measures related to trade in services. Administrative measures are already being taken to raise the 'local content' of services and employment but reaching the objectives would also require considerable investment in education and training, as well as continued access to foreign know-how.

5. Focus areas for trade development

In the light of the above, three main priority fields have been identified for government action:

- Trade policy measures linked to WTO accession (assessment of effects, especially on agriculture and rural development; service sector development

strategy; national export strategy; investment strategy, including for targeting specific branches or regions);

- Support for agriculture and agro-processing (functioning and protection of the market; infrastructure development; securing quality feed for development of meat, poultry and fish production; improvement of farm structure and producer cooperation; trade information and business development support in rural areas; international standards, including for food safety; engagement of international organisations for agricultural and rural development; trade information and marketing; facilities and organisations for selling and distributing agricultural products and financing exports); and
- Trade, and related services (policies and regulations for trade and distribution; modernisation, development and support of distribution facilities (by region); elimination of administrative barriers to trade; trade monitoring).

These would ideally be supported by a range of Aid for Trade related projects, of which the following have already been specifically identified:

- Creation of SME-like innovation centres at higher education establishments;
- Preparation of FDI policy aimed at supporting diversification and raising value added;
- Exploration of the export potential of organic agriculture;
- Resolution of food security and pricing issues;

- Creation of umbrella brands (by sector) for Kazakh products;
- Improvement of export packaging;
- Access to the international market for humanitarian goods; and
- Protection of traditional know-how in arts and handicrafts and development of the market for such products.

A particular characteristic of the economy is the growth of the population, which according to national statistics has risen by about 10 % since 2000, most of it in the economically active age groups. At the same time, the total work force constitutes little more than 40 % of the population, with a third of it active in agriculture. There has been a strong inflow to urban areas as well as a considerable number of workers going abroad for lack of local jobs. In the short term, this may indicate both a challenge to provide improved employment for a comparatively large share of the population and an opportunity for enterprises to raise output by engaging more staff; in the longer term, however, the need for investment in education and training is also obvious.

The economic crisis has had a number of negative effects on human development. As a re-

Annex 3: National Needs Assessment for Kyrgyzstan (Summary)

1. Macroeconomic overview

Kyrgyzstan is one of the smaller SPECA countries, with quite low GDP/capita, and an economy still largely dominated by agriculture.

Main economic indicators	2005	2006	2007	2008	2009
GDP at market prices (Som billion)	100.9	113.8	141.9	188	196.4
GDP (USD billion)	2.5	2.8	3.8	5.1	4.6
Real GDP growth (%)	-0.2	3.1	8.5	8.4	2.3
Consumer price inflation (av.; %)	4.4	5.6	10.2	24.5	6.9
Population (million)	5.2	5.2	5.3	5.3	5.4
Exports of goods fob (USD million)	687	906	1,337	1,847	1,726
Imports of goods fob (USD million)	-1,106	-1,792	-2,636	-3,754	-2,987
Trade balance (USD million)	-419	-886	-1,299	-1,907	-1,261
Current-account balance (USD million)	-60	-299	-263	-680	184
Exchange rate (av.) Som/USD	41.01	40.15	37.32	36.57	42.9

Source: Economist Intelligence Unit 2010

GDP by origin 2009	% of total	GDP by expenditure 2009	% of total
Agriculture & forestry	24.8	Private consumption	91.0
Industry	23.1	Public consumption	19.2
Services	52.0	Gross fixed investment	27.9
		Change in stocks	-8.9
		Net exports	56.2

Source: Economist Intelligence Unit 2010

sult of lower economic activity abroad, especially in Russia and Kazakhstan, job opportunities for workers abroad have gone down, their remittances have shrunk, and their families at home have had less money to spend. Some workers have found themselves obliged to return but have often remained without any alternative gainful occupation. The reduction in domestic and foreign demand has decreased the level of activity in manufacturing, adding to unemployment.

The financial sector is fairly small and several major banks are dominated by Kazakh interests. As a consequence, the Kyrgyz banking system has been drawn into the financial crisis, leading to sharply reduced lending which in turn has created liquidity problems for the enterprises and put a brake on the modernisation of the manufacturing industry.

On the positive side, rising gold prices during the crisis have allowed GDP growth to remain positive and helped reduce the fall in the value of exports.

For now, the immediate effects of the crisis appear as being overcome. However, given

the generally low international competitiveness of Kyrgyz enterprises, rising demand in countries like Russia risks creating more of an outflow of workers than of an increase in local production and exports, unless trade development efforts become increasingly effective.

2. Trade dynamics

Kyrgyz foreign trade has grown strongly over the last ten years. In particular, imports rose by 28 % per year 2000-2008, surpassing the growth rate in most other countries, while exports only rose by 15 % per year during the same time, or about the same as developing countries at large and considerably less than the average for the region.

Kyrgyz exports remain concentrated to a small number of trading partners, mainly Switzerland, Russia, Uzbekistan and Kazakhstan. However, Switzerland's apparent prominence comes mainly from its role as buyer of the gold produced by the Kumtor mine, and Uzbekistan's is largely the result of re-export of mineral fuels. Kazakhstan and

Main destinations of exports 2009	% of total	Main origins of imports 2009	% of total
Switzerland	24.9	Russia	35.7
Russia	23.3	China	20.5
Uzbekistan	14.2	Kazakhstan	10.9
Kazakhstan	11.3	Uzbekistan	3.7

Source: Economist Intelligence Unit 2010

Russia also remain the main suppliers of Kyrgyzstan, together with China (see also below).

In fact, gold and re-exported oil accounts for a major part of exports, followed by cement and clothing. Together, various agricultural products (fruit, vegetables, milk and dairy products, cotton fibre and tobacco) make up most of the remainder. Exports are highly concentrated to a few products, often from a single production unit, like cement, sheet glass, electric power, and light bulbs.

Kyrgyzstan has had difficulties in diversifying its exports, in terms of both the range of client countries and the range of products, and in raising value added. Kyrgyzstan's share

of the imports of Kazakhstan and Russia has remained largely the same over the last ten years. The growth of export value in recent years has largely been driven by increasing gold production and rising world market prices on commodities. The level of transformation in manufacturing has largely remained the same.

However, trade with China complicates the picture given above, and illustrates some other issues related to the official trade statistics for the region. For 2008, Chinese data indicated exports from Kyrgyzstan to China which are almost three times the Kyrgyz official figure of USD 44.4 million, and imports from China to Kyrgyzstan which were over

Principal exports 2009	% of total	Principal imports 2009	% of total
Precious metals & stones	37.1	Mineral products	27.5
Chemicals, including oils	18	Machinery & equipment	10.9
Mineral products, including cement	16.3	Chemicals	10.1
Textiles and clothing	7.2	Food, beverages & tobacco	8.1

Source: Economist Intelligence Unit 2010

twelve times the Kyrgyz figure of USD 728 million for the same period. Such discrepancies still remain.

A likely explanation is that transit trade is more prominent than official figures indicate. It is also possible that e.g. the textile and clothing industry, which is understood to use much inputs of Chinese origin, is actually much more important than officially recognised, and that it adds value and generates export revenues, which are not captured by official data. In other cases, however, import of Chinese goods may well generate short-term trading profits, but at the expense of crowding out local suppliers of similar goods.

3. Trade related policies and practices

Having acceded in December 1998, Kyrgyzstan remains the only WTO member among the SPECA countries. The country is also member of several regional organisations and party to the corresponding, multilateral trade agreements, like CIS, EurAsEC, SCO and ECO, and has concluded bilateral agreements with most countries in the region. However, many of these agreements and their trade related provisions have not yet taken effect or are simply not being applied. This is also the case for transit agreements, especially for road transport. Further issues are related to the compatibility of these agreements with the Kyrgyz WTO membership, but the Kyrgyz Republic expects that some of these issues would be resolved by other countries of the Region joining the WTO.

Kyrgyzstan is widely considered as having the most open economy in the region, with tariff rates on imported goods typically lower than in neighbouring countries, if charged at all. No quotas apply, except for alcoholic beverages from non-WTO countries.

Imports by physical persons benefit from simplified procedures, with duties based on weight rather than value, and typically more favourable than the ad valorem tariffs. Otherwise, customs clearance is charged, in addition to the duties, at a uniform rate of 0.15 % of the declared value, although it is commonly known that many traders consider themselves obliged to make additional payments to facilitate and speed up border procedures.

As a WTO member, Kyrgyzstan is party to the TBT and SPS agreements and subject to the corresponding requirements for applying internationally recognised technical regulations. However, enquiry points and other institutional infrastructure required for this purpose are still only being put in place.

Exports are not subsidised or otherwise supported as such by tax incentives or preferences or the like. There is no focused export promotion policy and trade support institutions are few and weak. Other forms of support for economic development are largely limited to financial facilities for agriculture. Measures are being taken for improving the investment climate and for promoting FDI.

Other policies and practices affecting the business environment are being revised with

a view to simplify procedures and reduce their numbers, particularly regarding licensing and inspections. However, they are still widely considered an obstacle to trade and to economic activity at large.

4. Obstacles and opportunities for trade development

The earlier mentioned deterioration of the apparent international competitiveness of Kyrgyz manufacturers seems both to reflect and to contribute to a low level of product and market diversification. It also highlights the need for effective and efficient support for development and promotion of higher value added products, and the importance of attracting foreign know-how and resources for raising productivity and connecting with foreign markets.

Other bottlenecks for trade development remain, especially in the business environment at large. Despite good progress on a number of 'Doing Business' indicators, others are still at a very low and sometimes deteriorating level. This is particularly the case of taxation and international trade; the 'Logistics Performance Index' is also quite low.

Indeed, in the case of international trade, the geographic location far from seaports and major markets, and the associated, high cost of physically moving goods to and from business partners abroad is an evident shortcoming. To some extent, it could be addressed by improved physical infrastructure, such as rail and road networks, goods terminals and border crossings.

Apart from infrastructure related costs, the great number of often uncoordinated procedures required, the need to prepare and submit all the associated documentation, and the fees (both official and unofficial) charged are still adding very considerably to the cost and time needed for trading across the borders. Obstacles of this kind appear not only within Kyrgyzstan but also beyond its border. Favourable transit conditions are thus extremely important for Kyrgyzstan, both for dealing with its business partners beyond the neighbouring countries, and within its own borders, to help it benefit from its own role as a transit country.

Transit trade gives a certain potential for Kyrgyzstan to add value not only through its role as an intermediary and a channel for the physical transit of goods, but also by transforming the goods in the process. However, making good use of this opportunity still requires the same improvements in the business environment as those required for raising the international competitiveness at large. It also requires that the access to its traditional markets remains open – and the new customs union between Kazakhstan, Russia and Belarus raises concerns – and that trade with and through other neighbouring countries becomes easier.

Considering individual sectors, particular challenges remain in agriculture. Measures to restructure the sector, raise primary production, support processing and facilitate marketing would open new opportunities for successfully competing in local and international markets, thereby raising gainful employment and supporting rural development at large.

5. Focus areas for trade development

Reflecting the challenges indicated, Kyrgyzstan sees the need to create more favourable conditions for exports, by a series of related measures:

- Remove trade barriers within the country;
- Develop the physical infrastructure for trade;
- Enhance export development policies, strategies and programmes;
- Improve the supply of trade support services;
- Create an export promotion agency; and
- Provide targeted support for primary production, processing and marketing in the agricultural sector.

In turn, this would have the effect of improving the international competitiveness, creating

conditions for steady economic growth, and contributing to human development at large.

Annex 4: National Needs Assessment for Tajikistan (Summary)

1. Macroeconomic overview

Tajikistan is a small economy with decreasing levels of industrialisation and urbanisation. GDP growth has been relatively high in recent years, although GDP/capita remains quite low.

The GDP growth rate remained positive in 2009 but fell by more than half as a result of the economic crisis. However, foreign trade fell sharply, and the crisis revealed the very limited fiscal possibilities for anti-crisis sup-

Main economic indicators	2005	2006	2007	2008	2009
GDP at market prices (Somoni billion)	7.2	9.3	12.8	17.6	20.6
GDP (USD billion)	2.3	2.8	3.7	5.1	5.0
Real GDP growth (%)	6.7	7.0	7.8	7.9	3.4
Consumer price inflation (av.; %)	7.1	10.0	13.1	20.5	6.4
Population (million)	6.9	7.1	7.2	7.4	7.5
Exports of goods fob (USD million)	1108	1512	1557	1,575	1,038
Imports of goods fob (USD million)	-1431	-1955	-3,115	-3,699	-2,770
Trade balance (goods, USD million)	-323	-443	-1,558	-2,124	-1,732
Current-account balance (USD million)	-19	-21	-495	48	-180
Exchange rate (av.) Somoni/USD	3.12	3.3	3.44	3.43	4.14

Source: Economist Intelligence Unit 2010

GDP by origin 2009	% of total	GDP by expenditure 2009	% of total
Agriculture & forestry	21.4	Private consumption	114.4
Industry	27.5	Public consumption	9.4
Services	51.0	Gross fixed investment	22.0
		Net exports	-45.7

Source: *Economist Intelligence Unit 2010*

port for the economic and social sectors, due in part to the very large dependence of the state budget on revenues from duties and taxes on foreign trade.

Many migrants became jobless, strongly reducing the amount of remittances. In the absence of other currency inflows, the lower demand for foreign exchange caused the somoni rate to fall markedly, raising import prices in local currency and thereby putting a brake on imports. Although favourable for the development of the trade balance, this implied a serious decline in private consumption and a correspondingly lower level of human development.

Monopolistic pricing of facilities at many wholesale markets and other trading sites led to strongly decreasing margins for local traders, often putting them out of business and thereby causing both a reduction in employment and income and a squeeze in the supply of consumer goods.

Although demand has risen and price levels improved for Tajikistan's exports in 2010, the weakness of the financial sector, among other impediments to trade and investment,

remains a problem for economic and human development in the aftermath of the crisis.

2. Trade dynamics

Tajikistan's trade balance has become increasingly negative since 2003. Although the gap in absolute terms was reduced in 2009 as a result of the economic crisis, imports went down only by 25 %, whereas exports fell by 34 %. Remittances from workers abroad have strongly contributed to closing the trade gap. Although they fell in 2009, they are now rising again.

The range of goods exported is very limited, with three single raw materials accounting for about three quarters of exports by value, strongly exposing the country to the effects of price and demand fluctuations. The level of product concentration has risen in recent years, due to the decline in the share of other agricultural products than cotton fibre and the weakness of e.g. the textiles and clothing sector, despite the availability of local labour and raw materials.

Similarly, the level of market concentration is also high, although statistical sources differ

Principal exports 2009	% of total	Principal imports 2009	% of total
Aluminium	58.4	Petroleum products	12.6
Cotton fibre	9.9	Alumina	11.3
Electricity	6.3	Electricity	3.0
Other	25.5	Natural gas	2.0
		Petroleum products	12.6

Source: Economist Intelligence Unit 2010

in the identification of client countries, in addition to changes from year to year, as a function of where the few individual client companies passing orders for e.g. aluminium and cotton are located.

The small size of the local market makes development of foreign trade all the more important for the favourable development of the economy at large. Despite the negative trends in industrial and agricultural development in recent years, a wider range of goods with higher value added could conceivably be competitive on the world market, if a number of bottlenecks are addressed. In the

short and medium term, this could apply to e.g. agro-processing as well as textiles and clothing.

3. Trade related policies and practices

Tajikistan is a candidate for WTO accession since May 2001. Given the weak state of its economy and the low GDP/capita, it is seeking a status similar to those of LDCs. It expects economic benefits from WTO membership, with improved access to foreign markets leading to greater investment, more diversified production and an increase in exports. At the same

Main destinations of exports 2009	% of total	Main origins of imports 2009	% of total
Russia	15.3	Russia	26.2
China	14.7	China	26.0
Turkey	9.7	Kazakhstan	9.8
Iran	9.5	Turkey	5.4
Uzbekistan	6.4	Uzbekistan	5.2

Source: Economist Intelligence Unit 2010

time, it recognises the risks, at least in the short term, stemming from the currently very low competitiveness of local goods and the possibly negative effects on the trade balance and the state budget.

Tajikistan is also a member of other trade related organisations, like ECO and EurAsEC, and has bilateral trade agreements with e.g. seven CIS countries as well as Turkey, Iran and several Arab states. However, only the agreements with Asian countries have been found to give clearly positive effects. The country has also signed a Partnership and Cooperation Agreement with the European Union, as well as specific agreements on e.g. trade in textiles and clothing. Nevertheless, the potentially beneficial effects of trade agreements are limited by bottlenecks in the ability of key foreign trade institutions and the private sector to engage themselves more actively in preparing them and making them work.

Since the early '90s, Tajikistan has followed a liberal trade policy. However, the export industry has so far received little benefit from it, especially compared to importers. Until late 2003, tariffs on imported goods were no higher than 5 %. New rates introduced as a means to favour export-oriented sectors of the economy now peak at 15 %, although the average weighted rate is still less than 7 %. Tariffs serve the purpose of raising state revenue more than influencing trade and development; however, widespread under-invoicing of imports considerably reduces the amounts collected, including VAT, and makes it difficult for local products to compete. At the same time, the tariffs facing Tajik exports to several

neighbouring countries are considerably higher, further reducing the international competitiveness of local production. In addition, other rules and practices add costs to exports to and through these countries.

Exporters consider border procedures as slow, unpredictable, costly and cumbersome. Similar concerns are voiced about the business environment at large, especially regarding the perceived high level of interference by state bodies and their representatives in the commercial operations of enterprises at large, especially SMEs. This is corroborated by the low 'Doing Business' rankings of Tajikistan. However, some efforts are being made to reduce the number of licences, procedures and documents required both for carrying out business activities in general and for trade across the borders. Nevertheless, the still very long time and costs required for complying with formalities invite corruption and make it particularly difficult to export perishable goods, like fresh fruit and vegetables, where Tajikistan otherwise could have a competitive advantage.

Exports are not subject to any significant quantitative limitations or the like, nor to taxes or tariffs raised in Tajikistan, even if the regulatory framework would allow for such measures to be taken. At the same time, no subsidies or other forms of support are available, and export and investment promotion activities are very limited. Apart from the Chamber of Commerce and Industry, trade support institutions at large are few and weak. The SQAM infrastructure is also little developed, leaving few possibilities for local exporters to ensure and to demonstrate the

conformity of their goods with international standards, while the effective lack of control of imports exposes them to unfair competition in the home market. Trade financing and insurance are little developed.

A number of goods destined for export (cotton, aluminium, precious and semi-precious stones, minerals and precious metals, etc.) must currently be sold through the Commodity Exchange (CE) only, at prices, which in practice are controlled. In addition, the CE requires advance payment for all exports. Apart from limiting the freedom of local producers to market their goods directly to clients, the regulation leads to artificially high prices of several raw materials, such as cotton, in the local market. This strongly reduces the profitability of enterprises which otherwise could have been very advantageously engaged in transforming local raw materials into higher value products for export, such as textiles and clothing.

Five free economic zones have been established. However, because of other impediments to trade, they have so far failed to attract significant investments or to contribute to exports.

4. Obstacles and opportunities for trade development

The main problems for trade development are:

- The country's economic and geographical isolation, compounded by a perceived lack of regional integration and cooperation in Central Asia;

- The dominance of a few raw materials in exports;
- A weak level of industrialisation;
- An unfavourable business environment;
- Production and distribution bottlenecks for agricultural produce.

The topography of Tajikistan means that movement of goods inside the country can be quite costly, whereas some neighbouring markets are readily accessible from the corresponding border areas. This points to strong potential benefits of cross-border trade, for all parties concerned, but current policies and practices do not appear to favour such a development yet. Also, the hydrological potential of the country could be further developed for improving the provision of electricity and irrigation, both for the country itself and for its neighbours.

The distance to sea ports and to the larger foreign markets is high, and reflected in high transport costs. Nevertheless, the currently small quantities of goods exported mean that nominal transport capacities may be sufficient for the time being. Clearly, longer-term development would require large investments, including for allowing goods to be transported also during winter, when many passes are now closed for several months. This being said, the physical infrastructure for trade would particularly benefit from investments in utilities (especially electricity and telecommunications) as well as in better maintenance of roads, railways and vehicles, and in specific facilities for logistics and border crossings.

The trade infrastructure bottlenecks are particularly important on the institutional side. They include issues of ownership and control of markets and other facilities, proliferation of institutions involved in trade (and mostly acting in an uncoordinated manner), the number and complexity of rules and procedures to comply with, as well as the very high transaction costs, whether formal or informal, which enterprises have to pay, and the time lost in the process.

Remittances from workers abroad are considerable but now seem to be used mainly for consumption of imported goods, rather than e.g. investment in local enterprises. Industrial facilities and processes are often outdated, but limited availability of capital and know-how, whether domestic or foreign, holds back industrial development. In both cases, the unfavourable business environment is a key underlying reason. Primary agricultural production suffers from a lack of post-harvest processing, storage and transportation facilities, from the small size of holdings, and from a lack of capital for equipment, seeds and fertiliser.

Nevertheless, if these bottlenecks were to be addressed, an obvious potential for rapid trade development would appear to be present in the textile and clothing and the agro-processing sectors, in the first place, as well as in handicrafts and tourism. This would have the additional benefit of lowering poverty levels directly, by creating opportunities for gainful employment, also for women, in many parts of the country, and reducing the cost of key necessities for local households.

5. Focus areas for trade development

Consequently, a number of priority actions for trade development have been identified:

- Diversification of exports by supporting enterprise development in key sectors as above, especially with product development, quality management, and marketing;
- Modernising equipment and processes in some large, existing factories; and
- Raising yields and quantities available for the market of export oriented crops.

As a complement, continued technical assistance with institutional and regulatory development is required, particularly for improving the business environment and for ensuring successful WTO accession.

Annex 5: National Needs Assessment for Turkmenistan (Summary)

1. Macroeconomic overview

Much of Turkmenistan is a sparsely populated desert. The economy is largely dominated by natural gas and oil, with agriculture providing cotton for the textile industry, among other produce, mainly for local consumption.

Turkmenistan was little affected by the financial crisis, mainly because of the disconnection of the financial sector from the world's financial markets, the very prudent

Main economic indicators	2005	2006	2007	2008	2009
GDP at market prices (Manat billion)	14.1	16.2	18.2	21.2	21.9
GDP (USD billion)	6.4	7.4	8.5	8.1	7.7
Real GDP growth (%)	6	6	6	3	-6
Consumer price inflation (av.; %)	10.7	8.2	6.3	13.0	10.0
Population (million)	4.7	4.7	4.8	4.8	4.9
Exports of goods fob (USD million)	4,944	7,156	8,082	12,343	6,737
Imports of goods fob (USD million)	-2,947	-2,558	-3,619	-5,601	-4,109
Trade balance (goods, USD million)	1,997	4,598	4,463	6,742	2,628
Current-account balance (USD million)	1,232	3,941	3,445	5,145	1,065
Exchange rate (av., official) Manat/USD	1	1	1	2.3	2.9

Source: Economist Intelligence Unit 2010

levels of indebtedness, and the long term, steady nature of the country's economic development.

GDP growth remained strongly positive, with only a small dip in the growth rate in 2009, buoyed by rising investment in production facilities, transport networks, and social development, including residential construction and education and health care facilities, and by stimulation of local demand. Thus,

gross fixed investment attained 47 % of GDP. An increasing number of local construction companies responded to the government's request to speed up work on a number of on-going projects, engaging many more workers in the process. Particular measures were taken to ensure a balanced distribution of anti-crisis measures over the whole country. A stabilisation fund, set up late 2008, helped finance these various measures, and the government budget remained in surplus.

GDP by origin 2009	% of total	GDP by expenditure 2008 (sic)	% of total
Agriculture & forestry	26	Private consumption	52
Industry	32	Public consumption	13
Services	42	Gross fixed investment	23
		Net exports	12

Source: Economist Intelligence Unit 2010

Source: UN data 2010

As a result, private consumption continued to rise, although at a slower pace, the demand for labour increased and average salaries rose by 11 %.

A favourable development of the prices for hydrocarbons and cotton in 2010 allows the effects of the crisis to be further abated.

2. Trade dynamics

Foreign trade grew very strongly in the years preceding the economic crisis, mainly due to a rising price for gas, oil and petroleum products, providing a strongly positive trade balance. However, export revenues fell very strongly in 2009, whereas imports went down much less, strongly reducing the trade surplus. The share of gas and oil increased steadily from 80 % of exports to 93 % in 2008 but fell to 83 % in 2009. 20 % of crude oil production is exported, mainly by foreign companies, whereas the rest is refined, both for local consumption (some 30 %) and for export. Correspondingly, due to continued investment in production and transport of gas and oil and in other industrial facilities, ma-

chinery and equipment make up the bulk of imports, followed by foodstuffs, vehicles, and other consumer goods.

The distribution of export by client countries follows a similar pattern of very high concentration, reflecting the identity of the main clients for gas, oil and refined products, which in turn is largely determined by the configuration of the existing pipeline network. Its current extension in the region will soon allow Turkmenistan to export gas to more countries, e.g. China. On the other hand, the origin of imports is much more widely dispersed.

The share of the CIS countries in Turkmenistan's foreign trade remains high, although it has declined in recent years. In particular, the share of Russia fell in 2009 as a result of the effects of the economic crisis.

3. Trade related policies and practices

Turkmenistan has bilateral trade agreements with about two dozen foreign countries, of

Principal exports 2009	% of total	Principal imports 2009	% of total
Gas	57	Machinery & equipment	60
Crude & refined oil	26	Food products	15
Cotton fibre	3		
Textiles	2		

Source: Economist Intelligence Unit 2010

Main destinations of exports 2009	% of total	Main origins of imports 2009	% of total
Ukraine	46	Russia	16
Iran	13	China	14
Poland	9	Turkey	14
Hungary	7	UAE	11
Turkey	3	Ukraine	8

Source: Economist Intelligence Unit 2010

which seven free trade agreements. As a complement, more than 20 intergovernmental committees are actively engaged in furthering trade with partner countries.

The importance of WTO in world trade is duly recognised, particularly its role in providing a rule based and therefore more predictable trading environment. The advantages and disadvantages of membership are increasingly being discussed. In this context, it is sometimes feared that the country would not derive any greater short or medium term benefit from becoming a member very soon, given e.g. the currently very modest diversity and competitiveness of the manufacturing sector, the relatively low labour productivity in agriculture, the low level of development of e.g. the financial sector, and the weak local supply of internationally traded services. For the time being, the ways and means of diversifying the economy using the resources and the trade relations already available therefore appear to take priority over direct steps towards WTO accession. However, the longer-term integration of Turkmenistan into

the multilateral trading system remains an important point of reference for current reforms.

Only a relatively small number of goods are subject to import tariffs, in particular agricultural produce and foodstuffs produced within the country. The current customs regulations, in force since mid-2008, are intended to reflect the needs of Turkmenistan as well as those of its trading partners in a more comprehensive way than earlier. This includes measures to protect local production and support exports (e.g. by allowing tax-free import of inputs for the export industry; however, no direct export subsidies are provided), while simplifying and speeding up procedures. SMEs benefit from additional advantages and exceptions.

A recently drafted set of laws and decrees cover licensing of various business activities, both production and trading/distribution, intellectual property (including brands, patents and indications of geographical origin), technical regulations, and sanitary and phyto-

sanitary matters, particularly for securing food safety and aligning standards and control mechanisms with international practice.

Export promotion is done by e.g. trade fairs and exhibitions in foreign countries and the establishment of trade development offices in major cities of important trading partners. Otherwise, the network of trade support institutions is only little developed yet. Foreign direct investment is supported in various ways, e.g. through tax exemptions, to the extent that it provides a positive contribution to the diversification of the economy.

4. Obstacles and opportunities for trade development

The current range of internationally competitive products is largely composed by a small number of raw materials and petrochemical products. The diversification of the economy will require investment both in new production and distribution facilities and in education and training.

A particular characteristic of the distribution system within Turkmenistan is that the great majority of consumer goods are sold in public markets by individual traders, and not in shops. This has the advantage of having allowed many people to earn a decent living from trade, without any greater requirements for capital or formal training. However, it also means that skills and experience important for successful international marketing may be in short supply for the time being. The still narrow industrial base means that sustained

efforts will have to be made for securing the access of new, export-oriented enterprises to staff with know-how, also in e.g. product development, manufacturing and quality management.

Agricultural production is to an important extent dependent on irrigation, and water resources may become increasingly scarce. In the years following independence, after an initial dip in production, some structural changes occurred: grain production, especially wheat, grew to a level more or less satisfying local demand, some fruit and vegetable processing facilities were added or renewed, and the level of transformation of cotton fibre increased steadily. Nevertheless, further efforts are required to raise the productivity of primary production, further develop facilities for post-harvest processing, storage and transport, improve the quality of finished products, enhance marketing and distribution, and strengthen the financial position of producers. Several issues may need to be addressed for this purpose, related to e.g. land ownership, crop selection, pricing (including subsidies) and payment of outputs, pricing of inputs (including water for irrigation) and their distribution, and marketing support, including for export.

The land-locked situation of the country, the distance to foreign markets and the geographical characteristics, with deserts, mountains and the Caspian sea separating most of the country from its neighbours, all raise the time and cost for shipping goods to clients and call for continued investment in physical infrastructure for trade.

In order to address these various bottlenecks, revenues from gas exports will continue to be invested in construction (including production of building materials), transport infrastructure, support for continued transformation of the industry structure, social sector development, and agricultural development (including modern equipment and soil improvement), thereby building the basis for the further integration of the country into the global economy.

During this process, the government will pay careful attention to social and environmental issues, taking measures to improve the population's access to basic necessities, achieve a regionally balanced development, including in rural areas, and reduce pollution, especially emissions from the oil and gas industry.

It is thus expected that the chemical (based on an abundance of local raw materials) and petrochemical industry (including e.g. polypropylene and other plastics and products thereof) will develop strongly in coming years, together with building materials, light industry and food industry. Likewise, although its share may go down as a result of the development of other sectors, the textile industry will continue to develop, increasing the level of transformation of local raw materials (in particular, natural fibres: mainly cotton, also some silk and wool). Here, apart from garments, traditional carpets may prove interesting in the short and medium term.

SMEs are expected to play an increasingly important role in this context. Their develop-

ment will be supported by the government, including by providing financing to the private sector on favourable conditions.

5. Focus areas for trade development

The government has thus identified a number of fields for priority action, determined the results to be achieved and the success indicators, and designated the authorities responsible. In summary, they can be grouped together as follows:

- 1) More rapid implementation of existing, large, economic development projects;
- 2) Short to medium term diversification of production and exports through targeted sector development measures;
- 3) Enhanced private sector participation in economic development, through development of institutions and markets as well as public-private partnerships in priority sectors and regions in the country;
- 4) Increased production of local raw materials and higher level of transformation, to raise value added and improve international competitiveness, in particular in building materials industry, oil refineries, petrochemical industry (including for producing plastics with natural gas as feedstock), chemical industry (including fertilisers, sulphuric acid and various other products), textiles and garments, and agro-processing and food industry;
- 5) Investment in human capital, particularly in health, education and research,

and including measures to level out the differences between different regions of the country and develop the local labour markets;

- 6) Creation of a national export development programme, which would cover measures to improve the structure of exports and raise export volumes and effectiveness on the basis of a wider product range, improved quality of goods, better marketing and enhanced client relations.

Specific projects proposed for Aid for Trade financing should conform with the above focus areas for the future trade development of Turkmenistan.

Annex 6: National Needs Assessment for Uzbekistan (Summary)

1. Macroeconomic overview

Uzbekistan is a doubly land-locked country, but has the largest population and the most diversified economy in Central Asia, with strong growth even during the economic crisis.

The low level of international integration of the financial sector in Uzbekistan meant that the effects on the country of the financial crisis were mainly indirect, through foreign trade and remittances. Comparing the first three quarters of 2008 and 2009, reduced demand for many export items and lower prices led to a drop in export revenues of 31.1 % for cotton, 41.7 % for metals, 24.4 % for chemicals

Main economic indicators	2005	2006	2007	2008	2009
GDP at market prices (Som billion)	15,923	20,759	28,186	37,747	48,097
GDP (USD billion)	14.3	17.0	22.3	28.6	32.8
Real GDP growth (%)	7.0	7.3	9.5	9.0	8.1
Consumer price inflation (end-period; %)	12.3	11.4	11.9	13.7	10.6
Population (million)	26.2	26.5	26.9	27.5	28.0
Exports of goods fob (USD million)	4,757	5,615	8,029	10,298	10,735
Imports of goods fob (USD million)	-3,310	-3,841	-6,338	-9,277	-9,023
Trade balance (goods, USD million)	1,446	1,774	1,692	1,021	1,712
Current-account balance (USD million)	1,949	2,927	4,326	4,050	3,595
Exchange rate (end of period) Som/USD	1,176	1,238	1,288	1,383	1,510

Source: Economist Intelligence Unit 2010

Principal exports 2009	% of total	Principal imports 2009	% of total
Hydrocarbons, coal, electricity	28.5	Machinery, equipment	18.9
Cotton	14.3	Vehicles and parts	12.3
Metal compounds, chemicals	11.1	Articles of iron & steel	11.0
Copper	6.7	Hydrocarbons, coal, electr.	7.7

Source: ITC Trade Map 2010

and 69.7 % for machinery and equipment. However, this effect was counteracted by an increase in the revenues from gas exports by 76 % over the same period, as a result of the adoption of the European pricing formula from 1 January 2009 onwards. The gold price also rose during the crisis. The trade surplus in goods thus increased in 2009 and GDP growth remained high. However, remittances from workers abroad, which accounted for 14.4 % of GDP in 2008, fell sharply in 2009.

The effects of the crisis on human development were therefore of two kinds: lower foreign demand in labour intensive sectors led to a reduction of employment and a corresponding reduction of living standards, and the fall in remittances obliged many families to reduce spending. However, the government's anti-crisis measures aimed at reducing these effects.

Although the prices of fuels, metals and cotton fell in 2009, they rose, even more strongly, during the first half of 2010. Together with a pick-up of demand in Russia, leading to an increase in remittances, GDP is therefore expected to continue growing at around 8 %.

2. Trade dynamics

Thanks to generally rising volumes and prices, gas exports have grown steadily, allowing the trade balance to remain positive and supporting strong GDP growth. The automotive industry as well as gold production have also largely contributed to the favourable development of the trade balance in recent years, together with exports of e.g. cotton, copper and chemicals, including fertilisers. At the same time, the steady demand for inputs to manufacturing, buoyed by the government's anti-crisis measures, as well as continued investment in extractive and industrial facilities, transport infrastructure and residential construction, explain the important share of machinery, equipment, iron and steel, vehicles and building materials in imports. Various control mechanisms have limited the value and volume of imports for other purposes.

The CIS countries, led by Russia, remain important trading partners for a wide range of goods, even if their share is now around 40 % as a result of the development of trade with countries like China, Turkey and Afghanistan.

Main destinations of exports 2009	% of total	Main origins of imports 2009	% of total
Afghanistan	24.1	Russian Federation	22.5
Russian Federation	23.3	China	20.7
Turkey	11.4	Republic of Korea	15.3
China	9.6	Kazakhstan	11.8
Kazakhstan	8.4	Germany	6.1

Source: ITC Trade Map 2010

It may be noted that the presentation and analysis of trade dynamics for Uzbekistan suffers somewhat from the often rather large discrepancies between statistical data from different sources and from the delays in the final adjustment and confirmation of official figures. The above figures on the distribution of trade by product and country are therefore based on mirror statistics, and important export items like gas, gold and vehicles may still be underreported for 2009.

3. Trade related policies and practices

Current trade policies are founded on the recognition of the need to diversify the economy and activate market mechanisms, and therefore aim to address a number of fields in a comprehensive, coordinated manner. Targeted sector development with government support appears to have been successful e.g. in the automotive industry. It has been accompanied by a certain liberalisation of the foreign exchange market and other market oriented reforms. In parallel, support for ex-

ports has also been provided by raising tariffs and taxes on a number of imported goods as well as by other administrative measures for securing a positive trade balance.

Especially as means for helping maintain operations and keep up investments during the recent economic crisis, exporters and investors have received tax breaks, access to subsidised credits, incentives for cost reductions, and greater freedom to set export prices. Such measures have been retained and other, similar ones are being introduced to further improve the competitiveness of the export industry in the longer term. In order to raise resources for these purposes and channel them to the right beneficiaries, the government exercises close control of foreign trade expenditure and revenues, and has various systems in place for reviewing, approving and registering foreign trade operations, especially imports.

A positive effect of this policy is that while nominal tariffs, taxes and charges on imports average some 40 % of the value of the goods,

the actual average rate is only around 8 %, because of the various reductions and exceptions mentioned. Nevertheless, the administration of these is quite time consuming and therefore costly, both for the authorities and for enterprises, especially SMSs. Other arguments against the various protectionist measures applied have also been advanced.

Trade facilitation appears to have an important scope for development, in any case. Current border procedures are considered by many exporters and importers to be unduly time consuming, complicated and costly. An additional complication is the effect of the currency regulations, including the system for receiving and making payments in foreign currency and the time limits for foreign exchange operations. At the same time, in recognition of the problems, initial work has been done on revising rules and practices with a view to simplify and speed up border procedures.

The SQAM related regulatory infrastructure includes recent decrees aimed at introducing, applying and improving technical regulations reflecting best international practice and giving enterprises the means to ensure and to demonstrate conformity with client requirements. Further work in this field is on-going.

Some trade information and export promotion services are being provided by a few public sector entities, the chamber of commerce and industry and trade associations. Nevertheless, the trade support institutions are few and the range of services on offer is narrow.

4. Obstacles and opportunities for trade development

In spite of the relative diversity already achieved, finished goods still account for only 30 % of exports, illustrating both the need and the potential to further raise the international competitiveness of the country, its enterprises and products. Among the key elements influencing this development process, those related to trading across the borders have already been mentioned; one may also list

- The ability of enterprises to design and produce goods;
- Their level of correspondence with international standards and client requirements;
- The transaction costs facing enterprises;
- The business environment, especially the requirements for approvals, licenses and certificates needed for starting and running a business, and the way inspections and enforcement is carried out;
- Legal matters, including title to land and facilities and means for dispute resolution;
- The financial environment, including the exchange rate, currency regulations, payment facilities, access to and cost of credit and insurance, and taxation.

A number of measures have been taken for improving the situation of entrepreneurs in these respects. Nevertheless, Uzbekistan's rankings in the World Bank's 'Doing Business' are rather low, while other sources paint a somewhat brighter picture.

The transport and transit infrastructure, essential for a doubly land-locked country, is being improved. New roads and railways are being built and others improved, together with goods terminals and border crossings, and prices and conditions for transit are being harmonised. There still appears to be a particular potential to simplify and enhance connections with neighbouring countries by making better use of existing transport corridors, ensuring that construction, maintenance and operations are harmonised on both sides of the borders.

Notwithstanding the bottlenecks mentioned, there are also opportunities for trade development.

The presence of a wide range of raw materials in significant quantities allows the continued development of their extraction and transformation, e.g. in the energy sector (while recognising that hydrocarbons are not only energy sources but also raw materials for the petrochemical industry) and in the production of iron and steel, both for export and as inputs for mechanical engineering and construction, as well as of other metals, such as copper and gold.

However, longer-term economic growth and opportunities for gainful employment would have to be secured by developing the country's potential for being internationally competitive in sectors with a higher level of transformation and correspondingly greater value added, e.g. chemical, light and food industry.

Further opportunities for trade development could then also be found in the focus on accompanying the restructuring of manufacturing with a number of measures for e.g. supporting residential construction, municipal infrastructure, transport infrastructure, SME development, and services.

In this context, particular emphasis is given to including all regions of the country, so that also rural areas, where over 60 % of the population live, can benefit from economic development.

5. Focus areas for trade development

With the ultimate objective of securing continued, balanced human development in the whole country, the priorities in economic development in general and trade development in particular is reflected in a few focus areas, as follows:

- 1) Implementation of the 2009-2012 programme for sector modernisation, with incentives for the creation of business groups;
- 2) Introduction of international quality standards, especially for goods to be exported;
- 3) Improvement of the business environment, including the abolition of barriers to entrepreneurship;
- 4) Trade facilitation, especially introduction of the single window concept and of IT supported customs declarations, clearance and monitoring;
- 5) Development and implementation of an import optimisation programme;

- 6) Exchange rate management to ensure competitiveness in export markets;
- 7) Development of transport and transit infrastructure;
- 8) Enhancement of human resources, through improvement of education, health services, and municipal services; and
- 9) Support for employment creation and development in agriculture, particularly through development of production and exports of fruit and vegetables, labour intensive local industry with high value added and employment opportunities for women, and improved land use.



United Nations Development Programme
Regional Centre for Europe and the CIS
Grösslingova 35
811 09 Bratislava
Slovak Republic
Tel: +421 2 5933 7111
Fax: +421 2 5933 7450
<http://europeandcis.undp.org>



United Nations Development Programme

Regional Centre for Europe and the CIS

Grösslingova 35

811 09 Bratislava

Slovak Republic

Tel: +421 2 5933 7111

Fax: +421 2 5933 7450

<http://europeandcis.undp.org>