



MINISTRY FOR FOREIGN
AFFAIRS OF FINLAND



Tajikistan

Aid for Trade Needs Assessment – TAJIKISTAN

Trade and Human Development

July 2010

United Nations Development Programme



All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission.

This is an independent publication commissioned by UNDP. The views expressed in this publication are those of the author(s) and do not necessarily represent those of the United Nations, including UNDP, or their Member States.

Pre-market trade in Dushanbe. Photograph by A. Nasimov (Center of Economic Research)

ISBN: [978-92-95092-11-2]

© UNDP 2010

All rights reserved.

UNDP Regional Bureau for Europe and the Commonwealth of Independent States

Manufactured in Tajikistan

The **Aid for Trade project** is one of the most important development-related outcomes of the 2005 World Trade Organization (WTO) Ministerial Conference in Hong Kong. It targets developing countries by strengthening their productive capacities and trade-related infrastructures as well as their 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 for trade to be inclusive, it must be incorporated into a human development framework. It needs to be conceived as a tool to enhance people's abilities and widen their choices.

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 Commonwealth of Independent States (CIS)*, financed within the framework of Finland's Wider Europe Initiative, focuses on identifying capacity gaps and technical assistance needs both at the national and sub-regional level in Central Asia, South Caucasus and Western CIS. It also provides support to economic development in the areas located along the selected transport corridors, helping small entrepreneurs capitalize on new trade opportunities.

The **Wider Europe Initiative**, Finland's harmonized regional development framework, 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 **Needs Assessments** produced in the framework of the Aid for Trade project are part of a long-term vision of developing trade capacities, which will benefit human development in the region.

Publications preparation team

Authors

Khojamuhamad Umarov

Nilufar Kabilova

Ismoil Khujamkulov

Advisory Group

Jacek Cukrowski

Maksud Orifov

Mubin Rustamov

Peer Review Group

Artur Zargaryan

Larisa Kislyakova

Editors

Barbara Ann Hall

Nargis Shomahmadova

Acknowledgment

The authors of this report would like to express their gratitude to the senior officials of the Ministry of Economic Development and Trade and, personally to the Minister F.M. Khamraliev, as well as to L.P. Kislyakova, Chief, Department of External Economic Relations of the Ministry of Economic Development and Trade for providing the necessary materials that allowed to establish the basic framework of this report. We are also grateful to the senior officials of the Ministry of Agriculture and Ministry of Industry and Energy for providing materials on the most sensitive sectors of Tajikistan, such as cotton growing and ginning, textile and clothing (tailoring) industries.

The authors also wish to thank the Senior Officers of the State Statistics Committee of the Republic of Tajikistan for their considerable contribution to the analysis. This particularly relates to issues such as the basket of goods formation method.

We would like also to express our gratitude to M. Kasimov, Director of the dispatcher company Globalink, for his prompt provision of additional information necessary to clarify some issues related to transportation and transit.

Contents

Acronyms and Abbreviations	7
FOREWORD	8
SECTION I. MACROECONOMIC SITUATION	9
1.1 Dynamics of the main macro-economic indicators	9
1.2 Monetary policy, fiscal policy and exchange rates	12
1.3 Poverty and expansion of wealth disparity.....	20
1.4 Competitiveness and business environment.....	23
SECTION II. TRADE AND INVESTMENT POLICY	28
2.1 Analysis of the movement of trade flows.....	28
2.2 Trade policy and measures.....	33
2.3. Review of trade agreements	42
2.4 On Tajikistan acceding to the World Trade Organization.....	48
2.5 Institutional map (institutions related to trade)	52
SECTION III. TRADE PROMOTION OPPORTUNITIES.....	56
3.1 The need to overcome barriers to the promotion of trade	56
3.2 Main challenges and factors hindering export development.....	62
SECTION IV. HUMAN DEVELOPMENT ANALYSIS OF THE SENSITIVE SECTORS.....	66
4.1. Agriculture	66
4.2. Clothing and hosiery (tricot)	80
Recommendations	84
Action Matrix	89
References	93

Acronyms and Abbreviations

ADB	Asian Development Bank
CAREC	Central Asian Regional Economic Cooperation
CIS	Commonwealth of Independent States
DFI	Direct foreign investment
EBRD	European Bank for Reconstruction and Development
ECO	Economic Cooperation Organization
EU	European Union
EvrazES	Eurasian Economic Community
FEZ	Free Economic Zone
GBAO	Gorno-Badakhshan Autonomous Oblast
GDP	Gross domestic product
IMF	International Monetary Fund
NB	National Bank
NGO	Non-governmental organization
OCAC	Organization for Central Asian Cooperation
PRSP	Poverty Reduction Strategy Paper
UN	United Nations
UNDP	United Nations Development Programme
USSR	Union of Soviet Socialist Republics
VAT	Value-added tax
WB	World Bank
WTO	World Trade Organization

FOREWORD

Currently, trade development issues relating to both domestic and foreign trade have been gaining particular importance. The project “Wider Europe: Aid for Trade” initiated by the United Nations Development Programme, with the support of the Government of Finland, aims to use the possibilities of trade for human development and for meeting various human needs.

Each country’s distinct features influence the implementation of trade possibilities differently. Tajikistan, like other countries of the Central Asian region, is geographically situated in the landlocked area of the extensive Eurasian continent. This situation, together with other factors — social, economic, demographic, etc. —negatively affects its involvement in international trade.

This report highlights the possible impacts of trade on human development. Moreover, particular attention will be given to the efficiency of trade policy on human development. The report will demonstrate that the lack of such a policy has facilitated an increase in poverty levels, increased inequalities among marginalised social groups of the population, and aggravated relations between various social groups in society.

The authors have focused in particular on analysing the movement of trade flows and the development of the state trade policy. Accordingly, they reviewed trade agreements with countries in the post-Soviet region as well as foreign countries, studied the role of the various kinds of institutions, including state institutions to increase efficiency of trade policy and its impact on human development. In this regard, the authors gave special consideration to the determination and elimination of barriers to developing regional and global trade.

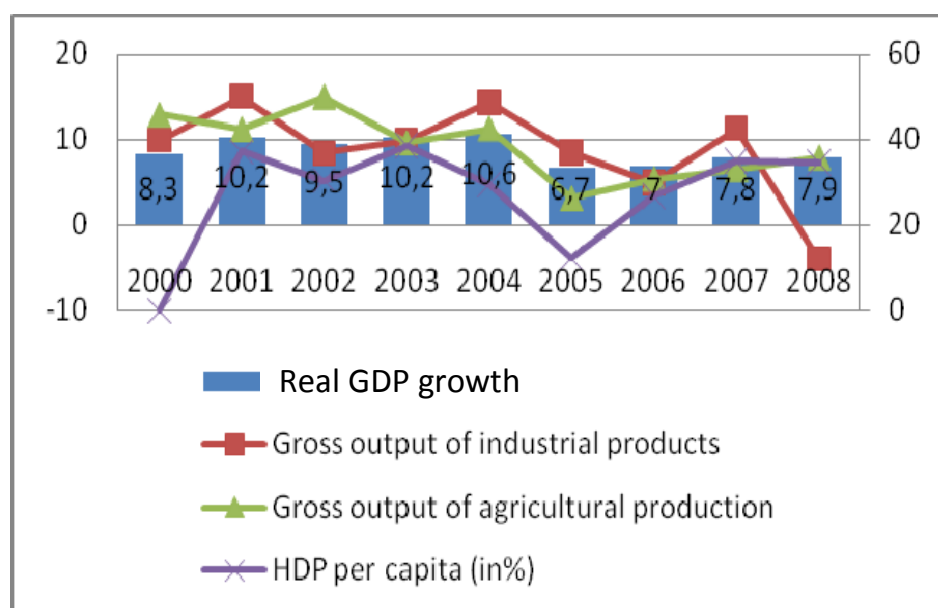
The authors hope that the critical assessment of the report by others and its consideration will help to improve the report further.

SECTION I. MACROECONOMIC SITUATION

1.1 Dynamics of the main macro-economic indicators

During the last ten years, Tajikistan's economy has showed relatively high rates of economic growth. Until 2004, annual growth rates tended to increase and were fairly high, reaching 10.6 percent at the beginning of 2004. This was followed by a drastic fall of the rates — in 2005, at 6.7 percent, and after 2005 a stable growth was observed until 2009. In 2009, mainly due to the global financial crisis, these rates dropped to 3.7 percent. The absolute gross domestic product (GDP) in 2009 reached TJS 18.4 billion (Tajik currency), i.e. approximately US\$5.4 billion. Figure 1 shows the dynamics of the main macro-economic indicators.

Figure 1. Dynamics of the Main Macro-economic Indicators, 2000–2008



Source: National Bank Statistics Bulletin. – December, 2008, p. 9. Bank Statistics Bulletin, October 2009, p. 10.

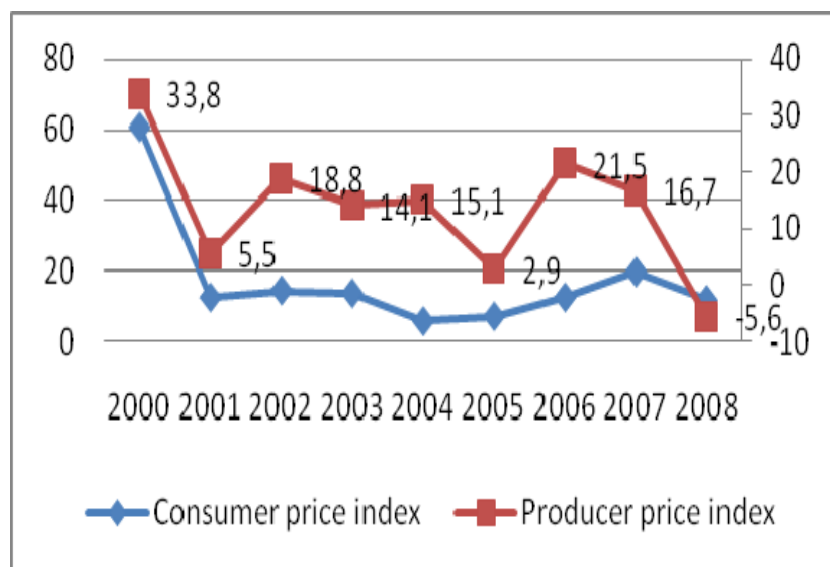
It is clear from Figure 1 that in comparison to GDP, growth rates of industrial and agricultural gross production differ by their higher fluctuations. Industrial production growth rates over time reached 15.0 percent to fall to below zero to -4 percent. A similar situation also occurred in the agricultural sector, even though sub-zero rates are not observed. As a whole, the proportion of the industry in GDP has been reducing. In 1991, this share was 25.4 percent; in 1995, 34.1 percent; in 1997, 22.0 percent; in 2000, 33.1 percent; in 2005, 22.7 percent; in 2006, 21.2 percent; in 2007, 18.3 percent; and in 2008, 14.2 percent.¹ This trend reflects the de-industrialization process of the Tajik economy. Similar to this process, a de-urbanization process has been taking place in the country, as indicated by the following data: the proportion of the urban population in 1991 was 30.8 per cent, in 1995, 27.4 per cent; in 1997, 26.7 per cent; in 2000, 26 per cent; in 2005, 26.4

¹ Calculations used data from: Statistical Digest “Tajikistan: 15 years of State independence”. Dushanbe, 2006, p. 212, and the Statistical Annual Book of the Republic of Tajikistan, Dushanbe, 2009, pp. 210–211.

per cent; in 2006, 26.3 per cent; in 2007, 26.3 per cent; and in 2008, 26.2 per cent². Naturally, macro-economic shifts such as de-industrialization and de-urbanization have a negative influence on the development of trade and thus on human development, which will be discussed below.

With respect to the importance of the impact of macro-economic shifts on trade and human development, the dynamics of the inflation process play a significant role. For the reported period, such processes, which were uneven, were observed in the country. Up to the middle of the first decade of 2000, minor fluctuations were registered with regards to price dynamics; however, after 2005 inflation rates have increased considerably. Changes in inflation rates are presented in Figure 2.

Figure 2. Dynamics of Price Indices (in percent)



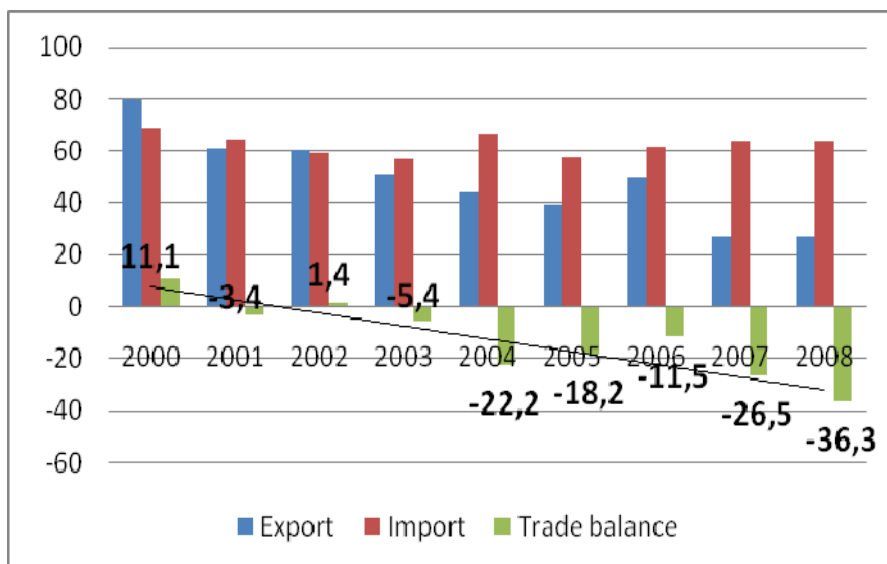
Source: National Bank Statistics Bulletin, December 2008, p. 9; National Bank Statistics Bulletin, October, 2009, p. 10.

Until the beginning of 2000, it was possible to escape high inflation, however to overcome the threats of the high rates of inflation was not possible. Over the years, the inflation growth rate reached such an extent as to risk a reduction of living standards and a drastic fall in production profitability. At the same time, periodic reductions of manufacturers' prices were observed. This positive phenomenon did not become a stable trend.

The unsuccessful development of external economic relations in recent years is also a significant factor in resource provision for human development. The trade balance has become increasingly negative, which is clearly illustrated from the data in Figure 3.

² Calculations used data from: Statistical Digest "Tajikistan: 15 years of the state independency". Dushanbe, 2006, p. 25, and the Statistical Annual Report of the Republic of Tajikistan, Dushanbe, 2009, p. 26.

Figure 3. Development of Tajikistan's Foreign Trade (percentage of foreign trade to GDP)



Source: National Bank Statistics Bulletin, December 2008, p. 9;
National Bank Statistics Bulletin, October 2009, p. 10.

Figure 3 shows the negative trend of the trade balance. If this trend continues, the country may risk defaulting payments. However, currently remittances of the labour migrants offset this risk. It should be noted that these remittances remain significant, even during the global crisis, where many of the migrants find themselves jobless. Should such a trend continue, the remittances of the migrants, earmarked for current consumption, may become insufficient to cover the increasing difference between export and import.

In 2000, the difference between export and import was positive and constituted US\$109.3 million. In 2005, the net trade balance was negative, at US\$421.4 million; in 2006, US\$326.4; in 2007, US\$1,079.1; in 2008, US\$1,863.9 million. For the 2005–2008 period alone, the negative net of the trade balance increased 4.5 times.³ This situation is very worrisome. Export revenue has lost ground and thus has not been able to cover costs for importing products and services. As a result, other sources of revenue have increased in importance for their positive influence on the balance of payments.

³ The calculations use data from: Statistical Digest “Tajikistan: 15 years of the State Independence”. Dushanbe, 2008, p. 335, and Statistical Annual Book of the Republic of Tajikistan, Dushanbe, 2009, p. 330.

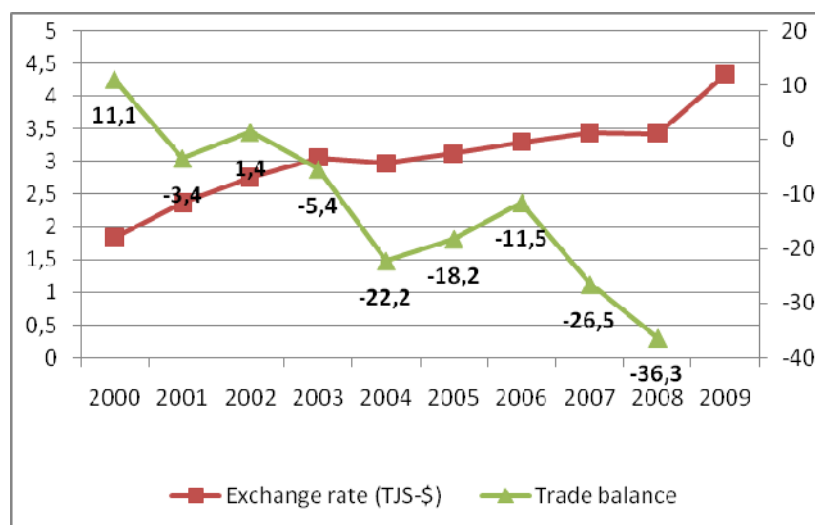
1.2 Monetary policy, fiscal policy and exchange rates

Monetary policy of Tajikistan

The monetary policy of Tajikistan was implemented on the basis of the Law on the National Bank of Tajikistan and the Decree of *Majlisi Namoyandagon* of the *Majlisi Oli* (The Lower Chamber of the National Parliament) of the Republic of Tajikistan “On the outlook with regard to the main directions of the monetary policy of Tajikistan”, which aimed at securing the purchasing power of the national currency and maintain inflation rates. To achieve these targets and prevent financial risks, the National Bank of Tajikistan implements a rigid money-and-credit policy. During 2000, the monetary policy was directed at preserving a stable growth in the reserve currency and monetary aggregates and maintaining inflation rates. The volume of reserve funds in 2008 increased by 30.4 per cent, amounting to TJS 1,849.6 million. At the beginning of 2009, the monetary aggregates (M2) increased by 21.8 per cent.

Among the various economic indicators, the trade balance has the most direct and immediate relation to the exchange rate. If export is prevalent in the structure of the country’s foreign trade, it means there is an increasing demand for national currency thereby its exchange rate becomes firm. Contrariwise, under a deficit of the trade balance (when import volume is larger than export volume), the national currency becomes weak (Figure 4).

Figure 4. Dynamics of the Exchange Rate and Trade Balance



Source: Authors’ calculations using data from the National Bank of the Republic of Tajikistan (2009).

The floating exchange rate policy, implemented by the National Bank, does not allow for monetary interventions without extreme fluctuations in the TJS rate.

The decrease in remittances of labour migrants and the inability of the economy to attract resources to cover the difference between import and export has facilitated

an imbalance between supply and demand for foreign currency and caused a decline in the national currency rate.

The following problems should be pointed out with respect to the economic crisis and its impact on trade through the lens of Tajikistan's monetary policy:

- weak liquidity of commercial banks (low credit repayment levels, decline of the population's trust in banks);
- weak trade rates (in connection with high operational and currency risks, etc);
- low retention of the remittances in the banking system.

The situation is exacerbated not only by the global economic crisis, but also by the lack of willingness of Tajikistan's banking system to carry out valid and quality work, and above all, the insufficient development of the financial market. The equity market, being the main source of additional assets, could reduce the country's excessive dependence on external loans, reduce its dollarization and strengthen the set of monetary policy instruments, which could improve the money-and-credit, as well as the taxation and budget policy of the state and develop the financial market. This market has not yet been established in the country.

Taking into consideration the financial instability of the international markets and the current state of the domestic economy, the money-and-credit policy, in addition to providing assistance to accelerate economic development, must, as a minimum, help keep growth rates afloat.

Tajikistan's fiscal policy

Over the last two years, the Government of Tajikistan has taken a number of measures aimed at enhancing the general business climate and trade policy. These include: Presidential Decrees of 25 July 2008 on the Announcement of a Moratorium against All Audits of Small- and Medium-sized Entrepreneurs for Two Years (starting from 1 July 2008); the new order to register enterprises introducing the "single window" principle (from 1 July 2009); the introduction of the loan office institution; and the strengthening of corporate management and minority stakeholders rights. There were also amendments to Tax Legislation in 2009 to support entrepreneurship and trade development. Thus, in addition to the simplified taxation system for individual entrepreneurs working with *licences* (adopted in 2008), the simplified taxation system for small businesses has been regulated: it is now paid quarterly at the rate of 4–5 per cent, and includes exemption from VAT and Road User Tax. Also, VAT rates have been reduced from 20 to 18 per cent and profit tax for manufacturers from 25 to 15 per cent. (This is not applied to enterprises engaged in transport, communications, services provision and banks.) In addition, for individual entrepreneurs and legal entities – working under a simplified scheme, the threshold of VAT has increased from TJS200,000 (US\$45,000) to TJS800,000 (almost US\$183,000). According to

Article 302 of the Tax Code, small entrepreneurs who choose to operate under the simplified regime are also allowed to undertake all types of entrepreneurship activities with no limitations. The tax base for vehicle owners has changed: while previously, the minimum salary of TJS60 was considered to be the basic indicator, now the indicator is TJS35, in accordance with Article 335 of the Tax Code. Article 291 now exempts producers of agricultural products from paying a royalty for water. As a result of such measures, Tajikistan was acknowledged as one of the best reformer countries and has improved its ranking in the 2010 World Bank's "Doing Business" report by 7 points (i.e. positions) in 2009.

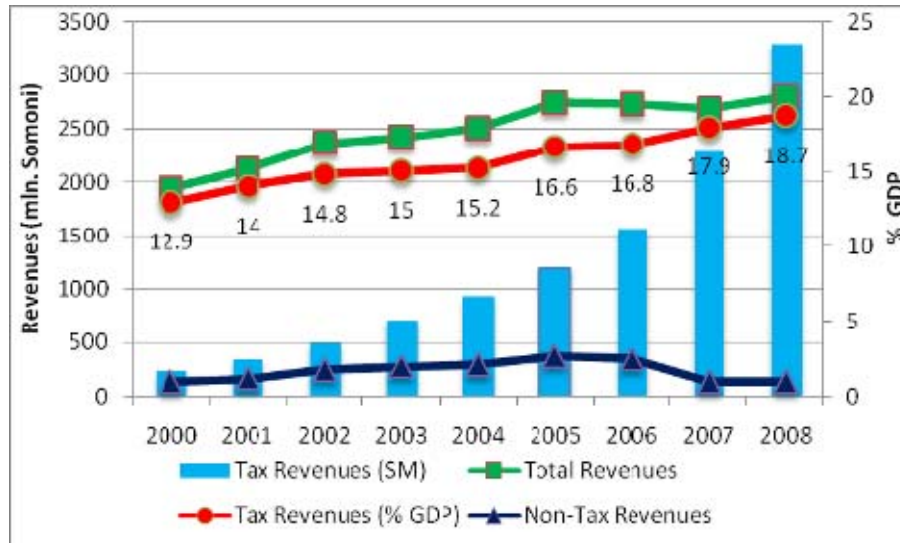
In 2009, as a result of the global financial crisis, Tajikistan experienced a fiscal shock. The crisis revealed the limited possibilities of fiscal support to the economic and social sectors. Due to the drastic fall of imports and exports in the first quarter of 2009, tax income was reduced by 26 per cent. Taxes on import (VAT) and customs duties represented more than 60 per cent of the total state budget revenues. Due to the decrease in remittances (up to 35 per cent in 2009), import and effective demand within the country have also decreased. State revenues decreased by almost 16 per cent, which has led to a reduction in state expenditures. The revised budget, which was reduced by 10 per cent (TJS600 million), was approved in May 2009. Expenditures were also reduced, particularly for budget items such as public administration and the real sector. The shortfall in revenues in June 2009 amounted to 7 per cent, taking into account revised indices. The World Bank and the Asian Development Bank allocated grants for a total of US\$65 million to support the budget at the end of June 2009, which helped to mitigate the situation with respect to supporting budget liquidity.

According to data from the Ministry of Finance, the total volume of the state budget in Tajikistan constituted about US\$ 995 million, or 26.6 per cent of the GDP, during the first ten months of 2009. The share of tax revenues in the total budget revenues was 66.4 per cent in January-October of the same year; it increased by 5.4 per cent compared to the similar period of the previous year.

In November 2009, the Parliament adopted the 2010 State Budget Law for TJS6.9 billion in revenue and TJS7.4 billion in expenditures. A deficit of TJS490 million, or 2 per cent of the GDP, is expected. This Law provides for a nominal increase in state subsidy for human development by investing in the social sector, although this is deemed insufficient. For example, if the revenue structure remains stable, there is a nominal increase in the expenditures in the key social sectors such as education at 18 per cent, health, at 6 per cent, and social protection at 12 per cent. Nevertheless, the budget situation in 2010 will most likely remain strained due to growth of expenditures for infrastructure and cotton financing, and the need to support expenditures for social sector development.

The state has taken serious steps to reduce state expenditures, and tax revenues have considerably increased (Figure 5).

Figure 5. Tax Revenues of the State Budget, 2000–2008 (TJS million/percentage of GDP)



Source: State Statistics Committee of the Republic of Tajikistan (2009)

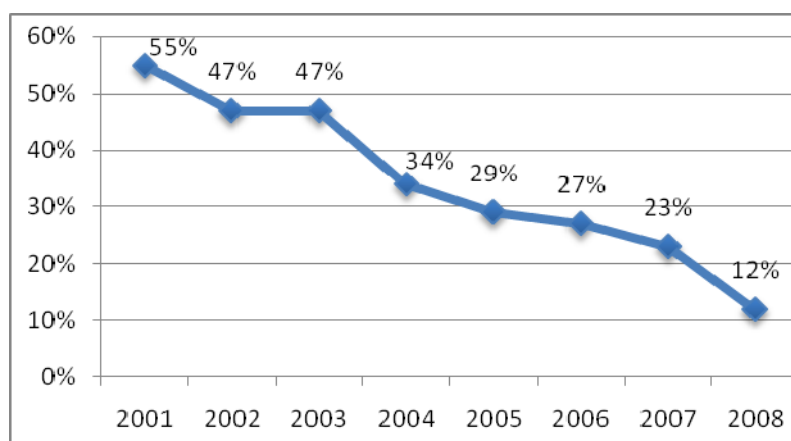
Figure 5 shows that in the last nine years, there has been strong increase tax revenue as per percentage of GDP, from 12.9 per cent in 2000 to 18.7 per cent in 2008. In total, tax revenues were almost 90 per cent of total revenues of the state budget in 2008 (Figure 5). On the one hand, the country will have to stimulate the expansion of the tax base and cover state expenditure needs in order to revive the economy and infrastructure, which was destroyed as a result of the civil war and improve state services. On the other hand, it will have to reduce the tax burden, generate employment and improve trade conditions and entrepreneurship activities.

In spite of the considerable increase of the tax revenues and improvement in tax administration, the following trends of 2009 could be noted:

- accrual of tax arrears by the large taxpayers;
- decline in collection of customs duties;
- non-compliance of many taxpayers.

Since 2001, the nominal growth rate of tax revenues—taking into account inflation—compared to previous years, has been slowly dropping, and the drastic fall in 2008 is explained by the devaluation of the national currency (12 per cent according to the official data from the State Statistics Committee and 25 per cent according to non-official sources) and the global financial crisis, which reached Tajikistan the same year.

Figure 6. Nominal Growth Rate of Tax Revenues, 2001–2008 (percentage change compared to the previous year,)

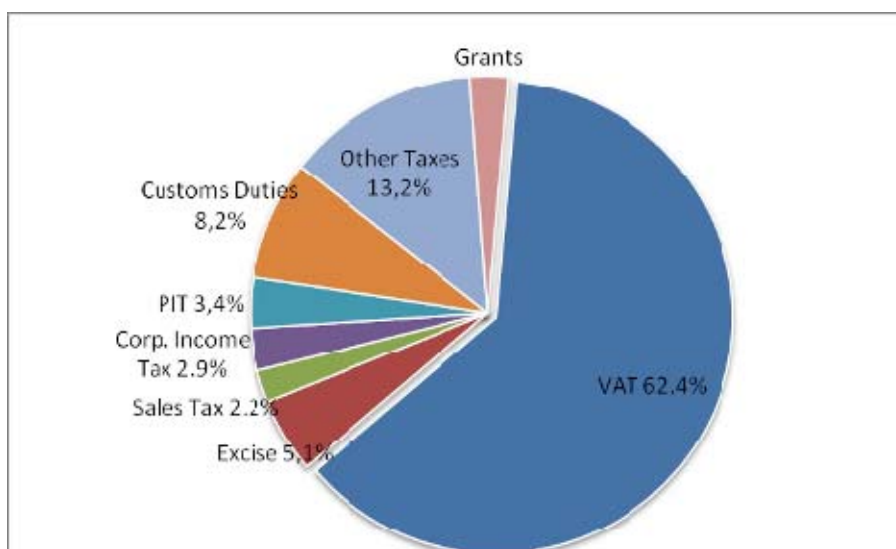


Source: State Statistics Committee of the Republic of Tajikistan (2009), International Financial Corporation (2006) and authors' calculations

In 2008, the main source of income among tax revenues was internal taxes for goods and services, which amounted to 10.6 per cent of GDP.

The share of VAT (62.4 per cent) in the income structure of the state budget in 2009 was enormous, while that of other revenues was negligible, e.g. customs duties at 8 per cent, excises at 5 per cent, personal income tax at 3.4 per cent and corporate income tax at 3 per cent (Figure 7). At the same time, the share of state budget expenditure with respect to GDP has almost doubled – from 14.5 per cent in 2000 to 27.4 per cent in 2008, as shown in Figure 8.

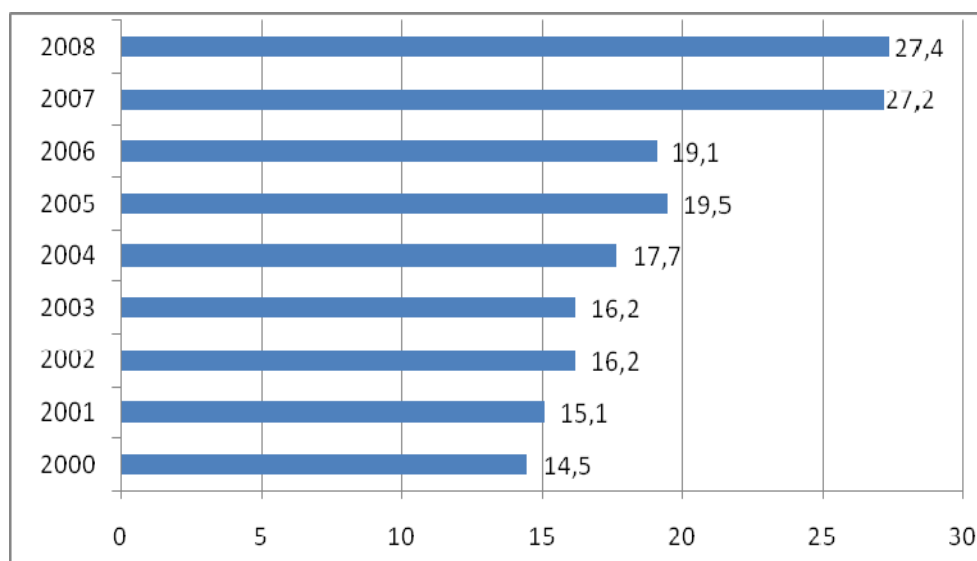
Figure 7. The Structure of State Budget Revenue, 2009



Source: Ministry of Finance of the Republic of Tajikistan (2009).

Note: PIT – personal income tax

Figure 8. State Budget Expenditures, 2000–2008 (percentage of GDP)



Source: State Statistics Committee of the Republic of Tajikistan (2009)

Expenditures of the state budget increased from TJS 3.5 billion in 2007 to TJS4.4 billion in 2008, and the share of state budget deficit to GDP in 2008 remained almost the same as in 2007, at 2.3 per cent (Table 1).

Table 1. State budget expenditure indices, 2007–2008

	2007	2008
State budget expenditures (TJS million)	3,494.8	4,823.8
State budget deficit (TJS million)	270.9	107.6

Source: State Statistics Committee of the Republic of Tajikistan (2009).

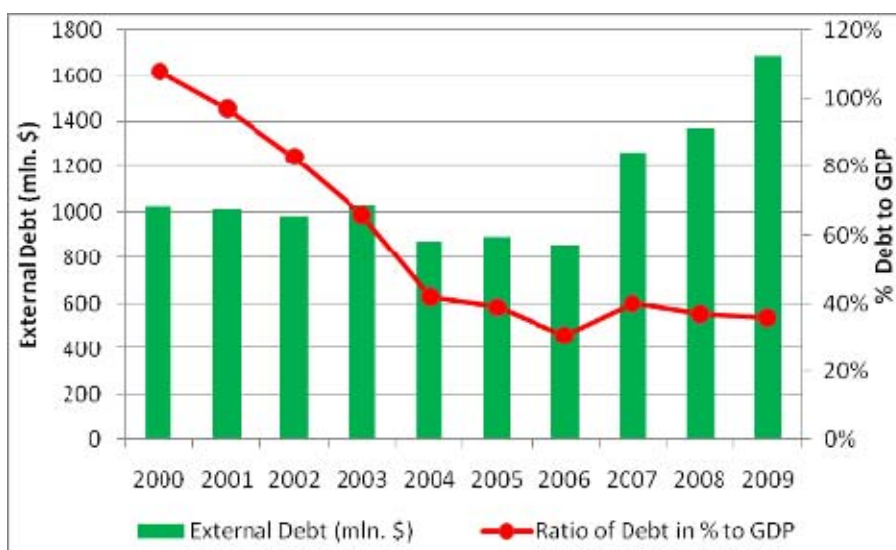
The growth in budget deficit may also be one of the reasons for the increase in the country's external debt, although other factors play a considerable role. By the end of 2006, the external debt was US\$1.47 billion, or 31 per cent of GDP. In 2009, the volume of the external debt increased to US\$2.4 billion, or 36 per cent of GDP. There was growth as a result of loans from China used for infrastructure development. Such a growth occurs by increasing loans for infrastructure development, above all, in the transport and energy sectors.

By the end of 2006, the external debt to GDP decreased to 31 per cent due to an increase in GDP, the restructuring of state debts to the Russian Federation and relief from International Monetary Fund (IMF) debts. However, the Government attracted new loans from China to construct roads and power transmission lines, which undoubtedly increases the risk of not being able to service debts due to the

budget deficit and will worsen the macro-economic situation.⁴ An increase in the external debt can negatively influence human development potential, particularly future generations for whom repayment can become a heavy burden.

In 2009, Tajikistan's external debt was US\$1,691.3 million, or 35.8 per cent of the GDP; in 2008, it was US\$1,371.4 million (Figure 9). According to data from the Ministry of Finance, US\$122.7 million from the budget was directed to service the state debt, including more than US\$93 million to discharge the main debt and about US\$30 million to pay interest rates. In 2010, the Ministry of Finance planned to earmark over TJS162 million to serve the external debt, out of which 86.4 per cent will pay the principals and 13.6 per cent, the interest rates.

Figure 9. Tajikistan's External Debt, 2000–2009



Source: Ministry of Finance of the Republic of Tajikistan (2009)

According to IMF calculations, by the end of 2009, mobilization of loans from China increased external debt rates to 56 per cent⁵ of the GDP, although according to data from the Ministry of Finance, this reached only 36 per cent. Consequently, many experts recommend attracting lax loans. It must be noted that the debt ratio to tax revenues remains unfavourable; as a consequence, risks of not being able to service debts in the long and medium term could increase. To avoid an increase in external debt, it would be prudent to concentrate on consolidating the budget.

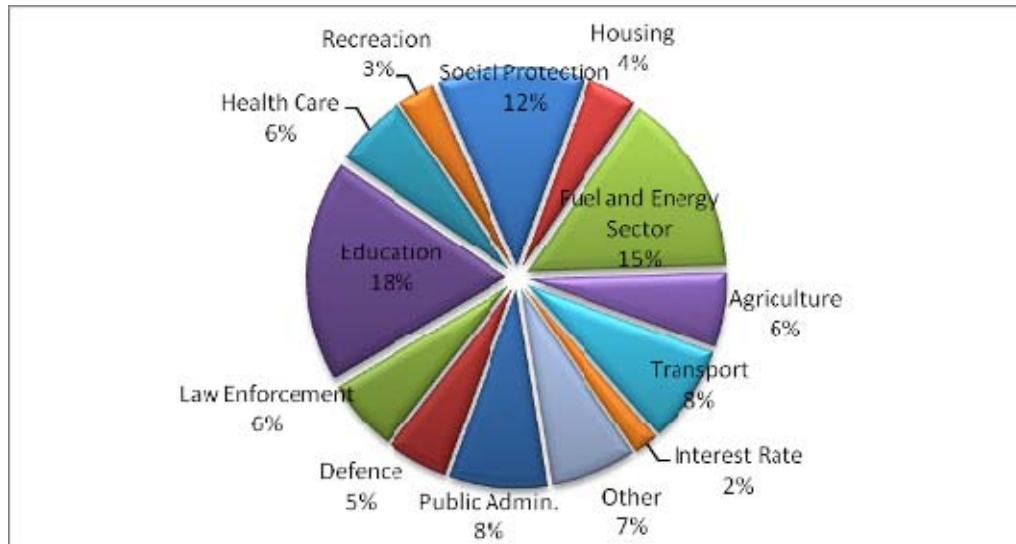
It is easier to achieve optimal and successful fiscal stabilization by reducing expenditures rather than increasing taxes. In fiscal policy, the issue of transferring income and social subsidy programmes to the poorer strata of the population can also facilitate a reduction in poverty rates. In this regard, in distributing the budget resources according to classification by sector, expenditures on education sector

⁴ Expenditures of the state budget for the projects in energy and transport sectors will be increased from 1.2 to 2.6 per cent GDP for 2007–2011, according to an outlook by the Ministry of Finance on developing the budget for 2007–2011.

⁵ IMF country report 06/62 from 18 February 2006, www.imf.org.

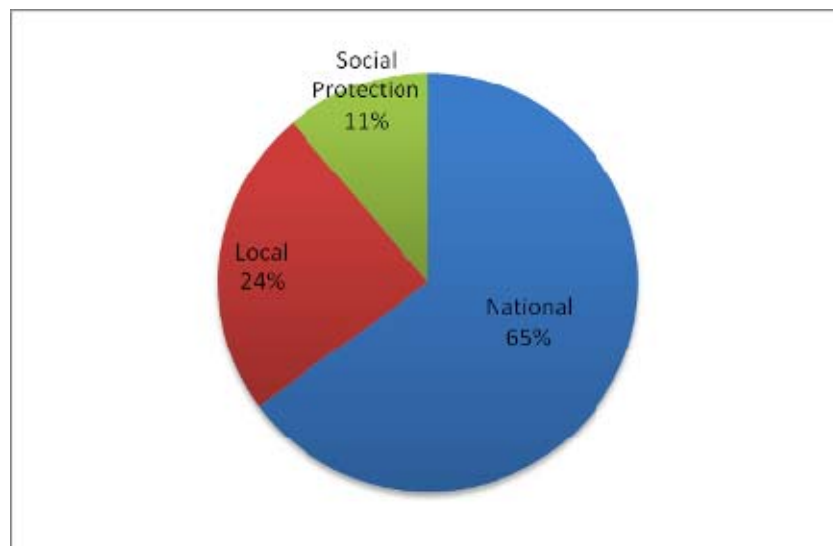
are the priority, planned at 18 per cent of the total in 2009, followed by expenditures for the energy sector at 15 per cent, for social protection at 12 per cent, and state administration, transport and communications at 8 per cent (Figure 10). Expenditures for the state budget hold a large share of the state budget for 2009 (65 per cent), while expenditures for local budgets and the population's social protection fund are 24 per cent and 11 per cent, respectively (Figure 11).

Figure 10. State Expenditures According to Classification by Sector, 2009



Source: Ministry of Finance of the Republic of Tajikistan (2009), Medium-term Programme of the State Expenditures for the Republic of Tajikistan and the Law on the State Budget of the Republic of Tajikistan, 2009.

Figure 11. State Budget Expenditures by levels



Source: State Statistics Committee of the Republic of Tajikistan (2009) and the Ministry of Finance (2009)

Therefore, in order to strengthen fiscal sustainability, it is necessary to put great efforts into accelerating economic growth rates and increasing macro-economic efficiency. In order to avoid a negative effect of fiscal policy on human development and trade in the country, it would be advisable to reduce state

expenditures (except for the social sector) rather than increasing tax and revenue collection.

1.3 Poverty and expansion of wealth disparity

For the last 18 years, Tajikistan has not been able to fully eliminate poverty, which represents the main social barrier to human development, development of human abilities, and improved labour efficiency.

Various criteria are used to determine poverty rates. Russian researchers proposed the method based on minimum living wage, some tajik researchers promote the idea of using the method based on women's anemia The World Bank uses the daily income of US\$2.5 per person according to purchasing power parity (PPP) to measure the absolute poverty rate; US\$ 1.08 PPP per day is used as an indicator of the per capita income to calculate extreme poverty.

Two programmes on poverty reduction were developed in Tajikistan, the Poverty Reduction Strategy (PRSP)-1 and PRSP-2. The PRSP-2 ended in 2009. Levels of absolute poverty in the country in 1999 reached 83 per cent; in 2003, it was 64 per cent, and in 2008, 52 per cent. The extreme poverty level dropped from 36 per cent in 1999 to 18 per cent in 2003 and 10 per cent in 2008.⁶

In Tajikistan, poverty prevails in rural areas, where the overwhelming majority of the population lives (over 76 per cent). Rural poverty is due to low incomes, particularly in agriculture, low employment rates, and the lack of access to basic social services (education, health care, water supply, etc.). In addition, the poverty rate is impacted by such demographic indicators as size of family, number of children and the age structure of family members. The number of children in Tajik families is greater than in other post-Soviet countries, by 20 to 250 percent. The age structure of family members does not promote high employment rates, both on the household and community level. Moreover, according to certain surveys, the risk of becoming poor in larger families is twice that of families with two children or fewer.⁷

The social side of poverty is expressed by the sources of household cash income (Table 2).

Table 2. The main Sources of Household Income (percentage of total cash income)

	Earned income	Including		Social payments	Including pension	Income from sales of agricultural products
		Labour remuneration	Income of the self-employed			
Tajikistan 2000	62.7	–	–	2.2	1.9	20.8
2007	49.9	24.1	25.8	3.6	3.2	10.6
Kazakhstan 2000	71.0	–	–	10.7	9.2	5.5

⁶ Data from the Ministry of Economic Development and Trade of Tajikistan.

⁷ Statistical Annual Book of the Republic of Tajikistan. Dushanbe, 2009, p. 204. Human Development Report 2007/2008. UNDP, 2007, pp. 277–279.

2007	77.9	70.2	7.7	13.8	10.7	3.7
Kyrgyzstan 2000	49.1	—	—	9.6	9.0	17.5
2007	63.7	40.2	23.5	7.7	7.2	20.3
Russian Federation 2000	78.2	62.8	15.4	13.8	9.1	—
2007	80.4	70.4	10.0	10.9	7.4	—

Source: Poverty Reduction Strategy of Republic of Tajikistan, 2007–2009. Dushanbe (2007), p. 176.

Data from Table 2 are very significant. The proportion of the population's income, i.e. the income of the formal economy sector, has been drastically falling over the last seven years in Tajikistan, while there has been a trend of increasing income in other CIS countries. Even in Kyrgyzstan, whose level of economic development is close to Tajikistan, the declining trend is observed. The proportion of labour remuneration in Tajikistan appears to be the lowest among the CIS countries. A very large difference is observed between Tajikistan and other CIS countries. Labour remuneration is almost three times lower in Tajikistan than in Kazakhstan. At the same time, the proportion of individual income of self-employed people is 2.2 times higher than in Kazakhstan and the Russian Federation. This difference is explained by the high employment in the informal sector of economy in Tajikistan, as well as also in other countries within the framework of external labour migration. Social payments have an insignificant place in the income structures of households in Tajikistan, which is explained by the low level of state contribution in forming the household aggregate income. The proportion of population's individual household plots in forming their income has decreased by almost two times. This situation reveals the presence of "Dutch disease", which is related to the remittances of external labour migrants.

The most vulnerable category of the population is that of the older generations. Pension income rates are the lowest among categories of income and are inadequate for their physical survival.

After taking into account the pricing factor, one can determine inequality between Tajikistan and other CIS member countries, as reflected in Table 3.

Table 3. Purchasing Power of Average Household Income, 2007

	Quantity of products that could be purchased on an average monthly income (kg)					
	White bread	Potato	Beef	Milk (litre)	Animal oil (butter)	Eggs (number)
Tajikistan 2000	20	47	4	42	3	80
2007	49	72	7	64	8	181
Kazakhstan 2000	106	152	17	84	11	400
2007	262	263	34	219	36	1,111
Kyrgyzstan 2000	42	131	9	76	5	198
2007	71	122	11	102	11	340
Russian Federation 2000	211	363	46	289	33	1,568
2007	476	835	70	598	92	3,968

Source: Tajikistan and CIS countries. Statistics Digest. Dushanbe, 2008, p. 92.

These data are significant. In 2007, in the Russian Federation, it was possible to purchase 9.8 times more white bread, 11.6 times more potatoes, ten times more

beef, and 9.4 times more milk with an average monthly income than in Tajikistan. These data provide additional evidence that the situation of poverty in Tajikistan is much more serious than it seems at first glance. The situation described in Table 3 indicates the extent to which low purchasing power slows down internal trade development. This is shown by insufficient sales volumes due to low demand from the population.

This situation is expressed by the low level and imperfect structure of the population's personal consumption in Tajikistan, as shown in Table 4.

Table 4. Foodstuff Consumption Rates in Tajikistan, 2008

	Bread and cereal products	Vegetables and cucurbitaceous crops	Potato	Fresh fruits	Sugar, including confectioneries	Meat and meat products	Fish and fish products	Milk and Milk products	Eggs	Butter and vegetable oil	Other products
Consumption norm, (kg)	130	142	46	78	33	60	11	250	165	12	4.2
Actual consumption (kg)	153	75.4	36.7	48.9	12.6	11.4	—	54.7	32	13.2	—
Actual consumption rate to the norm (in per cent)	117.7	53.1	79.8	62.7	33.2	19.0	—	21.9	19.4	110.0	—

Source: Main indicators of the households survey in Tajikistan. Dushanbe, 2009, p. 38.

Table 4 shows a considerable difference between recommended and actual consumption levels (excluding cereal products, butter and oils) in Tajikistan. This is especially true for the consumption of meat and meat products, at 5.3 times less; eggs, at 5.2 times less; milk and milk products at 4.6 times less; and vegetables and cucurbitaceous crops at 1.9 times less. Such data do not simply point to the low rates of consumption by the population, but also to the risk that this poses to the population's well-being.

In recent years in Tajikistan, there has been no reduction in the inequality in incomes between various groups of the population. On the contrary, there has been an increase in this disparity over the last four years. In 2005, the income of the wealthiest strata, i.e. 10 per cent of the population, was 9.4 times higher than that of the less wealthy strata, i.e. 10 per cent of the population. In 2008, this increased to 12.8 times.⁸ This trend is unusual and should attract the attention of the government. This can occur when national wealth is unfairly distributed. Such a situation is inevitably reflected in the dynamics of the disparity in consumption of the population's respective groups (Table 5).

⁸ Main indicators of the household budget surveys in Tajikistan, pp. 21 and 22.

Table 5. Difference in Foodstuff Consumption among Marginal Groups (deciles)

	Bread and cereal products	Potato	Vegetables and cucurbitaceous crops	Fruits	Meat and meat products	Milk and milk products	Eggs	Sugar, including confectioneries	Butter and vegetable oil
2005	1.4	1.8	2.4	2.4	4.4	2.5	2.0	1.8	1.8
2009	1.6	1.9	2.2	3.1	4.4	2.0	2.5	1.9	1.8

Source: Authors' calculations with respect to the main indicators of the household budget surveys in Tajikistan. Dushanbe, 2009, pp. 41 and 42.

The data shows that the difference in consumption of the most essential foodstuff among the 10 per cent of the least wealthy and 10 per cent of the wealthiest population has been increasing (excluding vegetables and cucurbitaceous crops, and milk and milk products). This situation leads to an increase in the vulnerability of the poorer strata of the population. This is also shown by the fact that expenditures of the population's least wealthy groups have been increasing faster than those of the wealthiest groups. As seen above there was a completely opposite trend regarding income: the part of the income of the least wealthy groups of the population spent on direct consumption is increasing.. Meanwhile, the increase in incomes of the wealthiest groups of the population goes towards savings. This situation can accelerate the process of polarizing a society based on their incomes, which is extremely undesirable, considering long-term social and political sustainability and stability. These conclusions are in line with those made by the World Bank in accordance with surveys conducted from 1999 to 2003: the consumption rates of the poor population grew faster than that of the non-poor population;⁹ also, consumption growth was distributed more or less evenly among all the groups. These trends later worsened over time.

1.4 Competitiveness and business environment

Competitive relations in Tajikistan began during the first days of economic liberalization. As a result, competitiveness in the economy is inevitable, despite today's trends towards monopolies.

In accordance with legislation, legal conditions were established for household agents to use competitive advantages, which were owned by enterprises, regions and the country as a whole.

Competitive relations in Tajikistan, as in all market economies, have a clear sectoral specificity, above all, emerging in small business. This becomes clear, considering that large enterprises are in most of the cases state property entities and are natural monopolies (Tajik Power, Tajik Railway, State Air-Company, the main post office, etc.). A considerable number of medium-sized enterprises are linked to

⁹ See Republic of Tajikistan. Updated Poverty Assessment, 6 January 2005. World Bank document, p. XI.

high-ranking state employees and in most cases, are their own private properties (officially registered with the names of their immediate relatives). Out of 57,172 acting enterprises, 48,682 are small-sized enterprises, or 85.1 per cent of the total. Most of the small-sized enterprises (71.7 per cent) are related to agriculture: family and individual *dekhkan* (farmer) holdings are included. In the industrial sector, the proportion of small-sized enterprises reaches 71.2 per cent; in agriculture, 87.2 per cent; in construction, 79.3 per cent; in transport and communication, 62.2 per cent; in trade and catering, 91.1 per cent; and in general commercial activities related to market supply and real estate activities, 98.5 per cent.¹⁰

Judging from the above data, the greatest competitive potential is in the agricultural sector, due to its having the most enterprises and highest proportion of small enterprises, the increasing demand for food, and optimal bio-climatic resources (the high level of water supply almost all year round, providing favourable conditions for field work, rich soils, a maximum numbers of sunny days and accumulated positive temperatures, etc.). However, most *dekhkan* farms, as well as personal subsidiary plots are characterized by extremely weak connections to markets. Questionnaire surveys showed that 49 per cent of the individual and family *dekhkan* farms and 57 per cent of the population's personal subsidiary plots produced products for self-consumption: all surveys pointed out the lack of surplus of products produced by households as a reason for this. Other reasons were low prices in the markets, organised crime and the lack of support by the local authorities.

In Tajikistan, the acceleration of industrial development — as a direct result of the fast increase of agricultural crops and livestock productivity, and respectively, total volumes of food production and raw produce — may not only have a good effect on development of the trade, but also have a considerable influence on the vital human development indicators. Due to inefficient land use, more than half of the population of Tajikistan was not able to participate in market processes, compete with each other within country markets, enjoy modern standards, and obviously, step out of poverty.

The main part of competitive potential — as a basic development factor for the economy — belongs to the agricultural sector, and steps towards using this potential will sharply increase the role of the economy's small sector in addressing vital challenges in the social and economic development of the country.

As stated above, competitive relations were developed broadly in the small sector of trade (wholesale and retail) and catering, since medium- and large-sized enterprises are linked to the high-level officials in power and are more disposed for monopolization. For example, in 2008, 42 companies were involved in the supply of petroleum products. However, only four companies provide the country with 91 per cent of the total petrol volumes, diesel fuel, kerosene and crude oil.¹¹ It is

¹⁰ Statistical Annual Book of the Republic of Tajikistan, Dushanbe, 2009, pp. 216 and 218.

¹¹ Data from Customs Statistics of Tajikistan.

natural to assume that competitive relations in this sector are in a depressed state since, as a result of the oligopoly agreements, these companies determine the prices of petroleum products. For this reason alone, there is an absurd explanation of price growth for petroleum products in the country. When there is a rise of prices for oil in the world market, prices for petroleum products in the country immediately increase, the very same day. The fall of prices in the world market, on the other hand, has almost no impact on decreasing prices on petroleum products in the country. There are several examples of when the fall of the global prices was accompanied by a rise in prices of petroleum products in Tajikistan.

A similar situation is typical for the wholesale supply of wheat, flour and flour products in the country, which involves 51 importers. Most of these products are imported by private companies (excluding humanitarian aid resources). Six companies supply the internal market with approximately 86 per cent of the imported wheat and flour. Here also, prices are influenced by oligopoly agreements. However, as opposed to the petroleum products prices, the prices of these products are impacted by the volumes of their production in the country. In 2009, the prices dropped an average of 27.7 per cent due to high yields of crops in the country.

With respect to other trade sectors, some wholesale markets in Dushanbe city – Sakhovat, Korvon, Sultoni Kabir, Dehkonbozor, etc. are subject to monopoly ownership.” A similar situation is found in Khujand, Istaravshan and Kurgan-Tube. The owners of the markets dictate unit costs of the trading sites. These tariffs are high and considerably impact on trade profitability of small trading firms. Surveys showed that even during the crisis, such tariffs did not decrease, even though prices for real estate in general had drastically dropped in the country (by 25–35 per cent). As a result of high rental prices of the market stall in the wholesale markets, profitability of wholesale trade, which is mainly managed by the representatives of small business, decreased by 40 per cent, even though purchasing wholesale price and transport tariffs tended to decline. Renters of the trading sites in the wholesale markets are mostly shuttle traders, who supply the goods mainly for mass consumption.

Corruption in state bodies has a determining impact on trade profitability. All wholesale markets in Tajikistan operate by using the practice known as “roofing”; each of the “shuttle traders” is under the protection of representatives of the enforcement bodies (the militia, security, the prosecutor’s office, the anti-corruption agency) and respective authorities (the tax committee, local and central authorities). Such guardianship releases traders from paying multiple bribes to the representatives of these state bodies. Since such extortion is high (9–20 per cent of entrepreneurs’ gross revenue), traders carry out practices such as a double-entry bookkeeping and hiding part of their real incomes from taxation. As a result, the state budget is defrauded of large amounts of income. This situation is a barrier to the creation of a real business environment and to developing competitive relations, since the business environment is overwhelmingly characterized not by a struggle for using competitive privileges, but by a struggle for survival.

There is increased competition in the retail trade and catering business, as shown in the ongoing processes of bankruptcy of some entities and the emergence of others, as date in Table 6 directly shows.

Table 6. No. of Trade and Catering Enterprises

years	Total	Including existing	Including state-owned	Private	Owned by groups	Mixed with foreign participation	Owned by foreigners
2001	1,472	1,158	229	492	391	4	5
2005	2,219	1,556	205	145	1,140	58	8
2007	2,451	1,713	200	155	1,296	53	9
2009	2,715	1,976	198	140	1,569	51	18

Source: Annual Statistical Report of the Republic of Tajikistan. Dushanbe, 2001, p. 169; Statistical Annual Book of the Republic of Tajikistan, Dushanbe, 2005, p. 167; Statistical Annual Book of the Republic of Tajikistan, Dushanbe, 2007, p. 209; Statistical Annual Book of the Republic of Tajikistan, Dushanbe, 2009, p. 218.

Some of the calculations in Table 6 indicate limited competitive relations in the country. This is shown by the dynamics of changes in the proportions of the operating enterprises in the total numbers of registered enterprises, as well as in the proportion of the private enterprises in the total number of registered enterprises. In 2001, it was equal to 78.7 per cent, in 2005, 70.2 per cent, in 2007, 69.9 per cent, and in 2009, 72.8 per cent. The second indicator for the same timeframe was: 42.5 per cent, 9.4 per cent, 9.1 per cent, and 7.1 per cent. It is easy to understand from the figures that growth of the specific weight of the non-operating enterprises indicates an increase in numbers of bankrupt enterprises (or companies). In addition, a reduction in the proportion of private enterprises indicates a lack of confidence of traders to independently compete in the market. The limited competition also refers to a reduction of a proportion of the mixed trading enterprises. In 2001, this indicator was 0.4 per cent; in 2005, 5.1 per cent; in 2007, 3.1 per cent; and in 2009, 2.6 per cent. The situation with foreign enterprises is more or less favourable as they have the possibility to refer to international courts when competition is unduly restricted; however, the table shows that the proportion of foreign enterprises remains extremely marginal, at 1.0 per cent.

In retail trade, competition is limited when there are unequal forces vying for the market consisting of mostly small-scale enterprises and those that enjoy the support of influential people from the state force control bodies. Such trading enterprises include the trading centres in Dushanbe (Safar-Center, Paikar, Sitora) and in Khujand, Kulyab, Istaravshan and Kurgan-Tube. There are cases when successful competitors of these trading enterprises receive punishment. An illustrative example is the activity of a food store chain jointly owned by the Tajik-Dutch enterprise Orima. This joint enterprise became the strongest among retail trading enterprises in Tajikistan due to its use of modern trade standards. As a result of the high profitability of this chain, shop owners of similar chains tried to overtake the chain. Its owners, particularly R. Oripov, an experienced commercial trade organizer, completely rejected a proposal to hand over this chain to those close to the authorities. The result was very negative. He was accused of corruption

and storing outdated goods in his warehouse and was sentenced to jail. Organised crime structures, which wanted to take over the Orima chain, gave up their initiative only because the Dutch co-owner started seeking help from international organizations.¹²

Competition in the industrial sector is extremely low to virtually non-existent. High taxes, high bank interest rates, high accumulated depreciation of capital, and shortage of qualified personnel reduce the competitive ability of industrial production, both in the domestic and foreign markets. Numerous industrial sectors, especially those that are intensively technical and scientific (i.e. machine construction, electric equipment, chemical, electronic, mining) ceased their activity due to the collapse of the Soviet labour division scheme (during the Soviet period) and reorientation of consumers in CIS countries towards foreign suppliers. Furthermore, many of the sectors and industrial enterprises are not in the position to revive capacities due to the threat of corruption, which in Tajikistan is a main factor in the suppression of competitive relations. An example is the activity of a joint Tajik-Iranian enterprise, which manufactures tractors. Tractors constructed in the Dushanbeselmash plant have high economic and technical indices, which are at par with Belarusian tractors MTZ-80 and MTZ-82. However, Tajikistan customs bodies refuse to amend customs tariffs to eliminate taxation of the value-added equipment meant for the construction of these tractors. Consequently, tractors built by the joint enterprise are doubly taxed, but those imported from Belarus of the same specifications and the same capacity are taxed only once. Specialists and leaders of the joint Tajik-Iranian enterprise assume, with some justification, that this is a result of lobbying activities of some stakeholders.¹³

As a whole, there are grounds to state that no appropriate business environment has been created in Tajikistan. However, according to “Doing Business” – the Report of the World Bank on the status of the business environment in the countries of the world, in 2009, Tajikistan succeeded in improving its rating to some extent. This occurred as a result of introducing the “single window” principle, which simplified the registration of enterprises and public organizations. The business environment has also improved due to the moratorium against audits by the power structures.

However, many problems remain unsolved. Systematic violations of national legislation on competition and entrepreneurship development occur in the country. Authorities for lobbying the interests of some businesses can arrange a fraudulent bankruptcy of enterprises. Authorities often unilaterally impose on them requirements or orders related to the development of the city’s economy or collection of financial resources to conduct state events. When some entrepreneurs refuse to do so, the authorities undertake measures to worsen the economic state of these enterprises, even going so far as destroying them. A vivid example of such actions is a retail market, Zarnisor, which was illegally destroyed in Dushanbe.

¹² The newspaper “Millat”, 21 March 2009.

¹³ The newspaper “Nigoh”, 4 May 2009.

SECTION II. TRADE AND INVESTMENT POLICY

2.1 Analysis of the movement of trade flows

Since gaining independence, Tajikistan has experienced civil upheaval, economic collapse and a large fall in its population's living standards. Although Tajikistan is a unique example of successful conflict resolution in Central Asia, the economic and social reforms have not demonstrated the expected results. The decline of GDP by 60 per cent in comparison to 1991 levels, four-digit inflation figures, poverty, mass unemployment and outflow of labour and scientific leaders have worsened the social situation in the country.

The main problems are:

- the country's economic and geographical isolation;
- export of raw materials;
- lack of regional integration in Central Asia.

The cumulative negative impact of these problems, among others, prevents the sustainability of the productive industry. Rather, today, development of transport and transport channels in Central Asia in many ways follows the reduction of interdependency between countries of the region, which consider the increase in extracting raw materials and their export as a profitable sector. Combined with the above are the negative consequences of the global financial and economic crisis, including plans to implement protective policy measures in some Central Asian countries.

All of the above mentioned issues also lead to an increase in transportation prices. According to some expert estimates, costs of transporting goods from economically and geographically landlocked countries are 50 per cent higher than that of transporting goods from coastal states. The main over-land transport corridors in Eurasia bypass Central Asia, and land transport arteries in the region (above all, railway and highways) are mainly used by the Central Asian states for their own export and import operations, while other Eurasian countries have a lesser need for them.

Economic and geographical isolation of Tajikistan

The problem of Tajikistan's economic and geographical isolation is linked to the remoteness of the Central Asian region from Eurasian sea transport corridors. The other factor is that the disintegration of the USSR and the territorial division of the states separated the economic space of the former Soviet countries, making it difficult to access sea ports. The economic and geographical conditions of Tajikistan are even more complex, due to the fact that most of the territory is

situated in high mountainous areas, and the most effective land transport corridors can only be developed through Uzbekistan.

Orientation of the country's economy to raw materials

Tajikistan is oriented to the export of raw materials. As a result of the breakup of the USSR, the elimination of the entire management system of the Soviet economy's processing industry has practically ceased to function. Main sectors that remained active are involved in production of raw materials (the cotton ginning industry, agricultural raw produce, and mining). Consequently, turnover volumes of finished commodities have sharply reduced.

This problem in many ways is conditioned by the low levels of economic interaction between the former Soviet states, as well as by the policy of the Russian Federation and a number of Central Asian states, which is oriented towards the export of raw materials and diversification of supply flows to foreign markets. As a result, transport arteries in Central Asia are no longer used for the products of the real sector of the economy and land communications in the region became considerably under used, i.e. below their carrying capacity.

The combination of the narrow export structure and the unvaried geographical concentration of external trade flows makes Tajikistan extremely vulnerable to external shocks. Under these conditions of vulnerability, the country's competitiveness can only be enhanced by implementing a sustainable macro-economic policy, structural and institutional reforms as well as developing a national export strategy based on innovative industrial development strategies.

Implementing such reforms could facilitate the diversification of external trade. From the macro-economic point of view, stability of prices and increase of wages are important conditions for preserving competitiveness by motivated entrepreneurs to develop and expand their products and bring them to the external market. There is no doubt that a healthy and competitive economy needs a free migration of capital, goods and labour forces. These motivations are the driving forces of trade development.

The development of small- and medium-sized businesses and agriculture becomes more important in light of the decrease in world prices for cotton and the reduction of export volumes. By reprocessing agricultural and textile production, using raw materials within the country, exporting finished products, expanding the capacity of textile mills and other processing productions, it is possible not only to preserve positive economic development rates, but also to successfully survive the crisis and its consequences. This could possible also contribute to expanding the labour force, and consequently reducing unemployment. It is also necessary to promote the development and expansion of entrepreneurship, the establishment of benefits, and simplification of bureaucratic and custom procedures for small- and medium-sized enterprises.

Lack of regional integration in Central Asia

Trade as a factor of human development is hindered by the negative disintegration process of the Central Asian countries.

The main reasons that influence negatively on regional cooperation between Central Asian countries are:

- the low level of infrastructure on the borders, customs and other services of neighbouring countries;
- the lack of interaction between the state bodies responsible for external trading activities, border crossing of goods, services and people;
- a complete lack of any regional database on freight flow (traffic) and insufficient information exchange on export and import operations;
- a lack of inspection on international trade norms and rules as specified by the Kyoto Convention on harmonization and simplification of custom procedures;
- an insufficient level of near-border trade arrangements between the countries in facilitating the detection of contraband import and export of goods and services.

These constraints on trade can cause serious consequences, such as the reduction of own resources for domestic production and foreign currency earnings, which can disrupt the economic security of the country.

The crisis obviously strikes a tangible blow at the export potential of the country. The reduction in global prices on commodities directly impacts the income of the large Tajik enterprises, whose products are intended for export, and which, together with the decrease in domestic demand, will affect budget incomes and foreign currency earnings.

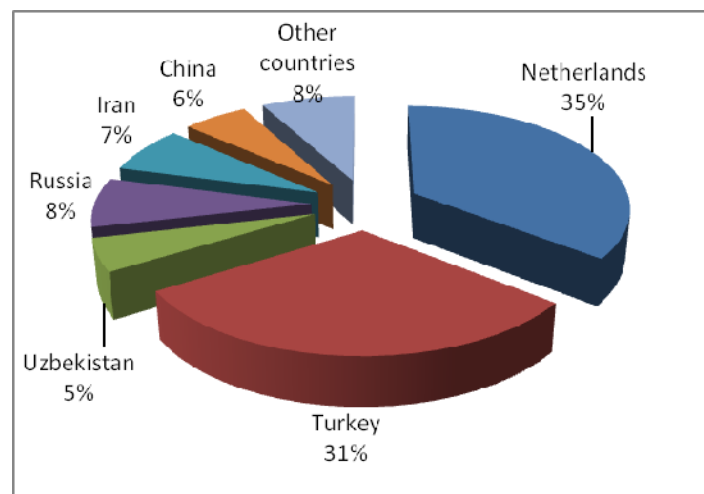
These unfavourable consequences will only partly be compensated by the predicted reduction in the global prices for the imports of the country's foodstuffs and fuel. Since Tajikistan is an importer of petroleum products, in the short term, it will gain from the drastic fall of oil prices. The same holds for import of fertilizers and foodstuff. However, producers and suppliers of imported products are currently attempting to keep their goods until prices stabilize, creating an artificial deficit and supporting high prices. This factor can also impact on the reduction of foreign trade turnover, even though it is limited in time.

The main problems and barriers in conducting foreign trade operations

The trade system of Tajikistan is especially vulnerable to external shocks since it depends on limited numbers of main export goods – cotton and aluminium. The situation is aggravated by geographical restrictions and a lack of access to seaports. Tajikistan's domestic market is too small to facilitate the development of the various sectors based on national demands alone. Hence, diversification and development of export is necessary.

For the first nine months of 2009, the country's foreign goods trade turnover was US\$1,476.1 million. Currently, Tajikistan cooperates with over 20 countries and exports 32 types of products.

Figure 12. The Main Export Partners of Tajikistan, 2008



Source: Developed by the authors according to data from the National Bank of Tajikistan.

Slow progress of the economic and structural reforms has led to changes in the commodity composition of its foreign trade, while the domestic production structure has not changed over the entire period of market reforms. In the current conditions, export of ginned cotton and aluminium continue generating about half of the GDP and two thirds of the annual foreign currency earnings.

The primary aluminium and ginned cotton are not considered as final products for countries like Netherlands, Switzerland, Latvia and Turkey, where the main flow of export of raw material resources is directed. Therefore, under conditions of a stable and constant foreign trade structure with these countries, there is a high impact of the national economic system from external price shocks. The main challenges for domestic exports remain the prevailing drainage of raw material resources and primary processing products, and **a lack of a substantial processing cycle and products that require high-degree processing.**

Another substantial problem is the **degradation of the raw material base** of the national production in Tajikistan (cotton, silk, wool). Due to the rise in prices for chemicals and reagents for raw cotton processing, the quality of the product worsens. In addition, there is degradation of medium- and fine-stapled cotton due to a lack of qualified personnel and specialists in the field of cotton growing and the collapse of seed production and selection.

According to specialists, the situation could be overcome in two ways, which are seemingly contradictory.

The first way, traditionally presented in the economic literature, is related to *improving the degree of processing of this raw material* followed by its export to foreign markets with the aim of yielding better profits. This point of view assumes first the implementation of import substitution and then an export-oriented external economic policy. The second way concerns, as a priority, the implementation of *an export-oriented policy*, and then as investment resources accumulate, the implementation of *an import-substituting policy*.¹⁴

From the theoretical and practical points of view, both positions, historically and logically, are justified and have been heavily debated in international trade theory. However, they do not extend on when and how a period of “reversal” of dependency from the external price shocks occurs for a specific economic system.

In addition to the above restraints on domestic export development, there are others, as follows:

- a lack of financial possibilities for maintaining marketing services and after-sale services, advertising and exhibition works;
- a low expertise of business circles, including the lack of specialized business centers for the exchange of experiences and informations;
- insufficient use of production capacities in the sectors oriented to export;
- low competitive ability of the domestic industrial production, above all, the products of light industry, especially of the textile industry;
- the difficult financial state of many enterprises, making it almost impossible to invest in promising export oriented sectors using domestic resources;
- a lack of targeted budget allocations for export development;
- an inefficient transport infrastructure;
- a lack of special knowledge and experience in the field of export by most enterprises;
- travel companies that are unprepared for competition in the tourist services market; lack of international awareness of Tajikistan as a tourist destination, lack of a modern tourism infrastructure (hotels, camping, air and land transport services, etc.).

¹⁴ For more details on problems and methods of import replacement and export orientation in Tajikistan, see: Kayumov, N.K., Nazarov, T.N., Makhmudov, I.I., Rakhimov R.K. and Umarov, Kh.U. Globalization processes and economic problems in Tajikistan/Economy of Tajikistan: Development Strategy, 2003, N4, pp. 36-38.

Summarizing the institutional, functional and other barriers and constraints to economic development, it is necessary to underline not only the importance of enhancing processes of reforms, but also to direct these reforms into the right direction. This includes acknowledging the mistakes made while implementing economic reforms, developing a reasonable state administration policy, removing barriers to the simplification of economic liberalization, developing a regulated mechanism in state legislation, and reducing poverty levels and corruption, i.e. adopting decisive and constructive measures to create a range of market infrastructures in the country.

2.2 Trade policy and measures

With the disintegration of the former USSR, the centralized planning and administration system of domestic trade and the state monopoly system of foreign trade were dismantled in Tajikistan. At the same time, certain possibilities were created for the total liberalization of activities of these different spheres. The most important, with respect to rebuilding foreign economic activities, may be the adoption of the Law of the Republic of Tajikistan “On Foreign Economic Activities of the Republic of Tajikistan” of 27 December 1993. It reflects the main principles of Tajikistan’s relations with foreign states and their private entities in the field of external economic activities. The Principle of non-interference by the state into the internal affairs of entities in foreign economic relations was significant. This law guaranteed the rights and interests of the subjects of foreign economic activities, and determined forms of government regulation of foreign economic activities. In general, this Law provides broad freedoms to participants to trade commodity and services with the outside world. The next step in expanding freedom of trade with foreign partners was the Presidential Decree “On Further Liberalization of the Foreign Trade of the Republic of Tajikistan” of 27 June 1995. In accordance with this Law, non-tariff barriers to foreign trade were considerably reduced as well as the quantity of licensable goods.

In Tajikistan, the liberalization of the economy first of all impacted the prices and foreign trade. In the beginning of the 1990s, the economy started adapting to the free trade regime. Such transformation had a radical and shocking characteristics and resulted in number of negative consequences. The deep transformational decline became one of the negative results of the transition into free trade regime.

The transition to the free trade economy required a fundamental rethinking of economic values held until that moment. The introduction of free trade thinking facilitated an evolution of the new economic psychology. People started questioning, for example, the efficiency of cotton, fruits or vegetables production, and whether fruits or aluminium would be more profitable.

At the same time, stakeholders began to consider the advantages of importing goods and their production locally. However, not all the goods can be produced and not all the essential goods can be imported.

The positive aspects of free trade are inseparable from competition in the market. The modern competitive environment assists in preserving the most effective sectors of the economy and the inefficient ones disappears. In addition, true competition leads to a considerable reduction in social corruption, whereas protectionism facilitates its growth.

At the same time, one should not thoughtlessly treat the changes in ratio between protectionism and free trade should be taken seriously. Tajikistan endured the bitter aftermath of a radical change in trade policy. Liberalization of trade and markets based on the “shock therapy” principle led to a suspension of some industrial enterprises and a severe deterioration of the financial state of the real sector of economy. Therefore, protectionist elements in trade policy should be gradually eliminated as favourable conditions emerge.

Within the Tajik context, it is necessary to find equilibrium between the domestic producers’ protection policy and the principles of free trade. At the same time, it must be clearly recognized that until a full recovery of the economy, protectionist elements in foreign trade will continue to coexist with the expanding space of free trade. Fears over the direct cause and effect relationship between the transition to free trade and the strengthening of the raw materials-based economy in general terms are without grounds.

Such fears can be justified only when authorities are completely passive and when a scientifically justified foreign economic policy is missing. By providing a reasonable free trade policy, the country can achieve high rates of economic growth and establish a highly effective economic structure. The trade policy of any country therefore needs to find the most appropriate model for the current level of its development.¹⁵

Such a model can serve as a basis for policy based on reality, with consideration of difficulties both in the global market and individual countries or a group of countries; belief in the undoubted advantages of free trade must form the basis of such a policy.

It is particularly important to bear this in mind in the context of post-Soviet countries, especially those that have experienced the consequences of fast liberalization of the domestic market and foreign trade. For example, for Tajikistan, a free trade policy means more freedom for import than for export. The latter has greater restrictions. Tajikistan exports little else but aluminium, cotton and some other products (mainly tinned products). It would be difficult to expand the list of exported goods. Diversification of the export structure is impossible without foreign investments. The introduction of free trade mainly positively impacts on the inflow of goods, not investments. Inflow of goods as a form of free trade, when there is an insufficient inflow of investments, can become a factor in

¹⁵ Trade and Development Report, 2009, UNCTAD, New York and Geneva, 2009, p.104.

the elimination of the national industries. Hence, one can conclude that transition to free trade has to be coordinated with the investment inflow process.

Furthermore, a free trade regime has already been established in Tajikistan for a long time. However, there is no connection observed between this regime and measures for stimulating direct foreign investment inflow. For this reason alone, many of the enterprises that produce food products and essential industrial goods are unable to arrange a normal production process.

Scientifically justified free trade policy can lead to a revision of the current concept of the economic structure efficiency. In a free trade conditions, it is possible to observe conditions in which the agrarian-industrial or prevalingly agrarian structure of the economy could be not less effective than the industrial-agrarian or prevalingly industrial structure of the economy. It is obvious to assume that the above assumption will be possible at full abandonment of non-tariff barriers outside the country. (With respect to Tajikistan, this means the elimination of such barriers by neighbouring countries, such as barriers to the transit of goods.)

It should be noted that free trade will allow increasing the unimpeded import of not only finished products, but also raw materials, semi-finished goods and component parts for the production of finished goods, including its high technological varieties. Such imports will contribute to build capacities as well as to export apparels, shoes, chemical products, engineering, electro-technical and electronic products, which can support labour-intensive economic growth. As a result, the diversification process of the product mix can accelerate in the country, and the quality of the products may improve as well as their consumption properties.

An expansion of trade volumes can cause an increase in national and personal incomes and increase employment rates. In addition, there may be job opportunities that will emerge or that will be recovered as a result of unimpeded import of raw materials, semi-finished goods and component parts. Personal income gains as a result of free trade can increase effective demands and thus accelerate the dynamics of the development of the real sector of economy. Some hopes are pinned on this, above all, with Tajikistan's accession to the WTO. These hopes are mostly tied to the elimination of the large barriers to the development of trade between Tajikistan and the rest of the world. These barriers facilitate the development of a shadow economy and the expansion of corruption. On this basis, WTO stands against the main non-tariff barrier – quotas. The systematic use of quotas leads to high prices for selected goods. Such practices contradict anti-monopoly legislation; they are a means to limit the competitive environment and a barrier to price reduction. By lobbying the maintenance of quotas, many companies gain extra profits. In most cases, this extra profit is used for bribing government bureaucracies and parliamentarians.

The issue concerning the elimination of existing quotas has become important and is the subject of heated debates among the representatives of the developed and developing countries.

These rules also limit subsidizing and establish anti-dumping practices, according to which many countries have adopted anti-dumping legislation. In many cases, subsidizing is closely connected with the dumping practice. Export companies boldly make use of dumping practices to assert themselves in specific foreign markets, knowing that they can gain subsidies from the government for the export of the goods, which can be sold in the markets of many countries for prices lower than their production costs. It must be noted that in most cases, subsidizing export occurs as a veiled form of dumping. Such subsidizing is an instrument for the direct limitation of price competition and limits the access of developing countries to the foreign markets.

Many countries do not have the possibility of combating dumping since they lack sufficient knowledge in this field and marketing experience. They have no information on the real costs of production in the countries where numerous types of goods are imported from. Here, membership in the WTO can help these countries. The WTO has a critical attitude towards subsidies and dumping in its aim to assert the principle of fair trade between the member countries.

Undoubtedly, Tajikistan's accession to the WTO will have both positive and negative consequences. However, the ratio of positive or negative consequences largely depends on the scientific justifications of establishing relations with the main trading partners, on the right solution of both tactical and strategic characters with respect to participating in global trade. This correlation can be conditioned and may be a result of both objective and subjective elements. It is clear that Tajikistan's accession, just as for the other countries, implies the expansion of the boundaries of free trade. This freedom will be used simultaneously by both importers and exporters. For Tajikistan, freedom of trade means that all barriers to import foreign goods and services will be eliminated. These barriers were eliminated a long time ago, since Tajikistan was one of the first countries in the region to introduce measures on the liberalization of its domestic market and foreign trade.

As a result of introducing freedom to import, domestic goods were pushed out from the domestic market since they could not compete with foreign goods. Consequently, many enterprises that produced foodstuff and consumption goods could not continue their production activities since their production would be tantamount to working for storehouses. Many went bankrupt. The country lacks the resources to undertake measures to raise the competitive abilities of its domestic enterprises. There are insufficient volumes of domestic capital and of expected foreign investments.

The freedom to import led to a massive inflow of goods, especially consumer goods, but did not result in a massive inflow of investment. Most likely, investments have increased in the importer countries in order to expand their imports to Tajikistan and other transition countries.

For Tajikistan as well as for other CIS countries, the freedom to export became a real restriction, even though custom taxes for exports were fully eliminated. Most

foreign markets have already been divided between the foreign producers themselves and among the various units of transnational companies and as a result no niche could be identified within the CIS and other countries' markets for goods produced in Tajikistan. Since liberalization, well established advertising and other marketing trends have totally changed the behaviour and preferences of consumers in CIS countries. For many commodity items, Tajik exporters are not able to access markets of neighbouring Afghanistan. For example, cotton fabrics and porcelain goods are unable to compete with other goods in Afghan markets.

Tajik exporters can use the freedom to trade only with respect to some primary goods, particularly primary raw aluminium and cotton. In order to expand export of other primary goods (raw materials) either sufficient investments (in the mining sector, the agricultural sector, the construction materials industry) or extensive marketing surveys and the assistance of foreign consulting and marketing firms are needed.

It is very important to develop and implement activities for the elimination of the considerable imbalances with important trade partners from CIS countries. The most significant is the example of Tajikistan's economic relations with Kazakhstan. Disparity in relation to export and import is presented in Figure 13.

Figure 13. Trade Relations between Tajikistan and Kazakhstan, 1991–2008



Source: Statistical Annual Book of the Republic of Tajikistan, Dushanbe, 2009, pp. 336, 340.

The data shows a growing imbalance in reciprocal trade between Tajikistan and Kazakhstan, which does not favour the former. In 1991, Tajikistan had a positive balance trade with Kazakhstan, yet in the following years, the situation radically changed. In 1992, the negative trade balance with Kazakhstan reached US\$2.6 million; in 2001, US\$86.0 million; in 2005, US\$148.6; in 2008, US\$275.8 million. For the 1991–2008 period, a negative trade balance with Kazakhstan increased 106.1 times. Such a situation is unsustainable, and clearly, lessons can be drawn from post-Soviet history of trade relations with Kazakhstan to be applied to Tajikistan's shortages in foreign trade and the insufficient use of its potential.

There are all ground to say that trade between Tajikistan and Kazakhstan could be well balanced. The latter may be contributing to increasing the production of food products in Tajikistan, significantly increasing export of canned vegetables and fruits to Kazakhstan, and especially fruit juices, tomato paste, fresh vegetables, fruits, potato, dry fruits, cotton fibre, flowers, and cotton and silk threads. The same relates to other countries with which Tajikistan has unbalanced trade relations. This situation inevitably leads to the following conclusions and recommendations:

- Expand import through lowering or removing import tariffs, which can facilitate the strengthening and maintenance of commercial discipline among domestic enterprises.
- Create a more favourable trade environment through the removal of tariff and non-tariff barriers, trade liberalization, removal of administrative interference into activities of the commercial structures, reduction of tax burdens and simplifying the taxation system. Yet, it is necessary to note that Tajikistan as well as its main trade partners should decrease their tariffs. Most non-tariff barriers introduced by them should be terminated, i.e. quota and licensing practices. The state enforcement structures (customs and border services, the police, drug trafficking authorities, the traffic police, etc.) should fulfil only the responsibilities allocated to them by the appropriate regulations. Administrative interference in exporting goods to neighbouring countries, especially for goods in transit will be stopped. The government should target a free trade regime for vegetables and fruits to Uzbekistan, Turkmenistan and other neighbouring countries. The taxation system should be rearranged in such a way as to not harm the competitiveness of domestic producers, both within domestic and foreign markets.
- Draw on experiences of foreign competitors. This will allow studying business methods in foreign markets, the use of advanced marketing practices and various schemes of export loan insurance. In addition, it will allow to study the advanced methods of management, process and labour organization, improved quality of products and services, and hence to be more competitive. However, longer time is needed to adapt to the realities of foreign markets. Negative experiences in the country resulted from difficulties in adapting to such realities, which could lead the economy to bear huge losses. Currently, no Export Loan Insurance or Guarantee Scheme is used in Tajikistan. Governmental plans of action are currently envisaging to include similar schemes in order to improve Tajikexport levels. A number of similar schemes are used worldwide. Lessons learned from other countries may be valuable for Tajikistan, for instance, Zimbabwe's experience in the development and the introduction of the Export Credit Insurance and Guarantee Schemes.¹⁶
- Resolve the issues of internal and export financing of agricultural products, textile and apparels, including cotton fibre. By subsidizing the export of cotton

¹⁶ For more details, refer to the ITC publication, "Export Credit Insurance and Guarantee Schemes. A practical guide for developing and transition economies". Geneva, 2003, pp. 151–199.

fibre, the United States of America and some other countries support relatively low prices for this product in world markets. Tajikistan and other Central Asian countries that are considered large cotton producers are not able to subsidize export of cotton fibre, and as a result, incur huge losses due to low prices and considerable price fluctuations.

The efficient implementation of these advantages depends on the level of understanding of the respective state institutions of the international trade situation and the extent of flexibility and adaptability of the country's trade policy to ongoing shifts in the global market.

The current trade scheme of the country is a result of a continuous evolution, which began during independence, and of decision-making on liberalization of the domestic and foreign economic affairs. The state monopoly in foreign trade terminated in 1991. Initially, there was no clear external economic policy in the country and the first Customs Code did not include principles regarding the protection of state interests.

Unfortunately tariffs quite often are changed, although foreign economic policy has not undergone substantial revisions. During the 1994–2003 period alone, the customs tariffs changed three times. The penultimate customs tariffs contained unified customs taxes, which did not reflect a differentiated society's interests with respect to the domestic market and protection of the domestic producer.

The most recent customs tariff entered into force on 23 November 2003 as a result of a serious rethinking of the errors introduced during the first years of independence. This tariff stimulated only export-oriented sectors of the economy, but there are no export subsidies in Tajikistan. The current customs tariff is a result of major consideration given to the interests of society, and of the country's leading trade partners and the unions in which the country participates.

According to the acting national legislation, customs tariffs are not applied for exports.

Customs legislation provides for the introduction of a quantitative limitation for export, but currently, there are no quantitative limitations on the export of goods or any other forms of embargo.

Legislation provides for the use of quota and licensing systems. This applies to export and import, the purchase of ethyl alcohol and alcohol production, as well as tobacco goods. There are other measures provided for by the national legislation, for example, minimum export prices, voluntary limitation of export, and agreements on markets regulation. However, in reality, such measures have not been applied.

At present, Tajikistan does not implement an export financing, subsidizing and supporting policy. There are no special requirements related to export of selected goods provided by the national legislation.

Nevertheless, after officially abandoning the barriers, the Government introduced certain measures that proved to be limitations. For example, in accordance with the Presidential Decree of 27 June 1995 “On further liberalization of the foreign trade of the Republic of Tajikistan” and the Decree of 10 February 1996 “On marketing of cotton fibre, primary aluminium and the use of foreign currency earnings”, all kinds of goods and raw materials have to be sold according to the prices established in the national commodity exchange, taking into account prices in the global markets.

To date, the export regime for inter-regional trade is common for all the countries (excluding the less developed ones). Import is subject to various tariffs. There are three tariff clusters in the country – 0 per cent, 5–10 per cent and 10–15 per cent of the customs value of the goods. Minimum tariffs are zero tariffs; maximum ones, 15 per cent. The average weighted tariffs were 6.72 per cent.

The customs legislation of Tajikistan provided for instruments such as tariff exemptions and tariff quotas, but in custom and foreign trade regulation practice, such instruments have not yet been used.

The significant barriers in trade are high cross-border taxes, which include value-added taxes, excises, customs taxes and dues for customs services; together they total 35–45 per cent of the customs value of the goods. For imported goods, they are charged simultaneously in the customs terminal. To avoid this high tax burden, importers usually hide the real import costs from the personnel of the customs and tax services. Often, an importer and representatives of customs authorities negotiate the price and decide to reduce import costs. Such actions are among the most dangerous and corrupt. According to some estimates, every year, the state budget has a loss of US\$ 250 to 300 million due to this phenomenon.

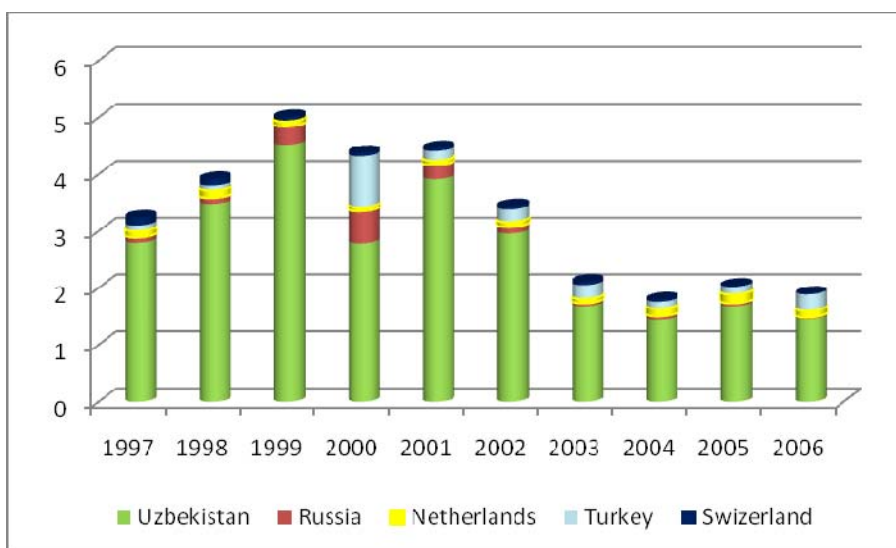
Many entrepreneurs who are not able to negotiate with the tax and customs authorities are forced to gradually minimize their trade activities since high trans-boundary taxes reduce their profits to zero.

The other barrier to export and import operations is the burden of submitting numerous documents, up to 12 in total. Due to corruption in the responsible bodies, the issuance of each document becomes costly for entrepreneurs in foreign economic activity. Informal dues obviously exceed those of formal dues by many times. High taxes and formal and informal charges automatically lead to an increase in market prices, and a low purchasing power of the population leads to negative trade activity indices.

A significant barrier to trade development with the neighbouring countries is the disparity in customs tax levels, which particularly impacts on trade development between Tajikistan and Uzbekistan. Until recently, customs taxes, in accordance with customs tariffs on imported goods to Tajikistan, were 5 per cent, i.e. acting as a unified customs tariff. Uzbekistan did not have such a unification and the maximum customs tax rate was 19 per cent. According to the new customs tariff, the maximum rate of customs tariffs in Tajikistan reaches 15 per cent, and the

average weighted rate, as noted above, was 6.72 per cent. According to the new import replacing development strategy selected by Uzbekistan leaders, the maximum rate of taxes in the country is 70 per cent. This creates different trade terms for Uzbek entrepreneurs in Tajikistan. This circumstance is one of the reasons for the imbalance in trade between the two countries, to the detriment of Tajikistan. Tajikistan is deeply interested in preserving normal trade relations with Uzbekistan. The significance of trade relations with Uzbekistan for Tajikistan is much higher than with other countries (Figure 14).

Figure 14. Value of Tajikistan’s Trade Intensity Index, 1997–2006



Source: Calculations by Karimova, “Foreign economic interests of the Republic of Tajikistan in the multilateral trade relations system”. Author’s abstract of scientific paper, Dushanbe, 2008, p. 16.

As shown in the above figure, the trade intensity index is determined by the export share of one country with its trade partner, divided by the share of the global export in the country of the trade partner. Uzbekistan is especially important among the listed main trade partners of Tajikistan. An improvement of trade and economic relations with Uzbekistan could greatly stimulate the development of Tajikistan’s foreign trade.

As a result of Uzbekistan’s unilateral actions, some sectors in Tajikistan suffer significant losses, and many enterprises are self-dissolved. For example, Uzbekistan established a regulation of prepayment of transit traffic cost for spirits and alcohol production, which has been valid for the last ten years. In compliance with this regulation, an exporter of such products must deposit into Uzbek banks an amount equivalent to the cost of the goods transported through Uzbekistan to other countries (Kazakhstan, Turkmenistan). Only once the goods have left the territory of Uzbekistan, can the exporter reclaim his funds from the Uzbek bank.

The barriers highlighted above, have become one of the reasons for the trade imbalance not only with Uzbekistan, but also with Kyrgyzstan, Kazakhstan and the Russian Federation. The possibilities for trade expansion with these countries have

been restricted due to the reasons cited above. Furthermore, these barriers caused an accelerated growth in contraband trade between the two countries.

Hence, in conclusion, Tajikistan's trade policy may only achieve the expected effect from liberalization when external barriers are removed. These are mainly subject to the regulations of intergovernmental political relations with Uzbekistan. At the same time, the current state of the trade balance causes justified alarm and requires state interference into foreign trade activity, especially concerning the use of instruments such as subsidies, tax benefits and tax exemption, facilitation of development of physical and market infrastructures, and the strengthening of the fight against corruption, etc.

2.3. Review of trade agreements

Trade agreements, the most important factor in the reduction of trade barriers, can significantly expand and increase trade between countries, easing the process for trade liberalization. The other significant factor that can reduce trade barriers and expand trade between Tajikistan and other countries is accession to the WTO. Accession could facilitate an increase in exports and access to markets of other member states of the WTO, resulting in economic benefits.

Tajikistan is a participant to the Eurasian Economic Community (Evrases), the Economic Cooperation Organization (ECO) and the Central Asian Regional Economic Cooperation (CAREC) Program. In addition, Tajikistan is a member of the Shanghai Cooperation Organization (SCO), which is more a political than an economic community, where the issues related to security, borders and the fight against terrorism, among others, are discussed.

The CIS was established after the collapse of the Soviet Union in 1991 in order to revive the common economic space. However, agreements within the framework of the CIS have not effectively influenced integration processes and free regional trade. Like other CIS countries, Tajikistan signed an Agreement on Establishing a Free Trade Zone in 1994. It ratified the Agreement on the Customs Union in 1999, in which the Russian Federation, Belarus, Kazakhstan and Kyrgyzstan participate and which was formally established in 1995. In the framework of the Customs Union, Tajikistan, together with all the participating states, signed the Agreement on Common External Tariffs. Later, in 2001, participating states to the Agreement on the Customs Union decided to create Evrases as a regional organization, which would simplify and facilitate the establishment of the Customs Union. By the end of 2008, Tajikistan had not yet approved the partial list of common external tariffs provided for by Evrases.

In 1992, Tajikistan joined the Economic Co-operation Organization (ECO), which was established in 1985 by Turkey, Iran and Pakistan with the aim of expanding economic and cultural relations between the participating states. Tajikistan signed the ECO Trade Agreement in 2003. This agreement, which came into effect in 2006, provides for significant reductions of tariffs during eight years after signing

the agreement, which would not exceed the maximum rate of 15 per cent for almost 80 per cent of the goods destined for external trade between the participating countries. In addition to the Trade Agreement, in the framework of ECO, Tajikistan signed and ratified the Agreement on Transit Trade and the Framework Agreement on Transit Traffic. Both are very important for the development of regional trade. The latter is considered an effective trade expansion strategy through the development of the regional transit and transport cooperation. Iran, Turkey, Pakistan and Afghanistan have signed amendments and adopted an accelerated approach in the framework of ECO. Tajikistan announced that it could not adopt the accelerated approach due to other international commitments. At the same time, Tajikistan has not yet signed the Protocol on the accelerated implementation of Trade Agreement of the ECO.

According to data of the Ministry of Economic Development and Trade, in 2004, the share of ECO countries in Tajikistan's foreign trade turnover was 38.3 per cent, or US\$878.3 million; in 2008, it was 32.4 per cent, or US\$1,513.4 million. The dominant exports of Tajikistan to ECO countries are electric power, aluminum and cotton fiber. Imports from ECO countries mainly include combustive-lubricating materials, electric power and gas, cereals, consumer goods and foodstuff. In the framework of this Organization, foreign trade volumes with Kazakhstan, Uzbekistan, the Islamic Republic of Iran and Turkey show a growth trend, whereas trade with other countries of the region fails to fulfill its potential. Trade volumes remain low with Pakistan, Turkmenistan and Azerbaijan.

The members of the Central Asian Regional Economic Cooperation (CAREC) include: Afghanistan, Azerbaijan, Kazakhstan, China, Kyrgyzstan, Mongolia, Tajikistan and Uzbekistan. In the framework of CAREC, six international financial institutions – the Asian Development Bank, the European Bank for Reconstruction and Development (EBRD), the World Bank, the International Monetary Fund (IMF), the Islamic Development Bank and UNDP — coordinate their activities in priority sectors such as transport, trade policy, facilitation of trade and energy. During 2004–2009, the Complex Action Plan, regional strategies and other conceptual measures were developed to assist trade and trade policy. CAREC succeeded in attracting US\$2.4 billion of financial resources from donor organizations for the implementation of regional cooperation plans in Central Asia, including assistance to trade and trade policy.

CAREC's strategy on transport and assistance to trade aims to facilitate the effective transportation of goods and people through the simplification and harmonization of regulations of cross-border trade in the region. The CAREC Action Plan mainly emphasizes the development of six CAREC corridors, which will assist transport and trade development in the CAREC region and will provide communications with markets around the CAREC region. CAREC's ambitious action plan includes: increase of the volumes of internal regional trade by 25 per cent in 2012 and by 50 per cent in 2017 compared to 2005 (which was at approximately 32 million tonnes), and a reduction of time for border crossing in

CAREC corridors by 50 per cent in 2012 and an additional 30 per cent by 2017 against 2007.

In 1998, Tajikistan joined the Central Asian Economic Community, whose members included Kazakhstan, Kyrgyzstan and Uzbekistan; it was consequently renamed the Organization of Central Asian Cooperation (OCAC) in 2002. The Russian Federation joined the Organization in 2004; however, in 2005, it was decided to liquidate OTzAS and transfer its functions to EvrazES.

Tajikistan also signed bilateral free trade agreements with seven CIS countries: with the Russian Federation and Armenia in 1994; with Kyrgyzstan and Uzbekistan in 1996; with Belarus in 1998; with Ukraine in 2001; and with Kazakhstan in 2003.

Table 7. Tajikistan's Trade Agreements

CIS (11)	Eurasian Economic Community (5)	OEC (10)	CAREC (8)	Bilateral free trade agreements
		Afghanistan	Afghanistan	Afghanistan
Armenia				Armenia
Azerbaijan		Azerbaijan	Azerbaijan	Azerbaijan
Belarus	Belarus			Belarus
		Islamic Republic of Iran		Islamic Republic of Iran
Kazakhstan	Kazakhstan	Kazakhstan	Kazakhstan	Kazakhstan
			China	China
Kyrgyzstan	Kyrgyzstan	Kyrgyzstan	Kyrgyzstan	Kyrgyzstan
Moldova				
			Mongolia	
		Pakistan		Pakistan
Russian Federation	Russian Federation			Russian Federation
Tajikistan	Tajikistan	Tajikistan	Tajikistan	
Turkmenistan		Turkmenistan		
		Turkey		Turkey
Uzbekistan	Uzbekistan (until 2008)	Uzbekistan	Uzbekistan	Uzbekistan
Ukraine				Ukraine

Note: Numbers in brackets represent numbers of member countries.

According to data by the Ministry of Economic Development and Trade, in the last years, the European Union countries have held an eminent place in foreign trade relations with Tajikistan. In particular, at the level of the government and ministries, there were a number of agreements and programmes signed between Tajikistan and EU, including:

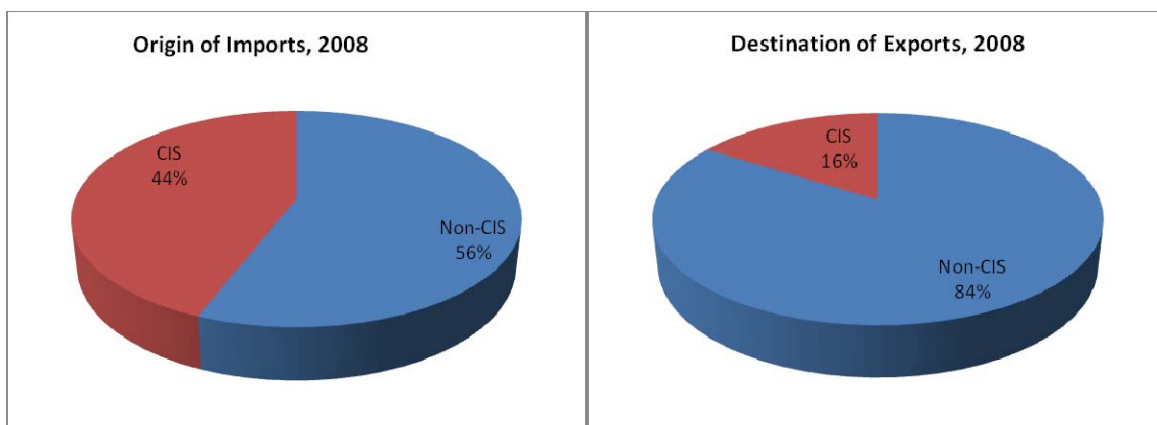
- an agreement between the EU and Tajikistan on trade of textile goods;
- a Memorandum of Understanding and Cooperation between the EU and Tajikistan on financial and technical aid;
- a temporary agreement between the EU, the European Association on Nuclear Power and Tajikistan on trade and commercial aspects (ratified by *Majlisi Namoyandagon* of the *Majlisi Oli* [Lower Chamber of National Parliament] of the Republic of Tajikistan on 26 January 2005 under Decree No. 1306);
- a Partnership and Cooperation Agreement (PCA), signed on 11 October 2004 in Luxemburg.

PCA, a key document of the EU, covers a wide range of issues including trade, business and investments, and other fields of cooperation. With a PCA, according to the Ministry of Economic Development and Trade, it is no longer necessary to sign an agreement on trade and economic cooperation with an isolated member state of the EU. However, a PCA comes only into force after all EU member states have ratified it; until then, it serves as a temporary agreement, which will be implemented in the following sectors:

- Trade of goods and services;
- Standards and conformance evaluation;
- Agriculture and agricultural industrial complex;
- Customs;
- Statistics.

The trade agreements influence Tajikistan's export and import operations, and foreign economic activity with the CIS countries and other foreign countries. The revision of these agreements influenced the geographical distribution of exports and imports of the country in 2008. Agreements with other non-CIS countries had a major influence on the trade dynamics and character of export and import operations. For example, in 2008, the share of import from non-CIS countries to Tajikistan was 56 per cent of total export volumes, and export from Tajikistan to non-CIS countries was 84 per cent of total export costs (Figure 15). Furthermore, the share of export from Tajikistan to Asian countries with which Tajikistan has free trade agreements (Iran, Turkey, some Arab countries, etc.) was 42 per cent. This shows the positive effect of the agreements with Asian countries, and the limited effect to date of export agreements with CIS.

Figure 15. Origin of Imports and Destination of Exports, 2008



Source: State Statistics Committee of the Republic of Tajikistan (2009).

Many of the bilateral agreements in the framework of the CIS are similar. One of the major problems of the free trade agreements in this framework is the lack of consistency. Exporters, for example, can find that their goods suddenly become included in the general list of those excluded from the free trade regime. This is because until now, CIS countries could not agree on the general list of goods to be excluded from the free trade regime within the framework of the Agreement on Establishing a Free Trade Zone (1994). In 1999, attempts were made to rectify the situation and reach a consensus by making amendments to the given Agreement on mutual exclusion from the list of the free trade regime on a bilateral basis. Nevertheless, Tajikistan — just as many other CIS country — has not, to date, been able to reach an agreement on the exclusion list on a bilateral basis with the CIS participating states. Consequently, compliance with the given Agreement's regulations has not yet occurred. On the other hand, the resolution mechanism for the disputable issues concerning potential measures and contingencies are not clearly set.

Most of the bilateral and multilateral agreements on free trade and free transit of goods within the CIS and Eurasian Economic Community framework do not bring the desired effect to Tajikistan. For example, free transit principles are at the foundation of the Agreement on Transit of Goods through the Territory of CIS countries (1997), the Agreement on Transport Tariffs in the CIS (1997), the Road and Transportation Union Agreement of the Eurasian Economic Community (1998, not ratified by Kazakhstan), and the Agreement on Common Tariffs for Railway Transport of the Eurasian Economic Community (2002). However, Tajikistan receives insufficient benefits on trade from these agreements.

It should be highlighted that due to the complicated geographical situation of the country, any agreement that can improve free transit through territories of the neighbouring countries, especially Uzbekistan but also Kyrgyzstan, China and Afghanistan, may be very beneficial for Tajikistan in the future.

The Eurasian Economic Community now again plans to create a Customs Union that would join the Russian Federation, Belarus, Kazakhstan and Kyrgyzstan. Although the Union was formally established in 1995, Tajikistan joined the

Agreement on the Customs Union only in 1999. However, only three out of five member states of the Union could considerably harmonize their tariffs for import and customs regimes, and that only in 2009. The Customs Union of the Russian Federation, Belarus and Kazakhstan came into effect only on 1 January 2010. It should be noted that for these three countries, integration into a common customs space is beneficial since they border each other and are economically connected with each other; also, the level of their economic development does not differ significantly.

Tajikistan does not share borders with any of the above-listed states. Tajikistan is isolated from other EurasEC member countries by territories of Uzbekistan and Kyrgyzstan. Uzbekistan stopped its membership in the Eurasian Economic Community in 2008, and as a result, its accession to the Customs Union is not possible; accession of Kyrgyzstan to the Union is hampered by its membership in the WTO. Therefore, the accession of Tajikistan to the custom union without the participation of at least one of these countries is of little advantage. On the other hand, if in the future Tajikistan accedes to the WTO, then additional problems might arise with its accession to the Customs Union.

As a result of the above reasons, the CIS countries were not able to fully keep borders open, to ensure mobility of trade, transport, transit of goods and capital. To date, the Eurasian Economic Community has not succeeded in becoming a powerful organization promoting regional cooperation and trade with Tajikistan.

In addition, some of the bilateral agreements on free trade can lead to a distortion of the incentives for trade and non-transparent customs rules. Accordingly, the bilateral agreements are being replaced by other alternative regional agreements either through the accession to the WTO, or integration of the regional organizations into one effective community. The other alternative could be directing the available foreign direct investments, regional investments and internal investments in order to improve transport and energy infrastructure.

In general, trade agreements must be coordinated with the national development strategy, have clear common interests and aim towards achieving the following results:

- increasing financial resources, which could stimulate cooperation in trade;
- protecting the interests of farmers, livestock breeders, skilled workers, beekeepers and gardeners, as well as the poorer strata of the population in the export of goods to foreign markets;
- resolving problems related to the transport deadlock and the safety of goods transit;
- developing a strategy for increasing exports of profitable sectors: precious and semi-precious stones and metals, aluminium and cotton, wool, leather, vegetables and fruits, tinned vegetables and fruits;

- increased facilitation for the development of the mining and mineral reprocessing sectors;
- enhancement of the certification process for export products.

All of the above-mentioned possible measures together will significantly promote solutions to issues related to human development.

2.4 On Tajikistan acceding to the World Trade Organization

Tajikistan applied for accession to the WTO in May 2001 and submitted its Memorandum on the Foreign Trade Regime in February 2003. Since then, the Government has answered several rounds of questions of the WTO working group for the preparation of the Memorandum. In 2004, the Government then submitted additional information to the WTO. After the meeting of the working group in March 2004, discussions on accession entered the decisive phase, where Tajikistan would have to agree with its trade partners on the allowed maximum extent of the domestic market protection. Tajikistan has advanced significantly in the process of accession to the WTO, as shown by a proposal of the Chairperson of the Working Group to the WTO Secretariat to start the development of the relevant components of its draft report on Tajikistan's accession to the WTO. This report is considered a concluding document of the accession process.

Key discussions on strengthening foreign trade and accession to the WTO have been in progress from 2004 to date. Tajikistan can gain significant benefits from accessing the WTO in the medium and long term, but in the short term, this accession does not immediately provide access to the world markets for Tajikistan's export goods. The reason is that the requirements of WTO member states for importing goods from Tajikistan will be the same as those requirements for importing goods from other WTO member states. Moreover, some experts think that accession can cause an inflow of cheap yet outdated goods and production (for example, computers and technologies), whose demand in the producing countries would be very low.

Accession to the WTO can improve Tajikistan's foreign trade. Membership in this organization, for example, would provide opportunities for export products from Tajikistan to use the most-favoured nation treatment or national treatments in member states. Moreover, import of goods and products with low tariffs, will allow, to a certain extent, to reduce costs of products and stimulate production of competitive products, thus providing input into the real sector of the economy. In general, the positive aspects to accession to the WTO, according to the Tajik economists, are as follows:

- Tajikistan gaining access to the foreign markets and innovations in technologies;
- the potential transfer of production of integrated products from developed to the developing countries, including also to Tajikistan;

- improved effectiveness in the use and optimization of the distribution of production resources;
- expansion of import based on lowering or removing import tariffs;
- the use of foreign competitors' experience;
- resolving the issue of sectoral and export subsidies for agricultural products, textile and apparels, including cotton fibre.

At the same time, Tajikistan may experience economic losses from accession to the WTO, which can include:

- a lack of guarantees by the WTO for preventing the reallocation of production resources to the advantage of developed countries;
- strengthening of economic interdependence between the countries and loosening state regulations;
- the risk of increasing the expansion of foreign goods and foreign services;
- non-competitiveness of domestic goods;
- decrease in state budget due to the potential reduction of income from tariffs on imports;
- disequilibrium in trade balance and balance of payments.¹⁷

In the context of accession and membership in the WTO, it is essential for Tajikistan to acknowledge its status as least developed country. From the trade expansion perspective, this will provide the country with access to technical assistance using special or beneficial tariffs on agreements with the WTO. To be classified as a least developed country, Tajikistan must meet three criteria: (i) low income per capita; (ii) economic vulnerability; and (iii) a weak social sector. The basis for its compliance with the third criteria is its degraded services in the social protection sector: over the last few years, its level of education and health care was among the lowest ranked countries in the Human Development Index.

The negotiation strategy of the country on accession to the WTO, in addition to agreeing with the trade partners on certain levels of domestic market protection, consists in updating the legislation of the country on foreign trade in order to harmonize it with the requirements and norms of the WTO Agreements and recommendations on the elimination of violations of national treatment principles and most-favoured nation treatment as well as the elimination of discrimination of foreign and domestic importers. Tax legislation of the country also provides a number of benefits and preferences such as VAT exemption for the imported goods of selected categories. However, this negotiation strategy does not fully meet the needs of the country. For example, to date, there has been no trade agreements related to precious and semi-precious stones, cotton, aluminium, fruits and vegetables due limited access to the industrial enterprises in foreign markets,

¹⁷ For more details, see: Kh. Umarov, N. Kayumov (2005) "The globalization of economy and foreign economic affairs of Tajikistan", pp. 65-73, Dushanbe, "Devashtij"; and Kh. Umarov, M. Odinaev (2005) "Tajikistan and the global trade", p. 12-15, Ministry of Economic Development and Trade of the Republic of Tajikistan, Dushanbe, Irfon.

and lack of technical expertise and qualified personnel in marketing produce from Tajikistan. The key foreign trade institutions (the Customs Committee, the Ministry of Economic Development and Trade, the State Agency on Standardization, Meteorology and Trade Inspection) are in need of technical assistance to strengthen their internal capacities to conclude trade agreements, including financial resources and capacity building of their staff.

Based on the above, Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis was carried out by experts with respect to Tajikistan's accession to the WTO.

Table 8. SWOT Analysis of the Consequences of Tajikistan's Accession to the WTO

Strengths	Weaknesses
<ul style="list-style-type: none"> • Increase of export volumes and access to markets of the other member states of the WTO in the medium and long term; • Access to innovations in technologies and potential movement of goods and services; • Foreign investors producing the finished products in Tajikistan; • Improvement of effectiveness in use and optimization of the distribution of production resources; • Expansion of import based on lowering or removing import tariffs, thus increasing quantities and qualities of consumer goods; • Use of experience of foreign competitors; • No quantitative limitations or other protectionist measures will be applied to the export of goods; • Legislation in conformity with international legislation standards in the field of foreign trade; • Elimination of the violations of the principles of national treatment and of most-favoured nation treatment; • Elimination of discrimination among foreign and domestic importers; • Growth in the economy due to increased trade flows in the long term; • Use of WTO rules during trade disputes with trade partners. 	<ul style="list-style-type: none"> • In the short term, accession to the WTO does not provide access of export goods from Tajikistan to foreign markets, because the WTO requirements of member states for importing goods from Tajikistan will be the same as that for importing from WTO member states to other countries; • Difficult climatic conditions, predominantly mountainous area, isolation of the regions from each other and a fragmented economy; • Poor infrastructure, remoteness of product markets, lack of access to sea routes; • Prevalence of raw materials and products in the export structure; • Due to the remoteness and lack of competitive ability, very high transit costs in the export and import operations, as well as an ineffective and expensive cargo delivery system to the export markets; • Limited regulating mechanism of protectionism and protection of the domestic market due to the impossibility of applying quantitative limitations; • Insufficient knowledge of rules and regulations in export and import operations; • Lack of advertising as well as

	<p>outdated technologies and production capacities;</p> <ul style="list-style-type: none"> • Poor marketing of agricultural products; • Lack of technical expertise and qualified staff in production marketing.
Opportunities	Threats
<ul style="list-style-type: none"> • Opportunity for export products from Tajikistan to use the most-favoured nation treatment or the principles of national treatment in the participating states; • Import of goods and products by low tariffs will allow to some extent to reduce costs of the products and stimulate production of competitive products, contributing to the development of the real economy sector; • Opportunity to gain effective transit regime and low external tariffs within the framework of foreign trade operations; • Opportunity for non-discriminatory liberalization of trade and coordination with the other WTO member states to eliminate cotton subsidies in developed countries; • Liberalization of trade with the use of transit periods and tariff quotas; • More competitive production of local producers; • New product markets for domestic producers. 	<ul style="list-style-type: none"> • Accession can cause an inflow of cheap and outdated goods (e.g. computers and technologies), for which the demand is very low in countries producing them ; • Insufficient agreement or compliance with the trade partners on the maximum extent of protection for the domestic market • Lack of guarantees by the WTO for the prevention of the redistribution of production resources to the advantage of developed countries; • Loosening of the mechanisms of the state regulations on the economy; • Threat of expansion of low quality goods and foreign services and the non-competitive ability of domestic goods; • Difficulties in income part of the state budget due to the potential reduction of tariff barriers for import and tension in the trade balance and the balance of payments; • The possible deterioration of the selected most sensitive economic sectors, the agriculture sector, light and food industries, and various services sectors; • Prevalence of opinions and positions of larger trade partners in multilateral negotiation processes.

Source: Compiled by the authors

There is evidence to assume that prior to Tajikistan's accession to the WTO, the weak points and threats will be considered by the Working group on Tajikistan's accession to the WTO to make sure that this accession is followed by improvement of major macroeconomic development indicators of the country.

2.5 Institutional map (institutions related to trade)

During 1991–1993, the previous trade structure was fully dismantled. The state and cooperative trade lost their positions. Their specific share in the total volume of domestic and foreign trade sharply decreased. This was mainly due to privatization. In the 1991–2000 period alone, 2,058 trading enterprises and 1,859 catering enterprises (at 34.1 and 30.8 per cent of the total number of enterprises, respectively) were privatized. By comparison: by 2000, industrial enterprises represented 2.5 per cent of the total number of privatized enterprises; there was a 1.5 and 0.8 per cent share of construction and transport and communications, respectively¹⁸

In Soviet times, the private sector was not allowed access to the trade sector. In 1980, the share of the state trade in the total volume of retail trade was 57.7 per cent; cooperative trade, 42.3 per cent. In 1995, the proportion of the state sector decreased to 11 per cent and the cooperative sector to 12 per cent and the informal market to 2 per cent. By 2000, the specific share of the state trade decreased to 3 per cent and cooperative trade to 2 per cent; the specific share of the informal trade rose to 93 per cent. In 2008, the specific share of state trade in the total volume of the retail turnover was 1.1 per cent and non-state trade, 98.9 per cent. In the non-state trade structure, the private sector's specific share in 2008 was 96.9 per cent and cooperatives, 1.9 per cent. A reduction in the state trade to this extent means a reduction of the regulatory role of the state in trade. This issue was not assessed by academics or by the government.

Currently, a specific wholesale and retail trade regulation system has been established in Tajikistan. Formally, the prevailing form of trade regulation was the market, i.e. changes occurred due to shifts in the correlation between supply and demand in the goods and services market.

The institutional structure impacting trade was divided among state, private and public institutions, whose impact on trade was unequal. A number of state institutions regulate trade activities in the interests of the state and society; one of them is the tax authorities. Taxes are observed as to be burdensome and do not stimulate the economic development; rather, they merely serve as an instrument for transferring the main part of the added costs to the state treasury. Foreign trade or export is not imposed by custom tariffs. Import is subject to customs duties, excises and VAT: combined they are called “border taxes”. In Tajikistan, border taxes mostly aim at performing fiscal functions rather than at facilitating state economic security. The share of border taxes in total volume of tax revenues to the state budget remains very high, and for the last ten years, constituted between 38 to 46 per cent. According to specialists, if corruption had been eliminated in the customs services, the proportion of cross-border taxes would have risen to 50–55 per cent of the total volume of tax revenues. In Tajikistan, the customs services as an independent institution has a certain influence on the development of both

¹⁸ State Statistics Committee of the Republic of Tajikistan, 2001, p. 173.

domestic and foreign trade. Customs tariffs in the country have been influenced by international financial and economic organizations and the regional economic block of the Eurasian Economic Community. Basically, customs taxes do not facilitate protective actions. This is the reason why in the structure of products the imported products prevail for which tariffs are mainly set (up to 70 per cent). As a result, many goods are imported to Tajikistan that the country could easily produce due to its favourable conditions. This is a result of implementing the predominantly export-oriented policy in foreign economic relations. Current customs tariffs exclude setting conditions for the development of import substituting sectors of the economy. Such a policy would mean prioritizing the development of domestic production. Currently, the Government is considering the import substitution policies at a high level. Customs bodies will soon have to revise customs tariffs to effectively implement such a policy.

As in many other countries Tajikistan has no mechanism for providing loans for import. This phenomenon is explained by the lack of credit insurance mechanisms for import.

In addition, there is also no special institution in Tajikistan for attracting investments, which is very important for the coordination of investment. It should be noted that the import of machines and equipment to replace outdated equipment and to construct new enterprises is currently not stimulated; this is especially aggravated as no technological equipment is produced in the country.

In accordance with the Law of the Republic of Tajikistan “On Free Economic Zones in the Republic of Tajikistan”, five free economic zones (FEZs) have been established in the country. However, due to geographical and international economic conditions, as well as other social development conditions, there is still an insufficient inflow of investments to these zones. A similar situation can also be witnessed in Kyrgyzstan, where the business environment is better than in Tajikistan. A likely cause may be the lack of a scientific justification of the FEZ development concept with respect to geographically landlocked countries. It is unlikely that investors from developed countries would risk investing major amounts into the FEZ of Tajikistan, if conditions better than in Tajikistan have been established in other regions, which also differ by high rates of human development capital.

Banks as independent institutions can seriously impact trade development. Their short-term credits have already played a major role in the development of both foreign and domestic trade. However, banks reduced this credit to the trade sector in the country. This trend is not negative, but happened as a result of the trade expansion and too high profitability of the sector, which led to an increase in the volume of the capitalized profit and there is no more need for bank credits. A certain role in this phenomenon is played by the banks' high interest rates. The National Bank plays a specific role among the banking institutions in terms of trade facilitation, establishing the “rules of the game” with respect to the development of this sector.

Regulation of the foreign currency rate is one of the most important responsibilities of the National Bank. There is a mixed foreign currency regulation system currently in place in Tajikistan. The National Bank periodically interferes with the floating exchange rate of the national currency in order to regulate the foreign currency rate. Recently, through the decision of the National Bank, the TJS was devalued. While this created the conditions for stimulating export, the opportunity could not be exploited due to a lack in export diversification. The devaluation of TJS created difficulties for import, since normal profitability was no longer guaranteed. However, from the point of view of the foreign trade balance, the devaluation of TJS turned out to be a timely measure, even though it could not provide for a significant convergence of the import and export volumes to significantly reduce the negative trade balance.

The State Agency on Standardization and Certification has a specific influence on the development of trade in Tajikistan. However, in conditions of high corruption, it is not able to fulfil its objectives. As a result of this organization, Tajikistan has a large inflow of outdated and low quality products purchased by the selected entrepreneurs abroad at knock-down prices. In addition, this powerful body demands certification of many complex goods that cannot be produced in Tajikistan. It is staffed with few qualified specialists in certification and standardization and to date has been a barrier to the development of trade.

Marketing services to support entrepreneurs have not yet been fully established in the country. The main channels of information on trade are still traditional – through informal means such as rumours and information from newspapers and magazines — which influence the prices in the markets. Some entrepreneurs have recently been using Internet to obtain information on prices opportunities in the different markets within the country and abroad. Large specialized marketing companies have not yet appeared in the country.

In contrast to neighbouring countries, in Tajikistan, insurance for trade activities, especially of export is of major importance. Fresh vegetables and fruits, juices and vines, etc. are exported by transit via Uzbekistan, Kazakhstan and other countries. Often, due to the continuous check-ups, the quality of the exported goods is reduced, which leads to tangible losses for the exporter. There are no mechanisms of risk transfer in Tajikistan. Local insurance companies are not recognized by the global insurance companies. Hence, it is important that agreements on products that quickly deteriorate are signed using FOB terms. This term forces the importers to take all responsibilities of the goods on themselves.

From the first days of Tajikistan's independence, the trade missions have been established in other countries. However, due to a lack of resources from the Government, all trade representation offices aim to be self-sustainable.

The Chamber of Commerce and Industry occupies an important place in trade development. It is one of the most active entities in the country and carries out major work to promote trade. There are various fairs and exhibitions of goods from other countries held in the country, where agreements on trade of products and

memorandums of understandings are signed. However, low solvent demand is a barrier to its work.

SECTION III. TRADE PROMOTION OPPORTUNITIES

3.1 The need to overcome barriers to the promotion of trade

Since 2003, import has been predominant in the country's trade balance. The trade deficit greatly increased in 2008. It must be noted that the trade balance sharply declined in 2008 due to the increase in domestic demand (Figure 16). The share of goods and services export has gradually been declining. In 2005, the share of export was 26 per cent of the GDP, which dropped to 17 per cent of the GDP in 2008. In 2008, in comparison to the previous year, the volume of goods and services import also decreased, from 66 to 58 per cent of the GDP (Figure 17).

Figure 16. Foreign Trade of Tajikistan, 2000–2008 (US\$ million)



Source: State Statistics Committee of the Republic of Tajikistan (2009).

Figure 17. Export and Import of Goods and Services, 2005–2008



Source: World Development Indicators Database, World Bank, April 2009.

From January to July 2009, i.e. when the financial crisis was at its peak, two trends were observed in Tajikistan's foreign trade:

a) *A reduction in volumes of both import and export trade.* For the reported period, Tajikistan's turnover was US\$1.9 billion in comparison to the same period of 2008, at only 68.8 per cent. Export of goods amounted to almost US\$500 million, or only 46.8 per cent of the similar period of 2008. The volume of import of goods was US\$1.41 billion, or only 23.3 per cent of the similar period in 2008. The foreign trade deficit or negative trade balance reached US\$907.7 million. A decline of both import and export during this period can be explained by the drop in the world prices on the main export items in the state budget – aluminium and cotton — in the context of the reduction of demand as a result of the world financial crisis. The major focus of export on basic commodities (raw products) renders the country vulnerable to sharp fluctuations of unstable world prices for aluminium and cotton, and reduces macro-economic effectiveness indicators.

b) *Two types of basic commodities continue to prevail in export: primary aluminium and cotton fibre.* The share of primary aluminium was 40.7 per cent of the total export volumes for the reported period. During this period, Tajikistan exported aluminium and aluminium products for a total of US\$281.92 million. The country exported 40,600 tonnes of cotton fibre valued at US\$42.3 million and the share of cotton fibre in total export volumes for the reported period was 8.5 per cent. It should be noted that during this period, the average cost of 1 ton of cotton fibre was reduced by US\$302, totalling US\$1,042.

As a whole, for the reported period, Tajikistan had trade relations with 92 countries, including 11 CIS countries. The share of trade with foreign countries was 53.6 per cent; 46.4 per cent with CIS countries (Figure 18). The main cotton trading partners of Tajikistan for this period were: the Russian Federation, at 40.7 per cent, Iran, at 22.0 per cent, Uzbekistan and Belarus, at 7.7 per cent, Latvia, at 6.9 per cent, Pakistan, at 3.3 per cent, Ukraine, at 3.2 per cent, Switzerland, at 2.7 per cent, Turkey, at 2.4 per cent, and Bulgaria at 1.4 per cent, among others.¹⁹

Figure 18. Foreign Trade Relations of Tajikistan, January–July 2009

¹⁹ For more details on export of the other types of the agricultural products, see the section “Analysis of the sensitive sectors: Agriculture”.



Source: State Statistics Committee of the Republic of Tajikistan (2009).

There are some barriers hampering free trade in Tajikistan, which have a negative impact on the economic growth of the country in general. Trade barriers above all influence the export of goods (cotton and aluminium, fruits and vegetables), as well as small- and medium-sized businesses involved in foreign economic activities.

Transport corridors play a significant role in trade development. Remoteness of the markets and underdeveloped transport infrastructure, as well as high tariffs for transit through territories of third countries create additional obstacles in the development of trade relations. Additional transport costs due to the geographical situation of the country, and continuous and unpredictable time frames for transportation of goods are the main barriers. Furthermore, the lack of direct access to seaports limits the transportation possibilities for goods. Scarce and low quality transport and logistics services are also a main limitation to trade development.

Mountainous areas and lengthy transportation time divide the small market of Tajikistan into smaller sub-markets. A survey by the World Bank (2005) reports the costs of transportation for one tonne of cargo between Dushanbe and Khujand via the Anzob pass (340 km distance): when the pass is not yet covered by snow, the cost is US\$13; when the pass is covered by snow but not yet closed, the cost is US\$23 per tonne. Automotive transportation of one tonne of cargo in the same direction (930 km) but via Uzbekistan territory would cost US\$67, and the cost of railway transportation per one tonne of cargo between Dushanbe and Khujand (989 km distance) through Uzbekistan territory varies between US\$25–35 per tonne (in addition to various informal bribes by the employees of the railway services, major losses of time and other inconveniences).²⁰ The cost of one tonne of cargo transportation from Dushanbe to Rasht District (almost a 200 km distance) is US\$31 in the summer and US\$56 in the winter. This means that transportation

²⁰ World Bank (2005) Tajikistan Trade Diagnostic Study, Report No. 32603-TJ, 3 December 2005, p. 19.

costs are the main cause of the large price differences in domestic trade in Tajikistan in the different regions at different times. According to the World Bank survey (2005), it was determined that costs of 30 main consumer goods in the summer are 27 per cent higher in mountainous Badakhshan than in Dushanbe, and prices for the same goods in the winter are 46 per cent higher in Mountainous Badakhshan than in Dushanbe due to the pass being closed.²¹ Accordingly, trans-boundary trade could be facilitated by expanding regional cooperation and integration, primarily in the sphere of transportation and customs transit.

In addition to transport costs, other transactional costs represent a heavy burden for entrepreneurs. Officials can threaten to confiscate cargo due to missing documents until informal payments are made. Since there are many such factors, it is difficult to calculate how much time and money is spent on preparing documents and settling transactions. Transactional costs, a form of general expenditures for logistics services in Tajikistan, are one of the most expensive in the world; according to estimates of World Bank experts (2005), they reach 27 per cent of Tajikistan's GDP, compared to 10–16 per cent in EU countries. In accordance with these estimates, simplification of the trade policy and trade procedures, particularly those of customs, establishment of more competitive transportation markets and the provision of more effective logistics services can lead to an annual savings of over 5 per cent of GDP for logistics costs²² Reduction in logistics costs will require an improvement of the trade policy in the country as well as an expansion of regional cooperation. Tajikistan could significantly increase trade volumes and gain considerable savings in transactional costs if transit terms via Uzbekistan improve and if transit through Afghanistan becomes safer.

The other barriers are related to trade policy. For example, one of the main barriers for trade in Tajikistan is a trade policy of the non CIS countries/trade partners of Tajikistan. Export of agricultural goods from Tajikistan to developed countries often incurs high tariffs. Developed countries often subsidize agricultural sector and producers of agricultural products, which also considerably complicates the export of Tajik goods to these countries. The trade policies of the closest neighbours of Tajikistan do not facilitate increase in export or import volumes. Uzbekistan has opted for an excessively protective position on this issue. With regards to Afghanistan, the situation is still unstable, partially resulting in trends of increasing and carrying out import and export to the eastern of Tajikistan's borders. This is related to the construction of the Dushanbe-Saritash road, which connects the country with Kyrgyzstan, and launching the Murgab-Kulma-Karokurum highway, which connects Tajikistan to China and other countries of South-East Asia, but which is closed in the winter due to the harsh climatic conditions.

²¹ Ibid, p. 18.

²² Ibid, p. 22.

With respect to the liberal trade regime of Tajikistan, there are low and uniformed tariffs that, however, can often and unpredictably change. This regime is characterized also by some quantitative limitations for import of alcohol and tobacco products. By Presidential Decree No. 450 of 25 October 2003, ad valorem rates of entrance custom duties do not exceed 15 per cent. In general, since 2003, six tariff rates, from 0 to 15 per cent, at an average tariff of 6.7 per cent have been in effect. Tajikistan cancelled customs duties for export and has not yet introduced any new quantitative limitations for export or any other equivalent measures. Also, a preferential trade regime was introduced and a zero rate custom tariff for import of goods coming from the 45 least developed countries of the world was established, as well as with respect to the member states of EvrazES. Although anti-dumping measures in trade are provided for in legislation, they have not yet been applied. Tariff barriers play an insignificant role in import and export in Tajikistan, giving its position to non-tariff barriers.

One of the main non-tariff barriers are common procedures on certification and standardization. Problems with managing the standardization system are not overcome due to a lack of well-equipped laboratories and of highly qualified specialists in this field. With regards to the WTO accession, it would be advisable to adapt international quality and adequacy standards. For example, Tajikistan equally with quality certificate provided by national legislation could adopt and use quality and compliance certificates from the EU, Japan or the United States, whereas the national certification system complies with international standards. Where there is no compliance, consensus could be based on a comparative analysis and expertise of the stakeholders who could develop standards to meet national interests. This work demands more resources in time and finances from governmental institutions, whose activities must be supported by international organizations, public unions, entrepreneurs and *dekhkan* farms.

At present, information on certification and international standards in business and governmental circles is disseminated mainly within a very intimate circle. In most cases, such information is not clear to entrepreneurs and particularly to the farmers (*dekhkan* farms growing vegetables and fruits, cotton growers, livestock breeders, gardeners and craftspersons). The export potential of the country could be considerably increased if the main export goods (cotton, aluminium, precious and semi-precious stones, marble, wool, chemical products, food plants, including vegetables, fruits, dried fruits, honey, walnuts) passed tests in compliance with international standards.

The following non-tariff barrier is a requirement on obligatory sales of almost all products destined for export (cotton, aluminium, precious and semi-precious stones, minerals and precious metals, etc.) through the Commodity Exchange (CE). In addition, the CE requires an advance payment for all export. Such administratively formulated pricing discriminates against the domestic textile industry, denying producers and *farmers* any opportunity to protect themselves from price fluctuation in the markets. The other non-tariff barrier is the need to

submit a substantial number of documents. This increases the obstacles to trade development and often leads to corruption. The documents include: a certificate of origin, the certificate of quality, a certificate for agricultural products, a veterinary certificate, a bank confirmation, advanced payment according to the goods list, a bank guarantee, confirmation on payment of taxes from cotton and aluminium sales, an insurance policy, and authorization for export and import operations with various types of products — and this is not the complete list.

In terms of business environment, the high rates of internal taxes represent immense obstacles to trade development. They impede domestic trade and increase the tax burden on entrepreneurs. Unofficially, small- and medium-sized entrepreneurs pay up to 12 per cent of their sales to state officers to address issues related to customs, taxes, licensing, and other administrative procedures. The other problem encountered by small- and medium-sized businesses is the shortage of electrical power for production development. Finally, the lack of free access to credit significantly restricts the development of both domestic and foreign trade. 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 on 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.

Although tariffs for import and official non-tariff barriers in Tajikistan are not high, large obstacles to trade are logistic and administrative-bureaucratic barriers, difficulties with fulfilling necessary formalities that occur when goods and transport cross borders, including preparing customs documents, payment of customs tariffs, visa issuance, transportation and cargo transit. A World Bank survey determined that exporters and importers in Tajikistan often encounter three problems related to trade: (i) burdensome customs procedures, complex border crossing and document checking procedures; (ii) widespread corruption; and (iii) low quality transport services.²³

Custom procedures in Tajikistan are the most ineffective among all Central Asia countries. First, for custom clearing of cargo (necessary formalities due to goods

²³ World Bank (2005) Tajikistan Trade Diagnostic Study, Report No. 32603, TJ, December 3, 2005, p. 19.

and transport crossing borders, including the preparation of customs documents and customs duties' payments) three to 28 days and more are required than in any other country of the region. Second, to obtain customs clearance, an importer will require more than 60 administrative steps, and 40 such steps for exporters, which again exceeds those in other countries of the region. Third, due to the zero rate of customs duty applied to import in a number of the countries, there is confusion with the procedures of the customs evaluation and in the determination of the country of origin and country of destination for the entrepreneurs. To avoid such difficulties, in future agreements on preferential customs tariffs or most favoured nation treatments, the term "country of origin" should be clearly defined. In general, when carrying out export and import as well as transition operations, all the administrative procedures should be simplified in accordance to the "single window" principle. Some liberalization of the requirements of the customs legislation could also stimulate trade development in Tajikistan. For example, the limitations on capital outflow (in accordance with customs rules, a physical person has the right to carry up to US\$3,000 without declaring it and up to US\$10,000 when declaring it) create serious problems for small- and medium-sized entrepreneurs engaged in trans-boundary trade.

Reforms directed at trade simplification must facilitate accessibility of Tajik markets, increase the country's export potential and expand opportunities for entrepreneurs. Currently, in Tajikistan, the number of documents needed for export and import operations, and total costs for the transportation of goods are extremely high. Successful international practices show that to undertake export and import operations, only three documents are necessary – transport documents, invoices and cargo customs declarations: in Tajikistan, more than ten such documents are required. The number of the documents and papers for export and import operations could be reduced by a quick introduction of the "single window" principle, an electronic transfer of information on export and import operations. This in turn will simplify bureaucratic procedures, reduce time and resources needed, as well as reduce corruption in the country.

3.2 Main challenges and factors hindering export development factors

As the above analysis shows, the development of export despite the stable and sufficiently high rates of its growth is not aligned with the realities of the national economy.

The main problem of domestic export is that export of raw materials and products of primary processing predominate; there is lack of a complete cycle of production and high-quality processed products.

It should be noted that due to the fact that export mostly consists of raw materials and the strong dependency of the economy on import (almost 63 per cent of domestic consumption), foreign trade operations are currently not sufficiently profitable. At present, the least or most profitable trade operations concern leather

and hides, textile and textile goods, and precious and semi-precious metals, which constitute no more than 2 per cent of the foreign trade turnover. For these reasons alone, the strategic policy on liberalization implemented in Tajikistan and attempts to activate an export faced some problem and it leads to the negative balance of the foreign trade turnover (excluding 1999 and 2000).

The other constraint in trade development is the *lack of favourable technical and economic conditions for the production of competitive products*. Equipment deterioration rates are as high as 90 per cent, not allowing for the production of high quality outputs. Although import of technological equipment and their components for the selected branches and productions are exempt from customs duties and VAT, their import share is only 10 percent.

Export of international services is currently in a *critical situation*. One of the important criteria determining the progress in export is the active role of international services in its total volume. Although the share of services in the overall national economy development index has constantly been growing, its specific share is extremely insufficient. According to 2008 data from the State Statistics Committee of Tajikistan, the volume of export of international services was US\$393.4 million, including transport at US\$1,125 million and tourism at US\$15 million. In general, the share of international services export in the GDP is 2.2 per cent, and import, 0.6 per cent, which is several times less than that established by the international experience (67 per cent).

Serious problems and restraints in the development of export emerge in regional and border trading with neighbouring countries, above all, in the administrative and border barriers. Numerous check posts and checkpoints were built during 2009 at the borders of Central Asian countries. Most are situated in inappropriate buildings and facilities. Some of the countries have introduced collateral deposits for transit goods. As a result, there is a frequent delay of goods shipped from Tajikistan to neighbouring countries and in transit through them. The situation is also aggravated by the various official and unofficial additional transports, transit and customs duties required in these countries: road taxes, payments for licenses and other permits, customs payments, and numerous types of inspections of the sanitary and enforcement bodies both at the borders and within the countries.

Barriers for near-border trade and their negative impact on the populations' well-being:

Near-border trade significantly depends on:

- *freedom of movement of people*, i.e. the possibility for people to regularly cross borders without major unofficial exactions;
- *freedom of movement of people and goods*, i.e. the possibility for people and goods to regularly cross the borders without the need to pay bribes, as well as the high duties, taxes or border dues;

- *freedom of movement of transport means*, i.e. the possibility for people to cross borders with their own passenger transport or by light transport means from near-border districts; and
- *infrastructure quality, including trade in the border crossing points (gates)*.

These conditions are interdependent: for example, the lack of a visa will prevent full freedom of border activities if people are not permitted to move with their own transport and are forced to undergo expensive customs procedures, and if poor technology restrains the flow of goods and people through the border. If all these conditions are not fulfilled, near-border trade will have limited volumes, resulting in significant losses in the population's well-being, and trade itself. These conditions are not completely fulfilled in any of the border crossing points. With respect to *freedom of movement of people*, there are significant barriers disturbing their movement via borders. To cross borders, a valid passport with a visa and identity card is needed.

Movement of transport is very limited. For a motorcar to cross the border, special documents are needed, including not only a registration card of the transport, but also a state permit. Trucks cannot drive to the respective customs territories. Their cargo has to be unloaded and then loaded again onto the importers trucks after customs inspections are completed. This process not only can take a long time, but is also very expensive.

With respect to *infrastructure quality*, despite considerable improvements over the last two years, problems related to power shortages remain and lead to significant delays.

Moreover, hired drivers complain about the lack of favourable conditions such as food and hotel accommodations, the demand for which particularly increases when they are forced to wait to unload their cargo for check-ups and further reloading.

The lack of warehouses and modern loading and unloading equipment, such as autoloaders, lift cranes and transporters in the airport, also hamper development of trade in general as well as the development of air cargo.

Many of the international companies abroad use cargo shipping services. These services are expensive, but offer a wide range of services. Services of the local carriers offer competitive prices, but often their assets are not productive due to unsatisfactory maintenance and care.

Financing difficulties are aggravated by the lack of leasing companies in the country. Hence, companies that cannot buy new assets and rent them, have no other choice but to continue using less powerful trucks, which increases maintenance expenditures due to high costs of fuel and the need for intensive technical maintenance.

The main institutional challenges are:

- the lack of a dedicated transport and technical provisions section in the National Plan on integrated strategic development;
- lack of harmonization of customs procedures;
- long delays when crossing borders;
- limited financial resources for maintenance of the customs services;
- payment of escort functions;
- difficult trade relations with Uzbekistan;
- legal limitations with respect to free trade/specific economic zones.

The lack of a National Plan – When surveying the state bodies it was found that there is a national plan of action for economic development in Tajikistan, but it does not have a section on transport and material technical provision.

Complicated customs procedures – The time needed to export cargo equal to a 20-foot container (TEU) is 82 days and 83 days for import. In accordance with requirements of the burdensome procedures related to the cargo customs clearance, traders have to fill in 16 or more documents. High costs of goods transportation is another restraining factor for the interregional trade. Official payments for example VAT, customs duties and excises, reached approximately 40 per cent of the costs for the total goods. Informal payments are at times even higher than official payments. This high investment in both time and financial resources encourages the smuggling of goods, when the real cost of goods in the invoice is intentionally decreased to reduce the size of duties required to pay at the border. According to some estimates, the smuggling of goods costs Tajikistan US\$50 million annually in lost income.

Long delays at border crossings – The average waiting time and delays at the borders, as well as their possible lag are typical for Central Asia. Previous reports have documented data on the movement of transport and time spent at the selected border checkpoints. If only three hours were spent per truck when transport checking, then the productivity gain could lead to an annual savings of US\$30 million.

Limited resources for maintenance of customs services – The reasons for the long delays could be explained in two ways. First, outdated methods, which requires physical inspection, are usually used. Second, Tajikistan needs to establish modern control equipment to increase the productivity of its customs services. China uses a new technology, which includes the use of mobile customs systems of H986 type. It can use gamma-rays to check containers, thus speeding up audits at the border checkpoints. However, there is a lack of modern means such as x-ray facilities, pipeline systems and detecting systems in Tajikistan. Many of the border checkpoints lack storage facilities to keep goods that need to undergo temporary quarantine.

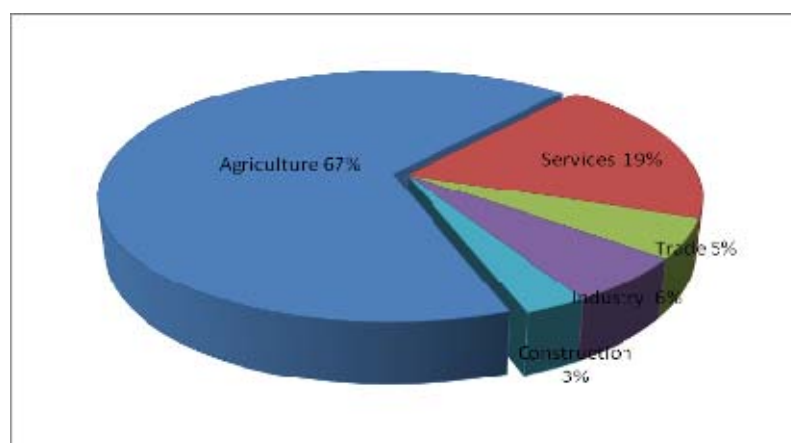
Payment for escort functions – In accordance with the Decree No. 472, “On approving customs duties rates for the customs services provided”, a risks management approach is used to determine the need to escort cargo. The only trucks exempt from this are those that transport goods using the international cargo transportation regime with a single customs declaration for cargo transit (TIR-carnet) and those that do not have to pay for transportation services. Escort services are provided by two organizations – the customs bodies and the State Automobile Inspection (SAI/GAI). Customs bodies provide escort services for high-value commodity traffic. GAI provides escort services for hazardous cargo (dangerous goods) traffic, bulky and heavy freight. Prices for the customs escort services for goods and transport are set at US\$3 per 10 km.

SECTION IV. HUMAN DEVELOPMENT ANALYSIS OF THE SENSITIVE SECTORS

4.1. Agriculture

The agricultural sector plays an important role in the economy of Tajikistan. Its production in 2008 amounted to almost one fourth of the total GDP, almost 30 per cent of export (mainly due to cotton, vegetables and fruits) and 33 per cent of all tax revenues in the state budget. In 2008, agriculture provided more employment than any other, at 67 per cent, compared to services, at 19 per cent, industrial production, at 6 per cent and trade, at 5 per cent (Figure 19). Out of 900,000 ha of arable land, 67 per cent was irrigated, of which 30 per cent was used for cotton crops.

Figure 19. Employment by Sector, 2008



Source: IMF (2009) Country Report No. 09/174, June 2009, p.10.

In 2009, writing off debts of cotton-growing farms was one of the main reforms in the agricultural sector of Tajikistan, thus bringing two positive aspects. First, restructuring debts will allow banks to provide loans to rural farmers, and second,

farmers themselves can invest resources into production and gain profits in the future.

The production of agriculture products, in general, has increased from 2000 to 2008, because of the increase in crop production, not livestock breeding. In 2008, in comparison to the previous year, output of products in crop production decreased. Livestock breeding has stagnated in 2003 and has since considerably and drastically declined. According to data from the State Statistics Committee, in 2003, revenue from livestock breeding reached TJS169 million; in 2008, it decreased by almost ten times, at approximately TJS16 million (Figure 20).

Figure 20. Production of the agricultural products, 2000–2008 (TJS ‘000, in constant 2000 prices)

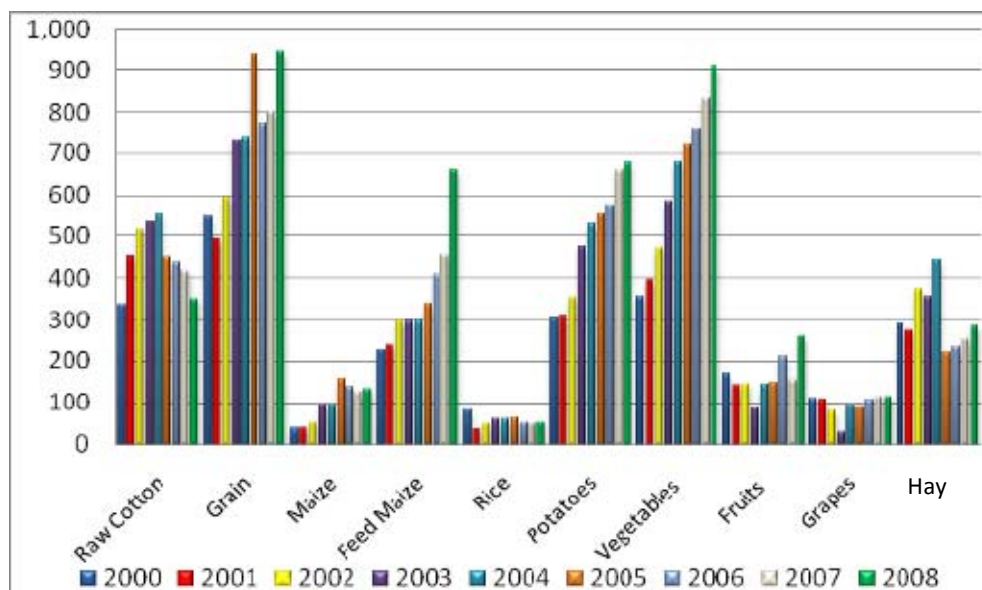


Source: State Statistics Committee of the Republic of Tajikistan (2009).

The decline in the agricultural and industrial sectors reflects the inefficiency of the privatization of cotton farms and land reform in Tajikistan.

The production and harvest of the main types of the agricultural crops, for example, wheat, potato, grapes, vegetables and feed corn, have increased over the 2000–2008 period. During this period, the yield of vegetables harvested doubled; however, that of crops such as raw cotton, corn, rice, fruits and hay have decreased considerably (Figure 21). For example, 353,000 tonnes of raw cotton were harvested in the country in 2008, which is just 42 per cent of the 1990 harvest of 842,000 tonnes. Over the 2000–2008 period, there was an increase in potato and vegetables harvest, and a small increase in fruits; yields of the other main types of the agricultural crops either remained at previous levels or continued to decrease (Figure 22).

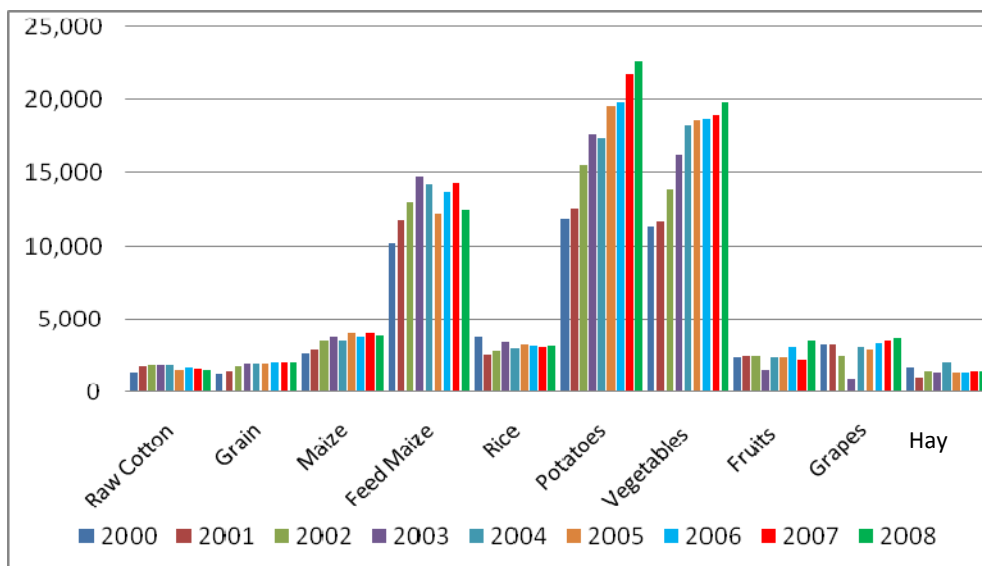
Figure 21. Production and harvest of the main types of agricultural crops, 2000–2008 (in ‘000 tonnes)



Source: State Statistics Committee of the Republic of Tajikistan (2009).

Over the 2002–2008 period, total yields of grain crops have increased. According to information from the Ministry of Agriculture, grain crops yields in 2009 amounted to 1,153,000 tonnes, excluding corn and rice and without consideration of repeated sowing. It includes wheat, at 619,190 tonnes (excluding wheat grown by the private sector or by the population on their household plots), which was 261,869 tonnes more than in the same period of the previous year. Yields reached 25.2 quintal per ha, compared to in 2008, where crop productivity was 1,830 kg per ha.

Figure 22. Main Types of Agricultural Crop Yields, 2000–2008 (‘000 tonnes)

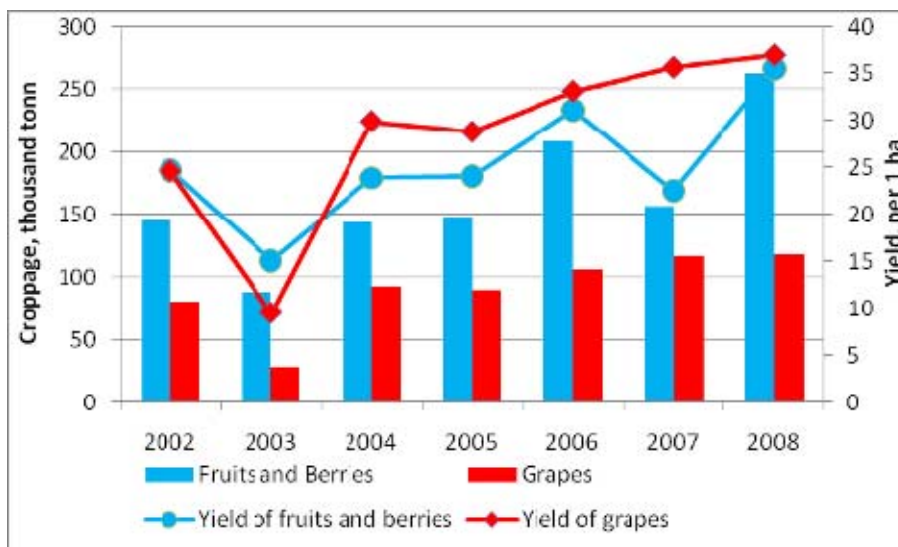


Source: State Statistics Committee of the Republic of Tajikistan (2009).

For the last four to five years, there has been a significant import of vegetables, fruits and berries, juices, etc. from China, the Russian Federation, Pakistan,

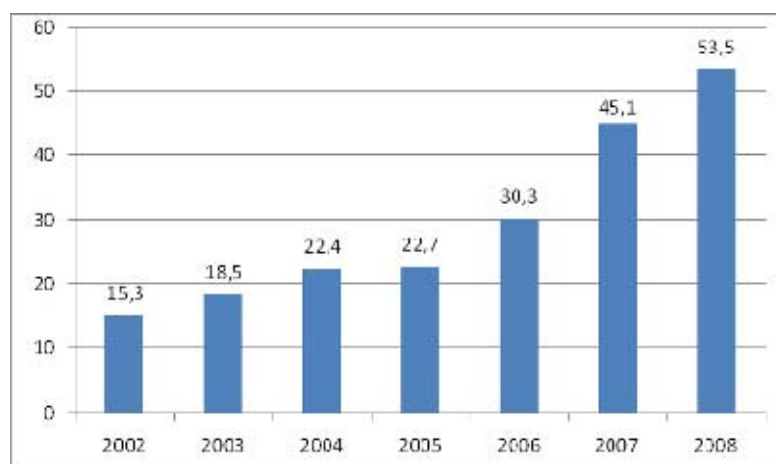
Afghanistan, Uzbekistan and Iran, although Tajikistan has enjoyed highly favourable climatic conditions for growing these products and has relative good harvests of apples, pears, lemon, grapes, tomato, potato, mountain honey, dried fruit, walnuts, and other fruits and vegetables. This is evidenced by growth in production and export growth rates of the given agricultural products. In 2008, yields of fruits, berries and grapes increased compared to 2003 (Figure 23). High yields of fruits and vegetables in 2008 allowed for a significant increase in agricultural production export, from US\$15.3 million in 2002 to US\$53.5 million in 2008 (Figure 24).

Figure 23. The total volume of harvest ('000 tonnes) and yield of fruits, berries and grapes (quintals per ha), 2002–2008



Source: Statistical Annual Book of the Republic of Tajikistan (2009).

Figure 24. Export of Vegetable-Derived Products, 2002–2008 (US\$ million)

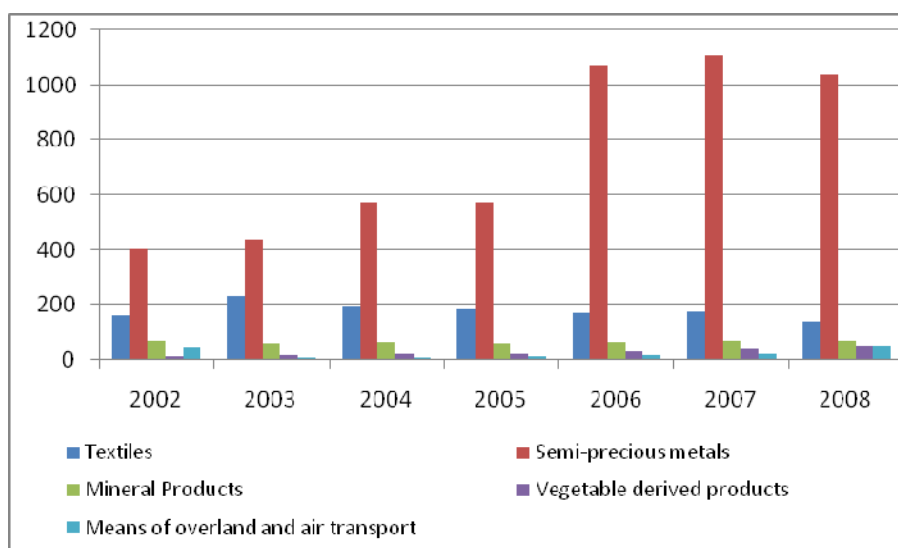


Source: Statistical Annual Book of the Republic of Tajikistan (2009).

However, the lack of investment and advertisement, as well as the occasional lack of domestic demand, outdated technologies, weakly developed interregional relations, inappropriate and expensive cargo transportation system to export markets, the lack of storage facilities at production sites and in wholesale markets, and poor fruit and vegetable marketing have led to a decrease of production of tinned products in 2008, at almost double that of 2002. Selling of such production often requires shorter time, and the above mentioned points reduce the price for this kind of products. This reduction affects domestic supply off-season, which consequently decreases incomes of the producers of agricultural products. Meanwhile, according to experts' estimates, the products processed from local farming raw materials, especially fruits and vegetables, are ecologically clean and are characterized by good taste quality, and could therefore be successfully sold in markets of other countries.

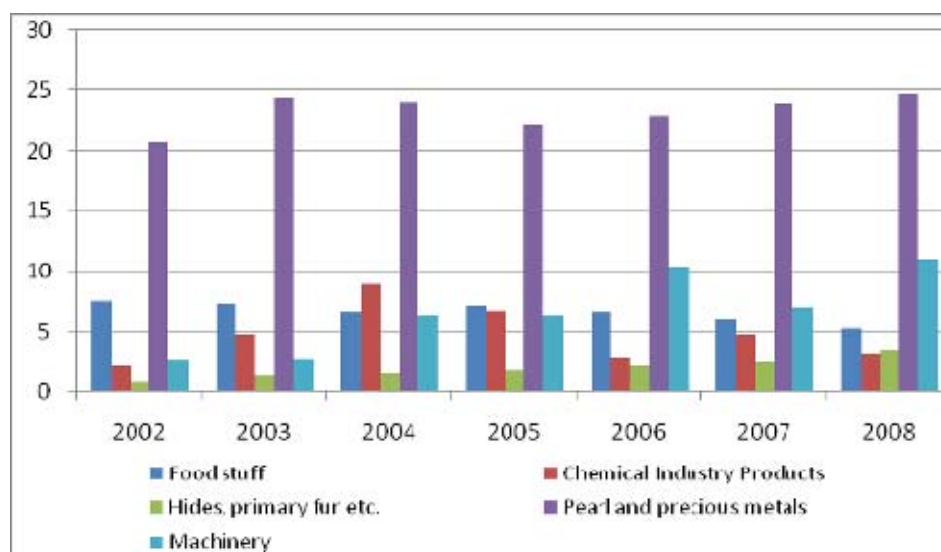
Over the 2002–2008 period, one of the most profitable commodity groups in export was vegetable-derived products (Figure 25). In the other commodity groups, foodstuff, hides, raw leather and their products were prevalent (Figure 26). The impact of the world financial crisis led to a decrease in overall world demand, which caused a reduction in prices for basic types of raw materials and energy resources. This also affected earnings from domestic commodities for export and led to a reduction in their volumes. Thus, over the nine months of the current year, export has decreased for main commodities, such as cotton fibre by 29.7 per cent. At the same time, there was little growth in export volume of commodity groups such as mineral raw materials, at 14.1 per cent, leather hides, at 6.4 per cent, vegetable products, at 4.1 per cent, and finished food products at 1.6 per cent.

Figure 25. Tajikistan Export by the Most Profitable Commodity Groups, 2002–2008 (US\$ million)



Source: Statistical Annual Book of the Republic of Tajikistan (2009).

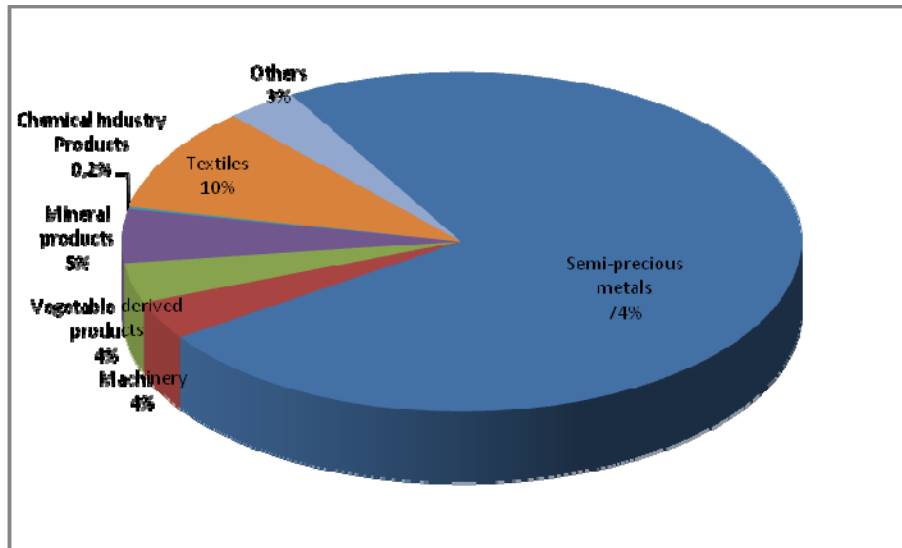
Figure 26. Tajik Export by Commodity Group, 2002–2008 (US\$ million)



Source: Statistical Annual Book of the Republic of Tajikistan (2009).

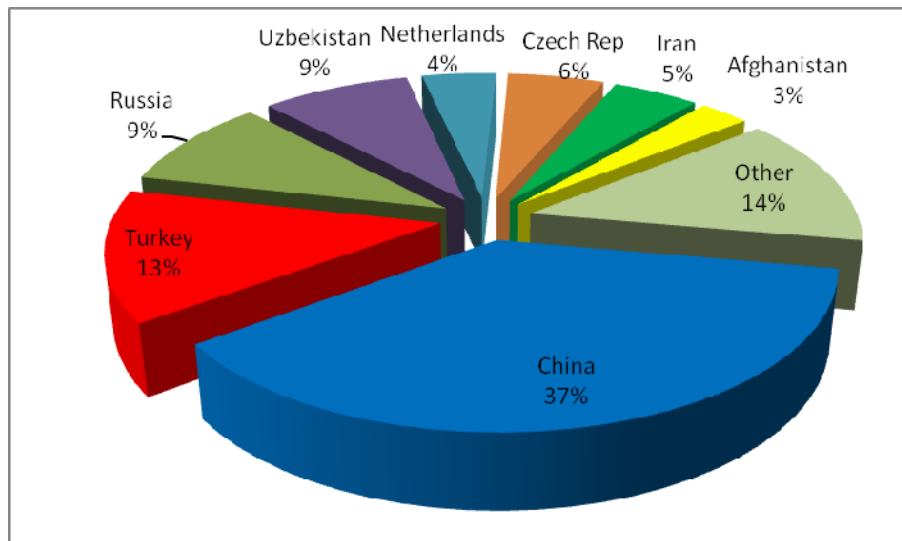
In 2008, the share of the textile products in the export structure was 10 per cent, mineral products, 5 per cent and vegetable-derived products, 4 per cent (Figure 27). The following countries are included in the geographical distribution of export over the last nine months of 2009: China, at 37.2 per cent, Turkey, at 13.5 per cent, Russia – 9.4 per cent, Uzbekistan – 8.6 per cent, Czech Republic – 5.6 per cent, Iran – 5 per cent and the Netherlands – 4.3 per cent (Figure 28).

Figure 27. Share of the Main Commodity Groups in the Export Sector, 2008



Source: Statistical Annual Book of the Republic of Tajikistan (2009).

Figure 28. Export Structure by Country Over the Last Nine Months of 2009 (per cent)



Source: National Bank of Tajikistan (2009).

The other constraint is the lack of equipment in agriculture sector. Only about 30–40 per cent of the necessary technological requirements are covered by the main

types of the farming machines is. Machinery is very old and outdated. Furthermore, the number of the tractors in the farming enterprises has decreased from 20,000 units in 2002 to about 15,000 in 2008. In addition, the quantity of grain combines in 2008 decreased by 1.5 times; the number of balers and combines fodder-harvesters by twice; and the number of cotton combines decreased by almost three times. Little knowledge on efficient tillage of the land also result in low output results. The most promising option to modernize agriculture would be establish the possibility to farmers and farmers association to lease the necessary machines inexpensively.

There are still some barriers to the development of dynamic, modern and competitive agricultural enterprises and farms. For example, the most difficult issue for Tajik producers of farming products is the high VAT rates and customs duties for imported raw materials and goods, which makes domestic production uncompetitive. The lack of quality seeds, chemicals, protection means for plants, mineral fertilizers, which are not produced or produced in very small quantities in Tajikistan, affect the quality of farming products.

The other problem is the high price for agricultural inputs, which significantly increases the final price of farming products. As a result, it is suggested that while there is no national production, to remove or, as a minimum, reduce VAT for import of the above- listed goods. This would allow, first, to increase import of high quality production resources and reduce prices in the markets, and second, raise productivity by using quality mineral fertilizers, etc. It is necessary also to improve the norms of the customs legislation to guarantee the import of goods into the country (excluding those that quickly deteriorate) and equipment to the storage facilities for at least six months. Art. 103, Part 1 of the Customs Code provides for temporary storage of goods and equipment in customs warehouses from two to four months. If the deadline of temporary storage of the goods were extended to six months, this would provide the opportunity to develop trade within the country and at the border zones with the neighbouring countries.

Agro-processing and agro-business

In general, entrepreneurs and producers of farming products could derive more profit in trade from establishing a more stable regime to attract long-term direct foreign investments, reduce the transactional costs and import, and purchase small, modern and highly effective technologies by developing agro-leasing and industrial equipment leasing. For example, to develop agro-leasing, it would be advisable to reduce financing rates for leasing deals to 10–12 per cent per year. Currently, they are at 30–36 per cent for business transaction in TJS or 24–30 per cent for foreign currency transactions. In the Russian Federation and Kazakhstan, this amounts to 10–12 per cent per annum, and sometimes, only 14 per cent per annum.

In 2008, 8–10 per cent of Tajik farmers' products were processed in Tajikistan. Import of reprocessed farming products increased in term of costs in 2008, and

large volumes of non-processed farming (raw materials) commodities were directed to export. To increase export volumes, it is becoming a priority to develop competitive processing enterprises for farmers' products produced in the country, which would focus on fruits, vegetables, potato, tomato and vegetable oil, as well as the textile sector, eco-tourism and national crafts. Textile and agro-reprocessing, including processing of local raw resources, could quickly become very profitable in the farming and industry fields. However, due to unstable supplies of raw materials, low demand in the domestic market and high costs in the foreign markets, the effectiveness and productivity of textile and agro-processing capacities will only increase when the textile enterprises or enterprises of the agriculture sector group into small, low-cost and productive clusters (groups) with complete cycles of the raw products processing, which assume quality control and marketing of products. This means establishing agro-trainings including in reprocessing and sales organizations and farming raw produce procurement services.

It is necessary also to change the approach to taxation of agro-processing enterprises, because many of the farming produce reprocessing enterprises =only work a few months a year. For example, fat-and oil enterprises operate only during the cotton season when they receive deliveries of cotton seeds (*chigit*) for oil production. However, taxes from production revenues are levied throughout the year, even though it has not been operating for almost six months. Consequently, the cost of production is increased to the extent that remains unclaimed. Therefore, to stimulate local reprocessing enterprises, it would be advisable to introduce a seasonal taxation component.

In addition, if a farmer wishes to be involved in reprocessing of the harvest, he will be charged a tax. It is necessary to ensure that small- and medium-sized *dekhkan* farms do not need to pay taxes when crop yields are low. It is clear that such changes should not be applied to the large *dekhkan* farms because they have enough resources to adequately react to the changes or fluctuations in yields of their farming products.

The ability of agro-processing enterprises to offer product diversity in modern packages, competitive in the market, as well as an adequate quality of their products consistent with international standards directly depends on investment.

Since agro-business strongly depends on transportation, electric power and water resources, activities aimed at responding to the needs of agro-business for improved infrastructure could help farmers and entrepreneurs increase their export potential.

To provide farmers with access to credit, a warehouse receipt system could be introduced in a few pilot areas just as in many advanced countries. A warehouse receipt is a document certifying ownership of goods stored in a warehouse, which could be also used for transferring ownership of the given goods without their physical supply to the new owner. Such a system would allow farmers access to financing after harvest. By using this system, it would be possible to store the

farming products in safe and reliable warehouses. Warehouse receipts could be exchanged for goods stored in the warehouse, which could be used as a guarantee when financed by a bank.

Thus, to create favorable conditions for agricultural development, it is necessary to provide conditions to stimulate the development of crop production, livestock breeding and export of products of the reprocessing industry to the markets. At this stage, the following challenges should be faced: the limitation of those goods that Tajikistan can produce itself and export, to foreign markets, products that it has in excess supply (for example, vegetables, dried fruits etc.).

It is recommended also to:

- grant more freedom to farmers in their choice of the farming crops that would provide profits;
- diversify crops in the cotton growing farms and expand production of vegetables and fruits, nuts, medicinal plants, and fodder for livestock and create the necessary infrastructure to achieve this, including favourable conditions for reprocessing and production distribution;
- use land use certificates (granting rights to land use) as a guarantee;
- privatization of ginning and cotton processing enterprises by local farmers.
- create small and low-cost clusters of agro-industrial enterprises rather than ineffective large enterprises.

Cotton sector

In 2008, the cotton sector produced only 9 per cent of the total farming production of the country, while consuming a large amount of agricultural resources. Almost 50 per cent of the working population of the country is engaged in this sector.

Current property rights, the organizational structure of the agriculture, low competitive ability of suppliers of resources, a shortage of credits and inflexibility of the local market are the main barriers to development of the cotton sector. A World Bank survey (2005) determined the following barriers in the cotton sector:

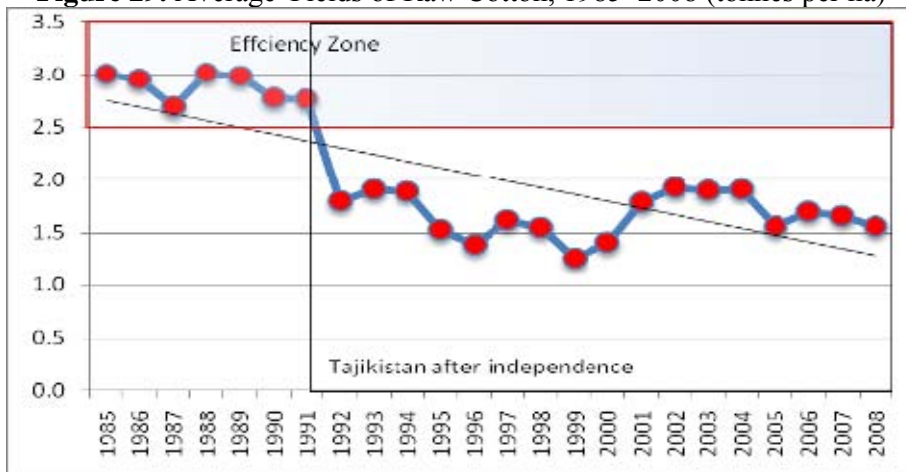
- current organizational structure of the farms, which neither stimulates management nor employees of the farms;
- ongoing interference of the state in decision making with respect to growing certain crops;
- credit based on cartel rate and the non-competitive market of supply of fertilizers and seeds;
- the ineffective cotton processing system due to a lack of a healthy competition and the lack of electric power;
- administrative barriers to export;
- deterioration of the irrigation and drainage infrastructure.²⁴

²⁴ World Bank (2005) Tajikistan Trade Diagnostic Study, Report No. 32603-TJ, 3 December 2005, p.42.

By the end of 2008, the debt of the cotton growing farms to investors reached US\$11 million. These investors acted as a monopoly purchaser, donor or sponsor and supplier of resources in the domestic cotton market. The Credit-Invest Company played a major role in providing credits to investors under guarantee of the National Bank. This was done through direct loans from the National Bank and it was paid in national and foreign currencies and started from 2004. Unpaid credits of Credit-Invest to the National Bank reached almost US\$575 million by the end of 2008. Tajikistan lost considerable state reserves from the standard international payment instruments due to the cotton sector financing mechanism, which was in place until 2008. The new sector financing scheme introduced by the Government in 2008 and the drastic fall in cotton prices to some extent lowered the quality of assets in the banking sector.

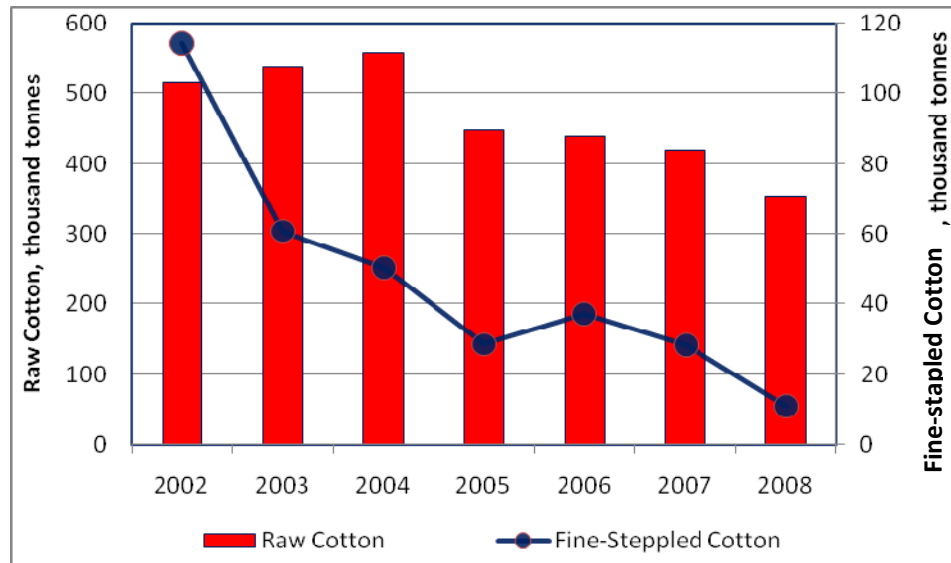
In 2008–2009, since external investors ceased financing cotton, the Government was forced to allocate almost TJS150 million from the budget to finance cotton as a budget loan. Only half of it was repaid, mostly due to the high burden of the previous debts, as well a fall in cotton prices by 40 per cent due to the financial and economic crisis. Banks still owe 80 million due to the inability of the cotton growing farms to repay their loans. At the beginning of 2009, following a decision by the Government, US\$500 million was written-off, the accumulated debt of the cotton growing farms until 2008. This amount reached almost 10 per cent of the GDP and accordingly, part of it should undergo recapitalization either by: (a) including it in the commitment of the budget to the foreign debt; or (b) increasing the National Bank’s liabilities. In the first case, pressure on the budget will increase and social costs will decrease, and in the second case, liquidity risks will increase for the bank system and National Bank assets will reduce. Thus, the problem of cotton debt has considerably increased the burden and negative impact of the global financial crisis for Tajikistan.

Figure 29. Average Yields of Raw Cotton, 1985–2008 (tonnes per ha)



Source: State Statistics Committee of the Republic of Tajikistan (2009) and the Ministry of Agriculture (2009).

Figure 30. Total Yields of Raw Cotton and Fine-Stepped Cotton, 2002–2008 (‘000 tonnes)



Source: Annual Statistical Report of the Republic of Tajikistan (2009) and the State Statistics Committee of the Republic of Tajikistan (2009).

In 2008, Tajikistan harvested 353,000 tonnes of cotton fibre (Figure 30), an average of 1.56 tonnes/per ha (Figure 29). This is a relatively low figure, which casts doubt on the profitability of the sector. Total yields of the cotton fibre decreased from 510,000 tonnes in 2002 to 353,000 tonnes in 2008. With respect to total yields of fine-stepped cotton, its cultivation and yields decreased more than ten times over the last six years. In 2002, the yield of fine-stepped cotton was 114,100 tonnes; in 2008, it was only 10,900 tonnes (Figure 30). High raw material costs, especially for fertilizers and chemicals, also limit growth in production volumes. However, at the same time, as shown in Figure 29, until independence, cotton yields in the country fluctuated between 2.5 and 3 tonnes per ha, while after gaining independence, cotton yielded 1.3–2 tonnes per ha. The decline in yields soon after independence was caused by the destruction of the economic planning system, outdated farming techniques and equipment, as well as the civil war. Natural factors, for example, the drought of 1999, also played a role. The fact that cotton yields are still much lower than those during the Soviet period indicates that the current organization of the cotton sector is very inefficient.

As seen in Figure 24, export price of cotton in its different dimensions — quantity, cost and price — has a tendency to decline. The first decline occurred in 1994–1995; the second, in 2003. According to the agricultural economists, if these enterprises related to the cotton sector were modernized today, up to 100,000 tonnes of cotton fibre could be processed throughout the country. Many cotton cleaning and fabric manufacturing enterprises have been built over the last years. However, many of the enterprises are not operating due to having outdated equipment (40 years and more). Farmers need technical assistance both in terms of raw material base and in terms of raw material processing.

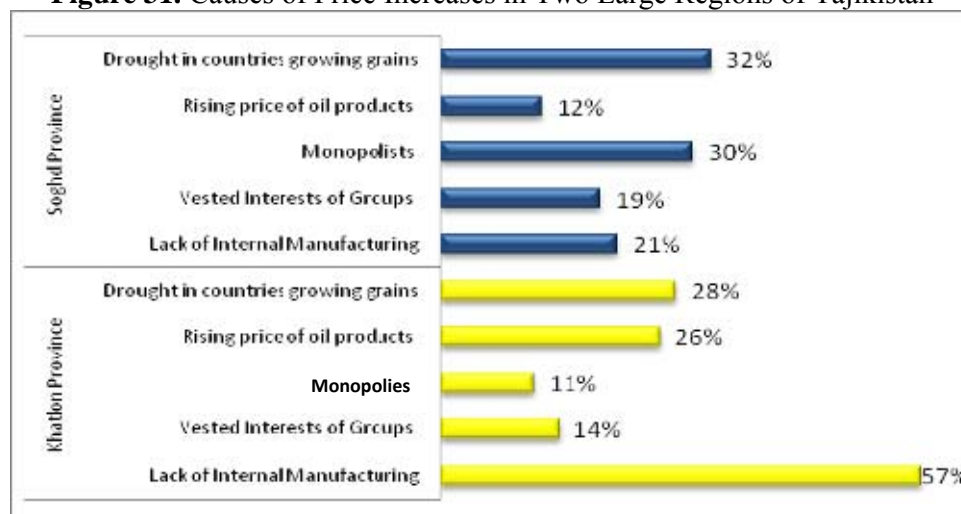
However, despite the fall in cotton yields over the years following independence, Tajikistan has a great potential to increase yields in the cotton sector. Cotton is still one of the most demanded types of the agricultural products. Export of cotton will allow not only increasing foreign currency earnings, but also have an impact on exchange rates and production revival. An increase in world cotton prices could bring an increase in growing and harvesting in the country. Such preconditions already emerged in January 2010, when the price for 1 tonne of cotton reached US\$1,681.

Human development and the rise of prices for agricultural products and foodstuff

With the transition to the market economy, the rise of prices for almost all types of agricultural products and foodstuff became common. Price rises for food products reached critical levels – from 50 per cent to 100 per cent per year.

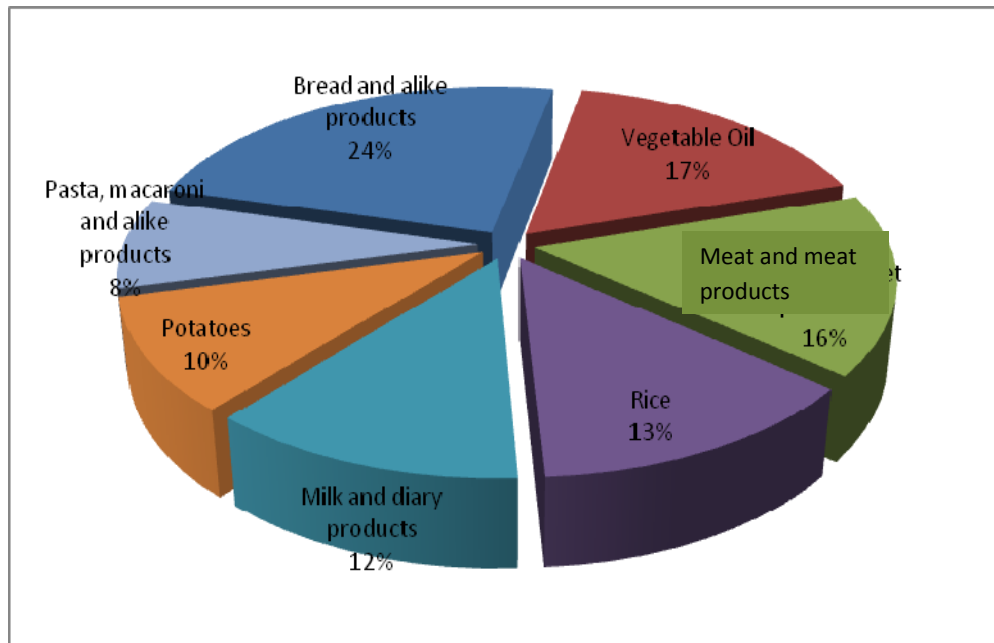
The rise in prices affects household budgets and overall living standards of the middle class, the poor and the poorest strata of the population, which constitutes the main part of the population. A local NGO studied the opinions of various social groups and strata in the two largest regions of the country – Soghd and Khatlon — to determine the situation with respect to increases in prices for consumer products due to the global economic crisis. The survey was conducted among 387 respondents in the four districts of each region. Out of the total number of interviewed respondents, 88 per cent stressed the seriousness of the problem related to the rise of prices. The rise in prices influences poverty, as stated by 66.7 per cent of interviewees. The remaining 33 per cent noted the reduction of the basket of goods and the decrease in purchasing ability. This data points out that, with the rise of prices, the living standards of these social groups with adequate living standards have deteriorated. Naturally, inflation and the ongoing crisis in the economy and social sectors will constantly affect poverty levels. Some of the results of the survey are shown in Figure 31.

Figure 31. Causes of Price Increases in Two Large Regions of Tajikistan



In general, respondents in these regions associate the cause of price increases with a few factors, namely, the lack of domestic production, monopolies, droughts in the countries that import wheat grain to Tajikistan, and the increase in prices for petroleum products in the countries that import them to Tajikistan (Figure 31). To regulate prices of basic products, the respondents suggested four options: 36 per cent of them suggested addressing the problem related to the high rates of import taxes for flour and other food products. The second priority is given to the importance of increasing domestic production, at 31 per cent; 29 per cent mentioned the development of the state planning mechanisms for domestic production; and only 4 per cent stated that strengthening performance of the anti-monopoly committee can positively resolve the issue. The number of answers by the respondents shows that either they do not know of the existence of such an organization, or for various reasons, do not trust it.²⁵ Furthermore, 85 per cent of the respondents noted that, with the right cropping approach, receiving two to three harvests annually, the problem related to food provision can be partially solved. According to the survey data, the list of the basket of goods of the respondents interviewed consists of only seven food products, whose rise in prices can affect the general household budget (Figure 32).

Figure 32. The Main Food Products Whose Increase in Prices Affect the Family Budget



Source: Local NGO, Sociologist (2009).

From the above data, it can be concluded that liberalization of domestic trade could facilitate a considerable optimization of the population's living standards, providing more supply and competition in trade of food products such as flour,

²⁵ Kakharov G.G. (2009) "What the population thinks of the price rises?", Asia-plus, No. 49 (516), 9 December 2009.

vegetable oil, meat, milk and dairy products, rice, eggs and butter. The import of such food products, according to the local experts, would cost end-consumers in Tajikistan 1.5–2 times more. Hence, in view of the situation, it would be reasonable to attract more local and foreign investments to agriculture, improve the value chain, provide full access to loan resources for farmers and modernize infrastructure in the rural areas, including storing facilities, goods markets, and outdated equipment and technologies.

4.2. Clothing and hosiery (tricot)

There are ample favourable conditions for the development and clustering of the textile industry in Tajikistan, particularly considering large volumes of cotton production, the cheap labour force and the availability of a sufficiently large industry with geographical allocation in the growing cotton regions. However, despite these factors, there are still a few barriers to facilitating sustainable growth in the given branch of the industry:

- insufficient provision of funds (capital);
- use of the outdated (post-Soviet) equipment;
- regular power shortages;
- lack of knowhow of the markets;
- high corruption rates in the domestic markets.

In spite of the joint enterprises opening or establishing business in Tajikistan with foreign capital, there are numbers of problems in the integration and gradual development of the textile industry in Tajikistan. Products are exported mainly to foreign markets. The American and Tajik joint enterprise Javoni is among the fully integrated enterprises in the country; it has been in operation for 14 years and has three factories in Khujand as well as a few branches in the capital (with a staff of over 3 500). In addition, Kabool Tajik Textiles is a joint enterprise with the South Korean Company Kabool Limited. Other examples of cooperation in the textile industry is a silk factory of Viet Nam and CATH, which opened in 2004 and employs about 900 people, with a production capacity of over 800 000 units of finished apparel.

Cotton prices, both for export and import, are determined through the Uzbek quotation system, which in turn is based on the price index of the Liverpool Cotton Exchange. Price quotation in the Liverpool Cotton Exchange determines the fixed price per cotton bale of average quality daily, with the support of data from the five poorest provinces by adding it to freight and insurance costs. Local producers are not allowed to sell their products at a lower price than the Uzbek quotation, neither to exporters nor to local producers. This limitation removes the competitive advantage of the local textile producers related to the reduction in transport costs. For example, in Uzbekistan, the price for the processed cotton in the local market is 15 per cent lower than the export price. Moreover, Uzbekistan textile industries have the right not to pay for cotton for 60 days, which is missing in Tajikistan. Another disadvantageous situation in Tajikistan related to the price formation for

cotton is related to the 10 percent tax rate for selling cleaned cotton, which is levied separately from the standard VAT.

There are a number of administrative requirements that complicate clothing manufacturing in the country in general and in the Soghdh Region in particular. Textile companies must undergo the binary system of certification, both at the local authorities and at the bodies that grant the common export certificate. These companies undergo numerous inspections, including safety engineering (accident prevention), ecological issues and fire safety. These inspections for each type can take place several times per year. There are also other administrative procedures which after reforming could lead to economic benefits for the entrepreneurs such as a reduction in their transactional costs. On average, small- and medium-sized enterprises in Tajikistan spend 26.7 per cent of their profits on four frequently encountered administrative procedures, taking into account only direct expenses (Table 9).

Table 9. Direct Costs for Some Administrative Procedures in Tajikistan

	Licensing (per cent)	Permits (per cent)	Audits (per cent)	Certificates (per cent)	Total
Individual Entrepreneur	1.3	0.8	1.2	0.8	4.2
Small and Medium Enterprise	4.0	6.2	10.5	6.1	26.7

Source: Investment Climate Advisory Services. World Bank 2009.

Another barrier to growth in the textile industry in Tajikistan is its underdeveloped bank system, as well a lack of hedging instruments, which leads to short-term contracts between the cotton producers and producers of apparels. Most of these contracts in Tajikistan are limited to three months. With the liberalization of prices for domestic cotton, potential foreign investors would find Tajikistan more attractive for their clothing manufacturing, and local cotton producers would have the possibility for hedging (insurance from losses) and longer-term contracts.

Factors that form barriers and obstacles to the trade process, impacting overall development of trade and efficiency of the entrepreneurship were studied. First, the factors difficult for calculation were reviewed. Accordingly, interviews were conducted among entrepreneurs of the small- and medium-sized businesses. To analyse human development and determine problems in a given sector, the participants of the foreign trade were divided into three groups:

- Producer
- Importer
- Vendor.

Many of the above-mentioned problems have common features and emerge in the production and trade turnover of each participant. When reviewing their problems individually, three blocks of factors delaying trade development were determined. Based on the interviews with entrepreneurs, the main problems observed in production were linked to infrastructure, customs, and financial resources, among others.

1. Producer

I. Infrastructural barriers:

1. ***Weak trade legislation.*** Lack of protection for the domestic producer from the large number of state auditing bodies.
2. ***National producers are not motivated.*** Lack of any kind of benefits when opening a production enterprise. For example, in Turkey, a newly established enterprise is exempt from paying all taxes for one year, and from one to three year, taxes are reduced by 50 per cent.
3. ***Irregularities in the activities of the supervisory bodies.*** Constant changes in costs of licences (patents) and certificates of private entrepreneurs.
4. ***Power shortages.*** For producers, a lack and shortages of power cause a reduction in production volumes and quality, and for the private entrepreneurs involved in production, storage and marketing of the goods they cause a reduction in sales volumes.
5. ***Low level of access to loan resources.*** In addition to the high interest rates, lack of the credits for the agricultural, textile and other profit-making sectors of the economy, as well as difficulties in obtaining loans, there is a lack of net benefits for all types of domestic producers. For example, the state used to provide loans with low interest rates to cotton producers.
6. ***Poor quality of the roads*** leading to delays and transport breakages, which consequently affect speed and cargo transportation costs.

2. Importer

II. Customs: Problems when undergoing customs clearance affecting the trade process.

1. ***High customs duties (from 25 per cent).***
2. ***A lack of common access to information on customs rates and payments.*** An information web site, for example, would make it possible to estimate the costs of customs clearance for goods prior to their delivery.
3. ***“Wrongful” excises.*** This concerns excises on the goods that are not generally produced within Tajikistan. For example, automobiles are not produced in Tajikistan, yet there is an excise for their import.

4. *Lack of clear, legislative differentiation of goods* (according to their amounts or prices) to the goods eligible for customs clearance and freed from it, which makes customs staff independently determine to which category belong imported goods (for a minimum lot of the imported goods).
5. *Corruption.*
6. *Burdensome procedures of the customs clearance.* Customs clearance is complicated and takes a long time. For example, to fill in the customs declaration, it is necessary to refer to a customs agency; to receive a quality certificate, one should first go to “Tajikstandard” - the State Agency for standardization; and second to pay for all of these documents you need to go the bank. Introducing the “one stop shop” system would lighten these procedures and decrease the time spent for procuring the necessary documents.

3. Vendor

1. *The lack of trading sites for the domestic producer* (real and virtual) may result in a producer not being able to sell his or her goods directly to the buyers. This also affects the speed of the sales and end-price of the product produced.
2. *Lack of exchanges*, i.e. the lack of free access to foreign markets.
3. *Bureaucratic delays*: bureaucratic procedures for preparing documents for export of goods produced in Tajikistan.

A major part of Tajik cotton exported is not processed, which means that added value of the processed goods is lost. Taking into consideration high transportation costs due to geographical remoteness of Tajikistan, the processed cotton may reduce the transportation costs, since the raw cotton is large in volume for transportation and becomes smaller and easy to transport after it is processed.

Considering that labour migrants are mostly able men, there remains a significant number of non-working female labour resources in Tajikistan. The possibility of involving able women in the textile industry would grant the country an opportunity to produce goods similar to those imported from Kyrgyzstan. Many of the textile enterprises (for example, the clothing factory Guliston) have sewing shops with the necessary equipment to finish the imported fabrics and semi-finished products.

The production of finished textile would also lead to an increase of demand for a cheap labour force. The finished textile sector is a labour-intensive; its expansion would cause large job creation. This in turn would increase tax revenues to the state budget, development of the export potential of the country, development of the economy and subsequently enhancing the populations' well-being. Increase in personal earnings as a result of trade development will make it possible to expand

some of the effective demand and thus accelerate the dynamics of development of the economy's real sector.

Recommendations

A working group on improving the tax, customs and trade policies should be established in order to raise the competitive ability of products produced in Tajikistan, both within the country and at the cross-border areas with the neighbouring countries. The working group should consist of representatives of enterprises themselves, local activists, deputies from both chambers of the Parliament, officials from the Government, the Ministry of Finance, the Tax Committee, the Ministry of Economic Development and Trade, the Customs Committee, the State Agency on Standardization, Meteorology and Trade Inspection, as well as representatives of NGOs and public unions. The following measures could be recommended by working group:

- Focus greater efforts on tax and budget consolidation, facilitating economic growth and a reduction of the tax rates.
- Prioritize the reduction of state expenses (excluding the social sector), rather than increase other earnings.
- Cancel the prohibition on offsetting VAT for purchased and imported fixed assets and technologies. This measure would stimulate producers of farming products and the agro-processing sector throughout the country, and increase investment for innovations, technologies and equipment. Replace outdated equipment and ensure that technologies fully meet WTO requirements.
- Develop a mechanism for offsetting tax from highway users among the business entities in order to avoid double taxation like VAT. As both exporters and importers directly use the roads, this measure would prevent burdening them with taxes. It would also help to implement clearer and more effective mechanisms of tax collection, stabilize the state's financial system and strengthen the focus of trade policy on human development-related objectives.
- Introduce changes to Article 256, Part 1 of the Tax Code on Documentary Stamps. To avoid expansion of the activity area related to import of the piracy products, prohibit both the sale and the import of goods and products without documentary stamps (excise marking). This would help to orient import to higher quality products and safer trade of excise commodities.
- Cancel tax on income from bank deposits. According to data from the Association of the Banks of Tajikistan, the amount from bank accounts of legal entities in the country over the first ten months of 2009 has been reduced by more than 6,000 units. For the banks to work and for people to deposit their money in banks, temporary tax on earnings from deposit must be cancelled. This would allow accumulating more resources from the

population and involving them in economic turnover, which will allow increasing the banks' liquidity, and the economy and businesses would receive important inflows as appropriate credits. At the same time, people would gain more trust in banks.

- Introduce changes to Article 262, Part 1 and 2 of the Tax Code and reduce social tax rates to 10 per cent for insurers. The current social tax rate from the salaries for insurers is 25 per cent, a significant factor restraining business development.
- Taking into account regional peculiarities, establish a step-up/step-down coefficient system that would influence income tax computation. The price for the license should be considerably reduced for several rural districts (for example, Shakhristan, Rasht, Muminabad, Ishkashim) for the local traders to be able to pay it.
- As a whole, the tax system requires deep reform and the introduction of complex changes based on a financial and economic analysis. This includes the preparation of a new Tax Code that is comprehensive, clear and accessible, both for specialists and for entrepreneurs. The current Tax Code does not stimulate entrepreneurs to create new jobs; it only performs a fiscal function.

In general, the trade agreements must be coordinated with the National Development Strategy, have clear objectives:

- Improve general human development.
- Increase financial resources, which would stimulate cooperation in the trade sector.
- Protect the interests of the agricultural producers in the export of their products to foreign markets.
- Address problems of the transport deadlock and safe transit of cargo.
- Work out a concept to develop export of products from profitable sectors: precious and semi-precious stones and metals, aluminium and cotton, wool, hides (leather raw materials), vegetables and fruits, tinned products.
- Further facilitate the development of deposits.
- Improve the certification process for export products.
- In the context of accession and membership to the WTO, Tajikistan's status of least developed country must be acknowledged by the General Assembly of the United Nations. From the trade expansion perspective, this will provide the country with access to technical assistance using special or favourable tariffs on agreements with the WTO. To be classified as a least developed country, Tajikistan needs to comply with all three criteria: (i) income per capita; (ii) economic vulnerability; and (iii) social sector development. In compliance with the third criteria, the services in the social protection sector over the last few years have deteriorated in education and health care, which removes the country from the developing countries list.

- Provide technical assistance to key foreign trade institutions (Customs Committee, the Ministry of Economic Development and Trade, the State Agency on Standardization, Meteorology and Trade Inspection) in order to strengthen their internal capacities to conclude trade agreements, including financial resources and staff capacity building. Accordingly, during negotiations, it is recommended to:
 - put in place an effective transit regime and low external tariffs as a priority within the framework of regional agreements on free trade;
 - provide for coordinated, but non-discriminative liberalization of trade, agreeing on positions during the negotiations on accession to WTO with other countries;
 - publish a handbook for exporters and importers clearly explaining and commenting on legislation on foreign trade and customs procedures explained;
 - provide for transparency of procedures and speed up the customs clearance process;
 - improve cooperation of the various levels of authorities at the border crossing points;
 - reduce transactional costs and the time frame spent on export and import formalities by removing administrative barriers, simplifying and harmonizing trade procedures;
 - stimulate free movement of people and goods;
 - increase transparency of the laws, regulations, procedures and forms on the trade issues;
 - develop competitive abilities of the logistics industry.
 - facilitate promotion of investments, including partnership of the public and private sectors.

- While there is no own production, temporarily remove or, at a minimum, reduce, VAT in the customs legislation for import of high quality seeds, chemicals, plant protection chemicals and mineral fertilizers. This would allow first to increase import of the high quality production resources, reducing prices in the markets, and second, raise productivity by using quality mineral fertilizers, etc.

- Enhance norms of the customs legislation to guarantee the possibility of bringing into the country goods (excluding those that deteriorate quickly) and machines to the customs storage facilities for at least six months. Article 103, Part 1 of the Customs Code provides for the temporary storage of goods and techniques in the customs warehouses from two to four months. If the deadline of temporary storage of the goods is extended to six months, this would increase trade development within the country and at the border zones with the neighbouring countries.

- Change the approach to taxation of agro-processing enterprises because many of the farming produce reprocessing enterprises are either idle or

work only for a few months a year. Therefore, to stimulate local reprocessing enterprises, a seasonal taxation component should be introduced.

- Introduce specific regulations into the tax legislation, which would free small- and medium-sized *dekhkan* farms from paying taxes, providing that a farmer can provide evidence that no harvest was received for the reporting period. Such changes should clearly not be applied to the large *dekhkan* farms, because they have available enough resources to help them adequately respond to changes or fluctuations in their yields.
- Obtain flexible financing for the working capital and assets in order to provide for timely sales of primary products of *dekhkan* farms.
- Since agro-business strongly depends on transportation, electric power and water resources, activities directed at meeting the needs of agro-businesses for improving the above-mentioned infrastructure could help farmers and entrepreneurs to raise their export potential.
- Overcome the following challenges: the limitation of imports of those goods that Tajikistan can produce by itself and export of those products to foreign markets that the country has in excess supply (for example, vegetables and dried fruits).
- Mobilize growth potential in the non-cotton sector.
- Give more freedom to producers in choosing the crop area.
- Transfer cotton ginning and cotton processing enterprises to local farmers.
- Create small and low-cost clusters of agro-industrial enterprises rather than ineffective large enterprises.
- Develop an effective mechanism for allocating land plots from the state reserves at the foothills for farming purposes, in accordance with Decree of the Government No. 28 of 25 January 2008.
- Enhance the customs evaluation procedure.
- Introduce a customs clearance system according to the “single window” principle to simplify paper turnover.
- Increase transparency and simplify the procedure of granting certificates of adequacy and licences (including removing the obligation for certifications of goods and services that are not dangerous).
- Provide access to information on customs rates and payments (for example, through Internet websites).

- Develop clear legislative differentiations of the goods (according to their quantities and costs of the imported goods) that are eligible for customs clearance.
- Take measures on strengthening the capacity of customs employees.
- Build technically equipped warehouses for the goods that need special storage conditions (medicines, vaccines, and foodstuff).
- Introduce a benefits and incentives system for domestic entrepreneurs, particularly for the newly established and innovative productions.
- Regulate work of the inspecting bodies and develop clear taxation of entrepreneurs.
- Introduce a timely warning system (develop electronic and printed media) on the changes in the tax rates.

The given recommendations seem to be related only to production, infrastructure and management, *inter alia*; however, according to experts, their implementation will lead to a significant increase in resources for trade promotion, and in turn, to human development.

Action Matrix

Action No.	Recommended Actions	Target indicator and expected result	Time frame	Institutions involved	Resources needed	Donor support needed
1	Diversification of export by developing enterprises with quality processing technologies: a) revival of food industry enterprises	Increase of volumes of export of juices, jams, canned vegetables.	2011	Ministry of Industry	Update (renewal) of technical equipment, training of qualified personnel.	Financing of the specified actions Financing of the specified measures
	b) revival of cotton enterprises	Increase of volumes of sales in the domestic market and export of cotton fabrics.	2012	Ministry of Industry	Update (renewal) of technical equipment, training of qualified specialists.	Financing of the specified measures
	c) revival of silk weaving enterprises	Increase of volumes of sales in the domestic market and export of silk threads and silk fabrics.	2012	Ministry of Industry	Update (renewal) of technical equipment, training of qualified specialists.	Financing of the specified measures
	d) revival of knitting enterprises	Increase of volumes of sales in the domestic market and export of knitwear.	2012	Ministry of Industry	Update (renewal) of technical equipment, training of qualified specialists.	Financing of the specified measures
	e) rehabilitation of sewing manufactures	Increase of volumes of sales in the domestic market and export of apparels (clothing).	2014	Ministry of Industry	Update (renewal) of technical equipment, training of qualified specialists Update (renewal) of the	Financing of the specified measures Financing of the specified measures

	f) modernization of two hosiery enterprises (mills)	Recovery of the full estimated capacity of the enterprises.	2014	Ministry of Industry	technical equipment, training of qualified specialists.	
2	Modernization of enterprises taking into account relations between the Central Asian countries. a) renewal of basic technological equipment in cement plants in Dushanbe	Increase of volumes of sales of the high grade cement in the country and in the whole Central Asia region	2012	Ministry of Industry	Replacement of rotary kilns, hanging rails.	Financing of the specified measures
	b) renewal of the porcelain plant in Tursun-Zade city	Recovery of volumes of sales in the domestic market and export to the neighbouring countries	2013	Ministry of Industry	Replacement of basic technological equipment, inviting specialists from China, training of qualified leaders.	Financing of the specified measures
	c) Revival of handicrafts in the different urban and rural areas.	Drastic increase of their products due to the development of tourism	2014	Ministry of Industry	Reconstruction of buildings, provision of the necessary technological equipment, building capacity of artisans.	Financing of the specified measures
	Raising of crop yields and harvest volumes of the agricultural crops in the export-oriented sectors of agriculture	Increased responsibility (commitment), improved order and discipline of the employees	2011	Association of Dekhkan Farmers	Conducting of workshops and training by specialists in all the districts of the country.	Financing of the specified measures
	a) implementation of a	Production of competitive	2013	Academy of	Providing farms with high-	Financing of the

	project on boosting a culture of management practices in the specified sectors	products		Agricultural Sciences	yielding seeds Effective use of agriculture specialists.	specified measures
3	b) development of seed farming in all rural areas of the country	Production of competitive products	2012	Ministry of Agriculture	Mineral fertilizers, protection means for plants, organic fertilizers.	Financing of the specified measures
	c) involving specialists to address improve of the yield volumes of agricultural crops	Increased yield of the crops	2014	Ministry of Agriculture, Association of Dekhkan Farmers	Large resources of fruits, berries and vegetables.	Financing of the specified measures
	d) facilitating provision of export-oriented economies (farms) with fertilizers, chemical and biological resources for plant protection	Improved quality and competitiveness of dried fruits and vegetables in the domestic and world markets	2014	Ministry of Agriculture, Association of Dekhkan Farmers	Tractors, combines, ploughs, trailers, etc.	Financing of the specified measures
	e) training of farmers on advanced methods of drying fruits and vegetables	Improved quality levels of agricultural practices.	2013	Ministry of Agriculture Agroinvestbank		Financing of the specified actions
	f) establishment of regional companies for leasing agricultural machines					
4	Establishment of short-term marketing courses on marketing goods	Improving sales terms of the domestic producers of goods.	2013	NGO, Ministry of Agriculture	Training of qualified personnel on marketing.	Financing of the specified measures

5	Establishment of short-term courses on advertising goods of domestic production	Improving product sales terms.	2013	NGO, Ministry of Agriculture	Training of qualified personnel on advertising.	Financing of the specified measures
6	Participation in international fairs and exhibitions displaying goods from Tajikistan for export	Expansion of markets for product sales	Ongoing	NGO, Ministry of Agriculture	Access of domestic products to international markets.	Financing of the specified measures

References

- Statistical Digest “Tajikistan: 15 years of State independence”. Dushanbe, 2006.
- Statistics Annual Book of the Republic of Tajikistan. Dushanbe 2009.
- IMF Country Report no. 06/62, 18 February 2006, www.imf.org.
- Human Development Report. 2007/2008. UNDP, 2007.
- Republic of Tajikistan. Update poverty evaluation. 6 January 2005. World Bank document.
- Newspaper “Millat”, 21 March 2009.
- Newspaper “Nigoh”, 4 May 2009.
- Kayumov, N.K., Nazarov, T.N., Makhmudov, I.I., Rakhimov R.K. and Umarov, Kh.U. Globalization processes and economic problems in Tajikistan/Economy of Tajikistan: Development Strategy, 2003.
- Trade and Development Report, 2009, UNCTAD, New York and Geneva, 2009.
- World Bank (2005) Tajikistan Trade Diagnostic Study, Report No. 32603-TJ, 3 December 2005.
- ITC publication, “Export Credit Insurance and Guarantee Schemes. A practical guide for developing and transition economies”. Geneva, 2003.
- Kh. Umarov, N. Kayumov (2005) “The globalization of economy and foreign economic affairs of Tajikistan”, Dushanbe, “Devashtij”; and Kh. Umarov, M. Odinaev (2005) “Tajikistan and the global trade”, Ministry of Economic Development and Trade of the Republic of Tajikistan, Dushanbe, Irfon.
- Kakharov G.G. (2009) “What the population thinks of the price rises?”, Asia-plus, No. 49.



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