



**Economic and Social  
Council**

Distr.  
GENERAL

TRADE/2005/17  
8 March 2005

ORIGINAL: ENGLISH

**ECONOMIC COMMISSION FOR EUROPE**

**COMMITTEE FOR TRADE, INDUSTRY AND  
ENTERPRISE DEVELOPMENT**

Ninth session, 23 – 27 May 2005  
Item 8.2 of the provisional agenda

**BUILDING TRADE PARTNERSHIPS IN THE CIS REGION**

Note by the secretariat

**DOCUMENT FOR INFORMATION**

Efforts towards regional integration among the former countries of the Soviet Union began almost at the moment the Federation disintegrated. The countries of the Commonwealth of Independent States (CIS) have since then concluded several agreements, mainly in the form of free trade agreements (FTAs) and Customs Unions (CUs) at bilateral and plurilateral levels. These agreements have secured a number of important objectives, including, in particular, the successful removal of tariff barriers among many of the most important trading partners.

These FTAs, however, have in most cases failed to achieve their ambitious objectives. This has led to scepticism as to the participants' genuine commitment to regional integration and the debate continues on what form and direction this could take.

This paper reviews the current status of trade integration in the CIS, giving details of trade flows and tariff and non-tariff barriers. It also covers other aspects of these FTAs, in particular, technical regulations and standards, rules of origin and commercial dispute settlement.

In many cases, the paper contrasts the experience of the CIS countries with that of other regional agreements. This is not to suggest that the CIS countries should necessarily model their common institutions on those which operate within different geo-political realities, but simply to share good practice and offer possible alternatives for resolving common problems.

## 1. TRADE INTEGRATION IN THE COMMONWEALTH OF INDEPENDENT STATES REGION

1. Efforts towards regional integration among the former countries of the Soviet Union began at the very moment the Federation disintegrated. Indeed, the two agreements that formalized the Soviet Union's dissolution<sup>1</sup> at the same time laid the foundation for the Commonwealth of Independent States (CIS).

2. The early days of the CIS reveal two, deeply interconnected realities: on the one hand the "deep common historical roots and the high rate of integration and interdependence in practically all spheres of life of the former Soviet Republics"<sup>2</sup>, and, on the other hand, the reluctance to create powerful, supra-national institutions that would endanger the Republics' new-found independence.

3. This explains why the Republics quickly turned towards bilateral and sub-regional agreements (more than 200 were signed in the first year alone) in order to settle the urgent substantive issues that confronted them. In the field of trade, bilateral free trade agreements - with corresponding lists of exceptions - were signed among the most significant trading partners.

4. In an effort towards establishing a multilateral free trade regime, in 1994 eleven of the CIS countries<sup>3</sup> signed a free trade agreement<sup>4</sup> that envisaged the abolition of all customs duties, taxes and levies with equivalent effect, as well as quantitative restrictions. However, the door was left open to exceptions, which were to be drafted in the form of a general schedule and were to be completed by a stage-by-stage phase-out protocol.

5. In 1999, upon their failure to reach agreement, the 11 countries signed a Protocol<sup>5</sup> on "amendments and supplements" to the 1994 Agreement which stipulated that the exceptions to the free trade regime, being of a temporary nature, might be applied on the basis of bilateral documents<sup>6</sup>. Starting from the date of entry into force of the 1999 Protocol, "new quantitative and tariff import and (or) export restrictions, as well as measures that have equivalent effect, shall not be introduced in addition to those previously fixed in bilateral agreements". This arrangement made the bilateral agreements a lasting and important piece of the architecture of the former Soviet Republics' trade regimes.

6. At the same time as integration based upon bilateral FTAs was under way, several sub-regional agreements were signed among groups of countries willing to go further in the liberalization of their trade relationship. The most important of these sub-regional agreements is the Eurasian Economic Community<sup>7</sup>, which is working towards the establishment of a Customs Union and, therefore, of a common external tariff (CET). The number of non-coincident rates of import customs duties among the partners is, however, still

---

<sup>1</sup> The 8 December 1991 Minsk Declaration - signed by the leaders of Belarus, the Russian Federation and Ukraine - was confirmed and further developed by the Alma Ata Agreement - signed by 11 of the then 12 Members of the Soviet Union (the Baltic States had already withdrawn from the Soviet Union). Georgia joined the CIS in 1993.

<sup>2</sup> Voitovich, S.A. (1993)

<sup>3</sup> Excluding Turkmenistan.

<sup>4</sup> WTO (1999).

<sup>5</sup> Ibidem, p.18

<sup>6</sup> Another important feature of the 1999 Agreement was the definition of "quantitative restrictions and other administrative measures" as "any measures which create while being applied a material barrier or restriction with respect to the importation of a commodity".

<sup>7</sup> The Eurasian Economic Community is a successor agreement to the Customs Union of the CIS - signed in January 1995 by the Russian Federation, Belarus and Kazakhstan, and later joined by Kyrgyzstan (1996) and Tajikistan (1998). The arrangement was transformed into the Eurasian Economic Community and at the same time given the status of the subject of international law in 2000.

high. In three states<sup>8</sup>, it amounted to 5150 commodity items or 46% of the trade nomenclature<sup>9</sup>. As regards Kyrgyzstan, harmonization “was achieved in 41 commodity groups or 2058 commodity items, that is 32.8%. The level of coincidence increased by 22.8% compared with 2002”<sup>10</sup>.

7. Other regional trade arrangements that have been formed among the CIS countries are listed in Table 1. But these have not as yet had an impact on the tariffs applied to imports from partner countries.<sup>11</sup>

**Table 1 - Plurilateral Agreements involving CIS Countries**

| Organisation                                  | Date of Establishment | Membership  |
|---|-----------------------|---|
| Commonwealth of Independent States (CIS)      | 1991                  | Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan |
| Eurasian Economic Community                   | 2000                  | Belarus, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan   |
| Central Asian Cooperation Organization (CACO) | 2002                  | Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Uzbekistan  |
| Economic Cooperation Organization (ECO)       | 1992                  | Afghanistan, Azerbaijan, Iran (Islamic Republic of), Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, Uzbekistan                           |
| GUUAM   | 1997                  | Azerbaijan, Georgia, Republic of Moldova, Ukraine, Uzbekistan   |
| Single Economic Space (SES)                   | 2003                  | Belarus, Kazakhstan, Russian Federation and Ukraine   |
| Shanghai Cooperation Organization             | 1996                  | China, Russian Federation, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan  |

## 2. BILATERAL AND PLURILATERAL AGREEMENTS AMONG THE CIS

8. The overall result of these bilateral and regional agreements is a web of preferences that are not always consistently applied, making it difficult to present updated and comprehensive information on the actual customs treatment accorded to imports from different regional partners. In fact, not only do a large number of the bilateral FTAs exist only on paper, but information is not readily available about the protocols covering exceptions from the free trade regime for those agreements that are applied, except for those countries that are already WTO members, and - to a more limited extent - for those in the process of accession.

<sup>8</sup> Belarus, Kazakhstan, and Russian Federation.

<sup>9</sup> WTO (2004a)

<sup>10</sup> Ibidem.

<sup>11</sup> Even though some of these agreements and arrangements have led to concrete cooperation among the countries involved in a number of fields, the analysis in this paper only focuses on those agreements where action has been taken towards the establishment of free trade areas or customs unions. For more details on the agreements mentioned in Table 1, please see: <http://ecetrade.typepad.com/>.

9. Currently, there are no exceptions to free trade among the partners of the Eurasian Economic Community (EEC)<sup>12</sup>. In addition, the following bilateral arrangements are effective:<sup>13</sup>

- Armenia's imports from Georgia, the Russian Federation, Ukraine, Kyrgyzstan and Turkmenistan, and the Russian Federation are free from duties and quotas<sup>14</sup>;
- Belarus and the Russian Federation have set up a Customs Union and consequently have eliminated customs checkpoints on their common border (1996)<sup>15</sup>;
- Azerbaijan does not apply customs duties on goods originating in Georgia, Kazakhstan and Ukraine<sup>16</sup>
- Georgia grants free market access without any exceptions to goods originating in Armenia, Azerbaijan, Kazakhstan, Ukraine and Turkmenistan<sup>17</sup>. Exceptions to free trade with the Russian Federation are very limited<sup>18</sup>;
- The Russian Federation's trade regime with Armenia<sup>19</sup> and Georgia<sup>20</sup> is one of free trade with very limited exceptions;
- Kazakhstan and the Republic of Moldova have an FTA with the exception of a few products<sup>21</sup>
- Kyrgyzstan "does not maintain exceptions to any of the bilateral FTAs"<sup>22</sup> that it has signed with Ukraine, Uzbekistan, Kazakhstan and Armenia.

10. So, to summarize – and restricting our analysis to the operational bilateral FTAs - the magnitude of the exceptions from free trade generally limited, although it does vary among the country pairs. In addition, there are a number of FTAs that provide for free trade without exceptions.

#### 4. FACILITATION OF TRADE AMONG CIS PARTNERS

11. Nevertheless, free trade among the CIS is not, as yet, generalized. Non-preferential tariff rates, therefore, maintain all their importance for trade flows, even within the region. As Table 2 below shows, tariffs are still relatively high, not least in the Russian Federation, which is by far the region's largest importer and has tariffs averaging over 10%. It is also noteworthy that information about tariffs is not yet easily available: for example, Kazakhstan has not reported information about its import tariffs since 1996 to the UNCTAD/World Bank database "WITS".

---

<sup>12</sup> WTO (1997a) and (1997b).

<sup>13</sup> It is possible that many more of the agreements that were signed are actually implemented, but the information above is what could be confirmed through an analysis of WTO documentation.

<sup>14</sup> WTO (2002a).

<sup>15</sup> Subsequently, they signed a "Treaty on the Formation of a Union State" (December 1999), and are taking steps towards establishing a joint monetary system, although it is apparent that there is still opposition to this project in both participating countries.

<sup>16</sup> WTO (2001b). Azerbaijan maintains limited exceptions as regards the FTA with Kazakhstan, these being: liqueur, vodka, and other alcohol products and tobacco cigarettes. The share of the goods excluded from the free trade regime made up 0.14 per cent of the commodity turnover between Azerbaijan and Kazakhstan in 1999. See WTO (2000a).

<sup>17</sup> WTO (2002b).

<sup>18</sup> Georgia exempted beer made from malt and undenatured ethyl alcohol. Exceptions amounted to 0.025% of its imports from the Russian Federation in 2001. Data can be found in WTO (2003a).

<sup>19</sup> WTO (1996).

<sup>20</sup> Russian Federation exempts Georgian sugar and undenatured ethyl alcohol. Exceptions amount to 5% of Georgia's exports to the Russian Federation. Data can be found in WTO (2003).

<sup>21</sup> The exceptions, on the part of Kazakhstan are: wheat (all types); rye; barley; oats; rice grain, rice groats; raw skins of ships or lambs; and products of crude oil (including gas condensate) processing. From the part of Moldova the exceptions are: Undenatured ethyl alcohol, spirits, liqueurs and other spirituous beverages, as well as provitamins and vitamins, natural or reproduced by synthesis (including natural concentrates). See WTO (1997b).

<sup>22</sup> WTO (2001a).

**Table 2 - Simple average of tariffs**

| Country             | Tariff Year | Simple Average |
|---------------------|-------------|----------------|
| Armenia             | 2001        | 3.3            |
| Azerbaijan          | 2002        | 10.1           |
| Belarus             | 2002        | 11.5           |
| Georgia             | 1999        | 9.9            |
| Kyrgyzstan          | 2002        | 8.2            |
| Republic of Moldova | 2001        | 5.1            |
| Russian Federation  | 2002        | 10.3           |
| Tajikistan          | 2002        | 8.0            |
| Turkmenistan        | 2002        | 5.3            |
| Ukraine             | 2002        | 7.9            |
| Uzbekistan          | 2001        | 10.6           |
| <b>CIS Average</b>  |             | <b>8.8</b>     |

Source: UNCTAD, WITS Database

12. In addition to tariffs, a number of other obstacles to trade among the CIS countries appear not to have been sufficiently addressed, in spite of the existence of FTAs. For an FTA to function, the elimination of customs duties is not, per se, sufficient. For example, in Uzbekistan, while tariffs have generally been reduced, and in particular no tariff duties are applied to imports from CIS countries (with the exception of Armenia)<sup>23</sup>, the Government is effectively pursuing an import substitution policy through a host of obstacles to trade including:

- large fees<sup>24</sup>
- excise taxes<sup>25</sup>
- cumbersome procedures for customs clearance<sup>26</sup>
- lack of convertibility of the national currency<sup>27</sup>
- transit fees<sup>28</sup>
- reduction in the number of border-crossing points<sup>29</sup>.

<sup>23</sup> ADB (2003) p.28.

<sup>24</sup> As from August 2002, imports of non-food consumer goods by firms are subject to an extra fee of 30% of the customs value in hard currency, while imports of these items by individuals is subject to a prohibitive customs duty of 90% (which replaces VAT and customs duty). See: ADB (2003) and WTO (2004b)

<sup>25</sup> The excise tax schedule discriminates between goods of domestic origin and imported goods. See ADB (2003).

<sup>26</sup> As many as 10 different documents, issued by various departments and ministries, are required for customs clearance. It is not rare for a consignment to remain at the customs for 2-3 months. See ADB (2003).

<sup>27</sup> See ADB (2003) p.38. Since 1996, the Government responded to a balance of payment crisis by introducing foreign exchange controls. Currently, the Government strictly regulates the import and export of hard currency. Additionally, there is a multiple exchange rate regime, which does not reflect the actual value of the currency on the market.

<sup>28</sup> In December 2003, a Resolution of the Cabinet of Ministers introduced a fee for entry and transit of Kyrgyz cargo road vehicles and buses along the territory of Uzbekistan that amounts to 300 USD. See WTO (2004b).

<sup>29</sup> WTO (2004b).

13. This and similar examples should not overshadow the efforts that the countries of the region have deployed in recent years. Double taxation and discrimination against imports<sup>30</sup> have been tackled and eliminated by most countries. Important reforms have also been undertaken, leading to legal and infrastructural changes in customs administration, as well as to lowering customs clearance fees, transit fees, and other charges on imports and goods in transit<sup>31</sup>.

14. Nevertheless, implementation continues to lag behind, and significant barriers to trade in the CIS region remain. While a thorough analysis of the various barriers to trade in the region is beyond the scope of this paper, we will attempt a summary of the vast literature available<sup>32</sup>:

- *Longer trade routes*: Freight forwarders are forced to use less efficient transport routes due to border closures (for example, between Turkey and Armenia, and between Armenia and Azerbaijan);
- *Insufficient transport infrastructure*: Roads and railways are in poor condition, and are in obvious need not only of maintenance but also of restructuring and reorientation, since for the most part they were inherited from the former Soviet Union and do not reflect current trade needs. However, current levels of funding are insufficient to cover even the most basic operating and maintenance costs<sup>33</sup>.
- *Customs clearance and transit fees*: In spite of wide-ranging reforms, selective barriers to trade remain. For example, Georgia levies a “road tax” on all “vehicles registered outside of Georgia (including special vehicles), as well as owners of vehicles registered in Georgia which are loaded or are to be loaded within the territory of Georgia for delivering the cargo of a foreign country to a foreign country”<sup>34</sup>. In several countries, goods in transit are compulsorily escorted with customs convoys, which are quite costly.
- *Lengthy and inefficient customs procedures*: In spite of recent reforms, clearing customs still requires a number of different documents and authorizations. The lack of a unified procedure, and of a single document explaining all the necessary steps and payments required, compounds the difficulties and the potential for the extortion of unofficial payments.
- *Unofficial payments*: In order to move a cargo to its destination, a large amount of unofficial payments is necessary: these can be as high as one third of total transport costs.
- *Need for a modern information system*: While computerised customs management systems - including not only Electronic Data Interchange (EDI) among different customs offices – have been set up by some of the CIS countries (and in particular by the Russian Federation, Belarus, Ukraine, Azerbaijan), EDI between traders and customs and electronic declarations are rare and are still not foreseen by national law in most CIS countries. For some of the countries, concrete assistance could be sought in the context of the ASYCUDA programme – developed and implemented by UNCTAD in over 80 countries – which has only been implemented in two of the 12 CIS countries: namely Armenia and Georgia.

---

<sup>30</sup> For example, in Tajikistan, effective May 1, 2003, rates of excise taxes are equal for domestically produced and imported products. Tajik Government Resolution n. 153 quoted in USAID (2003). Kazakhstan, in the last two years, has amended or replaced a great number of laws (including the Tax Code, Customs Code, Investment law, and laws on franchising and licensing).

<sup>31</sup> ADB (1999).

<sup>32</sup> An excellent (if slightly outdated) review of trade barriers in the Caucasus region can be found in: Polyakov E.(2000).

<sup>33</sup> Navaretti G.B. (2003).

<sup>34</sup> Article 7 of the Law "On Road Fund" No. 802, 22 September 1995, quoted in WTO (1998). There is evidence that the tax can be quite substantial, amounting to 880 Georgian Lari (or about 480 USD) for trucks of over 40 tons (see Polyakov (2000)). Additionally, transit cargoes are charged clearance fees of 100-300 Georgian Lari (roughly 54-164 USD).

15. A recent estimate<sup>35</sup> puts the cost of exporting towards world markets at 50% of the value of the commodities traded. A case study shows that while Georgia can produce high-quality apple juice concentrate at a competitive price, the cost of transporting one “twenty foot equivalent unit” (TEU) to a European port from Georgia can be as high as 3000 USD<sup>36</sup>. The cost of transporting the same TEU from China is just 1’500 USD and transport arrangements are much more dependable. So, transport costs are effectively driving Georgian apple juice out of the market.

#### 4. THE STRUCTURE OF CIS COUNTRIES’ TRADE

16. Over the ten years from 1994 to 2003, the average annual growth rate for imports and exports (in USD dollars) of CIS countries to and from the world was – respectively – 6.2 and 8.5%. For the purpose of comparison, world imports and exports grew by 6.0% and 5.8% per annum over the same period. As a result, the shares of the CIS of world imports and exports grew respectively from 1.4 to 1.5% and from 2.0 to 2.5% over the same period.

17. Table 3 shows the share of selected geographic partners in CIS trade. The composition of imports appears to be stable, with the notable exception of China that has quadrupled its share of CIS imports, albeit starting from a low base. Exports, instead, show a sharp fall in the share of CIS intra-regional trade, mirrored by an increase in the EU’s share.

**Table 3**

| CIS Trading Partner  | Export |      |  | Import |      |
|----------------------|--------|------|--|--------|------|
|                      | 1995   | 2003 |  | 1995   | 2003 |
| <b>CIS</b>           | 29%    | 20%  |  | 40%    | 37%  |
| <b>EU 25</b>         | 39%    | 45%  |  | 37%    | 37%  |
| <b>Turkey</b>        | 2%     | 3%   |  | 2%     | 2%   |
| <b>China</b>         | 4%     | 6%   |  | 1%     | 4%   |
| <b>Rest of World</b> | 26%    | 26%  |  | 20%    | 20%  |

Source: IMF- Direction of Trade Statistics.

18. Table 4 gives details for individual countries’ trade, for the period 1994-2003, and shows that for all CIS countries the share of imports and exports coming from or going to their regional partners fell (with just two exceptions), but the degree of change was different among the different countries and for exports and imports. Regional trade, however, remains important: for some countries, the dependency is more pronounced on the import side and for others on the export side.

19. As regards partners outside the region, overall, their trade with the CIS has been increasing steadily. Trade with the EU is especially important for the Russian Federation, the Caucasus countries and the Republic of Moldova. China – while still accounting for a small share of CIS trade – is now a key partner for the Central Asian Republics – particularly for Uzbekistan and Kazakhstan. Turkey is also increasing its share as a market for the CIS exports, and accounts for over 10% of Azerbaijani and Georgian imports.

<sup>35</sup> Molnar E., and Ojala L. (2001)

<sup>36</sup> Considering that the “ex-works” price of one TEU is around 5’000 USD, this means that trading costs amount to more than half of the good’s economic value. See: Molnar E., and Ojala L. (2001) page 11.

**Table 4**

| IMPORT<br>(in percentage) | Russian Federation |      | Other CIS |      | EU 25 |      | Turkey |      | China |      | Rest of World |      |
|---------------------------|--------------------|------|-----------|------|-------|------|--------|------|-------|------|---------------|------|
|                           | 1994               | 2003 | 1994      | 2003 | 1994  | 2003 | 1994   | 2003 | 1994  | 2003 | 1994          | 2003 |
| Armenia                   | 28                 | 12   | 24        | 10   | 10    | 31   | 0      | 0    | 0     | 0    | 38            | 47   |
| Azerbaijan                | 15                 | 16   | 47        | 11   | 9     | 31   | 10     | 12   | 0     | 8    | 18            | 22   |
| Belarus                   | 63                 | 66   | 7         | 4    | 17    | 15   | 0      | 0    | 0     | 1    | 12            | 14   |
| Georgia                   | 8                  | 14   | 73        | 18   | 4     | 35   | 11     | 10   | 0     | 2    | 4             | 20   |
| Kazakhstan                | 39                 | 39   | 18        | 8    | 18    | 25   | 3      | 2    | 2     | 6    | 19            | 20   |
| Kyrgyzstan                | 22                 | 25   | 44        | 33   | 5     | 11   | 5      | 4    | 3     | 10   | 20            | 17   |
| Moldova, Rep. of          | 47                 | 13   | 25        | 29   | 10    | 28   | 1      | 3    | 1     | 2    | 16            | 24   |
| Russian Federation        | -                  | -    | 27        | 23   | 40    | 38   | 1      | 2    | 2     | 6    | 30            | 31   |
| Tajikistan                | 11                 | 20   | 32        | 48   | 24    | 6    | 3      | 3    | 1     | 0    | 30            | 28   |
| Turkmenistan              | 14                 | 21   | 16        | 27   | 24    | 11   | 10     | 9    | 0     | 4    | 35            | 27   |
| Ukraine                   | 54                 | 36   | 7         | 12   | 8     | 24   | 0      | 1    | 0     | 2    | 31            | 25   |
| Uzbekistan                | 37                 | 22   | 12        | 15   | 21    | 19   | 3      | 6    | 2     | 7    | 24            | 30   |

Source: IMF- Direction of Trade Statistics.

| EXPORT<br>(in percentage) | Russian Federation |      | Other CIS |      | EU 25 |      | Turkey |      | China |      | Rest of World |      |
|---------------------------|--------------------|------|-----------|------|-------|------|--------|------|-------|------|---------------|------|
|                           | 1994               | 2003 | 1994      | 2003 | 1994  | 2003 | 1994   | 2003 | 1994  | 2003 | 1994          | 2003 |
| Armenia                   | 35                 | 12   | 31        | 6    | 25    | 45   | 0      | 0    | 0     | 0    | 9             | 37   |
| Azerbaijan                | 22                 | 4    | 21        | 11   | 13    | 58   | 3      | 6    | 0     | 2    | 41            | 18   |
| Belarus                   | 47                 | 49   | 13        | 6    | 13    | 23   | 1      | 0    | 2     | 2    | 24            | 21   |
| Georgia                   | 34                 | 18   | 32        | 33   | 1     | 16   | 15     | 17   | 1     | 0    | 18            | 16   |
| Kazakhstan                | 45                 | 15   | 13        | 8    | 16    | 15   | 2      | 1    | 5     | 13   | 20            | 48   |
| Kyrgyzstan                | 17                 | 17   | 49        | 18   | 12    | 3    | 1      | 2    | 17    | 4    | 4             | 56   |
| Moldova, Rep. of          | 51                 | 39   | 21        | 15   | 7     | 23   | 0      | 1    | 0     | 0    | 21            | 22   |
| Russian Federation        | -                  | -    | 22        | 15   | 36    | 35   | 2      | 4    | 4     | 6    | 37            | 40   |
| Tajikistan                | 9                  | 7    | 9         | 11   | 53    | 28   | 2      | 24   | 0     | 0    | 27            | 30   |
| Turkmenistan              | 5                  | 1    | 64        | 41   | 19    | 20   | 5      | 7    | 1     | 0    | 7             | 32   |
| Ukraine                   | 40                 | 18   | 12        | 7    | 7     | 19   | 1      | 4    | 5     | 4    | 34            | 48   |
| Uzbekistan                | 39                 | 22   | 10        | 23   | 29    | 14   | 4      | 5    | 4     | 9    | 15            | 27   |

Source: IMF- Direction of Trade Statistics.

20. Examining the product composition of trade<sup>37</sup> reveals that – during the transition – the composition of exports from the CIS Republics changed dramatically, shifting away from manufacturing and into commodities, especially oil and gas. For those CIS countries that have large reserves of mineral resources, the share in total exports of these commodities increased massively between 1988 and 2000.

**Table 5**

| Exporting sector           |      | Arm. | Azer. | Bel. | Geo. | Kaz. | Kyrg. | Mold. | Russ | Taj. | Turk. | Ukr. | Uzb. |
|----------------------------|------|------|-------|------|------|------|-------|-------|------|------|-------|------|------|
| Electric power             | 1988 | 1    | 0     | 0    | 0    | 2    | 3     | 2     | 1    | 3    | 2     | 1    | 2    |
|                            | 2000 | 7    | 1     | 0    | 2    | 0    | 11    | 0     | 0    | 13   | 1     | 1    | 3    |
| Oil and gas                | 1988 | 0    | 17    | 8    | 2    | 10   | 0     | 0     | 17   | 1    | 28    | 2    | 6    |
|                            | 2000 | 0    | 56    | 1    | 4    | 50   | 0     | 0     | 39   | 0    | 60    | 1    | 7    |
| Ferrous metals             | 1988 | 1    | 2     | 1    | 6    | 11   | 0     | 1     | 7    | 0    | 0     | 17   | 1    |
|                            | 2000 | 4    | 0     | 4    | 17   | 14   | 0     | 0     | 7    | 0    | 0     | 41   | 1    |
| Nonferrous metals          | 1988 | 3    | 2     | 0    | 1    | 8    | 6     | 0     | 5    | 17   | 0     | 2    | 4    |
|                            | 2000 | 14   | 3     | 0    | 16   | 18   | 5     | 1     | 8    | 54   | 0     | 8    | 7    |
| Chemicals & petrochemicals | 1988 | 11   | 9     | 13   | 5    | 11   | 1     | 4     | 11   | 4    | 6     | 8    | 8    |
|                            | 2000 | 4    | 30    | 33   | 13   | 4    | 4     | 2     | 16   | 1    | 21    | 13   | 5    |

<sup>37</sup> Freinkman, L., Polyakov E. and Revenco C. (2004)

| Exporting sector                          |      | Arm. | Azer. | Bel. | Geo. | Kaz. | Kyrg. | Mold. | Russ | Taj. | Turk. | Ukr. | Uzb. |
|---|------|------|-------|------|------|------|-------|-------|------|------|-------|------|------|
| Machinery                                 | 1988 | 22   | 15    | 43   | 14   | 10   | 37    | 19    | 36   | 10   | 2     | 37   | 12   |
|   | 2000 | 11   | 4     | 25   | 13   | 2    | 10    | 7     | 6    | 8    | 1     | 13   | 4    |
| Light industry                            | 1988 | 40   | 23    | 19   | 22   | 17   | 26    | 22    | 8    | 49   | 50    | 6    | 44   |
|   | 2000 | 5    | 2     | 13   | 1    | 1    | 7     | 20    | 1    | 16   | 15    | 5    | 41   |
| Food industry                             | 1988 | 16   | 25    | 9    | 41   | 7    | 20    | 40    | 4    | 10   | 4     | 15   | 8    |
|   | 2000 | 8    | 1     | 4    | 16   | 1    | 3     | 35    | 0    | 1    | 0     | 4    | 2    |
| Wood, paper and pulp                      | 1988 | 1    | 0     | 2    | 1    | 0    | 0     | 2     | 7    | 0    | 0     | 1    | 0    |
|   | 2000 | 0    | 0     | 4    | 3    | 0    | 0     | 1     | 4    | 0    | 0     | 3    | 0    |
| Other industry                            | 1988 | 6    | 2     | 3    | 2    | 6    | 2     | 4     | 5    | 2    | 1     | 6    | 2    |
|   | 2000 | 39   | 1     | 9    | 4    | 2    | 5     | 6     | 4    | 4    | 0     | 4    | 1    |
| Agriculture                               | 1988 | 0    | 4     | 2    | 5    | 17   | 5     | 6     | 1    | 4    | 6     | 4    | 8    |
|   | 2000 | 1    | 2     | 3    | 11   | 6    | 13    | 27    | 1    | 4    | 0     | 5    | 4    |
| Other sectors                             | 1988 | 0    | 0     | 0    | 0    | 1    | 0     | 0     | 1    | 0    | 1     | 1    | 4    |
|   | 2000 | 6    | 0     | 3    | 1    | 2    | 40    | 0     | 13   | 0    | 2     | 3    | 26   |
| Subtotal for Manufacturing <sup>(a)</sup> | 1988 | 78   | 49    | 79   | 44   | 39   | 64    | 49    | 64   | 64   | 58    | 54   | 65   |
|   | 2000 | 59   | 36    | 83   | 33   | 8    | 25    | 35    | 30   | 28   | 37    | 36   | 50   |

<sup>(a)</sup> Manufacturing includes chemicals and petrochemicals, machinery, light industry, wood, paper and pulp and does not fully correspond to the internationally accepted classification

Source: Freinkman, L., Polyakov E. and Revenco C. (2004)

21. In particular, the share of oil and gas in total exports increased from 17 to 56% for Azerbaijan, from 10 to 40% for Kazakhstan, 17 to 39% for the Russian Federation and from 28 to 60% for Turkmenistan. Likewise, Tajikistan's exports of non-ferrous metals (aluminium), which in 1988 had represented 17% of exports, in 2000 had grown to 54%. The share of gold in the exports of Kyrgyzstan, Uzbekistan, and the Russian Federation also rose considerably (recorded under "other sectors" in the table above).

22. Those countries that are not endowed with natural resources were those that suffered the most during the transition. Conversely (with the exception of Belarus), the share of manufacturing in total exports shrank in all the CIS countries, and in some cases very dramatically. Armenia was the exception to this trend, thanks to the development of its diamond-cutting industry (based on imported raw diamonds and recorded in the table as "other industry"), which cushioned the decline in the more traditional food, apparel, and machinery industries.

23. In conclusion, many of the CIS countries have seen their share in world markets shrink in recent years in all but commodity products. The production of these goods is markedly capital-intensive, and thus, notwithstanding the increase in total exports, employment and poverty have not been significantly affected. To revive manufacturing exports and participate more effectively in international supply chains, the CIS countries, especially the landlocked ones, need to rely on one another in order to reach out to their final markets. In a number of cases, the liberalization efforts undertaken by a country are frustrated by the barriers imposed on transit through the territories of its immediate neighbours.

## 5. THE BUILDING BLOCKS OF AN FTA

24. The rest of the paper will examine the "building blocks" of a well-functioning FTA, as well as successful examples from other regions and specific aspects of existing arrangements among the CIS countries. It will explore the opportunities that are open to the CIS countries in order to improve the functioning of the existing regional trade agreements (RTAs) and enlarge their scope so that they become instrumental in meeting the development goals of the region.

## 5.1 Liberalization of trade in goods

25. The agreements that have been signed in the CIS region differ in the extent to which they have resulted in the liberalized trade in goods among participating countries. Some FTAs, and in particular bilateral FTAs, appear to approximate a liberal trade regime - at least regarding tariffs – whereas others clearly only exist on paper.

26. Assuming that the CIS countries want to pursue integration further, they could deepen ties with close partners, with which FTAs are already functioning at least to a degree, and/or renew their efforts towards the inclusion of countries that are currently – for different reasons – outliers in the CIS integration process. This second path has the advantage of allowing for the creation of a larger market that would be attractive for both domestic and foreign investors, and could provide the context for wide-ranging cooperation in matters of trade facilitation, approximation of standards, and development of common policies.

27. To cushion the transition to free trade, participating countries could take a different approach from that used in the CIS so far. Instead of moving directly to a free trade regime with limited exceptions, they could instead opt for a staged liberalization, where partners would proceed with the immediate liberalization of most products. For products considered as sensitive, they could devise an appropriate calendar for progressive liberalization – with a transition period of up to 10 years.

28. Countries do not need to agree on a common protocol of exceptions, so long as they can agree on (a) the percentage of trade that could be subject to a longer transition to free trade and (b) the liberalization calendar for the different categories of “sensitive” products. A relevant example from another region is that of the Southern African Development Community (SADC)<sup>38</sup>, where ten countries at different levels of development are implementing a protocol on trade, which is complemented by the countries’ different tariff reduction offers. Each country prepared its offer on the basis of its development priorities by categorizing every tariff line in the Harmonized System nomenclature as “A” “B” or “C”, with A being the products earmarked for immediate liberalization, B being the products earmarked for a frontloaded liberalization and C being the products earmarked for a backloaded liberalization (no liberalization until 8 years after the entry into force of the protocol, then rapidly moving to full liberalization in 3 years). SADC Member States have prepared two different liberalization offers, one for South Africa and the other for the remaining nine countries, in order to avoid a situation where fear for competition from the region’s strongest economy would have prevented countries at a similar level of development to move more quickly towards free trade among themselves.

29. It is also crucial for the countries of the CIS to assess the respective advantages and disadvantages of FTAs and Customs Unions (CUs), also with regard to the process of accession to the WTO. For instance, the country with the lowest external tariffs may serve as an entry point into the partners’ markets for goods originating in non-member countries (a practice known as “trade deflection”). The potential for trade deflection is greater the higher the discrepancy among the member countries’ import tariffs, the higher the absolute level of the tariffs, and the weaker the customs controls. To counter such trade deflection, FTAs rely on rules of origin, which are not needed in a CU and which may complicate the administration of preferences (see below).

30. On the other hand, the negotiation of a common external tariff (CET) – currently underway among the partners of the Eurasian Economic Community – is proving very time-consuming and may divert the scarce resources in countries’ administrations away from more pressing issues, both at the regional and multilateral levels. For those countries that are already WTO members, any revision of their tariff schedule might entail a renegotiation of their commitments with relevant WTO trade partners, and might result in the need to pay compensation.

---

<sup>38</sup> For more details please see: <http://www.sadc.int>

31. Clearly, and again citing the example of SADC, nothing prevents the existence of a CU within an FTA. A “multi-speed” CIS could allow for the simultaneous existence of different modes of integration, while at the same time maintaining a common set of rules and a unity of purpose.

## 5.2 Rules of origin

32. Rules of origin serve the objective of avoiding the deflection of trade in a free-trade area and ensuring that preferential treatment will be granted only to goods actually produced within the area, so as to maximize the benefits derived in terms of value added and investment.

33. The September 1993 Decision of the Council of Heads of the Governments of the CIS, which detailed the rules of origin applicable to FTAs among CIS countries, was amended in November 2000<sup>39</sup>. As is customary, the rules of origin confer originating status to those goods that are either “wholly obtained” – i.e. produced in the customs territory of one of the partner countries with materials exclusively originating in the same territory - and those that have undergone a “substantial transformation” in one of the territories of the partner countries. The rules of origin protocol contains a list of goods, which are considered wholly obtained and specify the criteria for determining if a good underwent “substantial transformation”. The key criterion in this respect is the “change in tariff heading”: a product is considered substantially transformed if its tariff classification in the Harmonized System nomenclature has changed at any of the first four digits.

34. The protocol also contains a list of products that are exceptions, which specifies the “production or technological operations which, though cause a change in tariff line, are not considered a sign of substantial transformation, or are considered such only if certain conditions are followed”<sup>40</sup>. It also contains a list of production or technological operations that are considered as substantial transformation, although they do not cause the required change in the customs classification. In both cases, the conditions may be either requirements for the minimum value added that a country should contribute or a list of production or technological processes. It should be noted that the list of exceptions is still being negotiated among the Parties to the Agreement. In cases where there are no criteria specified with respect to a particular product, the general criterion of changes in tariff heading is applied.

35. The protocol is similar in language and content to those contained in the agreements signed by the European Union with its partners, particularly in the context of the Euro-Mediterranean FTAs, although there are important differences especially as regards agricultural and agro-industrial products. For this last category, the CIS rules of origin are markedly more liberal because they do not require the materials used to be “wholly obtained”. Nevertheless, as the table below shows, for a number of heavy industrial products, the rules of origin are identical in the two agreements.

36. The rules of origin for the textile and clothing industry have not, as yet, been developed, and so currently the rule that is applied for these products is simply the criterion of the change in tariff heading. This criterion is unlikely to be retained once the rules of origin are finalized. Another important part of the protocol that is still in the course of negotiation concerns the detailed provisions regarding origin cumulation. The decisions that will be taken in the completion of the protocol will be of crucial importance and will shape the type of economic integration that CIS countries are pursuing.

---

<sup>39</sup> WTO (2003b)

<sup>40</sup> WTO (2000a)

| HS heading    | Description of product   | Working or processing carried out on non-originating materials that confers originating status  |  |
|---------------|--|---|--|
|               |  | CIS   | EU-Egypt   |
| 0201          | Meat of bovine animals, fresh or chilled:  | Manufacture from materials of any heading except for meat of bovine animals, frozen of heading No 0202.   | All the animals of Chapter 1 used must be wholly obtained  |
| 0202          | Meat of bovine animals, frozen   | Manufacture from materials of any heading, except meat of bovine animals, fresh or chilled of heading No 0201.  |  |
| 1902          | Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared (...):<br>-Containing 20% or less by weight of meat, meat offal, fish, crustaceans or mollusks<br>-Containing more than 20% by weight of meat, meat offal, fish, crustaceans or mollusks | Change of tariff heading  | Manufacture in which all the cereals and derivatives (except durum wheat and its derivatives) used must be wholly obtained<br>Manufacture in which:<br>-all cereals and derivatives (except durum wheat and its derivatives) used must be wholly obtained;<br>-all the materials of Chapters 2 and 3 used must be wholly obtained  |
| 2707 50 100   | Other aromatic hydrocarbon mixtures of which 65 % or more by volume (including losses) distils at 250 °C by the ASTM D 86 method for use as power or heating fuels.  | Refinement operations and/or one or several specific treatments. Other operations in which all the materials used must be classified within a heading other than that of the product. However, the material of the same heading as one product can be used, provided its value does not exceed 50 % of the ex-works price of the product. | Operations of refining and/or one or more specific process(es) or other operations in which all the materials used are classified within a heading other than that of the product. However, materials classified within the same heading may be used provided their value does not exceed 50% of the ex-works price of the product |
| Ex Chapter 76 | Aluminium and articles thereof; except for:  | Manufacture in which all the materials used must be classified within a heading other than that of the product. However, the value of all the materials used must not exceed 50% of the ex-works price of the product.  | Manufacture in which:<br>-all the materials used are classified within a heading other than that of the product;<br>-the value of all the materials used does not exceed 50% of the ex-works price of the product  |

37. Stringent rules of origin may limit the extent to which a country with a small industrial base can draw benefits from a preferential trade agreement. It is partially for this reason that cumulation of origin is introduced in trade agreements. Normally, rules of origin would have to be fulfilled within one single customs territory (in most cases, one country). However, overly stringent rules of origin requirements would demand an excessive verticalization of production, which often does not exist even in the most advanced transition economies. Furthermore, it frustrates the trade creation effects expected in a regional trade area. Cumulation allows for imports from a customs territory participating in the regional integration scheme to be included in the determination of local content, according to specific rules<sup>41</sup>, for the purpose of furthering the creation of a value chain among CIS countries.

<sup>41</sup> See European Commission (2004) for an introduction to different systems of origin cumulation and Estevadeordal, A. and Suominen, K (2004) for a discussion of economic effects of rules of origin.

### 5.3 Standards

38. The “Agreement on the Uniform Policy on Standardization, Metrology and Certification”, which was signed in 1992 by all the CIS countries, actually predates the CIS Free Trade Area Agreement of 1994. It was amended in 2000, when the CIS countries, excluding Turkmenistan, signed the Agreement on “Technical Barriers within the Free-Trade Area”, which has been ratified by eight of the participating countries (except Belarus, Georgia and Uzbekistan).

39. The Agreement is explicitly based on the principles of the WTO Agreements and specifically on those of the Technical Barriers to Trade Agreement. The Parties “will use international standards, or draft international standards if their completion is imminent, as a basis for developing their technical regulations, except where such international standards would be ineffective or inappropriate.”<sup>42</sup> This commitment is especially important, since it is estimated that currently only about “20 percent of positions in the standards nomenclature are harmonized with international standards, while the rest are still based on the Soviet standards”<sup>43</sup>.

40. The Agreement also created an intergovernmental body: the “Euro-Asian Interstate Council for Standardization, Metrology and Certification” (EASC). EASC, which is recognized by ISO, carries out its mandate through more than 230 interstate technical committees for standardization dealing with all aspects of standardization, technical regulations, metrology, accreditation and conformity acceptance.

41. This Agreement is one of the most important achievements of the CIS, and in practice all the countries routinely accept certificates of conformity and quality issued by any of the partners’ accredited institutions. Nevertheless, in a few instances, implementation problems have been reported since there is a remaining margin of discretion by the Customs Authorities in the acceptance of the certificates, which may be abused. The CIS countries, therefore, have recently agreed on lists of products that are subject to mandatory acknowledgement of the certificates of conformity within the CIS<sup>44</sup>.

42. One outstanding problem is that reciprocal recognition applies only to interstate standards. Action on the mutual recognition of national standards would bring further benefits, but is complicated by the lack of information on the partners’ standardizing activities.

43. Further cooperation is needed in order to better distinguish - in the system of national standards of the CIS - between mandatory standards or, more appropriately, technical regulations, and voluntary standards. The latter should be defined not by Governments but by industry associations. In this light, collaboration between the EASC and the UNECE Working Party on Regulatory Cooperation and Standardization Policies (WP.6) is especially important. As a concrete example, the EASC has recently decided to adopt the “International Model for Technical Harmonization based on good regulatory practice”. The Model, which was recently developed by the UNECE, provides a vehicle for facilitating market access through the establishment of sectoral agreements between interested member countries.

### 5.4 Trade facilitation

44. The 1994 FTA among the CIS countries gives prominence to the two most important dimensions of the facilitation of trade: customs cooperation and transit. In particular, Article 6 of the Agreement calls on the Contracting Parties to “take measures for a maximum simplification and unification of customs formalities, in particular, by introducing single forms for customs and goods accompanying documentation, being guided by

---

<sup>42</sup> WTO (2000b)

<sup>43</sup> Freinkman, L., Polyakov E. and Revenco C. (2004) p 6.

<sup>44</sup> [http://www.easc.org.by/english/sert\\_e.htm](http://www.easc.org.by/english/sert_e.htm)

current international agreements and arrangements". In Article 10, "the Contracting Parties agree that the observance of the principle of free transit is the most important condition for achieving the objectives of this Agreement and an essential element of the process of attaching them to the system of international division of labour and cooperation".

45. These commitments, which have been reaffirmed and upheld in a number of bilateral and plurilateral agreements, remain largely unrealized as detailed in section 3 above. The international community and local authorities are cooperating actively to devise policies and strategies to remove the bottlenecks, and hence spur economic growth in the region. A number of studies, undertaken among others by the World Bank<sup>45</sup> and the Asian Development Bank<sup>46</sup>, give a clear picture of the constraints and the way forward. UNECE is also playing an active part in this process, in particular through the United Nations Special Programme for the Economies of Central Asia (SPECA), jointly undertaken with UNESCAP and through numerous capacity-building initiatives<sup>47</sup>.

46. Although progress appears slow, one has to take into account the size of the interests involved. In Georgia, for example, transport and communications accounted for 14 per cent of GDP in 2001, making it a major economic sector that has registered a steady annual growth of 13 per cent on average since 1997.<sup>48</sup> Generating employment and revenues for those that are involved in the informal sector that surrounds transport and transit should be an important priority.

### **Commercial Disputes Settlement**

47. Article 2 of the Charter of the CIS, adopted in June 1993, defines "the peaceful resolution of disputes and conflicts between States of the Commonwealth" as one of the main purposes of the establishment of the CIS. Accordingly, the Council of Heads of States approved an agreement on the "Statute of the Economic Court" in July 1992. The Economic Court of the CIS was formally established in July 1992 when the Council of Heads of States approved the Agreement on its Statute. The Court became operational in 1993 and adopted its Rules of Procedures in July 1994 with a revised version in 1997.

48. The competence of the Economic Court is very wide. Article 32 of the Charter grants jurisdiction to the Economic Court for "the resolution of disputes arising from the implementation of economic obligations". The type of disputes referred to are interstate economic disputes, including disputes arising from the implementation within the Member States of decisions taken by CIS institutions. In addition, the Court has the right to make rulings on the decisions taken by the Member States that could possibly be in contradiction with such decisions.

49. The Court's jurisdiction is compulsory for economic disputes involving States that ratified the Agreement on the Statute of the Court, without reservations (July 1992). But the Court also has compulsory jurisdiction over disputes arising from agreements involving a State that did not ratify the 1992 Statutes of the Economic Court, provided that the agreement includes a compromisory clause. This is for instance the case of the 1993 Treaty on the Creation of an Economic Union. The Court extended its own jurisdiction, interpreting Article 31 of this Treaty as placing the resort to the Economic Court as a compulsory preliminary step before parties can resort to other international judicial organs. (Danilenko, 1999).

---

<sup>45</sup> See "Regional Initiatives in the South Caucasus: Trade Facilitation Program" on the World Bank Website to access a number of analytical papers (at regional and country levels) as well as reports of workshops and conferences held in the region. Another useful reference is: Molnar E., Ojala L. (2001).

<sup>46</sup> Navaretti G. B. (2003).

<sup>47</sup> See for instance the recent publication, in Russian, "The Challenges to Trade Facilitation: Sharing the Gains of Globalization in the New Security Environment" and the workshop on "Trade Facilitation" held in Moscow in November 2004.

<sup>48</sup> World Bank (2003).

50. Article 32 of the Charter also grants jurisdiction to "interpret the provisions of agreements and other acts of the Commonwealth for economic issues". A request in interpretation has to be introduced by either legislative and executive authorities of the Member States, by their economic institutions, or by CIS institutions, but in fact, the Economic Court has considered this rule in a very flexible manner, in order to enhance its jurisdictional base.

51. However wide the Economic Court's competence, its effectiveness is seriously undermined by the fact that the Economic Court's judgments are not legally binding for the conflicting parties. Indeed, under article 4 of its Statutes, adopted on 6 July 1992, the Court is only able to issue "recommendations" to the parties. In one of its decisions, however, the Court has confirmed that its judgments are legally binding for the States that were parties to the 1993 Treaty on the Creation of an Economic Union. But even in this type of case, some major implementation problems are likely to arise. Indeed, the Economic Court has to face the lack of enforceability of its decisions. Under the current CIS system, no institution has been entrusted with the enforcement of the decisions of the Court. Thus, non-compliance with one of the decisions or recommendations of the Court is not sanctioned from a legal point of view. For the State whose rights have been acknowledged by the Court, the only way to see the decision applied is to refer it to the Council of Heads of State, which however has little recourse beyond political pressure. Moreover, under article 23 of the CIS Charter, "Decisions of the Council of Heads of State [...] shall be taken by common consent". Consequently, if the losing State is really determined not to see the case solved, its right of veto will prevent any decision from being taken by the Council. The practice shows that this right of veto has already been used in some cases. Even at the stage of the procedure itself, the State has the possibility to ignore the Court completely, since non-participation by the parties to the procedure is not sanctioned. In such a case, the Court can still declare its judgment, but it is highly unlikely that the unwilling State will comply with that decision.

52. In the European Union, the Court of Justice of the European Communities (CJEC) was given a wide range of competencies, including jurisdictional and consultative attributions. Its role has not been limited to economic issues; for example, it has jurisdiction for actions (or inactions) by any of the EU's main institutions and Member States' compliance with its commitments within the "acquis".

53. The Court has played a major role within the framework of the economic construction of the EU. A good illustration of this was its involvement in the completion of the EU Internal Market. Initially, the strategy of the European Institutions consisted in harmonizing national regulations in order to eliminate trade barriers between European countries, but this process encountered severe impediments during the 1970s. The Court, through the famous case 120/78 of 20 February 1979, "Rewe-Zentral" (also known as the "Cassis de Dijon" case), gave a critical new impetus to overcoming this difficulty by introducing a new interpretation of the legal basis, and the notion of "Mutual Recognition". As long as a product from any of the EU Member States is commercialized within its territory and complies with broad safety requirements, other EU partners cannot oppose the introduction of this product into their national markets.

54. As far as the enforcement of the decisions is concerned, any Member State of the EU can complain to the Court if the provisions of the treaty are being violated by another State. The procedure leaves as much space as possible for a non-judiciary settlement of the problem. Also, if the position of one country is declared illegal by the Court, the Court has no power to cancel the illegal act. So the State has to reconsider its own position in order to comply with the Court's recommendations. However, the Commission can ask the Court to apply financial sanctions on the reluctant State. This combination appears to yield an appropriate mix between flexibility and compliance.

55. Clearly, it would be a mistake for the CIS to model the enforceability of the Economic Court's decisions on any similar institution in other RTAs, which operate within a different geo-political reality. However, it is important to see that different CIS institutions are given adequate means to function

effectively<sup>49</sup>. For its future development, it is critical that the CIS enhances the role of its Economic Court. History has shown that no wide-ranging attempt of regional economic integration has ever succeeded without the creation of an efficient and powerful dispute settlement body, able to solve in an impartial manner cases arising from the integration process.

## Conclusions

56. The CIS countries have concluded several agreements, in the form of FTAs and customs unions at the bilateral, plurilateral and regional levels and these have secured important objectives, including, in particular, the successful removal of formal tariff barriers to trade among many of the main trading partners. Nevertheless, the FTAs among the CIS countries have failed to achieve the ambitious objectives that were set out in the establishing treaties. Currently, there is a renewed interest in regional integration within the CIS, but also scepticism about whether a real need for regional integration remains or about what direction it should take.

57. Before their independence, the countries of the CIS traded with each other intensively; even more intensively than neighbouring provinces of Canada currently trade with one another<sup>50</sup>. The main reason for this was the way in which manufacturing production was organized under central planning. There were incomplete production chains in different parts of the Soviet Union, leading to the necessity of flows of both parts and finished products across the Federation. The negligible trade relations with countries outside the Council for Mutual Economic Assistance (CMEA) bloc compounded the necessity for large trade flows among the Soviet Republics; with the need to dispose of local sub-standard goods and produce also playing a role. It was therefore to be expected that following the transition to a market economy, the share of total trade accounted for by CIS interregional trade would decline. Trade relations among the CIS countries remain significant, however, not only as a percentage of total trade but also as a necessary building block in enhancing the participation of this region in international supply chains.

58. A strong argument for regional integration is the “big market effect” of FTAs and the potential economies of scale. From a business perspective, the market size of some of the economies of the region is simply too small to attract investment. Also, if barriers to trade are high, sourcing from abroad or selling production abroad may result in additional costs that are so high that they eliminate any initial competitive advantage that a firm might have.

59. It may be argued that the best option for the CIS would be to liberalize at a multilateral level, and it is certainly true that multilateral and, indeed, unilateral liberalization will be a necessary component of the region’s trade policy in the coming years. Nevertheless, the benefits may fail to materialize for many of the countries if liberalization is undertaken while other key regional partners continue engaging in non-tariff protectionist practices. This is especially true for small and landlocked countries finding their own competitiveness hampered by lack of liberalization and obstacles to free transit in neighbouring countries. One should also consider that not all the issues at stake could be discussed at a multilateral level, at least in the short run, not only because as yet only a few of the CIS countries are WTO members but also on account of the deep interlinkages among many of the countries’ economies.

60. An effective RTA could also provide an umbrella under which common problems could be tackled, and help channel technical assistance resources to the most pressing of these common needs, including, in particular, the upgrading of customs, transit, and transport procedures and the physical infrastructure.

61. A concrete tool to enhance integration among the countries of the CIS region could also come from the implementation of the UNECE’s norms, standards and recommendations. As a concrete example, differences in national technical standards, regulations and conformity assessment mechanisms create major

---

<sup>49</sup> Dragneva, R. (2004)

<sup>50</sup> Michalopoulos C. and Tarr D. (1999).

obstacles to trade. UNECE undertakes extensive work to assist countries in harmonizing technical regulations to eliminate these obstacles and promote regulatory convergence. UNECE also gives continued contributions to the sub-regional initiatives with trade facilitation dimensions, such as the Special Programme for the Economies of Central Asia (SPECA) by assisting participating countries in the adoption of its recommendations, such as the Single Window Recommendation adopted in November 2004 by UN/CEFACT. In a related field, UNECE can help countries integrate into the international food supply chains by raising awareness of its agricultural quality standards and establishing training programmes to promote best practices in agriculture

## References

- ADB (1999), "Trade Cooperation between Kazakhstan and Kyrgyzstan", <http://www.adb.org/Carec/pubs.asp>
- ADB (2002), "Preferential trade agreements in the Asia and the Pacific", Special Chapter within the *Asian Development Outlook 2002*
- ADB (2003), "Uzbekistan: Trade and Trade Facilitation Regime", p.28. <http://www.adb.org/Carec/pubs.asp>
- Dragneva, R. (2004), "Is "Soft" Beautiful? Another Perspective on Law, Institutions, and Integration in the CIS" *Review of Central and East European Law*, No.3, pp. 279-324.
- European Commission (2004), "Rules of preferential origin used in the trade between the EC and other European countries", [http://europa.eu.int/comm/taxation\\_customs/resources/documents/handbook\\_en.pdf](http://europa.eu.int/comm/taxation_customs/resources/documents/handbook_en.pdf)
- Estevadeordal, A. and Suominen, K (2004), "Rules of Origin: A World Map and Trade Effects" paper prepared for the "APEC Economic Outlook Symposium on FTAs/RTAs", Santiago, Chile, 12-13 August 2004 at: [http://www.apec.org/apec/documents\\_reports/economic\\_committee/2004.html](http://www.apec.org/apec/documents_reports/economic_committee/2004.html)
- Freinkman, L., Polyakov E. and Revenco C. (2004) Trade Performance and Regional Integration of the CIS Countries. World Bank Working Paper No. 38, Washington, DC.
- Kaminski B. (1999), "The EU Factor in Trade Policies of Central European Countries" World Bank Working Paper 2239 at: [www.econ.worldbank.org/view.php?type=5&id=966](http://www.econ.worldbank.org/view.php?type=5&id=966)
- Michalopoulos C. and Tarr D. (1997), "The Economics of Customs Unions in the Commonwealth of Independent States", Policy Research Working Paper n. 1786, The World Bank at: [www.worldbank.org/research/trade/pdf/wp1786.pdf](http://www.worldbank.org/research/trade/pdf/wp1786.pdf)
- Michalopoulos C. and Tarr D. (1999), "Trade Performance and Policy in the New Independent States", Directions in Development Series, Washington D.C., The World Bank
- Molnar E., Ojala L. (2001), "Transport & Trade Facilitation Issues in The CIS-7, Kazakhstan & Turkmenistan", prepared for the Lucerne Conference of the CIS-7 Initiative
- Navaretti G. B. (2003), "Azerbaijan: Trade and Trade Facilitation Review", Asian Development Bank, [www.adb.org/Documents/Reports/Trade\\_Facilitation/trade\\_facilitation\\_review\\_AZE.pdf](http://www.adb.org/Documents/Reports/Trade_Facilitation/trade_facilitation_review_AZE.pdf).
- Polyakov E. (2000), "Changing Trade Patterns after Conflict Resolution in South Caucasus", The World Bank at: <http://econ.worldbank.org/view.php?id=1713>
- Regional Trade Agreements in the UNECE: webpage focusing on regional trade agreements and groupings in Europe, the Commonwealth of Independent States and Central Asia <http://ecetrade.typepad.com>

USAID (2003), "Trade Facilitation and Investment Activity: Tajikistan One Step Closer to Meeting WTO Requirements on Excise Taxes", [ww.ca-tfi.net/www/ActionsDet.asp?NewsId=44](http://www.ca-tfi.net/www/ActionsDet.asp?NewsId=44).

Voitovich S. A. (1993), "The Commonwealth of Independent States, an Emerging Institutional Model", *European Journal of International Law*, p.403-417

World Bank (2000), "Trade Facilitation in the Caucasus: Final Report"

World Bank, (2003), "Trade and Transport Facilitation in the South Caucasus, Georgia Policy Note"

WTO (1996), Working Party on the Accession of Armenia: Additional Questions and Replies to the Memorandum on the Foreign Trade Regime, WT/ACC/ARM/5.

WTO (1997a), Draft report of the working party on the accession of the Russian Federation to the World Trade Organization, WT/ACC/RUS/21/Rev.1.

WTO (1997b), Working Party on the Accession of Kazakhstan, Questions and Replies to the Memorandum on the Foreign Trade Regime, WT/ACC/KAZ/10.

WTO (1998), Working Party on the Accession of Georgia, Additional Questions and Replies WT/ACC/GEO/7/Add.2

WTO (1999), Committee on Regional Trade Agreements - Free Trade Agreement between Azerbaijan, Armenia, Belarus, Georgia, Republic of Moldova, Kazakhstan, the Russian Federation, Ukraine, Uzbekistan, Tajikistan and Kyrgyzstan - Questions and Replies, WT/REG82

WTO (2000), Working Party on the Accession of Azerbaijan, Questions and Replies WT/ACC/AZE/4

WTO (2001a), Committee on Regional Trade Agreements - Free Trade Agreements between the Kyrgyzstan and the Russian Federation, Ukraine, Uzbekistan, Republic of Moldova, Kazakhstan - Questions and Replies, WT/REG73/4

WTO (2001b), Working Party on the Accession of Azerbaijan, Additional Questions and Replies, WT/ACC/AZE/5

WTO (2002a), Working Party on the Accession of Armenia - Report of the Working Party on the Accession of the Republic of Armenia WT/ACC/ARM/23.

WTO (2002b), Committee on Regional Trade Agreements, Free Trade Agreements between Georgia and the Russian Federation, Armenia, Azerbaijan, Ukraine, Turkmenistan, and Kazakhstan, WT/REG/GEN/M/8.

WTO (2003), Committee on Regional Trade Agreements, Free Trade Agreement between Georgia and the Russian Federation - Questions and Replies, WT/REG118/4

WTO (2004a), Committee on Regional Trade Agreements, Customs Union between the Kyrgyzstan, the Russian Federation, Belarus, Kazakhstan and Tajikistan: Questions and Replies, WT/REG71/8

WTO (2004b), Committee on Regional Trade Agreements, Free Trade Agreement between the Kyrgyzstan and Uzbekistan: Questions and Replies, WT/REG75/5

\* \* \* \* \*