

CONCLUSIONS

Policy Agenda, Reform Linkages, and Action Plan

Based on the underlying economic and political dynamics of the transition process that is still under way in the countries of Eastern Europe and the Former Soviet Union, the opportunities for trade in the global marketplace will continue to increase for the countries of the Region. As the international economy continues to globalize, however, competition from other regions in the world will only become stronger. This poses a challenge to the Region's countries' abilities to use trade and international integration as an engine for growth and the reduction of poverty.

The experience to date in the Region shows that success in this environment requires a *combination* of not only implementing sound, market-based trade policies and trade-related institutions but also establishing a strong, complementary "behind-the-border" incentive framework in the domestic sphere. The previous chapters developed a detailed set of policy recommendations. Here, the principal recommendations that deserve priority attention are outlined, as well as linkages among the reforms and how they might be best sequenced in their implementation. The "division of labor" for the responsibilities of the various stakeholders with policy-making roles in furthering the Region's transition is identified, as is an action plan. A one-page Policy Matrix that summarizes this information is at the end.

Priority Policy Recommendations

Priority Trade Policy Reforms

- *WTO accession is a critical policy objective for the 10 countries in the Region that are not yet members. Many countries in the Region—especially in the CIS and SEE—must address the challenge of how to rationalize the large number of existing bilateral FTAs and to broaden them to include such matters as trade facilitation as well as liberalization of services.*
- *In a few countries—notably in the CIS—trade is restricted by high average tariffs and nontariff barriers (NTBs). These should be appreciably reduced over the medium term.*
- *In several other countries, there is still a large gap between “bound” and “applied” tariff rates: all tariffs in the Region should be bound closer to the level of applied tariffs. Not doing so undermines the economic effectiveness of commitments already made in trade agreements.*
- *Tariff regimes also should be simplified and the structure of rates reduced in dispersion. This will make customs administration more transparent and improve the predictability of the trade policy regime. It will also reduce opportunities for discretionary behavior and incentives for corruption.*
- *Reforms are needed to reduce the bias in investment decisions across sectors and reduce disincentives for greater product diversification. To this end, the widespread practice of discrimination against export activities that exists in many countries of the Region should be eliminated.*
- *To improve market access, reforms are needed in developed countries’ extensive use of “nonmarket”-designated antidumping actions against the Region’s economies, as well as in their protectionist agricultural policies.*

Priority Behind-the-Border Reforms

Enhancing Competition and Governance

- *The Region’s governments should work toward eliminating fundamental economic and policy barriers to new business entry, especially structural conditions that engender a lack of or weak competition among businesses.*
- *Barriers to exit of commercially nonviable firms also need to be eliminated, through reducing subsidies and eliminating the practice of tolerating arrears (with the government, banks, and among firms).*
- *Competition authorities should be given greater authority and competencies to assess, penalize, and, if necessary, remedy dominant firm structures,*

as well as other forms of restrictive business practices, such as collusion, anticompetitive mergers and acquisitions, and predatory pricing.

- Improving governance will require efficient institutions that facilitate effective resolution of commercial disputes. *Policies aimed at the simplification and cost reduction of formal legal procedures as well as bolstering out-of-court mechanisms will strengthen contract sanctity and property rights and improve the level of investor confidence in the Region.*
- Sound governance will also require mechanisms to ensure *greater transparency and accountability of public officials' conduct.*

Improving Trade Facilitation

- In trade facilitation institutions, the priority reforms are *to improve coordination among agencies, both within and across countries; simplify customs procedures; make customs codes and associated regulations, rules-based, transparent and commercially oriented, with proper incentives for employees; and introduce the use of IT into customs systems.*
- As to further development of trade-related infrastructure, the critical areas for improvement are *modernization of ports and IT capacity. Meeting this challenge will require continued privatization or private-public partnerships to entice new investments.*

Liberalization of Services Sectors

- *Deregulation of services* should be the rule rather than the exception, and include the implementation of market-reinforcing reform of regulatory procedures and rules, including rate levels and structures. Where regulation is warranted, *independent regulatory authorities* with the proper competencies and resources should be established.
- *Territorial restrictions or other artificial barriers to competition either within a services sector or across services sectors, for example for intermodal competition, should be eliminated.*
- *Private participation in the provision of services*, either through green-field investment or privatization of incumbent providers should be encouraged. This will require reductions in or elimination of limits or prohibitions on trade and private investment (whether from domestic or foreign sources) in network services.
- Deeper cooperation between the countries in the Region, such as in *regional approaches to deregulation (or more efficient regulation) of utility services*, could help reduce implementation costs and increase the overall benefits of regulatory reform.

Enhancing Intraindustry/Network Trade through Greater FDI

- The policy regime governing FDI should be *brought in line with international best practice*, which typically includes (i) adhering to “national treatment” for foreign investors; (ii) prohibiting the imposition of new, and the phasing out of existing, trade-related investment measures (TRIMs), for example, local content measures; and (iii) providing for binding international arbitration for investor-State disputes.
- Actions should be taken that ensure *transparency, predictability, and consistency of the FDI policy framework across different levels of government* and different industry sectors.

Fostering Resource Flexibility in Markets

- To reduce poverty impacts from changes in prices and outputs engendered by trade flows, measures should be implemented to *promote labor mobility* (for example, enhancing wage differentiation and adaptability and improving the effectiveness of social safety nets) *and to facilitate the reallocation of capital* so as to encourage new investment and job-creating opportunities.

Linkages Between and Sequencing of Reforms

- Many of the *policy reforms are mutually supportive and reinforcing*. Their implementation should capitalize on these linkages. For example, further tariff reform will enhance import competition, which in turn improves efficiency and increases export penetration.
- *Some policy actions can be done in the short term*. These include, for example, increasing Technical Assistance (TA) for institutional capacity building in the poor CIS countries.
- *Other reforms require balancing “winners and losers” or the marshaling of significant resources. These necessarily can be implemented only in the medium term*. For example, a few powerful vested interests will stand to lose from competition as liberalization in certain services sectors takes place and these losses must be balanced against the diffused gains enjoyed by the public. Investment in the modernization of ports will require large amounts of capital resources.
- *Sequencing of reforms can be critical, not only for their proper implementation, but also to build public support for the reform program and to maintain its momentum*. For example, steps should be taken to enhance

labor mobility and strengthen social safety nets while liberalizing imports, or regulatory reform and strong competition policy institutions should be established as services sectors are liberalized.

Division of Labor among Stakeholders

What the Developed Countries Can Do

- Improve market access for many of the Region's countries' agricultural products through reform of the EU's Common Agricultural Policy (CAP) program and of other related Organisation for Economic Co-operation and Development (OECD) programs; rationalizing the Generalized System of Preferences (GSP) program.
- Change the "nonmarket" designation for several of the Region's countries—primarily in the CIS—in enforcement of antidumping (AD) policies to reduce excessive, protectionist use of AD procedures.
- Facilitate WTO accession for current non-Members. The CIS countries have fewer trade preferences from the EU, for example. However, the solution is not enlargement of the number of such preferences. Rather, it is for these countries to liberalize multilaterally through WTO accession and thus enjoy the benefits of "most favored nation" (MFN) treatment.

What the International Community (Donors and International Organizations) Can Do

- Many countries in the Region, apart from the EU-8 and the two EU accession and EU candidate countries, are in need of technical assistance and capacity building to strengthen trade-related institutions and policy implementation and management, for example, in customs regimes; in WTO and EU accession; in the harmonization of regional trade agreements (for example the 29 bilateral FTAs in SEE); in competition policy; and in governance reform.
- Special attention for TA should be paid to the poor countries in the CIS, which "fall through the TA cracks." Because they are neither classified as "least developed countries" nor have realistic prospects for EU accession, they are often overlooked in qualifying for such assistance.

What the Region's Governments Can Do

- Virtually all of the remainder of the reform agenda will largely depend on the implementation efforts of the Region's countries themselves.

- In the area of trade policy, this would include tariff reductions; termination of NTBs; elimination of disincentives to exporting; pursuit of WTO accession; and rationalization, harmonization, and modernization of existing RTAs.
- The more challenging tasks will be the vigorous implementation of economywide behind-the-border reforms to: enhance competition and governance in domestic markets and foster greater flexibility in labor and capital markets; improve trade facilitation infrastructure and institutions; liberalize the services sectors and reform of associated regulation; and improve the climate to attract FDI.

SUMMARY OUTLINE OF PRIORITY POLICY RECOMMENDATIONS

Region's Subregion*	REFORM AREAS		
	I. Trade Policy Regime		
	Reform	Principal Responsibility	Term
EU-8	As part of EU WTO negotiation objectives, push proactively to reduce global trade barriers in manufacturing, services, and agriculture in Doha Round	EU-8 governments	S/M
SEE	Bosnia and Herzegovina and Serbia and Montenegro: pursue WTO accession vigorously	BiH/SaM governments	S/M
	Bulgaria, Croatia, and Romania: align tariffs with EU/pursue EU accession vigorously	BG/CR/RM governments	S
	Bind <i>all</i> tariffs at applied levels	SEE governments	S
	Eliminate remaining NTBs; also policies that create anti-export bias	SEE governments	S
	Rationalize, consolidate, and modernize 29 bilateral FTAs	SEE governments, w donor TA	S
	Strengthen regional cooperation on Trade and Transport Facilitation (TTF) utilization (for example, customs)	SEE governments, w donor TA	M/L
CIS	AZ, BEL, KZ, RU, TAJ, TKM, UKR, UZ: pursue WTO accession vigorously	Named CIS gov'ts w donor TA	S/M
	Non-WTO members: appreciably reduce tariffs; bind at applied levels; simplify tariff design; and reduce dispersion of rates	CIS governments	S
	Eliminate NTBs; also policies that create anti-export bias	CIS governments	S
	Rationalize, consolidate, and modernize CIS/CAR (Central Asian Republics) RTAs and bilateral FTAs	CIS governments w donor TA	S/M
	Establish mechanism for regional cooperation on TTF development and utilization	CIS governments w donor TA	M/L
	Reform of nonmarket antidumping designation and reduce protectionist policies (for example, in agriculture)	EU, OECD, other governments	S
II. Behind-the-Border Policy Regime			
	Reform	Principal Responsibility	Term
EU-8	Continue to strengthen competition policy agencies' competencies and resources; focus on anticompetitive conduct (for example, mergers, pricing)	EU-8 governments	S/M
	Continue to improve judicial-legal institutions to protect property rights and resolve commercial disputes and public administration reform to reduce corruption	EU-8 governments	S/M
	Continue modernization of TTF infrastructure	EU-8 governments	S/M
SEE	Increase removal of economic and policy barriers to entry and exit (for example, subsidies; arrears)	SEE governments	S
	Strengthen competition policy agencies' competencies and resources; focus on anti-competitive structures (for example, dominant firms) as well as on conduct (mergers; pricing)	SEE governments	S/M
	Ensure public procurement is transparent and open to foreign competition	SEE governments	S
	Improve judicial-legal institutions to protect property rights and enhance public administration reform to reduce corruption	SEE governments w donor TA	S/M
	Implement reforms for greater labor and capital mobility to enhance flexibility in factor markets (for example, wage-setting rules/social benefits/pension and corp. governance)	SEE governments	S
	Further develop TTF infrastructure (esp. ports and IT applications to customs)	SEE governments	S/M
	Cont. reg. reform, public-private partnerships, privatization/liberalization of services	SEE governments	S/M
	Establish mechanisms for regional cooperation in infrastructure/services regulation	SEE governments	S/M
	Improve FDI policy regime to comport w. int'l. best practice (for example, national treatment)	SEE governments	S
CIS	Systemic removal of economic and policy barriers to entry and exit (for example, subsidies; arrears)	CIS governments	S
	Establish modern bankruptcy/insolvency institutions, including judges, trustees	CIS governments w donor TA	M
	Build independent competition policy agencies w. political teeth, legal basis, adequate competencies/resources: focus on anticompetitive structures as well as conduct	CIS governments w donor TA	M
	Establish judicial and legal institutions to protect property rights and resolve disputes	CIS governments w donor TA	M
	Reform public administration system to reduce corruption	CIS governments w donor TA	M
	Open up public procurement to competition—private domestic and foreign vendors	CIS governments	S
	Develop and implement reforms for labor and capital mobility for flexible factor markets (for example, reform wage-setting rules/social benefits/pension and corp. governance)	CIS governments	S
	Develop TTF infrastructure (esp. ports and IT applications to customs) and institutions	CIS governments	M
	Establish independent regulatory agencies; liberalize/deregulate services sectors	CIS governments w donor TA	M
	Privatize "nonstrategic" services sectors (for example, telecom, transport, energy, banking)	CIS governments	S
	Reform FDI policy regime to comport w. int'l. best practice (for example, national treatment)	CIS governments	S

Note: * Summary policy recommendations do not necessarily apply equally to all countries in each group. S=short-term (1-2 yrs); M=medium term (3-5 yrs); L=longer term (5-10 yrs). AZ = Azerbaijan; BEL = Belarus; BiH = Bosnia and Herzegovina; FDI = foreign direct investment; FTA = free trade agreement; IT = information technology; KZ = Kazakhstan; NTB = non-tariff barriers; OECD = Organisation for Economic Co-operation and Development; RTA = regional trade agreement; RU = Russian Fed.; SaM = Serbia and Montenegro; TA = technical assistance; TAJ = Tajikistan; TKM = Turkmenistan; UKR = Ukraine; UZ = Uzbekistan; WTO = World Trade Organization.

