



**REGIONAL TRADE ARRANGEMENTS AND
ECONOMIES IN TRANSITION:
THE CENTRAL ASIAN COUNTRIES**

Richard Pomfret

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**SCHOOL OF ECONOMICS
Adelaide University
SA 5005 AUSTRALIA**

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ABSTRACT

When it dissolved in 1991, the members of the Council for Mutual Economic Assistance (CMEA) contained half a billion people (Table 1) - more than either the European Union or NAFTA today - and these countries were largely insulated from the market-driven international economy. This paper analyses the progress of the reintegration of the formerly centrally planned economies into the global trading system, focusing on the relationship between multilateral processes and regional integration schemes, and taking the Central Asian countries as a case study. Almost all the countries in transition from central planning have accepted the WTO rule-based system in principle, and the potential danger of regionalism proving more attractive than multilateralism has not eventuated.

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Contact author:

Richard Pomfret
School of Economics
Adelaide University
SA 5005 AUSTRALIA
Tel: +61 8 8303 4751
Fax: +61 8 8223 1460
richard.pomfret@adelaide.edu.au

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REGIONAL TRADE ARRANGEMENTS AND ECONOMIES IN TRANSITION: THE CENTRAL ASIAN COUNTRIES*

The Council for Mutual Economic Assistance (CMEA) was the most populous effective regional trading area in history. When it dissolved in 1991, the CMEA's members contained half a billion people (Table 1) - more than either the European Union or NAFTA today. As members of the CMEA, the Soviet Union, Vietnam, Mongolia and the eastern European countries were largely insulated from the market-driven international economy.¹ During the final decade of the twentieth century, a major challenge was the reintegration of the formerly centrally planned economies into the global trading system. This paper analyses the progress of this reintegration, focusing on the relationship between multilateral processes and regional integration schemes, and taking the Central Asian countries as a particular case study.

A key issue, reflecting wider contemporary debates, has been the relationship between participation in regional trading arrangements and adherence to the multilateral rule-based system embodied in the 1947 General Agreement on Tariffs and Trade and since 1995 in the World Trade Organization. For practically all economies in transition from central planning there have been plausible regional groupings, either with neighbouring established market economies or among fellow transition economies. Most of the eastern European countries are negotiating accession to the

¹ The CMEA's members included the USSR, the centrally planned economies of eastern Europe, Mongolia, Vietnam and Cuba. Albania, whose membership became inoperative in 1961, and Yugoslavia, as an associate member, did not participate in the planned trade (Pomfret, 1997, 115-6). In terms of reintegration into the global economy, the experience of Cambodia, China, Laos and Myanmar raises similar issues to those facing the CMEA members; they will be referred to in this paper. Cuba and North Korea will be ignored.

European Union (EU), the southeast Asian countries have all joined the Association of Southeast Asian Nations (ASEAN), and the Central Asian countries are members of the Economic Cooperation Organization (ECO). Within the former Soviet Union various regional arrangements have been initiated, and the Central European Free Trade Area has six members.

Section 1 analyses relations between the GATT/WTO and the centrally planned economies before and after their transition to more market-based economic systems. Unfortunately the GATT diverged from a rule-based approach and established precedents of differential treatment of some centrally planned economies in the 1960s and 1970s. These have become embodied in practices, especially with respect to antidumping actions, which discriminate against non-market economies and which continue to be applied to economies in transition from central planning. Nevertheless, the general picture is of the transition economies accepting WTO principles and preferring to work within rather than outside the Organization. By 2000, fourteen transition economies had become WTO members and most of the remainder were at some stage in the negotiating process, with only Tajikistan, Turkmenistan and Yugoslavia among former CMEA members showing no interest (Table 2).²

The second section reviews the degree to which the economies in transition have been attracted to regional trading arrangements. This could have been a major challenge to the multilateral trading system because the big shift from central planning to market economies in 1989-91 coincided with a surge in popularity for regionalism and of

² The German Democratic Republic became the eastern Länder of Germany and hence inside the WTO in 1990. Myanmar, like Cuba, is a WTO member because it had been a GATT contracting party, in both cases since 1948. China, Laos and Cambodia are negotiating WTO accession. Afghanistan and North Korea have shown no interest in WTO membership.

doubts about multilateralism. China led the way against regionalism by pursuing and sticking with a multilateral approach, even though China's bid for accession to the World Trade Organization was an arduous process from the initial application in 1986 to the conclusion of negotiations in 2000.³ The other large transition economy, Russia, has adopted a similar approach, although WTO membership is further away and Russia has flirted with regional arrangements with other former Soviet republics.⁴

By contrast, most of the Central and Eastern European transition economies, including the Baltic countries, have oriented their external economic policies towards the ultimate goal of joining the European Union (EU). The path here is fairly clear because the EU has established that, although there may be some limited room for negotiation over transition periods to full membership, any new member must accept the already established institutions and policies (the so-called *acquis communautaire*). Vietnam, Cambodia, Laos and Myanmar have also pursued regionalism, but in practice the situation is very different from that of the European transition economies because ASEAN is a far looser organization than the EU and still effectively leaves members scope to pursue their own national trade policies, as well as independent policies in all other areas.

The Central Asian countries and Azerbaijan have been in some respects the most interesting, because they have several potential regional options as well as

³ Little will be said in this paper about China's WTO accession negotiations or their expected consequences, because there is already a huge literature; see, for example, Anderson (1997), van der Geest (1998) and Wei (1998). Pomfret (1998) analyses the absence of regionalism in Asia, and particularly China's constancy to the non-discrimination principle.

⁴ Both Russia and China, together with North Korea, have been involved in the Tumen River project which in some guises hopes to establish a sub-regional economic zone where the three countries borders meet and in other guises envisages wider economic cooperation to include Mongolia, South Korea and Japan. The Tumen scheme, however, holds out no serious prospect of discriminatory trade policies and its implications for the global economy are minimal, see Pomfret (1996a, 130-42).

multilateralism. This group of countries' response to the trade policy challenges of independence is analysed in more detail in the third section, with particular emphasis on why, despite many paper proposals, they have in practice avoided regional trading arrangements.

In sum, despite potential hurdles of reintegrating the formerly centrally planned economies into the global trading system, the process went fairly smoothly in the final decade of the twentieth century. The transition economies have accepted rather than challenged the existing principles of the world trading system embodied in the GATT/WTO, and have generally pursued multilateral non-discriminatory trade policies. The only serious exceptions to this last generalization are the ten EU candidates, for whom EU accession should be a guarantee of accepting WTO norms rather than a source of negative regionalism.

1. Transition Economies and the GATT/WTO.

Formal trade relations between the market economies and the Soviet bloc were dictated by political rather than economic considerations. Favoured eastern European states were allowed to become contracting parties to the General Agreement on Tariffs and Trade (GATT) under *ad hoc* conditions – Poland in 1967, Romania in 1971 and Hungary in 1973 - but the USSR and Bulgaria were barred.⁵ During the 1980s Soviet requests to participate in the forthcoming Uruguay Round were rejected. The Bush-Gorbachev Malta summit in December 1989 signalled the end of the Cold War, and ushered in a new era for trade relations. Bush announced his support for the

USSR to have observer status at GATT, and this was echoed a few days later by the European Community.⁶ A formal application for observer status was approved in May 1990, although by chance it was subject to review in April 1992. By then the USSR had ceased to exist and the successor states' relations with GATT were an open question.

The acceptance of “good” non-market economies was a low point for the GATT. The *ad hoc* arrangements were quantity or results oriented, rather than rule-based. The special protocols were difficult to enforce, because circumstances change and targets move, and non-fulfilment was difficult to punish; yet the state-trading countries were now inside the GATT family. This flaw was recognized by the early 1990s, and lay behind insistence that new members must adhere to GATT rules, which were based on principles of individual traders' freedom to act within transparent rules and which were only really compatible with a market-based economy. There was, of course, a grey area because in all GATT contracting parties state trading and public procurement were facts of life, but the degree mattered.

China was a crucial test case, although the progress of its application was influenced by political considerations. China had initiated its open door policy in December 1978, and applied for GATT membership in 1986. The Chinese economy was far from a market economy and the trade regime was far from transparent in the 1980s, so bargaining over the changes required as conditions for accession to the GATT was

⁵ Czechoslovakia was a founding signatory of the GATT in 1947, although its status had been passive for most of the next four decades. This paragraph draws on Haus (1992).

⁶ The USA, however, initially expressed reservations when the USSR made a formal application for GATT observer status in March 1990, apparently as a result of inter-agency infighting, but it quickly dropped its opposition. Japan opposed the Soviet application due to dispute with the USSR over the Kuril Islands.

inevitable. Especially after the June 1989 Tiananmen events, western leaders were unwilling to be seen as being too positive towards China, and this included the GATT negotiations in which China was seen as the supplicant. In the USA in particular trade relations with China became highly politicized, with the annual renewal of China's MFN status becoming an opportunity for highlighting China's human rights record rather than reviewing the country's progress towards a market economy with a transparent trade regime.

The unexpected length of the Uruguay Round of multilateral trade negotiations complicated the situation in the late 1980s and early 1990s. The Round was launched in 1986, and on several occasions the talks came close to breaking down, threatening GATT's very existence. For the major trading nations, the Uruguay Round's ultimate success clearly took precedence over accession negotiations.

In 1994 the Uruguay Round was successfully concluded, and among its consequences was the superseding of GATT by a new World Trade Organization (WTO). All GATT contracting parties became WTO members at the start of 1995.⁷ Once in place, the new organization took up outstanding and new applications for membership. For the first few years, however, it appeared difficult for countries with economies in transition from central planning to get through the admission process. Michalopoulos (1999) argues that the procedure was too complex, and exceeded the administrative capacities of the applicants, as well as of the WTO Secretariat. Langhammer and Lücke (1999) question this interpretation, and point to substantive

⁷ Hungary, the Czech and Slovak republics (who had divorced in 1993), and Poland and Romania (who renegotiated the special protocols under which they had entered GATT in 1967 and 1971) were charter members of the WTO. Slovenia and Bulgaria, whose GATT applications had been relatively straightforward and were far advanced, became WTO members in 1995 and 1996.

issues which needed to be resolved before a transition economy could reasonably be admitted to the WTO. With the hindsight of just a few extra years, however, the pace of WTO accession looks more impressive, with Mongolia, the Kyrgyz Republic, Latvia, Estonia, Georgia, Albania and Croatia all completing the formalities between 1998 and 2000 (Table 2), not to mention the long-awaited breakthrough in China's accession negotiations.

Why does WTO membership matter? In principle, membership guarantees rights as well as imposing obligations. Yet most of the transition economies have been unilaterally granted the main right of members, MFN treatment by all other members, and in many cases they face the lower Generalized System of Preferences (GSP) tariff rate.⁸

More importantly, WTO membership should provide some protection against imposition of non-tariff barriers. During the 1990s transition economies suffered especially from anti-dumping actions, where they faced a double penalty of not having WTO protection and being treated as non-market economies.⁹ The latter actually seems to be the more severe handicap because "surrogate" or "analogue" countries' costs and exchange rates can be used, somewhat arbitrarily, in calculation of dumping margins.¹⁰ The WTO provides legal justification for special treatment of

⁸ WTO membership does, however, ensure MFN treatment as a right rather than a unilaterally granted privilege. As a GATT/WTO member China would have avoided having to face the hurdle of annual renewal of MFN status by the USA during the 1980s and 1990s. As a WTO member Azerbaijan should gain MFN treatment from the USA, where this status has been blocked by the Armenian lobby.

⁹ Michalopoulos (1999, 20) shows that in the first three years of the WTO's operation (1995-7) both non-WTO and non-market economies were more likely to be subject of anti-dumping actions and were more likely to be the targets of definitive anti-dumping duties.

¹⁰ The practice dates back to differential treatment of the non-market economies which joined the GATT in the 1960s and 1970s. A landmark case involved a 1975 antidumping action against Polish golf carts imported into the USA. In that case the constructed values, based on Spanish prices, led to a determination that the golf carts were not being sold below fair value, but in subsequent cases exporters

non-market economies,¹¹ whether or not they are WTO members. Although the presence of market institutions has become an important prerequisite for admission and their extent a major negotiating point, WTO membership is still not considered sufficient evidence that a country has a market economy.¹² Nevertheless, WTO membership does offer greater prospect for fairer treatment and some remedy under dispute resolution mechanisms. Another area of non-tariff barriers where being inside the WTO may make a difference is the Uruguay Round Agreement on Textiles and Clothing, by which all import quotas under the Multifibre Arrangement are to be eliminated by 2005.

WTO membership also operates as a signalling device, or to provide a road map for reform and legally bind governments to liberal policies. For the European transition economies aspiring to EU membership, WTO membership is an essential way station. It proves intent to create a market economy and to abide by international trade law. Nine of the ten countries which have formally applied for EU membership (Table 3) are already WTO members, and Lithuania is not far away from completing its accession negotiations.¹³

complained that the surrogate was chosen after the case was opened and the choice was biased towards a ruling of unfair trade.

¹¹ Article 2.7 of the Antidumping Agreement refers to the second Supplementary Provision in paragraph 1 of Article VI in Annex 1 to GATT 1994, which permits different treatment “in the case of imports from a country which has a complete or substantially complete monopoly of its trade and where all domestic prices are fixed by the State” and which was interpreted in the original Polish and Hungarian accession negotiations to permit a surrogate country methodology (Palmer, 1998, 116-7). It continues to be invoked even though by the late 1990s in very few countries were all prices fixed by the state and, as Palmer stresses, “the word “all” with regard to control over domestic prices is quite specific”.

¹² The EU publishes annually a list of non-market economies for the purpose of antidumping and safeguard actions, and the 1999 list included Albania, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Mongolia, North Korea, Tajikistan, Turkmenistan, Ukraine, Uzbekistan and Vietnam. The USA has no formal list and proceeds on a case by case basis, but seems in practice to consider the same list of countries to be non-market economies. The Kyrgyz Republic and Mongolia were already WTO members in 1999.

Elsewhere, transition economies generally show a desire for WTO membership, but have been less willing to pursue policies which will ensure an easy passage. The exceptions (Mongolia and the Kyrgyz Republic) are small countries committed to liberal policies, in part because they have been major aid recipients from donors which require such policies. Other small economies (Albania, Georgia and Croatia) have passed through the admission process because there has been little concern over their impact on the world trading system. On the other hand, the existing WTO members have been stricter towards larger applicants, and some of the larger or more cautious transition economies may have been deterred by the hard line taken by the existing WTO members.¹⁴ Nevertheless, even the act of negotiating signals to potential foreign investors, international financial institutions and others that a country is contemplating acceptance of WTO conditions and is committed to a market-based economy. Only Yugoslavia, Tajikistan and Turkmenistan have shown no formal interest in WTO accession.

2. The Attraction of Regionalism

The former members of the Council for Mutual Economic Assistance (CMEA) experienced a common pattern of trade performance after embarking on the transition to a market economy. For all CMEA members except Vietnam, both total output and exports fell in the early 1990s. The initial policy response, in 1990-3, was often

¹³ The draft Working Party report on Lithuania's application was completed in October 1998.

¹⁴ Existing WTO members have taken a strict position towards transition countries insisting on fulfilment of conditions that many existing members do not fulfil and on meeting all commitments before entry. It is generally believed that the transition applicants are expected to offer an average bound tariff on industrial imports of ten percent, which is double the OECD average, but well below that of many existing WTO members, eg. India's average bound rate is 34 percent (Langhammer and Lücke, 1999). The hard line may have been counterproductive in some cases, with Belarus, Russia and Ukraine stalling or even back-tracking on commitments made at a previous stage in the negotiations.

illiberal as governments not only sought to protect import-competing activities but also imposed export taxes and other restrictions to prevent resources from being drained out of the country. Trade was also hampered by confusing currency arrangements and payment mechanisms in the former Soviet Union, and these could only really be sorted out after countries exited from the ruble zone in 1993 (Pomfret, 1996a, 118-29).

The diversification of trade partners from the old CMEA patterns initially took place more slowly than expected, but did proceed steadily during the 1990s. Export growth followed a similar pattern.¹⁵ Clearly the disorganization arising from the collapse of central planning as a control mechanism and the time needed to establish market-supporting institutions and create new networks led to time lags (Blanchard and Kremer, 1997). In econometric studies of the growth and diversification of transition countries' exports during the first half of the 1990s, there was clearly a bifurcation between the European transition economies and the other former USSR countries (the remaining transition economies were generally excluded from the econometric exercises). The best single explanatory variable is distance from Frankfurt (Havrylyshyn and Al-Atrash, 1998). Most observers interpreted this in terms of the EU-orientation of the European transition economies, although some invoked the political economy of protection literature to explain why the more concentrated industries in the former Soviet Union led to protectionist trade regimes (Leidy and Ibrahim, 1996, 12; citing Olson, 1965, and Pincus 1975).

¹⁵ Influential early policy and research documents were Michalopoulos and Tarr (1994), de M n il (1995), Kaminski, Wang and Winters (1996), and ECE (1998).

In 1989-91 when Communism collapsed in Europe and the Soviet Union, the major trade policy issue facing the global economy was the challenge of regionalism.¹⁶ The Uruguay Round of multilateral trade negotiations appeared to be stalled. In western Europe, attention was focussed on creating a single European market by 1992. In the Americas, the North American Free Trade Agreement was being negotiated among the USA, Canada and Mexico, and the Mercosur treaty was signed in the South. In Asia pressures for regionalism were weaker, but the ASEAN Free Trade Area was about to be launched and Asia-Pacific Economic Cooperation (APEC) members discussed open regionalism.

The centrally planned economies were not immune from this trend, although they were happy enough to allow the old organization, the CMEA, to fade away after 1989 and formally dissolve in 1991. Attempts to partially reconstruct old trading patterns on a regional basis were made by the former Soviet republics and by some east European countries, but these were half-hearted and always secondary to other trade policy strategies. Much more important were attempts by the countries in transition to a market economy to link themselves to neighbouring market economies. This was especially true for the European transition economies, and to a lesser extent for the southeast Asian transition economies and for the Islamic transition economies of Central Asia and the Caucasus.

The collapse of Communism was viewed by many east Europeans as an opportunity to re-establish their position as citizens of normal democratic European countries. Poland, the Czech Republic and Hungary joined the Organization for Economic

¹⁶ Pomfret (1997, 128-55 and 207-39) describes the schemes mentioned in this paragraph and the

Cooperation and Development (OECD) and the North American Treaty Organization (NATO) during the 1990s.¹⁷ Most of all, these three countries aspired to membership in the European Union, and together with Estonia, Slovenia and Cyprus were in the "first wave" of applicants with whom the EU opened negotiations in March 1998. The second wave of EU candidates, containing Bulgaria, Latvia, Lithuania, Romania, Slovakia and Malta began negotiations in February 2000.

The twelve EU members were initially slow to respond to these aspirations. The seventeen million people in the German Democratic Republic were automatically absorbed into the EU with German reunification in 1990, but the prospect of over a hundred million new EU citizens in the ten applicant transition countries was more difficult to digest. Moreover, in the early 1990s the EU was absorbed by the single market project, the 1992 crisis in the European Monetary System and subsequent moves towards the common currency, and expansion to include three established market economies (Austria, Finland and Sweden) as new members in 1995. Association agreements were signed with transition economies and these were transformed into so-called Europe Agreements in 1994-5 (Table 3), but they fell far short of the would-be members' aspirations.

During the first half of the 1990s, the most developed European transition economies (Czechoslovakia, Hungary, Poland and Slovenia) formed their own trade bloc. The Central European Free Trade Agreement (CEFTA) was signed in 1992, but this was always a stepping stone towards the goal of EU membership.¹⁸ The Baltic countries,

theoretical arguments developed in support of the New Regionalism.

¹⁷ The Slovak Republic has also applied for OECD membership.

¹⁸ The original signatories were Czechoslovakia, Hungary and Poland. Slovenia joined in 1996. Half of CEFTA trade was made tariff-free in 1994 and subsequent negotiations aimed at a full free trade

which kept outside the successor organization to the Soviet Union, the Commonwealth of Independent States (CIS), discussed regional integration proposals but they never progressed far. More important, especially for Estonia, was the opening up of links to their Nordic neighbours, which provided them with advocates for EU membership once Finland and Sweden were inside the EU club.

At the June 1993 meeting of the EU Council in Copenhagen the heads of state agreed that the associated countries could join the EU once they had achieved institutional stability (guaranteeing democracy, the rule of law, human rights, and respect for protection of minorities), a functioning market economy, and ability to take on the obligations of EU membership. Between 1994 and 1996 ten transition economies lodged formal applications for EU membership, and as mentioned above negotiations began in 1998 and 2000. The current position is that there will not necessarily be waves of enlargement and that candidates will be admitted, as they are ready, after the end of 2002.¹⁹

Although the EU was seen by some of the more impatient candidates, notably Poland, as dragging its collective feet during the 1990s, the decade was not wasted time because the leading candidate countries were able to implement the time-consuming measures necessary as prerequisites for accession. By 2000 the ten applicants were all WTO members or close to being so, and all ranked highly on the various liberalization or “good institutions” indices published by international organizations such as the European Bank for Reconstruction and Development (in its annual

area by 2002, but once EU accession negotiations had formally opened in 1998 EU trade arrangements superseded CEFTA.

Transition Report) or the International Monetary Fund (in its September 2000 *World Economic Outlook*).

EU membership is now a matter of when rather than if for most European transition economies. Some may balk at the conditions or wish to remain independent, so that the EU's eastern border will remain in flux for some time. For those who do join, EU membership will not conflict much with integration into the global as well as the regional economy. The EU has long been accepted as a single unit for the purposes of international trade negotiations and, with the deepening of the euro arrangements, notably the withdrawal of national currencies in 2002, most EU members will operate as a common currency area. Despite some illiberal practices, the EU is generally an open trading bloc and membership is more likely to cement liberal policies than non-membership.²⁰

Vietnam, Laos and Cambodia have taken an ostensibly similar stance with respect to the Association of Southeast Asian Nations (ASEAN). The six ASEAN members were thriving market economies whose historic economic links to the southeast Asian centrally planned economies had been broken amid the military conflicts of the 1960s and early 1970s. The ASEAN six, like the EU twelve, were preoccupied with their internal regionalism projects in the late 1980s and early 1990s when their neighbours were initiating the transition to a market economy, but the ASEAN Free Trade Area

¹⁹ Developments up to 2000 are described in the IMF's September 2000 *World Economic Outlook*, Box 4.1. Temprano-Arroyo and Feldman (1999) review the institutional requirements of EU membership. The EU website <http://europa.eu.int/comm/enlargement> provides progress reports.

²⁰ Examples of the illiberal policies emerged during WTO accession negotiations when Estonia chose to bind its tariffs on some agricultural goods above the current applied tariffs solely to allow scope for adoption of the EU common external trade policy. Nevertheless, the EU common commercial policy and EU policies in other areas such as capital flows are more liberal and far more conducive to integration into the global economy than are the more restrictive policies of some of the southeast European transition countries, not to mention those of CIS members such as Belarus or Ukraine.

(AFTA) which began operation in 1992 was a much weaker form of regionalism than the EU common market and ASEAN was far from accepting the political integration which underlay the EU project for many Europeans.

The looser organization meant less stringent admission criteria, with nothing like the Copenhagen Criteria to prevent non-democracies with imperfect market economies from joining ASEAN. Vietnam joined ASEAN in July 1995, and Laos and Myanmar in July 1997, when Cambodia was also scheduled to join, but Cambodia's formal accession was delayed for a year after the anti-democratic coup. Despite this gesture, none of the four new members is a democracy, and the admission of Myanmar (Burma) in the face of strong disapproval by the USA and EU provided a clear-cut signal of the lack of political prerequisites. The enlargement to ten members completed ASEAN's "natural" geographical expansion to include all Asian countries south of China and east of Bangladesh and India, but left the association as a disparate group with little prospect of pursuing common policies in the near term (Pomfret, 1996b; 2000a).

Joining ASEAN has few direct policy implications, but it has been a non-trivial signal on the part of the southeast Asian transition economies. As ASEAN stands at the start of the twenty-first century, membership is not a commitment to regionalism. There is no formal commitment to introduce liberal trade policies, because ASEAN has neither a common external commercial policy nor internal free trade, let alone uniform measures in areas such as currency convertibility or capital flows. Progress on AFTA has been sporadic, and the four newest members of ASEAN are explicitly allowed to move at a slower pace than the other ASEAN members. The extent to which

Vietnam, Laos, Cambodia and Myanmar reform their formerly planned economies to become open economies integrated into the global system remains a matter of domestic decision-making. Nevertheless, the new members have signalled that they belong in a group of market economies, and they will be under pressure within ASEAN to liberalize their intra-regional trade. Given that the new members are unlikely to want to discriminate in favour of their ASEAN partners, such pressures if effective will lead to multilateral trade liberalization.²¹

3. Regional Integration in Central and Western Asia

The successor states to the Soviet Union have made some attempts to maintain existing trade relations through regional arrangements, but these have been feeble measures with little practical impact. In 1992-3 the main concern was to retain a common currency in order to minimize payments problems, but the ruble zone had collapsed by November 1993. Since then, post-Soviet trade patterns have diversified continuously, and no serious attempt to stop this trend by introducing regional trading arrangements has been implemented.

The twelve non-Baltic successor states to the USSR formed the Commonwealth of Independent States (CIS), but that organization has never had any serious economic content. In September 1993 Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan and Uzbekistan signed an agreement to set up

²¹ An important reason why ASEAN has not progressed far towards internal free trade is the similarity of the members' economic specialization in raw materials and labour-intensive manufactures. The ASEAN members are unwilling to favour the least-cost internal supplier of capital-intensive or knowledge-intensive goods, because that supplier is unlikely to be competitive with the global least-cost supplier. Thus, it is likely that any internal trade induced by preferential tariffs will be trade diverting rather than trade creating. Similar concerns will also be felt by the new members.

an economic union; Georgia signed some of the provisions, and Ukraine became an associate member.²² Thus, eleven of the twelve non-Baltic Soviet successor states indicated commitment to some form of regional economic arrangement, but neither this nor any subsequent proposal involving a majority of CIS members made any progress (Sakwa and Webber, 1999, 386-90).

On a political level, the CIS became fractured in the second half of the 1990s. In January 1995 Belarus, Kazakhstan and Russia signed a customs union agreement, which the Kyrgyz Republic also signed in March 1996 when it became known as the Union of Four.²³ With Russia clearly the dominant partner, Russia's tariff presumably would be the putative common external tariff, but apart from steps towards a Belarus-Russia economic union nothing has been implemented. The tariff bindings in the Kyrgyz Republic's 1998 WTO accession agreement are in conflict with the would-be customs union because it is difficult to imagine Russia agreeing to such a liberal external trade policy and the Kyrgyz Republic is no longer able to raise its tariffs to the Russian level.²⁴

In late 1996 and 1997, Azerbaijan, Georgia and Ukraine, later joined by Moldova, began to coordinate their strategies in security negotiations, and this became formalized in a joint communiqué in October 1997. In April 1999 Uzbekistan became the fifth member of the alignment, which became known as GUUAM. Although not

²² Georgia and Turkmenistan only formally joined the CIS in December 1993. Turkmenistan's main foreign policy principle has been strict neutrality, which it has interpreted as allowing only limited cooperation with the CIS, even to the extent of not supplying statistics to the CIS statistical agency.

²³ Tajikistan became the fifth member of the Union in February 1999. On the Union of Four, or Five, see Michalopoulos and Tarr (1997) and Pasznyak (2000).

²⁴ A similar conflict could arise from Kazakhstan's WTO negotiations. According to Webber (1997, 56), Kazakhstan's President Nazarbayev indicated in September 1996 that Kazakhstan would leave the customs union when it acceded to the WTO.

having any economic content beyond coordination of infrastructure plans, the GUUAM grouping (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) is operating explicitly as a counter to Russian hegemony (Pavliuk, 2000). Thus, the CIS has split into two groups of five, plus two floaters (Armenia and Turkmenistan).

The five Central Asian successor states have drawn up many plans for regional cooperation among themselves. They inevitably must cooperate on some non-trade matters such as the desiccation of the Aral Sea and on developing transport and pipeline routes, but attempts to set up a regional trading agreement have had little impact. In April 1994 Kazakhstan, the Kyrgyz Republic and Uzbekistan signed a treaty for the establishment of an integrated economic space. In March 1998 Tajikistan, which had previously had observer status, became a full participant in the scheme which became known as the Central Asian Economic Community (CAEC). Trade within the CAEC, however, declined over the 1990s, and in most areas the members pursued independent policies without regard to intra-CAEC cooperation and at times in contradiction to stated CAEC policies and goals (Pomfret, 2000b).

A fundamental problem in Central Asia is that despite a common historical heritage and a legacy of tightly interwoven economies from the Soviet era, the five countries' resource endowments are more competing than complementary (Pomfret, 1995). From 1865 until 1991 Central Asian agriculture was developed as a cotton monoculture to supply Russian mills. The energy and mineral endowment of the region, which provides the other main economic foundations, is across a fairly limited range of resources. Cotton, oil, gas and minerals are all sold (to the extent that this is not limited by the inherited pipeline network) at world prices and the exporters see no

benefit from preferential regional arrangements. In addition to the lack of a strong economic basis for regional arrangements, there are also political fissures. The two largest countries, Uzbekistan and Kazakhstan, compete for regional hegemony. Tajikistan has been riven by civil war for most of the period since 1991. Turkmenistan is committed to a concept of neutrality which precludes membership in the CAEC.

The only significant attempt by CIS countries to form a regional trading arrangement with neighbouring market economies has been the accession of the Islamic former Soviet republics to the Economic Cooperation Organization (ECO). Plans for regional cooperation among ECO's three founding members, Iran, Pakistan and Turkey, had made little progress before 1992. The May 1991 Protocol on Preferential Tariffs covered few goods and offered small preferential margins. The dissolution of the USSR breathed new life into ECO when six former Soviet republics plus Afghanistan joined ECO in November 1992, forming a bloc of the non-Arab Islamic countries west of Bangladesh, with a combined population of over 350 million.²⁵

Despite attempts to improve infrastructure and transit arrangements, ECO did little during the 1990s beyond acting as a regional talking shop. In this regional confidence-building respect ECO has had some similarity to ASEAN, and like the ASEAN countries ECO's members were unwilling to match declarations of intent to have a preferential trading arrangement with actual trade liberalization measures (Pomfret, 1999). A major reason for this failure has to do with the three founding members, who have acted more like competitors in Central Asia than cooperative partners

playing a positive-sum game; all three viewed a putative customs union in terms of extending the size of the protected market for their own industries.²⁶ In addition, the similarity of the ten ECO members' export mixes has limited intra-ECO trade flows, and reinforced the lack of will for discriminatory trade liberalization.

There are also problems of overlapping arrangements which hinder ECO's ability to progress along the route of preferential trading arrangements. In January 1996 Turkey formed a customs union with the EU, which limits Turkey's ability to alter its tariff rates and Turkey notified the ECO Secretariat that its obligations to the EU would override any ECO commitments. Since then, Turkey's relationships with the EU have fluctuated, but the legal situation remains unchanged.²⁷ Pakistan faces a potential conflict between commitments under the preferential agreements reached within the South Asian Association for Regional Cooperation (SAARC) and any made within ECO, but in practice SAARC tariff preferences are even more innocuous than those within ECO. For much progress towards an ECO regional trading arrangement, a greater obstacle is probably the Kyrgyz Republic's tariff bindings agreed to during the country's WTO accession negotiations. These tariff rates limit the Kyrgyz Republic's freedom to offer substantial tariff preferences to partners in a preferential trading arrangement and, as in the Union of Five, put low limits on any common external tariffs.

²⁵ The six countries were Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. The Turkish Muslim Community of Cyprus is not an ECO member, but its representatives often attend ECO meetings.

²⁶ The view of a regional arrangement as allowing economies of scale for import substitution underlay the many Latin American integration schemes during the 1960s and 1970s, none of which had any success; members wanted access to partners' market for their uncompetitive industries, but were unwilling to open their own markets in a discriminatory way to their partners' uncompetitive industries.

A striking feature of the Central Asian countries' trade policies since independence has been the commitment to either autonomy or multilateralism. Despite common regional problems, or predictions that the new independent countries would seek to renew fractured cultural connections with southern neighbours, or concerns that their national economies were simply too small, they have avoided any significant commitment to regional trading arrangements. Turkmenistan with its fierce neutrality and Tajikistan with its civil discord are perhaps special cases; neither of these countries has even initiated negotiations for WTO accession. Nevertheless, even the more "normal" new independent states of Kazakhstan, Kyrgyz Republic and Uzbekistan, although signing regional agreements, have not been tempted to make any practical commitment to regionally discriminatory trade policies.

4. Conclusions

This paper has argued that the integration of transition economies into the global trading system has been surprisingly successful. Almost all the countries in transition from central planning have accepted the WTO rule-based system in principle, even if there are variations in trade policies and performance. In particular, the potential danger of regionalism proving more attractive than multilateralism has not eventuated.

The temptations of the EU, ASEAN and ECO pose little threat to adherence to multilateralism, albeit for different reasons. Transition economies joining the EU will have discriminatory trade policies, but within a basically liberal common trade policy,

²⁷ Turkey has promoted the shuttle trade, apparently with some measures favouring traders from

while members of ASEAN and ECO are in organizations whose regional integration remains weak. The other formerly centrally planned economies have shown little interest in regionalism in their external economic relations. China is an APEC member, but its post-1978 trade policies have clearly been based on multilateralism, with WTO membership as the top priority since the mid-1980s. Since Mongolia emerged from the Soviet sphere of influence in 1990, after having become so closely integrated that it was often referred to as the sixteenth Soviet republic, it has shown no interest in preferential bilateral economic relations. The Balkan countries which are not (yet?) EU applicants have been too embroiled in regional problems to give much attention to the matter.

The fairly smooth reintegration of formerly centrally planned economies is significant for people beyond these countries' borders. The global trading system should include as much of the world's population as possible, and the effective absence of China and the CMEA countries was a big gap from the 1940s until the 1980s. More universal participation strengthens the global trading system and all participants in that system benefit from the strengthening.

Central Asia (Khasanova, 1998, 184). The shopper-tourism phenomenon, however, although probably large relative to current trade flows of some Central Asian countries, has limited long-term potential.

Table 1: European and Asian Economies in Transition

	Population (million) mid-1992	GNP per capita (US\$) 1992	Population (million) mid-1999	GNP per capita (US\$) 1999
Central Europe				
Slovenia	2	6,540	2	9,890
Hungary	10	2,970	10	4,650
Estonia	2	2,760	1	3,480
Czech Rep.	10	2,450	10	5,060
Latvia	3	1,930	2	2,470
Slovak Rep.	5	1,930	5	3,590
Poland	38	1,910	39	3,960
Lithuania	4	1,910	4	2,620
German Dem. Rep.	17	LM	n.a.	n.a.
Eastern Europe				
Belarus	10	2,930	10	2,630
Russia	149	2,510	147	2,270
Ukraine	52	1,820	50	750
Balkan & Caucasus				
Bulgaria	9	1,330	8	1,380
Moldova	4	1,300	4	370
Romania	23	1,130	22	1,520
Georgia	6	850	5	620
Armenia	4	780	4	490
Azerbaijan	7	740	8	550
Albania	3	LM	3	870
Croatia	5	LM	4	4,580
Macedonia FYR	2	LM	2	1,690
Yugoslavia	11	LM	11	LM
Bosnia & Hercegovina	4	L	4	LM
Asia				
Kazakhstan	17	1,680	15	1,230
Turkmenistan	4	1,230	5	660
Uzbekistan	22	850	25	720
Kyrgyz Rep	5	820	5	300
Mongolia	2	LM	3	350
Tajikistan	6	490	6	290
Vietnam	69	L	78	370

Non-CMEA				
China	1,162	470	1,250	780
Laos	4	250	5	280
North Korea	23	LM	23	L
Afghanistan	22	L	26	L
Cambodia	9	L	12	260
Myanmar	44	L	45	L

Source: World Bank data from *World Development Report 1994*, 162-3 & 228, and *World Development Report 2000/2001*, 274-5 & 316.

Notes: n.a. = not available in the source;

since 1990 the German Democratic Republic forms the eastern Länder of Germany;

in 1992 lower income (L) is less than \$675 and lower middle income (LM) \$676 to \$2,695; in 1998 L is \$755 or less, LM is \$756 to \$2,995.

Table 2: WTO Status of Former CMEA Members

	WTO Status
Central & Eastern Europe	
Czechoslovakia	Original GATT signatory
Poland	Joined GATT 1967
Romania	Joined GATT 1971
Hungary	Joined GATT 1973
Slovenia	Joined WTO 1995
Bulgaria	Joined WTO 1996
Albania	Joined WTO 2000
Croatia	Joined WTO 2000/1
Bosnia & Hercegovina	negotiating
Macedonia FYR	negotiating
Yugoslavia	
Former USSR	
Kyrgyz Rep	Joined WTO 1998
Latvia	Joined WTO 1999
Estonia	Joined WTO 1999
Georgia	Joined WTO 2000
Armenia	negotiating
Azerbaijan	negotiating
Belarus	negotiating
Kazakhstan	negotiating
Lithuania	negotiating
Moldova	negotiating
Russia	negotiating
Ukraine	negotiating
Uzbekistan	negotiating
Tajikistan	
Turkmenistan	
Asia	
Mongolia	Joined WTO 1998
Vietnam	negotiating

Note and Source: up-to-date membership information is provided on the WTO website www.wto.org

Table 3: Economies in Transition and the European Union

Country	Europe Agreement signed	Europe Agreement came into force	Official application for EU Membership
Bulgaria	March 1993	February 1995	December 1995
Czech Republic	October 1993	February 1995	January 1996
Estonia	June 1995	-	November 1995
Hungary	December 1991	February 1994	March 1994
Latvia	June 1995	-	October 1995
Lithuania	June 1995	-	December 1995
Poland	December 1991	February 1994	April 1994
Romania	February 1993	February 1995	June 1995
Slovakia	October 1993	February 1995	June 1995
Slovenia	June 1996	February 1999	June 1996

Source: From the European Union's webpage (on 22nd. September 2000) at <http://europa.eu.int/comm/enlargement/intro/index.htm>

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