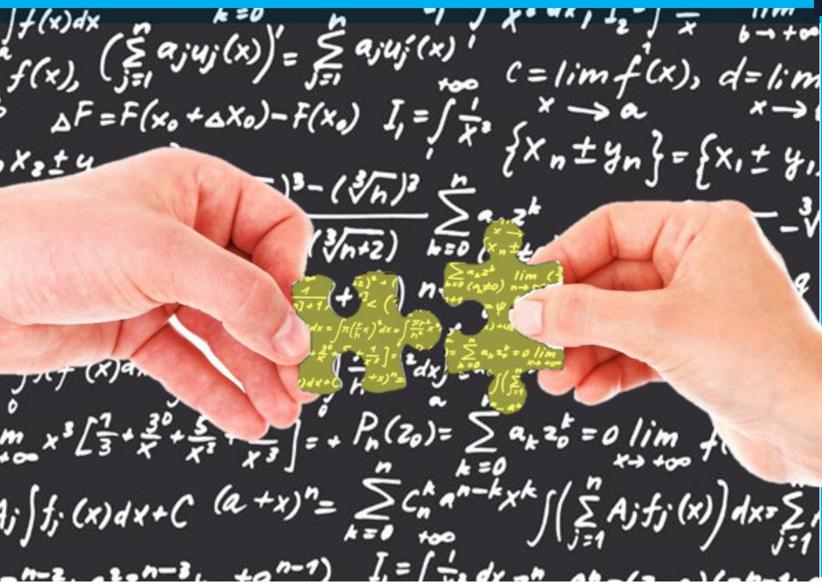
Services liberalization in transition economies:

The case of North and Central Asia



Marta Soprana

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

Working Paper

NO. 162 | 2016

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

WORKING PAPER

Services liberalization in transition economies: The case of North and Central Asia

Marta Soprana*

Please cite this paper as: Marta Soprana (2016),“ Services liberalization in transition economies: The case of North and Central Asia”, ARTNeT Working Paper Series No. 162, 2016, Bangkok, ESCAP.

Available at http://artnet.unescap.org

* Marta Soprana is a trade policy advisor. This paper is a product of a study undertaken for the Sub-regional office of North and Central Asia (SONCA). The author is grateful for the guidance and comments received by Tiziana Bonapace, Mia Mikic and Witada Anukoonwattaka and to the ARTNeT secretariat for the technical support in issuing this paper. Any other errors that remain are the sole responsibility of the author who can be contacted at info@martasoprana.com.

Abstract

This paper offers a review, analysis and assessment of the status of services liberalization in North and Central Asia.

Following a brief introduction about the region and its economic context, this study provides an overview of the binding commitments undertaken by transition economies under the General Agreement on Trade in Services (GATS) and an evaluation of how they compare to domestic policy reform, with a focus on the three transition economies that most recently acceded to the WTO: Kazakhstan, the Russian Federation and Tajikistan. It proceeds to explore the scope of interest in services liberalization in North and Central Asia, highlighting the reasons behind the relative little attention so far received by the services sector in the region. This is followed by an assessment of the role that foreign direct investments can play in improving the treatment of foreign services suppliers and modernize services, and an illustration of how to prioritize services sectors for higher value-added participation in global value chains.

The paper concludes by offering a number of policy recommendations to support services liberalization with a view to diversify the economy, speed up the transition process and improve the overall standing of North and Central Asian countries in the world economy.

Keywords: Services trade, North and Central Asia, GATS, transition economies

JEL classifications: F13, F14, F15

Contents

Table of Tables

Table of Annex

1. Introduction

Transition economies in the North and Central Asian region share several common traits. Mostly landlocked, with no direct access to the sea, they are located at the crossroads of Asia, Europe, the Persian Gulf, the Middle East and the Far East. They act, therefore, as a strategic gateway for trade and investments, which have increasingly poured in during the period 2000-2013, also from their neighbouring fast-growing developing countries, China and India (Akbar, 2012). Furthermore, transition economies are abundant in human capital, which represents one of the most significant legacies of Soviet rule. As a matter of fact, North and Central Asia boasts almost universal adult literacy as well as relatively high rates of female participation in university and enrolments in both primary and secondary education (Blua, 2011).

Since their independence from the former Soviet Union in the early 1990s, all transition economies in North and Central Asia embarked, albeit with different degrees of extent and intensity, on a series of important market-oriented reforms, including development of the private sector, trade liberalization, macroeconomic stabilization and infrastructure development. These reforms were an undisputed contributing factor for the region experiencing one the fastest growing rates of the past two decades (Dowling and Wignaraja, 2006).

But growth in the area was also driven by high commodity prices, since countries in North and Central Asia strongly depend on the abundance of natural resources, from oil and gas to gold and other minerals. For example, Kazakhstan and Turkmenistan are major exporters of oil and gas, though the former is also significantly rich in minerals. Kyrgyzstan exports large quantities of gold, and like Tajikistan, which has great potential for aluminium production and exports, has major water reserves for hydroelectricity to rely on for development (Blua, 2011).

Unsurprisingly, being too dependent on exports of natural resources makes the countries in North and Central Asia particularly vulnerable to the volatility of international commodity prices and the uncertainty of international markets. Indeed, the sharp fall in oil prices that occurred in 2013-2015, combined with the weakening of Russia's economy, the fall of the rouble, the devaluation of Kazakhstan national currency and the sudden downturn in China's economy, significantly affected the economy of most countries in the region, with reductions in remittances, revenues and, consequently, national budgets (Pannier, 2015). For instance, Turkmenistan, which relies almost exclusively on exports of natural gas and was unprepared for the crisis, saw the value of its exports reduced to a mere 30 per cent since 2013, forcing the country to cut subsidies for gas and electricity for the first time in almost 25 years (Pannier, 2015). Kazakhstan, Tajikistan, and Kyrgyzstan shared a similar fate (Sorbello, 2015).[1]

Still, transition economies in North and Central Asia have the potential to diversify their economies, and thus mitigate the risks associated with volatile prices of natural resources and the uncertainties of international markets, should greater attention and effort for reform be dedicated to the variety of business activities that developed as a consequence of their natural resources-led growth, such as construction and banking services as well as a number of manufacturing activities (Dowling and Wignaraja, 2006).

Table 1. Sector share of GDP (value added)

	Agriculture		Industry (excl. mining, utilities)		Mining, utilities		Services	
	1995	2012	1995	2012	1995	2012	1995	2012
Armenia	41.9	20.9	26.7	24.5	2.6	7.7	28.8	46.8
Azerbaijan	26.9	5.5	16.2	15.2	16.7	48.0	40.3	31.3
Georgia	44.4	8.5	12.5	20.4	1.8	3.8	41.3	67.3
Kazakhstan	12.9	4.7	18.6	18.8	11.6	20.7	56.9	55.8
Kyrgyzstan	43.1	18.5	19.0	20.6	2.8	4.1	35.1	56.7
Russian Federation	7.2	3.9	28.9	22.6	10.4	14.4	53.5	59.1
Tajikistan	31.6	26.2	48.4	24.8	0.0	0.0	20.0	49.0
Turkmenistan	16.9	14.5	64.2	46.1	1.1	2.3	17.9	37.0
Uzbekistan	31.4	19.2	27.2	28.7	3.7	4.3	37.7	47.8
North and Central Asia	28.5	13.6	29.1	24.6	5.6	11.7	36.8	50.1
World	4.0	4.3	26.5	25.6	3.7	4.3	65.8	65.7

Source: UNCTAD Statictics (http://unctadstat.unctad.org)

Indeed, in the course of the past twenty years countries in North and Central Asia have undergone significant changes in the structure of their economy. As Table 1 shows, in the period 1995-2012 the majority of the countries in the region moved

[1] Kazakhstan's mining industry, Tajikistan's leading aluminium exporter and Kyrgyzstan's main gold mine are all experiencing difficulties that represent a real danger for each country's whole economy.

from an agricultural- or industry-based economy towards a services-based economy, albeit with a few significant distinctions. In Georgia, for example, the value added share of gross domestic product (GDP) of agriculture dramatically fell from 44.4 per cent to 8.5 per cent, a drop that was mostly absorbed by the services sector, which rose in value added share of GDP from 41.3 per cent in 1995 to 67.3 per cent in 2012. For Azerbaijan and Kazakhstan, on the other hand, the decline in value added share of GDP of agriculture reflected a shift towards the mining sector, rather than the services sector.

However, even though services' share of GDP increased remarkably in most countries in the region, with the exception of Azerbaijan and Kazakhstan, the average share of GDP for services in North and Central Asia (50 per cent) is well below the world average (70 per cent) and natural resources continue to make up the bulk of exports from the region.

2. GATS commitments: the binding regime in North and Central Asia

Although economies in North and Central Asia can be viewed as a rather homogeneous grouping, a few notable differences exist within the region. For example, oil-exporting and non-oil exporting countries fall within different income level categories. Case in point is Tajikistan, a poor economy almost entirely dependent on agriculture, whose per capita income is markedly lower than rich energy-exporting powerhouses such as Kazakhstan and Turkmenistan (Dowling and Wignaraja, 2006).

But transition economies in the North and Central Asian region lack some common