



Tajikistan Joins WTO: Aiming Prosperity amid Uncertainty

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Tajikistan joined World Trade Organization (WTO) in March 2013 as its 159th member and also as the second Central Asian country. Dushanbe's decade long wait to integrate the country with the world economy is now over; the country had filed application in 2001 and made the accession to WTO a foreign policy priority in recent years.¹ Bilateral and multilateral talks culminated with the signing of the accession protocol with the WTO in December 2012.²

The WTO regime provides a platform enabling the member countries to avail a host of advantages, including access to a vast market across the globe by getting Most-Favoured Nation (MFN) status and capital for economic development, as also greater economic credibility in the comity of nations. There are some additional advantages for Tajikistan: it will connect the country to the world economy; facilitate in its transition to market economy; spur economic growth; and assist in securing major strategic objectives of 'energy independence' and also in overcoming the connectivity 'challenges'.³

However, accession to the WTO poses a few challenges as well, especially to a relatively small developing economy like Tajikistan. Exposing the Tajik economy to international market forces without completing the reforms, growing concerns over regional security, especially in Afghanistan, and persisting global economic slowdown are some of the issues which may hinder the realisation of full potential of its accession to the WTO. In this backdrop, this paper discusses the pros and cons of Tajikistan's entry into the WTO, and advantages for neighbouring countries, including India.

Seeking WTO membership: A region-wide phenomenon in Central Asia

All the five Central Asian countries are rich in natural resources. Gradually, these nations are changing the economic landscape of the region by opening their economies and becoming compatible with regional and international trade regimes. To derive maximum economic advantages, these countries are pursuing two-pronged strategies; opening their economies for the world and simultaneously integrating their economies regionally.

During the Soviet period, the Central Asian republics were unable to exploit their resources according to their national interests. The WTO, which was established in 1995, only a few years following the independence of these countries from the Union of Soviet Socialist Republic (USSR) in early 1990s, provided them an opportunity to unleash their economic potentials. Since the very beginning, the Central Asian countries wanted to become WTO members. Though Kyrgyzstan is the first country in the region to accede to the WTO in 1998, Uzbekistan had applied for its membership in 1994, even before the WTO's formal inauguration.

Similarly, Tajikistan (applied in 2001) is the second regional country to join the WTO; Kazakhstan applied in 1996. Currently, Uzbekistan and Kazakhstan are observers along with Afghanistan (applied in 2004), which is Tajikistan's southern neighbour sharing a long border with many trading points. Turkmenistan, a country with 'permanent neutrality' status, is also coming out of its self-imposed isolation. ⁴ In January 2013, it established a commission to start the accession negotiations with the WTO.⁵ Besides, the country has also embarked on upgrading the infrastructure for smooth integration with the international economy.⁶

Similar trends are visible in the former Soviet space. Among the Commonwealth of Independent States (CIS), majority of the countries, including Russia – its main protagonist, are either WTO members or are in the process of completing the accession formalities.

At the same time, a parallel process of regional economic integration is also underway. The Belarus-Kazakhstan-Russia Customs Union is already operational. Kyrgyzstan⁷ and Tajikistan⁸ have evinced their willingness to join this Union; remaining Central Asian countries may also join the Union, as Russia has shown interest in taking them on board. Perhaps, launching of the Customs Union has accelerated the pace of membership to the WTO. The Central Asian countries are increasingly looking towards economic instruments to address a range of issues faced by their societies.

Tajikistan's socio-economic woes: Is accession to WTO a way out?

Tajikistan became an independent country along with other CIS counterparts two decades ago. In 20 years, many of these countries – including from Central Asia – have outpaced Tajikistan in terms of political and economic developments. There are glaring gaps between Tajikistan's capabilities and its current pace of development. The country is endowed with vast natural resources such as hydrocarbon⁹, valuable minerals like antimony¹⁰, rare metals like strontium, precious stones and huge hydropower potential.¹¹ Besides, there has been an uninterrupted period of political stability

for over one-and-a-half decades. However, the country has been unable to tap the comparative advantages of these resources and remains one of the poorest nations of Central Asia.

Assessing the Tajik economy on global indicators also shows that the country needs to reinvigorate its economy. According to WTO, Tajikistan ranks 143 in exports of goods (approximately US \$2 billion in 2010) and 140 (US \$ 2.7 billion) in imports.¹² On the IFC Ease of Doing Business Index – 2013, it is ranked 141 among 185 countries,¹³ and ranked 131st in the rating of the degree of ‘Economic Freedom’.¹⁴ Tajikistan’s geopolitical location is also an economic disadvantage; as it is landlocked and susceptible to developments in the immediate neighbourhood. Afghanistan, which shares more than a 1,000 kilometres land and water borders with Tajikistan, has been in turmoil for decades with a spill over impact on Tajikistan. Drug trafficking through Tajikistan has emerged as a major challenge for the country’s socio-economic stability. Tajikistan-Uzbekistan relationship is also often frosty; recently, there was a disruption in supply of natural gas to Tajikistan, though it resumed later.¹⁵

Weaker economic conditions and lack of domestic employment opportunities force large number of Tajik youths to seek prospects out of the country, especially in Russia. This in return causes many socio-economic problems in the country. Tajikistan tops in the world in terms of remittance-receiving countries in percentage to GDP ratio.¹⁶ Though the migrant workers contribute to the economy by way of remittances, which now accounts for about 45 per cent of the country’s GDP, it is also shaping the Tajik economy as a remittance-dependent economic system. In 2012, the Tajik immigrants to Russia sent US \$ 3.8 billion to Tajikistan, an increase of 31 per cent as compared to the previous year.¹⁷ Reportedly, about one million Tajiks are working in Russia; leaving women behind to singlehandedly raise the families.¹⁸ Many migrants stop sending money to their families after a while, leaving them in uncertainty.¹⁹ The rate of divorce, especially among young Tajiks, has been rising as many of the men working abroad develop permanent relationship with women in host countries and start families there.²⁰

Strategically, the presence of a large number of Tajiks in Russia is a big leverage for Russia that denies Dushanbe manoeuvrability vis-a-vis Moscow. In November last year, Tajikistan was pressurised by Russia to release a pilot, who was sentenced to jail by a Tajik court on the charges of smuggling and illegal entry into the country. Russia condemned the verdict and started deporting Tajik migrants.²¹ Tajikistan succumbed and released the pilot.

Accession to the WTO provides hopes for the country. It is envisaged as an opportunity to connect with the world economic system resulting into greater employment generation and wealth creation, which would help tackling the socio-economic woes and put the economy on track. Dushanbe hopes that through WTO it can have access to foreign capitals, advanced technologies and attract investment by standardising trade practices.

Advantages of WTO accession

Tajikistan considers WTO membership vital to its economic growth. Accession to the WTO would benefit the country’s industries that enjoy comparative advantages. Aluminium and cotton industries have significant potentials to attract foreign capital and markets for their products abroad.

In 2010, both the sectors contributed around 74 per cent (62 per cent and 12 per cent respectively) in the total export revenue of the country²². The two sectors have the potential to become the engine of Tajikistan's economic development. Through their backward and forward linkages, both the industries can assist in addressing the unemployment issues substantially. However, to fully exploit the potential and make them engines of growth, these sectors need foreign investments and latest technologies. In the WTO regime, diverse products of these sectors would have greater market reach resulting in better earnings.

Besides aluminium and cotton industries, the hydroelectric sector, which has a potential of 500 billion kwh²³, can attract transnational power companies for investments. To increase the country's economic condition, the Tajik government is focusing on enhancing hydropower generation. Tajikistan's electricity prices are among the lowest in the world and there is a huge potential of export to neighbouring countries.²⁴ The country exported 666 million kwh of power to Afghanistan in 2012 and targets to increase it to more than one billion kilowatt hours of electricity in 2013.²⁵ To further boost the export potential, Tajikistan is planning to construct more than 50 small hydropower plants in 2013,²⁶ and this would require substantial investments from foreign companies.

Investments in Tajikistan have largely been from the country's public sector. The World Bank identifies the low private investment as a challenge for the country. However, the situation following Tajikistan's accession to the WTO may change. The country's small and medium-sized enterprises are set to witness a substantial expansion. Many Tajiks, having accumulated sizeable capital accrued from the remittances, would be encouraged to launch their own enterprises and exploit the export potential of the WTO-wide market available for their products.

The WTO platform also provides Tajikistan an opportunity to overcome its connectivity challenges, both regionally and beyond. The country is trying to break its 'localism' through this outward engagement, and wants to interact with major economies and powers of the world. All Central Asian countries are seeking WTO membership, and the WTO regime provides for the transit of goods through member-countries' territories, a boon for the landlocked Tajikistan. Its full potential can be explored once Tajikistan's other two neighbours – Uzbekistan and Afghanistan – also become full members.

Alternatively, Tajikistan can emerge as a trade corridor between China on the one side and Afghanistan and Uzbekistan on the other, and generate transit revenues. Though China and Afghanistan have direct borders, approach via Tajikistan is more accessible. This will be especially useful for the country's Gorno-Badakhshan Autonomous Region. Sensing the advantages, the Tajik government has taken timely measures to establish a Free Economic Zone (FEZ) in the strategically located Ishkashim District of Gorno-Badakhshan. The district borders Afghanistan, and is not far from China. The Ishkashim FEZ is connected with Afghanistan's road networks, which extends up to Iran's Chahbahar port route. The FEZ is also near the Gilgit-Chitral road, across the Wakhan corridor of Afghanistan that links up with the China-Pakistan Karakoram highway, which in turn, is linked with the Gwadar port. The economic importance of the FEZ will increase when Tajikistan-Pakistan surface links become operational.²⁷

Criticism of Tajikistan's WTO accession

Though the country has acceded to the WTO, opinions in Tajikistan's academic and media circles are divided over its membership bid. Some experts are sceptic of the likely advantages. They cite the example of Kyrgyz Republic, which has seen little benefits since joining the WTO 15 years ago and still ranks lowest in terms of economic development in the region. A different example cited is Kazakhstan, which tops the region in attracting foreign investments, but is not a member of the WTO.²⁸

There is also a concern that instead of foreign investments, Tajikistan may witness a rise in the arrival of foreign goods, affecting the country's domestic industry, further aggravating unemployment. The country is primarily agricultural, and farmers and small time food traders' interests may get adversely affected. Though less than 10 per cent of the land is arable, agriculture is among the most important sectors of the economy contributing more than 18 per cent to the GDP in 2010²⁹ and employing a large number of rural women. Any harmful impact, due to accession to the WTO, on the agriculture sector, which accounts 30 per cent of official exports³⁰, would negatively affect the economy, particularly rural women.

Some experts also consider accession to the WTO a premature move, which could have been deferred till the country's industrial, financial and legal frameworks were strengthened. They do not see it as a purely economic move. President Emomali Rahmon has been ruling the country for 20 years, since 1994 and in his third term in a row, is expected to seek another seven-year term in November this year. Though the President still enjoys popularity, recently, he has been criticised for his handling of the situation in Gorno-Badakhshan and for clamping scores of internet websites, including social networking, in Tajikistan. Taking Tajikistan to WTO would definitely generate 'feel good' factor that can result in electoral gains.

India-Tajikistan partnership: Role of WTO

For India, Tajikistan is a 'key partner' in its 'extended neighbourhood'. The two countries have cordial and friendly relationship. During the visit of Tajikistan President Emomali Rahmon to India in September 2012, the two countries felt the need to elevate their bilateral relationship to the strategic level. Tajikistan's accession to the WTO is commensurate with India's recently launched 'Connect Central Asia Policy', which also focuses on economic engagement with the Central Asian countries. Tajikistan's inclusion to the WTO is a welcome development as India had desired Dushanbe's early accession.³¹ It will expand the horizon of bilateral relationship from political to economic field. Increased business-to-business contacts will lead to enhanced people-to-people interactions.

Trade between India-Tajikistan in 2011-12 stood at US\$ 28 million³², lower than the previous year and much below its potential. Accession to the WTO would result in greater business activities between Indian and Tajik entrepreneurs. Tajikistan has established four Free Economic

Zones in different parts of the country; Indian private sector is exploring the possibilities to invest in these zones. Indian business community has shown keen interest in Tajikistan's information technology, pharmaceuticals, textiles, mining, tourism and renewable energy sectors. Open economy, standardised policies and lesser trade barriers would also attract investments from India in Tajikistan's hydropower sector, which has huge potential and Indian companies are already engaged in this field. In January 2013, Bharat Heavy Electricals Limited (BHEL) of India successfully commissioned Varzob hydropower project near Dushanbe.³³ The WTO can work as a platform for the two countries to cooperate and synergise their economic engagements. However, the real fillip to the bilateral trade will take place when Tajikistan joins the Belarus-Russia-Kazakhstan Customs Union and India concludes a Free Trade Agreement with the Union.

Conclusion

Tajikistan's accession to the WTO is a big achievement for the Central Asian country. Tangible benefits would not only be visible in the fields of economy but also in the political and cultural spheres. At the regional level, integration with the world economy will not only benefit Tajikistan but the entire region may reap economic dividends. Though Tajikistan aspired for long to become a WTO member and was engaged in a protracted negotiation, the extended period also provided the country ample time to adequately adapt itself to the new regime. It is a small country with a relatively small economy and accession to the WTO is not expected to influence the international trade in a big way. However, the WTO regime will be useful for the country as powerful trading nations would not be able to impose discriminatory trade practices in their transactions with Tajikistan. To fully garner the benefits of the open economic system, Tajikistan, however, needs to identify the areas of its economic strengths. Besides taking economic and administrative measures, in order to instil confidence in foreign investors, the country also needs to reform its judiciary, which is often accused of not working independently.

Tajikistan is moving towards market-based economic system and accession to the WTO may prove a milestone. Liberal economic system will create a strong middle-class that would seek greater political rights, accountability and transparency. It will also promote a liberal culture leading to the democratisation of the society. In the WTO regime, increased economic activities, intra-regional trade and gradual regional economic interdependence may stimulate better political relationships in the region, especially with immediate neighbours. Market economy, rule-based system, standard international expertise and business practices under the aegis of the WTO can encourage tapping of Tajikistan's domestic resources to deliver economic good to its people, which has long been due.

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Endnotes

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