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Improving Trade Policy Management

Policy Note 2

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January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of May 29, 2015)

Currency Unit Tenge
US\$1 = 185.50 Tenge

WEIGHTS AND MEASURES
Metric System

ABBREVIATIONS AND ACRONYMS

ADR	Alternative Dispute Resolution
AFTA	Association of Southeast Asian Nations Free Trade Area
AFTA-CER	Association of Southeast Asian Nations Free Trade Area- Closer Economic Relations
AKTISA	Association of Southern Asian Nations - Korea Agreement on Trade in Services
ASEAN	Association of Southeast Asian Nations
BEC	Broad Economic Classification
BKR-CU	Belarus-Kazakhstan-Russia Customs Union
CEM	Country Economic Memorandum
CER	Closer Economic Relations (Trade Agreement Between Australia and New Zealand)
CES	Common Economic Space
CET	Common External Tariff
CGE	Computable General Equilibrium
CIS	Commonwealth of Independent States
CTPD	Center of Trade Policy Development
CU	Customs Union
DFTR	Department of Foreign Trade Regulations
DIEI	Department of International Economic Integration and Regulations
EAC	East African Community
ECA	Europe and Central Asia
EEC	Eurasian Economic Commission
EU	European Union
EU 27	All EU member states except Croatia
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GMO	Genetically Modified Organism
GOST	<i>Gosudarstvennyy Standart</i> (State Standard)
HS	Harmonized System
ITC	International Trade Center
MEBP	Ministry of Economy and Budget Planning
MES	Ministry of Education and Science
MFA	Ministry of Foreign Affairs
MINT	Ministry of Industry and New Technologies
MLT	Maximum Tolerance Limit
NACEKs	National Center of Certification and Expertise
Non-CU CIS	Non-Customs Union Commonwealth of Independent States
NTM	Non-Tariff Measure
OECD	Organisation for Economic Cooperation and Development
PSI	Pre-Shipment Inspection
PTA	Preferential Trade Agreement
QC	Quantity Control

ROO	Rules of Origin
RTA	Regional Trade Agreement
SEZ	Special Economic Zone
SME	Small and Medium Enterprises
SPS	Sanitary and Phyto-Sanitary
TBT	Technical Barriers to Trade
UNCTAD	United Nations Conference on Trade and Development
USTR	Office of the United States Trade Representative
WTO	World Trade Organization

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I. WHY DOES TRADE POLICY MANAGEMENT MATTER?

1. **Trade policy is a core instrument for the Government of Kazakhstan to achieve its goals of economic diversification and sustainable economic growth.** In line with the 2030 and 2050 strategic visions of the government, such growth driven by continued global integration will propel Kazakhstan to the ranks of the world's developed nations. Institutions and their ability to manage trade policy will be essential for achieving the development goals the government of Kazakhstan has set.

2. **The objective of this policy note is to identify constraints in the institutional structures, processes and capabilities that affect the management of Kazakhstan's ambitious trade policy agenda, and provide suggestions to improve it.** The integrative approach to trade policy making includes four dimensions: trade policy strategy, trade negotiations, industry and export development and public-private consultation.¹ Obtaining results in one area without effective execution in the others can cause suboptimal results or even a waste of public resources. For instance, a country may have a strong negotiating team, but may not benefit from trade negotiations if it has no clear trade policy strategy or if the strategy is disconnected from other trade-related policies such as promotion of exports, investment attraction, and innovation.

3. **In summary, the policy note finds that:**

4. **The trade policy strategy in Kazakhstan is multi-faceted and well integrated within the national development strategy, but it is also ambitious and needs prioritization.**² On the one hand, the strategy addresses negotiating the global and regional integration of Kazakhstan's economy. This involves negotiating WTO accession; consolidating the customs union (CU) with Russia and Belarus that was set up in 2010 and negotiating its transformation into a Common Economic Space (CES) by 2015; pursuing at least three free trade area agreements (FTAs) and five preferential trade agreements (PTAs) with other partners; and implementing the commitments of the trade agreements reached. On the other hand, it addresses supply side issues aimed at fully exploiting the opportunities of trade for diversification and transformation of the economy. This is translated into supporting a number of programs and actions that provide services and financing to firms to support innovation, attract foreign investment and ultimately to export new products and/or to new markets.

5. **To implement such an ambitious strategy the authorities should consider prioritizing their actions and building capacity.** First, it would be useful to fully understand and account for the implication of membership in the Customs Union and the WTO, and their respective opportunities and challenges. Second, the authorities may wish to consider prioritizing the different policy objectives. For instance, it is not clear that the proposed FTA negotiations have arisen from a strategic evaluation of best markets to target for FTAs. Finally, successful implementation of the trade strategy will require adequate capacity in the public sector and clearer communications with the private sector.

6. **Trade policy development and implementation involve several ministries; effective coordination is essential and streamlining will be important.** In Kazakhstan, one of the deputy prime ministers is responsible for policy definitions. The Ministry of Economy and Budget Planning (MEBP) leads trade negotiations and implements policies. The MEBP and the Ministry of Industry and New Technologies (MINT) jointly develop policies and strategies for export development and diversification.

¹By comparison, usually assessment of the trade policymaking focuses on who conducts trade negotiations and how related decisions are taken.

²Trade policy is the complete framework of policies definitions, laws, regulations, international agreements and negotiating stances adopted by government to achieve legally binding market access for domestic firms (Goode, 2007). It also includes policies and programs supportive of supply side export development and diversification. Broadly speaking, trade policy includes three main components: design, implementation, and administration.

MINT and the Ministry of Education and Science (MES) lead and finance the government programs on innovation. The Ministry of Foreign Affairs (MFA) is strengthening its capacity to be involved in trade negotiations and investment attraction. Meanwhile, line ministries have their own programs for research and development. Regional authorities also have somewhat autonomous support programs for export development and investment attraction. A new Ministry of Regional Development was created in December 2012. It is expected to become an important actor in regionally-based trade development and promotion when its functions are fully defined and a ministerial structure is put in place.

7. **The institutional framework for organization and coordination of trade negotiations is well developed but can be improved to better address the current and upcoming trade policy issues.** Mostly this involves ensuring participation of appropriate counterparts within and across ministries in a much more systematic, thematic approach. It also implies for the MEBP to consider undertaking its coordination efforts using a thematic approach as well. Improving the institutional framework will also require sustained training and capacity building at MEBP and CTPD, which coordinates and leads trade negotiations, but also at sectoral ministries. This training needs to include general and specialized modules as well as language training. Capacity building at MEBP and CTPD would signify increasing specialized staff. A skills assessment would help this process forward. Finally, to engage sectoral ministries further and build institutional memory, it would be useful to ensure information flow both-ways.

8. **The principle of public-private consultations is heeded in Kazakhstan, but the practice of consultation needs improvement to reach international good practice.** The nature of the consultation can improve through better information sharing and more content rich, regular consultations. The majority of the private sector has not been an active partner in the public-private consultation up to now, and some have noted that when consulted the process has been ad-hoc and not very informative. Looking forward, a number of actions can strengthen the consultative process around the trade policy agenda. The authorities should consider different types of consultation mechanism including formal and informal networks, structured, time limited/permanent. In July 2013, a new law created National Chamber of Entrepreneurs, which is expected to contribute substantially to reform and strengthen the entire consultation process in content and structure. Its success will depend on an effective governance framework: transparency, effectiveness of execution, and mechanisms of evaluation of the Chamber's programs and performance. Educating/training the private sector about the effects of trade agreements will serve the country well. To improve public outreach, the authorities would benefit from a new communications program to disseminate the government's trade policy and strategy. In the case of trade negotiations the private sector should mirror the thematic nature of the trade agenda.

9. **In the short term, five priority actions can strengthen institutional capacity for trade negotiations at the WTO and the CU, and for FTAs :**

- Establish a permanent technical and policy representation in Moscow for CU/CES affairs and strengthen Kazakhstan's permanent representation at the WTO to better coordinate policy positions for ongoing and future trade negotiations, including any FTAs.
- Ensure strategic alignment between trade policy negotiating positions and export /enterprise development policies.
- Organize the coordination and consultation process for negotiation along thematic themes, and with a closer involvement of the private sector.
- Use short term training on (i) trade negotiations techniques and thematic policy issues to better prepare technical staff at the MEBP and other ministries involved.

- Launch public outreach campaign for the civil society and private sector on the country's trade policy objectives, benefits / costs of participation in the WTO, the CU, any FTAs.

10. **This note is based on qualitative analysis of a survey of government agencies and ministries and on discussions with the private sector.** It uses a typology of institutional constraints to identify whether these originate from strategic design, strategy implementation or in support programs (Table 1 and Annex 1). This typology helps us organize the assessment into four critical pillars for the success of trade policy: strategy; the institutional framework of trade negotiations at multilateral, plurilateral and bilateral levels and implementation of agreements; policies and institutions that address enterprise and export development/upgrading; and public- private consultation and trade policy dialogue. An analytical framework adapted from Jordana and Ramio (2003) is then used to assess trade policy institutions in Kazakhstan (Annex 2). The main organizational and institutional characteristics of the institutions are assessed based on four dimensions: the degree of institutional fragmentation, the degree of formalization of ministerial coordination; the network of private players and the degree of formalization of private sector participation.

Box 1: Principles of Trade Policy Making

Good practice trade policymaking follows the basic principles of empirical preparation and institutional coordination. Trade policy making and negotiations require that policymakers be armed with the necessary economic and legal information, and that their positions have the necessary political support at home and -when appropriate- abroad. The development and pursuit of trade policy also requires that policymakers have at their disposal the necessary human, physical, and financial resources.

Principle I: Empirical preparation. The most immediate need of policymakers is to enhance their analytical capacities in advance of trade negotiations. The first step in the preparation for any trade negotiation is the identification of (i) commitments the country is prepared to make on tariffs, non-tariff measures and other sectoral negotiations issues; (ii) commitments that are to be sought from particular negotiating partners on the same topics in return.

Principle II: Enhancement of analytical resources. Countries need to enhance their system of national trade data, including by using data provided by relevant international organizations. In coordination with Principle I, this enhancement provides the necessary information for benchmarking the country's trade performance and for analyzing the effects of trade policy negotiation positions and commitments.

Principle III: Enhancement of ministries responsible for trade policy matters. The financial, physical, and human resources available to the ministry responsible for trade policy and negotiations must be increased to a level commensurate with the ministry's responsibilities. In addition, the ministry staff should be provided further training on issues and analytical methods as well as negotiation technics in trade policy. In this regard, the quality of the staff is even more important than its size.

Principle IV: Internal coordination. Coordination and collaboration between ministries with an interest in trade-related matters, and between the government and the private sector, are essential at all stages of trade policymaking. In the absence of teamwork, the negotiators will not have the information they need to reach agreements that take national concerns fully into consideration, nor will they have the political support necessary to approve and implement these agreements at home.

Principle V: External coordination. Negotiations with other countries involve not only the exchange of commitments, but also the establishment of negotiations coalitions in larger fora. Whether it is negotiating in a regional, hemispheric, or multilateral forum, a country must work closely with like-minded countries in general and its regional partners in particular.

Principle VI: Establishing a communication strategy. The strategy is essential to inform the private sector and the population in general about the trade policy decisions, their potential opportunities and costs, and ways to mitigate these later. A successful communication strategy also helps build dialogue and support for the government's trade policy positions.

Source: based on Craig VanGrasstek (2003).

Table 1: Trade Policy Making

(A typology of institutional constraints)

CONSTRAINT IN STRATEGY DESIGN	CONSTRAINT IN STRATEGY IMPLEMENTATION	CONSTRAINT IN SUPPORT PROGRAMS
No clear strategy so that policy is more reactive than strategic.	Unclear, overlapping, unstable or conflicting mandates among ministries.	Executing agencies' internal governance: <ul style="list-style-type: none"> • Not well aligned with requirements for responding effectively to the productive needs of their private sector clients. • Insufficient private sector participation on boards.
Lack of Integration: <ul style="list-style-type: none"> • Guiding strategy is a set of relatively separate strategies that may not be consistent in their content and timing or synergetic as a whole. • Dysfunctional discontinuities in strategies over the political cycle 	<ul style="list-style-type: none"> • Ineffective coordinating mechanisms leads to: • "Siloed" policy execution between and within government ministries and agencies. • Inadequate bureaucratic hierarchy for designated lead ministries/agencies. 	Programs: <ul style="list-style-type: none"> • Services/resource support programs insufficiently comprehensive in coverage. • Duplication of programs • No protocol for independent evaluation of impact of programs with respect to their goals.
Design: <ul style="list-style-type: none"> • Strategies may be vague with nonoperational goals • Strategies may express so many priorities that there are no real priorities. 	<ul style="list-style-type: none"> • Conflicting policies emanating from central government and regional authorities. 	Private Sector Consultation: <ul style="list-style-type: none"> • Little or excessively ad-hoc consultation with the private sector in program design. • Unbalanced representation of the private sector in consultations • Weak technical capacity of private sector. • Governance of consultation process insufficient to insulate public authorities from pressure of special interests.
Private Sector Consultation: <ul style="list-style-type: none"> • Little or excessively ad-hoc dialogue with the private sector. • Unbalanced representation of the private sector • Formal rather than fact- based problem-solving • Weak technical capacity of private sector. • Governance of consultation process insufficient to insulate public authorities from pressure of special interests. 		
Human resources constraints related to the stability, the type, the quantity and/or quality of skills, including management and technical skills specific to the topic.		
Infrastructure constraints in terms of data bases, information systems, internet access, access to external networks, travel, and others.		
Excessive budget constraints vis-à-vis fulfillment of officially sanctioned mandates.		

Source: World Bank Staff.

11. **For parsimony, the focus of this policy note will be on three out of the four functionally interrelated areas of trade policy:** strategy; the institutional framework of trade negotiations at multilateral, plurilateral and bilateral levels and implementation of agreements; and public- private consultation and trade policy dialogue. Section II provides a succinct assessment of trade policy strategy, with further information in Annexes 1-4. Section III reviews the over-arching organizational division of labor and processes for trade negotiations. Section IV looks at options to improve trade policy coordination at the MEBP. The private-public consultation processes will be examined in Section V. Each section ends with recommendations to ease the constraints identified as affecting trade policy making. Section VI concludes.

II. THE TRADE POLICY STRATEGY IS AMBITIOUS AND NEEDS PRIORITIZATION

12. **The current trade policy strategy is well developed and integrated within the national strategic vision.** It is an instrument for economic diversification, export development, and protection of the country's interests in global trade. Trade policy operates under the umbrella of an interrelated set of strategies and programs, and trade and international integration play a central role in the country's strategy. The "Strategy Kazakhstan 2050" has the objective of Kazakhstan becoming one of the 30 most developed countries in the world by 2050.³ The most relevant programs on trade policy are the "2010–14 State Program of Accelerated Industrial and Innovative Development of the Republic of Kazakhstan" (Annex 4); the "Program for Development of Trade in the Republic of Kazakhstan for 2010-14" and the "Investment Attraction, Special Economic Zone Development and Export Promotion in the Republic of Kazakhstan for 2010–14" (Annex 4). The programs clearly build upon each other, are quite precise in terms of goal setting and state action and are meant to serve as guide for the work programs of ministries and executing agencies.

13. **Trade is seen as a central tool for diversifying the economy.** The goal is to triple non-energy goods exports by 2040 from their current level of about \$17 billion and expand service exports. This is seen to require technologies and innovation to drive the creation of new industries and market niches, including becoming a global player in agricultural industrial processing. Development of SMEs and their exports are considered a central pillar of the diversification strategy. The vision also contemplates more partnerships with international companies. The CU market of 170 million people is targeted to become a major platform for making Kazakhstan's firms more competitive and creating opportunities for the growth and diversification of the country's non-energy exports. Meanwhile, effective trade policy is seen to require new vehicles for public-private consultation (Box 1).

14. **The trade policy strategy is also ambitious and wide in scope, making its implementation a challenge.** To implement such an ambitious strategy, first, it would be useful to fully understand and account for the implication of membership in the Customs Union and the WTO, and their respective opportunities and challenges. More specifically, is there a strategy and related implementation approach to take advantage of these memberships going forward? Second, in refining their short vs. long term approaches to achieving the overall trade policy strategy, the authorities may wish to prioritize the different objectives. For instance, have the authorities prioritized the order in which to negotiate the FTAs identified in its trade policy? Do these negotiations have priority over providing support to reimburse exporters or enforcing treaty obligations to resolve trade disputes (Box 1)? This priority setting should go

³ The Strategy 2050 is largely a set of aspirational aggregate goals rather than a specific roadmap of state actions for development. It extends another aspirational strategy called the "Strategic Development Plan until 2020." The "Strategic Development Plan Until 2020" is the second stage of the "Strategic Development Plan Until 2030". More specifically defined Programs operationalize the goals set out in the strategic visions.

hand in hand with realistic action plans and a clear methodology to monitor and evaluate the progress of the different components of the action plan. Third, implementation will clearly challenge the authorities' institutional capacity, so immediate and sustained training in various aspects of trade analysis and policy is bound to create positive externalities for public and private actors. Finally, for the private sector to benefit from the opportunities of such an open economy, it needs much better information about the present and future agreements and their implications and a strong, continuous and transparent voice both at the negotiation table and in implementing these agreements nationally.

Box 2: Kazakhstan's Trade Policy Objectives

The Trade Policy of Kazakhstan is focused on promotion of export development and diversification and protection of the country's interests in global trade through:

- Completing accession to the WTO in order to ensure market access and attract foreign investment.
- Finalizing the Russia, Belarus, Kazakhstan CES by 2015. This agreement along with the current CU is seen as a major platform for the development and diversification of exports as well as the attraction of foreign investment.
- The initiation of negotiations of free trade agreements with Turkmenistan, EFTA, and Serbia, and preferential trade agreements with Egypt, Jordan, Israel, Afghanistan, and the Gulf countries.
- Enforcing treaty obligations to resolve trade disputes or to undertake rules-based retaliatory measures as necessary.
- Undertaking research aimed at proposing to the Eurasian Economic Commission (EEC) needed adjustments of the Common External Tariff to protect domestic industry or facilitate needed imports.
- Providing informational and support services to exporters, including analysis of world trade trends, reviews of countries' economies, industries and products, develop trademarks, promote abroad enterprises and their products and provide specialist training in export management.
- Providing financial support to reimburse exporters for part of the costs of promotional activities abroad and the development of new products for foreign markets as well as provide export credit and insurance.
- Using diplomatic missions and the assignment of special counselors to those missions, who will be proposed by MINT, to develop new distribution channels for Kazakhstan exporters.

Source: Official documents, World Bank staff.

III. IMPROVING THE TRADE POLICY ORGANIZATION AND COORDINATION FOR NEGOTIATIONS

15. **The institutional framework for organization and coordination of trade negotiations is well developed.** The overall system is overseen by one of the deputy prime ministers. The model is centered on the MEBP and has a three-tiered process to facilitate trade negotiations (Figure 1).⁴ Having MEBP at the leadership of the trade policy making helps the coherence of economic and foreign trade policies. It also provides a wider sectoral view that includes industrial development agriculture, and services. There is less risk of capture by organized vested interests due to larger constituency. However, there could also be disadvantages to such a leadership in the form of the ministry trying to fulfill a diverse set of objectives. This could harbor potential contradictions between negotiations, and agreements, exports development and domestic development (Annex 1).

⁴ The assessment of the trade policy institutions uses two complementary approaches. On the one hand, it uses an analytical framework developed by Jordana and Ramió (2003) to assess Kazakhstan's trade policy institutions. On the other hand, it looks at the status quo and how it can be improved, using international experiences as examples.

16. **International experience shows that there is no model of “best institutional arrangement” for trade policy.** Broadly speaking there are four general models that differ on which agency is responsible for leading trade policy and each has demonstrated its effectiveness: Foreign Affairs centered (e.g., Australia); Ministry of Industry centered (e.g., Korea); Ministry of Economy centered (e.g., Spain and Kazakhstan) and a special dedicated agency (e.g., U.S.). Countries can and do change models due to policy necessity or political factors (e.g. Brazil). Each of these models has strengths and weaknesses (Annex 3). International examples show that countries with different institutional models perform well. For instance, the United States, the European Union (EU), Japan, and Korea, have different models which broadly speaking are considered to be world class. Annex 3 provides further information on different models and the examples of the trade policy institutional set-ups from the US, EU, Brazil and India.

Box 3: Trade Policy Making in the European Union

In the European Union, trade policy setting, coordination and consultation is very structured and multilayered. The Directorate General of Trade (DG trade) within the European Commission (EC) develops trade policy proposals. Discussions on these proposals are first taken up within the EC. The proposals are then taken up by the Article 133 Committee, a consultative body representing governments, senior civil servants and trade experts from member countries and commission representatives. The members of the Article 133 Committee in essence represent the positions of national ministers. The Article 133 Committee plays a critical role in developing the common European trade policy, oversees the EC work on trade negotiations and makes decisions related to trade policy. Once The Article 133 Committee review of the policy is finalized, the EC council—its main decision making body—votes on the policy and agrees on a negotiating mandate. The actual negotiations are then undertaken by the members of the EC. In addition to the consultative process described above, a great deal of coordination takes between among different EU governance bodies such as the Committee of Permanent Representatives, the General Affairs and Foreign Affairs Council (GAC) and the European Parliament; and with national government. Ultimately, the final adoption of a trade agreement is usually by consensus (Annex 2).

Source: European Union data, World Bank staff.

17. **Success in trade policy making seems not to be related to who is responsible for trade policy.** Rather, the quality of the trade policymaking process defines the successful outcome. This includes: how trade policy is designed, implemented, and administered, together with human and infrastructure resources.⁵ Trade policy involves design, implementation, and administration. The design of trade policy, which includes the main strategic definitions of a country, is normally undertaken by a core set of agencies which operate in close consultation and coordinate, with other agencies responsible for specific thematic areas at the domestic level. Implementation involves coordination issues too, including with stakeholders, but also aligning domestic laws with international obligations which in turn require consultation with the legislature. In many countries, the agencies responsible for the design of policies are not responsible for the daily management of those policies.

18. **In general, countries successful in trade policy making maintain a high level of coordination at the different levels of design, implementation, and administration.** Also, they frequently adjust their policymaking process according to the challenges of the trade environment. For instance, in the United States trade policy making is a shared responsibility of the Executive and the Congress, and the negotiations the function of US Trade Representative (USTR). But the process is supported by a high level of coordination. The coordination process for negotiating purposes is led by the USTR at the government level, and at all stages of the administration. This agency is also responsible for the coordination with the US Congress which plays a significant role in trade policy matters. In Brazil, the legal mandate and responsibilities of the chamber of foreign trade, the main policy making and

⁵ There are no “pure” models. We classified the countries within one model on the basis of where the trade policy “function” is located, including negotiations.

coordinating body for trade policy, changed several times in the past twenty years as political and policy needs evolved (Annex 2).

Box 4: Services Sector – Complexity in Policy Making and Negotiations.

Services sector covers a wide array of economic activity, from logistics and transport to education and health services, and financial and cultural services. Services sector can be direct exports, contributing to the economic diversification. They are also often inputs into other economic activities such as manufacturing, mining and agriculture. In both roles, their efficiency and competitiveness would contribute positively to the overall performance of the economy.

Given the complexity of the sector, experience suggests that no single entity should be responsible for the macro-oversight of the services sector policy agenda as is common in other sectors such as agriculture, where oversight is with the ministry of agriculture. Furthermore, the political economy of services reforms is complex, involving dealing with politically sensitive issues which affect powerful interests, and a wide range of stakeholders.

A **services reform** agenda will require:

- Establishing a single national development strategy
- Improved coordination among the different public entities responsible for development of the services sector under a single development strategy. No centralized unit should drive the services policy reform agenda.
- The entity responsible for elaborating, coordinating and monitoring the implementation of reforms will need to fulfill key characteristics:
 - Be at a relatively high level in the political structure. The choice of the agency or ministry responsible for monitoring reform implementation is also a condition for a successful coordination mechanism
 - Have a strong Secretariat. Strength in this context has several dimensions: technical capabilities, including that of assessing and monitoring the progress of the works performed by line ministries, agencies and professional bodies; and the necessary resources and staff to conduct the secretariat's mandate.
 - Have authority to instruct other entities on how to improve implementation.
- Close coordination with stakeholders.

In preparing for **services negotiations** an important first step is to set up a credible, transparent, and efficient coordination process. Such coordination often rests with foreign and/or trade ministries – typically the ministries responsible for conducting the negotiations themselves. Intra-governmental coordination is an issue of such importance that it alone is liable to determine the effectiveness of a country's participation in international negotiations.

To structure the internal policy dialogues and decision-making processes in services trade a number of WTO Members have created dedicated "Working Groups" established under the Trade/Commerce Ministry to co-ordinate trade negotiations. Members could have a single group for services, or a number of different Working Groups covering related services sectors (e.g., one group on recreation/sports/entertainment and tourism; another on transport, distribution, and communications, etc.). Working Groups could also be considered for issues that are relevant across a range of sectors, such as Mode 4 and labor-force development, or possibilities for cross-border and e-trade in services.

To ensure a coordinated and coherent set of objectives across various negotiating fora, it is necessary to undertake an extensive consultation process outside the government. The mix of stakeholders therefore needs to be as broad and as representative as possible, even though it may make debate more controversial. It may also have to reflect a balance between institutions of a national and sub-national character and between institutions that are more horizontal in nature (e.g., a chamber of commerce representing several sectoral interests) and those of a more narrowly sectoral character (e.g., the banking federation or individual professional service associations).

Source: Marconini, Mario, and Pierre Sauvé. 2010.

19. **In Kazakhstan, trade negotiations, policy organization and coordination take place at three levels.** At the top level, The Deputy Prime Minister responsible for economic affairs formally oversees policy design, and implementation, including trade negotiations, in particular WTO accession and Kazakhstan's participation in the Custom Union and Common Economic Space (Figure 1). In order to perform this responsibility, the Deputy Prime Minister leads "The Interdepartmental Commission of the Republic of Kazakhstan on Trade Policy and Participation in International Economic Organizations." At this level the broad policy objectives and mandate are defined. The Deputy Prime Minister's work is

supported by the ministries responsible for the thematic areas which participate in the Interdepartmental Commission. The MEBP coordinates the process through the Minister of Economic Integration, including negotiations. Meetings of the Deputy Prime Minister with the group of ministers involved in trade agenda take place once a month.

20. **At this top level, it would be beneficial to ensure the foreign policy dimension is taken into account early on in the development and implementation of trade policy.** Available information suggests that the Ministry of Foreign affairs is currently only included at the end of the negotiations process to account for the international implications of the treaty obligations. This is potentially a weakness due to the importance of trade negotiations for any country's foreign policy. In effect, trade negotiations influence, and can also be influenced by, international relations. However, direct involvement of Foreign Affairs experts at the technical level may not be necessary.

21. **Kazakhstan should have a permanent Kazakhstani representation in Moscow responsible for CU/CES affairs.** The make-up of the Eurasian Economic Commission (EEC) in Moscow includes a number of technical staff from Kazakhstan. There are regular and frequent missions to Moscow to advance discussions within the CU. Finally, Kazakhstan has an embassy in Moscow, which follows the work at the EEC level. However, it would be beneficial and more efficient to have a stand-alone permanent technical/policy representation to follow-up on the broad working agenda, advocate for the country and report back systematically and comprehensively. This Mission would be responsible for following the technical work and liaising with the sectoral ministries. Many members of the European Union have such representation in Brussels.

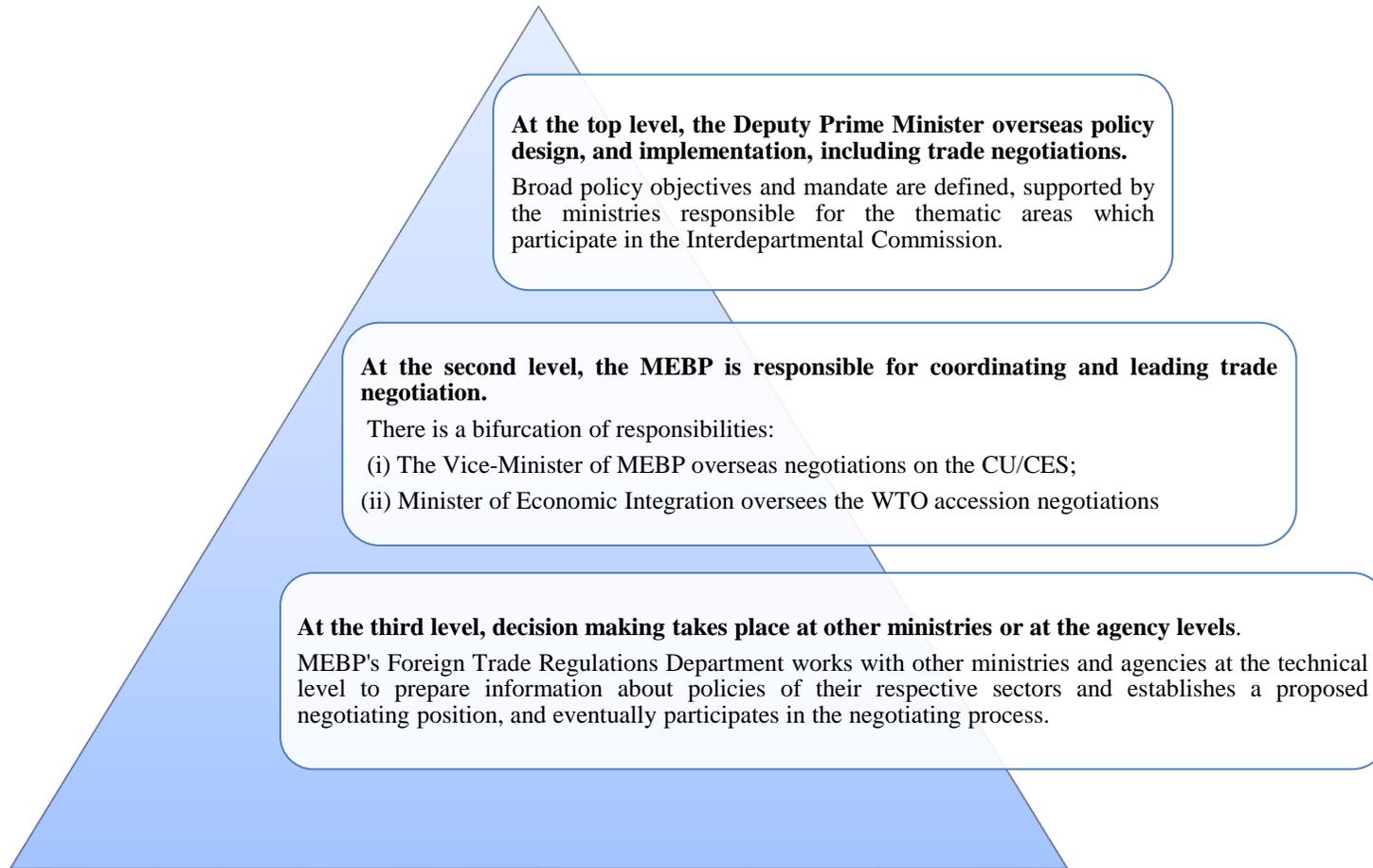
22. **At the second level, the MEBP is the institution responsible for coordinating and leading trade negotiation.**⁶ There is a bifurcation of responsibilities where negotiations are concerned:

- a. **The Vice-Minister of MEBP** is in charge of conducting and coordinating negotiations and other work in the CU/CES while the Minister of Economic Integration, a minister without portfolio working with the MEBP, oversees the WTO accession negotiations. MEBP's Department of International Economic Integration and Regulations is responsible for coordinating this work with other ministries and agencies at the technical level. The Department of Foreign Trade Regulations is also involved, in particular, in the areas of tariff, non-tariff measures, and trade remedies. Both the Minister of Economic Integration and the Vice-Minister of MEBP are responsible for different bilateral negotiations, including FTAs.
- b. **The Minister of Economic Integration** is responsible for the WTO accession negotiations. The official negotiating team is integrated by the Vice-minister responsible for each thematic area (see Annex 3). The Minister of Economic Integration's work at the technical level is supported by MEBP's staff in its Departments of Foreign Trade Regulations and International Economics Integration and Regulations

⁶ MEBP shares responsibilities in trade policy making with other ministries and agencies. MEBP and the Ministry of Industry and New Technologies (MINT) jointly develop policies and strategies for export development and diversification. MINT and the Ministry of Education and Science (MES) lead and finance support of innovation. Line ministries have their own programs for research and development. Regional authorities also have somewhat autonomous support programs for export development and investment attraction. A new Ministry of Regional Development was created in December 2012. It is expected to become an important actor in regionally-based trade development and promotion when its functions are fully defined and a ministerial structured is put in place.

Figure 1: Trade Policy Development and Negotiation

(Structural organization and coordination)



Source: World Bank staff.

23. **At this level the actual technical work on the ground takes place.** This consists in implementing the decisions made by the Interdepartmental Commission, gathering information, organizing and establishing a negotiating positions and participation in negotiations. Regarding negotiation, the Department of Foreign Trade Regulations (DFTR), or the Department of International Economic Integration and Regulations (DIEI), requests information from the sectoral ministry or agency responsible for the specific area of negotiations. The sectoral ministries or agencies must determine the negotiating position and are responsible for the outcome.

Box 5: EEC Working Structure

The EEC works at several levels. The highest level is the Council integrated by the Deputy Prime Ministers of the three member countries. The second level of responsibilities is the Board of the EEC organized around areas of responsibilities for each of the topics discussed in the EEC. The work of the EEC is supported by the consultative committees, which are created on an ad-hoc basis to support the technical work. Representatives of the countries, both public officials and private sector representatives, provide their inputs on the technical proposals under consideration by the Board. The consultative committees' work is supported by the EEC Secretariat which today is integrated by 800 officials from the member countries. The consultative committees work on the basis of proposals developed by the Commission or put forward by the countries. Under the current EEC working arrangements, the consultative groups are not necessarily permanent and ministries do not maintain dedicated officials responsible for following up the progress of the CU and the CES.

Source: World Bank staff.

24. **The Center of Trade Policy Development (CTPD)—a quasi-independent technical body housed in the MEBP—is actively involved at this level.** The CTPD's participation is particularly important in two dimensions. The CTPD provides analytical support to the MEBP on trade negotiations, including assessing their likely impact on the Kazakhstan economy. The staff of the CTPD also participates as experts in the negotiations. This is further discussed in section IV below.

25. **At this level, the strategic alignment of the trade negotiations process and the national development strategies should be emphasized.** There is little evidence of a tight correspondence between trade negotiation strategies and the strategies mentioned in the previous section that focus on development and diversification of goods/services for export and import substitutes. In fact, negotiation strategies seem to be relatively isolated, ad-hoc and reactive to external dynamics arising from CES partners and pressures emerging from WTO accession negotiations. The reactive nature of trade negotiations, while not different from the situation of many other developing countries, can potentially be a problem in terms of the allocation of human resources to adequately address the priorities of the negotiating agenda.

26. **The third level of decision making takes place at other ministries or other agencies.** MEBP's Department of Foreign Trade Regulations is responsible for the WTO accession process and works with other ministries and agencies at the technical level to prepare information about their sectoral policies and adopt the negotiating position of the country. Once the request for information from MEBP is received, it is transmitted to the department within the ministry/agency responsible for the topic. This department designates a person who coordinates the work with other relevant staff within the ministry/agency, gathers the required information, establishes a proposed negotiating position, and eventually participates in the negotiating process. Aside from MEBP, the ministries which normally are consulted and which participate in trade negotiations are: Ministry of Industry and New Technologies (its Department of Strategic Planning, Industry Committee, and Committee of Technical Regulation and Metrology); Ministry of Transport and Communications (Communications and Information Committee, Strategic Planning and Policy Analysis Department); Ministry of Finance (Tax Committee, Customs Control Committee); Ministry of Agriculture (Department of Strategic Planning and Policy Innovation of the Agro-industrial Complex); Agency for Competition Protection, Agency of the Republic of Kazakhstan for

Regulation of Natural Monopolies; and the Centre for Strategic Elaboration and Analysis of the Administration of the President of the Republic of Kazakhstan.

27. **Currently, although coordination among the relevant ministries is intense, it often seems to be mainly in response to a specific request and therefore *ad-hoc* and irregular.** Under this model, the MEBP requests information from the sectoral ministry, which is not entirely informed of how the sector, or the specific issue area, is related to the broader negotiation or how important it is for the successful conclusion of the negotiation. The ministerial staff who is consulted does not receive systematic specific feedback on the process or outcome of his contributions. Also because the working process is irregular, people participating in the preparation of the country's negotiating position, or securing the information required for a meeting, may have inadequate knowledge of the subject, the context of the consultation, or the working procedures of the WTO or the CU. The arrangement also runs the risk of narrowing the base of institutional memory as it becomes the near exclusive domain of the MEBP.

28. **At this third level decision making level, the consultation and coordination process among ministries and agencies can be strengthened in several ways.**

- a. **Best practice suggests permanent working groups organized in a thematic approach to consult and coordinate on trade related issues (Figure 2).** In general, in other countries that are actively involved in trade negotiations, the coordination takes place through permanent working groups with stable staff assignments that are the responsibility of the ministry in charge of trade negotiations and where all relevant ministries are involved. This allows for a full understanding of the broad trends of negotiations. Usually many of the topics addressed are similar no matter the level of trade negotiations - multilateral, regional, or bilateral - or the negotiating forums. These topics typically are market access, non-tariff measures, services, investment, competition, intellectual property rights, dispute settlement, agriculture, textiles and apparel, among others. Countries tend to organize the coordination and consultation process among public sector agencies in permanent working groups organized around these topics.
- b. **In addition to adjusting the coordination structure, it would be advisable to establish an improved communication system among ministries.** In order to adequately respond to the requirements of the negotiation team, fluid access to information, data, and policies is necessary. Ministries must understand the purpose of the request, the context in which the information is required, and more importantly, the format and substantive content of the information. In order to achieve this, information must flow both ways between the MEBP and sectoral ministries, with sectoral staff receiving feedback about the outcome of their contributions, the status of the negotiations and the like. This will also allow these sectoral experts to be more effective in any follow-on contributions as the negotiations progress.
- c. **Expand the existing sectoral focal points to small secretariats to enhance institutional practices and memory.** As of April 2013, the ministries were identifying focal points for CU/CES issues to improve follow-through and coordination. While this is a good idea and a good practice, an option is to expand these focal points from one person to small dedicated institutionalized secretariats with backup office support. The job of these secretariats would be to record and respond to needs of working groups for information that falls under the mandate of each ministry. This initiative may improve the coordination currently led by the Department of International Economic Integration and also the technical inputs provided by the sectoral ministries. It will also build expertise and institutional memory in trade policy in different sectors.

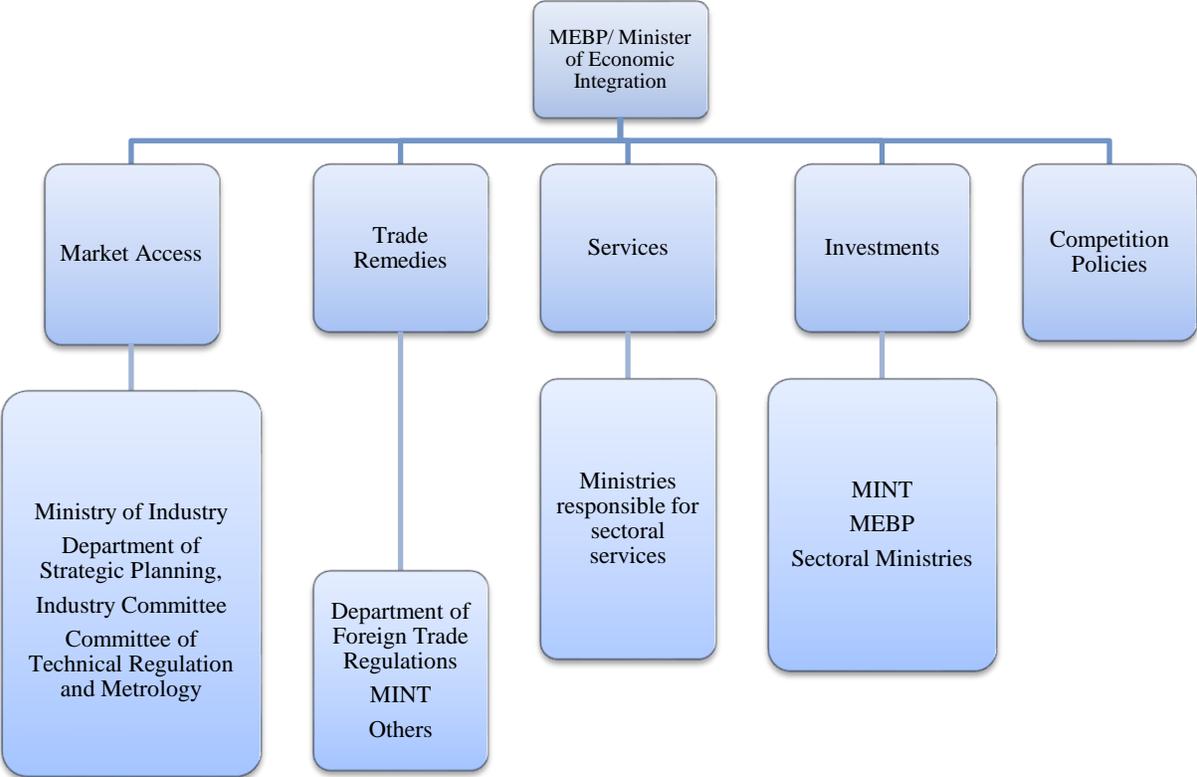
29. **At the second and third level of decision making, immediate, sustained and wide-reaching training in trade and trade policy making and implementation is recommended.** General and specialized technical training will help the authorities to take better advantage of their rights and advantages in international and regional arena and ensure a correspondingly advantageous institutional framework for private sector to do the same. Training/capacity building can be more specifically structured as follows:

- a. **In the short term the government could secure *in situ* specialized and general training from international universities or institutes.** A series of short structured training courses (staggered throughout the year) can focus on WTO and regional integration issues as well as methodological aspects of trade negotiations. These courses would cover all the trade-related matters. An incomplete list of such topics is: regional integration, FTA, WTO disciplines (such as agreement on trade related aspects of intellectual property rights, agreement on trade related investment measures, Sanitary and phyto-sanitary measures and technical barriers to trade), trade law, trade reform impact assessment, methodologies for monitoring and evaluation of trade support programs and trade policy analysis. The courses should also cover new issues that are currently being discussed in international negotiating settings such as the launch of the FTA initiative between the U.S. and the EU, which probably will set precedents for new rules in trade agreements. Finally, the modules should provide for analytical tools and use of available international data bases/software (such as WITS, COMTRADE) as well as local data (including customs, census data, and enterprise data).
- b. **For the medium term it is essential to foster development of international trade-related curriculums/degrees in law and economics at domestic universities.** A domestic university could explore partnering with a foreign university that has a recognized international trade program to offer a joint degree. This phase would require more formal and in-depth knowledge on trade matters as well as analytical skills. This should be combined with technical assistance to learn how to use basic analytical tools such as World Integrated Trade Solution (WITS) and Tariff Reform Impact Simulation Tool (TRIST) as well as more sophisticated ones such as the computable general equilibrium model (CGE).⁷
- c. **It is necessary to upgrade language skills.** The dominant language of trade and international business is English. The public officials involved in the trade policy could benefit from such training.

⁷ Because of the importance of trade agreements, including the EEC, for domestic policies, training activities should be open to all public officials working in trade-related ministries and agencies.

Figure 2: Best Practice Interagency Consultation and Coordination on Trade Related Issues

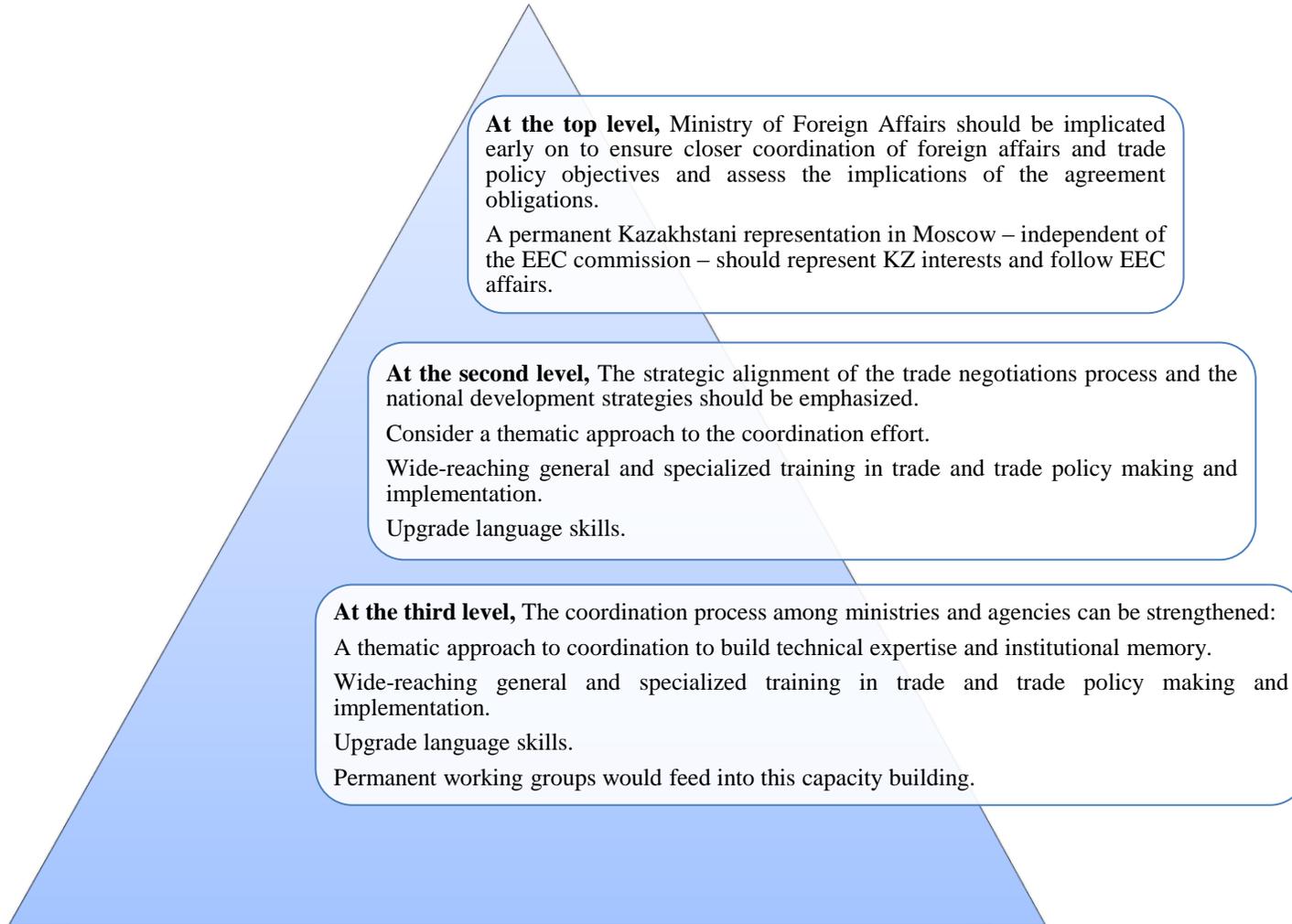
(The thematic approach – an example)



Source: World Bank staff.

Figure 3: Trade Policy Development and Negotiation

(Measures to enhance the structural organization and coordination)



Source: World Bank staff.

IV. IMPROVING TRADE POLICY COORDINATION AT THE MEBP

30. **As noted above, at the second level, the MEBP is the institution responsible for coordinating and leading trade negotiation.** Given this role, improving MEBP's institutional set up and capacity would benefit the negotiations process. Within MEBP, The international trade policy coordination is undertaken by the Department of Foreign Trade Regulations (DFTR) and the Department of International Economic Integration (DIEI). The Center for Trade Policy Development (CTPD) plays a critical role in supporting these departments and the overall trade policy making process.

31. **Both DIEI and DFTR are small for the responsibilities they handle and work closely with CTPD for analytical and policy development support.** Each direction has approximately 25 people, with an average age of about 30. In order to perform their work both departments would benefit from additional staff, in particular, more economists and lawyers. CTPD supports the departments to coordinate with other government agencies and reach government positions on the topics discussed at the EEC level. As of April 2013, the EEC has about 70 basic agreements that govern a number of different economic areas.

32. **The authorities may wish to consider creating a consolidated International Trade Department organized around thematic areas.** Merging the two existing departments responsible for trade negotiations would help improve the efficiency of the scarce human resources and to help address the new trade policy topics with a dedicated team. The new department would be organized by thematic areas replicating the issues covered by WTO and the CU/EEC. These units would also liaise/coordinate with the permanent working groups responsible for coordination with sectoral ministries and agencies responsible for trade-related matters (mentioned in above suggestions).

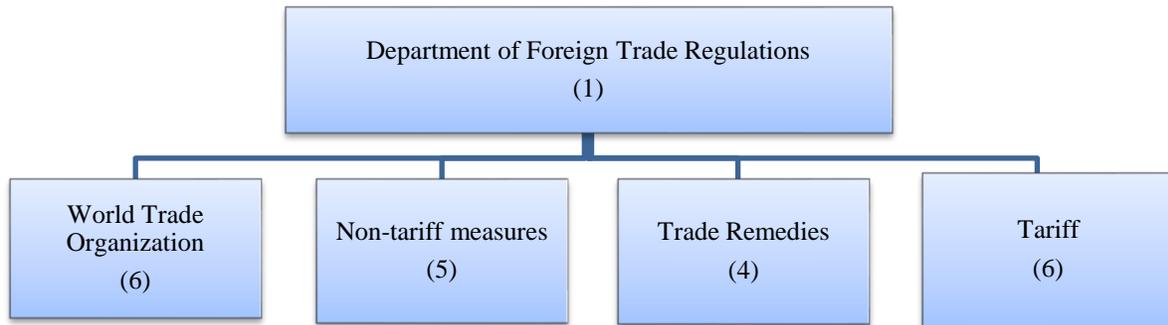
33. **The proposed new department could include:**

- a. A market access unit responsible for coordinating) tariff and nontariff matters and customs issues (rules of origin, customs procedures issues, and others at the government level.
- b. A services, investment, and intellectual property rights (IPR) unit responsible for coordinating the technical work on these matters at the governmental level.
- c. A trade remedies unit that will continue performing its current responsibilities as a technical unit supporting both negotiations; assessing the potential adoption of measures under consideration at the CU level and the requests submitted by the private sector. This role can be expanded to any new trade negotiations, including FTAs.
- d. A trade agreement coordination unit responsible for the WTO, EEC and FTAs agenda. This unit would ensure overall coordination of the participation of Kazakhstan experts in negotiations and meetings; transmit relevant information and request information from experts. Finally, it would be also responsible for monitoring the implementation of these agreements.

Box 6: The Structure of Trade Policy Coordination at MEBP

The Department of Foreign Trade Regulations

Within MEBP, the Department of Foreign Trade Regulations (DFTR) is responsible for several tasks. It is directly responsible for the administration or implementation of trade policy instruments such as tariffs, NTMs, and trade remedies. In the case of NTMs, it is responsible for issuing regulations in certain areas, and coordinating negotiations. In the case of trade remedies, the Department is responsible for analyzing the request to adopt, at the CU level, trade remedy measures and advising the Deputy-Prime Minister on the merits of the petition. Regarding trade negotiations, the Department is responsible for the coordination of WTO negotiations.

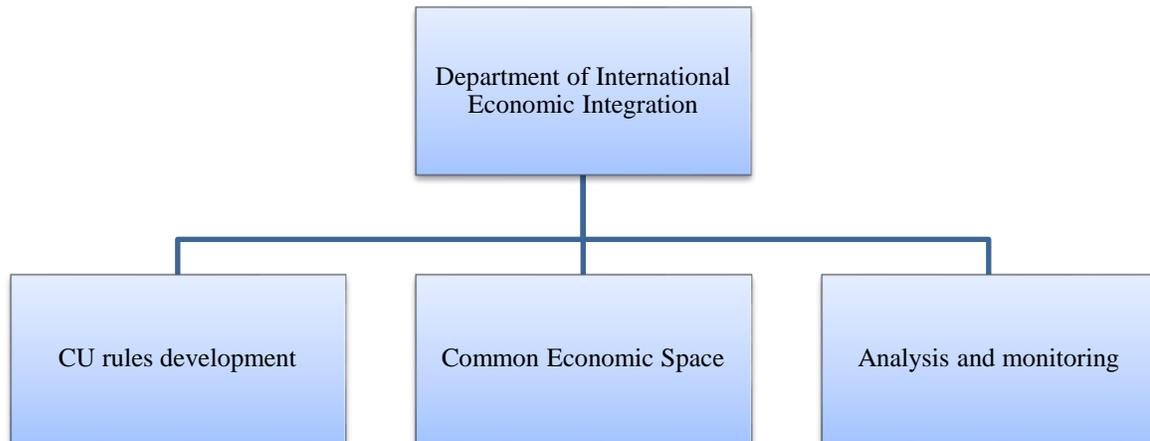


Source: MEBP.

Note: Number of staff, including chief (in parenthesis) is approximate.

Department of International Economic Integration

The department of International Economic Integration (DIEI) is responsible for Customs and Common Economic Space (CES) matters. The main activities of this Department are the coordination with other ministries and agencies of Kazakhstan's participation in the CU and CES as well as the participation in the negotiations that take place in Moscow where the headquarters of the EEC are located. On investment matters, this department relies on the input and expertise of the Department of Investment Policy within the MEBP.

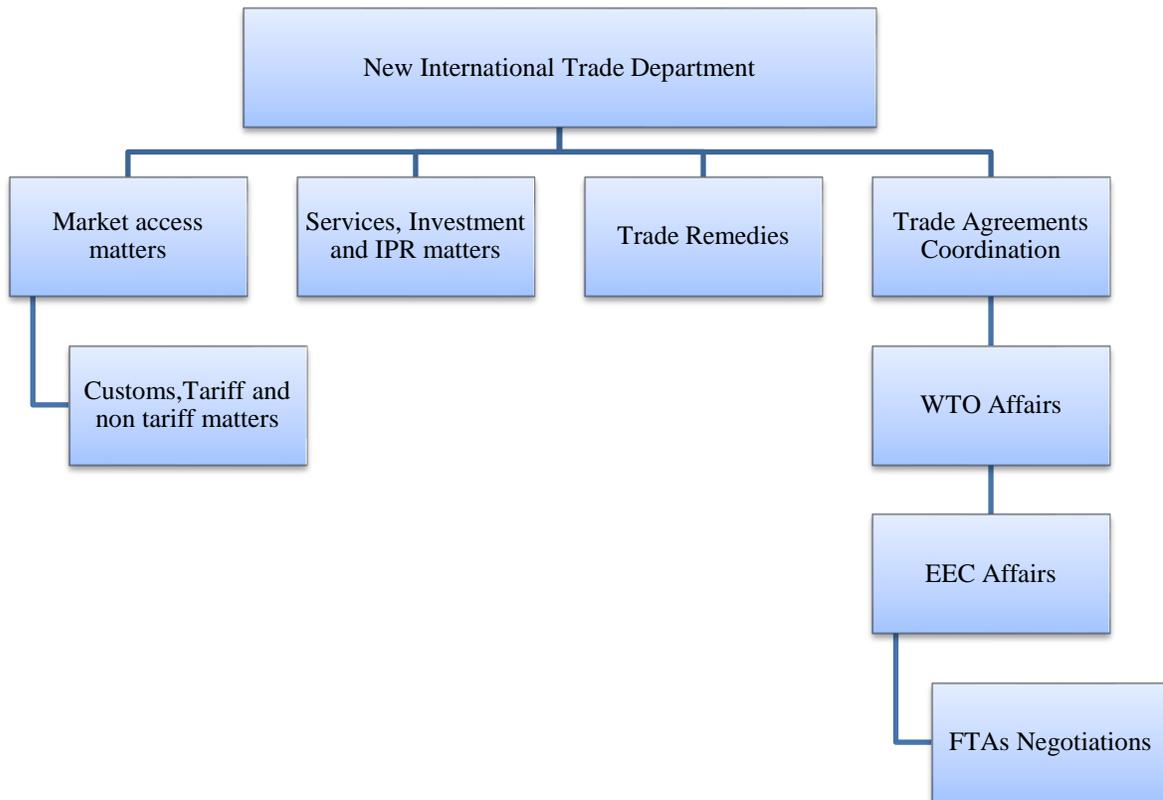


Source: MEBP.

Note: Number of staff in each unit is 4-7.

Figure 4: New Trade Department Structure

(An example of thematic approach to trade policy management)



Source: World Bank staff.

The Center for Trade Policy Development

34. **The Center for Trade Policy Development (CTPD) is a critical component of the trade policymaking process.** Created in 2006, the CTPD is a joint stock company wholly owned by the MEBP and housed in the ministry. The CTPD was created to provide analytical support to trade negotiations and to provide a long-term strategic view on trade policy matters for Kazakhstan. The Center's original purpose has evolved towards a wider range of responsibilities, notably developing proposals and recommendations for trade-related legislation and for negotiating positions in the CES, WTO and FTAs. The Center's experts also participate in the negotiations. The Center has become the most important source for analytical support for ministries involved in trade negotiations. It also provides support and participates with other ministries in broader trade policy making, in particular, with regard to export promotion and development of sectors. Its support is channeled through its collaboration with the MEBP's two trade departments DIEI and DFTR, participation in a number of intergovernmental committees and councils and by collaboration with KAZNEX INVEST. The CTPD also provides information to the private sector and entrepreneurs on technical trade-related issues and participates in consultation processes.

35. **The CTPD is growing.** Up to April 2013, the center had about 50 professional staff, 40 percent of which are economists and lawyers, and the rest have diverse professional backgrounds. The staff is mostly composed of young professionals (25-30 years old), with university degrees; however, there are few staff with Masters or PhD degrees. The staff's trade negotiations experience has been largely

acquired on the job. The Center, being a joint stock company, has used its administrative flexibility to recruit trade-related staff with more attractive benefit packages than the central government can offer. This arrangement has allowed authorities more flexibility vis-à-vis the administrative limitations to recruiting in the public sector, including in the MEBP. The Center plans to hire another 15-20 additional professionals to address an increasingly complex and demanding trade agenda, in particular, that involving CU and CES matters, WTO implementation as well as the emerging strategy to expand into FTAs.

36. **The critical role of the center has led the Authorities to consider its future strategic place.** It would be beneficial for the CTPD to move ahead with its intended business planning. This would help answer the myriad questions related to its future role as well as the skills mix of its staff. Such a business plan will help answer questions such as: the division of labor between the expanded center and other trade-related departments in MEBP and other ministries; the organizational chart of the larger Center; the number of new staff needed for the next phase of the CTPD expansion, their skill profile and commensurate salary structure; and hiring timelines.

37. **Modifying the existing organizational structure of the CTPD would reflect better the specific responsibilities it covers.** If the expanded Center stays within its current areas of action, it should consider creating the following departments:

- a. **Research Department:** today there is no governmental entity looking at Kazakhstan trade development from a truly strategic point of view. This may be due to the absorption of personnel by short term demands and a needed upgrade of analytical skill sets. Creating a dedicated unit (department) responsible for conducting high powered research analysis, as originally suggested by the Center, would be warranted. The unit can assess the impact of trade agreements and trade policies more broadly, and provide inputs to build a long-term perspective to guide priorities both in terms of pursuing new negotiations and strategies for export development.
- b. **Legal Department:** this department should be the main focal point on trade law issues for the government, including expertise in WTO, EU, EEC, any future FTAs, and international investment law. It is most unlikely that other ministries will be able to handle and understand in detail the massive jurisprudence created over the last 60 years on trade law. The Center should recruit the best specialists of the country in these matters and combine with international experts as necessary.
- c. **Dual thematic and geographical departments:** other departments of the Center should be organized based on a combination of geographical regions and thematic issues concerning trade. For example, Australia, Canada, and the United States maintain departments responsible for specific regions such as the Europe or East Asia. At the same time, this organization is complemented with topics such as investment, services, agriculture, market access, which are handled by experts.
- d. **A Program Evaluation Department:** the department would analytically assess the ex-post impact at the firm level of trade policies as well the many public programs (including those in the regions) supporting the multiple dimensions of export development and upgrading.

38. **At the MEBP resources allocated to the trade policymaking process will need to be enhanced through new hiring and new training.**

- a. **The MEBP would benefit from increased human resources to effectively perform its responsibilities in trade negotiations.** Staffing levels are limited considering the number of topics in today's globalized environment and the country's regional trade agenda and

participation in the WTO and the CU. For example, as of April 2013 the ministry did not have dedicated experts on trade in services, investment, and intellectual property rights issues. It also lacks a critical mass of environmental experts. The authorities have agreed to expand the CTPD to address some of this shortage. The scope of the shortage may require a broader capacity building strategy to address the needs of the government and the private sector in the medium to long term. This is especially true if the authorities pursue their objective of signing FTAs in the future.

- b. **There is need for world class trade lawyers and trade economists.** The MEBP is covering a wide agenda that will likely widen further over the years given the ambitions of the country's development strategy, including the challenges regarding the continuing development of the complex agenda of the CES. Moreover, there seems to be a perception that once WTO accession is concluded, resource will become available to allocate to the currently underserved areas. However, this flexibility seems overstated due to difficult implementation obligations as well as the extensive trade agenda at the WTO. With Russia as a CU partner it is also possible that Kazakhstan will be involved in trade disputes that it otherwise might avoid. Finally, the authorities pursuing new FTAs will add to the complexity of the policy agenda, heightening the need for expert staff.
- c. **Aside from the additional experts needed, the authorities should undertake a skills audit to assess the mix of current skills vs. skills that will be needed in the future.**⁸ The ministry's main asset is the young and motivated staff which is dealing with a highly complex and diverse trade agenda. The knowledge and working skills can be further upgraded to better address the challenges of the ambitious Kazakhstan trade agenda. Current arrangements to train staff in WTO issues are *ad-hoc* and fragmentary (e.g., websites, international conferences and workshops).

V. HOW APPROPRIATE IS PUBLIC-PRIVATE CONSULTATION?

39. **Kazakhstan heeds the principle of public-private consultations, but the practice of consultation needs improvement to reach international good practice.** The consultations appear to be more driven by the spirit of the law than the full spirit of collective engagement by the public and private sectors. The nature of the consultations and the private sector lack of engagement and technical capacity limitations have affected the quality of the dialogue.

40. **The nature of the consultation can improve through better information sharing and more content rich, regular consultations.** Up to now, there have been multiple efforts by the authorities to share information and consult the private sector. There are functional official consultative bodies such as the Export Council and Foreign Investors Council (FIC).^{9,10} Many of the consultation processes regarding

⁸ The needs assessment and skills audit should take note of different subspecialties needed in effective trade policy making. In the case of WTO, the need for experts in the following disciplines should be assessed: trade in goods matters, services, investments, agriculture, trade remedies, non-tariff barriers matters, dispute settlement issues, or other matters.

⁹ On export development and diversification, the Vice-Minister of MINT chairs the Export Council, involving all state bodies and the private sector (largely associations) with KAZNEX INVEST serving as a dedicated Secretariat with 4-5 analysts. The body is expected to meet at least quarterly and involve the regions. There are also Consultative Commissions that are supposed to meet and operate with a broader economic agenda organized by the ministry(s) with the portfolio that deals with the issue(s) raised by the private sector for discussion. Technical groups are formed and if agreement is not reached a government Consultative Commission makes a decision. Under the law all new regulations must be appraised by the Consultative Commissions. Finally, agencies that are joint stock companies usually have private sector representation on their boards as is the case for membership in advisory committees of other central government agencies.

¹⁰ The government has an active Foreign Investors Council (FIC) that works well for discussing investments and the business climate. It is chaired by the President of the Republic and key ministries participate. Firms with investment in extractive

trade strategies have been *ad-hoc*, based on sporadic workshops, seminars and informal contacts—and more reactive than proactive. The consultation has been often to inform of decisions already taken. Furthermore, the private sector reports having a difficult time accessing information about the specifics of consultation processes and their outcomes. It reports that consultations on WTO matters have not been significant. Although the private sector has been more often consulted on custom union issues, the consultation has been narrow in scope; usually regarding very specific matters—often reacting to private sector inquiries or complaints. These consultations have lacked the adequate context which would facilitate the private sector understanding of the government strategy and the cost-benefit analysis of the potential impacts of the changes related to CU and WTO agreements. Finally, consultations seem to not have involved all potentially interested parties.

41. **The majority of the private sector has not been an active partner in the public-private consultation up to now.** Currently, there are more than 700 business associations in Kazakhstan. About 250 of these have been members of the ATAMEKEN (the equivalent to a national chamber of commerce); however, only 50 or so are active and they have trouble coordinating positions. The business sector is dominated by big state enterprises and a number of firms run by private titans of industry, both groups of which have their own channels of communication with the government. The capacity of some 750,000 SMEs to participate is limited by the resources of the firms and their associations and sometimes by indifference to the consultative process itself. ATAMEKEN has been a very active participant in consultations, but its capacity to cover all the urgent issues has been constrained by an insufficient budget due to the lack of a critical mass of paying membership.

42. **Looking forward, a number of actions can strengthen the consultative process around the trade policy agenda.** Overall, the construction of a successful consultation process requires commitment at the highest levels of government as well as a valid, active and informed private sector representation. The governance structure needs to be conducive to constructive dialogue and evidence-based problem solving with checks and balances to ward off capture by special interests.

43. **Consultation can take place at various policy levels.** One level is mechanisms that support development of national strategic objectives for economic transformation and development of the economy as-a-whole. Others can operate sector specifically or in thematic areas such as trade policy. These consultations also can be mirrored at the regional, department, or even municipal levels. The different levels should communicate with each other (to avoid contradictory paths or siloed information that lead to misguided public policy).

44. **Various mechanisms can be used to consult with interested parties.** These forms include permanent, formally structured forums; formal ad-hoc forums dealing with time-limited specific national issues or informal networks. In practice all these institutional arrangements for discourse can and do co-exist in a country, but one, or more in combination, can be the dominant form of public-private consultation on policy issues. Brazil and the US use permanent forums for public-private consultations (Annex 3). In Finland and Ireland, consultation mechanisms for industrial and export development are permanent formal structured public-private forums. These are expressed in the form of public-private national councils and the boards of directors of public executing agencies. Australia tends to use a combination of structured ad-hoc national forums and private- public boards of directors for its public executing agencies. Sweden relies heavily on informal public-private consultations. The effectiveness of

industries in excess of US\$100 million are members and the non-extractive industry threshold is US\$25 million. The Council forms working groups to support discussions (OECD, 2012).

ad-hoc forums informal consultation often depends on the degree of social cohesion in a country and traditions of transparency which ward off rent-seeking.¹¹

45. **It is good practice to have permanent formal consultation mechanisms.** This would include regular meetings (councils and commissions) between the private sector and high level government representatives. Looking forward, these types of forum need to focus on strategic directions that anticipate opportunities and threats rather than just inform or react to immediate issues. To achieve this strategic focus action is needed in both public and private domains. On the one hand, strengthening the capacity of the authorities for analytical evaluation of the cost and benefits of action or inaction on issues will enrich these meetings. On the other hand, the private sector will also need to look at these regular formal consultations mechanisms more as an opportunity for deliberation on how to enhance trade development policies and strategies rather than a lobbying forum. Academia is often not sufficiently represented. More time should be given to the private sector to develop positions on proposals tabled by the authorities, as some associations deem the timelines given are to be too tight. Finally, the private sector will need to be fully represented in the discussions.

46. **The authorities can take advantage of the existing Export Council and FIC to further consultations.** The Export Council could serve as a strategic deliberative forum for trade development and diversification policies and better coordinate policy design and program support. This would involve adding independent trade policy experts from academia to the Council, strengthening the analytical work of the Secretariat, and making more transparent the work of the Council. In this latter case a public communications strategy is necessary (Annex 3). The FIC environment is an opportunity to encourage maximization of linkages between hosted firms and the domestic productive sectors and that opportunity should be fully exploited. The Council also could be more of a forum for Kazakhstan intelligence on world investment trends and for scoping out new investment partners.

47. **The new National Chamber of Entrepreneurs of the Republic of Kazakhstan is expected to help substantially reform and strengthen the consultation process.** The new chamber was created by a July 2013 law and replaces ATAMEKEN.¹² The members of the National Chamber of Entrepreneurs will be all business entities excluding foreign registered firms and their branches, state enterprises, and economic agents such as auditors.¹³ Membership dues are compulsory and scaled according to the size of the turnover of the business entity. The Chamber, as a forum of public-private dialogue, is mandated to be involved in many functions. Among them, the Chamber is to monitor the business environment and provide recommendations to the authorities for its improvement. It is to provide support services, including in the areas of customs (certificates of origin, infrastructure), management of the special economic zones (SEZs), domestic and international market research, development of standards and technical regulations, and training, professional education and certification.¹⁴

¹¹ See Devlin and Mognuillansky (2011).

¹² “The Law of the Republic of Kazakhstan from July, 4, 2013 № 129-Von the National Chamber of Entrepreneurs of the Republic of Kazakhstan.”

¹³ These entities are mandated by law to be in other organizations and non-commercial legal entities.

¹⁴ The Chamber will have representative supervisory body. The Chamber will be overseen by a congress made up of representatives of the countries accredited business associations with participation of government representatives¹⁴. A Presidium of 51 members consisting of 32 representatives of national and regional associations, 16 members of Parliament and public figures and three representatives of the government, undertakes the broad management tasks of the Chamber. This includes appointing a board of five executive directors for day-to-day management, adopting rules and procedures, and approving the charters of regional chambers, and forming committees. Also, a Regional Council will monitor a Regional Chamber of business entities and representatives of regional associations.

48. **If the new organization is effectively operationalized, it should overcome some of limitations of the consultation process.** The compulsory membership and dues of the Chamber should help alleviate the financing constraint that ATAMEKEN experienced. This constraint limited ATAMEKEN's ability to dialogue with the government on all the pertinent issues facing national businesses and provide services and analysis to the business community. The organizational links between the National Chamber and regional entities also should enhance coordination of business positions in the national dialogue and provide opportunities to strengthen the capacities of the regions to participate. However, development of other operational details not set out in the law - e.g., transparency, mechanisms for evaluation of the Chamber's programs and performance, - and the effectiveness of execution, including socially responsible use of the government veto if and when needed, will determine the quality of public-private consultation and policy outcomes.

49. **Educating and training the public and private sectors about the effects of trade agreements will serve the country well.** Strengthening the capacity of the authorities to evaluate the impacts of cost of policies will enrich the consultation process. Suggestions about capacity building were provided earlier. A more knowledgeable private sector that is a full dialogue partner on trade issues, can certainly take better advantage of Kazakhstan's comparative advantage, future economic opportunities and strategic geographical setting.

50. **The authorities should implement a new communications program to disseminate the government's trade policy and strategy.** The aim of the program is to explain the broad policy objectives of Kazakhstan on trade policy, benefits of participation in the WTO, the CU, or any future FTA and ensuring access to information to any interested party. This includes goals, obligations and potential benefits of the country's participation in the WTO, the CU/CES and any future FTA. The MEBP is continuing a program of information sharing involving consultative meetings and is developing a new set of brochures on the trade issues for public use. The EU provides a useful reference to form a communications strategy in Kazakhstan.¹⁵

51. **In trade negotiations the private sector should mirror the trade agenda.** The Mexican experience as well as the experience of other countries heavily involved in trade negotiations suggests that the private sector should work on the basis of similar thematic groups and geographic organization as the public sector negotiators. This facilitates the dialogue and the interaction at all levels, especially at the technical level. The private sector would know who its counterpart is and the public sector will know who to contact in the private sector organizations. The responsibility for coordinating the private sector policy positions among the different associations should rest within the private sector. On the other hand, in order to ensure that any interested parties can approach both the private and the public sector representatives responsible for specific areas, open channels of communication must be created. For example, many Latin American countries in the context of the Free Trade Area of the Americas (FTAA) created dedicated accesses in trade ministries' websites to allow any interested party to provide comments or request information. This mechanism addressed the complaints by certain companies and associations about their lack of access to the consultation mechanism. Another option is for the government to publish an announcement in the Federal Register (or comparable media) the intention of launching any major negotiation and request comments from all interested parties. This is the practice used in the United States.

¹⁵ The 2009 assessment of strategies used by the European Commission Director General Trade: ["Evaluation of DG Trade's communication policy, strategy and activities."](#)

VI. CONCLUSION

52. **The current trade policy strategy is well developed and integrated within Kazakhstan's development vision, but it is ambitious.** To implement such a strategy, first, it would be useful to fully understand and account for the implication of membership in the Customs Union, WTO and their respective opportunities and challenges. Second, the authorities may wish to consider prioritizing the different objectives of the strategy. Third, they should undertake an impact analysis of any future trade agreements, including FTA agreements, before starting negotiations.

53. **Also, the institutional framework for trade negotiations can be improved to support the trade policy goals.** Mostly this involves ensuring participation of appropriate counterparts within and across ministries in a much more systematic, thematic approach. It also implies for the MEBP to consider using a thematic approach in its coordination efforts as well.

54. **The nature of the public-private consultations can improve.** To improve public outreach, the authorities would benefit from a new communications program to disseminate the government's trade policy and strategy. More content rich, regular consultations would also be useful. On the private sector side, the new Chamber of Entrepreneurs is expected to contribute substantially to strengthen the consultation process in content and structure.

55. **To fully implement the trade policy strategy both the public and private sector would benefit from sustained capacity building.** At the public level, this would cover the MEBP, CTPD and all sectoral ministries. This training needs to include general and specialized modules as well as language training. Capacity building at MEBP and CTPD would also mean hiring staff with specialized trade related skills. A skills assessment would help this process forward. The private sector will need both further information and capacity building.

Box 7: The Mexican Negotiation Process: A Model for Latin America

The creation of the trade policy advisory mechanisms is related to the government's decision to negotiate a free trade agreement with the United States in 1990. The consultation mechanism created in this period has been the basis of the consultation process in Mexico up until now, and served as a model for the rest of Latin American countries, in particular during their negotiations with the US for free trade areas.

The Mexican government understood that in order to negotiate NAFTA it would be necessary to seek the consensus of strategic social groups. This decision led the government to convene a series of meetings with the private sector under the leadership of the Ministry of Trade and Industrial Production (SECOFI). The private sector in turn created the Coordinating Body of Foreign Trade Business Associations (Coordinadora de Organismos Empresariales de Comercio Exterior –COECE) to study the problems of the industry and to establish a common private sector position on trade policy.

During the NAFTA negotiating process the three countries (Canada, Mexico, and the US) decided to organize the negotiations in 19 thematic negotiating groups (market access, services, investment, and others.) The private sector replicated this structure to advise the Mexican government on these same topics. This collaborative structure was supported by three principles: a) no major changes would be made to the Mexican negotiating position without prior consultation with the private sector; b) the lead negotiator would brief and consult with COECD on a day-to-day basis throughout the process; in order to facilitate the process the private sector would travel to the location of the negotiations and participate through the "adjacent room" (cuarto adjunto) modality; and c) both parties would honor the confidential nature of the negotiations and prevent information leaks.

The main groups involved in the NAFTA negotiations were:

- The Free Trade Agreement Inter-ministerial Commission served as the basic coordinating unit for the design of the negotiation strategy. It comprised of second-level (deputy ministers) officials of all the relevant ministries, as well as Banco de México (the central bank).
- The Free Trade Agreement Advisory Council was charged with preparing, coordinating and analyzing reports to aid the negotiations. It included representatives of the public sector (top officials from SECOFI); the labor sector (basically members of the CTM and other pro-government labor unions); the agricultural sector (both government-affiliated groupings and private sector groupings representing agribusiness and livestock interests); the business sector (all of them represented by a business chamber but involving some of the nation's most prominent businesspersons; and the academic sector (heads of the nation's top public and private universities). In practice, the Council was rather passive; the COECE (below) was more directly involved in the negotiations.
- The COECE is an ad-hoc grouping that coordinated all business organizations representing trade-related sectors. Its members were the president of the National Business Coordinating Council (CCE in Spanish) as well as of all the 12 major business organizations. COECE was divided into six sectors: agriculture, industry, banking, insurance, finance, and commercial and nonfinancial services. It coordinated a series of highly confidential studies, which were used to help determine negotiating positions. Representatives from COECE formed small groupings (4-15 members) to work in tandem with the negotiators in each of the areas into which negotiations were divided (rules of origin, market access, agriculture, automotive sector, textile sector, energy, public procurement, safeguards, unfair trade practices, norms, sanitary and phyto-sanitary issues, cross-border trade in services, telecommunications, financial services, land transportation, temporary mobility of business persons, investment, intellectual property rights, and dispute settlement). These groupings were in close contact with the negotiators throughout the process and involved in the day-to-day negotiations.

The consultations in this model take place at several stages: prior to and during the negotiations, prior to the final outcome of the negotiations, for the review of the outcome, and, in the special case of NAFTA, during the ratification process and implementation of trade agreements. Despite the overall general good evaluation of the consultation system some criticism existed. In particular, the lack of effective participation of small and medium size enterprises due to high costs, including travel. Also was some criticism related to the exclusion of certain groups, e.g., anti-free trade NGOs, from the consultation process, in particular in the Advisory Council.

**Source:* Adapted from Carlos, A., & Vega, G. (2002). Trade Advisory Mechanism in Mexico, in INTAL-BID. (2002). The Trade Policy-Making Process. Level One of the Two Level Game: Country Studies in the Western Hemisphere. Buenos Aires: INTAL-BID; and Ortiz Mena, A. (2001). Mexico and the World Trade Organization: A Regional Player in Multilateral Trade Negotiations. *CIDE Working Paper EI-74*.

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Annex 1: Typology of Institutional Constraints

The typology of institutional constraints helps organize the assessment into four critical pillars for the success of trade policy. International experience reveals how institutional constraints in management of trade policy adversely affect countries' performances. Table 1 in report identifies three pillars of institutional constraints that commonly undermine the effectiveness of trade policies. First, in terms of strategies, there may be constraints due to lack of clarity of purpose. Strategies may be vague with nonoperational goals, or they may express so many priorities that there are no real priorities. In these circumstances actual policy stances can wander and be more reactive to short term stimuli than to medium-long term objectives of trade development. For example, when objectives are not clearly defined, external factors—such as unilateral demands from trading partners—can disproportionately drive trade policies, or they can be too easily overrun by other policy areas such as foreigner policy. Alternatively, the components of trade policy may be fragmented and lacking coherence such that they are inconsistent in their content and timing or lack synergy as a whole. For instance, many developing countries in Latin America have inconsistently created common markets while maintaining member country autonomy in their trade policies, or they promote export diversification and upgrading without coherent accompanying support of innovation, a primary tool for achieving that goal.

In the age of globalization and dynamic private market developments, public sector consultation with the private sector has become a critical input for effective strategy development and policy making. This is because the private sector has valuable market-based information and because consensus building around successful strategies enhances sustainability of successful policies over political cycles. However, this input can be weakened when consultations are sporadic and ad-hoc, or just a formality without evidence-based content. Truncated representativeness of the private sector and other deficiencies in the governance of consultations is another potential bottleneck that can reduce the value of information received and make the process prone to excessive influence of special interests.

A second pillar of constraints is related to the coordination of the implementation of policies. This often happens when there is no clear mandate for ministries, when a mandate overlaps with other ministries, mandates are unstable (frequent changes in responsibilities), or mandates conflict with each other. For instance, this may occur when promotion of a specific policy objective is shared by different central government agencies or is dispersed in decentralized agencies. Alternatively, lack of formal mechanisms for coordination can cause ministries to operate in “silos” without adequate interaction with other ministries that are responsible for complementary activities that generate needed synergies. Moreover, poor coordination reduces the accountability of ministries/agencies in terms of fulfilling their policy mandates.

In terms of trade policy, today it spans a wide range of topics and activities and hence ministerial coordination is critical. An example of a bottleneck is when a ministry responsible for trade negotiations does not coordinate its strategy effectively with the objectives of ministries responsible for programs supporting trade development. Finally, a mechanism such as a lead ministry for coordination of policy implementation can be undermined if the designated authority does not have bureaucratic hierarchy over the parts of the government it is supposed to oversee. This is fertile ground for turf battles and unfulfilled mandates.

A third pillar of constraints is due to flawed support program design and implementation. Executing agencies may have a governance structure that hampers effective delivery of support. A classic example is that of agencies responsible for export –oriented investment attraction which has a central government bureaucratic structure; this can lead to rigidity which misaligns operational policy, functions and programs with the requirements for effective interaction with the international business community. Meanwhile, programs for support of export development in domestic industry and services may be

misaligned with business needs in terms of coverage and design. This moreover becomes difficult to correct if programs are not regularly evaluated for their actual impact and if there is not effective consultation with private sector clients.

Some institutional constraints are cross-cutting. Public policy management depends on resource availability. Human resource constraints are related to the stability, the type, the quantity and/or quality of skills, including management and technical skills specific to the topic. This constraint may be particularly acute in regional counterparts of central governments. Training is a typical need. Internationally oriented language skills (e.g., English) may be another. Restraints on recruitment of the “best and brightest” may be a bottleneck either because of shortcomings in bureaucratic procedures or public salaries. Other problems are related to infrastructure constraints, including data bases, information systems, hardware, software, internet access, office supplies, physical organization of offices, number and location of regional offices, international offices. Finally, excessive budget constraints vis-à-vis fulfillment of officially sanctioned mandates are significant in developing countries.

Annex 2: An Analytical Framework for Assessing the Trade Policy Institutions in Kazakhstan

The framework used for assessment – adapted from Jordana and Ramió (2003) and summarized in Box A1 – suggests that Kazakhstan’s current trade policy institutional arrangement has room for improvement.

The institutional fragmentation in Kazakhstan is dual. On the one hand, at the top level, fragmentation is low. The Deputy Prime Minister (DPM) centralizes the decision-making. At this level, the DPM works with all relevant ministries under his responsibilities. The low level of fragmentation would normally help the efficacy of trade policymaking.

Below the DPM the structure tends to be highly fragmented. For example, there is a formal team for negotiations integrated by the sectoral Vice-minister responsible for their respective domestic policies. These Vice-ministers define the negotiating position of the country in their respective areas. At this level, the institutional framework tends to be fragmented. In general, low fragmentation at the highest level such as in the case of Brazil, Chile, and Mexico in Latin America, have been associated with more efficient outcomes from a trade policy perspective.¹⁶ This is because at the lower levels of responsibility, trade-related agencies are required to implement the decisions and orientations defined at the top level. In the case of Kazakhstan, although there are definitions at the highest level, because of the negotiating position being decentralized at the ministry level there is the risk of contradictory policy decisions.

Formalization of coordination at the public level is ambiguous. On the one hand, at the level of the Deputy Prime Minister, responsible for overall trade policy matters, coordination is high. But below this level, coordination seems low. The direct conduct of trade negotiations is the responsibility of the Minister of Economic Integration and her team for WTO matters and bilateral negotiations, while the MEBP Vice-Minister oversees the CU and EEC negotiations. Both of them rely on the MEBP structure for coordination, but at a lower level of the bureaucratic hierarchy. It is not clear how these two levels of responsibilities coordinate and work at a more technical level where issues can converge.

Below this level, the MEBP coordinates with other ministries on an ad-hoc level with no formal permanent working or negotiating groups and no clear umbrella (there are two negotiating structures for WTO and CU). Information is transmitted to top, but it is not clear what happens when there are differences in negotiating strategies and who resolves the differences in negotiating positions.

The network of private players is concentrated. There are few players who take an active part in the process of drafting trade policy.

Formalization of consultation with private sector is low. There is a small network of private and public entities consulted on trade negotiation matters which may have a relatively large influence on trade policymaking. There are no formal channels for the participation of the private sector, like in the case of Mexico during NAFTA negotiations.

¹⁶ Jordana and Ramió, 2003.

Box A1: The Analytical Framework for Assessing Trade Policy Institutions in Kazakhstan

The main organizational and institutional characteristics are assessed based on four dimensions:

- **Degree of institutional fragmentation**, this dimension refers to the number of ministries involved in decision-making. The degree of fragmentation is classified in three categories: High, if more than two ministries are involved in decision-making for trade policy; Medium, if two ministries are involved; and Low when a single ministry leads decision-making for trade policy.
- **Degree of formalization of ministerial coordination**. This dimension is classified also in three categories: High, when there is a committee that reconciles diverging interests between ministries; Medium, when there is a committee, but with slight coordinating capacity; and Low, if there is no organ of coordination between ministries.
- **Network of private players**. This dimension includes three categories: Broad and scattered, when numerous players take part in the process of drafting trade policy, but none of them predominates. Broad when there are numerous players that take part in the process of drafting trade policy, but some of them may be clearly dominant; and concentrated, when only a few players take part in the process of drafting trade policy; and
- **Degree of formalization of private sector participation**. This dimension includes three broad categories as well. There is High degree of formalization when there are structured channels through which the private sector can take part and have influence. There is a Medium degree of formalization when there are structured but ineffective channels for the participation of the private sector; and formalization is low if there are no structured channels for the participation of the private sector.

Source: Adaptation from Jordana and Ramió, 2003.

Annex 3: Institutional Assessment of Trade Policy Development and Implementation, a Comparative Analysis

Is there a single model to conduct trade policy? Robert Putnam (Putnam, 1988) defines trade policymaking as a two level game: the first level is the national level and the second level is the supranational level. The first level determines the outcome of the international level (i.e. the negotiating results) (INTAL-BID, 2002). The performance at first level depends on the domestic capacity to conduct trade policy by the responsible ministry, the quality of the work across different ministries responsible for specific areas (coordination and implementation), and the interaction with different stakeholders.

Experience shows that countries with different institutional models perform well. For example, the United States, the European Union, Japan, and Korea, have all different models which broadly speaking are considered to be world class model. The key question is then, what explains that different models may perform well. Before entering into the discussion, we need to acknowledge that when analyzing the trade policymaking the focus of trade experts is on who conducts trade negotiations and how decisions are taken. In our assessment we follow a broader approach which looks at the different dimension of trade policy. In other words, a country may have a strong negotiating team, but if its work is disconnected to other trade-related policies such as subsidies policies, diversification, promotion, investment attraction, and innovation, the country may not benefit from trade negotiations. In what follows we will mainly analyze negotiations models, and yet our recommendation is that the core responsibility of trade ministries (or ministries responsible for trade) should be both to design trade policy, including trade development policies, and conduct trade negotiations as well.

What are the possible models to conduct these functions? We adopt the classification proposed by (Jordana & Ramio, 2003) who distinguish four different models according to where the trade policy-making is centered. There are of course no “pure” models and variations within these categories exist.

Who conducts trade negotiations? Table 1 describes four models and discusses their advantages and disadvantages. Many countries locate the trade negotiations responsibilities in the foreign affairs ministries. This is the case, for example, of Australia, Argentina, Canada, Brazil, and Chile. As we mentioned before, this does not mean necessarily that all dimensions of trade policy are located in under foreign affairs. In the case of Brazil, foreign affairs represent trade policies abroad, while the responsibilities for trade policy design are located in CAMEX.

One of the reasons for locating trade negotiations under foreign affairs is the acknowledgement that trade policy is also a dimension of foreign policy. By conducting both policies together in a single entity, countries can ensure coherence of both dimensions. Among the advantages of locating negotiation responsibilities under this ministry we can mention: a) the fact that broadly in almost all developing countries, unlike other public officials, diplomats are career public servants, this means that they enjoy more stable positions, and therefore institutional memory is preserved; b) countries can use more efficiently the overseas network infrastructure which allow them to conduct more efficiently trade policy negotiations; c) also, diplomats are more familiar with the international affairs and international law; and d) there is less probability of capture by domestic interest

Table A2: Advantages and Disadvantages of Foreign Trade Policy Organizational Models (Focus is Negotiations)¹⁷

MODELS	RATIONAL	ADVANTAGES	DISADVANTAGES
Foreign affairs centered. Examples: Australia, Argentina, Brazil, Canada, and Chile.	Foreign trade is part of foreign policy Part of a traditional model.	<ul style="list-style-type: none"> • Coherence of foreign policies. • Professional, stable, career diplomats (particularly important in developing countries). • Use of overseas foreign relations networks. • Diplomats understanding of world affairs and international negotiations. • Possibility of using country's infrastructure abroad. • Less risk of hijacking by private players. 	<ul style="list-style-type: none"> • Diversity of objectives. • Lack of technical and specialized skills (economic and trade issues are complex). • Predominance of political motivations. • Low priority of presidency in foreign trade.
Ministry of Industry centered Examples: Colombia, Japan, Korea, Malaysia, Mexico,	Trade is link to industrial policies Part of a traditional model.	<ul style="list-style-type: none"> • Coherence of industrial and foreign trade policies. • Knowledge and Expertise is more appropriate. • Capacity to assess impact of policy changes. 	<ul style="list-style-type: none"> • Diversity of objectives. • Trade may not necessary be the priority. • Potential contradictions between exports development and domestic industry development. • Who is the client? Risk of capture by organized vested interest. • Low priority of presidency.
Ministry of Economy centered Examples: Kazakhstan, Spain	Trade is link to domestic policies Part of traditional model.	<ul style="list-style-type: none"> • Coherence of economic and foreign trade policies. • A wider sectoral view, for instance, concern not only with industrial development but agriculture, and services. • Potential opportunities to build domestic alliances. • Reduce risk of capture by organized vested interest due to larger constituency. • Part of traditional model. 	<ul style="list-style-type: none"> • Diversity of objectives. • More issues beyond trade. • Potential contradictions between exports development and domestic development. • Who is the client? • Low priority of presidency trade matters.
Dedicated agency Examples: Costa Rica, Peru, United States (USTR).	Focus on trade negotiations and trade development.	<ul style="list-style-type: none"> • Autonomy to conduct exclusively trade policy. • Involvement of presidency on trade matters. • Less risk of hijacking by private sector interests. 	<ul style="list-style-type: none"> • Efforts for coordination. • Possible disconnection between trade and other development and economic objectives. • Possible institutional weakness (experts, resources, and capabilities). • May potentially lead to higher political conflicts because greater fragmentation.

Note: USTR focuses exclusively on trade negotiations, and does not have any responsibility on export promotion.

¹⁷ There are “pure” models. We classified the countries within one model on the basis of where the trade policy function “function” is located, including negotiations. The U.S. model limits the USTR function to negotiations. Policy making is a share responsibility of the Executive and the Congress.

Box A2: Brazil Trade Policy: in Search of a Model

At the beginning 1995, the newly elected President Fernando Henrique Cardoso created The Brazilian Chamber of Foreign Trade (Camex) in order to formulate policies and coordinate activities related to foreign trade in goods and services. As an organ of the Government Council, the Board was physically located in the same building as the President (called “The Planalto Palace”). The Chamber was composed mainly of a Council of Ministers (political sphere), an Executive Secretariat (technical sphere), and a Committee of Executive Management (“Comitê Executivo de Gestão – Gececx”), which is the core executive board.

The Council was composed of the (1) Ministry of Presidential Staff Office (“Casa Civil”), who was the president of the Chamber, (2) Ministry of Foreign Affairs, (3) Ministry of Finance, (4) Ministry of the Planning and Budget, (5) Ministry of Industry, Trade and Tourism, and (6) Ministry of Agriculture, Supply and Agrarian Reform.

The Executive Secretariat is responsible for preparing the meetings of the Council of Ministries and of the Gececx (which is composed of representatives from diverse ministries and agencies), to consult the private sector and professional associations, and to gather elements for trade negotiations, keeping ministers informed of its progress. In the institutional framework it was also provided that any requirement on the foreign trade operations created by agencies of the Federal Government would be subject to prior approval of Camex.

During its early years, the Chamber exercised active participation in the Brazilian trade policy. Faced with the adverse macroeconomic and negative expectations regarding the behavior of the trade balance (and therefore the current account and balance of payments), the Cardoso government initiated a series of efforts to rebuild the export policy, and thus, the trade policy as a whole, which was considered an important piece in the process of fiscal and economic adjustment in the country.

Since 1999, with the transformation of the Ministry of Industry, Trade and Tourism (MICT) into the Ministry of Development, Industry and Trade (MDIC), the Minister of Development serves as the chairman of Camex. In the same 1999, the location of the Executive Secretariat of Camex in the government organization chart was altered, changing their subordination and physical location to the MDIC. Such alterations represented the politics of the time, and were influenced by the appointment of the then Minister of Presidential Staff Office (Casa Civil) for the new Ministry of Development. The mission of this new Ministry was to seek the resumption of economic growth by encouraging the production focused both on the internal and external markets.

The legal mandate of Camex was strengthened in February 2001. In this new situation, Camex has become responsible not only for trade policy formulation, but also for its coordination. Moreover, the board has also become a deliberative forum for several issues related to its authority. Near the end of the second Cardoso government (1999-2002), however, the legal mandate of Camex was weakened and, consequently, their political power. In this new scenario, the Chamber lost the authority to formulate trade policy, and it became an executing agency, rather than a Brazilian trade policy “think tank”, as was envisioned at the time of its creation.

At the beginning of the Lula government (2003), the presidential Decree n°. 4732, June 2003, changed the Camex structure and its legal mandate, reinstating its responsibility to formulate trade policy. In addition, the President increased the “political power” of the Camex Council of Ministries and mainly of the Minister of Development, Industry and Foreign Trade, who also chairs the Council

Regarding the organizational structure, the number of representatives of various ministries and government agencies in the Committee of Executive Management (“Comitê Executivo de Gestão – Gececx”) increased considerably, from 14 to 26. Another important change in the structure of Camex was the creation of the Advisory Board Private Sector (Conselho Consultivo do Setor Privado - Conex”), composed of 20 private sector representatives, to advise the Gececx.

Source: World Bank, adapted from Ramos, 2010.

There are as well disadvantages of locating this trade policy under the responsibility of foreign affairs. The first is diversity in objectives. This means that sometimes foreign affairs may be willing to pursue foreign policy objectives in lieu of the more immediate trade policy objectives. This is in fact the criticism that explains why trade policy responsibilities were removed from the State Department in the U.S. and led to the creation of the Special Trade Representative, later the USTR (see (Destler, 2007), (VanGrasstek, 2008) and (VanGrasstek, 2012), and (Jordana & Ramio, 2003) in the case of the EU). More recently countries like Colombia and Costa Rica adopted a similar decision.

A second problem, in particular in developing countries, is that career diplomats do not necessarily have the highly specialized technical knowledge that requires today's trade policies. When trade negotiations were mainly about reducing or eliminating tariffs, a trade diplomat with the appropriate instruction would be able to conduct trade negotiations. Today, complex matters such as financial services, telecommunications, investments, intellectual property rights, sanitary and phytosanitary issues, among others, are far away of the kind of expertise that can be found in foreign affairs ministries. This has been solved in some countries by allowing the integration of specialists in foreign affairs responsible for trade matters (for example in the case of Chile). In other cases, this was resolved by integrating foreign and trade ministries into a single ministry (Australia, Canada, and New Zealand).

The second model which follows the case of Japan, and was adopted in Korea, Malaysia and Mexico, among others, has located the trade policy matters within the industry ministry¹⁸. This model has the advantage of integrating both industrial and trade policies into a single framework which may ensure more coherent approaches. Also this model ensure as well that trade negotiators have the required technical expertise, together with the analytical capacity to assess likely impact of different negotiating scenario. At least this is in theory, because in many developing countries these ministries are relatively weak.

This model confronts though similar problems than the previous model centered in foreign affairs. First, there must be potentially diverse policy objectives and sometimes conflicting policy objectives as may be the case when trade and development policies do not coincide. Also, in this case, trade policy may have a lower priority than industrial development policy. Finally, there is also the problem of capture by organized interests which may affect the decision making process.

A third model centers trade policy at the Ministry of Economy. This is the case of Kazakhstan and Spain. This model acknowledges the link between modern trade policy and a wider range of domestic policies. The aim is to better connect trade policy with these policies. It provides as well an opportunity to build a wider range of domestic alliance that would help to identify pro-liberalization interests that could oppose protectionist interests reducing the risk of capture. In contrast, this model may confront weaknesses, similar to those of the industry centered model.

Finally, the last model is centered on dedicated trade institutions. Here we can find a unique model, which is the United States model (see box 2), where trade negotiations are located in one single entity responsible for representing US interest in trade negotiations, and other countries where trade ministries have a broader set of trade-related objectives such as trade and investment promotion. This model has at least three advantages. First, focus is on trade policy exclusively. Second, generally there is high probability of involvement of the President (or head of the government) on trade policy matters. And finally, it may reduce the probability of capture by vested interests.

In contrast, there are much more coordination efforts involved because, for instance, in the case of the United States, the USTR has no policy responsibility. This may also imply that there is higher disconnect

¹⁸ The case of Mexico is examined in (Zabludovsky, 2007); (Ortiz Mena, 2001) and (Carlos & Vega, 2002).

between trade policy and sector development policies. Also this model may require a higher level of specialized resources which are available in other ministries or agencies, but not necessarily in the trade ministry. Finally, there is higher level of fragmentation and this may lead to higher level of political conflict.

Box A3: Trade Policymaking in the US: USTR Role

Understanding of the process of US trade policy must begin with the structure embodied in the US Constitution. Serious policy action in the United States almost always requires major contributions from both Congress and the President. Specifically, the Constitution gives authority over trade to Congress. For nearly three decades since the 1930s, negotiations were conducted by the Department of State. But when the administration of President John F. Kennedy asked Congress in 1962 for great flexibility to negotiate barrier reductions with a uniting Europe, key legislators demanded a process change. There should be a new office established to conduct the global talks that became known as the “Kennedy Round.”

Formally, the USTR is housed in the Executive Office of the President (EOP). It is responsible for international trade policy development, coordination, and negotiation. Coordination of trade policy with other concerns is the responsibility of the National Economic Council—established by President Clinton, and, intermittently, of the National Security Council. But USTR typically leads and manages on major trade issues. Lawyers are prominent among its staff, some of whom move back and forth to the staffs of the Congressional committees. And former USTR officials are prominent among the trade bar.

Within the trade policy sphere, USTR heads a statutory interagency coordinating committee structure that operates at Cabinet and sub-Cabinet levels. Other important members—and trade policy participants—include the Departments of Commerce, Agriculture, Treasury, and State, and EOP units such as the Council of Economic Advisers.

Societal economic interests are consulted regularly, particularly the interests of producers—because advancing them is an important function of trade negotiations, and because their support is needed for agreements reached. Formally, communication takes place through a statutory network of industry and labor advisory committees, which must report their views to Congress on pending trade agreements. In recent years, committees have been added and representatives appointed to reflect the interests of civil society groups—environmentalists in particular.

Senior officials in the USTR and the departments are, of course, appointed by the President and confirmed by Congress. It is through these appointments that the chief executive exercises his strongest impact on trade policy. A strong designee brings effectiveness and priority to trade.

The most important coordination for US trade policy, however, is that between the Executive and the Congress. The USTR cannot be effective if Congress undercuts him/her, or if foreign or domestic interlocutors believe that it will. And the structure of “separated institutions” makes this highly likely in the absence of processes designed to prevent it. When trade negotiations were limited to tariffs, coordination was straightforward: Congress told the president, through legislation, what his agents could and could not negotiate, and operating within these constraints, the executive could implement tariff reductions through his/her delegated authority to proclaim the new rates. But problems arose when US negotiators struck deals for which implementation required discretion in legislative language. Congress refused, in fact, to implement two deals negotiated by the Johnson administration in the 1960s—one on antidumping, the second on how certain US duties were calculated.

When the Nixon administration sought authority for the Tokyo Round the “fast-track procedures” were created. When Congress authorized a trade negotiation, it would commit itself to act on the results, as submitted by the President, within a limited time period. It would make this commitment through rules binding on each of its two chambers. Congress could approve or reject the deals.

Source: World Bank, adapted from Destler, 2007.

Box A4: Trade Policymaking under Supranational Organizations: The Case of the European Union

In order to understand the institutional framework of the EU it is necessary to understand the relationship between the Commission, the member states, and the Article 133 (formerly Article 113) committee. The Council is the EU's main decision-making body, the Commission is the central executive body of the EU. In the trade sphere the Commission develops proposals for the initiation and content of international trade negotiations while balancing different national and sectoral interests. These proposals are initially discussed by the Directorate General (DG) of Trade of the Commission, in cooperation with other Commission Directorate Generales. DG Trade assists and answers to the EU Trade Commissioner. Once the DG Trade has elaborated these proposals, discussions are undertaken by the Article 133 Committee.

The Article 133 Committee is integrated by government appointees, senior civil servants, and trade experts from member states and Commission representatives. The Committee functions as permanent regulator to the Commission in its work on trade issues; despite its consultative nature, it plays a critical role developing the common European trade policy. Moreover, the Article 133 Committee closely oversees the Commission work on external trade negotiations and makes decisions related to trade policy.

Article 133 Committee meetings are held in private. There is no formal vote and its deliberations are not published. Despite its consultative nature, the Commission almost always takes into accounts the deliberations of the Committee and almost always follows its advice. This is because its members represent the ministers' views on trade matters. Once the 133 Committee conclude reviews the DG Trade proposals they are referred to the Council that votes and agrees on a negotiating mandate which is not public. The Council may also give additional directives to the Commission to conduct negotiations. The Council has the final decision power on trade policy matters.

The actual negotiations are conducted by the members of the Commission. The Commission has to coordinate the negotiations at different level as well. Coordination includes the Article 133 Committee, the Committee of Permanent Representatives, and the General Affairs Council. The General Affairs and Foreign Affairs Council (GAC), is integrated mainly by Foreign Affairs ministers. When discussing international affairs matters other ministers and other Councils can also participate. However there is no systematic and formal forum for Trade Ministers, although they may meet informally or under the call of the GAC. This appears to be a drawback given that the Ministers of Foreign Affairs and those of Trade pursue different interests and may have diverse views on international trade. Ministers of Trade can travel to important meeting to endorse or resist positions under negotiations by the Commission.

While the European Parliament is not closely involved in developing detailed positions, it can shape the atmosphere and thus have an indirect influence on the process by holding hearings and issuing reports. The provisions of Article 300 of the EU Treaty require the European Parliament to be consulted after agreements are concluded. Regarding national parliaments, the consultations process is left to the individual member states.

The GAC, usually, has the ultimate authority to adopt agreements by qualified majority voting under Article 133, or by unanimity when the EU is adopting the results of a bilateral agreement with a third country. The practice, however, has been to seek consensus.

Source: World Bank, adapted from Jordana and Bianculli, 2007.

If there are different models for conducting trade policy, what matters for success? The analysis should focus on what are the formal institutional design and its influence on solutions and improvement. By institutional design we mean the following basic aspects: i) the organizational structure of governments and the distribution of functions related to trade policy-making, ii) the coordination and consultation mechanisms among public bodies and institutions, and iii) the rules of participation of private interests in the decision-making process.

Trade policymaking reflects both the constitutional arrangements of a country as well as the orientation and objectives of trade policy (Ostry, 2002). For example, countries where the Executive and the Legislative branches have shared responsibility on trade matters, such as the United States, will have a different trade policymaking institutional configuration than countries where trade policy is the sole responsibility of the Executive Branch. Also in countries where trade policy is conducted by a supranational entity, such as the case of the European Union, will have a different configuration than countries that have direct responsibility in trade policymaking (see Box 3). Countries may differ as well with regard to what is the role of trade policy in their development strategies. Broadly speaking, countries which have embraced outward-oriented policies and that rely on exports markets for growth will seek to organize the trade policymaking process in a different way than countries which are more concerned with the development of domestic industries as policy orientation.

For example, in the case of India, trade policy did not take an important role in the country's development strategy. The Commerce Minister seldom consulted the Parliament on trade matters or sought opinions from the private sector or other interested parties. Both the reform process undertaken in the early 1990s and the entry into force of the WTO changed this approach and the conduct of trade policy was reformed to reflect this new role of trade in the country's development strategy (see Box 4 for the case of India).

This means that the institutional set-up for conducting trade policy is unsettled question and it is necessary to look for a specific institutional design for each country which would best fit the conditions and restrictions that have an influence on the formation of their foreign trade policy (VanGrasstek, 2008).

Today trade policy intersects with a number of policy areas (see Figure 1). This means that independent on where trade policy is located, i.e. in a dedicated Trade Ministry, or as part of another Ministry, what matters is how efficient is the Ministry in performing the functions related to its core responsibilities¹⁹. VanGrasstek, (2008) identifies three functions: a) analysis; b) communication; and c) representation.

The analytical function consists on collecting, analyzing and disseminating trade related data information which is necessary for support of trade policymaking. The communication function includes internal communication and communication to other ministries and agencies, before negotiations to establish national positions, during negotiations, to defend those positions, and after the negotiations, to implement outcomes. Finally, the third function refers to the responsibility of the ministry to represent the interest of the country abroad.

¹⁹ VanGrasstek, (2008) defines the core responsibility of a Trade Ministry as the negotiation and implementation of trade agreements. This does not mean that the Ministry may not as well perform other trade related activities such as trade promotion, and more broadly assistance exporters, and investment promotion and others.

Box A5: India's Trade Policymaking

Any analysis of India's existing trade agreements as well as its position on important WTO issues has to bear in mind the economic and policy environment from which these strategies have evolved. In a historical perspective, the period 1947 to 1991 was an era of protectionism based on a development strategy anchored on the concept of large-scale import substitution. Trade and trade policy were not of primary importance and the latter would be determined automatically by whatever was needed to augment and make more favorable, conditions under which domestic industry and agriculture had to operate.

India's balance of payments position worsened to a crisis point in 1991. This led to a change in attitudes and policies. Internal trade became freer as the license/or permit system loosened its control of economic activity and increasing emphasis was placed on the need for a more competitive export sector. Slowly but surely, the two biggest events in Indian economic history—the emergence of a market-based reform project and an incremental re-introduction to the global economy—began to take shape. But even in these circumstances, the policy for reform was not led by trade policy. Rather, the effort was to liberalize licensing, reduce restrictions on production and investment, and open up financial markets, and correct fiscal, monetary and currency rate policies. Trade policy reform was slower in coming, and emerged more from restructuring of tariffs and import duties rather than from a clearly articulated vision. India's stand in the Uruguay round of trade initiatives strongly suggests that reform process did not immediately translate into a greater willingness to engage in trade negotiations.

As a result of Parliamentary debates in 1998-99 and the entry into force of the WTO, significant changes occurred. First, the Ministry of Commerce and industry lost some of its secretiveness. Commerce Ministers have been careful in reporting to Parliament a step-by-step account of the negotiations and the stance taken by the Government. There have been several Parliamentary questions, call to attention notices and debates on issues involving the WTO. Industry associations and interest groups became active in trying to understand, and to debate, the positive as well as negative issues of the agreements. Third, administrative coordination between ministries improved. Issues and strategies are discussed not only within ministries, but also with industry and trade groups. For example, the delegation to the WTO Seattle Ministerial Meeting included a large delegation from industry that was consulted regularly. It also included members of parliament from the opposition. In Seattle, it was clear that India had put a lot of thought behind the negotiations.

Trade policy in India is primarily the responsibility of the Ministry of Commerce and Industry (MoCI) and it plays a major role in defining and setting policy. The MoCI occupies a privileged and exclusive space in Indian politics, and formulates policy largely in isolation; that is, without consulting other government branches, often taking instructions directly from the Prime Minister. The MoCI also negotiates bilateral agreements.

However, the consistency of domestic and external policies is addressed at the cabinet with the assistance of advisory committees. Inter-ministerial consultations always including the Ministry of Finance (MoF), and the Ministry of External Affairs (MoEA). The Ministry of Textiles (MoT) and Ministry of Agriculture (MoA) are involved in the process on specific agenda items. A core group of ministers which includes the Ministers of Commerce, Finance, External Affairs, and Agriculture participate in the policy definitions for WTO Ministerial Meetings. The cabinet is invariably consulted on negotiating stances and strategies, and the Prime Minister is kept informed daily on the progress of the negotiations. After each of these, the Commerce Minister briefs Parliament.

Source: World Bank, adapted from Narayan, 2005.

Annex 4: Programs for Diversification

The “Program for Accelerated Industrial and Innovative Development” is detailed with goals, quantifiable performance targets, identified projects and actions to deal with complementary issues such as training and infrastructure. Trade-related goals focus on adding processing and value in the traditional energy, mining and chemical export sectors; developing export supply in the agroindustry sectors (grains, meat, dairy, fruits and vegetables, sugar and wool), light manufacturing (textiles and apparel, leather, fur and footwear) and tourism services. There also is the stated ambition to develop exports in ITC sectors and space services.

Box A6: Government of Kazakhstan Program for Growth and Diversification of Production and Exports

The 2010-2014 State Program of Accelerated and Innovative Industrial Development of the Republic of Kazakhstan is operationally defined and focuses on 15 priority sectors: (i) diversification of traditional export sectors (oil and gas, ore mining and smelting, chemicals and atomic industry; industries supplying domestic demand (machinery, pharmaceuticals and construction engineering and materials) (iii) sectors with new export potential (agricultural processing, light industry and tourism) and (iv) sectors of the future (ICT, biotech, space, alternative energies, atomic energy). The responsible ministries are Economy and Budget Planning (MEBP) and Industry and New Technologies (MINT).

The main targets of the Program are an increase of GDP (of no less than 15 percent); increase in the participation in GDP of manufacturing (to no less than 12.5 percent) an increase of non-primary export volume in total export volume (to no less than 40 percent) and an increase in labor productivity (by no less than 1.5 times in manufacturing and 2 times in agro-processing)

Each of the 14 priority sectors has targeted goals, identified investments and complementary support requirements. As an illustration:

- In light industry the targets are an increase in gross value added of 50 percent and an increase of labor productivity of 1½ times. The focus is on modernizing processing of local wool, cotton and leather for exports in the textile, garment, leather and footwear industries. There are 4 major projects identified, each for a specific region (“Oblast”): (i) Reconstruction and modernization of the leather industry; (ii) organization of a modern textile industry; (iii) new output of hygroscopic wool, cotton and cellulose and (iv) modern production of combed cotton and yarn. Complementary support measures include training of personnel in 20 specialties, removal of some administrative barriers, development of two technical regulations and 50 national standards and establishment of a research and laboratory center for evaluation of quality standards.
- In Chemicals, the targets are to double output and promote exports. The focus is on production of three organic chemicals, four inorganic chemicals, four “special” chemicals and seven miscellaneous chemicals. Four new projects are identified for implementation with several others expected to emerge in the Program period. Complementary actions identified are in the area of infrastructure provision, training, removal of administrative and export barriers, establishment of new technical regulations (9) and standards (225); foreign direct investment (FDI) attraction and grants for research/innovation and cost recovery of enterprises’ export promotion.

The Program also has detailed horizontal initiatives in education and training, legislative affairs, administrative barriers, regulation of infrastructure, competition policies, energy conservation and innovation and technological modernization to support diversification of production and exports.

Source: Authors based on “2010-2014 State Program of accelerated industrial and innovative development of the Republic of Kazakhstan and cancellation of certain decrees of the President of the Republic of Kazakhstan”, Astana, Presidential Decree, March, 19, 2010.

The “Program for Development of Trade in the Republic of Kazakhstan for 2010–14”²⁰. reiterates strategic aspirational goals designed to: integrate Kazakhstan into the world trading system; to create favorable conditions for development of production of modern competitive products in the territory of Kazakhstan that can serve as import substitutes or new export-oriented production facilities; to attract foreign capital to high-tech sectors; and to create favorable conditions for promotion of Kazakhstan products in foreign markets. Special attention is given to the role of the CU/CES in developing import substitutes and non- primary good exports. Finally, the Investment Attraction and Export Program aims to attract investment to Special Economic Zones to incentivize export of non-primary and high-tech products as well as import substitutes of inputs required by the country’s resource intensive industries.

Box A7: Investment Attraction, Special Economic Zone Development and Export Promotion in the Republic of Kazakhstan for 2010–14

The general goal of the program is to create conditions to attract direct investments to non-primary export-oriented and high-technology industries as well as integration into the world trade system through promotion of processed goods exports. This will require improvement in the country’s investment image, creation of more Special Economic Zones that have tax and other incentives for investment and export development and improvement of their governance as well as services and finance to support export promotion. Specific policy objectives are:

- Attraction of 18 targeted investors from the list of the companies in Global-2000.
- Domestic and foreign investments to non-primary economy sectors (processing industries, agriproduct processing and services) will increase by at least 15 percent.
- Volume of FDI to GDP will increase by five per cent.
- Diversification of investment sources (seven main investment countries).
- Conclusion of agreements with foreign states on promotion and mutual protection of investments.
- Achievement of an indicator of Global Competitiveness Index of the World Economic Forum: “Influence of Control Rules for Foreign Direct Investments on Business” – 102 place; (107 place in 2009); “Foreign Direct Investments and Technologies” - 108 place (113 place in 2009).
- Improvement of the position of Kazakhstan in “Doing Business” Ratings by the “Investor Protection” Indicator.
- Develop Special Economic Zones.
 - Create 7 new zones.
 - Increase in the number of the SEZ members to 201 by 2015.
 - Increase in investments in non-primary export-oriented and high-technology production within SEZ to KZT1.739 billion by 2015.
 - Increase in overall production of goods and services within SEZ from KZT21.9 billion in 2009 to KZT 1.437 billion by 2015, including export of at least 50 percent of the output.

Total budget financing of all activities will be KZT19.559.962 thousand.

Source: Authors based on Resolution of the Government of Kazakhstan No. 1145, Astana, October 30, 2010.

²⁰ Government of Kazakhstan Decree No.1143. October 30, 2010.

Annex 5: The Organization and Coordination of Support of Enterprise and Export Development

Kazakhstan's government agencies have a wide array of support programs for export development and promotion (Annex 4). The programs provide services and finance, both grants and subsidized loans. A number of actors are engaged in the provisions of these programs and services. This has made the Kazakhstani institutional setting for support of enterprise and export development is complex, dispersed in the public bureaucracy and seems to have overlapping mandates.

- The strategies for export development and promotion have been formulated by MEBP with support of MINT, which oversees much of the implementation, in collaboration with the Ministry of Foreign Affairs (MFA) for overseas promotion activities. MINT has two agencies providing program support. One is KAZNEX INVEST (KI), which supports export promotion and investment attraction. The other is the National Agency for Technological Development, which supports enterprise innovation, including applied R&D, regional technical parks, sectoral design offices and venture capital funds. MES supports science and technology research, including collaborative efforts between research centers and industry. The Damu Enterprise Development Fund—a subsidiary of the state holding company Samruk Kazyna National Welfare Fund— supports investment and upgrading by SMEs, including for new exports. The National Welfare Fund itself attracts, organizes and finances large investments, including by foreign companies, in the strategic sectors outlined earlier²¹. The State Insurance Corporation for the Insurance of Export Credit and Investment provides export insurance.
- The fourteen Oblasts and three cities with regional status have funding for programs and services that support enterprise and export development. These programs **overlap with the objectives of KAZNEX INVEST**, and while this later is to coordinate these programs, it appears that it has little authority to do so. Decentralized programs managed by the provinces and cities with regional status have the advantage of intimate knowledge of local firms and their needs. On the other hand, there are risks of inefficiencies due to uncoordinated decision making; intimacy also can lead to rent-seeking if not conditioned by adequate checks and balances. A greater degree of collaboration and coordination among the central and regional level would likely increase the impact of these programs.
- The Special Economic Zones (SEZs) have had uncoordinated management, leading to uneven application of incentives and performance and less than efficient bureaucratic procedures. The zones—there are now nine of them—are considered an important tool for regional development and economic linkages. They offer tax incentives and other advantages to attract investment (domestic and foreign) for new non-primary good exports. The SEZs are settled in non-agricultural land owned by the State and have a 25 year life span. Some reforms are underway. Moreover, there has been a decision to have KAZNEX INVEST oversee the SEZs, which should lead to more coordinated and homogeneous management.
- Overlapping mandates are emerging between the Ministry of Foreign Affairs (MFA) and MINT. In late 1990s, the Committee for Investments at the MFA had responsibilities for investment attraction, but it was transferred to the Ministry of Industry and New Technology (MINT). The MFA now is significantly strengthening its work in the field of economics and trade, particularly with respect to the attraction of foreign investments. The main idea of the MFA is to have closer cooperation with KaznexInvest, with the objective of facilitating the attraction of foreign investment. However, even though joint meetings are held between the two ministries, it is unclear who has the single mandate for investment matters, which may cause coordination problems among public entities.

²¹ Among other things, Samruk Kazyna is the holding company for State Enterprises.

- The MFA, as a responsible authority for foreign policy matters, intends to centralize the supervision of activities of government bodies in negotiations processes, including trade and investment negotiations. Two years ago, MFA created the Department of Foreign Economic Policy. The main role of this department is to strengthen trade and economic relations with third countries in cooperation with relevant ministries. Currently some ministries conduct negotiations and sign agreements without informing MFA. A clear leadership of the negotiations mandate will reduce the risk of the tensions arising between ministries, a phenomenon that has been observed in other developing countries when trade and investment negotiations gain a high profile in the policy agenda.

The coordination and information sharing among the trade-related ministries and agencies is affected by the classic institutional bottleneck of “siloed” operations. This is a handicap given the ambitious proactive strategic development and trade agenda of the government aimed at inducing structural transformation and diversification of the economy.

- One challenge to better coordination is the number priority sectors (15) set out in the Program for Accelerated and Innovative Industrial Development. This broad scope would constitute a challenge to many state implementation capacity. In design of development programs it may be appropriate to scale back the scope and focus on fewer (3-4) key sectors in successive rounds of development programs²².
- For instance, the staff of KAZNEX INVEST, part of MINT, was not familiar with the on-going WTO negotiations. The office in MINT that oversees innovation was very informed about the laws and budgets promoting innovation programs under its responsibility, but seemed uninformed about promotion activities in MES, which while focused on primary research, is also in principal promoting more links between research centers and business to spearhead more commercially-oriented innovation. The CTPD did not seem engaged with the issue of innovation in MINT and MES even though it is a major tool for export development. Moreover, WTO rules for TRIPS, TRIMS, and subsidies will likely have implications for the country’s promotion programs. Although the WTO agreements provide for transitional arrangements to adjust countries legislation to their rules, public agencies responsible for trade policy need to be aware of and prepare to introduce reforms to conform to WTO rules and disciplines.
- Public support for innovation is much dispersed and insufficiently coordinated. There are a number of players that have operated in relative silos. MINT supports industry-oriented research and innovation through the financial and non-financial support programs of its National Agency for Technological Development. The Ministry of Education and Science finances research in more than 45 public research institutes as well as those in Parasat, a state holding company for another group of research institutes and that also manages a Science Fund. Ministries also have their own research institutes that support R&D programs linked to sectoral activities. Finally, the Damu Entrepreneurship Development Fund supports innovation in SMEs.
- Also, there is insufficient implementation coordination between these innovation programs and other actors who could contribute to such innovation. For instance, academic research in research centers tends to be siloed in specialized topics and relatively delinked from universities. Links between banks and finance of firm innovation is very weak. The many vertical channels of public finance for research create strong constituencies that reinforce silos and rigidity in a system that should be a system of mingling networks. Meanwhile, the classic bifurcation of business R&D for innovation and science and technology research also is a major weakness for innovation. It is well recognized that

²² A recent OECD study suggests a focus on Agribusiness and related logistics, Wheat, Fertilizers and ITC. OECD (2011), *Competitiveness and Private Sector Development: Kazakhstan 2010, Paris.* The possible overextension of “priorities” can also be seen in other program support. For instance, the Ministry of Industry and New Technologies has identified 56 technologies for support over 5 years.

successful innovation is dependent on interactive collaborative networks that couple together, among others, scientists, engineers, technicians, consumers, business people and public sector actors. The fragmented nature of interaction in Kazakhstan is a drag on the government's program to have innovation contribute to the diversification and upgrading of exports.

- The problem of silos exists within the same ministry or agency as well. For example, KAZNEX INVEST is organized around two areas; investment attraction, and export promotion (see Figure 5). The staff of the two areas are not well informed about each other's activities. This reduces the exchange of information and joint strategies to maximize FDI attraction's impact on exports and linkages with domestic firms. The situation may arise from the fact that formal coordination is assigned at a too high level in the organization; i.e., the level of the Chairman of the Board (see **Error! Reference source not found.**) and hence coordination does not permeate to lower levels of the bureaucracy.

Addressing Enterprise and Export Development Bottlenecks

A first step would be to evaluate the efficiency of the major programs intended to support export and enterprise development. Both the design of central and regional programs and their operation would benefit from regular evaluation. To improve the efficiency and coordination of the support programs, an ex-ante evaluation could be used in program design. Developing ex-ante checklists in the spirit of the illustration in **Error! Reference source not found.** would help Kazakhstan's executing agencies to introduce checks and balances in the design process that reduce possibilities of duplication, assist in managing risks of failure and private sector "gaming" of the program as well as highlight the need for streamlined functional bureaucratic administrative processes²³. An ex-ante checklist also could foster more coordination among agencies in development of support programs, an important issue given the large array of agencies and programs in the central government and regions.

²³ Too much red tape in a support program can deter a company from participating. There must be a balance between rigorous administrative procedures, on the one hand, and prompt response to a company's application and delivery of a service or disbursement of support funding, on the other. Time can be of the essence for a successful investment; moreover too much red tape will debase the value of the incentive vis-à-vis the opportunity that the incentive is designed to support. Interviews with the private sector raised some complaints about excessive bureaucratic procedures in some support programs. Hence a review may be merited.

Box A8. Example of a Checklist for Programme Conceptualization and Design

Clarity on the nature of the problem to be addressed

Have the objectives been clearly and unambiguously defined, with a view to overcoming a specific constraint?

Additionality

Is it clear that the programme will encourage the desired behaviour, will be well received by the designated users and does the scale of the financing match the expected actions and results?

Competition

Does the programme need to be competitive in terms of access? Any answer to this depends on a capacity to define objectives in terms of social benefits, the ability to assess the merits of alternative proposals, administrative costs and manage users' potential strategic behaviour to obtain preferential treatment.

Consistency

What are the possible interactions with other programmes and how does the programme fit into the overall set of support activities for the identified objective?

Duration

How long will the programme need to continue in order to achieve the objective and produce sustainable results? Is there a natural cycle for the development of the objective or should the programme be introduced in segments? Is there a plan for ending the programme?

Risk calculation

In order to assume a calculated risk, is it clear what the risk of programme failure is in relation to the potential benefits? If both the risk and the benefits are considered to be high, it may be better to begin with an experimental programme and, if this proves satisfactory, expand the programme to its full scale on a pilot basis before launching it as an official initiative.

Risk management

Have those involved remained alert to possible conflicts with the objectives of other programmes, both within and outside the set of programmes for the export activity being supported? Given the danger of capture by special interest groups, is there an exit plan for shutting down the programme according to success or failure *Vis-a-vis* the objective. One mechanism that can be considered for that purpose is a specific programme duration (a sunset clause) that automatically triggers an assessment of whether it should be continued or not. Possible abuse of the programme on the part of users must be anticipated, by doing studies of the real behaviour of agents in the market concerned.

Administration

Does the design of the administrative framework match the complexity of the programme and its risks, so as to avoid excessive bureaucratic interference that would discourage its potential users? Examples of this would include unnecessarily slow processing of requests and disbursement of funds. Insofar as accounts or reports are required from those who benefit from the programme, efforts should be made to apply procedures that are familiar to and not excessively burdensome for, those in the industry.

Source: adapted from T. Cutler in Robert Devlin and Graciela Moguillansky(2011), *Breeding Latin America Tigers*, Washington D.C., World Bank Publishers.

A complementary and extremely important procedure in program management is ex-post evaluation of the program's impact vis-a-vis objectives set out. Currently in Kazakhstan when evaluation does take place it is undertaken in a programmatic sense, more akin to monitoring implementation of program supports than evaluating their precise impact on a firm as such. Evaluation is extremely important to ensure the efficient use of public resources by adjusting programs to make them more effective or closing them down, discouraging corruption and making programs accountable to the public. Ex-post evaluation of support programs is a relatively new discipline with its complexities, including generating firm level performance data. It is recommended that a training program be set up for authorities of executing

agencies in the art of program evaluation, perhaps requesting technical cooperation from governments advanced in evaluation techniques.

Box A9: Evaluation of the Impact of Public Support Programs

Two countries with a culture of systematic and relatively rigorous evaluation are Finland and Australia. Finland has been cited by OECD for the particular attention it pays to evaluations. For example, its ministries organize (generally independent) expert groups, which may include non-Finnish nationals, to evaluate the programs supporting certain sectors or clusters. Programs are evaluated taking into account the initial conditions and goals and the level of financing, with an analysis of results, impacts and the efficiency of program's administration. Another aspect that is monitored is the implementation of recommendations arising out of the evaluation. TEKES (the Finnish Funding Agency for Technology and Innovation)—the Finnish equivalent of MINT's National Agency for Technological Development-- uses goal-led indicators. There are also independent evaluations of the executing agencies themselves. Another country active in evaluation, in the area of enterprise and export promotion, is New Zealand, which conducts both internal and external evaluations. For example, the various programs of New Zealand Trade and Enterprise (NZTE) are evaluated externally every three to five years; the agency also has its own assessment unit. The methodology used is a "mixed method"; for example, the evaluation of one program involved (i) a review of documents and files; (ii) interviews with users and officials; and (iii) three surveys, two administered to user groups and one to a group of non-users. The respondents totaled 3,000.

Source: Devlin and Moguillansky (2011), op.cit.s.

A second step is for the ministries and agencies as well as regional counterparts supporting enterprise and export development to achieve a closer institutional and content coordination. It is recommended that there be a comprehensive external evaluation of the institutional dynamics of coordination in the aforementioned constellation of ministries and agencies. This would lead to development of proposals for good practices and coordinating mechanisms to improve communication and better integrate policy and programs in this area.

- Enhance coordination among public entities. High level attention must be given to avoiding coordination problems among public entities and a classic turf struggle between ministries when a particular area of policy initiatives gains a high political profile in the government, such as is the case for investment attraction and trade negotiations in Kazakhstan²⁴. A clear bureaucratic hierarchy in ministerial mandates is essential for good public management and without it confusion in policy making and muddled outcomes is usually the result. This was a lesson learned in Korea in the early 2000s when the country's National Science and Technology Council, which had the designated lead in innovation, shared hierarchy in the subject with the Ministry of Planning and Budget and the Congress. Policy was very muddled until a reform in 2004 that gave the Council undisputed bureaucratic hierarchy in the management of innovation policy.
- Regarding the siloed culture within the agencies, a potential solution would be to establish an inter-office committee made up of the directors of the offices in KAZNEX INVEST's investment attraction and export development complexes and have it co-chaired by the two deputy chairman. From a good governance standpoint the committee should probably meet once a week to review the work programs and new initiatives with a view to developing synergies.
- The coordination at the regional level should be enhanced. It might be worth considering the establishment of a board of regional authorities, chaired by KAZNEX INVEST, to provide oversight and coordination of regional enterprise and export development promotion. An example of where more KAZNEX INVEST involvement might be initiated is in the relatively new Investor Service Centers (ISCs) in the regions which duplicate some of the services provided by KAZNEX INVEST.

²⁴ These types tensions between ministries emerged in Latin America when trade became a high profile policy issue in governments during the 1990s.

The ISC consolidates diverse investment support programs in seven macro regions. The centers are established with the status of the state company and they have the role of a project generator, which attracts investments for their development and implementation. Participation in projects of ISCs is expected to be attractive for the businesses because it will consolidate the hosting of regional support programs and provide prospective investors with access to the financial, land and technological resources and external markets. Greater involvement of KAZNEX INVEST in coordination of this initiative also would facilitate the much needed coordinated training for staff of these Centers, which up to now has involved *ad-hoc* initiatives at the local level²⁵.

- Regarding the SEZs. KAZNEX INVEST should do a systematic institutional evaluation of the structure, governance and impact of all the SEZs. To assist this effort it could do site visits to countries with high standard SEZs and if necessary contract an internationally recognized management consultant to support the evaluation and subsequent reforms.

A third step for effective program implementation is to ensure the transparency of the support programs. The details of the programs and list of beneficiaries should be made available to the public. For instance, KAZNEX INVEST should publish annually the names of firms that have accessed its EXPORT 2020 Program which provides grants that partially reimburse a firm for the cost of promotion of its exports abroad. In some areas such as innovation support, details on the use of the funding may merit the confidentiality due to proprietary information, but the firm's use of the facility should be in the public domain.

Finally, effective coordination and implementation of Kazakhstan's wide ranging public programs supporting trade diversification requires a strong cadre of managers trained in trade policy- related project and program management. Kazakhstan has been taking a series of measures to enhance its human capital in the state apparatus. The government spends considerable amounts of money to form a class of professional elite. In view of the central role of trade policy in Kazakhstan's development strategy, special attention should be given to earmarking funding for support in obtaining degrees in management that have a strong trade policy component. A number of the most demanded skills in trade policy management could be obtained within the framework of the "Bolashak" scholarship established by the President in 1993. More than 8 000 people have been given the scholarship to study in the best universities all over the world. In addition, special trade policy related management programs could be set up in the country's Academy of Public Administration.

²⁵ This recommendation is contingent on the operational outlines yet to be defined for the new ministry of regional development.

Box A10: International Experience with Coordinating Mechanisms

Experience of countries shows different modalities of coordination for programs and policies of export development. Common in all experiences is that ministries and agencies have clear mandates so that they know what to do and are accountable for doing it.

Among the most common methods is an inter-ministerial coordinating committee. To be effective the committee needs to be composed of all ministries and agencies with roles that are primary for export development; meetings must be frequent, a president or prime minister or similar powerful ranking personality must be a member to mediate disputes and importantly a monitoring mechanism must be in place so that there is validation for all members that coordinated agreements and mandates of action are effectively being carried out by the respective ministries. The presence of the minister of finance also is important to ensure resources are allocated where needed most.

Countries like Singapore in its early years of development used a single lead agency which had the political power in the government, technical capacity, and influence over resource allocation to effectively oversee and ensure integrated management of all the line ministries and agencies responsible for implementing the strategy and policies for export development. At a later more advanced stage of its economy the country launched a strategy to develop three high priority new export sectors: biomedicine, interactive digital media and reprocessed water technologies, each based on R&D expenditures. A common funding source was set up with a tiered integrated management for implementation. A Steering Committee for the three sectors made up of relevant ministers for the three topics oversaw the broad direction of implementation while day to day execution was overseen by an executive committee of top senior civil servants.

Ireland had several mechanisms to coordinate its export development strategy. The three public statutory agencies promoting investment attraction, export promotion, enterprise development and R&D for innovation were housed under the ministry of trade. Another statutory agency (called Forfás) within the ministry, which designed policy, was charged with coordinating the aforementioned agencies carrying out policy implementation. Forfás had influence over their budgets. Meanwhile there was cross representation on all the boards of directors of the four agencies. In addition, employees were annually evaluated for their coordination with the sister agencies and all agencies were in one building where employees easily networked.

Finally, to facilitate coordination of strategic export development policies a balance must be reached between creating an effective number of dedicated agencies with delegated authority for promoting the different operational tasks behind export development and a proliferation of them which complicates coordination.

Source: Authors based on David O'Donovan,(2010), "Public-Private Partnerships for Innovation and Export Development: The Irish Model", Serie Comercio Internacional 96, Economic Commission for Latin American and the Caribbean and Sree Kumar (2010); "The Singapore Success Story: Public-Private Alliance for Investment Attraction, Innovation and Export Development", Serie Comercio Internacional 99, Economic Commission for Latin America and the Caribbean