
SUMMARY

1. Since accession to the WTO in 2013, Tajikistan has been following a relatively open trade and investment regime. The country has strong growth potential, underpinned by its abundant hydro resources, young population, mountainous landscape and the attractiveness for tourists, and its proximity to large markets in the region. Challenges arise mainly at the sectoral level, particularly obstacles in the financial system and infrastructure bottlenecks, and also in attracting more private investment, diversifying and upgrading exports, and creating non-farm employment opportunities.

2. Tajikistan is a landlocked, mountainous, low-income country, with a per capita GDP of USD 835 in 2018. During the review period (2013-19), Tajikistan achieved robust economic growth, averaging almost 7% annually. Growth was supported by domestic demand, which was fuelled by large-scale infrastructure investments and the consequent demand for imports of capital-intensive goods, as well as private consumption supported by workers' remittances. With a level equivalent to 35% of GDP in 2019, remittances continue to play an important role in the economy.

3. However, high growth did not translate into sufficient formal employment opportunities: more than 60% of the workforce remain in the agriculture sector, and many Tajik citizens work abroad. The economy is highly dollarized, reflecting a lack of confidence in the domestic financial system. The currency has been on a devaluating trend, while the central bank adopted measures to tighten foreign exchange controls and to move towards inflation-targeting. The Government adopted an expansionary fiscal policy: the rapid increase in public expenditure led to a larger fiscal deficit-to-GDP ratio. Large public investment in infrastructure projects also poses downside fiscal risks.

4. Trade plays an important role in the economy, although total goods and services trade as a share of GDP fell from 74% in 2013 to 58% in 2018. The merchandise trade deficit has been decreasing, mainly reflecting lower imports, on account of, inter alia, falling remittances, a depreciated exchange rate, and a growing domestic supply base. The export basket has been diversifying, from being dominated by aluminium and cotton, to include more textiles, cement, and mineral products, among others. Main export products are mineral products, base metals, and textiles, and main trading partners include the Commonwealth of Independent States (CIS) countries, China, the European Union, Turkey, and Afghanistan. The current account deficit narrowed from 10% of GDP in 2013 to 5% in 2018.

5. Trade policy is formulated in accordance with the National Development Strategy 2030, which set targets for GDP growth and diversification of exports. Tajikistan's Medium-Term Development Programme for 2016-20 defined action plans for transforming the economy from being driven mainly by public investment and remittances, to a new model of high-quality economic growth based on the promotion of investment and the expansion of domestic supply and exports. The State programme on export promotion and "import substitution" for 2016-20 aims at increasing exports and reducing the share of consumer goods and services in imports by boosting domestic production capacity.

6. Tajikistan became the 159th Member of the WTO on 2 March 2013. It bound all its tariff lines and made specific GATS commitments in 11 services sectors. The gap between the bound and applied rates is small. The simple average bound tariff rate is 8%, slightly higher than the average MFN applied rate (7.9% in 2019). Tajikistan signed the Information Technology Agreement (ITA) upon accession and became an observer to the Committee on Government Procurement (GPA) in 2014. In 2016, it deposited its instrument of acceptance of the 2005 protocol amending the WTO TRIPs Agreement and obtained observer status in the Committee on Trade in Civil Aircraft. In July 2019, Tajikistan ratified the WTO Trade Facilitation Agreement (TFA).

7. At the WTO, Tajikistan has outstanding, or outdated notifications in the areas of: IPR (contact point); TRIMs Agreement; import licensing (annual notification); quantitative restrictions; customs valuation; rules of origin; contingency measures (anti-dumping, countervailing, and safeguards); state trading arrangements; and trade in services.

8. Tajikistan participates in a number of preferential agreements. The Treaty on the Free Trade Area among members of the CIS (CIS FTA) came into force for Tajikistan in 2015. In 2000, Tajikistan signed the Treaty on the Establishment of the Eurasian Economic Community (EAEC), which was later terminated with a view to being replaced by the Eurasian Economic Union (EAEU). The Tajik

authorities indicated that they have no immediate plans to participate in the EAEU. Tajikistan is also a party to the Economic Cooperation Organization Trade Agreement (ECOTA). It signed bilateral free trade agreements with Ukraine and with Uzbekistan, both of which stipulate a duty-free trade regime for all goods, except for agreed lists of exemptions.

9. Tajikistan benefits from the GSP schemes of Canada, Japan, Switzerland, and Turkey. It also provides unilateral trade preferences to imports from LDCs in the form of a 50% reduction of the applied MFN duty rates.

10. Tajikistan has a relatively open foreign direct investment (FDI) regime, as investment-related legislation, in general, does not address issues such as sectors closed or restricted to FDI. Exceptions include the insurance sector, where certain restrictions to foreign investors are listed. State-owned enterprises (SOEs) in some sectors may not be privatized, and their market dominance may discourage new entrants.

11. With a view to improving the business environment, the authorities have undertaken various reform initiatives, including streamlining business registration procedures through the single window system for investors, strengthening the land tenure framework, and easing the burden of licensing and inspection. Reforms contributed to a gradual increase in the number of small and medium-sized enterprises (SMEs) as well as the share of the private sector in the economy.

12. However, obstacles remain, such as: lack of clarity in FDI-specific legislation; difficulties for investors to access land; burdensome taxation regime, particularly for SMEs; and discretionary application of licensing, tax and price regulations. Eligibility conditions for investment incentives are not fully specified in the legislation. FDI inflows have been low, and are concentrated in a few large projects, mostly in the energy and mining sectors.

13. Various improvements to customs procedures were made during the review period; for example, the electronic declaration of goods and vehicles was implemented in 2014; in April 2019, the Ministry of Economic Development and Trade launched Tajikistan's trade portal, where traders and investors can access information related to import/export and transit procedures; and, in September 2019, a single window system to interconnect all relevant authorities that issue authorizations required for the import/export/transit of goods was launched in test mode. In particular, on 2 July 2019, Tajikistan ratified the WTO TFA, which entered into force for Tajikistan on the same day. It provided for the creation of the Coordination Committee on Facilitation of Trade Procedures, and the establishment of the Tajikistan Trade Facilitation Committee. Tajikistan still ranks low in the World Bank's indicators on trading across borders, at 148th out of 190 economies in 2019, possibly reflecting the country's landlocked situation. At the WTO Committee on Customs Valuation, Tajikistan was subject to a specific trade concern regarding the alleged use of reference prices.

14. The 2019 tariff schedule contains 11,411 lines at the HS ten-digit level, with 98.1% of tariffs carrying *ad valorem* duties. The simple average MFN applied rate in 2019 was 7.9%: 10.8% on agricultural products (WTO definition) and 7.1% on non-agricultural products. Among all the *ad valorem* duties, tariff rates vary between duty-free and 30%. The highest rate, at 30%, applies to carpets and other textile floor coverings. When AVEs are included, the highest AVE, at 108.2%, applies to beer in cans of more than 10 litres. MFN applied rates exceed WTO bound rates for 31 tariff lines (at the HS ten-digit level), covering mainly bird eggs, some fruits, lead ores, some sawn or chipped wood, woven fabrics, some machines, and parts of vehicles.

15. The importation of automobiles manufactured before 2005, and incandescent electric bulbs, is prohibited. Import licensing applies to, inter alia, tobacco products; narcotic and psychotropic substances and precursors; pharmaceuticals and medical goods; and radioactive materials. Foreign individuals and legal persons, with commercial presence in Tajikistan, may obtain import licences under the same conditions as domestic individuals and legal persons.

16. Customs procedures for exportation are similar to those for importation. Export duties are levied on a number of products, including raw hides and skins, raw silk, silkworm cocoons, cotton, waste and scrap of cast iron, copper, and aluminium. A number of products are subject to export licensing requirements.

17. Tax revenue has been increasing steadily, and the biggest source is VAT, followed by income tax. Taxes collected at the border, including import and export duties, VAT, and excise duties, account for almost one third of total tax revenue. Tax incentives are given to a wide number of sectors, including manufacturing and processing activities, hydropower stations, cotton processing, the agriculture and tourism sectors, and the securities market.

18. As at 1 January 2019, there were 25,848 interstate standards in Tajikistan, which are standards developed by technical committees of the Interstate Council for Standardization, Metrology and Certification of CIS countries. They accounted for 97.7% of all standards in Tajikistan; the other 2.3% are national ones (596). Among the interstate standards, 29% are harmonized with ISO standards.

19. Tajikistan has 17 compulsory standards (technical regulations), of which 6 were notified to the WTO. Among these 17, 4 are related to SPS requirements: on juice products from fruit and/or vegetables; on feed and feed additives; on food products, meat and meat products; and on milk and dairy products. Tajikistan has been making efforts in SPS-related areas to improve food safety, protect the country from excessive use of pesticides, and facilitate its agricultural exports.

20. Tajikistan did not make any notification to the WTO under Article XVII on state trading arrangements, although, in practice, Tajiktransgas has the exclusive right to import natural gas via pipelines. During the accession process to the WTO, various SOEs, including in the mining, chemical, and agriculture sectors, were privatized. However, the number of SOEs remains considerable, and some still have market dominance, particularly in the telecommunications, transport, and energy sectors.

21. The legal framework for government procurement has been undergoing important reforms, with a view to, according to the Government, ensuring its compliance with the WTO GPA, and with government procurement provisions in the CIS FTA. The current legislation sets no limitations on foreign participation in the public procurement market. Tajikistan made a number of notifications to the WTO regarding its intellectual property right (IPR) legislation, and IPR enforcement procedures. The National Strategy for the Development of Intellectual Property 2014-20 sets the objective of integrating the IPR system into the social and economic policy of the State, so as to promote the competitiveness of the economy.

22. Although agricultural land covers only a quarter of Tajikistan's territory, agriculture is an important pillar of the economy, accounting for around 20% of GDP and 60% of employment. During the period 2013-18, Tajikistan's agriculture output grew steadily, and its trade deficit in agricultural products narrowed. Progress has been made in diversifying agricultural production away from cotton, which nonetheless remains an important source of export earnings.

23. Tajik agriculture remains very vulnerable to climate-induced shocks. Other challenges faced by the sector include: shortcomings in the land tenure framework; infrastructure deficiencies; high transportation costs; water resource management weaknesses and deteriorating irrigation systems; a weak SPS framework; significant workforce migration; and inadequate access to financing. In 2019, to contain rising beef prices, Tajikistan imposed price controls, released stocks from state reserves, and granted tax exemptions on beef imports.

24. While Tajikistan notified to the WTO Committee on Agriculture the absence of export subsidies and domestic support in agriculture throughout 2013-18, it also notified to the Committee on Subsidies and Countervailing Measures two agriculture programmes that were in place during the same period. The authorities are aware of the need to reconcile the information provided in notifications to the WTO.

25. Tajikistan has considerable untapped potential in energy and mining, given the substantial hydropower and subsoil resources on its territory. During the period 2013-18, the mining and quarrying industry was the main recipient of FDI, and it strengthened its position as a major earner of export revenue. Over that period, Tajikistan enacted a procedure for the tendering of subsoil use rights and published a list of sites for competitive bidding. Support granted to the state-owned Tajik Aluminium Company (TALCO) facilitated, *inter alia*, its branching out into mining activities.

26. With an energy matrix dominated by hydropower, Tajikistan has surplus electricity in the summer but has been facing shortages in the winter due to reduced hydrological flows. Strained relations with Uzbekistan caused disruptions to cross-border trade in electricity and natural gas and exposed the shortcomings of overreliance on infrastructure networks inherited from the Soviet Union. Besides continuing work on the installation of additional hydropower capacity, Tajikistan also turned to its still-underexploited coal reserves as a means of diversifying its energy sources. Efforts are also underway to strengthen the regulatory framework and turn around and restructure loss-making SOEs in the energy sector.

27. Manufacturing has potential for growth and diversification through better utilization of available resources and stronger linkages with other sectors of the economy, particularly energy, mining and agriculture. However, transportation and energy supply challenges, coupled with red tape and limited access to financing, remain a disincentive to establish manufacturing operations. To offset these disadvantages, Tajikistan offers a range of incentives aimed at fostering the economy's industrialization. During the review period, Tajikistan established the State Fund for Entrepreneurship Support, and the city of Dushanbe established the Industrial Enterprise Support Fund.

28. TALCO and its subsidiaries remain Tajikistan's chief industrial asset. It has sizeable business transactions with other SOEs that may not always be conducted or settled on a fully commercial basis. A state support package, tailored to the group's activities, was adopted in 2015.

29. Tajikistan's landlocked position and predominantly mountainous terrain make continuous connectivity improvements crucial for its economic development. Accordingly, the authorities' key strategic priority is to emerge from the communication deadlock and become a regional transit hub. After several years of neglect following the Soviet Union's breakup, Tajikistan has been making significant investments in the rehabilitation and expansion of the transport infrastructure. However, remaining infrastructure gaps, regulatory shortcomings and red tape continue to hinder trade flows. A statutory monopoly over all rail transport services and infrastructure remains in place, and there are no plans to privatize or open to competition any segment of the rail transport services.

30. Entry into Tajikistan's telecommunications market is not subject to foreign ownership restrictions and, in principle, foreign and domestic operators enjoy the same rights. However, the case for deeper regulatory reform, aimed at ensuring fair competition, as well as the proper separation of state entities' policymaking, regulatory and commercial functions, grew stronger during the review period. Sector-specific measures implemented over the recent past included: increased tax burden in the mobile segment, discretionary application of tax rules and price controls, centralization of international voice and Internet traffic, and controls on SIM card sales and ownership. During the review period, telephony and Internet subscriptions were on a downward trend.

31. Tajikistan's financial system, which is still underdeveloped, particularly in the non-bank segments, continues to hinder economic growth. During the review period, the banking segment suffered performance setbacks, stemming from high credit and concentration risks and exacerbated by the high degree of dollarization in the economy. Two banks in trouble were bailed out by the State in 2016, subject to a pre-defined timeline for buying back their shares from the Ministry of Finance. In 2017, the regulatory and supervisory mandate of the National Bank of Tajikistan was extended to cover the insurance segment. Pursuant to Tajikistan's GATS commitments, nationality and residency limitations on national treatment in that segment were to be eliminated by 2018 but these limitations remain in place.

32. Although Tajikistan has considerable potential to expand its tourism product offer, inconvenient and expensive transport links, particularly the limited network of direct international flights, remain a major constraint to tourism development. Other challenges include inadequate access to finance, and infrastructure weaknesses, notably in electricity supply and telecommunications. During the review period, Tajikistan reduced its consular fees for tourist visas, and took steps to facilitate visa issuance formalities.